



2020

QUARTERLY FINANCIAL DATA

Q1





NORFOLK SOUTHERN RAILWAY SYSTEM

INVESTOR INQUIRIES: PETE SHARBEL, 470-867-4807

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

	2020 (GAAP)	2020 excluding impact of charge (Non-GAAP ¹)	2019	% Change (Non-GAAP)
Railway operating revenues				
Merchandise	\$ 1,672	\$ 1,672	\$ 1,686	(1%)
Intermodal	655	655	719	(9%)
Coal	298	298	435	(31%)
Total railway operating revenues	<u>2,625</u>	<u>2,625</u>	<u>2,840</u>	(8%)
Railway operating expenses				
Compensation and benefits	622	622	727	(14%)
Purchased services and rents	403	403	424	(5%)
Fuel	189	189	250	(24%)
Depreciation	292	292	283	3%
Materials and other	166	166	190	(13%)
Loss on asset disposal	385	— ¹	—	—%
Total railway operating expenses	<u>2,057</u>	<u>1,672</u> ¹	<u>1,874</u>	(11%)
Income from railway operations	568	953 ¹	966	(1%)
Other income – net	22	22	44	(50%)
Interest expense on debt	154	154	149	3%
Income before income taxes	436	821 ¹	861	(5%)
Income taxes				
Current	44	46 ¹	127	(64%)
Deferred	11	106 ¹	57	86%
Total income taxes	<u>55</u>	<u>152</u> ¹	<u>184</u>	(17%)
Net income	<u>\$ 381</u>	<u>\$ 669</u> ¹	<u>\$ 677</u>	(1%)
Railway operating ratio (%)	78.4	63.7 ¹	66.0	(3%)
Earnings per share – diluted	\$ 1.47	\$ 2.58 ¹	\$ 2.51	3%

Notes

1. Loss on Asset Disposal

In the first quarter of 2020, we committed to a plan to dispose of certain locomotives deemed excess and no longer needed for railroad operations. Specifically, during the first quarter of 2020, the Company recorded a charge related to the loss on the sale of approximately 300 locomotives disposed of in the first quarter, and a write-down of approximately 400 additional locomotives that we are actively marketing to sell. Accordingly, a \$385 million loss was recorded to adjust their carrying amount to their estimated fair value. These amounts have been reflected on a non-GAAP basis. See the Reconciliation of Non-GAAP Financial Measures and explanation on page 8.

2. Stock Repurchase Program

We repurchased and retired 2.6 million and 2.9 million shares of common stock under our stock repurchase program during the first three months of 2020 and 2019, respectively, at a cost of \$466 million and \$500 million, respectively.

Consolidated Balance Sheets

(\$ in millions)

	<u>March 31, 2020</u>	<u>December 31, 2019</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 608	\$ 580
Accounts receivable – net	889	920
Materials and supplies	265	244
Other current assets	<u>240</u>	<u>337</u>
Total current assets	2,002	2,081
Investments	3,470	3,428
Properties less accumulated depreciation of \$11,794 and \$11,982, respectively	31,179	31,614
Other assets	<u>787</u>	<u>800</u>
Total assets	<u>\$ 37,438</u>	<u>\$ 37,923</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 1,284	\$ 1,428
Income and other taxes	200	229
Other current liabilities	352	327
Current maturities of long-term debt	<u>400</u>	<u>316</u>
Total current liabilities	2,236	2,300
Long-term debt	11,807	11,880
Other liabilities	1,683	1,744
Deferred income taxes	<u>6,828</u>	<u>6,815</u>
Total liabilities	22,554	22,739
Stockholders' equity:		
Common stock \$1.00 per share par value, 1,350,000,000 shares authorized; outstanding 256,179,130 and 257,904,956 shares, respectively, net of treasury shares	258	259
Additional paid-in capital	2,205	2,209
Accumulated other comprehensive loss	(481)	(491)
Retained income	<u>12,902</u>	<u>13,207</u>
Total stockholders' equity	<u>14,884</u>	<u>15,184</u>
Total liabilities and stockholders' equity	<u>\$ 37,438</u>	<u>\$ 37,923</u>

Consolidated Statement of Cash Flows

(\$ in millions)

