



# 2017 Second Quarter Earnings Conference Call

July 26, 2017

# 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, 2016, 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.



# 2017 Highlights Second Quarter and First Half

July 26, 2017

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

# 2Q17 and 1H17 Results Versus Prior Year

	2Q17 vs 2Q16		1H17 vs 1H16	
Operating Ratio	▶ <b>66.3%</b> <i>RECORD RESULTS</i>	68.6%	▶ <b>68.1%</b> <i>RECORD RESULTS</i>	69.4%
Income From Operations	\$888M	↑ 15%	\$1,661M	↑ 11%
Net Income	\$497M	↑ 23%	\$930M	↑ 17%
Earnings Per Share	\$1.71	↑ 26%	▶ <b>\$3.18</b> <i>RECORD RESULTS</i>	↑ 20%

*Sixth consecutive quarter of year-over-year Operating Ratio improvement*

# Balancing Structural Change and Growth

## Executing strategy to increase resource utilization

### EFFICIENCY INITIATIVES

- **Reducing G & A and consolidating headquarters**
- **Restructuring subsidiaries**
  - Triple Crown
  - Pocahontas Land Subsidiary
- **Rationalizing lines**
  - Over 1,000 miles of track
- **Idling terminals and yards**
  - Ashtabula Docks
  - Knoxville Sevier Yard
  - Chattanooga hump
- **Consolidating operating regions and divisions**
  - Including recently announced Central Division
- **Rationalizing and revitalizing locomotives and freight cars**

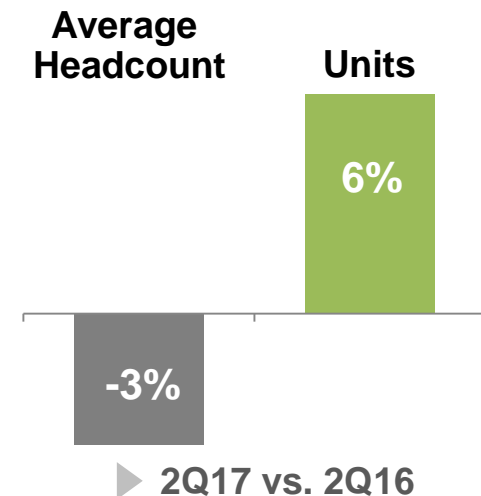
# Balancing Structural Change and Growth

Executing strategy to drive efficiency and growth

## MARKET APPROACH

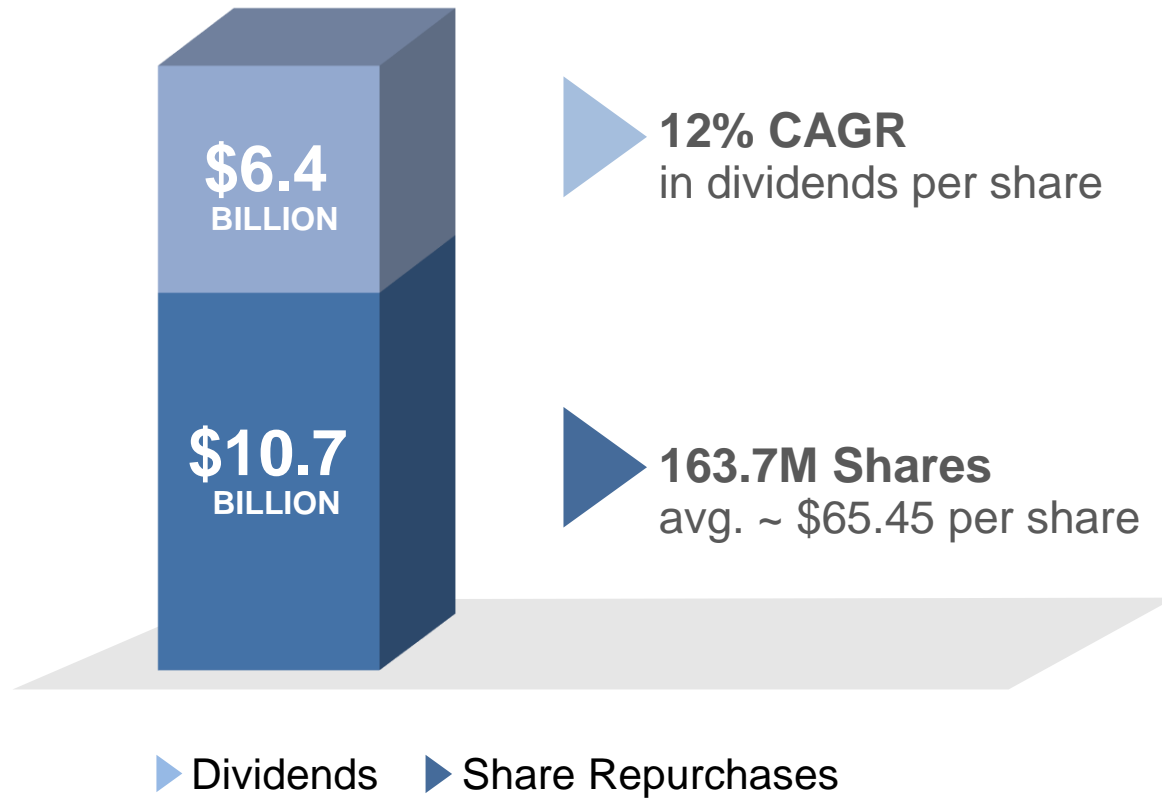
- **Partnerships:**  
Developing key performance indicators
- **Projects:**  
Enhancing customers' experience and efficiencies
- **Develop for Growth:**  
Leveraging strong industrial development team

## HEADCOUNT LOWER W/ UNIT GROWTH



# Delivering Value to Shareholders

## 2006 through 2Q17



# Norfolk Southern's Strategic Plan

*Strong team, executing strategic plan, delivering shareholder value*

## **OPERATING RATIO IMPROVEMENT**

- Building on record results in 2016 and 1H17 to achieve sub-65 OR by 2020 or sooner

## **PRODUCTIVITY IMPROVEMENT**

- \$650M annually by 2020
  - ✓ \$250M achieved in 2016
  - ✓ More than \$100M additional expected for 2017

