



# *Burlington Northern Santa Fe, LLC*

## 2017 FIXED-INCOME INVESTOR CALL

May 9, 2017

This presentation is intended to provide information to certain investors in Burlington Northern Santa Fe, LLC and BNSF Railway Company debt securities. The information presented may not be distributed to third parties or quoted in analyses prepared based on this presentation.



# Agenda



- Financial Results
- Spotlight Topic
- Financial Management

# Cautionary Statement Regarding Forward-Looking Statements and Information



Statements made in this presentation relating to the Company's future economic performance or business outlook, projections or expectations of financial or operational results, or statements that refer to matters that are not historical facts, are "forward-looking statements" within the meaning of the federal securities laws. Similarly, statements that describe the Company's objectives, expectations, plans or goals are forward-looking statements. Forward-looking statements involve a number of risks and uncertainties, and actual performance or results may differ materially. For a discussion of material risks and uncertainties that the Company faces, see the discussion in Part I, Item 1A, of the Company's Form 10-K. Important factors that could cause actual results to differ materially include, but are not limited to, the following:

- **Economic and industry conditions:** material adverse changes in economic or industry conditions, both in the United States and globally; volatility in the capital or credit markets including changes affecting the timely availability and cost of capital; changes in customer demand; effects of adverse economic conditions affecting shippers or BNSF's supplier base; effects due to more stringent regulatory policies such as the regulation of greenhouse gas emissions that could reduce the demand for coal or governmental tariffs or subsidies that could affect the demand for grain; the impact of low natural gas or oil prices on energy-related commodities demand; changes in environmental laws and other laws and regulations that could affect the demand for drilling products and products produced by drilling; changes in prices of fuel and other key materials, the impact of high barriers to entry for prospective new suppliers and disruptions in supply chains for these materials; competition and consolidation within the transportation industry; and changes in crew availability, labor and benefits costs and labor difficulties, including stoppages affecting either BNSF's operations or customers' abilities to deliver goods to BNSF for shipment;
- **Legal, legislative and regulatory factors:** developments and changes in laws and regulations, including those affecting train operations, the marketing of services or regulatory restrictions on equipment; the ultimate outcome of shipper and rate claims subject to adjudication; claims, investigations or litigation alleging violations of the antitrust laws; increased economic regulation of the rail industry through legislative action and revised rules and standards applied by the U.S. Surface Transportation Board in various areas including rates and services; developments in environmental investigations or proceedings with respect to rail operations or current or past ownership or control of real property or properties owned by others impacted by BNSF operations; losses resulting from claims and litigation relating to personal injuries, asbestos and other occupational diseases; the release of hazardous materials, environmental contamination and damage to property; regulation, restrictions or caps, or other controls on transportation of energy-related commodities or other operating restrictions that could affect operations or increase costs; the availability of adequate insurance to cover the risks associated with operations; and changes in tax rates and tax laws; and
- **Operating factors:** changes in operating conditions and costs; operational and other difficulties in implementing positive train control technology, including increased compliance or operational costs or penalties; restrictions on development and expansion plans due to environmental concerns; disruptions to BNSF's technology network including computer systems and software, such as cybersecurity intrusions, misappropriation of assets or sensitive information, corruption of data or operational disruptions; network congestion, including effects of greater than anticipated demand for transportation services and equipment; as well as natural events such as severe weather, fires, floods and earthquakes or man-made or other disruptions of BNSF Railway's or other railroads' operating systems, structures, or equipment including the effects of acts of terrorism on the Company's system or other railroads' systems or other links in the transportation chain.

We caution against placing undue reliance on forward-looking statements, which reflect our current beliefs and are based on information currently available to us as of the date a forward-looking statement is made. We undertake no obligation to revise forward-looking statements to reflect future events, changes in circumstances, or changes in beliefs. In the event that we do update any forward-looking statements, no inference should be made that we will make additional updates with respect to that statement, related matters, or any other forward-looking statements.

# First Quarter Results



**JULIE PIGGOTT**

Executive Vice President & Chief Financial Officer

# First Quarter 2017 Highlights



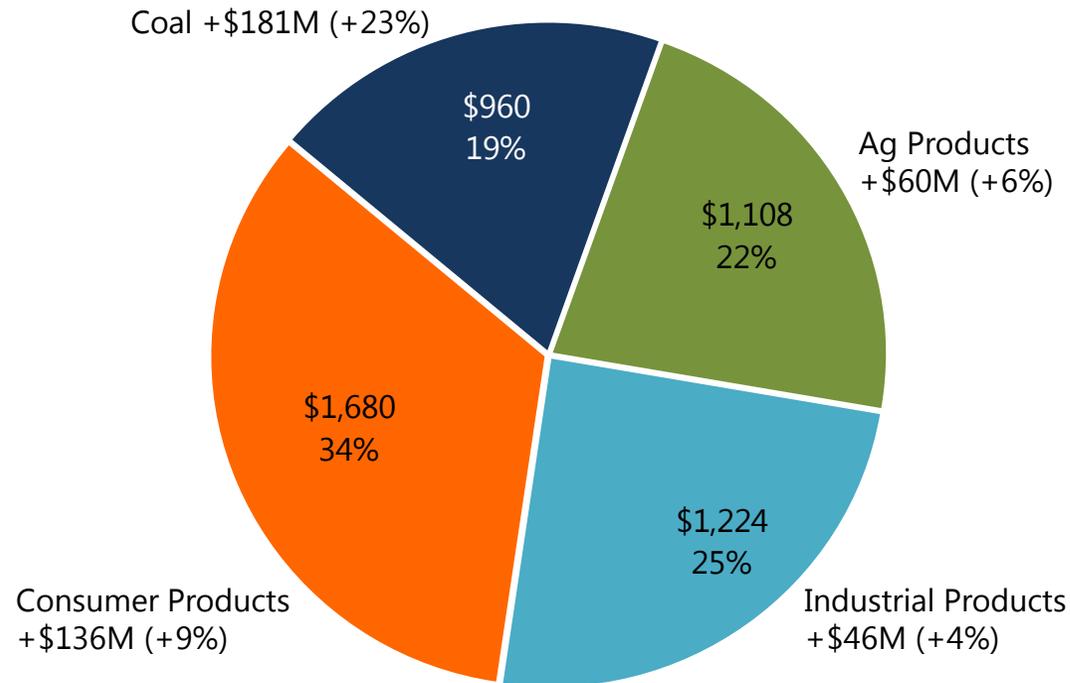
\$ in Millions

	<b>Three Months Ended 3/31/17</b>	<b>Three Months Ended 3/31/16</b>	<b>% CHG</b>
Freight Revenue	\$ 4,972	\$ 4,549	9%
Other Revenue	213	218	-2%
<b>Total Revenue</b>	<b>5,185</b>	<b>4,767</b>	<b>9%</b>
Operating Expenses	(3,591)	(3,262)	10%
Operating Income	1,594	1,505	6%
Interest / Other / Taxes	(756)	(721)	5%
<b>Net Income</b>	<b>\$838</b>	<b>\$784</b>	<b>7%</b>
Units (in thousands)	2,480	2,330	6%
Average Freight RPU	\$2,005	\$1,952	3%

