200. COMPARATIVE STATEMENT OF FINANCIAL POSITION – EXPLANATORY NOTES - CONTINUED

NOTES TO FINANCIAL STATEMENTS

For purposes of this report, unless the context otherwise requires, all references herein to the “Company”, “we”, “us”, and “our” mean Union Pacific Railroad Company. For purposes of this report, unless the context otherwise requires, all references herein to “UPC” and the “Corporation” mean Union Pacific Corporation. All references herein to the “Consolidated Financial Statements“ mean the Comparative Statement of Financial Position, Results of Operations, Retained Earnings, Statement of Cash Flows, and the supplement notes and schedules included in the Class 1 Railroad Annual Report R-1.

9. Accounting Pronouncements

In December 2023, the FASB issued Accounting Standards Update No. (ASU) 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which requires business entities to expand their annual disclosures of the effective rate reconciliation and income taxes paid. The ASU is effective for fiscal years beginning after December 15, 2024, may be adopted on a prospective or retrospective basis, and early adoption is permitted. The Company is currently evaluating the effect that the new guidance will have on our related disclosures.

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which requires business entities to enhance disclosures about significant segment expenses. The ASU is effective for fiscal years beginning after December 15, 2023, on a retrospective basis, and early adoption is permitted. The Company is currently evaluating the effect that the new guidance will have on our related disclosures.

10. Transactions with Affiliates

We had working capital deficits of $62 million and $365 million at December 31, 2023 and 2022, respectively. Our working capital relates to UPC’s management of our cash position. As part of UPC’s cash management activities, we advance excess cash to UPC after satisfying all of our obligations. To the extent we require additional cash for use in our operations, UPC makes such funds available to us for borrowing. We treat these transactions as intercompany lendings and borrowings in the Consolidated Statements of Financial Position.

In 2023, we declared and paid total cash dividends that approximated the net intercompany borrowings with UPC in the current year. We may continue to declare and pay cash dividends to UPC that approximate intercompany borrowings; however, there is no formal requirement to do so. Dividend declarations between us and UPC are determined solely by our Board of Directors.

Intercompany Transactions – In December of 2008, UPC established a borrowing limit based on our borrowing capacity and UPC implemented a market based interest rate. The current annual rate effective through June 2024 is 5.0% for borrowings either to or from UPC. The annual rate was 4.3% for borrowings either to or from UPC from July 2022 through June 2023. The annual rate was 2.1% for borrowings either to or from UPC from July 2021 through June 2022. Interest accrues quarterly and is payable quarterly. Although payable on demand, we do not expect a payment from UPC within 12 months, or in the event of borrowing from UPC, we do not expect to be required by UPC to pay back the intercompany borrowings within the next 12 months. Intercompany borrowings are unsecured and rank equally with all of our other unsecured indebtedness. At December 31, 2023 and 2022, the Company had intercompany borrowings from UPC of $6.0 billion and $5.9 billion, respectively.

Related Party Transactions – We and other North American railroad companies jointly own TTX Company (TTX). We have a 37.03% economic and voting interest in TTX while the other North American railroads own the remaining interest. In accordance with ASC 323 Investments – Equity Method and Joint Venture, we apply the equity method of accounting to our investment in TTX.

TTX is a railcar pooling company that owns railcars and intermodal wells to serve North America’s railroads. TTX assists railroads in meeting the needs of their customers by providing railcars in an efficient, pooled environment. All railroads have the ability to utilize TTX railcars through car hire by renting railcars at stated rates.

We had $1.8 billion and $1.7 billion recognized as investments related to TTX in our Consolidated Statements of Financial Position as of December 31, 2023 and 2022, respectively. TTX car hire expenses of $399 million in 2023, $402 million in 2022, and $375 million in 2021 are included in equipment and other rents in our Consolidated Statements of Income. In addition, we had accounts payable to TTX of $60 million and $68 million at December 31, 2023 and 2022, respectively.

