

FIRST QUARTER 2018

# Quarterly Financial Data



**NORFOLK  
SOUTHERN**

Finance Department  
Three Commercial Place  
Norfolk, Virginia 23510.2191



# Consolidated Statements of Income

(in millions, except per share amounts)

	First Quarter		
	2018	2017	% Change
<b>Railway operating revenues</b>			
Merchandise	\$ 1,605	\$ 1,584	1%
Intermodal	678	571	19%
Coal	434	420	3%
Total railway operating revenues	<u>2,717</u>	<u>2,575</u>	6%
<b>Railway operating expenses</b>			
Compensation and benefits	737	759	(3%)
Purchased services and rents	401	377	6%
Fuel	266	213	25%
Depreciation	272	259	5%
Materials and other	206	210	(2%)
Total railway operating expenses	<u>1,882</u>	<u>1,818</u>	4%
<b>Income from railway operations</b>	835	757	10%
Other income — net	8	40	(80%)
Interest expense on debt	136	142	(4%)
Income before income taxes	707	655	8%
Income taxes			
Current	110	166	(34%)
Deferred	45	56	(20%)
Total income taxes	<u>155</u>	<u>222</u>	(30%)
<b>Net income</b>	<u>\$ 552</u>	<u>\$ 433</u>	27%
<b>Earnings per share - diluted</b>	\$ 1.93	\$ 1.48	30%
<b>Weighted average shares outstanding - diluted</b>	285.9	292.8	(2%)

## Notes

### 1. Pension and Other Postretirement Benefits

We adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2017-07 on January 1, 2018. The retrospective application resulted in the reclassification of \$16 million of pension and other postretirement benefits from the "Compensation and benefits" line item within "Railway operating expenses" to "Other income — net" on the Consolidated Statements of Income for the quarter ended March 31, 2017.

### 2. Stock Repurchase Program

We repurchased and retired 2.1 million and 1.7 million shares of common stock under our stock repurchase program in the first quarters of 2018 and 2017, respectively, at a cost of \$300 million and \$200 million, respectively. Since the beginning of 2006, we have repurchased and retired 170.6 million shares at a total cost of \$11.6 billion.

## Consolidated Balance Sheets

(\$ in millions)

	March 31, 2018	December 31, 2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,072	\$ 690
Accounts receivable — net	973	955
Materials and supplies	245	222
Other current assets	189	282
Total current assets	2,479	2,149
Investments	3,020	2,981
Properties less accumulated depreciation of \$12,076 and \$11,909, respectively	30,396	30,330
Other assets	267	251
<b>Total assets</b>	\$ 36,162	\$ 35,711
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 1,217	\$ 1,401
Short-term debt	50	100
Income and other taxes	217	211
Other current liabilities	304	233
Current maturities of long-term debt	600	600
Total current liabilities	2,388	2,545
Long-term debt	9,637	9,136
Other liabilities	1,352	1,347
Deferred income taxes	6,367	6,324
<b>Total liabilities</b>	19,744	19,352
Stockholders' equity:		
Common stock \$1.00 per share par value, 1,350,000,000 shares authorized; outstanding 282,541,886 and 284,157,187 shares, respectively, net of treasury shares	284	285
Additional paid-in capital	2,255	2,254
Accumulated other comprehensive loss	(448)	(356)
Retained income	14,327	14,176
<b>Total stockholders' equity</b>	16,418	16,359
<b>Total liabilities and stockholders' equity</b>	\$ 36,162	\$ 35,711

### 3. Reclassification of Stranded Tax Effects

In February 2018, the FASB issued ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This update is intended to reclassify the stranded tax effects resulting from the Tax Cuts and Jobs Act that was enacted on December 22, 2017 from accumulated other comprehensive income to retained earnings. In the first quarter of 2018, we adopted the provisions of ASU 2018-02 resulting in an increase to "Accumulated other comprehensive loss" of \$88 million and a corresponding increase to "Retained income," with no impact on "Total stockholders' equity."