# First Quarter 2017 Results



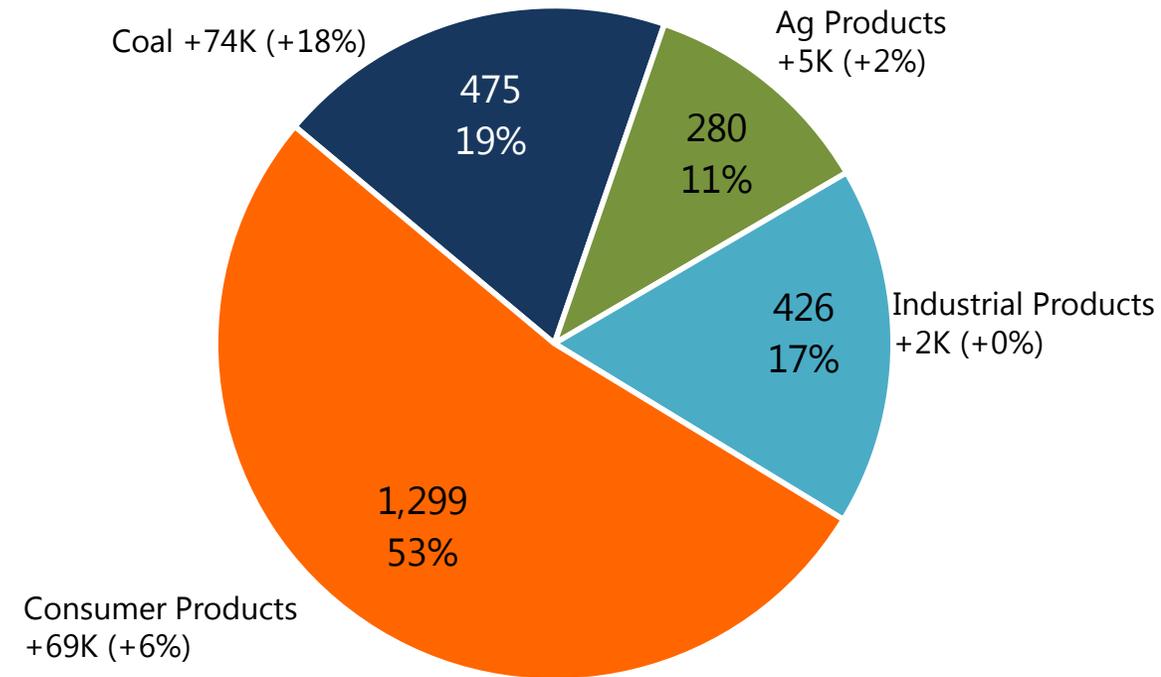
## FREIGHT REVENUES



**TOTAL FREIGHT REVENUES** \$4,972M  
**CHANGE FROM 2016** +\$423M (+9%)

## TOTAL UNITS

\$ in Millions  
 Units in Thousands  
 % Change vs. 2016



**TOTAL UNITS** 2,480K  
**CHANGE FROM 2016** +150K (+6%)

# Consumer Products



## YTD Volume Highlights (through March 31, 2017)

- Consumer Products volumes increased due to higher domestic intermodal, international intermodal, and automotive volumes.
- The increases were primarily due to higher market share, improving economic conditions, and normalizing of retail inventories.

# Industrial Products



## YTD Volume Highlights (through March 31, 2017)

- Industrial Products volumes were up slightly. Increases in minerals and other commodities that support domestic drilling activity were mostly offset by lower petroleum products volume due to pipeline displacement of U.S. crude traffic and lower plastics volume.



# Agricultural Products



## YTD Volume Highlights (through March 31, 2017)

- Agricultural Products unit volumes increased primarily due to higher grain exports, partially offset by lower domestic grain.



# Coal



## YTD Volume Highlights (through March 31, 2017)

- Coal volumes increased due to mild winter weather in the first quarter of 2016 and higher natural gas prices in the first quarter of 2017, which led to increased utility coal usage, partially offset by the effects of retirements of coal generating facilities.