## **EARNINGS PER SHARE**

- Building on record results in 2016 and 1H17 to achieve double digit CAGR by 2020





**NORFOLK SOUTHERN**  
*One line, infinite possibilities.*

# Marketing Overview

July 26, 2017

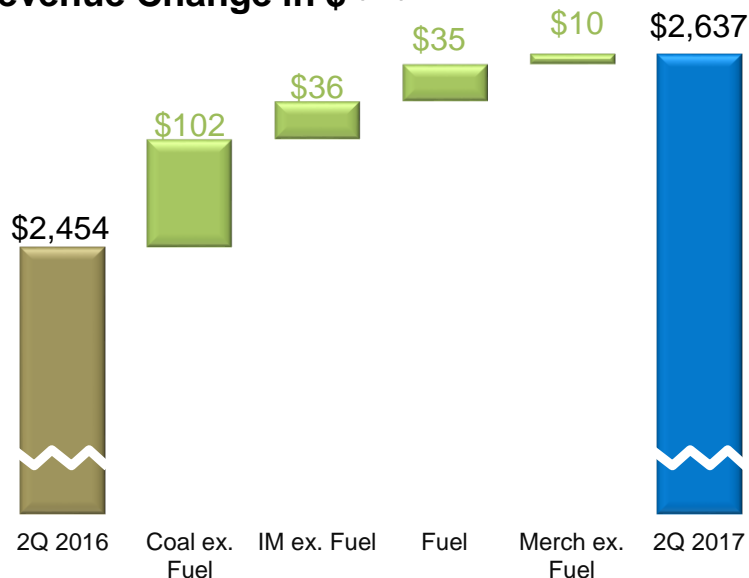
*Alan H. Shaw  
Executive Vice President  
and Chief Marketing Officer*

# Railway Operating Revenue

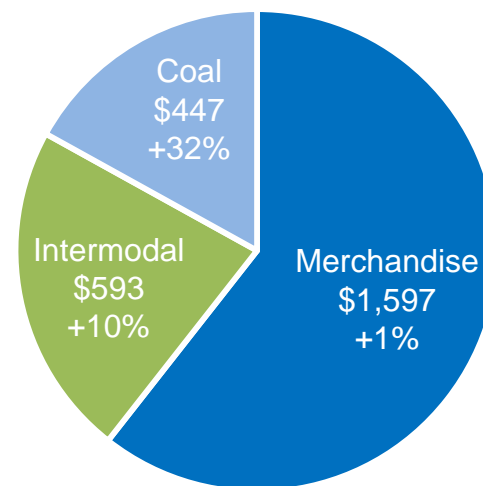
## Second Quarter 2017 vs. 2016

Revenue	Volume	RPU	RPU Less Fuel <sup>(1)</sup>
\$2.6 Billion	1,910,800 units	\$1,380	\$1,335
up 7%	up 6%	up 1%	flat

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.

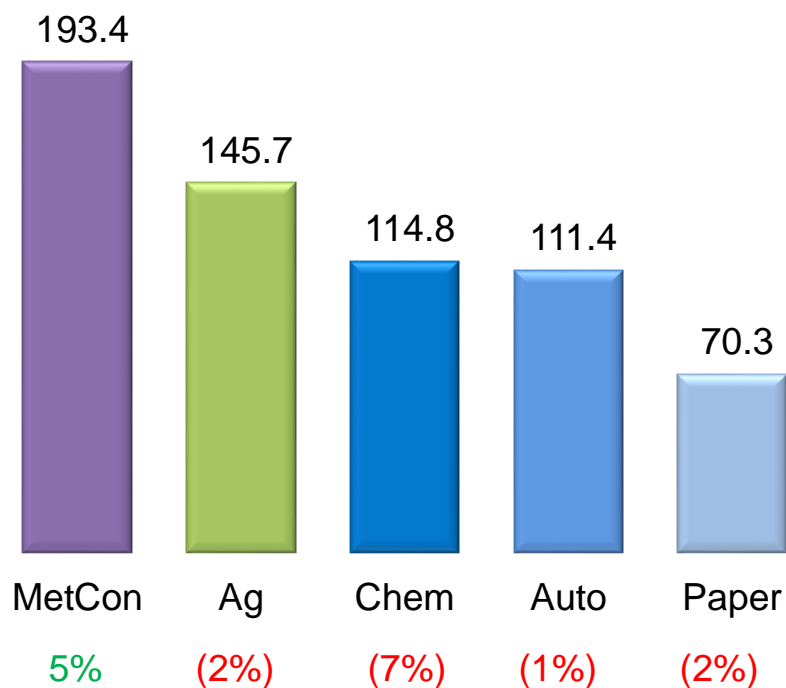
*Improvement in volume and pricing generated strong second quarter results*

# Merchandise Market

## Second Quarter 2017 vs. 2016

Revenue	\$1,597 Million	↑	1%
Volume	635,600		0%
RPU	\$2,514	↑	2%

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



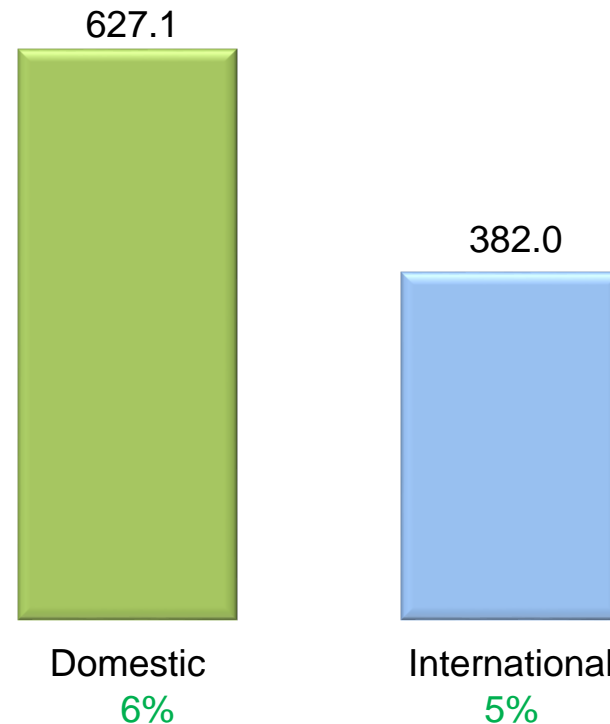
*Strength in frac sand and steel offset by declines in crude oil*