11. Financial Instruments

Fair Value of Financial Instruments – The fair value of our short- and long-term debt was estimated using a market value price model, which utilizes applicable U.S. Treasury rates along with current market quotes on comparable debt securities. All of the inputs used to determine the fair market value of the Company’s long-term debt are Level 2 inputs and obtained from an independent source. At December 31, 2023, the fair value of total debt was $894 million, approximately $31 million less than the carrying value. At December 31, 2022, the fair value of total debt was $1.1 billion, approximately $49 million less than the carrying value. The fair value of the Company’s debt is a measure of its current value under present market conditions. The fair value of intercompany lendings to UPC approximates carrying value. The fair value of our cash equivalents approximates their carrying value due to the short-term maturities of these instruments.

12. Retirement Plans

Pension Benefits

We provide defined benefit retirement income to eligible non-union employees through qualified and non-qualified (supplemental) pension plans. Qualified and non-qualified pension benefits are based on years of service and the highest compensation during the latest years of employment, with specific reductions made for early retirements. Non-union employees hired on or after January 1, 2018, are no longer eligible for pension benefits, but are eligible for an enhanced 401(k) benefit as described below in other retirement programs.

200. COMPARATIVE STATEMENT OF FINANCIAL POSITION – EXPLANATORY NOTES - CONTINUED

NOTES TO FINANCIAL STATEMENTS

Funded Status

We are required by GAAP to separately recognize the overfunded or underfunded status of our pension plans as an asset or liability. The funded status represents the difference between the projected benefit obligation (PBO) and the fair value of the plan assets. Our non-qualified (supplemental) pension plan is unfunded by design. The PBO of the pension plans is the present value of benefits earned to date by plan participants, including the effect of assumed future compensation increases. Plan assets are measured at fair value. We use a December 31 measurement date for plan assets and obligations for all our retirement plans.

Changes in our PBO and plan assets were as follows for the years ended December 31:

Funded Status *Millions*	***2023***	*2022*
Projected Benefit Obligation		
Projected benefit obligation at beginning of year	**$ 3,725**	$ **5,296**
Service cost	**52**	**93**
Interest cost	**187**	**123**
Actuarial (gain)/loss	**146**	**(1,557)**
Gross benefits paid	**(230)**	**(230)**
Projected benefit obligation at end of year	**$ 3,880**	$ **3,725**
Plan Assets		
Fair value of plan assets at beginning of year	**$ 4,363**	$ **5,554**
Actual (loss)/return on plan assets	**235**	**(992)**
Non-qualified plan benefit contributions	**32**	**31**
Gross benefits paid	**(230)**	**(230)**
Fair value of plan assets at end of year	**$ 4,400**	$ **4,363**
Funded status at end of year	**$ 520**	$ **638**

Actuarial losses that increase the PBO were driven by a decrease in 2023 discount rates from 5.21% to 5.00%. Actuarial gains that decreased the PBO were driven by an increase in 2022 discount rates from 2.80% to 5.21%.

Amounts recognized in the statement of financial position as of December 31, 2023 and 2022, consist of:

Millions	***2023***	*2022*
Noncurrent assets	**$ 924**	$ **1,033**
Current liabilities	**(31)**	**(31)**
Noncurrent liabilities	**(373)**	**(364)**
Net amounts recognized at end of year	**$ 520**	$ **638**

Pre-tax amounts recognized in accumulated other comprehensive income/loss consist of $643 million and $493 million net actuarial loss as of December 31, 2023 and 2022, respectively.

