



# Second Quarter Earnings Conference Call

July 27, 2016

# Forward-Looking Statements

Certain statements in this presentation are forward-looking statements within the meaning of the safe harbor provision of the Private Securities Litigation Reform Act of 1995, as amended. In some cases, forward-looking statements may be identified by the use of words like “believe,” “expect,” “anticipate,” “estimate,” “plan,” “consider,” “project,” and similar references to the future. Forward-looking statements are made as of the date they were first issued and reflect the good-faith evaluation of Norfolk Southern Corporation’s (NYSE: NSC) (“Norfolk Southern” or the “Company”) management of information currently available. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company’s control. These and other important factors, including those discussed under “Risk Factors” in the Company’s Form 10-K for the year ended December 31, 2015, as well as the Company’s other public filings with the SEC, may cause our actual results, performance or achievement to differ materially from those expressed or implied by these forward-looking statements. Forward-looking statements are not, and should not be relied upon as, a guarantee of future performance or results, nor will they necessarily prove to be accurate indications of the times at or by which any such performance or results will be achieved. As a result, actual outcomes and results may differ materially from those expressed in forward-looking statements. We undertake no obligation to update or revise forward-looking statements, whether as a result of new information, the occurrence of certain events or otherwise, unless otherwise required by applicable securities law.



# Second Quarter and First Half Highlights

July 27, 2016

*James A. Squires  
Chairman, President, and  
Chief Executive Officer*

# First Half 2016 Update

*Cost discipline balanced with excellent service*

- Earnings per Share
  - Second quarter \$1.36, 4% below prior year
  - First half \$2.65, 10% above prior year
- Operating Ratio
  - Second quarter 68.6%, improved 140 basis points, or 2%
  - Record first half 69.4%, improved 370 basis points, or 5%
- Composite Service Metric
  - Second quarter improved 13%
  - First half improved 18%

# Strategic Plan

*NS' agility and dynamic plan provide shareholder value*

- NS is on track to deliver 2016 plan results
  - Productivity savings  $\geq$  \$200 million
  - Operating ratio below 70%
  
- Dynamic strategic plan provides shareholder value
  - Productivity savings and top line growth
  - Operating ratio below 65% by 2020
  - EPS double digit compound annual growth rate by 2020
  - Returning capital to shareholders



# Second Quarter 2016 Marketing Overview

July 27, 2016

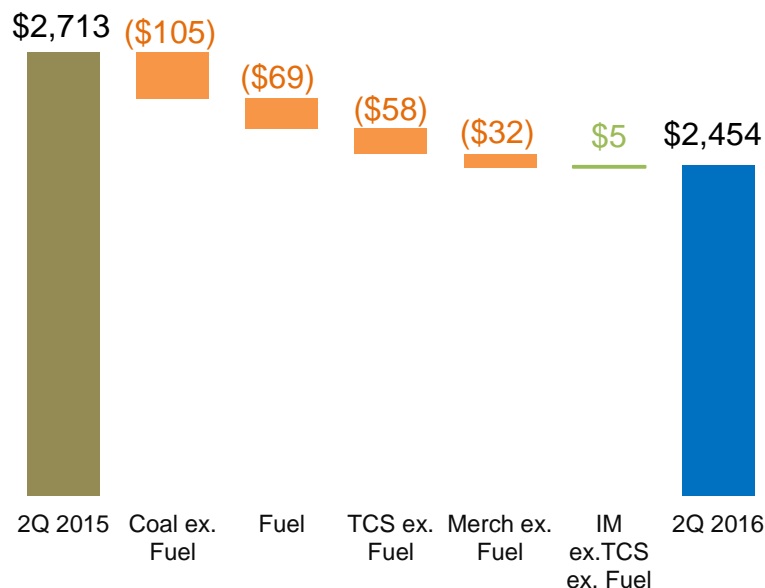
*Alan H. Shaw*  
*Executive Vice President*  
*and Chief Marketing Officer*

# Railway Operating Revenue

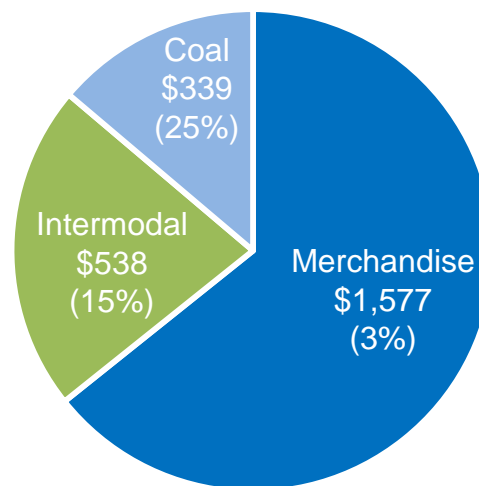
## Second Quarter 2016 vs. 2015

Revenue	RPU	RPU Less Fuel <sup>(1)</sup>	Volume
\$2.5 Billion	\$1,362	\$1,335	1,800,500 units
down (10%)	down (3%)	flat	down (7%)