# BNSF Railway Update

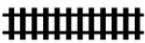


**CARL ICE**

President & Chief Executive Officer

# The BNSF Network



  
**32,500**  
Route Miles

  
**28**  
States

  
**3**  
Canadian Provinces

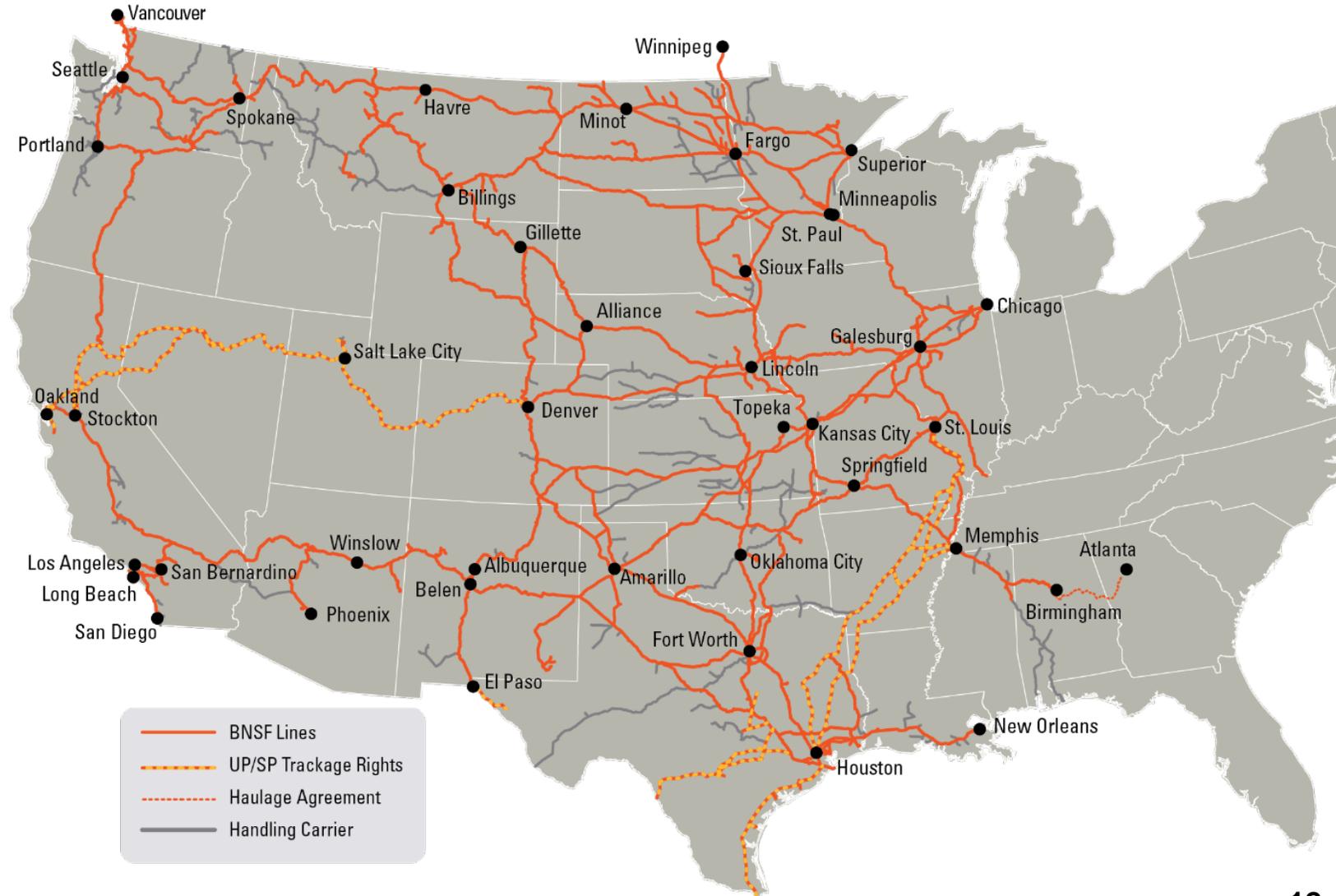
  
**25**  
Intermodal Facilities

  
**40+**  
Ports

  
**~8,000**  
Locomotives

  
**41,000**  
Employees\*

\*BNSF Railway employees as of December 31, 2016.



**Our vision is to realize the tremendous potential of BNSF Railway by providing transportation services that consistently meet our customers' expectations.**

# BNSF – A Culture Focused on Safety



EMPLOYEE



OPERATIONAL



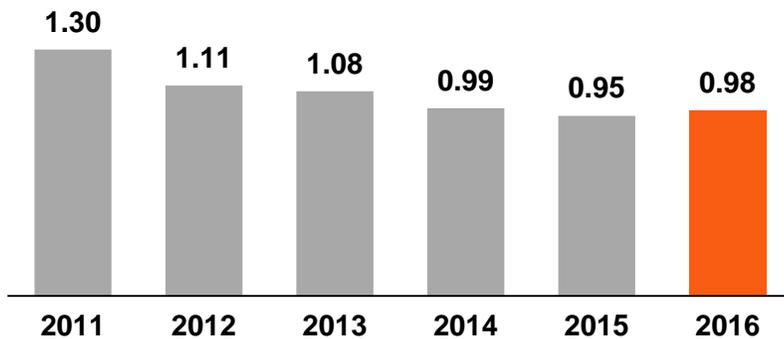
COMMUNITY

SAFETY VISION TO OPERATE FREE OF ACCIDENTS AND INJURIES

# BNSF Safety Results



## Employee Reportable Personal Injury Incidents Per 200,000 Employee Hours



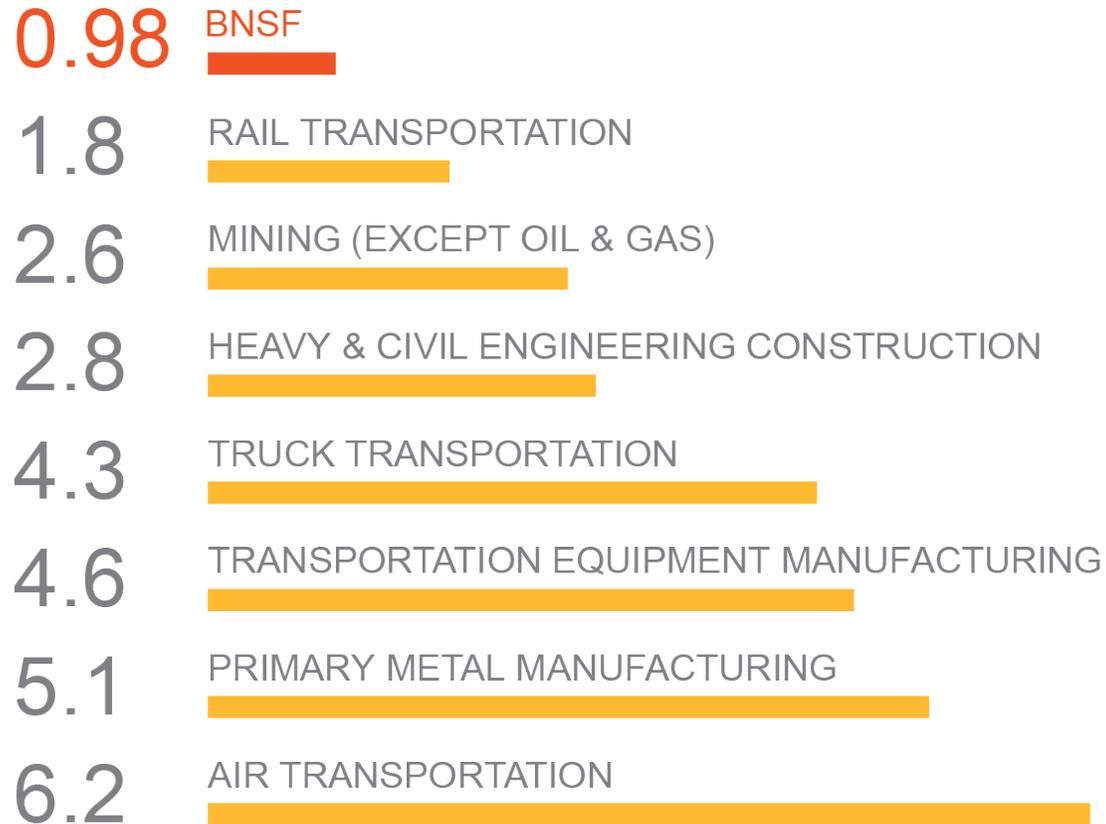
## BNSF Train Incidents Have Declined *BNSF has approximately 180 million train miles per year*

Incidents per million train-miles



# Injury Rates by Industry

## 2016 Injury Rate Per 200,000 Employee Hours



Injury rates for BNSF and the rail industry are quoted based on Federal Railroad Administration 2016 year-end data. All other data is from the year 2015 from the Bureau of Labor Statistics.