# Consolidated Statements of Cash Flows

(\$ in millions)

	First Quarter	
	2018	2017
<b>Cash flows from operating activities</b>		
Net income	\$ 552	\$ 433
Reconciliation of net income to net cash provided by operating activities:		
Depreciation	272	260
Deferred income taxes	45	56
Gains and losses on properties	(8)	(9)
Changes in assets and liabilities affecting operations:		
Accounts receivable	(26)	(53)
Materials and supplies	(23)	(24)
Other current assets	13	31
Current liabilities other than debt	12	188
Other — net	(21)	(36)
Net cash provided by operating activities	816	846
<b>Cash flows from investing activities</b>		
Property additions	(383)	(438)
Property sales and other transactions	13	35
Investment purchases	(2)	(2)
Investment sales and other transactions	1	1
Net cash used in investing activities	(371)	(404)
<b>Cash flows from financing activities</b>		
Dividends	(205)	(177)
Common stock transactions	(1)	34
Purchase and retirement of common stock	(300)	(200)
Proceeds from borrowings — net of issuance costs	543	-
Debt repayments	(100)	(100)
Net cash used in financing activities	(63)	(443)
Net increase (decrease) in cash and cash equivalents	382	(1)
<b>Cash and cash equivalents</b>		
At beginning of year	690	956
At end of period	\$ 1,072	\$ 955
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for:		
Interest (net of amounts capitalized)	\$ 69	\$ 70
Income taxes (net of refunds)	7	12

## Railway Operating Revenues Analysis

Commodity and Period	Revenues (S in millions)			Units (in thousands)			Revenue per Unit (S per unit)		
	2018	2017	% Change	2018	2017	% Change	2018	2017	% Change
<b>First Quarter</b>									
Chemicals	\$ 443	\$ 427	4%	120.8	118.6	2%	\$ 3,663	\$ 3,599	2%
Agriculture/consumer/gov't	393	384	2%	148.3	149.5	(1%)	2,650	2,568	3%
Metals and construction	338	340	(1%)	164.6	168.4	(2%)	2,053	2,020	2%
Automotive	243	246	(1%)	102.8	110.5	(7%)	2,362	2,221	6%
Paper/clay/forest	188	187	1%	69.6	70.6	(1%)	2,704	2,651	2%
Merchandise	1,605	1,584	1%	606.1	617.6	(2%)	2,647	2,564	3%
Intermodal	678	571	19%	1,049.2	969.4	8%	647	589	10%
Coal	434	420	3%	249.1	259.6	(4%)	1,743	1,617	8%
Total	\$ 2,717	\$ 2,575	6%	1,904.4	1,846.6	3%	1,427	1,394	2%

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  
2018 vs. 2017

	Merchandise		Intermodal		Coal	
	Amount	Percent	Amount	Percent	Amount	Percent
<b>Revenue Variance due to:</b>						
Volume	\$ (30)	(2%)	\$ 47	8%	\$ (17)	(4%)
Fuel surcharge revenue	18	1%	31	5%	2	-
Rate, mix and other	33	2%	29	5%	29	7%
Total	<u>\$ 21</u>	1%	<u>\$ 107</u>	19%	<u>\$ 14</u>	3%

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

## Coal Tonnage by Market

(in thousands)

	First Quarter		
	2018	2017	% Change
Utility	15,865	17,602	(10%)
Export	7,238	6,343	14%
Domestic metallurgical	3,147	3,367	(7%)
Industrial	1,260	1,471	(14%)
Total	<u>27,510</u>	<u>28,783</u>	(4%)

## Intermodal Units by Market

(in thousands)

	First Quarter		
	2018	2017	% Change
Domestic	671.7	600.9	12%
International	377.5	368.5	2%
Total	<u>1,049.2</u>	<u>969.4</u>	8%

## Financial, Traffic and Operating Statistics

(\$ in millions — except as noted)

