

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

	<b>Third Quarter</b>		<b>First Nine Months</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<i>(\$ in millions, except per share amounts)</i>			
<b>Railway operating revenues</b>				
Merchandise	\$ 1,552	\$ 1,610	\$ 4,678	\$ 4,757
Intermodal	575	621	1,635	1,846
Coal	397	482	1,085	1,390
Total railway operating revenues	2,524	2,713	7,398	7,993
<b>Railway operating expenses</b>				
Compensation and benefits	691	702	2,081	2,209
Purchased services and rents	386	451	1,149	1,312
Fuel	181	221	504	740
Depreciation	258	275	767	767
Materials and other	188	242	584	723
Total railway operating expenses	1,704	1,891	5,085	5,751
<b>Income from railway operations</b>	820	822	2,313	2,242
Other income – net	29	39	49	79
Interest expense on debt	144	137	421	403
Income before income taxes	705	724	1,941	1,918
Provision for income taxes				
Current	169	251	512	667
Deferred	76	21	177	56
Total income taxes	245	272	689	723
<b>Net income</b>	\$ 460	\$ 452	\$ 1,252	\$ 1,195
<b>Earnings per share</b>				
Basic	\$ 1.56	\$ 1.50	\$ 4.23	\$ 3.93
Diluted	1.55	1.49	4.21	3.90
<b>Weighted average shares outstanding</b>				
Basic	292.7	300.1	294.9	303.2
Diluted	294.7	302.5	296.7	305.8

*See accompanying notes to consolidated financial statements.*

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

	<b>Third Quarter</b>		<b>First Nine Months</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<i>(\$ in millions)</i>			
<b>Net income</b>	\$ 460	\$ 452	\$ 1,252	\$ 1,195
Other comprehensive income, before tax:				
Pension and other postretirement benefits	7	10	20	31
Other comprehensive loss of equity investees	—	—	—	(4)
Other comprehensive income, before tax	7	10	20	27
Income tax expense related to items of other comprehensive income	(3)	(3)	(8)	(11)
Other comprehensive income, net of tax	4	7	12	16
<b>Total comprehensive income</b>	<b>\$ 464</b>	<b>\$ 459</b>	<b>\$ 1,264</b>	<b>\$ 1,211</b>

*See accompanying notes to consolidated financial statements.*

**Norfolk Southern Corporation and Subsidiaries**  
**Consolidated Balance Sheets**  
(Unaudited)

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
	<i>(\$ in millions)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 984	\$ 1,101
Accounts receivable – net	960	946
Materials and supplies	301	271
Other current assets	72	194
Total current assets	2,317	2,512
Investments	2,779	2,572
Properties less accumulated depreciation of \$11,663 and \$11,478, respectively	29,467	28,992
Other assets	69	63
<b>Total assets</b>	<b>\$ 34,632</b>	<b>\$ 34,139</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 1,131	\$ 1,091
Short-term debt	—	200
Income and other taxes	218	203
Other current liabilities	333	237
Current maturities of long-term debt	550	500
Total current liabilities	2,232	2,231
Long-term debt	9,555	9,393
Other liabilities	1,322	1,385
Deferred income taxes	9,127	8,942
<b>Total liabilities</b>	22,236	21,951
Stockholders' equity:		
Common stock \$1.00 per share par value, 1,350,000,000 shares authorized; outstanding 291,942,235 and 297,795,016 shares, respectively, net of treasury shares	293	299
Additional paid-in capital	2,169	2,143
Accumulated other comprehensive loss	(433)	(445)
Retained income	10,367	10,191
<b>Total stockholders' equity</b>	12,396	12,188
<b>Total liabilities and stockholders' equity</b>	<b>\$ 34,632</b>	<b>\$ 34,139</b>