	First Three Months	
	2020	2019
Cash flows from operating activities		
Net income	\$ 381	\$ 677
Reconciliation of net income to net cash provided by operating activities:		
Depreciation	292	283
Deferred income taxes	11	57
Gains and losses on properties	(8)	(18)
Loss on asset disposal	385	—
Changes in assets and liabilities affecting operations:		
Accounts receivable	32	(39)
Materials and supplies	(21)	(21)
Other current assets	(33)	12
Current liabilities other than debt	(40)	(27)
Other – net	(44)	(43)
Net cash provided by operating activities	<u>955</u>	<u>881</u>
Cash flows from investing activities		
Property additions	(366)	(467)
Property sales and other transactions	158	152
Investment purchases	—	(2)
Investment sales and other transactions	(25)	(33)
Net cash used in investing activities	<u>(233)</u>	<u>(350)</u>
Cash flows from financing activities		
Dividends	(242)	(230)
Common stock transactions	14	2
Purchase and retirement of common stock	(466)	(500)
Proceeds from borrowings	—	250
Net cash used in financing activities	<u>(694)</u>	<u>(478)</u>
Net increase in cash, cash equivalents, and restricted cash	28	53
Cash, cash equivalents, and restricted cash		
At beginning of year	<u>580</u>	<u>446</u>
At end of period	<u>\$ 608</u>	<u>\$ 499</u>
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest (net of amounts capitalized)	\$ 121	\$ 112
Income taxes (net of refunds)	16	9

3. Restricted Cash

The "Cash, cash equivalents, and restricted cash" line item includes restricted cash of \$88 million in 2019, reflecting deposits held by a third-party bond agent as collateral for certain debt obligations which matured on October 1, 2019.

Railway Operating Revenues Analysis

Commodity and Period	Revenues (\$ in millions)			Units (in thousands)			Revenue per Unit (\$ per unit)		
	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change
First Quarter									
Agriculture, forest and consumer products	\$ 551	\$ 558	(1%)	181.5	190.7	(5%)	\$ 3,036	\$ 2,927	4%
Chemicals	520	507	3%	142.3	145.0	(2%)	3,653	3,495	5%
Metals and construction	367	370	(1%)	154.9	164.4	(6%)	2,370	2,255	5%
Automotive	234	251	(7%)	90.4	98.1	(8%)	2,593	2,557	1%
Merchandise	1,672	1,686	(1%)	569.1	598.2	(5%)	2,939	2,819	4%
Intermodal	655	719	(9%)	955.1	1,071.0	(11%)	685	671	2%
Coal	298	435	(31%)	163.5	236.3	(31%)	1,826	1,839	(1%)
Total	<u>\$ 2,625</u>	<u>\$ 2,840</u>	(8%)	<u>1,687.7</u>	<u>1,905.5</u>	(11%)	1,556	1,490	4%

At the beginning of 2020, we combined the agriculture products and forest and consumer commodity groups. In addition, we also made changes in the categorization of certain other commodity groups within Merchandise. Specifically, certain commodities were shifted between agriculture, forest, and consumer products; chemicals; and metals and construction. These changes were made as a result of organizational initiatives to better align with how we manage these commodities. Prior period railway operating revenues, units and revenue per unit have been reclassified to conform to the current presentation.

Railway Operating Revenues Variance Analysis

(\$ in millions)

First Quarter 2020 vs. 2019

	Merchandise		Intermodal		Coal	
	Amount	Percent	Amount	Percent	Amount	Percent
Revenue Variance due to:						
Volume	\$ (82)	(5%)	\$ (78)	(11%)	\$ (134)	(31%)
Fuel surcharge revenue	(6)	—	(10)	(1%)	(6)	(1%)
Rate, mix and other	74	4%	24	3%	3	1%
Total	<u>\$ (14)</u>	(1%)	<u>\$ (64)</u>	(9%)	<u>\$ (137)</u>	(31%)

Intermodal Units by Market

(in thousands)

	First Quarter		
	2020	2019	% Change
Domestic	598.3	656.3	(9%)
International	356.8	414.7	(14%)
Total	<u>955.1</u>	<u>1,071.0</u>	(11%)

Coal Tonnage by Market

(in thousands)

	First Quarter		
	2020	2019	% Change
Utility	8,898	15,755	(44%)
Export	6,069	6,388	(5%)
Domestic metallurgical	2,276	2,931	(22%)
Industrial	981	1,222	(20%)
Total	<u>18,224</u>	<u>26,296</u>	(31%)

Financial, Traffic and Operating Statistics

(\$ in millions - except as noted)

