# BNSF's Third-Quarter 2016 Financial Performance: Volumes, Revenues and Expenses

| Statement of Income (in millions) | Q3 - 2016 | Q3 - 2015 | Q/Q % Change | 2016 YTD | 2015 YTD | Y/Y % Change |
|---|---|---|---|---|---|---|
| **Total revenues** | $ 5,167 | $ 5,600 | (8)% | $ 14,519 | $ 16,571 | (12)% |
| **Operating expenses** | 3,287 | 3,511 | (6)% | 9,647 | 10,819 | (11)% |
| **Operating income** | 1,880 | 2,089 | (10)% | 4,872 | 5,752 | (15)% |
| **Net income** | $ 1,020 | $ 1,156 | (12)% | $ 2,576 | $ 3,164 | (19)% |
| **Operating ratio (a)** | 62.7% | 61.8% | | 65.6% | 64.5% | |

Source: Amounts derived from the GAAP results in the Burlington Northern Santa Fe, LLC Form 10-Q for the period ended September 30, 2016.
(a) Operating ratio excludes impacts of BNSF Logistics.

## Volumes and Revenues

Third quarter and first nine months of 2016 operating income were $1.9 billion and $4.9 billion, respectively, a decrease of $209 million (10 percent) and $880 million (15 percent), respectively, compared to the same periods in 2015. Our lower earnings for the third quarter and first nine months of 2016 were primarily a result of a continued decline in demand for coal, energy-related commodities and certain other industrial products categories. Additionally, Consumer Products volumes were lower in the third quarter.

Total revenues for the third quarter and first nine months of 2016 were down 8 percent and 12 percent, respectively, compared with the same periods in 2015. This is a result of a decline in unit volume for the third quarter and first nine months of 2016 of 5 percent and 7 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 third quarter and first nine months of 2016 volume highlights:

- Consumer Products volumes were down 4 percent and relatively flat for the third quarter and first nine months of 2016, respectively, compared with the same periods in 2015. The change in volume was primarily due to lower international intermodal volume due to the impact of soft economic activity, inflated retail inventories and share shift away from West Coast ports, offset by increased automotive volumes due to the addition of a new automotive customer and increased domestic intermodal volume.

- Industrial Products volumes decreased 8 percent and 7 percent for the third quarter and the first nine months of 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. production. This decline was partially offset by increased plastics products volume. In addition, year to date, we also experienced lower demand for taconite and steel products, partially offset by increased movements of non-owned rail equipment.

- Agricultural Products volumes were up 13 percent and 7 percent for the third quarter and the first nine months of 2016, respectively, compared with the same periods in 2015, due to higher corn, soybean and wheat exports.

- Coal volumes decreased 13 percent and 26 percent for the third quarter and the first nine months of 2016, respectively, compared with the same periods in 2015 due to lower demand driven by low natural gas prices, coal unit retirements and elevated utility coal inventories.

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

| Business Unit | Q3 - 2016 | Q3 - 2015 | Q/Q % Change | 2016 YTD | 2015 YTD | Y/Y % Change |
|---|---|---|---|---|---|---|
| **Revenues (in millions)** | | | | | | |
| Consumer Products | $ 1,666 | $ 1,724 | (3 )% | $ 4,817 | $ 4,924 | (2 )% |
| Industrial Products | 1,219 | 1,438 | (15 )% | 3,583 | 4,257 | (16 )% |
| Agricultural Products | 1,095 | 1,016 | 8 % | 3,053 | 3,108 | (2 )% |
| Coal | 953 | 1,170 | (19 )% | 2,387 | 3,561 | (33 )% |
| **Total Freight Revenues** | **$ 4,933** | **$ 5,348** | **(8)%** | **$ 13,840** | **$ 15,850** | **(13)%** |
| Other Revenues | 234 | 252 | (7 )% | 679 | 721 | (6 )% |
| **Total Operating Revenues** | **$ 5,167** | **$ 5,600** | **(8)%** | **14,519** | **16,571** | **(12)%** |
| | | | | | | |
| **Volumes (in thousands)** | | | | | | |
| Consumer Products | 1,292 | 1,340 | (4 )% | 3,803 | 3,795 | — % |
| Industrial Products | 450 | 489 | (8 )% | 1,308 | 1,414 | (7 )% |
| Agricultural Products | 292 | 258 | 13 % | 816 | 765 | 7 % |
| Coal | 516 | 593 | (13 )% | 1,279 | 1,739 | (26 )% |
| **Total Volumes** | **2,550** | **2,680** | **(5)%** | **7,206** | **7,713** | **(7)%** |
| | | | | | | |
| **Average Revenue per Car/Unit** | | | | | | |
| Consumer Products | $ 1,289 | $ 1,287 | — % | $ 1,267 | $ 1,297 | (2 )% |
| Industrial Products | 2,709 | 2,941 | (8 )% | 2,739 | 3,011 | (9 )% |
| Agricultural Products | 3,750 | 3,938 | (5 )% | 3,741 | 4,063 | (8 )% |
| Coal | 1,847 | 1,973 | (6 )% | 1,866 | 2,048 | (9 )% |
| **Total Freight Revenues** | **$ 1,935** | **$ 1,996** | **(3)%** | **$ 1,921** | **$ 2,055** | **(7)%** |

