

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2010

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 1-6324



**BNSF RAILWAY COMPANY**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction  
of incorporation or organization)

**41-6034000**  
(I.R.S. Employer  
Identification No.)

**2650 Lou Menk Drive**  
**Fort Worth, Texas**  
(Address of principal executive offices)

**76131-2830**  
(Zip Code)

**(800) 795-2673**  
(Registrant's telephone number, including area code)

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. **Yes [x] No [ ]**

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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). **Yes [ ] No [ ]**

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 [ ] Accelerated filer [ ] Non-accelerated filer [x] Smaller reporting company [ ]**

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

**Yes [ ] No [x]**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class                          | Shares<br>Outstanding at<br>November 5, 2010 |
|--------------------------------|--|
| Common stock, \$1.00 par value | 1,000 shares                                 |

Registrant meets the conditions set forth in General Instruction H (1) (a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with the reduced disclosure format permitted by General Instruction H (2).

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**PART I**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

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

|                                  | <u>Successor</u>   | <u>Predecessor</u>                                       | <u>Successor</u>                                | <u>Predecessor</u>                           |   |
|----------------------------------|--|--|---|--|---|
|                                  | <b>Three Months<br/>Ended<br/>September 30,<br/>2010</b> | <b>Three Months<br/>Ended<br/>September 30,<br/>2009</b> | <b>February 13 –<br/>September 30,<br/>2010</b> | <b>January 1 –<br/>February 12,<br/>2010</b> | <b>Nine Months<br/>Ended<br/>September<br/>30, 2009</b> |
| Revenues                         | \$ 4,322   | \$ 3,549   | \$ 10,398                                       | \$ 1,768                                     | \$ 10,207   |
| Operating expenses:              |  |  |   |  |   |
| Compensation and benefits        | 1,014  | 866  | 2,510   | 439  | 2,546   |
| Fuel                             | 748  | 606  | 1,840   | 329  | 1,729   |
| Purchased services               | 508  | 444  | 1,230   | 211  | 1,382   |
| Depreciation and amortization    | 435  | 385  | 1,095   | 192  | 1,133   |
| Equipment rents                  | 195  | 194  | 484   | 97   | 591   |
| Materials and other              | 195  | 164  | 409   | 1  | 483   |
| Total operating expenses         | <u>3,095</u>   | <u>2,659</u>   | <u>7,568</u>                                    | <u>1,269</u>                                 | <u>7,864</u>  |
| Operating income                 | 1,227  | 890  | 2,830   | 499  | 2,343   |
| Interest expense                 | 24   | 15   | 55  | 16   | 92  |
| Interest income, related parties | (3)  | (1)  | (8)   | (1)  | (1)   |
| Other expense, net               | <u>3</u>   | <u>1</u>   | <u>5</u>  | <u>2</u>                                     | <u>4</u>  |
| Income before income taxes       | 1,203  | 875  | 2,778   | 482  | 2,248   |
| Income tax expense               | 429  | 329  | 1,007   | 200  | 854   |
| Net income                       | <u>\$ 774</u>  | <u>\$ 546</u>  | <u>\$ 1,771</u>                                 | <u>\$ 282</u>                                | <u>\$ 1,394</u>   |

See accompanying Notes to Consolidated Financial Statements.

**BNSF RAILWAY COMPANY and SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Dollars in millions)  
(Unaudited)

|  | <b>Successor</b>     | <b>Predecessor</b>  |
|--|----------------------|---------------------|
|  | <b>September 30,</b> | <b>December 31,</b> |
|  | <b>2010</b>          | <b>2009</b>         |
| <b>ASSETS</b>  |                      |                     |
| Current assets:  |                      |                     |
| Cash and cash equivalents  | \$ 14                | \$ 20               |
| Accounts receivable, net   | 1,083                | 810                 |
| Materials and supplies   | 584                  | 632                 |
| Current portion of deferred income taxes   | 270                  | 282                 |
| Other current assets   | 242                  | 375                 |
| Total current assets   | <u>2,193</u>         | <u>2,119</u>        |
| Property and equipment, net of accumulated depreciation of \$576 and \$10,731, respectively      | 45,145               | 32,278              |
| Goodwill   | 14,803               | –                   |
| Intangible assets, net   | 1,809                | –                   |
| Other assets   | 2,736                | 3,193               |
| Total assets   | <u>\$ 66,686</u>     | <u>\$ 37,590</u>    |
| <b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>  |                      |                     |
| Current liabilities:   |                      |                     |
| Accounts payable and other current liabilities   | \$ 3,009             | \$ 2,548            |
| Long-term debt due within one year   | 299                  | 335                 |
| Total current liabilities  | <u>3,308</u>         | <u>2,883</u>        |
| Deferred income taxes  | 14,176               | 9,360               |
| Long-term debt   | 2,169                | 2,118               |
| Intangible liabilities, net  | 1,865                | –                   |
| Casualty and environmental liabilities   | 886                  | 899                 |
| Pension and retiree health and welfare liability   | 475                  | 783                 |
| Other liabilities  | 837                  | 1,799               |
| Total liabilities  | <u>23,716</u>        | <u>17,842</u>       |
| Commitments and contingencies (see Notes 3, 7 and 8)   |                      |                     |
| Stockholder's equity:  |                      |                     |
| Common stock, \$1 par value, 1,000 shares authorized; issued and outstanding and paid-in capital | 42,920               | 6,331               |
| Retained earnings  | 1,771                | 14,866              |
| Intercompany notes receivable  | (1,734)              | (948)               |
| Accumulated other comprehensive income (loss)  | 13                   | (501)               |
| Total stockholder's equity   | <u>42,970</u>        | <u>19,748</u>       |
| Total liabilities and stockholder's equity   | <u>\$ 66,686</u>     | <u>\$ 37,590</u>    |

See accompanying Notes to Consolidated Financial Statements.

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

|   | Successor                              | Predecessor                         |   |
|---|--|-------------------------------------|---|
|   | February 13 –<br>September 30,<br>2010 | January 1 –<br>February 12,<br>2010 | Nine Months<br>Ended<br>September<br>30, 2009 |
| <b>OPERATING ACTIVITIES</b>   |  |                                     |   |
| Net income  | \$ 1,771                               | \$ 282                              | \$ 1,394                                      |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |                                     |   |
| Depreciation and amortization   | 1,095                                  | 192                                 | 1,133   |
| Deferred income taxes   | 390                                    | 134                                 | 540   |
| Long-term casualty and environmental liabilities, net                             | (67)                                   | (2)                                 | (31)  |
| Contribution to defined benefit pension plan                                      | (400)                                  | –                                   | –   |
| Other, net  | (53)                                   | (73)                                | (53)  |
| Changes in current assets and liabilities:  |  |                                     |   |
| Accounts receivable, net  | (497)                                  | 217                                 | 57  |
| Change in accounts receivable sales program                                       | –                                      | –                                   | (50)  |
| Materials and supplies  | 44                                     | 4                                   | 2   |
| Other current assets  | 40                                     | (129)                               | (101)   |
| Accounts payable and other current liabilities                                    | 1,102                                  | (574)                               | (233)   |
| Net cash provided by operating activities   | <u>3,425</u>                           | <u>51</u>                           | <u>2,658</u>                                  |
| <b>INVESTING ACTIVITIES</b>   |  |                                     |   |
| Capital expenditures excluding equipment  | (1,301)                                | (137)                               | (1,665)                                       |
| Acquisition of equipment  | (385)                                  | (67)                                | (615)   |
| Proceeds from sale of equipment financed  | –                                      | –                                   | 368   |
| Construction costs for facility financing obligation                              | –                                      | –                                   | (36)  |
| Partnership investment  | (443)                                  | –                                   | –   |
| Other, net  | (252)                                  | 66                                  | (164)   |
| Net cash used for investing activities  | <u>(2,381)</u>                         | <u>(138)</u>                        | <u>(2,112)</u>                                |
| <b>FINANCING ACTIVITIES</b>   |  |                                     |   |
| Proceeds from issuance of long-term debt  | –                                      | –                                   | 75  |
| Payments on long-term debt  | (148)                                  | (29)                                | (172)   |
| Proceeds from facility financing obligation                                       | –                                      | –                                   | 51  |
| Net (increase) decrease in intercompany notes receivable classified as equity     | (896)                                  | 110                                 | (688)   |
| Other, net  | –                                      | –                                   | (7)   |
| Net cash (used for) provided by financing activities                              | <u>(1,044)</u>                         | <u>81</u>                           | <u>(741)</u>                                  |
| Decrease in cash and cash equivalents   | –                                      | (6)                                 | (195)   |
| Cash and cash equivalents:  |  |                                     |   |
| Beginning of period   | 14                                     | 20                                  | 209   |
| End of period   | <u>\$ 14</u>                           | <u>\$ 14</u>                        | <u>\$ 14</u>                                  |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION</b>   |  |                                     |   |
| Interest paid, net of amounts capitalized   | \$ 85                                  | \$ 10                               | \$ 80   |
| Income taxes paid, net of refunds   | \$ 348                                 | \$ –                                | \$ 443  |
| Non-cash asset financing  | \$ 29                                  | \$ 8                                | \$ 464  |

See accompanying Notes to Consolidated Financial Statements.

