

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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
August 5, 2016**

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)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues	\$ 4,445	\$ 5,233	\$ 9,081	\$ 10,704
Operating expenses:				
Compensation and benefits	1,120	1,256	2,314	2,583
Purchased services	483	566	1,026	1,004
Depreciation and amortization	526	488	1,043	983
Fuel	431	697	826	1,410
Equipment rents	184	207	372	398
Materials and other	218	295	501	602
Total operating expenses	2,962	3,509	6,082	6,980
Operating income	1,483	1,724	2,999	3,724
Interest expense	15	6	28	12
Interest income, related parties	(47)	(32)	(90)	(60)
Other expense, net	2	5	3	9
Income before income taxes	1,513	1,745	3,058	3,763
Income tax expense	569	654	1,151	1,410
Net income	\$ 944	\$ 1,091	\$ 1,907	\$ 2,353

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	\$ 944	\$ 1,091	\$ 1,907	\$ 2,353
Other comprehensive income:				
Change in Pension and Retiree Health and Welfare benefits, net of tax expense of \$1 million in each of the three and six months ended June 30, 2016 and net of tax benefit of \$1 million in each of the three and six months ended June 30, 2015	—	—	—	—
Change in accumulated other comprehensive income (loss) of equity method investees	1	—	(1)	(1)
Other comprehensive income (loss), net of tax	1	—	(1)	(1)
Total comprehensive income	\$ 945	\$ 1,091	\$ 1,906	\$ 2,352

See accompanying Notes to Consolidated Financial Statements.

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

	June 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 330	\$ 565
Accounts receivable, net	1,243	1,230
Materials and supplies	831	829
Current portion of deferred income taxes	—	245
Other current assets	537	256
Total current assets	2,941	3,125
Property and equipment, net of accumulated depreciation of \$5,386 and \$4,864, respectively	60,472	59,454
Goodwill	14,803	14,803
Intangible assets, net	438	453
Other assets	2,106	2,057
Total assets	\$ 80,760	\$ 79,892
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Accounts payable and other current liabilities	\$ 2,704	\$ 2,956
Long-term debt due within one year	170	214
Total current liabilities	2,874	3,170
Deferred income taxes	19,727	19,217
Long-term debt	1,515	1,569
Intangible liabilities, net	617	667
Casualty and environmental liabilities	589	609
Pension and retiree health and welfare liability	351	353
Other liabilities	984	978
Total liabilities	26,657	26,563
Commitments and contingencies (see Notes 6 and 7)		
Stockholder's equity:		
Common stock, \$1 par value, 1,000 shares authorized; issued and outstanding and paid-in capital	42,920	42,920
Retained earnings	24,865	22,958
Intercompany notes receivable	(13,729)	(12,597)
Accumulated other comprehensive income	47	48
Total stockholder's equity	54,103	53,329
Total liabilities and stockholder's equity	\$ 80,760	\$ 79,892

See accompanying Notes to Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2016	2015
OPERATING ACTIVITIES		
Net income	\$ 1,907	\$ 2,353
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,043	983
Deferred income taxes	755	322
Long-term casualty and environmental liabilities, net	(21)	(17)
Other, net	(54)	(12)
Changes in current assets and liabilities:		
Accounts receivable, net	(13)	86
Materials and supplies	(1)	(57)
Other current assets	(172)	(123)
Accounts payable and other current liabilities	(199)	(154)
Net cash provided by operating activities	3,245	3,381
INVESTING ACTIVITIES		
Capital expenditures excluding equipment	(1,543)	(1,918)
Acquisition of equipment	(457)	(522)
Purchases of investments and investments in time deposits	(4)	(123)
Proceeds from sales of investments and maturities of time deposits	10	—
Other, net	(277)	(75)
Net cash used for investing activities	(2,271)	(2,638)
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	—	500
Payments on long-term debt	(77)	(71)
Net increase in intercompany notes receivable classified as equity	(1,132)	(1,361)
Other, net	—	(2)
Net cash used for financing activities	(1,209)	(934)
Decrease in cash and cash equivalents	(235)	(191)
Cash and cash equivalents:		
Beginning of period	565	585
End of period	\$ 330	\$ 394
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid, net of amounts capitalized	\$ 35	\$ 22
Capital investments accrued but not yet paid	\$ 122	\$ 214
Income taxes paid, net of refunds	\$ 496	\$ 1,061

See accompanying Notes to Consolidated Financial Statements.

