



# Third Quarter Earnings Conference Call

October 26, 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.



# Third Quarter and Nine Month Highlights

October 26, 2016

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

# 3Q and YTD Updates – 2016 vs. 2015

*Continued execution of proven strategy driving strong results*

- Operating Ratio
  - Third quarter 67.5%, improved 220 basis points, or 3%
  - Record first nine months 68.7%, improved 330 basis points, or 5%
- Earnings Per Share
  - Third quarter \$1.55, improved \$0.06, or 4%
  - First nine months \$4.21, improved \$0.31, or 8%
- Composite Service Metric
  - Third quarter 80%, improved 8%
  - First nine months 80%, improved 14%

# Strategic Plan Enhancing Shareholder Value in Near- and Long-Term

*Agile NS team reliably delivers shareholder value*

- NS well positioned to achieve 2016 financial and operational targets
  - Operating ratio below 70%
  - Productivity savings of about \$250 million
  - Capital spending of \$1.9 billion
- Dedicated team focus on delivering long-term 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



# Third Quarter 2016 Marketing Overview

October 26, 2016

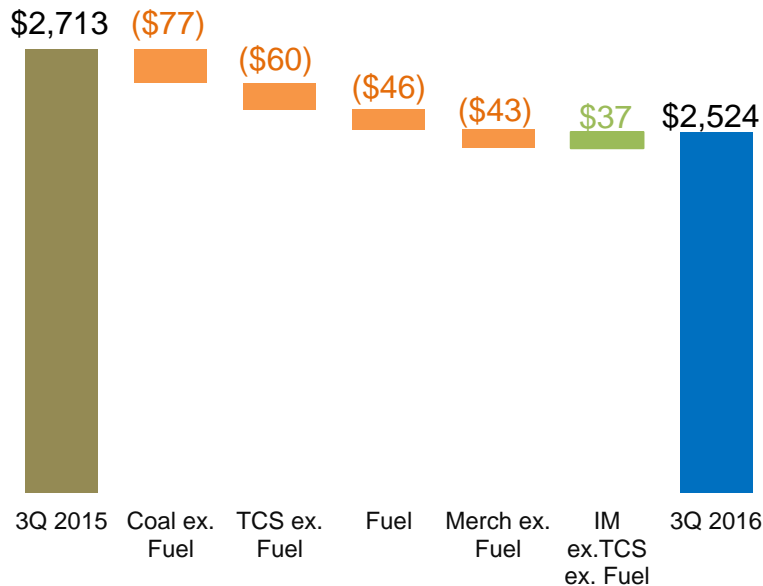
*Alan H. Shaw  
Executive Vice President  
and Chief Marketing Officer*

# Railway Operating Revenue

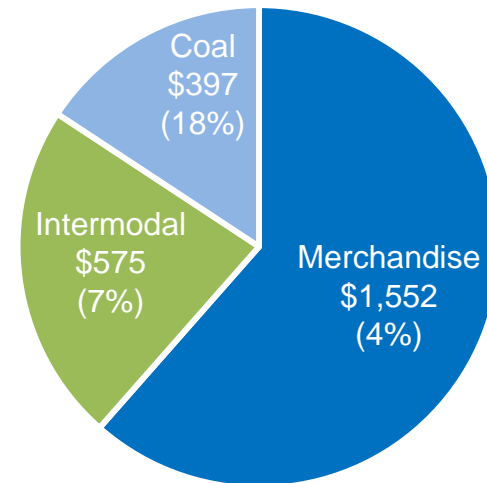
## Third Quarter 2016 vs. 2015

Revenue	RPU	RPU Less Fuel <sup>(1)</sup>	Volume
\$2.5 Billion	\$1,355	\$1,320	1,862,200 units
down (7%)	down (3%)	down (2%)	down (4%)

### 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 easing, sequential growth from 2Q*

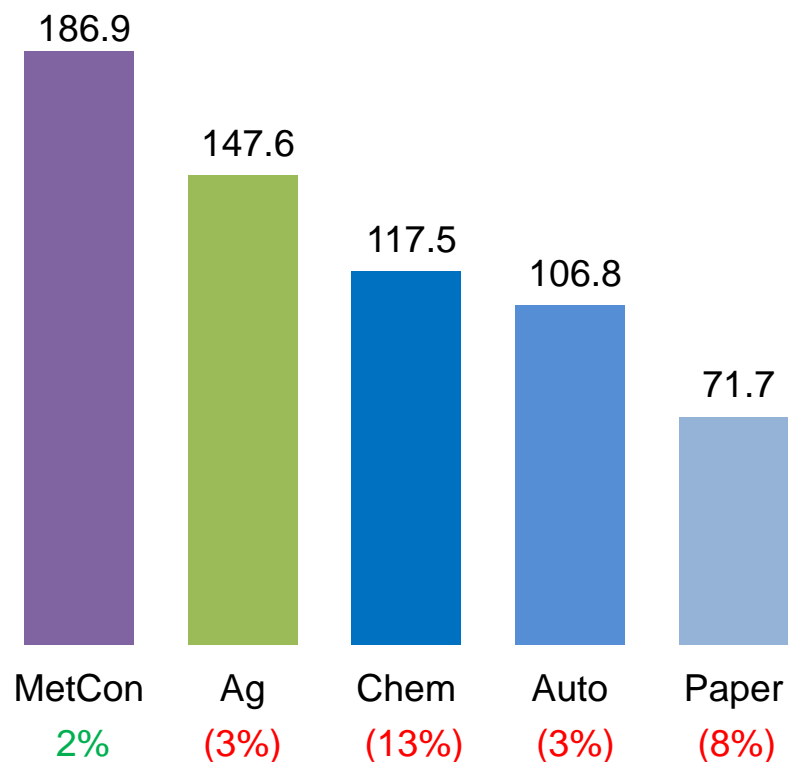
# Merchandise Market

## Third Quarter 2016 vs. 2015

Growth in steel and construction materials offset by declines in energy

Revenue	\$1,552 Million	↓	(4%)
Volume	630,500	↓	(4%)
RPU	\$2,462	↑	1%
<b>Less Fuel</b>			
Revenue	\$1,548 Million <sup>(1)</sup>	↓	(3%)
RPU	\$2,455 <sup>(1)</sup>	↑	1%

