UNION PACIFIC CORP
Form 10-K
February 03, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission File Number 1-6075

UNION PACIFIC CORPORATION

(Exact name of registrant as specified in its charter)

UTAH	**13-2626465**
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization) Identification No.)

1400 DOUGLAS STREET, OMAHA, NEBRASKA

(Address of principal executive offices)

68179

(Zip Code)

(402) 544-5000

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	**Name of each exchange on which registered**
Common Stock (Par Value $2.50 per share)	**New York Stock Exchange, Inc.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

þ Yes ¨ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

¨ Yes þ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

þ Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

þ Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

¨ Yes þ No

As of June 30, 2011, the aggregate market value of the registrant s Common Stock held by non-affiliates (using the New York Stock Exchange closing price) was $50.7 billion.

The number of shares outstanding of the registrant s Common Stock as of January 27, 2012 was 480,067,865.

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Documents Incorporated by Reference Portions of the registrant s definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 10, 2012, are incorporated by reference into Part III of this report. The registrant s Proxy Statement will be filed with the Securities and Exchange Commission pursuant to Regulation 14A.

UNION PACIFIC CORPORATION

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PART IV

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February 3, 2012

Fellow Shareholders:

Our 2011 results demonstrated the capabilities of the men and women of Union Pacific and the strength of our unique and diverse franchise, contributing to the safest and most profitable year in Union Pacific s 150-year history. Both top and bottom line results achieved historic milestones and generated record earnings of $6.72 per share and a return on invested capital of 12.4 percent. We rewarded shareholders with improved financial returns, including a 58 percent increase in the quarterly dividend per share and more than $1.4 billion in share repurchases. UP s stock price reached new highs in 2011, increasing 14 percent and outpacing the S&P 500 by 14 points as well.

We accomplished this while overcoming many challenges: global financial market turmoil, ongoing economic uncertainty, historic flooding in the Midwest and extreme drought conditions in the South. Despite these challenges, we maintained efficient network operations, met our customer commitments, and continued operating a safe and productive railroad.

As volumes increased, we maintained excellent customer service and achieved many new safety records. With Total Safety Culture flourishing across our company, employee injuries hit a record low in 2011, capping a decade of significant improvement. Customers also rewarded us with record satisfaction ratings, clearly valuing our service offerings and the efficiencies we provide as part of their total supply chain.

Capital investments play a critical role in meeting the long-term demand for transportation. In 2011, we invested a record $3.2 billion across our network. Over half was spent on replacing and hardening our infrastructure to further enhance safety and reliability. The balance was invested to support business growth. Projects large and small, in all regions where we operate, will enable us to serve our customers well in the years ahead. This level of investment is supported by the strong financial returns we generated in 2011.

Public officials are increasingly aware that a healthy, efficient rail network is critical to our country s growing need for a strong transportation infrastructure. With public spending for infrastructure under pressure, the investments we are making will help our customers and our country compete in an increasingly global economy. We work hard to make sure that policy makers and regulators understand the relationship between financial results and investment so that new regulation does not hinder future opportunity for our customers.

As we focus our efforts on 2012 and beyond, we see continued prospects for growth from our existing customers, along with new, emerging market opportunities. Union Pacific plays a vital role in the global supply chain. International trade currently represents one third of our revenue base, and it is growing. An increasing U.S. population base will stimulate long-term demand for most of the goods we carry. As the only railroad to serve all six major gateways to Mexico, we are in an excellent position to benefit from expanding U.S. trade with Mexico.

With the development of new and improved horizontal drilling techniques, the U.S. has seen a dramatic expansion of drilling activity for crude oil and natural gas at various shale formations around the country. We re extending our energy reach by providing an efficient rail-based supply chain to support the ongoing expansion of this business.

Last year was a historic milestone that set the stage for 2012, which marks 150 years of history for Union Pacific. The generations who came before us helped build a nation, and today Union Pacific continues to play a critical role in helping our country grow and prosper. We re making significant capital investments, generating increasing financial returns, providing fuel efficient and environmentally responsible transportation, and creating solid, well-paying jobs. The bar has been raised for Union Pacific in 2012 and our prospects have never been better. We pay tribute to our 45,000 employees, whose innovation and teamwork will move us forward to even greater accomplishments in 2012.

Chairman, President and

Chief Executive Officer

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DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Andrew H. Card, Jr.

Acting Dean

The Bush School of

Government & Public Service,

Texas A&M University

Board Committees: Audit, Finance

Erroll B. Davis, Jr.

Superintendent

Atlanta Public Schools

Board Committees: Compensation

and Benefits (Chair), Corporate

Governance and Nominating

Thomas J. Donohue

President and

Chief Executive Officer

U.S. Chamber of Commerce

Board Committees: Compensation

and Benefits, Corporate

Governance and Nominating

Archie W. Dunham

Judith Richards Hope

Distinguished Visitor from Practice

and Professor of Law

Georgetown University Law Center

Board Committees: Audit (Chair),

Finance

Charles C. Krulak

General, USMC, Ret.

President

Birmingham Southern College

Board Committees: Audit, Finance

Michael R. McCarthy

Chairman

McCarthy Group, LLC

Board Committees: Audit, Finance

Michael W. McConnell

General Partner

Brown Brothers Harriman & Co.

Board Committees: Audit,

Finance (Chair)

Thomas F. McLarty III

President

McLarty Associates

Board Committees: Compensation

and Benefits, Corporate

Governance and Nominating

Steven R. Rogel

Retired Chairman

Weyerhaeuser Company

Lead Independent Director

Board Committees: Compensation

and Benefits, Corporate

Governance and Nominating (Chair)

Jose H. Villarreal

Advisor

Akin, Gump, Strauss, Hauer & Feld, LLP

Board Committees: Compensation

and Benefits, Corporate

Governance and Nominating

James R. Young

Retired Chairman

ConocoPhillips

Board Committees: Corporate

Governance and Nominating,

Finance

Chairman, President and

Chief Executive Officer

Union Pacific Corporation and

Union Pacific Railroad Company

SENIOR MANAGEMENT

James R. Young

Chairman, President and

Chief Executive Officer

Union Pacific Corporation and

Union Pacific Railroad Company

Charles R. Eisele

Senior Vice President Strategic Planning

Union Pacific Corporation

Lance M. Fritz

Executive Vice President Operations

Union Pacific Railroad Company

J. Michael Hemmer

Senior Vice President Law

and General Counsel

Union Pacific Corporation

Mary Sanders Jones

Vice President and Treasurer

Robert M. Knight, Jr.

Executive Vice President Finance

and Chief Financial Officer

Union Pacific Corporation

John J. Koraleski

Executive Vice President

Marketing and Sales

Union Pacific Railroad Company

D. Lynn Kelley

Vice President Continuous

Improvement

Union Pacific Railroad Company

Joseph E. O Connor, Jr.

Vice President Purchasing

Union Pacific Railroad Company

Patrick J. O Malley

Vice President Taxes and General Tax Counsel

Michael A. Rock

Vice President External Relations

Union Pacific Corporation

Barbara W. Schaefer

Senior Vice President Human Resources and Secretary

Union Pacific Corporation

Lynden L. Tennison

Senior Vice President and

Chief Information Officer

Union Pacific Corporation

Jeffrey P. Totusek

Vice President and Controller

Union Pacific Corporation

Robert W. Turner

Senior Vice President

Corporate Relations

Union Pacific Corporation

Union Pacific Corporation

Union Pacific Corporation

William R. Turner

Vice President Labor Relations

Union Pacific Railroad Company

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PART I

Item 1. Business

GENERAL

Union Pacific Corporation owns one of America s leading transportation companies. Its principal operating company, Union Pacific Railroad Company, links 23 states in the western two-thirds of the country. Union Pacific Railroad Company serves many of the fastest-growing U.S. population centers, providing a fuel-efficient, environmentally responsible and safe mode of freight transportation. Union Pacific Railroad Company s diversified business mix includes Agricultural Products, Automotive, Chemicals, Energy, Industrial Products and Intermodal. Union Pacific Railroad Company emphasizes excellent customer service and offers competitive routes from all major West Coast and Gulf Coast ports to eastern gateways. Union Pacific Railroad Company connects with Canada s rail systems and is the only railroad serving all six major gateways to Mexico, making it North America s premier rail franchise.

Union Pacific Corporation was incorporated in Utah in 1969 and maintains its principal executive offices at 1400 Douglas Street, Omaha, NE 68179. The telephone number at that address is (402) 544-5000. The common stock of Union Pacific Corporation is listed on the New York Stock Exchange (NYSE) under the symbol UNP .

For purposes of this report, unless the context otherwise requires, all references herein to UPC , Corporation , we , us , and our shall mean U Pacific Corporation and its subsidiaries, including Union Pacific Railroad Company, which we separately refer to as UPRR or the Railroad .

Available Information Our Internet website is www.up.com. We make available free of charge on our website (under the Investors caption link) our Annual Reports on Form 10-K; our Quarterly Reports on Form 10-Q; eXtensible Business Reporting Language (XBRL) documents; our current reports on Form 8-K; our proxy statements; Forms 3, 4, and 5, filed on behalf of directors and executive officers; and amendments to such reports filed or furnished pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). We also make available on our website previously filed SEC reports and exhibits via a link to EDGAR on the SEC s Internet site at www.sec.gov. Additionally, our corporate governance materials, including By-Laws, Board Committee charters, governance guidelines and policies, and codes of conduct and ethics for directors, officers, and employees are available on our website. From time to time, the corporate governance materials on our website may be updated as necessary to comply with rules issued by the SEC and the NYSE or as desirable to promote the effective and efficient governance of our company. Any security holder wishing to receive, without charge, a copy of any of our SEC filings or corporate governance materials should send a written request to: Secretary, Union Pacific Corporation, 1400 Douglas Street, Omaha, NE 68179.

We have included the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) certifications regarding our public disclosure required by Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31(a) and (b) to this report.

References to our website address in this report, including references in Management s Discussion and Analysis of Financial Condition and Results of Operations, Item 7, are provided as a convenience and do not constitute, and should not be deemed, an incorporation by reference of the information contained on, or available through, the website. Therefore, such information should not be considered part of this report.

OPERATIONS

The Railroad, along with its subsidiaries and rail affiliates, is our one reportable operating segment. Although revenue is analyzed by commodity group, we analyze the net financial results of the Railroad as one segment due to the integrated nature of our rail network. Additional information regarding our business and operations, including revenue and financial information and data and other information regarding environmental matters, is presented in Risk Factors, Item 1A; Legal Proceedings, Item 3; Selected Financial Data, Item 6; Management s Discussion and Analysis of Financial Condition and Results of Operations, Item 7; and the Financial Statements and Supplementary Data, Item 8 (which include information regarding revenues, statements of income, and total assets).

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Operations UPRR is a Class I railroad operating in the U.S. We have 31,898 route miles, linking Pacific Coast and Gulf Coast ports with the Midwest and eastern U.S. gateways and providing several corridors to key Mexican gateways. We serve the western two-thirds of the country and maintain coordinated schedules with other rail carriers to move freight to and from the Atlantic Coast, the Pacific Coast, the Southeast, the Southwest, Canada, and Mexico. Export and import traffic moves through Gulf Coast and Pacific Coast ports and across the Mexican and Canadian borders. Our freight traffic consists of bulk, manifest, and premium business. Bulk traffic is primarily coal, grain, rock, or soda ash in unit trains trains transporting a single commodity from one source to one destination. Manifest traffic is individual carload or less than train-load business, including commodities such as lumber, steel, paper, food and chemicals. The transportation of finished vehicles, intermodal containers and truck trailers is part of our premium business. In 2011, we generated freight revenues totaling $18.5 billion from the following six commodity groups:

2011 Freight Revenue

Agricultural Transportation of grains, commodities produced from these grains, and food and beverage products generated 18% of the Railroad s 2011 freight revenue. The Company accesses most major grain markets, linking the Midwest and western producing areas to export terminals in the Pacific Northwest and Gulf Coast ports, as well as Mexico. We also serve significant domestic markets, including grain processors, animal feeders and ethanol producers in the Midwest, West, South and Rocky Mountain states. Unit trains, which transport a single commodity between producers and export terminals or domestic markets, represent nearly 40% of agricultural shipments.

Automotive We are the largest automotive carrier west of the Mississippi River and operate or access over 40 vehicle distribution centers. The Railroad s extensive franchise serves vehicle assembly plants and connects to West Coast ports and the Port of Houston to accommodate both import and export shipments. In addition to transporting finished vehicles, UP provides expedited handling of automotive parts in both boxcars and intermodal containers destined for Mexico, the U.S. and Canada. The automotive group generated 8% of Union Pacific s freight revenue in 2011. Finished vehicles accounted for 78% of this revenue, with transportation of automotive parts and materials providing the remaining 22%.

Chemicals Transporting chemicals generated 15% of our freight revenue in 2011. The Railroad s unique franchise serves the chemical producing areas along the Gulf Coast, where roughly two-thirds of the Company s chemical business originates, terminates or travels. Our chemical franchise also accesses chemical producers in the Rocky Mountains and on the West Coast. The Company s chemical shipments include three broad categories: Petrochemicals, Fertilizer and Soda Ash. Petrochemicals include industrial chemicals, plastics, petroleum products, including crude oil from North Dakota, and liquid petroleum gases. These products move primarily to and from the Gulf Coast region. Fertilizer movements originate in the Gulf Coast region, the western part of the U.S. and Canada for delivery to major agricultural users in the Midwest, western U.S. and abroad. Soda ash originates in southwestern Wyoming and California, destined for chemical and glass producing markets in North America and abroad.

Energy Coal and petroleum coke transportation accounted for the largest share of our freight revenue, 22% in 2011. The Railroad s network supports the transportation of coal and petroleum coke to utilities and industrial facilities throughout the U.S. Through interchange gateways and ports, UP s reach extends to eastern U.S. utilities, Mexico, Europe and Asia. Water terminals allow the Railroad to move western U.S. coal east via the Mississippi and Ohio Rivers, as well as the Great Lakes. Export coal moves through West Coast ports to Asia and through Mississippi River and Gulf Coast terminals to Europe. Coal traffic originating in the Southern Powder River Basin (SPRB) area of Wyoming is the largest segment of UP s energy business.

Industrial Products Our extensive network facilitates the movement of numerous commodities between thousands of origin and destination points throughout North America. The Industrial Products commodity group consists of several categories, including construction products, metals, minerals, paper, consumer goods, lumber and other miscellaneous products. In 2011, this group generated 17% of Union Pacific s total freight revenue. Commercial and highway construction drives shipments of steel and construction products, consisting of rock, cement and roofing materials. Industrial manufacturing plants receive nonferrous metals and industrial minerals. Paper and consumer goods, including furniture and appliances, move to major metropolitan areas for consumers. Lumber shipments originate primarily in the pacific northwest and Canada and move throughout the U.S. for use in new home construction and repair and remodeling.

Intermodal Our Intermodal business includes two shipment categories: international and domestic. International business consists of imported and exported container traffic that mainly passes through West Coast ports served by UP s extensive terminal network. Domestic business includes container and trailer traffic picked up and delivered within North America for intermodal marketing companies (primarily shipper agents and logistics companies), as well as truckload carriers. Less-than-truckload and package carriers with time-sensitive business requirements are also an important part of these domestic shipments. Together, international and domestic business generated 20% of UP s 2011 freight revenue.

Seasonality Some of the commodities we carry have peak shipping seasons, reflecting either or both the nature of the commodity, such as certain agricultural and food products that have specific growing and harvesting seasons, and the demand cycle for the commodity, such as intermodal traffic, which generally has a peak shipping season during the third quarter to meet holiday-related demand for consumer goods during the fourth quarter. The peak shipping seasons for these commodities can vary considerably from year to year depending upon various factors, including the strength of domestic and international economies and currencies and the strength of harvests and market prices for agricultural products. In response to an annual request delivered by the Surface Transportation Board (STB) of the U.S. Department of Transportation (DOT) to all of the Class I railroads operating in the U.S., we issue a publicly available letter during the third quarter detailing our plans for handling traffic during the third and fourth quarters and providing other information requested by the STB.

Working Capital At December 31, 2011 and 2010, we had a working capital surplus. This reflects a strong cash position, which provides enhanced liquidity in an uncertain economic environment. In addition, we believe we have adequate access to capital markets to meet cash requirements, and we have sufficient financial capacity to satisfy our current liabilities.

Competition We are subject to competition from other railroads, motor carriers, ship and barge operators, and pipelines. Our main rail competitor is Burlington Northern Santa Fe Corporation. Its rail subsidiary, BNSF Railway Company (BNSF), operates parallel routes in many of our main traffic corridors. In addition, we operate in corridors served by other railroads and motor carriers. Motor carrier competition exists for five of our six commodity groups (excluding energy). Because of the proximity of our routes to major inland and Gulf Coast waterways, barges can be particularly competitive, especially for grain and bulk commodities. In addition to price competition, we face competition with respect to transit times and quality and reliability of service. While we must build or acquire and maintain our rail system, trucks and barges are able to use public rights-of-way maintained by public entities. Any future improvements or expenditures materially increasing the quality or reducing the costs of these alternative modes of transportation, or legislation releasing motor carriers from their size or weight limitations, could have a material adverse effect on our business.