200. COMPARATIVE STATEMENT OF FINANCIAL POSITION – EXPLANATORY NOTES - CONTINUED

Pre-tax changes recognized in other comprehensive income/loss as of December 31, 2023, 2022, and 2021, were as follows:

Millions	***2023***	*2022*	*2021*
Net actuarial (loss)/gain	**$ (159)**	$ 272	$ 813
Amortization of:			
Actuarial loss	**9**	86	141
Total	**$ (150)**	$ 358	$ 954

Underfunded Accumulated Benefit Obligation – The accumulated benefit obligation (ABO) is the present value of benefits earned to date, assuming no future compensation growth. The underfunded accumulated benefit obligation represents the difference between the ABO and the fair value of plan assets.

The following table discloses only the PBO, ABO, and fair value of plan assets for pension plans where the accumulated benefit obligation is in excess of the fair value of the plan assets as of December 31:

Underfunded Accumulated Benefit Obligation		
Millions	***2023***	*2022*
Projected benefit obligation	**$ 404**	$ 394
Accumulated benefit obligation	**$ 399**	$ 382
Fair value of plan assets	**-**	-
Underfunded accumulated benefit obligation	**$ (399)**	$ (382)

The ABO for all defined benefit pension plans was $3.6 billion and $3.5 billion at December 31, 2023 and 2022, respectively.

Assumptions – The weighted-average actuarial assumptions used to determine benefit obligations at December 31:

Percentages	***2023***	*2022*
Discount rate	**5.00%**	5.21%
Compensation increase	**4.00%**	4.10%

Expense

Pension expense is determined based upon the annual service cost of benefits (the actuarial cost of benefits earned during a period) and the interest cost on those liabilities, less the expected return on plan assets. The expected long-term rate of return on plan assets is applied to a calculated value of plan assets that recognizes changes in fair value over a 5-year period. This practice is intended to reduce year-to-year volatility in pension expense, but it can have the effect of delaying the recognition of differences between actual returns on assets and expected returns based on long-term rate of return assumptions. Differences in actual experience in relation to assumptions are not recognized in net income immediately, but are deferred in accumulated other comprehensive income/loss and, if necessary, amortized as pension expense.

The components of our net periodic pension benefit/cost were as follows for the years ended December 31:

Millions	***2023***	*2022*	*2021*
Net Periodic Pension Cost:			
Service cost	**$ 52**	$ 93	$ 110
Interest cost	**187**	123	104
Expected return on plan assets	**(248)**	(293)	(270)
Amortization of:			
Actuarial loss	**9**	86	141
Net periodic pension cost	**$ -**	$ 9	$ 85

200. COMPARATIVE STATEMENT OF FINANCIAL POSITION – EXPLANATORY NOTES - CONTINUED

NOTES TO FINANCIAL STATEMENTS

Assumptions – The weighted-average actuarial assumptions used to determine expense were as follows:

Percentages	***2023***	*2022*	*2021*
Discount rate for benefit obligations	**5.21%**	2.80%	2.42%
Discount rate for interest on benefit obligations	**5.14%**	2.40%	1.90%
Discount rate for service cost	**5.19%**	2.91%	2.61%
Discount rate for interest on service cost	**5.21%**	2.86%	2.53%
Expected return on plan assets	**5.25%**	6.25%	6.25%
Compensation increase	**4.10%**	4.10%	4.40%

We measure the service cost and interest cost components of our net periodic pension benefit/cost by using individual spot discount rates matched with separate cash flows for each future year. The discount rates were based on a yield curve of high-quality corporate bonds. The expected return on plan assets is based on our asset allocation mix and our historical return, taking into account current and expected market conditions. The actual return/(loss) on pension plan assets, net of fees, was approximately 6% in 2023, (18%) in 2022, and 15% in 2021.

Cash Contributions

The following table details UPC's cash contributions, if any, for the qualified and non-qualified (supplemental) pension plans:

Millions	*Qualified*	*Non-qualified*
2023	$ -	$ 32
2022	-	31

UPC's policy with respect to funding the qualified plans is to fund at least the minimum required by law and not more than the maximum amount deductible for tax purposes.