# Intermodal Market

## Second Quarter 2017 vs. 2016

Revenue	\$593 Million	↑	10%
Volume	1,009,100	↑	6%
RPU	\$587	↑	4%

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



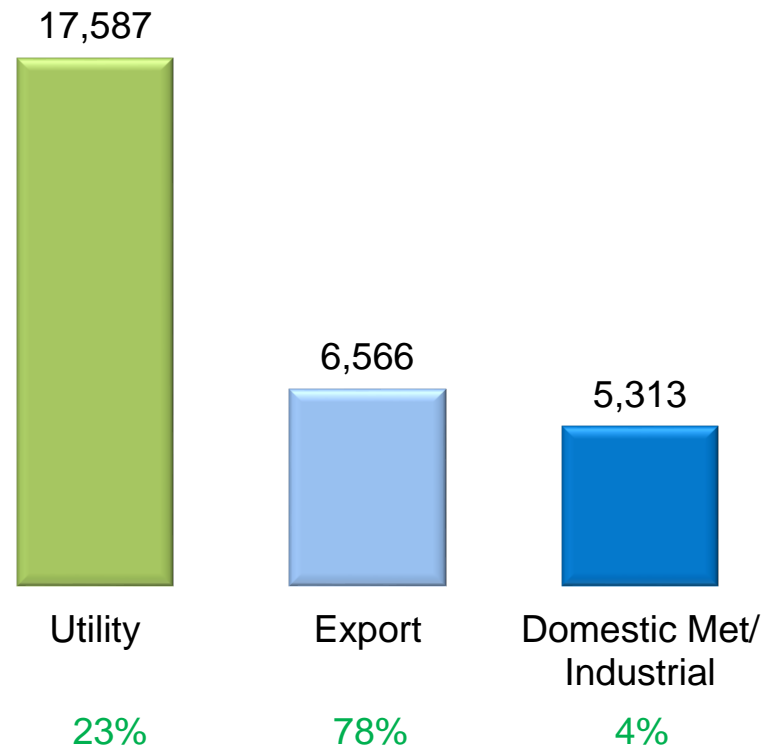
*Volumes benefitted from highway conversions and new service offerings*

# Coal Market

## Second Quarter 2017 vs. 2016

Revenue	\$447 Million	↑ 32%
Volume	266,100	↑ 27%
RPU	\$1,679	↑ 4%

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



*Increases in Coal revenue driven by improved export market, utility share gain, and stronger natural gas prices*

# Strategy for Growth

## Volume Outlook

- Improving economic conditions
- Merchandise slight decline
  - Pipeline activity
  - Automotive plant downtime
  - Frac sand growth
- Intermodal growth
  - Securing service-sensitive business
  - Tightening truck capacity
- Coal growth
  - Continued year-over-year increase in export

## Revenue Outlook

- Commitment to strong customer partnerships drives growth
  - Strength in industrial development
  - Continued emphasis on service
  - Collaboration with customers and operations
- Targeted market outreach
  - Enriching the customer experience
  - Partnerships enhance our ability to serve our customers
- Long-term view of markets and pricing
  - Leveraging the value of our product with pricing gains
  - Capacity-driven increases in truck rates

*Cultivating strategic relationships to enhance shareholder value*



# Operations Overview

July 26, 2017

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

# Summary

## ***RECORD RESULTS***

- ▶ Quarterly Operating Ratio
- ▶ 1<sup>st</sup> half Operating Ratio
- ▶ Quarterly locomotive productivity
- ▶ Quarterly fuel efficiency
- ▶ Quarterly train length



# *Recent Actions to Enhance Efficiencies*

- **Idled hump yard operations in Chattanooga, TN**
- **Announced consolidation of Operating divisions from 10 to 9 -- Central Division**
- **Removed 100 locomotives from service**