Key Suppliers We depend on two key domestic suppliers of high horsepower locomotives. Due to the capital intensive nature of the locomotive manufacturing business and sophistication of this equipment, potential new suppliers face high barriers to entry in this industry. Therefore, if one of these domestic suppliers discontinues manufacturing locomotives for any reason, including insolvency or bankruptcy, we could experience a significant cost increase and risk reduced availability of the locomotives that are necessary to our operations. Additionally, for a high percentage of our rail purchases, we utilize two suppliers (one domestic and one international) that meet our specifications. Rail is critical for both maintenance of our network and replacement and improvement or expansion of our network and facilities. Rail manufacturing also has high barriers to entry, and, if one of those suppliers discontinues operations for any reason, including insolvency or bankruptcy, we could experience cost increases and difficulty obtaining rail.

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Employees Approximately 86% of our 44,861 full-time-equivalent employees are represented by 14 major rail unions. In January 2010, the nation s largest freight railroads began the current round of negotiations with the labor unions. Generally, contract negotiations with the various unions take place over an extended period of time. This round of negotiations was no exception. In September 2011, the rail industry reached agreements with the United Transportation Union. On November 5, 2011, a Presidential Emergency Board (PEB) appointed by President Obama issued recommendations to resolve the disputes between the U.S. railroads and 11 unions that had not yet reached agreements. Since then, ten unions reached agreements with the railroads, all of them generally patterned on the recommendations of the PEB, and the unions subsequently ratified these agreements. The railroad industry reached a tentative agreement with the Brotherhood of Maintenance of Way Employees (BMWE) on February 2, 2012, eliminating the immediate threat of a national rail strike. The BMWE now will commence ratification of this tentative agreement by its members.

Railroad Security Operating a safe and secure railroad is first among our critical priorities and is a primary responsibility of all our employees. This emphasis helps us protect the public, our employees, our customers, and operations across our rail network. Our security efforts rely upon a wide variety of measures including employee training, cooperation with our customers, training of emergency responders, and partnerships with numerous federal, state, and local government agencies. While federal law requires us to protect the confidentiality of our security plans designed to safeguard against terrorism and other security incidents, the following provides a general overview of our security initiatives.

UPRR Security Measures We maintain a comprehensive security plan designed to both deter and to respond to any potential or actual threats as they arise. The plan includes four levels of alert status, each with its own set of countermeasures. We employ our own police force, consisting of more than 215 commissioned and highly-trained officers. Our employees also undergo recurrent security and preparedness training, as well as federally-mandated hazardous materials and security training. We regularly review the sufficiency of our employee training programs to identify ways to increase preparedness and to improve security. We maintain the capability to move critical operations to back-up facilities in different locations.

We have an emergency response management center, which operates 24 hours a day. The center receives reports of emergencies, dangerous or potentially dangerous conditions, and other safety and security issues from our employees, the public, and law enforcement and other government officials. In cooperation with government officials, we monitor both threats and public events, and, as necessary, we may alter rail traffic flow at times of concern to minimize risk to communities we serve and our operations. We comply with the hazardous materials routing rules and other requirements imposed by federal law. We also design our operating plan to expedite the movement of hazardous material shipments to minimize the time rail cars remain idle at yards and terminals located in or near major population centers. Additionally, in compliance with new Transportation Security Agency regulations that took effect on April 1, 2009, we deployed new information systems and instructed employees in tracking and documenting the handoff of Rail Security Sensitive Material with customers and interchange partners.

We also have established a number of our own innovative safety and security-oriented initiatives ranging from various investments in technology to The Officer on the Train program, which provides local law enforcement officers with the opportunity to ride with train crews to enhance their understanding of railroad operations and risks. Our staff of information security professionals continually assesses cyber security risks and implements mitigation programs that evolve with the changing technology threat environment.

Cooperation with Federal, State, and Local Government Agencies We work closely on physical and cyber security initiatives with government agencies ranging from the DOT and the Department of Homeland Security (DHS) to local police departments, fire departments, and other first responders. In conjunction with DOT, DHS, and other railroads, we sponsor Operation Respond, which provides first responders with secure links to electronic railroad resources, including mapping systems, shipment records, and other essential information required by emergency personnel to respond to accidents and other situations. We also participate in the National Joint Terrorism Task Force, a multi-agency effort established by the U.S. Department of Justice and the Federal Bureau of Investigation to combat and prevent terrorism.

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We work with the Coast Guard, U.S. Customs and Border Protection (CBP), and the Military Transport Management Command to monitor shipments entering the UPRR rail network at U.S. border crossings and ports. We were the first railroad in the U.S. to be named a partner in CBP s Customs-Trade Partnership Against Terrorism, a partnership designed to develop, enhance, and maintain effective security processes throughout the global supply chain.

Cooperation with Customers and Trade Associations Along with other railroads, we work with the American Chemistry Council to train more than 200,000 emergency responders each year. We work closely with our chemical shippers to establish plant security plans, and we continue to take steps to more closely monitor and track hazardous materials shipments. In cooperation with the Federal Railroad Administration (FRA) and other railroads, we are also working to develop additional improvements to tank car design that will further limit the risk of releases of hazardous materials.

GOVERNMENTAL AND ENVIRONMENTAL REGULATION

Governmental Regulation Our operations are subject to a variety of federal, state, and local regulations, generally applicable to all businesses. (See also the discussion of certain regulatory proceedings in Legal Proceedings, Item 3.)

The operations of the Railroad are also subject to the regulatory jurisdiction of the STB. The STB has jurisdiction over rates charged on certain regulated rail traffic; common carrier service of regulated traffic; freight car compensation; transfer, extension, or abandonment of rail lines; and acquisition of control of rail common carriers. The STB launched wide-ranging proceedings to explore whether to expand rail regulation, and we actively participated. The STB has not yet taken further action and denied a petition seeking one form of access regulation. Additionally, several bills were introduced in the U.S. Senate in early 2011 that would expand the regulatory authority of the STB and could include new antitrust provisions. We continue to monitor these proposed bills.

The operations of the Railroad also are subject to the regulations of the FRA and other federal and state agencies. On January 12, 2010, the FRA issued final rules governing installation of Positive Train Control (PTC) by the end of 2015. Although still under development, PTC is a collision avoidance technology intended to override locomotive controls and stop a train before an accident. The FRA acknowledged that projected costs will exceed projected benefits by a ratio of about 22 to one, and we estimate that our costs will be higher than the FRA assumed. Congress has directed the FRA to provide an early report by March 1, 2012, on the status of PTC implementation, which is in advance of a detailed report due by the end of 2012. Through 2011, we have invested nearly $400 million in the development of PTC.

DOT, the Occupational Safety and Health Administration, and DHS, along with other federal agencies, have jurisdiction over certain aspects of safety, movement of hazardous materials and hazardous waste, emissions requirements, and equipment standards. The Rail Safety Improvement Act of 2008, among other things, revised hours of service rules for train and certain other railroad employees, mandated implementation of PTC, imposed passenger service requirements, addressed safety at rail crossings, increased the number of safety related employees of the FRA, and increased fines that may be levied against railroads for safety violations. Additionally, various state and local agencies have jurisdiction over disposal of hazardous waste and seek to regulate movement of hazardous materials in ways not preempted by federal law.

Environmental Regulation We are subject to extensive federal and state environmental statutes and regulations pertaining to public health and the environment. The statutes and regulations are administered and monitored by the Environmental Protection Agency (EPA) and by various state environmental agencies. The primary laws affecting our operations are the Resource Conservation and Recovery Act, regulating the management and disposal of solid and hazardous wastes; the Comprehensive Environmental Response, Compensation, and Liability Act, regulating the cleanup of contaminated properties; the Clean Air Act, regulating air emissions; and the Clean Water Act, regulating waste water discharges.

Information concerning environmental claims and contingencies and estimated remediation costs is set forth in Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Environmental, Item 7 and Note 17 to the Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data.

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Item 1A. Risk Factors

The information set forth in this Item 1A should be read in conjunction with the rest of the information included in this report, including Management s Discussion and Analysis of Financial Condition and Results of Operations, Item 7, and Financial Statements and Supplementary Data, Item 8.

We Must Manage Fluctuating Demand for Our Services and Network Capacity If there is significant demand for our services that exceeds the designed capacity of our network, we may experience network difficulties, including congestion and reduced velocity, that could compromise the level of service we provide to our customers. This level of demand may also compound the impact of weather and weather-related events on our operations and velocity. Although we continue to improve our transportation plan, add capacity, and improve operations at our yards and other facilities, we cannot be sure that these measures will fully or adequately address any service shortcomings resulting from demand exceeding our planned capacity. We may experience other operational or service difficulties related to network capacity, dramatic and unplanned increases or decreases of demand for rail service with respect to one or more of our commodity groups, or other events that could have a negative impact on our operational efficiency, any of which could have a material adverse effect on our results of operations, financial condition, and liquidity. In the event that we experience significant reductions of demand for rail services with respect to one or more of our commodity groups, we may experience increased costs associated with resizing our operations, including higher unit operating costs and costs for the storage of locomotives, rail cars, and other equipment; work-force adjustments; and other related activities, which could have a material adverse effect on our results of operations, financial condition, and liquidity.

We Are Subject to Significant Governmental Regulation We are subject to governmental regulation by a significant number of federal, state, and local authorities covering a variety of health, safety, labor, environmental, economic (as discussed below), and other matters. Many laws and regulations require us to obtain and maintain various licenses, permits, and other authorizations, and we cannot guarantee that we will continue to be able to do so. Our failure to comply with applicable laws and regulations could have a material adverse effect on us. Governments or regulators may change the legislative or regulatory frameworks within which we operate without providing us any recourse to address any adverse effects on our business, including, without limitation, regulatory determinations or rules regarding dispute resolution, business relationships with other railroads, calculation of our cost of capital or other inputs relevant to computing our revenue adequacy, the prices we charge, and costs and expenses. Significant legislative activity in Congress or regulatory activity by the STB could expand regulation of railroad operations and prices for rail services, which could reduce capital spending on our rail network, facilities and equipment and have a material adverse effect on our results of operations, financial condition, and liquidity. As part of the Rail Safety Improvement Act of 2008, railroad carriers must implement PTC by the end of 2015, which could have a material adverse effect on our ability to make other capital investments. One or more consolidations of Class I railroads could also lead to increased regulation of the rail industry.

We Are Required to Transport Hazardous Materials Federal laws require railroads, including us, to transport certain hazardous materials regardless of risk or potential exposure to loss. Any rail accident or other incident or accident on our network, at our facilities, or at the facilities of our customers involving the release of hazardous materials, including toxic inhalation hazard (or TIH) materials such as chlorine, could involve significant costs and claims for personal injury, property damage, and environmental penalties and remediation, which could have a material adverse effect on our results of operations, financial condition, and liquidity.

We May Be Affected by General Economic Conditions Prolonged severe adverse domestic and global economic conditions or disruptions of financial and credit markets, including the availability of short- and long-term debt financing, may affect the producers and consumers of the commodities we carry and may have a material adverse effect on our access to liquidity and our results of operations and financial condition.

We Face Competition from Other Railroads and Other Transportation Providers We face competition from other railroads, motor carriers, ships, barges, and pipelines. In addition to price competition, we face competition with respect to transit times and quality and reliability of service. While we must build or acquire and maintain our rail system, trucks and barges are able to use public rights-of-way maintained by public entities. Any future improvements or expenditures materially increasing the quality or reducing the cost of alternative modes of transportation, or legislation releasing motor carriers from their size or weight limitations, could have a material adverse effect on our results of operations, financial condition,

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and liquidity. Additionally, any future consolidation of the rail industry could materially affect the competitive environment in which we operate.

We Rely on Technology and Technology Improvements in Our Business Operations We rely on information technology in all aspects of our business. If we do not have sufficient capital to acquire new technology or if we are unable to develop or implement new technology such as PTC or the latest version of our transportation control systems, we may suffer a competitive disadvantage within the rail industry and with companies providing other modes of transportation service, which could have a material adverse effect on our results of operations, financial condition, and liquidity. Additionally, if a cyber attack or other event causes significant disruption or failure of one or more of our information technology systems, including computer hardware, software, and communications equipment, we could suffer a significant service interruption, safety failure, security breach, or other operational difficulties, which could have a material adverse impact on our results of operations, financial condition, and liquidity.

Strikes or Work Stoppages Could Adversely Affect Our Operations as the Majority of Our Employees Belong to Labor Unions and Labor Agreements The U.S. Class I railroads are party to collective bargaining agreements with various labor unions. Disputes with regard to the terms of these agreements or our potential inability to negotiate acceptable contracts with these unions could result in, among other things, strikes, work stoppages, slowdowns, or lockouts, which could cause a significant disruption of our operations and have a material adverse effect on our results of operations, financial condition, and liquidity. Additionally, future national labor agreements, or renegotiation of labor agreements or provisions of labor agreements, could compromise our service reliability or significantly increase our costs for health care, wages, and other benefits, which could have a material adverse impact on our results of operations, financial condition, and liquidity.

Severe Weather Could Result in Significant Business Interruptions and Expenditures As a railroad with a vast network, we are exposed to severe weather conditions and other natural phenomena, including earthquakes, hurricanes, fires, floods, mudslides or landslides, extreme temperatures, and significant precipitation that may cause business interruptions, including line outages on our rail network, that can adversely affect our entire rail network and result in increased costs, increased liabilities, and decreased revenue, which could have a material adverse effect on our results of operations, financial condition, and liquidity.

We May Be Subject to Various Claims and Lawsuits That Could Result in Significant Expenditures As a railroad with operations in densely populated urban areas and other cities and a vast rail network, we are exposed to the potential for various claims and litigation related to labor and employment, personal injury, property damage, environmental liability, and other matters. Any material changes to litigation trends or a catastrophic rail accident or series of accidents involving any or all of property damage, personal injury, and environmental liability could have a material adverse effect on our results of operations, financial condition, and liquidity.

We Are Subject to Significant Environmental Laws and Regulations Due to the nature of the railroad business, our operations are subject to extensive federal, state, and local environmental laws and regulations concerning, among other things, emissions to the air; discharges to waters; handling, storage, transportation, and disposal of waste and other materials; and hazardous material or petroleum releases. We generate and transport hazardous and non-hazardous waste in our operations, and we did so in our former operations. Environmental liability can extend to previously owned or operated properties, leased properties, and properties owned by third parties, as well as to properties we currently own. Environmental liabilities have arisen and may also arise from claims asserted by adjacent landowners or other third parties in toxic tort litigation. We have been and may be subject to allegations or findings that we have violated, or are strictly liable under, these laws or regulations. We could incur significant costs as a result of any of the foregoing, and we may be required to incur significant expenses to investigate and remediate known, unknown, or future environmental contamination, which could have a material adverse effect on our results of operations, financial condition, and liquidity.

We May Be Affected by Climate Change and Market or Regulatory Responses to Climate Change Climate change, including the impact of global warming, could have a material adverse effect on our results of operations, financial condition, and liquidity. Restrictions, caps, taxes, or other controls on emissions of greenhouse gasses, including diesel exhaust, could significantly increase our operating costs. Restrictions on emissions could also affect our customers that (a) use commodities that we carry to produce energy, (b) use significant amounts of energy in producing or delivering the commodities we

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carry, or (c) manufacture or produce goods that consume significant amounts of energy or burn fossil fuels, including chemical producers, farmers and food producers, and automakers and other manufacturers. Significant cost increases, government regulation, or changes of consumer preferences for goods or services relating to alternative sources of energy or emissions reductions could materially affect the markets for the commodities we carry, which in turn could have a material adverse effect on our results of operations, financial condition, and liquidity. Government incentives encouraging the use of alternative sources of energy could also affect certain of our customers and the markets for certain of the commodities we carry in an unpredictable manner that could alter our traffic patterns, including, for example, the impacts of ethanol incentives on farming and ethanol producers. Finally, we could face increased costs related to defending and resolving legal claims and other litigation related to climate change and the alleged impact of our operations on climate change. Any of these factors, individually or in operation with one or more of the other factors, or other unforeseen impacts of climate change could reduce the amount of traffic we handle and have a material adverse effect on our results of operations, financial condition, and liquidity.

The Availability of Qualified Personnel Could Adversely Affect Our Operations Changes in demographics, training requirements, and the availability of qualified personnel could negatively affect our ability to meet demand for rail service. Unpredictable increases in demand for rail services and a lack of network fluidity may exacerbate such risks, which could have a negative impact on our operational efficiency and otherwise have a material adverse effect on our results of operations, financial condition, and liquidity.

