BNSF RAILWAY COMPANY
Consolidated Financial Statements
for the period ended June 30, 2018

BNSF RAILWAY COMPANY and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In millions)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Revenues	$ 5,664	$ 5,093	$ 11,096	$ 10,140
Operating expenses:				
Compensation and benefits	1,311	1,242	2,610	2,525
Fuel	830	577	1,597	1,182
Depreciation and amortization	573	588	1,141	1,159
Purchased services	537	496	1,071	1,016
Equipment rents	167	196	359	392
Materials and other	363	241	697	537
Total operating expenses	3,781	3,340	7,475	6,811
Operating income	1,883	1,753	3,621	3,329
Interest expense	12	10	24	21
Interest income, related parties	(149)	(82)	(271)	(151)
Other (income) expense, net	(19)	(12)	(36)	(26)
Income before income taxes	2,039	1,837	3,904	3,485
Income tax expense	436	697	892	1,318
Net income	$ 1,603	$ 1,140	$ 3,012	$ 2,167

See accompanying Notes to Consolidated Financial Statements.

BNSF RAILWAY COMPANY and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$ 1,603	$ 1,140	$ 3,012	$ 2,167
Other comprehensive income:				
Change in pension and retiree health and welfare benefits, net of tax	—	(1)	—	(1)
Change in accumulated other comprehensive income (loss) of equity method investees	—	1	1	(1)
Other comprehensive income (loss), net of tax	—	—	1	(2)
Total comprehensive income	$ 1,603	$ 1,140	$ 3,013	$ 2,165

See accompanying Notes to Consolidated Financial Statements.

BNSF RAILWAY COMPANY and SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In millions)
(Unaudited)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 491	$ 516
Accounts receivable, net	1,710	1,668
Materials and supplies	789	803
Other current assets	324	204
Total current assets	3,314	3,191
Property and equipment, net of accumulated depreciation of $9,240 and $8,611, respectively	62,470	62,281
Goodwill	14,803	14,803
Intangible assets, net	377	392
Other assets	2,497	2,431
Total assets	$ 83,461	$ 83,098
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Accounts payable and other current liabilities	$ 2,955	$ 3,069
Long-term debt due within one year	86	90
Total current liabilities	3,041	3,159
Deferred income taxes	13,688	13,542
Long-term debt	1,307	1,355
Casualty and environmental liabilities	490	499
Intangible liabilities, net	426	471
Pension and retiree health and welfare liability	311	310
Other liabilities	1,084	1,104
Total liabilities	20,347	20,440
Commitments and contingencies (see Notes 7 and 8)		
Stockholder's equity:		
Common stock, $1 par value, 1,000 shares authorized; issued and outstanding and paid-in capital	42,920	42,920
Retained earnings	42,321	39,337
Intercompany notes receivable	(22,384)	(19,830)
Accumulated other comprehensive income (loss)	257	231
Total stockholder's equity	63,114	62,658
Total liabilities and stockholder's equity	$ 83,461	$ 83,098

See accompanying Notes to Consolidated Financial Statements.

BNSF RAILWAY COMPANY and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
OPERATING ACTIVITIES		
Net income	$ 3,012	$ 2,167
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,141	1,159
Deferred income taxes	142	227
Long-term casualty and environmental liabilities, net	(19)	(19)
Other, net	(93)	(104)
Changes in current assets and liabilities:		
Accounts receivable, net	(42)	(56)
Materials and supplies	14	6
Other current assets	(114)	(29)
Accounts payable and other current liabilities	(81)	45
Net cash provided by operating activities	3,960	3,396
INVESTING ACTIVITIES		
Capital expenditures excluding equipment	(1,224)	(1,300)
Acquisition of equipment	(72)	(200)
Purchases of investments and investments in time deposits	(13)	(8)
Proceeds from sales of investments and maturities of time deposits	17	15
Other, net	(94)	(232)
Net cash used for investing activities	(1,386)	(1,725)
FINANCING ACTIVITIES		
Payments on long-term debt	(46)	(50)
Net increase in intercompany notes receivable classified as equity	(2,554)	(1,660)
Other, net	1	(1)
Net cash used for financing activities	(2,599)	(1,711)
Decrease in cash and cash equivalents	(25)	(40)
Cash and cash equivalents:		
Beginning of period	516	570
End of period	$ 491	$ 530
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid, net of amounts capitalized	$ 30	$ 36
Capital investments accrued but not yet paid	$ 93	$ 103
Income taxes paid, net of refunds	$ 755	$ 908

See accompanying Notes to Consolidated Financial Statements.

