

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, 2018

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, LLC**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction  
of incorporation or organization)

**27-1754839**

(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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes  No

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

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**PART I  
FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**BURLINGTON NORTHERN SANTA FE, LLC and SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(In millions)  
(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues	\$ 5,878	\$ 5,250	\$ 11,502	\$ 10,435
Operating expenses:				
Compensation and benefits	1,328	1,255	2,643	2,552
Fuel	830	577	1,597	1,182
Purchased services	714	609	1,406	1,235
Depreciation and amortization	575	592	1,146	1,165
Equipment rents	167	196	359	392
Materials and other	381	247	721	555
Total operating expenses	3,995	3,476	7,872	7,081
Operating income	1,883	1,774	3,630	3,354
Interest expense	256	256	512	508
Other (income) expense, net	(28)	(19)	(50)	(36)
Income before income taxes	1,655	1,537	3,168	2,882
Income tax expense	346	579	714	1,086
Net income	\$ 1,309	\$ 958	\$ 2,454	\$ 1,796

See accompanying Notes to Consolidated Financial Statements.

**BURLINGTON NORTHERN SANTA FE, LLC and SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(In millions)  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$ 1,309	\$ 958	\$ 2,454	\$ 1,796
Other comprehensive income:				
Change in pension and retiree health and welfare benefits, net of tax	—	(1)	—	(1)
Change in accumulated other comprehensive income (loss) of equity method investees	—	1	1	(1)
Other comprehensive income (loss), net of tax	—	—	1	(2)
<b>Total comprehensive income</b>	<b>\$ 1,309</b>	<b>\$ 958</b>	<b>\$ 2,455</b>	<b>\$ 1,794</b>

See accompanying Notes to Consolidated Financial Statements.

**BURLINGTON NORTHERN SANTA FE, LLC and SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(In millions)  
(Unaudited)

	June 30, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,139	\$ 1,975
Accounts receivable, net	1,462	1,448
Materials and supplies	789	803
Other current assets	276	408
Total current assets	4,666	4,634
Property and equipment, net of accumulated depreciation of \$9,259 and \$8,627, respectively	62,507	62,313
Goodwill	14,845	14,845
Intangible assets, net	382	394
Other assets	2,401	2,337
Total assets	\$ 84,801	\$ 84,523
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable and other current liabilities	\$ 3,161	\$ 3,169
Long-term debt due within one year	86	740
Total current liabilities	3,247	3,909
Long-term debt	22,448	21,759
Deferred income taxes	13,600	13,452
Casualty and environmental liabilities	490	499
Intangible liabilities, net	426	471
Pension and retiree health and welfare liability	311	310
Other liabilities	1,093	1,114
Total liabilities	41,615	41,514
Commitments and contingencies (see Notes 7 and 8)		
Equity:		
Member's equity	42,929	42,778
Accumulated other comprehensive income (loss)	257	231
Total equity	43,186	43,009
Total liabilities and equity	\$ 84,801	\$ 84,523

See accompanying Notes to Consolidated Financial Statements.

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

	<b>Six Months Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 2,454	\$ 1,796
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,146	1,165
Deferred income taxes	144	232
Long-term casualty and environmental liabilities, net	(19)	(19)
Other, net	(93)	(113)
Changes in current assets and liabilities:		
Accounts receivable, net	(14)	(17)
Materials and supplies	14	6
Other current assets	(104)	(17)
Accounts payable and other current liabilities	266	502
<b>Net cash provided by operating activities</b>	<b>3,794</b>	<b>3,535</b>
<b>INVESTING ACTIVITIES</b>		
Capital expenditures excluding equipment	(1,224)	(1,296)
Acquisition of equipment	(72)	(200)
Purchases of investments and investments in time deposits	(13)	(8)
Proceeds from sales of investments and maturities of time deposits	17	15
Other, net	(108)	(235)
<b>Net cash used for investing activities</b>	<b>(1,400)</b>	<b>(1,724)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of long-term debt	750	1,250
Payments on long-term debt	(696)	(700)
Cash distributions	(2,275)	(1,425)
Other, net	(9)	(19)
<b>Net cash used for financing activities</b>	<b>(2,230)</b>	<b>(894)</b>
<b>Increase in cash and cash equivalents</b>	<b>164</b>	<b>917</b>
Cash and cash equivalents:		
Beginning of period	1,975	3,218
End of period	\$ 2,139	\$ 4,135
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid, net of amounts capitalized	\$ 532	\$ 530
Capital investments accrued but not yet paid	\$ 93	\$ 103
Income taxes paid, net of refunds	\$ 226	\$ 212

