

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

**FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-6324



**BNSF RAILWAY COMPANY**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation or organization)

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

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

76131-2830  
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

**Large accelerated filer**  **Accelerated filer**  **Non-accelerated filer**  **Smaller reporting company**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

Class	Shares Outstanding at October 14, 2008
Common stock, \$1.00 par value	1,000 shares

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

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**PART I  
FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
		(As Adjusted) <sup>a</sup>		(As Adjusted) <sup>a</sup>
Revenues	\$ 4,837	\$ 4,016	\$ 13,468	\$ 11,415
Operating expenses:				
Fuel	1,349	848	3,685	2,332
Compensation and benefits	1,008	932	2,932	2,778
Purchased services	512	487	1,553	1,489
Depreciation and amortization	348	324	1,038	952
Equipment rents	230	235	683	704
Materials and other	193	180	787	598
Total operating expenses	<u>3,640</u>	<u>3,006</u>	<u>10,678</u>	<u>8,853</u>
Operating income	1,197	1,010	2,790	2,562
Interest expense	13	23	70	68
Interest income, related parties	(7)	(53)	(14)	(150)
Other expense, net	<u>7</u>	<u>11</u>	<u>16</u>	<u>28</u>
Income before income taxes	1,184	1,029	2,718	2,616
Income tax expense	425	396	1,015	1,007
Net income	<u>\$ 759</u>	<u>\$ 633</u>	<u>\$ 1,703</u>	<u>\$ 1,609</u>

<sup>a</sup> Prior year numbers have been adjusted for the merger of BNSF Acquisition, Inc. with and into BNSF Railway Company. See Note 1 to the Consolidated Financial Statements for additional information.

See accompanying Notes to Consolidated Financial Statements.

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

	<u>September 30,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 16	\$ 24
Accounts receivable, net	689	805
Materials and supplies	625	579
Current portion of deferred income taxes	414	282
Other current assets	468	325
Total current assets	<u>2,212</u>	<u>2,015</u>
Property and equipment, net	30,502	29,560
Other assets	2,766	1,953
Intercompany notes receivable	4	—
Total assets	<u>\$ 35,484</u>	<u>\$ 33,528</u>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
Current liabilities:		
Accounts payable and other current liabilities	\$ 3,221	\$ 2,822
Long-term debt due within one year	202	210
Total current liabilities	<u>3,423</u>	<u>3,032</u>
Long-term debt	1,690	1,511
Deferred income taxes	8,916	8,519
Casualty and environmental liabilities	1,004	843
Pension and retiree health and welfare liability	454	444
Employee separation costs	71	77
Other liabilities	1,658	1,578
Total liabilities	<u>17,216</u>	<u>16,004</u>
Commitments and contingencies (see Notes 2, 4 and 5)		
Stockholder's equity:		
Common stock, \$1 par value, 1,000 shares authorized; issued and outstanding and paid-in capital	6,331	6,331
Retained earnings	13,493	11,797
Intercompany notes receivable	(1,377)	(456)
Accumulated other comprehensive loss	(179)	(148)
Total stockholder's equity	<u>18,268</u>	<u>17,524</u>
Total liabilities and stockholder's equity	<u>\$ 35,484</u>	<u>\$ 33,528</u>

See accompanying Notes to Consolidated Financial Statements.

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

Nine Months Ended September 30,	2008	2007
		(As Adjusted) <sup>a</sup>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 1,703	\$ 1,609
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,038	952
Deferred income taxes	282	264
Employee separation costs paid	(11)	(16)
Long-term casualty and environmental liabilities, net	181	26
Other, net	(17)	77
Changes in current assets and liabilities:		
Accounts receivable, net	(162)	(183)
Changes in accounts receivable sales program	278	(100)
Materials and supplies	(46)	(29)
Other current assets	(153)	(68)
Accounts payable and other current liabilities	316	(66)
Net cash provided by operating activities	<u>3,409</u>	<u>2,466</u>
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(1,711)	(1,775)
Net increase in intercompany notes receivable	(4)	(237)
Construction costs for facility financing obligation	(38)	(18)
Other, net	(619)	(306)
Net cash used for investing activities	<u>(2,372)</u>	<u>(2,336)</u>
<b>FINANCING ACTIVITIES</b>		
Payments on long-term debt	(174)	(139)
Proceeds from facility financing obligation	50	-
Net increase in intercompany notes receivable classified as equity	(921)	-
Net increase in intercompany notes payable	-	1
Net cash used for financing activities	<u>(1,045)</u>	<u>(138)</u>
Decrease in cash and cash equivalents	(8)	(8)
Cash and cash equivalents:		
Beginning of period	24	19
End of period	<u>\$ 16</u>	<u>\$ 11</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid, net of amounts capitalized	\$ 84	\$ 61
Income taxes paid, net of refunds	\$ 699	\$ 668
Non-cash asset financing	\$ 79	\$ 167

<sup>a</sup> Prior year numbers have been adjusted for the merger of BNSF Acquisition, Inc. with and into BNSF Railway Company. See Note 1 to the Consolidated Financial Statements for additional information.

See accompanying Notes to Consolidated Financial Statements.

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

	<b>Common Stock and Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Inter- Company Notes Receivable</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Total Stockholder's Equity</b>
Balance at December 31, 2007	\$ 6,331	\$ 11,797	\$ (456)	\$ (148)	\$ 17,524
Adjustment to change the measurement date pursuant to Statement of Financial Accounting Standards (SFAS) No. 158	—	(7)	—	2	(5)
Adjustment to initially apply SFAS No. 158 to equity method investees	—	—	—	(2)	(2)
Change in intercompany notes receivable	—	—	(921)	—	(921)
Comprehensive income:					
Net income	—	1,703	—	—	1,703
Amortization of prior service costs and actuarial losses, net of tax expense of \$4	—	—	—	6	6
Loss on derivative instruments and other items, net of tax benefit of \$23	—	—	—	(36)	(36)
Unrealized loss on securities held by equity method investees, net of tax benefit of less than \$1	—	—	—	(1)	(1)
Total comprehensive income				1,672	1,672
Balance at September 30, 2008	<u>\$ 6,331</u>	<u>\$ 13,493</u>	<u>\$ (1,377)</u>	<u>\$ (179)</u>	<u>\$ 18,268</u>

See accompanying Notes to Consolidated Financial Statements.

