



# 2018 Third Quarter Earnings Conference Call

October 24, 2018



# 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. These statements relate to future events or Norfolk Southern Corporation's (NYSE: NSC) ("Norfolk Southern," "NS" or the "Company") future financial performance and involve known and unknown risks, uncertainties and other factors that may cause the actual results, levels of activity, performance or achievements of the Company or its industry to be materially different from those expressed or implied by any forward-looking statements. 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. 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, such 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. 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, 2017, filed with the Securities and Exchange Commission (the "SEC"), as well as the Company's subsequent filings with the SEC, may cause our actual results, performance or achievements 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.



# 2018 Highlights Third Quarter and Nine Months

October 24, 2018



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

# Third Quarter and Nine Month Results



## Record financial measures

	3Q18 vs 3Q17		YTD18 vs YTD17	
Operating Ratio	▶ <b>65.4%</b> <i>RECORD RESULT</i>	<b>66.5%</b>	▶ <b>66.4%</b> <i>RECORD RESULT</i>	<b>68.0%</b>
Income From Operations	▶ <b>\$1,020M</b> <i>RECORD RESULT</i>	<b>↑ 14%</b>	▶ <b>\$2,881M</b> <i>RECORD RESULT</i>	<b>↑ 14%</b>
Net Income	▶ <b>\$702M</b> <i>RECORD RESULT</i>	<b>↑ 39%</b>	▶ <b>\$1,964M</b> <i>RECORD RESULT</i>	<b>↑ 37%</b>
Earnings Per Share	▶ <b>\$2.52</b> <i>RECORD RESULT</i>	<b>↑ 44%</b>	▶ <b>\$6.95</b> <i>RECORD RESULT</i>	<b>↑ 41%</b>



# 2018 Marketing Overview Third Quarter

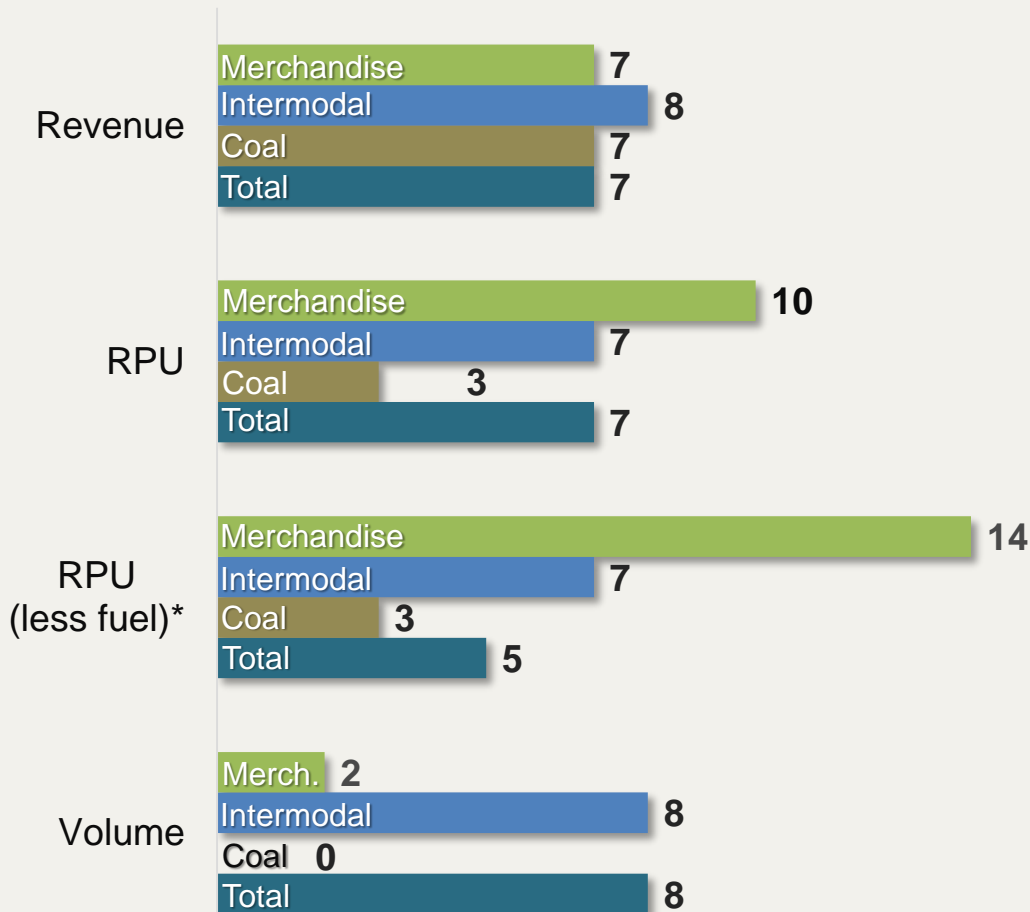
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*Alan H. Shaw  
Executive Vice President  
and Chief Marketing Officer*



