

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

Statement of Income (in millions)	Q2 - 2017	Q2 - 2016	Q/Q % Change	2017 YTD	2016 YTD	Y/Y % Change
Total revenues	\$ 5,250	\$ 4,585	15 %	\$ 10,435	\$ 9,352	12 %
Operating expenses	3,463	3,098	12 %	7,054	6,360	11 %
Operating income	1,787	1,487	20 %	3,381	2,992	13 %
Net income	\$ 958	\$ 772	24 %	\$ 1,796	\$ 1,556	15 %
Operating ratio (a)	65.0%	66.7%		66.7%	67.2%	

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

(a) Operating ratio excludes impacts of BNSF Logistics.

Volumes and Revenues

Second quarter and first six months of 2017 operating income were \$1.8 billion and \$3.4 billion, respectively, an increase of \$300 million (20 percent) and \$389 million (13 percent), respectively, compared to the same periods in 2016. Total revenues for the second quarter and first six months of 2017 were up 15 percent and 12 percent, respectively, compared with the same periods in 2016. This is a result of increases in unit volume for the second quarter and first six months of 2017 of 9 percent and 8 percent, respectively, and higher average revenue per car/unit.

The increase in average revenue per car/unit in 2017 was primarily due to higher fuel surcharges and business mix changes as well as increased rates per car/unit.

Business unit second quarter and first half of 2017 volume highlights:

- Consumer Products volumes were up 6 percent for the second quarter and the first six months of 2017, compared with the same periods in 2016, due to higher domestic intermodal, international intermodal and automotive volumes. The increases were primarily due to higher market share, improving economic conditions and normalizing of retail inventories.
- Industrial Products volumes increased 4 percent and 2 percent for the second quarter and the first six months of 2017, respectively, compared with the same periods in 2016, primarily due to higher minerals, steel, and other commodities that support domestic drilling activity as well as higher taconite. The volume increase was partly offset by lower petroleum products volume due to pipeline displacement of U.S. crude traffic and lower plastics volume.
- Agricultural Products volumes were up 14 percent and 8 percent for the second quarter and the first six months of 2017, respectively, compared with the same periods in 2016, due to higher grain exports.

- Coal volumes increased 21 percent and 20 percent for the second quarter and the first six months of 2017, respectively, compared with the same periods in 2016, due to mild winter weather in the first quarter of 2016 and higher natural gas prices in the first half of 2017, which led to increased utility coal usage, partially offset by the effects of unit retirements of coal generating facilities.

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

Business Unit	Q2 - 2017	Q2 - 2016	Q/Q % Change	2017 YTD	2016 YTD	Y/Y % Change
Revenues (in millions)						
Consumer Products	\$ 1,742	\$ 1,607	8 %	\$ 3,422	\$ 3,151	9 %
Industrial Products	1,274	1,186	7 %	2,498	2,364	6 %
Agricultural Products	1,074	910	18 %	2,182	1,958	11 %
Coal	912	655	39 %	1,872	1,434	31 %
Total Freight Revenues	\$ 5,002	\$ 4,358	15 %	\$ 9,974	\$ 8,907	12 %
Other Revenues	248	227	9 %	461	445	4 %
Total Operating Revenues	\$ 5,250	\$ 4,585	15 %	10,435	9,352	12 %
Volumes (in thousands)						
Consumer Products	1,355	1,281	6 %	2,654	2,511	6 %
Industrial Products	452	434	4 %	878	858	2 %
Agricultural Products	285	249	14 %	565	524	8 %
Coal	437	362	21 %	912	763	20 %
Total Volumes	2,529	2,326	9 %	5,009	4,656	8 %
Average Revenue per Car/Unit						
Consumer Products	\$ 1,286	\$ 1,254	3 %	\$ 1,289	\$ 1,255	3 %
Industrial Products	2,819	2,733	3 %	2,845	2,755	3 %
Agricultural Products	3,768	3,655	3 %	3,862	3,737	3 %
Coal	2,087	1,809	15 %	2,053	1,879	9 %
Total Freight Revenues per Car/Unit	\$ 1,978	\$ 1,874	6 %	\$ 1,991	\$ 1,913	4 %

Source: Amounts derived from the GAAP results in the Burlington Northern Santa Fe, LLC Form 10-Q for the periods ended June 30, 2017 and March 31, 2017. Second-quarter revenues and volumes are calculated as the difference between YTD June and YTD March amounts.

Expenses

Operating expenses for the second quarter and first half of 2017 were up 12 percent and 11 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 increased 10 percent and 8 percent for the second quarter and first six months of 2017, respectively, compared with the same periods in 2016, due to higher health and welfare costs, wage inflation and increased volumes.
- Fuel expense was up 34 percent and 43 percent in the second quarter and first six months of 2017, respectively, compared with the same periods in 2016, due to higher average fuel prices and increased volumes, partially offset by improved fuel efficiency of 3 percent in the second quarter and for the first six months of the year. Locomotive fuel price per gallon increased 22 percent for the second quarter of 2017 to \$1.68 and increased 33 percent for the first six months of 2017 to \$1.70.
- Depreciation expense was up 12 percent and 11 percent for the second quarter and first six months of 2017, compared to the same periods in 2016, primarily due to a larger depreciable asset base.

Operating Expenses (in millions)	Q2 - 2017	Q2 - 2016	Q/Q % Change	2017 YTD	2016 YTD	Y/Y % Change
Compensation and benefits	\$ 1,242	\$ 1,134	10 %	\$ 2,525	\$ 2,342	8 %
Purchased services	609	589	3 %	1,235	1,227	1 %
Fuel	577	431	34 %	1,182	826	43 %
Depreciation and amortization	592	530	12 %	1,165	1,050	11 %
Equipment rents	196	184	7 %	392	372	5 %
Materials and other	247	230	7 %	555	543	2 %
Total Operating Expenses	\$ 3,463	\$ 3,098	12 %	\$ 7,054	\$ 6,360	11 %

Source: Amounts derived from the GAAP results in the Burlington Northern Santa Fe, LLC Form 10-Q for the period ended June 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 are \$3.4 billion compared with \$3.9 billion in 2016.

Similar to last year's plan, 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, \$200 million for continued implementation of positive train control and \$400 million on locomotives, freight cars and other equipment acquisitions.