



# 2017 Third Quarter Earnings Conference Call

October 25, 2017

# 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, 2016, 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.



# 2017 Highlights

## Third Quarter and Nine Months

October 25, 2017

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

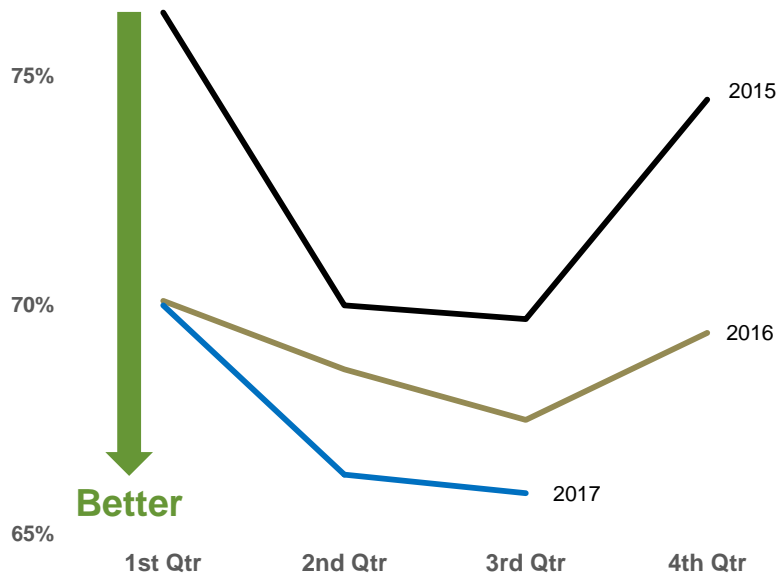
# 3Q17 and YTD17 Results Versus Prior Year

	3Q17 vs 3Q16		YTD17 vs YTD16	
Operating Ratio	▶ <b>65.9%</b> <i>RECORD RESULTS</i>	67.5%	▶ <b>67.4%</b> <i>RECORD RESULTS</i>	68.7%
Income From Operations	\$911M	↑ 11%	\$2,572M	↑ 11%
Net Income	\$506M	↑ 10%	\$1,436M	↑ 15%
Earnings Per Share	\$1.75	↑ 13%	▶ <b>\$4.93</b> <i>RECORD RESULTS</i>	↑ 17%

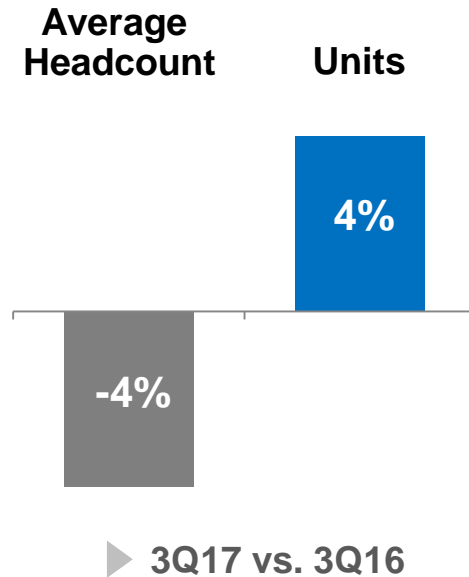
*All-time record quarterly and nine month Operating Ratios*

# Driving Efficiency and Growth

## OPERATING RATIO IMPROVEMENT



## HEADCOUNT LOWER W/ UNIT GROWTH



*Seventh consecutive quarter of year-over-year Operating Ratio improvement*



**NORFOLK SOUTHERN**  
*One line, infinite possibilities.*

# Marketing Overview

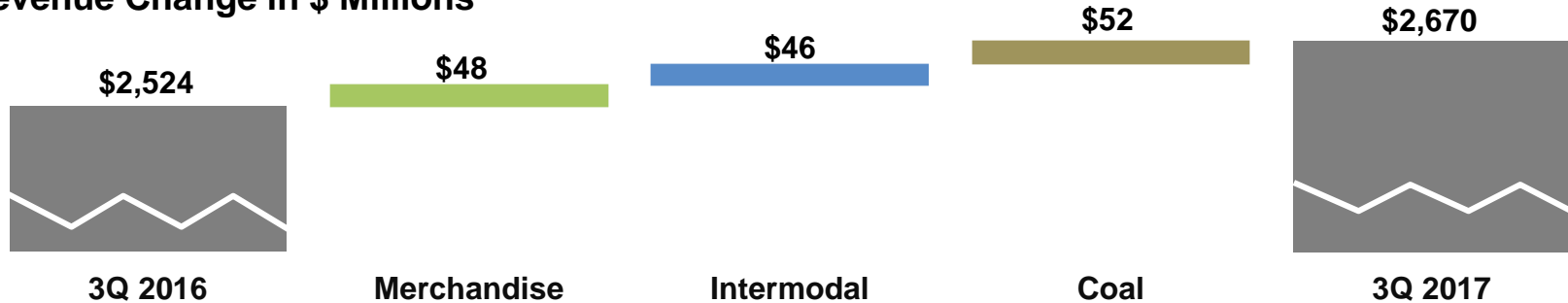
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*Alan H. Shaw  
Executive Vice President  
and Chief Marketing Officer*

