

SECOND QUARTER 2017

Quarterly Financial Data



**NORFOLK
SOUTHERN**

Finance Department
Three Commercial Place
Norfolk, Virginia 23510.2191

Consolidated Statements of Income

(in millions, except per share amounts)

	Second Quarter			First Six Months		
	2017	2016	% Change	2017	2016	% Change
Railway operating revenues						
Merchandise	\$ 1,597	\$ 1,577	1%	\$ 3,181	\$ 3,126	2%
Intermodal	593	538	10%	1,164	1,060	10%
Coal	447	339	32%	867	688	26%
Total railway operating revenues	<u>2,637</u>	<u>2,454</u>	7%	<u>5,212</u>	<u>4,874</u>	7%
Railway operating expenses						
Compensation and benefits	703	667	5%	1,446	1,390	4%
Purchased services and rents	392	384	2%	769	763	1%
Fuel	190	174	9%	403	323	25%
Depreciation	264	257	3%	523	509	3%
Materials and other	200	202	(1%)	410	396	4%
Total railway operating expenses	<u>1,749</u>	<u>1,684</u>	4%	<u>3,551</u>	<u>3,381</u>	5%
Income from railway operations	<u>888</u>	<u>770</u>	15%	<u>1,661</u>	<u>1,493</u>	11%
Other income — net	32	4	700%	56	20	180%
Interest expense on debt	140	138	1%	282	277	2%
Income before income taxes	<u>780</u>	<u>636</u>	23%	<u>1,435</u>	<u>1,236</u>	16%
Provision for income taxes						
Current	225	174	29%	391	343	14%
Deferred	58	57	2%	114	101	13%
Total income taxes	<u>283</u>	<u>231</u>	23%	<u>505</u>	<u>444</u>	14%
Net income	<u>\$ 497</u>	<u>\$ 405</u>	23%	<u>\$ 930</u>	<u>\$ 792</u>	17%
Earnings per share						
Basic	\$ 1.72	\$ 1.37	26%	\$ 3.20	\$ 2.67	20%
Diluted	1.71	1.36	26%	3.18	2.65	20%
Weighted average shares outstanding						
Basic	289.0	294.7	(2%)	289.6	296.0	(2%)
Diluted	291.2	296.6	(2%)	292.0	297.7	(2%)

Notes

1. Stock Repurchase Program

We repurchased and retired 3.4 million and 5.0 million shares of common stock under our stock repurchase program in the first six months of 2017 and 2016, respectively, at a cost of \$402 million and \$400 million, respectively. Since the beginning of 2006, we have repurchased and retired 163.7 million shares at a total cost of \$10.7 billion.

Consolidated Balance Sheets

(\$ in millions)

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 642	\$ 956
Accounts receivable — net	926	945
Materials and supplies	289	257
Other current assets	79	133
Total current assets	1,936	2,291
Investments	2,848	2,777
Properties less accumulated depreciation of \$11,984 and \$11,737, respectively	30,033	29,751
Other assets	105	73
Total assets	\$ 34,922	\$ 34,892
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 1,223	\$ 1,215
Short-term debt	-	100
Income and other taxes	268	245
Other current liabilities	252	229
Current maturities of long-term debt	600	550
Total current liabilities	2,343	2,339
Long-term debt	9,273	9,562
Other liabilities	1,385	1,442
Deferred income taxes	9,259	9,140
Total liabilities	22,260	22,483
Stockholders' equity:		
Common stock \$1.00 per share par value, 1,350,000,000 shares authorized; outstanding 288,181,852 and 290,417,610 shares, respectively, net of treasury shares	290	292
Additional paid-in capital	2,228	2,179
Accumulated other comprehensive loss	(480)	(487)
Retained income	10,624	10,425
Total stockholders' equity	12,662	12,409
Total liabilities and stockholders' equity	\$ 34,922	\$ 34,892

Consolidated Statements of Cash Flows

(\$ in millions)