Revenue Change in \$ <sup>(1,2)</sup>



Revenue \$ <sup>(2)</sup> & Y-o-Y Percent Change



1. Please see reconciliation to GAAP posted on our website.
2. In millions.

*Challenging economic conditions across most markets*



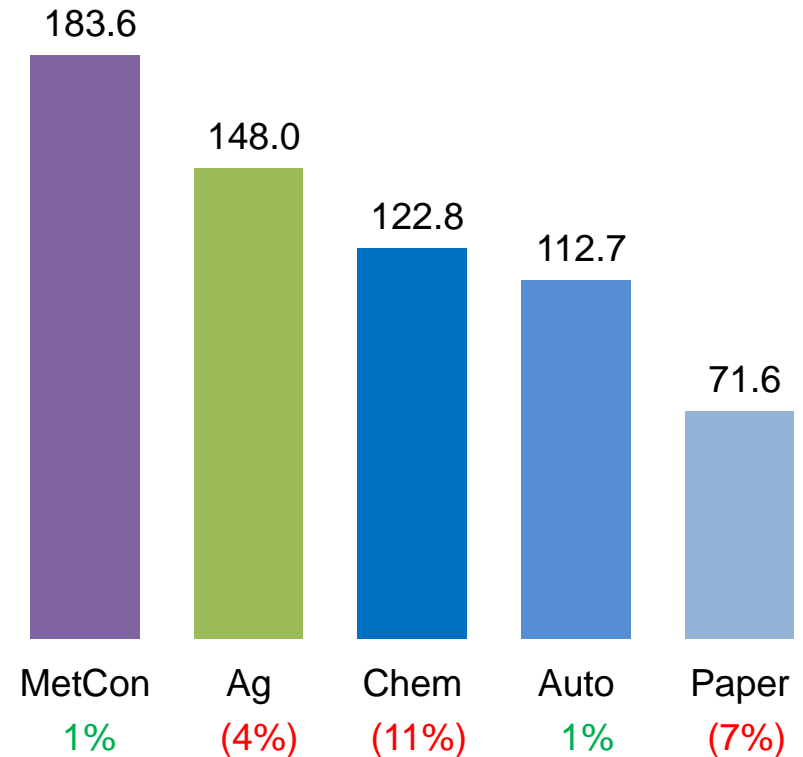
# Merchandise Market

## Second Quarter 2016 vs. 2015

### Reductions in crude oil, corn and feed markets

<b>Revenue</b>	\$1,577 Million	↓	(3%)
<b>Volume</b>	638,700	↓	(3%)
<b>RPU</b>	\$2,469		flat
<b>Less Fuel</b>			
<b>Revenue</b>	\$1,575 Million <sup>(1)</sup>	↓	(2%)
<b>RPU</b>	\$2,467 <sup>(1)</sup>	↑	2%

Units (000's) & Y-o-Y Percent Change



1. Please see reconciliation to GAAP posted on our website.



# Intermodal Market

## Second Quarter 2016 vs. 2015

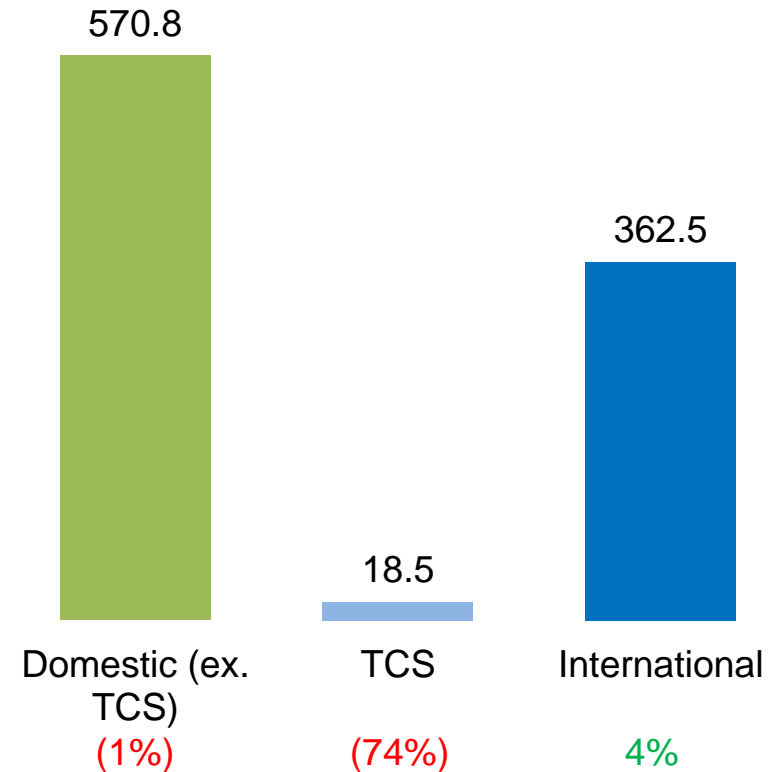
*Increased truck capacity and weaker import/export conditions impacted volume*

Revenue	\$538 Million	↓ (15%)
Volume	951,800	↓ (5%)
RPU	\$565	↓ (11%)
<b>Less Fuel</b>		
Revenue	\$493 Million <sup>(1)</sup>	↓ (10%)
RPU	\$518 <sup>(1)</sup>	↓ (5%)

### Excluding Triple Crown

Revenue	\$519 Million <sup>(1)</sup>	↓ (4%)
Volume	933,300	↑ 1%
RPU	\$556 <sup>(1)</sup>	↓ (5%)
<b>Less Fuel</b>		
Revenue	\$477 Million <sup>(1)</sup>	↑ 1%
RPU	\$511 <sup>(1)</sup>	↑ 1%

### Units (000's) & Y-o-Y Percent Change



1. Please see reconciliation to GAAP posted on our website.

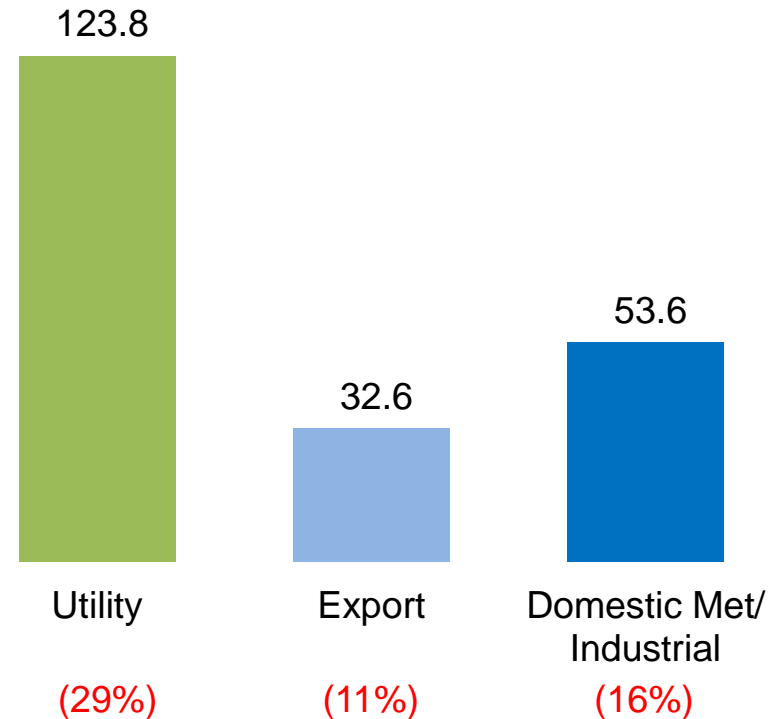
# Coal Market

## Second Quarter 2016 vs. 2015

*Sustained low natural gas prices and residual stockpile overhang impacted utility*

<b>Revenue</b>	\$339 Million	↓ (25%)
<b>Volume</b>	210,000	↓ (24%)
<b>RPU</b>	\$1,611	↓ (2%)
<b>Less Fuel</b>		
<b>Revenue</b>	\$336 Million <sup>(1)</sup>	↓ (24%)
<b>RPU</b>	\$1,597 <sup>(1)</sup>	flat