# Operating Revenue Components

Third Quarter 2017 vs. 2016

Revenue Change in \$ Millions



	Merchandise	Intermodal	Coal	Total
Revenue	\$1,600M ↑ 3%	\$621M ↑ 8%	\$449M ↑ 13%	\$2,670M ↑ 6%
Volume	627,200 ↓ 1%	1,035,200 ↑ 4% <i>RECORD VOLUME</i>	266,600 ↑ 12%	1,929,000 ↑ 4%
RPU	\$2,550 ↑ 4%	\$600 ↑ 4%	\$1,687 ↑ 1%	\$1,384 ↑ 2%
RPU (less fuel)*	\$2,533 ↑ 3%	\$537 ↑ 3%	\$1,657 ↑ 1%	\$1,341 ↑ 2%

\* Please see reconciliation to GAAP posted on our website.

**Three consecutive quarters of year-over-year revenue growth**

# Economic Environment for Growth



## MERCHANDISE

Growth in Industrial Production

Increased construction activity

Declines due to pipeline activity



## INTERMODAL

Tightening truck capacity

Alignment with shipping partners



## COAL

High seaborne pricing

Mild weather and low natural gas prices

*Network and culture enables increased volume and superior results*



# Strategy for Growth

## Service

Creating service products and schedules that are beneficial to our customers and NS

Collaborating with our customers

## Customer Value

Enhancing competitiveness of our customers in an evolving and dynamic marketplace

Innovating to solve customer needs

Leveraging our best-in-class Industrial Development

*Creating shareholder value from customer growth, service and productivity*



# Operations Overview

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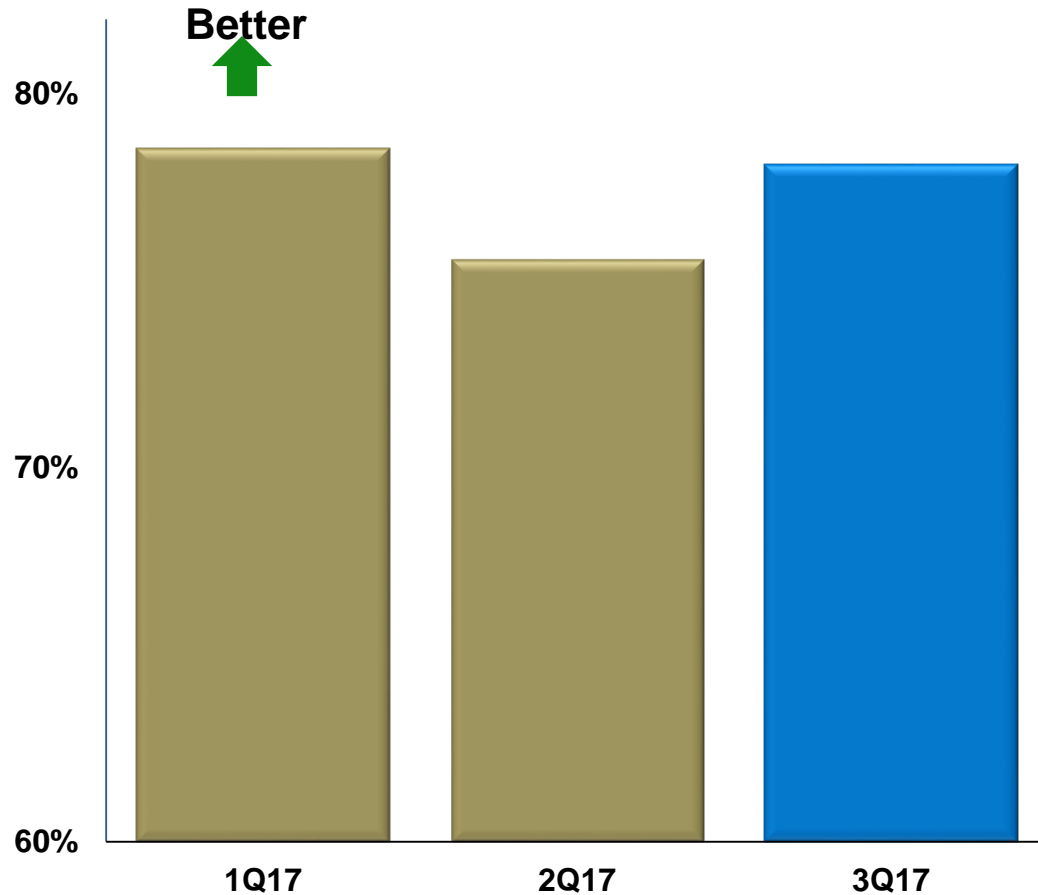
*Michael J. Wheeler  
Executive Vice President  
and Chief Operating Officer*

