

Insights: BNSF's 2020 performance; ICP award announced

1/26/2021

Overview of 2020 performance

I want to begin by saying thank you for everything you did in 2020. I am incredibly proud of our team. You show up every day to deliver critical supplies to our health care workers and keep freight flowing and distribution centers stocked. Through the adversity, our entire team fulfilled our responsibility to the customers and communities we serve, our nation and the global supply chain.

As we entered 2020, we expected to achieve modest volume and revenue growth and continued productivity improvement. As we all know, however, the economy and freight environment changed rapidly over a short period of time. Freight volumes fell swiftly, and within a matter of months, the pandemic dealt significant impacts to our fellow team members and their families, the communities we serve, our customers and our expectations for the year.

Through Q3 and Q4, business began to return although uncertainty persisted through the remainder of the year. As the year closed, we ultimately were down year-over-year. In the face of the change and challenge, thanks to everyone's work, we adjusted our targets and realized gains in the areas that we could control. The following provides a more detailed overview of our 2020 performance, along with our annual ICP announcement.

Safety

The most notable safety achievement in 2020 is undoubtedly extending our longest period without loss of life. Two and a half years is an unprecedented length of time and a major benchmark on our path to achieving our safety vision of operating a railroad free of accidents and injuries. We know our vision is achievable because we have eliminated the loss of life for 874 days.

Even with this important achievement, we fell short of our overall 2020 safety targets. We finished 2020 with injury frequency and severity ratios higher than the previous year and our goals. However, we did make progress. Mechanical achieved their best-ever frequency performance in 2020 and Engineering came close to matching their best-ever performance. Transportation started the year strong, however, those early gains were lost as we moved through the year. Additionally, reportable train accidents/incidents were down 10% year-over-year. Contributing to that success was the fact that we reduced human factor rail equipment incidents nearly 20% in 2020 compared to the previous year. In 2021, we must drive year-over-

year improvement in safety. We know we can do it because of our people, our training and procedures, and our continued commitment to a strong infrastructure and leveraging technology in our operations. In addition, we are demonstrating it every day in large work groups across our network.

Service Performance

Average velocity for all trains was up about 14% year-over-year and 10% higher than Q4 of 2019. Unproductive dwell improved by 5% across the system and we finished the year with solid overall performance through strong productivity and fluidity.

As freight volumes increased during the second half of 2020, we aligned resources to meet the elevated shipping demand. The work paid off, and we moved more than 32,000 UPS loads on time to destination and delivered another perfect UPS Peak season for the fourth straight year. Together, during the holiday shipping season, we moved 80 million packages, a 30% increase versus 2019.

Volume, revenue and expense

By the end of Q1 2020, volume had begun to drop due to weakness in the industrial sector and a significant decline in energy prices. Then, in Q2, demand fell across the railroad as the COVID-19 shutdown became widespread. By the end of Q2, volume on BNSF was down 18%. A rebound began in the summer, and during the second half of the year, we saw significant volume improvement but still finished down year-over-year.

Our consumer products segment, which benefited from consumer spending shifting from services to durable goods, led the improvement through the latter part of 2020. Domestic Intermodal ended the year with record volume while Industrial Products volume was down year-over-year. Agricultural Products saw strong export grain activity in the second half of the year and set a new quarterly volume record in Q4. Coal's long-term structural decline continued as volumes decreased at a more rapid pace due to low natural gas prices, elevated customer inventories and reduced electric generation.

In total, we saw improvement in the second half of the year, but volume still finished down 7.2% for the year, which contributed to us falling short on our year-over-year performance. More details about our 2020 financial results will be shared at the end of February after Berkshire Hathaway releases its financial report.

2020 ICP results

A conversation on this year's ICP should start with a review of the key drivers of safety, service and

financial performance, which are what we evaluate when determining payout.

As we look at the first component of ICP, which is safety, we must acknowledge that we did not see the improvement in safety we sought and we fell short of our goals.

Turning to service, we did a good job managing challenges through fluctuating volumes and aligning the appropriate resources and we did improve both velocity and dwell year-over-year. Our customers continue to expect service improvement year-over-year similar to what we have provided in past years.

Despite the financial declines of 2020, BNSF was still able to improve our cost structure and improve our competitiveness thanks to our ability to manage costs and operate a more efficient railroad. We more than volume adjusted our costs and delivered approximately \$960 million through our cost initiatives, which drove significant margin improvement. Financial performance remains significant in evaluating our ICP payout and while earnings were less than 2019, which would normally make a payout unlikely, we achieved margin improvement that exceeded the plan we set at the beginning of the year.

We believe those efforts, along with how well we served our customers, merits recognition through incentive compensation. We are pleased to announce a 2020 ICP payout of 60% of target that appropriately acknowledges our adaptability and the successes we were able to achieve.

Our philosophy and approach to compensation over time is that variable compensation is the best way to address significant changes in the freight environment and our performance. Earlier this year when volumes rapidly fell, we chose not to respond by reducing salaries and said at the time we would address with incentive compensation at the end of the year. We will continue to take that approach going forward and due to current economic uncertainty and the low rate of inflation, there will be no merit compensation increases for 2021 and we will, once again, address adjustments through incentive compensation as we see how the year progresses.

Eligible scheduled employees may view their ICP calculation beginning the afternoon of January 27 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 27 by clicking on the My Profile tile in myBNSFCareer, accessed from the Employee tab on the BNSF Employee Portal.

Conclusion

We finished 2020 strong and have significant momentum as we begin 2021. It's up to us to maintain that momentum and seize the opportunities before us.

Going forward, our ability to compete will be defined in large part by our ability to remain nimble and adapt to change. Every year at BNSF, we start with a plan—but things change and we will adjust the plan accordingly and communicate those changes to all of you through our usual communications channels. It's important that we remain aligned on what we are doing and how well we're performing on safety, service, efficiency and financial performance.

Thank you for your hard work in 2020, and for your focus in the months ahead. Please continue to take care of each other as we work together to meet customer expectations and realize our tremendous potential in 2021.

Katie Farmer

President and CEO