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

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

**1. Accounting Policies and Interim Results**

The Consolidated Financial Statements should be read in conjunction with BNSF Railway Company's Current Report on Form 8-K dated October 8, 2008, and BNSF Railway Company's Annual Report on Form 10-K for the year ended December 31, 2007, including the financial statements and notes thereto. The Consolidated Financial Statements include the accounts of BNSF Railway Company and its majority-owned subsidiaries (collectively BNSF Railway or the Company). BNSF Railway is a wholly-owned subsidiary of Burlington Northern Santa Fe Corporation (BNSF), and is the principal operating subsidiary of BNSF.

BNSF Acquisition, Inc. (BNSF Acquisition), a wholly-owned subsidiary of BNSF was merged with and into BNSF Railway on March 18, 2008. BNSF Acquisition was formed on April 17, 1996 as the vehicle to acquire Washington Central Railroad Company, Inc. SFAS No. 141, *Business Combinations*, carries forward without reconsideration the previous guidance related to the combination of entities under common control in Accounting Principles Board Opinion No. 16, *Business Combinations*. As such, the consolidated balance sheet at December 31, 2007, the related consolidated statements of income for the three-month period ended September 30, 2007, and each of the nine-month periods ended September 30, 2008 and 2007, and the consolidated statements of cash flows for each of the nine-month periods ended September 30, 2008 and 2007 have been adjusted to reflect this transaction as if it had occurred as of the beginning of the earliest period presented. As a result, the amounts reported in the consolidated financial statements of BNSF Railway presented herein will differ from the amounts previously reported in BNSF Railway's Form 10-K for the year ended December 31, 2007, and Form 10-Q for the quarter ended September 30, 2007. The effects of this transaction were as follows (in millions):

**Consolidated Statement of Income  
Three Months Ended September 30, 2007**

	<u>As Reported</u>	<u>Impact of Adjustment</u>	<u>As Adjusted</u>
Revenues	\$ 4,015	\$ 1	\$ 4,016
Total operating expenses	3,005	<u>1</u>	3,006
Operating income	1,010	<u>–</u>	1,010
Income before income taxes	1,029	–	1,029
Income tax expense	396	<u>–</u>	396
Net income	\$ 633	\$ –	\$ 633

**Consolidated Statement of Income  
Nine Months Ended September 30, 2007**

	<u>As Reported</u>	<u>Impact of Adjustment</u>	<u>As Adjusted</u>
Revenues	\$ 11,411	\$ 4	\$ 11,415
Total operating expenses	8,852	<u>1</u>	8,853
Operating income	2,559	<u>3</u>	2,562
Income before income taxes	2,613	3	2,616
Income tax expense	1,006	<u>1</u>	1,007
Net income	\$ 1,607	\$ 2	\$ 1,609

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

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

**Consolidated Statement of Cash Flows**  
**Nine Months Ended September 30, 2007**

	<u>As Reported</u>	<u>Impact of</u> <u>Adjustment</u>	<u>As Adjusted</u>
Net income	\$ 1,607	\$ 2	\$ 1,609
Depreciation and amortization	951	1	952
Accounts payable and other current liabilities <sup>a</sup>	(64)	(2)	(66)
Net cash provided by operating activities	2,465	1	2,466
Decrease in cash and cash equivalents	(9)	1	(8)
Beginning of period	20	(1)	19
End of period	\$ 11	\$ –	\$ 11

<sup>a</sup> Comparative prior period amounts have been reclassified to conform to the current presentation.

All significant intercompany accounts and transactions have been eliminated.

Additionally, certain comparative prior period amounts in the Consolidated Financial Statements have been reclassified to conform to the current period presentation. These reclassifications had no effect on previously reported operating income or net income except as discussed herein.

The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the entire year. In the opinion of management, the unaudited financial statements reflect all adjustments (consisting of only normal recurring adjustments, except as disclosed) necessary for a fair statement of BNSF Railway's consolidated financial position as of September 30, 2008, and the results of operations for the three and nine month periods ended September 30, 2008 and 2007.

**Adoption of New Accounting Pronouncements**

*Fair Value Measurements*

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

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

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

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

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

## BNSF RAILWAY COMPANY and SUBSIDIARIES

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

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

#### **2. Hedging Activities**

The Company uses derivative financial instruments to hedge against increases in diesel fuel prices and interest rates. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. The Company formally documents the relationship between the hedging instrument and the hedged item, as well as the risk management objective and strategy for the use of the hedging instrument. This documentation includes linking the derivatives that are designated as cash flow hedges to specific assets or liabilities on the balance sheet, commitments or forecasted transactions. The Company assesses at the time a derivative contract is entered into, and at least quarterly thereafter, whether the derivative item is effective in offsetting the changes in cash flows. Any change in fair value resulting from ineffectiveness, as defined by SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities, as amended*, is recognized in current period earnings. For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is recorded in accumulated other comprehensive loss (AOCL) as a separate component of stockholder's equity and reclassified into earnings in the period during which the hedge transaction affects earnings. Cash flows related to fuel and interest rate hedges are classified as operating activities in the Consolidated Statements of Cash Flows.

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

#### **Fuel**

Fuel costs represented 35 percent and 26 percent of total operating expenses during the nine month periods ended September 30, 2008 and 2007, respectively. Due to the significance of diesel fuel expenses to the operations of BNSF Railway and the historical volatility of fuel prices, the Company has entered into hedges to partially mitigate the risk of fluctuations in the price of its diesel fuel purchases. The fuel hedges include the use of derivatives that are accounted for as cash flow hedges. The hedging is intended to protect the Company's operating margins and overall profitability from adverse fuel price changes by entering into fuel-hedge instruments based on management's evaluation of current and expected diesel fuel price trends. However, to the extent the Company hedges portions of its fuel purchases, it may not realize the impact of decreases in fuel prices. Conversely, to the extent the Company does not hedge portions of its fuel purchases, it may be adversely affected by increases in fuel prices. Based on locomotive fuel consumption (which represents substantially all fuel consumption) during the twelve-month period ended September 30, 2008 and excluding the impact of the hedges, each one-cent increase in the price of fuel per gallon would result in approximately \$14 million of additional fuel expense on an annual basis. However, BNSF Railway believes any fuel price increase would be substantially offset by the Company's fuel surcharge program.

#### ***Total Fuel-Hedging Activities***

As of September 30, 2008, BNSF Railway's total fuel-hedging positions covered approximately 10 percent, 9 percent, 5 percent and 2 percent of estimated locomotive fuel purchases for the remainder of 2008, 2009, 2010 and 2011, respectively. Hedge positions are closely monitored to ensure that they will not exceed actual fuel requirements in any period.