# Value in Freight Rail Transportation



## HIGHWAY GRIDLOCK REDUCTION



A doublestack intermodal train removes **+280 long-haul freight trucks from the highway**

## WORKHORSE OF THE ECONOMY

In the U.S., railroads account for approximately

**40%** of all freight

(more than any other transportation mode)

## COST EFFICIENCY

In general, **shippers pay less** for shipping per ton mile via rail than other forms of surface transportation



## SUSTAINABILITY

Moving freight by rail instead of trucks **reduces greenhouse gas emissions by an estimated**

**75%**



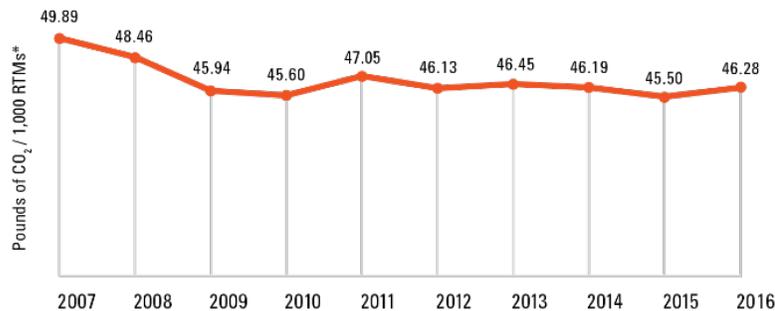
# Environmental Stewardship



## Reducing Our Emissions

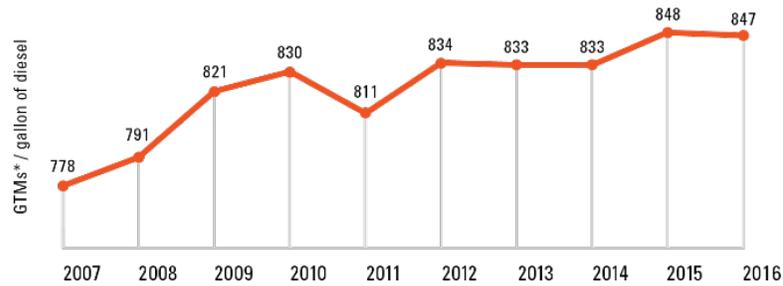
Over the last decade, BNSF has upgraded about 40 percent of our locomotive fleet to more energy-efficient technologies, helping us make great strides in increasing fuel efficiency and decreasing CO<sub>2</sub> and particulate emissions. We have also improved fuel efficiency through changes in operations and maintenance practices.

### CO<sub>2</sub> Emissions from Train Operations



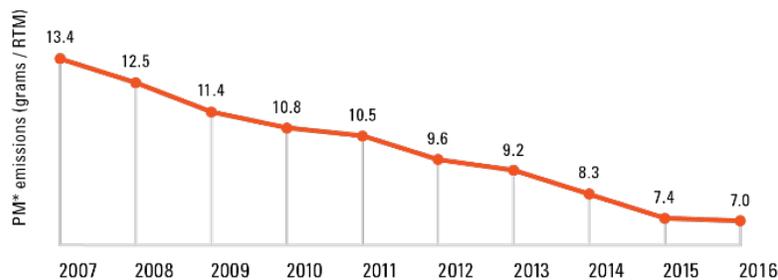
\*Revenue ton mile (RTM) is the weight of our customers' freight multiplied by the miles traveled.

### Fuel Efficiency



\*Gross ton miles (GTM) are the weight of the train (minus the locomotive) multiplied by the miles traveled.

### Diesel Particulate Emissions

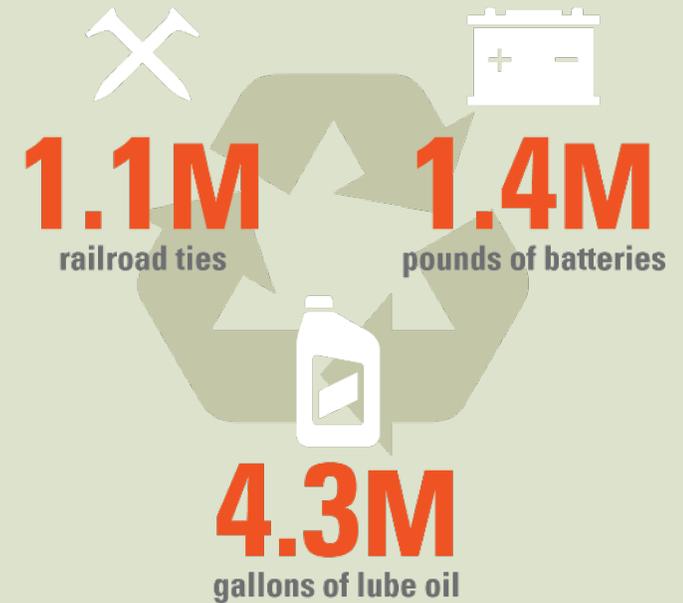


\*Particulate Matter (PM) is a mixture of solid particles and liquid droplets found in the air.

## Recycling Materials

Major recycling efforts further reduce BNSF's environmental impact.

In 2016, BNSF recycled approximately:



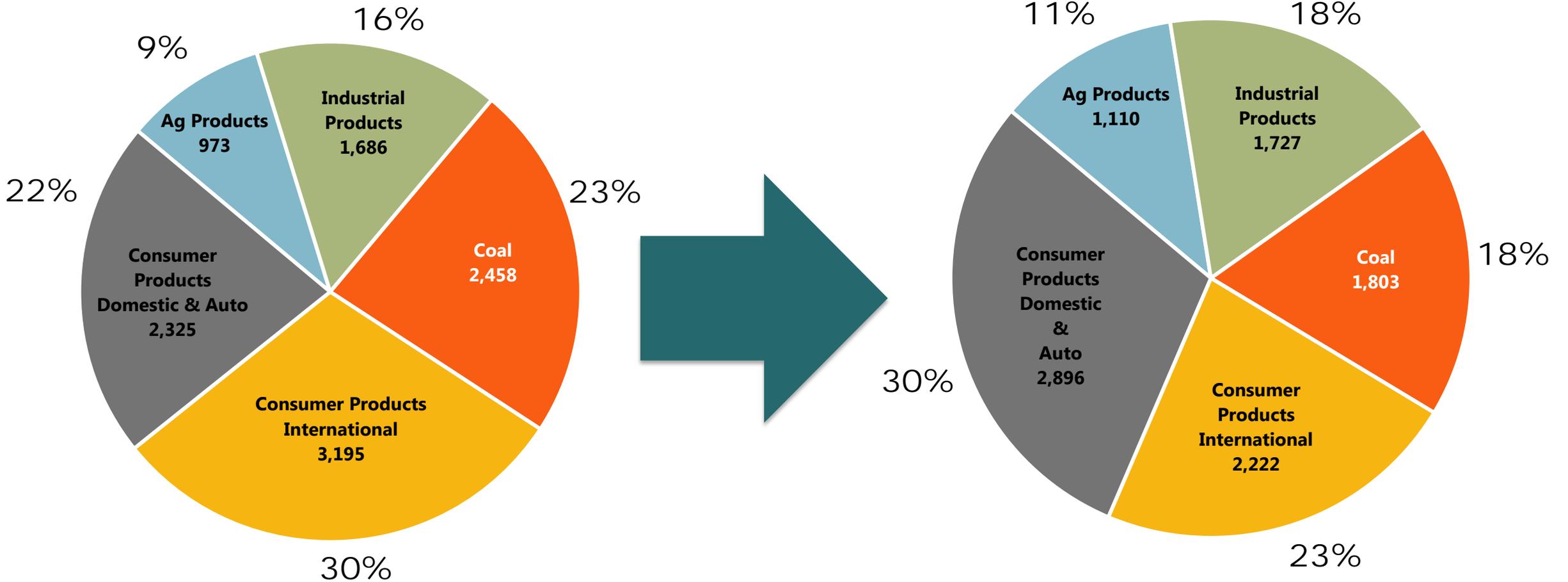
# Diversified Business Mix



Units in Thousands

2006

2016



# Business Units



## Agricultural Products

- Strong Franchise
- Increasing US Yields
- High global grain supplies and strong U.S. dollar are continuing headwinds



