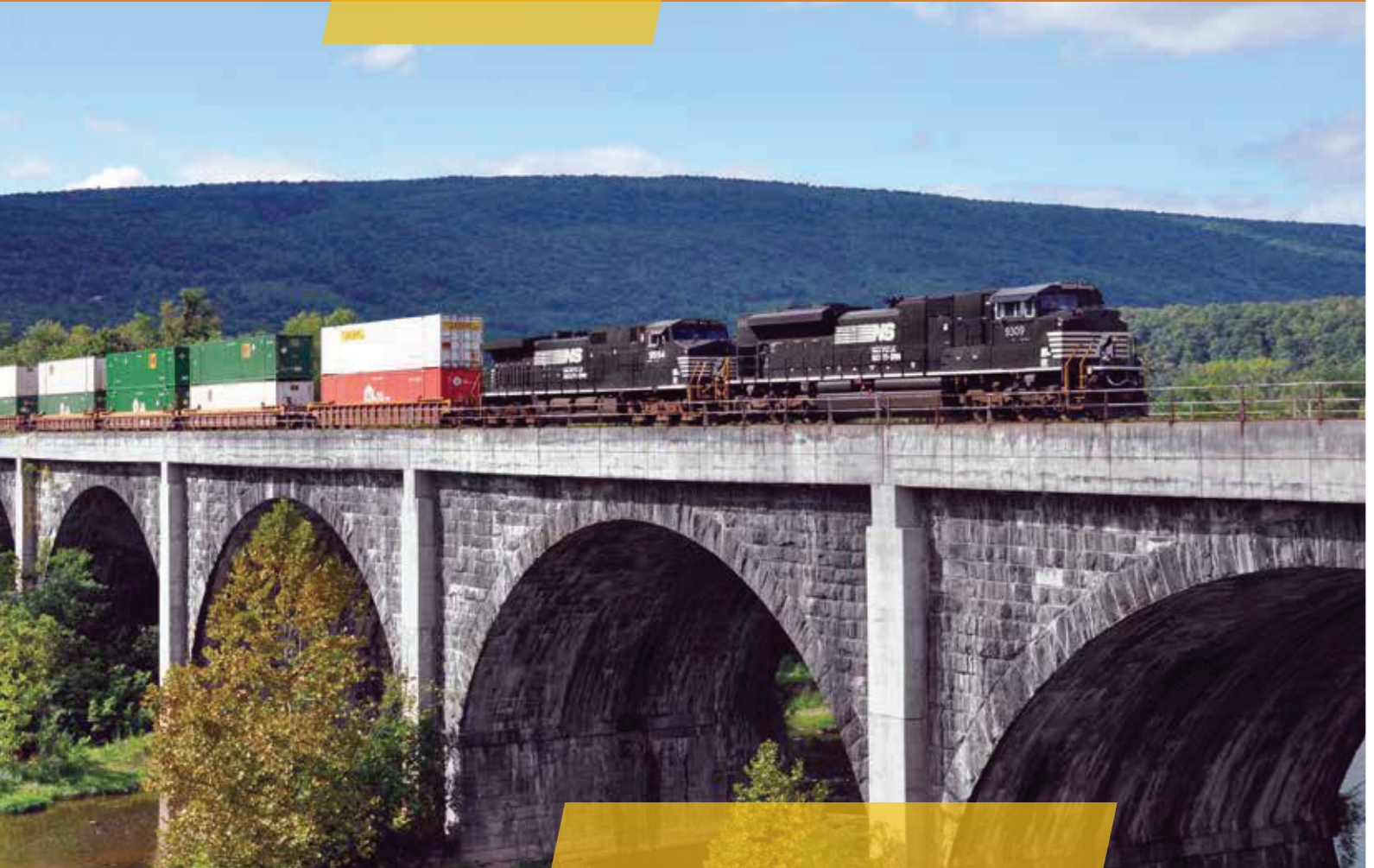


THIRD QUARTER 2018

Quarterly Financial Data



**NORFOLK
SOUTHERN**

Finance Department
Three Commercial Place
Norfolk, Virginia 23510.2191

NORFOLK SOUTHERN RAILWAY SYSTEM



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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		
	2018	2017	% Change	2018	2017	% Change
Railway operating revenues						
Merchandise	\$ 1,737	\$ 1,600	9%	\$ 5,060	\$ 4,781	6%
Intermodal	746	621	20%	2,138	1,785	20%
Coal	464	449	3%	1,364	1,316	4%
Total railway operating revenues	2,947	2,670	10%	8,562	7,882	9%
Railway operating expenses						
Compensation and benefits	725	771	(6%)	2,168	2,249	(4%)
Purchased services and rents	450	377	19%	1,281	1,146	12%
Fuel	274	198	38%	812	601	35%
Depreciation	276	265	4%	821	788	4%
Materials and other	202	164	23%	599	574	4%
Total railway operating expenses	1,927	1,775	9%	5,681	5,358	6%
Income from railway operations	1,020	895	14%	2,881	2,524	14%
Other income — net	30	39	(23%)	67	127	(47%)
Interest expense on debt	142	134	6%	409	416	(2%)
Income before income taxes	908	800	14%	2,539	2,235	14%
Income taxes						
Current	157	189	(17%)	437	580	(25%)
Deferred	49	105	(53%)	138	219	(37%)
Total income taxes	206	294	(30%)	575	799	(28%)
Net income	\$ 702	\$ 506	39%	\$ 1,964	\$ 1,436	37%
Earnings per share - diluted	\$ 2.52	\$ 1.75	44%	\$ 6.95	\$ 4.93	41%
Weighted average shares outstanding - diluted	278.2	289.5	(4%)	282.6	291.2	(3%)

Notes

1. Pension and Other Postretirement Benefits

We adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2017-07 on January 1, 2018. The retrospective application resulted in the reclassification of \$16 million and \$48 million of pension and other postretirement benefits from the "Compensation and benefits" line item within "Railway operating expenses" to "Other income — net" on the Consolidated Statements of Income for the third quarter and first nine months of 2017, respectively.

2. Stock Repurchase Program

We repurchased and retired 12.8 million shares (5.7 million shares under an accelerated stock repurchase program (ASR) and 7.1 million shares under our ongoing program) and 6.0 million shares of common stock under our stock repurchase programs in the first nine months of 2018 and 2017, respectively, at a cost of \$2.1 billion and \$712 million, respectively. We entered into an ASR on August 2, 2018 with two third-party financial institutions to repurchase