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

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

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Hedge benefit	\$ 17	\$ –	\$ 50	\$ 24
Ineffective portion of open hedges	(6)	1	(6)	1
Tax effect	(4)	–	(17)	(9)
<b>Hedge benefit, net of tax</b>	<b>\$ 7</b>	<b>\$ 1</b>	<b>\$ 27</b>	<b>\$ 16</b>

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

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

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
Short-term fuel-hedging asset	\$ 2	\$ 29
Long-term fuel-hedging asset	5	10
Short-term fuel-hedging liability	(34)	–
Ineffective portion of open hedges	6	–
Tax effect	8	(15)
<b>Amount included in AOCL, net of tax</b>	<b>\$ (13)</b>	<b>\$ 24</b>
<b>Settled fuel-hedging contracts receivable</b>	<b>\$ 17</b>	<b>\$ 6</b>

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

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

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

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

<b>2008</b>	<b>Quarter Ending December 31,</b>
<b>HO Swaps</b>	
Gallons hedged (in millions)	8.99
Average swap price (per gallon)	\$ 2.47
Fair value (in millions)	\$ 4

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

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

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

In addition, BNSF Railway enters into fuel swap and costless collar agreements utilizing WTI crude oil. The hedge prices do not include taxes, transportation costs, certain other fuel handling costs and any differences which may occur between the prices of WTI and the purchase price of BNSF Railway's diesel fuel, including refining costs. Over the twelve months ended September 30, 2008, the sum of all such costs averaged approximately 66 cents per gallon.

During the first nine months of 2008, the Company entered into fuel swap agreements utilizing WTI to hedge the equivalent of 2.90 million barrels of fuel with an average swap price of \$99.61 per barrel and costless collar agreements utilizing WTI to hedge the equivalent of 3.29 million barrels of fuel with an average cap price of \$135.09 per barrel and an average floor price of \$124.42 per barrel. The following table provides fuel-hedge data based on the quarter being hedged for all WTI fuel hedges outstanding as of September 30, 2008.

<b>2008</b>	<b>Quarter Ending December 31,</b>
<b>WTI Swaps</b>	
Barrels hedged (in thousands)	230
Equivalent gallons hedged (in millions)	9.66
Average swap price (per barrel)	\$ 63.70
Fair value (in millions)	\$ 8
<b>WTI Costless Collars</b>	
Barrels hedged (in thousands)	445
Equivalent gallons hedged (in millions)	18.69
Average cap price (per barrel)	\$ 140.03
Average floor price (per barrel)	\$ 128.72
Fair value (in millions)	\$ (13)

<b>2009</b>	<b>Quarter Ending</b>				<b>Annual</b>
	<b>March 31,</b>	<b>June 30,</b>	<b>September 30,</b>	<b>December 31,</b>	
<b>WTI Swaps</b>					
Barrels hedged (in thousands)	235	185	185	245	850
Equivalent gallons hedged (in millions)	9.87	7.77	7.77	10.29	35.70
Average swap price (per barrel)	\$ 83.34	\$ 80.86	\$ 81.20	\$ 84.79	\$ 82.75
Fair value (in millions)	\$ 4	\$ 4	\$ 4	\$ 4	\$ 16
<b>WTI Costless Collars</b>					
Barrels hedged (in thousands)	800	630	520	475	2,425
Equivalent gallons hedged (in millions)	33.60	26.46	21.84	19.95	101.85
Average cap price (per barrel)	\$ 132.56	\$ 132.55	\$ 135.82	\$ 135.46	\$ 133.82
Average floor price (per barrel)	\$ 121.86	\$ 122.11	\$ 125.55	\$ 125.38	\$ 123.41
Fair value (in millions)	\$ (18)	\$ (13)	\$ (12)	\$ (11)	\$ (54)

<b>2010</b>	<b>Quarter Ending</b>				<b>Annual</b>
	<b>March 31,</b>	<b>June 30,</b>	<b>September 30,</b>	<b>December 31,</b>	
<b>WTI Swaps</b>					
Barrels hedged (in thousands)	515	435	405	370	1,725
Equivalent gallons hedged (in millions)	21.63	18.27	17.01	15.54	72.45
Average swap price (per barrel)	\$ 95.09	\$ 100.14	\$ 100.35	\$ 100.37	\$ 98.73
Fair value (in millions)	\$ 4	\$ 2	\$ 2	\$ 2	\$ 10

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

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

2011	Quarter Ending				
	March 31,	June 30,	September 30,	December 31,	Annual
<b>WTI Swaps</b>					
Barrels hedged (in thousands)	220	185	175	185	765
Equivalent gallons hedged (in millions)	9.24	7.77	7.35	7.77	32.13
Average swap price (per barrel)	\$ 100.45	\$ 100.44	\$ 100.35	\$ 100.58	\$ 100.46
Fair value (in millions)	\$ 1	\$ <1	\$ <1	\$ <1	\$ 2

**Interest Rate**

From time to time, the Company enters into various interest rate hedging transactions for the purpose of managing exposure to fluctuations in interest rates by establishing rates in anticipation of the refinancing of leveraged leases. The Company uses treasury locks as part of its interest rate risk management strategy.

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

***Cash Flow Interest Rate Hedges***

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

	September 30, 2008	December 31, 2007
Unrecognized gain on closed hedges	\$ 1	\$ 1
Tax effect	–	–
Unrecognized gain in AOCL, net of tax	\$ 1	\$ 1

**3. Accounts Receivable, Net**

BNSF Railway transfers a portion of its accounts receivable to Santa Fe Receivables Corporation (SFRC), a special purpose subsidiary. SFRC transfers an undivided interest in such receivables, with limited exceptions, to a master trust and causes the trust to issue an undivided interest in the receivables to investors (the A/R sales program). The undivided interests in the master trust may be in the form of certificates or purchased interests.

