



BNSF RAILWAY COMPANY
Consolidated Financial Statements
for the period ended June 30, 2019

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------------------------|-----------------------------|----------|---------------------------|-----------|
| | 2019 | 2018 | 2019 | 2018 |
| Revenues | \$ 5,693 | \$ 5,664 | \$ 11,259 | \$ 11,096 |
| Operating expenses: | | | | |
| Compensation and benefits | 1,314 | 1,311 | 2,694 | 2,610 |
| Fuel | 775 | 830 | 1,486 | 1,597 |
| Depreciation and amortization | 592 | 573 | 1,180 | 1,141 |
| Purchased services | 528 | 537 | 1,086 | 1,071 |
| Equipment rents | 187 | 167 | 378 | 359 |
| Materials and other | 286 | 363 | 646 | 697 |
| Total operating expenses | 3,682 | 3,781 | 7,470 | 7,475 |
| Operating income | 2,011 | 1,883 | 3,789 | 3,621 |
| Interest expense | 15 | 12 | 30 | 24 |
| Interest income, related parties | (233) | (149) | (452) | (271) |
| Other (income) expense, net | (20) | (19) | (164) | (36) |
| Income before income taxes | 2,249 | 2,039 | 4,375 | 3,904 |
| Income tax expense | 549 | 436 | 1,074 | 892 |
| Net income | \$ 1,700 | \$ 1,603 | \$ 3,301 | \$ 3,012 |

See accompanying Notes to Consolidated Financial Statements.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|-----------------|---------------------------|-----------------|
| | 2019 | 2018 | 2019 | 2018 |
| Net income | \$ 1,700 | \$ 1,603 | \$ 3,301 | \$ 3,012 |
| Other comprehensive income: | | | | |
| Change in pension and retiree health and welfare benefits, net of tax | — | — | 63 | — |
| Change in accumulated other comprehensive income (loss) of equity method investees | — | — | (1) | 1 |
| Other comprehensive income (loss), net of tax | — | — | 62 | 1 |
| Total comprehensive income | \$ 1,700 | \$ 1,603 | \$ 3,363 | \$ 3,013 |

See accompanying Notes to Consolidated Financial Statements.

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

| | June 30, 2019 | December 31, 2018 |
|--|------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 100 | \$ 513 |
| Accounts receivable, net | 1,875 | 1,784 |
| Materials and supplies | 784 | 793 |
| Other current assets | 183 | 297 |
| Total current assets | 2,942 | 3,387 |
| Property and equipment, net of accumulated depreciation of \$11,180 and \$9,981, respectively | 63,512 | 63,147 |
| Goodwill | 14,803 | 14,803 |
| Operating lease right-of-use assets | 2,512 | — |
| Intangible assets, net of accumulated amortization of \$291 and \$276, respectively | 346 | 361 |
| Other assets | 2,447 | 2,257 |
| Total assets | \$ 86,562 | \$ 83,955 |
| LIABILITIES AND STOCKHOLDER'S EQUITY | | |
| Current liabilities: | | |
| Accounts payable and other current liabilities | \$ 3,640 | \$ 3,082 |
| Long-term debt due within one year | 125 | 80 |
| Total current liabilities | 3,765 | 3,162 |
| Deferred income taxes | 14,134 | 13,875 |
| Operating lease liabilities | 1,706 | — |
| Long-term debt | 1,191 | 1,269 |
| Casualty and environmental liabilities | 494 | 486 |
| Intangible liabilities, net of accumulated amortization of \$1,036 and \$1,022, respectively | 367 | 381 |
| Pension and retiree health and welfare liability | 274 | 267 |
| Other liabilities | 1,007 | 1,019 |
| Total liabilities | 22,938 | 20,459 |
| Commitments and contingencies (see Notes 5 and 6) | | |
| Stockholder's equity: | | |
| Common stock, \$1 par value, 1,000 shares authorized; issued and outstanding and paid-in capital | 42,920 | 42,920 |
| Retained earnings | 49,049 | 45,748 |
| Intercompany notes receivable | (28,537) | (25,302) |
| Accumulated other comprehensive income (loss) | 192 | 130 |
| Total stockholder's equity | 63,624 | 63,496 |
| Total liabilities and stockholder's equity | \$ 86,562 | \$ 83,955 |

See accompanying Notes to Consolidated Financial Statements.

