

**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 June 30, 2008

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 1-11535



**BURLINGTON NORTHERN SANTA FE CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation or organization)

41-1804964  
(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 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 [x] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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 Outstanding at July 16, 2008
Common stock, \$.01 par value	344,404,716 shares

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**PART I  
FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**BURLINGTON NORTHERN SANTA FE CORPORATION and SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(In millions, except per share data)  
(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenues	\$ 4,478	\$ 3,843	\$ 8,739	\$ 7,488
Operating expenses:				
Fuel	1,245	771	2,254	1,423
Compensation and benefits	951	925	1,934	1,857
Purchased services	540	507	1,065	1,009
Depreciation and amortization	349	322	690	629
Equipment rents	223	237	453	469
Materials and other	456	240	754	566
Total operating expenses	<u>3,764</u>	<u>3,002</u>	<u>7,150</u>	<u>5,953</u>
Operating income	714	841	1,589	1,535
Interest expense	140	132	274	253
Other expense, net	<u>5</u>	<u>6</u>	<u>5</u>	<u>11</u>
Income before income taxes	569	703	1,310	1,271
Income tax expense	219	270	505	489
Net income	<u>\$ 350</u>	<u>\$ 433</u>	<u>\$ 805</u>	<u>\$ 782</u>
Earnings per share:				
Basic earnings per share	\$ 1.01	\$ 1.22	\$ 2.33	\$ 2.20
Diluted earnings per share	\$ 1.00	\$ 1.20	\$ 2.30	\$ 2.16
Average shares:				
Basic	344.9	354.1	345.6	355.0
Dilutive effect of stock awards	<u>4.3</u>	<u>6.7</u>	<u>4.6</u>	<u>7.2</u>
Diluted	<u>349.2</u>	<u>360.8</u>	<u>350.2</u>	<u>362.2</u>
Dividends declared per share	<u>\$ 0.32</u>	<u>\$ 0.25</u>	<u>\$ 0.64</u>	<u>\$ 0.50</u>

See accompanying Notes to Consolidated Financial Statements.

**BURLINGTON NORTHERN SANTA FE CORPORATION and SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Dollars in millions, shares in thousands)  
(Unaudited)

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 481	\$ 330
Accounts receivable, net	829	790
Materials and supplies	689	579
Current portion of deferred income taxes	337	290
Other current assets	455	192
Total current assets	<u>2,791</u>	<u>2,181</u>
Property and equipment, net	30,131	29,567
Other assets	2,220	1,835
Total assets	<u>\$ 35,142</u>	<u>\$ 33,583</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and other current liabilities	\$ 3,051	\$ 2,824
Long-term debt due within one year	434	411
Total current liabilities	<u>3,485</u>	<u>3,235</u>
Long-term debt and commercial paper	8,385	7,735
Deferred income taxes	8,698	8,484
Casualty and environmental liabilities	1,014	843
Pension and retiree health and welfare liability	454	444
Employee separation costs	73	77
Other liabilities	1,700	1,621
Total liabilities	<u>23,809</u>	<u>22,439</u>
Commitments and contingencies (see Notes 2, 4 and 5)		
Stockholders' equity:		
Common stock, \$0.01 par value, 600,000 shares authorized; 540,938 shares and 537,330 shares issued, respectively	5	5
Additional paid-in capital	7,574	7,348
Retained earnings	11,728	11,152
Treasury stock, at cost, 196,545 shares and 189,626 shares, respectively	(7,887)	(7,222)
Accumulated other comprehensive loss	(87)	(139)
Total stockholders' equity	<u>11,333</u>	<u>11,144</u>
Total liabilities and stockholders' equity	<u>\$ 35,142</u>	<u>\$ 33,583</u>

See accompanying Notes to Consolidated Financial Statements.

**BURLINGTON NORTHERN SANTA FE CORPORATION and SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In millions)  
(Unaudited)

<b>Six Months Ended June 30,</b>	<b>2008</b>	<b>2007</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 805	\$ 782
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	690	629
Deferred income taxes	132	114
Employee separation costs paid	(7)	(10)
Long-term casualty and environmental liabilities, net	191	33
Other, net	40	103
Changes in current assets and liabilities:		
Accounts receivable, net	(36)	22
Materials and supplies	(110)	(34)
Other current assets	(197)	(100)
Accounts payable and other current liabilities	197	37
Net cash provided by operating activities	<u>1,705</u>	<u>1,576</u>
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(1,042)	(1,152)
Construction costs for facility financing obligation	(17)	(9)
Other, net	(399)	(173)
Net cash used for investing activities	<u>(1,458)</u>	<u>(1,334)</u>
<b>FINANCING ACTIVITIES</b>		
Net increase (decrease) in commercial paper and bank borrowings	44	(441)
Proceeds from issuance of long-term debt	650	1,300
Payments on long-term debt	(109)	(392)
Dividends paid	(223)	(179)
Proceeds from stock options exercised	79	115
Purchase of BNSF common stock	(642)	(709)
Excess tax benefits from equity compensation plans	82	94
Proceeds from facility financing obligation	29	-
Other, net	(6)	(12)
Net cash used for financing activities	<u>(96)</u>	<u>(224)</u>
Increase in cash and cash equivalents	151	18
Cash and cash equivalents:		
Beginning of period	330	375
End of period	<u>\$ 481</u>	<u>\$ 393</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid, net of amounts capitalized	\$ 241	\$ 222
Income taxes paid, net of refunds	\$ 400	\$ 277
Non-cash asset financing	\$ 61	\$ 116

See accompanying Notes to Consolidated Financial Statements.

**BURLINGTON NORTHERN SANTA FE CORPORATION and SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
(Shares in thousands, dollars in millions, except per share data)  
(Unaudited)

	Common Shares	Treasury Shares	Common Stock and Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at December 31, 2007	537,330	(189,626)	\$ 7,353	\$ 11,152	\$ (7,222)	\$ (139)	\$ 11,144
Adjustment to change the measurement date pursuant to Statement of Financial Accounting Standards (SFAS) No. 158			-	(7)	-	2	(5)
Adjustment to initially apply SFAS No. 158 to equity method investees			-	-	-	(2)	(2)
Common stock dividends, \$0.64 per share			-	(222)	-	-	(222)
Restricted stock and stock options expense			41	-	-	-	41
Restricted stock activity and related tax benefit of \$22	691	-	22	-	-	-	22
Exercise of stock options and related tax benefit of \$60	2,917	(229)	163	-	(23)	-	140
Purchase of BNSF common stock <sup>a</sup>	-	(6,690)	-	-	(642)	-	(642)
Comprehensive income:							
Net income			-	805	-	-	805
Amortization of prior service costs and actuarial losses, net of tax expense of \$2			-	-	-	4	4
Gain on derivative instruments and other items, net of tax expense of \$31			-	-	-	48	48
Total comprehensive income							857
Balance at June 30, 2008	540,938	(196,545)	\$ 7,579	\$ 11,728	\$ (7,887)	\$ (87)	\$ 11,333

<sup>a</sup> Total-to-date share repurchases through June 30, 2008 under the Company's share repurchase program, were 187 million shares at an average price of \$40.07 per share, leaving 23 million shares available for repurchase out of the 210 million shares authorized.

See accompanying Notes to Consolidated Financial Statements.

# BURLINGTON NORTHERN SANTA FE CORPORATION and SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### 1. Accounting Policies and Interim Results

The Consolidated Financial Statements should be read in conjunction with Burlington Northern Santa Fe Corporation's Annual Report on Form 10-K for the year ended December 31, 2007 including the financial statements and notes thereto. Burlington Northern Santa Fe Corporation (BNSF) is a holding company that conducts no operating activities and owns no significant assets other than through its interests in its subsidiaries. The Consolidated Financial Statements include the accounts of BNSF and its majority-owned subsidiaries, all of which are separate legal entities (collectively, the Company). BNSF's principal operating subsidiary is BNSF Railway Company (BNSF Railway). All significant intercompany accounts and transactions have been eliminated. BNSF was incorporated in Delaware on December 16, 1994.

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's consolidated financial position as of June 30, 2008, and the results of operations for the three and six month periods ended June 30, 2008 and 2007.

Certain comparative prior period amounts in the Consolidated Financial Statements have been reclassified to conform to the current period presentation. These reclassifications had no effect on previously reported operating income or net income.

#### **Adoption of New Accounting Pronouncements**

##### *Fair Value Measurements*

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure requirements around fair value measurements.

SFAS No. 157 specifies a three-level hierarchy of valuation inputs which was established to increase consistency, clarity and comparability in fair value measurements and related disclosures.

- Level 1—Quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date.
- Level 2—Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations in which all significant inputs are observable market data.
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

SFAS No. 157 requires companies to maximize the use of observable inputs (Level 1 and Level 2), when available, and to minimize the use of unobservable inputs (Level 3) when determining fair value.

The Company adopted SFAS No. 157 on January 1, 2008 and recorded no financial statement adjustments as a result of adoption. The Company has applied the provisions of the standard to its fuel and interest rate hedges (see Note 2 to the Consolidated Financial Statements).

However, the Company has not applied the provisions of the standard to its property and equipment, goodwill and certain other assets, which are measured at fair value for impairment assessment, nor to any business combinations or asset retirement obligations. The Company will apply the provisions of the standard to these assets and liabilities, beginning January 1, 2009 as required by FASB Staff Position (FSP) SFAS No. 157-2, *Effective Date of FASB Statement No. 157*. This adoption is not expected to have a material impact on the Company's result of operations, financial condition or liquidity.

**BURLINGTON NORTHERN SANTA FE CORPORATION and SUBSIDIARIES**

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

**2. Hedging Activities**

The Company uses derivative financial instruments to hedge against increases in diesel fuel prices and interest rates as well as to convert a portion of its fixed-rate long-term debt to floating-rate debt. The Company does not hold or issue 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 fair value or 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 fair value or cash flows. Any change in fair value resulting from ineffectiveness, as defined by SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities, as amended*, 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 loss (AOCL) as a separate component of stockholders' equity and reclassified into earnings in the period during which the hedge transaction affects earnings. Cash flows related to fuel and interest rate hedges are classified as operating activities in the Consolidated Statements of Cash Flows.

BNSF monitors its hedging positions and credit ratings of its counterparties and does not anticipate any losses due to counterparty nonperformance.

**Fuel**

Fuel costs represented 32 percent and 24 percent of total operating expenses during the six month periods ended June 30, 2008 and 2007, respectively. Due to the significance of diesel fuel expenses to the operations of BNSF and the historical volatility of fuel prices, the Company has entered into hedges to partially mitigate the risk of fluctuations in the price of its diesel fuel purchases. The fuel hedges include the use of derivatives that are accounted for as cash flow hedges. The hedging is intended to protect the Company's operating margins and overall profitability from adverse fuel price changes by entering into fuel-hedge 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. Based on fuel consumption during the second quarter of 2008 and excluding the impact of the hedges, each one-cent increase in the price of fuel per gallon would result in approximately \$14 million of additional fuel expense on an annual basis. However, BNSF believes any fuel price increase would be substantially offset by the Company's fuel surcharge program.

***Total Fuel-Hedging Activities***

As of June 30, 2008, BNSF's total fuel-hedging positions covered approximately 8 percent, 3 percent and 1 percent of estimated fuel purchases for the remainder of 2008, 2009 and 2010, respectively. Hedge positions are closely monitored to ensure that they will not exceed actual fuel requirements in any period.