	First Six Months	
	2017	2016
Cash flows from operating activities		
Net income	\$ 930	\$ 792
Reconciliation of net income to net cash provided by operating activities:		
Depreciation	525	511
Deferred income taxes	114	101
Gains and losses on properties	(20)	(7)
Changes in assets and liabilities affecting operations:		
Accounts receivable	(12)	(17)
Materials and supplies	(32)	(35)
Other current assets	48	103
Current liabilities other than debt	93	25
Other — net	(70)	(41)
Net cash provided by operating activities	1,576	1,432
Cash flows from investing activities		
Property additions	(883)	(932)
Property sales and other transactions	60	40
Investment purchases	(4)	(23)
Investment sales and other transactions	3	3
Net cash used in investing activities	(824)	(912)
Cash flows from financing activities		
Dividends	(354)	(350)
Common stock transactions	42	1
Purchase and retirement of common stock	(402)	(400)
Proceeds from borrowings — net	298	594
Debt repayments	(650)	(600)
Net cash used in financing activities	(1,066)	(755)
Net decrease in cash and cash equivalents	(314)	(235)
Cash and cash equivalents		
At beginning of year	956	1,101
At end of period	\$ 642	\$ 866
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest (net of amounts capitalized)	\$ 270	\$ 260
Income taxes (net of refunds)	341	251

Railway Operating Revenues Analysis

Commodity and Period	Revenues (S in millions)			Units (in thousands)			Revenue per Unit (S per unit)		
	2017	2016	% Change	2017	2016	% Change	2017	2016	% Change
First Quarter									
Chemicals	\$ 427	\$ 419	2%	118.6	120.6	(2%)	\$ 3,599	\$ 3,476	4%
Agriculture/consumer/gov't	384	386	(1%)	149.5	151.4	(1%)	2,568	2,550	1%
Metals and construction	340	300	13%	168.4	154.9	9%	2,020	1,934	4%
Automotive	246	254	(3%)	110.5	113.3	(2%)	2,221	2,241	(1%)
Paper/clay/forest	187	190	(2%)	70.6	73.0	(3%)	2,651	2,603	2%
Merchandise	1,584	1,549	2%	617.6	613.2	1%	2,564	2,526	2%
Intermodal	571	522	9%	969.4	929.1	4%	589	562	5%
Coal	420	349	20%	259.6	214.8	21%	1,617	1,626	(1%)
Total	\$ 2,575	\$ 2,420	6%	1,846.6	1,757.1	5%	1,394	1,378	1%
Second Quarter									
Chemicals	\$ 406	\$ 426	(5%)	114.8	122.8	(7%)	\$ 3,536	\$ 3,467	2%
Agriculture/consumer/gov't	384	383	-	145.7	148.0	(2%)	2,637	2,587	2%
Metals and construction	371	334	11%	193.4	183.6	5%	1,919	1,822	5%
Automotive	249	248	-	111.4	112.7	(1%)	2,244	2,198	2%
Paper/clay/forest	187	186	1%	70.3	71.6	(2%)	2,653	2,603	2%
Merchandise	1,597	1,577	1%	635.6	638.7	-	2,514	2,469	2%
Intermodal	593	538	10%	1,009.1	951.8	6%	587	565	4%
Coal	447	339	32%	266.1	210.0	27%	1,679	1,611	4%
Total	\$ 2,637	\$ 2,454	7%	1,910.8	1,800.5	6%	1,380	1,362	1%