BNSF Railway's total capacity to sell undivided interests to investors under the A/R sales program was \$700 million at September 30, 2008, which was comprised of two \$175 million, 364-day accounts receivable facilities and two \$175 million, 3-year accounts receivable facilities, which mature in November 2008 and 2010, respectively. The 364-day facilities are expected to be renewed in November 2008. Outstanding undivided interests held by investors under the A/R sales program were \$578 million and \$300 million at September 30, 2008 and December 31, 2007. There was \$144.5 million and \$75.0 million outstanding under each of the four facilities at September 30, 2008 and December 31, 2007, respectively. These undivided interests in receivables are excluded from accounts receivable by BNSF Railway in connection with the sale of undivided interests under the A/R sales program. These undivided interests were supported by \$1,195 million and \$1,105 million of receivables transferred by SFRC to the master trust at September 30, 2008 and December 31, 2007, respectively. When SFRC transfers these receivables to the master trust, it retains an undivided interest in the receivables sold, which is included in accounts receivable in the Company's Consolidated Financial Statements. The interest that continues to be held by SFRC of \$617 million and \$805 million at September 30, 2008 and December 31, 2007, respectively, less an allowance for uncollectible accounts, reflected the total accounts receivable transferred by SFRC to the master trust less \$578 million and \$300 million at September 30, 2008 and December 31, 2007, respectively, of outstanding undivided interests held by investors. Due to a relatively short collection cycle, the fair value of the undivided interest transferred to investors in the A/R sales program approximated book value, and there was no gain or loss from the transaction.

## BNSF RAILWAY COMPANY and SUBSIDIARIES

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

BNSF Railway retains the collection responsibility with respect to the accounts receivable. Proceeds from collections reinvested in the A/R sales program were approximately \$14.5 billion and \$12.3 billion for the nine months ended September 30, 2008 and 2007, respectively. No servicing asset or liability has been recorded because the fees BNSF Railway receives for servicing the receivables approximate the related costs. SFRC's costs of the sale of receivables are included in other expense, net and were \$9 million and \$15 million for the nine months ended September 30, 2008 and 2007, respectively. These costs fluctuate monthly with changes in prevailing interest rates and were based on weighted average interest rates of 3.3 percent and 5.6 percent for the nine months ended September 30, 2008 and 2007, respectively. These costs include interest, discounts associated with transferring the receivables under the A/R sales program to SFRC, program fees paid to banks, incidental commercial paper issuing costs and fees for unused commitment availability.

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

Receivables funded under the A/R sales program may not include amounts over 90 days past due or concentrations over certain limits with any one customer and certain other receivables. At September 30, 2008 and December 31, 2007, \$17 million and \$11 million, respectively, of accounts receivable were greater than 90 days old.

BNSF Railway maintains an allowance for bill adjustments and uncollectible accounts based upon the expected collectibility of accounts receivable, including receivables transferred to the master trust. Credit losses are based on specific identification of uncollectible accounts and application of historical collection percentages by aging category. At September 30, 2008 and December 31, 2007, \$40 million and \$36 million, respectively, of such allowances had been recorded, of which \$36 million and \$34 million, respectively, had been recorded as a reduction to accounts receivable, net. The remaining \$4 million and \$2 million at September 30, 2008 and December 31, 2007, respectively, had been recorded in accounts payable and other current liabilities because they relate to the outstanding undivided interests held by investors. During the nine months ended September 30, 2008 and 2007, \$2 million and \$3 million, respectively, of accounts receivable were written off.

The investors in the master trust have no recourse to BNSF Railway's other assets except for customary warranty and indemnity claims. Creditors of BNSF Railway have no recourse to the assets of the master trust or SFRC unless and until all claims of their respective creditors have been paid. The A/R sales program includes provisions that, if triggered, allow the investors participating in this program, at their option, to cancel the program. At September 30, 2008, BNSF Railway was in compliance with these provisions.

#### **4. Debt**

##### **Financing Obligation**

The Company has commenced the construction of an intermodal facility that it intends to sell to a third party and subsequently lease back. Once construction of the facility is complete and all improvements have been sold to the third party, BNSF Railway will lease the facility from the third party for 20 years. Construction is expected to be completed in 2009 with an approximate cost of \$160 million. During the first nine months of 2008, the Company sold \$50 million of completed improvements, bringing the total sold to date to \$91 million. This sale leaseback transaction is being accounted for as a financing obligation due to continuing involvement. The outflows from the construction of the facility are classified as investing activities, and the inflows from the associated financing proceeds are classified as financing activities in the Company's Consolidated Statements of Cash Flows.

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

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

**Guarantees**

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

	<b>Guarantees</b>					
	<b>BNSF Railway Ownership Percentage</b>	<b>Principal Amount Guaranteed</b>	<b>Maximum Future Payments</b>	<b>Maximum Recourse Amount<sup>a</sup></b>	<b>Remaining Term (in years) Termination of Ownership</b>	<b>Capitalized Obligations</b>
Kinder Morgan Energy Partners, L.P.	0.5%	\$ 190	\$ 190	\$ –		\$ –
Kansas City Terminal Intermodal Transportation Corporation	0.0%	\$ 52	\$ 74	\$ 74	10	\$ 29 <sup>b</sup>
Westside Intermodal Transportation Corporation	0.0%	\$ 39	\$ 59	\$ –	15	\$ 33 <sup>b</sup>
The Unified Government of Wyandotte County/Kansas City, Kansas	0.0%	\$ 12	\$ 18	\$ –	15	\$ 10 <sup>b</sup>
Chevron Phillips Chemical Company, LP	0.0%	N/A <sup>d</sup>	N/A <sup>d</sup>	N/A <sup>d</sup>	9	\$ 13 <sup>c</sup>
Various lessors (Residual value guarantees)	0.0%	N/A	\$ 271	\$ 271	Various	\$ 68 <sup>c</sup>
<b>All other</b>	<b>0.0%</b>	<b>\$ 5</b>	<b>\$ 6</b>	<b>\$ 2</b>	<b>Various</b>	<b>\$ –</b>

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

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

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

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

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

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

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

BNSF Railway and another major railroad jointly and severally guarantee \$52 million of debt of Kansas City Terminal Intermodal Transportation Corporation, the proceeds of which were used to finance construction of a double track grade separation bridge in Kansas City, Missouri, which is operated and used by Kansas City Terminal Railway Company (KCTRC). BNSF Railway has a 25 percent ownership in KCTRC, accounts for its interest using the equity method of accounting and would be required to fund a portion of the remaining obligation upon default by the original debtor.

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

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

## BNSF RAILWAY COMPANY and SUBSIDIARIES

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

#### *Chevron Phillips Chemical Company, LP*

In the third quarter of 2007, BNSF Railway entered into an indemnity agreement with Chevron Phillips Chemical Company, LP (Chevron Phillips), granting certain rights of indemnity from BNSF Railway, in order to facilitate access to a new storage facility. Under certain circumstances, payment under this obligation may be required in the event Chevron Phillips were to incur certain liabilities or other incremental costs resulting from trackage access.