common stock, at which time we made a payment of \$1.2 billion to the financial institutions and received an initial delivery of 5.7 million shares valued at \$960 million. The remaining balance of \$240 million, included in "Additional paid-in capital" on the Consolidated Balance Sheets, will be settled no later than the end of January 2019, with the final number of shares to be delivered by the financial institutions equal to the volume-weighted average price per share of common stock over the ASR term, less a negotiated discount.

Since the beginning of 2006, we have repurchased and retired 181.3 million shares at a total cost of \$13.4 billion.

Consolidated Balance Sheets

(\$ in millions)

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 729	\$ 690
Accounts receivable — net	1,043	955
Materials and supplies	267	222
Other current assets	70	282
Total current assets	2,109	2,149
Investments	3,109	2,981
Properties less accumulated depreciation of \$12,276 and \$11,909, respectively	30,712	30,330
Other assets	392	251
Total assets	\$ 36,322	\$ 35,711
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 1,394	\$ 1,401
Short-term debt	-	100
Income and other taxes	230	211
Other current liabilities	317	233
Current maturities of long-term debt	500	600
Total current liabilities	2,441	2,545
Long-term debt	10,635	9,136
Other liabilities	1,302	1,347
Deferred income taxes	6,464	6,324
Total liabilities	20,842	19,352
Stockholders' equity:		
Common stock \$1.00 per share par value, 1,350,000,000 shares authorized; outstanding 272,346,940 and 284,157,187 shares, respectively, net of treasury shares	274	285
Additional paid-in capital	1,996	2,254
Accumulated other comprehensive loss	(435)	(356)
Retained income	13,645	14,176
Total stockholders' equity	15,480	16,359
Total liabilities and stockholders' equity	\$ 36,322	\$ 35,711

3. Reclassification of Stranded Tax Effects

In February 2018, the FASB issued ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This update is intended to reclassify the stranded tax effects resulting from the Tax Cuts and Jobs Act that was enacted on December 22, 2017 from accumulated other comprehensive income to retained earnings. In the first quarter of 2018, we adopted the provisions of ASU 2018-02 resulting in an increase to "Accumulated other comprehensive loss" of \$88 million and a corresponding increase to "Retained income," with no impact on "Total stockholders' equity."