The amounts recorded in the Consolidated Statements of Income for fuel-hedge transactions were as follows (in millions):

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Hedge benefit (loss)	\$ 23	\$ (2)	\$ 33	\$ 24
Ineffective portion of open hedges	–	1	–	–
Tax effect	(9)	–	(13)	(9)
<b>Hedge benefit (loss), net of tax</b>	<b>\$ 14</b>	<b>\$ (1)</b>	<b>\$ 20</b>	<b>\$ 15</b>

The ineffective portion of unrealized gains and losses of open hedges are recorded in the Consolidated Statements of Income as a component of fuel expense.

**BURLINGTON NORTHERN SANTA FE CORPORATION and SUBSIDIARIES**

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

The amounts recorded in the Consolidated Balance Sheets for fuel-hedge transactions were as follows (in millions):

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Short-term fuel-hedging asset	\$ 84	\$ 29
Long-term fuel-hedging asset	42	10
Ineffective portion of open hedges	–	–
Tax effect	(49)	(15)
Amount included in AOCL, net of tax	<u>\$ 77</u>	<u>\$ 24</u>
Settled fuel-hedging contracts receivable	<u>\$ 23</u>	<u>\$ 6</u>

The Company uses the forward commodity price for the periods hedged to value its fuel-hedge swaps and costless collars. This methodology is a market approach, which under SFAS No. 157 utilizes Level 2 inputs as it uses market data for similar instruments in active markets.

**New York Mercantile Exchange (NYMEX) #2 Heating Oil (HO) Hedges**

As of June 30, 2008, BNSF had entered into fuel swap agreements utilizing NYMEX #2 HO. The hedge prices do not include taxes, transportation costs, certain other fuel handling costs and any differences that may occur between the prices of HO and the purchase price of BNSF's diesel fuel. Over the twelve months ended June 30, 2008, the sum of all such costs averaged approximately 20 cents per gallon.

During the first six months of 2008, the Company entered into fuel swap agreements utilizing HO to hedge the equivalent of approximately 24.02 million gallons of fuel with an average swap price of \$2.44 per gallon. The following table provides fuel-hedge data based on the quarter being hedged for all HO fuel hedges outstanding as of June 30, 2008.

<b>2008</b>	<b>Quarter Ending</b>		
	<b>September 30,</b>	<b>December 31,</b>	<b>Total</b>
<b>HO Swaps</b>			
Gallons hedged (in millions)	8.23	8.99	17.22
Average swap price (per gallon)	\$ 2.42	\$ 2.47	\$ 2.45
Fair value (in millions)	\$ 13	\$ 14	\$ 27

**West Texas Intermediate (WTI) Crude Oil Hedges**

In addition, BNSF enters into fuel swap and costless collar agreements utilizing WTI crude oil. The hedge prices do not include taxes, transportation costs, certain other fuel handling costs and any differences which may occur between the prices of WTI and the purchase price of BNSF's diesel fuel, including refining costs. Over the twelve months ended June 30, 2008, the sum of all such costs averaged approximately 61 cents per gallon.

**BURLINGTON NORTHERN SANTA FE CORPORATION and SUBSIDIARIES**

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

During the first six months of 2008, the Company entered into fuel swap agreements utilizing WTI to hedge the equivalent of approximately 450 thousand barrels of fuel with an average swap price of \$84.78 per barrel and costless collar agreements utilizing WTI to hedge the equivalent of approximately 1,190 thousand barrels of fuel with an average cap price of \$136.58 per barrel and an average floor price of \$125.52 per barrel. The following table provides fuel-hedge data based on the quarter being hedged for all WTI fuel hedges outstanding as of June 30, 2008.

<b>2008</b>	<b>Quarter Ending</b>		
	<b>September 30,</b>	<b>December 31,</b>	<b>Total</b>
<b>WTI Swaps</b>			
Barrels hedged (in thousands)	230	230	460
Equivalent gallons hedged (in millions)	9.66	9.66	19.32
Average swap price (per barrel)	\$ 63.70	\$ 63.70	\$ 63.70
Fair value (in millions)	\$ 18	\$ 18	\$ 36
<b>WTI Costless Collars</b>			
Barrels hedged (in thousands)	420	130	550
Equivalent gallons hedged (in millions)	17.64	5.46	23.10
Average cap price (per barrel)	\$ 137.18	\$ 135.41	\$ 136.76
Average floor price (per barrel)	\$ 125.70	\$ 124.34	\$ 125.38
Fair value (in millions)	\$ 2	\$ 1	\$ 3

<b>2009</b>	<b>Quarter Ending</b>				
	<b>March 31,</b>	<b>June 30,</b>	<b>September 30,</b>	<b>December 31,</b>	<b>Annual</b>
<b>WTI Swaps</b>					
Barrels hedged (in thousands)	100	100	100	160	460
Equivalent gallons hedged (in millions)	4.20	4.20	4.20	6.72	19.32
Average swap price (per barrel)	\$ 65.10	\$ 65.10	\$ 65.10	\$ 76.24	\$ 68.97
Fair value (in millions)	\$ 8	\$ 8	\$ 7	\$ 10	\$ 33
<b>WTI Costless Collars</b>					
Barrels hedged (in thousands)	185	185	135	135	640
Equivalent gallons hedged (in millions)	7.77	7.77	5.67	5.67	26.88
Average cap price (per barrel)	\$ 136.52	\$ 135.79	\$ 136.95	\$ 136.66	\$ 136.43
Average floor price (per barrel)	\$ 125.53	\$ 125.02	\$ 126.29	\$ 126.00	\$ 125.64
Fair value (in millions)	\$ 1	\$ 1	\$ <1	\$ <1	\$ 3

<b>2010</b>	<b>Quarter Ending</b>				
	<b>March 31,</b>	<b>June 30,</b>	<b>September 30,</b>	<b>December 31,</b>	<b>Annual</b>
<b>WTI Swaps</b>					
Barrels hedged (in thousands)	160	90	90	90	430
Equivalent gallons hedged (in millions)	6.72	3.78	3.78	3.78	18.06
Average swap price (per barrel)	\$ 76.06	\$ 84.73	\$ 84.69	\$ 84.68	\$ 81.49
Fair value (in millions)	\$ 10	\$ 5	\$ 5	\$ 4	\$ 24

**BURLINGTON NORTHERN SANTA FE CORPORATION and SUBSIDIARIES**

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

**Interest Rate**

From time to time, the Company enters into various interest rate hedging transactions for the purpose of managing exposure to fluctuations in interest rates by establishing rates in anticipation of both future debt issuances and the refinancing of leveraged leases, as well as converting a portion of its fixed-rate long-term debt to floating-rate debt. The Company uses interest rate swaps and treasury locks as part of its interest rate risk management strategy.

**Total Interest Rate Hedging Program**

All interest rate derivative transactions outstanding are reflected in the following table:

	<b>June 30, 2008</b>							<b>Total</b>	<b>Fair Value</b>
	<b>Maturity Date</b>								
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Thereafter</b>			
<b>Fair value hedges</b>									
Fixed to variable swaps (in millions)	\$ –	\$ 200	\$ 250	\$ –	\$ –	\$ 400	\$ 850	\$ (1)	
Average fixed rate	– %	6.13 %	7.13 %	– %	– %	5.75 %	6.24 %		
Average floating rate	– %	3.25 %	5.65 %	– %	– %	4.18 %	4.39 %		

BNSF's measurement of the fair value of interest rate derivatives is based on estimates of the mid-market values for the transactions provided by the counterparties to these agreements. This methodology is a market approach, which under SFAS No. 157 utilizes Level 2 inputs as it uses market data for similar instruments in active markets. Unrealized gains and losses for interest rate hedge transactions are not recorded in the Consolidated Statements of Income.

***Fair Value Interest Rate Hedges***

The Company enters into interest rate swaps to convert fixed-rate long-term debt to floating-rate debt. These swaps are accounted for as fair value hedges under SFAS No. 133. These fair value hedges qualify for the short-cut method of recognition; therefore, no portion of these swaps is treated as ineffective.

In March of 2008, the Company entered into four additional interest rate swaps having an aggregate notional amount of \$400 million to convert fixed-rate long-term debt to floating-rate debt. These swaps were entered into at the inception of new 10-year notes (see Note 4 to the Consolidated Financial Statements).

As of June 30, 2008 and December 31, 2007, BNSF had entered into eleven and seven separate swaps, respectively, including the swaps described above, with an aggregate notional amount of \$850 million and \$450 million, respectively, in which it pays an average floating rate, which fluctuates quarterly, based on the London Interbank Offered Rate (LIBOR). The average floating rate to be paid by BNSF as of June 30, 2008, was 4.39 percent, and the average fixed rate BNSF is to receive is 6.24 percent.

The amounts recorded in the Consolidated Statements of Income, as an increase to or reduction of interest expense, for interest rate fair value hedge transactions were as follows (in millions):

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Hedge benefit (loss)	\$ 4	\$ (1)	\$ 4	\$ (1)
Tax effect	(2)	–	(2)	–
Hedge benefit (loss), net of tax	\$ 2	\$ (1)	\$ 2	\$ (1)

**BURLINGTON NORTHERN SANTA FE CORPORATION and SUBSIDIARIES**

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

The amounts recorded in the Consolidated Balance Sheets for interest rate fair value hedge transactions, which represent the fair value of open hedges, with a corresponding adjustment to debt or accrued interest, are as follows (in millions):

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Short-term interest rate hedging asset	\$ 7	\$ –
Long-term interest rate hedging asset	\$ 3	\$ 6
Long-term interest rate hedging liability	\$ (11)	\$ –

***Cash Flow Interest Rate Hedges***

In anticipation of a future debt issuance, the Company entered into nine treasury locks during 2007 and 2008, having an aggregate notional amount of \$250 million, and an average locked-in rate of 4.24 percent, to fix a portion of the rate for a future 10-year unsecured debt issuance. The treasury locks were terminated in March 2008 in connection with the issuance of \$650 million 10-year notes (see Note 4 to the Consolidated Financial Statements). Upon termination, BNSF paid \$13 million to the counterparties, which will be amortized to interest expense over the life of the issued debt. These transactions are accounted for as cash flow hedges. As of June 30, 2008, no cash flow hedges were outstanding.

The amounts recorded in the Consolidated Balance Sheets for interest rate cash flow hedge transactions, which represent the fair value of open and closed hedges, were as follows (in millions):

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Interest rate hedging liability – open hedges	\$ –	\$ (5)
Unrecognized gain on closed hedges	6	19
Tax effect	(2)	(5)
Unrecognized gain in AOCL, net of tax	\$ 4	\$ 9

**3. Accounts Receivable, Net**

BNSF Railway transfers a portion of its accounts receivable to Santa Fe Receivables Corporation (SFRC), a special purpose subsidiary. 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 may be in the form of certificates or purchased interests.

BNSF Railway's total capacity to sell undivided interests to investors under the A/R sales program was \$700 million at June 30, 2008, which was comprised of two \$175 million, 364-day accounts receivable facilities and two \$175 million, 3-year accounts receivable facilities, which mature in November 2008 and 2010, respectively. Outstanding undivided interests held by investors under the A/R sales program were \$300 million at both June 30, 2008 and December 31, 2007, with \$75 million under each facility. These undivided interests in receivables are excluded from accounts receivable by BNSF Railway in connection with the sale of undivided interests under the A/R sales program. These undivided interests were supported by \$1,166 million and \$1,105 million of receivables transferred by SFRC to the master trust at June 30, 2008 and December 31, 2007, respectively. When SFRC transfers these receivables to the master trust, it retains an undivided interest in the receivables sold, which is included in accounts receivable in the Company's Consolidated Financial Statements. The interest that continues to be held by SFRC of \$866 million and \$805 million at June 30, 2008 and December 31, 2007, respectively, less an allowance for uncollectible accounts, reflected the total accounts receivable transferred by SFRC to the master trust less \$300 million at both June 30, 2008 and December 31, 2007, of outstanding undivided interests held by investors. Due to a relatively short collection cycle, the fair value of the undivided interest transferred to investors in the A/R sales program approximated book value, and there was no gain or loss from the transaction.