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

| | Six Months Ended June 30, | |
|---|---------------------------|----------------|
| | 2019 | 2018 |
| OPERATING ACTIVITIES | | |
| Net income | \$ 3,301 | \$ 3,012 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,180 | 1,141 |
| Deferred income taxes | 238 | 142 |
| Long-term casualty and environmental liabilities, net | (7) | (19) |
| Other, net | (254) | (93) |
| Changes in current assets and liabilities: | | |
| Accounts receivable, net | (91) | (42) |
| Materials and supplies | 9 | 14 |
| Other current assets | (171) | (114) |
| Accounts payable and other current liabilities | 223 | (81) |
| Net cash provided by operating activities | 4,428 | 3,960 |
| INVESTING ACTIVITIES | | |
| Capital expenditures excluding equipment | (1,417) | (1,224) |
| Acquisition of equipment | (111) | (72) |
| Purchases of investments and investments in time deposits | (6) | (13) |
| Proceeds from sales of investments and maturities of time deposits | 7 | 17 |
| Other, net | (43) | (94) |
| Net cash used in investing activities | (1,570) | (1,386) |
| FINANCING ACTIVITIES | | |
| Payments on long-term debt | (36) | (46) |
| Net increase in intercompany notes receivable classified as equity | (3,235) | (2,554) |
| Other, net | — | 1 |
| Net cash used in financing activities | (3,271) | (2,599) |
| Decrease in cash and cash equivalents | (413) | (25) |
| Cash and cash equivalents: | | |
| Beginning of period | 513 | 516 |
| End of period | \$ 100 | \$ 491 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Interest paid, net of amounts capitalized | \$ 23 | \$ 30 |
| Capital investments accrued but not yet paid | \$ 163 | \$ 93 |
| Income taxes paid, net of refunds | \$ 662 | \$ 755 |
| Non-cash asset financing | \$ 6 | \$ — |

See accompanying Notes to Consolidated Financial Statements.

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

| | Common Stock and Paid-in Capital | Retained Earnings | Intercompany Notes Receivable | Accumulated Other Comprehensive Income (Loss) | Total Stockholder's Equity |
|---|--|----------------------|-------------------------------------|--|----------------------------------|
| Balance at December 31, 2018 | \$ 42,920 | \$ 45,748 | \$ (25,302) | \$ 130 | \$ 63,496 |
| Change in intercompany notes receivable | — | — | (1,483) | — | (1,483) |
| Comprehensive income (loss), net of tax | — | 1,601 | — | 62 | 1,663 |
| Balance at March 31, 2019 | 42,920 | 47,349 | (26,785) | 192 | 63,676 |
| Change in intercompany notes receivable | — | — | (1,752) | — | (1,752) |
| Comprehensive income (loss), net of tax | — | 1,700 | — | — | 1,700 |
| Balance at June 30, 2019 | \$ 42,920 | \$ 49,049 | \$ (28,537) | \$ 192 | \$ 63,624 |

| | Common Stock and Paid-in Capital | Retained Earnings | Intercompany Notes Receivable | Accumulated Other Comprehensive Income (Loss) | Total Stockholder's Equity |
|--|--|----------------------|-------------------------------------|--|----------------------------------|
| Balance at December 31, 2017 | \$ 42,920 | \$ 39,337 | \$ (19,830) | \$ 231 | \$ 62,658 |
| Adoption of ASC Topic 606 ^a | — | (3) | — | — | (3) |
| Equity method investee adoption of ASU 2016-01 ^b | — | 1 | — | (1) | — |
| Reclassification upon early adoption of ASU 2018-02 ^c | — | (26) | — | 26 | — |
| Change in intercompany notes receivable | — | — | (1,037) | — | (1,037) |
| Comprehensive income (loss), net of tax | — | 1,409 | — | 1 | 1,410 |
| Balance at March 31, 2018 | 42,920 | 40,718 | (20,867) | 257 | 63,028 |
| Change in intercompany notes receivable | — | — | (1,517) | — | (1,517) |
| Comprehensive income (loss), net of tax | — | 1,603 | — | — | 1,603 |
| Balance at June 30, 2018 | \$ 42,920 | \$ 42,321 | \$ (22,384) | \$ 257 | \$ 63,114 |