BNSF RAILWAY COMPANY and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
(In millions)
(Unaudited)

	Common Stock and Paid-in Capital	Retained Earnings	Intercompany Notes Receivable	Accumulated Other Comprehensive Income (Loss)	Total Stockholder's Equity
Balance at December 31, 2017	$ 42,920	$ 39,337	$ (19,830)	$ 231	$ 62,658
Adoption of ASC Topic 606	—	(3)	—	—	(3)
Equity method investee adoption of ASU 2016-01[a]	—	1	—	(1)	—
Reclassification upon early adoption of ASU 2018-02	—	(26)	—	26	—
Change in intercompany notes receivable	—	—	(2,554)	—	(2,554)
Comprehensive income (loss), net of tax	—	3,012	—	1	3,013
Balance at June 30, 2018	$ 42,920	$ 42,321	$ (22,384)	$ 257	$ 63,114

[a] Accounting Standards Update No. 2016-01 Financial Instruments- Recognition and Measurement of Financial Assets and Financial Liabilities

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Accounting Policies and Interim Results

The Consolidated Financial Statements should be read in conjunction with BNSF Railway Company's Annual Report on Form 10-K for the year ended December 31, 2017, including the financial statements and notes thereto. The Consolidated Financial Statements include the accounts of BNSF Railway Company and its majority-owned subsidiaries, all of which are separate legal entities (collectively, BNSF Railway or the Company). BNSF Railway is a wholly-owned subsidiary of Burlington Northern Santa Fe, LLC (BNSF), and is the principal operating subsidiary of BNSF. All intercompany accounts and transactions have been eliminated.

On February 12, 2010, Berkshire Hathaway Inc., a Delaware corporation (Berkshire), acquired 100 percent of the outstanding shares of Burlington Northern Santa Fe Corporation common stock that it did not already own. The acquisition was completed through the merger (Merger) of a Berkshire wholly-owned merger subsidiary and Burlington Northern Santa Fe Corporation with the surviving entity renamed Burlington Northern Santa Fe, LLC. Earnings per share data is not presented because BNSF Railway has only one holder of its common stock.

The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the entire year. In the opinion of management, the unaudited financial statements reflect all adjustments (consisting of only normal recurring adjustments, except as disclosed) necessary for a fair statement of BNSF Railway's consolidated financial position as of June 30, 2018, and the results of operations for the three and six months ended June 30, 2018 and 2017.

2. Revenue from Contracts with Customers

On January 1, 2018, the Company adopted ASC Topic 606 (new revenue guidance) using the modified retrospective transition method and the practical expedient for contracts not completed as of the date of adoption. The Company recorded the cumulative effect of adopting ASC Topic 606 as a $3 million net reduction to member's equity as of January 1, 2018, primarily due to the timing impacts of variable consideration for certain customer incentives. Results for reporting periods beginning after January 1, 2018 are presented under ASC Topic 606, while prior period amounts were not adjusted and continue to be reported under the accounting standards in effect for the prior period. The impact of adoption to our Consolidated Statements of Income, Balance Sheets, and Statements of Cash Flows for the current year is immaterial as reflected in the Consolidated Statements of Changes in Stockholder's Equity. Therefore, financial statements showing 2018 reported under previous guidance are not presented.

The Company's primary source of revenue is freight rail transportation services. The primary performance obligation for the Company is to move freight from a point of origin to a point of destination for its customers. The performance obligations are represented by bills of lading which create a series of distinct services that have a similar pattern of transfer to the customer. The revenues for each performance obligation are based on various factors including the product being shipped, the origin and destination pair, and contract incentives which are outlined in various private rate agreements, common carrier public tariffs, interline foreign road agreements and pricing quotes. The transaction price is generally a per car amount to transport cars from a certain origin to a certain destination.

The associated freight revenues are recognized over time as the service is performed because the customer simultaneously receives and consumes the benefits of the service. The Company recognizes revenue based on the proportion of the service completed as of the balance sheet date. Bills for freight transportation services are generally issued to customers and paid within thirty days or less. As a result, no significant contract assets exist and there are no significant financing components in the Company's revenue arrangements.

Customer incentives, which are primarily provided for shipping a specified cumulative volume or shipping to/from specific locations, are recorded as a reduction to revenue on a pro-rata basis based on actual or projected future customer shipments. A small portion of customer incentive agreements have a component where a different discount amount is provided for different levels of volumes, resulting in variable consideration. To determine transaction price in these cases, the Company estimates the amount of variable consideration at each reporting period utilizing the most likely amount based on historical trends as well as economic and other indicators. These incentives are ratably applied to all units using an estimate of how much volume the customer will ship under the customer incentive agreement. Both the variable consideration and the associated contract liabilities resulting from these types of customer incentives are immaterial.

Other revenues are primarily generated from accessorial services provided to customers which are primarily storage and demurrage and are recognized when the service is performed.

In accordance with ASC Topic 606, the Company disaggregates revenue from contracts with customers based on the characteristics of the services being provided and the types of products being transported and other revenues (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Consumer Products	$ 1,979	$ 1,742	$ 3,839	$ 3,422
Industrial Products	1,482	1,274	2,840	2,498
Agricultural Products	1,182	1,074	2,334	2,182
Coal	911	912	1,859	1,872
Total freight revenues	5,554	5,002	10,872	9,974
Accessorial and other	110	91	224	166
Total operating revenues	$ 5,664	$ 5,093	$ 11,096	$ 10,140

Contract assets and liabilities are immaterial. Receivables from contracts with customers is a component of accounts receivable, net on the Consolidated Balance Sheets. At both June 30, 2018 and January 1, 2018, $1.1 billion represents net receivables from contracts with customers.

Remaining performance obligations primarily consist of in-transit freight revenues, which will be recognized in the next reporting period. At June 30, 2018 and January 1, 2018, remaining performance obligations were $277 million and $190 million, respectively.

