

THIRD QUARTER 2017

# Quarterly Financial Data



**NORFOLK  
SOUTHERN**

Finance Department  
Three Commercial Place  
Norfolk, Virginia 23510.2191

# NORFOLK SOUTHERN RAILWAY SYSTEM



**INVESTOR INQUIRIES: CLAIBORNE L. MOORE (757) 629-2861**

The accompanying unaudited financial information and summary of certain notes to the consolidated financial statements should be read in conjunction with: (a) the consolidated financial statements and notes included in Norfolk Southern Corporation's (NS, we, us and our) latest Annual Report on Form 10-K and in subsequent Quarterly Reports on Form 10-Q, and (b) any Current Reports on Form 8-K.

Any statements contained in this document which are not related to historical facts are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995, and NS undertakes no obligation to update such statements. Such forward-looking statements are subject to risks and uncertainties (the most significant of which are described in our SEC filings) which could cause actual results to differ materially.

# Consolidated Statements of Income

(in millions, except per share amounts)

	Third Quarter			First Nine Months		
	2017	2016	% Change	2017	2016	% Change
<b>Railway operating revenues</b>						
Merchandise	\$ 1,600	\$ 1,552	3%	\$ 4,781	\$ 4,678	2%
Intermodal	621	575	8%	1,785	1,635	9%
Coal	449	397	13%	1,316	1,085	21%
Total railway operating revenues	<u>2,670</u>	<u>2,524</u>	6%	<u>7,882</u>	<u>7,398</u>	7%
<b>Railway operating expenses</b>						
Compensation and benefits	755	691	9%	2,201	2,081	6%
Purchased services and rents	377	386	(2%)	1,146	1,149	-
Fuel	198	181	9%	601	504	19%
Depreciation	265	258	3%	788	767	3%
Materials and other	164	188	(13%)	574	584	(2%)
Total railway operating expenses	<u>1,759</u>	<u>1,704</u>	3%	<u>5,310</u>	<u>5,085</u>	4%
<b>Income from railway operations</b>	911	820	11%	2,572	2,313	11%
Other income — net	23	29	(21%)	79	49	61%
Interest expense on debt	134	144	(7%)	416	421	(1%)
Income before income taxes	800	705	13%	2,235	1,941	15%
<b>Provision for income taxes</b>						
Current	189	169	12%	580	512	13%
Deferred	105	76	38%	219	177	24%
Total income taxes	<u>294</u>	<u>245</u>	20%	<u>799</u>	<u>689</u>	16%
<b>Net income</b>	<u>\$ 506</u>	<u>\$ 460</u>	10%	<u>\$ 1,436</u>	<u>\$ 1,252</u>	15%
<b>Earnings per share</b>						
Basic	\$ 1.76	\$ 1.56	13%	\$ 4.96	\$ 4.23	17%
Diluted	1.75	1.55	13%	4.93	4.21	17%
<b>Weighted average shares outstanding</b>						
Basic	287.1	292.7	(2%)	288.8	294.9	(2%)
Diluted	289.5	294.7	(2%)	291.2	296.7	(2%)

## Notes

### 1. Stock Repurchase Program

We repurchased and retired 6.0 million and 7.2 million shares of common stock under our stock repurchase program in the first nine months of 2017 and 2016, respectively, at a cost of \$712 million and \$603 million, respectively. Since the beginning of 2006, we have repurchased and retired 166.3 million shares at a total cost of \$11.0 billion.

## Consolidated Balance Sheets

(\$ in millions)

	September 30, <b>2017</b>	December 31, <b>2016</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 724	\$ 956
Accounts receivable — net	973	945
Materials and supplies	245	257
Other current assets	57	133
Total current assets	1,999	2,291
Investments	2,888	2,777
Properties less accumulated depreciation of \$11,987 and \$11,737, respectively	30,163	29,751
Other assets	103	73
<b>Total assets</b>	\$ 35,153	\$ 34,892
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 1,287	\$ 1,215
Short-term debt	-	100
Income and other taxes	206	245
Other current liabilities	320	229
Current maturities of long-term debt	600	550
Total current liabilities	2,413	2,339
Long-term debt	9,280	9,562
Other liabilities	1,366	1,442
Deferred income taxes	9,367	9,140
<b>Total liabilities</b>	22,426	22,483
Stockholders' equity:		
Common stock \$1.00 per share par value, 1,350,000,000 shares authorized; outstanding 286,148,766 and 290,417,610 shares, respectively, net of treasury shares	288	292
Additional paid-in capital	2,249	2,179
Accumulated other comprehensive loss	(475)	(487)
Retained income	10,665	10,425
<b>Total stockholders' equity</b>	12,727	12,409
<b>Total liabilities and stockholders' equity</b>	\$ 35,153	\$ 34,892

