

Matthew K. Rose
Railroader of the Year Remarks
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Thank you, Bill and Bob for your kind words. I am truly honored and humbled to be named *Railway Age's* Railroader of the Year. Every one of the past recipients of this award has made extraordinary contributions to our industry. Among these recipients of the honor is Rob Krebs, who was my predecessor and mentor, and is here tonight. I'm also privileged to have my wife, Lisa, here this evening. I am grateful for her support and understanding when the railroad called.

But honestly, I am accepting this honor tonight for the nearly 40,000 members of team BNSF, who in my eyes, are all railroaders of the year—every year, 24 hours a day, seven days a week. I have been blessed to have a tremendous leadership team, many of whom are here this evening. They are the best you will find anywhere in the business--Carl, Tom , John, Roger, Amy, Linda, Jo-ann, Pete, Dave and many other associates. Our former Chief Legal Counsel,

Jeff Moreland, is here, as well as one of my special advisors, Bob Helman. It is this team's vision that has led us through some very challenging, but also very rewarding times. It is also gratifying to see many of our customers and fellow railroaders here tonight, as well as my good friends Rick Corman and Dennis Washington. It's an honor to have Chip Nottingham, STB Vice Chairman, in attendance as well.

During our short time together tonight, I would like to look at our industry and BNSF in three buckets. First, let's look back at our industry's history, then we will come to the more recent decade and finally, let's go forward and think and dream about our opportunities.

When I first became CEO of BNSF, I asked my friend Larry Kaufman to interview many of the previous CEOs and Presidents of our company that were still living. I did this because I do believe that we have so much to learn from history. I asked Larry

to pen their stories and reflections of leadership, and we published a book called “Leaders Count.” During this process, I took the opportunity to meet with them. I sat down with Ben Biaggini, Bob Downing, John Shedd Reed, Jerry Grinstein and Darius Gaskins—all great railroaders, all great friends and mentors to me, personally.

Let’s take a look back in the context of this award ceremony and discuss a few of the past nominees and what they were facing in their leadership role.

Lou Menk, who was president of four different Class I railroads during his career, received this honor in 1967. At the time, he was serving as the last president of the Northern Pacific Railway before it merged into the Burlington Northern Railroad. Lou was named President of the merged company, and later added the Chairman and CEO titles. He enhanced the efficiency of the system and steered the company through a difficult competitive and regulatory environment, marked by the Penn Central collapse later in 1970.

John Shedd Reed, who was Railroader of the Year in 1970, was president of the Atchison, Topeka and Santa Fe Railway from 1967 until 1986. Recognizing the minimal prospects for the heavily-regulated freight rail business at the time, he was one of the first to create a holding company structure to allow the unregulated parts of the company to provide sufficient returns for shareholders.

Before Darius Gaskins joined Burlington Northern in 1982, he was chairman of the Interstate Commerce Commission. During his tenure at the ICC, the agency approved the BN acquisition of the Frisco and was forced to deal with the shutdown and liquidation of the Rock Island. At BN, Gaskins brought about the culture change needed to operate in a deregulated environment. He added expertise in commodities and initiated substantial marketing capabilities. When I first was appointed to my current role, my friend Bill Greenwood introduced me to Darius, and to this day, I continue to spend quit a bit of time with him.

Rob Krebs has led three different railroads in his tenure—the Southern Pacific, Santa Fe and BNSF. When he became the head of the new BNSF, he had the challenge of blending two companies and two cultures. Rather than let two different cultures battle it out to see which one prevailed, Rob saw it as an opportunity to create a new culture for a new company, incorporating the best of each culture into a new vision.

I'm also grateful that, despite significant criticism, he recognized the need to reinvest and expand the railroad, even when volumes were soft. This later proved to be invaluable for BNSF's ability to handle record volume. I know that BNSF and I later benefited greatly from the capex commitments Rob had made years before. It was such an instructive lesson to me that to this day I always tell people that the investments made today won't really be felt for a number of years and potentially decades.