**Units (000's) & Y-o-Y Percent Change**

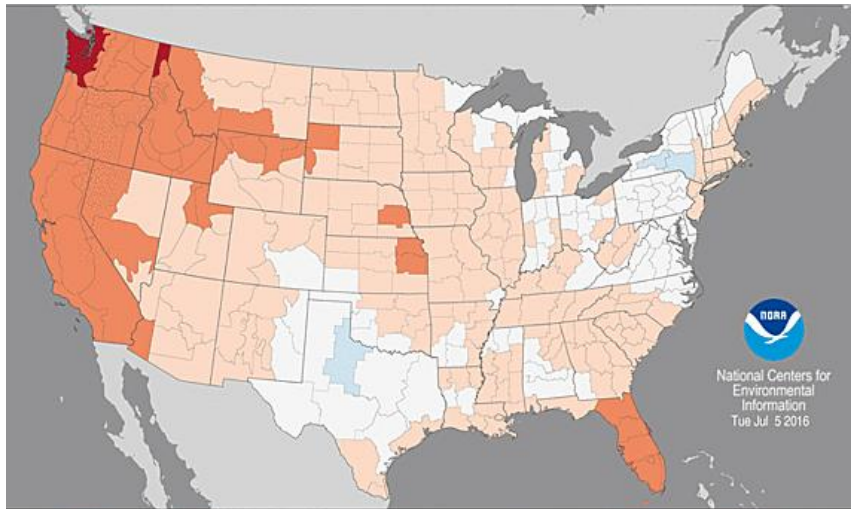


1. Please see reconciliation to GAAP posted on our website.

# Stockpile Overhang and Mild Weather through Early Second Quarter Impacted Utility Deliveries

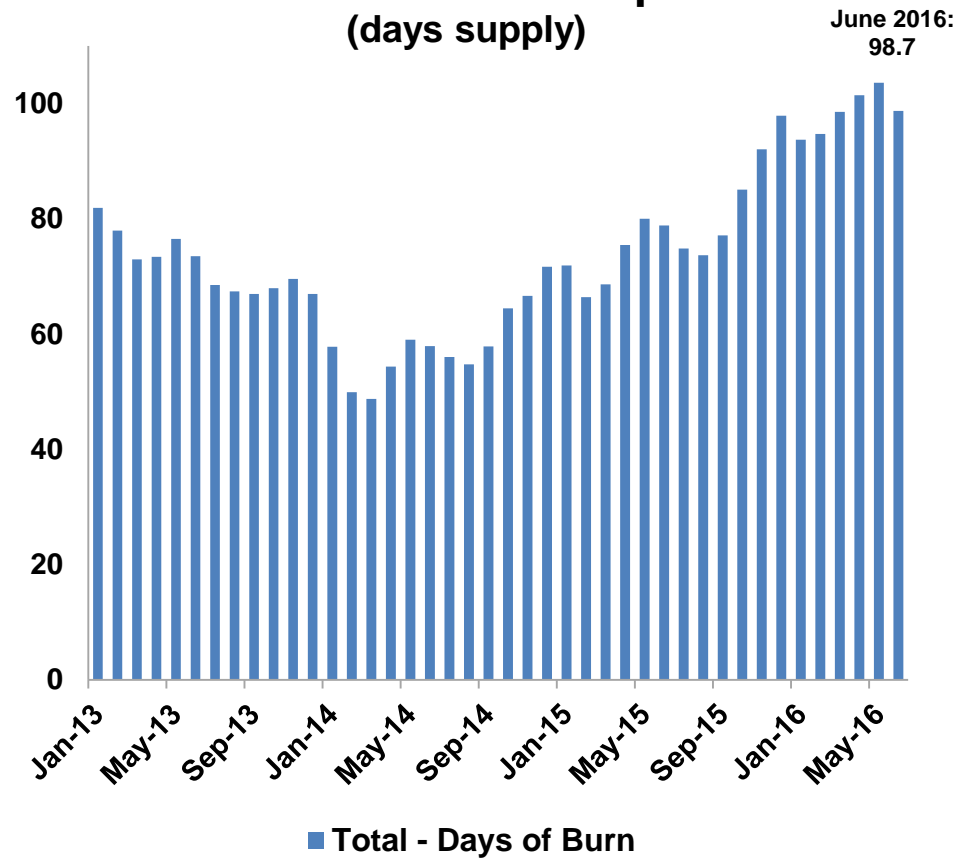
- Mild winter with improving weather patterns.
- Inventory overhang will continue to impact utility volume into 2017.

**Divisional Average Temperature Ranks**  
April – June 2016 (Period: 1895–2015)



Record Coldest	Much Below Average	Below Average	Near Average	Above Average	Much Above Average	Record Warmest

**Total Eastern Stockpiles**  
(days supply)



# Challenging Near Term Conditions

## Volume

- Volume growth over 2015 expected in the fourth quarter
  - Softer comparisons in fourth quarter
- Second Half Expectations
  - Retail inventory overhang
  - High stockpiles impact Coal volumes
  - Stronger Intermodal as we clear Triple Crown Comparison
  - Growth in export soybeans, steel, lumber and plastics
  - Automotive declines

## Pricing

- Focus on Pricing
  - 2016 pricing remains strong
  - Domestic truck rates lower
  - Value of service product
- Long term pricing plan on multiyear contracts

## Volume and Resource Alignment

- Alignment of operational resources with current and expected volume trends

**Controlling what we can control with Marketing, Operations and Finance alignment**



# Second Quarter 2016 Operations Overview

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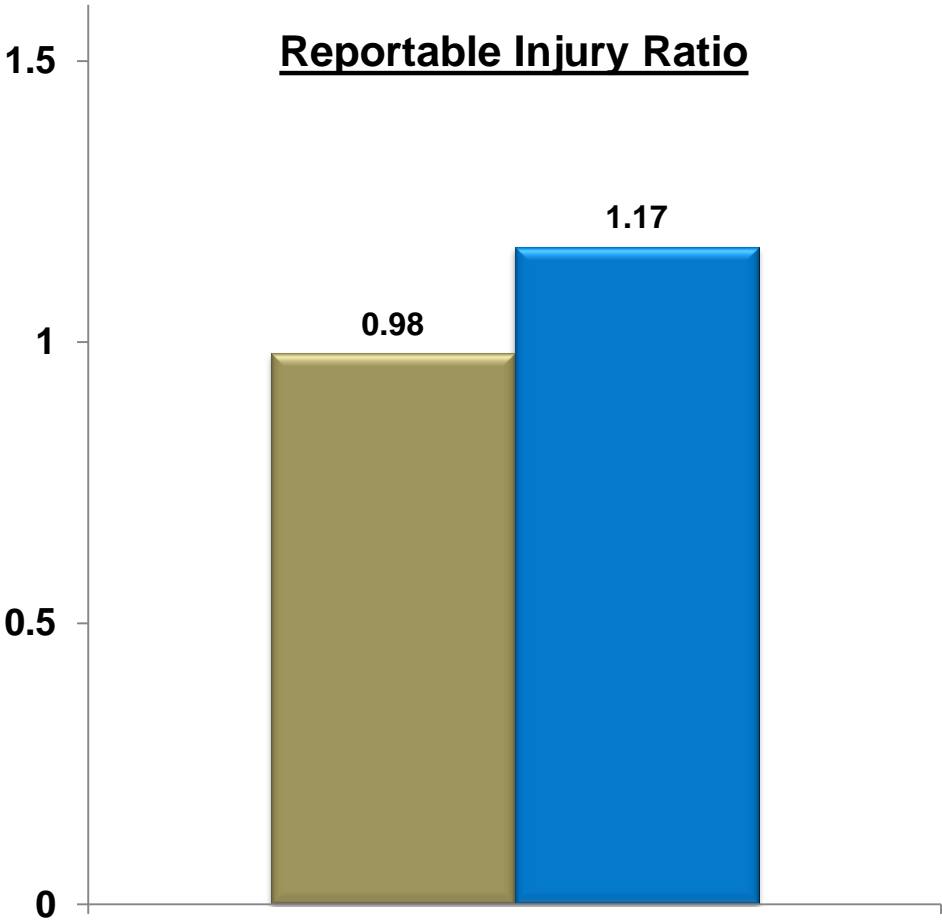
*Michael J. Wheeler  
Executive Vice President  
and Chief Operating Officer*