# Consolidated Statements of Cash Flows

(\$ in millions)

	First Nine Months	
	2017	2016
<b>Cash flows from operating activities</b>		
Net income	\$ 1,436	\$ 1,252
Reconciliation of net income to net cash provided by operating activities:		
Depreciation	791	770
Deferred income taxes	219	177
Gains and losses on properties	(62)	(38)
Changes in assets and liabilities affecting operations:		
Accounts receivable	(59)	8
Materials and supplies	12	(30)
Other current assets	68	130
Current liabilities other than debt	165	149
Other — net	(105)	(106)
Net cash provided by operating activities	2,465	2,312
<b>Cash flows from investing activities</b>		
Property additions	(1,315)	(1,304)
Property sales and other transactions	137	87
Investment purchases	(4)	(119)
Investment sales and other transactions	8	6
Net cash used in investing activities	(1,174)	(1,330)
<b>Cash flows from financing activities</b>		
Dividends	(529)	(523)
Common stock transactions	75	33
Purchase and retirement of common stock	(712)	(603)
Proceeds from borrowings — net	293	594
Debt repayments	(650)	(600)
Net cash used in financing activities	(1,523)	(1,099)
Net decrease in cash and cash equivalents	(232)	(117)
<b>Cash and cash equivalents</b>		
At beginning of year	956	1,101
At end of period	\$ 724	\$ 984
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for:		
Interest (net of amounts capitalized)	\$ 345	\$ 337
Income taxes (net of refunds)	594	409

## Railway Operating Revenues Analysis

Commodity and Period	Revenues (S in millions)			Units (in thousands)			Revenue per Unit (S per unit)		
	2017	2016	% Change	2017	2016	% Change	2017	2016	% Change
<b>First Quarter</b>									
Chemicals	\$ 427	\$ 419	2%	118.6	120.6	(2%)	\$ 3,599	\$ 3,476	4%
Agriculture/consumer/gov't	384	386	(1%)	149.5	151.4	(1%)	2,568	2,550	1%
Metals and construction	340	300	13%	168.4	154.9	9%	2,020	1,934	4%
Automotive	246	254	(3%)	110.5	113.3	(2%)	2,221	2,241	(1%)
Paper/clay/forest	187	190	(2%)	70.6	73.0	(3%)	2,651	2,603	2%
Merchandise	1,584	1,549	2%	617.6	613.2	1%	2,564	2,526	2%
Intermodal	571	522	9%	969.4	929.1	4%	589	562	5%
Coal	420	349	20%	259.6	214.8	21%	1,617	1,626	(1%)
<b>Total</b>	<b>\$ 2,575</b>	<b>\$ 2,420</b>	<b>6%</b>	<b>1,846.6</b>	<b>1,757.1</b>	<b>5%</b>	<b>1,394</b>	<b>1,378</b>	<b>1%</b>
<b>Second Quarter</b>									
Chemicals	\$ 406	\$ 426	(5%)	114.8	122.8	(7%)	\$ 3,536	\$ 3,467	2%
Agriculture/consumer/gov't	384	383	-	145.7	148.0	(2%)	2,637	2,587	2%
Metals and construction	371	334	11%	193.4	183.6	5%	1,919	1,822	5%
Automotive	249	248	-	111.4	112.7	(1%)	2,244	2,198	2%
Paper/clay/forest	187	186	1%	70.3	71.6	(2%)	2,653	2,603	2%
Merchandise	1,597	1,577	1%	635.6	638.7	-	2,514	2,469	2%
Intermodal	593	538	10%	1,009.1	951.8	6%	587	565	4%
Coal	447	339	32%	266.1	210.0	27%	1,679	1,611	4%
<b>Total</b>	<b>\$ 2,637</b>	<b>\$ 2,454</b>	<b>7%</b>	<b>1,910.8</b>	<b>1,800.5</b>	<b>6%</b>	<b>1,380</b>	<b>1,362</b>	<b>1%</b>
<b>Third Quarter</b>									
Chemicals	\$ 418	\$ 408	2%	115.2	117.5	(2%)	\$ 3,624	\$ 3,473	4%
Agriculture/consumer/gov't	388	380	2%	147.8	147.6	-	2,626	2,577	2%
Metals and construction	378	337	12%	194.2	186.9	4%	1,945	1,802	8%
Automotive	218	236	(8%)	96.6	106.8	(10%)	2,256	2,217	2%
Paper/clay/forest	198	191	4%	73.4	71.7	2%	2,699	2,655	2%
Merchandise	1,600	1,552	3%	627.2	630.5	(1%)	2,550	2,462	4%
Intermodal	621	575	8%	1,035.2	993.5	4%	600	579	4%
Coal	449	397	13%	266.6	238.2	12%	1,687	1,666	1%
<b>Total</b>	<b>\$ 2,670</b>	<b>\$ 2,524</b>	<b>6%</b>	<b>1,929.0</b>	<b>1,862.2</b>	<b>4%</b>	<b>1,384</b>	<b>1,355</b>	<b>2%</b>
<b>Year-to-date</b>									
Chemicals	\$ 1,251	\$ 1,253	-	348.6	360.9	(3%)	\$ 3,586	\$ 3,472	3%
Agriculture/consumer/gov't	1,156	1,149	1%	443.0	447.0	(1%)	2,610	2,571	2%
Metals and construction	1,089	971	12%	556.0	525.4	6%	1,959	1,848	6%
Automotive	713	738	(3%)	318.5	332.8	(4%)	2,239	2,219	1%
Paper/clay/forest	572	567	1%	214.3	216.3	(1%)	2,668	2,620	2%
Merchandise	4,781	4,678	2%	1,880.4	1,882.4	-	2,542	2,485	2%
Intermodal	1,785	1,635	9%	3,013.7	2,874.4	5%	592	569	4%
Coal	1,316	1,085	21%	792.3	663.0	20%	1,662	1,636	2%
<b>Total</b>	<b>\$ 7,882</b>	<b>\$ 7,398</b>	<b>7%</b>	<b>5,686.4</b>	<b>5,419.8</b>	<b>5%</b>	<b>1,386</b>	<b>1,365</b>	<b>2%</b>