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

	Common Stock and Paid-in Capital	Retained Earnings	Intercompany Notes Receivable	Accumulated Other Comprehensive Income (Loss)	Total Stockholder's Equity
Balance at December 31, 2015	\$ 42,920	\$ 22,958	\$ (12,597)	\$ 48	\$ 53,329
Change in intercompany notes receivable	—	—	(1,132)	—	(1,132)
Comprehensive income (loss), net of tax	—	1,907	—	(1)	1,906
Balance at June 30, 2016	\$ 42,920	\$ 24,865	\$ (13,729)	\$ 47	\$ 54,103

See accompanying Notes to Consolidated Financial Statements.

BNSF RAILWAY COMPANY and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Accounting Policies and Interim Results

The Consolidated Financial Statements should be read in conjunction with BNSF Railway Company’s Annual Report on Form 10-K for the year ended December 31, 2015, including the financial statements and notes thereto. The Consolidated Financial Statements include the accounts of BNSF Railway Company and its majority-owned subsidiaries, all of which are separate legal entities (collectively, BNSF Railway or the Company). BNSF Railway is a wholly-owned subsidiary of Burlington Northern Santa Fe, LLC (BNSF), and is the principal operating subsidiary of BNSF. All intercompany accounts and transactions have been eliminated.

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

The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the entire year. In the opinion of management, the unaudited financial statements reflect all adjustments (consisting of only normal recurring adjustments, except as disclosed) necessary for a fair statement of BNSF Railway’s consolidated financial position as of June 30, 2016, and the results of operations for the three and six months ended June 30, 2016 and 2015.

2. Accounts Receivable, Net

Accounts receivable, net consists of freight and other receivables, reduced by an allowance for bill adjustments and uncollectible accounts, based upon expected collectibility. At June 30, 2016 and December 31, 2015, \$72 million and \$73 million, respectively, of such allowances had been recorded.

At June 30, 2016 and December 31, 2015, \$59 million and \$48 million, respectively, of accounts receivable were greater than 90 days old.

3. Investments

BNSF Railway holds investments which are classified as trading securities and included in Other Assets on the balance sheet. The following table summarizes the fair value of investments held as of June 30, 2016 and December 31, 2015 (in millions):

	June 30, 2016		December 31, 2015	
Debt securities	\$	51	\$	57
Equity securities		65		63
Total	\$	116	\$	120

The fair value measurements of BNSF Railway’s debt securities are based on Level 2 inputs and equity securities are based on Level 1 inputs, using a market approach. The following table presents gains and losses recognized in earnings for the Company (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Gains	\$ 2	\$ —	\$ 7	\$ —
Losses	—	(2)	(4)	(2)
Net Gain	\$ 2	\$ (2)	\$ 3	\$ (2)

BNSF RAILWAY COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)
4. Other Intangible Assets and Liabilities

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

	As of June 30, 2016		As of December 31, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible assets	\$ 636	\$ 198	\$ 636	\$ 183
Intangible liabilities	\$ 1,403	\$ 786	\$ 1,403	\$ 736

As of June 30, 2016 and December 31, 2015, intangible assets primarily consisted of franchise and customer assets. Intangible liabilities primarily consisted of customer and shortline contracts which were in an unfavorable position at the date of Merger.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Amortization of intangible assets	\$ 7	\$ 7	\$ 15	\$ 38
Amortization of intangible liabilities	\$ 25	\$ 27	\$ 50	\$ 61