*See accompanying notes to consolidated financial statements.*

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

	<b>First Nine Months</b>	
	<b>2016</b>	<b>2015</b>
	<i>(\$ in millions)</i>	
<b>Cash flows from operating activities</b>		
Net income	\$ 1,252	\$ 1,195
Reconciliation of net income to net cash provided by operating activities:		
Depreciation	770	770
Deferred income taxes	177	56
Gains and losses on properties and investments	(38)	(20)
Changes in assets and liabilities affecting operations:		
Accounts receivable	8	(48)
Materials and supplies	(30)	(52)
Other current assets	130	295
Current liabilities other than debt	149	88
Other – net	<u>(106)</u>	<u>(76)</u>
Net cash provided by operating activities	2,312	2,208
<b>Cash flows from investing activities</b>		
Property additions	(1,304)	(1,777)
Property sales and other transactions	87	43
Investment purchases	(119)	(5)
Investment sales and other transactions	<u>6</u>	<u>32</u>
Net cash used in investing activities	(1,330)	(1,707)
<b>Cash flows from financing activities</b>		
Dividends	(523)	(537)
Common stock transactions	33	1
Purchase and retirement of common stock	(603)	(997)
Proceeds from borrowings – net	594	594
Debt repayments	<u>(600)</u>	<u>(102)</u>
Net cash used in financing activities	<u>(1,099)</u>	<u>(1,041)</u>
Net decrease in cash and cash equivalents	(117)	(540)
<b>Cash and cash equivalents</b>		
At beginning of year	<u>1,101</u>	<u>973</u>
At end of period	<u>\$ 984</u>	<u>\$ 433</u>
<b>Supplemental disclosures of cash flow information</b>		
Cash paid during the period for:		
Interest (net of amounts capitalized)	\$ 337	\$ 320
Income taxes (net of refunds)	409	350

*See accompanying notes to consolidated financial statements.*

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS:

### 1. **Stock Repurchase Program**

We repurchased and retired 7.2 million and 10.3 million shares of common stock under our stock repurchase program in the first nine months of 2016 and 2015, respectively, at a cost of \$603 million and \$997 million, respectively. The timing and volume of purchases is guided by our assessment of market conditions and other pertinent factors. Any near-term share repurchases are expected to be made with internally generated cash, cash on hand, or proceeds from borrowings. Since the beginning of 2006, we have repurchased and retired 158.3 million shares at a total cost of \$10.1 billion.

### 2. **Restructuring Costs**

Third quarter 2015 operating expenses include \$37 million of costs associated with the restructuring of our Triple Crown Services subsidiary and the closure of our Roanoke, Virginia, office which reduced net income by \$23 million, or \$0.08 per diluted share.

### 3. **New Accounting Pronouncement- Deferred Taxes**

In November 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-17, "*Balance Sheet Classification of Deferred Taxes.*" This update requires that deferred tax liabilities and assets be classified as noncurrent on the balance sheet rather than as separate current and noncurrent amounts. We adopted the provisions of this ASU during the first quarter of 2016 and applied it retrospectively. The adoption of ASU 2015-17 resulted in the presentation of \$121 million of current deferred income tax assets as a reduction of "Deferred income taxes" in the long-term liabilities section of the Consolidated Balance Sheet at September 30, 2016. We retrospectively presented the December 31, 2015, Consolidated Balance Sheet to reflect the reclassification of \$121 million of deferred income tax assets from "Deferred income taxes" in the current assets section of the balance sheet to "Deferred income taxes" in the long-term liabilities section of the balance sheet.

### 4. **New Accounting Pronouncement- Stock-Based Compensation**

In March 2016, the FASB issued ASU No. 2016-09, "*Improvements to Employee Share-Based Payment Accounting.*" We adopted the provisions of this ASU during the first quarter of 2016. This update principally affects the recognition of excess tax benefits and deficiencies and the cash flow classification of share-based compensation-related transactions. The requirement to recognize excess tax benefits and deficiencies as income tax expense or benefit in the income statement was applied prospectively, with a benefit of \$12 million recognized in the "Provision for income taxes" line item for the nine months ended September 30, 2016. The classification requirements on the Consolidated Statements of Cash Flows for the adoption of ASU 2016-09 resulted in a \$29 million increase in "Current liabilities other than debt" within the operating activities section and a corresponding decrease in "Common stock transactions" within the financing activities section for the first nine months of 2016. We retrospectively presented the Consolidated Statements of Cash Flows for the first nine months of 2015 to reflect a \$29 million increase in "Current liabilities other than debt" within the operating activities section and a corresponding decrease in "Common stock transactions" within the financing activities section.