



# 2019 Second Quarter Earnings Conference Call

July 24, 2019



# Forward-Looking Statements



This presentation contains forward-looking statements within the meaning of the safe harbor provision of the Private Securities Litigation Reform Act of 1995, as amended. These statements relate to future events or future performance of Norfolk Southern Corporation's (NYSE: NSC) ("Norfolk Southern," "NS" or the "Company"), including but not limited to statements regarding future financial performance and anticipated results, benefits, and targets related to the strategic plan. In some cases, these forward-looking statements may be identified by the use of words like "will," "believe," "expect," "targets," "anticipate," "estimate," "plan," "consider," "project," and similar references to the future. The Company has based these forward-looking statements on management's current expectations, assumptions, estimates, beliefs, and projections. While the Company believes these expectations, assumptions, estimates, and projections are reasonable, forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which involve factors or circumstances that are beyond the Company's control, including but not limited to: general North American and global economic conditions; changes in energy prices and fuel markets; uncertainty surrounding timing and volumes of commodities being shipped; changes in laws and regulations; uncertainties of claims and lawsuits; labor disputes; transportation of dangerous goods; effects of changes in capital market conditions; and severe weather. These and other important factors, including those discussed under "Risk Factors" in the Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission (the "SEC"), as well as the Company's subsequent filings with the SEC, may cause actual results, benefits, performance, or achievements to differ materially from those expressed or implied by these forward-looking statements. Please refer to these SEC filings for a full discussion of those risks and uncertainties we view as most important.

Forward-looking statements are not, and should not be relied upon as, a guarantee of future events or performance, nor will they necessarily prove to be accurate indications of the times at or by which any such events or performance 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.



# 2019 Highlights Second Quarter

July 24, 2019

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



# Second Quarter and First Half Results Versus Prior Year



*Well positioned to build on momentum and improve full year OR by at least 100 bps*

	2Q19 vs 2Q18		1H19 vs 1H18	
Income from operations	▶ <b>\$1,065M</b> <i>RECORD RESULTS</i>	↑ 4%	▶ <b>\$2,031M</b> <i>RECORD RESULTS</i>	↑ 9%
Net income	▶ <b>\$722M</b> <i>RECORD RESULTS</i>	↑ 2%	▶ <b>\$1,399M</b> <i>RECORD RESULTS</i>	↑ 11%
Earnings per share	▶ <b>\$2.70</b> <i>RECORD RESULTS</i>	↑ 8%	▶ <b>\$5.21</b> <i>RECORD RESULTS</i>	↑ 18%
Operating ratio	▶ <b>63.6%</b> <i>RECORD RESULTS</i>	64.6%	▶ <b>64.8%</b> <i>RECORD RESULTS</i>	66.9%