^a Accounting Standards Codification Topic 606 - Revenue from Contracts with Customers

^b Accounting Standards Update (ASU) No. 2016-01 Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities

^c ASU No. 2018-02 Income Statement - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

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 Consolidated Financial Statements for the year ended December 31, 2018, including the financial statements and notes thereto. The Consolidated Financial Statements include the accounts of BNSF Railway Company and its majority-owned subsidiaries, all of which are separate legal entities (collectively, BNSF Railway or the Company). BNSF Railway is a wholly-owned subsidiary of Burlington Northern Santa Fe, LLC (BNSF), and is the principal operating subsidiary of BNSF. All intercompany accounts and transactions have been eliminated.

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

The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the entire year. In the opinion of management, the unaudited financial statements reflect all adjustments (consisting of only normal recurring adjustments, except as disclosed) necessary for the fair statement of BNSF Railway's consolidated financial position as of June 30, 2019, and the results of operations for the three and six months ended June 30, 2019 and 2018.

2. Revenue from Contracts with Customers

The Company disaggregates revenue from contracts with customers based on the characteristics of the services being provided and the types of products being transported and other revenues (in millions):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--------------------------|-----------------------------|----------|---------------------------|-----------|
| | 2019 | 2018 | 2019 | 2018 |
| Consumer Products | \$ 1,903 | \$ 1,979 | \$ 3,905 | \$ 3,839 |
| Industrial Products | 1,577 | 1,482 | 3,049 | 2,840 |
| Agricultural Products | 1,221 | 1,182 | 2,334 | 2,334 |
| Coal | 883 | 911 | 1,752 | 1,859 |
| Total freight revenues | 5,584 | 5,554 | 11,040 | 10,872 |
| Accessorial and other | 109 | 110 | 219 | 224 |
| Total operating revenues | \$ 5,693 | \$ 5,664 | \$ 11,259 | \$ 11,096 |

Contract assets and liabilities are immaterial. Receivables from contracts with customers is a component of accounts receivable, net on the Consolidated Balance Sheets. At June 30, 2019 and December 31, 2018, \$1.2 billion and \$1.1 billion, respectively, represented net receivables from contracts with customers.

Remaining performance obligations primarily consist of in-transit freight revenues, which will be recognized in the next reporting period. At June 30, 2019 and December 31, 2018, remaining performance obligations were \$240 million and \$234 million, respectively.

3. Accounts Receivable, Net

Accounts receivable, net consists of freight and other receivables, reduced by an allowance for bill adjustments and uncollectible accounts, based upon expected collectibility. At June 30, 2019 and December 31, 2018, \$84 million and \$85 million, respectively, of such allowances had been recorded.

BNSF RAILWAY COMPANY and SUBSIDIARIES

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

4. Leases

On January 1, 2019, the Company adopted ASU No. 2016-02, Leases (Topic 842), using a modified retrospective approach for leases existing at or entered into after the effective date. In addition, the Company elected the package of practical expedients permitted under the transition guidance within the new standard. The standard requires the recognition of right-of-use assets and lease liabilities for operating leases on the Company's Consolidated Balance Sheets. The accounting for finance leases remained unchanged. There was no effect of adopting Topic 842 on member's equity, operating income, or net income. Results for reporting periods beginning after January 1, 2019, are presented under Topic 842, while prior period amounts have not been adjusted.

The Company has substantial lease commitments for locomotives, freight cars, office buildings, operating facilities, and other property. Many of the Company's leases provide the option to purchase the leased item at fair market value or a fixed purchase price at the end of the lease, and some leases include early buyout options at a fixed purchase price. Also, many of the Company's leases include both fixed rate and fair market value renewal options.

As the implicit interest rate is not readily available for most leases, the Company used its incremental borrowing rate to determine the present value of lease payments at the transition date. The Company has lease agreements that contain both lease and non-lease components, but only freight cars are accounted for as a single lease component. BNSF Railway has applied the short-term lease exemption to all asset classes, and as a result, short-term leases are not recognized on the Consolidated Balance Sheets. Variable lease costs, sublease income, and lessor transactions were not significant.