BNSF Railway retains the collection responsibility with respect to the accounts receivable. Proceeds from collections reinvested in the A/R sales program were approximately \$9.3 billion and \$8.0 billion for the six months ended June 30, 2008 and 2007, respectively. No servicing asset or liability has been recorded because the fees BNSF Railway receives for servicing the receivables approximate the related costs. SFRC's costs of the sale of receivables are included in other expense, net and were \$6 million and \$11 million for the six months ended June 30, 2008 and 2007, respectively. These costs fluctuate

## BURLINGTON NORTHERN SANTA FE CORPORATION and SUBSIDIARIES

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

monthly with changes in prevailing interest rates and were based on weighted average interest rates of 3.6 percent and 5.6 percent for the six months ended June 30, 2008 and 2007, respectively. These costs include interest, discounts associated with transferring the receivables under the A/R sales program to SFRC, program fees paid to banks, incidental commercial paper issuing costs and fees for unused commitment availability.

The amount of accounts receivable transferred by BNSF Railway to SFRC fluctuates based upon the availability of receivables and is directly affected by changing business volumes and credit risks, including dilution and delinquencies. In order for there to be an impact on the amount of receivables BNSF Railway could sell, the combined dilution and delinquency percentages would have to exceed an established threshold. BNSF Railway has historically experienced very low levels of dilution or delinquency and was well below the established threshold rates at June 30, 2008. Based on the current levels, if dilution or delinquency percentages were to increase by one percentage point, there would be no impact to the amount of receivables BNSF Railway could sell.

Receivables funded under the A/R sales program may not include amounts over 90 days past due or concentrations over certain limits with any one customer and certain other receivables. At June 30, 2008 and December 31, 2007, \$15 million and \$11 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. Credit losses are based on specific identification of uncollectible accounts and application of historical collection percentages by aging category. At June 30, 2008 and December 31, 2007, \$37 million and \$36 million, respectively, of such allowances had been recorded, of which \$35 million and \$34 million, respectively, had been recorded as a reduction to accounts receivable, net. The remaining \$2 million at both June 30, 2008 and December 31, 2007, had been recorded in accounts payable and other current liabilities because they relate to the outstanding undivided interests held by investors. During the six months ended June 30, 2008 and 2007, \$1 million and \$2 million, respectively, of accounts receivable were written off.

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 unless and until all claims of their respective creditors have been paid. The A/R sales program includes provisions that, if triggered, allow the investors participating in this program, at their option, to cancel the program. At June 30, 2008, BNSF Railway was in compliance with these provisions.

#### 4. Debt

##### Revolving Credit Facility and Commercial Paper

As of June 30, 2008, the Company had borrowing capacity of up to \$1.2 billion under its long-term bank credit facility, which expires in September 2012. Annual facility fees are currently 0.08 percent for the facility. The rate is subject to change based upon changes in BNSF's senior unsecured debt ratings. Borrowing rates are based upon (i) LIBOR plus a spread determined by BNSF's senior unsecured debt ratings; (ii) money market rates offered at the option of the lenders; or (iii) an alternate base rate. BNSF must maintain compliance with certain financial covenants under its revolving credit agreement. At June 30, 2008, the Company was in compliance with these covenants.

At June 30, 2008, there were no bank borrowings against the revolving credit agreement.

BNSF issues commercial paper from time to time that is supported by the bank revolving credit agreement. Outstanding commercial paper balances reduce the amount of borrowings available under this agreement.

The maturity value of commercial paper as of June 30, 2008, of \$407 million, reduced the total capacity available under the revolving credit agreement to \$793 million. Commercial paper outstanding included \$109 million issued to a consolidated subsidiary of BNSF that was eliminated upon consolidation. Consolidated commercial paper outstanding, which had a maturity value of \$298 million, was classified as long-term debt on the Company's Consolidated Balance Sheets.

**BURLINGTON NORTHERN SANTA FE CORPORATION and SUBSIDIARIES**

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

**Notes and Debentures**

In March 2008, BNSF issued \$650 million of 5.75 percent notes due March 15, 2018. The net proceeds from the sale of the notes are being used for general corporate purposes including, but not limited to, working capital, capital expenditures, repurchase of our common stock pursuant to our share repurchase program and repayment of commercial paper.

In April 2008, the Board of Directors (the Board) authorized an additional \$850 million of debt securities that may be issued through the Securities and Exchange Commission (SEC) debt shelf registration process, for a total of \$1 billion authorized to be issued as of June 30, 2008.

**Financing Obligation**

The Company has commenced the construction of an intermodal facility that it intends to sell to a third party and subsequently lease back. Once construction of the facility is complete and all improvements have been sold to the third party, BNSF will lease the facility from the third party for 20 years. Construction is expected to be completed in 2009 with an approximate cost of \$160 million. During the first six months of 2008, the Company sold \$29 million of completed improvements, bringing the total sold to date to \$70 million. This sale leaseback transaction is being accounted for as a financing obligation due to continuing involvement. The outflows from the construction of the facility are classified as investing activities, and the inflows from the associated financing proceeds are classified as financing activities in the Company's Consolidated Statements of Cash Flows.

**Guarantees**

Debt and other obligations of non-consolidated entities guaranteed by the Company as of June 30, 2008, were as follows (dollars in millions):

	<b>Guarantees</b>					
	<b>BNSF Ownership Percentage</b>	<b>Principal Amount Guaranteed</b>	<b>Maximum Future Payments</b>	<b>Maximum Recourse Amount<sup>a</sup></b>	<b>Remaining Term (in years) Termination of Ownership</b>	<b>Capitalized Obligations</b>
Kinder Morgan Energy Partners, L.P.	0.5%	\$ 190	\$ 190	\$ –		\$ –
Kansas City Terminal Intermodal Transportation Corporation	0.0%	\$ 56	\$ 79	\$ 79	10	\$ 29 <sup>b</sup>
Westside Intermodal Transportation Corporation	0.0%	\$ 39	\$ 59	\$ –	15	\$ 33 <sup>b</sup>
The Unified Government of Wyandotte County/Kansas City, Kansas	0.0%	\$ 12	\$ 18	\$ –	15	\$ 10 <sup>b</sup>
Chevron Phillips Chemical Company, LP	0.0%	N/A <sup>d</sup>	N/A <sup>d</sup>	N/A <sup>d</sup>	9	\$ 13 <sup>c</sup>
Various lessors (Residual value guarantees)	0.0%	N/A	\$ 271	\$ 271	Various	\$ 68 <sup>c</sup>
All other	0.0%	\$ 5	\$ 6	\$ 2	Various	\$ –

<sup>a</sup> Reflects the maximum amount the Company could recover from a third party other than the counterparty.

<sup>b</sup> Reflects capitalized obligations that are recorded on the Company's Consolidated Balance Sheets.

<sup>c</sup> Reflects FASB Interpretation (FIN) 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees*, asset and corresponding liability for the fair value of these guarantees.

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

## BURLINGTON NORTHERN SANTA FE CORPORATION and SUBSIDIARIES

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

#### *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 or the exercise of the call rights by the general partners of SFPP.

#### *Kansas City Terminal Intermodal Transportation Corporation*

BNSF Railway and another major railroad jointly and severally guarantee \$56 million of debt of Kansas City Terminal Intermodal Transportation Corporation, the proceeds of which were used to finance construction of a double track grade separation bridge in Kansas City, Missouri, which is operated and used by Kansas City Terminal Railway Company (KCTRC). BNSF Railway has a 25 percent ownership in KCTRC, accounts for its interest using the equity method of accounting and would be required to fund a portion of the remaining obligation upon default by the original debtor.

#### *Westside Intermodal Transportation Corporation and The Unified Government of Wyandotte County/Kansas City, Kansas*

BNSF Railway has outstanding guarantees of \$51 million of debt, the proceeds of which were used to finance construction of a bridge that connects BNSF Railway's Argentine Yard in Kansas City, Kansas, with the KCTRC mainline tracks in Kansas City, Missouri. The bridge is operated by KCTRC, and payments related to BNSF Railway's guarantee of this obligation would only be called for upon default by the original debtor.

#### *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.

#### *Residual Value Guarantees (RVG)*

In the normal course of business, the Company enters into leases in which it guarantees the residual value of certain leased equipment. Some of these leases have renewal or purchase options, or both, that the Company may exercise at the end of the lease term. If the Company elects not to exercise these options, it may be required to pay the lessor an amount not exceeding the RVG. The amount of any payment is contingent upon the actual residual value of the leased equipment. Some of these leases also require the lessor to pay the Company any surplus if the actual residual value of the leased equipment is over the RVG. These guarantees will expire between 2008 and 2011.

The maximum future payments, as disclosed in the Guarantees table above, represent the undiscounted maximum amount that the Company could be required to pay in the event the Company did not exercise its renewal option and the fair market value of the equipment had significantly declined. BNSF does not anticipate such a large reduction in the fair market value of the leased equipment. As of June 30, 2008, the Company had recorded a \$68 million asset and corresponding liability for the fair value of RVGs.

#### *All Other*

As of June 30, 2008, BNSF guaranteed \$5 million of other debt and leases. BNSF holds a performance bond and has the option to sub-lease property to recover up to \$2 million of the \$5 million of guarantees. These guarantees expire between 2011 and 2013.

Other than as discussed above, there is no collateral held by a third party that the Company could obtain and liquidate to recover any amounts paid under the above guarantees.

## BURLINGTON NORTHERN SANTA FE CORPORATION and SUBSIDIARIES

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

Other than as discussed above, none of the guarantees are recorded in the Consolidated Financial Statements of the Company. The Company does not expect performance under these guarantees to have a material effect on the Company in the foreseeable future.

#### *Indemnities*

In the ordinary course of business, BNSF 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 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.

#### **5. 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 has implemented a number of safety programs designed to reduce the number of personal injuries as well as the associated claims and personal injury expense.

BNSF records a 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. 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 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 by 1985.

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

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

**BURLINGTON NORTHERN SANTA FE CORPORATION and SUBSIDIARIES**

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

The following table summarizes the activity in the Company's accrued obligations for both asserted and unasserted asbestos matters (in millions):

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Beginning balance	\$ 266	\$ 301	\$ 270	\$ 306
Accruals	-	-	-	-
Payments	(5)	(4)	(9)	(9)
Ending balance at June 30,	<u>\$ 261</u>	<u>\$ 297</u>	<u>\$ 261</u>	<u>\$ 297</u>

Of the June 30, 2008 obligation, \$216 million was related to unasserted claims while \$45 million was related to asserted claims. At June 30, 2008, \$17 million was included in current liabilities. The recorded liability was not discounted. 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 asbestos-related claims.

The following table summarizes information regarding the number of asserted asbestos claims filed against BNSF:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Claims unresolved at beginning of period	1,827	1,941	1,781	1,975
Claims filed	109	93	272	232
Claims settled, dismissed or otherwise resolved	(136)	(104)	(253)	(277)
Ending balance at June 30,	<u>1,800</u>	<u>1,930</u>	<u>1,800</u>	<u>1,930</u>

Based on BNSF's estimate of the potentially exposed employees and related mortality assumptions, it is anticipated that unasserted 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 specific data that was the basis for the study. BNSF projects that approximately 55, 75 and 95 percent of the future unasserted asbestos claims will be filed within the next 10, 15 and 25 years, respectively.

Because of the uncertainty surrounding the factors used in the study, it is reasonably possible that future costs to settle asbestos claims may range from approximately \$240 million to \$285 million. However, BNSF believes that the \$261 million recorded is the best estimate of the Company's future obligation for the settlement of asbestos claims.