Rising or Elevated Fuel Costs and Whether We Are Able to Mitigate These Costs with Fuel Surcharges Could Materially and Adversely Affect Our Business Fuel costs constitute a significant portion of our transportation expenses. Diesel fuel prices are subject to dramatic fluctuations, and significant price increases could have a material adverse effect on our operating results. Although we currently are able to recover a significant amount of our increased fuel expenses through revenue from fuel surcharges, we cannot be certain that we will always be able to mitigate rising or elevated fuel costs through surcharges. Future market conditions or legislative or regulatory activities could adversely affect our ability to apply fuel surcharges or adequately recover increased fuel costs through fuel surcharges. International, political, and economic circumstances affect fuel prices and supplies. Weather can also affect fuel supplies and limit domestic refining capacity. If a fuel supply shortage were to arise, higher fuel prices could, despite our fuel surcharge programs, have a material adverse effect on our results of operations, financial condition, and liquidity.

We Utilize Capital Markets Due to the significant capital expenditures required to operate and maintain a safe and efficient railroad, we rely on the capital markets to provide some of our capital requirements. We utilize long-term debt instruments, bank financing and commercial paper from time-to-time, and we pledge certain of our receivables. Significant instability or disruptions of the capital markets, including the credit markets, or deterioration of our financial condition due to internal or external factors could restrict or prohibit our access to, and significantly increase the cost of, commercial paper and other financing sources, including bank credit facilities and the issuance of long-term debt, including corporate bonds. A deterioration of our financial condition could result in a reduction of our credit rating to below investment grade, which could prohibit or restrict us from utilizing our current receivables securitization facility or accessing external sources of short- and long-term debt financing and significantly increase the costs associated with utilizing the receivables securitization facility and issuing both commercial paper and long-term debt.

We Are Subject to Legislative, Regulatory, and Legal Developments Involving Taxes Taxes are a significant part of our expenses. We are subject to U.S. federal, state, and foreign income, payroll, property, sales and use, fuel, and other types of taxes. Changes in tax rates, enactment of new tax laws, revisions of tax regulations, and claims or litigation with taxing authorities could result in substantially higher taxes and, therefore, could have a material adverse effect on our results of operations, financial condition, and liquidity.

We Are Dependent on Certain Key Suppliers of Locomotives and Rail Due to the capital intensive nature and sophistication of locomotive equipment, potential new suppliers face high barriers to entry. Therefore, if one of the domestic suppliers of high horsepower locomotives discontinues manufacturing locomotives for any reason, including bankruptcy or insolvency, we could experience significant cost increases and reduced availability of the locomotives that are necessary for our operations. Additionally, for a high percentage of our rail purchases, we utilize two suppliers (one domestic and one international)

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that meet our specifications. Rail is critical to our operations for rail replacement programs, maintenance, and for adding additional network capacity, new rail and storage yards, and expansions of existing facilities. This industry similarly has high barriers to entry, and if one of these suppliers discontinues operations for any reason, including bankruptcy or insolvency, we could experience both significant cost increases for rail purchases and difficulty obtaining sufficient rail for maintenance and other projects.

We May Be Affected by Acts of Terrorism, War, or Risk of War Our rail lines, facilities, and equipment, including rail cars carrying hazardous materials, could be direct targets or indirect casualties of terrorist attacks. Terrorist attacks, or other similar events, any government response thereto, and war or risk of war may adversely affect our results of operations, financial condition, and liquidity. In addition, insurance premiums for some or all of our current coverages could increase dramatically, or certain coverages may not be available to us in the future.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We employ a variety of assets in the management and operation of our rail business. Our rail network covers 23 states in the western two-thirds of the U.S.

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TRACK

Our rail network includes 31,898 route miles. We own 26,027 miles and operate on the remainder pursuant to trackage rights or leases. The following table describes track miles at December 31, 2011 and 2010.

	2011	*2010*
Route	**31,898**	31,953
Other main line	**6,644**	6,596
Passing lines and turnouts	**3,112**	3,118
Switching and classification yard lines	**8,999**	9,006
Total miles	**50,653**	50,673

HEADQUARTERS BUILDING

We maintain our headquarters in Omaha, Nebraska. The facility has 1.2 million square feet of space for approximately 4,000 employees and is subject to a financing arrangement.

HARRIMAN DISPATCHING CENTER

The Harriman Dispatching Center (HDC), located in Omaha, Nebraska, is our primary dispatching facility. It is linked to regional dispatching and locomotive management facilities at various locations along our network. HDC employees coordinate moves of locomotives and trains, manage traffic and train crews on our network, and coordinate interchanges with other railroads. Over 900 employees currently work on-site in the facility. In the event of a disruption of operations at HDC due to a cyber attack, flooding or severe weather or other event, we maintain the capability to conduct critical operations at back-up facilities in different locations.

RAIL FACILITIES

In addition to our track structure, we operate numerous facilities, including terminals for intermodal and other freight; rail yards for train-building (classification yards), switching, storage-in-transit (the temporary storage of customer goods in rail cars prior to shipment) and other activities; offices to administer and manage our operations; dispatching centers to direct traffic on our rail network; crew quarters to house train crews along our network; and shops and other facilities for fueling, maintenance, and repair of locomotives and repair and maintenance of rail cars and other equipment. The following tables include the major yards and terminals on our system:

		Avg. Daily Car Volume
Top 10 Classification Yards	***2011***	*2010*
North Platte, Nebraska	**2,200**	2,100
North Little Rock, Arkansas	**1,600**	1,500
Englewood (Houston), Texas	**1,400**	1,400
Proviso (Chicago), Illinois	**1,400**	1,300
Fort Worth, Texas	**1,300**	1,200
Livonia, Louisiana	**1,300**	1,200
Pine Bluff, Arkansas	**1,200**	1,100
Roseville, California	**1,200**	1,100
West Colton, California	**1,100**	1,100
Neff (Kansas City), Missouri	**1,000**	900

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	Annual Lifts	
Top 10 Intermodal Terminals	***2011***	*2010*
ICTF (Los Angeles), California	**432,000**	450,000
East Los Angeles, California	**428,000**	429,000
Joliet (Global 4), Illinois [a]	**298,000**	118,000
Global I (Chicago), Illinois	**295,000**	317,000
Marion (Memphis), Tennessee	**283,000**	292,000
Yard Center (Chicago), Illinois	**277,000**	241,000
Global II (Chicago), Illinois	**273,000**	342,000
Dallas, Texas	**261,000**	280,000
Mesquite, Texas	**232,000**	215,000
LATC (Los Angeles), California	**226,000**	224,000

[a] New terminal completed in August 2010 with an annual capacity of 500,000 intermodal containers.

RAIL EQUIPMENT

Our equipment includes owned and leased locomotives and rail cars; heavy maintenance equipment and machinery; other equipment and tools in our shops, offices, and facilities; and vehicles for maintenance, transportation of crews, and other activities. As of December 31, 2011, we owned or leased the following units of equipment:

				Average
Locomotives	*Owned*	*Leased*	*Total*	*Age (yrs.)*
Multiple purpose	5,082	2,550	7,632	16.8
Switching	401	25	426	32.0
Other	92	63	155	31.7
Total locomotives	5,575	2,638	8,213	N/A

				Average
Freight cars	*Owned*	*Leased*	*Total*	*Age (yrs.)*
Covered hoppers	12,672	17,823	30,495	26.6
Open hoppers	10,429	3,983	14,412	31.5
Gondolas	6,487	5,074	11,561	27.2
Boxcars	5,303	1,737	7,040	28.9
Refrigerated cars	2,494	4,302	6,796	23.6
Flat cars	2,764	914	3,678	34.1
Other	104	459	563	N/A
Total freight cars	40,253	34,292	74,545	N/A

				Average
Highway revenue equipment	*Owned*	*Leased*	*Total*	*Age (yrs.)*

Containers	17,231	37,059	54,290	5.7
Chassis	9,247	27,931	37,178	6.7
Total highway revenue equipment	26,478	64,990	91,468	N/A

CAPITAL EXPENDITURES

Our rail network requires significant annual capital investments for replacement, improvement, and expansion. These investments enhance safety, support the transportation needs of our customers, and improve our operational efficiency. Additionally, we add new locomotives and freight cars to our fleet to replace older, less efficient equipment, to support growth and customer demand, and to reduce our impact on the environment through the acquisition of more fuel efficient and low-emission locomotives.

2011 Capital Expenditures During 2011, we made capital investments totaling $3.2 billion, nearly all of which was cash spending. (See the capital expenditures table in Management s Discussion and Analysis

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of Financial Condition and Results of Operations Liquidity and Capital Resources Financial Condition, Item 7.)

2012 Capital Expenditures In 2012, we expect to make capital investments of approximately $3.6 billion, including expenditures for PTC of approximately $335 million. We may revise our 2012 capital plan if business conditions warrant or if new laws or regulations affect our ability to generate sufficient returns on these investments. (See discussion of our 2012 capital plan in Management s Discussion and Analysis of Financial Condition and Results of Operations 2012 Outlook, Item 7.)

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Equipment Encumbrance Equipment with a carrying value of approximately $2.9 billion and $3.2 billion at December 31, 2011 and 2010, respectively, served as collateral for capital leases and other types of equipment obligations in accordance with the secured financing arrangements utilized to acquire such railroad equipment.

As a result of the merger of Missouri Pacific Railroad Company (MPRR) with and into UPRR on January 1, 1997, and pursuant to the underlying indentures for the MPRR mortgage bonds, UPRR must maintain the same value of assets after the merger in order to comply with the security requirements of the mortgage bonds. As of the merger date, the value of the MPRR assets that secured the mortgage bonds was approximately $6.0 billion. In accordance with the terms of the indentures, this collateral value must be maintained during the entire term of the mortgage bonds irrespective of the outstanding balance of such bonds.

Environmental Matters Certain of our properties are subject to federal, state, and local laws and regulations governing the protection of the environment. (See discussion of environmental issues in Business Governmental and Environmental Regulation, Item 1, and Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Environmental, Item 7.)

Item 3. Legal Proceedings

From time to time, we are involved in legal proceedings, claims, and litigation that occur in connection with our business. We routinely assess our liabilities and contingencies in connection with these matters based upon the latest available information and, when necessary, we seek input from our third-party advisors when making these assessments. Consistent with SEC rules and requirements, we describe below material pending legal proceedings (other than ordinary routine litigation incidental to our business), material proceedings known to be contemplated by governmental authorities, other proceedings arising under federal, state, or local environmental laws and regulations (including governmental proceedings involving potential fines, penalties, or other monetary sanctions in excess of $100,000), and such other pending matters that we may determine to be appropriate.

ENVIRONMENTAL MATTERS

As we reported in our Annual Report on Form 10-K for 2005, the Illinois Attorney General s office filed a complaint against the Railroad in the Circuit Court for the Twentieth Judicial Circuit (St. Clair County) for injunctive and other relief on November 28, 2005, alleging a diesel fuel spill from an above-ground storage tank in a rail yard in Dupo, St. Clair County, Illinois. The State of Illinois seeks to enjoin UPRR from further violations and a monetary penalty. Union Pacific settled this matter by paying the State of Illinois $34,000.

As we reported in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, we received notices from EPA Region 8 and U.S. Department of Justice (DOJ) alleging that we may be liable under federal environmental laws for violating the Clean Water Act and the Oil Pollution Prevention Act relating to derailments and spills and UPRR s Spill Prevention Countermeasure and Control Plans and its Stormwater Pollution Prevention Plans in Colorado, Utah, and Wyoming. We cannot predict the ultimate impact of these proceedings because we are continuing to investigate and negotiate with the EPA Region 8 and DOJ. The amount of the proposed penalty, although uncertain, could exceed $100,000.

We received notices from the EPA and state environmental agencies alleging that we are or may be liable under federal or state environmental laws for remediation costs at various sites throughout the U.S., including sites on the Superfund National Priorities List or state superfund lists. We cannot predict the ultimate impact of these proceedings and suits because of the number of potentially responsible parties involved, the degree of contamination by various wastes, the scarcity and quality of volumetric data related to many of the sites, and the speculative nature of remediation costs.

Information concerning environmental claims and contingencies and estimated remediation costs is set forth in Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Environmental, Item 7.

OTHER MATTERS

Antitrust Litigation As we reported in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, 20 small rail shippers (many of whom are represented by the same law firms) filed virtually identical antitrust lawsuits in various federal district courts against the Railroad and four other Class I railroads in the U.S (one railroad was eventually dropped from the lawsuit). The original plaintiff filed the first of these claims in the U.S. District Court in New Jersey on May 14, 2007, and the additional plaintiffs filed claims in district courts in various states, including Florida, Illinois, Alabama, Pennsylvania, and the District of Columbia. These suits allege that the named railroads engaged in price-fixing by establishing common fuel surcharges for certain rail traffic.

We received additional complaints following the initial claim, increasing the total number of complaints to 30. In addition to suits filed by direct purchasers of rail transportation, a few of the suits involved plaintiffs alleging that they are or were indirect purchasers of rail transportation and seeking to represent a purported class of indirect purchasers of rail transportation that paid fuel surcharges. These complaints added allegations under state antitrust and consumer protection laws. On November 6, 2007, the Judicial Panel on Multidistrict Litigation ordered that all of the rail fuel surcharge cases be transferred to Judge Paul Friedman of the U.S. District Court in the District of Columbia for coordinated or consolidated pretrial proceedings. Subsequently, the direct purchaser plaintiffs and the indirect purchaser plaintiffs filed Consolidated Amended Class Action Complaints against UPRR and three other Class I railroads.

One additional shipper filed a separate antitrust suit during 2008. Subsequently, the shipper voluntarily dismissed the action without prejudice.

On October 10, 2008, Judge Friedman heard oral arguments with respect to the defendant railroads motions to dismiss. In a ruling on November 7, 2008, Judge Friedman denied the motion with respect to the direct purchasers complaint, and pretrial proceedings are underway in that case, the status of which is described below. On December 31, 2008, Judge Friedman dismissed the complaints of the indirect purchasers based upon state antitrust, consumer protection, and unjust enrichment laws. He also ruled, however, that these plaintiffs could proceed with their claim for injunctive relief under the federal antitrust laws, which is identical to a claim by the direct purchaser plaintiffs. The indirect purchasers appealed Judge Friedman s ruling to the U.S. Court of Appeals for the District of Columbia. On April 16, 2010, the U.S. Court of Appeals for the District of Columbia affirmed Judge Friedman s ruling dismissing the indirect purchasers claims based on various state laws. On December 13, 2010, the U.S. Supreme Court denied the indirect purchaser plaintiffs Petition for Certiorari.

With respect to the direct purchasers complaint, Judge Friedman conducted a two-day hearing on October 6 and 7, 2010, on the class certification issue and the railroad defendants motion to exclude evidence of interline communications. On April 7, 2011, Judge Friedman issued an order deferring any decision on class certification until the Supreme Court issued its decision in the Wal-Mart employment discrimination case. The Supreme Court issued its decision on June 20, 2011, and Judge Friedman required the parties to confer on the impact of the Wal-Mart decision. Plaintiffs and the defendant railroads filed briefs in August and early September stating their views on the impact of the Wal-Mart case on class certification in the fuel surcharge litigation. The decision from Judge Friedman regarding class certification is still pending.

As we reported in our Current Report on Form 8-K, filed on June 10, 2011, the Railroad received a copy of a complaint filed in the U.S. District Court for the District of Columbia on June 7, 2011, by Oxbow Carbon & Minerals LLC and related entities (Oxbow). The complaint named the Railroad and one other U.S. Class I Railroad as defendants and alleged that the named railroads engaged in price-fixing and monopolistic practices in connection with fuel surcharge programs and pricing of shipments of certain commodities, including coal and petroleum coke. The complaint seeks injunctive relief and payment of

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damages of over $30 million, and other unspecified damages, including treble damages. Some of the allegations in the complaint are addressed in the existing fuel surcharge litigation referenced above. The complaint also includes additional unrelated allegations regarding alleged limitations on competition for shipments of Oxbow s commodities. Judge Friedman, who presides over the fuel surcharge matter described above, also presides over this matter. The parties filed briefs and answers regarding the motions to dismiss the action filed by the defendant railroads, and the court s decision regarding this motion is pending.

We deny the allegations that our fuel surcharge programs violate the antitrust laws or any other laws and deny the other allegations in the Oxbow complaint. We believe that these lawsuits are without merit, and we will vigorously defend our actions. Therefore, we currently believe that these matters will not have a material adverse effect on any of our results of operations, financial condition, and liquidity.

U.S. Customs and Border Protection (CBP) Dispute and Litigation As we reported in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, CBP directed its field offices to issue penalties against the Railroad beginning in December 2007 for discoveries of illegal drugs in freight cars crossing the border from Mexico. The freight cars were in trains delivered by Mexican railroads directly to CBP; the Railroad received the trains only after CBP inspected them. Additionally, CBP asserted or reinstated previously asserted penalties that had been held in abeyance while the Railroad and CBP pursued a collective plan to address drug smuggling. In some instances, CBP seized freight cars in which drugs were found. The parties resolved their dispute over the seized freight cars, which were released by CBP for a payment by the Railroad of $40,000. The total amount of fines for drug seizures asserted by CBP prior to June 1, 2011, exceeded $500 million.

