

**Norfolk Southern Corporation and Subsidiaries**  
**Consolidated Statements of Income**  
(Unaudited)

**First Quarter**

**2018**

**2017**

*(\$ in millions, except per share amounts)*

**Railway operating revenues**

Merchandise	\$ 1,605	\$ 1,584
Intermodal	678	571
Coal	434	420
Total railway operating revenues	<u>2,717</u>	<u>2,575</u>

**Railway operating expenses**

Compensation and benefits	737	759
Purchased services and rents	401	377
Fuel	266	213
Depreciation	272	259
Materials and other	206	210

Total railway operating expenses	<u>1,882</u>	<u>1,818</u>
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<b>Income from railway operations</b>	835	757
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Other income – net	8	40
Interest expense on debt	136	142

Income before income taxes	707	655
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Income taxes

Current	110	166
Deferred	45	56
Total income taxes	<u>155</u>	<u>222</u>

<b>Net income</b>	<u>\$ 552</u>	<u>\$ 433</u>
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<b>Earnings per share – diluted</b>	\$ 1.93	\$ 1.48
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<b>Weighted average shares outstanding – diluted</b>	285.9	292.8
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*See accompanying notes to consolidated financial statements.*

**Norfolk Southern Corporation and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**  
(Unaudited)

	<b>First Quarter</b>	
	<b>2018</b>	<b>2017</b>
	<i>(\$ in millions)</i>	
<b>Net income</b>	\$ 552	\$ 433
Other comprehensive income (loss), before tax:		
Pension and other post retirement benefit (expense)	(7)	7
Other comprehensive income (loss) of equity investees	1	(2)
Other comprehensive income (loss), before tax	(6)	5
Income tax benefit (expense) related to items of other comprehensive income (loss)	2	(3)
Other comprehensive income (loss), net of tax	(4)	2
<b>Total comprehensive income</b>	\$ 548	\$ 435

*See accompanying notes to consolidated financial statements.*

**Norfolk Southern Corporation and Subsidiaries**  
**Consolidated Balance Sheets**  
(Unaudited)

	<b>March 31, 2018</b>	<b>December 31, 2017</b>
	<i>(\$ in millions)</i>	
<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

*See accompanying notes to consolidated financial statements.*

**Norfolk Southern Corporation and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
(Unaudited)

	<b>First Three Months</b>	
	<b>2018</b>	<b>2017</b>
	<i>(\$ in millions)</i>	
<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

*See accompanying notes to consolidated financial statements.*

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS:**

### **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.

### **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.”