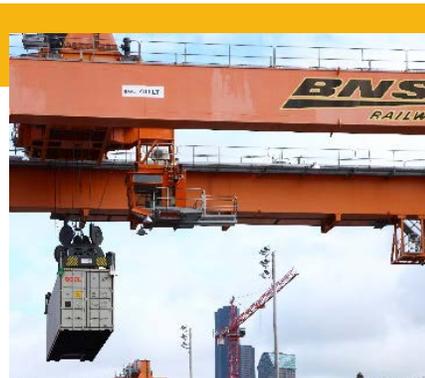
## Coal

- Long-term challenges
- Regulatory uncertainty
- Impact of weather, renewables and natural gas



## Consumer Products

- Strong long-term opportunity for highway-to-rail conversion
- New Service Products
- Ocean carrier fundamentals

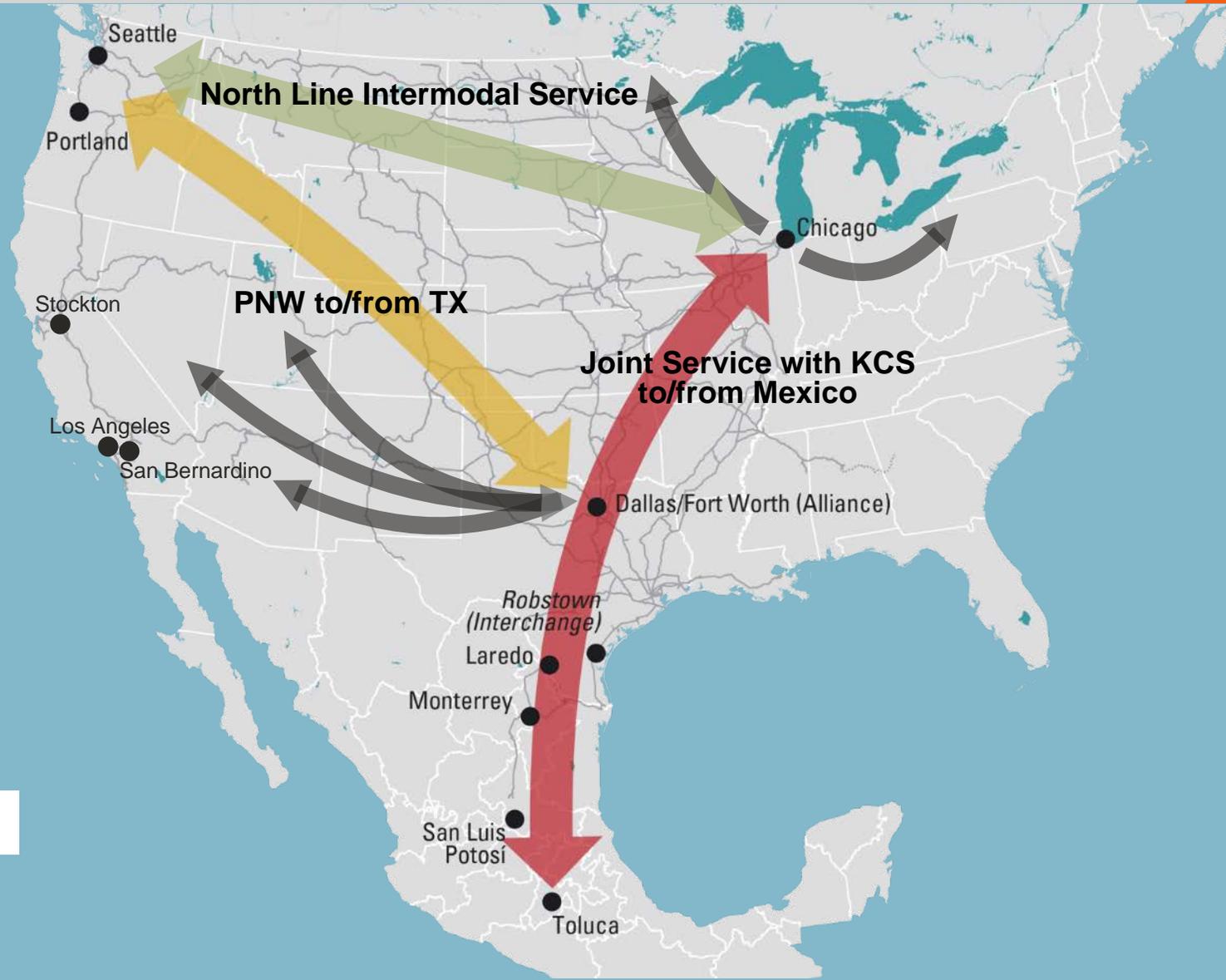


## Industrial Products

- Petrochemical Expansion
- Development of unit train origins and destinations
- Low oil prices & modal shift to pipeline impacting petroleum products



