

FIRST QUARTER 2019

# Quarterly Financial Data



**NORFOLK  
SOUTHERN**

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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		
	2019	2018	% Change
<b>Railway operating revenues</b>			
Merchandise	\$ 1,686	\$ 1,605	5%
Intermodal	719	678	6%
Coal	435	434	-
Total railway operating revenues	<u>2,840</u>	<u>2,717</u>	5%
<b>Railway operating expenses</b>			
Compensation and benefits	727	737	(1%)
Purchased services and rents	424	401	6%
Fuel	250	266	(6%)
Depreciation	283	272	4%
Materials and other	190	206	(8%)
Total railway operating expenses	<u>1,874</u>	<u>1,882</u>	-
<b>Income from railway operations</b>	<b>966</b>	<b>835</b>	<b>16%</b>
Other income — net	44	8	450%
Interest expense on debt	149	136	10%
Income before income taxes	<u>861</u>	<u>707</u>	22%
Income taxes			
Current	127	110	15%
Deferred	57	45	27%
Total income taxes	<u>184</u>	<u>155</u>	19%
<b>Net income</b>	<u>\$ 677</u>	<u>\$ 552</u>	23%
<b>Earnings per share — diluted</b>	<b>\$ 2.51</b>	<b>\$ 1.93</b>	<b>30%</b>
<b>Weighted average shares outstanding — diluted</b>	<b>269.4</b>	<b>285.9</b>	<b>(6%)</b>

## Notes

### 1. Stock Repurchase Program

We repurchased and retired 2.9 million shares and 2.1 million shares of common stock under our stock repurchase program in the first three months of 2019 and 2018, respectively, at a cost of \$500 million and \$300 million, respectively. Since the beginning of 2006, we have repurchased and retired 188.5 million shares at a total cost of \$14.6 billion.

## Consolidated Balance Sheets

(\$ in millions)

	March 31, 2019	December 31, 2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 411	\$ 358
Accounts receivable — net	1,048	1,009
Materials and supplies	228	207
Other current assets	235	288
<b>Total current assets</b>	<b>1,922</b>	<b>1,862</b>
Investments	3,198	3,109
Properties less accumulated depreciation of \$12,374 at both periods	31,158	31,091
Other assets	784	177
<b>Total assets</b>	<b>\$ 37,062</b>	<b>\$ 36,239</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 1,334	\$ 1,505
Short-term debt	250	-
Income and other taxes	338	255
Other current liabilities	378	246
Current maturities of long-term debt	585	585
<b>Total current liabilities</b>	<b>2,885</b>	<b>2,591</b>
Long-term debt	10,569	10,560
Other liabilities	1,759	1,266
Deferred income taxes	6,518	6,460
<b>Total liabilities</b>	<b>21,731</b>	<b>20,877</b>
Stockholders' equity:		
Common stock \$1.00 per share par value, 1,350,000,000 shares authorized; outstanding 265,967,039 and 268,098,472 shares, respectively, net of treasury shares	267	269
Additional paid-in capital	2,213	2,216
Accumulated other comprehensive loss	(560)	(563)
Retained income	13,411	13,440
<b>Total stockholders' equity</b>	<b>15,331</b>	<b>15,362</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 37,062</b>	<b>\$ 36,239</b>

### 2. Leases

On January 1, 2019, we adopted Financial Accounting Standards Board Accounting Standards Update 2016-02, "Leases (Topic 842)" which requires lessees to recognize right-of-use (ROU) assets and lease liabilities on the balance sheet for leases greater than twelve months. As a result of the adoption, the Consolidated Balance Sheet at March 31, 2019 includes the recognition of ROU assets of \$593 million included in "Other assets," current lease liabilities of \$93 million included in "Other current liabilities," and non-current lease liabilities of \$500 million included in "Other liabilities."