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

In the normal course of business, the Company enters into leases in which it guarantees the residual value of certain leased equipment. Some of these leases have renewal or purchase options, or both, that the Company may exercise at the end of the lease term. If the Company elects not to exercise these options, it may be required to pay the lessor an amount not exceeding the RVG. The amount of any payment is contingent upon the actual residual value of the leased equipment. Some of these leases also require the lessor to pay the Company any surplus if the actual residual value of the leased equipment is over the RVG. These guarantees will expire between 2009 and 2011.

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

#### *All Other*

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

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

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

#### *Indemnities*

In the ordinary course of business, BNSF Railway enters into agreements with third parties that include indemnification clauses. In general, these clauses are customary for the types of agreements in which they are included. At times, these clauses may involve indemnification for the acts of the Company, its employees and agents, indemnification for another party's acts, indemnification for future events, indemnification based upon a certain standard of performance, indemnification for liabilities arising out of the Company's use of leased equipment or other property, or other types of indemnification. Due to the uncertainty of whether events which would trigger the indemnification obligations would ever occur, the Company does not believe that these indemnity agreements will have a material adverse effect on the Company's results of operations, financial position or liquidity. Additionally, the Company believes that, due to lack of historical payment experience, the fair value of indemnities cannot be estimated with any amount of certainty and that the fair value of any such amount would be immaterial to the Consolidated Financial Statements. Agreements that contain unique circumstances, particularly agreements that contain guarantees that indemnify 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.

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

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

**5. Commitments and Contingencies**

**Personal Injury**

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

***Asbestos***

The Company is party to a number of personal injury claims by employees and non-employees who may have been exposed to asbestos. The heaviest exposure for BNSF Railway employees was due to work conducted in and around the use of steam locomotive engines that were phased out between the years of 1950 and 1967. However, other types of exposures, including exposure from locomotive component parts and building materials, continued after 1967 until they were substantially eliminated at BNSF Railway by 1985.

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

During the third quarter of 2008 and 2007, the Company analyzed recent filing and payment trends to ensure the assumptions used by BNSF Railway to estimate its future asbestos liability were reasonable. In the third quarter of 2007, management recorded a decrease in expense of \$17 million due to a statistically significant reduction in filing rate experience for non-malignant claims. In the third quarter of 2008, management determined that the liability remained appropriate and no change was recorded. The Company plans to update its study again in the third quarter of 2009.

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 both asserted and unasserted asbestos matters (in millions):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Beginning balance	\$ 261	\$ 297	\$ 270	\$ 306
Accruals	–	(17)	–	(17)
Payments	(5)	(5)	(14)	(14)
Ending balance at September 30,	<u>\$ 256</u>	<u>\$ 275</u>	<u>\$ 256</u>	<u>\$ 275</u>

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

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

Of the September 30, 2008 obligation, \$211 million was related to unasserted claims while \$45 million was related to asserted claims. At September 30, 2008, \$17 million was included in current liabilities. The recorded liability was not discounted. In addition, defense and processing costs, which are recorded on an as-reported basis, were not included in the recorded liability. The Company is primarily self-insured for asbestos-related claims.

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Claims unresolved at beginning of period	1,800	1,930	1,781	1,975
Claims filed	143	107	415	339
Claims settled, dismissed or otherwise resolved	(83)	(134)	(336)	(411)
Ending balance at September 30,	1,860	1,903	1,860	1,903

Based on BNSF Railway’s estimate of the potentially exposed employees and related mortality assumptions, it is anticipated that unasserted claims will continue to be filed through the year 2050. The Company recorded an amount for the full estimated filing period through 2050 because it had a relatively finite exposed population (former and current employees hired prior to 1985), which it was able to identify and reasonably estimate and about which it had obtained reliable demographic data (including age, hire date and occupation) derived from industry or BNSF Railway specific data that was the basis for the study. BNSF Railway projects that approximately 55, 75 and 95 percent of the future unasserted asbestos claims will be filed within the next 10, 15 and 25 years, respectively.

Because of the uncertainty surrounding the factors used in the study, it is reasonably possible that future costs to settle asbestos claims may range from approximately \$235 million to \$280 million. However, BNSF Railway believes that the \$256 million recorded is the best estimate of the Company’s future obligation for the settlement of asbestos claims.

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

While the final outcome of asbestos-related matters cannot be predicted with certainty, considering among other things the meritorious legal defenses available and liabilities that have been recorded, it is the opinion of BNSF 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 Personal Injury***

BNSF Railway estimates its other personal injury liability claims and expense quarterly based on the covered population, activity levels and trends in frequency and the costs of covered injuries. Estimates include unasserted claims except for certain repetitive stress and other occupational trauma claims that result from prolonged repeated events or exposure. Such claims are estimated on an as-reported basis because, while the Company has concluded that a probable loss has occurred, it cannot estimate the range of reasonably possible loss due to other contributing causes of such injuries and the fact that continued exposure is required for the potential injury to manifest itself as a claim. The Company believes that the low end of the range of reasonably possible loss, as that term is used in FIN 14, *Reasonable Estimation of the Amount of a Loss*, is immaterial for these repetitive stress and other occupational trauma claims.

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

**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 other personal injury matters (in millions):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Beginning balance	\$ 474	\$ 437	\$ 439	\$ 439
Accruals	34	46	136	139
Payments	(37)	(48)	(104)	(143)
Ending balance at September 30,	<u>\$ 471</u>	<u>\$ 435</u>	<u>\$ 471</u>	<u>\$ 435</u>

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

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Claims unresolved at beginning of period	3,941	3,131	3,322	3,130
Claims filed	994	1,033	3,441	2,899
Claims settled, dismissed or otherwise resolved	(861)	(918)	(2,689)	(2,783)
Ending balance at September 30,	<u>4,074</u>	<u>3,246</u>	<u>4,074</u>	<u>3,246</u>

Because of the uncertainty surrounding the ultimate outcome of other personal injury claims, it is reasonably possible that future costs to settle other personal injury claims may range from approximately \$405 million to \$585 million. However, BNSF Railway believes that the \$471 million recorded is the best estimate of the Company’s future obligation for the settlement of other personal injury claims.

