

BNSF's Fourth-Quarter 2018 Financial Performance: Volumes, Revenues and Expenses

Statement of Income (in millions)	Q4 - 2018	Q4 - 2017	Q/Q % Change	2018 YTD	2017 YTD	Y/Y % Change
Total revenues	\$ 6,206	\$ 5,638	10 %	\$ 23,855	\$ 21,387	12 %
Operating expenses (a)(b)	4,145	3,740	11 %	16,055	14,195	13 %
Operating income (a)(b)	2,061	1,898	9 %	7,800	7,192	8 %
Net income (b)	\$ 1,372	\$ 1,058	30 %	\$ 5,219	\$ 3,896	34 %
Operating ratio (b)(c)	65.6%	65.3%		66.2%	65.4%	

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, 2018 and September 30, 2018, respectively. Fourth-quarter amounts are calculated as the difference between YTD December and YTD September amounts.

(a) Prior year operating expenses and operating income have been adjusted to reflect the impact of ASU 2017-07. Non-service cost components of net pension and post-retirement benefit credits of \$14 million and \$54 million for the fourth quarter and full year 2017 previously recorded in operating expense were reclassified to other income.

(b) 2017 results were adjusted to exclude the impacts of the Tax Cuts and Jobs Act (the Tax Act) recognized in the fourth quarter. See reconciliation from GAAP at the end of the Insights article.

(c) Operating ratio excludes impacts of BNSF Logistics.

Volumes and Revenues

Fourth quarter and full year 2018 operating income were \$2.1 billion and \$7.8 billion, respectively, increases of \$62 million (3 percent) and \$507 million (7 percent), respectively, compared to the same periods in 2017. Total revenues for the fourth quarter and full year 2018 were up 10 percent and 12 percent, respectively, compared with the same periods in 2017 as a result of 3 percent and 4 percent increases, respectively, in unit volume for the same periods.

Average revenue per car/unit increased 7 percent and 6 percent, respectively, for the fourth quarter and full year 2018 as a result of increased rates per car/unit, higher fuel surcharges driven by higher fuel prices, and business mix changes.

Business unit fourth quarter and full year 2018 volume highlights:

- Consumer Products volumes were flat and increased 3 percent, respectively, for the fourth quarter and full year 2018, compared with the same periods in 2017, due to higher domestic intermodal volumes. The increases were driven by economic growth and tight truck capacity leading to conversion from highway to rail, as well as growth in imports and containerized agricultural product exports, partially offset by a contract loss.
- Industrial Products volumes increased 7 percent and 10 percent, respectively, for the fourth quarter and full year 2018, compared with the same periods in 2017, primarily due to strength in the industrial and energy

sectors which drove higher demand for petroleum products, building products, and plastics. The full year 2018 also included higher construction products volumes.

- Agricultural Products volumes increased 5 percent and 9 percent, respectively, for the fourth quarter and full year 2018 compared with the same periods in 2017, due to strong export and domestic corn shipments, as well as higher fertilizer and other grain products volumes, partially offset by a reduction in soybean exports. The full year 2018 also included a reduction in wheat exports.
- Coal volumes increased 5 percent and decreased 1 percent, respectively, for the fourth quarter and full year 2018 compared with the same periods in 2017. The full year decrease is primarily due to plant retirements combined with competition from natural gas and renewables, mostly offset by market share gains and improved export volumes. The fourth quarter increase is driven by higher natural gas prices, which led to increased utility coal usage, combined with lower overall utility inventories.

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

Business Unit	Q4 - 2018	Q4 - 2017	Q/Q % Change	2018 YTD	2017 YTD	Y/Y % Change
Revenues (in millions)						
Consumer Products	\$ 2,061	\$ 1,897	9%	\$ 7,902	\$ 7,111	11 %
Industrial Products	1,551	1,367	13%	5,967	5,133	16 %
Agricultural Products	1,198	1,142	5%	4,697	4,316	9 %
Coal	1,084	965	12%	4,012	3,846	4 %
Total Freight Revenues	\$ 5,894	\$ 5,371	10%	\$ 22,578	\$ 20,406	11 %
Other Revenues	312	267	17%	1,277	981	30 %
Total Operating Revenues	\$ 6,206	\$ 5,638	10%	\$ 23,855	\$ 21,387	12 %
Volumes (in thousands)						
Consumer Products	1,399	1,398	—%	5,597	5,439	3 %
Industrial Products	508	476	7%	1,991	1,813	10 %
Agricultural Products	300	286	5%	1,208	1,108	9 %
Coal	501	479	5%	1,902	1,917	(1)%
Total Volumes	2,708	2,639	3%	10,698	10,277	4 %
Average Revenue per Car/Unit						
Consumer Products	\$ 1,473	\$ 1,357	9%	\$ 1,412	\$ 1,307	8 %
Industrial Products	3,053	2,872	6%	2,997	2,831	6 %
Agricultural Products	3,993	3,993	—%	3,888	3,895	— %
Coal	2,164	2,015	7%	2,109	2,006	5 %
Total Freight Revenues per Car/Unit	\$ 2,177	\$ 2,035	7%	\$ 2,110	\$ 1,986	6 %