# 2<sup>nd</sup> Quarter Injury Ratios

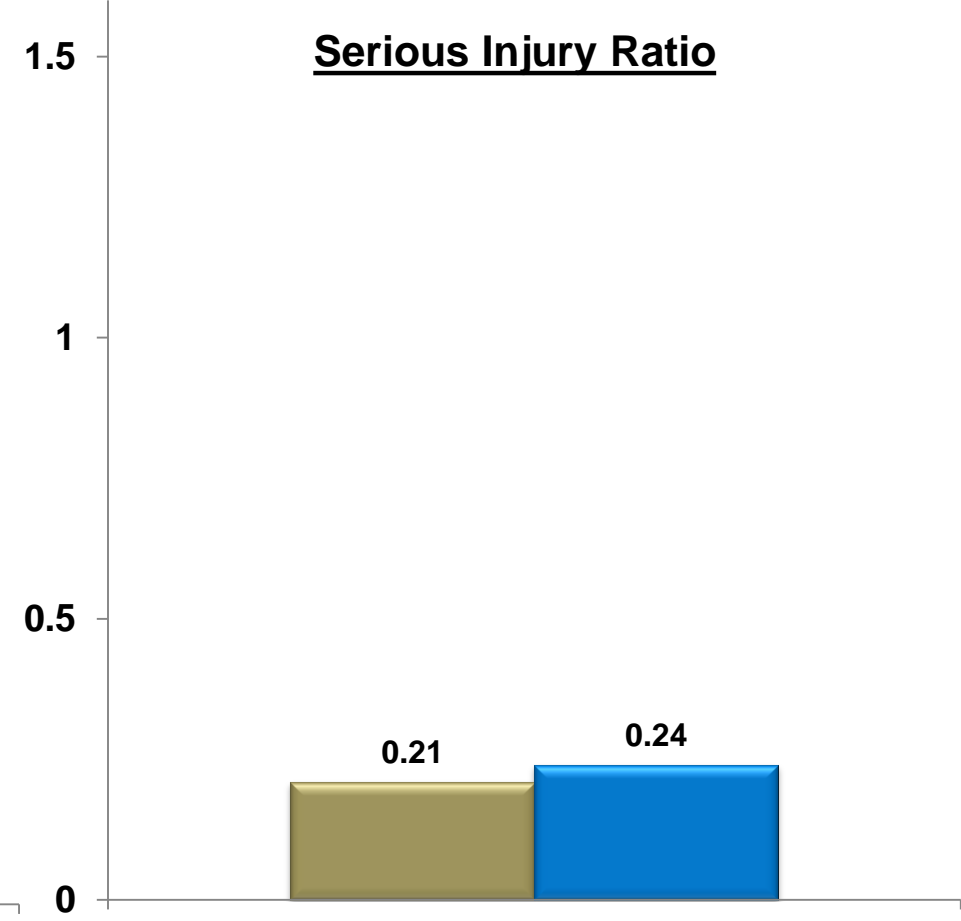
Per 200,000 employee hours worked

2015 2016

Reportable Injury Ratio

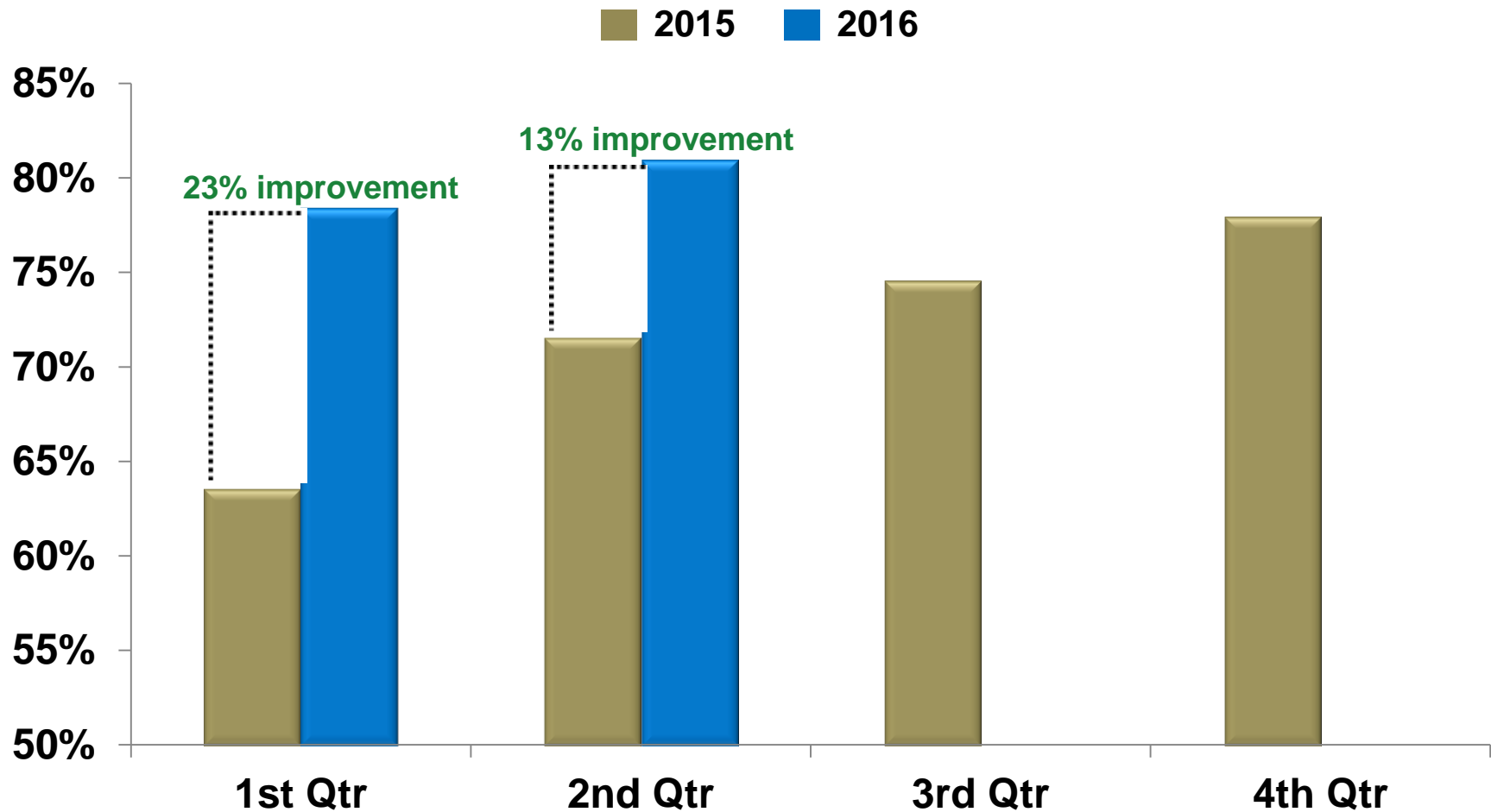


Serious Injury Ratio



# Composite Service Performance

*Sustained