## Revenue plan is balanced and sustainable

### Consecutive Quarters of YOY Growth



### Sustainable Revenue Growth

- Delivered continued revenue growth: year-to-date 9%, building off 7% growth in 2017
- Balanced plan delivers revenue, price and volume growth
- Structured for long-term results
- Centered around capacity, operations and lasting customer value
- Focused on customer needs

\* Please see reconciliations to GAAP for each of the relevant quarters posted on our website on the Invest in NS page under Events.

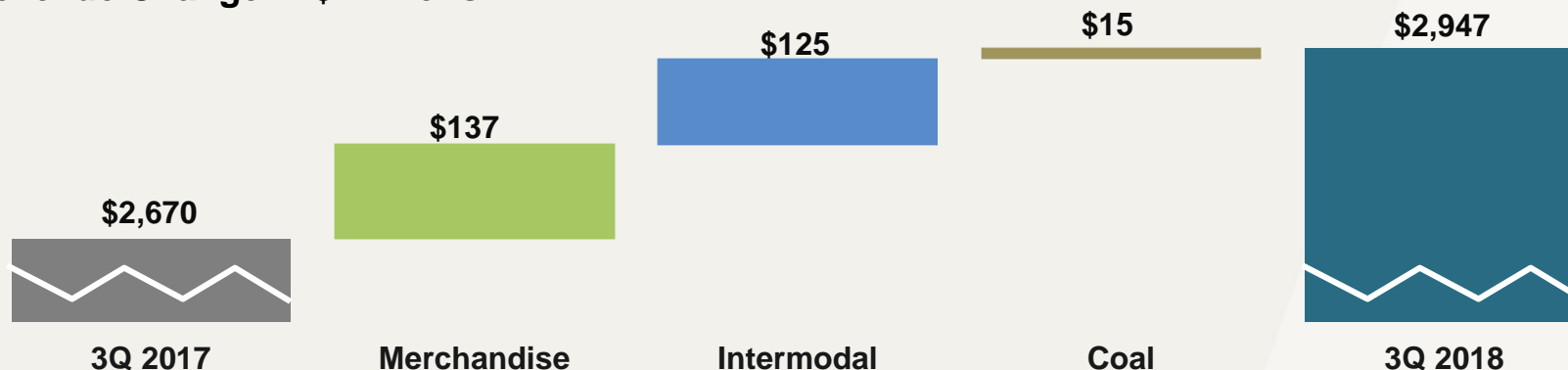
# Railway Operating Revenue

## Third Quarter 2018 vs. 2017



**Pricing improvements yield strong revenue gains**

Revenue Change in \$ Millions



	Merchandise	Intermodal	Coal	Total
Revenue	\$1,737M ↑ 9% ▶ RECORD REVENUE	\$746M ↑ 20% ▶ RECORD REVENUE	\$464M ↑ 3%	\$2,947M ↑ 10%
Volume	645,800 ↑ 3%	1,116,200 ↑ 8% ▶ RECORD VOLUME	255,800 ↓ (4%)	2,017,800 ↑ 5%
RPU	\$2,690 ↑ 5% ▶ RECORD RPU	\$669 ↑ 12%	\$1,812 ↑ 7%	\$1,461 ↑ 6%
RPU (less fuel)*	\$2,610 ↑ 3% ▶ RECORD RPU LF	\$566 ↑ 5% ▶ RECORD RPU LF	\$1,750 ↑ 6%	\$1,370 ↑ 2%

