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Dear ICP participant:

As we said many times, 2016 was a challenging year. In this letter, we review those challenges along with the successes we achieved together in a very difficult environment. I'll also explain the payout on our Incentive Compensation (ICP) award for eligible employees.

Any discussion of 2016 must begin with the tragic incident in Panhandle, Texas, where two trains were involved in a head-on collision and three employees perished, Kenneth Smith Jr., Cody Owens and Lara Taylor. We've also experienced loss of life as we begin 2017. On Jan. 10, Robert W. Vann IV was fatally injured in a crew van collision near Brockton, Mont. On Jan. 17, Richard Lessert and Douglas Schmitz were struck by a train as they worked to clean a switch near Edgemont, S.D. We grieve the loss of these colleagues and extend our deepest sympathy to their families, friends and co-workers. As we have said before, safety is the most important thing we do, and we will not be successful until we eliminate the loss of life and life-altering injuries.

In other areas of safety, we see mixed results. Injury frequency and severity increased in 2016, and we fell short of our safety improvement goals. However, we also saw a reduction in variability across work groups, reinforcing that we do have the right processes in place to achieve our safety vision. We also achieved a historic low rate in reportable equipment incidents and reduced human-factor incidents. While our commitment to safety is clear, we must continue to focus on reducing and eliminating risk on this railroad.

In service, we achieved solid performance through most of 2016, but we also dealt with challenges in the North in the last few months that impacted our velocity. After safety, serving our customers is the most important thing we do, and we must maintain that focus. Offering best-in-class service is a key differentiator for BNSF, helping us sustain and attract new business, increase market share and enhance asset utilization.

Economic conditions in 2016 brought a significant change to our volumes and mix of traffic. We moved half a million fewer units than in 2015, representing 5 percent of our business, with significant declines in three important commodities – coal, crude oil and international intermodal. These three commodities together represent about 40 percent of our total volumes. While the impact is significant, we must also consider the circumstances with which we were faced. Our Marketing team quickly and aggressively approached the marketplace to keep as much volume moving as we could for those three commodities. We also handled record Agricultural Products volumes, as well as new domestic intermodal, automotive and plastics business. As a result, our Western rail market share increased by another 0.3 points to achieve a new yearly record.

Nevertheless, the new business we captured was not enough to offset the overall reduction in business levels on our railroad, resulting in a significant impact on our revenues and operating income. We've talked before about making tough decisions in this environment, and we know it's hardest on the people impacted. Non-seasonal furloughs of scheduled employees peaked at about 5,000 in early 2016 and dropped to about 2,700 by the end of the year. In 2016, we also reduced salaried headcount by about 9 percent, primarily through attrition and some restructuring. We'll communicate more about our 2016 financial results with the release of Berkshire Hathaway's earnings in late February.

As communicated earlier, our 2016 ICP award is solely based on discretion. Our 2016 ICP award is 85 percent of target. Understanding the factors that determine our collective success, I believe this is a strong and appropriate payout following this year's performance. As has been true most years since the scheduled ICP agreements were implemented, this 2016 award puts you ahead of where you'd be without ICP. You can view your personalized ICP award statement on myTotalRewards on the Employee Portal.

While we believe the industrial economy will improve in 2017, how much and how quickly remains uncertain and we may need to think differently about many things as the year unfolds. We must be agile and flexible to not only respond to change, but to initiate positive changes that help ensure our success. If we address challenges as we see them coming, an organization of our size, scope and abilities can often turn those challenges into opportunities. We have done so in the past, and I know we can do it going forward and expect good things to come in 2017. Thanks to your tough-minded optimism and commitment, we are prepared for whatever comes our way.

Sincerely,