In 2000, *Railway Age* named the railway worker as Railroader of the Century. This recognized the tremendous

commitment of our people to this great industry. We need to continue to recognize those talents and commitments and find ways to collaborate with our labor leaders to further our mutual interest in a strong railroad for our nation, our customers and our mutual employees. I serve on an airline board, and I am always grateful for the collaborative approach that the leaders of our unions take in dealing with this industry. I think this approach has paid dividends for all constituents in terms of wages, health care and retirement benefits. Compare us to the airline business, and all of our employees have done very well.

These former recipients of this award and many other rail leaders have seen enormous improvements in efficiency and service, while reducing expenses and costs to our customers. Over the past three decades, North America's freight railroads have eliminated most unnecessary costs, used technology to enhance capabilities, reinvested in the railroad and become the most effective transportation system on land anywhere in the world. As

someone who has traveled the world and viewed other freight rail networks, we should be proud of our progress.

Now let's take a look at the current situation in regard to the most recent decade. Our industry has seen a lot of changes over the past 10 years. The last decade is the one where railroads hit their stride. Let me use BNSF as an example.

When I assumed the role of Chairman, President and CEO in 2000, BNSF's freight revenues were around \$9 billion, and we handled about 8 million units in volume. To put a little more color on my first couple of years, we were right in the middle of an industrial recession, followed by 9/11, the Enron and WorldCom meltdowns, followed by Sarbanes Oxley legislation. Being a Corporate CEO was viewed worse than being a lawyer and yes, I will apologize to my fellow CEO's. Well, life got better over time, and we ended up an industry that started to grow....and grow we did.

- Our peak volume was in 2006...we handled more than 10 million units--taking freight revenues to \$14 billion. By 2008, our revenues surpassed \$18 billion.

Of course, we've all been hit by the economic recession, but we know we'll be ready when volume increases as we move from the recession to the recovery.

We also were able to deliver tremendous value to our shareholders over the past decade.

- The BNI stock price increased at a CAGR of 15.8 percent since 2000--we started in the mid-\$20s; by 2005, it was in the \$50 range. In 2008, we reached \$114.
- In 2000, EPS was \$2.39, and in 2008, EPS was \$6.06, dropping to \$5.01 last year, in the middle of the great recession.

In addition to creating more value for our shareholders, BNSF has worked hard to make operational changes to increase efficiencies and improve service to our customers. In 2005, we rolled out our focus on velocity, and since then have improved our total system locomotive and car velocity by about 20 percent.

But one of the things that I'm most proud of is our ability to continue a strong capital spending program. A hallmark at BNSF is that we've been able to anticipate demand and invest in the needed capacity at the right time. Even as we faced economic uncertainty, we opted for balanced capital spending—recognizing the importance of investing in our locomotive and car fleets and physical plant to set the stage for service, reliability, velocity and, ultimately, growth.

Since 2000...

- We've acquired more than 2,500 locomotives at a cost of \$4.2 billion.

- We have invested \$2.6 billion to improve our car fleet across business units, with the acquisition of more than 25,000 new cars.
- Total capital that we have invested in the physical plant from 2000 to today, and including this year's plan, is \$24 billion.
- We have nearly completed the double tracking of the Transcon, adding more than 180 miles of double track to this line, at a total cost of \$500 million, leaving just shy of 40 miles of single track remaining.
- We've also invested in key facilities....
 - New intermodal facility in Stockton, California, in 2001.
 - In 2002, Logistics Park-Chicago.
 - In 2005, a multi-year project in Los Angeles to increase capacity at Hobart, the world's largest rail intermodal facility.

- 2009 Memphis.
- We also made investments to improve our Ag network, to support our role as the largest grain handling railroad. For instance, in 2000, we served 118 shuttle stations; today, there are 263, vastly improving the efficiency of our service and equipment utilization.
- In our coal network, we've added over 185 miles of double and triple (in some places quadruple!) main line serving the Powder River Basin and a new yard in Donkey Creek, Wyoming--all of these investments allow us to handle 20 percent more trains out of the Basin.