*2017 Productivity: On-track to exceed \$100M*

# Injury Ratios

Per 200,000 employee hours worked

Continued focus on safety led to reductions in key injury ratios

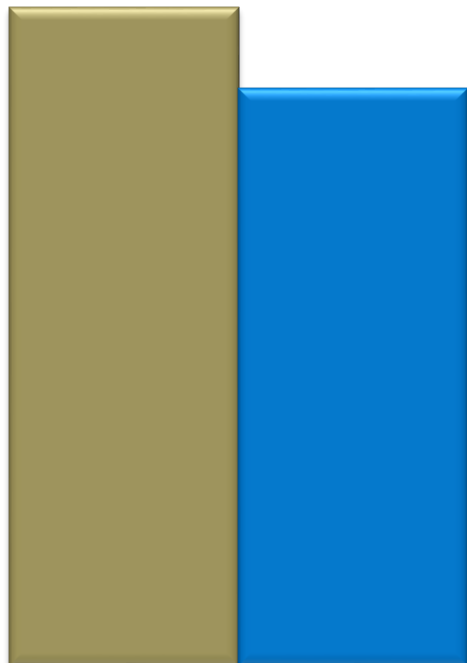
Better



2Q16 2Q17

Reportable Injury Ratio

1.5  
1.0  
0.5  
0.0



Better



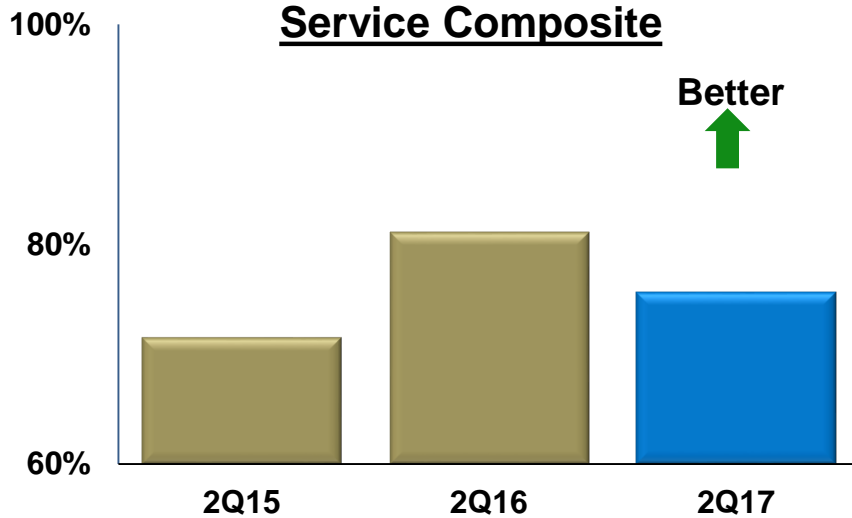
Serious Injury Ratio

1.5  
1.0  
0.5  
0.0



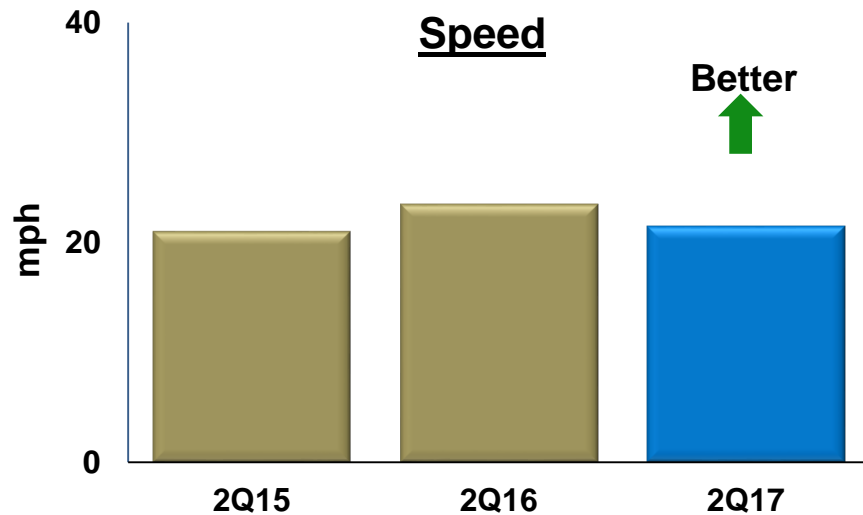
# Network Performance Metrics

## Service Composite

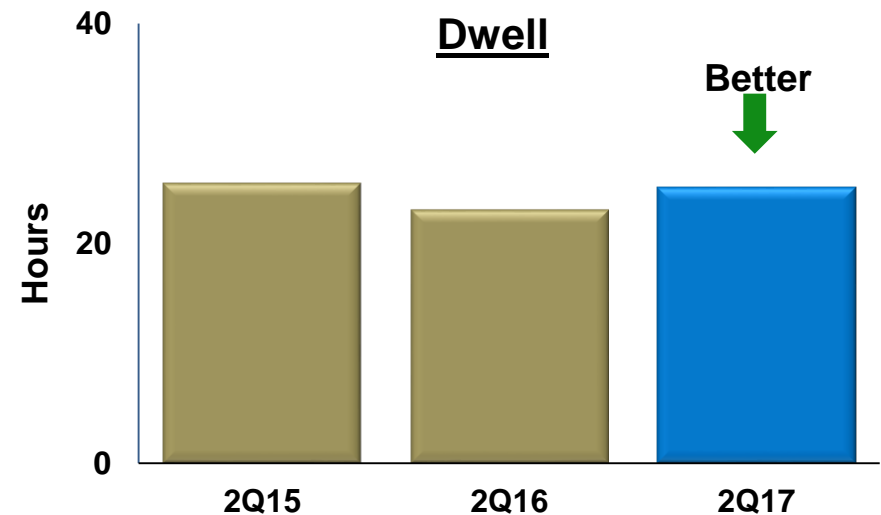


- Network performance measures remain strong while handling more volume
- Trends in customer facing metrics evidence a good service product