The non-qualified pension plans are not funded and are not subject to any minimum regulatory funding requirements. Benefit payments for each year represent supplemental pension payments. We anticipate our 2024 supplemental pension payments will be made from cash generated from operations.

Benefit Payments

The following table details expected benefit payments for the years 2024 through 2033:

Millions	
2024	$ 230
2025	229
2026	229
2027	230
2028	231
Years 2029 - 2033	1,188

200. COMPARATIVE STATEMENT OF FINANCIAL POSITION – EXPLANATORY NOTES - CONTINUED

NOTES TO FINANCIAL STATEMENTS

Asset Allocation Strategy

UPC's pension plan asset allocation at December 31, 2023 and 2022, and target allocation for 2024, are as follows:

	Target Allocation 2024	*Percentage of Plan Assets December 31,*	
		2023	*2022*
Equity securities	20% to 30%	**24%**	48%
Debt securities	70% to 80%	**75**	51
Real estate	0% to 2%	**1**	1
Total		**100%**	100%

The pension plan investments are held in a master trust. The investment strategy for pension plan assets is to maintain a broadly diversified portfolio designed to achieve our target average long-term rate of return of 5.25%. While we believe we can achieve a long-term average rate of return of 5.25%, we cannot be certain that the portfolio will perform to our expectations. Assets are strategically allocated among equity, debt, and other investments in order to achieve a diversification level that reduces fluctuations in investment returns. Asset allocation target ranges for equity, debt, and other portfolios are evaluated at least every three years with the assistance of an independent consulting firm. Actual asset allocations are monitored monthly, and rebalancing actions are executed at least quarterly, as needed.

Since 2020, the asset allocation targets for equity and debt have been adjusted annually to move from equity to debt as a derisking measure. We met our target endpoint of 25% equity and 75% debt in 2023. The average credit rating of the debt portfolio was AA- and A+ at December 31, 2023 and 2022, respectively. The debt portfolio is also broadly diversified and invested primarily in U.S. Treasury, mortgage, and corporate securities. The weighted-average maturity of the debt portfolio was 22 years and 21 years at December 31, 2023 and 2022, respectively.

The investment of pension plan assets in securities issued by UPC is explicitly prohibited by the plan for both the equity and debt portfolios, other than through index fund holdings.

Fair Value Measurements

The pension plan assets are valued at fair value. The following is a description of the valuation methodologies used for the investments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

Temporary Cash Investments – These investments consist of U.S. dollars and foreign currencies. Foreign currencies held are reported in terms of U.S. dollars based on currency exchange rates readily available in active markets. U.S. dollars and foreign currencies are classified as Level 1 investments.

Registered Investment Companies – Registered Investment Companies are entities primarily engaged in the business of investing in securities and are registered with the Securities and Exchange Commission. The plan's holdings of Registered Investment Companies include both public and private fund vehicles. The public vehicles are exchange-traded funds (stocks), which are classified as Level 1 investments. The private vehicles (bonds) do not have published pricing and are valued using Net Asset Value (NAV).

Federal Government Securities – Federal Government Securities consist of bills, notes, bonds, and other fixed income securities issued directly by the U.S. Treasury or by government-sponsored enterprises. These assets are valued using a bid evaluation process with bid data provided by independent pricing sources. Federal Government Securities are classified as Level 2 investments.

Bonds and Debentures – Bonds and debentures consist of debt securities issued by U.S. and non-U.S. corporations as well as state and local governments. These assets are valued using a bid evaluation process with bid data provided by independent pricing sources. Corporate, state, and municipal bonds and debentures are classified as Level 2 investments.

Corporate Stock – This investment category consists of common and preferred stock issued by U.S. and non-U.S. corporations. Most common shares are traded actively on exchanges and price quotes for these shares are readily available. Common stock is classified as a Level 1 investment. Preferred shares included in this category are valued using a bid evaluation process with bid data provided by independent pricing sources. Preferred stock is classified as a Level 2 investment.