On July 22, 2011, the Railroad and the Acting Commissioner of CBP signed an agreement under which the Railroad does not pay any fines but commits to participate in, and provide $50 million to fund, a major initiative to enhance border and supply chain security for rail shipments transiting the border with Mexico. CBP will reduce all fines asserted prior to June 1, 2011 (other than those involved in the Nebraska litigation discussed below) to zero on a pro rata basis as the Railroad makes expenditures of its $50 million commitment. Under the agreement, CBP also agrees that it will not assert penalties for drugs found on or after June 1, 2011, for a period of five years unless the Railroad fails to carry out the agreement or the Railroad or its personnel have specified degrees of involvement in drug smuggling. The agreement does not compromise the position of either party regarding the validity of the fines. CBP maintains its position that the fines were required by law, while the Railroad maintains its position that it has complied with all laws.

As previously reported in our disclosures regarding the CBP dispute and litigation, the Railroad filed a complaint in the U.S. District Court for the District of Nebraska on July 31, 2008, asking the court to enter (1) a judgment declaring that CBP s penalties and seizures are invalid and unenforceable and (2) preliminary and permanent injunctions prohibiting CBP from enforcing penalties and holding seized freight cars and directing CBP to refrain from asserting additional penalties and from making future equipment seizures. On December 19, 2011, the District Court ruled in favor of the Railroad, finding that the CBP acted outside of its authority in assessing the penalties. The court also entered a permanent injunction that enjoins CBP from taking any action against the Railroad for seizures of drugs found on railcars entering the U.S. from Mexico over which the Railroad has no control. The amount of fines involved in the Nebraska litigation, approximately $38 million, is not material to the Railroad. Therefore, the resolution of this matter will not have a material adverse effect on any of our results of operations, financial condition, and liquidity.

Item 4. Mine Safety Disclosures

Not applicable.

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Executive Officers of the Registrant and Principal Executive Officers of Subsidiaries

The Board of Directors typically elects and designates our executive officers on an annual basis at the board meeting held in conjunction with the Annual Meeting of Shareholders, and they hold office until their successors are elected. Executive officers also may be elected and designated throughout the year, as the Board of Directors considers appropriate. There are no family relationships among the officers, nor any arrangement or understanding between any officer and any other person pursuant to which the officer was selected. The following table sets forth certain information current as of February 3, 2012, relating to the executive officers.

Name	Position	Age	Business Experience During Past Five Years
James R. Young	Chairman, President and Chief Executive Officer of UPC and the Railroad	59	[1]
Robert M. Knight, Jr.	Executive Vice President Finance and Chief Financial Officer of UPC and the Railroad	54	Current Position
J. Michael Hemmer	Senior Vice President Law and General Counsel of UPC and the Railroad	62	Current Position
Barbara W. Schaefer	Senior Vice President Human Resources and Secretary of UPC and the Railroad	58	Current Position
Jeffrey P. Totusek	Vice President and Controller of UPC and Chief Accounting Officer and Controller of the Railroad	53	[2]
Lance M. Fritz	Executive Vice President Operations of the Railroad	49	[3]
John J. Koraleski	Executive Vice President Marketing and Sales of the Railroad	61	Current Position

[1] Mr. Young was elected Chief Executive Officer and President of UPC and the Railroad effective January 1, 2006. He was elected to the additional position of Chairman effective February 1, 2007.

[2] Mr. Totusek was elected to his current position effective January 1, 2008. He previously was Assistant Vice President Financial Analysis of the Railroad.

[3] Mr. Fritz was elected to his current position effective September 1, 2010. He previously was Vice President Operations of the Railroad, effective January 1, 2010. Mr. Fritz previously served as Vice President Labor Relations effective March 1, 2008, Regional Vice President South, effective July 1, 2006, and Regional Vice President North, effective April 1, 2005.

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PART II

Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Our common stock is traded on the New York Stock Exchange (NYSE) under the symbol UNP . The following table presents the dividends declared and the high and low closing prices of our common stock for each of the indicated quarters.

2011 - Dollars Per Share	*Q1*	*Q2*	*Q3*	*Q4*
Dividends	$ 0.38	$ 0.475	$ 0.475	$ 0.60
Common stock price:				
High	99.50	105.60	107.89	106.60
Low	90.66	92.80	79.58	77.73

2010 - Dollars Per Share	*Q1*	*Q2*	*Q3*	*Q4*
Dividends	$ 0.27	$ 0.33	$ 0.33	$ 0.38
Common stock price:				
High	74.35	78.61	83.08	95.78
Low	60.41	65.99	66.84	79.32

At January 27, 2012, there were 480,067,865 shares of common stock outstanding and 33,061 common shareholders of record. On that date, the closing price of the common stock on the NYSE was $114.90. We have paid dividends to our common shareholders during each of the past 112 years. We declared dividends totaling $938 million in 2011 and $653 million in 2010. On May 5, 2011, we increased the quarterly dividend to $0.475 per share, payable beginning on July 1, 2011, to shareholders of record on May 31, 2011. On November 17, 2011, we again increased the quarterly dividend to $0.60 per share, payable beginning January 2, 2012 to shareholders of record on November 30, 2011. We are subject to certain restrictions regarding retained earnings with respect to the payment of cash dividends to our shareholders. The amount of retained earnings available for dividends increased to $13.8 billion at December 31, 2011, from $12.9 billion at December 31, 2010. (See discussion of this restriction in Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources, Item 7.) We do not believe the restriction on retained earnings will affect our ability to pay dividends, and we currently expect to pay dividends in 2012.

Comparison Over One- and Three-Year Periods The following table presents the cumulative total shareholder returns, assuming reinvestment of dividends, over one- and three-year periods for the Corporation (UNP), a peer group index (comprised of CSX Corporation and Norfolk Southern Corporation), the Dow Jones Transportation Index (DJ Trans), and the Standard & Poor s 500 Stock Index (S&P 500).

Period	*UNP*	*Peer Group*	*DJ Trans*	*S&P 500*
1 Year (2011)	16.6%	9.0%	0.0%	2.1%
3 Year (2009-2011)	135.1	84.7	50.3	48.6

Five-Year Performance Comparison The following graph provides an indicator of cumulative total shareholder returns for the Corporation as compared to the peer group index (described above), the DJ Trans, and the S&P 500. The graph assumes that $100 was invested in the common stock of Union Pacific Corporation and each index on December 31, 2006 and that all dividends were reinvested.

Purchases of Equity Securities During 2011, we repurchased 15,340,810 shares of our common stock at an average price of $96.08. The following table presents common stock repurchases during each month for the fourth quarter of 2011:

Period	*Total Number of Shares Purchased [a]*	*Average Price Paid Per Share*	*Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program [b]*	*Maximum Number of Shares That May Yet Be Purchased Under the Plan or Program [b]*
Oct. 1 through Oct. 31	379,488	87.46	371,639	31,370,427
Nov. 1 through Nov. 30	1,748,964	98.41	1,733,877	29,636,550
Dec. 1 through Dec. 31	1,787,343	100.26	1,780,142	27,856,408
Total	3,915,795	$ 98.19	3,885,658	N/A

[a] Total number of shares purchased during the quarter includes approximately 30,137 shares delivered or attested to UPC by employees to pay stock option exercise prices, satisfy excess tax withholding obligations for stock option exercises or vesting of retention units, and pay withholding obligations for vesting of retention shares.

[b] On April 1, 2011, our Board of Directors authorized the repurchase of up to 40 million shares of our common stock by March 31, 2014. These repurchases may be made on the open market or through other transactions. Our management has sole discretion with respect to determining the timing and amount of these transactions.

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Item 6. Selected Financial Data

The following table presents as of, and for the years ended, December 31, our selected financial data for each of the last five years. The selected financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, Item 7, and with the Financial Statements and Supplementary Data, Item 8. The information below is not necessarily indicative of future financial condition or results of operations.

Millions, Except per Share Amounts,

Carloads, Employee Statistics, and Ratios	***2011***	*2010*	*2009*	*2008*	*2007*
For the Year Ended December 31					
Operating revenues [a]	**$ 19,557**	$ 16,965	$ 14,143	$ 17,970	$ 16,283
Operating income	**5,724**	4,981	3,379	4,070	3,364
Net income	**3,292**	2,780	1,890	2,335	1,848
Earnings per share - basic [b]	**6.78**	5.58	3.76	4.57	3.47
Earnings per share - diluted [b]	**6.72**	5.53	3.74	4.53	3.44
Dividends declared per share [b]	**1.93**	1.31	1.08	0.98	0.745
Cash provided by operating activities	**5,873**	4,105	3,204	4,044	3,248
Cash used in investing activities	**(3,119)**	(2,488)	(2,145)	(2,738)	(2,397)
Cash used in financing activities	**(2,623)**	(2,381)	(458)	(935)	(800)
Cash used for common share repurchases	**(1,418)**	(1,249)	-	(1,609)	(1,375)
At December 31					
Total assets	**$ 45,096**	$ 43,088	$ 42,184	$ 39,509	$ 37,825
Long-term obligations	**23,201**	22,373	22,701	21,314	19,328
Debt due after one year	**8,697**	9,003	9,636	8,607	7,543
Common shareholders equity	**18,578**	17,763	16,801	15,315	15,456
Equity per common share [c]	**38.71**	36.14	33.27	30.43	29.62
Additional Data					
Freight revenues [a]	**$ 18,508**	$ 16,069	$ 13,373	$ 17,118	$ 15,486
Revenue carloads (units) (000)	**9,072**	8,815	7,786	9,261	9,733
Operating margin (%) [d]	**29.3**	29.4	23.9	22.6	20.7
Operating ratio (%) [d]	**70.7**	70.6	76.1	77.4	79.3
Average employees (000)	**44.9**	42.9	43.5	48.2	50.1
Operating revenues per employee (000)	**$ 435.6**	$ 395.5	$ 325.1	$ 372.8	$ 325.0
Financial Ratios (%)					
Debt to capital [e]	**32.4**	34.2	37.0	36.8	33.2
Return on average common shareholders equity [f]	**18.1**	16.1	11.8	15.2	12.1

[a] Includes fuel surcharge revenue of $2,243 million, $1,237 million, $605 million, $2,323 million, and $1,478 million for 2011, 2010, 2009, 2008, and 2007, respectively, which partially offsets increased operating expenses for fuel. Fuel surcharge revenue is not comparable from year to year due to implementation of new mileage-based fuel surcharge programs in each respective year. (See further discussion in Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Operating Revenues, Item 7.)

[b] Earnings per share and dividends have been restated to reflect the May 28, 2008 stock split.

[c] Equity per common share is calculated as follows: common shareholders equity divided by common shares issued less treasury shares outstanding. Shares have been adjusted to reflect the May 28, 2008 stock split.

[d]

Operating margin is defined as operating income divided by operating revenues. Operating ratio is defined as operating expenses divided by operating revenues.

[e] *Debt to capital is determined as follows: total debt divided by total debt plus common shareholders equity.*

[f] *Return on average common shareholders equity is determined as follows: Net income divided by average common shareholders equity.*

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Consolidated Financial Statements and applicable notes to the Financial Statements and Supplementary Data, Item 8, and other information in this report, including Risk Factors set forth in Item 1A and Critical Accounting Policies and Cautionary Information at the end of this Item 7.

The Railroad, along with its subsidiaries and rail affiliates, is our one reportable business segment. Although revenue is analyzed by commodity, we analyze the net financial results of the Railroad as one segment due to the integrated nature of the rail network.

EXECUTIVE SUMMARY

2011 Results

Safety We continued improving safety in 2011 and set records in nearly all of our safety metrics. The employee injury incident rate per 200,000 man-hours declined 12% from 2010. These results reflect our continuing implementation of Total Safety Culture (TSC), an employee engagement initiative designed to establish, maintain, reinforce and promote safety practices among co-workers, along with increased risk identification, coaching and enhanced training. Our use of laser, ultrasound and acoustic vibration monitoring to identify potential wheel and axle failures before they occur reduced our equipment incident rate to 9.89 per million train miles, another best ever result. With respect to public safety, we closed 269 grade crossings in 2011 to reduce our exposure to incidents and continued using video cameras on our locomotives to assist in reviewing grade crossing incidents. We now have camera-equipped locomotives in the lead position on over 97% of our through-freight trains. During 2011, the rate of grade crossing incidents per million train miles decreased 9% from 2010, matching our record low for this measure. Overall, our 2011 safety results reflect our continued focus on the safety of our employees, our customers and the public.

Financial Performance In 2011, we continued our record-setting trend by generating operating income of $5.7 billion, a 15% increase over 2010. Improved pricing and 3% volume growth, partially offset by inflation and weather-related costs, drove this increase. Our operating ratio for 2011 was 70.7%, only slightly behind last year s record of 70.6%. Net income of $3.3 billion surpassed our previous milestone set in 2010, translating into earnings of $6.72 per diluted share for 2011.

Freight Revenues Our freight revenues grew 15% year-over-year to $18.5 billion. Freight revenues for all six commodity groups increased while volume increased in all groups except intermodal, which declined 2%. Overall, volume increased 3% in 2011, with particularly strong growth in chemicals, industrial products, and automotive shipments. Higher fuel surcharges (due to higher fuel prices, volume growth, and new fuel surcharge provisions in renegotiated contracts) and core pricing gains also drove the growth in freight revenue in 2011 compared to 2010.

Network Operations Weather impacted our operations more significantly in 2011 than 2010, including blizzards affecting the Southwest and Midwest, particularly the Chicago area, historic Midwestern floods and severe heat and drought in our Southern Region. We deployed resources to address these adverse conditions and maintained reliable network operations. As reported to the Association of American Railroads (AAR), average train speed decreased 2% in 2011 compared to 2010, reflecting the weather challenges, in addition to increased carloadings and changes in traffic mix. Average terminal dwell time increased 3% due to the same factors that affected train speed along with a more active track replacement program, which can adversely affect operations. Average rail car inventory decreased slightly, despite a 3% increase in volume, reflecting our efforts to adjust our freight car fleet to match operating performance and demand. Despite these operating challenges, we established a new record in our customer satisfaction index in 2011, an indication that our ongoing efforts to improve operations translated into value for our customers.

Fuel Prices The 2011 barrel price averaged almost 20% higher than 2010, peaking in April, as the global economy strengthened and the U.S. dollar weakened. Our average diesel fuel price per gallon rose 21% from January to December of 2011, due to higher prices for crude oil and conversion spreads. Compared to 2010, our price per gallon of diesel fuel consumed increased 36%, driving operating expenses up $922 million (excluding any impact from year-over-year volume), which accounted for almost half of the total increase in operating cost. Higher traffic volume accounted for nearly all of the remaining increase in fuel expense, reflecting a relatively flat year-over-year fuel consumption rate.

Free Cash Flow Cash generated by operating activities totaled $5.9 billion, yielding record free cash flow of $1.9 billion in 2011. Free cash flow is defined as cash provided by operating activities (adjusted for the reclassification of our receivables securitization facility), less cash used in investing activities and dividends paid.

Free cash flow is not considered a financial measure under accounting principles generally accepted in the U.S. (GAAP) by SEC Regulation G and Item 10 of SEC Regulation S-K. We believe free cash flow is important in evaluating our financial performance and measures our ability to generate cash without additional external financings. Free cash flow should be considered in addition to, rather than as a substitute for, cash provided by operating activities. The following table reconciles cash provided by operating activities (GAAP measure) to free cash flow (non-GAAP measure):

Millions	***2011***	*2010*	*2009*
Cash provided by operating activities	**$ 5,873**	$ 4,105	$ 3,204
Receivables securitization facility [a]	**-**	400	184
Cash provided by operating activities adjusted for the receivables securitization facility	**5,873**	4,505	3,388
Cash used in investing activities	**(3,119)**	(2,488)	(2,145)
Dividends paid	**(837)**	(602)	(544)
Free cash flow	**$ 1,917**	$ 1,415	$ 699

[a] *Effective January 1, 2010, a new accounting standard required us to account for receivables transferred under our receivables securitization facility as secured borrowings in our Consolidated Statements of Financial Position and as financing activities in our Consolidated Statements of Cash Flows. The receivables securitization facility is included in our free cash flow calculation to adjust cash provided by operating activities as though our receivables securitization facility had been accounted for under the new accounting standard for all periods presented.*

2012 Outlook

Safety Operating a safe railroad benefits our employees, our customers, our shareholders, and the communities we serve. We will continue using a multi-faceted approach to safety, utilizing technology, risk assessment, quality control, training and employee engagement and targeted capital investments. We will continue using and expanding the application of TSC throughout our operations. This process allows us to identify and implement best practices for employee and operational safety. Derailment prevention and the reduction of grade crossing incidents are critical aspects of our safety programs. We will continue our efforts to increase rail detection; maintain and close crossings; install video cameras on locomotives; and educate the public and law enforcement agencies about crossing safety through a combination of our own programs (including risk assessment strategies), various industry programs and local community activities.