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

	Amortization of intangible assets	Amortization of intangible liabilities
Remainder of 2016	\$ 16	\$ 51
2017	\$ 31	\$ 96
2018	\$ 31	\$ 90
2019	\$ 31	\$ 27
2020	\$ 31	\$ 26

5. Other Assets

In July 2010, the Company entered into a low-income housing partnership (the Partnership) as the limited partner, holding a 99.9% interest in the Partnership. The Partnership is a variable interest entity (VIE), with the purpose of developing and operating low-income housing rental properties. Recovery of the Company's investment is accomplished through the utilization of low-income housing tax credits and the tax benefits of Partnership losses. The general partner, who holds a 0.1% interest in the Partnership, is an unrelated third party and is responsible for controlling and managing the business and financial operation of the Partnership. As the Company does not have the power to direct the activities that most significantly impact the Partnership's economic performance, the Company is not the primary beneficiary and therefore, does not consolidate the Partnership. As of June 30, 2016 and December 31, 2015, the assets of the unconsolidated Partnership totaled approximately \$295 million and \$315 million, respectively. The Company does not provide financial support to the Partnership that it was not previously contractually obligated to provide.

BNSF RAILWAY COMPANY and SUBSIDIARIES

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

The Company has accounted for its investment in the Partnership using the effective yield method. The risk of loss of the Company's investment in the Partnership is considered low as an affiliate of the general partner has provided certain guarantees of tax credits and minimum annual returns. For the six months ended June 30, 2016 and 2015, the Company recognized a reduction to income tax expense of \$23 million and \$18 million, respectively. The Company's maximum exposure to loss related to the Partnership is the unamortized investment balance. The following table provides information related to this Partnership (in millions):

	June 30, 2016		December 31, 2015	
Unamortized investment balance classified as Other Assets	\$	231	\$	265
Maximum exposure to loss	\$	231	\$	265

6. Debt

Fair Value of Debt Instruments

At June 30, 2016, and December 31, 2015, the fair value of BNSF Railway's debt, excluding capital leases, was \$1,216 million and \$1,145 million, respectively, while the book value, which also excludes capital leases and the associated unamortized fair value adjustment under acquisition method accounting related to capital leases, was \$1,040 million and \$1,092 million, respectively. The fair value of BNSF Railway's debt is primarily based on market value price models using observable market-based data for the same or similar issues, or on the estimated rates that would be offered to BNSF Railway for debt of the same remaining maturities (Level 2 inputs).

Guarantees

As of June 30, 2016, BNSF Railway has not been called upon to perform under the guarantees specifically disclosed in this footnote and does not anticipate a significant performance risk in the foreseeable future.

Debt and other obligations of non-consolidated entities guaranteed by the Company as of June 30, 2016, were as follows (dollars in millions):

	Guarantees					
	BNSF Railway Ownership Percentage	Principal Amount Guaranteed	Maximum Future Payments	Maximum Recourse Amount ^a	Remaining Term (in years)	Capitalized Obligations
Kinder Morgan Energy Partners, L.P.	0.5%	\$ 190	\$ 190	\$ —	Termination of Ownership	\$ 2 ^b
Chevron Phillips Chemical Company LP	—%	N/A ^d	N/A ^d	N/A ^d	1	\$ 2 ^c

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

^b Reflects capitalized obligations that are recorded on the Company's Consolidated Balance Sheet.

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

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

Kinder Morgan Energy Partners, L.P.

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

BNSF RAILWAY COMPANY and SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)*****Chevron Phillips Chemical Company LP***

In 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.

Indemnities

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

Variable Interest Entities - Leases

BNSF Railway has entered into various lease transactions in which the structure of the lease contains VIEs. These leases are primarily for equipment. These VIEs were created solely for the lease transactions and have no other activities, assets or liabilities outside of the lease transactions. In some of the arrangements, BNSF Railway has the option to purchase some or all of the leased assets at a fixed price, thereby creating variable interests for BNSF Railway in the VIEs. The future minimum lease payments associated with the VIE leases were approximately \$2 billion as of June 30, 2016.

