



**BNSF RAILWAY COMPANY**  
**Consolidated Financial Statements**  
**for the period ended March 31, 2019**

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

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Revenues	\$ 5,566	\$ 5,432
Operating expenses:		
Compensation and benefits	1,380	1,299
Fuel	711	767
Depreciation and amortization	588	568
Purchased services	558	534
Equipment rents	191	192
Materials and other	360	334
Total operating expenses	3,788	3,694
Operating income	1,778	1,738
Interest expense	15	12
Interest income, related parties	(219)	(122)
Other (income) expense, net	(144)	(17)
Income before income taxes	2,126	1,865
Income tax expense	525	456
Net income	\$ 1,601	\$ 1,409

See accompanying Notes to Consolidated Financial Statements.

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

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Net income	\$ 1,601	\$ 1,409
Other comprehensive income:		
Change in pension and retiree health and welfare benefits, net of tax	63	—
Change in accumulated other comprehensive income (loss) of equity method investees	(1)	1
Other comprehensive income (loss), net of tax	62	1
Total comprehensive income	\$ 1,663	\$ 1,410

See accompanying Notes to Consolidated Financial Statements.

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

	March 31, 2019	December 31, 2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 260	\$ 513
Accounts receivable, net	1,928	1,784
Materials and supplies	813	793
Other current assets	181	297
Total current assets	3,182	3,387
Property and equipment, net of accumulated depreciation of \$10,841 and \$9,981, respectively	63,179	63,147
Goodwill	14,803	14,803
Operating lease right-of-use assets	2,590	—
Intangible assets, net of accumulated amortization of \$284 and \$276, respectively	353	361
Other assets	2,410	2,257
Total assets	\$ 86,517	\$ 83,955
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
Current liabilities:		
Accounts payable and other current liabilities	\$ 3,587	\$ 3,082
Long-term debt due within one year	121	80
Total current liabilities	3,708	3,162
Deferred income taxes	14,011	13,875
Operating lease liabilities	1,793	—
Long-term debt	1,219	1,269
Casualty and environmental liabilities	482	486
Intangible liabilities, net of accumulated amortization of \$1,029 and \$1,022, respectively	374	381
Pension and retiree health and welfare liability	272	267
Other liabilities	982	1,019
Total liabilities	22,841	20,459
Commitments and contingencies (see Notes 5 and 6)		
Stockholder's equity:		
Common stock, \$1 par value, 1,000 shares authorized; issued and outstanding and paid-in capital	42,920	42,920
Retained earnings	47,349	45,748
Intercompany notes receivable	(26,785)	(25,302)
Accumulated other comprehensive income (loss)	192	130
Total stockholder's equity	63,676	63,496
Total liabilities and stockholder's equity	\$ 86,517	\$ 83,955

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2019	2018
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 1,601	\$ 1,409
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	588	568
Deferred income taxes	114	101
Long-term casualty and environmental liabilities, net	1	(5)
Other, net	(261)	(82)
Changes in current assets and liabilities:		
Accounts receivable, net	(144)	(143)
Materials and supplies	(20)	(4)
Other current assets	(166)	(106)
Accounts payable and other current liabilities	214	(114)
<b>Net cash provided by operating activities</b>	<b>1,927</b>	<b>1,624</b>
<b>INVESTING ACTIVITIES</b>		
Capital expenditures excluding equipment	(569)	(519)
Acquisition of equipment	(50)	(46)
Purchases of investments and investments in time deposits	(5)	(8)
Proceeds from sales of investments and maturities of time deposits	3	7
Other, net	(65)	(87)
<b>Net cash used in investing activities</b>	<b>(686)</b>	<b>(653)</b>
<b>FINANCING ACTIVITIES</b>		
Payments on long-term debt	(11)	(21)
Net increase in intercompany notes receivable classified as equity	(1,483)	(1,037)
<b>Net cash used in financing activities</b>	<b>(1,494)</b>	<b>(1,058)</b>
Decrease in cash and cash equivalents	(253)	(87)
Cash and cash equivalents:		
Beginning of period	513	516
End of period	\$ 260	\$ 429
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid, net of amounts capitalized	\$ 13	\$ 21
Capital investments accrued but not yet paid	\$ 116	\$ 86
Income taxes paid, net of refunds	\$ 238	\$ 256
Non-cash asset financing	\$ 4	\$ —

See accompanying Notes to Consolidated Financial Statements.

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

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

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

<sup>a</sup> Accounting Standards Codification Topic 606 - Revenue from Contracts with Customers

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

<sup>c</sup> Accounting Standards Update No. 2018-02 Income Statement - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

See accompanying Notes to Consolidated Financial Statements.