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

| <u>Predecessor</u>  | <u>Common Stock<br/>and Paid-in<br/>Capital</u> | <u>Retained<br/>Earnings</u> | <u>Inter-<br/>Company<br/>Notes<br/>Receivable</u> | <u>Accumulated<br/>Other<br/>Comprehensive<br/>Loss</u> | <u>Total<br/>Stockholder's<br/>Equity</u> |
|---|---|------------------------------|--|---|---|
| Balance at December 31, 2009  | \$ 6,331  | \$ 14,866                    | \$ (948)   | \$ (501)  | \$ 19,748                                 |
| Change in intercompany notes<br>receivable  | —   | —                            | 110  | —   | 110                                       |
| Comprehensive income:   |   |                              |  |   |   |
| Net income  | —   | 282                          | —  | —   | 282                                       |
| Change in unrecognized prior<br>service credit and actuarial losses,<br>net of tax expense of \$1 | —   | —                            | —  | 2   | 2   |
| Change in fuel/interest hedge<br>mark-to-market, net of tax<br>benefit of \$28                    | —   | —                            | —  | (45)  | (45)                                      |
| Change in other comprehensive<br>income of equity method<br>investees                             | —   | —                            | —  | 2   | 2   |
| Total comprehensive income  |   |                              |  |   | <u>241</u>                                |
| Balance at February 12, 2010  | <u>\$ 6,331</u>                                 | <u>\$ 15,148</u>             | <u>\$ (838)</u>                                    | <u>\$ (542)</u>   | <u>\$ 20,099</u>                          |

| <u>Successor</u>  | <u>Common Stock<br/>and Paid-in<br/>Capital</u> | <u>Retained<br/>Earnings</u> | <u>Inter-<br/>Company<br/>Notes<br/>Receivable</u> | <u>Accumulated<br/>Other<br/>Comprehensive<br/>Income</u> | <u>Total<br/>Stockholder's<br/>Equity</u> |
|---|---|------------------------------|--|---|---|
| Balance at February 12, 2010  | \$ —  | \$ —                         | \$ (838)   | \$ —  | \$ (838)                                  |
| Net contribution from Berkshire<br>Hathaway Inc.                              | 42,919  | —                            | —  | —   | 42,919                                    |
| Capital contribution from Burlington<br>Northern Santa Fe, LLC                | 1   | —                            | —  | —   | 1   |
| Change in intercompany notes<br>receivable                                    | —   | —                            | (896)  | —   | (896)                                     |
| Comprehensive income:   |   |                              |  |   |   |
| Net income  | —   | 1,771                        | —  | —   | 1,771                                     |
| Change in fuel/interest hedge<br>mark-to-market, net of tax<br>expense of \$8 | —   | —                            | —  | 14  | 14  |
| Change in other comprehensive<br>income of equity method<br>investees         | —   | —                            | —  | (1)   | (1)                                       |
| Total comprehensive income  |   |                              |  |   | <u>1,784</u>                              |
| Balance at September 30, 2010   | <u>\$ 42,920</u>                                | <u>\$ 1,771</u>              | <u>\$ (1,734)</u>                                  | <u>\$ 13</u>  | <u>\$ 42,970</u>                          |

See accompanying Notes to Consolidated Financial Statements.

## **BNSF RAILWAY COMPANY and SUBSIDIARIES**

### **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, 2009, including the financial statements and notes thereto. The Consolidated Financial Statements include the accounts of BNSF Railway Company and its majority-owned subsidiaries (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.

As further discussed in Note 2 to the Consolidated Financial Statements, on February 12, 2010, Berkshire Hathaway Inc., a Delaware corporation (Berkshire), acquired 100% 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 (the Merger) of Burlington Northern Santa Fe Corporation with and into R Acquisition Company, LLC, a Delaware limited liability company and an indirect wholly-owned subsidiary of Berkshire (Merger Sub), with Merger Sub continuing as the surviving entity. In connection with the Merger, Merger Sub changed its name to "Burlington Northern Santa Fe, LLC" and remains an indirect, wholly-owned subsidiary of Berkshire.

Berkshire's cost of acquiring BNSF has been pushed-down to establish a new accounting basis for BNSF. In turn, BNSF's basis in BNSF Railway has been pushed-down to establish a new accounting basis in BNSF Railway. Accordingly, the accompanying interim consolidated financial statements are presented for two periods, Predecessor and Successor, which relate to the accounting periods preceding and succeeding the completion of the Merger. The Predecessor and Successor periods have been separated by a vertical line on the face of the consolidated financial statements to highlight the fact that the financial information for such periods has been prepared under two different historical-cost bases of accounting.

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 September 30, 2010 (Successor), and the results of operations for the three months ended September 30, 2010 (Successor) and 2009 (Predecessor), the periods February 13 – September 30, 2010 (Successor), January 1 – February 12, 2010 (Predecessor), and the nine months ended September 30, 2009 (Predecessor).

#### **New Accounting Policies Adopted Upon Merger**

##### **Goodwill**

Goodwill is the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed. As a result of the Merger, BNSF recognized goodwill as well as additional intangible assets and liabilities (see Note 2 to the Consolidated Financial Statements for further information related to the Merger).

Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that the carrying amount may not be recoverable. The impairment test encompasses calculating a fair value of the assets and comparing the fair value to its carrying value. The goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units and determination of the fair value of each reporting unit. If the carrying amount of goodwill exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. See Note 5 to the Consolidated Financial Statements for further information related to goodwill.

##### **Rail Grinding Costs**

Upon the Merger discussed in Note 2, BNSF Railway adopted the direct expense method of accounting for rail grinding costs, under which the Company expenses rail grinding costs as incurred.

## BNSF RAILWAY COMPANY and SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)

#### Adoption of New Accounting Pronouncement

In June 2009, the FASB amended authoritative accounting guidance related to transfers of financial assets which updated existing guidance. The amended authoritative accounting guidance limits the circumstances in which financial assets can be derecognized and requires enhanced disclosures regarding transfers of financial assets and a transferor's continuing involvement with transferred financial assets. The amended authoritative accounting guidance also eliminated the concept of a qualifying special-purpose entity (QSPE), which requires companies to evaluate former QSPEs for consolidation.

In June 2009, the FASB amended authoritative accounting guidance related to the consolidation of variable interest entities (VIEs). The amended authoritative accounting guidance updated existing guidance used to determine whether or not a company is required to consolidate a VIE and requires enhanced disclosures. The amended authoritative accounting guidance also eliminated quantitative-based assessments and requires companies to perform ongoing qualitative assessments to determine whether or not the VIE should be consolidated.

The Company prospectively adopted the amended authoritative accounting guidance on January 1, 2010. See Note 4, Note 6 and Note 7 to the Consolidated Financial Statements for information related to the impact of the amended authoritative accounting guidance.

#### **2. Merger of BNSF**

As discussed in Note 1 to the Consolidated Financial Statements, on February 12, 2010, Burlington Northern Santa Fe Corporation was acquired by Berkshire pursuant to the Agreement and Plan of Merger, dated as of November 2, 2009 (the Merger Agreement). Immediately prior to completion of the Merger, Berkshire and its affiliates and associates owned 76,777,029 shares of Burlington Northern Santa Fe Corporation common stock, representing 22.5% of the total issued and outstanding shares of its common stock. As a result of the Merger, each share of common stock of Burlington Northern Santa Fe Corporation, par value \$0.01 per share, other than shares owned by Berkshire, Burlington Northern Santa Fe Corporation or any of their respective subsidiaries, was converted into the right to receive, at the election of the stockholder (subject to the proration and reallocation procedures described in the Merger Agreement), either (i) \$100.00 in cash, without interest, or (ii) a portion of a share of Berkshire Class A common stock equal to the exchange ratio, which was calculated by dividing \$100.00 by the average of the daily volume-weighted average trading prices per share of Berkshire Class A common stock over the ten trading day period ending on the second full trading day prior to completion of the Merger. Fractional shares of Berkshire Class A common stock were not issued in the Merger. Instead, shares of Berkshire Class B common stock were issued in lieu of fractional shares of Berkshire Class A common stock, and cash was paid in lieu of fractional shares of Berkshire Class B common stock. Approximately 60% of the total merger consideration paid by Berkshire to stockholders of Burlington Northern Santa Fe Corporation was in the form of cash and approximately 40% was in the form of Berkshire common stock.

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**

The Merger was accounted for using the acquisition method under Accounting Standards Codification (ASC) Topic 805, *Business Combinations*. Under the acquisition method, the new basis of accounting totaling \$42,919 million, which was pushed down by BNSF, was allocated to the underlying tangible and intangible assets acquired and liabilities assumed based on their respective fair values, with the remainder allocated to goodwill. None of the goodwill recorded in connection with the Merger will be deductible for income tax purposes. The purchase price allocation at September 30, 2010, is substantially complete; however, additional analysis primarily related to the value of property and equipment and intangibles, and any associated tax impacts could result in a change in the total amount of goodwill. The purchase price allocation is summarized in the following tables (in millions):

| <b>Assets</b>                            |                  | <b>Liabilities and net assets acquired</b>       |                  |
|--|------------------|--|------------------|
| Cash and cash equivalents                | \$ 14            | Accounts payable and other current liabilities   | \$ 2,197         |
| Accounts receivable, net                 | 829              | Long-term debt due within one year               | 342              |
| Materials and supplies                   | 629              | Long-term debt                                   | 2,326            |
| Current portion of deferred income taxes | 202              | Deferred income taxes                            | 13,696           |
| Other current assets                     | 272              | Intangible liabilities, net                      | 2,056            |
| Property and equipment, net              | 43,970           | Casualty and environmental liabilities           | 928              |
| Goodwill                                 | 14,803           | Pension and retiree health and welfare liability | 865              |
| Intangible assets, net                   | 2,018            | Other liabilities                                | 492              |
| Other assets                             | 2,246            | Intercompany notes receivable                    | (838)            |
|  |                  | Net assets acquired                              | 42,919           |
| <hr/>                                    |                  | <hr/>  |                  |
| Total assets                             | <u>\$ 64,983</u> | Total liabilities and net assets acquired        | <u>\$ 64,983</u> |

The fair value of assets acquired included accounts receivable of \$829 million, consisting of the gross amount due under contracts of \$883 million, net of \$54 million estimated to be uncollectible.