Year-to-date									
Chemicals	\$ 833	\$ 845	(1%)	233.4	243.4	(4%)	\$ 3,568	\$ 3,471	3%
Agriculture/consumer/gov't	768	769	-	295.2	299.4	(1%)	2,602	2,568	1%
Metals and construction	711	634	12%	361.8	338.5	7%	1,966	1,874	5%
Automotive	495	502	(1%)	221.9	226.0	(2%)	2,232	2,220	1%
Paper/clay/forest	374	376	(1%)	140.9	144.6	(3%)	2,652	2,603	2%
Merchandise	3,181	3,126	2%	1,253.2	1,251.9	-	2,538	2,497	2%
Intermodal	1,164	1,060	10%	1,978.5	1,880.9	5%	588	564	4%
Coal	867	688	26%	525.7	424.8	24%	1,649	1,619	2%
Total	\$ 5,212	\$ 4,874	7%	3,757.4	3,557.6	6%	1,387	1,370	1%

Railway Operating Revenues Variance Analysis

(\$ in millions)

Second Quarter
2017 vs. 2016

	Merchandise		Intermodal		Coal	
	Amount	Percent	Amount	Percent	Amount	Percent
Revenue Variance due to:						
Volume	\$ (8)	(1%)	\$ 32	6%	\$ 90	27%
Fuel surcharge revenue	10	1%	19	4%	6	2%
Rate, mix and other	18	1%	4	1%	12	4%
Total	<u>\$ 20</u>	1%	<u>\$ 55</u>	10%	<u>\$ 108</u>	32%

Year-to-date
2017 vs. 2016

	Merchandise		Intermodal		Coal	
	Amount	Percent	Amount	Percent	Amount	Percent
Revenue Variance due to:						
Volume	\$ 3	-	\$ 55	5%	\$ 163	24%
Fuel surcharge revenue	15	-	41	4%	10	1%
Rate, mix, and other	37	1%	8	1%	6	1%
Total	<u>\$ 55</u>	2%	<u>\$ 104</u>	10%	<u>\$ 179</u>	26%

Coal Tonnage by Market

(in thousands)

	Second Quarter			Year-to-date		
	2017	2016	% Change	2017	2016	% Change
Utility	17,587	14,336	23%	35,189	29,740	18%
Export	6,566	3,683	78%	12,909	7,382	75%
Domestic metallurgical	3,982	3,580	11%	7,349	6,539	12%
Industrial	1,331	1,521	(12%)	2,802	3,196	(12%)
Total	<u>29,466</u>	<u>23,120</u>	27%	<u>58,249</u>	<u>46,857</u>	24%

Intermodal Units by Market

(in thousands)

	Second Quarter			Year-to-date		
	2017	2016	% Change	2017	2016	% Change
Domestic	627.1	589.3	6%	1,228.0	1,159.6	6%
International	382.0	362.5	5%	750.5	721.3	4%
Total	<u>1,009.1</u>	<u>951.8</u>	6%	<u>1,978.5</u>	<u>1,880.9</u>	5%

