

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

Statement of Income (in millions)	Q3 - 2018	Q3 - 2017	Q/Q % Change	2018 YTD	2017 YTD	Y/Y % Change
<b>Total revenues</b>	\$ 6,147	\$ 5,314	16%	\$ 17,649	\$ 15,749	12%
<b>Operating expenses (a)</b>	4,038	3,374	20%	11,910	10,455	14%
<b>Operating income (a)</b>	2,109	1,940	9%	5,739	5,294	8%
<b>Net income</b>	\$ 1,393	\$ 1,042	34%	\$ 3,847	\$ 2,838	36%
<b>Operating ratio (b)</b>	64.5%	62.4%		66.4%	65.5%	

Source: Amounts derived from the GAAP results in the Burlington Northern Santa Fe, LLC Form 10-Q for the period ended September 30, 2018.

(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 \$13 million and \$40 million for the third quarter and first nine months of 2017 previously recorded in operating expense were reclassified to other income.

(b) Operating ratio excludes impacts of BNSF Logistics.

### Volumes and Revenues

Third quarter and first nine months of 2018 operating income were \$2.1 billion and \$5.7 billion, respectively, increases of \$169 million (9 percent) and \$445 million (8 percent), respectively, compared to the same periods in 2017. Total revenues for the third quarter and first nine months of 2018 were up 16 percent and 12 percent, respectively, compared with the same periods in 2017 as a result of 3 percent and 5 percent increases, respectively, in unit volume for the same periods.

Average revenue per car/unit increased 11 percent and 6 percent, respectively, for the third quarter and first nine months of 2018 as a result of business mix changes, higher fuel surcharges driven primarily by higher fuel prices, and increased rates per car / unit.

Business unit third quarter and first nine months of 2018 volume highlights:

- Consumer Products volumes were up 1 percent and 4 percent, respectively, for the third quarter and first nine months of 2018, compared with the same periods in 2017, due to higher 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 13 percent and 11 percent, respectively, for the third quarter and first nine months of 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, rocks, steel, and plastics. The first nine months of 2018 also included higher sand and taconite volumes.

- Agricultural Products volumes increased 16 percent and 10 percent, respectively, for the third quarter and first nine months of 2018 compared with the same periods in 2017, due to strong export and domestic grain shipments, as well as higher fertilizer and other grain products volumes.
- Coal volumes decreased 5 percent and 3 percent, respectively, for the third quarter and first nine months of 2018 compared with the same periods in 2017, primarily due to plant retirements combined with competition from natural gas and renewables, partially offset by market share gains and improved export volumes.

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

Business Unit	Q3 - 2018	Q3 - 2017	Q/Q % Change	2018 YTD	2017 YTD	Y/Y % Change
<b>Revenues (in millions)</b>						
Consumer Products	\$ 2,002	\$ 1,792	12 %	\$ 5,841	\$ 5,214	12 %
Industrial Products	1,576	1,268	24 %	4,416	3,766	17 %
Agricultural Products	1,165	992	17 %	3,499	3,174	10 %
Coal	1,069	1,009	6 %	2,928	2,881	2 %
<b>Total Freight Revenues</b>	<b>\$ 5,812</b>	<b>\$ 5,061</b>	<b>15 %</b>	<b>\$ 16,684</b>	<b>\$ 15,035</b>	<b>11 %</b>
Other Revenues	335	253	32 %	965	714	35 %
<b>Total Operating Revenues</b>	<b>\$ 6,147</b>	<b>\$ 5,314</b>	<b>16 %</b>	<b>17,649</b>	<b>15,749</b>	<b>12 %</b>
<b>Volumes (in thousands)</b>						
Consumer Products	1,400	1,387	1 %	4,198	4,041	4 %
Industrial Products	519	459	13 %	1,483	1,337	11 %
Agricultural Products	299	257	16 %	908	822	10 %
Coal	502	526	(5 %)	1,401	1,438	(3 %)
<b>Total Volumes</b>	<b>2,720</b>	<b>2,629</b>	<b>3 %</b>	<b>7,990</b>	<b>7,638</b>	<b>5 %</b>
<b>Average Revenue per Car/Unit</b>						
Consumer Products	\$ 1,430	\$ 1,292	11 %	\$ 1,391	\$ 1,290	8 %
Industrial Products	3,037	2,763	10 %	2,978	2,817	6 %
Agricultural Products	3,896	3,860	1 %	3,854	3,861	— %
Coal	2,129	1,918	11 %	2,090	2,003	4 %
<b>Total Freight Revenues per Car/Unit</b>	<b>\$ 2,137</b>	<b>\$ 1,925</b>	<b>11 %</b>	<b>\$ 2,088</b>	<b>\$ 1,968</b>	<b>6 %</b>

Source: Amounts derived from the GAAP results in the Burlington Northern Santa Fe, LLC Form 10-Q for the periods ended September 30, 2018 and June 30, 2018. Third-quarter 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 2018 were up 20 percent and 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 17 percent and 8 percent in the third quarter and first nine months of 2018 primarily due to wage inflation, including a change in estimate of a pending labor agreement recorded in 2017, increased headcount, and higher training costs.
- Fuel expense was up 44 percent and 38 percent in the third quarter and first nine months of 2018, compared with the same periods in 2017. The increase was primarily due to higher average fuel prices and increased volumes. Locomotive fuel price per gallon increased 36 percent for the third quarter of 2018 to \$2.31 and increased 31 percent for the first nine months of 2018 to \$2.21.
- Purchased services increased 18 percent and 15 percent in the third quarter and first nine months of 2018 as a result of higher purchased transportation costs of our logistics services business, which are offset in other revenues, as well as increased intermodal ramping, drayage, and other volume-related costs.
- Materials and other expense increased 50 percent and 35 percent in the third quarter and first nine months of 2018 primarily as a result of higher locomotive materials, personal injury expenses, and property taxes. The first nine months also included higher derailment-related costs.
- There were no significant changes in depreciation and amortization and equipment rents expense.

Operating Expenses (in millions)	Q3 - 2018	Q3 - 2017	Q/Q % Change	2018 YTD	2017 YTD	Y/Y % Change
Compensation and benefits (a)	\$ 1,378	\$ 1,173	17 %	\$ 4,021	\$ 3,725	8 %
Fuel	859	595	44 %	2,456	1,777	38 %
Purchased services	718	608	18 %	2,124	1,843	15 %
Depreciation and amortization	580	591	(2 )	1,726	1,756	(2 )
Equipment rents	183	193	(5 )	542	585	(7 )
Materials and other	320	214	50 %	1,041	769	35 %
<b>Total Operating Expenses (a)</b>	<b>\$ 4,038</b>	<b>\$ 3,374</b>	<b>20 %</b>	<b>\$ 11,910</b>	<b>\$ 10,455</b>	<b>14 %</b>

Source: Amounts derived from the GAAP results in the Burlington Northern Santa Fe, LLC Form 10-Q for the period ended September 30, 2018.

(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 \$13 million and \$40 million for the third quarter and first nine months of 2017 previously recorded in compensation and benefits expense were reclassified to other income.