The fair value of assets acquired also included intangible assets of \$2,018 million, with a weighted average amortization life of 10 years. The fair value of liabilities acquired included intangible liabilities of \$2,056 million, with a weighted average amortization life of 16 years. See Note 5 to the Consolidated Financial Statements for further information related to intangible assets and liabilities.

Liabilities acquired included contingencies related to casualty and environmental liabilities in the amount of \$1,178 million. Casualty liabilities were measured at fair value, and environmental liabilities were measured in accordance with ASC Topic 450, *Contingencies*. See Note 8 to the Consolidated Financial Statements for further information related to casualty and environmental liabilities.

The following unaudited pro forma financial data summarizes BNSF Railway's results of operations as if the Merger had occurred as of January 1, 2009 (in millions):

|            | <u>Nine Months Ended September 30,</u> |             |
|------------|--|-------------|
|            | <u>2010</u>                            | <u>2009</u> |
| Revenues   | \$ 12,199                              | \$ 10,413   |
| Net income | \$ 2,088                               | \$ 1,513    |

The pro forma amounts represent BNSF Railway's results of operations with appropriate adjustments, which are expected to have a continuing impact, resulting from the application of acquisition method accounting. The unaudited pro forma financial data is provided for informational purposes only and is not necessarily indicative of what BNSF Railway's results of operations would have been if the Merger had occurred as of January 1, 2009, or the results of operations for any future periods.

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**

**3. Derivative Activities**

The Company uses derivative financial instruments to hedge against increases in diesel fuel prices. The Company does not use derivative financial instruments for trading or speculative purposes. The Company formally documents the relationship between the hedging instrument and the hedged item, as well as the risk management objective and strategy for the use of the hedging instrument. This documentation includes linking the derivatives that are designated as cash flow hedges to specific assets or liabilities on the balance sheet, commitments or forecasted transactions. The Company assesses at the time a derivative contract is entered into, and at least quarterly thereafter, whether the derivative item is effective in offsetting the changes in cash flows. Any change in fair value resulting from ineffectiveness, as defined by authoritative accounting guidance related to derivatives and hedging, is recognized in current period earnings. For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is recorded in accumulated other comprehensive income (AOCI) as a separate component of stockholder's equity and reclassified into earnings in the period during which the hedge transaction affects earnings. Cash flows related to fuel derivatives are classified as operating activities in the Consolidated Statements of Cash Flows.

Upon application of acquisition method accounting due to the Merger, the Company was required to re-designate its outstanding derivatives as hedges under authoritative accounting guidance. Certain costless collar derivatives did not qualify for re-designation as they were in net written positions as of the Merger date. As a result, hedge accounting was discontinued on these instruments. The Company will continue to hold these financial instruments to hedge against increases in diesel fuel prices, recognizing any gains and losses from changes in fair value in current period earnings.

BNSF Railway monitors its derivative instrument positions and credit ratings of its counterparties and does not anticipate any losses due to counterparty nonperformance. All counterparties were financial institutions with credit ratings of A2/A or higher as of September 30, 2010. The maximum amount of loss the Company could incur from credit risk based on the gross fair value of derivative instruments in asset positions as of September 30, 2010 and December 31, 2009, was \$47 million and \$73 million, respectively. Other than as disclosed under the heading "Fuel; Total Fuel-Derivative Activities," the Company's derivative agreements do not include provisions requiring collateral. Certain of the Company's derivative instruments are covered by master netting arrangements whereby, in the event of a default, the non-defaulting party has the right to setoff any amounts payable against any obligation of the defaulting party under the same counterparty agreement. As such, the Company's net asset exposure to counterparty credit risk was \$44 million and \$59 million as of September 30, 2010, and December 31, 2009, respectively.

Additional disclosure related to derivative instruments is included in Note 11 to the Consolidated Financial Statements.

The amounts recorded in the Consolidated Balance Sheets for derivative transactions were as follows, presented net of any master netting arrangements (in millions):

|                                 | <b>Successor</b>              | <b>Predecessor</b>           |
|---------------------------------|-------------------------------|------------------------------|
|                                 | <b>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
| Short-term derivative asset     | \$ 26                         | \$ 20                        |
| Long-term derivative asset      | 17                            | 40                           |
| Short-term derivative liability | (19)                          | (25)                         |
| Long-term derivative liability  | (3)                           | (12)                         |
| <b>Total derivatives</b>        | <b>\$ 21</b>                  | <b>\$ 23</b>                 |

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**

The tables below contain summaries of all derivative positions reported in the Consolidated Financial Statements, presented gross of any master netting arrangements (in millions):

| <b>Fair Value of Derivative Instruments</b>   |                               |                              |  |
|---|-------------------------------|------------------------------|--|
| <b>Asset Derivatives</b>  |                               |                              |  |
|   | <b>Successor</b>              | <b>Predecessor</b>           | <b>Balance Sheet</b>                           |
|   | <b>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> | <b>Location</b>                                |
| <b>Asset derivatives designated as hedging instruments under ASC 815-20</b>           |                               |                              |  |
| Fuel contracts  | \$ 27                         | \$ 20                        | Other current assets                           |
| Fuel contracts  | 17                            | 40                           | Other assets                                   |
| Fuel contracts  | –                             | 10                           | Accounts payable and other current liabilities |
| Fuel contracts  | –                             | 3                            | Other liabilities                              |
| <b>Total asset derivatives designated as hedging instruments under ASC 815-20</b>     | <b>\$ 44</b>                  | <b>\$ 73</b>                 |  |
| <b>Asset derivatives not designated as hedging instruments under ASC 815-20</b>       |                               |                              |  |
| Fuel contracts  | \$ 1                          | \$ –                         | Other current assets                           |
| Fuel contracts  | 1                             | –                            | Accounts payable and other current liabilities |
| Fuel contracts  | 1                             | –                            | Other liabilities                              |
| <b>Total asset derivatives not designated as hedging instruments under ASC 815-20</b> | <b>\$ 3</b>                   | <b>\$ –</b>                  |  |
| <b>Total asset derivatives</b>  | <b>\$ 47</b>                  | <b>\$ 73</b>                 |  |
| <b>Liability Derivatives</b>  |                               |                              |  |
|   | <b>Successor</b>              | <b>Predecessor</b>           | <b>Balance Sheet</b>                           |
|   | <b>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> | <b>Location</b>                                |
| <b>Liability derivatives designated as hedging instruments under ASC 815-20</b>       |                               |                              |  |
| Fuel contracts  | \$ 2                          | \$ –                         | Other current assets                           |
| Fuel contracts  | 20                            | 35                           | Accounts payable and other current liabilities |
| Fuel contracts  | 4                             | 15                           | Other liabilities                              |
| <b>Total liability derivatives designated as hedging instruments under ASC 815-20</b> | <b>\$ 26</b>                  | <b>\$ 50</b>                 |  |
| <b>Total liability derivatives</b>  | <b>\$ 26</b>                  | <b>\$ 50</b>                 |  |

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**

**The Effects of Derivative Instruments Gains and Losses  
for the Three Month Periods Ended September 30, 2010 and 2009**

Derivatives in ASC 815-20 Cash Flow Hedging Relationships

|                   | <b>Amount of Gain or (Loss) Recognized in OCI<br/>on Derivatives (Effective Portion)</b> |             |                    |
|-------------------|--|-------------|--------------------|
|                   | <b>Successor</b>   |             | <b>Predecessor</b> |
|                   | <b>2010</b>  | <b>2009</b> |                    |
| Fuel Contracts    | \$   | 26          | \$ (20)            |
| Total derivatives | \$   | 26          | \$ (20)            |

|                   | <b>Location of Gain or (Loss) Recognized<br/>from AOCI into Income</b> | <b>Amount of Gain or (Loss) Recognized from<br/>AOCI into Income (Effective Portion)</b> |             |                    |
|-------------------|--|--|-------------|--------------------|
|                   |  | <b>Successor</b>   |             | <b>Predecessor</b> |
|                   |  | <b>2010</b>  | <b>2009</b> |                    |
| Fuel Contracts    | Fuel expense   | \$   | –           | \$ (38)            |
| Total derivatives |  | \$   | –           | \$ (38)            |

|                   | <b>Location of Gain or (Loss) Recognized<br/>in Income on Derivatives</b> | <b>Amount of Gain or (Loss) Recognized in<br/>Income on Derivatives (Ineffective Portion and<br/>Amount Excluded from Effectiveness Testing)<sup>a</sup></b> |             |                    |
|-------------------|---|--|-------------|--------------------|
|                   |   | <b>Successor</b>   |             | <b>Predecessor</b> |
|                   |   | <b>2010</b>  | <b>2009</b> |                    |
| Fuel Contracts    | Fuel expense  | \$   | 11          | \$ 3               |
| Total derivatives |   | \$   | 11          | \$ 3               |

a No portion of the gain or (loss) was excluded from the assessment of hedge effectiveness for the periods then ended.