3. Accounts Receivable, Net

Accounts receivable, net consists of freight and other receivables, reduced by an allowance for bill adjustments and uncollectible accounts, based upon expected collectibility. At June 30, 2018 and December 31, 2017, $82 million and $86 million, respectively, of such allowances had been recorded.

At June 30, 2018 and December 31, 2017, $59 million and $80 million, respectively, of accounts receivable were greater than 90 days old.

4. Investments

BNSF Railway holds investments which are included in other assets on the Consolidated Balance Sheets. The following table summarizes the fair value of investments held as of June 30, 2018 and December 31, 2017 (in millions):

	June 30, 2018	December 31, 2017
Debt securities	$ 39	$ 43
Equity securities	56	54
Total	$ 95	$ 97

The fair value measurements of BNSF Railway's debt securities are based on Level 2 inputs and equity securities are based on Level 1 inputs, using a market approach. Gains and losses recognized in other (income) expense, net for the Company for the six months ended June 30, 2018 and 2017 were not material.

5. Other Intangible Assets and Liabilities

Intangible assets and liabilities were as follows (in millions):

	As of June 30, 2018		As of December 31, 2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible assets	$ 637	$ 260	$ 637	$ 245
Intangible liabilities	$ 1,403	$ 977	$ 1,403	$ 932

As of June 30, 2018 and December 31, 2017, intangible assets primarily consisted of franchise and customer assets. Intangible liabilities primarily consisted of customer and shortline contracts which were in an unfavorable position at the date of Merger.

Amortizable intangible assets and liabilities are amortized based on the estimated pattern in which the economic benefits are expected to be consumed or on a straight-line basis over their estimated economic lives.

Amortization of intangible assets and liabilities was as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Amortization of intangible assets	$ 7	$ 8	$ 15	$ 16
Amortization of intangible liabilities	$ 22	$ 24	$ 45	$ 48

Amortization of intangible assets and liabilities for the next five years is expected to approximate the following (in millions):

	Amortization of intangible assets	Amortization of intangible liabilities
Remainder of 2018	$ 16	$ 45
2019	$ 31	$ 27
2020	$ 31	$ 26
2021	$ 31	$ 24
2022	$ 31	$ 23

6. Other Assets

In July 2010, the Company entered into a low-income housing partnership (the Partnership) as the limited partner, holding a 99.9 percent interest in the Partnership. The Partnership is a variable interest entity (VIE), with the purpose of developing and operating low-income housing rental properties. Recovery of the Company's investment is accomplished through the utilization of low-income housing tax credits and the tax benefits of Partnership losses. The general partner, who holds a 0.1 percent interest in the Partnership, is an unrelated third party and is responsible for controlling and managing the business and financial operation of the Partnership. As the Company does not have the power to direct the activities that most significantly impact the Partnership's economic performance, the Company is not the primary beneficiary and therefore, does not consolidate the Partnership. The Company does not provide financial support to the Partnership that it was not previously contractually obligated to provide.

The Company has accounted for its investment in the Partnership using the effective yield method. The risk of loss of the Company's investment in the Partnership is considered low as an affiliate of the general partner has provided certain guarantees of tax credits and minimum annual returns. For the six months ended June 30, 2018 and 2017, the Company recognized a reduction to income tax expense of $10 million and $17 million, respectively. The Company's maximum exposure to loss related to the Partnership is the unamortized investment balance. The following table provides information related to this Partnership (in millions):

	June 30, 2018	December 31, 2017
Unamortized investment balance classified as other assets	$ 85	$ 118
Maximum exposure to loss	$ 85	$ 118

Included within other assets are capitalized right-to-use fixed assets of $975 million and $958 million, and related accumulated amortization of $298 million and $287 million, at June 30, 2018 and December 31, 2017, respectively.

7. Debt

Fair Value of Debt Instruments

At June 30, 2018, and December 31, 2017, the fair value of BNSF Railway's debt, excluding capital leases, was $998 million and $1.1 billion, respectively, while the book value, which also excludes capital leases and the associated unamortized fair value adjustment under acquisition method accounting related to capital leases, was $950 million and $978 million, respectively. The fair value of BNSF Railway's debt is primarily based on market value price models using observable market-based data for the same or similar issues, or on the estimated rates that would be offered to BNSF Railway for debt of the same remaining maturities (Level 2 inputs).

Guarantees

As of June 30, 2018, BNSF Railway has not been called upon to perform under the guarantees specifically disclosed in this footnote and does not anticipate a significant performance risk in the foreseeable future.

Debt and other obligations of non-consolidated entities guaranteed by the Company as of June 30, 2018, were as follows (dollars in millions):

	Guarantees					
	BNSF Railway Ownership Percentage	Principal Amount Guaranteed	Maximum Future Payments	Maximum Recourse Amount[a]	Remaining Term (in years)	Capitalized Obligations
Kinder Morgan Energy Partners, L.P.	0.5%	$ 190	$ 190	$ —	Termination of Ownership	$ 2 [b]
Chevron Phillips Chemical Company LP	—%	N/A[d]	N/A[d]	N/A[d]	9	$ 19 [c]

[a] Reflects the maximum amount the Company could recover from a third party other than the counterparty.
[b] Reflects capitalized obligations that are recorded on the Company's Consolidated Balance Sheets.
[c] Reflects the asset and corresponding liability for the fair value of these guarantees required by authoritative accounting guidance related to guarantees.
[d] There is no cap to the liability that can be sought from BNSF Railway for BNSF Railway's negligence or the negligence of the indemnified party. However, BNSF Railway could receive reimbursement from certain insurance policies if the liability exceeds a certain amount.