Now let me bring us back to the railroad industry and our future. Even in the face of the greatest recession in three-quarters

of a century, as an industry, we will be investing about \$9 billion in capital this year alone.

This kind of investment really speaks to what has been called a “rail renaissance.” Even in a downturn, the railroad industry’s management is continuing to invest at record levels, maintaining networks of unprecedented quality and safety, and expanding capacity.

This is all being done on the basis of market decisions. It’s not about nostalgia for the peak traffic levels of 2006 and 2007...

Nor is it “build it and they will come.” This economy is going to grow--the population will go to 364 million by 2030 and freight will nearly double.... There certainly is, and will, be a lull--I think perhaps 3 to 5 years--before we get back on the escalator. But with the investment we continue to see, BNSF--and the industry--is prepared. I can promise with first hand knowledge that BNSF and

the entire railroad industry is stronger and better-running than I've ever seen it.

And, these investments are being made in the absence of any federal policy to incentivize them, or even to plan for them. We haven't been waiting for "public partners" or incentives to undertake this investment, haven't built our business model around energy or environmental policy--policy that *should* promote moving truck traffic to the rails to reduce emissions and the use of fossil fuels. Even with all of the talk you have heard about public-private partnerships, high-speed rail funding and TIGER grants, the industry will still pay almost 99 percent of capital required.

In fact, this continued investment and resulting capacity is taking place **DESPITE** public policy—or at least its absence.

The National Surface Transportation Policy and Revenue Study Commission on which I served underscored the expanded role freight rail can play in surface transportation policy. While

my fellow commissioners knew what I supported, it was encouraging to see 10 other people from a variety of backgrounds espouse principles to grow the rail industry. In fact, the report specifically called for policies which would grow freight rail market share by 10 and even 20 percent to achieve not just transportation goals, but environmental and energy objectives.

It called for an investment tax credit to incentivize capacity expansion, and a multi modal vision for goods movement that measures transportation funding against transportation network performance goals. I believe this would favor public projects with freight rail, and make freight rail's requirements a national priority, for such things as project siting and permitting. These issues are ground zero for expanding freight rail.

The Commission also called for rational regulation-- environmental, safety and--especially in the case of railroads-- economic regulation. While we have "coined" these words, I am

worried that few people understand what it means and the impact to investment.

In fact, there is a clear trend in recent years toward making our business more difficult and costly.

The best example that I can give you is the positive train control mandate--a \$10 billion expenditure by 2015. The cost benefit ratio is 22:1. The railroads will have to cut other expenditures to pay for it. We spent \$9 billion last year on maintenance and expansion, and we'll spend \$9 billion this year, except \$700 million of that will be on the first steps of PTC implementation. What will fall out of the budget? What will fall out when the PTC spend is \$1.2 billion a year in 2011? Expansion? Certainly! But what about tie replacement and other things that make the railroad safer? It's not a threat, it's just the way it is. Something has to give. There needs to be a more

reasonable deployment of PTC, and Congress has to help us pay for it. Congress should enact a railroad tax credit *this year!*

So let's spend a few final minutes looking and dreaming about the future. To do this, I was "channeling" this guy named Warren Buffett the other day. As you are aware, he made a small bet of \$44 billion to buy our railroad. During the transaction, it came to the point where we were discussing how we should roll out the transaction announcement. I asked him if he had a communications department that we should work with on a quote that we could use. He told me that I was presently talking to the "communications department," and he had given some thought to the question. He told me that he believed that "this acquisition was a bet on the future of America." I said to him—"gee, Warren, I think that sounds great....."