See accompanying Notes to Consolidated Financial Statements.

**BURLINGTON NORTHERN SANTA FE, LLC and SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**(In millions)**  
**(Unaudited)**

	<b>Member's Equity</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total Equity</b>
Balance at December 31, 2017	\$ 42,778	\$ 231	\$ 43,009
Adoption of ASC Topic 606	(3)	—	(3)
Equity method investee adoption of ASU 2016-01 <sup>a</sup>	1	(1)	—
Reclassification upon early adoption of ASU 2018-02	(26)	26	—
Cash distributions	(2,275)	—	(2,275)
Comprehensive income (loss), net of tax	2,454	1	2,455
Balance at June 30, 2018	\$ 42,929	\$ 257	\$ 43,186

<sup>a</sup> Accounting Standards Update No. 2016-01 Financial Instruments- Recognition and Measurement of Financial Assets and Financial Liabilities

See accompanying Notes to Consolidated Financial Statements.

**BURLINGTON NORTHERN SANTA FE, LLC 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, LLC's Annual Report on Form 10-K for the year ended December 31, 2017, including the financial statements and notes thereto. Burlington Northern Santa Fe, LLC (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 intercompany accounts and transactions have been eliminated.

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

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, 2018, and the results of operations for the three and six months ended June 30, 2018 and 2017.

**2. Revenue from Contracts with Customers**

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

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

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

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



**BURLINGTON NORTHERN SANTA FE, LLC and SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) - (Continued)**

Other revenues are primarily generated from a wholly owned non-rail logistics subsidiary providing logistics and transportation services and from accessorial services provided to customers which are primarily storage and demurrage. The vast majority of revenues generated by the non-rail logistics subsidiary are recognized over time as the services are performed and accessorial revenues are recognized when the service is performed.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Consumer Products	\$ 1,979	\$ 1,742	\$ 3,839	\$ 3,422
Industrial Products	1,482	1,274	2,840	2,498
Agricultural Products	1,182	1,074	2,334	2,182
Coal	911	912	1,859	1,872
Total freight revenues	5,554	5,002	10,872	9,974
Non-rail logistics subsidiary	214	157	406	295
Accessorial and other	110	91	224	166
Total other revenues	324	248	630	461
Total operating revenues	\$ 5,878	\$ 5,250	\$ 11,502	\$ 10,435

Contract assets and liabilities are immaterial. Receivables from contracts with customers is a component of accounts receivable, net on the Consolidated Balance Sheets. At both June 30, 2018 and January 1, 2018, \$1.2 billion represents net receivables from contracts with customers.

Remaining performance obligations primarily consist of in-transit freight revenues, which will be recognized in the next reporting period. At June 30, 2018 and January 1, 2018, remaining performance obligations were \$282 million and \$192 million, respectively.

### 3. Accounts Receivable, Net

Accounts receivable, net consists of freight and other receivables, reduced by an allowance for bill adjustments and uncollectible accounts, based upon expected collectibility. At June 30, 2018 and December 31, 2017, \$84 million and \$87 million, respectively, of such allowances had been recorded.

At June 30, 2018 and December 31, 2017, \$62 million and \$82 million, respectively, of accounts receivable were greater than 90 days old.