# New & Enhanced Services Drive Growth

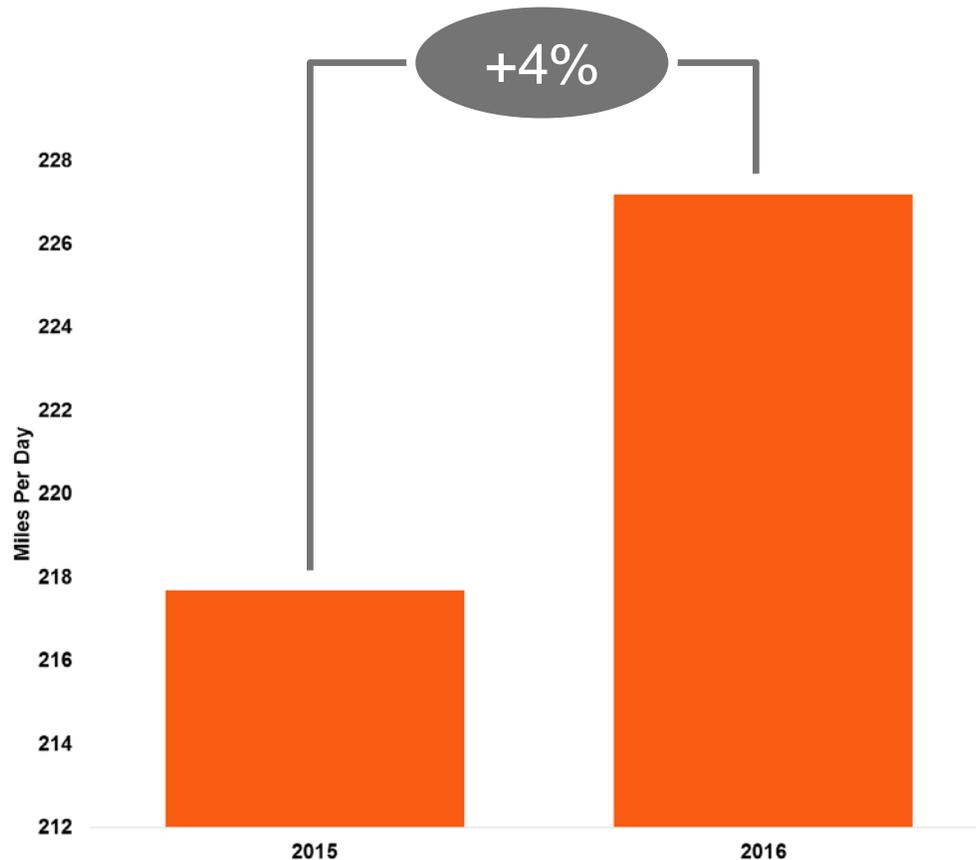


# Velocity Performance

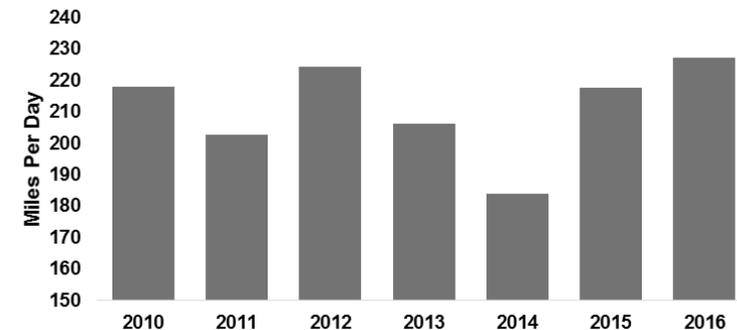
*2016 performance improved 4% over 2015 as we continued to focus on key velocity drivers and ways to improve performance*

## KEY DRIVERS OF PERFORMANCE

- Focus on “Safe Production”
- Collaborating with customers on efficient new facility design and expansion
- Asset utilization focus (crew, loco, car)
  - Long pool crew agreements
  - Unit train conversion
- Preventative maintenance programs / asset health monitoring
- Efficient use of increases in capacity