Kinder Morgan Energy Partners, L.P.

Santa Fe Pacific Pipelines, Inc., an indirect, wholly-owned subsidiary of BNSF Railway, has a guarantee in connection with its remaining special limited partnership interest in Santa Fe Pacific Pipeline Partners, L.P. (SFPP), a subsidiary of Kinder Morgan Energy Partners, L.P., to be paid only upon default by the partnership. All obligations with respect to the guarantee will cease upon termination of ownership rights, which would occur upon a put notice issued by BNSF Railway or the exercise of the call rights by the general partners of SFPP.

Chevron Phillips Chemical Company LP

BNSF Railway has an indemnity agreement with Chevron Phillips Chemical Company LP (Chevron Phillips), granting certain rights of indemnity from BNSF Railway, in order to facilitate access to a storage facility. Under certain circumstances, payment under this obligation may be required in the event Chevron Phillips were to incur certain liabilities or other incremental costs resulting from trackage access.

Indemnities

In the ordinary course of business, BNSF Railway enters into agreements with third parties that include indemnification clauses. The Company believes that these clauses are generally customary for the types of agreements in which they are included. At times, these clauses may involve indemnification for the acts of the Company, its employees and agents, indemnification for another party's acts, indemnification for future events, indemnification based upon a certain standard of performance, indemnification for liabilities arising out of the Company's use of leased equipment or other property, or other types of indemnification. Despite the uncertainty whether events which would trigger the indemnification obligations would ever occur, the Company does not believe that these indemnity agreements will have a material adverse effect on the Company's results of operations, financial position or liquidity. Additionally, the Company believes that, due to lack of historical payment experience, the fair value of indemnities cannot be estimated with any amount of certainty and that the fair value of any such amount would be immaterial to the Consolidated Financial Statements. Agreements that reflect unique circumstances, particularly agreements that contain guarantees that indemnify for another party's acts, are disclosed separately, if appropriate. Unless separately disclosed above, no fair value liability related to indemnities has been recorded in the Consolidated Financial Statements.

Variable Interest Entities - Leases

BNSF Railway has entered into various lease transactions in which the structure of the lease contains VIEs. These leases are primarily for equipment. These VIEs were created solely for the lease transactions and have no other activities, assets or liabilities outside of the lease transactions. In some of the arrangements, BNSF Railway has the option to purchase some or all of the leased assets at a fixed price, thereby creating variable interests for BNSF Railway in the VIEs. The future minimum lease payments associated with the VIE leases were approximately $1.5 billion as of June 30, 2018.

In the event the leased asset is destroyed, BNSF Railway is generally obligated to either replace the asset or pay a fixed loss amount. The inclusion of the fixed loss amount is a standard clause within the lease arrangements. Historically, BNSF Railway has not incurred significant losses related to this clause. As such, it is not anticipated that the maximum exposure to loss would materially differ from the future minimum lease payments.

BNSF Railway does not provide financial support to the VIEs that it was not previously contractually obligated to provide.

BNSF Railway maintains and operates the leased assets based on contractual obligations within the lease arrangements, which set specific guidelines consistent within the industry. As such, BNSF Railway has no control over activities that could materially impact the fair value of the leased assets. BNSF Railway does not hold the power to direct the activities of the VIEs and therefore does not control the ongoing activities that have a significant impact on the economic performance of the VIEs. Additionally, BNSF Railway does not have the obligation to absorb losses of the VIEs or the right to receive benefits of the VIEs that could potentially be significant to the VIEs. Depending on market conditions, the fixed-price purchase options could potentially provide benefit to the Company; however, any benefits potentially received from a fixed-price purchase option are generally expected to be minimal. Based on these factors, BNSF Railway is not the primary beneficiary of the VIEs. As BNSF Railway is not the primary beneficiary and the majority of the VIE leases are operating leases, the assets and liabilities related to the VIEs recorded in the Company's Consolidated Balance Sheets are immaterial.

8. Commitments and Contingencies

Personal Injury

Personal injury claims, including asbestos claims and employee work-related injuries and third-party injuries (collectively, other personal injury), are a significant expense for the railroad industry. Personal injury claims by BNSF Railway employees are subject to the provisions of the Federal Employers' Liability Act (FELA) rather than state workers' compensation laws. FELA's system of requiring the finding of fault, coupled with unscheduled awards and reliance on the jury system, contributed to increased expenses in past years. Other proceedings include claims by non-employees for punitive as well as compensatory damages, and from time to time may include proceedings that have been certified as or purport to be class actions. The variability present in settling these claims, including non-employee personal injury and matters in which punitive damages are alleged, could result in increased expenses in future years. BNSF Railway has implemented a number of safety programs designed to reduce the number of personal injuries as well as the associated claims and personal injury expense.