	2017				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter (Non-GAAP)	Year (Non-GAAP)
Railway operating revenues	\$ 2,575	\$ 2,637	\$ 2,670	\$ 2,669	\$ 10,551
Railway operating expenses:					
Compensation and benefits	759	719	771	730	2,979
Purchased services	304	318	309	338	1,269
Equipment rents	73	74	68	81	296
Fuel	213	190	198	239	840
Depreciation	259	264	265	267	1,055
Materials	92	87	85	84	348
Casualties and other claims	40	35	39	31	145
Other	78	78	40	52	248
<b>Total railway operating expenses</b>	<b>1,818</b>	<b>1,765</b>	<b>1,775</b>	<b>1,822</b>	<b>7,180</b>
Income from railway operations	757	872	895	847	3,371
Other income — net	40	48	39	29	156
Interest expense on debt	142	140	134	134	550
Income before income taxes	655	780	800	742	2,977
Total income taxes	222	283	294	256	1,055
Net income	\$ 433	\$ 497	\$ 506	\$ 486	\$ 1,922
Weighted average shares outstanding — diluted (in millions)	292.8	291.2	289.5	287.8	290.3
Earnings per share — diluted (dollars)	\$ 1.48	\$ 1.71	\$ 1.75	\$ 1.69	\$ 6.61
Dividends per share (dollars)	\$ 0.61	\$ 0.61	\$ 0.61	\$ 0.61	\$ 2.44
Railway operating ratio (percent)	70.6	66.9	66.5	68.3	68.1
Property additions	\$ 438	\$ 445	\$ 432	\$ 408	\$ 1,723
Cash and cash equivalents	\$ 955	\$ 642	\$ 724	\$ 690	\$ 690
Total debt	\$ 10,119	\$ 9,873	\$ 9,880	\$ 9,836	\$ 9,836
Total debt-to-total capitalization (percent)	44.7	43.8	43.7	37.5	37.5
Gross ton miles (GTMs) (in billions)	94.6	96.5	96.6	96.1	383.8
Revenue ton miles (in billions):					
Merchandise	29.1	29.8	30.0	29.4	118.3
Intermodal	10.2	10.7	11.0	11.3	43.2
Coal	10.3	10.2	10.1	9.4	40.0
Total	49.6	50.7	51.1	50.1	201.5
Railroad employees (average)	27,453	27,088	26,761	26,520	26,955
GTMs (thousands) per employee	3,445	3,562	3,610	3,625	14,239
Locomotive diesel fuel consumed (in thousands of gallons)	119,420	111,331	110,972	116,456	458,179
Average price (dollars) per gallon of locomotive diesel fuel	\$ 1.690	\$ 1.609	\$ 1.697	\$ 1.950	\$ 1.738
Gallons of fuel consumed per thousand GTMs	1.27	1.16	1.16	1.22	1.20
Train speed (miles per hour)	22.7	21.5	21.7	20.5	21.6
Terminal dwell (hours)	24.3	25.1	24.9	26.8	25.3

Note: We adopted FASB ASU 2017-07 on January 1, 2018. The retrospective application resulted in the reclassification of \$16 million of pension and other postretirement benefits from the "Compensation and benefits" line item within "Railway operating expenses" to "Other income — net" on the Consolidated Statements of Income for each quarter of 2017, totaling \$64 million for the year. This reclassification resulted in a 60 basis point increase in each of the previously reported 2017 quarterly railway operating ratios and a 70 basis point increase in the previously reported full year 2017 railway operating ratio.

See reconciliation of non-GAAP financial measures on page 8.



2018					2018 vs. 2017				
First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to-date	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to-date
\$ 2,717				\$ 2,717	\$ 142				\$ 142
737				737	(22)				(22)
318				318	14				14
83				83	10				10
266				266	53				53
272				272	13				13
90				90	(2)				(2)
47				47	7				7
69				69	(9)				(9)
1,882				1,882	64				64
835				835	78				78
8				8	(32)				(32)
136				136	(6)				(6)
707				707	52				52
155				155	(67)				(67)
\$ 552				\$ 552	\$ 119				\$ 119
285.9				285.9	(6.9)				(6.9)
\$ 1.93				\$ 1.93	\$ 0.45				\$ 0.45
\$ 0.72				\$ 0.72	\$ 0.11				\$ 0.11
69.3				69.3	(1.3)				(1.3)
\$ 383				\$ 383	\$ (55)				\$ (55)
\$ 1,072				\$ 1,072	\$ 117				\$ 117
\$ 10,287				\$ 10,287	\$ 168				\$ 168
38.5				38.5	(6.2)				(6.2)
95.2				95.2	1%				1%
29.5				29.5	1%				1%
11.1				11.1	9%				9%
9.4				9.4	(9%)				(9%)
50.0				50.0	1%				1%
26,430				26,430	(4%)				(4%)
3,600				3,600	4%				4%
121,450				121,450	2%				2%
\$ 2.046				\$ 2.046	21%				21%
1.28				1.28	1%				1%
19.0				19.0	(16%)				(16%)
29.0				29.0	19%				19%

## Reconciliation of Non-GAAP Financial Measures

Information included within this First Quarter 2018 Quarterly Financial Data includes non-GAAP financial measures, as defined by SEC Regulation G. Non-GAAP financial measures should be considered in addition to, not as a substitute for, the financial measures reported in accordance with U.S. generally accepted accounting principles (GAAP).