The following table shows the components of lease cost (in millions):

| Lease Cost | Three Months Ended June 30, 2019 | Six Months Ended June 30, 2019 |
|-------------------------------------|--|--------------------------------------|
| Operating lease cost | \$ 122 | \$ 242 |
| Finance lease cost: | | |
| Amortization of right-of-use assets | 9 | 19 |
| Interest on lease liabilities | 6 | 12 |
| Short-term lease cost | 22 | 42 |
| Total lease cost | \$ 159 | \$ 315 |

Supplemental balance sheet information related to leases was as follows (in millions):

| Operating Leases | June 30, 2019 |
|--|------------------|
| Operating lease right-of-use assets | \$ 2,512 |
| Accounts payable and other current liabilities | 472 |
| Operating lease liabilities | 1,706 |
| Total operating lease liabilities | \$ 2,178 |
| | |
| Finance Leases | June 30, 2019 |
| Property and equipment | \$ 795 |
| Accumulated depreciation | (332) |
| Property and equipment, net | \$ 463 |
| Long-term debt due within one year | \$ 48 |
| Long-term debt | 348 |
| Total finance lease liabilities | \$ 396 |

BNSF RAILWAY COMPANY and SUBSIDIARIES

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

Supplemental cash flow information related to leases was as follows (in millions):

| Cash Flow | Six Months Ended June 30, 2019 |
|---|---|
| Cash paid for amounts included in the measurement of lease obligations: | |
| Operating cash flows for operating leases | \$ 293 |
| Operating cash flows for finance leases | \$ 12 |
| Financing cash flows for finance leases | \$ 24 |
| Right-of-use assets obtained in exchange for lease obligations: | |
| Operating leases | \$ 109 |

Other information related to leases was as follows:

| Other Information | June 30, 2019 |
|---|--------------------------|
| Weighted-average remaining lease term (in years): | |
| Operating leases | 8.0 |
| Finance leases | 5.0 |
| Weighted-average discount rate: | |
| Operating leases | 3.7% |
| Finance leases | 6.3% |

Maturities of lease liabilities as of June 30, 2019 are summarized as follows (in millions):

| June 30, | Operating Leases | Finance Leases |
|-----------------------------------|-------------------------|-----------------------|
| 2019 | \$ 109 | \$ 36 |
| 2020 | 510 | 69 |
| 2021 | 436 | 200 |
| 2022 | 344 | 35 |
| 2023 | 298 | 28 |
| Thereafter | 813 | 101 |
| Total lease payments | 2,510 | 469 |
| Less amount representing interest | (332) | (73) |
| Total | \$ 2,178 | \$ 396 |

Future minimum lease payments as of December 31, 2018 are summarized as follows (in millions):

| December 31, | Operating Leases | Capital Leases |
|-----------------------------------|-------------------------|-----------------------|
| 2019 | \$ 396 | \$ 72 |
| 2020 | 492 | 69 |
| 2021 | 417 | 200 |
| 2022 | 325 | 35 |
| 2023 | 287 | 28 |
| Thereafter | 781 | 101 |
| Total lease payments | \$ 2,698 | 505 |
| Less amount representing interest | | (86) |
| Total | | \$ 419 |

BNSF RAILWAY COMPANY and SUBSIDIARIES

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

5. Debt

Fair Value of Debt Instruments

At June 30, 2019 and December 31, 2018, the fair value of BNSF Railway’s debt, excluding capital leases, was \$1.0 billion and \$983 million, respectively, while the book value, which also excludes capital leases, was \$921 million and \$930 million, respectively. The fair value of BNSF Railway’s debt is primarily based on market value price models using observable market-based data for the same or similar issues, or on the estimated rates that would be offered to BNSF Railway for debt of the same remaining maturities (Level 2 inputs).

Guarantees

As of June 30, 2019, BNSF Railway has not been called upon to perform under the guarantees specifically disclosed in this footnote and does not anticipate a significant performance risk in the foreseeable future.