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



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



# Intermodal Market

## Third Quarter 2016 vs. 2015

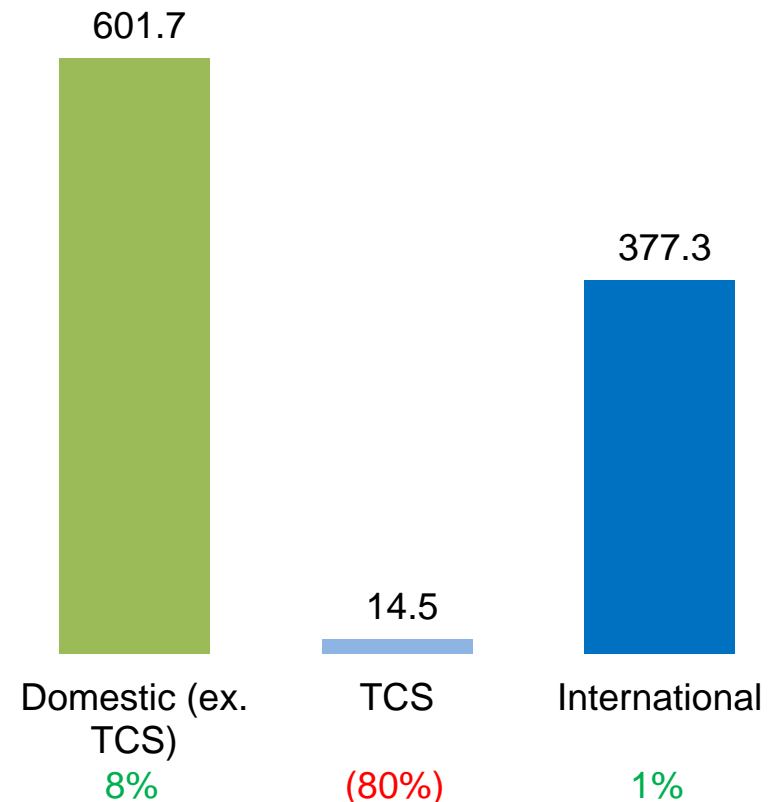
*Improved service drives domestic growth*

Revenue	\$575 Million	↓	(7%)
Volume	993,500	↓	(1%)
RPU	\$579	↓	(7%)
<b>Less Fuel</b>			
Revenue	\$520 Million <sup>(1)</sup>	↓	(4%)
RPU	\$523 <sup>(1)</sup>	↓	(4%)

### Excluding Triple Crown

Revenue	\$559 Million <sup>(1)</sup>	↑	5%
Volume	979,000	↑	6%
RPU	\$571 <sup>(1)</sup>	↓	(1%)
<b>Less Fuel</b>			
Revenue	\$507 Million <sup>(1)</sup>	↑	8%
RPU	\$518 <sup>(1)</sup>	↑	2%

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



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

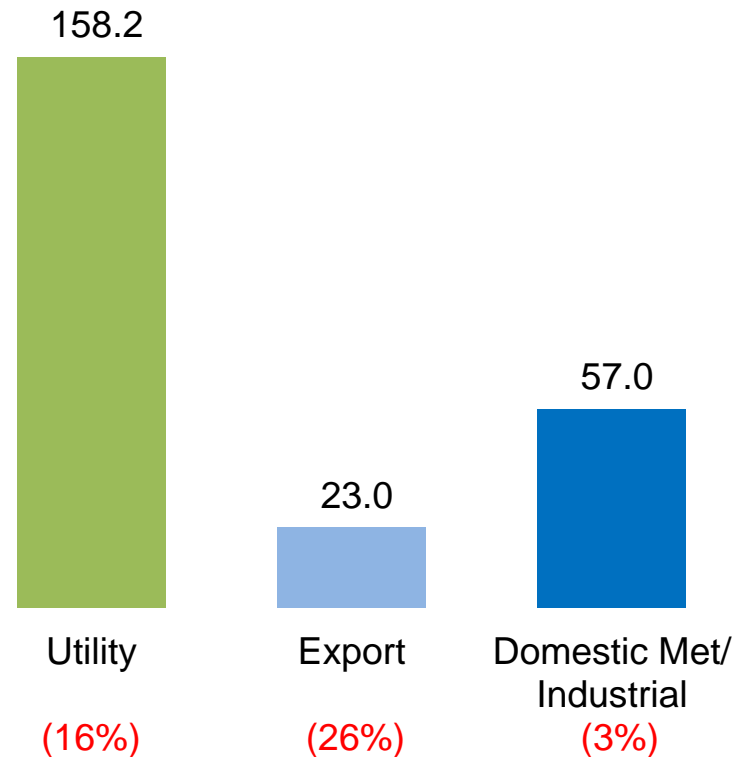
# Coal Market

Third Quarter 2016 vs. 2015

*Hot summer weather and higher natural gas prices increased utility burn; export conditions improving*

<b>Revenue</b>	\$397 Million	↓	(18%)
<b>Volume</b>	238,200	↓	(15%)
<b>RPU</b>	\$1,666	↓	(3%)
<b>Less Fuel</b>			
<b>Revenue</b>	\$389 Million <sup>(1)</sup>	↓	(17%)
<b>RPU</b>	\$1,635 <sup>(1)</sup>	↓	(2%)