Consolidated Statements of Cash Flows

(\$ in millions)

	First Nine Months	
	2018	2017
Cash flows from operating activities		
Net income	\$ 1,964	\$ 1,436
Reconciliation of net income to net cash provided by operating activities:		
Depreciation	822	791
Deferred income taxes	138	219
Gains and losses on properties	(26)	(62)
Changes in assets and liabilities affecting operations:		
Accounts receivable	(102)	(59)
Materials and supplies	(45)	12
Other current assets	45	68
Current liabilities other than debt	173	165
Other — net	(85)	(105)
Net cash provided by operating activities	<u>2,884</u>	<u>2,465</u>
Cash flows from investing activities		
Property additions	(1,326)	(1,315)
Property sales and other transactions	93	137
Investment purchases	(4)	(4)
Investment sales and other transactions	96	8
Net cash used in investing activities	<u>(1,141)</u>	<u>(1,174)</u>
Cash flows from financing activities		
Dividends	(627)	(529)
Common stock transactions	38	75
Purchase and retirement of common stock	(2,300)	(712)
Proceeds from borrowings — net of issuance costs	2,023	293
Debt repayments	(750)	(650)
Net cash used in financing activities	<u>(1,616)</u>	<u>(1,523)</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	127	(232)
Cash, cash equivalents, and restricted cash		
At beginning of year	690	956
At end of period	<u>\$ 817</u>	<u>\$ 724</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest (net of amounts capitalized)	\$ 327	\$ 345
Income taxes (net of refunds)	314	594

4. Restricted Cash

The "Cash, cash equivalents, and restricted cash" line item includes restricted cash of \$88 million at September 30, 2018 which reflects deposits held by a third party bond agent as collateral for certain debt obligations maturing in 2019. The restricted cash balance is included as part of "Other assets" on the Consolidated Balance Sheets.

Railway Operating Revenues Analysis

Commodity and Period	Revenues (S in millions)			Units (in thousands)			Revenue per Unit (S per unit)		
	2018	2017	% Change	2018	2017	% Change	2018	2017	% Change
First Quarter									
Chemicals	\$ 443	\$ 427	4%	120.8	118.6	2%	\$ 3,663	\$ 3,599	2%
Agriculture/consumer/gov't	393	384	2%	148.3	149.5	(1%)	2,650	2,568	3%
Metals and construction	338	340	(1%)	164.6	168.4	(2%)	2,053	2,020	2%
Automotive	243	246	(1%)	102.8	110.5	(7%)	2,362	2,221	6%
Paper/clay/forest	188	187	1%	69.6	70.6	(1%)	2,704	2,651	2%
Merchandise	1,605	1,584	1%	606.1	617.6	(2%)	2,647	2,564	3%
Intermodal	678	571	19%	1,049.2	969.4	8%	647	589	10%
Coal	434	420	3%	249.1	259.6	(4%)	1,743	1,617	8%
Total	\$ 2,717	\$ 2,575	6%	1,904.4	1,846.6	3%	1,427	1,394	2%
Second Quarter									
Chemicals	\$ 452	\$ 406	11%	127.1	114.8	11%	\$ 3,557	\$ 3,536	1%
Agriculture/consumer/gov't	423	384	10%	158.3	145.7	9%	2,675	2,637	1%
Metals and construction	389	371	5%	193.7	193.4	-	2,008	1,919	5%
Automotive	253	249	2%	104.7	111.4	(6%)	2,421	2,244	8%
Paper/clay/forest	201	187	7%	71.7	70.3	2%	2,795	2,653	5%
Merchandise	1,718	1,597	8%	655.5	635.6	3%	2,621	2,514	4%
Intermodal	714	593	20%	1,091.8	1,009.1	8%	654	587	11%
Coal	466	447	4%	273.6	266.1	3%	1,704	1,679	1%
Total	\$ 2,898	\$ 2,637	10%	2,020.9	1,910.8	6%	1,434	1,380	4%
Third Quarter									
Chemicals	\$ 468	\$ 418	12%	127.9	115.2	11%	\$ 3,661	\$ 3,624	1%
Agriculture/consumer/gov't	428	388	10%	155.3	147.8	5%	2,756	2,626	5%
Metals and construction	383	378	1%	189.7	194.2	(2%)	2,018	1,945	4%
Automotive	245	218	12%	98.4	96.6	2%	2,486	2,256	10%
Paper/clay/forest	213	198	8%	74.5	73.4	1%	2,867	2,699	6%
Merchandise	1,737	1,600	9%	645.8	627.2	3%	2,690	2,550	5%
Intermodal	746	621	20%	1,116.2	1,035.2	8%	669	600	12%
Coal	464	449	3%	255.8	266.6	(4%)	1,812	1,687	7%
Total	\$ 2,947	\$ 2,670	10%	2,017.8	1,929.0	5%	1,461	1,384	6%
Year-to-date									
Chemicals	\$ 1,363	\$ 1,251	9%	375.8	348.6	8%	\$ 3,626	\$ 3,586	1%
Agriculture/consumer/gov't	1,244	1,156	8%	461.9	443.0	4%	2,694	2,610	3%
Metals and construction	1,110	1,089	2%	548.0	556.0	(1%)	2,025	1,959	3%
Automotive	741	713	4%	305.9	318.5	(4%)	2,422	2,239	8%
Paper/clay/forest	602	572	5%	215.8	214.3	1%	2,791	2,668	5%
Merchandise	5,060	4,781	6%	1,907.4	1,880.4	1%	2,653	2,542	4%
Intermodal	2,138	1,785	20%	3,257.2	3,013.7	8%	656	592	11%
Coal	1,364	1,316	4%	778.5	792.3	(2%)	1,752	1,662	5%
Total	\$ 8,562	\$ 7,882	9%	5,943.1	5,686.4	5%	1,441	1,386	4%