Improvements: Six Consecutive Quarters of Improved Service*





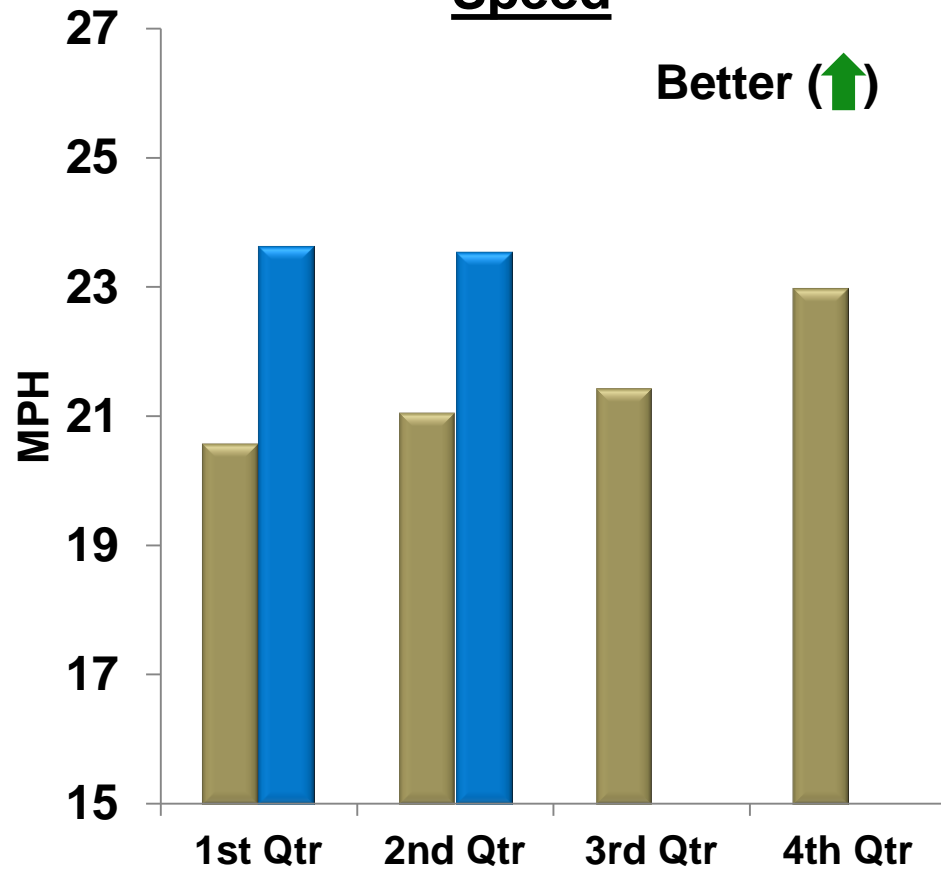
# Train Speed & Terminal Dwell

Overall Velocity Continues to Operate Near Record Levels

2015 2016

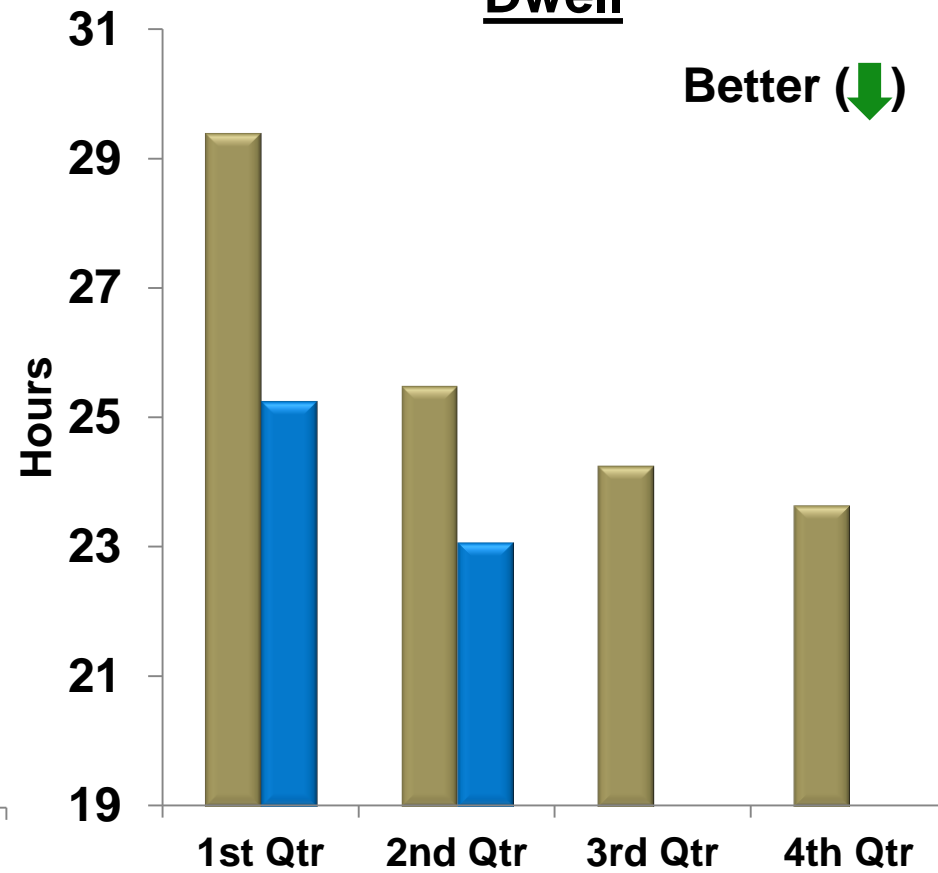
## Speed

Better (↑)