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



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

# Continued Soft Market Conditions

## Volume

- Fourth quarter year-over-year, flat to moderate growth expected, despite continued challenges
  - Excess capacity in the trucking market
  - Stockpiles and weather impact coal volumes
  - Crude oil and Automotive declines
  - Stronger intermodal as we clear Triple Crown comparison
  - Metals market lags fourth quarter 2015 declines

## Pricing

- Focus on Pricing
  - 2016 pricing remains strong
  - Domestic truck rates lower
  - Leveraging value of service product
- Long-term view of markets and pricing

## Volume and Resource Alignment

- Flexibility to adapt to changing market conditions and volume expectations

*Growth in intermodal offsets energy-related declines*



# Third Quarter 2016 Operations Overview

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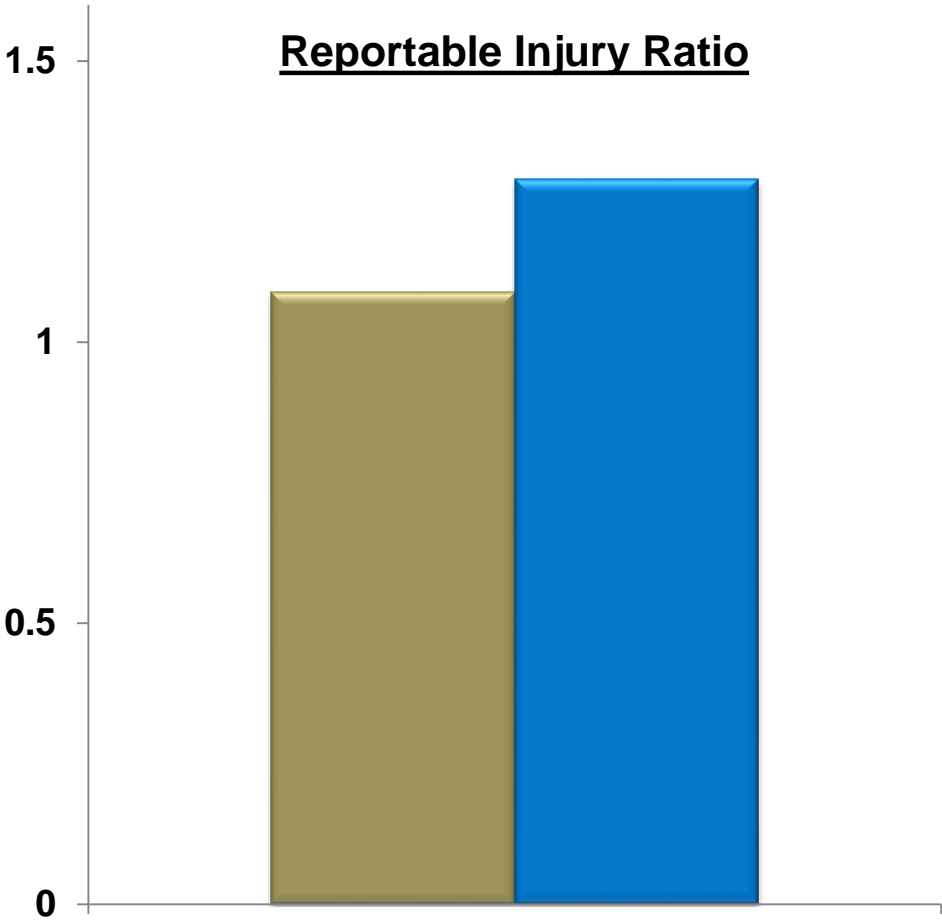
*Michael J. Wheeler*  
*Executive Vice President*  
*and Chief Operating Officer*