Venture Capital and Buyout Partnerships – This investment category is comprised of interests in limited partnerships that invest primarily in privately-held companies. Due to the private nature of the partnership investments, pricing inputs are not readily observable. Asset valuations are developed by the general partners that manage the partnerships. These valuations are based on the application of public market multiples to private company cash flows, market transactions that provide valuation information for comparable companies, and other methods. The fair value recorded by the plan is calculated using each partnership's NAV.

Real Estate Funds – The plan's real estate investments are primarily interests in private real estate investment trusts, partnerships, limited liability companies, and similar structures. Valuations for the holdings in this category are not based on readily observable inputs and are primarily derived from property appraisals. The fair value recorded by the plan is calculated using the NAV for each investment.

200. COMPARATIVE STATEMENT OF FINANCIAL POSITION – EXPLANATORY NOTES - CONTINUED

NOTES TO FINANCIAL STATEMENTS

Collective Trust and Other Funds – Collective trust and other funds are comprised of shares or units in commingled funds and limited liability companies that are not publicly traded. The underlying assets in these entities (global stock funds and short-term investment funds) are publicly traded on exchanges and price quotes for the assets held by these funds are readily available. The fair value recorded by the plan is calculated using NAV for each investment.

As of December 31, 2023, the pension plan assets measured at fair value on a recurring basis were as follows:

Millions	*Quoted Prices in Active Markets for Identical Inputs (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*	*Total*
Plan assets at fair value:				
Temporary cash investments	$ -	$ -	$ -	$ -
Registered investment companies [a]	-	-	-	-
Federal government securities	-	1,508	-	1,508
Bonds and debentures	-	1,696	-	1,696
Corporate stock	176	5	-	181
Total plan assets at fair value	$ 176	$ 3,209	$ -	$ 3,385
Plan assets at NAV:				
Registered investment companies [b]				-
Venture capital and buyout partnerships				554
Real estate funds				30
Collective trust and other funds				382
Total plan assets at NAV				$ 966
Other assets/(liabilities) [c]				49
Total plan assets				$ 4,400

As of December 31, 2022, the pension plan assets measured at fair value on a recurring basis were as follows:

Millions	*Quoted Prices in Active Markets for Identical Inputs (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*	*Total*
Plan assets at fair value:				
Temporary cash investments	$ 1	$ -	$ -	$ 1
Registered investment companies [a]	6	-	-	6
Federal government securities	-	803	-	803
Bonds and debentures	-	1,069	-	1,069
Corporate stock	1,104	7	-	1,111
Total plan assets at fair value	$ 1,111	$ 1,879	$ -	$ 2,990
Plan assets at NAV:				
Registered investment companies [b]				68
Venture capital and buyout partnerships				611
Real estate funds				37
Collective trust and other funds				622
Total plan assets at NAV				$ 1,338
Other assets/(liabilities) [c]				35
Total plan assets				$ 4,363

[a] Registered investment companies measured at fair value are stock investments.
[b] Registered investment companies measured at NAV include bond investments.
[c] Other assets include accrued receivables, net payables, and pending broker settlements.

200. COMPARATIVE STATEMENT OF FINANCIAL POSITION – EXPLANATORY NOTES - CONTINUED

NOTES TO FINANCIAL STATEMENTS

The master trust's investments in limited partnerships and similar structures (used to invest in private equity and real estate) are valued at fair value based on their proportionate share of the partnerships' fair value as recorded in the limited partnerships' audited financial statements. The limited partnerships allocate gains, losses, and expenses to the partners based on the ownership percentage as described in the partnership agreements. At December 31, 2023 and 2022, the master trust had future commitments for additional contributions to private equity partnerships totaling $80 million and $91 million, respectively, and to real estate partnerships and funds totaling $5 million and $5 million, respectively.