### 4. Investments

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

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

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

**BURLINGTON NORTHERN SANTA FE, LLC and SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) - (Continued)**
**5. Other Intangible Assets and Liabilities**

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

	As of June 30, 2018		As of December 31, 2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible assets	\$ 653	\$ 271	\$ 647	\$ 253
Intangible liabilities	\$ 1,403	\$ 977	\$ 1,403	\$ 932

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Amortization of intangible assets	\$ 9	\$ 9	\$ 18	\$ 18
Amortization of intangible liabilities	\$ 22	\$ 24	\$ 45	\$ 48

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

	Amortization of intangible assets	Amortization of intangible liabilities
Remainder of 2018	\$ 17	\$ 45
2019	\$ 33	\$ 27
2020	\$ 33	\$ 26
2021	\$ 31	\$ 24
2022	\$ 31	\$ 23

**6. Other Assets**

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

**BURLINGTON NORTHERN SANTA FE, LLC and SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) - (Continued)**

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

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

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

**7. Debt****Notes and Debentures**

In March 2018, BNSF issued \$750 million of 4.05 percent debentures due June 15, 2048. The net proceeds from the sale of the debentures will be used for general corporate purposes, which may include but are not limited to working capital, capital expenditures, repayment of outstanding indebtedness and distributions.

As of June 30, 2018, \$1 billion remained authorized by the Board of Managers (the Board) of the Company to be issued through the Securities and Exchange Commission (SEC) debt shelf offering process.

The Company is required to maintain certain financial covenants in conjunction with \$500 million of certain issued and outstanding junior subordinated notes. As of June 30, 2018, the Company was in compliance with these financial covenants.

**Subsequent Event**

In August 2018, BNSF issued \$750 million of 4.15 percent debentures due December 15, 2048. The net proceeds from the sale of the debentures will be used for general corporate purposes, which may include but are not limited to working capital, capital expenditures, repayment of outstanding indebtedness and distributions.

After this issuance, \$250 million remained authorized by the Board to be issued through the SEC debt shelf offering process.

**Fair Value of Debt Instruments**

At June 30, 2018 and December 31, 2017, the fair value of BNSF's debt, excluding capital leases and unamortized gains on interest rate swaps, was \$23.4 billion and \$25.1 billion, respectively, while the book value, which also excludes capital leases and the associated unamortized fair value adjustment under acquisition method accounting related to capital leases and unamortized gains on interest rate swaps, was \$22.1 billion and \$22.0 billion, respectively. The fair value of BNSF's debt is primarily based on market value price models using observable market-based data for the same or similar issues, or on the estimated rates that would be offered to BNSF for debt of the same remaining maturities (Level 2 inputs).

**BURLINGTON NORTHERN SANTA FE, LLC and SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) - (Continued)**
**Guarantees**

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

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

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

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

***Kinder Morgan Energy Partners, L.P.***

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

***Chevron Phillips Chemical Company LP***

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

***Indemnities***

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

**BURLINGTON NORTHERN SANTA FE, LLC and SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) - (Continued)****Variable Interest Entities - Leases**

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

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

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

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

**8. Commitments and Contingencies****Personal Injury**

Personal injury claims, including asbestos claims and employee work-related injuries and third-party injuries (collectively, other personal injury), are a significant expense for the railroad industry. Personal injury claims by BNSF Railway employees are subject to the provisions of the Federal Employers' Liability Act (FELA) rather than state workers' compensation laws. FELA's system of requiring the finding of fault, coupled with unscheduled awards and reliance on the jury system, contributed to increased expenses in past years. Other proceedings include claims by non-employees for punitive as well as compensatory damages, and from time to time may include proceedings that have been certified as or purport to be class actions. The variability present in settling these claims, including non-employee personal injury and matters in which punitive damages are alleged, could result in increased expenses in future years. BNSF 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 an undiscounted liability for personal injury claims when the expected loss is both probable and reasonably estimable. The liability and ultimate expense projections are estimated using standard actuarial methodologies. Liabilities recorded for unasserted personal injury claims are based on information currently available. Due to the inherent uncertainty involved in projecting future events such as the number of claims filed each year, developments in judicial and legislative standards and the average costs to settle projected claims, actual costs may differ from amounts recorded. Expense accruals and any required adjustments are classified as materials and other in the Consolidated Statements of Income.