# Injury Ratios

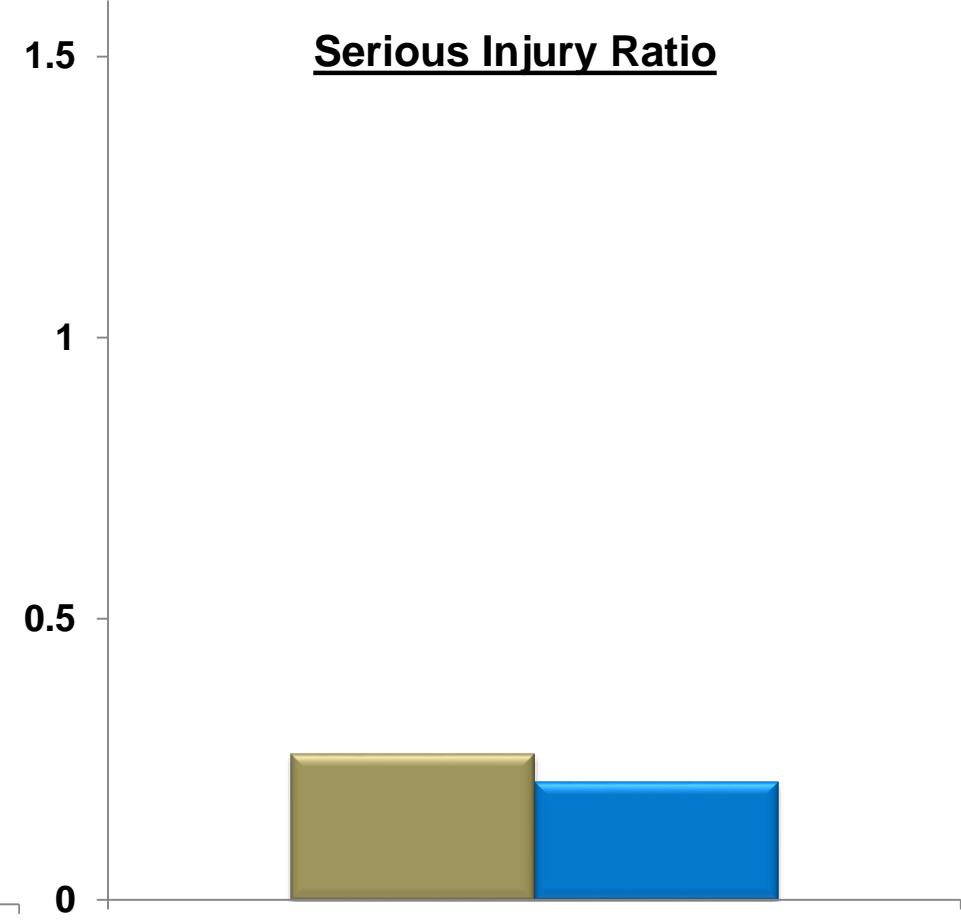
Per 200,000 employee hours worked

■ 3Q15 ■ 3Q16

Reportable Injury Ratio

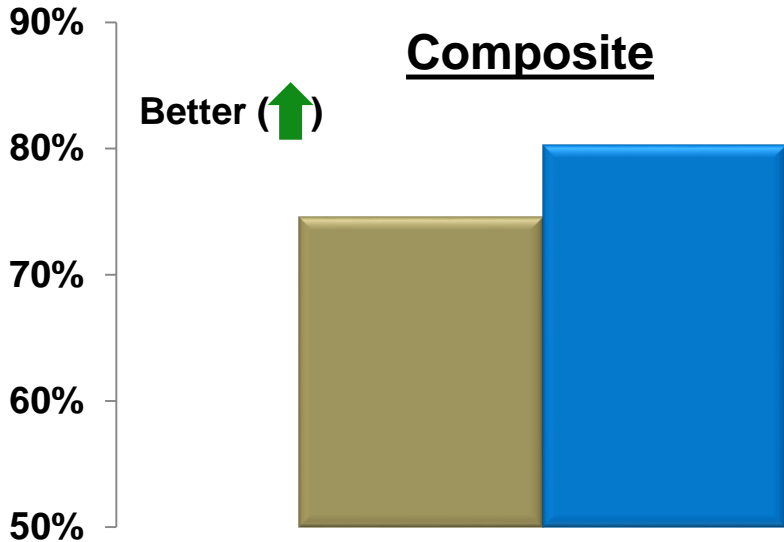


Serious Injury Ratio

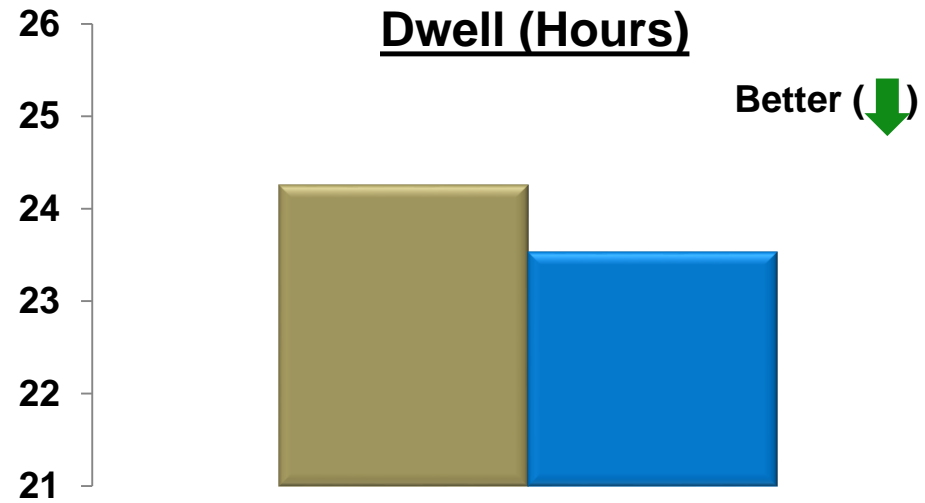
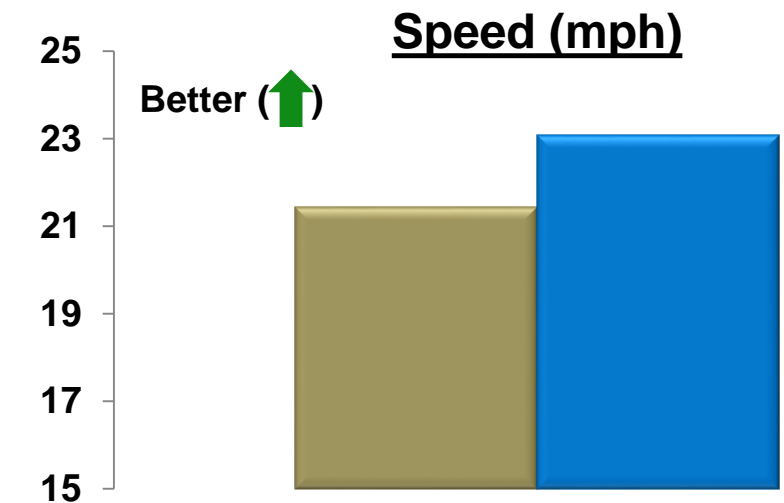


# Service Metrics

Velocity Remains Near Record Levels



- Service Composite ↑8%
- Train Speed ↑8%
- Dwell ↓3%



# Productivity Savings

3<sup>rd</sup> Quarter Year-over-Year Comparison

	3Q16
Carloads	(4%)
Crew Starts	(7%)
Recrews	(24%)
Total OT (\$)	(36%)
Train Length	3%
GTM/T&E Emp	6%
T&E Headcount	(10%)