# Consolidated Statements of Cash Flows

(\$ in millions)

	First Three Months	
	2019	2018
<b>Cash flows from operating activities</b>		
Net income	\$ 677	\$ 552
Reconciliation of net income to net cash provided by operating activities:		
Depreciation	283	272
Deferred income taxes	57	45
Gains and losses on properties	(18)	(8)
Changes in assets and liabilities affecting operations:		
Accounts receivable	(39)	(26)
Materials and supplies	(21)	(23)
Other current assets	12	13
Current liabilities other than debt	(27)	12
Other — net	(43)	(21)
Net cash provided by operating activities	881	816
<b>Cash flows from investing activities</b>		
Property additions	(467)	(383)
Property sales and other transactions	152	13
Investment purchases	(2)	(2)
Investment sales and other transactions	(33)	1
Net cash used in investing activities	(350)	(371)
<b>Cash flows from financing activities</b>		
Dividends	(230)	(205)
Common stock transactions	2	(1)
Purchase and retirement of common stock	(500)	(300)
Proceeds from borrowings — net of issuance costs	250	543
Debt repayments	-	(100)
Net cash used in financing activities	(478)	(63)
Net increase in cash, cash equivalents, and restricted cash	53	382
<b>Cash, cash equivalents, and restricted cash</b>		
At beginning of year	446	690
At end of period	\$ 499	\$ 1,072
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for:		
Interest (net of amounts capitalized)	\$ 112	\$ 69
Income taxes (net of refunds)	9	7

### 3. Restricted Cash

The "Cash, cash equivalents, and restricted cash" line item includes restricted cash of \$88 million at March 31, 2019 and December 31, 2018, reflecting deposits held by a third-party bond agent as collateral for certain debt obligations maturing in 2019. The restricted cash balance is included as part of "Other current assets" on the Consolidated Balance Sheets in both periods.

## Railway Operating Revenues Analysis

Commodity and Period	Revenues (S in millions)			Units (in thousands)			Revenue per Unit (S per unit)		
	2019	2018	% Change	2019	2018	% Change	2019	2018	% Change
<b>First Quarter</b>									
Chemicals	\$ 452	\$ 454	-	125.9	126.6	(1%)	\$ 3,587	\$ 3,585	-
Agriculture products	385	357	8%	130.9	129.9	1%	2,945	2,744	7%
Metals and construction	385	356	8%	173.9	175.9	(1%)	2,217	2,023	10%
Automotive	251	243	3%	98.1	102.8	(5%)	2,557	2,362	8%
Forest and consumer	213	195	9%	69.4	70.9	(2%)	3,070	2,755	11%
Merchandise	1,686	1,605	5%	598.2	606.1	(1%)	2,819	2,647	6%
Intermodal	719	678	6%	1,071.0	1,049.2	2%	671	647	4%
Coal	435	434	-	236.3	249.1	(5%)	1,839	1,743	6%
<b>Total</b>	<b>\$ 2,840</b>	<b>\$ 2,717</b>	<b>5%</b>	<b>1,905.5</b>	<b>1,904.4</b>	<b>-</b>	<b>1,490</b>	<b>1,427</b>	<b>4%</b>

At the beginning of 2019, in order to better align major commodity groups with our overall business strategy, we made changes in the categorization of certain commodity groups within Merchandise. Prior period amounts have been reclassified to conform to the current presentation with no net impact to overall Merchandise revenue or total railway operating revenues. Specifically, certain commodities were shifted between Chemicals, Agriculture products, Metals and construction, and Forest and consumer.

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## Railway Operating Revenues Variance Analysis

(\$ in millions)

First Quarter  
2019 vs. 2018

	Merchandise		Intermodal		Coal	
	Amount	Percent	Amount	Percent	Amount	Percent
<b>Revenue Variance due to:</b>						
Volume	\$ (21)	(1%)	\$ 14	2%	\$ (22)	(5%)
Fuel surcharge revenue	14	1%	9	1%	(1)	-
Rate, mix and other	88	5%	18	3%	24	6%
Total	<u>\$ 81</u>	5%	<u>\$ 41</u>	6%	<u>\$ 1</u>	-

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

## Intermodal Units by Market

(in thousands)

	First Quarter		
	2019	2018	% Change
Domestic	656.3	671.7	(2%)
International	414.7	377.5	10%
Total	<u>1,071.0</u>	<u>1,049.2</u>	2%

## Coal Tonnage by Market

(in thousands)

	First Quarter		
	2019	2018	% Change
Utility	15,755	15,865	(1%)
Export	6,388	7,238	(12%)
Domestic metallurgical	2,931	3,147	(7%)
Industrial	1,222	1,260	(3%)
Total	<u>26,296</u>	<u>27,510</u>	(4%)

## Financial, Traffic and Operating Statistics

(\$ in millions — except as noted)