# 2019 Marketing Overview Second Quarter

July 24, 2019

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



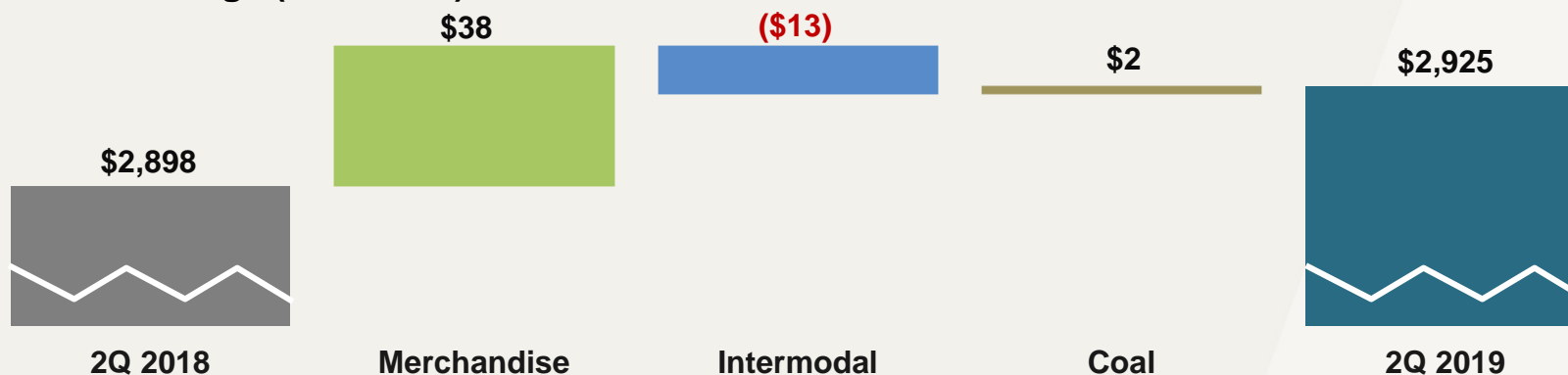
# Railway Operating Revenue

## Second Quarter 2019 vs. 2018



*Pricing improvements offset volume decline to drive revenue growth*

### Revenue Change (\$ millions)



	Merchandise	Intermodal	Coal	Total
Revenue	\$1,756M ↑ 2% <i>RECORD REVENUE</i>	\$701M ↓ (2%)	\$468M - %	\$2,925M ↑ 1%
Volume	638,200 ↓ (3%)	1,048,500 ↓ (4%)	258,300 ↓ (6%)	1,945,000 ↓ (4%)
RPU	\$2,751 ↑ 5%	\$668 ↑ 2%	\$1,815 ↑ 7%	\$1,504 ↑ 5%
RPU (less fuel)*	\$2,692 ↑ 5%	\$570 ↑ 3%	\$1,804 ↑ 9%	\$1,430 ↑ 5% <i>RECORD RPU LF</i>

\* Please see reconciliation to GAAP posted on our website on the Invest in NS page under Events for this event.

*Superior service product and ongoing pricing initiatives  
to drive margin and revenue growth in 2H19*



## MERCHANDISE

Favorable oil price differentials

Growth in US light vehicle production

Competition from pipeline activity



## INTERMODAL

International business growth

Sustained consumer demand

Increased truck capacity



## COAL

Weak seaborne coal pricing impacting volume and RPU

Competition from natural gas and renewables



# 2019 Operations Overview Second Quarter

July 24, 2019

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

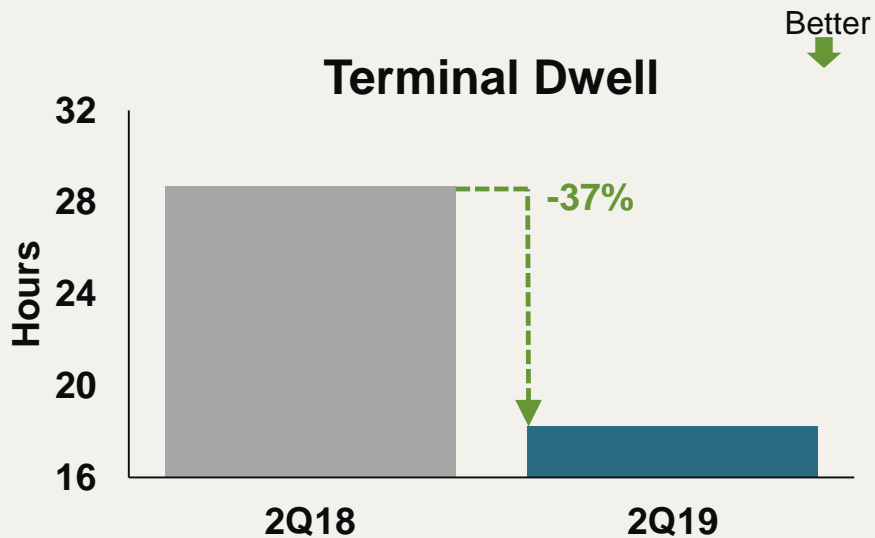
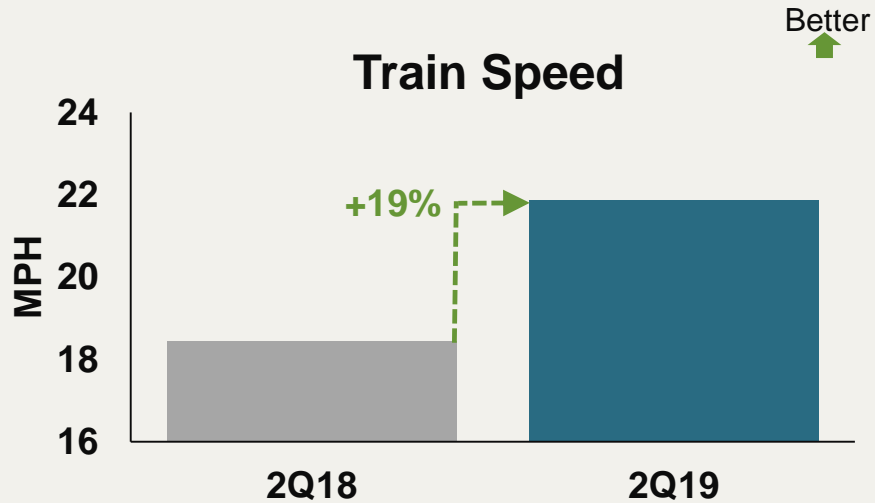