# Network Changes

## Short line spinoffs

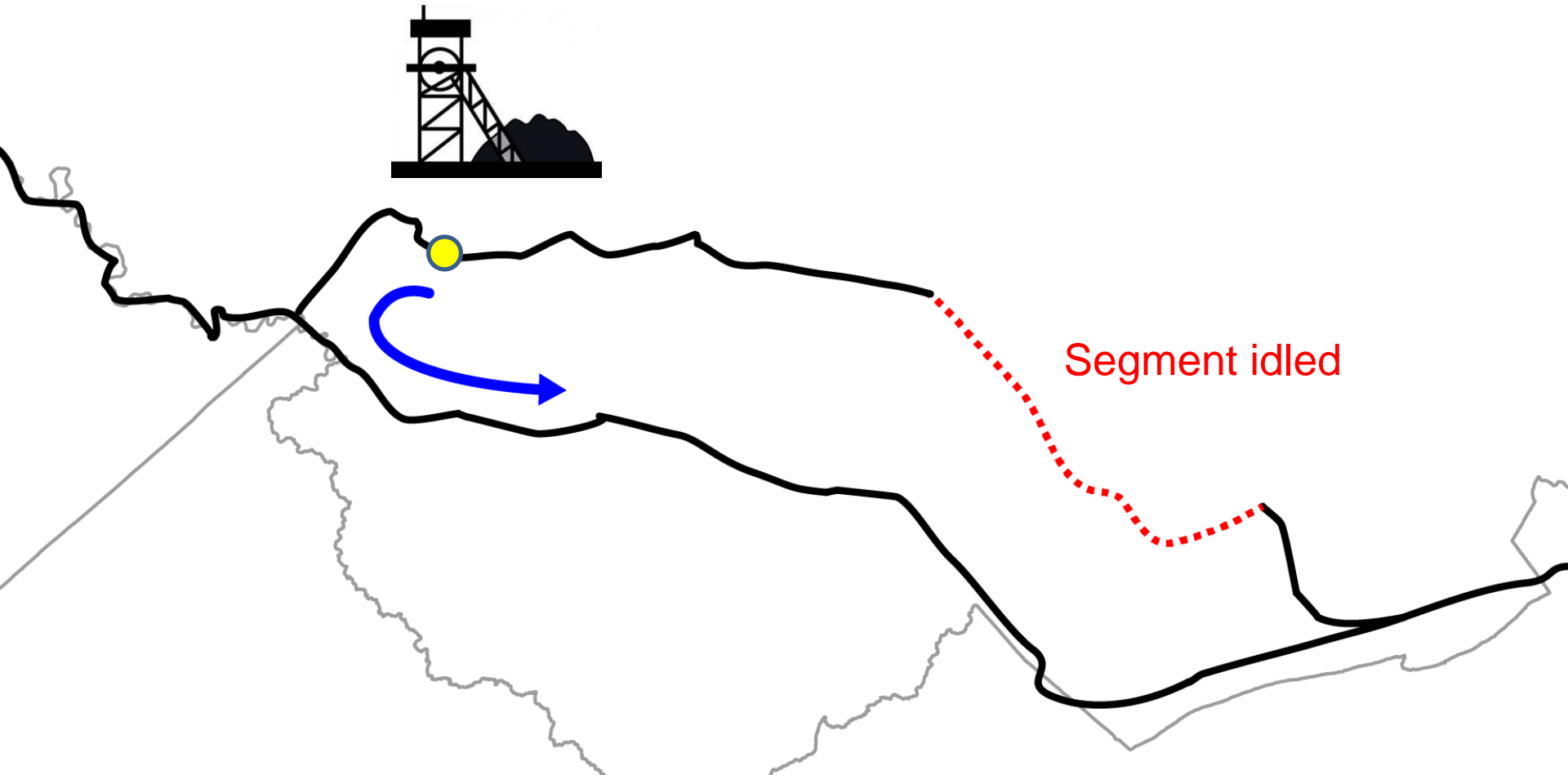


- Variabilizes NS costs
- Reduces investment needs
- Flexible service



# Network Changes

## Concentrating Flows



# Network Changes

## Reduced Speed/Investment



- Keeping a safe railroad
- Lower volume routes
- No customer impact



# Third Quarter 2016 Financial Overview

October 26, 2016

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

# Operating Results

Third Quarter 2016 vs. 2015 (\$ millions)