# Record Results

- ✓ Record YTD train accident ratio
- ✓ Record YTD train length
- ✓ Record locomotive productivity
  - Quarter
  - YTD
- ✓ Record fuel efficiency
  - Quarter
  - YTD
- ✓ Record Operating Ratio
  - Quarter
  - YTD

# Safety and Service

## Service Composite Metric



### ▶ **Safety:**

- Injury ratios stable
- Record YTD train accident ratio

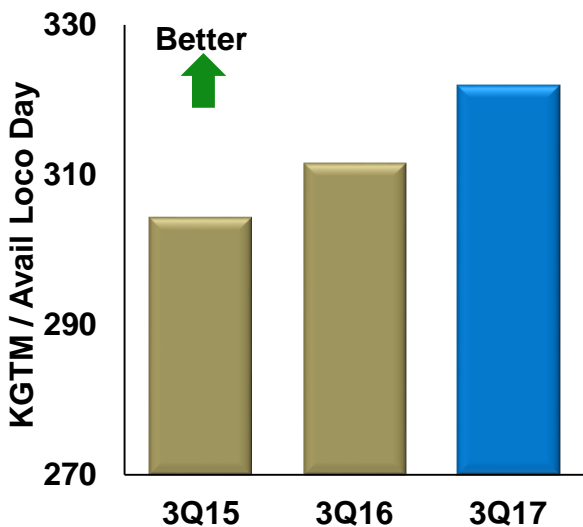
### ▶ **Service:**

- Returned to 1<sup>st</sup> quarter levels
- Handled more volume while controlling costs

# Productivity Measures

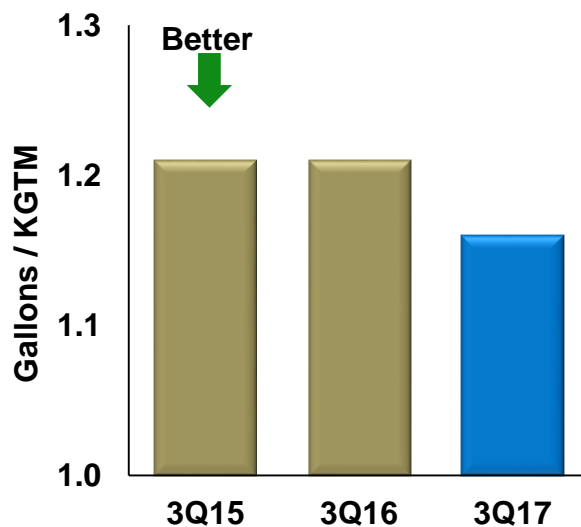
Quarterly and YTD records in key productivity measures

## Locomotive



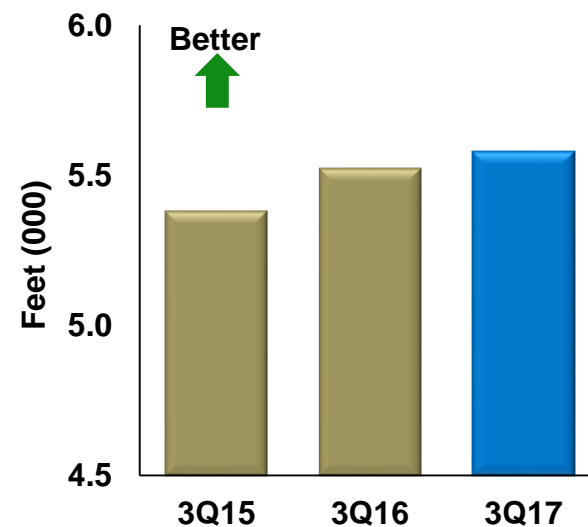
- Record quarter
- 3% improvement vs 3Q16

## Fuel



- Record quarter
- 4% improvement vs 3Q16

## Train Length



- YTD record
- Seven consecutive quarters of y/y improvement



# Financial Overview

October 25, 2017

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

# Operating Results

Third Quarter 2017 vs. 2016 (\$ millions)