## Speed



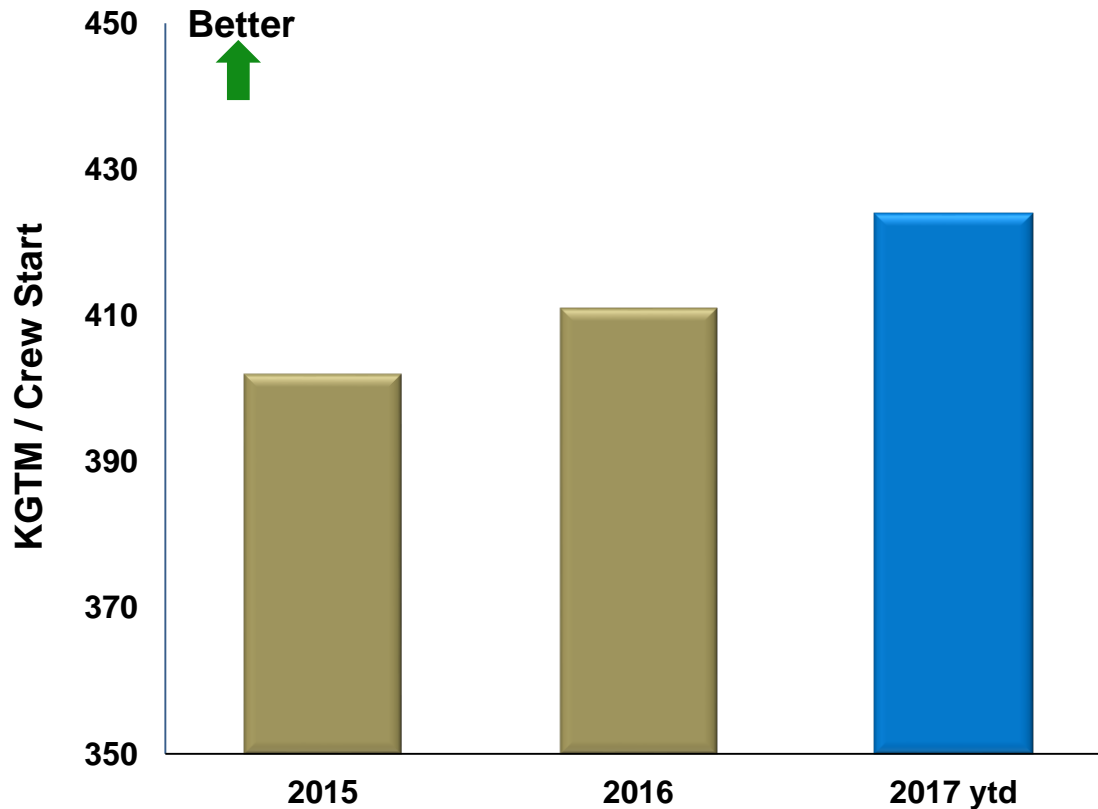
## Dwell



# Productivity Measures

## Employee and Train Productivity

Train length and operating plan optimization driving productivity improvements

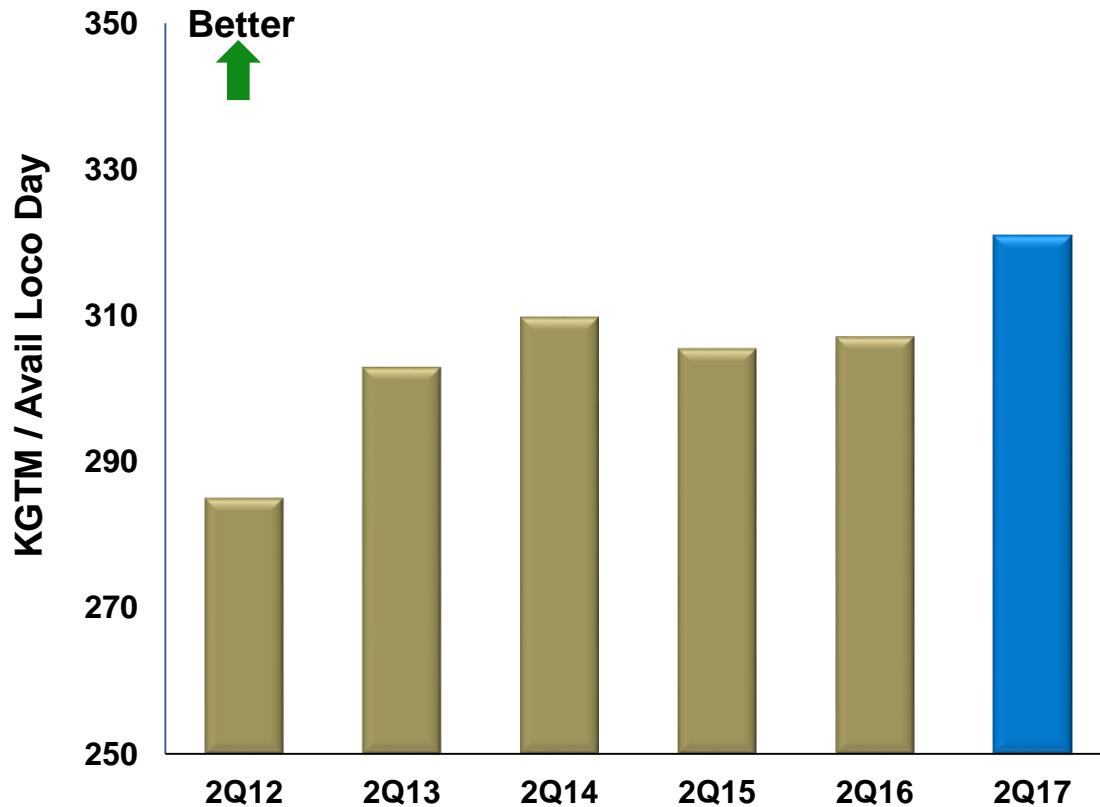


- Highest quarterly train length on record
- June highest monthly train length on record
- Seven consecutive quarters of sequential improvement

# Productivity Measures

## Locomotive Productivity

*Record quarterly locomotive productivity*

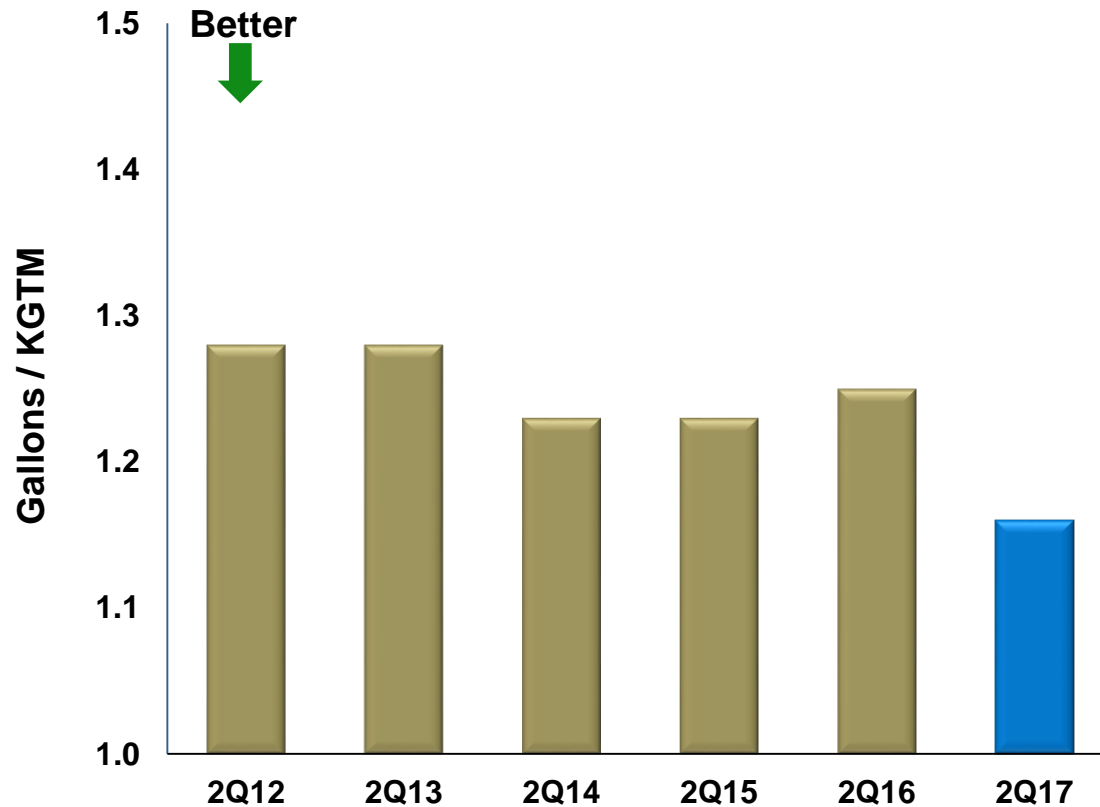


- Highest quarterly locomotive productivity on record
- 5% improvement vs. 2Q16
- Train length and continued rationalization of yard/local fleet driving improvement

