

2019—A year of challenges but also progress

This year was a time of both challenge and success. For the first time in our long history, we finished the calendar year without an employee fatality. Our 2019 market share was 51.3%, breaking the annual record set in 2018. And, we can take pride in overcoming historical winter weather and flooding during the first half of the year to finish strong, gaining momentum in service, making gains in efficiency and productivity and delivering a third-consecutive perfect UPS Peak season.

On the other hand—while we faced declining volume and significant weather challenges in 2019—we must acknowledge that we fell short in several areas. We fell short of our overall safety targets, we didn't provide consistent service over the full year, and we ended the year below our identified financial targets.

We should acknowledge and be proud of our accomplishments in 2019. At the same time, we must recognize that we aren't where we want to be nor where our customers expect us to be. Given that, we have work to do in the new year to get better. I know we can, because I have seen us do it before and know what we are capable of achieving.

The following is a more detailed overview of our 2019 performance, along with our annual ICP announcement.

Safety

Completing a calendar year without a fatality is a significant event that we should all celebrate—and it's certainly an indication of continuous improvement. We should also recognize two of our major workgroups, Engineering and Mechanical, for achieving their best-ever injury frequency performance in 2019 and finishing the year below target.

In recent years, we have stalled on our path toward our vision of zero accidents and injuries. Our 2019 injury frequency ratio of 0.95 was higher than our 0.90 target. Our injury severity finished at 29.14—higher than last year and above our target of 25.0. Also, we finished 2019 with more reportable equipment incidents than 2018.

We know every injury is preventable. Eliminating accidents and injuries from the workplace is in our hands. It's up to us. It's a matter of coming to work with a clear safety mindset, understanding every risk, following the procedures to mitigate those risks and insistently focusing on every task at hand. What's more, it's about building relationships with your teammates and looking out for each other. Our 2020 injury frequency target will be 0.88 and our severity target will be 24.0. To meet these goals, we all need to challenge ourselves to consider our daily routines. Think about what contribution you can make to help us reach that next level of safety and ensure everyone goes home at the end of the workday.

Service Performance

After responding to the major flood-related outages during the first half of 2019, we finished the year with strong gains in our overall service performance. While average train velocity for all trains was down approximately 3.3% year-over-year, we generated a more than 12% improvement since July. Some of our operating measures in the fourth quarter were as good as they have been in the past several years. This momentum is no accident. It's a credit to all of the teams who worked to minimize the impact of the service interruptions while completing our capital projects, improving asset utilization and delivering for our customers in 2019. Thank you for this commitment to service.

We all know that we still have opportunities to improve. For example, working against us in 2019 were more than 53,000 service interruptions. If we are to remain competitive, this simply cannot continue. We now have a team committed to tackling this challenge head on in 2020, and we look forward to seeing the results. Also, we still have

work to do to improve velocity, on-time performance and consistency across all of our business units. I believe we have the right people and processes in place to carry our current momentum well into 2020. It's now up to us to execute.

Volumes, revenue and expenses

As we entered 2019, we expected to see modest growth and a favorable freight environment to support our pricing actions and productivity improvements. Unfortunately, the freight environment was much softer than anticipated and volume was down 4.5% from the previous year. Although we saw weaker demand for rail freight service in 2019, we can be proud of our efforts to capture available business and achieve the price that was available in the marketplace.

We fell short of both our volume and income expectations for 2019. We also fell short of our planned \$500 million in cost savings for the year. A slower economy, trade uncertainty, excess truck capacity and the negative impacts of unprecedented weather conditions certainly played a role in missing our financial targets. The severe winter weather and flooding impacted our 2019 earnings by adding extra costs, which we would not expect to incur in 2020. We will have more detail to share on our 2019 financial performance after Berkshire Hathaway releases its financial report at the end of February.

As we look to the year ahead, it is important that we establish expectations as to what success looks like in 2020. This year, with a softening freight environment, we expect volume and revenue to be flat. We know there is still opportunity to improve efficiency and productivity to remove costs from the operation, and our plan in 2020 will include about \$450 million in savings from planned productivity improvements. Through our actions to improve efficiency, we expect earnings to grow mid-single digits with a 1.5% to 2% margin improvement. Of course, we know we must operate safely and that improving network consistency and reliability is critical to achieving our 2020 plan. We will continue to communicate regularly on our performance against these expectations throughout the year.

2019 ICP results

We experienced several milestones in safety in 2019. We closed the calendar year without an employee fatality for the first time in our history. Mechanical and Engineering finished the year with their all-time best injury frequency ratio. However, while some years have shown improvement over the prior year, our overall safety performance has essentially been flat for the past six years and we missed our safety targets in 2019. Similarly, in service, we did some things really well. We had better metrics in multiple areas in the past several months than we have had in the past several years. Unfortunately, we still missed our velocity goals for the year.

We made improvements in our margin in 2019, which we knew was important and we needed to accomplish, but we missed our earnings by almost 10% as the freight environment continued to deteriorate. Our margin for the full year fell short of our target, but we made strong progress, especially as the year evolved. We didn't fall short because of the unanticipated costs we incurred due to the severe winter and flooding. In fact, we gained more from out-of-period, one-time revenue adjustments than we lost in unanticipated costs, and we worked to quickly contain what went badly.

Once our network was reset coming out of the flooding, we knew we needed to finish the year strong in safety, service and margin improvement. That's exactly what we did. We finished strong. Thank you for that. We gained significant momentum and we are carrying that momentum into 2020. Considering all of these factors, our results will be recognized with a 2019 ICP payout of 85% of target. Our improvement as we moved through the year, our momentum and our strong finish are acknowledged in this payout. Eligible scheduled employees may view their ICP award beginning the afternoon of January 29 by clicking on the myTotalRewards link from the Employee tab on the BNSF Employee Portal. Eligible salaried employees may view their ICP award beginning January 29 by clicking on the My Profile tile in myBNSFCareer, accessed from the Employee tab on the BNSF Employee Portal. The 2020 merit pool will be 2.5% for all salaried employees.

Insights

What we do matters

We have strong momentum heading into 2020, and that's a credit to your commitment. We have talented and dedicated people. We have strong teams. We have a remarkable and irreplaceable rail network that's in the best shape it's ever been. Let's continue our work together in 2020 to put everything we have into making us safer, improving service and being more efficient. In doing so, we can realize our tremendous potential.

Thank you for everything you put into our company's success in 2019, and I look forward to our accomplishments in 2020.



Carl Ice
President and CEO