Other Retirement Programs

Other Postretirement Benefits (OPEB) – We provide medical and life insurance benefits for eligible retirees hired before January 1, 2004. These benefits are funded as medical claims and life insurance premiums are paid. OPEB expense is determined based upon the annual service cost of benefits and the interest cost on those liabilities plus amortization of net (gain)/loss amounts offset by amortization of prior service credits recorded in AOCI. Our OPEB liability was $104 million and $134 million at December 31, 2023 and 2022, respectively. The liability is based on discount rate assumptions of 4.97% and 5.23% at December 31, 2023 and 2022, respectively. OPEB net periodic (benefit)/cost was ($7) million in 2023, ($2) million in 2022, and ($3) million in 2021.

401(k)/Thrift Plan – For non-union employees hired prior to January 1, 2018, and eligible union employees for whom we make matching contributions, the Corporation provides a defined contribution plan (401(k)/thrift plan). We match 50% for each dollar contributed by employees up to the first 6% of compensation contributed. For non-union employees hired on or after January 1, 2018, the Corporation matches 100% for each dollar, up to the first 6% of compensation contributed, in addition to contributing an annual amount of 3% of the employee's annual base salary. Our plan contributions were $27 million in 2023, $24 million in 2022, and $21 million in 2021.

Railroad Retirement System – All Railroad employees are covered by the Railroad Retirement System (the System). Contributions made to the System are expensed as incurred and amounted to approximately $711 million in 2023, $586 million in 2022, and $550 million in 2021.

Collective Bargaining Agreements – Under collective bargaining agreements, we participate in multi-employer benefit plans that provide certain postretirement health care and life insurance benefits for eligible union employees. Premiums paid under these plans are expensed as incurred and amounted to $16 million in 2023, $20 million in 2022, and $30 million in 2021.

13. Capital Stock and Dividend Restrictions

Our Board of Directors has restricted the availability of retained earnings for payment of dividends by $131 million. This represents (a) the amount by which the estimated fair value of our investment in certain subsidiaries, as determined by our Board of Directors, exceeded the net book value of such investment that was transferred to the Corporation by means of a dividend in June 1971 ($110) million and (b) the amount by which the fair market value exceeded the book value of certain investment securities that were transferred to the Corporation by means of a dividend in November 1972 ($21) million.

Our capital structure consists of Class A Stock and Common Stock. The Class A Stock is entitled to a cash dividend whenever a dividend is declared on the Common Stock, in an amount which equals 8 percent of the sum of the dividends on both the Class A Stock and the Common Stock. All of our Common Stock and our Class A Stock, which constitutes all of the voting capital stock, is owned by the Corporation. Accordingly, there is no market for our capital stock.

14. Commitments and Contingencies

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. We have recorded a liability where asserted and unasserted claims are considered probable and where such claims can be reasonably estimated. We currently 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.

In December 2019, we received a putative class action complaint under the Illinois Biometric Information Privacy Act, alleging violation due to the use of a finger scan system developed and managed by third parties. Union Pacific and the plaintiff are currently in the discovery phase. While we believe that we have strong defenses to the claims made in the complaint and will vigorously defend ourselves, there is no assurance regarding the ultimate outcome. Therefore, the outcome of this litigation is inherently uncertain, and we cannot reasonably estimate any loss or range of loss that may arise from this matter.

Personal Injury – 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.

Approximately 95% of the recorded liability is related to asserted claims and approximately 5% is related to unasserted claims at December 31, 2023. 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 $383 million to $494 million. We record an accrual at the low end of the range as no amount of loss within the range is more probable than any other. Estimates can vary over time due to evolving trends in litigation.

