BNSF's 2016 Financial Performance: Volumes, Revenues and Expenses

Statement of Income (in millions)	Q4 - 2016	Q4 - 2015	Q/Q % Change	2016 YTD	2015 YTD	Y/Y % Change
Total revenues	$ 5,310	$ 5,396	(2)%	$ 19,829	$ 21,967	(10)%
Operating expenses	3,497	3,424	2 %	13,144	14,243	(8)%
Operating income	1,813	1,972	(8)%	6,685	7,724	(13)%
Net income	$ 993	$ 1,084	(8)%	$ 3,569	$ 4,248	(16)%
Operating ratio (a)	65.1%	62.6%		65.5%	64.0%	

Source: Amounts derived from the GAAP results in the Burlington Northern Santa Fe, LLC Forms 10-K and 10-Q for the periods ended Dec. 31, 2016 and Sept. 30, 2016, respectively. Fourth-quarter amounts are calculated as the difference between the YTD December and YTD September amounts.

(a) Operating ratio excludes impacts of BNSF Logistics.

Volumes and Revenues

Fourth quarter and full year 2016 operating income were $1.8 billion and $6.7 billion, respectively, a decrease of $159 million (8 percent) and $1.0 billion (13 percent), respectively, compared to the same periods in 2015. Our lower earnings for the fourth quarter and full year 2016 were primarily a result of continued decline in demand, in particular in coal and crude oil businesses.

Total revenues for the fourth quarter and full year 2016 were down 2 percent and 10 percent, respectively, compared with the same periods in 2015. This is a result of a flat unit volume for the fourth quarter and a decrease in full year 2016 unit volume of 5 percent, respectively, compared with the same periods in 2015, as well as business mix changes and the impact of lower fuel prices on our fuel surcharge revenues.

Business unit fourth quarter and full year 2016 volume highlights:

- Consumer Products volumes increased 3 percent and 1 percent for the fourth quarter and full year 2016, respectively, compared with the same periods in 2015. The increase in volume was primarily due to higher domestic intermodal volumes and the addition of a new automotive customer. The full year volume increase was partially offset by lower international intermodal volume due to the impact of soft economic activity and excess retail inventories.
- Industrial Products volumes decreased 9 percent and 8 percent for the fourth quarter and full year 2016, respectively, compared with the same periods in 2015, primarily due to lower petroleum products, reflecting pipeline displacement of U.S. crude rail traffic and lower U.S. oil production. In addition, there was lower demand for steel and taconite. The full year volume decrease was partially offset by increased plastics products volume.
- Agricultural Products volumes were up 5 percent and 6 percent for the fourth quarter and full year 2016, respectively, compared with the same periods in 2015, due to higher corn, soybean and wheat exports.
- Coal volumes decreased 4 percent and 21 percent for the fourth quarter and full year 2016, respectively, compared with the same periods in 2015. The fourth quarter decline was primarily due to coal retirement and high coal stockpiles, while the full year decline was to these factors along with lower demand driven by reduced energy consumption, and low natural gas prices during the first half of the year.

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

Business Unit	Q4 - 2016	Q4 - 2015	Q/Q % Change	2016 YTD	2015 YTD	Y/Y % Change
Revenues (in millions)						
Consumer Products	$ 1,717	$ 1,667	3 %	6,534	6,591	(1)%
Industrial Products	1,181	1,295	(9)%	4,764	5,552	(14)%
Agricultural Products	1,187	1,126	5 %	4,240	4,234	— %
Coal	996	1,064	(6)%	3,383	4,625	(27)%
Total Freight Revenues	**$ 5,081**	**$ 5,152**	**(1)%**	**$ 18,921**	**$ 21,002**	**(10)%**
Other Revenues	229	244	(6)%	908	965	(6)%
Total Operating Revenues	**$ 5,310**	**$ 5,396**	**(2)%**	**$ 19,829**	**$ 21,967**	**(10)%**
Volumes (in thousands)						
Consumer Products	1,315	1,271	3 %	5,118	5,066	1 %
Industrial Products	419	459	(9)%	1,727	1,873	(8)%
Agricultural Products	294	279	5 %	1,110	1,044	6 %
Coal	524	547	(4)%	1,803	2,286	(21)%
Total Volumes	**2,552**	**2,556**	**— %**	**9,758**	**10,269**	**(5)%**
Average Revenue per Car/Unit						
Consumer Products	$ 1,306	$ 1,312	— %	$ 1,277	$ 1,301	(2)%
Industrial Products	2,819	2,821	— %	2,759	2,964	(7)%
Agricultural Products	4,037	4,036	— %	3,820	4,056	(6)%
Coal	1,901	1,945	(2)%	1,876	2,023	(7)%
Total Freight Revenues	**$ 1,991**	**$ 2,016**	**(1)%**	**$ 1,939**	**$ 2,045**	**(5)%**