The amounts recorded by BNSF for the asbestos-related liability 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 asbestos litigation in the United States, could cause the actual costs to be higher or lower than projected.

While the final outcome of asbestos-related 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 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.

**BURLINGTON NORTHERN SANTA FE CORPORATION and SUBSIDIARIES**

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

***Other Personal Injury***

BNSF 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 result from prolonged repeated events or exposure. Such claims are estimated on an as-reported basis because, while the Company has concluded that a probable loss has occurred, it cannot estimate the range of reasonably possible loss due to other contributing causes of such injuries and the fact that continued exposure is required for the potential injury to manifest itself as a claim. The Company believes that the low end of the range of reasonably possible loss, as that term is used in FIN 14, *Reasonable Estimation of the Amount of a Loss*, is immaterial for these repetitive stress and other occupational trauma claims.

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

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Beginning balance	\$ 454	\$ 434	\$ 439	\$ 439
Accruals	56	46	102	93
Payments	(36)	(43)	(67)	(95)
Ending balance at June 30,	<u>\$ 474</u>	<u>\$ 437</u>	<u>\$ 474</u>	<u>\$ 437</u>

At June 30, 2008, \$183 million was included in current liabilities. BNSF's liabilities for other personal injury claims are undiscounted. In addition, defense and processing costs, which are recorded on an as-reported basis, were not included in the recorded liability. The Company is substantially self-insured for other personal injury claims.

The following table summarizes information regarding the number of personal injury claims, other than asbestos, filed against BNSF:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Claims unresolved at beginning of period	3,972	3,222	3,322	3,130
Claims filed	913	945	2,447	1,866
Claims settled, dismissed or otherwise resolved	(944)	(1,036)	(1,828)	(1,865)
Ending balance at June 30,	<u>3,941</u>	<u>3,131</u>	<u>3,941</u>	<u>3,131</u>

Because of the uncertainty surrounding the ultimate outcome of other personal injury claims, it is reasonably possible that future costs to settle other personal injury claims may range from approximately \$410 million to \$575 million. However, BNSF believes that the \$474 million recorded is the best estimate of the Company's future obligation for the settlement of other personal injury claims.

The amounts recorded by BNSF for other personal injury claims 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.

## BURLINGTON NORTHERN SANTA FE CORPORATION and SUBSIDIARIES

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

While the final outcome of these other 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 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**

The Company's operations, as well as those of its competitors, are subject to extensive federal, state and local environmental regulation. BNSF'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'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 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 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 may be considered a PRP under certain other laws. Accordingly, under CERCLA and other federal and state statutes, BNSF may be held jointly and severally liable for all environmental costs associated with a particular site. If there are other PRPs, BNSF 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'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 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 experience gained from cleanup efforts at other similar sites into the estimates for which remediation and restoration efforts are still in progress.

On a quarterly basis, BNSF 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.

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 property, due to a limited number of sites; or (iii) natural resource damage claims. BNSF 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's recorded liability for third-party tort claims as of June 30, 2008, is approximately \$17 million.

BNSF is involved in a number of administrative and judicial proceedings and other mandatory cleanup efforts for 350 sites, including Superfund sites, at which it is participating in the study or cleanup, or both, of alleged environmental contamination.

**BURLINGTON NORTHERN SANTA FE CORPORATION and SUBSIDIARIES**

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

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Beginning balance	\$ 376	\$ 370	\$ 380	\$ 318
Accruals	182	7	197	74
Payments	(13)	(15)	(32)	(30)
Ending balance at June 30,	<u>\$ 545</u>	<u>\$ 362</u>	<u>\$ 545</u>	<u>\$ 362</u>

At June 30, 2008, \$66 million was included in current liabilities.

In the second quarter of 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, 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 recent increase in the number of claims against BNSF and others resulting from this decision, and the completion of the analysis have caused BNSF to record additional pre-tax environmental expenses of \$175 million, or \$0.31 per diluted share in the second quarter of 2008 for environmental liabilities primarily related to the effect of the aforementioned Montana Supreme Court decision on certain of BNSF's Montana sites.

In the first quarter of 2007, the Company recorded additional pre-tax environmental expenses of \$65 million, or \$0.11 per share, due to an increase in environmental costs primarily related to a final resolution with the State of Washington and its Department of Ecology on clean-up of an existing environmental site at Skykomish and an adverse reversal of a trial court decision on appeal regarding a site at Arvin, California.

BNSF's environmental liabilities are not discounted. BNSF anticipates that the majority of the accrued costs at June 30, 2008, will be paid over the next ten years, and no individual site is considered to be material.

The following tables summarize the environmental sites:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>BNSF Sites</b>				
Number of sites at beginning of period	346	368	346	375
Sites added during the period	6	7	12	12
Sites closed during the period	(2)	(28)	(8)	(40)
Number of sites at June 30,	<u>350</u>	<u>347</u>	<u>350</u>	<u>347</u>
<b>Superfund Sites</b>				
Number of sites at beginning of period	20	20	20	20
Sites added during the period	-	-	-	-
Sites closed during the period	-	-	-	-
Number of sites at June 30,	<u>20</u>	<u>20</u>	<u>20</u>	<u>20</u>

Liabilities recorded for environmental costs represent BNSF'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's best estimate of all probable costs, without reduction for anticipated recoveries from third parties, BNSF'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

## BURLINGTON NORTHERN SANTA FE CORPORATION and SUBSIDIARIES

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

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 \$400 million to \$865 million. However, BNSF believes that the \$545 million recorded at June 30, 2008, 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 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 and its subsidiaries are also parties to a number of other legal actions and claims, various 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 (including complaints seeking refunds of prior charges paid for coal transportation and the prescription of future rates for such movements and claims relating to service under contract provisions or otherwise). Some of the legal proceedings include claims for punitive as well as compensatory damages, and a few proceedings purport to be class actions. While 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 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.

#### **6. Employee Separation Costs**

Employee separation costs activity was as follows (in millions):

<b>Six Months Ended June 30,</b>	<b>2008</b>	<b>2007</b>
Beginning balance at January 1,	\$ 91	\$ 107
Accruals	3	5
Payments	(7)	(10)
Ending balance at June 30,	<u>\$ 87</u>	<u>\$ 102</u>

Employee separation liabilities of \$87 million were included in the Consolidated Balance Sheet at June 30, 2008, and principally represent the following: (i) \$83 million for deferred benefits payable upon separation or retirement to certain active conductors, trainmen and locomotive engineers; (ii) \$1 million for employee-related severance costs for the consolidation of clerical functions, material handlers in mechanical shops and trainmen on reserve boards; and (iii) \$3 million for certain non-union employee severance costs. Employee separation expenses are recorded in materials and other in the Consolidated Statements of Income. At June 30, 2008, \$14 million of the remaining liabilities were included in current liabilities.

The deferred benefits payable upon separation or retirement to certain active conductors, trainmen and locomotive engineers were primarily incurred in connection with labor agreements reached prior to the business combination of BNSF's predecessor companies, Burlington Northern Inc. and Santa Fe Pacific Corporation (the Merger). These agreements, among other things, reduced train crew sizes and allowed for more flexible work rules. The majority of the remaining costs will be paid between 2008 and 2020. As of June 30, 2008, the Company had updated its estimate and recorded an additional liability of \$3 million related to deferred benefits. The remaining costs for (ii) above are expected to be paid out between 2008 and approximately 2011, and the costs for (iii) above are expected to be paid out between 2008 and 2021 based on deferral elections made by the affected employees.

**BURLINGTON NORTHERN SANTA FE CORPORATION and SUBSIDIARIES**

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

**7. Employment Benefit Plans**

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132R*, which requires the recognition of the overfunded or underfunded status of a defined benefit postretirement plan in the Company's balance sheet. This portion of the new guidance was adopted by the Company on December 31, 2006. Additionally, the pronouncement eliminates the option for the Company to use a measurement date prior to the Company's fiscal year-end effective December 31, 2008. SFAS No. 158 provides two approaches to transition to a fiscal year-end measurement date, both of which are to be applied prospectively. BNSF has elected to apply the transition option under which a 15-month measurement was determined as of September 30, 2007 that covers the period until the fiscal year-end measurement is required on December 31, 2008. As a result, the Company recorded a \$7 million decrease to retained earnings in January 2008 to reflect the proportionate allocation of the net periodic benefit cost to cover the transition period.

Components of the net periodic benefit cost were as follows (in millions):

	<b>Pension Benefits</b>			
	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
<b>Net Periodic Cost</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Service cost	\$ 6	\$ 6	\$ 12	\$ 12
Interest cost	25	25	51	49
Expected return on plan assets	(28)	(27)	(56)	(53)
Amortization of net loss	4	9	8	18
Net periodic benefit cost	<u>\$ 7</u>	<u>\$ 13</u>	<u>\$ 15</u>	<u>\$ 26</u>

	<b>Retiree Health and Welfare Benefits</b>			
	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
<b>Net Periodic Cost</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Service cost	\$ —	\$ 1	\$ 1	\$ 2
Interest cost	5	4	9	8
Amortization of net loss	1	2	2	3
Amortization of prior service cost	(2)	(2)	(4)	(4)
Net periodic benefit cost	<u>\$ 4</u>	<u>\$ 5</u>	<u>\$ 8</u>	<u>\$ 9</u>

Due to changes in the Company's funding methodology, the Company is no longer required to make contributions to BNSF's qualified pension plan in 2008.

**8. Earnings Per Share**

Basic earnings per share is based on the weighted average number of common shares outstanding. Diluted earnings per share is based on basic earnings per share adjusted for the effect of potential common shares outstanding that were dilutive during the period, arising from employee stock awards and incremental shares calculated using the treasury stock method.

Weighted average stock options totaling 1.1 million and 1.6 million for the three and six months ended June 30, 2008, respectively, and 2.4 million and 2.0 million for the three and six months ended June, 30, 2007, respectively, were not included in the computation of diluted earnings per share because the options' exercise price exceeded the average market price of the Company's stock for those periods.

**BURLINGTON NORTHERN SANTA FE CORPORATION and SUBSIDIARIES**

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

**9. Comprehensive Income**

Other comprehensive income (loss) refers to revenues, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income, a component of Stockholders' Equity within the Consolidated Balance Sheets, rather than net income on the Consolidated Statements of Income. Under existing accounting standards, other comprehensive income (loss) may include, among other things, unrecognized gains and losses and prior service cost related to pension and other postretirement benefit plans and accounting for derivative financial instruments, which qualify for cash flow hedge accounting.

The following table provides a reconciliation of net income reported in the Consolidated Statements of Income to total comprehensive income (in millions):

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net income	\$ 350	\$ 433	\$ 805	\$ 782
Other comprehensive income:				
Amortization of prior service costs and actuarial losses, net of tax (see Note 7)	2	5	4	10
Gain on derivative instruments and other items, net of tax (see Note 2)	44	8	48	2
Unrealized gain on securities held by equity method investees, net of tax	1	–	–	–
<b>Total comprehensive income</b>	<b>\$ 397</b>	<b>\$ 446</b>	<b>\$ 857</b>	<b>\$ 794</b>

**10. Report of Independent Registered Public Accounting Firm**

PricewaterhouseCoopers LLP's review report is included in this quarterly report; however, PricewaterhouseCoopers LLP does not express an opinion on the unaudited financial information. Accordingly, such report is not a "report" or "part of a registration statement" within the meaning of Sections 7 and 11 of the Securities Act of 1933 and PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of such Act with respect to the review report.