BNSF Railway records an undiscounted liability for personal injury claims when the expected loss is both probable and reasonably estimable. The liability and ultimate expense projections are estimated using standard actuarial methodologies. Liabilities recorded for unasserted personal injury claims are based on information currently available. Due to the inherent uncertainty involved in projecting future events such as the number of claims filed each year, developments in judicial and legislative standards and the average costs to settle projected claims, actual costs may differ from amounts recorded. BNSF Railway has obtained insurance coverage for certain claims, as discussed under the heading "BNSF Insurance Company." Expense accruals and any required adjustments are classified as materials and other in the Consolidated Statements of Income.

Asbestos

The Company is party to a number of personal injury claims by employees and non-employees who may have been exposed to asbestos. The heaviest exposure for certain BNSF Railway employees was due to work conducted in and around the use of steam locomotive engines that were phased out between the years of 1950 and 1967. However, other types of exposures, including exposure from locomotive component parts and building materials, continued after 1967 until they were substantially eliminated at BNSF Railway by 1985.

BNSF Railway assesses its unasserted asbestos liability exposure on an annual basis during the third quarter. BNSF Railway determines its asbestos liability by estimating its exposed population, the number of claims likely to be filed, the number of claims that will likely require payment and the estimated cost per claim. Estimated filing and dismissal rates and average cost per claim are determined utilizing recent claim data and trends.

Throughout the year, BNSF Railway monitors actual experience against the number of forecasted claims and expected claim payments and will record adjustments to the Company's estimates as necessary.

Based on BNSF Railway's estimate of the potentially exposed employees and related mortality assumptions, it is anticipated that unasserted asbestos claims will continue to be filed through the year 2050. The Company recorded an amount for the full estimated filing period through 2050 because it had a relatively finite exposed population (former and current employees hired prior to 1985), which it was able to identify and reasonably estimate and about which it had obtained reliable demographic data (including age, hire date and occupation) derived from industry or BNSF Railway specific data that was the basis for the study. BNSF Railway projects that approximately 65, 80 and 95 percent of the future unasserted asbestos claims will be filed within the next 10, 15 and 25 years, respectively.

Other Personal Injury

BNSF Railway estimates its other personal injury liability claims and expense quarterly based on the covered population, activity levels and trends in frequency and the costs of covered injuries. Estimates include unasserted claims except for certain repetitive stress and other occupational trauma claims that allegedly result from prolonged repeated events or exposure. Such claims are estimated on an as-reported basis because the Company cannot estimate the range of reasonably possible loss due to other non-work related contributing causes of such injuries and the fact that continued exposure is required for the potential injury to manifest itself as a claim. BNSF Railway has not experienced any significant adverse trends related to these types of claims in recent years.

BNSF Railway monitors quarterly actual experience against the number of forecasted claims to be received, the forecasted number of claims closing with payment and expected claim payments. Adjustments to the Company's estimates are recorded quarterly as necessary or more frequently as new events or changes in estimates develop.

The following table summarizes the activity in the Company's accrued obligations for asbestos and other personal injury matters (in millions):

	Three Months Ended June 30,	
	2018	2017
Beginning balance	$ 305	$ 367
Accruals / changes in estimates	27	4
Payments	(37)	(7)
Ending balance	$ 295	$ 364

	Six Months Ended June 30,	
	2018	2017
Beginning balance	$ 307	$ 367
Accruals / changes in estimates	34	18
Payments	(46)	(21)
Ending balance	$ 295	$ 364

At June 30, 2018 and December 31, 2017, $75 million and $85 million was included in current liabilities, respectively. Defense and processing costs, which are recorded on an as-reported basis, were not included in the recorded liability. The Company is primarily self-insured for personal injury claims.

Because of the uncertainty surrounding the ultimate outcome of personal injury claims, it is reasonably possible that future costs to settle personal injury claims may range from approximately $260 million to $355 million. However, BNSF Railway believes that the $295 million recorded at June 30, 2018 is the best estimate of the Company's future obligation for the settlement of personal injury claims.

The amounts recorded by BNSF Railway for personal injury liabilities were based upon currently known facts. Future events, such as the number of new claims to be filed each year, the average cost of disposing of claims, as well as the numerous uncertainties surrounding personal injury litigation in the United States, could cause the actual costs to be higher or lower than projected.

Although the final outcome of personal injury matters cannot be predicted with certainty, considering among other things the meritorious legal defenses available and liabilities that have been recorded, it is the opinion of BNSF Railway that none of these items, when finally resolved, will have a material adverse effect on the Company's financial position or liquidity. However, the occurrence of a number of these items in the same period could have a material adverse effect on the results of operations in a particular quarter or fiscal year.

BNSF Insurance Company

Burlington Northern Santa Fe Insurance Company, Ltd. (BNSFIC), a wholly-owned subsidiary of BNSF, offers insurance coverage for certain risks, FELA claims, railroad protective and force account insurance claims and certain excess general liability and property coverage, and certain other claims which are subject to reinsurance. During the six months ended June 30, 2018 and 2017, BNSFIC wrote insurance coverage with premiums totaling $70 million and $74 million, respectively, for BNSF Railway, net of reimbursements from third parties. During this same time, BNSF Railway recognized $34 million and $36 million, respectively, in expense related to those premiums, which is classified as purchased services in the Consolidated Statements of Income. At June 30, 2018 and December 31, 2017, unamortized premiums remaining on the Consolidated Balance Sheets were $42 million and $6 million, respectively. During the six months ended June 30, 2018 and 2017, BNSFIC made claim payments totaling $11 million and $12 million, respectively, for settlement of covered claims. At June 30, 2018 and December 31, 2017, claims receivables from BNSFIC were $5 million and $3 million, respectively.