Transportation Plan To build upon our success in recent years, we will continue evaluating traffic flows and network logistic patterns, which can be quite dynamic, to identify additional opportunities to simplify operations, remove network variability, and improve network efficiency and asset utilization. We plan to adjust manpower and our locomotive and rail car fleets to meet customer needs and put us in a position to handle demand changes. We also will continue utilizing industrial engineering techniques to improve productivity and network fluidity.

Fuel Prices Uncertainty about the economy makes projections of fuel prices difficult. We again could see volatile fuel prices during the year, as they are sensitive to global and U.S. domestic demand, refining capacity, geopolitical events, weather conditions and other factors. To reduce the impact of fuel price on earnings, we will continue to seek recovery from our customers through our fuel surcharge programs and expand our fuel conservation efforts.

Capital Plan In 2012, we plan to make total capital investments of approximately $3.6 billion, including expenditures for Positive Train Control (PTC), which may be revised if business conditions warrant or if new laws or regulations affect our ability to generate sufficient returns on these investments. (See further discussion in this Item 7 under Liquidity and Capital Resources Capital Plan.)

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Positive Train Control In response to a legislative mandate to implement PTC by the end of 2015, we expect to spend approximately $335 million during 2012 on developing and deploying PTC. We currently estimate that PTC in accordance with implementing rules issued by the Federal Rail Administration (FRA) will cost us approximately $2 billion by the end of 2015. This includes costs for installing the new system along our tracks, upgrading locomotives to work with the new system, and adding digital data communication equipment so all the parts of the system can communicate with each other. During 2012, we plan to continue testing the technology to evaluate its effectiveness.

Financial Expectations We are cautious about the economic environment but anticipate slow but steady volume growth that will exceed 2011 levels. Coupled with price, on-going network improvements and operational productivity initiatives, we expect earnings that exceed 2011 earnings.

RESULTS OF OPERATIONS

Operating Revenues

Millions	***2011***	*2010*	*2009*	***% Change 2011 v 2010***	*% Change 2010 v 2009*
Freight revenues	**$ 18,508**	$ 16,069	$ 13,373	**15%**	20%
Other revenues	**1,049**	896	770	**17**	16
Total	**$ 19,557**	$ 16,965	$ 14,143	**15%**	20%

We generate freight revenues by transporting freight or other materials from our six commodity groups. Freight revenues vary with volume (carloads) and average revenue per car (ARC). Changes in price, traffic mix and fuel surcharges drive ARC. We provide some of our customers with contractual incentives for meeting or exceeding specified cumulative volumes or shipping to and from specific locations, which we record as reductions to freight revenues based on the actual or projected future shipments. We recognize freight revenues as shipments move from origin to destination. We allocate freight revenues between reporting periods based on the relative transit time in each reporting period and recognize expenses as we incur them.

Other revenues include revenues earned by our subsidiaries, revenues from our commuter rail operations, and accessorial revenues, which we earn when customers retain equipment owned or controlled by us or when we perform additional services such as switching or storage. We recognize other revenues as we perform services or meet contractual obligations.

Freight revenues for all six commodity groups increased during 2011 compared to 2010, while volume increased in all except intermodal. Increased demand in many market sectors, with particularly strong growth in chemical, industrial products, and automotive shipments for the year, generated the increases. ARC increased 12%, driven by higher fuel cost recoveries and core pricing gains. Fuel cost recoveries include fuel surcharge revenue and the impact of resetting the base fuel price for certain traffic, which is described below in more detail. Higher fuel prices, volume growth, and new fuel surcharge provisions in renegotiated contracts all combined to increase revenues from fuel surcharges.

Freight revenues and volume levels for all six commodity groups increased during 2010 as a result of economic improvement in many market sectors. We experienced particularly strong volume growth in automotive, intermodal, and industrial products shipments. Core pricing gains and higher fuel surcharges also increased freight revenues and drove a 6% improvement in ARC.

Our fuel surcharge programs (excluding index-based contract escalators that contain some provision for fuel) generated freight revenues of $2.2 billion, $1.2 billion, and $605 million in 2011, 2010, and 2009, respectively. Higher fuel prices, volume growth, and new fuel surcharge provisions in contracts renegotiated during the year increased fuel surcharge amounts in 2011 and 2010. Furthermore, for certain periods during 2009, fuel prices dropped below the base at which our mileage-based fuel surcharge begins, which resulted in no fuel surcharge recovery for associated shipments during those periods. Additionally, fuel surcharge revenue is not entirely comparable to prior periods as we continue to convert portions of our non-regulated traffic to mileage-based fuel surcharge programs.

In 2011, other revenues increased from 2010 due primarily to higher revenues at our subsidiaries that broker intermodal and automotive services.

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In 2010, other revenues increased from 2009 due primarily to higher revenues at our subsidiaries that broker intermodal and automotive services. Assessorial revenues also increased in 2010 reflecting higher volume levels during the year.

The following tables summarize the year-over-year changes in freight revenues, revenue carloads, and ARC by commodity type:

Freight Revenues

Millions	***2011***	*2010*	*2009*	***% Change 2011 v 2010***	*% Change 2010 v 2009*
Agricultural	**$ 3,324**	$ 3,018	$ 2,666	**10%**	13%
Automotive	**1,510**	1,271	854	**19**	49
Chemicals	**2,815**	2,425	2,102	**16**	15
Energy	**4,084**	3,489	3,118	**17**	12
Industrial Products	**3,166**	2,639	2,147	**20**	23
Intermodal	**3,609**	3,227	2,486	**12**	30
Total	**$ 18,508**	$ 16,069	$ 13,373	**15%**	20%

Revenue Carloads

Thousands	***2011***	*2010*	*2009*	***% Change 2011 v 2010***	*% Change 2010 v 2009*
Agricultural	**934**	918	865	**2%**	6%
Automotive	**653**	611	465	**7**	31
Chemicals	**921**	844	761	**9**	11
Energy	**2,164**	2,056	2,021	**5**	2
Industrial Products	**1,146**	1,073	899	**7**	19
Intermodal [a]	**3,254**	3,313	2,775	**(2)**	19
Total	**9,072**	8,815	7,786	**3%**	13%

Average Revenue per Car	***2011***	*2010*	*2009*	***% Change 2011 v 2010***	*% Change 2010 v 2009*
Agricultural	**$ 3,561**	$ 3,286	$ 3,080	**8%**	7%
Automotive	**2,311**	2,082	1,838	**11**	13
Chemicals	**3,055**	2,874	2,761	**6**	4
Energy	**1,888**	1,697	1,543	**11**	10
Industrial Products	**2,762**	2,461	2,388	**12**	3
Intermodal [a]	**1,109**	974	896	**14**	9
Average	**$ 2,040**	$ 1,823	$ 1,718	**12%**	6%

[a] Each intermodal container or trailer equals one carload.

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2011 Agricultural Revenue

Agricultural Products Fuel surcharges, price improvements and modest volume growth increased agricultural freight revenue in 2011 versus 2010. The federal mandate for higher levels of ethanol in the nation s fuel supply and new business increased shipments of ethanol by 10% in 2011 versus 2010. Strong export demand for U.S. wheat via Gulf ports in the first half of 2011 was the primary driver of a 6% increase in wheat and food grains shipments for 2011 compared to 2010, despite a 19% decrease in shipments in the second half of 2011 when U.S. grain exports declined. Poor wheat production in some foreign markets drove the export demand during the first six months of the year.

Higher volume, fuel surcharges, and price improvements increased agricultural freight revenue in 2010 versus 2009. Increased shipments from the Midwest to export ports in the Pacific Northwest combined with heightened demand in Mexico drove higher corn and feed grain shipments in 2010. Increased corn and feed grain shipments into ethanol plants in California and Idaho and continued growth in ethanol shipments also contributed to this increase. In 2009, some ethanol plants temporarily ceased operations due to lower ethanol margins, which contributed to the favorable year-over-year comparison. In addition, strong export demand for U.S. wheat via the Gulf ports increased shipments of wheat and food grains compared to 2009. Declines in domestic wheat and food shipments partially offset the growth in export shipments. New business in feed and animal protein shipments also increased agricultural shipments in 2010 compared to 2009.

2011 Automotive Revenue

Automotive Higher volume, core pricing gains and fuel surcharges improved automotive freight revenue from 2010 levels. Although higher production and sales levels during 2011 contributed to volume growth, the disaster in Japan partially offset the increase in shipments. The disruption caused by this event reduced parts shipments in the second quarter and shipments of international vehicles in the second and third quarters. Finished autos shipments were up 7% in 2011 from 2010, aided by a 14% increase in the fourth quarter as the U.S. light-vehicle sales rate was the highest since the second quarter of 2008.

Increases of 37% and 24% in shipments of finished vehicles and automotive parts in 2010, respectively, combined with core pricing gains and fuel surcharges, improved automotive freight revenue from relatively weak 2009 levels. Economic conditions in 2009 led to poor auto sales and reduced vehicle production, which in turn reduced shipments of finished vehicles and parts during the year.

2011 Chemicals Revenue

Chemicals Volume gains, fuel surcharges and price improvements increased freight revenue from chemicals in 2011 versus 2010. In mid-2010, we began moving crude oil shipments from the Bakken formation in North Dakota to facilities in Louisiana. This new business, along with shipments from the Eagle Ford shale formation in south Texas, contributed to a 37% increase in shipments of petroleum products during 2011. Strong domestic demand and robust spring planting increased fertilizer shipments by 9% versus 2010. Additionally, improving market conditions increased demand for industrial chemicals during 2011, driving volume levels up versus 2010.

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Higher volume, price improvements, and fuel surcharges increased freight revenue from chemicals in 2010 versus 2009. Reduced inventories and purchases delayed from 2009 increased fertilizer shipments by 30% in 2010. A modest rebound in market conditions and more normalized inventory levels increased demand for industrial chemicals during the year, driving volume levels up 8% versus 2009. In addition, shipments of soda ash increased 12% as continued strong export demand outpaced weak 2009 export demand.

Energy Core pricing gains, higher fuel surcharges, and increased volume grew energy freight revenue from 2010 levels. Shipments of coal from the Southern Powder River Basin (SPRB) were up 5% in 2011 compared to 2010, reflecting new business to Wisconsin facilities and the start-up of a new power plant near Waco, Texas. Completion of a year-long equipment relocation process at one of the mines in the third quarter of 2011 and minimal production problems elsewhere improved shipments from Colorado and Utah by 3% in 2011 versus 2010. These gains, along with increased exports to Europe and Asia, offset first half production problems and weak demand from eastern coal utilities.

2011 Energy Revenue

Core pricing gains, higher fuel surcharges and modest volume growth increased freight revenue from energy shipments in 2010 compared to 2009. Shipments from the SPRB were up 4%, driven by higher demand resulting from improved economic conditions, warmer summer weather, and more efficient deliveries (higher tons per car and increased train size). Higher inventory levels carried over from 2009 partially offset this demand increase. Shipments from Colorado and Utah mines were down 8% in 2010 versus 2009 due to mine production interruptions and increased competition from other low cost fuel options (natural gas and eastern coal), weaker demand from our industrial customers, and high inventories at some utility customer locations.

Industrial Products Increased volume, fuel surcharges, and core pricing improvement increased freight revenue from industrial products in 2011 versus 2010. Shipments of non-metallic minerals (primarily frac sand) grew in response to a dramatic rise in horizontal drilling activity for natural gas and oil, while steel shipments increased due to higher demand for steel coils and plate for automotive and pipe production. In addition, an increase in iron ore export business to China also drove volume growth. Conversely, lower commercial construction activity reduced stone, sand and gravel shipments in 2011 compared to 2010.

2011 Industrial Products Revenue

Volume gains, core pricing improvement, and higher fuel surcharges increased freight revenue from industrial products in 2010 versus 2009. A federal government remediation program involving removal of uranium mill tailings from a Moab, Utah, site drove an increase in short-haul hazardous waste shipments versus 2009. Shipments under this program began modestly during the second quarter of 2009. Steel shipments also increased due to improving economic conditions, while shipments of non-metallic minerals (primarily frac sand) grew in response to more drilling for natural gas. Stone, sand and gravel shipments grew in 2010 compared to 2009 as increased oil drilling more than offset the decline in commercial construction activity.

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Intermodal Fuel surcharge gains, including better contract provisions for fuel cost recovery, and pricing improvements, partially offset by lower volume, increased freight revenue from intermodal shipments in 2011 compared to 2010. Volume from international traffic decreased 5% in 2011 versus 2010, driven by softer economic conditions, reflected in a muted international peak shipping season, which usually starts in the third quarter, and the loss of a customer contract. Conversely, conversions from truck to rail and recovering consumer demand offset competition for domestic shipments, resulting in a 2% volume increase in domestic shipments during 2011.

2011 Intermodal Revenue

Increased volume, higher fuel surcharges (including new recovery provisions in contracts renegotiated in 2010), and pricing gains drove the increase in freight revenue from intermodal shipments in 2010 compared to 2009. Domestic and international traffic increased from 2009 levels, reflecting improvements in economic conditions. International volumes grew in response to continued inventory restocking and higher consumer demand. Domestic shipments increased as a result of conversions from truck to rail fueled by improved service. A new contract with Hub Group, Inc., which included additional shipments, was executed in the second quarter of 2009 and contributed to the increase in domestic shipments.

Mexico Business Each of our commodity groups includes revenue from shipments to and from Mexico. Revenue from Mexico business increased 16% to $1.8 billion in 2011 versus 2010. Volume levels increased 9% in aggregate versus 2010, with particularly strong growth in automotive and industrial products. Energy was the one commodity group that declined as one of our customers conducted a supplier contract renewal during the year, shifting transportation modes from rail to truck during the process.

Revenue from Mexico business increased 30% in 2010 versus 2009 to $1.6 billion. Volume levels for all six commodity groups increased, up 25% in aggregate versus 2009, with particularly strong growth in automotive, industrial products, and intermodal shipments.

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Operating Expenses

	$000,000,0	$000,000,0	$000,000,0	$000,000,0	$000,000,0
Millions	***2011***	*2010*	*2009*	***% Change 2011 v 2010***	*% Change 2010 v 2009*
Compensation and benefits	**$ 4,681**	$ 4,314	$ 4,063	**9%**	6%
Fuel	**3,581**	2,486	1,763	**44**	41
Purchased services and materials	**2,005**	1,836	1,644	**9**	12
Depreciation	**1,617**	1,487	1,427	**9**	4
Equipment and other rents	**1,167**	1,142	1,180	**2**	(3)
Other	**782**	719	687	**9**	5
Total	**$ 13,833**	$ 11,984	$ 10,764	**15%**	11%

2011 Operating Expenses

Operating expenses increased $1.8 billion in 2011 versus 2010. Our fuel price per gallon rose 36% during 2011, accounting for $922 million of the increase. Wage and benefit inflation, volume-related costs, depreciation, and property taxes also contributed to higher expenses. Expenses increased $20 million for costs related to the flooding in the Midwest and $18 million due to the impact of severe heat and drought in the South, primarily Texas. Cost savings from productivity improvements and better resource utilization partially offset these increases. A $45 million one-time payment relating to a transaction with CSX Intermodal, Inc (CSXI) increased operating expenses during the first quarter of 2010, which favorably affects the comparison of operating expenses in 2011 to those in 2010.

Operating expenses increased $1.2 billion in 2010 versus 2009. Our fuel price per gallon increased 31% during the year, accounting for $566 million of the increase. Wage and benefit inflation, depreciation, volume-related costs, and property taxes also contributed to higher expenses during 2010 compared to 2009. Cost savings from productivity improvements and better resource utilization partially offset these increases.

Compensation and Benefits Compensation and benefits include wages, payroll taxes, health and welfare costs, pension costs, other postretirement benefits, and incentive costs. A combination of general wage and benefit inflation, volume-related expenses, higher training costs associated with new hires, additional crew costs due to speed restrictions caused by the Midwest flooding and heat and drought in the South, and higher pension expense drove the increase during 2011 compared to 2010.

General wage and benefit inflation increased costs by approximately $190 million in 2010 compared to 2009. Volume-related expenses and higher equity and incentive compensation also drove costs up during the year. Workforce levels declined 1% in 2010 compared to 2009 as network efficiencies and ongoing productivity initiatives enabled us to effectively handle the 13% increase in volume levels with fewer employees.

Fuel Fuel includes locomotive fuel and gasoline for highway and non-highway vehicles and heavy equipment. Higher locomotive diesel fuel prices, which averaged $3.12 (including taxes and transportation costs) in 2011, compared to $2.29 per gallon in 2010, increased expenses by $922 million. In addition, higher gasoline prices for highway and non-highway vehicles also increased year-over-year. Volume, as measured by gross ton-miles, increased 5% in 2011 versus 2010, driving expense up by $122 million.