## **Report of Independent Registered Public Accounting Firm**

To the Shareholders and Board of Directors of  
Burlington Northern Santa Fe Corporation:

We have reviewed the accompanying consolidated balance sheet of Burlington Northern Santa Fe Corporation and its subsidiaries (the "Company") as of June 30, 2008, and the related consolidated statements of income for each of the three-month and six-month periods ended June 30, 2008 and 2007, the consolidated statements of cash flows for each of the six-month periods ended June 30, 2008 and 2007 and the consolidated statement of changes in stockholders' equity for the six-month period ended June 30, 2008. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2007, and the related consolidated statements of income, of changes in stockholders' equity, and of cash flows for the year then ended (not presented herein), and in our report dated February 12, 2008, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2007, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

Fort Worth, Texas  
July 23, 2008

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

Management's discussion and analysis relates to the financial condition and results of operations of Burlington Northern Santa Fe Corporation and its majority-owned subsidiaries (collectively BNSF, Registrant or Company). The principal operating subsidiary of BNSF is the BNSF Railway Company (BNSF Railway) through which BNSF derives substantially all of its revenues. All earnings per share information is stated on a diluted basis.

### **Company Overview**

Through its subsidiaries, BNSF is engaged primarily in the freight rail transportation business. BNSF's primary operating subsidiary, BNSF Railway, operates one of the largest North American rail networks with about 32,000 route miles in 28 states and two Canadian provinces. Through its one operating transportation segment, BNSF Railway transports a wide range of products and commodities including Consumer Products, Industrial Products, Coal and Agricultural Products.

Additional operational information, including weekly intermodal and carload unit reports as submitted to the Association of American Railroads and annual reports submitted to the Surface Transportation Board, are available on the Company's website at [www.bnsf.com/investors](http://www.bnsf.com/investors).

### **Executive Summary**

#### ***Overview:***

- Quarterly earnings were \$1.00 per diluted share, which included a \$0.31 per share impact related to environmental matters in Montana (see Note 5 to the Consolidated Financial Statements for additional information). Second-quarter 2007 earnings were \$1.20 per diluted share.
- Quarterly freight revenues of \$4.35 billion were \$613 million, or 16 percent higher than second-quarter 2007 freight revenues of \$3.74 billion.
  - ✓ The 16-percent increase in freight revenues is principally due to increased fuel surcharges, driven by higher fuel prices, and improved yields.
- Operating expenses for the second quarter of 2008 were \$3.76 billion compared with second-quarter 2007 operating expenses of \$3.00 billion. The \$762 million increase in operating expenses was largely driven by a \$474 million increase in fuel expense due to significantly higher fuel prices, as well as an increase in expense related to environmental matters in Montana and additional personal injury accruals.

#### ***Business Outlook for 2008:***

- The Company anticipates that planned capital commitments for 2008 will be about \$2,850 million, or \$275 million higher than previously disclosed due to: (i) the acceleration of capital projects to take advantage of the Economic Stimulus Act of 2008, (ii) the acquisition of additional new locomotives which will enable the Company to take advantage of the significant fuel efficiency and other environmental benefits and the Economic Stimulus Act of 2008, and (iii) capital expenditures associated with significant flooding costs in the Midwest.

## Results of Operations

### *Three Months Ended June 30, 2008, Compared with Three Months Ended June 30, 2007*

#### Revenues

The following table presents BNSF's revenue information by business group for the three months ended June 30, 2008 and 2007.

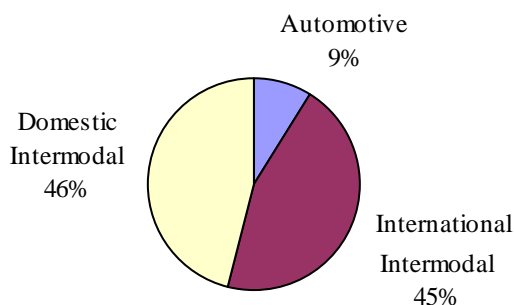
	<u>Revenues</u> <u>(in millions)</u>		<u>Cars / Units</u> <u>(in thousands)</u>		<u>Average Revenue</u> <u>Per Car / Unit</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Consumer Products	\$ 1,573	\$ 1,400	1,236	1,300	\$ 1,273	\$ 1,077
Industrial Products	1,046	950	422	431	2,479	2,204
Coal	902	776	589	611	1,531	1,270
Agricultural Products	828	610	262	239	3,160	2,552
Total Freight Revenues	4,349	3,736	2,509	2,581	\$ 1,733	\$ 1,448
Other Revenues	129	107				
Total Operating Revenues	\$ 4,478	\$ 3,843				

Freight revenues for the second quarter of 2008 were \$4,349 million, up 16 percent compared with the same 2007 period, on a slight decline in unit volumes. Freight revenues included an increase of approximately \$400 million in fuel surcharges compared with the same 2007 period. Average revenue per car/unit was up 20 percent in the second quarter of 2008 from the second quarter of 2007 primarily due to fuel surcharges as well as improved pricing.

#### *Consumer Products*

The Consumer Products' freight business includes a significant intermodal component and consists of the following three business areas: international intermodal, domestic intermodal and automotive.

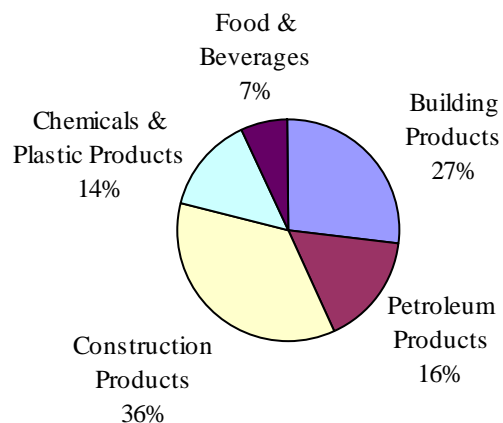
Consumer Products revenues of \$1,573 million for the second quarter of 2008 were \$173 million, or 12 percent, greater than the second quarter of 2007. Higher revenue per unit due to increased fuel surcharges, improved yields and increased domestic intermodal traffic was partially offset by lower international volumes resulting from economic softness, as well as reduced transpacific service of a large international customer.



#### *Industrial Products*

Industrial Products' freight business consists of five business areas: construction products, building products, petroleum products, chemicals and plastic products and food and beverages.

Industrial Products revenues of \$1,046 million for the second quarter of 2008 were \$96 million, or 10 percent, greater than the second quarter of 2007, due to continued strong demand for construction products and petroleum products, which were partially offset by weakness in the housing market. The 12-percent increase in average revenue per unit was the result of higher fuel surcharges and improved yields.



### *Coal*

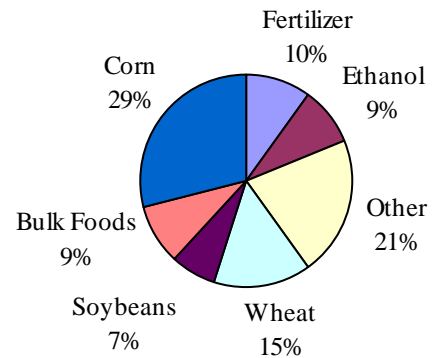
BNSF is one of the largest transporters of low-sulfur coal in the United States. More than 90 percent of all BNSF's coal tons originate from the Powder River Basin of Wyoming and Montana.

Coal revenues of \$902 million for the second quarter of 2008 increased \$126 million, or 16 percent, compared with the same period a year ago. The revenue increase was primarily driven by an increase in the average revenue per car of 21 percent driven by improved yields, contractual inflation escalators and increased fuel surcharges, partially offset by a decrease in unit volumes of 4 percent due to weather-related issues.

### *Agricultural Products*

The Agricultural Products' freight business transports agricultural products including corn, wheat, soybeans, bulk foods, ethanol, fertilizer and other products.

Agricultural Products revenues of \$828 million for the second quarter of 2008 were \$218 million, or 36 percent, higher than revenues for the second quarter of 2007. This increase was primarily due to a 10-percent increase in unit volume growth principally in ethanol, corn, soybeans and wheat. Additionally, average revenue per unit increased by 24 percent as the result of higher fuel surcharges and improved yields.



### *Other Revenues*

Other revenues increased \$22 million, or 21 percent, to \$129 million for the second quarter of 2008. This was primarily due to an increase of about \$10 million in BNSF Logistics revenues, which is a wholly-owned third-party logistics company, and an increase in demurrage charges.

### **Expenses**

Total operating expenses for the second quarter of 2008 were \$3,764 million, an increase of \$762 million, or 25 percent, versus the same period in 2007.

### *Fuel*

Fuel expense is driven by market price, the level of locomotive consumption of diesel fuel and the effects of hedging activities. Fuel expense only represents fuel used in locomotives for transportation services and excludes additional fuel-related costs such as fuel used for maintenance of way vehicles, intermodal facilities equipment, crew hauling transportation and work trains.

Fuel expenses of \$1,245 million for the second quarter of 2008 were \$474 million higher than the second quarter of 2007. The increase in fuel expense was due to an increase in the average all-in cost per gallon of diesel fuel. The average all-in cost per gallon of diesel fuel increased by \$1.34 to \$3.51, resulting in a \$476 million increase in expense. The increase in the average all-in cost reflected an increase in the average purchase price per gallon of \$1.41, or a \$500 million increase in fuel expenses, offset by an increase in the hedge benefit of 7 cents per gallon, or \$24 million (second quarter 2008 benefit of \$23 million less second quarter 2007 loss of \$1 million). Fuel consumption in the second quarter of 2008 was relatively flat as compared with consumption in the same 2007 period.

### *Compensation and benefits*

Compensation and benefits includes expenses for BNSF employee wages, health and welfare, payroll taxes and other related items. The primary factors influencing the expenses recorded are volume, headcount, utilization, wage rates, incentives earned during the period, benefit plan participation and pension expenses.

Compensation and benefits expenses of \$951 million were \$26 million, or 3 percent, higher than the second quarter of 2007. This increase was primarily related to higher incentive compensation costs and wage inflation. The average number of employees decreased 1 percent compared to the same prior year period.

#### *Purchased services*

Purchased services expense includes ramping (lifting of containers onto and off of cars); drayage (highway movements to and from railway facilities); maintenance of locomotives, freight cars and equipment; transportation costs over other railroads; technology services outsourcing; professional services; and other contract services provided to BNSF. Purchased services expense also includes purchased transportation costs for BNSF Logistics. The expenses are driven by the rates established in the related contracts and the volume of services required.

Purchased service expenses of \$540 million for the second quarter of 2008 were \$33 million, or 7 percent, higher than the second quarter of 2007. About 30 percent of the increase was due to purchased transportation costs for BNSF Logistics, which increased \$10 million for the second quarter of 2008 and which is offset in other revenues. The remainder was due to higher freight car and locomotive contract maintenance expense as well as re-routing costs associated with flooding.

#### *Depreciation and amortization*

Depreciation and amortization expenses for the period are determined by using the group method of depreciation, applying a single rate to the gross investment in a particular class of property. Due to the capital-intensive nature of BNSF's operations, depreciation expense is a significant component of the Company's operating expense. The full effect of inflation is not reflected in operating expenses because depreciation is based on historical cost.

Depreciation and amortization expenses of \$349 million for the second quarter of 2008 were \$27 million, or 8 percent, higher than the same period in 2007. This increase in depreciation expense was primarily due to continuing capital expenditures and updated depreciation rates for other roadway property that went into effect in April, 2008.

#### *Equipment rents*

Equipment rents expense includes long-term and short-term payments primarily for locomotives, freight cars, containers and trailers. The expense is driven primarily by volume, lease and rental rates, utilization of equipment and changes in business mix resulting in equipment usage variances.

Equipment rents expenses of \$223 million for the second quarter of 2008, were \$14 million, or 6 percent lower than the second quarter of 2007 due to lower volumes and improved asset utilization.