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

While the final outcome of these other personal injury matters cannot be predicted with certainty, considering among other things the meritorious legal defenses available and liabilities that have been recorded, it is the opinion of BNSF 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. (BNSF IC), a wholly owned subsidiary of BNSF, provides insurance coverage for certain risks incurred after April 1, 1998, FELA claims, railroad protective, force account insurance claims and certain excess general liability coverage incurred after January 1, 2002, and certain other claims which are subject to reinsurance. During the nine months ended September 30, 2008 and 2007, BNSF Railway paid premiums of \$167 million and \$164 million, respectively, to BNSF IC for such coverage, net of reimbursements from third parties and recognized \$126 million and \$124 million, respectively, in expense related to those premiums, which is classified as purchased services in the Consolidated Statements of Income. At September 30, 2008, unamortized premiums remaining on the Consolidated Balance Sheet were \$45 million. During the nine months ended September 30, 2008 and 2007, BNSF IC made claim payments totaling \$85 million and \$114 million, respectively, for settlement of covered claims.

## 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.

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

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

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

During the third quarters of 2008 and 2007, the Company analyzed recent data and trends to ensure the assumptions used by BNSF Railway to estimate its future environmental liability were reasonable. As a result of this study, in the third quarters of 2008 and 2007, management recorded additional expense of approximately \$13 million and \$20 million as of the respective June 30 measurement dates. The Company plans to update its study again in the third quarter of 2009.

Annual studies do not include (i) contaminated sites of which the Company is not aware; (ii) additional amounts for third-party tort claims, which arise out of contaminants allegedly migrating from BNSF Railway property, due to a limited number of sites; or (iii) natural resource damage claims. BNSF Railway continues to estimate third-party tort claims on a site by site basis when the liability for such claims is probable and reasonably estimable. BNSF Railway's recorded liability for third-party tort claims as of September 30, 2008, is approximately \$17 million.

BNSF Railway is involved in a number of administrative and judicial proceedings and other mandatory cleanup efforts for 340 sites, including 21 Superfund sites, at which it is participating in the study or cleanup, or both, of alleged environmental contamination.

**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 September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Beginning balance	\$ 545	\$ 362	\$ 380	\$ 318
Accruals	26	32	223	106
Payments	(28)	(15)	(60)	(45)
Ending balance at September 30,	<u>\$ 543</u>	<u>\$ 379</u>	<u>\$ 543</u>	<u>\$ 379</u>

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

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

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

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

The following tables summarize the environmental sites:

<b>BNSF Sites</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Number of sites at beginning of period	350	347	346	375
Sites added during the period	4	2	16	14
Sites closed during the period	(14)	(4)	(22)	(44)
Number of sites at September 30,	<u>340</u>	<u>345</u>	<u>340</u>	<u>345</u>

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 \$395 million to \$860 million. However, BNSF Railway believes that the \$543 million recorded at September 30, 2008, is the best estimate of the Company’s future obligation for environmental costs.

## BNSF RAILWAY COMPANY and SUBSIDIARIES

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

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

#### Other Claims and Litigation

In addition to asbestos, other personal injury and environmental matters discussed above, BNSF Railway and its subsidiaries are also parties to a number of other legal actions and claims, various governmental proceedings and private civil suits arising in the ordinary course of business, including those related to disputes and complaints involving certain transportation rates and charges (including complaints seeking refunds of prior charges paid for coal transportation and the prescription of future rates for such movements and claims relating to service under contract provisions or otherwise). Some of the legal proceedings include claims for punitive as well as compensatory damages, and a few proceedings purport to be class actions. While the final outcome of these matters cannot be predicted with certainty, considering among other things the meritorious legal defenses available and liabilities that have been recorded along with applicable insurance, it is the opinion of BNSF Railway that none of these items, when finally resolved, will have a material adverse effect on the Company's financial position or liquidity. However, an unexpected adverse resolution of one or more of these items could have a material adverse effect on the results of operations in a particular quarter or fiscal year.

#### 6. Employee Separation Costs

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

<b>Nine Months Ended September 30,</b>	<b>2008</b>	<b>2007</b>
Beginning balance at January 1,	\$ 91	\$ 107
Accruals	3	5
Payments	(11)	(16)
Ending balance at September 30,	\$ 83	\$ 96

Employee separation liabilities of \$83 million were included in the Consolidated Balance Sheet at September 30, 2008, and principally represent the following: (i) \$79 million for deferred benefits payable upon separation or retirement to certain active conductors, trainmen and locomotive engineers; (ii) \$1 million for employee-related severance costs for the consolidation of clerical functions, material handlers in mechanical shops and trainmen on reserve boards; and (iii) \$3 million for certain non-union employee severance costs. Employee separation expenses are recorded in materials and other in the Consolidated Statements of Income. At September 30, 2008, \$12 million of the remaining liabilities was included in current liabilities.

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

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

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

**7. Employment Benefit Plans**

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

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

	<b>Pension Benefits</b>			
	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Net Periodic Cost</b>				
Service cost	\$ 7	\$ 7	\$ 19	\$ 19
Interest cost	25	24	76	73
Expected return on plan assets	(28)	(26)	(84)	(79)
Amortization of net loss	4	8	12	26
Net periodic benefit cost	<u>\$ 8</u>	<u>\$ 13</u>	<u>\$ 23</u>	<u>\$ 39</u>

	<b>Retiree Health and Welfare Benefits</b>			
	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Net Periodic Cost</b>				
Service cost	\$ 1	\$ –	\$ 2	\$ 2
Interest cost	4	4	13	12
Amortization of net loss	1	1	3	4
Amortization of prior service cost	(1)	(1)	(5)	(5)
Net periodic benefit cost	<u>\$ 5</u>	<u>\$ 4</u>	<u>\$ 13</u>	<u>\$ 13</u>

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

**8. 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 \$699 million and \$668 million during the first nine months of 2008 and 2007, respectively, which are reflected in changes in working capital in the Consolidated Statement of Cash Flows.

At September 30, 2008 and December 31, 2007, BNSF Railway had \$105 million and \$44 million, respectively, of intercompany receivables which are reflected in accounts receivable in the respective Consolidated Balance Sheets. At September 30, 2008 and December 31, 2007, BNSF Railway had \$10 million and \$14 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.

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

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

At September 30, 2008 and December 31, 2007, BNSF Railway had \$1,377 million and \$456 million, respectively, of intercompany notes receivable from BNSF. The \$921 million increase in intercompany notes receivable is due to \$1,296 million of loans to BNSF, partially offset by repayments of \$375 during the first nine months of 2008. Additionally, at September 30, 2008, BNSF Railway had \$4 million of intercompany notes receivable from BNSF Logistics, a wholly-owned subsidiary of BNSF that specializes in third-party logistics services. The \$4 million increase in the BNSF Logistics note is due to \$12 million of loans to BNSF Logistics, partially offset by repayments of \$8 million during the first nine months of 2008. All intercompany notes have a variable interest rate of 1.0 percent above the monthly average of the daily effective Federal Funds rate. Interest is collected semi-annually on all intercompany notes receivable. Interest income from intercompany notes receivable is presented in interest income, related parties in the Consolidated Statements of Income.