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, 2018 and September 30, 2018. 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 2018 were up 14 percent, compared with the same periods in 2017, as a result of inflation, including higher fuel prices, and increased volumes including the following factors:

- Compensation and benefits expense increased 6 percent and 7 percent in the fourth quarter and full year 2018 primarily due to wage inflation and higher headcount and associated training costs.
- Fuel expense was up 20 percent and 33 percent in the fourth quarter and full year 2018, compared with the same periods in 2017. The increase was primarily due to higher average fuel prices. Increased volumes also contributed to the overall increase. Locomotive fuel price per gallon increased 17 percent for the fourth quarter of 2018 to \$2.33 and increased 27 percent for the full year 2018 to \$2.24.
- Purchased services increased 11 percent and 14 percent in the fourth quarter and full year 2018 as a result of higher purchased transportation costs of our logistics services business, which are offset in revenues, as well as increased intermodal ramping, drayage, and other volume-related costs.
- Materials and other expense increased 51 percent and 39 percent in the fourth quarter and full year 2018 primarily as a result of higher locomotive material, personal injury expenses, derailment-related costs, and property taxes.
- There were no significant changes in depreciation and amortization and equipment rents expense.

Operating Expenses (in millions)	Q4 - 2018	Q4 - 2017	Q/Q % Change	2018 YTD	2017 YTD	Y/Y % Change
Compensation and benefits (a)	\$ 1,373	\$ 1,298	6 %	\$ 5,394	\$ 5,023	7 %
Fuel	890	741	20 %	3,346	2,518	33 %
Purchased services	746	671	11 %	2,870	2,514	14 %
Depreciation and amortization	591	596	(1)%	2,317	2,352	(1)%
Equipment rents	190	199	(5)%	732	784	(7)%
Materials and other (b)	355	235	51 %	1,396	1,004	39 %
Total Operating Expenses (a) (b)	\$ 4,145	\$ 3,740	11 %	\$ 16,055	\$ 14,195	13 %

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, 2018 and September 30, 2018, respectively. Fourth-quarter amounts are calculated as the difference between YTD December and YTD September amounts.

(a) Prior year compensation and benefits expense and total operating expenses have been adjusted to reflect the impact of ASU 2017-07. Non- service cost components of net pension and post-retirement benefit credits of \$14 million and \$54 million for the fourth quarter and full year 2017 previously recorded in compensation and benefits expense were reclassified to other income.

(b) 2017 results were adjusted to exclude the impacts of the Tax Act recognized in the fourth quarter. See reconciliation from GAAP at the end of the Insights article.

Capital Activities

BNSF's 2018 capital commitments were \$3.4 billion, the largest component of which supported maintenance and replacement of BNSF's core network and related assets.

Our 2019 planned capital commitments are \$3.57 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 \$2.47 billion. These projects will primarily go toward replacing and upgrading rail, rail ties and ballast and maintaining rolling stock. BNSF will spend approximately \$760 million on expansion and efficiency projects focused on key growth areas along BNSF's Southern and Northern Transcon routes. BNSF will also spend \$340 million on freight cars and other equipment acquisitions in 2019.

Tax Act Impacts

2017 results were adjusted to exclude the impacts of the Tax Act. See the reconciliation from GAAP below.

Tax Act Impacts (in millions)	Materials and Other Expense	Total Operating Expenses	Operating Income	Net Income	Operating Ratio
Q4 2017 Reported Results (GAAP)	\$ 134	\$ 3,639	1,999	\$ 8,462	63.5%
Adjustments for 2017 Tax Cuts and Jobs Act:					
Equity method investee	101	101	(101)	(63)	1.8%
Deferred taxes	—	—	—	(7,341)	—
Q4 2017 Adjusted Results (non-GAAP)	\$ 235	\$ 3,740	\$ 1,898	\$ 1,058	65.3%

Tax Act Impacts (in millions)	Materials and Other Expense	Total Operating Expenses	Operating Income	Net Income	Operating Ratio
2017 Reported Results (GAAP)	\$ 903	\$ 14,094	7,293	\$ 11,300	64.9%
Adjustments for 2017 Tax Cuts and Jobs Act:					
Equity method investee	101	101	(101)	(63)	0.5%
Deferred taxes	—	—	—	(7,341)	—
2017 Adjusted Results (non-GAAP)	\$ 1,004	\$ 14,195	\$ 7,192	\$ 3,896	65.4%