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

Statement of Income (in millions)	Q4 - 2017	Q4 - 2016	Q/Q % Change	2017 YTD	2016 YTD	Y/Y % Change
Total revenues	$ 5,638	$ 5,310	6 %	$ 21,387	$ 19,829	8 %
Operating expenses	3,625	3,497	4 %	14,040	13,144	7 %
Operating income	$ 2,013	$ 1,813	11 %	$ 7,347	$ 6,685	10 %
Operating ratio (a)	63.2%	65.1%		64.7%	65.5%	

Source: Amounts derived from the GAAP results in the Burlington Northern Santa Fe, LLC Forms 10-K and 10-Q for the period ended December 31, 2017 and September 30, 2017, 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 2017 operating income were $2.0 billion and $7.3 billion, respectively, an increase of $200 million (11 percent) and $662 million (10 percent), respectively, compared to the same periods in 2016. Total revenues for the fourth quarter and full year 2017 were up 6 percent and 8 percent, respectively, compared with the same periods in 2016. This is a result of increases in unit volume for the fourth quarter and full year 2017 of 3 percent and 5 percent, respectively, and higher average revenue per car/unit.

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

Business unit fourth quarter and full year 2017 volume highlights:

- Consumer Products volumes were up 6 percent for the fourth quarter and the full year 2017 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 14 percent and 5 percent for the fourth quarter and the full year 2017, respectively, 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.
- Agricultural Products volumes were down 3 percent and relatively flat for the fourth quarter and the full year 2017, respectively, compared with the same periods in 2016, due to lower grain exports offset by higher shipments of domestic grain as well as ethanol and other grain products.
- Coal volumes decreased 9 percent and increased 6 percent for the fourth quarter and the full year 2017, respectively, compared with the same periods in 2016. In the fourth quarter 2017, volume decreased due to lower natural gas prices and milder weather. Above target stockpiles at customer facilities and increased renewable generation also contributed to lower utility coal usage. The full year 2017 volume increase was due to higher natural gas prices, which led to increased utility coal usage. This was partially offset by the effects of unit

retirements at 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	Q4 - 2017	Q4 - 2016	Q/Q % Change	2017 YTD	2016 YTD	Y/Y % Change
Revenues (in millions)						
Consumer Products	$ 1,897	$ 1,717	10 %	$ 7,111	$ 6,534	9 %
Industrial Products	1,367	1,181	16 %	5,133	4,764	8 %
Agricultural Products	1,142	1,187	(4) %	4,316	4,240	2 %
Coal	965	996	(3) %	3,846	3,383	14 %
Total Freight Revenues	**$ 5,371**	**$ 5,081**	**6 %**	**$ 20,406**	**$ 18,921**	**8 %**
Other Revenues	267	229	17 %	981	908	8 %
Total Operating Revenues	**$ 5,638**	**$ 5,310**	**6 %**	**$ 21,387**	**$ 19,829**	**8 %**
Volumes (in thousands)						
Consumer Products	1,398	1,315	6 %	5,439	5,118	6 %
Industrial Products	476	419	14 %	1,813	1,727	5 %
Agricultural Products	286	294	(3) %	1,108	1,110	0 %
Coal	479	524	(9) %	1,917	1,803	6 %
Total Volumes	**2,639**	**2,552**	**3 %**	**10,277**	**9,758**	**5 %**
Average Revenue per Car/Unit						
Consumer Products	$ 1,357	$ 1,306	4 %	$ 1,307	$ 1,277	2 %
Industrial Products	2,872	2,819	2 %	2,831	2,759	3 %
Agricultural Products	3,993	4,037	(1) %	3,895	3,820	2 %
Coal	2,015	1,901	6 %	2,006	1,876	7 %
Total Freight Revenues per Car/Unit	**$ 2,035**	**$ 1,991**	**2 %**	**$ 1,986**	**$ 1,939**	**2 %**

Source: Amounts derived from the GAAP results in the Burlington Northern Santa Fe, LLC Forms 10-K and 10-Q for the periods ended December 31, 2017 and September 30, 2017, respectively. Fourth quarter revenues and volumes are calculated as the difference between YTD December and YTD September amounts.

Expenses

Operating expenses for the fourth quarter and full year 2017 were up 4 percent and 7 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 4 percent for the fourth quarter and full year 2017, respectively, compared with the same periods in 2016. The increase was primarily due to higher health and welfare costs and increased volumes, partially offset by lower headcount.
- Fuel expense was up 29 percent and 30 percent in the fourth quarter and full year 2017, respectively, compared with the same periods in 2016. The increase was primarily due to higher average fuel prices and higher volume. Locomotive fuel price per gallon increased 24 percent for the fourth quarter and full year 2017 to $1.99 and $1.77, respectively.

- Purchased services increased 7 percent and 4 percent in the fourth quarter and full year 2017, respectively, due to higher purchased transportation costs of our logistics services business.
- Depreciation expense was up 10 percent and 11 percent for the fourth quarter and full year 2017, respectively, compared to the same periods in 2016, primarily due to a larger depreciable asset base.
- Materials and other decreased 58 percent and 20 percent in the fourth quarter and full year 2017, respectively. These declines primarily resulted from the Tax Cuts and Jobs Act's impact on an equity method subsidiary, as well as lower personal injury and casualty related costs and an impairment charge in the fourth quarter of the prior year.
- There were no significant changes in equipment rents expense.

Operating Expenses (in millions)	Q4 - 2017	Q4 - 2016	Q/Q % Change	2017 YTD	2016 YTD	Y/Y % Change
Compensation and benefits	$ 1,284	$ 1,234	4 %	$ 4,969	$ 4,769	4 %
Fuel	741	575	29 %	2,518	1,934	30 %
Purchased services	671	629	7 %	2,514	2,418	4 %
Depreciation and amortization	596	544	10 %	2,352	2,128	11 %
Equipment rents	199	196	2 %	784	766	2 %
Materials and other	134	319	(58) %	903	1,129	(20) %
Total Operating Expenses	**$ 3,625**	**$ 3,497**	**4 %**	**$ 14,040**	**$ 13,144**	**7 %**

Source: Amounts derived from the GAAP results in the Burlington Northern Santa Fe, LLC Form 10-K and 10-Q for the periods ended December 31, 2017 and September 30, 2017, respectively. Fourth quarter amounts are calculated as the difference between YTD December and YTD September amounts.

Capital Activities

BNSF's 2017 capital commitments were $3.3 billion, the largest component of which supported maintenance and replacement of BNSF's core network and related assets.

Our 2018 planned capital commitments are $3.3 billion. Like last year's plan, the largest component of the plan will be focused on maintenance and replacement of BNSF's network and related assets to ensure BNSF continues to operate a safe and reliable network. This year, the maintenance and replacement 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 approximately $500 million on expansion and efficiency projects focused on key growth areas along BNSF's Southern and Northern Transcon routes. BNSF will also spend $300 million on freight cars and other equipment acquisitions in 2018. The plan also has $100 million allocated to continued implementation of positive train control (PTC).