## Railway Operating Revenues Variance Analysis

(\$ in millions)

Third Quarter  
2017 vs. 2016

	Merchandise		Intermodal		Coal	
	Amount	Percent	Amount	Percent	Amount	Percent
<b>Revenue Variance due to:</b>						
Volume	\$ (8)	(1%)	\$ 24	4%	\$ 47	12%
Fuel surcharge revenue	7	-	10	2%	-	-
Rate, mix and other	49	3%	12	2%	5	1%
<b>Total</b>	<u>\$ 48</u>	<u>3%</u>	<u>\$ 46</u>	<u>8%</u>	<u>\$ 52</u>	<u>13%</u>

Year-to-date  
2017 vs. 2016

	Merchandise		Intermodal		Coal	
	Amount	Percent	Amount	Percent	Amount	Percent
<b>Revenue Variance due to:</b>						
Volume	\$ (5)	-	\$ 79	5%	\$ 212	20%
Fuel surcharge revenue	22	-	51	3%	10	1%
Rate, mix and other	86	2%	20	1%	9	1%
<b>Total</b>	<u>\$ 103</u>	<u>2%</u>	<u>\$ 150</u>	<u>9%</u>	<u>\$ 231</u>	<u>21%</u>

## Coal Tonnage by Market

(in thousands)

	Third Quarter			Year-to-date		
	2017	2016	% Change	2017	2016	% Change
Utility	17,410	18,357	(5%)	52,599	48,097	9%
Export	6,280	2,567	145%	19,189	9,949	93%
Domestic metallurgical	4,298	3,816	13%	11,647	10,355	12%
Industrial	1,457	1,589	(8%)	4,259	4,785	(11%)
<b>Total</b>	<u>29,445</u>	<u>26,329</u>	<u>12%</u>	<u>87,694</u>	<u>73,186</u>	<u>20%</u>

## Intermodal Units by Market

(in thousands)

	Third Quarter			Year-to-date		
	2017	2016	% Change	2017	2016	% Change
Domestic	662.6	616.2	8%	1,890.6	1,775.8	6%
International	372.6	377.3	(1%)	1,123.1	1,098.6	2%
<b>Total</b>	<u>1,035.2</u>	<u>993.5</u>	<u>4%</u>	<u>3,013.7</u>	<u>2,874.4</u>	<u>5%</u>