**Annual System Velocity Comparison**



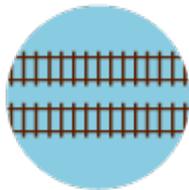
# Enhancing Capacity

## Capital Investment

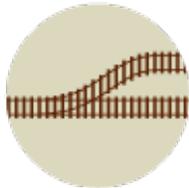
2013-2016



**1,454** miles of CTC added



**218** miles of double-track added



**35** extended sidings added



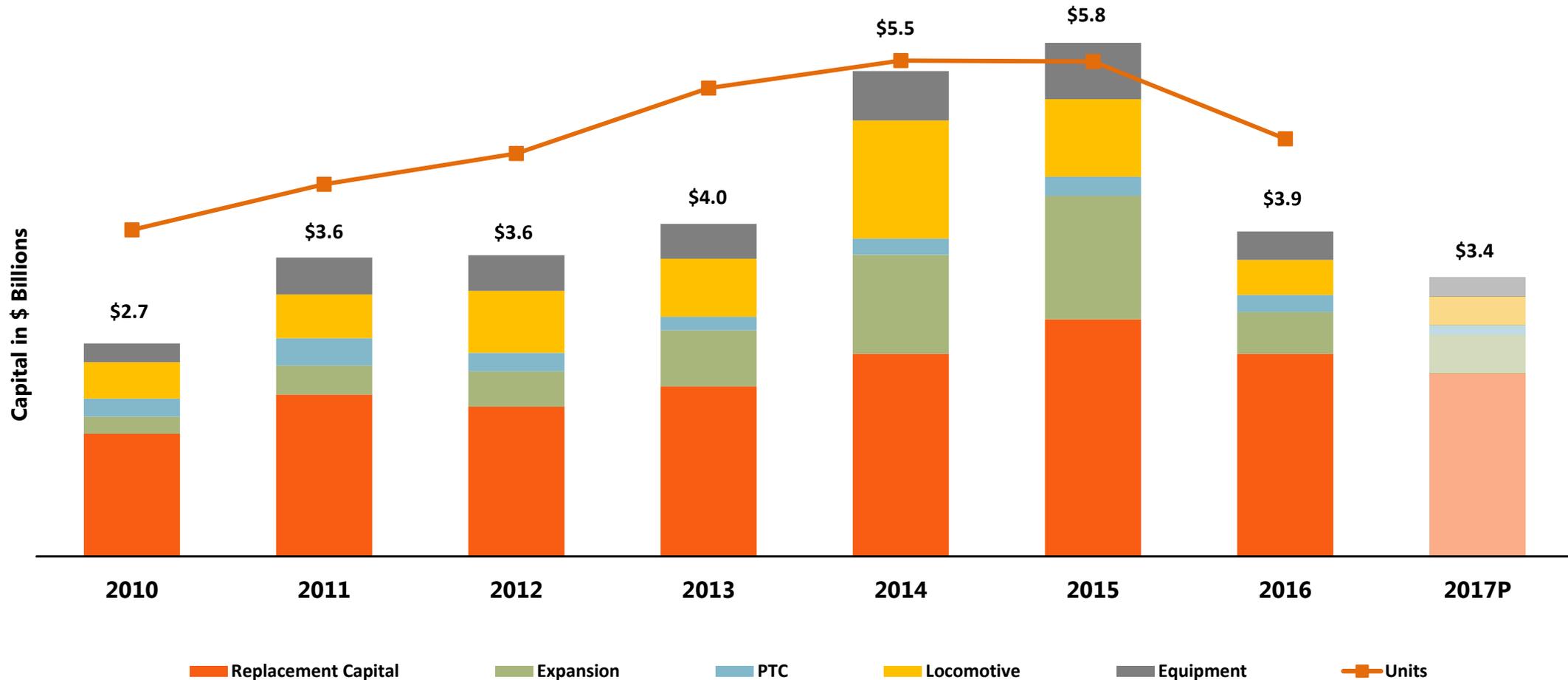
**22** new sidings added



# Capital Investments



## CAPITAL COMMITMENTS VS. UNITS



# Expenses and Financial Management



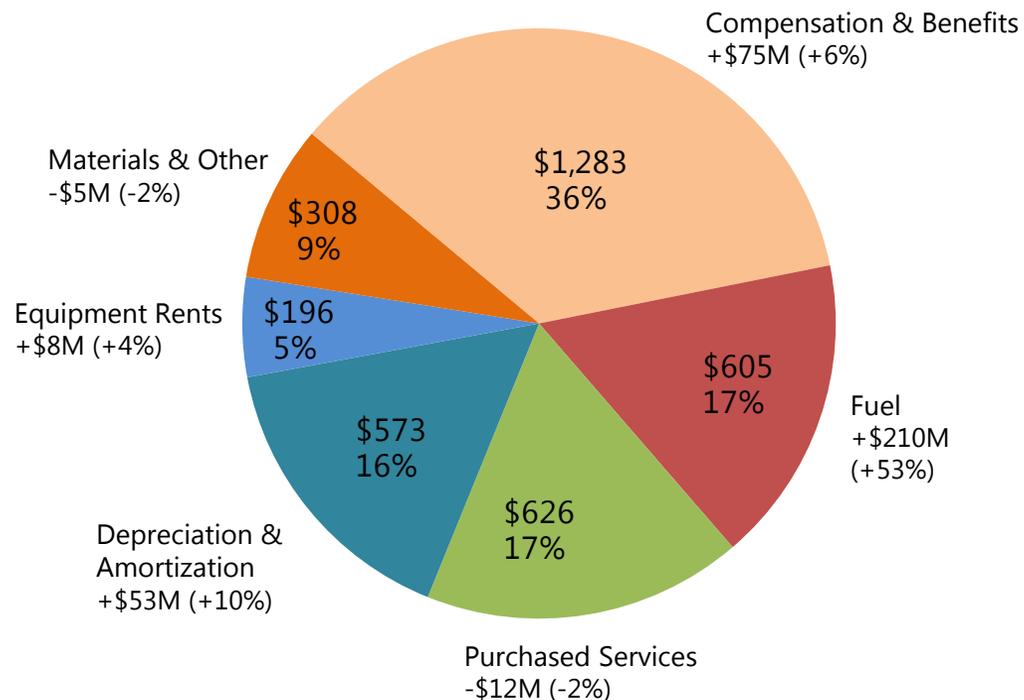
**PAUL BISCHLER**  
Vice President Finance and Treasurer

# BNSF First Quarter Operating Expenses



## THREE MONTHS ENDED 3/31/17

\$ in Millions  
% Change vs. 2016



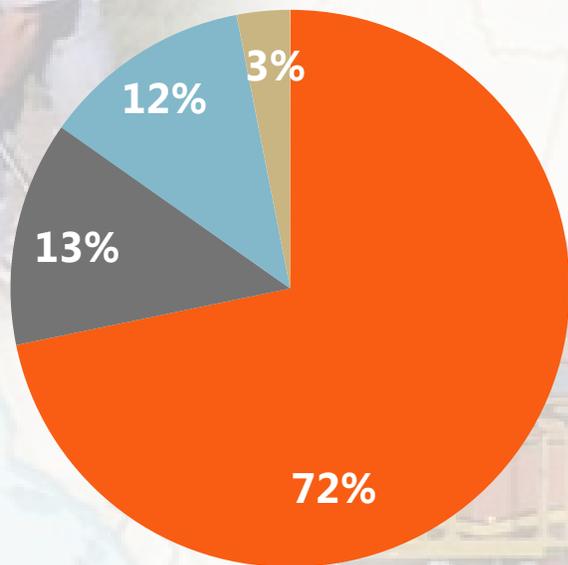
**TOTAL OPERATING EXPENSES** \$3,591M  
**CHANGE FROM 2016** +\$329M (+10%)

Operating expenses for the three months ended March 31, 2017 were \$3,591 million, an increase of \$329 million, or 10%, compared to three months ended March 31, 2016. A significant portion of this increase is due to the following changes in underlying trends in expenses:

- Compensation and benefits increased primarily due to higher health and welfare costs, wage inflation, and increased volumes partially offset by productivity improvements.
- Fuel increased due to significantly higher average fuel prices and increased volumes, partially offset by improved efficiency.
- Depreciation expense increased due to a larger depreciable asset base.

# 2017 Capital Investments

**2017 Capital Commitment \$3.4B**



- Core Network and Related Assets
- Locomotive, Freight Car, and Other Equip
- Expansion and Efficiency
- PTC



Core Network & Related Assets



Loco, Freight Car, & Other Equip



Expansion & Efficiency



Positive Train Control

- Shareholder Returns
  - Flexible – No target/minimum requirement
  - Excess cash – defined as cash after:
    - Maintenance capital
    - Expansion capital
    - Liquidity
- Target Leverage Ranges<sup>1</sup>
  - Adjusted Debt to EBITDAR less Maintenance Capital – 3 to 4x
  - EBITDAR less Maintenance Capital Interest Coverage – 5 to 6x

1. Metrics are non-GAAP. Please refer to the Appendix of this presentation for a Non-GAAP Reconciliation of the "Adjusted Debt to EBITDAR less Maintenance Capital" and "EBITDAR less Maintenance Capital Interest Coverage" pursuant to SEC Regulation G.

# Cash Flow Summary



	<u>Twelve Months Ended 3/31/17</u>	<u>2016</u>	<u>2015</u>	
				\$ in Millions
<b>Cash From Operations</b>	<b>7,177</b>	<b>6,925</b>	<b>7,175</b>	
<b>Investment/CapEx</b>	<b>(3,710)</b>	<b>(3,981)</b>	<b>(5,827)</b>	
<b>Free Cash Flow<sup>1</sup></b>	<b>3,467</b>	<b>2,944</b>	<b>1,348</b>	
<b>Shareholder Returns</b>	<b>(2,375)</b>	<b>(2,500)</b>	<b>(4,000)</b>	
<b>Net Borrowings</b>	<b>1,899</b>	<b>458</b>	<b>2,629</b>	
<b>Other</b>	<b>(31)</b>	<b>(13)</b>	<b>(32)</b>	
<b>Change in cash</b>	<b>2,960</b>	<b>889</b>	<b>(55)</b>	
<b>Cash Balance</b>	<b>4,566</b>	<b>3,218</b>	<b>2,329</b>	
<b><u>Credit Metrics</u><sup>(1)(2)</sup></b>				<b>Target</b>
<b>Adjusted Debt to EBITDAR less Maintenance Capital</b>	<b>3.3</b>	<b>3.5</b>	<b>3.0</b>	<b>3x to 4x</b>
<b>EBITDAR less Maintenance Capital Interest Coverage</b>	<b>5.6</b>	<b>5.4</b>	<b>6.1</b>	<b>5x to 6x</b>