## Dwell

Better (↓)



# Productivity Savings

## 2<sup>nd</sup> Quarter Year-over-Year Comparison

	%
Carloads	(7%)
Crew Starts	(7%)
Recrews	(25%)
Train Length	1.3%
Total OT	(45%)
GTM/T&E Emp	3%
T&E Headcount	(9%)



# Second Quarter 2016 Financial Overview

July 27, 2016

*Marta R. Stewart*  
*Executive Vice President Finance*  
*and Chief Financial Officer*

# Operating Results

Second Quarter 2016 vs. 2015 (\$ millions)

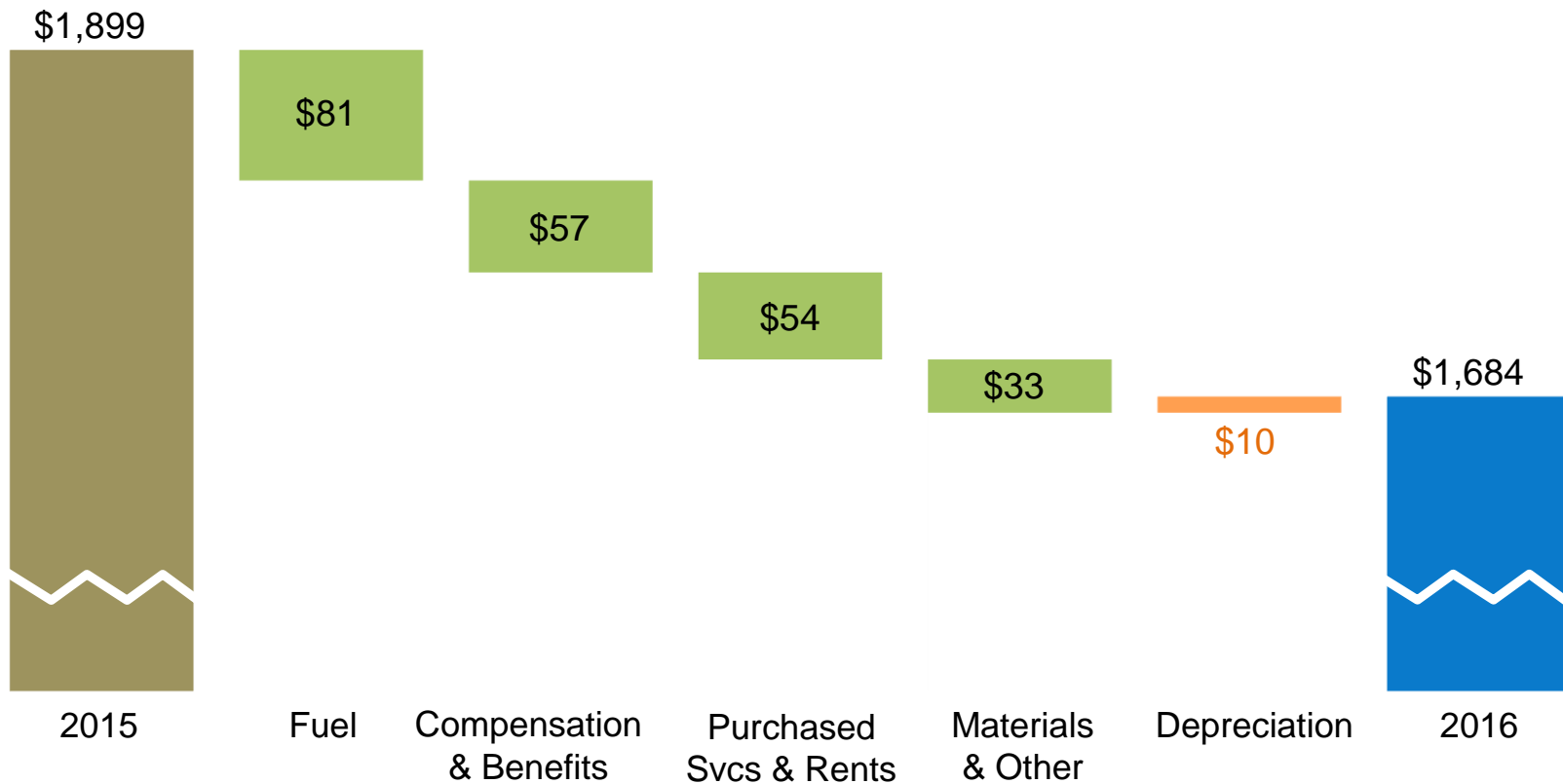
Second quarter operating ratio of 68.6%

	2016	2015	\$	%
Railway operating revenues	\$ 2,454	\$ 2,713	\$ (259)	(10%)
Railway operating expenses	\$ 1,684	\$ 1,899	\$ 215	11%
Income from railway operations	\$ 770	\$ 814	\$ (44)	(5%)
Railway operating ratio (%)	68.6	70.0	1.4	2%
			(Unfavorable)	Favorable