Derivatives Not Designated as Hedging Instruments under ASC 815-20

|                   | <b>Location of Gain or (Loss) Recognized<br/>in Income on Derivatives</b> | <b>Amount of Gain or (Loss) Recognized in<br/>Income on Derivatives</b> |             |                    |
|-------------------|---|---|-------------|--------------------|
|                   |   | <b>Successor</b>  |             | <b>Predecessor</b> |
|                   |   | <b>2010</b>   | <b>2009</b> |                    |
| Fuel Contracts    | Fuel expense  | \$  | 5           | \$ –               |
| Total derivatives |   | \$  | 5           | \$ –               |

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**

**The Effects of Derivative Instruments Gains and Losses for the Periods  
February 13 – September 30, 2010 (Successor), January 1 – February 12, 2010 (Predecessor)  
and the Nine Months Ended September 30, 2009 (Predecessor)**

Derivatives in ASC 815-20 Cash Flow Hedging Relationships

**Amount of Gain or (Loss) Recognized in OCI  
on Derivatives (Effective Portion)**

|                   | Successor | Predecessor                      |  |
|-------------------|-----------|----------------------------------|--|
|                   |           | January 1 –<br>February 12, 2010 | Nine Months<br>Ended September<br>30, 2009 |
| Fuel Contracts    | \$ 36     | \$ (79)                          | \$ 152                                     |
| Total derivatives | \$ 36     | \$ (79)                          | \$ 152                                     |

**Amount of Gain or (Loss) Recognized from  
AOCI into Income (Effective Portion)**

|                   | Location of Gain or<br>(Loss) Recognized from<br>AOCI into Income | Successor | Predecessor                      |  |
|-------------------|---|-----------|----------------------------------|--|
|                   |   |           | January 1 –<br>February 12, 2010 | Nine Months<br>Ended September<br>30, 2009 |
| Fuel Contracts    | Fuel expense  | \$ 14     | \$ (6)                           | \$ (204)                                   |
| Total derivatives |   | \$ 14     | \$ (6)                           | \$ (204)                                   |

**Amount of Gain or (Loss) Recognized in  
Income on Derivatives (Ineffective Portion and  
Amount Excluded from Effectiveness Testing)<sup>a</sup>**

|                   | Location of Gain or<br>(Loss) Recognized in<br>Income on Derivatives | Successor | Predecessor                      |  |
|-------------------|--|-----------|----------------------------------|--|
|                   |  |           | January 1 –<br>February 12, 2010 | Nine Months<br>Ended September<br>30, 2009 |
| Fuel Contracts    | Fuel expense   | \$ 12     | \$ (7)                           | \$ 19                                      |
| Total derivatives |  | \$ 12     | \$ (7)                           | \$ 19                                      |

a No portion of the gain or (loss) was excluded from the assessment of hedge effectiveness for the periods then ended.

Derivatives Not Designated as Hedging Instruments under ASC 815-20

**Amount of Gain or (Loss) Recognized in  
Income on Derivatives**

|                   | Location of Gain or<br>(Loss) Recognized in<br>Income on Derivatives | Successor | Predecessor                      |  |
|-------------------|--|-----------|----------------------------------|--|
|                   |  |           | January 1 –<br>February 12, 2010 | Nine Months<br>Ended September<br>30, 2009 |
| Fuel Contracts    | Fuel expense   | \$ 6      | \$ –                             | \$ –                                       |
| Total derivatives |  | \$ 6      | \$ –                             | \$ –                                       |

## BNSF RAILWAY COMPANY and SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)

As of September 30, 2010, the Company estimates that within the next twelve months approximately \$16 million in pre-tax hedge instrument gains will be reclassified from accumulated other comprehensive income into earnings.

#### **Fuel**

Fuel costs represented 24 percent, 26 percent and 22 percent of total operating expenses during the periods February 13 – September 30, 2010 (Successor), January 1 – February 12, 2010 (Predecessor), and the nine months ended September 30, 2009 (Predecessor), respectively. Due to the significance of diesel fuel expenses to the operations of BNSF Railway and the historical volatility of fuel prices, the Company has entered into derivatives to partially mitigate the risk of fluctuations in the price of its diesel fuel purchases. The fuel derivatives include the use of derivatives that are accounted for as cash flow hedges. The derivatives are intended to protect the Company's operating margins and overall profitability from adverse fuel price changes by entering into fuel-derivative instruments based on management's evaluation of current and expected diesel fuel price trends. However, to the extent the Company hedges portions of its fuel purchases, it may not realize the impact of decreases in fuel prices. Conversely, to the extent the Company does not hedge portions of its fuel purchases, it may be adversely affected by increases in fuel prices.

#### ***Total Fuel-Derivative Activities***

As of September 30, 2010, BNSF Railway's total fuel-derivative positions for the remainder of 2010, 2011, and 2012, of which the majority are designated as cash flow hedges, covered approximately 22 percent, 18 percent and 3 percent, respectively, of the average annual locomotive fuel consumption over the past three years. Derivative positions are closely monitored to ensure that they will not exceed actual fuel requirements in any period. As of September 30, 2010, and December 31, 2009, BNSF Railway had entered into fuel-derivative agreements covering approximately 359 million gallons and 561 million gallons, respectively.

Certain of the Company's fuel-derivative instruments are covered by an agreement which includes a provision such that the Company either receives or posts cash collateral if the fair value of the instruments exceeds a certain net asset or net liability threshold, respectively. The threshold is based on a sliding scale, utilizing either the counterparty's credit rating, if the instruments are in a net asset position, or BNSF's credit rating, if the instruments are in a net liability position. If the applicable credit rating should fall below Ba3 (Moody's) or BB- (S&P), the threshold would be eliminated and collateral would be required for the entire fair value amount. All cash collateral paid is held on deposit by the payee and earns interest to the benefit of the payor based on the London Interbank Offered Rate (LIBOR). The aggregate fair value of all open fuel-derivative instruments under these provisions was in a net liability position on September 30, 2010 and December 31, 2009, of \$10 million and \$18 million, respectively, which was below the collateral threshold. As such, there was no posted collateral outstanding at September 30, 2010 or December 31, 2009.

The Company utilizes a market approach using the forward commodity price for the periods hedged to value its fuel-derivative swaps and costless collars. As such, the fair values of these instruments are classified as Level 2 valuations under authoritative accounting guidance related to fair value measurements.

#### **4. Accounts Receivable, Net**

BNSF Railway transfers a portion of its accounts receivable to a wholly-owned subsidiary, Santa Fe Receivables Corporation (SFRC). SFRC transfers an undivided interest in such receivables, with limited exceptions, to a master trust and causes the trust to issue an undivided interest in the receivables to investors (the A/R sales program). The undivided interests in the master trust purchased by investors may be in the form of certificates or purchased interests. BNSF Railway retains the collection responsibility with respect to the accounts receivable transferred. The investors in the master trust have no recourse to BNSF Railway's other assets except for customary warranty and indemnity claims. Creditors of BNSF Railway have no recourse to the assets of the master trust or SFRC until after the creditors have been paid and SFRC and the master trust have been terminated.

## BNSF RAILWAY COMPANY and SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)

BNSF Railway's total capacity to sell undivided interests to investors under the A/R sales program was \$700 million at September 30, 2010, which was comprised of two \$175 million, 364-day accounts receivable facilities and two \$175 million, 3-year accounts receivable facilities. In November 2009, BNSF Railway extended the commitment termination date of the two 364-day facilities to November 2010. The two 3-year facilities were entered into in November 2007 and have a commitment termination date in November 2010. Each of the financial institutions providing credit for the facilities is rated Aa3/A+ or higher. The amount of undivided interests in the accounts receivable sold by BNSF Railway to investors fluctuates based on borrowing needs and upon the availability of receivables and is directly affected by changing business volumes and credit risks, which may, from time to time, reduce the effective capacity of the program to less than the \$700 million. Additionally, if the combined dilution and delinquency percentages exceed an established threshold, there would be an impact on the amount of undivided interest that BNSF Railway could sell. At September 30, 2010, the effective capacity under the A/R sales program was \$700 million.

As discussed in Note 1 to the Consolidated Financial Statements, on January 1, 2010, BNSF Railway prospectively adopted authoritative accounting guidance which amended accounting guidance related to transfers of assets and VIEs. The amended guidance also eliminated the concept of a QSPE.

At January 1, 2010, the A/R sales program master trust was considered a VIE as it does not retain sufficient equity to finance its activities without the support of BNSF Railway. BNSF Railway has a variable interest in the master trust as it absorbs any losses related to the receivables transferred in the event of default. BNSF Railway is the primary beneficiary of the VIE as it (1) directs the amount of undivided interest in receivables sold to investors by the master trust, and thus holds the power to direct the activities of the master trust that most significantly impact performance and (2) has the obligation to absorb the losses in the event of defaulted receivables, which could potentially be significant to the master trust. As the primary beneficiary of the master trust, BNSF Railway fully consolidated the master trust at January 1, 2010. The consolidation did not impact the Company's consolidated financial statements as there were no outstanding undivided interests held by investors under the A/R sales program at January 1, 2010. Prior to 2010, the A/R sales master trust was considered a QSPE and was not consolidated.