Source: Amounts derived from the GAAP results in the Burlington Northern Santa Fe, LLC Forms 10-K and 10-Q for the periods ended Dec. 31, 2016 and Sept. 30, 2016, respectively. Fourth-quarter amounts are calculated as the difference between YTD December and YTD September amounts.

Expenses

Operating expenses for the fourth quarter and full year 2016 were up 2 percent and down 8 percent, respectively, compared with the same periods in 2015. A significant portion of the changes is due to the following factors:

- Compensation and benefits increased 1 percent for the fourth quarter of 2016, compared with the same period in 2015, due to wage and benefits inflation, partially offset by 7 percent lower average headcounts. For the full year 2016, compensation and benefits expense was down 5 percent, compared with the same period in 2015, due to 10 percent lower average headcounts (furloughs and attrition) driven by lower volumes and productivity improvements, partially offset by wage and benefits inflation.
- Purchased Services was down 1 percent and 5 percent in the fourth quarter and full year 2016, compared with the same periods in 2015, primarily due to lower volumes and cost reductions.
- Depreciation and amortization expense was up 6 percent for both the fourth quarter and full year of 2016, compared to the same periods in 2015, due to increased assets in service reflecting our ongoing capital additions and improvement programs.
- Fuel expense was flat in the fourth quarter, compared with the same period in 2015, due to higher average fuel prices, offset by lower volumes and improved efficiency. Fourth quarter locomotive fuel price per gallon increased 3 percent for the fourth quarter to $1.61. Full year 2016 fuel expense was down 27 percent, compared with the same periods in 2015, due to lower average fuel prices and lower volumes. Locomotive fuel price per gallon decreased 20 percent for the full year 2016 to $1.43.

- Materials and other expense increased 13 percent in the fourth quarter and for the full year decreased 6 percent, compared to the same periods in 2015, as a result of lower crew transportation, lodging and other travel costs, freight car materials, and derailment-related costs, offset by an impairment charge in the fourth quarter.
- Equipment rents expense did not change significantly from the prior year.

Operating Expenses (in millions)	Q4 - 2016	Q4 - 2015	Q/Q % Change	2016 YTD	2015 YTD	Y/Y % Change
Compensation and benefits	$ 1,234	$ 1,217	1 %	$ 4,769	$ 5,043	(5)%
Purchased services	629	637	(1)%	2,418	2,546	(5)%
Depreciation and amortization	544	513	6 %	2,128	2,001	6 %
Fuel	575	576	— %	1,934	2,656	(27)%
Equipment rents	196	198	(1)%	766	801	(4)%
Materials and other	319	283	13 %	1,129	1,196	(6)%
Total Operating Expenses	**$ 3,497**	**$ 3,424**	**2 %**	**$ 13,144**	**$ 14,243**	**(8)%**

Source: Amounts derived from the GAAP results in the Burlington Northern Santa Fe, LLC Forms 10-K and 10-Q for the periods ended Dec. 31, 2016 and Sept. 30, 2016, respectively. Fourth-quarter amounts are calculated as the difference between YTD December and YTD September amounts.

Capital Activities

BNSF’s 2016 capital commitments were $3.9 billion, the largest component of which supported maintenance and replacement of BNSF’s core network and related assets.

BNSF’s 2017 capital commitments plan is $3.4 billion. Similar to last year’s plan the program’s 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 of rail, rail ties and ballast and maintaining rolling stock. BNSF plans to spend $400 million on expansion projects, $100 million for continued implementation of positive train control and $400 million for locomotives, freight cars and other equipment acquisitions.