# Railway Operating Expenses

## Second Quarter 2016 vs. 2015 (\$ millions)

Net decrease of \$215 / 11%

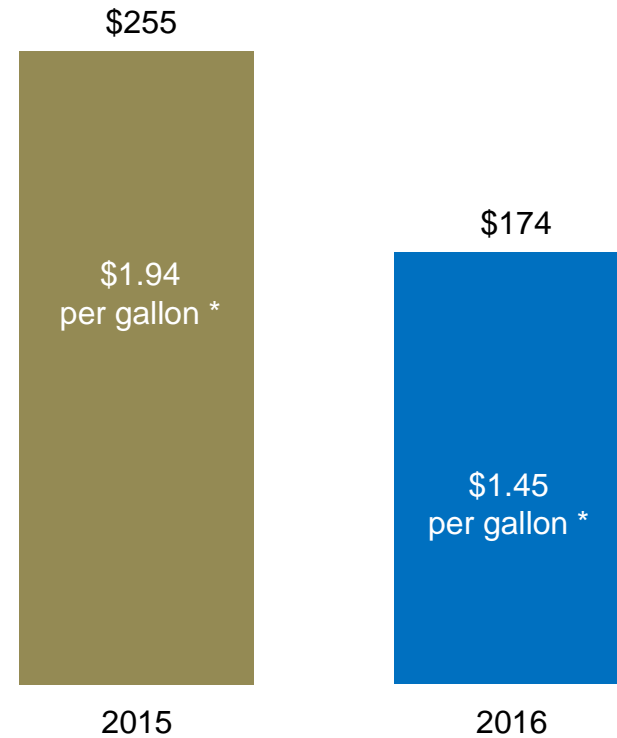


# Fuel

## Second Quarter 2016 vs. 2015 (\$ millions)

Total decrease of \$81 / 32%

- 25% lower price per gallon
- 6% lower consumption



\* Reflects locomotive fuel only

# Compensation and Benefits

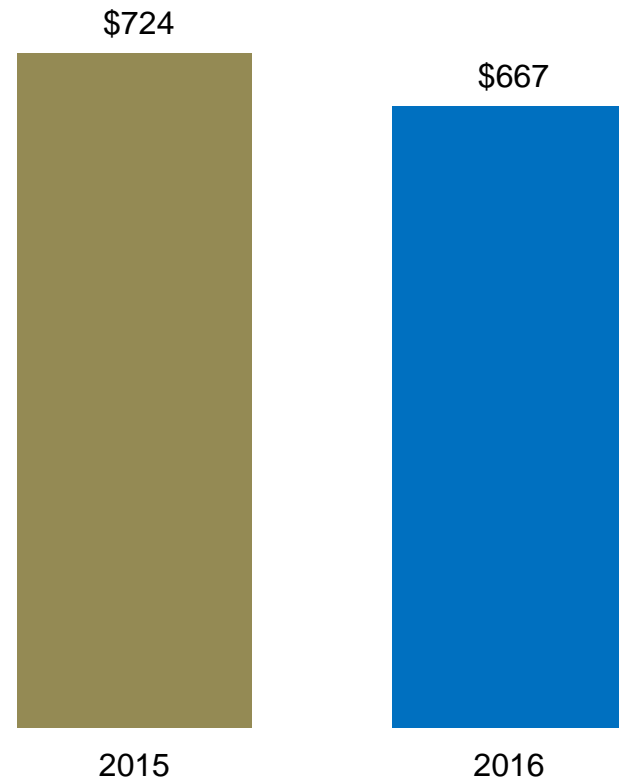
## Second Quarter 2016 vs. 2015 (\$ millions)

Net decrease of \$57 / 8%

- Reduced headcount, overtime and reworks
- Lower payroll taxes
- Lower pension expense
- Increased health and welfare rates