As of September 30, 2010 and December 31, 2009, there were no outstanding undivided interests held by investors under the A/R sales program; thus, no asset or related liability was recorded in the Company's Consolidated Balance Sheets. For the nine months ended September 30, 2009, \$50 million of cash flows related to the A/R sales program was classified as Operating Activities in the Consolidated Statement of Cash Flows. Upon adoption of the aforementioned guidance on January 1, 2010, any prospective activity will be classified as Financing Activities in the Consolidated Statements of Cash Flows. For the quarter ended September 30, 2010, there was no cash flow activity related to the A/R sales program.

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

At September 30, 2010 and December 31, 2009, \$19 million and \$21 million, respectively, of accounts receivable were greater than 90 days old.

BNSF Railway maintains an allowance for bill adjustments and uncollectible accounts based upon the expected collectibility of accounts receivable, including receivables transferred to the master trust. At September 30, 2010, and December 31, 2009, \$23 million and \$31 million, respectively, of such allowances had been recorded.

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**

**5. Goodwill and Other Intangible Assets and Liabilities**

During the periods February 13 – September 30, 2010 (Successor), January 1 – February 12, 2010 (Predecessor), and nine months ending September 30, 2009 (Predecessor), no impairment losses related to goodwill were incurred. As of September 30, 2010 and December 31, 2009, there were no accumulated impairment losses related to goodwill.

The changes in the carrying amount of goodwill were as follows (in millions):

|                   | <b>Successor</b>                            | <b>Predecessor</b>                       |   |
|-------------------|---|--|---|
|                   | <b>February 13 –<br/>September 30, 2010</b> | <b>January 1 –<br/>February 12, 2010</b> | <b>Nine Months Ended<br/>September 30, 2009</b> |
| Beginning balance | \$ –  | \$ –                                     | \$ –  |
| Additions         | 14,803                                      | –  | –   |
| Ending balance    | \$ 14,803                                   | \$ –                                     | \$ –  |

Amortized intangible assets and liabilities were as follows (in millions):

|                                  | <b>Successor</b>                 |                                     | <b>Predecessor</b>               |                                     |
|----------------------------------|----------------------------------|-------------------------------------|----------------------------------|-------------------------------------|
|                                  | <b>As of September 30, 2010</b>  |                                     | <b>As of December 31, 2009</b>   |                                     |
|                                  | <b>Gross Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Gross Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> |
| Amortized intangible assets      | \$ 2,013                         | \$ 204                              | \$ –                             | \$ –                                |
| Amortized intangible liabilities | \$ 2,056                         | \$ 191                              | \$ –                             | \$ –                                |

Amortized intangible assets primarily consisted of internally developed software and franchise & customer assets. Amortized intangible liabilities primarily consisted of customer and shortline contracts which were in an unfavorable position at the date of Merger.

Amortized intangible assets and liabilities are amortized either on a straight-line basis over their estimated economic lives or based on the pattern in which the economic benefits are consumed. The straight-line method of amortization reflects an appropriate allocation of the cost of the intangible net assets to earnings in proportion to the amount of economic benefits obtained annually by the Company.

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

|  | <b>Successor</b>                            | <b>Predecessor</b>                       |   |
|--|---|--|---|
|  | <b>February 13 –<br/>September 30, 2010</b> | <b>January 1 –<br/>February 12, 2010</b> | <b>Nine Months Ended<br/>September 30, 2009</b> |
| Amortization of intangible assets      | \$ 204                                      | \$ –                                     | \$ –  |
| Amortization of intangible liabilities | \$ 191                                      | \$ –                                     | \$ –  |

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**

Future amortization of intangible assets and liabilities is expected to approximate the following (in millions):

|                   | <u>Amortization of<br/>intangible assets</u> |    | <u>Amortization of<br/>intangible liabilities</u> |
|-------------------|--|----|---|
| Remainder of 2010 | \$ 77  | \$ | 75  |
| 2011              | \$ 307                                       | \$ | 293   |
| 2012              | \$ 307                                       | \$ | 282   |
| 2013              | \$ 307                                       | \$ | 252   |
| 2014              | \$ 307                                       | \$ | 179   |

**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% interest in the Partnership. The Partnership is a 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% 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. As of September 30, 2010, the assets of the unconsolidated Partnership totaled approximately \$740 million. 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 including an annual minimum return guarantee. The Company's maximum exposure to loss related to the Partnership is the unamortized investment balance. The following table provides information as of September 30, 2010 (in millions):

| <u>Unamortized<br/>investment balance<br/>classified as Other Assets</u> | <u>Remaining<br/>commitments classified<br/>as Other Liabilities</u> | <u>Maximum<br/>exposure to loss</u> |
|--|--|-------------------------------------|
| \$ 577   | \$ 148   | \$ 577                              |

Of the remaining commitments, \$130 million is due at the end of 2012 and \$18 million is due at the end of 2013.

**7. Debt**

**Capital Leases**

During the periods February 13 – September 30, 2010 (Successor), and January 1 – February 12, 2010 (Predecessor), BNSF Railway entered into capital leases totaling \$29 million and \$8 million, respectively to finance maintenance of way and other vehicles/equipment with lease terms of five to seven years.

**Fair Value of Debt Instruments**

At September 30, 2010, and December 31, 2009, the fair value of BNSF Railway's debt, excluding capital leases, was \$984 million and \$936 million, respectively, while the book value was \$909 million and \$864 million, respectively. The fair value of BNSF Railway's debt is primarily based on quoted market prices for the same or similar issues, or on the current rates that would be offered to BNSF Railway for debt of the same remaining maturities.

**Guarantees**

As of September 30, 2010, 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.

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**

Debt and other obligations of non-consolidated entities guaranteed by the Company as of September 30, 2010, were as follows (dollars in millions):

|   | <b>Guarantees</b>                                    |  |  |  |   |                                    |
|---|--|--|--|--|---|------------------------------------|
|   | <b>BNSF<br/>Railway<br/>Ownership<br/>Percentage</b> | <b>Principal<br/>Amount<br/>Guaranteed</b> | <b>Maximum<br/>Future<br/>Payments</b> | <b>Maximum<br/>Recourse<br/>Amount<sup>a</sup></b> | <b>Remaining<br/>Term<br/>(in years)<br/>Termination of<br/>Ownership</b> | <b>Capitalized<br/>Obligations</b> |
| Kinder Morgan Energy Partners, L.P.<br>Chevron Phillips<br>Chemical Company, LP | 0.5%   | \$ 190                                     | \$ 190                                 | \$ –   |   | \$ 2 <sup>b</sup>                  |
|   | 0.0%   | N/A <sup>d</sup>                           | N/A <sup>d</sup>                       | N/A <sup>d</sup>                                   | 7   | \$ 11 <sup>c</sup>                 |
| All other   | 0.0%   | \$ 2                                       | \$ 2                                   | \$ –   | Various   | \$ –                               |

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 Sheet.

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 Pipelines 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***

In the third quarter of 2007, BNSF Railway entered into 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 new 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.

***All Other***

As of September 30, 2010, BNSF Railway guaranteed \$2 million of other debt and leases. These guarantees expire between 2011 and 2013.

## BNSF RAILWAY COMPANY and SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)

#### *Indemnities*

In the ordinary course of business, BNSF Railway enters into agreements with third parties that include indemnification clauses. In general, these clauses are 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. Due to the uncertainty of 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 contain 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**

As discussed in Note 1 to the Consolidated Financial Statements, on January 1, 2010, BNSF Railway prospectively adopted authoritative accounting guidance which amended accounting guidance related to VIEs.

BNSF Railway has entered into various equipment lease transactions in which the structure of the lease contains VIEs. 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 equipment 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 \$5 billion as of September 30, 2010.

In the event the leased equipment is destroyed, BNSF Railway is obligated to either replace the equipment or pay a fixed loss amount. The inclusion of the fixed loss amount is a standard clause within equipment 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 equipment 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 equipment. 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 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 VIE leases are classified as operating leases, there are no assets or liabilities related to the VIEs recorded in the Company's Consolidated Balance Sheet.

## BNSF RAILWAY COMPANY and SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)

#### 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. A few proceedings 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.

Other than the fair value adjustments recorded in the application of acquisition method accounting, as discussed in Note 2 to the Consolidated Financial Statements, 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 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.

During the third quarters of 2010 and 2009, the Company analyzed recent filing and payment trends to ensure the assumptions used by BNSF Railway to estimate its future asbestos liability were reasonable. In the third quarters of 2010 and 2009, management determined that the liability remained appropriate and no change was recorded. The Company plans to update its study again in the third quarter of 2011.

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 55, 75 and 90 percent of the future unasserted asbestos claims will be filed within the next 10, 15 and 25 years, respectively.

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**

***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 revised estimates develop.

The following tables summarize the activity in the Company's accrued obligations for personal injury matters (in millions):

|                       | <b>Three Months Ended September 30,</b> |                    |
|-----------------------|---|--------------------|
|                       | <b>Successor</b>                        | <b>Predecessor</b> |
|                       | <b>2010</b>                             | <b>2009</b>        |
| Beginning balance     | \$ 626                                  | \$ 680             |
| Accruals              | 4                                       | 22                 |
| Payments              | (23)                                    | (31)               |
| <b>Ending balance</b> | <b>\$ 607</b>                           | <b>\$ 671</b>      |

|                       | <b>Successor</b>                            | <b>Predecessor</b>                       |   |
|-----------------------|---|--|---|
|                       | <b>February 13 –<br/>September 30, 2010</b> | <b>January 1 –<br/>February 12, 2010</b> | <b>Nine Months Ended<br/>September 30, 2009</b> |
|                       | Beginning balance                           | \$ 664                                   | \$ 632  |
| Accruals              | 18  | 10                                       | 76  |
| Payments              | (75)  | (9)                                      | (98)  |
| <b>Ending balance</b> | <b>\$ 607</b>                               | <b>\$ 633</b>                            | <b>\$ 671</b>                                   |

At September 30, 2010, \$135 million was included in current liabilities. In addition, 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 \$545 million to \$715 million. However, BNSF Railway believes that the \$607 million recorded 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.