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

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

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

BNSF RAILWAY COMPANY and SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)****7. 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 an undiscounted liability for personal injury claims when the expected loss is both probable and reasonably estimable. The liability and ultimate expense projections are estimated using standard actuarial methodologies. Liabilities recorded for unasserted personal injury claims are based on information currently available. Due to the inherent uncertainty involved in projecting future events such as the number of claims filed each year, developments in judicial and legislative standards and the average costs to settle projected claims, actual costs may differ from amounts recorded. BNSF Railway has obtained insurance coverage for certain claims, as discussed under the heading "BNSF Insurance Company." Expense accruals and any required adjustments are classified as materials and other in the Consolidated Statements of Income.

Asbestos

The Company is party to a number of personal injury claims by employees and non-employees who may have been exposed to asbestos. The heaviest exposure for certain BNSF 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 asbestos liability exposure on an annual basis during the third quarter. BNSF Railway determines its asbestos liability by estimating its exposed population, the number of claims likely to be filed, the number of claims that will likely require payment and the estimated cost per claim. Estimated filing and dismissal rates and average cost per claim are determined utilizing recent claim data and trends.

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

Based on BNSF Railway's estimate of the potentially exposed employees and related mortality assumptions, it is anticipated that unasserted asbestos claims will continue to be filed through the year 2050. The Company recorded an amount for the full estimated filing period through 2050 because it had a relatively finite exposed population (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 65, 80 and 95 percent of the future unasserted asbestos claims will be filed within the next 10, 15 and 25 years, respectively.

Other Personal Injury

BNSF 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 allegedly result from prolonged repeated events or exposure. Such claims are estimated on an as-reported basis because the Company cannot estimate the range of reasonably possible loss due to other non-work related contributing causes of such injuries and the fact that continued exposure is required for the potential injury to manifest itself as a claim. BNSF Railway has not experienced any significant adverse trends related to these types of claims in recent years.

BNSF RAILWAY COMPANY and SUBSIDIARIES

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

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

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

	Three Months Ended June 30,	
	2016	2015
Beginning balance	\$ 371	\$ 373
Accruals	17	19
Payments	(19)	(18)
Ending balance	<u>\$ 369</u>	<u>\$ 374</u>

	Six Months Ended June 30,	
	2016	2015
Beginning balance	\$ 375	\$ 375
Accruals	50	37
Payments	(56)	(38)
Ending balance	<u>\$ 369</u>	<u>\$ 374</u>

At June 30, 2016 and December 31, 2015, \$85 million was included in current liabilities for both periods. Defense and processing costs, which are recorded on an as-reported basis, were not included in the recorded liability. The Company is primarily self-insured for personal injury claims.

Because of the uncertainty surrounding the ultimate outcome of personal injury claims, it is reasonably possible that future costs to settle personal injury claims may range from approximately \$325 million to \$435 million. However, BNSF Railway believes that the \$369 million recorded at June 30, 2016 is the best estimate of the Company’s future obligation for the settlement of personal injury claims.

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

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

BNSF Insurance Company

Burlington Northern Santa Fe Insurance Company, Ltd. (BNSF IC), a wholly-owned subsidiary of BNSF, provides insurance coverage for certain risks, FELA claims, railroad protective and force account insurance claims and certain excess general liability and property coverage, and certain other claims which are subject to reinsurance. During the six months ended June 30, 2016 and 2015, BNSF IC wrote insurance coverage with premiums totaling \$70 million and \$73 million, respectively, for BNSF Railway, net of reimbursements from third parties. During this same time, BNSF Railway recognized \$35 million and \$39 million, respectively, in expense related to those premiums, which is classified as purchased services in the Consolidated Statements of Income. At June 30, 2016 and December 31, 2015, unamortized premiums remaining on the Consolidated Balance Sheet were \$40 million and \$5 million, respectively. During the six months ended June 30, 2016 and 2015, BNSF IC made claim payments totaling \$59 million and \$195 million, respectively, for settlement of covered claims. At June 30, 2016 and December 31, 2015, claims receivables from BNSF IC were \$3 million and \$15 million, respectively.