So many people in this room have lived in the best of times as well as the worst of times in our industry. Assuming we all agree that rail renaissance is better than rail bankruptcy, how do we move forward? Well, let me throw a couple of guiding principles that might be obvious but are very important. The first is this issue in regard to economic regulation. Quite simply, the Staggers Act has been a whopping success because 25 years of economic *certainty* ensued after it was enacted. The rules of the game were settled, and players took the field.

As a result, this industry is so efficient that it represents a global competitive advantage for the United States.

Our private investments take pressure off of the public's pavement investment and take millions of trucks off of our nation's crowded highways.

Our rights-of-way facilitate the growing passenger traffic across the country.

Our pensions, employees and liabilities are secure and are not in any way the public's responsibility.

And, we've opened new markets to rail.

All of this can be directly laid at the door of the Staggers Act. Its various beneficiaries, who are not all railroads, would be wise to study it and speak out about it.

Over the last 25 years of developing the industry's stability, there have been some who want to change the oversight of the industry. And I do believe that some of that can happen without endangering the economic fundamentals of the railroad companies. It can actually improve the customers' trust in our business model, and therefore policy makers' trust in us. This is necessary if

railroads are to be at the table in other policy debates, such as climate change and surface transportation reauthorization, and to rationalize heavy-handed safety mandates. Warren puts all of this talk under what he refers to as our “social contract” with the country. The railroads need to make enough money to fulfill their destiny to provide capacity to move more of the nation’s freight.

Second, public officials are starting to ask “how do we get more rail capacity” and while we always start with the concept of balanced regulation, we are also having much broader discussions around tax policy, i.e., the dilemma of the highway trust fund as well as investment tax credits.

I see so many of my friends in the railway supply industry here tonight. I am keenly aware that your economic wellbeing is tied to ours. The economic downturn has been even harder on the supplier industry than the rail industry overall.

I think back to the 1999-2000 period when I was Chief Operating Officer. It was a terrible time for our suppliers; we saw many of them go out of business. Repeating this could have a negative impact on not just critical component availability, but technology development. That is the future of productivity in this industry, and we cannot take it for granted; we must work with our suppliers to protect it.

Plan A is, as always, maintaining a healthy Class I industry so that we can continue to reinvest, which spends money that goes to our suppliers.

Subpart One of Plan A is to have a unified voice for the supplier industry on Capitol Hill that can join with the freight rail industry in advocating for--or against--policies and proposals consistent with our interests. This is especially important right now.

Subpart Two of Plan A is to develop together a set of plans that help us both succeed. I feel certain that your industry will return that call to action.

As I look forward to the future, I feel very optimistic. I do see the challenges of the regulatory policy environment, and I also see other policy threats:

- climate legislation that discriminates against coal or hurts the underlying economy,
- continued taxpayer subsidization of heavy trucks,
- opportunities to be taxed and “fee’d,”
- More obligations and potential liabilities with regard to passenger rail--and nothing but “incremental” public funding commitments in return.

But, in spite of all of these threats, I believe we have such a compelling business value that public policy will eventually turn pro-active and be rail's biggest supporter. I will continue to work toward that optimistic vision--educating lawmakers, promoting the value of freight rail.

We are honored by this investment that Warren Buffett has made. Our leadership team is humbled by him asking us to operate our company. He has given me specific instructions on how to make decisions. Here they are, "run BNSF like it's your family business that you will lead for the next one hundred years" always erring on the long-term view remaining focused on the right investments, operating decisions, and leadership.... It's a good set of principles that we tried to do *before* the purchase. On the day our transaction closed, he called me to tell me he was looking forward to the first century of ownership of BNSF.

I want to thank *Railway Age* for this honor. I want to also thank each and every one of you here in the room tonight for your contributions to the rail industry and your friendship to me and BNSF.

We all have the good fortune to be associated with a great industry. The railroad allows us to provide essential products throughout North America efficiently and economically, while lessening environmental impacts, highway congestion and dependence on foreign oil. We can be proud of our role in improving the quality of life and making America more competitive. We share a rich, well-loved history and a great future. I am proud to be associated with you. Thank you.