Financial, Traffic and Operating Statistics

	2016					2017					2017 vs. 2016				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to-date	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to-date
	(\$ in millions — except as noted)														
Railway operating revenues	\$ 2,420	\$ 2,454	\$ 2,524	\$ 2,490	\$ 9,888	\$ 2,575	\$ 2,637			\$ 5,212	\$ 155	\$ 183			\$ 338
Railway operating expenses:															
Compensation and benefits	723	667	691	662	2,743	743	703			1,446	20	36			56
Purchased services	300	309	312	321	1,242	304	318			622	4	9			13
Equipment rents	79	75	74	78	306	73	74			147	(6)	(1)			(7)
Fuel	149	174	181	194	698	213	190			403	64	16			80
Depreciation	252	257	258	259	1,026	259	264			523	7	7			14
Materials	80	91	102	91	364	92	87			179	12	(4)			8
Casualties and other claims	33	32	36	49	150	40	35			75	7	3			10
Other	81	79	50	75	285	78	78			156	(3)	(1)			(4)
Total railway operating expenses	1,697	1,684	1,704	1,729	6,814	1,802	1,749			3,551	105	65			170
Income from railway operations	723	770	820	761	3,074	773	888			1,661	50	118			168
Other income — net	16	4	29	22	71	24	32			56	8	28			36
Interest expense on debt	139	138	144	142	563	142	140			282	3	2			5
Income before income taxes	600	636	705	641	2,582	655	780			1,435	55	144			199
Total income taxes	213	231	245	225	914	222	283			505	9	52			61
Net income	\$ 387	\$ 405	\$ 460	\$ 416	\$ 1,668	\$ 433	\$ 497			\$ 930	\$ 46	\$ 92			\$ 138
Weighted average shares outstanding — diluted (in millions)	298.9	296.6	294.7	293.7	296.0	292.8	291.2			292.0	(6.1)	(5.4)			(5.7)
Earnings per share — diluted (dollars)	\$ 1.29	\$ 1.36	\$ 1.55	\$ 1.42	\$ 5.62	\$ 1.48	\$ 1.71			\$ 3.18	\$ 0.19	\$ 0.35			\$ 0.53
Dividends per share (dollars)	\$ 0.59	\$ 0.59	\$ 0.59	\$ 0.59	\$ 2.36	\$ 0.61	\$ 0.61			\$ 1.22	\$ 0.02	\$ 0.02			\$ 0.04
Railway operating ratio (percent)	70.1	68.6	67.5	69.4	68.9	70.0	66.3			68.1	(0.1)	(2.3)			(1.3)
Property additions	\$ 398	\$ 534	\$ 372	\$ 583	\$ 1,887	\$ 438	\$ 445			\$ 883	\$ 40	\$ (89)			\$ (49)
Cash, cash equivalents and short-term investments	\$ 589	\$ 866	\$ 984	\$ 956	\$ 956	\$ 955	\$ 642			\$ 642	\$ 366	\$ (224)			\$ (224)
Total debt	\$ 9,498	\$ 10,099	\$ 10,105	\$ 10,212	\$ 10,212	\$ 10,119	\$ 9,873			\$ 9,873	\$ 621	\$ (226)			\$ (226)
Total debt-to-total capitalization (percent)	43.7	45.1	44.9	45.1	45.1	44.7	43.8			43.8	1.0	(1.3)			(1.3)
Gross ton miles (GTMs) (in billions)	90.2	92.6	93.8	93.3	369.9	94.6	96.5			191.1	5%	4%			5%
Revenue ton miles (in billions):															
Merchandise	28.8	29.2	29.1	28.3	115.4	29.1	29.8			58.9	1%	2%			2%
Intermodal	9.6	10.5	10.7	10.7	41.5	10.2	10.7			20.9	6%	2%			4%
Coal	7.7	7.7	8.9	9.3	33.6	10.3	10.2			20.5	34%	32%			33%
Total	46.1	47.4	48.7	48.3	190.5	49.6	50.7			100.3	8%	7%			7%
Railroad employees (average)	28,077	27,928	27,817	27,601	27,856	27,453	27,088			27,271	(2%)	(3%)			(3%)
GTMs (thousands) per employee	3,213	3,315	3,374	3,380	13,280	3,445	3,562			7,006	7%	7%			7%
Locomotive diesel fuel consumed (in thousands of gallons)	120,251	114,075	112,864	114,815	462,005	119,420	111,331			230,751	(1%)	(2%)			(2%)
Average price (dollars) per gallon of locomotive diesel fuel	\$ 1.158	\$ 1.445	\$ 1.512	\$ 1.603	\$ 1.426	\$ 1.690	\$ 1.609			\$ 1.651	46%	11%			27%
Gallons of fuel consumed per thousand GTMs	1.35	1.25	1.21	1.24	1.26	1.27	1.16			1.22	(6%)	(7%)			(6%)
Train speed (miles per hour)	23.6	23.5	23.1	23.2	23.3	22.7	21.5			22.1	(4%)	(9%)			(6%)
Terminal dwell (hours)	25.3	23.1	23.5	24.0	23.9	24.3	25.1			24.7	(4%)	9%			2%

2017

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