While 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 RAILWAY COMPANY and SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)

#### *BNSF Insurance Company*

Burlington Northern Santa Fe Insurance Company, Ltd. (BNSF IC), a wholly owned subsidiary of BNSF, provides insurance coverage for certain risks, FELA claims, railroad protective, force account insurance claims and certain excess general liability coverage, and certain other claims which are subject to reinsurance. BNSF IC wrote insurance coverage premiums totaling \$18 million during the period of February 13 – September 30, 2010 (Successor). During the periods of January 1 – February 12, 2010 (Predecessor), and the nine months ended September 30, 2009 (Predecessor), BNSF IC wrote insurance coverage with premiums totaling \$116 million and \$154 million, respectively, for BNSF Railway, net of reimbursements from third parties. During this same time, BNSF Railway recognized \$85 million, \$16 million and \$116 million, respectively, in expense related to those premiums, which is classified as purchased services in the Consolidated Statements of Income. At September 30, 2010, unamortized premiums remaining on the Consolidated Balance Sheet were \$37 million. During the periods of February 13 – September 30, 2010 (Successor), January 1 – February 12, 2010 (Predecessor), and the nine months ended September 30, 2009 (Predecessor), BNSF IC made claim payments totaling \$41 million, \$11 million and \$87 million, respectively, for settlement of covered claims. At September 30, 2010 and December 31, 2009, receivables from BNSF IC for claims paid were \$5 million and \$6 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.

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 historical payment patterns, current estimated percentage to closure ratios 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.

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 participation in, and the ability to pay for, cleanup of other PRPs. 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.

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**

During the third quarters of 2010 and 2009, the Company analyzed recent data and trends to ensure the assumptions used by BNSF Railway to estimate its future environmental liability were reasonable. As a result of this study, in the third quarters of 2010 and 2009, management recorded additional expense of approximately \$73 million and \$25 million as of the respective June 30 measurement dates. The Company plans to update its study again in the third quarter of 2011.

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 September 30, 2010, is approximately \$10 million.

BNSF Railway is involved in a number of administrative and judicial proceedings and other mandatory cleanup efforts for 288 sites, including 19 Superfund sites, at which it is participating in the study or cleanup, or both, of alleged environmental contamination.

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

|                   | <b>Three Months Ended September 30,</b> |                    |
|-------------------|---|--------------------|
|                   | <b>Successor</b>                        | <b>Predecessor</b> |
|                   | <b>2010</b>                             | <b>2009</b>        |
| Beginning balance | \$ 493                                  | \$ 529             |
| Accruals          | 37                                      | 32                 |
| Payments          | (26)                                    | (24)               |
| Ending balance    | \$ 504                                  | \$ 537             |

|                | <b>Successor</b>                            | <b>Predecessor</b>                       |   |
|----------------|---|--|---|
|                | <b>February 13 –<br/>September 30, 2010</b> | <b>January 1 –<br/>February 12, 2010</b> | <b>Nine Months Ended<br/>September 30, 2009</b> |
|                | Beginning balance                           | \$ 514                                   | \$ 517  |
| Accruals       | 43  | 6  | 60  |
| Payments       | (53)  | (9)                                      | (69)  |
| Ending balance | \$ 504                                      | \$ 514                                   | \$ 537  |

At September 30, 2010, \$90 million was included in current liabilities.

In 2008, the Company completed an analysis of its Montana sites to determine its legal exposure related to the potential effect of a Montana Supreme Court decision. The decision, which did not involve BNSF Railway, held that restoration damages (damages equating to clean-up costs which are intended to return property to its original condition) may be awarded under certain circumstances even where such damages may exceed the property's actual value. The legal situation in Montana, the increase in the number of claims against BNSF Railway and others resulting from this decision, and the completion of the analysis caused BNSF Railway to record additional pre-tax environmental expenses of \$175 million for environmental liabilities primarily related to the effect of the aforementioned Montana Supreme Court decision on certain of BNSF Railway's Montana sites. In the third quarter of 2010, additional test results and negotiations with various parties at certain sites resulted in a reduction in expense of approximately \$40 million.

BNSF Railway's environmental liabilities are not discounted. BNSF Railway anticipates that the majority of the accrued costs at September 30, 2010, will be paid over the next ten years, and no individual site is considered to be material.

## BNSF RAILWAY COMPANY and SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)

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 \$375 million to \$800 million. However, BNSF Railway believes that the \$504 million recorded at September 30, 2010, is the best estimate of the Company's future obligation for environmental costs.

While 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 a few proceedings 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, 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, 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.

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**

**9. Employment Benefit Plans**

Components of the net cost for the periods presented below were as follows (in millions):

| <b>Net Cost</b>                | <b>Pension Benefits</b>                 |                    |
|--------------------------------|---|--------------------|
|                                | <b>Three Months Ended September 30,</b> |                    |
|                                | <b>Successor</b>                        | <b>Predecessor</b> |
|                                | <b>2010</b>                             | <b>2009</b>        |
| Service cost                   | \$ 8                                    | \$ 7               |
| Interest cost                  | 27                                      | 25                 |
| Expected return on plan assets | (34)                                    | (27)               |
| Amortization of net loss       | –                                       | 7                  |
| Net cost recognized            | \$ 1                                    | \$ 12              |

| <b>Net Cost</b>                | <b>Pension Benefits</b>                         |  |   |
|--------------------------------|---|--|---|
|                                | <b>Successor</b>                                | <b>Predecessor</b>                           |   |
|                                | <b>February 13 –<br/>September 30,<br/>2010</b> | <b>January 1 –<br/>February 12,<br/>2010</b> | <b>Nine Months<br/>Ended September<br/>30, 2009</b> |
| Service cost                   | \$ 20   | \$ 3   | \$ 21   |
| Interest cost                  | 68  | 12   | 76  |
| Expected return on plan assets | (74)  | (14)   | (80)  |
| Amortization of net loss       | –   | 4  | 19  |
| Net cost recognized            | \$ 14   | \$ 5   | \$ 36   |

| <b>Net Cost</b>                      | <b>Retiree Health and<br/>Welfare Benefits</b> |                    |
|--------------------------------------|--|--------------------|
|                                      | <b>Three Months Ended September 30,</b>        |                    |
|                                      | <b>Successor</b>                               | <b>Predecessor</b> |
|                                      | <b>2010</b>                                    | <b>2009</b>        |
| Service cost                         | \$ –   | \$ 1               |
| Interest cost                        | 4  | 4                  |
| Amortization of prior service credit | –  | (1)                |
| Net cost recognized                  | \$ 4   | \$ 4               |

| <b>Net Cost</b>                      | <b>Retiree Health and Welfare Benefits</b>      |  |   |
|--------------------------------------|---|--|---|
|                                      | <b>Successor</b>                                | <b>Predecessor</b>                           |   |
|                                      | <b>February 13 –<br/>September 30,<br/>2010</b> | <b>January 1 –<br/>February 12,<br/>2010</b> | <b>Nine Months<br/>Ended September<br/>30, 2009</b> |
| Service cost                         | \$ 1  | \$ –   | \$ 2  |
| Interest cost                        | 9   | 2  | 11  |
| Amortization of net loss             | –   | –  | 1   |
| Amortization of prior service credit | –   | –  | (4)   |
| Net cost recognized                  | \$ 10   | \$ 2   | \$ 10   |

In the second quarter of 2010, the Company made a voluntary contribution of \$400 million to BNSF's qualified pension plan. The Company is not required to make any additional contributions to BNSF's qualified pension plan in 2010.

## BNSF RAILWAY COMPANY and SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)

#### 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 \$348 million and \$443 million during periods of February 13 – September 30, 2010 and the nine months ended September 30, 2009, respectively, which are reflected in changes in working capital in the Consolidated Statement of Cash Flows. BNSF Railway did not make any federal and state income tax payments during the period January 1 – February 12, 2010.

At September 30, 2010 and December 31, 2009, BNSF Railway had \$115 million and \$43 million, respectively, of intercompany receivables which are reflected in accounts receivable in the respective Consolidated Balance Sheets. At September 30, 2010 and December 31, 2009, BNSF Railway had \$39 million and \$66 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 September 30, 2010 and December 31, 2009, BNSF Railway had \$1,734 million and \$948 million, respectively, of intercompany notes receivable from BNSF. During the periods of February 13 – September 30, 2010 and January 1 – February 12, 2010, loans to BNSF were \$1,379 million and \$7 million, respectively, partially offset by repayments received of \$483 million and \$117 million during the periods of February 13 – September 30, 2010 and January 1 – February 12, 2010, respectively. 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 earned revenues of \$25 million, \$3 million and \$25 million during periods of February 13 – September 30, 2010, January 1 – February 12, 2010 and the nine months ended September 30, 2009, respectively, for transportation services provided to BNSF Logistics by BNSF Railway. Additionally, BNSF Railway purchased truck transportation services for the Company's materials and supplies from BNSF Logistics of \$17 million, \$3 million and \$18 million during periods of February 13 – September 30, 2010, January 1 – February 12, 2010 and the nine months ended September 30, 2009, which are classified as purchased services in the Consolidated Statements of Income.