Higher diesel fuel prices, which averaged $2.29 per gallon (including taxes and transportation costs) in 2010 compared to $1.75 per gallon in 2009, increased expenses by $566 million. Volume, as measured by gross ton-miles, increased 10% in 2010 versus 2009, driving fuel expense up by $166 million. Conversely, the use of newer, more fuel efficient locomotives, our fuel conservation programs and efficient network operations drove a 3% improvement in our fuel consumption rate in 2010, resulting in $40 million of cost savings versus 2009 at the 2009 average fuel price.

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Purchased Services and Materials Expense for purchased services and materials includes the costs of services purchased from outside contractors and other service providers (including equipment maintenance and contract expenses incurred by our subsidiaries for external transportation services); materials used to maintain the Railroad s lines, structures, and equipment; costs of operating facilities jointly used by UPRR and other railroads; transportation and lodging for train crew employees; trucking and contracting costs for intermodal containers; leased automobile maintenance expenses; and tools and supplies. Expenses for contract services increased $106 million in 2011 versus 2010, driven by volume-related external transportation services incurred by our subsidiaries, and various other types of contractual services, including flood-related repairs, mitigation and improvements. Volume-related crew transportation and lodging costs, as well as expenses associated with jointly owned operating facilities, also increased costs compared to 2010. In addition, an increase in locomotive maintenance materials used to prepare a portion of our locomotive fleet for return to active service due to increased volume and additional capacity for weather related issues and warranty expirations increased expenses in 2011.

A $148 million increase in costs for contract services drove the higher expenses in 2010 versus 2009. Volume-related trucking and lift costs for intermodal containers and crew transportation and lodging costs also increased costs from 2009. In addition, an increase in locomotive maintenance materials used to prepare a portion of our locomotive fleet for return to active service increased expenses during the year compared to 2009. Conversely, a decrease in freight car maintenance activity during 2010 drove lower freight car material costs, partially offsetting the cost increases versus 2009.

Depreciation The majority of depreciation relates to road property, including rail, ties, ballast, and other track material. A higher depreciable asset base, reflecting ongoing capital spending, increased depreciation expense in 2011 compared to 2010. Higher depreciation rates for rail and other track material also contributed to the increase. The higher rates, which became effective January 1, 2011, resulted primarily from increased track usage (based on higher gross ton-miles in 2010).

A higher depreciable asset base, reflecting higher capital spending in recent years, increased depreciation expense in 2010 compared to 2009. Costs also increased $25 million in 2010 due to the restructuring of certain locomotive leases in the second quarter of 2009. Lower depreciation rates for rail and other track material partially offset the increases. The lower rates, which became effective January 1, 2010, resulted from reduced track usage (based on lower gross ton-miles in 2009).

Equipment and Other Rents Equipment and other rents expense primarily includes rental expense that the Railroad pays for freight cars owned by other railroads or private companies; freight car, intermodal, and locomotive leases; and office and other rent expenses. Costs increased in 2011 versus 2010 as higher short-term freight car rental expense and container lease expense offset lower freight car and locomotive lease expense.

Short-term freight car rental expense increased in 2010 compared to 2009, reflecting increased shipments of finished vehicles and intermodal containers. Increased lease expenses for containers also drove the increase. Conversely, lower lease expense for freight cars and locomotives decreased costs compared to 2009. The restructuring of locomotive leases (completed in May 2009) also reduced lease expense by $36 million in 2010 compared to 2009.

Other Other expenses include personal injury, freight and property damage, destruction of equipment, insurance, environmental, bad debt, state and local taxes, utilities, telephone and cellular, employee travel, computer software, and other general expenses. Higher property taxes, casualty costs associated with destroyed equipment, damaged freight and property and environmental costs increased other costs in 2011 compared to 2010. A one-time payment of $45 million in the first quarter of 2010 related to a transaction with CSXI and continued improvement in our safety performance and lower estimated liability for personal injury, which reduced our personal injury expense year-over-year, partially offset increases in other costs.

Other costs were higher in 2010 compared to 2009, driven by higher property taxes and the $45 million one-time payment in the first quarter of 2010 related to a transaction with CSXI. A $30 million payment in 2009 to Pacer International, Inc. and lower expenses for freight and property damages partially offset these increases in comparing 2009 with 2010. In addition, personal injury expense was lower in 2010 compared to 2009, reflecting continued improvement in our personal injury incident rate and lower settlement costs per claim. The change in asbestos-related claim expenses in 2010 versus 2009 offset

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the lower personal injury costs. As a result of our 2009 annual review of asbestos-related costs, we reduced expenses by $25 million, thus driving the unfavorable variance in 2010.

Non-Operating Items

Millions	***2011***	*2010*	*2009*	***% Change 2011 v 2010***	*% Change 2010 v 2009*
Other income	**$ 112**	$ 54	$ 195	**107%**	(72)%
Interest expense	**(572)**	(602)	(600)	**(5)**	-
Income taxes	**(1,972)**	(1,653)	(1,084)	**19%**	52%

Other Income Other income increased in 2011 versus 2010 due to higher gains from real estate sales, lower environmental costs associated with non-operating properties and the comparative impact of premiums paid for early redemption of long-term debt in the first quarter of 2010.

Other income decreased in 2010 versus 2009 due to lower gains from real estate sales (the second quarter of 2009 included a $116 million pre-tax gain from a land sale to the Regional Transportation District in Colorado) and premiums paid for early debt redemption.

Interest Expense Interest expense decreased in 2011 versus 2010 due to a lower weighted-average debt level of $9.2 billion versus $9.7 billion. The effective interest rate was 6.2% in both 2011 and 2010.

Interest expense was flat in 2010 compared to 2009 due to a modestly higher weighted-average debt level of $9.7 billion, compared to $9.6 billion in 2009, offset by a lower effective interest rate of 6.2% in 2010, compared to 6.3% in 2009.

Income Taxes Higher pre-tax income increased income taxes in 2011 compared to 2010. Our effective tax rate remained relatively flat at 37.5% in 2011 compared to 37.3% in 2010.

Income taxes were higher in 2010 compared to 2009, primarily driven by higher pre-tax income. Our effective tax rate for the year was 37.3% compared to 36.4% in 2009.

OTHER OPERATING/PERFORMANCE AND FINANCIAL STATISTICS

We report key performance measures weekly to the Association of American Railroads (AAR), including carloads, average daily inventory of freight cars on our system, average train speed, and average terminal dwell time. We provide this data on our website at www.up.com/investors/reports/index.shtml.

Operating/Performance Statistics

Railroad performance measures reported to the AAR, as well as other performance measures, are included in the table below:

	2011	*2010*	*2009*	***% Change 2011 v 2010***	*% Change 2010 v 2009*
Average train speed (miles per hour)	**25.6**	26.2	27.3	**(2)%**	(4)%
Average terminal dwell time (hours)	**26.2**	25.4	24.8	**3 %**	2 %
Average rail car inventory (thousands)	**272.9**	274.4	283.1	**(1)%**	(3)%
Gross ton-miles (billions)	**978.2**	931.4	846.5	**5 %**	10 %
Revenue ton-miles (billions)	**544.4**	520.4	479.2	**5 %**	9 %
Operating ratio	**70.7**	70.6	76.1	**0.1 pt**	(5.5)pt
Employees (average)	**44,861**	42,884	43,531	**5 %**	(1)%
Customer satisfaction index	**92**	89	88	**3 pt**	1 pt

Average Train Speed Average train speed is calculated by dividing train miles by hours operated on our main lines between terminals. The severe heat and drought in the South, combined with extreme winter weather in February and severe Midwest flooding, had a greater impact than weather events in 2010. These weather challenges, in addition to increased carloadings and traffic mix changes, drove the 2% decline in

2011 compared to 2010. Overall, we continued operating a fluid and efficient network during

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2011, effectively handling the 3% increase in carloads. Maintenance activities and weather disruptions, combined with higher volume levels, led to a 4% decrease in average train speed in 2010 compared to a record set in 2009.

Average Terminal Dwell Time Average terminal dwell time is the average time that a rail car spends at our terminals. Lower average terminal dwell time improves asset utilization and service. Average terminal dwell time increased 3% in 2011 compared to 2010. Additional volume, weather challenges, track replacement programs, and a shift of traffic mix to more manifest shipments, which require additional terminal processing, all contributed to the increase. Average terminal dwell time increased 2% in 2010 compared to 2009, driven in part by our network plan to increase the length of numerous trains to improve overall efficiency, which resulted in higher terminal dwell time for some cars.

Average Rail Car Inventory Average rail car inventory is the daily average number of rail cars on our lines, including rail cars in storage. Lower average rail car inventory reduces congestion in our yards and sidings, which increases train speed, reduces average terminal dwell time, and improves rail car utilization. Average rail car inventory decreased slightly in 2011 compared to 2010, as we continued to adjust the size of our freight car fleet. Average rail car inventory decreased 3% in 2010 compared to 2009, while we handled a 13% increase in carloads during the period compared to 2009. We maintained more freight cars off-line and retired a number of old freight cars, which drove the decrease.

Gross and Revenue Ton-Miles Gross ton-miles are calculated by multiplying the weight of loaded and empty freight cars by the number of miles hauled. Revenue ton-miles are calculated by multiplying the weight of freight by the number of tariff miles. Gross and revenue-ton-miles increased 5% in 2011 compared to 2010, driven by a 3% increase in carloads and mix changes to heavier commodity groups, notably a 5% increase in energy shipments. Gross and revenue-ton-miles increased 10% and 9%, respectively, in 2010 compared to 2009 due to a 13% increase in carloads. Commodity mix changes (notably automotive shipments) drove the variance in year-over-year growth between gross ton-miles, revenue ton-miles and carloads.

Operating Ratio Operating ratio is our operating expenses reflected as a percentage of operating revenue. Our operating ratio increased 0.1 points to 70.7% in 2011 versus 2010. Higher fuel prices, inflation and weather related costs, partially offset by core pricing gains and productivity initiatives, drove the increase. Our operating ratio improved 5.5 points to 70.6% in 2010 and 1.3 points to 76.1% in 2009. Efficiently leveraging volume increases, core pricing gains, and productivity initiatives drove the improvement in 2010 and more than offset the impact of higher fuel prices during the year.

Employees Employee levels were up 5% in 2011 versus 2010, driven by a 3% increase in volume levels, a higher number of trainmen, engineers, and yard employees receiving training during the year, and increased work on capital projects. Employee levels were down 1% in 2010 compared to 2009 despite a 13% increase in volume levels. We leveraged the additional volumes through network efficiencies and other productivity initiatives. In addition, we successfully managed the growth of our full-time-equivalent train and engine force levels at a rate less than half of our carload growth in 2010. All other operating functions and support organizations reduced their full-time-equivalent force levels, benefiting from continued productivity initiatives.

Customer Satisfaction Index Our customer satisfaction survey asks customers to rate how satisfied they are with our performance over the last 12 months on a variety of attributes. A higher score indicates higher customer satisfaction. We believe that improvement in survey results in 2011 generally reflects customer recognition of our service quality supported by our capital investment program.

Return on Average Common Shareholders Equity

Millions, Except Percentages	***2011***	*2010*	*2009*
Net income	**$ 3,292**	$ 2,780	$ 1,890
Average equity	**$ 18,171**	$ 17,282	$ 16,058
Return on average common shareholders equity	**18.1%**	16.1%	11.8%

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Return on Invested Capital as Adjusted (ROIC)

Millions, Except Percentages	***2011***	*2010*	*2009*
Net income	**$ 3,292**	$ 2,780	$ 1,890
Add: Interest expense	**572**	602	600
Add: Interest on present value of operating leases	**208**	222	232
Add: Receivable securitization fees	**-**	-	9
Less: Taxes on interest	**(293)**	(307)	(306)
Net operating profit after taxes as adjusted (a)	**$ 3,779**	$ 3,297	$ 2,425
Average equity	**$ 18,171**	$ 17,282	$ 16,058
Add: Average debt	**9,074**	9,545	9,388
Add: Average value of sold receivables	**-**	200	492
Add: Average present value of operating leases	**3,350**	3,574	3,681
Average invested capital as adjusted (b)	**$ 30,595**	$ 30,601	$ 29,619
Return on invested capital as adjusted (a/b)	**12.4%**	10.8%	8.2%

ROIC is considered a non-GAAP financial measure by SEC Regulation G and Item 10 of SEC Regulation S-K, and may not be defined and calculated by other companies in the same manner. We believe this measure is important in evaluating the efficiency and effectiveness of our long-term capital investments. In addition, we currently use ROIC as a performance criteria in determining certain elements of equity compensation for our executives. ROIC should be considered in addition to, rather than as a substitute for, other information provided in accordance with GAAP. The most comparable GAAP measure is Return on Average Common Shareholders Equity. The tables above provide reconciliations from return on average common shareholders equity to ROIC. Our 2011 ROIC improved 1.6 points compared to 2010, primarily as a result of higher earnings and lower debt levels.

Debt to Capital / Adjusted Debt to Capital

	$000,000,000	$000,000,000
Millions, Except Percentages	***2011***	*2010*
Debt (a)	**$ 8,906**	$ 9,242
Equity	**18,578**	17,763
Capital (b)	**$ 27,484**	$ 27,005
	32.4%	34.2%

Debt to capital (a/b)

Millions, Except Percentages		***2011***		*2010*
Debt	**$**	**8,906**	$	9,242
Net present value of operating leases		**3,224**		3,476
Unfunded pension and OPEB		**623**		421
Adjusted debt (a)	**$**	**12,753**	$	13,139
Equity		**18,578**		17,763
Adjusted capital (b)	**$**	**31,331**	$	30,902
Adjusted debt to capital (a/b)		**40.7%**		42.5%

Adjusted debt to capital is a non-GAAP financial measure under SEC Regulation G and Item 10 of SEC Regulation S-K. We believe this measure is important to management and investors in evaluating the total amount of leverage in our capital structure, including off-balance sheet lease obligations, which we generally incur in connection with financing the acquisition of locomotives and freight cars and certain facilities. Operating leases were discounted using 6.2% at December 31, 2011 and December 31, 2010. The discount rate reflects current interest rates and financing costs. We monitor the ratio of adjusted debt to capital as we manage our capital structure to balance cost-effective and efficient access to the capital markets with our overall cost of capital. Adjusted debt to capital should be considered in addition to, rather than as a substitute for, debt to capital. The tables above provide reconciliations from debt to capital to adjusted debt to capital. Our December 31, 2011 debt to capital ratios decreased as a result of a $336 million net decrease in debt from December 31, 2010.

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LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2011, our principal sources of liquidity included cash, cash equivalents, our receivables securitization facility, and our revolving credit facility, as well as the availability of commercial paper and other sources of financing through the capital markets. We had $1.8 billion of committed credit available under our credit facility, with no borrowings outstanding as of December 31, 2011. We did not make any borrowings under this facility during 2011. The value of the outstanding undivided interest held by investors under the receivables securitization facility was $100 million as of December 31, 2011, and is included in our Consolidated Statements of Financial Position as debt due after one year. The receivables securitization facility obligates us to maintain an investment grade bond rating. If our bond rating were to deteriorate, it could have an adverse impact on our liquidity. Access to commercial paper as well as other capital market financings is dependent on market conditions. Deterioration of our operating results or financial condition due to internal or external factors could negatively impact our ability to access capital markets as a source of liquidity. Access to liquidity through the capital markets is also dependent on our financial stability. We expect that we will continue to have access to liquidity by issuing bonds to public or private investors based on our assessment of the current condition of the credit markets.

At December 31, 2011 and 2010, we had a working capital surplus. This reflects a strong cash position, which provides enhanced liquidity in an uncertain economic environment. In addition, we believe we have adequate access to capital markets to meet cash requirements, and we have sufficient financial capacity to satisfy our current liabilities.

Cash Flows

Millions	***2011***	*2010*	*2009*
Cash provided by operating activities	**$ 5,873**	$ 4,105	$ 3,204
Cash used in investing activities	**(3,119)**	(2,488)	(2,145)
Cash used in financing activities	**(2,623)**	(2,381)	(458)
Net change in cash and cash equivalents	**$ 131**	$ (764)	$ 601

Operating Activities

Higher net income and lower cash income tax payments in 2011 increased cash provided by operating activities compared to 2010. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, enacted in December 2010, provided for 100% bonus depreciation for qualified investments made during 2011, and 50% bonus depreciation for qualified investments made during 2012. As a result of the Act, the Company deferred a substantial portion of its 2011 income tax expense. This deferral decreased 2011 income tax payments, thereby contributing to the positive operating cash flow. In future years, however, additional cash will be used to pay income taxes that were previously deferred. In addition, the adoption of a new accounting standard in January of 2010 changed the accounting treatment for our receivables securitization facility from a sale of undivided interests (recorded as an operating activity) to a secured borrowing (recorded as a financing activity), which decreased cash provided by operating activities by $400 million in 2010. Higher net income in 2010 increased cash provided by operating activities compared to 2009.