***Asbestos***

The Company is party to a number of personal injury claims by employees and non-employees who may have been exposed to asbestos. The heaviest exposure for certain BNSF 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.

**BURLINGTON NORTHERN SANTA FE, LLC and SUBSIDIARIES**

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

BNSF assesses its unasserted asbestos 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.

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

***Other Personal Injury***

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

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

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

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

  

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

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

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



**BURLINGTON NORTHERN SANTA FE, LLC and SUBSIDIARIES**

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

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

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

***BNSF Insurance Company***

The Company has a consolidated, wholly-owned subsidiary, Burlington Northern Santa Fe Insurance Company, Ltd. (BNSFIC), that offers insurance coverage for certain risks, FELA claims, railroad protective and force account insurance claims and certain excess general liability and property coverage, and certain other claims which are subject to reinsurance. BNSFIC has entered into annual reinsurance treaty agreements with several other companies. The treaty agreements insure workers compensation, general liability, auto liability and FELA risk. In accordance with the agreements, BNSFIC cedes a portion of its FELA exposure through the treaty and assumes a proportionate share of the entire risk. Each year BNSFIC reviews the objectives and performance of the treaty to determine its continued participation in the treaty. The treaty agreements provide for certain protections against the risk of treaty participants' non-performance. On an ongoing basis, BNSF and/or the treaty manager reviews the creditworthiness of each of the participants. BNSF does not believe its exposure to treaty participants' non-performance is material at this time. BNSFIC typically invests in time deposits and money market accounts. At June 30, 2018, there was \$513 million related to these third-party investments, which were classified as cash and cash equivalents on the Company's Consolidated Balance Sheets, as compared with \$497 million at December 31, 2017.

**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.

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

Liabilities for environmental cleanup costs are recorded when BNSF'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.

**BURLINGTON NORTHERN SANTA FE, LLC and SUBSIDIARIES**

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

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 current estimated percentage to closure ratios, possible remediation work plans and estimates of the costs and likelihood of each possible outcome, historical payment patterns, and benchmark patterns developed from data accumulated from industry and public sources, including the Environmental Protection Agency and other governmental agencies. These factors incorporate into the estimates experience gained from cleanup efforts at other similar sites.

Annual studies do not include: (i) contaminated sites of which the Company is not aware; (ii) additional amounts for third-party tort claims, which arise out of contaminants allegedly migrating from BNSF 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, 2018 and December 31, 2017 was \$9 million for both periods.

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 other PRPs' participation in, and their ability to pay for, cleanup. Adjustments to the Company's estimates will continue to be recorded as necessary based on developments in subsequent periods. Additionally, environmental accruals, which are classified as materials and other in the Consolidated Statements of Income, include amounts for newly identified sites or contaminants, third-party claims, and legal fees incurred for defense of third-party claims and recovery efforts.

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

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

  

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

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

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

Liabilities recorded for environmental costs represent BNSF'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 of other parties' participation in cleanup efforts, developments in ongoing environmental analyses related to sites determined to be contaminated and developments in environmental surveys and studies of contaminated sites.

