BNSF's Third-Quarter 2017 Financial Performance: Volumes, Revenues and Expenses

Statement of Income (in millions)	Q3 - 2017	Q3 - 2016	Q/Q % Change	2017 YTD	2016 YTD	Y/Y % Change
Total revenues	$ 5,314	$ 5,167	3 %	$ 15,749	$ 14,519	8 %
Operating expenses	3,361	3,287	2 %	10,415	9,647	8 %
Operating income	1,953	1,880	4 %	5,334	4,872	9 %
Net income	$ 1,042	$ 1,020	2 %	$ 2,838	$ 2,576	10 %
Operating ratio (a)	62.2%	62.7%		65.2%	65.6%	

Source: Amounts derived from the GAAP results in the Burlington Northern Santa Fe, LLC Form 10-Q for the period ended September 30, 2017.
(a) Operating ratio excludes impacts of BNSF Logistics.

Volumes and Revenues

Third quarter and first nine months of 2017 operating income were $2.0 billion and $5.3 billion, respectively, an increase of $73 million (4 percent) and $462 million (9 percent), respectively, compared to the same periods in 2016. Total revenues for the third quarter and first nine months of 2017 were up 3 percent and 8 percent, respectively, compared with the same periods in 2016. This is a result of increases in unit volume for the third quarter and first nine months of 2017 of 3 percent and 6 percent, respectively, and higher average revenue per car/unit in the first nine months of 2017.

The increase in average revenue per car/unit in the first nine months of 2017 was primarily due to higher fuel surcharges and increased rates per car/unit.

Business unit third quarter and first nine months of 2017 volume highlights:

- Consumer Products volumes were up 7 percent and 6 percent for the third quarter and the first nine months of 2017, respectively, compared with the same periods in 2016, due to higher domestic intermodal, international intermodal and automotive volumes. The increases were primarily due to improving economic conditions, normalizing of retail inventories, new services, and higher market share.
- Industrial Products volumes increased 2 percent for the third quarter and the first nine months of 2017, compared with the same periods in 2016, primarily due to higher sand and other commodities that support drilling. In addition, broad strengthening in the industrial sector drove greater demand for steel and taconite. The volume increase was partially offset by lower petroleum products volume due to pipeline displacement of U.S. crude rail traffic as well as lower aggregates and plastics volume.
- Agricultural Products volumes were down 12 percent and up 1 percent for the third quarter and the first nine months of 2017, respectively, compared with the same periods in 2016. The volume decrease in the third quarter was driven by lower grain exports, partially offset by higher domestic

grain. The volume growth in the first nine months of 2017 was primarily due to higher shipments of domestic grain as well as ethanol and other grain products, partially offset by lower grain exports.

- Coal volumes increased 2 percent and 12 percent for the third quarter and the first nine months of 2017, respectively, compared with the same periods in 2016, due to continued effects of higher natural gas prices, which led to increased utility coal usage. This was partially offset by the effects of unit retirements of coal generating facilities, increased renewable generation, and coal inventory adjustments at customer facilities.

Listed below are details by business units – including revenues, volumes and average revenue per car/unit.

Business Unit	Q3 - 2017	Q3 - 2016	Q/Q % Change	2017 YTD	2016 YTD	Y/Y % Change
Revenues (in millions)						
Consumer Products	$ 1,792	$ 1,666	8 %	$ 5,214	$ 4,817	8 %
Industrial Products	1,268	1,219	4 %	3,766	3,583	5 %
Agricultural Products	992	1,095	(9) %	3,174	3,053	4 %
Coal	1,009	953	6 %	2,881	2,387	21 %
Total Freight Revenues	**$ 5,061**	**$ 4,933**	**3 %**	**$ 15,035**	**$ 13,840**	**9 %**
Other Revenues	253	234	8 %	714	679	5 %
Total Operating Revenues	**$ 5,314**	**$ 5,167**	**3 %**	**$ 15,749**	**$ 14,519**	**8 %**
Volumes (in thousands)						
Consumer Products	1,387	1,292	7 %	4,041	3,803	6 %
Industrial Products	459	450	2 %	1,337	1,308	2 %
Agricultural Products	257	292	(12) %	822	816	1 %
Coal	526	516	2 %	1,438	1,279	12 %
Total Volumes	**2,629**	**2,550**	**3 %**	**7,638**	**7,206**	**6 %**
Average Revenue per Car/Unit						
Consumer Products	$ 1,292	$ 1,289	0 %	$ 1,290	$ 1,267	2 %
Industrial Products	2,763	2,709	2 %	2,817	2,739	3 %
Agricultural Products	3,860	3,750	3 %	3,861	3,741	3 %
Coal	1,918	1,847	4 %	2,003	1,866	7 %
Total Freight Revenues per Car/Unit	**$ 1,925**	**$ 1,935**	**(1) %**	**$ 1,968**	**$ 1,921**	**2 %**