200. COMPARATIVE STATEMENT OF FINANCIAL POSITION – EXPLANATORY NOTES - CONTINUED

NOTES TO FINANCIAL STATEMENTS

Our personal injury liability activity was as follows:

Millions	***2023***	*2022*	*2021*
Beginning balance	**$ 361**	$ 325	$ 269
Current year accruals	**112**	107	93
Changes in estimates for prior years	**89**	55	48
Payments	**(179)**	(126)	(85)
Ending balance at December 31	**$ 383**	$ 361	$ 325
Current portion, ending balance at December 31	**$ 113**	$ 84	$ 63

Environmental Costs – We are subject to federal, state, and local environmental laws and regulations. We have identified 333 sites where 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, including 20 that 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.

Our environmental liability activity was as follows:

Millions	***2023***	*2022*	*2021*
Beginning balance	**$ 253**	$ 243	$ 233
Accruals	**99**	84	69
Payments	**(107)**	(74)	(59)
Ending balance at December 31	**$ 245**	$ 253	$ 243
Current portion, ending balance at December 31	**$ 91**	$ 67	$ 60

The environmental 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.

Insurance – The Corporation has a consolidated, wholly-owned captive insurance subsidiary (the Captive), that provides insurance coverage for certain risks including general liability, property, cyber, and FELA claims that are subject to reinsurance. The Captive entered into annual reinsurance treaty agreements that insure workers compensation, general liability, auto liability, and FELA risk. The Captive cedes a portion of its FELA exposure through the treaty and assumes a proportionate share of the entire risk. The Captive receives direct premiums, which are netted against the Corporation's premium costs in other expenses in the Consolidated Statements of Income. The treaty agreements provide for certain protections against the risk of treaty participants' non-performance, and we do not believe our exposure to treaty participants' non-performance is material at this time. We record both liabilities and reinsurance receivables using an actuarial analysis based on historical experience in our Consolidated Statements of Financial Position. Effective January 2019, the Captive insurance subsidiary no longer participates in the reinsurance treaty agreement. The Corporation established a trust in the fourth quarter of 2018 for the purpose of providing collateral as required under the reinsurance treaty agreement for prior years' participation.

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.

200. COMPARATIVE STATEMENT OF FINANCIAL POSITION – EXPLANATORY NOTES - CONTINUED

NOTES TO FINANCIAL STATEMENTS

15. Accounts Receivable

Accounts receivable includes freight and other receivables reduced by an allowance for doubtful accounts. At December 31, 2023 and 2022, our accounts receivable were reduced by $9 million and $10 million, respectively. Receivables not expected to be collected in one year and the associated allowances are classified as other assets in our Consolidated Statements of Financial Position. At December 31, 2023 and 2022, receivables classified as other assets were reduced by allowances of $71 million and $58 million, respectively.

Receivables Securitization Facility – The Railroad maintains an $800 million, 3-year receivables securitization facility (the Receivable Facility) maturing in July 2025. Under the Receivables Facility, the Railroad sells most of its eligible third-party receivables to Union Pacific Receivables, Inc. (UPRI), a consolidated, wholly-owned, bankruptcy-remote subsidiary that may subsequently transfer, without recourse, an undivided interest in accounts receivable to investors. 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.

The amount recorded under the Receivables Facility was $0 and $100 million at December 31, 2023 and 2022, respectively. The Receivables Facility was supported by $1.7 billion and $1.6 billion of accounts receivable as collateral at December 31, 2023 and 2022, respectively, which, as a retained interest, is included in accounts receivable, net in our Consolidated Statements of Financial Position.

The outstanding amount the Railroad maintains under the Receivables Facility may fluctuate based on current cash needs. The maximum allowed under the Receivables Facility is $800 million with availability directly impacted by eligible receivables, business volumes, and credit risks, including receivables payment quality measures such as default and dilution ratios. If default or dilution ratios increase one percent, the allowable outstanding amount under the Receivables Facility would not materially change.

The costs of the Receivables Facility include interest, which will vary based on prevailing benchmark and commercial paper rates, program fees paid to participating banks, commercial paper issuance costs, and fees of participating banks for unused commitment availability. The costs of the Receivables Facility are included in interest expense and were $9 million, $10 million, and $4 million for 2023, 2022, and 2021, respectively.