Investing Activities

Higher capital investments partially offset by higher proceeds from asset sales in 2011 drove the increase in cash used in investing activities compared to 2010. Higher capital investments and lower proceeds from asset sales in 2010 drove the increase in cash used in investing activities compared to 2009.

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The tables below detail cash capital investments and track statistics for the years ended December 31, 2011, 2010, and 2009:

Millions	***2011***	*2010*	*2009*
Rail and other track material	**$ 697**	$ 626	$ 614
Ties	**403**	444	449
Ballast	**220**	190	208
Other [a]	**382**	365	338
Total road infrastructure replacements	**1,702**	1,625	1,609
Line expansion and other capacity projects	**311**	122	162
Commercial facilities	**111**	227	193
Total capacity and commercial facilities	**422**	349	355
Locomotives and freight cars	**675**	330	272
Positive train control	**229**	84	28
Technology and other	**148**	94	90
Total cash capital investments	**$ 3,176**	$ 2,482	$ 2,354

[a] Other includes bridges and tunnels, signals, other road assets, and road work equipment.

	2011	*2010*	*2009*
Track miles of rail replaced	**895**	795	841
Track miles of rail capacity expansion	**69**	46	62
New ties installed (thousands)	**3,785**	4,334	4,814
Miles of track surfaced	**11,284**	10,883	15,128

Capital Plan In 2012, we expect our total capital investments to be approximately $3.6 billion, which may be revised if business conditions warrant or if new laws or regulations affect our ability to generate sufficient returns on these investments. We expect that over 50% of our 2012 capital investments will replace and improve existing capital assets. Major investment categories include replacing and improving track infrastructure; upgrading our locomotive, freight car and container fleet, including acquisition of 200 locomotives and 1,800 freight cars including large covered hoppers, gondolas, and small covered hoppers; improving technology, including investing in PTC; and other capital projects. Additionally, we will continue to increase our network and terminal capacity; for example, to balance terminal capacity with mainline capacity being added by our double-tracking project on the Sunset Corridor, we are constructing a rail facility at Santa Teresa, New Mexico, that initially will include a run-through and fueling facility and an intermodal ramp.

We expect to fund our 2012 cash capital investments by using some or all of the following: cash generated from operations, proceeds from the sale or lease of various operating and non-operating properties, proceeds from the issuance of long-term debt, and cash on hand. Our annual capital plan is a critical component of our long-term strategic plan, which we expect will enhance the long-term value of the Corporation for our shareholders by providing sufficient resources to (i) replace and improve our existing track infrastructure to provide safe and fluid operations, (ii) increase network efficiency by adding or improving facilities and track, and (iii) make investments that meet customer demand and take advantage of opportunities for long-term growth.

Financing Activities

Cash used in financing activities increased in 2011 versus 2010. Higher dividend payments in 2011 of $837 million compared to $602 million in 2010, reflecting our increased dividend rate and the repurchase of $1.4 billion of our common stock, a $169 million increase from 2010 repurchases, drove the increase. We used less cash to reduce outstanding debt in 2011, which partially offset this increase. Cash used in financing activities increased in 2010 versus 2009. During 2010, we repurchased $1.2 billion of shares under our common stock repurchase program, compared to no repurchases in 2009. Additionally, our net debt reduction in 2010 was $518 million compared to $28 million in 2009, which also contributed to the increase in cash used in financing activities in 2010.

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Credit Facilities During the second quarter of 2011, we replaced our $1.9 billion revolving credit facility, which was scheduled to expire in April 2012, with a new $1.8 billion facility that expires in May 2015 (the facility). The facility is based on substantially similar terms as those in the previous credit facility. On December 31, 2011, we had $1.8 billion of credit available under the facility, which is designated for general corporate purposes and supports the issuance of commercial paper. We did not draw on either facility during 2011. Commitment fees and interest rates payable under the facility are similar to fees and rates available to comparably rated, investment-grade borrowers. The facility allows for borrowings at floating rates based on London Interbank Offered Rates, plus a spread, depending upon our senior unsecured debt ratings. The facility requires the Corporation to maintain a debt-to-net-worth coverage ratio as a condition to making a borrowing. At December 31, 2011, and December 31, 2010 (and at all times during the year), we were in compliance with this covenant.

The definition of debt used for purposes of calculating the debt-to-net-worth coverage ratio includes, among other things, certain credit arrangements, capital leases, guarantees and unfunded and vested pension benefits under Title IV of ERISA. At December 31, 2011, the debt-to-net-worth coverage ratio allowed us to carry up to $37.2 billion of debt (as defined in the facility), and we had $9.5 billion of debt (as defined in the facility) outstanding at that date. Under our current capital plans, we expect to continue to satisfy the debt-to-net-worth coverage ratio; however, many factors beyond our reasonable control (including the Risk Factors in Item 1A of this report) could affect our ability to comply with this provision in the future. The facility does not include any other financial restrictions, credit rating triggers (other than rating-dependent pricing), or any other provision that could require us to post collateral. The facility also includes a $75 million cross-default provision and a change-of-control provision.

During 2011, we did not issue or repay any commercial paper and, at December 31, 2011 and 2010, we had no commercial paper outstanding. Our revolving credit facility supports outstanding commercial paper balances, which do not reduce the amount of borrowings available under the facility.

At December 31, 2011 and 2010, we reclassified as long-term debt approximately $100 million of debt due within one year that we intend to refinance. This reclassification reflected our ability and intent to refinance any short-term borrowings and certain current maturities of long-term debt on a long-term basis.

Ratio of Earnings to Fixed Charges

For each of the years ended December 31, 2011, 2010, and 2009, our ratio of earnings to fixed charges was 8.4, 6.9, and 4.9, respectively. The ratio of earnings to fixed charges was computed on a consolidated basis. Earnings represent income from continuing operations, less equity earnings net of distributions, plus fixed charges and income taxes. Fixed charges represent interest charges, amortization of debt discount, and the estimated amount representing the interest portion of rental charges. (See Exhibit 12 to this report for the calculation of the ratio of earnings to fixed charges.)

Common Shareholders Equity

Dividend Restrictions Our revolving credit facility includes a debt-to-net worth covenant (discussed in the Credit Facilities section above) that, under certain circumstances, restricts the payment of cash dividends to our shareholders. The amount of retained earnings available for dividends was $13.8 billion and $12.9 billion at December 31, 2011 and 2010, respectively.

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Share Repurchase Program The shares repurchased in 2010 and the first quarter of 2011, shown in the table below, were repurchased under our repurchase program that expired on March 31, 2011. Effective April 1, 2011, our Board of Directors authorized the repurchase of 40 million shares of our common stock by March 31, 2014, replacing our previous repurchase program. The shares repurchased in the second, third, and fourth quarters of 2011, shown in the table below, were purchased under the new program. As of December 31, 2011, we repurchased a total of $5.7 billion of our common stock since the commencement of purchases under our repurchase programs.

	Number of Shares Purchased		*Average Price Paid*	
	2011	*2010*	***2011***	*2010*
First quarter	**2,636,178**	-	**$ 94.10**	$ -
Second quarter	**3,576,399**	6,496,400	**100.75**	71.74
Third quarter	**4,681,535**	7,643,400	**91.45**	73.19
Fourth quarter	**3,885,658**	2,500,596	**98.16**	89.39
Total	**14,779,770**	16,640,396	**$ 95.94**	$ 75.06

Remaining number of shares that may yet be repurchased	27,856,408

Management s assessments of market conditions and other pertinent facts guide the timing and volume of all repurchases. We expect to fund any share repurchases under this program through cash generated from operations, the sale or lease of various operating and non-operating properties, debt issuances, and cash on hand. Repurchased shares are recorded in treasury stock at cost, which includes any applicable commissions and fees.

Shelf Registration Statement and Significant New Borrowings Under our current shelf registration, we may issue, from time to time, any combination of debt securities, preferred stock, common stock, or warrants for debt securities or preferred stock in one or more offerings. We have no immediate plans to issue equity securities; however, we will continue to explore opportunities to replace existing debt or access capital through issuances of debt securities under our shelf registration, and, therefore, we may issue additional debt securities at any time.

During 2011, we issued the following unsecured, fixed-rate debt securities under our current shelf registration:

Date	*Description of Securities*
August 9, 2011	$500 million of 4.75% Notes due September 15, 2041

The net proceeds from the offering were used for general corporate purposes, including the repurchase of common stock pursuant to our share repurchase program. These debt securities include change-of-control provisions. At December 31, 2011, we had remaining authority to issue up to $2.0 billion of debt securities under our shelf registration.

During the third quarter of 2011, we renegotiated and extended for three years on substantially similar terms a $100 million floating-rate term loan, which will mature on August 5, 2016.

Debt Exchange On June 23, 2011, we exchanged $857 million of various outstanding notes and debentures due between 2013 and 2019 (Existing Notes) for $750 million of 4.163% notes (New Notes) due July 15, 2022, plus cash consideration of approximately $267 million and $17 million for accrued and unpaid interest on the Existing Notes. The cash consideration was recorded as an adjustment to the carrying value of debt, and the balance of the unamortized discount and issue costs from the Existing Notes is being amortized as an adjustment of interest expense over the term of the New Notes. No gain or loss was recognized as a result of the exchange. Costs related to the debt exchange that were payable to parties other than the debt holders totaled approximately $6 million and were included in interest expense during the year ended December 31, 2011.

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The following table lists the outstanding notes and debentures that were exchanged:

Millions	*Principal amount exchanged*
7.875% Notes due 2019	$ 196
5.450% Notes due 2013	50
5.125% Notes due 2014	45
5.375% Notes due 2014	55
5.700% Notes due 2018	277
5.750% Notes due 2017	178
7.000% Debentures due 2016	38
5.650% Notes due 2017	18
Total	$ 857

On July 14, 2010, we exchanged $376 million of 7.875% notes due in 2019 (Existing Notes) for 5.78% notes (New Notes) due July 15, 2040, plus cash consideration of approximately $96 million and $15 million for accrued and unpaid interest on the Existing Notes. The cash consideration was recorded as an adjustment to the carrying value of debt, and the balance of the unamortized discount and issue costs from the Existing Notes is being amortized as an adjustment of interest expense over the term of the New Notes. There was no gain or loss recognized as a result of the exchange. Costs related to the debt exchange that were payable to parties other than the debtholders totaled approximately $2 million and were included in interest expense during the third quarter.

Debt Redemptions On December 19, 2011, we redeemed the remaining $175 million of our 6.5% notes due April 15, 2012, and all $300 million of our outstanding 6.125% notes due January 15, 2012. The redemptions resulted in an early extinguishment charge of $5 million. On March 22, 2010, we redeemed $175 million of our 6.5% notes due April 15, 2012. The redemption resulted in an early extinguishment charge of $16 million in the first quarter of 2010. On November 1, 2010, we redeemed all $400 million of our outstanding 6.65% notes due January 15, 2011. The redemption resulted in a $5 million early extinguishment charge.

Receivables Securitization Facility On January 1, 2010, we adopted Accounting Standards Update No. 2009-16, *Accounting for Transfers of Financial Assets* (ASU 2009-16). ASU 2009-16 limits the circumstances in which transferred financial assets can be derecognized and requires enhanced disclosures regarding transfers of financial assets and a transferor s continuing involvement with transferred financial assets. As a result, we no longer account for the value of the outstanding undivided interest held by investors under our receivables securitization facility as a sale. In addition, transfers of receivables occurring on or after January 1, 2010, are reflected as debt issued in our Consolidated Statements of Cash Flows and recognized as debt due after one year in our Consolidated Statements of Financial Position.

Under the receivables securitization facility, the Railroad sells most of its accounts receivable to Union Pacific Receivables, Inc. (UPRI), a bankruptcy-remote subsidiary. UPRI may subsequently transfer, without recourse on a 364-day revolving basis, an undivided interest in eligible accounts receivable to investors. The total capacity to transfer undivided interests to investors under the facility was $600 million at December 31, 2011 and 2010, respectively. The value of the outstanding undivided interest held by investors under the facility was $100 million at both December 31, 2011 and 2010. The value of the undivided interest held by investors was supported by $1.1 billion and $960 million of accounts receivable at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, the value of the interest retained by UPRI was $1.1 billion and $960 million, respectively. This retained interest is included in accounts receivable, net in our Consolidated Statements of Financial Position.

The value of the outstanding undivided interest held by investors could fluctuate based upon the availability of eligible receivables and is directly affected by changing business volumes and credit risks, including default and dilution. If default or dilution ratios increase one percent, the value of the outstanding undivided interest held by investors would not change as of December 31, 2011. Should our credit rating fall below investment grade, the value of the outstanding undivided interest held by investors would be reduced, and, in certain cases, the investors would have the right to discontinue the facility.

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The Railroad collected approximately $18.8 billion and $16.3 billion of receivables during the years ended December 31, 2011 and 2010, respectively. UPRI used certain of these proceeds to purchase new receivables under the facility.

The costs of the receivables securitization facility include interest, which will vary based on prevailing commercial paper rates, program fees paid to banks, commercial paper issuing costs, and fees for unused commitment availability. The costs of the receivables securitization facility are included in interest expense and were $4 million and $6 million for 2011 and 2010, respectively. Prior to adoption of the new accounting standard, the costs of the receivables securitization facility were included in other income and were $9 million for 2009.

The investors have no recourse to the Railroad s other assets, except for customary warranty and indemnity claims. Creditors of the Railroad do not have recourse to the assets of UPRI.

In August 2011, the receivables securitization facility was renewed for an additional 364-day period at comparable terms and conditions.

Contractual Obligations and Commercial Commitments

As described in the notes to the Consolidated Financial Statements and as referenced in the tables below, we have contractual obligations and commercial commitments that may affect our financial condition. Based on our assessment of the underlying provisions and circumstances of our contractual obligations and commercial commitments, including material sources of off-balance sheet and structured finance arrangements, other than the risks that we and other similarly situated companies face with respect to the condition of the capital markets (as described in Item 1A of Part II of this report), there is no known trend, demand, commitment, event, or uncertainty that is reasonably likely to occur that would have a material adverse effect on our consolidated results of operations, financial condition, or liquidity. In addition, our commercial obligations, financings, and commitments are customary transactions that are similar to those of other comparable corporations, particularly within the transportation industry.

The following tables identify material obligations and commitments as of December 31, 2011:

Contractual Obligations		*Payments Due by December 31,*						
Millions	*Total*	*2012*	*2013*	*2014*	*2015*	*2016*	*After 2016*	*Other*
Debt [a]	$ 12,516	$ 538	$ 852	$ 887	$ 615	$ 652	$ 8,972	$ -
Operating leases [b]	4,528	525	489	415	372	347	2,380	-
Capital lease obligations [c]	2,559	297	269	276	276	262	1,179	-
Purchase obligations [d]	5,137	2,598	568	560	276	245	858	32
Other post retirement benefits [e]	249	26	26	26	26	26	119	-
Income tax contingencies [f]	107	31	-	-	-	-	-	76
Total contractual obligations	$ 25,096	$ 4,015	$ 2,204	$ 2,164	$ 1,565	$ 1,532	$ 13,508	$ 108

[a] Excludes capital lease obligations of $1,874 million and unamortized discount of $364 million. Includes an interest component of $5,120 million.

[b] Includes leases for locomotives, freight cars, other equipment, and real estate.

[c] Represents total obligations, including interest component of $685 million.

[d]

Purchase obligations include locomotive maintenance contracts; purchase commitments for fuel purchases, locomotives, ties, ballast, and rail; and agreements to purchase other goods and services. For amounts where we cannot reasonably estimate the year of settlement, they are reflected in the Other column.

[e] *Includes estimated other post retirement, medical, and life insurance payments and payments made under the unfunded pension plan for the next ten years. No amounts are included for funded pension obligations as no contributions are currently required.*

[f] *Future cash flows for income tax contingencies reflect the recorded liability for unrecognized tax benefits, including interest and penalties, as of December 31, 2011. Where we can reasonably estimate the years in which these liabilities may be settled, this is shown in the table. For amounts where we cannot reasonably estimate the year of settlement, they are reflected in the Other column.*

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Other Commercial Commitments

		Amount of Commitment Expiration per Period					
Millions	*Total*	*2012*	*2013*	*2014*	*2015*	*2016*	*After 2016*
Credit facilities [a]	$ 1,800	$ -	$ -	$ -	$ 1,800	$ -	$ -
Receivables securitization facility [b]	600	600	-	-	-	-	-
Guarantees [c]	325	18	8	214	12	13	60
Standby letters of credit [d]	24	24	-	-	-	-	-
Total commercial commitments	$ 2,749	$ 642	$ 8	$ 214	$ 1,812	$ 13	$ 60

[a] None of the credit facility was used as of December 31, 2011.

[b] $100 million of the receivables securitization facility was utilized at December 31, 2011, which is accounted for as debt. The full program matures in August 2012.