Prior to the Merger of BNSF, under various stock incentive plans, BNSF granted options to BNSF Railway employees to purchase its common stock at a price not less than the fair market value at the date of grant. Certain employees of BNSF Railway also participated in BNSF's other long-term incentive plans including, among other things, restricted stock and a discounted stock purchase program.

#### 11. Comprehensive Income

Other comprehensive income refers to revenues, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income, a component of stockholder's 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 and accounting for derivative financial instruments, which qualify for cash flow hedge accounting.

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**

The following tables provide reconciliations of net income reported in the Consolidated Statements of Income to total comprehensive income (in millions):

|   | <b>Three Months Ended September 30,</b> |                    |
|---|---|--------------------|
|   | <b>Successor</b>                        | <b>Predecessor</b> |
|   | <b>2010</b>                             | <b>2009</b>        |
| Net income  | \$ 774                                  | \$ 546             |
| Other comprehensive income:   |   |                    |
| Change in unrecognized prior service credit and actuarial losses, net of tax (see Note 9) | –                                       | 3                  |
| Change in fuel/interest hedge mark-to-market, net of tax (see Note 3)                     | 17                                      | 8                  |
| Change in other comprehensive income of equity method investees                           | (1)                                     | 1                  |
| <b>Total comprehensive income</b>   | <b>\$ 790</b>                           | <b>\$ 558</b>      |

|   | <b>Successor</b>                            | <b>Predecessor</b>                       |   |
|---|---|--|---|
|   | <b>February 13 –<br/>September 30, 2010</b> | <b>January 1 –<br/>February 12, 2010</b> | <b>Nine Months<br/>Ended September<br/>30, 2009</b> |
|   | Net income                                  | \$ 1,771                                 | \$ 282  |
| Other comprehensive income:   |   |  |   |
| Change in unrecognized prior service credit and actuarial losses, net of tax (see Note 9) | –   | 2  | 9   |
| Change in fuel/interest hedge mark-to-market, net of tax (see Note 3)                     | 14  | (45)                                     | 208   |
| Change in other comprehensive income of equity method investees                           | (1)   | 2  | 1   |
| <b>Total comprehensive income</b>   | <b>\$ 1,784</b>                             | <b>\$ 241</b>                            | <b>\$ 1,612</b>                                     |

The following table provides the components of accumulated other comprehensive income (in millions):

|   | <b>Successor</b>              | <b>Predecessor</b>           |
|---|-------------------------------|------------------------------|
|   | <b>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
| Unrecognized prior service credit and actuarial losses, net of tax (see Note 9) | \$ –                          | \$ (500)                     |
| Fuel/interest hedge mark-to-market, net of tax (see Note 3)                     | 14                            | 5                            |
| Accumulated other comprehensive loss of equity method investees                 | (1)                           | (6)                          |
| <b>Total accumulated other comprehensive income (loss)</b>                      | <b>\$ 13</b>                  | <b>\$ (501)</b>              |

## Item 2. Management's Narrative Analysis of Results of Operations.

Management's narrative analysis relates to the results of operations of BNSF Railway Company and its majority-owned subsidiaries (collectively BNSF Railway, Registrant or the Company). The following narrative analysis should be read in conjunction with the Consolidated Financial Statements and the accompanying notes.

Berkshire's cost of acquiring BNSF has been pushed-down to establish a new accounting basis for BNSF. In turn, BNSF's basis in BNSF Railway has been pushed-down to establish a new accounting basis in BNSF Railway. Accordingly, the accompanying interim consolidated financial statements are presented for two periods, Predecessor and Successor, which relate to the accounting periods preceding and succeeding the completion of the Merger. The Predecessor and Successor periods have been separated by a vertical line on the face of the consolidated financial statements to highlight the fact that the financial information for such periods has been prepared under two different historical-cost bases of accounting. The following narrative analysis of results of operations includes a brief discussion of the factors that materially affected the Company's operating results in the Predecessor period of January 1 – February 12, 2010, and a comparative analysis of the Successor period of February 13 – September 30, 2010 and the Predecessor period of the nine months ended September 30, 2009.

### Results of Operations

#### Revenues Summary

The following tables present BNSF Railway's revenue information by business group:

|                          | Revenues (in millions)                 |                                     |   | Cars / Units (in thousands)            |                                     |   |
|--------------------------|--|-------------------------------------|---|--|-------------------------------------|---|
|                          | Successor                              | Predecessor                         |   | Successor                              | Predecessor                         |   |
|                          | February 13 –<br>September 30,<br>2010 | January 1 –<br>February 12,<br>2010 | Nine Months<br>Ended<br>September 30,<br>2009 | February 13 –<br>September 30,<br>2010 | January 1 –<br>February 12,<br>2010 | Nine Months<br>Ended<br>September 30,<br>2009 |
| Consumer Products        | \$ 3,159                               | \$ 515                              | \$ 3,176                                      | 2,713                                  | 453                                 | 2,912   |
| Coal                     | 2,734                                  | 442                                 | 2,678   | 1,522                                  | 259                                 | 1,820   |
| Industrial Products      | 2,230                                  | 352                                 | 2,152   | 908                                    | 139                                 | 888   |
| Agricultural Products    | 2,115                                  | 417                                 | 2,012   | 651                                    | 126                                 | 686   |
| Total Freight Revenues   | 10,238                                 | 1,726                               | 10,018  | 5,794                                  | 977                                 | 6,306   |
| Other Revenues           | 160                                    | 42                                  | 189   |  |                                     |   |
| Total Operating Revenues | \$ 10,398                              | \$ 1,768                            | \$ 10,207                                     |  |                                     |   |

|                        | Average Revenue Per Car / Unit         |                                     |   |
|------------------------|--|-------------------------------------|---|
|                        | Successor                              | Predecessor                         |   |
|                        | February 13 –<br>September 30,<br>2010 | January 1 –<br>February 12,<br>2010 | Nine Months<br>Ended<br>September 30,<br>2009 |
| Consumer Products      | \$ 1,164                               | \$ 1,137                            | \$ 1,091                                      |
| Coal                   | 1,796                                  | 1,707                               | 1,471   |
| Industrial Products    | 2,456                                  | 2,532                               | 2,423   |
| Agricultural Products  | 3,249                                  | 3,310                               | 2,933   |
| Total Freight Revenues | \$ 1,767                               | \$ 1,767                            | \$ 1,589                                      |

#### Fuel Surcharges

Freight revenues include both revenue for transportation services and fuel surcharges. BNSF Railway's fuel surcharge program is intended to recover its incremental fuel costs when fuel prices exceed a threshold fuel price. Fuel surcharges are calculated differently depending on the type of commodity transported. In certain commodities, fuel surcharge is calculated using a fuel price from a time period that can be up to 60 days earlier. In a period of volatile fuel prices or changing customer business mix, changes in fuel expense and fuel surcharge may differ significantly.

The following table presents fuel surcharge and fuel expense information (in millions):

|                                 | Successor                              | Predecessor                         |   |
|---------------------------------|--|-------------------------------------|---|
|                                 | February 13 –<br>September 30,<br>2010 | January 1 –<br>February 12,<br>2010 | Nine Months<br>Ended<br>September 30,<br>2009 |
| Total fuel expense <sup>a</sup> | \$ 1,840                               | \$ 329                              | \$ 1,729                                      |
| BNSF Railway fuel surcharges    | \$ 1,230                               | \$ 192                              | \$ 859  |

a Total fuel expense includes locomotive and non-locomotive fuel as well as gains and losses from fuel derivatives, which do not impact the fuel surcharge program.

**Predecessor Period of January 1 – February 12, 2010**

Significant changes in the underlying trends affecting the Company’s revenues and expenses during the Predecessor period of January 1 – February 12, 2010, were as follows:

- Sale of a line segment in the State of Washington was completed, resulting in a gain to materials and other expenses of \$74 million.

**Successor Period of February 13 – September 30, 2010 vs Predecessor Period of the Nine Months Ended September 30, 2009**

**Revenues**

Revenues for the period of February 13 – September 30, 2010, were \$10,398 million, up 2 percent compared with the nine months ended September 30, 2009. The increase in revenues is partially offset due to comparing operating results for a 230-day period to one consisting of 273 days, which primarily caused the 8-percent decrease in unit volumes. The following changes in underlying trends, based on a comparable number of days, also impacted the change in revenues:

- Consumer Products revenues included improvements in international intermodal, domestic intermodal and automotive unit volumes, as well as improved yields.
- Coal revenues reflected improved yields on flat volumes. The first nine months of 2009 included a \$66 million loss in excess of amounts previously accrued related to an unfavorable coal rate case decision during the first quarter of 2009, partially offset by a \$22 million favorable coal rate case decision.
- Industrial Products revenues included increased unit volumes primarily due to increased demand in construction products.
- Agricultural Products revenues reflected higher unit volumes due to increased grain shipments and improved fertilizer and ethanol loadings, as well as improved yields.
- Increased fuel surcharges per unit, primarily due to increased fuel prices, impacted revenue in each of the business units.