# Service Performance



Execution of NS plan and principles of PSR driving continued network improvements



## Record Quarterly Performance

- Train Performance
- Terminal Dwell
- Shipment Consistency
- Car-level Velocity

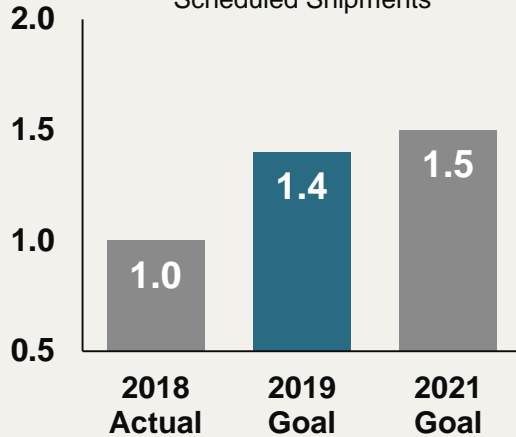
# Service and Productivity Metrics



*On track to achieve our goals*

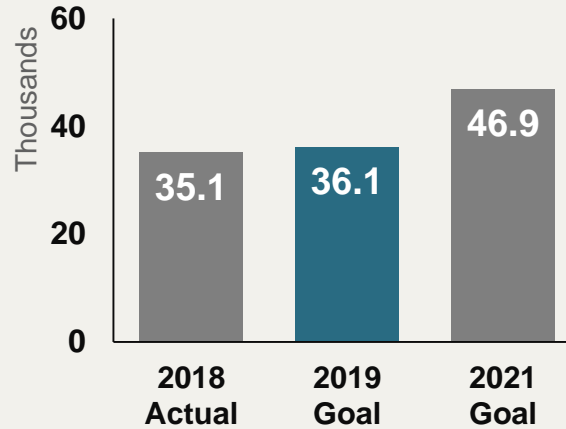
## Service Delivery Index

Delivery Performance of Scheduled Shipments\*



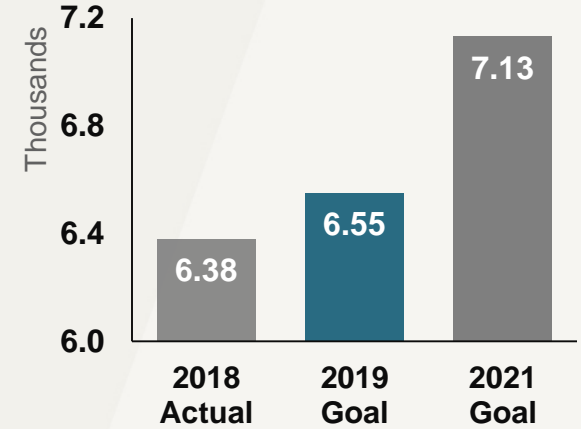
## T&E Productivity

KGTM / Average Active T&E



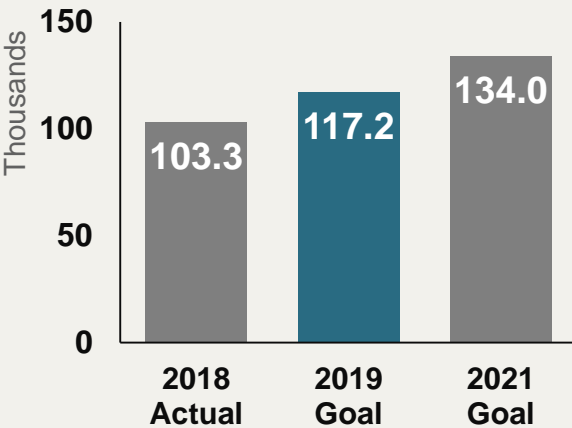
## Train Weight

Tons / Road Train



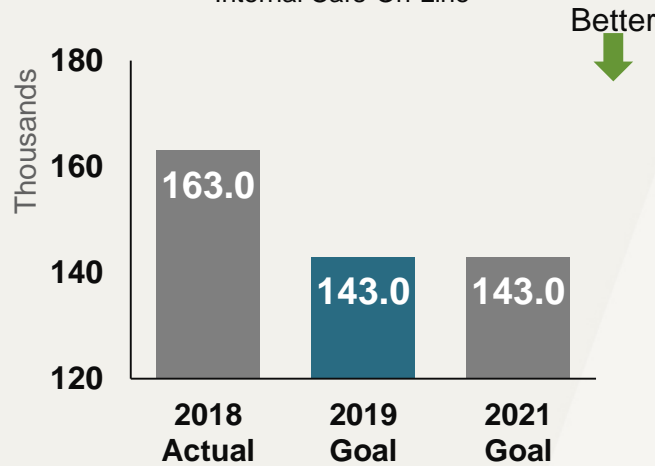
## Locomotive Productivity

KGTM / Average Active Locomotive\*\*