### Consolidated Statements of Income - excluding Tax Reform\*

(in millions, except per share amounts)

	Fourth Quarter			Year Ended December 31,		
	2017 (GAAP)	Tax Reform*	Adjusted 2017 (Non-GAAP)	2017 (GAAP)	Tax Reform*	Adjusted 2017 (Non-GAAP)
<b>Railway operating revenues</b>						
Merchandise	\$ 1,576	\$ -	\$ 1,576	\$ 6,357	\$ -	\$ 6,357
Intermodal	667	-	667	2,452	-	2,452
Coal	426	-	426	1,742	-	1,742
Total railway operating revenues	<u>2,669</u>	<u>-</u>	<u>2,669</u>	<u>10,551</u>	<u>-</u>	<u>10,551</u>
<b>Railway operating expenses</b>						
Compensation and benefits	730	-	730	2,979	-	2,979
Purchased services	302	36	338	1,233	36	1,269
Equipment rents	(34)	115	81	181	115	296
Purchased services and rents	<u>268</u>	<u>151</u>	<u>419</u>	<u>1,414</u>	<u>151</u>	<u>1,565</u>
Fuel	239	-	239	840	-	840
Depreciation	267	-	267	1,055	-	1,055
Materials	84	-	84	348	-	348
Casualties and other claims	31	-	31	145	-	145
Other	52	-	52	248	-	248
Materials and other	<u>167</u>	<u>-</u>	<u>167</u>	<u>741</u>	<u>-</u>	<u>741</u>
Total railway operating expenses	<u>1,671</u>	<u>151</u>	<u>1,822</u>	<u>7,029</u>	<u>151</u>	<u>7,180</u>
<b>Income from railway operations</b>	998	(151)	847	3,522	(151)	3,371
Other income — net	29	-	29	156	-	156
Interest expense on debt	134	-	134	550	-	550
Income before income taxes	893	(151)	742	3,128	(151)	2,977
<b>Income taxes</b>						
Current	3	(5)	(2)	583	(5)	578
Deferred	(3,078)	3,336	258	(2,859)	3,336	477
Total income taxes	<u>(3,075)</u>	<u>3,331</u>	<u>256</u>	<u>(2,276)</u>	<u>3,331</u>	<u>1,055</u>
<b>Net income</b>	<u>\$ 3,968</u>	<u>\$ (3,482)</u>	<u>\$ 486</u>	<u>\$ 5,404</u>	<u>\$ (3,482)</u>	<u>\$ 1,922</u>
<b>Earnings per share - diluted</b>	\$ 13.79	\$ (12.10)	\$ 1.69	\$ 18.61	\$ (12.00)	\$ 6.61
<b>Railway operating ratio (%)</b>	62.6	5.7	68.3	66.6	1.5	68.1

\* GAAP financial results are adjusted to exclude the effects of the Tax Cuts and Jobs Act ("tax reform"), signed into law on December 22, 2017. Specifically, the adjustments remove the effects of remeasurements of net deferred tax liabilities related to the reduction of the federal tax rate from 35% to 21%.

The Company uses these non-GAAP financial measures internally and believes this information provides useful supplemental information to investors to facilitate making period-to-period comparisons by excluding the effects of tax reform. While the Company believes that these non-GAAP financial measures are useful in evaluating the Company's business, this information should be considered as supplemental in nature and is not meant to be considered in isolation or as a substitute for the related financial information prepared in accordance with GAAP. In addition, these non-GAAP financial measures may not be the same as similar measures presented by other companies.

Note: See page 6 for additional information regarding adoption of FASB ASU 2017-07.



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