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

Statement of Income (in millions)	Q2 - 2016	Q2 - 2015	Q/Q % Change	2016 YTD	2015 YTD	Y/Y % Change
Total revenues	$ 4,585	$ 5,369	(15)%	$ 9,352	$ 10,971	(15)%
Operating expenses	3,098	3,600	(14)%	6,360	7,308	(13)%
Operating income	1,487	1,769	(16)%	2,992	3,663	(18)%
Net income	$ 772	$ 963	(20)%	$ 1,556	$ 2,008	(23)%
Operating ratio (a)	66.7%	66.3%		67.2%	65.9%	

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

Volumes and Revenues

Second quarter and first six months of 2016 operating income were $1.5 billion, and $3.0 billion, respectively, a decrease of $282 million (16 percent) and $671 million (18 percent), respectively, compared to the same periods in 2015. Our lower earnings for the second quarter and first half 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 second quarter.

Total revenues for the second quarter and first six months of 2016 were both down 15 percent compared with the same periods in 2015. This is a result of a decline in unit volume for the second quarter and first six months of 2016 of 9 percent and 7 percent, respectively, compared with the same periods in 2015, as well as, to the impact of lower fuel prices on our fuel surcharge revenues.

The decline in average revenue per car/unit in 2016 was primarily due to the impact of lower fuel prices on our fuel surcharge revenues and business mix changes partially offset by increased rate per car/unit. The impact of lower fuel prices on our fuel surcharge revenues affected revenue of all product lines.

Business unit second quarter and first half of 2016 volume highlights:

- Consumer Products volumes were down 3 percent in the second quarter of 2016 compared with the same periods in 2015, due to lower international intermodal volume from the impact of soft economic activity and inflated retail inventories. The decline was partially offset by increased automotive volumes. However, Consumer Products volumes were up 2 percent for the first six months of 2016 compared with the same period in 2015 due to increased domestic intermodal volumes as well as increased automotive volumes due to the addition of a new automotive customer.

- Industrial Products volumes decreased 5 percent and 7 percent for the second quarter and the first six months of 2016, respectively, compared with the same periods in 2015, primarily due to lower petroleum products and commodities that support drilling due to the impact of pipeline displacement of U.S. crude traffic along with lower production. In addition, there was lower demand for steel and taconite partially offset by increased movements of non-owned rail equipment and increased plastics.
- Coal volumes decreased 34 percent and 33 percent for the second quarter and the first six months of 2016, respectively, compared with the same periods in 2015, due to lower demand driven by reduced energy consumption and low natural gas prices.
- Agricultural Products volumes were up 6 percent and 3 percent for the second quarter and the first six months of 2016, respectively, compared with the same periods in 2015, due to higher grain exports.

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

Business Unit	Q2 - 2016	Q2 - 2015	Q/Q % Change	2016 YTD	2015 YTD	Y/Y % Change
Revenues (in millions)						
Consumer Products	$ 1,607	$ 1,697	(5)%	$ 3,151	$ 3,200	(2)%
Industrial Products	1,186	1,384	(14)%	2,364	2,819	(16)%
Coal	655	1,122	(42)%	1,434	2,391	(40)%
Agricultural Products	910	926	(2)%	1,958	2,092	(6)%
Total Freight Revenues	**$ 4,358**	**$ 5,129**	**(15)%**	**$ 8,907**	**$ 10,502**	**(15)%**
Other Revenues	227	240	(5)%	445	469	(5)%
Total Operating Revenues	**$ 4,585**	**$ 5,369**	**(15)%**	**9,352**	**10,971**	**(15)%**
Volumes (in thousands)						
Consumer Products	1,281	1,327	(3)%	2,511	2,455	2 %
Industrial Products	434	458	(5)%	858	925	(7)%
Coal	362	546	(34)%	763	1,146	(33)%
Agricultural Products	249	236	6 %	524	507	3 %
Total Volumes	**2,326**	**2,567**	**(9)%**	**4,656**	**5,033**	**(7)%**
Average Revenue per Car/Unit						
Consumer Products	$ 1,254	$ 1,279	(2)%	$ 1,255	$ 1,303	(4)%
Industrial Products	2,733	3,022	(10)%	2,755	3,048	(10)%
Coal	1,809	2,055	(12)%	1,879	2,086	(10)%
Agricultural Products	3,655	3,924	(7)%	3,737	4,126	(9)%
Total Freight Revenues	**$ 1,874**	**$ 1,998**	**(6)%**	**$ 1,913**	**$ 2,087**	**(8)%**

Source: Amounts derived from the GAAP results in the Burlington Northern Santa Fe, LLC Form 10-Q for the periods ended June 30, 2016 and March 31, 2016. 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 half of 2016 were down 14 percent and 13 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 11 percent and 10 percent for the second quarter and first six months of 2016, respectively, compared with the same periods in 2015, due to lower average headcounts (furloughs and attrition) driven by decreased volumes and productivity improvements, partially offset by wage inflation.
- Fuel expense was down 38 percent and 41 percent in the second quarter and first six months of 2016, respectively, compared with the same periods in 2015 due to lower average fuel prices and lower volumes. Locomotive fuel price per gallon decreased 29 percent for the second quarter of 2016 to $1.38 and decreased 33 percent for the first six months of 2016 to $1.27.
- Materials and other expense was down 26 percent and 14 percent for the second quarter and first six months of 2016, compared to the same periods in 2015, primarily due to lower crew transportation, lodging and other travel costs and locomotive and freight car materials in both periods as well as lower derailment and other casualty related costs for the six month period.
- Purchased services expense, depreciation and amortization and equipment rents expense did not change significantly from the prior year.

Operating Expenses (in millions)	Q2 - 2016	Q2 - 2015	Q/Q % Change	2016 YTD	2015 YTD	Y/Y % Change
Compensation and benefits	$ 1,134	$ 1,268	(11)%	$ 2,342	$ 2,606	(10)%
Purchased services	589	628	(6)%	1,227	1,276	(4)%
Depreciation and amortization	530	489	8 %	1,050	985	7 %
Fuel	431	697	(38)%	826	1,410	(41)%
Equipment rents	184	207	(11)%	372	398	(7)%
Materials and other	230	311	(26)%	543	633	(14)%
Total Operating Expenses	**$ 3,098**	**$ 3,600**	**(14)%**	**$ 6,360**	**$ 7,308**	**(13)%**

Source: Amounts derived from the GAAP results in the Burlington Northern Santa Fe, LLC Form 10-Q for the period ended June 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 is $4.150 billion compared with $5.8 billion in 2015.

The 2016 capital program reflects BNSF's success in adding sufficient capacity to support customer demand while investing $2.8 billion to continue to maintain and renew its core network and related assets to keep its railroad infrastructure in top condition. These projects will go toward replacing and upgrading rail, ties and ballast on BNSF's network. BNSF will spend $300 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 and prepare for future growth as conditions improve.