Norfolk Southern Corporation and Subsidiaries Consolidated Statements of Income (Unaudited)

	Second Quarter		First Six Months		
	2018	2017	2018	2017	
	(\$ in	(\$ in millions, except per share amounts)			
Railway operating revenues					
Merchandise	\$ 1,718	\$ 1,597	\$ 3,323	\$ 3,181	
Intermodal	714	593	1,392	1,164	
Coal	466	447	900	867	
Total railway operating revenues	2,898	2,637	5,615	5,212	
Railway operating expenses					
Compensation and benefits	706	719	1,443	1,478	
Purchased services and rents	430	392	831	769	
Fuel	272	190	538	403	
Depreciation	273	264	545	523	
Materials and other	191	200	397	410	
Total railway operating expenses	1,872	1,765	3,754	3,583	
Income from railway operations	1,026	872	1,861	1,629	
Other income – net	29	48	37	88	
Interest expense on debt	131	140	267	282	
Income before income taxes	924	780	1,631	1,435	
Income taxes					
Current	170	225	280	391	
Deferred	44	58	89	114	
Total income taxes	214	283	369	505	
Net income	\$ 710	\$ 497	\$ 1,262	\$ 930	
Earnings per share - diluted	\$ 2.50	\$ 1.71	\$ 4.43	\$ 3.18	
Weighted average shares outstanding - diluted	283.7	291.2	284.8	292.0	

Norfolk Southern Corporation and Subsidiaries Consolidated Statements of Comprehensive Income (Unaudited)

	Second Quarter			First Six Months				
		2018		2017		2018		2017
	(\$ in millions)							
Net income	\$	710	\$	497	\$	1,262	\$	930
Other comprehensive income, before tax:								
Pension and other postretirement benefit		8		7		1		14
Other comprehensive income (loss) of								
equity investees		1		1		2		(1)
Other comprehensive income, before tax		9		8		3		13
Income tax expense related to items of								
other comprehensive income		(2)		(3)				(6)
Other comprehensive income, net of tax		7		5		3		7
Total comprehensive income	\$	717	\$	502	\$	1,265	\$	937

Norfolk Southern Corporation and Subsidiaries Consolidated Balance Sheets (Unaudited)

	June 30, 2018		December 31, 2017	
	(\$ in millions)			
Assets				
Current assets:	_		_	
Cash and cash equivalents	\$	430	\$	690
Accounts receivable – net		1,035		955
Materials and supplies		260		222
Other current assets		179		282
Total current assets		1,904		2,149
Investments		3,058		2,981
Properties less accumulated depreciation of \$12,175 and				
\$11,909, respectively		30,540		30,330
Other assets		286		251
Total assets	\$	35,788	\$	35,711
Liabilities and stockholders' equity				
Current liabilities:				
Accounts payable	\$	1,323	\$	1,401
Short-term debt				100
Income and other taxes		269		211
Other current liabilities		260		233
Current maturities of long-term debt		500		600
Total current liabilities		2,352		2,545
Long-term debt		9,146		9,136
Other liabilities		1,317		1,347
Deferred income taxes		6,414		6,324
Total liabilities		19,229		19,352
Stockholders' equity:				
Common stock \$1.00 per share par value, 1,350,000,000 shares authorized; outstanding 280,029,764 and 284,157,187 shares,				
respectively, net of treasury shares		281		285
Additional paid-in capital		2,263		2,254
Accumulated other comprehensive loss		(441)		(356)
Retained income		14,456		14,176
Total stockholders' equity		16,559		16,359
Total liabilities and stockholders' equity	\$	35,788	\$	35,711

See accompanying notes to consolidated financial statements.