16. Leases

We lease certain locomotives, freight cars, and other property for use in our rail operations.

The following are additional details related to our lease portfolio:

Millions	*Classification*	***Dec. 31, 2023***	*Dec. 31, 2022*
Assets			
Operating leases	Operating lease assets	**$ 1,609**	$ 1,672
Finance leases	Properties, net [a]	**244**	310
Total leased assets		**$ 1,853**	$ 1,982
Liabilities			
Current			
Operating	Accounts payable and other current liabilities	**$ 352**	$ 331
Finance	Third-party debt due within one year	**49**	67
Noncurrent			
Operating	Operating lease liabilities	**1,214**	1,300
Finance	Third-party debt due after one year	**109**	167
Total lease liabilities		**$ 1,724**	$ 1,865

[a] Finance lease assets are recorded net of accumulated amortization of $497 million and $658 million as of December 31, 2023 and 2022, respectively.

The lease cost components are classified as follows:

Millions	***Dec. 31, 2023***	*Dec. 31, 2022*
Operating lease cost [a]	**$ 369**	$ 338
Short-term lease cost	**24**	18
Variable lease cost	**41**	13
Finance lease cost		
Amortization of leased assets [b]	**38**	52
Interest on lease liabilities [c]	**8**	12
Net lease cost	**$ 480**	$ 433

[a] Operating lease cost is primarily reported in equipment and other rents in our Consolidated Statements of Income.
[b] Amortization of leased assets is reported in depreciation in our Consolidated Statements of Income.
[c] Interest on lease liabilities is reported in interest expense in our Consolidated Statements of Income.

200. COMPARATIVE STATEMENT OF FINANCIAL POSITION – EXPLANATORY NOTES - CONTINUED

NOTES TO FINANCIAL STATEMENTS

The following table presents aggregate lease maturities as of December 31, 2023:

Millions	*Operating Leases*	*Finance Leases*	*Total*
2024	$ 357	$ 55	$ 412
2025	370	42	412
2026	291	35	326
2027	233	30	263
2028	194	11	205
After 2028	281	-	281
Total lease payments	$ 1,726	$ 173	$ 1,899
Less: Interest	160	15	175
Present value of lease liabilities	$ 1,566	$ 158	$ 1,724

The following table presents weighted average remaining lease term and discount rate:

	Dec. 31, 2023
Weighted-average remaining lease term (years)	
Operating leases	5.8
Finance leases	3.5
Weighted-average discount rate (%)	
Operating leases	3.6
Finance leases	4.5

The following table presents other information related to our operating and finance leases for the years ended December 31:

Millions	***2023***	*2022*
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	**$ 323**	$ 319
Investing cash flows from operating leases	**33**	31
Operating cash flows from finance leases	**9**	15
Financing cash flows from finance leases	**65**	91
Leased assets obtained in exchange for finance lease liabilities	**-**	-
Leased assets obtained in exchange for operating lease liabilities	**241**	173

17. Employee Stock Purchase Plan

The ESPP started in July 2021. Employee and Company contributions are used to issue UPC treasury shares the month after employee contributions are withheld based on the settlement date closing price. The Company matches 40% contributed by the employee up to a maximum employee contribution of 5% of monthly salary (limited to $15,000 annually). We expense the Company contributions in the month the employee services were rendered (i.e., the month the employee contributions were withheld).

18. Union Pacific Fund for Effective Government

The Corporation, UPRR's parent, is the sponsor of the Union Pacific Fund for Effective Government (the FFEG), a separate segregated fund utilized for political purposes, established and operated in accordance with the Federal Election Campaign Act of 1971, as amended, (the Act). The administrative expenses of the FFEG are paid by the Corporation. UPRR's executive and administrative personnel are solicited annually by the FFEG within the guidelines of the Act and certain executive officers of UPRR are members of the FFEG's managing finance committee.