*Strong cost controls resulted in an operating ratio of 67.5%*

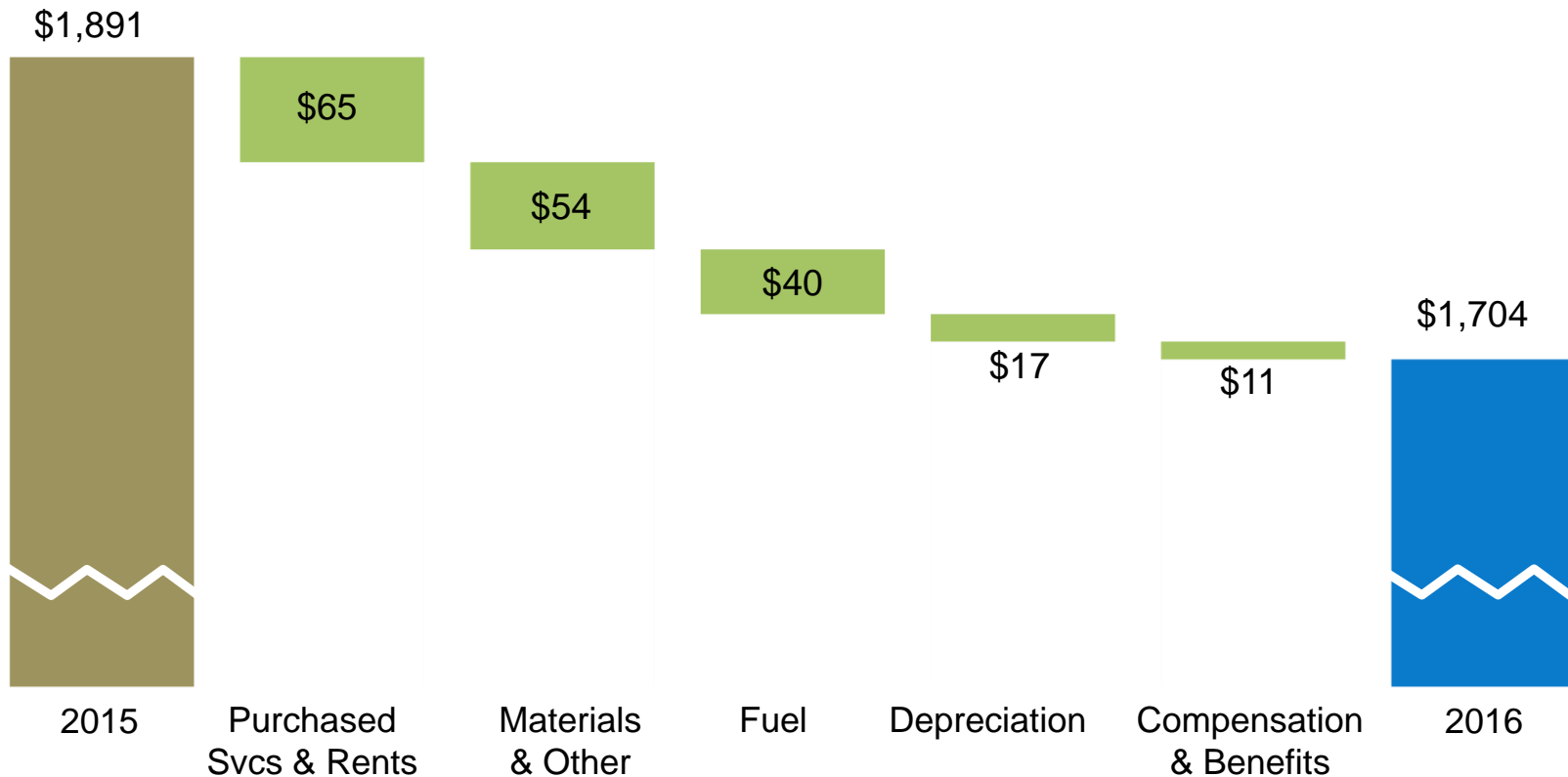
	2016	2015 *	\$	%
<b>Railway operating revenues</b>	\$ 2,524	\$ 2,713	\$ (189)	(7%)
<b>Railway operating expenses</b>	\$ 1,704	\$ 1,891	\$ 187	10%
<b>Income from railway operations</b>	\$ 820	\$ 822	\$ (2)	-%
<b>Railway operating ratio (%)</b>	67.5	69.7	2.2	3%
			<b>(Unfavorable)</b>	
			<b>Favorable</b>	

\* Third Quarter 2015 included restructuring costs of \$37 million, which increased the railway operating ratio by 140 basis points.

# Railway Operating Expenses

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

Streamlining operations to strengthen NS and drive productivity



# Compensation and Benefits

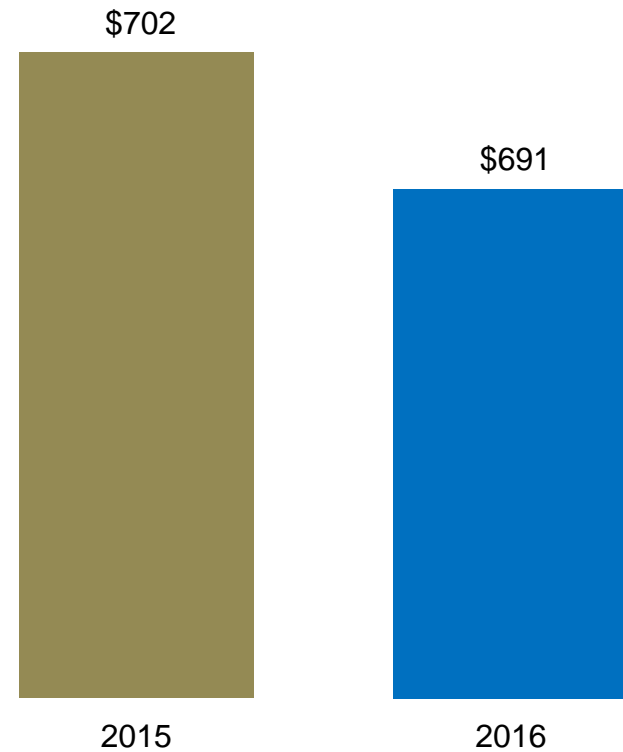
## Third Quarter 2016 vs. 2015 (\$ millions)

Net decrease of \$11 / 2%

- Reduced headcount, overtime and reworks - \$47
- Lower pension expense - \$9
- Lower payroll taxes - \$5
- Higher incentive compensation - \$39
- Wage inflation - \$14
- Higher health and welfare rates - \$12