## BNSF RAILWAY COMPANY and SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

#### 1. Accounting Policies and Interim Results

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

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

The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the entire year. In the opinion of management, the unaudited financial statements reflect all adjustments (consisting of only normal recurring adjustments, except as disclosed) necessary for a fair statement of BNSF Railway's consolidated financial position as of March 31, 2019, and the results of operations for the three months ended March 31, 2019 and 2018.

#### 2. Revenue from Contracts with Customers

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

	Three Months Ended March 31,	
	2019	2018
Consumer Products	\$ 2,002	\$ 1,860
Industrial Products	1,472	1,358
Agricultural Products	1,113	1,152
Coal	869	948
Total freight revenues	5,456	5,318
Accessorial and other	110	114
Total operating revenues	\$ 5,566	\$ 5,432

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 March 31, 2019 and December 31, 2018, \$1.1 billion represented net receivables from contracts with customers.

Remaining performance obligations primarily consist of in-transit freight revenues, which will be recognized in the next reporting period. At March 31, 2019 and December 31, 2018, remaining performance obligations were \$290 million and \$234 million, respectively.

#### 3. Accounts Receivable, Net

Accounts receivable, net consists of freight and other receivables, reduced by an allowance for bill adjustments and uncollectible accounts, based upon expected collectibility. At March 31, 2019 and December 31, 2018, \$86 million and \$85 million, respectively, of such allowances had been recorded.

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

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

**4. Leases**

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

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

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

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

<b>Lease Cost</b>	<b>Three Months Ended March 31, 2019</b>
Operating lease cost	\$ 120
Finance lease cost:	
Amortization of right-of-use assets	10
Interest on lease liabilities	6
Short-term lease cost	20
Total lease cost	\$ 156

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

<b>Operating Leases</b>	<b>March 31, 2019</b>
Operating lease right-of-use assets	\$ 2,590
Accounts payable and other current liabilities	\$ 458
Operating lease liabilities	1,793
Total operating lease liabilities	\$ 2,251
<b>Finance Leases</b>	<b>March 31, 2019</b>
Property and equipment	\$ 795
Accumulated depreciation	(323)
Property and equipment, net	\$ 472
Long-term debt due within one year	\$ 48
Long-term debt	361
Total finance lease liabilities	\$ 409



**BNSF RAILWAY COMPANY and SUBSIDIARIES**

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

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

<b>Cash Flow</b>	<b>Three Months Ended March 31, 2019</b>
Cash paid for amounts included in the measurement of lease obligations:	
Operating cash flows for operating leases	\$ 179
Financing cash flows for finance leases	\$ 10
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	\$ 87

Other information related to leases was as follows:

<b>Other Information</b>	<b>March 31, 2019</b>
Weighted-average remaining lease term (in years):	
Operating leases	8.1
Finance leases	5.4
Weighted-average discount rate:	
Operating leases	3.7%
Finance leases	6.3%

Maturities of lease liabilities as of March 31, 2019 are summarized as follows (in millions):

<b>March 31,</b>	<b>Operating Leases</b>	<b>Finance Leases</b>
2019	\$ 216	\$ 55
2020	507	69
2021	435	200
2022	343	35
2023	297	28
Thereafter	801	101
Total lease payments	2,599	488
Less amount representing interest	(348)	(79)
Total	\$ 2,251	\$ 409

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

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

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

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

**5. Debt**

**Fair Value of Debt Instruments**

At March 31, 2019 and December 31, 2018, the fair value of BNSF Railway’s debt, excluding capital leases, was \$1.0 billion and \$983 million, respectively, while the book value, which also excludes capital leases, was \$931 million and \$930 million, respectively. The fair value of BNSF Railway’s debt is primarily based on market value price models using observable market-based data for the same or similar issues, or on the estimated rates that would be offered to BNSF Railway for debt of the same remaining maturities (Level 2 inputs).

**Guarantees**

As of March 31, 2019, BNSF Railway has not been called upon to perform under the guarantees specifically disclosed in this footnote and does not anticipate a significant performance risk in the foreseeable future.

Debt and other obligations of non-consolidated entities guaranteed by the Company as of March 31, 2019, were as follows (dollars in millions):

	Guarantees					
	BNSF Railway Ownership Percentage	Principal Amount Guaranteed	Maximum Future Payments	Maximum Recourse Amount <sup>a</sup>	Remaining Term (in years)	Capitalized Obligations
Kinder Morgan Energy Partners, L.P.	0.5%	\$ 190	\$ 190	\$ —	Termination of Ownership	\$ 2 <sup>b</sup>
Chevron Phillips Chemical Company LP	—%	N/A <sup>d</sup>	N/A <sup>d</sup>	N/A <sup>d</sup>	8	\$ 18 <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 Railway for BNSF Railway’s negligence or the negligence of the indemnified party. However, BNSF Railway could receive reimbursement from certain insurance policies if the liability exceeds a certain amount.