BNSF Railway earned revenues of \$31 million and \$21 million for the nine months ended September 30, 2008 and 2007, respectively, for transportation services provided to BNSF Logistics by BNSF Railway. Additionally, BNSF Railway purchased truck transportation services for the Company’s materials and supplies from BNSF Logistics of \$29 million and \$24 million for the nine month periods ended September 30, 2008 and 2007.

Under various stock incentive plans, BNSF has granted options to employees to purchase its common stock at a price not less than the fair market value at the date of grant. Certain employees of BNSF Railway participate in these plans. In addition, under these plans BNSF has other long-term incentive plans to certain BNSF Railway employees, including, among other things, restricted stock and a discounted stock purchase program.

**9. Comprehensive Income**

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net income	\$ 759	\$ 633	\$ 1,703	\$ 1,609
Other comprehensive income:				
Amortization of prior service costs and actuarial losses, net of tax (see Note 7)	2	5	6	15
(Loss) gain on derivative instruments and other items, net of tax (see Note 2)	(89)	3	(36)	3
Unrealized loss on securities held by equity method investees, net of tax	(1)	—	(1)	—
<b>Total comprehensive income</b>	<b>\$ 671</b>	<b>\$ 641</b>	<b>\$ 1,672</b>	<b>\$ 1,627</b>

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

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

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

To the Shareholder and Board of Directors of  
BNSF Railway Company:

We have reviewed the accompanying consolidated balance sheet of BNSF Railway Company and its subsidiaries ("BNSF Railway" or the "Company") as of September 30, 2008, and the related consolidated statements of income for each of the three-month and nine-month periods ended September 30, 2008 and 2007, the consolidated statements of cash flows for each of the nine-month periods ended September 30, 2008 and 2007 and the consolidated statement of changes in stockholder's equity for the nine-month period ended September 30, 2008. These interim financial statements are the responsibility of the Company's management.

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

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

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2007, and the related consolidated statements of income, of changes in stockholder's equity, and of cash flows for the year then ended (not presented herein), and in our report dated February 12, 2008, except as described in Note 1 as to which the date is October 8, 2008, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2007, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

Fort Worth, Texas  
October 23, 2008

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

Management's narrative analysis relates to the results of operations of BNSF Railway Company and its majority-owned subsidiaries (collectively BNSF Railway, Registrant or Company). The following narrative analysis should be read in conjunction with the Consolidated Financial Statements and the accompanying notes. All prior period financial information has been adjusted as appropriate for the transaction described in Note 1 to the Consolidated Financial Statements.

### Results of Operations

#### *Nine Months Ended September 30, 2008, Compared with Nine Months Ended September 30, 2007*

#### Revenues

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

	Revenues (in millions)		Cars / Units (in thousands)		Average Revenue Per Car / Unit	
	2008	2007	2008	2007	2008	2007
Consumer Products	\$ 4,643	\$ 4,167	3,655	3,882	\$ 1,270	\$ 1,073
Industrial Products	3,109	2,758	1,245	1,252	2,497	2,203
Coal	2,903	2,385	1,868	1,832	1,554	1,302
Agricultural Products	2,603	1,918	817	752	3,186	2,551
Total Freight Revenues	13,258	11,228	7,585	7,718	\$ 1,748	\$ 1,455
Other Revenues	210	187				
Total Operating Revenues	\$ 13,468	\$ 11,415				

Freight revenues for the first nine months of 2008 were \$13,258 million, up 18 percent compared with the same 2007 period, while cars/units decreased by 2 percent during this same period. Freight revenues included an increase of approximately \$1,250 million in fuel surcharges compared with the same 2007 period. Average revenue per car/unit was up 20 percent in the first nine months of 2008 from the first nine months of 2007 primarily due to fuel surcharges and improved pricing.

#### *Consumer Products*

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

Consumer Products revenues of \$4,643 million for the first nine months of 2008 were \$476 million, or 11 percent, greater than the first nine months of 2007. This was principally due to higher fuel surcharges, improved yields and increased domestic intermodal traffic, which was partially offset by lower international volumes related to economic softness as well as reduced transpacific service of a large international customer.

#### *Industrial Products*

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

Industrial Products revenues of \$3,109 million for the first nine months of 2008 were \$351 million, or 13 percent, greater than the first nine months of 2007, due mainly to higher fuel surcharges, improved yields and demand for construction products, which more than offset the decline in building products as a result of weakness in the housing market.

### *Coal*

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

Coal revenues of \$2,903 million for the first nine months of 2008 increased \$518 million, or 22 percent, compared with the same 2007 period. The increase was primarily driven by improved yields, contractual inflation escalators, higher fuel surcharges and higher unit volumes. Strong coal unit volumes were driven by organic growth of existing customers as well as new eastern conversion.

### *Agricultural Products*

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

Agricultural Products revenues of \$2,603 million for the first nine months of 2008 were \$685 million, or 36 percent, higher than revenues for the first nine months of 2007. This increase was primarily due to improved yields, higher fuel surcharges and strong unit volumes in ethanol, corn and wheat.

### *Other Revenues*

Other revenues increased \$23 million, or 12 percent, to \$210 million for the first nine months of 2008. This was primarily due to an increase in demurrage charges.

### **Expenses**

Total operating expenses for the first nine months of 2008 were \$10,678 million, an increase of \$1,825 million, or 21 percent, versus the same period in 2007.

### *Fuel*

Fuel expense is driven by market price, the level of locomotive consumption of diesel fuel and the effects of hedging activities. Substantially all fuel expense consists of fuel used in locomotives for transportation services. Fuel expense also includes non-locomotive fuel-related costs such as fuel used in vehicles (maintenance of way and other vehicles/equipment), fuel used in refrigerated cars, intermodal facilities fuel and fuel-based products used in servicing locomotives.