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



**BURLINGTON NORTHERN SANTA FE, LLC and SUBSIDIARIES**

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

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

**9. Employment Benefit Plans**

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

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

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

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

**BURLINGTON NORTHERN SANTA FE, LLC and SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) - (Continued)**

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

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

**10. Related Party Transactions**

The companies identified as affiliates of BNSF include Berkshire and its subsidiaries. During the six months ended June 30, 2018 and 2017, the Company declared and paid cash distributions of \$2.3 billion and \$1.4 billion, respectively, to its parent company. For the six months ended June 30, 2018 and 2017, the Company received tax refunds of \$217 million and \$0 million, respectively, from Berkshire, and made tax payments of \$347 million and \$91 million to Berkshire. As of June 30, 2018, the Company had a payable to Berkshire of \$53 million. As of December 31, 2017, the Company had a receivable from Berkshire of \$235 million recorded in other current assets and a payable to Berkshire of \$19 million. Uncertain tax positions will affect the tax payable to Berkshire if and when settled. As of June 30, 2018 and December 31, 2017, the Company had \$31 million and \$32 million payable to Berkshire related to prior year tax audit settlements.

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

	Three Months Ended June 30,	
	2018	2017
Revenues	\$ 33	\$ 31
Expenditures	\$ 97	\$ 82

	Six Months Ended June 30,	
	2018	2017
Revenues	\$ 67	\$ 68
Expenditures	\$ 186	\$ 161

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

**BURLINGTON NORTHERN SANTA FE, LLC and SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) - (Continued)**
**11. Accumulated Other Comprehensive Income**

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

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

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

<sup>a</sup> Amounts are net of tax.

**Reclassifications out of AOCI<sup>b</sup>**

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

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

<sup>b</sup> Amounts in parenthesis indicate debits to the income statement.

<sup>c</sup> This accumulated other comprehensive income component is included in the computation of net periodic pension and retiree health and welfare cost (see Note 9 for additional details).

**BURLINGTON NORTHERN SANTA FE, LLC and SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) - (Continued)**
**12. Accounting Pronouncements**

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

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

	<b>Three Months Ended June 30, 2017</b>		
	<b>As Previously Reported</b>	<b>Adjustments</b>	<b>As Revised</b>
Operating expenses	\$ 3,463	\$ 13	\$ 3,476
Operating income	\$ 1,787	\$ (13)	\$ 1,774
Other (income) expense, net	\$ (6)	\$ (13)	\$ (19)

	<b>Six Months Ended June 30, 2017</b>		
	<b>As Previously Reported</b>	<b>Adjustments</b>	<b>As Revised</b>
Operating expenses	\$ 7,054	\$ 27	\$ 7,081
Operating income	\$ 3,381	\$ (27)	\$ 3,354
Other (income) expense, net	\$ (9)	\$ (27)	\$ (36)

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

**Item 2. Management’s Narrative Analysis of Results of Operations.**

Management’s narrative analysis relates to the results of operations of Burlington Northern Santa Fe, LLC and its majority-owned subsidiaries (collectively BNSF, Registrant or Company). The principal operating subsidiary of BNSF is BNSF Railway Company (BNSF Railway) through which BNSF derives substantially all of its revenues. The following narrative analysis should be read in conjunction with the Consolidated Financial Statements and the accompanying notes.

The following narrative analysis of results of operations includes a brief discussion of the factors that materially affected the Company’s operating results in the six months ended June 30, 2018, and a comparative analysis to the six months ended June 30, 2017.

**Results of Operations**

**Revenues Summary**

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

	<b>Revenues (in millions)</b>		<b>Cars / Units (in thousands)</b>	
	<b>Six Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Consumer Products	\$ 3,839	\$ 3,422	2,798	2,654
Industrial Products	2,840	2,498	964	878
Agricultural Products	2,334	2,182	609	565
Coal	1,859	1,872	899	912
Total freight revenues	10,872	9,974	5,270	5,009
Other revenues	630	461		
Total operating revenues	\$ 11,502	\$ 10,435		

	<b>Average Revenue Per Car / Unit</b>	
	<b>Six Months Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
Consumer Products	\$ 1,372	\$ 1,289
Industrial Products	2,946	2,845
Agricultural Products	3,833	3,862
Coal	2,068	2,053
Total freight revenues	\$ 2,063	\$ 1,991

**Fuel Surcharges**

Freight revenues include both revenue for transportation services and fuel surcharges. Where BNSF’s fuel surcharge program is applied, it is intended to recover BNSF’s incremental fuel costs when fuel prices exceed a threshold fuel price. Fuel surcharges are calculated differently depending on the type of commodity transported. BNSF has two standard fuel surcharge programs – Percent of Revenue and Mileage-Based. In addition, in certain commodities, fuel surcharge is calculated using a fuel price from a time period that can be up to 60 days earlier. In a period of volatile fuel prices or changing customer business mix, changes in fuel expense and fuel surcharge may differ significantly.