Railway Operating Revenues Variance Analysis

(\$ in millions)

Third Quarter
2018 vs. 2017

	Merchandise		Intermodal		Coal	
	Amount	Percent	Amount	Percent	Amount	Percent
Revenue Variance due to:						
Volume	\$ 47	3%	\$ 49	8%	\$ (18)	(4%)
Fuel surcharge revenue	41	3%	49	8%	8	2%
Rate, mix and other	49	3%	27	4%	25	6%
Total	\$ 137	9%	\$ 125	20%	\$ 15	3%

Year-to-date
2018 vs. 2017

	Merchandise		Intermodal		Coal	
	Amount	Percent	Amount	Percent	Amount	Percent
Revenue Variance due to:						
Volume	\$ 68	1%	\$ 144	8%	\$ (23)	(2%)
Fuel surcharge revenue	84	2%	125	7%	12	1%
Rate, mix and other	127	3%	84	5%	59	4%
Total	\$ 279	6%	\$ 353	20%	\$ 48	4%

Coal Tonnage by Market

(in thousands)

	Third Quarter			Year-to-date		
	2018	2017	% Change	2018	2017	% Change
Utility	16,213	17,410	(7%)	48,773	52,599	(7%)
Export	6,621	6,280	5%	21,775	19,189	13%
Domestic metallurgical	4,226	4,298	(2%)	11,624	11,647	-
Industrial	1,352	1,457	(7%)	4,069	4,259	(4%)
Total	28,412	29,445	(4%)	86,241	87,694	(2%)

Intermodal Units by Market

(in thousands)

	Third Quarter			Year-to-date		
	2018	2017	% Change	2018	2017	% Change
Domestic	704.0	662.6	6%	2,082.2	1,890.6	10%
International	412.2	372.6	11%	1,175.0	1,123.1	5%
Total	1,116.2	1,035.2	8%	3,257.2	3,013.7	8%

Financial, Traffic and Operating Statistics

(\$ in millions — except as noted)