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

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

***Chevron Phillips Chemical Company LP***

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

## BNSF RAILWAY COMPANY and SUBSIDIARIES

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

#### *Indemnities*

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

#### **6. Commitments and Contingencies**

##### **Personal Injury**

BNSF Railway's personal injury liability includes the cost of claims for employee work-related injuries and third-party injuries (collectively, other personal injury) and asbestos claims. 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, can contribute to increased expenses. Other proceedings include claims by non-employees for punitive as well as compensatory damages, and from time to time may include proceedings that have been certified as or purport to be class actions. The variability present in settling these claims, including non-employee personal injury and matters in which punitive damages are alleged, could result in increased expenses in future years. BNSF Railway has implemented a number of safety programs designed to reduce the number of personal injuries as well as the associated claims and personal injury expense.

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

##### ***Other Personal Injury***

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

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

##### ***Asbestos***

The Company is also party to asbestos claims by employees and non-employees who may have been exposed to asbestos. Based on BNSF Railway's estimate of the potentially exposed employees and related mortality assumptions, it is anticipated that unasserted asbestos claims will continue to be filed through the year 2050. The Company recorded an amount for the full estimated filing period through 2050 because it had a relatively finite exposed population.

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

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

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

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ 308	\$ 307
Accruals / changes in estimates	22	7
Payments	(16)	(9)
Ending balance	<b>\$ 314</b>	<b>\$ 305</b>

At March 31, 2019 and December 31, 2018, \$85 million and \$80 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 \$275 million to \$380 million. However, BNSF Railway believes that the \$314 million recorded at March 31, 2019 is the best estimate of the Company’s future obligation for the settlement of personal injury claims.

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

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

***BNSF Insurance Company***

Burlington Northern Santa Fe Insurance Company, Ltd. (BNSFIC), a wholly-owned subsidiary of BNSF, offers insurance coverage for certain risks, FELA claims, railroad protective and force account insurance claims and certain excess general liability and property coverage, and certain other claims which are subject to reinsurance. During both of the three month periods ended March 31, 2019 and 2018, BNSFIC wrote insurance coverage with premiums totaling \$45 million for BNSF Railway, net of reimbursements from third parties. During this same time, BNSF Railway recognized \$17 million for each period in expense related to those premiums, which is classified as purchased services in the Consolidated Statements of Income. At March 31, 2019 and December 31, 2018, unamortized premiums remaining on the Consolidated Balance Sheets were \$34 million and \$6 million, respectively. During the three months ended March 31, 2019 and 2018, BNSFIC made claim payments totaling \$8 million and \$5 million, respectively, for settlement of covered claims. At both March 31, 2019 and December 31, 2018, claims receivables from BNSFIC were \$1 million.

## BNSF RAILWAY COMPANY and SUBSIDIARIES

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

#### **Environmental**

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

BNSF Railway is involved in a number of administrative and judicial proceedings and other mandatory cleanup efforts for 202 sites, including 19 Superfund sites, at which it is participating in the study or cleanup, or both, of alleged environmental contamination.

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

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

Annual studies do not include: (i) contaminated sites of which the Company is not aware; (ii) additional amounts for third-party tort claims, which arise out of contaminants allegedly migrating from BNSF Railway property, due to a limited number of sites; or (iii) natural resource damage claims. BNSF Railway continues to estimate third-party tort claims on a site by site basis when the liability for such claims is probable and reasonably estimable. BNSF Railway's recorded liability for third-party tort claims at both March 31, 2019 and December 31, 2018 was \$8 million.

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

**BNSF RAILWAY COMPANY 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 March 31,</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ 298	\$ 317
Accruals / changes in estimates	1	1
Payments	(6)	(4)
Ending balance	\$ 293	\$ 314

At both March 31, 2019 and December 31, 2018, \$40 million was included in current liabilities.

BNSF Railway’s environmental liabilities are not discounted. BNSF Railway anticipates that the majority of the accrued costs at March 31, 2019 will be paid over the next ten years, and no individual site is considered to be material.

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

Because of the uncertainty surrounding these factors, it is reasonably possible that future costs for environmental liabilities may range from approximately \$240 million to \$390 million. However, BNSF Railway believes that the \$293 million recorded at March 31, 2019 is the best estimate of the Company’s future obligation for environmental costs.