Debt and other obligations of non-consolidated entities guaranteed by the Company as of June 30, 2019, were as follows (dollars in millions):

| | Guarantees | | | | | |
|---|--|-----------------------------------|-------------------------------|--|---------------------------------|----------------------------|
| | BNSF Railway Ownership Percentage | Principal Amount Guaranteed | Maximum Future Payments | Maximum Recourse Amount ^a | Remaining Term (in years) | Capitalized Obligations |
| Kinder Morgan Energy Partners, L.P. | 0.5% | \$ 190 | \$ 190 | \$ — | Termination of Ownership | \$ 2 ^b |
| Chevron Phillips Chemical Company LP | —% | N/A ^d | N/A ^d | N/A ^d | 8 | \$ 17 ^c |

^a Reflects the maximum amount the Company could recover from a third party other than the counterparty.

^b Reflects capitalized obligations that are recorded on the Company’s Consolidated Balance Sheets.

^c Reflects the asset and corresponding liability for the fair value of these guarantees required by authoritative accounting guidance related to guarantees.

^d There is no cap to the liability that can be sought from BNSF Railway for BNSF Railway’s negligence or the negligence of the indemnified party. However, BNSF Railway could receive reimbursement from certain insurance policies if the liability exceeds a certain amount.

Kinder Morgan Energy Partners, L.P.

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

Chevron Phillips Chemical Company LP

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

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

6. Commitments and Contingencies

Personal Injury

BNSF Railway's personal injury liability includes the cost of claims for employee work-related injuries, third-party claims, and asbestos claims. BNSF Railway records a liability for asserted and unasserted claims when the expected loss is both probable and reasonably estimable. Because of the uncertainty of the timing of future payments, the liability is undiscounted. Defense and processing costs, which are recorded on an as-reported basis, are not included in the recorded liability. Expense accruals and adjustments are classified as materials and other in the Consolidated Statements of Income.

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. Resolution of these cases under the FELA's fault-based system requires either a finding of fault by a jury or an out of court settlement. Third-party claims include claims by non-employees for compensatory damages and may, from time to time, include requests for punitive damages or treatment of the claim as a class action.

BNSF Railway estimates its personal injury liability claims and expense using standard actuarial methodologies based on the covered population, activity levels and trends in frequency and the costs of covered injuries. The Company monitors actual experience against the forecasted number of claims to be received, the forecasted number of claims closing with payment, and expected claim payments and records adjustments as new events or changes in estimates develop.

BNSF Railway is party to asbestos claims by employees and non-employees who may have been exposed to asbestos. Because of the relatively finite exposed population, the Company has recorded an estimate for the full amount of probable exposure. This is determined through an actuarial analysis based on estimates of the exposed population, the number of claims likely to be filed, the number of claims that will likely require payment, and the cost per claim. Estimated filing and dismissal rates and average cost per claim are determined utilizing recent claim data and trends.

The following table summarizes the activity in the Company's accrued obligations for personal injury claims (in millions):

| | Six Months Ended June 30, | |
|-----------------------------------|----------------------------------|-------------|
| | 2019 | 2018 |
| Beginning balance | \$ 308 | \$ 307 |
| Accruals / changes in estimates | 72 | 34 |
| Payments | (50) | (46) |
| Ending balance | \$ 330 | \$ 295 |
| Current portion of ending balance | \$ 85 | \$ 75 |

The amount recorded by the Company for the personal injury liability is based upon the best information currently available. Because of the uncertainty surrounding the ultimate outcome of personal injury claims, it is reasonably possible that future costs to resolve these claims may be different from the recorded amounts. The Company estimates that costs to resolve the liability may range from approximately \$290 million to \$395 million.

BNSF RAILWAY COMPANY and SUBSIDIARIES

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

Although the final outcome of these personal injury 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.

Environmental

BNSF Railway is subject to extensive federal, state and local environmental regulation. The Company’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 or 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. Under federal (in particular, the Comprehensive Environmental Response, Compensation and Liability Act) and state statutes, the Company may be held jointly and severally liable for cleanup and enforcement costs associated with a particular site without regard to fault or the legality of the original conduct. The Company participates in the study, cleanup, or both of environmental contamination at 200 sites.

Environmental costs may include, but are not limited to, site investigations, remediation, and restoration. The liability is recorded when the expected loss is both probable and reasonably estimable and is undiscounted due to uncertainty of the timing of future payments. Expense accruals and adjustments are classified as materials and other in the Consolidated Statements of Income.