1. Free Cash Flow and Credit Metrics are non-GAAP financial measures

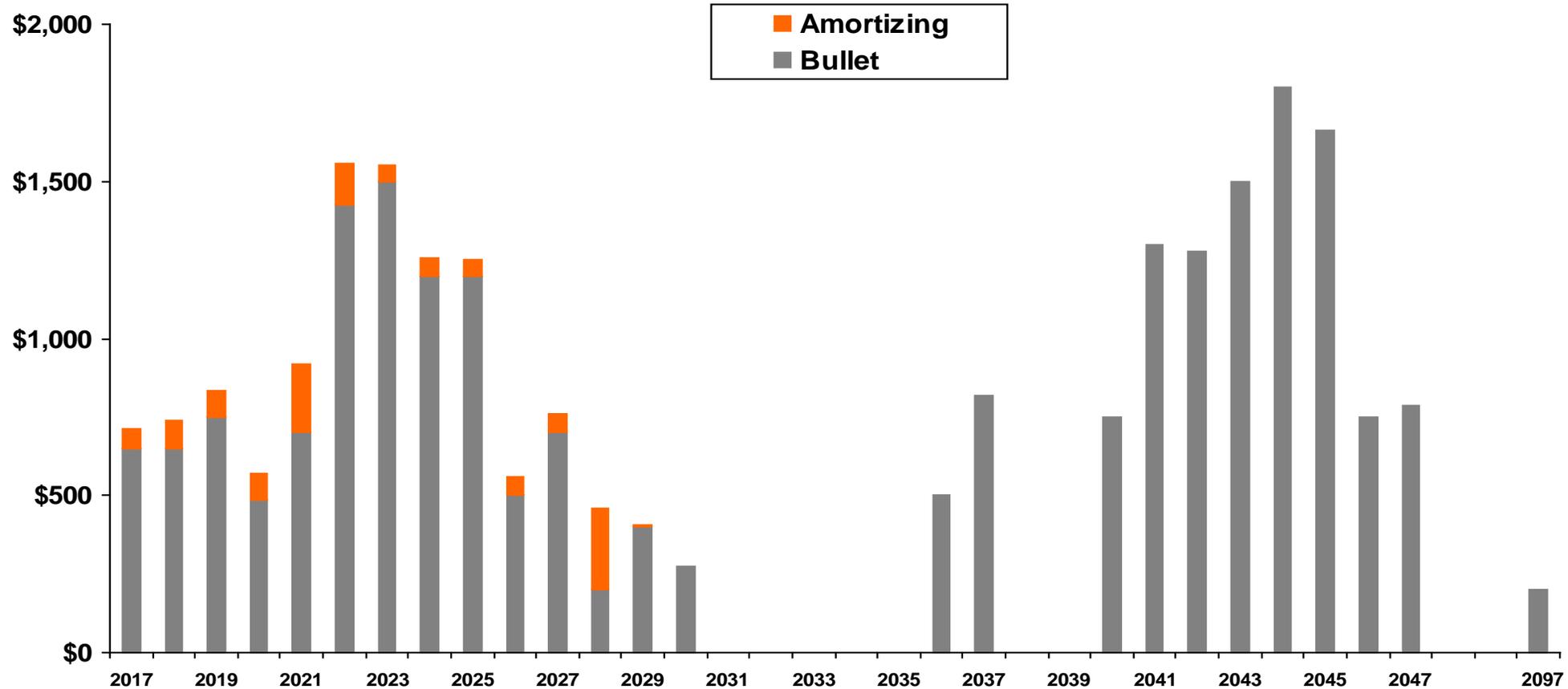
2. Please refer to the Appendix of this presentation for a Non-GAAP Reconciliation of the "Adjusted Debt to EBITDAR less Maintenance Capital" and "EBITDAR less Maintenance Capital Interest Coverage" measures used on this page pursuant to SEC Regulation G.

# Debt Maturities



## Scheduled Principal Payments As of March 31, 2017

\$ in Millions



2026 includes \$500 million, 50-year Junior Subordinated Debt issued in 12/05 and callable 1/15/26.

# BNSF – Investor Relations Contact



Please direct your questions to:

Beth Miller

Assistant Treasurer

817-352-3478

[BNSFInvestorInquiries@bnsf.com](mailto:BNSFInvestorInquiries@bnsf.com)

# Appendix



BNSF reports its results in accordance with generally accepted accounting principles (“GAAP”). Management believes, however, that certain non-GAAP financial measures used in the management of its business may provide users of the information with additional comparisons to publicly reported results. These non-GAAP measures are used by management in the evaluation of the business and in making certain operating decisions. These non-GAAP measures should not be considered a substitute for GAAP measures.

# Reconciliation to GAAP

Computation of Adjusted Debt to EBITDAR less Maintenance Capital and EBITDAR less Maintenance Capital Interest Coverage



	<u>Twelve Months Ended 3/31/17</u>	<u>12/31/2016</u>	<u>12/31/2015</u>
Net Income	\$ 3,623	\$ 3,569	\$ 4,248
Add: Taxes	2,157	2,124	2,527
Add: Interest Expense	999	992	928
Add: Other (Income) Expense - net	(5)	-	21
Operating Income	\$ 6,774	\$ 6,685	\$ 7,724
Add: Depreciation & Amort	\$ 2,181	\$ 2,128	\$ 2,001
Add: Rent Expense	579	584	605
EBITDAR	\$ 9,534	\$ 9,397	\$ 10,330
Less: Replacement capital	(2,506)	(2,594)	(2,944)
Less: Locomotive Replacement	(309)	(363)	(480)
Adjusted EBITDAR	\$ 6,719	\$ 6,440	\$ 6,906
Debt (a)	\$ 23,241	\$ 22,044	\$ 21,737
Other adjustments (b)	(1,277)	166	(925)
Adjusted Debt	\$ 21,964	\$ 22,210	\$ 20,812
Adjusted Debt to EBITDAR less Maintenance Capital	<u>3.3</u>	<u>3.5</u>	<u>3.0</u>
Adjusted EBITDAR	\$ 6,719	\$ 6,440	\$ 6,906
Interest	999	992	928
Adjustments including interest portion of rent expense	192	193	202
Adjusted Interest	\$ 1,191	\$ 1,185	\$ 1,130
EBITDAR less Maintenance Capital Interest Coverage	<u>5.6</u>	<u>5.4</u>	<u>6.1</u>

\$ in Millions

(a) Debt was restated to reclassify debt issuance costs from other assets to long term debt with the adoption of ASU 2015-03 in 2015. Restatement period was December 2014 and 2015.

(b) Primarily cash offset by long-term operating leases.

Reports currently on BNSF website (<http://www.bnsf.com/about-bnsf/financial-information/>):

- SEC filings
- Annual R-1 Report to the Surface Transportation Board
  - Operating expenses, operating statistics, equipment inventories, maintenance information, etc.
- Weekly carload data
  - Weekly, QTD & YTD volumes by major commodity group compared to same period last year

**BNSF**



DED