

FIRST QUARTER 2017

Quarterly Financial Data



Finance Department
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NORFOLK SOUTHERN RAILWAY SYSTEM



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The accompanying unaudited financial information and summary of certain notes to the consolidated financial statements should be read in conjunction with: (a) the consolidated financial statements and notes included in Norfolk Southern Corporation's (NS, we, us and our) latest Annual Report on Form 10-K and in subsequent Quarterly Reports on Form 10-Q, and (b) any Current Reports on Form 8-K.

Any statements contained in this document which are not related to historical facts are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995, and NS undertakes no obligation to update such statements. Such forward-looking statements are subject to risks and uncertainties (the most significant of which are described in our SEC filings) which could cause actual results to differ materially.

Consolidated Statements of Income

(in millions, except per share amounts)

	First Quarter		
	2017	2016	% Change
Railway operating revenues			
Merchandise	\$ 1,584	\$ 1,549	2%
Intermodal	571	522	9%
Coal	420	349	20%
Total railway operating revenues	<u>2,575</u>	<u>2,420</u>	6%
Railway operating expenses			
Compensation and benefits	743	723	3%
Purchased services and rents	377	379	(1%)
Fuel	213	149	43%
Depreciation	259	252	3%
Materials and other	210	194	8%
Total railway operating expenses	<u>1,802</u>	<u>1,697</u>	6%
Income from railway operations	<u>773</u>	<u>723</u>	7%
Other income — net	24	16	50%
Interest expense on debt	142	139	2%
Income before income taxes	<u>655</u>	<u>600</u>	9%
Provision for income taxes			
Current	166	169	(2%)
Deferred	56	44	27%
Total income taxes	<u>222</u>	<u>213</u>	4%
Net income	<u>\$ 433</u>	<u>\$ 387</u>	12%
Earnings per share			
Basic	\$ 1.49	\$ 1.30	15%
Diluted	1.48	1.29	15%
Weighted average shares outstanding			
Basic	290.3	297.2	(2%)
Diluted	292.8	298.9	(2%)

Notes

1. Stock Repurchase Program

We repurchased and retired 1.7 million and 2.6 million shares of common stock under our stock repurchase program in the first quarters of 2017 and 2016, respectively, at a cost of \$200 million in each period. Since the beginning of 2006, we have repurchased and retired 162.0 million shares at a total cost of \$10.5 billion.

Consolidated Balance Sheets

(\$ in millions)

	March 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 955	\$ 956
Accounts receivable — net	998	945
Materials and supplies	281	257
Other current assets	93	133
Total current assets	2,327	2,291
Investments	2,809	2,777
Properties less accumulated depreciation of \$11,872 and \$11,737, respectively	29,927	29,751
Other assets	82	73
Total assets	\$ 35,145	\$ 34,892
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 1,211	\$ 1,215
Short-term debt	-	100
Income and other taxes	379	245
Other current liabilities	303	229
Current maturities of long-term debt	550	550
Total current liabilities	2,443	2,339
Long-term debt	9,569	9,562
Other liabilities	1,407	1,442
Deferred income taxes	9,199	9,140
Total liabilities	22,618	22,483
Stockholders' equity:		
Common stock \$1.00 per share par value, 1,350,000,000 shares authorized; outstanding 289,782,660 and 290,417,610 shares, respectively, net of treasury shares	291	292
Additional paid-in capital	2,228	2,179
Accumulated other comprehensive loss	(485)	(487)
Retained income	10,493	10,425
Total stockholders' equity	12,527	12,409
Total liabilities and stockholders' equity	\$ 35,145	\$ 34,892

Consolidated Statements of Cash Flows

(\$ in millions)