BNSF RAILWAY COMPANY and SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)****Environmental**

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

BNSF Railway is involved in a number of administrative and judicial proceedings and other mandatory cleanup efforts for 216 sites, including 18 Superfund sites, at which it is participating in the study or cleanup, or both, of alleged environmental contamination.

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

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

Annual studies do not include: (i) contaminated sites of which the Company is not aware; (ii) additional amounts for third-party tort claims, which arise out of contaminants allegedly migrating from BNSF Railway property, due to a limited number of sites; or (iii) natural resource damage claims. BNSF Railway continues to estimate third-party tort claims on a site by site basis when the liability for such claims is probable and reasonably estimable. BNSF Railway's recorded liability for third-party tort claims as of June 30, 2016 and December 31, 2015 was \$12 million for both periods.

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

BNSF RAILWAY COMPANY and SUBSIDIARIES

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

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

	Three Months Ended June 30,	
	2016	2015
Beginning balance	\$ 362	\$ 395
Accruals	—	2
Payments	(7)	(9)
Ending balance	\$ 355	\$ 388

	Six Months Ended June 30,	
	2016	2015
Beginning balance	\$ 369	\$ 404
Accruals	—	3
Payments	(14)	(19)
Ending balance	\$ 355	\$ 388

At June 30, 2016 and December 31, 2015, \$50 million was included in current liabilities for both periods.

BNSF Railway’s environmental liabilities are not discounted. BNSF Railway anticipates that the majority of the accrued costs at June 30, 2016, will be paid over the next ten years, and no individual site is considered to be material.

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

Because of the uncertainty surrounding these factors, it is reasonably possible that future costs for environmental liabilities may range from approximately \$275 million to \$485 million. However, BNSF Railway believes that the \$355 million recorded at June 30, 2016, is the best estimate of the Company’s future obligation for environmental costs.

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

Other Claims and Litigation

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

BNSF RAILWAY COMPANY and SUBSIDIARIES

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

8. Employment Benefit Plans

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

Net Cost	Pension Benefits	
	Three Months Ended June 30,	
	2016	2015
Service cost	\$ 11	\$ 12
Interest cost	24	22
Expected return on plan assets	(36)	(35)
Amortization of net loss	—	1
Net cost recognized	\$ (1)	\$ —

Net Cost	Pension Benefits	
	Six Months Ended June 30,	
	2016	2015
Service cost	\$ 23	\$ 24
Interest cost	48	45
Expected return on plan assets	(72)	(70)
Amortization of net loss	—	1
Net cost recognized	\$ (1)	\$ —

Net Cost	Retiree Health and Welfare Benefits	
	Three Months Ended June 30,	
	2016	2015
Service cost	\$ 1	\$ —
Interest cost	2	3
Amortization of prior service credits	(1)	—
Net cost recognized	\$ 2	\$ 3

Net Cost	Retiree Health and Welfare Benefits	
	Six Months Ended June 30,	
	2016	2015
Service cost	\$ 1	\$ —
Interest cost	5	5
Amortization of prior service credits	(1)	(1)
Amortization of net loss	—	1
Net cost recognized	\$ 5	\$ 5

BNSF RAILWAY COMPANY and SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)****9. 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 \$477 million and \$1,042 million during the six months ended June 30, 2016 and 2015, respectively, which are reflected in changes in working capital in the Consolidated Statement of Cash Flows.

At June 30, 2016 and December 31, 2015, BNSF Railway had \$166 million and \$116 million, respectively, of intercompany receivables which are reflected in accounts receivable in the respective Consolidated Balance Sheets. At June 30, 2016 and December 31, 2015, BNSF Railway had \$39 million and \$19 million of intercompany payables, respectively, which are reflected in accounts payable in the respective Consolidated Balance Sheets. Net intercompany balances are settled in the ordinary course of business.