	2019					2020					Increase (Decrease) 2020 vs. 2019				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year	First Quarter (Non-GAAP)	Second Quarter	Third Quarter	Fourth Quarter	Year-to-date (Non-GAAP)	First Quarter (Non-GAAP)	Second Quarter	Third Quarter	Fourth Quarter	Year-to-date (Non-GAAP)
Railway operating revenues	\$ 2,840	\$ 2,925	\$ 2,841	\$ 2,690	\$ 11,296	\$ 2,625				\$ 2,625	\$ (215)				\$ (215)
Railway operating expenses:															
Compensation and benefits	727	712	682	630	2,751	622				622	(105)				(105)
Purchased services	346	347	355	386	1,434	321				321	(25)				(25)
Equipment rents	78	71	68	74	291	82				82	4				4
Fuel	250	254	226	223	953	189				189	(61)				(61)
Depreciation	283	284	286	285	1,138	292				292	9				9
Materials	87	82	85	73	327	72				72	(15)				(15)
Claims	49	50	48	46	193	42				42	(7)				(7)
Other	54	60	95	11	220	52				52	(2)				(2)
Total railway operating expenses	1,874	1,860	1,845	1,728	7,307	1,672				1,672	(202)				(202)
Income from railway operations	966	1,065	996	962	3,989	953				953	(13)				(13)
Other income – net	44	22	22	18	106	22				22	(22)				(22)
Interest expense on debt	149	153	150	152	604	154				154	5				5
Income before income taxes	861	934	868	828	3,491	821				821	(40)				(40)
Total income taxes	184	212	211	162	769	152				152	(32)				(32)
Net income	\$ 677	\$ 722	\$ 657	\$ 666	\$ 2,722	\$ 669				\$ 669	\$ (8)				\$ (8)
Weighted average shares outstanding – diluted (in millions)	269.4	267.1	264.3	261.6	265.6	258.7				258.7	(10.7)				(10.7)
Earnings per share – diluted (dollars)	\$ 2.51	\$ 2.70	\$ 2.49	\$ 2.55	\$ 10.25	\$ 2.58				\$ 2.58	\$ 0.07				\$ 0.07
Dividends per share (dollars)	\$ 0.86	\$ 0.86	\$ 0.94	\$ 0.94	\$ 3.60	\$ 0.94				\$ 0.94	\$ 0.08				\$ 0.08
Railway operating ratio (percent)	66.0	63.6	64.9	64.2	64.7	63.7				63.7	(2.3)				(2.3)
Property additions	\$ 467	\$ 512	\$ 515	\$ 525	\$ 2,019	\$ 366				\$ 366	\$ (101)				\$ (101)
Cash and cash equivalents	\$ 411	\$ 274	\$ 452	\$ 580	\$ 580	\$ 608				\$ 608	\$ 197				\$ 197
Total debt	\$ 11,404	\$ 11,477	\$ 11,836	\$ 12,196	\$ 12,196	\$ 12,207				\$ 12,207	\$ 803				\$ 803
Total debt-to-total capitalization (percent)	42.7	42.8	43.7	44.5	44.5	45.1				45.1	2.4				2.4
Gross ton miles (GTMs) (in billions)	94.5	97.4	92.4	88.4	372.7	84.9				84.9	(10%)				(10%)
Revenue ton miles (in billions):															
Merchandise	29.1	30.6	29.0	27.1	115.8	27.3				27.3	(6%)				(6%)
Intermodal	11.2	11.0	10.9	10.6	43.7	10.3				10.3	(8%)				(8%)
Coal	9.0	9.6	8.2	7.7	34.5	6.2				6.2	(31%)				(31%)
Total	49.3	51.2	48.1	45.4	194.0	43.8				43.8	(11%)				(11%)
Railroad employees (average)	26,257	25,033	24,002	22,478	24,442	21,232				21,232	(19%)				(19%)
GTMs (thousands) per employee	3,599	3,893	3,849	3,931	15,248	4,000				4,000	11%				11%
Locomotive diesel fuel consumed (in thousands of gallons)	119,810	115,731	109,565	105,494	450,600	102,261				102,261	(15%)				(15%)
Average price (dollars) per gallon of locomotive diesel fuel	\$ 1.960	\$ 2.079	\$ 1.958	\$ 1.992	\$ 1.998	\$ 1.732				\$ 1.732	(12%)				(12%)
Gallons of fuel consumed per thousand GTMs	1.28	1.20	1.19	1.20	1.22	1.22				1.22	(5%)				(5%)
Train speed (miles per hour)	21.7	21.9	22.6	23.0	22.3	23.8				23.8	10%				10%
Terminal dwell (hours)	22.2	18.2	18.1	18.3	19.2	18.6				18.6	(16%)				(16%)

Reconciliation of Non-GAAP Financial Measures

Information included within this First Quarter 2020 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 Loss on asset disposal¹

(\$ in millions except per share amounts)

	First Quarter		
	2020 (GAAP)	Loss on asset disposal ¹	Adjusted 2020 (Non-GAAP)
Total railway operating expenses	\$ 2,057	\$ (385)	\$ 1,672
Income from railway operations	\$ 568	\$ 385	\$ 953
Income before income taxes	\$ 436	\$ 385	\$ 821
Total income taxes	\$ 55	\$ 97	\$ 152
Net income	\$ 381	\$ 288	\$ 669
Railway operating ratio (%)	78.4	(14.7)	63.7
Earnings per share – diluted	\$ 1.47	\$ 1.11	\$ 2.58

¹ GAAP financial results are adjusted to exclude the effects of the \$385 million loss on asset disposal. For additional information see Note 1 on the Consolidated Statements of Income on page 1 of the Quarterly Financial Data.

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 the 2020 loss on asset disposal. 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.



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