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

Statement of Income (in millions)	Q2 - 2018	Q2 - 2017	Q/Q % Change	2018 YTD	2017 YTD	Y/Y % Change
Total revenues	$ 5,878	$ 5,250	12%	$ 11,502	$ 10,435	10%
Operating expenses (a)	3,995	3,476	15%	7,872	7,081	11%
Operating income (a)	1,883	1,774	6%	3,630	3,354	8%
Net income	$ 1,309	$ 958	37%	$ 2,454	$ 1,796	37%
Operating ratio (b)	66.8%	65.3%		67.4%	67.0%	

Source: Amounts derived from the GAAP results in the Burlington Northern Santa Fe, LLC Form 10-Q for the period ended June 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 $27 million for the second quarter and first six months of 2017 previously recorded in operating expense were reclassified to other income.

(b) Operating ratio excludes impacts of BNSF Logistics.

Volumes and revenues

Second quarter and first six months of 2018 operating income were $1.9 billion and $3.6 billion, respectively, an increase of $109 million (6 percent) and $276 million (8 percent), respectively, compared to the same periods in 2017. Total revenues for the second quarter and first six months of 2018 were up 12 percent and 10 percent, respectively, compared with the same periods in 2017 as a result of 5 percent increases in unit volume for both periods.

Average revenue per car/unit increased 4 percent for the first six months of 2018 as a result of higher fuel surcharges driven primarily by higher fuel prices, increased rates per car / unit, and business mix changes.

Business unit second quarter and first six months of 2018 volume highlights:

- Consumer Products volumes were up 5 percent for the second quarter and first six 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 strength in imports and containerized agricultural product exports, offset by a contract loss.
- Industrial Products volumes increased 10 percent for the second quarter and first six months of 2018, compared with the same periods in 2017, primarily due to strength in the energy and industrial sectors which drove demand for sand, petroleum products, steel, and plastics. The first six months of 2018 also included higher taconite volume.
- Agricultural Products volumes increased 9 percent and 8 percent, respectively, for the second quarter and first six 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 remained relatively flat and decreased 1 percent, respectively, for the second quarter and first six months of 2018 compared with the same periods in 2017, primarily due to plant retirements 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	Q2 - 2018	Q2 - 2017	Q/Q % Change	2018 YTD	2017 YTD	Y/Y % Change
Revenues (in millions)						
Consumer Products	$ 1,979	$ 1,742	14 %	$ 3,839	$ 3,422	12 %
Industrial Products	1,482	1,274	16 %	2,840	2,498	14 %
Agricultural Products	1,182	1,074	10 %	2,334	2,182	7 %
Coal	911	912	— %	1,859	1,872	(1)%
Total Freight Revenues	$ 5,554	$ 5,002	11 %	$ 10,872	$ 9,974	9 %
Other Revenues	324	248	31 %	630	461	37 %
Total Operating Revenues	$ 5,878	$ 5,250	12 %	11,502	10,435	10 %
Volumes (in thousands)						
Consumer Products	1,419	1,355	5 %	2,798	2,654	5 %
Industrial Products	499	452	10 %	964	878	10 %
Agricultural Products	311	285	9 %	609	565	8 %
Coal	435	437	— %	899	912	(1)%
Total Volumes	2,664	2,529	5 %	5,270	5,009	5 %
Average Revenue per Car/Unit						
Consumer Products	$ 1,395	$ 1,286	8 %	$ 1,372	$ 1,289	6 %
Industrial Products	2,970	2,819	5 %	2,946	2,845	4 %
Agricultural Products	3,801	3,768	1 %	3,833	3,862	(1)%
Coal	2,094	2,087	— %	2,068	2,053	1 %
Total Freight Revenues per Car/Unit	$ 2,085	$ 1,978	5 %	$ 2,063	$ 1,991	4 %

Source: Amounts derived from the GAAP results in the Burlington Northern Santa Fe, LLC Form 10-Q for the periods ended June 30, 2018 and March 31, 2018. Second-quarter revenues and volumes are calculated as the difference between YTD June and YTD March amounts.

Expenses

Operating expenses for the second quarter and first six months of 2018 were up 15 percent and 11 percent, compared with the same periods in 2017, as a result of inflation, including higher fuel prices, and increased volumes. A significant portion of the increase is due to the following factors:

- Compensation and benefits expense increased 6 percent and 4 percent in the second quarter and first six months of 2018 primarily due to wage inflation, increased volumes, and higher training costs.
- Fuel expense was up 44 percent and 35 percent in the second quarter and first six 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 34 percent for the second quarter of 2018 to $2.25 and increased 28 percent for the first six months of 2018 to $2.17.

- Purchased services increased 17 percent and 14 percent in the second quarter and first six 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 activities.
- Materials and other expense increased 54 percent and 30 percent in the second quarter and first six months of 2018 primarily as a result of higher locomotive materials, derailment-related costs, property taxes, and personal injury expenses.
- There were no significant changes in depreciation and amortization and equipment rents expense.

Operating Expenses (in millions)	Q2 - 2018	Q2 - 2017	Q/Q % Change	2018 YTD	2017 YTD	Y/Y % Change
Compensation and benefits (a)	$ 1,328	$ 1,255	6 %	$ 2,643	$ 2,552	4 %
Fuel	830	577	44 %	1,597	1,182	35 %
Purchased services	714	609	17 %	1,406	1,235	14 %
Depreciation and amortization	575	592	(3)%	1,146	1,165	(2)%
Equipment rents	167	196	(15)%	359	392	(8)%
Materials and other	381	247	54 %	721	555	30 %
Total Operating Expenses (a)	$ 3,995	$ 3,476	15 %	$ 7,872	$ 7,081	11 %

Source: Amounts derived from the GAAP results in the Burlington Northern Santa Fe, LLC Form 10-Q for the period ended June 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 $27 million for the second quarter and first six months of 2017 previously recorded in compensation and benefits expense were reclassified to other income.

Capital activities

BNSF anticipates its capital commitments for 2018 will be $3.4 billion, reflecting BNSF’s continued focus on maintaining its network as well as expansion projects aimed at meeting customer demands.

Like last year’s plan, the largest component of the plan is to replace and maintain BNSF’s core 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 invest $400 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). In 2017, BNSF completed the installation of PTC on all its federally mandated subdivisions and is currently running over a thousand trains daily with PTC in revenue service as we continue to refine the system.