At June 30, 2016 and December 31, 2015, BNSF Railway had \$13,729 million and \$12,597 million, respectively, of intercompany notes receivable from BNSF. The \$1,132 million increase in intercompany notes receivable was due to loans to BNSF during the six months ended June 30, 2016. All intercompany notes have a variable interest rate of 1.0 percent above the monthly average of the daily effective Federal Funds rate. Interest is collected semi-annually on all intercompany notes receivable. Interest income from intercompany notes receivable is presented in interest income, related parties in the Consolidated Statements of Income.

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

	Three Months Ended June 30,	
	2016	2015
Revenues	\$ 38	\$ 50
Expenditures	\$ 80	\$ 97

	Six Months Ended June 30,	
	2016	2015
Revenues	\$ 85	\$ 98
Expenditures	\$ 165	\$ 193

BNSF RAILWAY COMPANY and SUBSIDIARIES

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

10. Accumulated Other Comprehensive Income

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

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

	Pension and Retiree Health and Welfare Benefit Items ^a	Equity Method Investments	Total
Balance at December 31, 2015	\$ 50	\$ (2)	\$ 48
Other comprehensive (loss) before reclassifications	—	(1)	(1)
Amounts reclassified from AOCI	—	—	—
Balance at June 30, 2016	\$ 50	\$ (3)	\$ 47
Balance at December 31, 2014	\$ —	\$ (2)	\$ (2)
Other comprehensive (loss) before reclassifications	—	(1)	(1)
Amounts reclassified from AOCI	—	—	—
Balance at June 30, 2015	\$ —	\$ (3)	\$ (3)

^a Amounts are net of tax.

Reclassifications out of AOCI^b

Three Months Ended June 30,

Details about AOCI Components	2016	2015	Income Statement Line Item
Amortization of pension and retiree health and welfare benefit items			
Actuarial losses	\$ —	\$ (1)	^c
Prior service credits	1	—	^c
	1	(1)	Total before tax
	(1)	1	Tax benefit / (expense)
Total reclassifications for the period	\$ —	\$ —	Net of tax

Six Months Ended June 30,

Details about AOCI Components	2016	2015	Income Statement Line Item
Amortization of pension and retiree health and welfare benefit items			
Actuarial losses	\$ —	\$ (2)	^c
Prior service credits	1	1	^c
	1	(1)	Total before tax
	(1)	1	Tax benefit / (expense)
Total reclassifications for the period	\$ —	\$ —	Net of tax

^b Amounts in parenthesis indicate debits to the income statement.

^c This accumulated other comprehensive income component is included in the computation of net periodic pension and retiree health and welfare cost (see Note 8 for additional details).

BNSF RAILWAY COMPANY and SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)****11. Accounting Pronouncements**

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), Revenue from Contracts with Customers (Topic 606). The guidance in ASU 2014-09 supersedes the revenue recognition requirements in Accounting Standards Codification (ASC) Topic 605, Revenue Recognition. ASU 2014-09 applies to most contracts with customers. Insurance and leasing contracts are excluded from the scope. ASU 2014-09 prescribes a five-step framework in accounting for revenues from contracts within its scope, including (a) identification of the contract, (b) identification of the performance obligation under the contract, (c) determination of the transaction price, (d) allocation of the transaction price to the identified performance obligation and (e) recognition of revenue as the identified performance obligation is satisfied. ASU 2014-09 also prescribes additional disclosures and financial statement presentations. ASU 2014-09 is effective for public companies in annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. In August of 2015, the FASB deferred the effective date one year to the annual reporting periods beginning after December 15, 2017. Early adoption is permitted, but not before the original effective date (annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period). ASU 2014-09 may be adopted retrospectively or under a modified retrospective method where the cumulative effect is recognized at the date of initial application. The Company does not expect this standard to have a material impact to the Consolidated Financial Statements.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17 (ASU 2015-17), Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. ASU 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position, and eliminates the current requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. BNSF early adopted the provisions of this ASU during the first quarter of 2016 and applied it prospectively. ASU 2015-17 did not have a material impact to the Company's consolidated financial position, and had no impact on the Company's results of operations or cash flows.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (ASU 2016-02), Leases (Topic 842). The guidance in ASU 2016-02 supersedes the lease recognition requirements in ASC Topic 840, Leases (FAS 13). ASU 2016-02 requires an entity to recognize assets and liabilities arising from a lease for both financing and operating leases, along with additional qualitative and quantitative disclosures. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the effect this standard will have on its Consolidated Financial Statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-08 (ASU 2016-08), Revenue from Contracts with Customers (Topic 606): Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net). ASU 2016-08 clarifies the implementation guidance on principal versus agent considerations in the new revenue recognition standard, ASU 2014-09. The effective date and transition requirements for ASU 2016-08 is the same as the effective date for ASU 2014-09 outlined above. The Company is currently evaluating the effect this standard will have on its Consolidated Financial Statements.