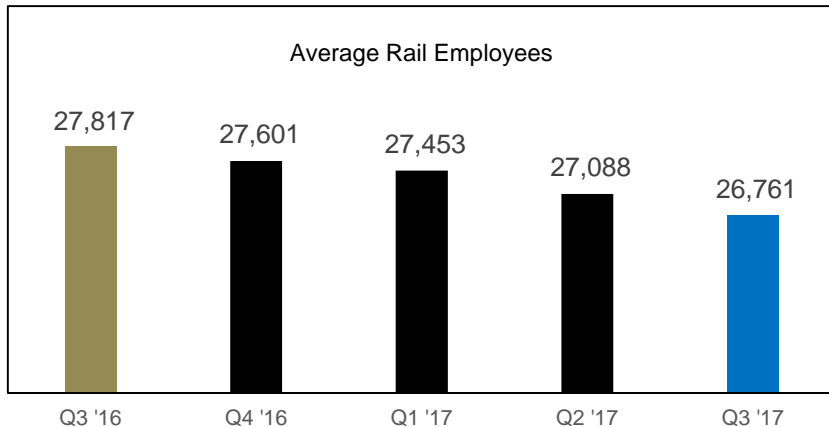
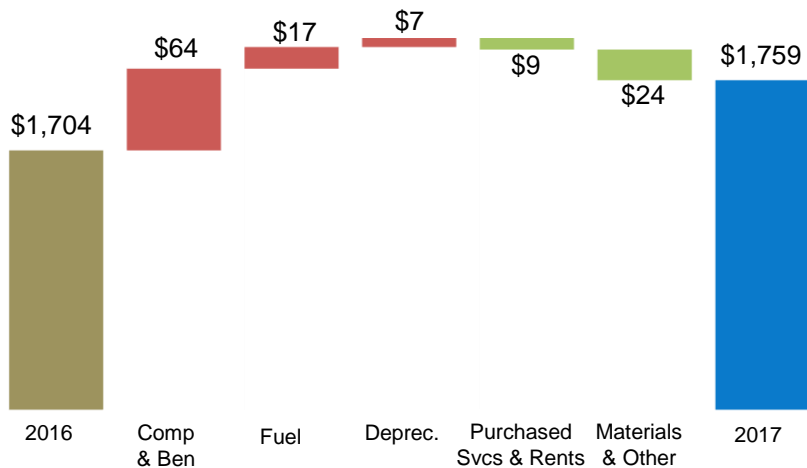
## Record quarterly operating ratio

	2017	2016	\$	%
Railway operating revenues	\$ 2,670	\$ 2,524	\$ 146	6%
Railway operating expenses	1,759	1,704	(55)	(3%)
Income from railway operations	\$ 911	\$ 820	\$ 91	11%
Railway operating ratio (%)	65.9	67.5	1.6	2%
			<b>Favorable</b> <b>(Unfavorable)</b>	

# Operating Expense Components

Third Quarter 2017 vs. 2016 (\$ millions)

## Continued cost control tempers inflation



### Compensation and Benefits ↑ \$64 / 9%

- Incentive compensation \$47
- Inflationary:
  - Health and welfare rates \$16
  - Wages \$13
- Reduced employee levels \$26

### Fuel ↑ \$17 / 9%

- 12% higher price per gallon \$20
- 2% lower consumption \$3

### Purchased Services and Rents ↓ \$9 / 2%

- Equipment rents expense \$6

### Materials and Other ↓ \$24 / 13%

- Equipment and roadway material usage \$13
- Gains on sale of operating properties \$9



# Financial Results

Third Quarter 2017 vs. 2016 (\$ millions except per share)

**Net income up 10% and earnings per share up 13%**

	2017	2016	\$	%
Railway operating revenues	\$ 2,670	\$ 2,524	\$ 146	6%
Railway operating expenses	1,759	1,704	(55)	(3%)
Income from railway operations	911	820	91	11%
Non-operating expenses – net	111	115	4	3%
Income before income taxes	800	705	95	13%
Income taxes	294	245	(49)	(20%)
Net income	\$ 506	\$ 460	\$ 46	10%
Earnings per share - diluted	\$ 1.75	\$ 1.55	\$ 0.20	13%

**Favorable**  
**(Unfavorable)**

# Cash Flows

First Nine Months 2017 vs. 2016 (\$ millions)

*Committed to shareholder returns; Board increased repurchase authority*

	2017	2016
<b>Cash from operating activities</b>	\$ 2,465	\$ 2,312
<b>Capital expenditures</b>	(1,315)	(1,304)
<b>Free cash flow <sup>(1)</sup></b>	\$ 1,150	\$ 1,008
<b>Returns to shareholders:</b>		
<b>Dividends</b>	\$ 529	\$ 523
<b>Share repurchases</b>	\$ 712	\$ 603

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

# Thank You