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

# Revenue Outlook



*Sustained growth through strategic plan, capitalizing on economic conditions*



## MERCHANDISE

Favorable crude price differentials

Strong industrial production and consumer spending

Pricing gains



## INTERMODAL

Increased consumer spending

Truck market remains constrained

Value of our Intermodal product

Pricing gains



## COAL

Strong seaborne coal prices

Increased demand for utility coal

Pricing gains





# 2018 Operations Overview Third Quarter

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

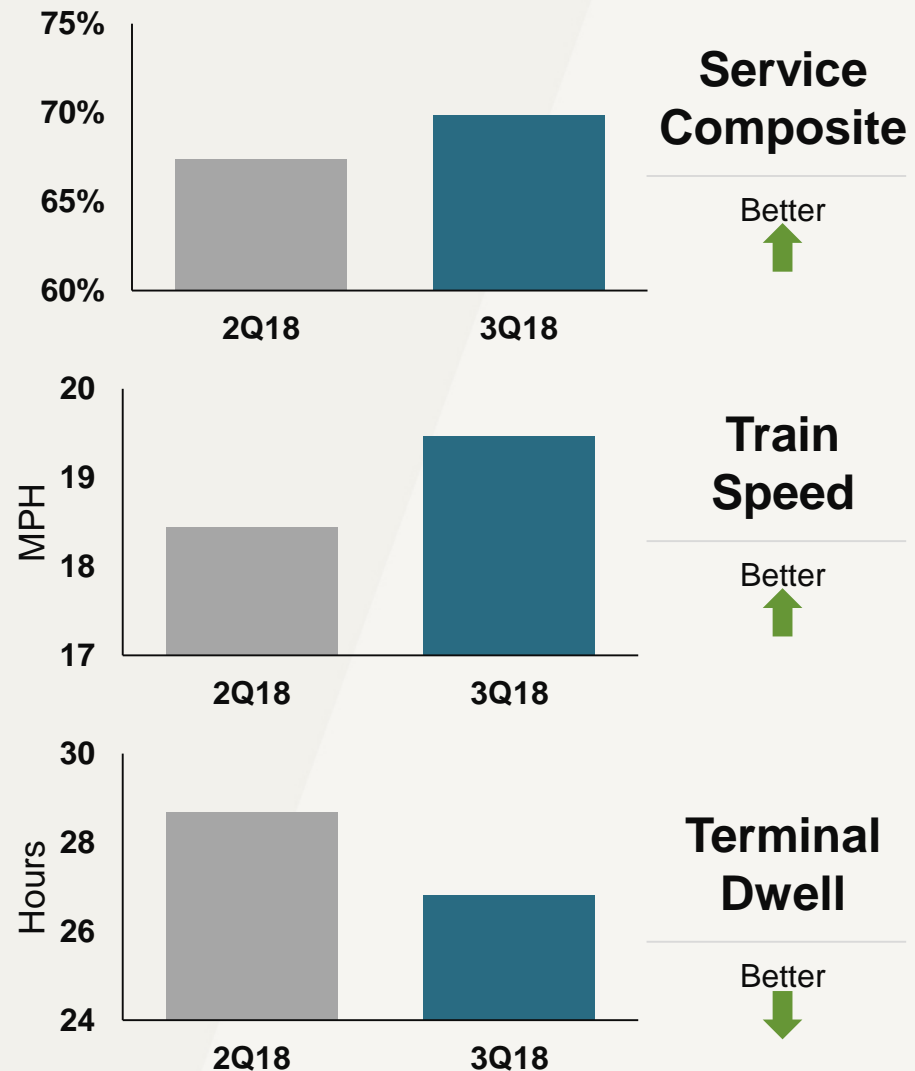


# Safety and Service Performance



*Velocity returning – driving better customer service and efficiency*