#### *Materials and other*

Material expenses consist mainly of the costs involved to purchase mechanical and engineering materials, in addition to other items for construction and maintenance of property and equipment. Other expenses include personal injury claims, environmental remediation and derailments as well as utilities, impairments of long-lived assets, locomotive overhauls, property and miscellaneous taxes and employee separation costs. The total is offset by gains on land sales and insurance recoveries.

Materials and other expenses of \$456 million for the second quarter of 2008 were \$216 million, or 90 percent, higher than the second quarter of 2007. The increase was primarily due to environmental matters in Montana and additional personal injury accruals.

#### *Interest expense*

Interest expense of \$140 million for the second quarter of 2008 was \$8 million, or 6 percent, higher than the same 2007 period. This was primarily due to a higher average debt balance.

### *Income taxes*

The effective tax rate for the three months ended June 30, 2008 was 38.5 percent compared with 38.4 percent for the same prior year period.

### *Six Months Ended June 30, 2008, Compared with Six Months Ended June 30, 2007*

#### **Revenues**

The following table presents BNSF's revenue information by business group for the six months ended June 30, 2008 and 2007.

	<b>Revenues</b>		<b>Cars / Units</b>		<b>Average Revenue</b>	
	<b>(in millions)</b>		<b>(in thousands)</b>		<b>Per Car / Unit</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Consumer Products	\$ 2,957	\$ 2,712	2,401	2,575	\$ 1,232	\$ 1,053
Industrial Products	1,985	1,796	825	821	2,406	2,188
Coal	1,856	1,536	1,223	1,205	1,518	1,275
Agricultural Products	<u>1,694</u>	<u>1,236</u>	<u>546</u>	<u>487</u>	<u>3,103</u>	<u>2,538</u>
Total Freight Revenues	<u>8,492</u>	<u>7,280</u>	<u>4,995</u>	<u>5,088</u>	<u>\$ 1,700</u>	<u>\$ 1,431</u>
Other Revenues	<u>247</u>	<u>208</u>				
Total Operating Revenues	<u>\$ 8,739</u>	<u>\$ 7,488</u>				

Freight revenues for the first six months of 2008 were \$8,492 million, up 17 percent compared with the same 2007 period, while cars/units decreased by 2 percent during this same period. Freight revenues included an increase of approximately \$680 million in fuel surcharges compared with the same 2007 period. Average revenue per car/unit was up 19 percent in the first six months of 2008 from the first six months of 2007 primarily due to fuel surcharges and improved pricing.

#### *Consumer Products*

Consumer Products revenues of \$2,957 million for the first six months of 2008 were \$245 million, or 9 percent, greater than the first six months of 2007. This reflected increased fuel surcharges and improved yields, partially offset by lower volumes related to economic softness as well as reduced transpacific service of a large international customer.

#### *Industrial Products*

Industrial Products revenues of \$1,985 million for the first six months of 2008 were \$189 million, or 11 percent, greater than the first six months of 2007, due to improved yields on relatively flat unit volumes. Continued strong demand for construction products and petroleum products was partially offset by a decline in building products as a result of weakness in the housing market.

#### *Coal*

Coal revenues of \$1,856 million for the first six months of 2008 increased \$320 million, or 21 percent, compared with the same 2007 period. The increase was primarily driven by an increase in the average revenue per car of 19 percent driven by contractual inflation escalators, improved yields and higher fuel surcharges. Strong coal unit volumes in the first quarter of 2008 were offset by second quarter weather-related issues, resulting in relatively flat volumes for the first six months of 2008.

#### *Agricultural Products*

Agricultural Products revenues of \$1,694 million for the first six months of 2008 were \$458 million, or 37 percent, higher than revenues for the first six months of 2007. This increase was primarily due to revenue growth in ethanol, wheat,

corn and soybeans and a 22-percent increase in average revenue per unit. The increase in revenue per unit was the result of improved yields and higher fuel surcharges.

#### *Other Revenues*

Other revenues increased \$39 million, or 19 percent, to \$247 million for the first six months of 2008. This increase was primarily due to an increase of about \$20 million in BNSF Logistics revenues, which is a wholly-owned third-party logistics company, and an increase in demurrage charges.

#### *Expenses*

Total operating expenses for the first six months of 2008 were \$7,150 million, an increase of \$1,197 million, or 20 percent, versus the same 2007 period.

#### *Fuel*

Fuel expenses of \$2,254 million for the first six months of 2008 were \$831 million, or 58 percent, higher than the first six months of 2007. The increase in fuel expense was due to an increase in the average all-in cost per gallon of diesel fuel. The average all-in cost per gallon of diesel fuel increased by \$1.15 to \$3.14, resulting in an \$825 million increase in expense. The increase in the average all-in cost reflected an increase in the average purchase price per gallon of \$1.16, or an \$834 million increase in fuel expenses, offset by an increase in the hedge benefit of 1 cent per gallon, or \$9 million (first six months 2008 benefit of \$33 million less first six months 2007 benefit of \$24 million). Fuel consumption in the first six months of 2008 increased by 3 million gallons to 719 million gallons, when compared with consumption in the same 2007 period.

#### *Compensation and benefits*

Compensation and benefits expenses of \$1,934 million were \$77 million, or 4 percent, higher than the first six months of 2007. This increase was primarily related to higher incentive compensation costs and wage inflation. The average number of employees decreased approximately 1 percent compared to the same 2007 period.

#### *Purchased services*

Purchased services expenses of \$1,065 million for the first six months of 2008 were \$56 million, or 6 percent, higher than the same 2007 period. This increase was primarily due to an increase in purchased transportation costs for BNSF Logistics of about \$20 million as well as higher locomotive and freight car contract maintenance expense, and haulage payments for transportation over other railroads.

#### *Depreciation and amortization*

Depreciation and amortization expenses of \$690 million for the first six months of 2008 were \$61 million, or 10 percent, higher than the same period in 2007. This increase in depreciation expense was primarily due to continuing capital expenditures, updated depreciation rates for locomotives that went into effect in April, 2007 and updated depreciation rates for other roadway property that went into effect in April, 2008.

#### *Equipment rents*

Equipment rents expenses of \$453 million for the first six months of 2008 were \$16 million, or 3 percent, lower than the first six months of 2007 due to lower volumes, improved velocity and increased asset utilization.

#### *Materials and other*

Materials and other expenses of \$754 million for the first six months of 2008 were \$188 million, or 33 percent, higher than the first six months of 2007. The increase was primarily due to an increase in environmental accruals, additional personal injury accruals, higher property taxes and inflationary increases associated with non-locomotive fuel costs, partially offset by a \$16 million write-off of a technology system in the first quarter of 2007.

### *Interest expense*

Interest expense of \$274 million for the first six months of 2008 was \$21 million, or 8 percent, higher than the same 2007 period. This was primarily due to a higher average debt balance.

### *Income taxes*

The effective tax rate for both the six months ended June 30, 2008 and 2007 was 38.5 percent.

## **Liquidity and Capital Resources**

Liquidity is a company's ability to generate cash flows to satisfy current and future obligations. Cash generated from operations is BNSF's principal source of liquidity. BNSF generally funds any additional liquidity requirements through debt issuance, including commercial paper, through leasing of assets and through the sale of a portion of its accounts receivable.

### *Operating Activities*

Net cash provided by operating activities was \$1,705 million for the six months ended June 30, 2008, compared with \$1,576 million for the six months ended June 30, 2007. The increase was primarily the result of increased income before depreciation and amortization.

### *Investing Activities*

Net cash used for investing activities was \$1,458 million for the six months ended June 30, 2008, compared with \$1,334 million for the six months ended June 30, 2007. The increase in cash used for investing activities primarily reflects an increase in other investing activities due to the timing of equipment financing activities, partially offset by a decrease in cash capital expenditures. The following table presents a breakdown of cash capital expenditures for the six months ended June 30, 2008 and 2007 (in millions):

<b>Six Months Ended June 30,</b>	<b>2008</b>	<b>2007</b>
Engineering	\$ 726	\$ 708
Mechanical	69	62
Other	51	51
Total Replacement Capital	846	821
Information Services	43	36
New Locomotive and Freight Car Acquisitions	9	–
Terminal and Line Expansion	144	295
Total	\$ 1,042	\$ 1,152

The table above does not include expenditures for equipment financed through operating leases (principally related to rolling stock).

### *Financing Activities*

#### **Six Months Ended June 30, 2008**

Net cash used for financing activities during the first six months of 2008 was \$96 million, primarily related to common stock repurchases of \$642 million, including \$59 million to satisfy tax withholding obligations for stock option exercises, and dividend payments of \$223 million, which were partially offset by net debt borrowings of \$585 million, excess tax benefits from equity compensation plans of \$82 million, proceeds from stock options exercised of \$79 million and proceeds from a facility financing obligation of \$29 million.

Aggregate debt due to mature within one year is \$434 million. BNSF's ratio of net debt to total capitalization was 42.4 percent at June 30, 2008, compared with 41.2 percent at December 31, 2007. The Company's adjusted net debt to total capitalization was 52.4 percent at June 30, 2008, compared with 51.8 percent at December 31, 2007. BNSF's adjusted net

debt to total capitalization is a non-GAAP measure and should be considered in addition to, but not as a substitute for or preferable to, the information prepared in accordance with GAAP. However, management believes that adjusted net debt to total capitalization provides meaningful additional information about the ability of BNSF to service long-term debt and other fixed obligations and to fund future growth.

The following table presents a reconciliation of the calculation of adjusted net debt to total capitalization percentage:

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Net debt to total capitalization <sup>a</sup>	42.4 %	41.2 %
Adjustment for long-term operating leases <sup>b</sup>	9.9	10.5
Adjustment for other debt equivalents <sup>c</sup>	0.4	0.5
Adjustment for unfunded pension and retiree health and welfare liability	0.7	0.7
Adjustment for junior subordinated notes <sup>d</sup>	(1.0)	(1.1)
<b>Adjusted net debt to total capitalization</b>	<b>52.4 %</b>	<b>51.8 %</b>

<sup>a</sup> Net debt to total capitalization is calculated as total debt (long-term debt and commercial paper plus long-term debt due within one year) less cash and cash equivalents divided by the sum of net debt and total stockholders' equity.

<sup>b</sup> Represents the net present value of future operating lease commitments.

<sup>c</sup> Adjustment for other debt equivalents principally includes accounts receivable financing (see Note 3 to the Consolidated Financial Statements for additional information).

<sup>d</sup> Junior subordinated notes are included in total debt on the respective Consolidated Balance Sheets; however, as they include certain equity characteristics, they have been assigned 50 percent equity credit for purposes of this calculation.

In March 2008, BNSF issued \$650 million of 5.75 percent notes due March 15, 2018. The net proceeds from the sale of the notes are being used for general corporate purposes including, but not limited to, working capital, capital expenditures, repurchase of our common stock pursuant to our share repurchase program and repayment of commercial paper.

In April 2008, the Board authorized an additional \$850 million of debt securities that may be issued through the SEC debt shelf registration process, for a total of \$1 billion authorized to be issued as of June 30, 2008.

The Company has commenced the construction of an intermodal facility that it intends to sell to a third party and subsequently lease back. Once construction of the facility is complete and all improvements have been sold to the third party, BNSF will lease the facility from the third party for 20 years. Construction is expected to be completed in 2009 with an approximate cost of \$160 million. During the first six months of 2008, the Company sold \$29 million of completed improvements, bringing the total sold to date to \$70 million. This sale leaseback transaction is being accounted for as a financing obligation due to continuing involvement. The outflows from the construction of the facility are classified as investing activities, and the inflows from the associated financing proceeds are classified as financing activities in the Company's Consolidated Statements of Cash Flows.