## Expenses

Operating expenses for the period of February 13 – September 30, 2010, were \$7,568 million, a decrease of \$296 million, or 4 percent, from the first nine months in 2009. The majority of this decrease is due to comparing expenses for a 230-day period to one consisting of 273 days. The following changes in underlying trends, based on a comparable number of days, also impacted the change in operating expenses:

- Increased unit volumes, wage inflation, higher health and welfare expenses, merger-related stock-based compensation adjustments and improved performance against targets related to incentive compensation and profit sharing, which cover all non-union and about one quarter of union employees, all contributed to increased compensation and benefits expenses.
- Higher fuel prices increased fuel expenses, partially offset by a higher loss from closed fuel derivatives in the first nine months of 2009.
- New intangible asset amortization resulting from the application and amortization of acquisition method accounting increased depreciation and amortization expenses.
- Higher volume-related costs increased purchased services expenses.
- There were no significant changes in the underlying trends for materials and other expenses or equipment rents expenses.
- Interest expense included the impact of merger-related adjustments resulting from the application of acquisition method accounting, which decreased the expense. In the first nine months of 2009, interest expense included \$8 million of expense related to an unfavorable coal rate case decision. Favorable tax settlements also impacted interest expense for the first nine months of 2009.
- The effective tax rate for the period of February 13 – September 30, 2010, was 36.2 percent, compared with 38.0 percent for the nine months ended September 30, 2009.

## **Forward-Looking Information**

To the extent that statements made by the Company relate to the Company's future economic performance or business outlook, projections or expectations of financial or operational results, or refer to matters that are not historical facts, such statements are "forward-looking" statements within the meaning of the federal securities laws.

Forward-looking statements involve a number of risks and uncertainties, and actual performance or results may differ materially. For a discussion of material risks and uncertainties that the Company faces, see the discussion in the Annual Report on Form 10-K titled "Risk Factors." Important factors that could cause actual results to differ materially include, but are not limited to, the following:

- **Economic and industry conditions:** material adverse changes in economic or industry conditions, both in the United States and globally; volatility in the capital or credit markets including changes affecting the timely availability and cost of capital; changes in customer demand, effects of adverse economic conditions affecting shippers or BNSF Railway's supplier base, and effects due to more stringent regulatory policies such as the regulation of carbon dioxide emissions that could reduce the demand for coal or governmental tariffs or subsidies that could affect the demand for grain, changes in fuel prices and other key materials and disruptions in supply chains for these materials; competition and consolidation within the transportation industry; and changes in crew availability, labor and benefits costs and labor difficulties, including stoppages affecting either BNSF Railway's operations or customers' abilities to deliver goods to BNSF Railway for shipment;

- **Legal, legislative and regulatory factors:** developments and changes in laws and regulations, including those affecting train operations or the marketing of services; the ultimate outcome of shipper and rate claims subject to adjudication or claims; investigations or litigation alleging violations of the antitrust laws; increased economic regulation of the rail industry through legislative action and revised rules and standards applied by the U.S. Surface Transportation Board in various areas including rates and services; developments in environmental investigations or proceedings with respect to rail operations or current or past ownership or control of real property or properties owned by others impacted by BNSF Railway operations; losses resulting from claims and litigation relating to personal injuries, asbestos and other occupational diseases; the release of hazardous materials, environmental contamination and damage to property; regulation, restrictions or caps, or other controls of diesel emissions that could affect operations or increase costs; the availability of adequate insurance to cover the risks associated with operations; and

- **Operating factors:** changes in operating conditions and costs; operational and other difficulties in implementing positive train control technology, including increased compliance or operational costs; restrictions on development and expansion plans due to environmental concerns; constraints due to the nation's aging infrastructure; disruptions to BNSF Railway's technology network including computer systems and software, as well as natural events such as severe weather, fires, floods and earthquakes or man-made or other disruptions of BNSF Railway's or other railroads' operating systems, structures, or equipment including the effects of acts of terrorism on the Company's system or other railroads' systems or other links in the transportation chain.

The Company cautions against placing undue reliance on forward-looking statements, which reflect its current beliefs and are based on information currently available to it as of the date a forward-looking statement is made. The Company undertakes no obligation to revise forward-looking statements to reflect future events, changes in circumstances, or changes in beliefs. In the event the Company does update any forward-looking statement, no inference should be made that the Company will make additional updates with respect to that statement, related matters, or any other forward-looking statements.

**Item 4. Controls and Procedures.**

Based on their evaluation as of the end of the period covered by this quarterly report on Form 10-Q, BNSF Railway's principal executive officer and principal financial officer have concluded that BNSF Railway's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) are effective to ensure that information required to be disclosed by BNSF Railway in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms and that such information is accumulated and communicated to BNSF Railway's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Additionally, as of the end of the period covered by this report, BNSF Railway's principal executive officer and principal financial officer have concluded that there have been no changes in BNSF Railway's internal control over financial reporting that occurred during BNSF Railway's third fiscal quarter that have materially affected, or are reasonably likely to materially affect, BNSF Railway's internal control over financial reporting.

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

**PART II OTHER INFORMATION**

**Item 6. Exhibits.**

See Index to Exhibits on page E-1 for a description of the exhibits filed as part of this report.

**SIGNATURES**

**Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.**

BNSF Railway Company  
(Registrant)

By: \_\_\_\_\_ /s/ Thomas N. Hund

**Thomas N. Hund**  
**Executive Vice President and Chief Financial Officer**  
**(On behalf of the Registrant and**  
**as principal financial officer)**

Date: November 5, 2010

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

**Exhibit Index**

|      | <u>Exhibit Number and Description</u>  | <u>Incorporated by Reference<br/>(if applicable)</u> |                  |                 |                |
|------|--|--|------------------|-----------------|----------------|
|      |  | <u>Form</u>  | <u>File Date</u> | <u>File No.</u> | <u>Exhibit</u> |
| 3.1  | Restated Certificate of Incorporation of BNSF Railway Company, dated January 17, 2005.                   | 10-Q   | 7/26/2005        | 001-06324       | 3.1            |
| 3.2  | By-Laws of BNSF Railway Company, as amended August 30, 2005.   | 10-Q   | 10/25/2005       | 001-06324       | 3.1            |
| 12.1 | Computation of Ratio of Earnings to Fixed Charges.*  |  |                  |                 |                |
| 31.1 | Principal Executive Officer's Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |  |                  |                 |                |
| 31.2 | Principal Financial Officer's Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |  |                  |                 |                |
| 32.1 | Certification Pursuant to 18 U.S.C. § 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).*             |  |                  |                 |                |

\_\_\_\_\_  
\*Filed herewith

**BNSF RAILWAY COMPANY and SUBSIDIARIES**  
**COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES**  
(In millions, except ratio amounts)  
(Unaudited)

|   | Successor                           | Predecessor                      |  |
|---|-------------------------------------|----------------------------------|--|
|   | February 13 –<br>September 30, 2010 | January 1 –<br>February 12, 2010 | Nine Months<br>Ended<br>September 30, 2009 |
| Earnings:   |                                     |                                  |  |
| Income before income taxes  | \$ 2,778                            | \$ 482                           | \$ 2,248                                   |
| Add:  |                                     |                                  |  |
| Interest and other fixed charges, excluding capitalized interest  | 55                                  | 16                               | 92   |
| Reasonable approximation of portion of rent under long-term operating leases representative of an interest factor | 163                                 | 35                               | 204  |
| Distributed income of investees accounted for under the equity method   | 4                                   | –                                | 4  |
| Amortization of capitalized interest  | –                                   | 1                                | 3  |
| Less:   |                                     |                                  |  |
| Equity in earnings of investments accounted for under the equity method   | 15                                  | 1                                | 7  |
| Total earnings available for fixed charges  | \$ 2,985                            | \$ 533                           | \$ 2,544                                   |
| Fixed charges:  |                                     |                                  |  |
| Interest and fixed charges  | \$ 64                               | \$ 17                            | \$ 106                                     |
| Reasonable approximation of portion of rent under long-term operating leases representative of an interest factor | 163                                 | 35                               | 204  |
| Total fixed charges   | \$ 227                              | \$ 52                            | \$ 310                                     |
| Ratio of earnings to fixed charges  | 13.15x                              | 10.25x                           | 8.21x                                      |

**Principal Executive Officer's Certifications  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Matthew K. Rose, certify that:

1. I have reviewed this quarterly report on Form 10-Q of BNSF Railway Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods covered by this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2010

/s/ Matthew K. Rose  
Matthew K. Rose  
Chairman and  
Chief Executive Officer

**Principal Financial Officer's Certifications  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Thomas N. Hund, certify that:

1. I have reviewed this quarterly report on Form 10-Q of BNSF Railway Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods covered by this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2010

/s/ Thomas N. Hund  
Thomas N. Hund  
Executive Vice President and  
Chief Financial Officer

**Certification Pursuant to 18 U.S.C. § 1350**  
(Section 906 of the Sarbanes-Oxley Act of 2002)

**BNSF Railway Company**

In connection with the Quarterly Report of BNSF Railway Company (the "Company") on Form 10-Q for the period ended September 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Matthew K. Rose, Chairman and Chief Executive Officer of the Company, and Thomas N. Hund, Executive Vice President and Chief Financial Officer of the Company, each hereby certifies that, to his knowledge on the date hereof:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 5, 2010

/s/ Matthew K. Rose

**Matthew K. Rose**  
**Chairman and Chief Executive Officer**

/s/ Thomas N. Hund

**Thomas N. Hund**  
**Executive Vice President and Chief Financial Officer**

A signed original of this written statement required by Section 906 has been provided to BNSF Railway Company and will be retained by BNSF Railway Company and furnished to the Securities and Exchange Commission or its staff upon request.