## Cars-On-Line

Internal Cars-On-Line

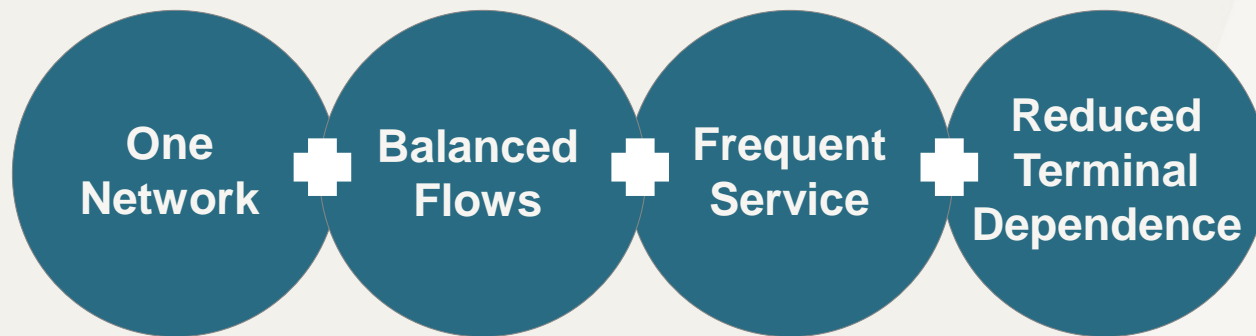


Better ↑ Unless otherwise indicated

\* Blended calculation of Shipment Consistency and Intermodal Availability

\*\* Includes units available to transportation + bad orders

## Successful implementation of TOP21



### ■ Implementation

- Rolled out operating plan changes throughout the 2<sup>nd</sup> quarter
- Targeted train plan changes concentrated primarily around edges of network
- Full implementation July 1<sup>st</sup>
- Partnership between Network Planning and Optimization, Marketing, and Transportation

### ■ Communication

- 19 joint customer-employee Town Halls held across network
- Numerous one-on-one customer meetings explaining objectives and expectations