#### **Six Months Ended June 30, 2007**

Net cash used for financing activities during the first six months of 2007 was \$224 million, primarily related to the common stock repurchases of \$709 million, including \$33 million to satisfy tax withholding obligations for stock option exercises, dividend payments of \$179 million, partially offset by net borrowings of \$467 million, proceeds from stock options exercised of \$115 million and excess tax benefits from equity compensation plans of \$94 million.

### ***Dividends***

Common stock dividends declared for the six months ended June 30, 2008 and 2007 were \$0.64 and \$0.50 per share, respectively. Dividends paid on common stock during the first six months of 2008 and 2007 were \$223 million and \$179 million, respectively. On April 24, 2008, the Board declared a quarterly dividend of \$0.32 per share on outstanding shares of common stock, payable July 1, 2008 to shareholders of record on June 10, 2008. On July 24, 2008, the Board declared a quarterly dividend of \$0.40 per share on outstanding shares of common stock, payable October 1, 2008 to shareholders of record on September 10, 2008. This represents an \$0.08 or 25-percent increase in the quarterly dividend compared with the same period in 2007.

### ***Common Stock Repurchase Program***

During the first six months of 2008, BNSF repurchased 6.1 million shares of its common stock at an average price of \$95.45 per share under the Company's share repurchase program amounting to a total cost of \$582 million. Program-to-date repurchases through June 30, 2008, were 187 million shares at an average price of \$40.07 per share, leaving 23 million shares available for repurchase out of the 210 million shares authorized. Additionally, during the six months ended June 30, 2008, the Company acquired shares from employees at a cost of \$59 million to satisfy tax withholding obligations.

### ***Long-Term Debt and Lease Obligations***

The Company's business is capital intensive. BNSF has historically generated a significant amount of cash from operating activities, which it uses to fund capital additions, service debt, repurchase shares and pay dividends. Additionally, the Company relies on access to the debt and leasing markets to finance a portion of capital additions on a long-term basis.

BNSF has agreed to acquire 1,135 locomotives by 2013. As of June 30, 2008, BNSF had taken delivery of 163 of the 1,135 locomotives, all of which were delivered in the first six months of 2008.

BNSF has agreed to acquire 4,000 covered hoppers, 100 automax cars and 1,497 double-stack cars by 2010. As of June 30, 2008, BNSF had taken delivery of 2,940 of the covered hoppers, 100 automax cars and 623 of the double-stack cars.

The locomotives and freight cars under these agreements have been or are expected to be financed from one or a combination of sources including, but not limited to, cash from operations, capital or operating leases and debt issuances. The decision on the method used for a particular acquisition financing will depend on market conditions and other factors at that time.

In the normal course of business, the Company enters into long-term contracts for future goods and services needed for the operations of the business. Such commitments are not in excess of expected requirements and are not reasonably likely to result in performance penalties or payments that would have a material adverse effect on the Company's liquidity.

### ***Credit Agreement***

Information concerning the Company's outstanding commercial paper balances and revolving credit agreement is incorporated by reference from Note 4 to the Consolidated Financial Statements.

### ***Market Conditions***

In spite of recent unfavorable and volatile conditions in the credit markets, BNSF has not experienced significant impacts to liquidity or cost of debt. The market conditions have not affected BNSF's ability to issue commercial paper, secure necessary debt financings or obtain funding through its accounts receivable sales program.

## **Off-Balance Sheet Arrangements**

### ***Sale of Accounts Receivable***

The accounts receivable sales program of Santa Fe Receivables Corporation, as described in Note 3 to the Consolidated Financial Statements, includes various provisions that, if triggered, would allow the investors participating in this program, at their option, to cancel the program. These provisions include a maximum debt-to-capital test, which is the same as in BNSF's revolving credit agreements. At June 30, 2008, BNSF Railway was in compliance with these provisions.

The accounts receivable sales program provides efficient financing at a competitive interest rate as compared with traditional borrowing arrangements and provides diversification of funding sources. Since the funding is collateralized by BNSF receivables, the risk of exposure is only as great as the risk of default on these receivables (see Note 3 to the Consolidated Financial Statements for additional information).

### ***Guarantees***

The Company acts as guarantor for certain debt and lease obligations of others. During the past few years, the Company has primarily utilized guarantees to allow third-party entities to obtain favorable terms to finance the construction of assets that will benefit the Company. Additionally, in the ordinary course of business, BNSF enters into agreements with third parties that include indemnification clauses. The Company does not expect performance under these guarantees or indemnities to have a material adverse effect on the Company's liquidity in the foreseeable future (see Note 4 to the Consolidated Financial Statements for additional information).

## **Other Matters**

### ***Hedging Activities***

The Company uses derivatives to hedge against increases in diesel fuel prices and interest rates as well as to convert a portion of its fixed-rate long-term debt to floating-rate debt. The Company does not hold or issue 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 fair value or 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 fair value or cash flows. Any change in fair value resulting from ineffectiveness, as defined by Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities, as amended*, 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 loss (AOCL) as a separate component of stockholders' equity and reclassified into earnings in the period during which the hedge transaction affects earnings. Cash flows related to fuel and interest rate hedges are classified as operating activities in the Consolidated Statements of Cash Flows.

BNSF monitors its hedging positions and credit ratings of its counterparties and does not anticipate losses due to counterparty nonperformance. As of June 30, 2008, BNSF's counterparties have an investment grade credit rating.

### **Fuel**

BNSF measures the fair value of fuel hedges from data provided by various external counterparties. The Company uses the forward commodity price for the periods hedged to value its fuel-hedge swaps and costless collars. This methodology is a market approach, which under SFAS No. 157 utilizes Level 2 inputs as it uses market data for similar instruments in active markets. Further information on BNSF's fuel hedging program is incorporated by reference from Note 2 to the Consolidated Financial Statements.

From July 1, 2008 through July 23, 2008, the Company entered into additional costless collar agreements utilizing West Texas Intermediate (WTI) crude oil. The supporting tables below provide fuel hedge data for hedges entered into subsequent to the end of the second quarter period.

<b>2008</b>	<b>Quarter Ending December 31,</b>
<b>WTI Costless Collars</b>	
Barrels hedged (in thousands)	270
Equivalent gallons hedged (in millions)	11.34
Average cap price (per barrel)	\$ 145.18
Average floor price (per barrel)	\$ 133.54

<b>2009</b>	<b>Quarter Ending</b>				<b>Annual</b>
	<b>March 31,</b>	<b>June 30,</b>	<b>September 30,</b>	<b>December 31,</b>	
<b>WTI Costless Collars</b>					
Barrels hedged (in thousands)	350	225	250	205	1,030
Equivalent gallons hedged (in millions)	14.70	9.45	10.50	8.61	43.26
Average cap price (per barrel)	\$ 145.15	\$ 146.83	\$ 144.05	\$ 145.39	\$ 145.30
Average floor price (per barrel)	\$ 133.24	\$ 135.26	\$ 133.14	\$ 134.43	\$ 133.90

### **Interest Rate**

BNSF's measurement of the fair value of interest rate derivatives is based on estimates of the mid-market values for the transactions provided by the counterparties to these agreements. This methodology is a market approach, which under SFAS No. 157 utilizes Level 2 inputs as it uses market data for similar instruments in active markets. Further information on BNSF's interest hedging program is incorporated by reference from Note 2 to the Consolidated Financial Statements.

### **Depreciation Rate Study**

The Company uses the group method of depreciation in which a single depreciation rate is applied to the gross investment in a particular class of property. The Company conducts studies of depreciation rates and the required accumulated depreciation balance as required by the STB, which is generally every three years for equipment property and every six years for track structure and other roadway property. Changes in estimated service lives of the assets and their related depreciation rates are implemented prospectively.

A study completed and implemented in April 2008 resulted in the Company adopting new depreciation rates for other roadway property, which includes items such as bridges, office buildings and facilities, telecommunication and information technology systems and machinery, that will result in a net increase in 2008 depreciation expense of approximately \$13 million and approximately \$17 million on an ongoing annual basis.

### **Employee and Labor Relations**

A significant majority of BNSF Railway's employees are union-represented. BNSF Railway's union employees work under collective bargaining agreements with various labor organizations. A negotiating process for new, major collective bargaining agreements covering all of BNSF Railway's union employees has been underway since the bargaining round was initiated November 1, 2004. Wages, health and welfare benefits, work rules and other issues have traditionally been addressed through industry-wide negotiations. These negotiations have generally taken place over an extended period of time and have previously not resulted in any extended work stoppages. The existing agreements have remained in effect and will continue to remain in effect until new agreements are reached or the Railway Labor Act's procedures (which include mediation, cooling-off periods and the possibility of Presidential intervention) are exhausted. Agreements undergoing renegotiation in the current bargaining round provide for periodic wage increases until new agreements are reached.

The current bargaining round for all unions with contracts that came into effect after January 1, 2005, began on and after November 1, 2004, with the serving of Section 6 notices, which are each side's initial proposals. BNSF is participating in a coordinated national handling of these proposals. The current agreements remain in effect until new agreements are reached or until changes to the existing agreements are made.

Final agreements have been reached in the current bargaining round covering about 94 percent of BNSF's unionized workforce. These agreements resolve all wage, work rule and benefit issues through December 31, 2009. BNSF remains in national bargaining with the International Association of Machinists and Aerospace Workers.

### **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. These forward-looking statements include, but are not limited to, statements regarding:

- Expectations as to operating results, such as revenue growth and earnings per share;
- Expectations as to the effect on the Company's financial condition of claims, litigation, environmental and personal injury costs, commitments, contingent liabilities, and governmental and regulatory investigations and proceedings;
- Plans and goals for future operational improvements and capital commitments; and
- Future market conditions or economic performance.

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, changes in customer demand, effects of adverse economic conditions affecting shippers or BNSF's supplier base, adverse economic conditions in the industries and geographic areas that produce and consume freight, changes in demand due to more stringent regulatory policies such as the regulation of carbon dioxide emissions that could reduce the demand for coal, governmental tariffs or subsidies that could affect the demand for grain, competition and consolidation within the transportation industry, the extent to which BNSF is successful in gaining new long-term relationships with customers or retaining existing ones, level of service failures that could lead customers to use competitors' services, changes in fuel prices and other key materials and disruptions in supply chains for these materials, changes in the securities and capital markets and changes in crew availability, labor costs and labor difficulties, including stoppages affecting either BNSF's operations or customers' abilities to deliver goods to BNSF 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, and developments in and losses resulting from other types of claims and litigation, including those relating to personal injuries, asbestos and other occupational diseases, the release of hazardous materials, environmental contamination and damage to property; and

- **Operating factors:** technical difficulties, changes in operating conditions and costs, changes in business mix, the availability of equipment and human resources to meet changes in demand, the extent of the Company's ability to achieve its operational and financial initiatives and to contain costs, the effectiveness of steps taken to maintain and improve operations and velocity and network fluidity, including the management of the amount of traffic on the system to meet demand and the ability to acquire sufficient resources to meet that demand, the ability to expand the capacity of the system, congestion on other railroads and capacity constraints affecting all links in the transportation chain that feed traffic and goods to BNSF's systems, restrictions on development and expansion plans due to environmental concerns, disruptions to BNSF'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 operating systems, structures, or equipment including the effects of acts of terrorism on the Company's system or other railroads' systems.