Source: Amounts derived from the GAAP results in the Burlington Northern Santa Fe, LLC Form 10-Q for the periods ended September 30, 2017 and June 30, 2017. Third-quarter revenues and volumes are calculated as the difference between YTD September and YTD June amounts.

Expenses

Operating expenses for the third quarter and first nine months of 2017 were up 2 percent and 8 percent, respectively, compared with the same periods in 2016, as a result of increased volumes and inflation, including higher fuel prices. A significant portion of the increase is due to the following factors:

- Compensation and benefits decreased 3 percent and increased 4 percent for the third quarter and first nine months of 2017, respectively, compared with the same periods in 2016. The third quarter decrease was due to lower wages and headcount, partially offset by higher health and welfare costs and volume-related increases. The year-to-date increase was primarily due to higher health and welfare costs and volume related increases, partially offset by lower headcount.
- Purchased services increased 8 percent and 3 percent in the third quarter and first nine months of 2017, respectively, due to higher purchased transportation costs of our logistics services business and a prior year insurance recovery which reduced expenses in 2016.
- Fuel expense was up 12 percent and 31 percent in the third quarter and first nine months of 2017, respectively, compared with the same periods in 2016. The third quarter increase was due to higher average fuel prices and lower efficiency of 2 percent. The first nine months increase was due to higher average fuel prices and increased volumes, partially offset by improved fuel efficiency of 1 percent. Locomotive fuel price per gallon increased 10 percent and 24 percent for the third quarter and first nine months of 2017, respectively, to $1.69.
- Depreciation expense was up 11 percent for the third quarter and first nine months of 2017, compared to the same periods in 2016, primarily due to a larger depreciable asset base.
- Materials and other decreased 20 percent and 5 percent in the third quarter and first nine months of 2017, respectively. These declines resulted from lower personal injury and other casualty related costs offset by higher equipment related material costs.

Operating Expenses (in millions)	**Q3 - 2017**	**Q3 - 2016**	**Q/Q % Change**	**2017 YTD**	**2016 YTD**	**Y/Y % Change**
Compensation and benefits	$ 1,160	$ 1,193	(3) %	$ 3,685	$ 3,535	4 %
Purchased services	608	562	8 %	1,843	1,789	3 %
Fuel	595	533	12 %	1,777	1,359	31 %
Depreciation and amortization	591	534	11 %	1,756	1,584	11 %
Equipment rents	193	198	(3) %	585	570	3 %
Materials and other	214	267	(20) %	769	810	(5) %
Total Operating Expenses	**$ 3,361**	**$ 3,287**	**2 %**	**$ 10,415**	**$ 9,647**	**8 %**

Source: Amounts derived from the GAAP results in the Burlington Northern Santa Fe, LLC Form 10-Q for the period ended September 30, 2017.

Capital Activities

BNSF continues to invest in its network, with a focus on ensuring BNSF continues to operate a safe and reliable network that meets our customers' expectations. Our 2017 planned capital commitments were reduced by $100 million to $3.3 billion as we completed certain projects at a lower cost, delayed the timing of certain projects, and made modifications to equipment acquisitions.

The 2017 capital program focus continues to be maintenance and replacement of BNSF's network and related assets to ensure BNSF continues to operate a safe and reliable network. This year that component is expected to be $2.4 billion. These projects will primarily go toward replacing and upgrading rail, rail ties and ballast and maintaining rolling stock. BNSF will spend $400 million on expansion projects, $100 million for continued implementation of positive train control and $400 million on locomotives, freight cars and other equipment acquisitions.