[c] Includes guaranteed obligations related to our headquarters building, equipment financings, and affiliated operations.

[d] None of the letters of credit were drawn upon as of December 31, 2011.

Off-Balance Sheet Arrangements

Guarantees At December 31, 2011, we were contingently liable for $325 million in guarantees. We have recorded a liability of $3 million for the fair value of these obligations as of December 31, 2011 and 2010. We entered into these contingent guarantees in the normal course of business, and they include guaranteed obligations related to our headquarters building, equipment financings, and affiliated operations. The final guarantee expires in 2022. We are not aware of any existing event of default that would require us to satisfy these guarantees. We do not expect that these guarantees will have a material adverse effect on our consolidated financial condition, results of operations, or liquidity.

OTHER MATTERS

Labor Agreements In January 2010, the nation s largest freight railroads began the current round of negotiations with the labor unions. Generally, contract negotiations with the various unions take place over an extended period of time. This round of negotiations was no exception. In September 2011, the rail industry reached agreements with the United Transportation Union. On November 5, 2011, a Presidential Emergency Board (PEB) appointed by President Obama issued recommendations to resolve the disputes between the U.S. railroads and 11 unions that had not yet reached agreements. Since then, ten unions reached agreements with the railroads, all of them generally patterned on the recommendations of the PEB, and the unions subsequently ratified these agreements. The railroad industry reached a tentative agreement with the Brotherhood of Maintenance of Way Employees (BMWE) on February 2, 2012, eliminating the immediate threat of a national rail strike. The BMWE now will commence ratification of this tentative agreement by its members.

Inflation Long periods of inflation significantly increase asset replacement costs for capital-intensive companies. As a result, assuming that we replace all operating assets at current price levels, depreciation charges (on an inflation-adjusted basis) would be substantially greater than historically reported amounts.

Derivative Financial Instruments We may use derivative financial instruments in limited instances to assist in managing our overall exposure to fluctuations in interest rates and fuel prices. We are not a party to leveraged derivatives and, by policy, do not use derivative financial instruments for speculative purposes. Derivative financial instruments qualifying for hedge accounting must maintain a specified level of effectiveness between the hedging instrument and the item being hedged, both at inception and throughout the hedged period. We formally document the nature and relationships between the hedging instruments and hedged items at inception, as well as our risk-management objectives, strategies for undertaking the various hedge transactions, and method of assessing hedge effectiveness. Changes in the fair market value of derivative financial instruments that do not qualify for hedge accounting are charged to earnings. We may use swaps, collars, futures, and/or forward contracts to mitigate the risk of adverse movements in interest rates and fuel prices; however, the use of these derivative financial instruments may limit future benefits from favorable price movements.

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Market and Credit Risk We address market risk related to derivative financial instruments by selecting instruments with value fluctuations that highly correlate with the underlying hedged item. We manage credit risk related to derivative financial instruments, which is minimal, by requiring high credit standards for counterparties and periodic settlements. At December 31, 2011 and 2010, we were not required to provide collateral, nor had we received collateral, relating to our hedging activities.

Determination of Fair Value We determine the fair values of our derivative financial instrument positions based upon current fair values as quoted by recognized dealers or the present value of expected future cash flows.

Sensitivity Analyses The sensitivity analyses that follow illustrate the economic effect that hypothetical changes in interest rates could have on our results of operations and financial condition. These hypothetical changes do not consider other factors that could impact actual results.

At December 31, 2011, we had variable-rate debt representing approximately 2.3% of our total debt. If variable interest rates average one percentage point higher in 2012 than our December 31, 2011 variable rate, which was approximately 1.2%, our interest expense would increase by approximately $2 million. This amount was determined by considering the impact of the hypothetical interest rate on the balances of our variable-rate debt at December 31, 2011.

Market risk for fixed-rate debt is estimated as the potential increase in fair value resulting from a hypothetical one percentage point decrease in interest rates as of December 31, 2011, and amounts to an increase of approximately $924 million to the fair value of our debt at December 31, 2011. We estimated the fair values of our fixed-rate debt by considering the impact of the hypothetical interest rates on quoted market prices and current borrowing rates.

Interest Rate Fair Value Hedges We manage our overall exposure to fluctuations in interest rates by adjusting the proportion of fixed and floating rate debt instruments within our debt portfolio over a given period. We generally manage the mix of fixed and floating rate debt through the issuance of targeted amounts of each as debt matures or as we require incremental borrowings. We employ derivatives, primarily swaps, as one of the tools to obtain the targeted mix. In addition, we also obtain flexibility in managing interest costs and the interest rate mix within our debt portfolio by evaluating the issuance of and managing outstanding callable fixed-rate debt securities.

Swaps allow us to convert debt from fixed rates to variable rates and thereby hedge the risk of changes in the debt s fair value attributable to the changes in interest rates. We account for swaps as fair value hedges using the short-cut method as allowed by the Derivatives and Hedging Topic of the FASB Accounting Standards Codification (ASC); therefore, we do not record any ineffectiveness within our Consolidated Financial Statements.

Interest Rate Cash Flow Hedges We report changes in the fair value of cash flow hedges in accumulated other comprehensive loss until the hedged item affects earnings. At December 31, 2011 and 2010, we recorded reductions of $2 million and $3 million, respectively, as an accumulated other comprehensive loss that is being amortized on a straight-line basis through September 30, 2014. As of December 31, 2011 and 2010, we had no interest rate cash flow hedges outstanding.

Recently Issued Accounting Pronouncements In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (ASU 2011-05). ASU 2011-05 will require companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. The standard does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. This standard is effective for interim and annual periods beginning after December 15, 2011. Because this ASU impacts presentation only, it will have no effect on our financial condition, results of operations or cash flows.

Asserted and Unasserted Claims Various claims and lawsuits are pending against us and certain of our subsidiaries. We cannot fully determine the effect of all asserted and unasserted claims on our consolidated results of operations, financial condition, or liquidity; however, to the extent possible, where asserted and unasserted claims are considered probable and where such claims can be reasonably

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estimated, we have recorded a liability. We do not expect that any known lawsuits, claims, environmental costs, commitments, contingent liabilities, or guarantees will have a material adverse effect on our consolidated results of operations, financial condition, or liquidity after taking into account liabilities and insurance recoveries previously recorded for these matters.

Indemnities Our maximum potential exposure under indemnification arrangements, including certain tax indemnifications, can range from a specified dollar amount to an unlimited amount, depending on the nature of the transactions and the agreements. Due to uncertainty as to whether claims will be made or how they will be resolved, we cannot reasonably determine the probability of an adverse claim or reasonably estimate any adverse liability or the total maximum exposure under these indemnification arrangements. We do not have any reason to believe that we will be required to make any material payments under these indemnity provisions.

Climate Change Although climate change could have an adverse impact on our operations and financial performance in the future (see Risk Factors under Item 1A of this report), we are currently unable to predict the manner or severity of such impact. However, we continue to take steps and explore opportunities to reduce the impact of our operations on the environment, including investments in new technologies, using training programs to reduce fuel consumption, and changing our operations to increase fuel efficiency.

CRITICAL ACCOUNTING POLICIES

Our Consolidated Financial Statements have been prepared in accordance with GAAP. The preparation of these financial statements requires estimation and judgment that affect the reported amounts of revenues, expenses, assets, and liabilities. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The following critical accounting policies are a subset of our significant accounting policies described in Note 2 to the Financial Statements and Supplementary Data, Item 8. These critical accounting policies affect significant areas of our financial statements and involve judgment and estimates. If these estimates differ significantly from actual results, the impact on our Consolidated Financial Statements may be material.

Personal Injury The cost of personal injuries to employees and others related to our activities is charged to expense based on estimates of the ultimate cost and number of incidents each year. We use an actuarial analysis to measure the expense and liability, including unasserted claims. The Federal Employers Liability Act (FELA) governs compensation for work-related accidents. Under FELA, damages are assessed based on a finding of fault through litigation or out-of-court settlements. We offer a comprehensive variety of services and rehabilitation programs for employees who are injured at work.

Our personal injury liability is discounted to present value using applicable U.S. Treasury rates. Approximately 89% of the recorded liability related to asserted claims, and approximately 11% related to unasserted claims at December 31, 2011. Because of the uncertainty surrounding the ultimate outcome of personal injury claims, it is reasonably possible that future costs to settle these claims may range from approximately $368 million to $404 million. We record an accrual at the low end of the range as no amount of loss is more probable than any other. Our personal injury liability activity was as follows:

Millions	***2011***	*2010*	*2009*
Beginning balance	**$ 426**	$ 545	$ 621
Current year accruals	**118**	155	174
Changes in estimates for prior years	**(71)**	(101)	(95)
Payments	**(105)**	(173)	(155)
Ending balance at December 31	**$ 368**	$ 426	$ 545
Current portion, ending balance at December 31	**$ 103**	$ 140	$ 158

Our personal injury claims activity was as follows:

	2011	*2010*	*2009*
Open claims, beginning balance	**3,151**	3,500	4,079
New claims	**2,781**	2,843	3,012
Settled or dismissed claims	**(3,063)**	(3,192)	(3,591)
Open claims, ending balance at December 31	**2,869**	3,151	3,500

Asbestos We are a defendant in a number of lawsuits in which current and former employees and other parties allege exposure to asbestos. We assess our potential liability using a statistical analysis of resolution costs for asbestos-related claims. This liability is updated annually and excludes future defense and processing costs. The liability for resolving both asserted and unasserted claims was based on the following assumptions:

- The ratio of future claims by alleged disease would be consistent with historical averages adjusted for inflation.
- The number of claims filed against us will decline each year.
- The average settlement values for asserted and unasserted claims will be equivalent to historical averages.
- The percentage of claims dismissed in the future will be equivalent to historical averages.

Our liability for asbestos-related claims is not discounted to present value due to the uncertainty surrounding the timing of future payments. Approximately 21% of the recorded liability related to asserted claims, and approximately 79% related to unasserted claims at December 31, 2011. Because of the uncertainty surrounding the ultimate outcome of asbestos-related claims, it is reasonably possible that future costs to settle these claims may range from approximately $147 million to $159 million. We record an accrual at the low end of the range as no amount of loss is more probable than any other. In conjunction with the liability update performed in 2011, we also reassessed estimated insurance recoveries. We have recognized an asset for estimated insurance recoveries at December 31, 2011 and 2010.

Our asbestos-related liability activity was as follows:

Millions	*2011*	*2010*	*2009*
Beginning balance	**$ 162**	$ 174	$ 213
Accruals/(credits)	**(5)**	(1)	(25)
Payments	**(10)**	(11)	(14)
Ending balance at December 31	**$ 147**	$ 162	$ 174
Current portion, ending balance at December 31	**$ 8**	$ 12	$ 13

Our asbestos-related claims activity was as follows:

	2011	*2010*	*2009*
Open claims, beginning balance	**1,437**	1,670	1,867
New claims	**235**	216	249
Settled or dismissed claims	**(381)**	(449)	(446)
	1,291	1,437	1,670

Open claims, ending balance at December 31

We believe that our estimates of liability for asbestos-related claims and insurance recoveries are reasonable and probable. The amounts recorded for asbestos-related liabilities and related insurance recoveries were based on currently known facts. However, future events, such as the number of new claims to be filed each year, average settlement costs, and insurance coverage issues, could cause the actual costs and insurance recoveries to be higher or lower than the projected amounts. Estimates also may vary in the future if strategies, activities, and outcomes of asbestos litigation materially change; federal and state laws governing asbestos litigation increase or decrease the probability or amount of

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compensation of claimants; and there are material changes with respect to payments made to claimants by other defendants.

Environmental We are subject to federal, state, and local environmental laws and regulations. We identified 285 sites at which we are or may be liable for remediation costs associated with alleged contamination or for violations of environmental requirements. This includes 32 sites that are the subject of actions taken by the U.S. government, 17 of which are currently on the Superfund National Priorities List. Certain federal legislation imposes joint and several liability for the remediation of identified sites; consequently, our ultimate environmental liability may include costs relating to activities of other parties, in addition to costs relating to our own activities at each site.

When we identify an environmental issue with respect to property owned, leased, or otherwise used in our business, we perform, with the assistance of our consultants, environmental assessments on the property. We expense the cost of the assessments as incurred. We accrue the cost of remediation where our obligation is probable and we can reasonably estimate such costs. We do not discount our environmental liabilities when the timing of the anticipated cash payments is not fixed or readily determinable. At December 31, 2011, less than 1% of our environmental liability was discounted at 2.0%, while approximately 5% of our environmental liability was discounted at 2.8% at December 31, 2010. Our environmental liability activity was as follows:

Millions	***2011*** *[a]*	*2010*	*2009*
Beginning balance	**$ 213**	$ 217	$ 209
Accruals	**29**	57	49
Payments	**(70)**	(61)	(41)
Ending balance at December 31	**$ 172**	$ 213	$ 217
Current portion, ending balance at December 31	**$ 50**	$ 74	$ 82

[a] Payments include $25 million to resolve the Omaha Lead Site liability.

Our environmental site activity was as follows:

	2011	*2010*	*2009*
Open sites, beginning balance	**294**	307	339
New sites	**51**	44	49
Closed sites	**(60)**	(57)	(81)
Open sites, ending balance at December 31	**285**	294	307

The liability includes future costs for remediation and restoration of sites, as well as ongoing monitoring costs, but excludes any anticipated recoveries from third parties. Cost estimates are based on information available for each site, financial viability of other potentially responsible parties, and existing technology, laws, and regulations. The ultimate liability for remediation is difficult to determine because of the number of potentially responsible parties, site-specific cost sharing arrangements with other potentially responsible parties, the degree of contamination by various wastes, the scarcity and quality of volumetric data related to many of the sites, and the speculative nature of remediation costs. Estimates of liability may vary over time due to changes in federal, state, and local laws governing environmental remediation. Current obligations are not expected to have a material adverse effect on our consolidated results of operations, financial condition, or liquidity.

Property and Depreciation Our railroad operations are highly capital intensive, and our large base of homogeneous, network-type assets turns over on a continuous basis. Each year we develop a capital program for the replacement of assets and for the acquisition or construction of assets that enable us to enhance our operations or provide new service offerings to customers. Assets purchased or constructed throughout the year are capitalized if they meet applicable minimum units of property criteria. Properties and equipment are carried at cost and are depreciated on a straight-line basis over their estimated service lives, which are measured in years, except for rail in high-density traffic corridors (i.e., all rail lines except for those subject to abandonment, yard and switching tracks, and electronic yards) for which lives are measured in millions of gross tons per mile of track. We use the group method of depreciation in which all items with similar characteristics, use, and expected lives are grouped together in asset classes,

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and are depreciated using composite depreciation rates. The group method of depreciation treats each asset class as a pool of resources, not as singular items. We currently have more than 60 depreciable asset classes, and we may increase or decrease the number of asset classes due to changes in technology, asset strategies, or other factors.

We determine the estimated service lives of depreciable railroad property by means of depreciation studies. We perform depreciation studies at least every three years for equipment and every six years for track assets (i.e., rail and other track material, ties, and ballast) and other road property. Our depreciation studies take into account the following factors:

- Statistical analysis of historical patterns of use and retirements of each of our asset classes;
- Evaluation of any expected changes in current operations and the outlook for continued use of the assets;
- Evaluation of technological advances and changes to maintenance practices; and
- Expected salvage to be received upon retirement.

For rail in high-density traffic corridors, we measure estimated service lives in millions of gross tons per mile of track. It has been our experience that the lives of rail in high-density traffic corridors are closely correlated to usage (i.e., the amount of weight carried over the rail). The service lives also vary based on rail weight, rail condition (e.g., new or secondhand), and rail type (e.g., straight or curve). Our depreciation studies for rail in high density traffic corridors consider each of these factors in determining the estimated service lives. For rail in high-density traffic corridors, we calculate depreciation rates annually by dividing the number of gross ton-miles carried over the rail (i.e., the weight of loaded and empty freight cars, locomotives and maintenance of way equipment transported over the rail) by the estimated service lives of the rail measured in millions of gross tons per mile. Rail in high-density traffic corridors accounts for approximately 70 percent of the historical cost of rail and other track material. Based on the number of gross ton-miles carried over our rail in high density traffic corridors during 2011, the estimated service lives of the majority of this rail ranged from approximately 15 years to approximately 30 years. For all other depreciable assets, we compute depreciation based on the estimated service lives of our assets as determined from the analysis of our depreciation studies. Changes in the estimated service lives of our assets and their related depreciation rates are implemented prospectively.

Estimated service lives of depreciable railroad property may vary over time due to changes in physical use, technology, asset strategies, and other factors that will have an impact on the retirement profiles of our assets. We are not aware of any specific factors that are reasonably likely to significantly change the estimated service lives of our assets. Actual use and retirement of our assets may vary from our current estimates, which would impact the amount of depreciation expense recognized in future periods.

Changes in estimated useful lives of our assets due to the results of our depreciation studies could