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

	<b>Six Months Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
Total fuel expense <sup>a</sup>	\$ 1,597	\$ 1,182
BNSF fuel surcharges	\$ 636	\$ 394

<sup>a</sup> Total fuel expense includes locomotive and non-locomotive fuel.

**Six Months Ended June 30, 2018 vs. the Six Months Ended June 30, 2017**

**Revenues**

Revenues for the six months ended June 30, 2018 were \$11.5 billion, an increase of \$1.1 billion, or 10 percent, as compared with the six months ended June 30, 2017. The increase in revenue is primarily due to a 5 percent increase in unit volume and an increase in average revenue per car / unit. The change in revenues is due to the following:

- Average revenue per car / unit increased 4 percent as a result of higher fuel surcharges driven primarily by higher fuel prices, increased rates per car / unit, and business mix changes.
- Consumer Products volumes increased due to higher intermodal volumes, which were driven by economic growth and tight truck capacity leading to conversion from highway to rail, as well as strength in imports and containerized agricultural product exports, offset by a contract loss.
- Industrial Products volumes increased primarily due to strength in the energy and industrial sectors which drove demand for sand, petroleum products, taconite, steel, and plastics.
- Agricultural Products volumes increased due to strong export and domestic grain shipments, as well as higher fertilizer and other grain products volumes.
- Coal volumes decreased due mainly to plant retirements partially offset by market share gains and improved export volumes.

**Expenses**

Operating expenses for the six months ended June 30, 2018 were \$7.9 billion, an increase of \$791 million, or 11 percent, as compared with the six months ended June 30, 2017. A significant portion of this increase is due to the following changes in underlying trends in expenses:

- Compensation and benefits expense increased primarily due to wage inflation, increased volumes, and higher training costs.
- Fuel expense increased primarily due to higher average fuel prices and increased volumes.
- Purchased services expense increased as a result of higher purchased transportation costs of our logistics services business, which are offset in other revenues, as well as increased intermodal ramping, drayage, and other volume-related activities.
- Materials and other expense increased primarily as a result of higher locomotive materials, derailment-related costs, property taxes, and personal injury expenses.
- There were no significant changes in depreciation and amortization and equipment rents expense.
- The effective tax rate was 22.5 percent and 37.7 percent for the six months ended June 30, 2018 and 2017, respectively. The decrease is primarily driven by the Tax Cuts and Jobs Act (the Tax Act) signed into law on December 22, 2017 and various state income tax rate reductions enacted in 2018. The Tax Act decreased the federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018.

## **Forward-Looking Information**

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

Forward-looking statements involve a number of risks and uncertainties, and actual performance or results may differ materially. For a discussion of material risks and uncertainties that the Company faces, see the discussion in Item 1A, "Risk Factors," of the Company's Annual Report on Form 10-K. Important factors that could cause actual results to differ materially include, but are not limited to, the following:

- **Economic and industry conditions:** material adverse changes in economic or industry conditions, both in the United States and globally; volatility in the capital or credit markets including changes affecting the timely availability and cost of capital; changes in customer demand; effects of adverse economic conditions affecting shippers or BNSF's supplier base; effects due to more stringent regulatory policies such as the regulation of greenhouse gas emissions that could reduce the demand for coal or governmental tariffs or subsidies that could affect the demand for products BNSF hauls; the impact of low natural gas or oil prices on energy-related commodities demand; changes in environmental laws and other laws and regulations that could affect the demand for drilling products and products produced by drilling; changes in prices of fuel and other key materials, the impact of high barriers to entry for prospective new suppliers and disruptions in supply chains for these materials; competition and consolidation within the transportation industry; and changes in crew availability, labor and benefits costs and labor difficulties, including stoppages affecting either BNSF'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, the marketing of services or regulatory restrictions on equipment; the ultimate outcome of shipper and rate claims subject to adjudication; claims, investigations or litigation alleging violations of the antitrust laws; increased economic regulation of the rail industry through legislative action and revised rules and standards applied by the U.S. Surface Transportation Board in various areas including rates and services; developments in environmental investigations or proceedings with respect to rail operations or current or past ownership or control of real property or properties owned by others impacted by BNSF operations; losses resulting from claims and litigation relating to personal injuries, asbestos and other occupational diseases; the release of hazardous materials, environmental contamination and damage to property; regulation, restrictions or caps, or other controls on transportation of energy-related commodities or other operating restrictions that could affect operations or increase costs; the availability of adequate insurance to cover the risks associated with operations; and changes in tax rates and tax laws.

- **Operating factors:** changes in operating conditions and costs; operational and other difficulties in implementing positive train control technology, including increased compliance or operational costs or penalties; restrictions on development and expansion plans due to environmental concerns; disruptions to BNSF's technology network including computer systems and software, such as cybersecurity intrusions, misappropriation of assets or sensitive information, corruption of data or operational disruptions; network congestion, including effects of greater than anticipated demand for transportation services and equipment; as well as natural events such as severe weather, fires, floods and earthquakes or man-made or other disruptions of BNSF's or other railroads' operating systems, structures, or equipment including the effects of acts of terrorism on the Company's system or other railroads' systems or other links in the transportation chain.

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

**Item 4. Controls and Procedures.**

Based on their evaluation as of the end of the period covered by this quarterly report on Form 10-Q, the Company'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 BNSF's second fiscal quarter that have materially affected, or are reasonably likely to materially affect, BNSF's internal control over financial reporting.



**BURLINGTON NORTHERN SANTA FE, LLC and SUBSIDIARIES**

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings.**

On June 22, 2018, a loaded BNSF Railway train derailed in Doon, Iowa. Some of the derailed railcars released petroleum hydrocarbons into floodwaters. The extent of the damage from the derailment has yet to be determined and the cause of the derailment is currently under investigation. The Company is working with federal, state and local authorities to respond to the incident. In addition, although no notice of penalty has yet been issued, regulatory penalties could exceed \$100,000. While the costs of resolving this matter are subject to further developments, the Company does not believe that the outcome will have a material adverse effect on its financial position, results of operations or liquidity.

**BURLINGTON NORTHERN SANTA FE, LLC and SUBSIDIARIES**

**Item 6. Exhibits.**

<u>Exhibit Number and Description</u>	<u>Incorporated by Reference (if applicable)</u>			
	<u>Form</u>	<u>File Date</u>	<u>File No.</u>	<u>Exhibit</u>
<a href="#">3.1 Certificate of Formation dated November 2, 2009.</a>	8-K	2/16/2010	001-11535	3.1
<a href="#">3.2 Amended and Restated Limited Liability Company Operating Agreement of Burlington Northern Santa Fe, LLC, dated as of February 12, 2010.</a>	8-K	2/16/2010	001-11535	3.2
<a href="#">3.3 Written Consent of Sole Member, dated April 8, 2010, amending the Amended and Restated Limited Liability Company Operating Agreement.</a>	8-K	4/13/2010	001-11535	3.1
<a href="#">4.1 Twenty-first Supplemental Indenture, dated as of August 2, 2018, to Indenture dated as of December 1, 1995, between Burlington Northern Santa Fe, LLC and The Bank of New York Mellon Trust Company, N.A., as Trustee.</a>	8-K	8/2/2018	001-11535	4.1
<a href="#">4.2 Certificate of Determination as to the terms of BNSF's 4.150% Debentures due December 15, 2048.</a>	8-K	8/2/2018	001-11535	4.2
<a href="#">12.1 Computation of Ratio of Earnings to Fixed Charges.*</a>				
<a href="#">31.1 Principal Executive Officer's Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</a>				
<a href="#">31.2 Principal Financial Officer's Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</a>				
<a href="#">32.1 Certification Pursuant to 18 U.S.C. § 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).*</a>				
101 eXtensible Business Reporting Language (XBRL) documents submitted electronically:				
101.INS - XBRL Instance Document				
101.SCH - XBRL Taxonomy Extension Schema Document				
101.CAL - XBRL Extension Calculation Linkable Document				
101.DEF - XBRL Taxonomy Extension Definition Linkable Document				
101.LAB - XBRL Taxonomy Extension Label Linkbase				
101.PRE - XBRL Taxonomy Extension Presentation Linkbase Document				