Environmental

The Company's operations, as well as those of its competitors, are subject to extensive federal, state and local environmental regulation. BNSF Railway's operating procedures include practices to protect the environment from the risks inherent in railroad operations, which frequently involve transporting chemicals and other hazardous materials. Additionally, many of BNSF Railway's land holdings are and have been used for industrial or transportation-related purposes or leased to commercial or industrial companies whose activities may have resulted in discharges onto the property. As a result, BNSF Railway is subject to environmental cleanup and enforcement actions. In particular, the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), also known as the Superfund law, as well as similar state laws, generally impose joint and several liability for cleanup and enforcement costs on current and former owners and operators of a site without regard to fault or the legality of the original conduct. BNSF Railway has been notified that it is a potentially responsible party (PRP) for study and cleanup costs at Superfund sites for which investigation and remediation payments are or will be made or are yet to be determined (the Superfund sites) and, in many instances, is one of several PRPs. In addition, BNSF Railway may be considered a PRP under certain other laws. Accordingly, under CERCLA and other federal and state statutes, BNSF Railway may be held jointly and severally liable for all environmental costs associated with a particular site. If there are other PRPs, BNSF Railway generally participates in the cleanup of these sites through cost-sharing agreements with terms that vary from site to site. Costs are typically allocated based on such factors as relative volumetric contribution of material, the amount of time the site was owned or operated and/or the portion of the total site owned or operated by each PRP.

BNSF Railway is involved in a number of administrative and judicial proceedings and other mandatory cleanup efforts for 210 sites, including 18 Superfund sites, at which it is participating in the study or cleanup, or both, of alleged environmental contamination.

Liabilities for environmental cleanup costs are recorded when BNSF Railway's liability for environmental cleanup is probable and reasonably estimable. Subsequent adjustments to initial estimates are recorded as necessary based upon additional information developed in subsequent periods. Environmental costs include initial site surveys and environmental studies as well as costs for remediation of sites determined to be contaminated.

BNSF Railway estimates the ultimate cost of cleanup efforts at its known environmental sites on an annual basis during the third quarter. Ultimate cost estimates for environmental sites are based on current estimated percentage to closure ratios, possible remediation work plans and estimates of the costs and likelihood of each possible outcome, historical payment patterns, and benchmark patterns developed from data accumulated from industry and public sources, including the Environmental Protection Agency and other governmental agencies. These factors incorporate into the estimates experience gained from cleanup efforts at other similar sites.

Annual studies do not include: (i) contaminated sites of which the Company is not aware; (ii) additional amounts for third-party tort claims, which arise out of contaminants allegedly migrating from BNSF Railway property, due to a limited number of sites; or (iii) natural resource damage claims. BNSF Railway continues to estimate third-party tort claims on a site by site basis when the liability for such claims is probable and reasonably estimable. BNSF Railway's recorded liability for third-party tort claims as of June 30, 2018 and December 31, 2017 was $9 million for both periods.

On a quarterly basis, BNSF Railway monitors actual experience against the forecasted remediation and related payments made on existing sites and conducts ongoing environmental contingency analyses, which consider a combination of factors including independent consulting reports, site visits, legal reviews and analysis of the likelihood of other PRPs' participation in, and their ability to pay for, cleanup. Adjustments to the Company's estimates will continue to be recorded as necessary based on developments in subsequent periods. Additionally, environmental accruals, which are classified as materials and other in the Consolidated Statements of Income, include amounts for newly identified sites or contaminants, third-party claims and legal fees incurred for defense of third-party claims and recovery efforts.

The following table summarizes the activity in the Company's accrued obligations for environmental matters (in millions):

	Three Months Ended June 30,	
	2018	2017
Beginning balance	$ 314	$ 335
Accruals / changes in estimates	1	(2)
Payments	(5)	(7)
Ending balance	$ 310	$ 326

	Six Months Ended June 30,	
	2018	2017
Beginning balance	$ 317	$ 342
Accruals / changes in estimates	2	(1)
Payments	(9)	(15)
Ending balance	$ 310	$ 326

At June 30, 2018 and December 31, 2017, $40 million was included in current liabilities for both periods.

BNSF Railway's environmental liabilities are not discounted. BNSF Railway anticipates that the majority of the accrued costs at June 30, 2018, will be paid over the next ten years, and no individual site is considered to be material.

Liabilities recorded for environmental costs represent BNSF Railway's best estimate of its probable future obligation for the remediation and settlement of these sites and include both asserted and unasserted claims. Although recorded liabilities include BNSF Railway's best estimate of all probable costs, without reduction for anticipated recoveries from third parties, BNSF Railway's total cleanup costs at these sites cannot be predicted with certainty due to various factors such as the extent of corrective actions that may be required, evolving environmental laws and regulations, advances in environmental technology, the extent of other parties' participation in cleanup efforts, developments in ongoing environmental analyses related to sites determined to be contaminated and developments in environmental surveys and studies of contaminated sites.