Source: Amounts derived from the GAAP results in the Burlington Northern Santa Fe, LLC Form 10-Q for the periods ended September 30, 2016 and June 30, 2016. 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 2016 were down 6 percent and 11 percent, respectively, compared with the same periods in 2015, as a result of lower volume, lower fuel prices and productivity improvements. A significant portion of the decrease is due to the following factors:

- Compensation and benefits decreased 2 percent and 8 percent for the third quarter and first nine months of 2016, respectively, compared with the same periods in 2015, due to lower average headcounts (furloughs and attrition) driven by lower volumes and productivity improvements, partially offset by wage and benefits inflation.

- Purchased services expense was down 11 percent and 6 percent for the third quarter and first nine months of 2016, compared to the same periods in 2015, primarily due to lower volumes and cost reductions.

- Fuel expense was down 20 percent and 35 percent in the third quarter and first nine months of 2016, respectively, compared with the same periods in 2015 due to lower average fuel prices and lower volumes. Additionally, fuel efficiency was an all-time record for the third quarter. Locomotive fuel price per gallon decreased 15 percent for the third quarter of 2016 to $1.54 and decreased 27 percent for the first nine months of 2016 to $1.37.

- Materials and other expense was down 5 percent and 11 percent for the third quarter and first nine months of 2016, compared to the same periods in 2015, primarily due to lower crew transportation, lodging and other travel costs, locomotive and freight car materials in both periods as well as lower derailment and other casualty related costs for the nine-month period.

- Depreciation and amortization and equipment rents expense did not change significantly from the prior year.

| **Operating Expenses (in millions)** | **Q3 - 2016** | **Q3 - 2015** | **Q/Q % Change** | **2016 YTD** | **2015 YTD** | **Y/Y % Change** |
|---|---|---|---|---|---|---|
| Compensation and benefits | $ 1,193 | $ 1,220 | (2 )% | $ 3,535 | $ 3,826 | (8 )% |
| Purchased services | 562 | 633 | (11 )% | 1,789 | 1,909 | (6 )% |
| Depreciation and amortization | 534 | 503 | 6 % | 1,584 | 1,488 | 6 % |
| Fuel | 533 | 670 | (20 )% | 1,359 | 2,080 | (35 )% |
| Equipment rents | 198 | 205 | (3 )% | 570 | 603 | (5 )% |
| Materials and other | 267 | 280 | (5 )% | 810 | 913 | (11 )% |
| **Total Operating Expenses** | **$ 3,287** | **$ 3,511** | **(6)%** | **$ 9,647** | **$ 10,819** | **(11)%** |

Source: Amounts derived from the GAAP results in the Burlington Northern Santa Fe, LLC Form 10-Q for the period ended September 30, 2016.

## 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 2016 capital commitments forecast was reduced by $100 million to $4.05 billion as we completed certain projects at a lower cost, delayed the timing of certain projects, and reduced projects that are no longer needed due to current volume.

The 2016 capital program reflects BNSF having sufficient capacity to support customer demand while investing $2.7 billion to continue to maintain and renew our core network and related assets to keep the railroad infrastructure in top condition. These projects will go toward replacing and upgrading rail, ties and ballast on BNSF's network. BNSF will spend $200 million for continued implementation of positive train control and will invest $600 million for locomotives, freight cars and other equipment acquisitions. This includes the acquisition of 150 locomotives under a minimum purchase agreement with the manufacturer. BNSF will spend approximately $500 million on various capacity expansion projects, primarily a continuation of projects that were started in 2015.

With these investments, we will have invested more than $23 billion in our railroad over the last five years. Our railroad has never been in better shape, and we have the capacity and strong franchise we need to consistently meet our customers' expectations as well as grow with our customers as conditions improve.