## Financial, Traffic and Operating Statistics

	2016					2017					2017 vs. 2016				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to-date	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to-date
(S in millions — except as noted)															
Railway operating revenues	\$ 2,420	\$ 2,454	\$ 2,524	\$ 2,490	\$ 9,888	\$ 2,575	\$ 2,637	\$ 2,670		\$ 7,882	\$ 155	\$ 183	\$ 146		\$ 484
Railway operating expenses:															
Compensation and benefits	723	667	691	662	2,743	743	703	755		2,201	20	36	64		120
Purchased services	300	309	312	321	1,242	304	318	309		931	4	9	(3)		10
Equipment rents	79	75	74	78	306	73	74	68		215	(6)	(1)	(6)		(13)
Fuel	149	174	181	194	698	213	190	198		601	64	16	17		97
Depreciation	252	257	258	259	1,026	259	264	265		788	7	7	7		21
Materials	80	91	102	91	364	92	87	85		264	12	(4)	(17)		(9)
Casualties and other claims	33	32	36	49	150	40	35	39		114	7	3	3		13
Other	81	79	50	75	285	78	78	40		196	(3)	(1)	(10)		(14)
Total railway operating expenses	1,697	1,684	1,704	1,729	6,814	1,802	1,749	1,759		5,310	105	65	55		225
Income from railway operations	723	770	820	761	3,074	773	888	911		2,572	50	118	91		259
Other income — net	16	4	29	22	71	24	32	23		79	8	28	(6)		30
Interest expense on debt	139	138	144	142	563	142	140	134		416	3	2	(10)		(5)
Income before income taxes	600	636	705	641	2,582	655	780	800		2,235	55	144	95		294
Total income taxes	213	231	245	225	914	222	283	294		799	9	52	49		110
Net income	\$ 387	\$ 405	\$ 460	\$ 416	\$ 1,668	\$ 433	\$ 497	\$ 506		\$ 1,436	\$ 46	\$ 92	\$ 46		\$ 184
Weighted average shares outstanding — diluted (in millions)	298.9	296.6	294.7	293.7	296.0	292.8	291.2	289.5		291.2	(6.1)	(5.4)	(5.2)		(5.5)
Earnings per share — diluted (dollars)	\$ 1.29	\$ 1.36	\$ 1.55	\$ 1.42	\$ 5.62	\$ 1.48	\$ 1.71	\$ 1.75		\$ 4.93	\$ 0.19	\$ 0.35	\$ 0.20		\$ 0.72
Dividends per share (dollars)	\$ 0.59	\$ 0.59	\$ 0.59	\$ 0.59	\$ 2.36	\$ 0.61	\$ 0.61	\$ 0.61		\$ 1.83	\$ 0.02	\$ 0.02	\$ 0.02		\$ 0.06
Railway operating ratio (percent)	70.1	68.6	67.5	69.4	68.9	70.0	66.3	65.9		67.4	(0.1)	(2.3)	(1.6)		(1.3)
Property additions	\$ 398	\$ 534	\$ 372	\$ 583	\$ 1,887	\$ 438	\$ 445	\$ 432		\$ 1,315	\$ 40	\$ (89)	\$ 60		\$ 11
Cash, cash equivalents and short-term investments	\$ 589	\$ 866	\$ 984	\$ 956	\$ 956	\$ 955	\$ 642	\$ 724		\$ 724	\$ 366	\$ (224)	\$ (260)		\$ (260)
Total debt	\$ 9,498	\$ 10,099	\$ 10,105	\$ 10,212	\$ 10,212	\$ 10,119	\$ 9,873	\$ 9,880		\$ 9,880	\$ 621	\$ (226)	\$ (225)		\$ (225)
Total debt-to-total capitalization (percent)	43.7	45.1	44.9	45.1	45.1	44.7	43.8	43.7		43.7	1.0	(1.3)	(1.2)		(1.2)
Gross ton miles (GTMs) (in billions)	90.2	92.6	93.8	93.3	369.9	94.6	96.5	96.6		287.7	5%	4%	3%		4%
Revenue ton miles (in billions):															
Merchandise	28.8	29.2	29.1	28.3	115.4	29.1	29.8	30.0		88.9	1%	2%	3%		2%
Intermodal	9.6	10.5	10.7	10.7	41.5	10.2	10.7	11.0		31.9	6%	2%	3%		4%
Coal	7.7	7.7	8.9	9.3	33.6	10.3	10.2	10.1		30.6	34%	32%	13%		26%
Total	46.1	47.4	48.7	48.3	190.5	49.6	50.7	51.1		151.4	8%	7%	5%		6%
Railroad employees (average)	28,077	27,928	27,817	27,601	27,856	27,453	27,088	26,761		27,101	(2%)	(3%)	(4%)		(3%)
GTMs (thousands) per employee	3,213	3,315	3,374	3,380	13,280	3,445	3,562	3,610		10,615	7%	7%	7%		7%
Locomotive diesel fuel consumed (in thousands of gallons)	120,251	114,075	112,864	114,815	462,005	119,420	111,331	110,972		341,723	(1%)	(2%)	(2%)		(2%)
Average price (dollars) per gallon of locomotive diesel fuel	\$ 1.158	\$ 1.445	\$ 1.512	\$ 1.603	\$ 1.426	\$ 1.690	\$ 1.609	\$ 1.697		\$ 1.666	46%	11%	12%		22%
Gallons of fuel consumed per thousand GTMs	1.35	1.25	1.21	1.24	1.26	1.27	1.16	1.16		1.20	(6%)	(7%)	(4%)		(6%)
Train speed (miles per hour)	23.6	23.5	23.1	23.2	23.3	22.7	21.5	21.7		22.0	(4%)	(9%)	(6%)		(6%)
Terminal dwell (hours)	25.3	23.1	23.5	24.0	23.9	24.3	25.1	24.9		24.7	(4%)	9%	6%		3%





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