### Average Rail Employees

2Q15	30,045
1Q16	28,077
2Q16	27,928



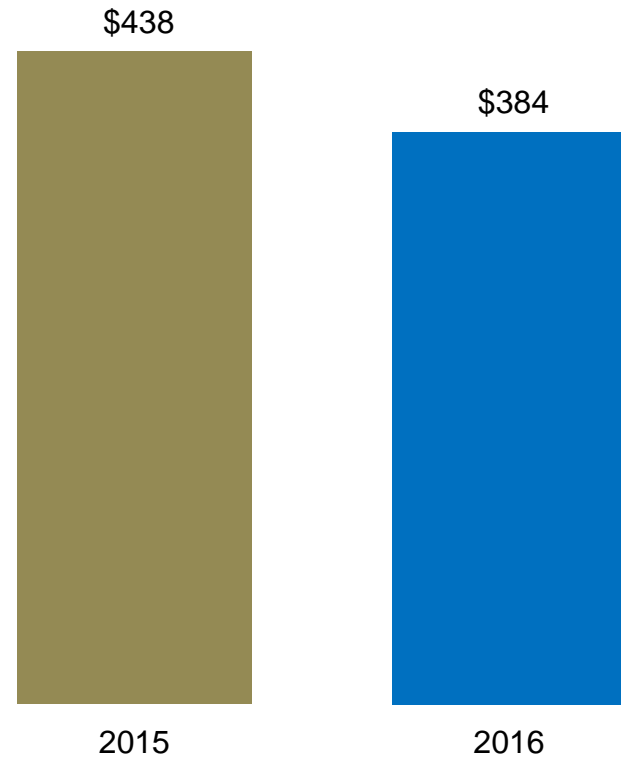


# Purchased Services and Rents

## Second Quarter 2016 vs. 2015 (\$ millions)

Net decrease of \$54 / 12%

- Reduced Triple Crown operations
- Lower joint facility and haulage expenses

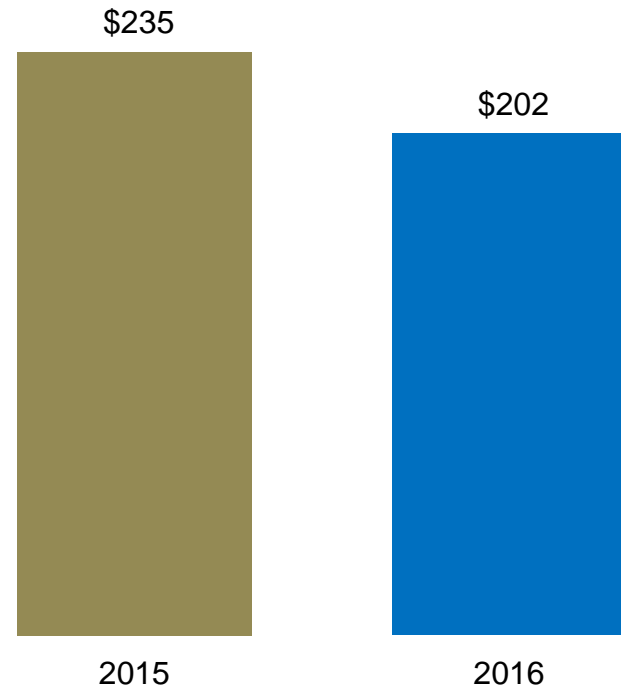


# Materials and Other

## Second Quarter 2016 vs. 2015 (\$ millions)

Net decrease of \$33 / 14%

- Locomotive material reductions
- Reduced roadway and freight car materials

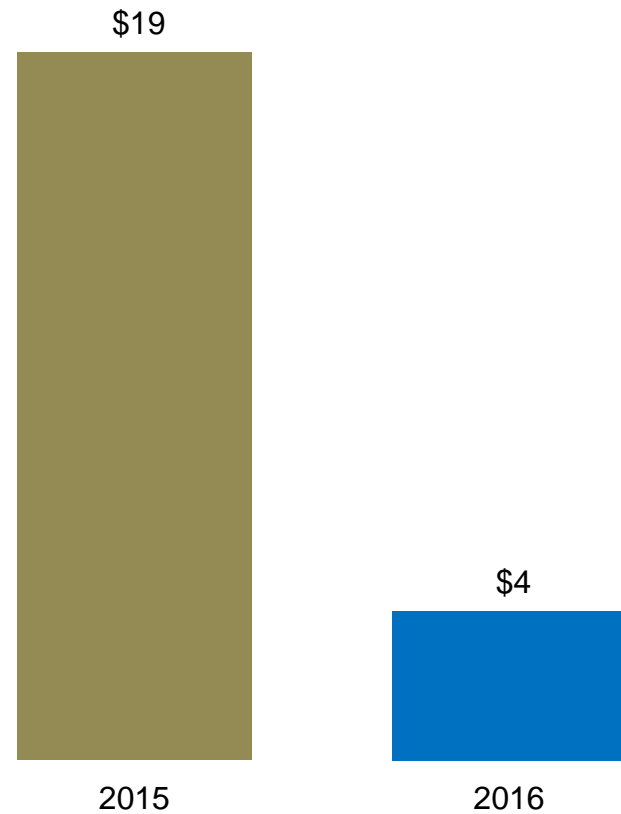


# Other Income - net

## Second Quarter 2016 vs. 2015 (\$ millions)

Net decrease of \$15 / 79%

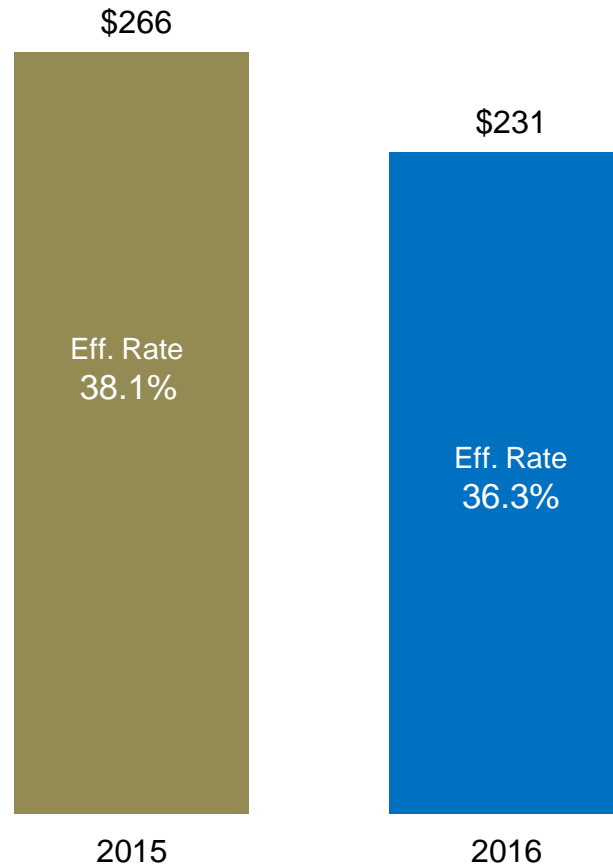
- Reduced income from coal properties
- Fewer gains from property sales
- External advisor costs



# Income Taxes

Second Quarter 2016 vs. 2015 (\$ millions)

Effective tax rate for the quarter was 36.3%



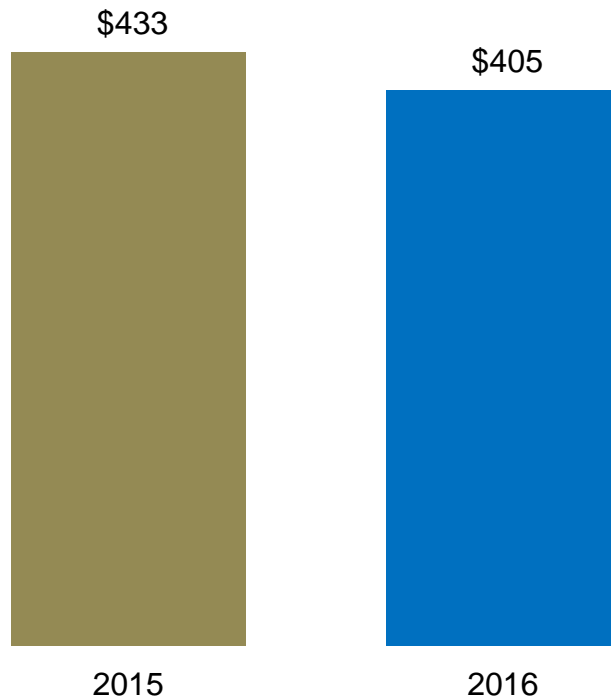
# Net Income and Diluted Earnings per Share

## Second Quarter 2016 vs. 2015 (\$ millions except per share)

Decline of \$28 million or 5 cents per share

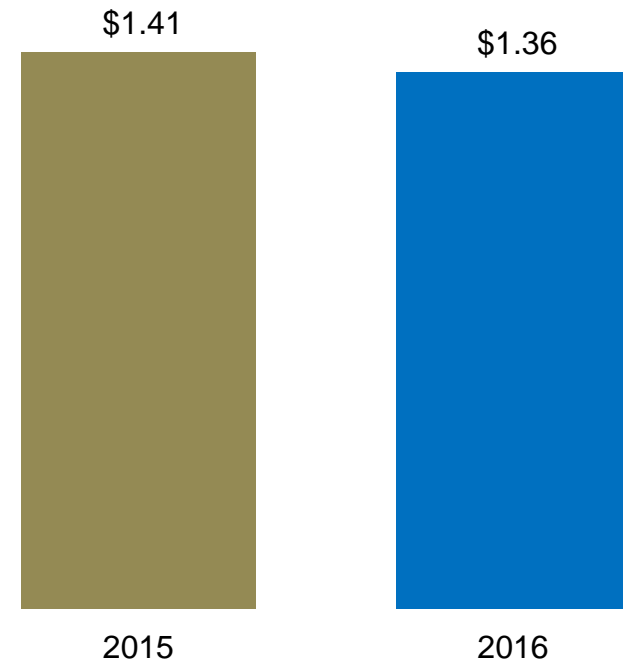
### Net Income

Change vs. Prior Period: (6%)



### Diluted Earnings per Share

Change vs. Prior Period: (4%)



# Cash Flows and Balances

First Six Months 2016 vs. 2015 (\$ millions)

*Free cash flow of \$500 million and \$750 million returned to shareholders*

	2016		2015	
<b>Cash from operating activities</b>	\$	1,432	\$	1,501
<b>Capital expenditures</b>	\$	(932)	\$	(886)
<b>Free cash flow <sup>(1)</sup></b>	\$	500	\$	615
<b>Returns to shareholders:</b>				
<b>Dividends</b>	\$	(350)	\$	(360)
<b>Share repurchases</b>	\$	(400)	\$	(765)

1. Please see reconciliation to GAAP posted on our website.

*Thank You*