# Driving Operational Improvements Through TOP21



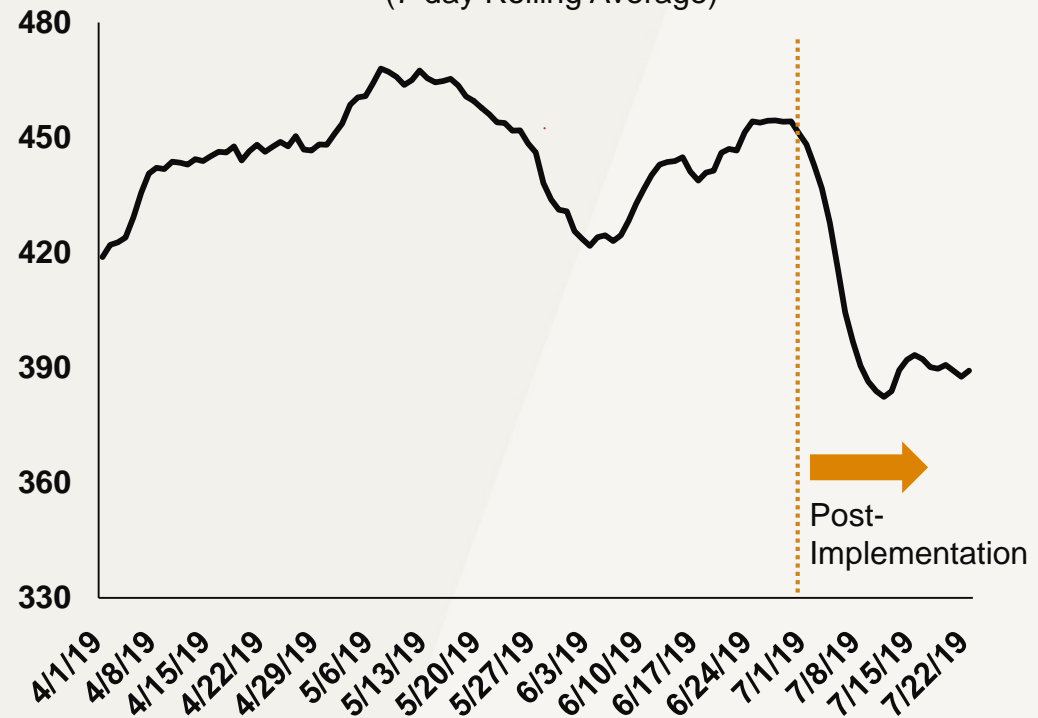
*New operating plan expected to drive further improvement in near- and long-term*

## Merchandise and Automotive Plan

- More than doubled use of Distributed Power
- Reduced circuitry by 20+%
- Reduced train miles by 15%
- Reduced train starts by 10+%
- 87% of traffic affected (new trip plan)

## All Road Trains Operated

(7-day Rolling Average)







# 2019 Financial Overview Second Quarter

July 24, 2019

*Cynthia C. Earhart  
Executive Vice President Finance  
and Chief Financial Officer*





# Operating Results

Second Quarter 2019 vs. 2018 (\$ millions)



*Continue to make significant progress on financial goals and deliver record results*