In April 2016 and May 2016, the FASB issued Accounting Standards Update No. 2016-10 (ASU 2016-10), Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations & Licensing and Accounting Standards Update No. 2016-12 (ASU 2016-12), Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, respectively. Both provide further clarification for the implementing the new revenue recognition standard, ASU 2014-09. The effective date and transition requirements for ASU 2016-10 and ASU 2016-12 are the same as the effective date of ASU 2014-09. The Company is currently evaluating the effect these standards will have on its Consolidated Financial Statements.

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.

The following narrative analysis of results of operations includes a brief discussion of the factors that materially affected the Company’s operating results in the six months ended June 30, 2016, and a comparative analysis of the six months ended June 30, 2015.

Results of Operations

Revenues Summary

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

	Revenues (in millions)		Cars / Units (in thousands)	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Consumer Products	\$ 3,151	\$ 3,200	2,511	2,455
Industrial Products	2,364	2,819	858	925
Agricultural Products	1,958	2,092	524	507
Coal	1,434	2,391	763	1,146
Total Freight Revenues	8,907	10,502	4,656	5,033
Other Revenues	174	202		
Total Operating Revenues	\$ 9,081	\$ 10,704		

	Average Revenue Per Car / Unit	
	Six Months Ended June 30,	
	2016	2015
Consumer Products	\$ 1,255	\$ 1,303
Industrial Products	2,755	3,048
Agricultural Products	3,737	4,126
Coal	1,879	2,086
Total Freight Revenues	\$ 1,913	\$ 2,087

Fuel Surcharges

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

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

	Six Months Ended June 30,	
	2016	2015
Total fuel expense ^a	\$ 826	\$ 1,410
BNSF Railway fuel surcharges	\$ 230	\$ 801

^a Total fuel expense includes locomotive and non-locomotive fuel.

Six Months Ended June 30, 2016 vs. the Six Months Ended June 30, 2015

Revenues

Revenues for the six months ended June 30, 2016, were \$9,081 million, a decrease of \$1,623 million, or 15 percent as compared with the six months ended June 30, 2015. The decline in revenue is primarily due to a 7.5% decline in unit volume and lower fuel surcharge revenue driven primarily by lower fuel prices. The change in revenues is due to the following:

- Average revenue per car / unit decreased 8 percent primarily as a result of lower fuel surcharges and business mix changes partially offset by increased rate per car / unit.
- Consumer Products volumes increased primarily due to increased domestic intermodal volumes as well as increased automotive volumes due to the addition of a new automotive customer.
- Industrial Products unit volumes decreased primarily due to lower petroleum products and commodities that support drilling due to pipeline displacement of U.S. crude traffic, along with lower U.S. production. In addition, there was lower demand for steel and taconite, partially offset by increased movements of non-owned rail equipment and increased plastics.
- Agricultural Products unit volumes increased due to higher grain exports.
- Coal volumes decreased due to lower demand driven by reduced energy consumption and low natural gas prices.