### Average Rail Employees

3Q15	30,257
2Q16	27,928
3Q16	27,817

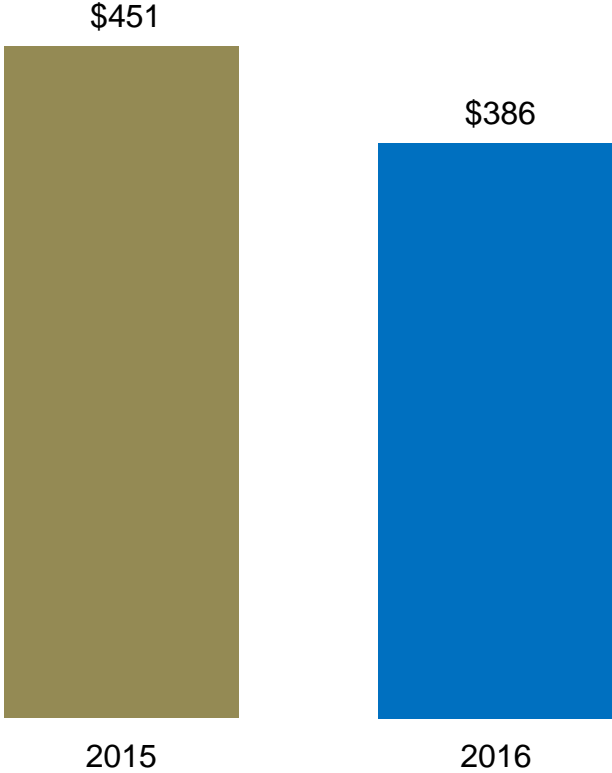


# Purchased Services and Rents

Third Quarter 2016 vs. 2015 (\$ millions)

Net decrease of \$65 / 14%

- Reduced Triple Crown operations - \$37
- Lower equipment rents - \$7

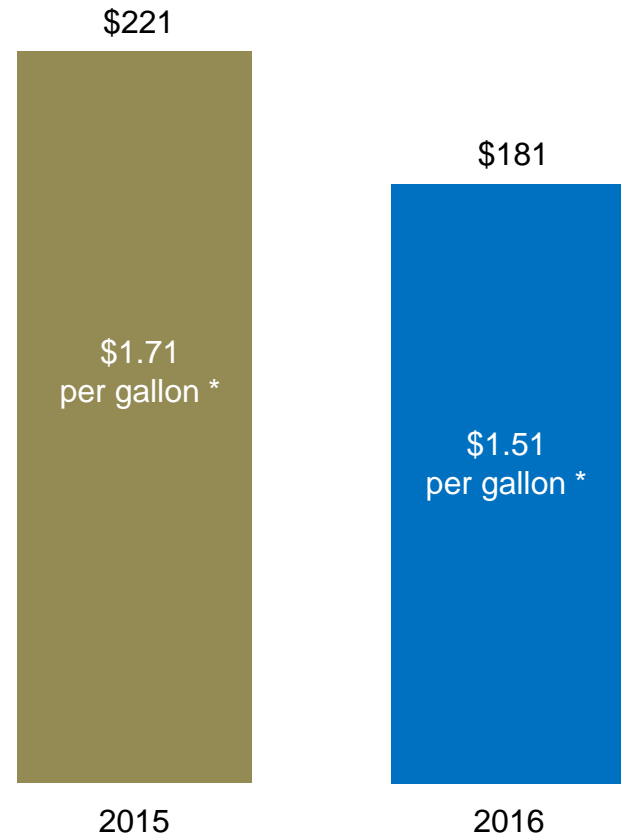


# Fuel

Third Quarter 2016 vs. 2015 (\$ millions)

Total decrease of \$40 / 18%

- 12% lower price per gallon
- 4% lower consumption



\* Reflects locomotive fuel only

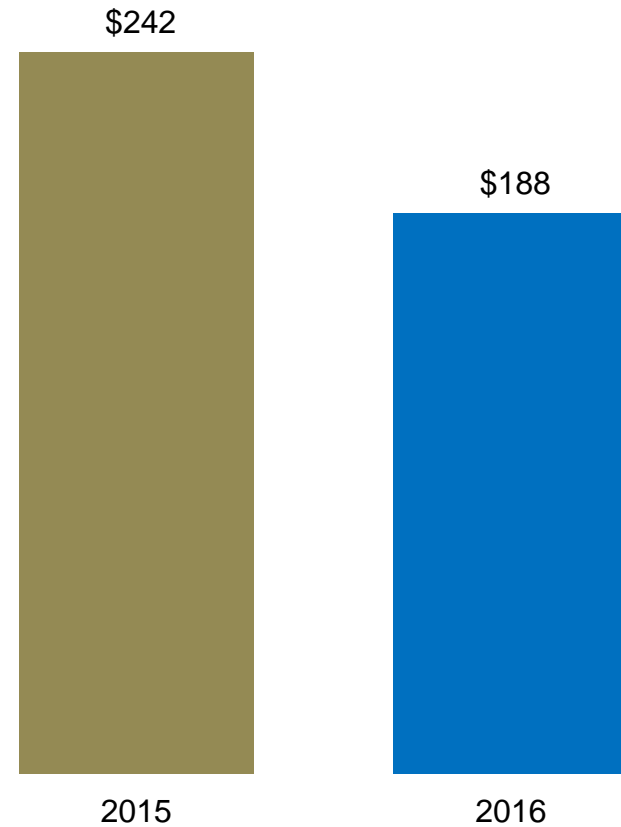


# Materials and Other

Third Quarter 2016 vs. 2015 (\$ millions)

Net decrease of \$54 / 22%

- Gain on sales of operating property - \$28
- Lower material usage, principally locomotive and freight car - \$15
- Prior year restructuring costs - \$8