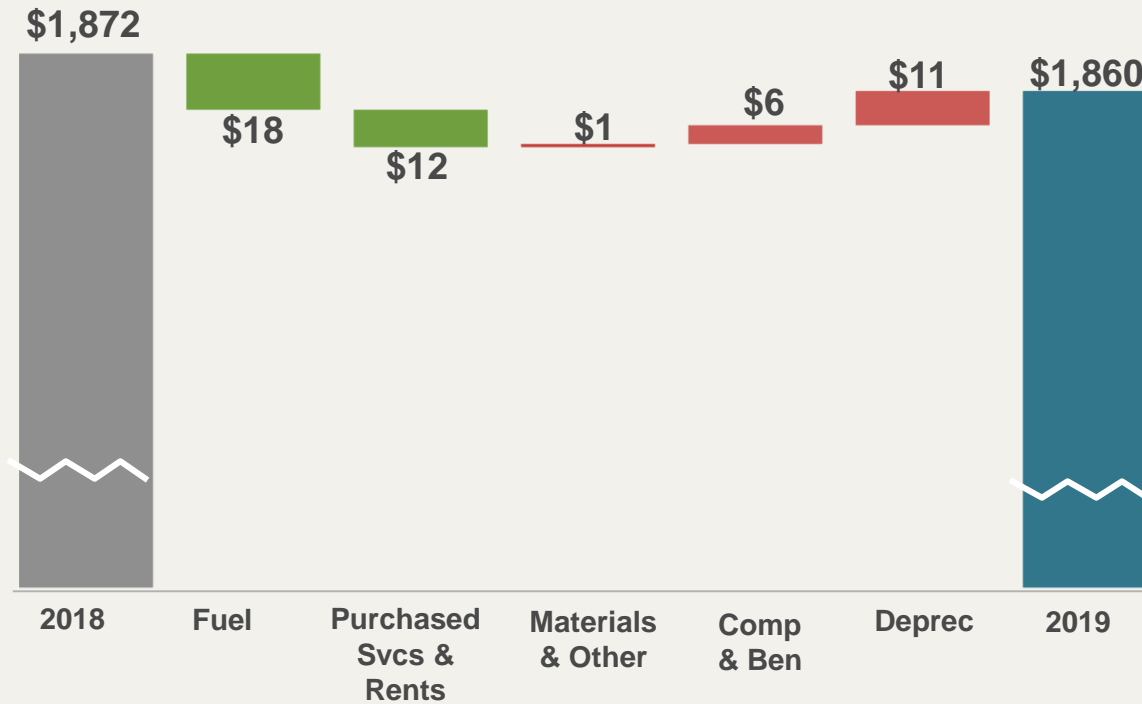
	2019	2018	Favorable	
Railway operating revenues	\$ 2,925	\$ 2,898	\$ 27	1%
Railway operating expenses	1,860	1,872	12	1%
Income from railway operations	\$  1,065 <i>RECORD RESULT</i>	\$ 1,026	\$ 39	4%
Operating ratio (%)	 63.6 <i>RECORD RESULT</i>	64.6	1.0	2%

# Operating Expense Components

Second Quarter 2019 vs. 2018 (\$ millions)



*Operating expenses decreased \$12 million*



## Benefits associated with strategic initiatives




- Decreased employee activity levels, overtime and reworks
- Lower equipment rents
- Lower materials expenses

# Financial Results

Second Quarter 2019 vs. 2018 (\$ millions except per share)



**Net income up 2% and diluted earnings per share up 8%**

	2019	2018	Favorable (Unfavorable)	
Income from railway operations	\$  <b>1,065</b> <i>RECORD RESULT</i>	\$ 1,026	\$ <b>39</b>	<b>4%</b>
Other income – net	<b>22</b>	29	<b>(7)</b>	<b>(24%)</b>
Interest expense on debt	<b>153</b>	131	<b>(22)</b>	<b>(17%)</b>
Income before income taxes	<b>934</b>	924	<b>10</b>	<b>1%</b>
Income taxes	<b>212</b>	214	<b>2</b>	<b>1%</b>
Net income	\$  <b>722</b> <i>RECORD RESULT</i>	\$ 710	\$ <b>12</b>	<b>2%</b>
Earnings per share – diluted	\$  <b>2.70</b> <i>RECORD RESULT</i>	\$ 2.50	\$ <b>0.20</b>	<b>8%</b>



# Cash Flows

First Six Months 2019 vs. 2018 (\$ millions)



*Returns to shareholders up 36%*

		2019		2018
Cash from operating activities	\$	1,952	\$	1,826
Property additions		(979)		(836)
Free cash flow <sup>(1)</sup>	\$	973	\$	990
Returns to shareholders:				
Dividends	\$	458	\$	408
Share repurchases	\$	1,050	\$	700

(1) Please see reconciliation to GAAP posted on our website on the Invest in NS page under Events for this event.

Thank You



[www.norfolksouthern.com](http://www.norfolksouthern.com)