# Productivity Measures

## Fuel Efficiency

Record quarterly fuel efficiency



- 7% improvement vs. 2Q16
- Longer trains, locomotive rationalizations, and energy management initiatives driving improvement



**NORFOLK SOUTHERN**  
*One line, infinite possibilities.*

# Financial Overview

July 26, 2017

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

# Operating Results

## Second Quarter 2017 vs. 2016 (\$ millions)

*Record operating ratio and 15% improvement in operating income*

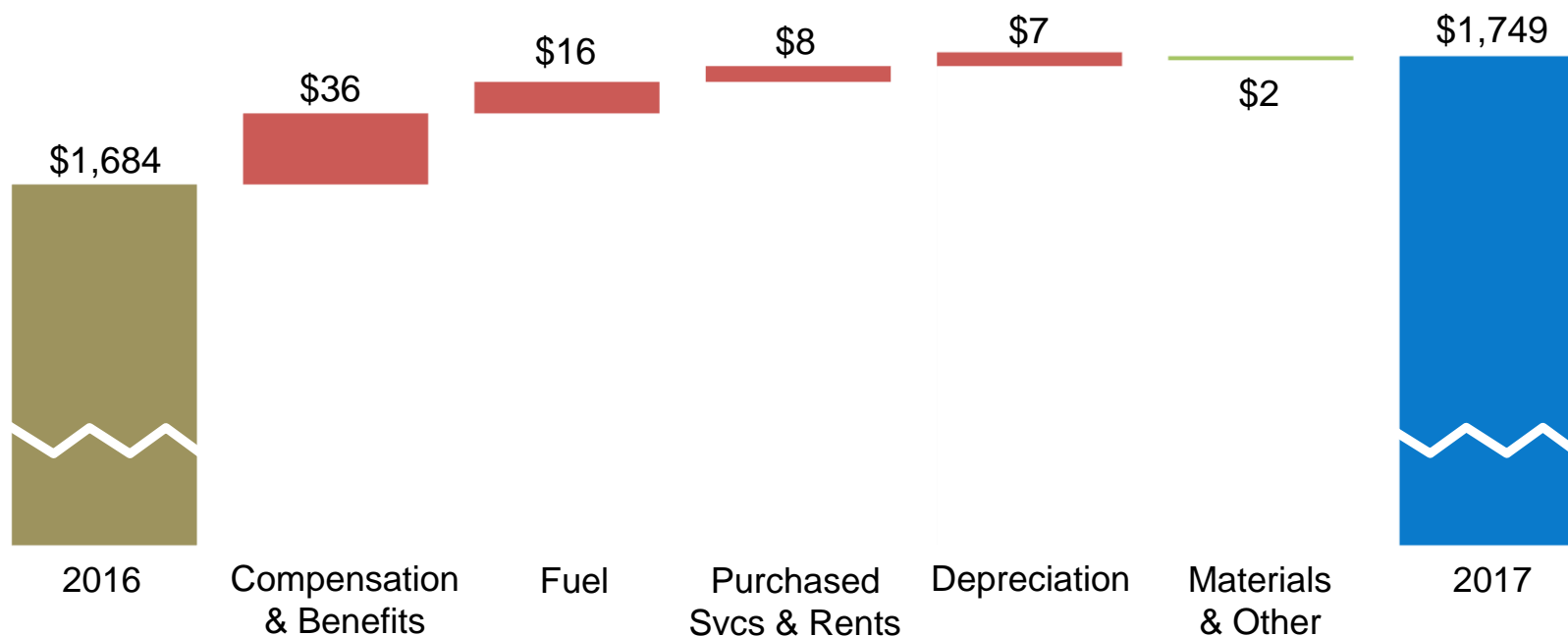
	2017	2016	\$	%
Railway operating revenues	\$ 2,637	\$ 2,454	\$ 183	7%
Railway operating expenses	\$ 1,749	\$ 1,684	\$ (65)	(4%)
Income from railway operations	\$ 888	\$ 770	\$ 118	15%
Railway operating ratio (%)	66.3	68.6	2.3	3%
			<b>Favorable</b> <b>(Unfavorable)</b>	