Because of the uncertainty surrounding these factors, it is reasonably possible that future costs for environmental liabilities may range from approximately $250 million to $410 million. However, BNSF Railway believes that the $310 million recorded at June 30, 2018, is the best estimate of the Company's future obligation for environmental costs.

Although the final outcome of these environmental matters cannot be predicted with certainty, it is the opinion of BNSF Railway that none of these items, when finally resolved, will have a material adverse effect on the Company's financial position or liquidity. However, the occurrence of a number of these items in the same period could have a material adverse effect on the results of operations in a particular quarter or fiscal year.

Other Claims and Litigation

In addition to asbestos, other personal injury and environmental matters discussed above, BNSF Railway and its subsidiaries are also parties to a number of other legal actions and claims, governmental proceedings and private civil suits arising in the ordinary course of business, including those related to disputes and complaints involving certain transportation rates and charges. Some of the legal proceedings include claims for punitive as well as compensatory damages and from time to time may include proceedings that purport to be class actions. Although the final outcome of these matters cannot be predicted with certainty, considering among other things the meritorious legal defenses available and liabilities that have been recorded along with applicable insurance, BNSF Railway currently believes that none of these items, when finally resolved, will have a material adverse effect on the Company's financial position or liquidity. However, an unexpected adverse resolution of one or more of these items could have a material adverse effect on the results of operations in a particular quarter or fiscal year.

9. Employment Benefit Plans

Components of the net cost (credit) for the periods presented below for certain employee benefit plans were as follows (in millions):

	Pension Benefits	
	Three Months Ended June 30,	
Net Cost (Credit)	**2018**	**2017**
Service cost	$ 11	$ 11
Interest cost	21	22
Expected return on plan assets	(39)	(37)
Net credit recognized	$ (7)	$ (4)

	Pension Benefits	
	Six Months Ended June 30,	
Net Cost (Credit)	**2018**	**2017**
Service cost	$ 22	$ 21
Interest cost	42	44
Expected return on plan assets	(79)	(74)
Net credit recognized	$ (15)	$ (9)

	Retiree Health and Welfare Benefits	
	Three Months Ended June 30,	
Net Cost (Credit)	**2018**	**2017**
Service cost	$ —	$ 1
Interest cost	2	2
Amortization of prior service credits	—	(1)
Net cost recognized	$ 2	$ 2

	Retiree Health and Welfare Benefits	
	Six Months Ended June 30,	
Net Cost (Credit)	**2018**	**2017**
Service cost	$ —	$ 1
Interest cost	4	4
Amortization of prior service credits	—	(1)
Net cost recognized	$ 4	$ 4

Service cost is included in compensation and benefits expense and the other components of net periodic benefit costs are included in other (income) expense, net in the Consolidated Statements of Income.

10. Related Party Transactions

BNSF Railway is involved with BNSF and certain of its subsidiaries in related party transactions in the ordinary course of business, which include payments made on each other's behalf and performance of services. Under the terms of a tax allocation agreement with BNSF, BNSF Railway made federal and state income tax payments, net of refunds, of $731 million and $882 million during the six months ended June 30, 2018 and 2017, respectively, which are reflected in changes in working capital in the Consolidated Statements of Cash Flows. As of June 30, 2018 and December 31, 2017, BNSF Railway had a tax payable to BNSF of $200 million and $195 million, respectively. Uncertain tax positions will affect the tax payable to BNSF if and when settled. As of June 30, 2018 and December 31, 2017, the Company had $31 million and $90 million payable to BNSF related to prior year tax audit settlements.

At June 30, 2018 and December 31, 2017, BNSF Railway had $389 million and $338 million, respectively, of intercompany receivables which are reflected in accounts receivable in the respective Consolidated Balance Sheets. At June 30, 2018 and December 31, 2017, BNSF Railway had $41 million and $14 million of intercompany payables, respectively, which are reflected in accounts payable in the respective Consolidated Balance Sheets. Net intercompany balances are settled in the ordinary course of business.

At June 30, 2018 and December 31, 2017, BNSF Railway had $22.4 billion and $19.8 billion, respectively, of intercompany notes receivable from BNSF. The $2.6 billion increase in intercompany notes receivable was due to loans to BNSF of $2.6 billion during the six months ended June 30, 2018. All intercompany notes have a variable interest rate of 1.0 percent above the monthly average of the daily effective Federal Funds rate. Interest is collected semi-annually on all intercompany notes receivable. Interest income from intercompany notes receivable is presented in interest income, related parties in the Consolidated Statements of Income.

BNSF Railway engages in various transactions with related parties in the ordinary course of business. The following table summarizes revenues earned by BNSF Railway for services provided to related parties and expenditures to related parties (in millions):

	Three Months Ended June 30,	
	2018	**2017**
Revenues	$ 36	$ 33
Expenditures	$ 111	$ 94

	Six Months Ended June 30,	
	2018	**2017**
Revenues	$ 69	$ 71
Expenditures	$ 211	$ 185

BNSF Railway owns 17.3 percent of TTX Company (TTX) while other North American railroads own the remaining interest. As BNSF Railway possesses the ability to exercise significant influence, but not control, over the operating and financial policies of TTX, BNSF Railway applies the equity method of accounting to its investment in TTX. In applying the equity method, the investment is recorded in other assets. Equity income or losses are recorded in materials and other in the Consolidated Statements of Income. North American railroads pay TTX car hire to use TTX's freight equipment to serve their customers. BNSF Railway's car hire expenditures incurred with TTX are included in the table above. BNSF Railway had $585 million and $554 million recognized as investments related to TTX in its Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017, respectively.

