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

Statement of Income (in millions)	Q1 - 2018	Q1 - 2017	Q/Q % Change
Total revenues	$ 5,624	$ 5,185	8 %
Operating expenses (a)	3,877	3,605	8 %
Operating income (a)	1,747	1,580	11 %
Net income	$ 1,145	$ 838	37 %
Operating ratio (b)	67.9 %	68.8 %	

Source: Amounts derived from the GAAP results in the Burlington Northern Santa Fe, LLC Form 10-Q for the period ended March 31, 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 $14 million previously recorded in operating expense were reclassified to other income.

(b) Operating ratio excludes impacts of BNSF Logistics.

Volumes and Revenues

First quarter of 2018 operating income was $1.7 billion, an increase of $167 million (11 percent) compared to the same period in 2017. Total revenues for the first quarter of 2018 were up 8 percent compared with the same period in 2017 as a result of a 5 percent increase in unit volume.

Average revenue per car/unit increased 2 percent as a result of higher fuel surcharges primarily driven by higher fuel prices and increased rates per car/unit, partially offset by business mix changes.

Business unit first quarter 2018 volume highlights:

- Consumer Products volumes were up 6 percent for the first quarter of 2018 compared with the same period in 2017, due to higher domestic intermodal and international intermodal volumes. The increases were primarily due to economic growth and tightening truck capacity leading to conversion from highway to rail.
- Industrial Products volumes increased 9 percent for the first quarter of 2018 compared with the same period in 2017, primarily due to increased sand and other products that support drilling and broad strengthening in the industrial sector which drove demand for steel, taconite, chemicals and plastics.
- Agricultural Products volumes increased 6 percent for the first quarter of 2018 compared with the same period in 2017, due to stronger export and domestic grain shipments as well as higher ethanol and other grain products volumes.
- Coal volumes decreased 2 percent for the first quarter of 2018 compared with the same period in 2017, primarily due to plant retirements partially offset by market share gains.

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

Business Unit	Q1 - 2018	Q1 - 2017	Q/Q % Change
Revenues (in millions)			
Consumer Products	$ 1,860	$ 1,680	11 %
Industrial Products	1,358	1,224	11 %
Agricultural Products	1,152	1,108	4 %
Coal	948	960	(1) %
Total Freight Revenues	**$ 5,318**	**$ 4,972**	**7 %**
Other Revenues	306	213	44 %
Total Operating Revenues	**$ 5,624**	**$ 5,185**	**8 %**
Volumes (in thousands)			
Consumer Products	1,379	1,299	6 %
Industrial Products	465	426	9 %
Agricultural Products	298	280	6 %
Coal	464	475	(2) %
Total Volumes	**2,606**	**2,480**	**5 %**
Average Revenue per Car/Unit			
Consumer Products	$ 1,349	$ 1,293	4 %
Industrial Products	2,920	2,873	2 %
Agricultural Products	3,866	3,957	(2) %
Coal	2,043	2,021	1 %
Total Freight Revenues	**$ 2,041**	**$ 2,005**	**2 %**

Source: Amounts derived from the GAAP results in the Burlington Northern Santa Fe, LLC Form 10-Q for the period ended March 31, 2018.

Expenses

Operating expenses for the first quarter of 2018 were up 8 percent, compared with the same period in 2017, as a result of increased volumes and inflation, including higher fuel prices. A significant portion of the increase is due to the following factors:

- Fuel expense was up 27 percent in the first quarter of 2018, compared with the same period in 2017. The increase was primarily due to higher average fuel prices and increased volumes. Locomotive fuel price per gallon increased 22 percent for the first quarter of 2018 to $2.08.
- Purchased services increased 11 percent in the first quarter 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 and drayage activities.
- There were no significant changes in compensation and benefits, depreciation and amortization, equipment rents, and materials and other expense.

Operating Expenses (in millions)	Q1 - 2018	Q1 - 2017	Q/Q % Change
Compensation and benefits (a)	$ 1,315	$ 1,297	1 %
Fuel	767	605	27 %
Purchased services	692	626	11 %
Depreciation and amortization	571	573	0 %
Equipment rents	192	196	(2) %
Materials and other	340	308	10 %
Total Operating Expenses (a)	**$ 3,877**	**$ 3,605**	**8 %**

Source: Amounts derived from the GAAP results in the Burlington Northern Santa Fe, LLC Form 10-Q for the period ended March 31, 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 $14 million 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, or $100 million higher than previously announced. This year’s capital program reflects 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 hundreds of trains daily with PTC as it tests revenue service across its mandated territory.