	First Quarter	
	2017	2016
Cash flows from operating activities		
Net income	\$ 433	\$ 387
Reconciliation of net income to net cash provided by operating activities:		
Depreciation	260	253
Deferred income taxes	56	44
Gains and losses on properties	(9)	(2)
Changes in assets and liabilities affecting operations:		
Accounts receivable	(53)	(15)
Materials and supplies	(24)	(44)
Other current assets	31	84
Current liabilities other than debt	188	200
Other — net	(36)	(28)
Net cash provided by operating activities	846	879
Cash flows from investing activities		
Property additions	(438)	(398)
Property sales and other transactions	35	12
Investment purchases	(2)	(23)
Investment sales and other transactions	1	1
Net cash used in investing activities	(404)	(408)
Cash flows from financing activities		
Dividends	(177)	(176)
Common stock transactions	34	(7)
Purchase and retirement of common stock	(200)	(200)
Debt repayments	(100)	(600)
Net cash used in financing activities	(443)	(983)
Net decrease in cash and cash equivalents	(1)	(512)
Cash and cash equivalents		
At beginning of year	956	1,101
At end of period	\$ 955	\$ 589
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest (net of amounts capitalized)	\$ 70	\$ 70
Income taxes (net of refunds)	12	2

Railway Operating Revenues Analysis

Commodity and Period	Revenues (S in millions)			Units (in thousands)			Revenue per Unit (S per unit)		
	2017	2016	% Change	2017	2016	% Change	2017	2016	% Change
First Quarter									
Chemicals	\$ 427	\$ 419	2%	118.6	120.6	(2%)	\$ 3,599	\$ 3,476	4%
Agriculture/consumer/gov't	384	386	(1%)	149.5	151.4	(1%)	2,568	2,550	1%
Metals and construction	340	300	13%	168.4	154.9	9%	2,020	1,934	4%
Automotive	246	254	(3%)	110.5	113.3	(2%)	2,221	2,241	(1%)
Paper/clay/forest	187	190	(2%)	70.6	73.0	(3%)	2,651	2,603	2%
Merchandise	1,584	1,549	2%	617.6	613.2	1%	2,564	2,526	2%
Intermodal	571	522	9%	969.4	929.1	4%	589	562	5%
Coal	420	349	20%	259.6	214.8	21%	1,617	1,626	(1%)
Total	\$ 2,575	\$ 2,420	6%	1,846.6	1,757.1	5%	1,394	1,378	1%

This area intentionally left blank; second quarter and year-to-date analyses will appear here next quarter.

Railway Operating Revenues Variance Analysis

(\$ in millions)

First Quarter
2017 vs. 2016

	Merchandise		Intermodal		Coal	
	Amount	Percent	Amount	Percent	Amount	Percent
Revenue Variance due to:						
Volume	\$ 11	1%	\$ 23	4%	\$ 73	21%
Fuel surcharge revenue	5	-	22	4%	4	1%
Rate, mix and other	19	1%	4	1%	(6)	(2%)
Total	<u>\$ 35</u>	<u>2%</u>	<u>\$ 49</u>	<u>9%</u>	<u>\$ 71</u>	<u>20%</u>

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year-to-date analysis will appear
here next quarter.

Coal Tonnage by Market

(in thousands)

	First Quarter		
	2017	2016	% Change
Utility	17,602	15,404	14%
Export	6,343	3,699	71%
Domestic metallurgical	3,367	2,959	14%
Industrial	1,471	1,675	(12%)
Total	<u>28,783</u>	<u>23,737</u>	<u>21%</u>

Intermodal Units by Market

(in thousands)

	First Quarter		
	2017	2016	% Change
Domestic	600.9	570.3	5%
International	368.5	358.8	3%
Total	<u>969.4</u>	<u>929.1</u>	<u>4%</u>

Financial, Traffic and Operating Statistics

(S in millions — except as noted)