11. Accumulated Other Comprehensive Income

Other comprehensive income refers to revenues, expenses, gains and losses that under generally accepted accounting principles are included in accumulated other comprehensive income, a component of equity within the Consolidated Balance Sheets, rather than net income on the Consolidated Statements of Income. Under existing accounting standards, other comprehensive income may include, among other things, unrecognized gains and losses and prior service credit related to pension and other postretirement benefit plans.

The following tables provide the components of accumulated other comprehensive income / (loss) (AOCI) by component (in millions):

	Pension and Retiree Health and Welfare Benefit Items[a]	Equity Method Investments	Total
Balance at December 31, 2017	$ 234	$ (3)	$ 231
Other comprehensive income (loss) before reclassifications	—	1	1
Amounts reclassified from AOCI	26	(1)	25
Balance at June 30, 2018	$ 260	$ (3)	$ 257
Balance at December 31, 2016	$ 122	$ (3)	$ 119
Other comprehensive income (loss) before reclassifications	—	(1)	(1)
Amounts reclassified from AOCI	(1)	—	(1)
Balance at June 30, 2017	$ 121	$ (4)	$ 117

[a] Amounts are net of tax.

Reclassifications out of AOCI[b]

	Three Months Ended June 30,		
Details about AOCI Components	**2018**	**2017**	**Income Statement Line Item**
Amortization of pension and retiree health and welfare benefit items			
Prior service credits	—	1	[c]
Total reclassifications for the period	$ —	$ 1	Net of tax

	Six Months Ended June 30,		
Details about AOCI Components	**2018**	**2017**	**Income Statement Line Item**
Amortization of pension and retiree health and welfare benefit items			
Prior service credits	—	1	[c]
Reclassification due to ASU 2018-02 adoption	(26)	—	
Total reclassifications for the period	$ (26)	$ 1	Net of tax

[b] Amounts in parenthesis indicate debits to the income statement.
[c] This accumulated other comprehensive income component is included in the computation of net periodic pension and retiree health and welfare cost (see Note 9 for additional details).

12. Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02 (ASU 2016-02), Leases (Topic 842). The guidance in ASU 2016-02 supersedes the lease recognition requirements in ASC Topic 840, Leases (FAS 13). ASU 2016-02 requires an entity to recognize assets and liabilities arising from a lease for both financing and operating leases, along with additional qualitative and quantitative disclosures. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. At December 31, 2017, BNSF Railway had long-term operating leases with $3.0 billion of remaining minimum lease payments, and is assessing these contracts and others for lease qualification under the new standard. This new standard will require the present value of these leases to be recorded in the Consolidated Balance Sheets as a right of use asset and lease liability. Management is currently evaluating the impacts of the new guidance on its financials, disclosures and internal control framework and is in the process of implementing a lease accounting system to support the new reporting requirements.

In March 2017, the FASB issued Accounting Standards Update No. 2017-07 (ASU 2017-07), Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. ASU 2017-07 requires an entity to present the service cost component of net benefit cost in the same line item as other current employee compensation costs (including being capitalized, if appropriate, as part of an asset). The other components of net benefit cost are presented below income from operations. The Company adopted the standard as of January 1, 2018. Other components of net benefit costs previously recorded in compensation and benefits expense were reclassified to other income. See Note 9 to the Consolidated Financial Statements. The retrospective impact of the adoption is shown in the table below (in millions):

	Three Months Ended June 30, 2017		
	As Previously Reported	Adjustments	As Revised
Operating expenses	$ 3,327	$ 13	$ 3,340
Operating income	$ 1,766	$ (13)	$ 1,753
Other (income) expense, net	$ 1	$ (13)	$ (12)

	Six Months Ended June 30, 2017		
	As Previously Reported	Adjustments	As Revised
Operating expenses	$ 6,784	$ 27	$ 6,811
Operating income	$ 3,356	$ (27)	$ 3,329
Other (income) expense, net	$ 1	$ (27)	$ (26)

In February 2018, the FASB issued Accounting Standards Update No. 2018-02 (ASU 2018-02), Income Statement - Reporting Comprehensive Income (Topic 220). The guidance in ASU 2018-02 allows an entity to elect to reclassify the stranded tax effects related to the Tax Cuts and Jobs Act of 2017 from accumulated other comprehensive income into retained earnings. ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company early adopted the guidance in ASU 2018-02 during the quarter ended March 31, 2018, and elected to reclassify $26 million of tax from accumulated other comprehensive income to retained earnings. See the Consolidated Statements of Changes in Stockholder's Equity.

Certification by Vice President

With respect to the quarterly financial statements and related footnotes of BNSF Railway Company (the Company) for the period ended June 30, 2018, the undersigned, Jon I. Stevens, Vice President and Controller of the Company, hereby certifies that, to his knowledge as of the date hereof, the information contained in such attached financial statements and related footnotes fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 3, 2018

Jon I. Stevens
Vice President and Controller