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. Any corrections or revisions and other important assumptions and factors that could cause actual results to differ materially from forward-looking statements made by the Company may appear in the Company's public filings with the SEC, which are accessible at [www.sec.gov](http://www.sec.gov), and on the Company's website at [www.bnsf.com](http://www.bnsf.com), and which investors are advised to consult.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

In the ordinary course of business, BNSF utilizes various financial instruments that inherently have some degree of market risk. The following table summarizes the impact of these hedging activities on the Company's results of operations. (in millions):

<b>Three months ended June 30,</b>	<b>2008</b>	<b>2007</b>
Fuel hedge benefit (loss) (including ineffective portion of unexpired hedges)	\$ 23	\$ (1)
Interest rate hedge benefit (loss)	4	(1)
Total hedge benefit (loss)	27	(2)
Tax effect	(10)	1
Hedge benefit (loss), net of tax	\$ 17	\$ (1)

<b>Six months ended June 30,</b>	<b>2008</b>	<b>2007</b>
Fuel hedge benefit (including ineffective portion of unexpired hedges)	\$ 33	\$ 24
Interest rate hedge benefit (loss)	4	(1)
Total hedge benefit	37	23
Tax effect	(14)	(9)
Hedge benefit, net of tax	\$ 23	\$ 14

The Company's fuel-hedge benefit is due to increases in fuel prices subsequent to the initiation of various hedges. The information presented in the Management's Discussion and Analysis of Financial Condition and Results of Operations section and Notes 2 and 4 to the Consolidated Financial Statements describe significant aspects of BNSF's financial instrument activities that have a material market risk. Additionally, the Company uses fuel surcharges, which it believes substantially mitigates the risk of fuel price volatility.

#### **Commodity Price Sensitivity**

BNSF engages in hedging activities to partially mitigate the risk of fluctuations in the price of its diesel fuel purchases. Existing hedge transactions as of June 30, 2008, are based on the front month settlement prices of New York Mercantile Exchange (NYMEX) #2 heating oil (HO) or West Texas Intermediate (WTI) crude oil. For swaps, BNSF either pays or receives the difference between the hedge price and the actual average price of the hedge commodity during a specified determination period for a specified number of gallons. For costless collars, if the average hedge commodity price for a specified determination period is greater than the cap price, BNSF receives the difference for a specified number of gallons. If the average commodity price is less than the floor price, BNSF pays the difference for a specified number of gallons. If the commodity price is between the floor price and the cap price, BNSF neither makes nor receives a payment. Hedge transactions are generally settled with the counterparty in cash. Based on historical information, BNSF believes there is a significant correlation between the market prices for diesel fuel, HO and WTI.

At June 30, 2008, BNSF had recorded a net fuel-hedging asset of \$126 million for fuel hedges covering 2008 through 2010.

The following table is an estimate of the impact to earnings that could result from hypothetical price changes during the twelve-month period ending June 30, 2009, and the balance sheet impact from the hypothetical price changes, both based on the Company's hedge position at June 30, 2008:

<b>Sensitivity Analysis</b>		
<b>Hedged commodity price change</b>	<b>Fuel-hedge annual pre-tax earnings impact</b>	<b>Balance Sheet impact of change in fuel-hedge fair value</b>
10 percent increase	\$29 million increase	\$38 million increase
10 percent decrease	\$22 million decrease	\$30 million decrease

Based on fuel consumption during the twelve-month period ending June 30, 2008, of 1,445 million gallons and fuel prices during that same period, excluding the impact of the Company's hedging activities, a 10-percent increase or decrease in the commodity price per gallon would result in an approximate \$392 million increase or decrease, respectively, in fuel expense (pre-tax) on an annual basis.

At June 30, 2008, BNSF maintained fuel inventories for use in normal operations, which were not material to BNSF's overall financial position and, therefore, represent no significant market exposure. The frequency of BNSF's fuel inventory turnover also reduces market exposure, should fuel inventories become material to BNSF's overall financial position. Further information on fuel hedges is incorporated by reference from Note 2 to the Consolidated Financial Statements.

### **Interest Rate Sensitivity**

From time to time, BNSF enters into various interest rate hedging transactions for purposes of managing exposure to fluctuations in interest rates by establishing rates in anticipation of both future debt issuances and the refinancing of leveraged leases, as well as to convert a portion of its fixed-rate long-term debt to floating-rate debt. These interest rate hedges are accounted for as cash flow or fair value hedges. BNSF's measurement of the fair value of these hedges is based on estimates of the mid-market values for the transactions provided by the counterparties to these agreements.

At June 30, 2008, the fair value of BNSF's debt, excluding capital leases, was \$8,005 million, which excludes a net fair value interest rate hedge liability of \$1 million.

The following table is an estimate of the impact to earnings and the fair value of the total debt, excluding capital leases, and interest rate hedges that could result from hypothetical interest rate changes during the twelve-month period ending June 30, 2009, based on debt levels and outstanding hedges as of June 30, 2008:

<b>Sensitivity Analysis</b>			
<b>Hypothetical change in interest rates</b>	<b>Floating rate debt - Annual pre-tax earnings impact</b>	<b>Change in fair value</b>	
		<b>Total debt<sup>a</sup></b>	<b>Interest rate hedges</b>
1 percent decrease	\$11 million increase	\$724 million increase	\$38 million increase
1 percent increase	\$11 million decrease	\$615 million decrease	\$35 million decrease

<sup>a</sup> Excludes the impact of interest rate hedges.

Further information on interest rate hedges is incorporated by reference from Note 2 to the Consolidated Financial Statements. Information on the Company's debt, which may be sensitive to interest rate fluctuations, is incorporated by reference from Note 4 to the Consolidated Financial 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's principal executive officer and principal financial officer have concluded that BNSF'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 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'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's principal executive officer and principal financial officer have concluded that there have been no changes in BNSF's internal control over financial reporting that occurred during the fiscal quarter that have materially affected, or are reasonably likely to materially affect, BNSF's internal control over financial reporting.

**BURLINGTON NORTHERN SANTA FE CORPORATION and SUBSIDIARIES**

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings.**

Reference is made to the disclosure in BNSF's Form 10-K for the year ended December 31, 2007, that the Company was responding to a state grand jury subpoena requesting production of information related to fuel surcharges. On July 9, 2008, BNSF was advised that the State Attorney General of New Jersey has decided not to go forward with an investigation at this time.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

**Common Stock Repurchases**

The following table presents repurchases by the Company of its common stock for each of the three months for the quarter ended June 30, 2008 (shares in thousands):

Issuer Purchases of Equity Securities				
Period	Total Number of Shares Purchased <sup>a</sup>	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>b</sup>	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs <sup>b</sup>
April 1 – 30	4	\$ 96.16	–	25,501
May 1 – 31	1,155	\$ 106.45	1,125	24,376
June 1 – 30	1,112	\$ 110.38	975	23,401
<b>Total</b>	<b>2,271</b>	<b>\$ 108.36</b>	<b>2,100</b>	

a Total number of shares purchased includes approximately 171 thousand shares where employees delivered already owned shares or used an attestation procedure to satisfy the exercise price of stock options or the withholding of tax payments. Total number of shares purchased does not include approximately 383 thousand shares acquired from employees to satisfy tax withholding obligations that arose on the vesting of restricted stock or the exercise of stock options.

b On July 17, 1997, the Board initially authorized and the Company announced the repurchase of up to 30 million shares of the Company's common stock from time to time in the open market. On December 9, 1999, April 20, 2000, September 21, 2000, January 16, 2003, December 8, 2005 and February 14, 2007, the Board authorized and the Company announced extensions of the BNSF share repurchase program, adding 30 million shares at each date for a total of 210 million shares authorized. The share repurchase program does not have an expiration date.

**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.**

BURLINGTON NORTHERN SANTA FE CORPORATION  
(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)**

Dated: July 24, 2008

## BURLINGTON NORTHERN SANTA FE CORPORATION and SUBSIDIARIES

### Exhibit Index

	<u>Exhibit Number and Description</u>	<u>Incorporated by Reference</u> (if applicable)			<u>Exhibit</u>
		<u>Form</u>	<u>File Date</u>	<u>File No.</u>	
3.1	Amended and Restated Certificate of Incorporation of Burlington Northern Santa Fe Corporation, dated December 21, 1994, as amended.	10-Q	8/13/1998	001-11535	3.1
3.2	By-Laws of Burlington Northern Santa Fe Corporation, as amended and restated, dated July 24, 2008. **				
10.1	Burlington Northern Santa Fe Supplemental Retirement Plan, as amended through April 24, 2008.* **				
10.2	Burlington Northern Santa Fe Corporation Supplemental Investment and Retirement Plan, as amended through April 24, 2008.* **				
12.1	Computation of Ratio of Earnings to Fixed Charges.**				
15.1	Independent Registered Public Accounting Firm's Awareness Letter.**				
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).**				

Certain instruments defining the rights of the holders of long-term debt of the Company and of its subsidiaries, involving a total amount of indebtedness not in excess of 10 percent of the total assets of the Company and its subsidiaries on a consolidated basis, have not been filed as exhibits. The Company hereby agrees to furnish a copy of any of these agreements to the SEC upon request.

\*Management contract and compensatory plan

\*\* Filed herewith

**BURLINGTON NORTHERN SANTA FE CORPORATION and SUBSIDIARIES**  
**COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES**  
(In millions, except ratio amounts)  
(Unaudited)

	Six Months Ended	
	June 30,	
	2008	2007
Earnings:		
Income before income taxes	\$ 1,310	\$ 1,271
Add:		
Interest and other fixed charges, excluding capitalized interest	274	253
Reasonable approximation of portion of rent under long-term operating leases representative of an interest factor	137	141
Distributed income of investees accounted for under the equity method	2	2
Amortization of capitalized interest	2	1
Less: Equity in earnings of investments accounted for under the equity method	7	10
Total earnings available for fixed charges	<u>\$ 1,718</u>	<u>\$ 1,658</u>
Fixed charges:		
Interest and fixed charges	\$ 283	\$ 261
Reasonable approximation of portion of rent under long-term operating leases representative of an interest factor	<u>137</u>	<u>141</u>
Total fixed charges	<u>\$ 420</u>	<u>\$ 402</u>
Ratio of earnings to fixed charges	<u>4.09x</u>	<u>4.12x</u>

July 24, 2008

Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549

Re: Burlington Northern Santa Fe Corporation  
Registration Statement on Form S-3  
(No. 333-130214)

Registration Statements on Form S-8

(No. 33-62829)  
(No. 33-62835)  
(No. 33-63249)  
(No. 333-03275)  
(No. 333-03277)  
(No. 333-19241)  
(No. 333-77615)  
(No. 333-59854)  
(No. 333-108384)  
(No. 333-118732)  
(No. 333-133434)  
(No. 333-135893)  
(No. 333-135894)  
(No. 333-135897)

Commissioners:

We are aware that our report dated July 23, 2008 on our review of the consolidated interim financial information of Burlington Northern Santa Fe Corporation (the "Company") for the three and six month periods ended June 30, 2008 and 2007 and included in the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2008 is incorporated by reference in the Registration Statements referred to above.

Yours very truly,

/s/ PricewaterhouseCoopers LLP

**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 Burlington Northern Santa Fe Corporation;
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 presented in 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 second fiscal quarter 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: July 24, 2008

/s/ Matthew K. Rose  
Matthew K. Rose  
Chairman, President 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 Burlington Northern Santa Fe Corporation;
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 presented in 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 second fiscal quarter 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: July 24, 2008

/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)

**Burlington Northern Santa Fe Corporation**

In connection with the Quarterly Report of Burlington Northern Santa Fe Corporation (the "Company") on Form 10-Q for the period ending June 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Matthew K. Rose, Chairman, President 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.

Dated: July 24, 2008

/s/ Matthew K. Rose

/s/ Thomas N. Hund

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

**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 Burlington Northern Santa Fe Corporation and will be retained by Burlington Northern Santa Fe Corporation and furnished to the Securities and Exchange Commission or its staff upon request.