	2016				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Railway operating revenues	\$ 2,420	\$ 2,454	\$ 2,524	\$ 2,490	\$ 9,888
Railway operating expenses:					
Compensation and benefits	723	667	691	662	2,743
Purchased services	300	309	312	321	1,242
Equipment rents	79	75	74	78	306
Fuel	149	174	181	194	698
Depreciation	252	257	258	259	1,026
Materials	80	91	102	91	364
Casualties and other claims	33	32	36	49	150
Other	81	79	50	75	285
Total railway operating expenses	1,697	1,684	1,704	1,729	6,814
Income from railway operations	723	770	820	761	3,074
Other income — net	16	4	29	22	71
Interest expense on debt	139	138	144	142	563
Income before income taxes	600	636	705	641	2,582
Total income taxes	213	231	245	225	914
Net income	\$ 387	\$ 405	\$ 460	\$ 416	\$ 1,668
Weighted average shares outstanding — diluted (in millions)	298.9	296.6	294.7	293.7	296.0
Earnings per share — diluted (dollars)	\$ 1.29	\$ 1.36	\$ 1.55	\$ 1.42	\$ 5.62
Dividends per share (dollars)	\$ 0.59	\$ 0.59	\$ 0.59	\$ 0.59	\$ 2.36
Railway operating ratio (percent)	70.1	68.6	67.5	69.4	68.9
Property additions	\$ 398	\$ 534	\$ 372	\$ 583	\$ 1,887
Cash, cash equivalents and short-term investments	\$ 589	\$ 866	\$ 984	\$ 956	\$ 956
Total debt	\$ 9,498	\$ 10,099	\$ 10,105	\$ 10,212	\$ 10,212
Total debt-to-total capitalization (percent)	43.7	45.1	44.9	45.1	45.1
Gross ton miles (GTMs) (in billions)	90.2	92.6	93.8	93.3	369.9
Revenue ton miles (in billions):					
Merchandise	28.8	29.2	29.1	28.3	115.4
Intermodal	9.6	10.5	10.7	10.7	41.5
Coal	7.7	7.7	8.9	9.3	33.6
Total	46.1	47.4	48.7	48.3	190.5
Railroad employees (average)	28,077	27,928	27,817	27,601	27,856
GTMs (thousands) per employee	3,213	3,315	3,374	3,380	13,280
Locomotive diesel fuel consumed (in thousands of gallons)	120,251	114,075	112,864	114,815	462,005
Average price (dollars) per gallon of locomotive diesel fuel	\$ 1.158	\$ 1.445	\$ 1.512	\$ 1.603	\$ 1.426
Gallons of fuel consumed per thousand GTMs	1.35	1.25	1.21	1.24	1.26
Train speed (miles per hour)	23.6	23.5	23.1	23.2	23.3
Terminal dwell (hours)	25.3	23.1	23.5	24.0	23.9

	2017					2017 vs. 2016				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to-date	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to-date
	\$ 2,575				\$ 2,575	\$ 155				\$ 155
	743				743	20				20
	304				304	4				4
	73				73	(6)				(6)
	213				213	64				64
	259				259	7				7
	92				92	12				12
	40				40	7				7
	78				78	(3)				(3)
	1,802				1,802	105				105
	773				773	50				50
	24				24	8				8
	142				142	3				3
	655				655	55				55
	222				222	9				9
	\$ 433				\$ 433	\$ 46				\$ 46
	292.8				292.8	(6.1)				(6.1)
	\$ 1.48				\$ 1.48	\$ 0.19				\$ 0.19
	\$ 0.61				\$ 0.61	\$ 0.02				\$ 0.02
	70.0				70.0	(0.1)				(0.1)
	\$ 438				\$ 438	\$ 40				\$ 40
	\$ 955				\$ 955	\$ 366				\$ 366
	\$ 10,119				\$ 10,119	\$ 621				\$ 621
	44.7				44.7	1.0				1.0
	94.6				94.6	5%				5%
	29.1				29.1	1%				1%
	10.2				10.2	6%				6%
	10.3				10.3	34%				34%
	49.6				49.6	8%				8%
	27,453				27,453	(2%)				(2%)
	3,447				3,447	7%				7%
	119,420				119,420	(1%)				(1%)
	\$ 1.690				\$ 1.690	46%				46%
	1.27				1.27	(6%)				(6%)
	22.7				22.7	(4%)				(4%)
	24.3				24.3	(4%)				(4%)



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