BNSF Railway estimates the cost of cleanup efforts at its known environmental sites based on experience gained from cleanup efforts at similar sites, estimated percentage to closure ratios, possible remediation work plans, estimates of the costs and likelihood of each possible outcome, historical payment patterns, and benchmark patterns developed from data accumulated from industry and public sources. The Company monitors actual experience against expectations and records adjustments as new events or changes in estimates develop.

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

| | Six Months Ended June 30, | |
|-----------------------------------|----------------------------------|-------------|
| | 2019 | 2018 |
| Beginning balance | \$ 298 | \$ 317 |
| Accruals / changes in estimates | 2 | 2 |
| Payments | (11) | (9) |
| Ending balance | \$ 289 | \$ 310 |
| Current portion of ending balance | \$ 40 | \$ 40 |

The amount recorded by the Company for the environmental liability is based upon the best information currently available. It has not been reduced by anticipated recoveries from third parties and includes both asserted and unasserted claims. 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 various factors, it is reasonably possible that future costs to settle these claims may be different from the recorded amounts. The Company estimates that costs to settle the liability may range from approximately \$235 million to \$385 million.

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

BNSF RAILWAY COMPANY and SUBSIDIARIES

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

Other Claims and Litigation

In addition to personal injury and environmental matters, 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 compensatory damages and may, from time to time, include requests for punitive damages or treatment of the claim as a class action. Although the final outcome of these 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.

7. Employment Benefit Plans

During the first quarter of 2019, the Company amended its funded, noncontributory qualified pension plan, which covers most non-union employees, and its unfunded, non-tax-qualified pension plan, which covers certain officers and other employees (collectively, the Retirement Plans). Non-union employees hired on or after April 1, 2019 will not be eligible for the Retirement Plans and instead will receive an additional company contribution as part of the qualified 401(k) plan based on the employee's age and years of service. Current employees will be transitioned away from the Retirement Plans within the next ten years, beginning October 1, 2019, and upon transition will be eligible for the additional company contribution. As a result of the plan amendments, the Company recognized a curtailment gain of \$120 million in the first quarter of 2019 consisting of \$117 million for the reduction in projected benefit obligation and \$3 million for the recognition of prior service credits.

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

| Net (Benefit) Cost | Pension Benefits | |
|--------------------------------|------------------------------------|-------------|
| | Three Months Ended June 30, | |
| | 2019 | 2018 |
| Service cost | \$ 7 | \$ 11 |
| Interest cost | 20 | 21 |
| Expected return on plan assets | (40) | (39) |
| Net (benefit) cost recognized | \$ (13) | \$ (7) |

| Net (Benefit) Cost | Pension Benefits | |
|---------------------------------------|----------------------------------|-------------|
| | Six Months Ended June 30, | |
| | 2019 | 2018 |
| Service cost | \$ 17 | \$ 22 |
| Interest cost | 42 | 42 |
| Expected return on plan assets | (79) | (79) |
| Amortization of net gain | (1) | — |
| Amortization of prior service credits | (3) | — |
| Curtailment gain | (117) | — |
| Net (benefit) cost recognized | \$ (141) | \$ (15) |

| Net (Benefit) Cost | Retiree Health and Welfare Benefits | |
|-------------------------------|--|-------------|
| | Three Months Ended June 30, | |
| | 2019 | 2018 |
| Interest cost | \$ 2 | \$ 2 |
| Net (benefit) cost recognized | \$ 2 | \$ 2 |

BNSF RAILWAY COMPANY and SUBSIDIARIES

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

| Net (Benefit) Cost | Retiree Health and Welfare Benefits | |
|-------------------------------|--|-------------|
| | Six Months Ended June 30, | |
| | 2019 | 2018 |
| Interest cost | \$ 4 | \$ 4 |
| Net (benefit) cost recognized | \$ 4 | \$ 4 |

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

8. 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 \$631 million and \$731 million during the six months ended June 30, 2019 and 2018, respectively, which are reflected in changes in current assets and liabilities in the Consolidated Statements of Cash Flows. As of June 30, 2019 and December 31, 2018, BNSF Railway had a tax payable to BNSF of \$403 million and \$264 million, respectively.