# Railway Operating Expenses

## Second Quarter 2017 vs. 2016 (\$ millions)

*Sustained cost control tempers overall expense increase*

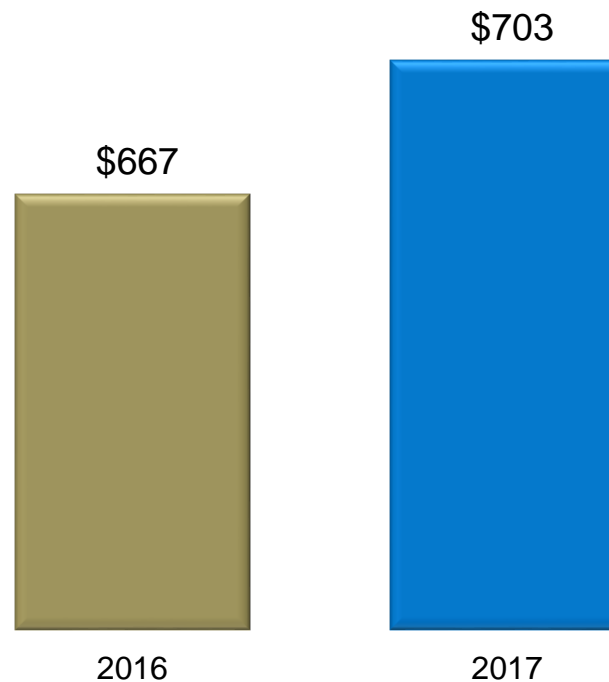
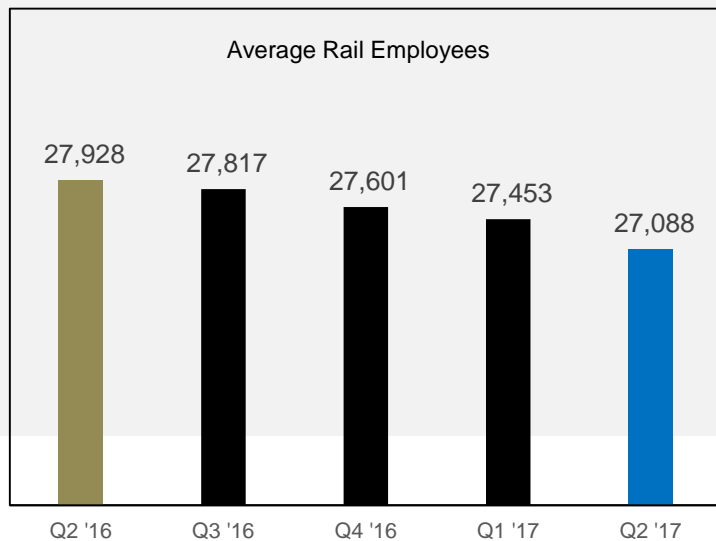


# Compensation and Benefits

## Second Quarter 2017 vs. 2016 (\$ millions)

Net increase of \$36 / 5%

- Inflationary:
  - Wages \$20
  - Health and welfare rates \$15
- Incentive compensation \$21
- Reduced employee levels \$16