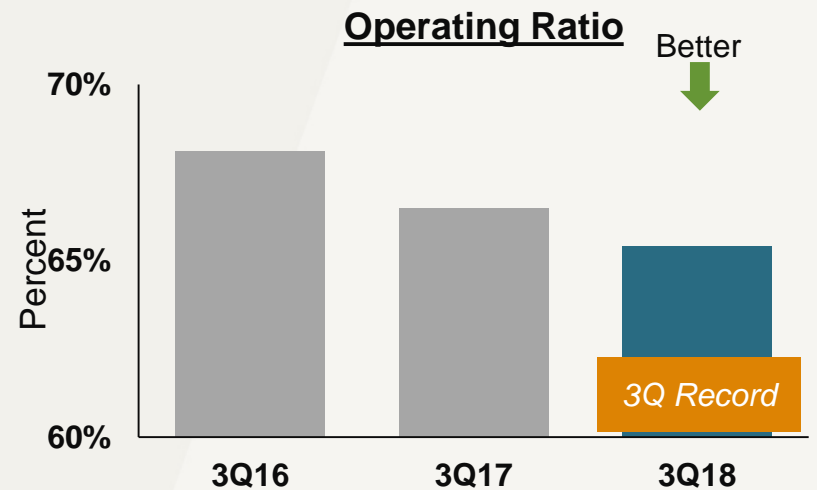
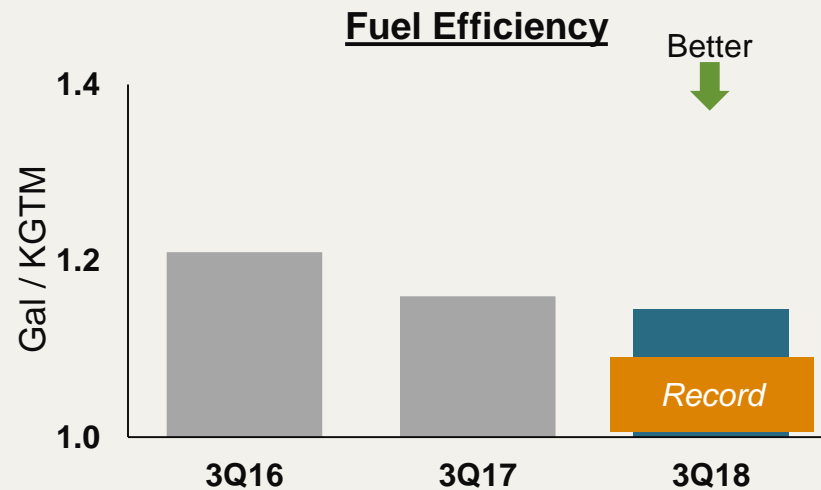
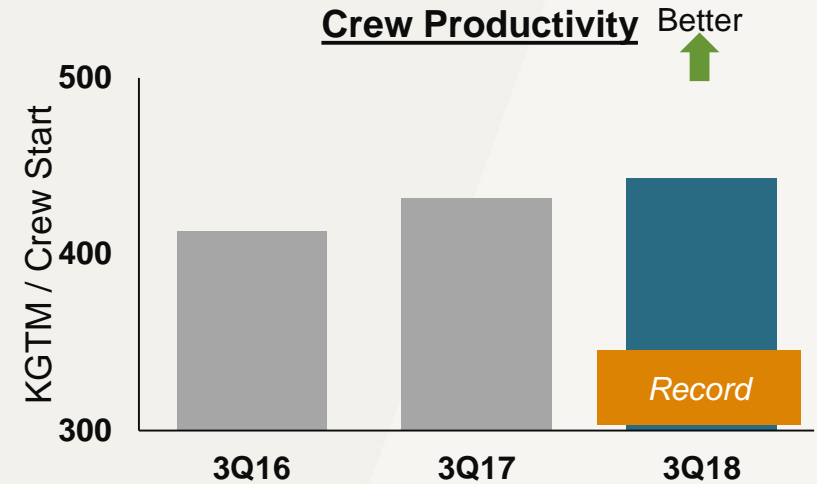
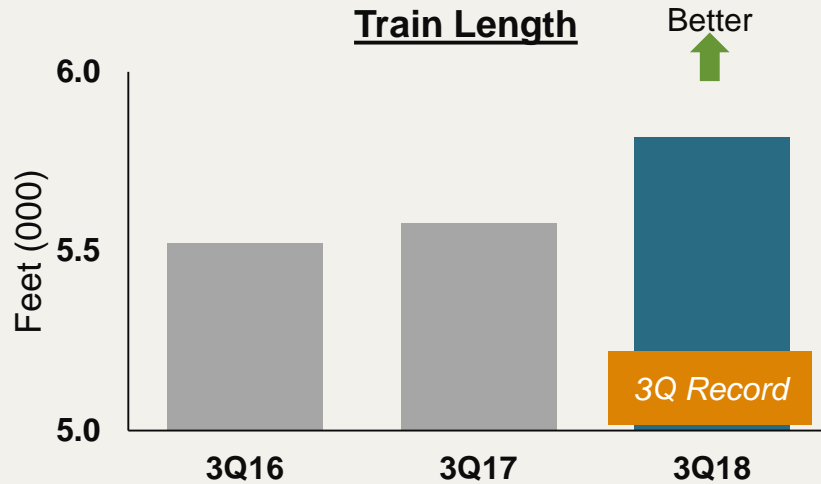
- Reportable Injury Ratio improved year-over-year and sequentially
- Crew and locomotive resources are adequate and driving sequential improvement
  - Service Composite improved 4%
  - Train Speed improved 6%
  - Terminal Dwell improved 7%



# Productivity Results



Operating efficiently to meet our customers' needs and create value for shareholders



## What is Clean Sheeting?

- Developing new local operating plans from a “clean sheet”
- Optimizing local operations for capacity and efficiency
- Collaboration with customers and marketing