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

**Other Claims and Litigation**

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

**7. Employment Benefit Plans**

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

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

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

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

<b>Net (Benefit) Cost</b>	<b>Pension Benefits</b>	
	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Service cost	\$ 10	\$ 11
Interest cost	22	21
Expected return on plan assets	(39)	(40)
Amortization of net gain	(1)	—
Amortization of prior service credits	(3)	—
Curtailment gain	(117)	—
Net (benefit) cost recognized	\$ (128)	\$ (8)

<b>Net (Benefit) Cost</b>	<b>Retiree Health and Welfare Benefits</b>	
	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Interest cost	\$ 2	\$ 2
Net (benefit) cost recognized	\$ 2	\$ 2

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

**8. Related Party Transactions**

BNSF Railway is involved with BNSF and certain of its subsidiaries in related party transactions in the ordinary course of business, which include payments made on each other's behalf and performance of services. Under the terms of a tax allocation agreement with BNSF, BNSF Railway made federal and state income tax payments, net of refunds, of \$231 million and \$254 million during the three months ended March 31, 2019 and 2018, respectively, which are reflected in changes in current assets and liabilities in the Consolidated Statements of Cash Flows. As of March 31, 2019 and December 31, 2018, BNSF Railway had a tax payable to BNSF of \$374 million and \$231 million, respectively. Uncertain tax positions will affect the tax payable to BNSF if and when settled. As of March 31, 2019 and December 31, 2018, the Company had \$34 million and \$33 million, respectively, payable to BNSF related to prior year tax audit settlements.

At March 31, 2019 and December 31, 2018, BNSF Railway had \$662 million and \$426 million, respectively, of intercompany receivables which are reflected in accounts receivable in the respective Consolidated Balance Sheets. At March 31, 2019 and December 31, 2018, BNSF Railway had \$50 million and \$22 million of intercompany payables, respectively, which are reflected in accounts payable in the respective Consolidated Balance Sheets. Net intercompany balances are settled in the ordinary course of business.

At March 31, 2019 and December 31, 2018, BNSF Railway had \$26.8 billion and \$25.3 billion, respectively, of intercompany notes receivable from BNSF. The \$1.5 billion increase in intercompany notes receivable was due to loans to BNSF of \$1.5 billion. All intercompany notes have a variable interest rate of 1.0 percent above the monthly average of the daily effective Federal Funds rate. Interest is collected semi-annually on all intercompany notes receivable. Interest income from intercompany notes receivable is presented in interest income, related parties in the Consolidated Statements of Income.

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Revenues	\$ 37	\$ 33
Expenditures	\$ 105	\$ 100

BNSF Railway owns 17.3 percent of TTX Company (TTX) while other North American railroads own the remaining interest. As BNSF Railway possesses the ability to exercise significant influence, but not control, over the operating and financial policies of TTX, BNSF Railway applies the equity method of accounting to its investment in TTX. The investment in TTX is recorded in other assets. Equity income or losses are recorded in materials and other in the Consolidated Statements of Income. North American railroads pay TTX car hire to use TTX's freight equipment to serve their customers. BNSF Railway's car hire expenditures incurred with TTX are included in the table above. BNSF Railway had \$620 million and \$609 million recognized as investments related to TTX in its Consolidated Balance Sheets as of March 31, 2019 and December 31, 2018, respectively.

**9. Accumulated Other Comprehensive Income**

Other comprehensive income refers to revenues, expenses, gains and losses that under generally accepted accounting principles are included in accumulated other comprehensive income, a component of equity within the Consolidated Balance Sheets, rather than net income on the Consolidated Statements of Income. 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 table provides the components of accumulated other comprehensive income (loss) (AOCI) by component (in millions):

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

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



## BNSF RAILWAY COMPANY and SUBSIDIARIES

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

#### 10. Accounting Pronouncements

In August 2018, the FASB issued Accounting Standards Update No. 2018-14 (ASU 2018-14), Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans. The amendments in ASU 2018-14 modify the disclosure requirements for employers that sponsor defined benefit pension and other postretirement plans. ASU 2018-14 is effective for the Company for the fiscal year ending after December 15, 2020, with early adoption permitted. Adoption of the standard is not expected to have a material impact on the Company's Consolidated Financial Statement disclosures.

In August 2018, the FASB issued Accounting Standards Update No. 2018-15 (ASU 2018-15), Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40). ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The guidance requires an entity in such an arrangement to capitalize costs for certain implementation activities in the application development stage, expense the capitalized implementation costs over the term of the hosting arrangement, and present the expense with the associated hosting fees in the Consolidated Statements of Income. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. Adoption of the standard is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

**Certification by Vice President**

With respect to the quarterly financial statements and related footnotes of BNSF Railway Company (the Company) for the period ended March 31, 2019, the undersigned, Paul W. Bischler, Vice President - Controller and Chief Sourcing Officer of the Company, hereby certifies that, to his knowledge as of the date hereof, the information contained in such attached financial statements and related footnotes fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 3, 2019

A handwritten signature in black ink, appearing to read "Paul W. Bischler", with a long horizontal flourish extending to the right.

Paul W. Bischler

Vice President - Controller and Chief Sourcing Officer