	2018				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Railway operating revenues	\$ 2,717	\$ 2,898	\$ 2,947	\$ 2,896	\$ 11,458
Railway operating expenses:					
Compensation and benefits	737	706	725	757	2,925
Purchased services	318	342	347	360	1,367
Equipment rents	83	88	103	89	363
Fuel	266	272	274	275	1,087
Depreciation	272	273	276	281	1,102
Materials	90	92	95	85	362
Casualties and other claims	47	38	46	45	176
Other	69	61	61	(74)	117
<b>Total railway operating expenses</b>	<b>1,882</b>	<b>1,872</b>	<b>1,927</b>	<b>1,818</b>	<b>7,499</b>
Income from railway operations	835	1,026	1,020	1,078	3,959
Other income — net	8	29	30	-	67
Interest expense on debt	136	131	142	148	557
Income before income taxes	707	924	908	930	3,469
Total income taxes	155	214	206	228	803
Net income	\$ 552	\$ 710	\$ 702	\$ 702	\$ 2,666
Weighted average shares outstanding — diluted (in millions)	285.9	283.7	278.2	273.5	280.2
Earnings per share — diluted (dollars)	\$ 1.93	\$ 2.50	\$ 2.52	\$ 2.57	\$ 9.51
Dividends per share (dollars)	\$ 0.72	\$ 0.72	\$ 0.80	\$ 0.80	\$ 3.04
Railway operating ratio (percent)	69.3	64.6	65.4	62.8	65.4
Property additions	\$ 383	\$ 453	\$ 490	\$ 625	\$ 1,951
Cash and cash equivalents	\$ 1,072	\$ 430	\$ 729	\$ 358	\$ 358
Total debt	\$ 10,287	\$ 9,646	\$ 11,135	\$ 11,145	\$ 11,145
Total debt-to-total capitalization (percent)	38.5	36.8	41.8	42.0	42.0
Gross ton miles (GTMs) (in billions)	95.2	100.8	101.3	97.6	394.9
Revenue ton miles (in billions):					
Merchandise	29.5	31.5	31.5	29.7	122.2
Intermodal	11.1	11.7	11.8	11.8	46.4
Coal	9.4	10.0	10.0	9.4	38.8
Total	50.0	53.2	53.3	50.9	207.4
Railroad employees (average)	26,430	26,535	26,444	26,638	26,512
GTMs (thousands) per employee	3,600	3,800	3,833	3,661	14,894
Locomotive diesel fuel consumed (in thousands of gallons)	121,450	116,754	115,320	118,244	471,768
Average price (dollars) per gallon of locomotive diesel fuel	\$ 2.046	\$ 2.215	\$ 2.263	\$ 2.201	\$ 2.180
Gallons of fuel consumed per thousand GTMs	1.28	1.17	1.14	1.22	1.20
Train speed (miles per hour)	19.0	18.4	19.5	19.3	19.1
Terminal dwell (hours)	29.0	28.7	26.8	25.9	27.6



2019					2019 vs. 2018				
First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to-date	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to-date
\$ 2,840				\$ 2,840	\$ 123				\$ 123
727				727	(10)				(10)
346				346	28				28
78				78	(5)				(5)
250				250	(16)				(16)
283				283	11				11
87				87	(3)				(3)
49				49	2				2
54				54	(15)				(15)
1,874				1,874	(8)				(8)
966				966	131				131
44				44	36				36
149				149	13				13
861				861	154				154
184				184	29				29
\$ 677				\$ 677	\$ 125				\$ 125
269.4				269.4	(16.5)				(16.5)
\$ 2.51				\$ 2.51	\$ 0.58				\$ 0.58
\$ 0.86				\$ 0.86	\$ 0.14				\$ 0.14
66.0				66.0	(3.3)				(3.3)
\$ 467				\$ 467	\$ 84				\$ 84
\$ 411				\$ 411	\$ (661)				\$ (661)
\$ 11,404				\$ 11,404	\$ 1,117				\$ 1,117
42.7				42.7	4.2				4.2
94.4				94.4	(1%)				(1%)
29.1				29.1	(1%)				(1%)
11.2				11.2	1%				1%
9.0				9.0	(4%)				(4%)
49.3				49.3	(1%)				(1%)
26,257				26,257	(1%)				(1%)
3,596				3,596	-				-
119,810				119,810	(1%)				(1%)
\$ 1.960				\$ 1.960	(4%)				(4%)
1.28				1.28	-				-
21.7				21.7	14%				14%
22.2				22.2	(23%)				(23%)

# 2019

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