	2017				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter (Non-GAAP)	Year (Non-GAAP)
Railway operating revenues	\$ 2,575	\$ 2,637	\$ 2,670	\$ 2,669	\$ 10,551
Railway operating expenses:					
Compensation and benefits	759	719	771	730	2,979
Purchased services	304	318	309	338	1,269
Equipment rents	73	74	68	81	296
Fuel	213	190	198	239	840
Depreciation	259	264	265	267	1,055
Materials	92	87	85	84	348
Casualties and other claims	40	35	39	31	145
Other	78	78	40	52	248
Total railway operating expenses	1,818	1,765	1,775	1,822	7,180
Income from railway operations	757	872	895	847	3,371
Other income — net	40	48	39	29	156
Interest expense on debt	142	140	134	134	550
Income before income taxes	655	780	800	742	2,977
Total income taxes	222	283	294	256	1,055
Net income	\$ 433	\$ 497	\$ 506	\$ 486	\$ 1,922
Weighted average shares outstanding — diluted (in millions)	292.8	291.2	289.5	287.8	290.3
Earnings per share — diluted (dollars)	\$ 1.48	\$ 1.71	\$ 1.75	\$ 1.69	\$ 6.61
Dividends per share (dollars)	\$ 0.61	\$ 0.61	\$ 0.61	\$ 0.61	\$ 2.44
Railway operating ratio (percent)	70.6	66.9	66.5	68.3	68.1
Property additions	\$ 438	\$ 445	\$ 432	\$ 408	\$ 1,723
Cash and cash equivalents	\$ 955	\$ 642	\$ 724	\$ 690	\$ 690
Total debt	\$ 10,119	\$ 9,873	\$ 9,880	\$ 9,836	\$ 9,836
Total debt-to-total capitalization (percent)	44.7	43.8	43.7	37.5	37.5
Gross ton miles (GTMs) (in billions)	94.6	96.5	96.6	96.1	383.8
Revenue ton miles (in billions):					
Merchandise	29.1	29.8	30.0	29.4	118.3
Intermodal	10.2	10.7	11.0	11.3	43.2
Coal	10.3	10.2	10.1	9.4	40.0
Total	49.6	50.7	51.1	50.1	201.5
Railroad employees (average)	27,453	27,088	26,761	26,520	26,955
GTMs (thousands) per employee	3,445	3,562	3,610	3,625	14,239
Locomotive diesel fuel consumed (in thousands of gallons)	119,420	111,331	110,972	116,456	458,179
Average price (dollars) per gallon of locomotive diesel fuel	\$ 1.690	\$ 1.609	\$ 1.697	\$ 1.950	\$ 1.738
Gallons of fuel consumed per thousand GTMs	1.27	1.16	1.16	1.22	1.20
Train speed (miles per hour)	22.7	21.5	21.7	20.5	21.6
Terminal dwell (hours)	24.3	25.1	24.9	26.8	25.3

Note: We adopted FASB ASU 2017-07 on January 1, 2018. The retrospective application resulted in the reclassification of \$16 million of pension and other postretirement benefits from the "Compensation and benefits" line item within "Railway operating expenses" to "Other income — net" on the Consolidated Statements of Income for each quarter of 2017, totaling \$64 million for the year. This reclassification resulted in a 60 basis point increase in each of the previously reported 2017 quarterly railway operating ratios and a 70 basis point increase in the previously reported full year 2017 railway operating ratio.

See reconciliation of non-GAAP financial measures on page 8.

2018					2018 vs. 2017				
First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to-date	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to-date
\$ 2,717	\$ 2,898	\$ 2,947		\$ 8,562	\$ 142	\$ 261	\$ 277		\$ 680
737	706	725		2,168	(22)	(13)	(46)		(81)
318	342	347		1,007	14	24	38		76
83	88	103		274	10	14	35		59
266	272	274		812	53	82	76		211
272	273	276		821	13	9	11		33
90	92	95		277	(2)	5	10		13
47	38	46		131	7	3	7		17
69	61	61		191	(9)	(17)	21		(5)
1,882	1,872	1,927		5,681	64	107	152		323
835	1,026	1,020		2,881	78	154	125		357
8	29	30		67	(32)	(19)	(9)		(60)
136	131	142		409	(6)	(9)	8		(7)
707	924	908		2,539	52	144	108		304
155	214	206		575	(67)	(69)	(88)		(224)
\$ 552	\$ 710	\$ 702		\$ 1,964	\$ 119	\$ 213	\$ 196		\$ 528
285.9	283.7	278.2		282.6	(6.9)	(7.5)	(11.3)		(8.6)
\$ 1.93	\$ 2.50	\$ 2.52		\$ 6.95	\$ 0.45	\$ 0.79	\$ 0.77		\$ 2.02
\$ 0.72	\$ 0.72	\$ 0.80		\$ 2.24	\$ 0.11	\$ 0.11	\$ 0.19		\$ 0.41
69.3	64.6	65.4		66.4	(1.3)	(2.3)	(1.1)		(1.6)
\$ 383	\$ 453	\$ 490		\$ 1,326	\$ (55)	\$ 8	\$ 58		\$ 11
\$ 1,072	\$ 430	\$ 729		\$ 729	\$ 117	\$ (212)	\$ 5		\$ 5
\$ 10,287	\$ 9,646	\$ 11,135		\$ 11,135	\$ 168	\$ (227)	\$ 1,255		\$ 1,255
38.5	36.8	41.8		41.8	(6.2)	(7.0)	(1.9)		(1.9)
95.2	100.8	101.3		297.3	1%	4%	5%		3%
29.5	31.5	31.5		92.5	1%	6%	5%		4%
11.1	11.7	11.8		34.6	9%	9%	7%		8%
9.4	10.0	10.0		29.4	(9%)	(2%)	(1%)		(4%)
50.0	53.2	53.3		156.5	1%	5%	4%		3%
26,430	26,535	26,444		26,470	(4%)	(2%)	(1%)		(2%)
3,600	3,800	3,832		11,232	4%	7%	6%		6%
121,450	116,754	115,320		353,524	2%	5%	4%		3%
\$ 2.046	\$ 2.215	\$ 2.263		\$ 2.173	21%	38%	33%		30%
1.28	1.17	1.14		1.20	1%	1%	(2%)		-
19.0	18.4	19.5		19.0	(16%)	(14%)	(10%)		(14%)
29.0	28.7	26.8		28.2	19%	14%	8%		14%