Expenses

Operating expenses for the six months ended June 30, 2016, were \$6,082 million, a decrease of \$898 million, or 13 percent, as compared with the six months ended June 30, 2015. A significant portion of this decrease is due to the following changes in underlying trends in expenses:

- Compensation and benefits decreased due to lower headcounts driven by decreased volumes and productivity improvements, partially offset by inflation.
- Fuel expense decreased primarily due to lower average fuel prices and lower volumes.
- Materials and other expense decreased primarily as a result of lower crew transportation, lodging and other travel costs, locomotive and freight car materials, and derailment-related costs.
- There were no significant changes in purchased services, depreciation and amortization expense, and equipment rents.
- The effective tax rate was 37.6 percent and 37.5 percent for the six months ended June 30, 2016 and 2015, respectively.

Forward-Looking Information

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

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

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

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

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

Item 4. Controls and Procedures.

Based on their evaluation as of the end of the period covered by this quarterly report on Form 10-Q, 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 BNSF Railway's second 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 Exhibit Index 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/ Julie A. Piggott
Julie A. Piggott
Executive Vice President and Chief Financial Officer
(On behalf of the Registrant and
as principal financial officer)

Date: August 5, 2016

BNSF RAILWAY COMPANY and SUBSIDIARIES**Exhibit Index**

	<u>Exhibit Number and Description</u>	<u>Incorporated by Reference (if applicable)</u>			
		<u>Form</u>	<u>File Date</u>	<u>File No.</u>	<u>Exhibit</u>
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 February 28, 2014.	10-K	3/2/2015	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).*				
101	eXtensible Business Reporting Language (XBRL) documents submitted electronically: 101.INS - XBRL Instance Document 101.SCH - XBRL Taxonomy Extension Schema Document 101.CAL - XBRL Extension Calculation Linkable Document 101.DEF - XBRL Taxonomy Extension Definition Linkable Document 101.LAB - XBRL Taxonomy Extension Label Linkbase 101.PRE - XBRL Taxonomy Extension Presentation Linkbase Document The following unaudited information from BNSF Railway Company's Form 10-Q for the three and six months ended June 30, 2016, formatted in XBRL includes: (i) the Consolidated Statements of Income for the three and six months ended June 30, 2016 and 2015, (ii) the Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2016 and 2015 (iii) the Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015, (iv) the Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015, (v) the Consolidated Statements of Changes in Equity as of June 30, 2016, and (vi) the Notes to the Consolidated Financial Statements. *				

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

*Filed herewith

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

	Six Months Ended June 30,	
	2016	2015
Earnings:		
Income before income taxes	\$ 3,058	\$ 3,763
Add:		
Interest and other fixed charges, excluding capitalized interest	28	12
Reasonable approximation of portion of rent under long-term operating leases representative of an interest factor	95	100
Distributed income of investees accounted for under the equity method	4	4
Amortization of capitalized interest	2	2
Less:		
Equity in earnings of investments accounted for under the equity method	4	8
Total earnings available for fixed charges	\$ 3,183	\$ 3,873
Fixed charges:		
Interest and fixed charges	\$ 41	\$ 31
Reasonable approximation of portion of rent under long-term operating leases representative of an interest factor	95	100
Total fixed charges	\$ 136	\$ 131
Ratio of earnings to fixed charges	23.40x	29.56x

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

I, Carl R. Ice, 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: August 5, 2016

/s/ Carl R. Ice
Carl R. Ice
President and
Chief Executive Officer

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

I, Julie A. Piggott, certify that:

1. I have reviewed this quarterly report on Form 10-Q of 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: August 5, 2016

/s/ Julie A. Piggott
Julie A. Piggott
Executive Vice President and
Chief Financial Officer

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

BNSF Railway Company

In connection with the Quarterly Report of BNSF Railway Company (the "Company") on Form 10-Q for the period ended June 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Carl R. Ice, President and Chief Executive Officer of the Company, and Julie A. Piggott, Executive Vice President and Chief Financial Officer of the Company, each hereby certifies that, to his and her knowledge on the date hereof:

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

Date: August 5, 2016

/s/ Carl R. Ice

Carl R. Ice
President and Chief Executive Officer

/s/ Julie A. Piggott

Julie A. Piggott
Executive Vice President and Chief Financial Officer

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