Norfolk Southern Corporation and Subsidiaries Consolidated Statements of Cash Flows (Unaudited)

Cash flows from operating activities Net income \$ 1,262 \$ 930 Reconcilitation of net income to net cash provided by operating activities: 546 525 Deperciation 546 525 Deferred income taxes 89 114 Gains and losses on properties (14) (20) Changes in assets and liabilities affecting operations: (92) (12) Accounts receivable (92) (12) Active current assets 19 48 Current liabilities other than debt 134 93 Other – net (80) (70) Net cash provided by operating activities 1,826 1,576 Cash flows from investing activities (836) (883) Property additions (836) (883) Property sales and other transactions 48 60 Investment purchases (4) (4) Investment purchases (4) (4) Investment sales and other transactions (786) (824) Cash flows from financing activities		First Six Months 2018 2017			
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Investment sales and other transactions 6 3 Net cash used in investing activities (786) (824) Cash flows from financing activities \$\$\$\$ \$\$\$\$\$\$ Dividends (408) (354) Common stock transactions 15 42 Purchase and retirement of common stock (700) (402) Proceeds from borrowings – net of issuance costs 543 298 Debt repayments (750) (650) Net cash used in financing activities (1,300) (1,066) Net decrease in cash and cash equivalents (260) (314) Cash and cash equivalents 690 956 At end of period \$ 430 642 Supplemental disclosures of cash flow information Cash paid during the period for: Interest (net of amounts capitalized) \$ 246 \$ 270	Property sales and other transactions		48		60
Investment sales and other transactions 6 3 Net cash used in investing activities (786) (824) Cash flows from financing activities ————————————————————————————————————	Investment purchases		(4)		(4)
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Net decrease in cash and cash equivalents (260) (314) Cash and cash equivalents At beginning of year 690 956 At end of period \$ 430 \$ 642 Supplemental disclosures of cash flow information Cash paid during the period for: Interest (net of amounts capitalized) \$ 246 \$ 270	The state of the s		(750)		(650)
Cash and cash equivalents At beginning of year 690 956 At end of period \$ 430 \$ 642 Supplemental disclosures of cash flow information Cash paid during the period for: Interest (net of amounts capitalized) \$ 246 \$ 270	Net cash used in financing activities		(1,300)		(1,066)
At beginning of year 690 956 At end of period \$ 430 \$ 642 Supplemental disclosures of cash flow information Cash paid during the period for: Interest (net of amounts capitalized) \$ 246 \$ 270	Net decrease in cash and cash equivalents		(260)		(314)
At beginning of year 690 956 At end of period \$ 430 \$ 642 Supplemental disclosures of cash flow information Cash paid during the period for: Interest (net of amounts capitalized) \$ 246 \$ 270	Cash and cash equivalents				
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Cash paid during the period for: Interest (net of amounts capitalized) \$ 246 \$ 270	At end of period	\$	430	\$	642
Cash paid during the period for: Interest (net of amounts capitalized) \$ 246 \$ 270	Supplemental disclosures of cash flow information				
Interest (net of amounts capitalized) \$ 246 \$ 270					
		\$	246	\$	270
	Income taxes (net of refunds)	-		•	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS:

1. Pension and Other Postretirement Benefits

We adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2017-07 on January 1, 2018. The retrospective application resulted in the reclassification of \$16 million and \$32 million of pension and other postretirement benefits from the "Compensation and benefits" line item within "Railway operating expenses" to "Other income - net" on the Consolidated Statements of Income for the second quarter and first six months of 2017, respectively.

2. Stock Repurchase Program

We repurchased and retired 4.8 million and 3.4 million shares of common stock under our stock repurchase program in the first six months of 2018 and 2017, respectively, at a cost of \$700 million and \$402 million, respectively. Since the beginning of 2006, we have repurchased and retired 173.3 million shares at a total cost of \$12.0 billion.

3. Reclassification of Stranded Tax Effects

In February 2018, the FASB issued ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This update is intended to reclassify the stranded tax effects resulting from the Tax Cuts and Jobs Act that was enacted on December 22, 2017 from accumulated other comprehensive income to retained earnings. In the first quarter of 2018, we adopted the provisions of ASU 2018-02 resulting in an increase to "Accumulated other comprehensive loss" of \$88 million and a corresponding increase to "Retained income," with no impact on "Total stockholders' equity."