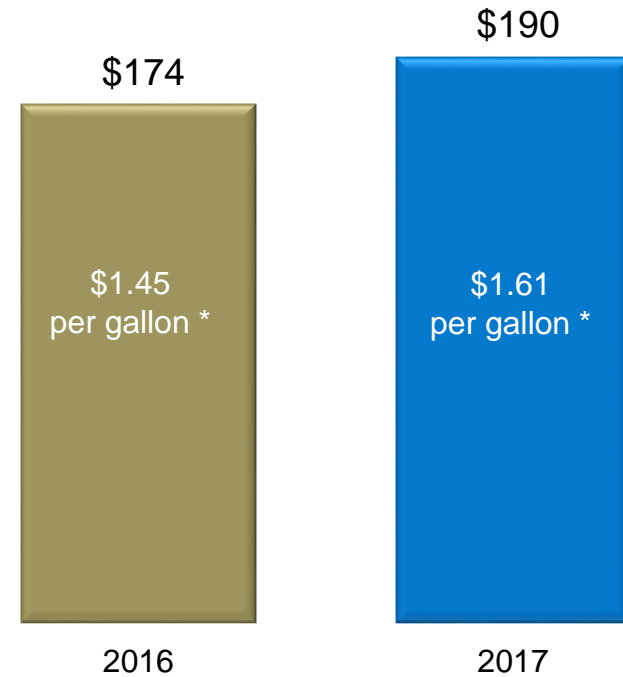


# Fuel

## Second Quarter 2017 vs. 2016 (\$ millions)

*Record fuel efficiency*

- Higher price per gallon \$18
- Lower consumption 2%



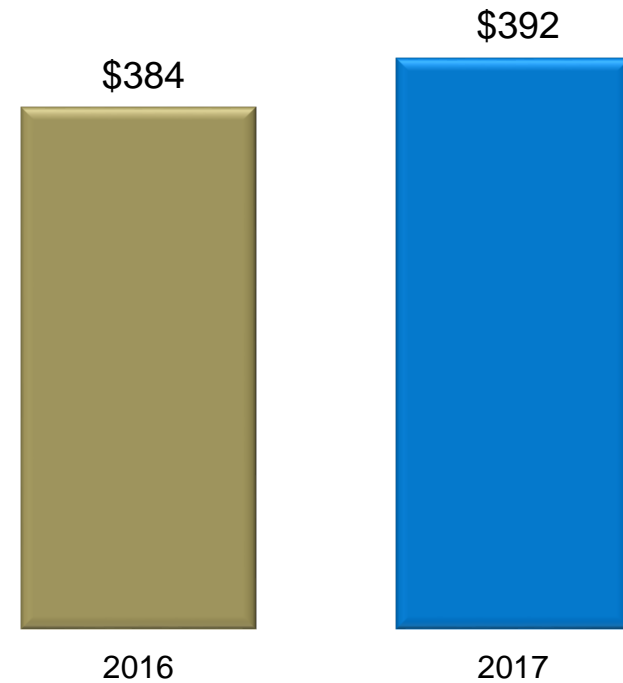
\* Reflects locomotive fuel only

# Purchased Services and Rents

## Second Quarter 2017 vs. 2016 (\$ millions)

*Net increase of \$8 / 2%*

- Increased volume-related intermodal costs \$8

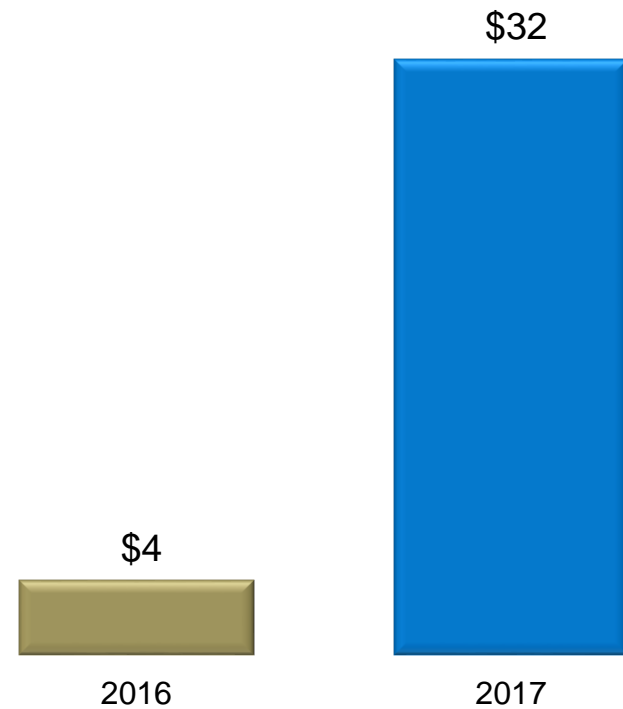


# Other Income - Net

## Second Quarter 2017 vs. 2016 (\$ millions)

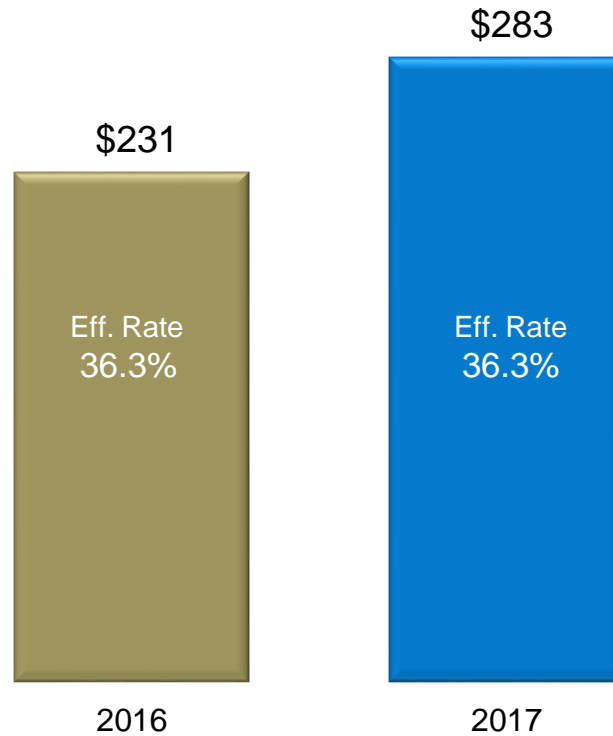
*Net increase of \$28*

- Higher returns from corporate-owned life insurance \$14
- Increased income from coal properties \$10



# Income Taxes

Second Quarter 2017 vs. 2016 (\$ millions)

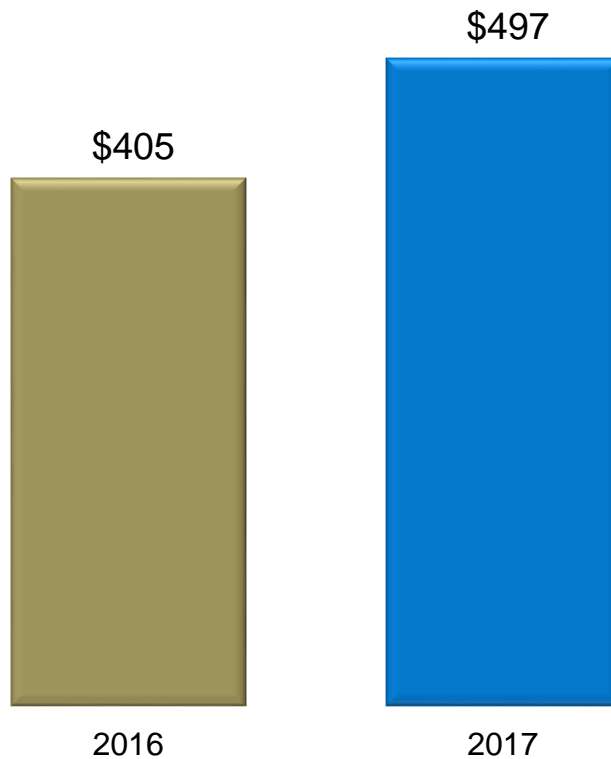


# Net Income and Diluted Earnings per Share

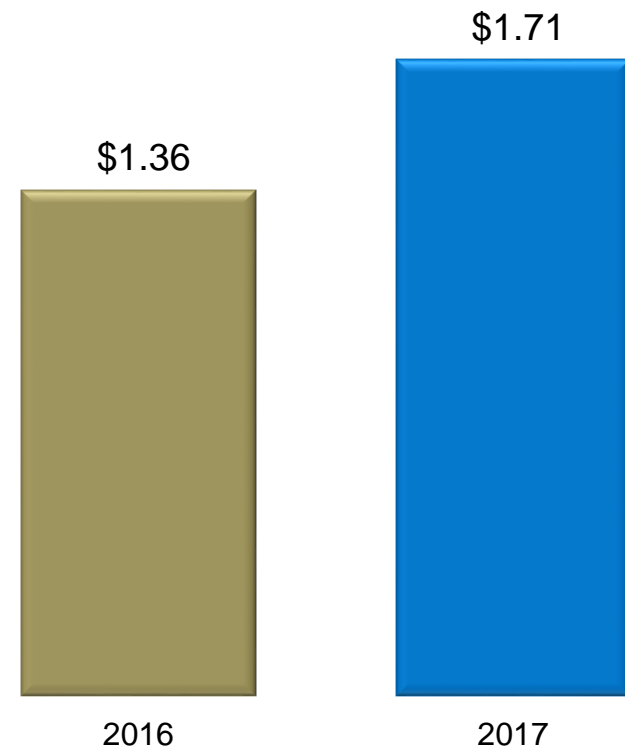
## Second Quarter 2017 vs. 2016 (\$ millions except per share)

*Net income up 23% and earnings per share up 26%*

**Net Income**



**Diluted Earnings per Share**



# Cash Flows

## First Six Months 2017 vs. 2016 (\$ millions)

*Free cash flow of \$693 million and \$756 million returned to shareholders*

	2017		2016	
<b>Cash from operating activities</b>	\$	1,576	\$	1,432
<b>Capital expenditures</b>	\$	(883)	\$	(932)
<b>Free cash flow <sup>(1)</sup></b>	\$	693	\$	500
<b>Returns to shareholders:</b>				
<b>Dividends</b>	\$	354	\$	350
<b>Share repurchases</b>	\$	402	\$	400

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



# Thank You