Fuel expenses of \$3,685 million for the first nine months of 2008 were \$1,353 million, or 58 percent, higher than the first nine months of 2007. The increase in fuel expense was primarily due to an increase in the average all-in cost per gallon of locomotive diesel fuel. The average all-in cost per gallon of locomotive diesel fuel increased by \$1.24 to \$3.33, resulting in a \$1,318 million increase in expense. The increase in the average all-in cost reflected an increase in the average purchase price per gallon of \$1.26, or a \$1,337 million increase in locomotive fuel expenses, offset by an increase in the hedge benefit of 2 cents per gallon, or \$19 million (first nine months 2008 benefit of \$44 million less first nine months 2007 benefit of \$25 million). Locomotive fuel consumption was relatively flat as compared with consumption in the same 2007 period.

### *Compensation and benefits*

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

Compensation and benefits expenses of \$2,932 million for the first nine months of 2008 were \$154 million, or 6 percent, higher than the same prior year period. This increase was primarily related to higher incentive compensation costs, which covers all non-union and about 25 percent of union employees. Wage inflation was partially offset by improved productivity. The average number of employees decreased 1 percent compared to the first nine months of 2007.

### *Purchased services*

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

Purchased service expenses of \$1,553 million for the first nine months of 2008 were \$64 million, or 4 percent, higher than the first nine months of 2007. This increase was due to haulage payments for transportation over other railroads and locomotive and freight car contract maintenance expense.

### *Depreciation and amortization*

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

Depreciation and amortization expenses of \$1,038 million for the first nine months of 2008 were \$86 million, or 9 percent, higher than the same period in 2007. This increase in depreciation expense was primarily due to continuing capital expenditures, updated depreciation rates for locomotives that went into effect in April 2007 and updated depreciation rates for other roadway property that went into effect in April 2008.

### *Equipment rents*

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

Equipment rents expenses of \$683 million for the first nine months of 2008 were \$21 million, or 3 percent, lower than the first nine months of 2007 due to lower volumes, improved velocity and increased asset utilization.

### *Materials and other*

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

Materials and other expenses of \$787 million for the first nine months of 2008 were \$189 million, or 32 percent, higher than the first nine months of 2007. The increase was primarily due to higher environmental costs.

### *Interest expense*

Interest expense of \$70 million for the first nine months of 2008 was \$2 million, or 3 percent, higher than the same 2007 period. This was primarily due to a higher average debt balance, offset by the interest associated with a favorable tax settlement.

### *Income taxes*

The effective tax rate for the nine months ended September 30, 2008, was 37.3 percent compared with 38.5 percent for the same prior year period. The decrease in the effective tax rate primarily reflects a favorable tax settlement.

## **Forward-Looking Information**

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

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

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

- **Economic and industry conditions:** material adverse changes in economic or industry conditions, both in the United States and globally, continuing volatility in the capital or credit markets and other changes in the securities and capital markets, changes in customer demand, effects of adverse economic conditions affecting shippers or BNSF Railway's supplier base, adverse economic conditions in the industries and geographic areas that produce and consume freight, changes in demand due to more stringent regulatory policies such as the regulation of carbon dioxide emissions that could reduce the demand for coal, governmental tariffs or subsidies that could affect the demand for grain, competition and consolidation within the transportation industry, the extent to which BNSF Railway is successful in gaining new long-term relationships with customers or retaining existing ones, level of service failures that could lead customers to use competitors' services, changes in fuel prices and other key materials and disruptions in supply chains for these materials, changes in the securities and capital markets and changes in crew availability, labor costs and labor difficulties, including stoppages affecting either BNSF Railway's operations or customers' abilities to deliver goods to BNSF Railway for shipment;

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

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

The Company cautions against placing undue reliance on forward-looking statements, which reflect its current beliefs and are based on information currently available to it as of the date a forward-looking statement is made. The Company undertakes no obligation to revise forward-looking statements to reflect future events, changes in circumstances, or changes in beliefs. In the event the Company does update any forward-looking statement, no inference should be made that the Company will make additional updates with respect to that statement, related matters, or any other forward-looking statements. Any corrections or revisions and other important assumptions and factors that could cause actual results to differ materially from forward-looking statements made by the Company may appear in the Company's public filings with the SEC, which are accessible at [www.sec.gov](http://www.sec.gov), and on the Company's website at [www.bnsf.com](http://www.bnsf.com), and which investors are advised to consult.

**Item 4T. Controls and Procedures.**

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

**BNSF RAILWAY COMPANY and SUBSIDIARIES**

**PART II OTHER INFORMATION**

**Item 6. Exhibits.**

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

**SIGNATURES**

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

BNSF Railway Company  
(Registrant)

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

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

Dated: October 23, 2008

## BNSF RAILWAY COMPANY and SUBSIDIARIES

### Exhibit Index

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

\*Filed herewith

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

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>
		<i>(As Adjusted)<sup>a</sup></i>
<b>Earnings:</b>		
Income before income taxes	\$ 2,718	\$ 2,616
<b>Add:</b>		
Interest and other fixed charges, excluding capitalized interest	70	68
Reasonable approximation of portion of rent under long-term operating leases representative of an interest factor	207	211
Distributed income of investees accounted for under the equity method	4	3
Amortization of capitalized interest	3	2
Less: Equity in earnings of investments accounted for under the equity method	<u>15</u>	<u>15</u>
Total earnings available for fixed charges	<u>\$ 2,987</u>	<u>\$ 2,885</u>
<b>Fixed charges:</b>		
Interest and fixed charges	\$ 83	\$ 80
Reasonable approximation of portion of rent under long-term operating leases representative of an interest factor	<u>207</u>	<u>211</u>
Total fixed charges	<u>\$ 290</u>	<u>\$ 291</u>
Ratio of earnings to fixed charges	<u>10.30x</u>	<u>9.91x</u>

<sup>a</sup> Prior year numbers have been adjusted for the merger of BNSF Acquisition, Inc. with and into BNSF Railway Company. See Note 1 to the Consolidated Financial Statements for additional information.

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

I, Matthew K. Rose, certify that:

1. I have reviewed this quarterly report on Form 10-Q of BNSF Railway Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods 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: October 23, 2008

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

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

I, Thomas N. Hund, certify that:

1. I have reviewed this quarterly report on Form 10-Q of BNSF Railway Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods 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: October 23, 2008

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

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

**BNSF Railway Company**

In connection with the Quarterly Report of BNSF Railway Company (the "Company") on Form 10-Q for the period ending September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Matthew K. Rose, Chairman, President and Chief Executive Officer of the Company, and Thomas N. Hund, Executive Vice President and Chief Financial Officer of the Company, each hereby certifies that, to his knowledge on the date hereof:

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

Dated: October 23, 2008

/s/ Matthew K. Rose

/s/ Thomas N. Hund

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

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

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