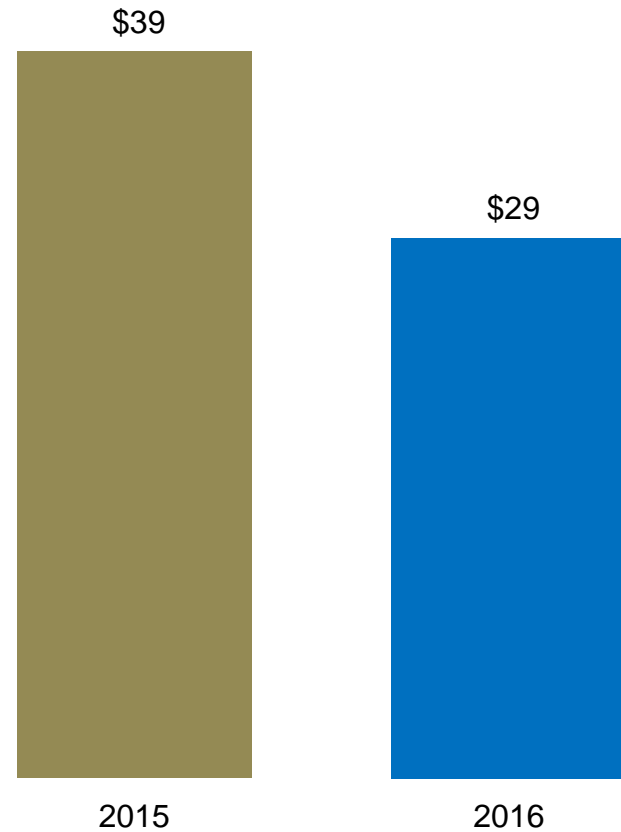


# Other Income - Net

Third Quarter 2016 vs. 2015 (\$ millions)

Net decrease of \$10 / 26%

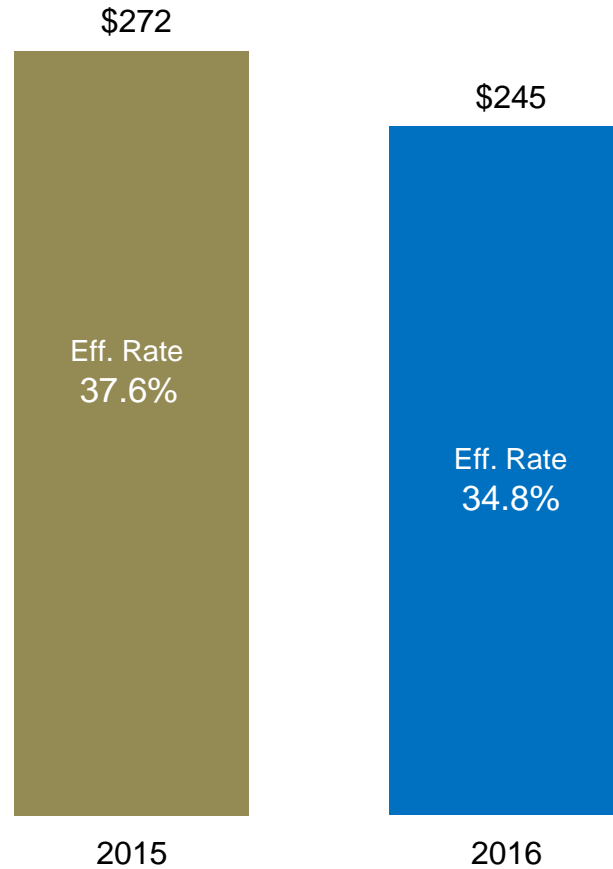
- Fewer gains from non-operating property sales - \$29
- Higher returns from corporate-owned life insurance - \$19



# Income Taxes

Third Quarter 2016 vs. 2015 (\$ millions)

Effective tax rate for the quarter was 34.8%



# Net Income and Diluted Earnings per Share

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

Net income up 2% and Earnings per Share up 6 cents

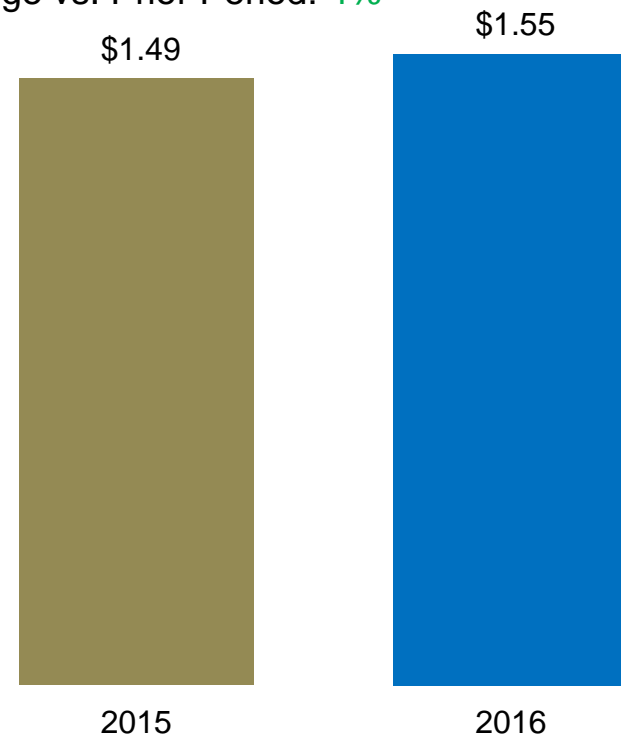
### Net Income

Change vs. Prior Period: 2%



### Diluted Earnings per Share

Change vs. Prior Period: 4%



# Cash Flows and Balances

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

*Free cash flow of \$1 billion and \$1.1 billion returned to shareholders*

	2016	2015
<b>Cash from operating activities</b>	\$ 2,312	\$ 2,208
<b>Capital expenditures</b>	\$ (1,304)	\$ (1,777)
<b>Free cash flow <sup>(1)</sup></b>	\$ 1,008	\$ 431
<b>Returns to shareholders:</b>		
<b>Dividends</b>	\$ (523)	\$ (537)
<b>Share repurchases</b>	\$ (603)	\$ (997)

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

# Thank You