Reconciliation of Non-GAAP Financial Measures

Information included within this Third Quarter 2018 Quarterly Financial Data includes non-GAAP financial measures, as defined by Securities and Exchange Commission Regulation G. Non-GAAP financial measures should be considered in addition to, not as a substitute for, the financial measures reported in accordance with U.S. generally accepted accounting

Consolidated Statements of Income - excluding Tax Reform*

(in millions, except per share amounts)

	Fourth Quarter			Year Ended December 31,		
	2017 (GAAP)	Tax Reform*	Adjusted 2017 (Non-GAAP)	2017 (GAAP)	Tax Reform*	Adjusted 2017 (Non-GAAP)
Railway operating revenues						
Merchandise	\$ 1,576	\$ -	\$ 1,576	\$ 6,357	\$ -	\$ 6,357
Intermodal	667	-	667	2,452	-	2,452
Coal	426	-	426	1,742	-	1,742
Total railway operating revenues	<u>2,669</u>	<u>-</u>	<u>2,669</u>	<u>10,551</u>	<u>-</u>	<u>10,551</u>
Railway operating expenses						
Compensation and benefits	730	-	730	2,979	-	2,979
Purchased services	302	36	338	1,233	36	1,269
Equipment rents	(34)	115	81	181	115	296
Purchased services and rents	<u>268</u>	<u>151</u>	<u>419</u>	<u>1,414</u>	<u>151</u>	<u>1,565</u>
Fuel	239	-	239	840	-	840
Depreciation	267	-	267	1,055	-	1,055
Materials	84	-	84	348	-	348
Casualties and other claims	31	-	31	145	-	145
Other	52	-	52	248	-	248
Materials and other	<u>167</u>	<u>-</u>	<u>167</u>	<u>741</u>	<u>-</u>	<u>741</u>
Total railway operating expenses	<u>1,671</u>	<u>151</u>	<u>1,822</u>	<u>7,029</u>	<u>151</u>	<u>7,180</u>
Income from railway operations	998	(151)	847	3,522	(151)	3,371
Other income — net	29	-	29	156	-	156
Interest expense on debt	134	-	134	550	-	550
Income before income taxes	893	(151)	742	3,128	(151)	2,977
Income taxes						
Current	3	(5)	(2)	583	(5)	578
Deferred	(3,078)	3,336	258	(2,859)	3,336	477
Total income taxes	<u>(3,075)</u>	<u>3,331</u>	<u>256</u>	<u>(2,276)</u>	<u>3,331</u>	<u>1,055</u>
Net income	<u>\$ 3,968</u>	<u>\$ (3,482)</u>	<u>\$ 486</u>	<u>\$ 5,404</u>	<u>\$ (3,482)</u>	<u>\$ 1,922</u>
Earnings per share - diluted	\$ 13.79	\$ (12.10)	\$ 1.69	\$ 18.61	\$ (12.00)	\$ 6.61
Railway operating ratio (%)	62.6	5.7	68.3	66.6	1.5	68.1

* GAAP financial results are adjusted to exclude the effects of the Tax Cuts and Jobs Act ("tax reform"), signed into law on December 22, 2017. Specifically, the adjustments remove the effects of remeasurements of net deferred tax liabilities related to the reduction of the federal tax rate from 35% to 21%.

The Company uses these non-GAAP financial measures internally and believes this information provides useful supplemental information to investors to facilitate making period-to-period comparisons by excluding the effects of tax reform. While the Company believes that these non-GAAP financial measures are useful in evaluating the Company's business, this information should be considered as supplemental in nature and is not meant to be considered in isolation or as a substitute for the related financial information prepared in accordance with GAAP. In addition, these non-GAAP financial measures may not be the same as similar measures presented by other companies.

Note: See page 6 for additional information regarding adoption of FASB ASU 2017-07.

2018

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Quarterly Financial Data
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