## Success

- Clean Sheeting helped yard significantly improve
  - Reduced re-handlings by 80%
  - Improved train performance from low 80% to mid 90%
  - Dwell decreased by 3-4 hours
- Creates capacity for new operating plan and growth

# Beyond Clean Sheeting - New Operating Plan



## *Key tenets*

- Clean Sheet yards to free capacity and increase fluidity
- Reduce cars on-line
- Blocking
  - Increase use and size of blocks
  - Better blocking from origin or short line
- Integration of other segments into merchandise network
- Assessorial program aligned with customer activity to deliver improved service, productivity and reduced congestion



# 2018 Financial Overview Third Quarter

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



# Operating Results

Third Quarter 2018 vs. 2017 (\$ millions)



**Record third quarter income from railway operations and operating ratio**

	2018	2017	Favorable (Unfavorable)	
Railway operating revenues	\$ 2,947	\$ 2,670	\$ 277	10%
Railway operating expenses	1,927	1,775	(152)	(9%)
Income from railway operations	\$ 1,020	\$ 895	\$ 125	14%
Operating ratio (%)	65.4	66.5	1.1	2%

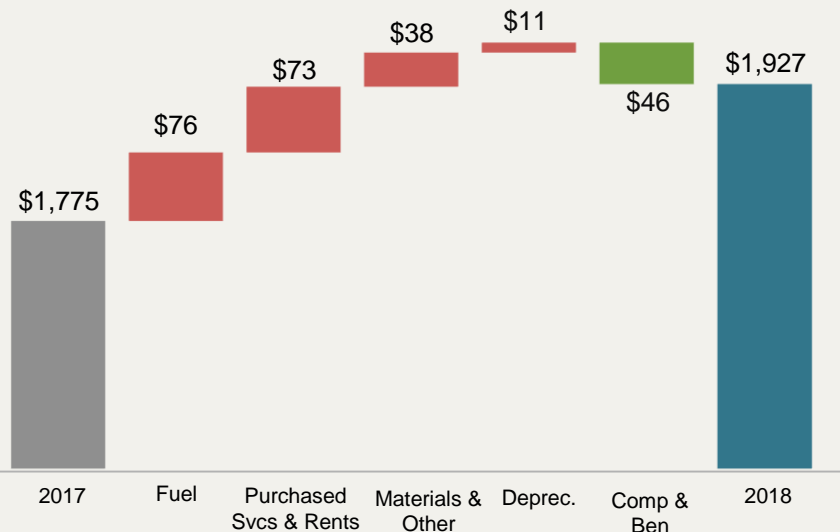
Note: Prior year results adjusted to reflect the reclassification of certain pension and other postretirement cost components as required by the adoption of ASU 2017-07.

# Operating Expense Components

## Third Quarter 2018 vs. 2017 (\$ millions)



*Continued inflationary and volume-related increases*



**Fuel** ↑ \$76 / 38%

- 33% higher price per gallon
- 4% increased consumption

**Purchased Svcs and Rents** ↑ \$73 / 19%

- Higher volume-related expenses
- Higher equipment rents

**Materials and Other** ↑ \$38 / 23%

- Lower gains on sale
- Higher loss and damage, relocation, and locomotive materials usage
- Higher rental income

**Compensation and Benefits** ↓ \$46 / 6%

- Lower incentive compensation
- Headcount and lower H&W rate savings more than offset added OT and recrew costs



# Financial Results

Third Quarter 2018 vs. 2017 (\$ millions except per share)



*Record third quarter net income and diluted earnings per share*

	2018	2017	Favorable (Unfavorable)
Income from railway operations	\$ 1,020	\$ 895	\$ 125 14%
Non-operating expenses – net	112	95	(17) (18%)
Income before income taxes	908	800	108 14%
Income taxes	206	294	88 30%
Net income	\$ 702	\$ 506	\$ 196 39%
Earnings per share – diluted	\$ 2.52	\$ 1.75	\$ 0.77 44%

Note: Prior year results adjusted to reflect the reclassification of certain pension and other postretirement cost components as required by the adoption of ASU 2017-07.

# Cash Flows

First Nine Months 2018 vs. 2017 (\$ millions)



**Record free cash flow of \$1.6 billion for the first nine months**

		2018		2017
Cash from operating activities	\$	2,884	\$	2,465
Property additions		(1,326)		(1,315)
Free cash flow <sup>(1)</sup>	\$	1,558	\$	1,150
Returns to shareholders:				
Dividends	\$	627	\$	529
Share repurchases	\$	2,300	\$	712

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

Thank You



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