The following unaudited information from Burlington Northern Santa Fe, LLC's Form 10-Q for the three and six months ended June 30, 2018, formatted in XBRL includes: (i) the Consolidated Statements of Income for the three and six months ended June 30, 2018 and 2017, (ii) the Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2018 and 2017, (iii) the Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017, (iv) the Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017, (v) the Consolidated Statements of Changes in Equity as of June 30, 2018, and (vi) the Notes to the Consolidated Financial Statements. \*

Certain instruments evidencing long-term indebtedness of BNSF are not being filed as exhibits to this Report because the total amount of securities authorized under any single instrument does not exceed 10 percent of BNSF's total assets. BNSF will furnish copies of any material instruments upon request of the Securities and Exchange Commission.

\* Filed herewith

**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, LLC  
(Registrant)

By:   /s/ Julie A. Piggott    
**Julie A. Piggott**  
**Executive Vice President and Chief Financial Officer**  
**(On behalf of the Registrant and**  
**as principal financial officer)**

Date: August 3, 2018

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

	Six Months Ended June 30,	
	2018	2017
<b>Earnings:</b>		
Income before income taxes	\$ 3,168	\$ 2,882
<b>Add:</b>		
Interest and other fixed charges, excluding capitalized interest	512	508
Reasonable approximation of portion of rent under long-term operating leases representative of an interest factor	87	95
Distributed income of investees accounted for under the equity method	4	5
Amortization of capitalized interest	3	2
<b>Less:</b>		
Equity in earnings of investments accounted for under the equity method	30	15
<b>Total earnings available for fixed charges</b>	<b>\$ 3,744</b>	<b>\$ 3,477</b>
<b>Fixed charges:</b>		
Interest and fixed charges	\$ 525	\$ 520
Reasonable approximation of portion of rent under long-term operating leases representative of an interest factor	87	95
<b>Total fixed charges</b>	<b>\$ 612</b>	<b>\$ 615</b>
<b>Ratio of earnings to fixed charges</b>	<b>6.12x</b>	<b>5.65x</b>

**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, LLC;
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 most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2018

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

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

I, Julie A. Piggott, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Burlington Northern Santa Fe, LLC;
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 most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2018

/s/ Julie A. Piggott  
Julie A. Piggott  
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, LLC**

In connection with the Quarterly Report of Burlington Northern Santa Fe, LLC (the “Company”) on Form 10-Q for the period ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Matthew K. Rose, Executive Chairman and Chief Executive Officer of the Company, and Julie A. Piggott, Executive Vice President and Chief Financial Officer of the Company, each hereby certifies that, to his and her knowledge on the date hereof:

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

Date: August 3, 2018

/s/ Matthew K. Rose

/s/ Julie A. Piggott

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

**Julie A. Piggott**  
**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, LLC and will be retained by Burlington Northern Santa Fe, LLC and furnished to the Securities and Exchange Commission or its staff upon request.