At June 30, 2019 and December 31, 2018, BNSF Railway had \$477 million and \$426 million, respectively, of intercompany receivables which are reflected in accounts receivable in the respective Consolidated Balance Sheets. At June 30, 2019 and December 31, 2018, BNSF Railway had \$63 million and \$22 million of intercompany payables, respectively, which are reflected in accounts payable in the respective Consolidated Balance Sheets. Net intercompany balances are settled in the ordinary course of business.

At June 30, 2019 and December 31, 2018, BNSF Railway had \$28.5 billion and \$25.3 billion, respectively, of intercompany notes receivable from BNSF. The \$3.2 billion increase in intercompany notes receivable was due to loans to BNSF. All intercompany notes have a variable interest rate of 1.0 percent above the monthly average of the daily effective Federal Funds rate. Interest is collected semi-annually on all intercompany notes receivable. Interest income from intercompany notes receivable is presented in interest income, related parties in the Consolidated Statements of Income.

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

| | Three Months Ended June 30, | |
|--------------|------------------------------------|-------------|
| | 2019 | 2018 |
| Revenues | \$ 42 | \$ 36 |
| Expenditures | \$ 143 | \$ 111 |

| | Six Months Ended June 30, | |
|--------------|----------------------------------|-------------|
| | 2019 | 2018 |
| Revenues | \$ 79 | \$ 69 |
| Expenditures | \$ 248 | \$ 211 |

BNSF Railway owns 17.3 percent of TTX Company (TTX) while other North American railroads own the remaining interest. As BNSF Railway possesses the ability to exercise significant influence, but not control, over the operating and financial policies of TTX, BNSF Railway applies the equity method of accounting to its investment in TTX. The investment in TTX is recorded in other assets. Equity income or losses are recorded in materials and other in the Consolidated Statements of Income. North American railroads pay TTX car hire to use TTX's freight equipment to serve their customers. BNSF Railway's car hire expenditures incurred with TTX are included in the table above. BNSF Railway had \$629 million and \$609 million recognized as investments related to TTX in its Consolidated Balance Sheets as of June 30, 2019 and December 31, 2018, respectively.

BNSF RAILWAY COMPANY and SUBSIDIARIES

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

9. Accumulated Other Comprehensive Income

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

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

| | Pension and Retiree Health and Welfare Benefit Items | Equity Method Investments | Accumulated Other Comprehensive Income (Loss) |
|---|---|--------------------------------------|--|
| Balance at December 31, 2018 | \$ 133 | \$ (3) | \$ 130 |
| Other comprehensive income (loss), net before reclassifications | 66 | (1) | 65 |
| Amounts reclassified from AOCI: | | | |
| Amortization of net gain ^a | (1) | — | (1) |
| Amortization of prior service credits ^a | (3) | — | (3) |
| Tax expense (benefit) | 1 | — | 1 |
| Balance at June 30, 2019 | \$ 196 | \$ (4) | \$ 192 |
| Balance at December 31, 2017 | \$ 234 | \$ (3) | \$ 231 |
| Other comprehensive income (loss), net before reclassifications | — | 1 | 1 |
| Amounts reclassified from AOCI: | | | |
| Reclassification due to ASU 2016-01 adoption | — | (1) | (1) |
| Reclassification due to ASU 2018-02 adoption | 26 | — | 26 |
| Balance at June 30, 2018 | \$ 260 | \$ (3) | \$ 257 |

^a This accumulated other comprehensive income component is included in the computation of net periodic pension and retiree health and welfare cost (see Note 7 for additional details).

10. Accounting Pronouncements

No pronouncements materially affecting the Company's financial statements have been issued since the filing of the Company's 2018 Consolidated Financial Statements.

BNSF RAILWAY COMPANY and SUBSIDIARIES

Certification by Vice President

With respect to the quarterly financial statements and related footnotes of BNSF Railway Company (the Company) for the period ended June 30, 2019, the undersigned, Paul W. Bischler, Vice President - Controller and Chief Sourcing Officer of the Company, hereby certifies that, to his knowledge as of the date hereof, the information contained in such attached financial statements and related footnotes fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 2, 2019



Paul W. Bischler
Vice President - Controller and Chief Sourcing Officer