

THIRD QUARTER 2019

Quarterly Financial Data



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		
	2019	2018	% Change	2019	2018	% Change
Railway operating revenues						
Merchandise	\$ 1,731	\$ 1,737	-	\$ 5,173	\$ 5,060	2%
Intermodal	707	746	(5%)	2,127	2,138	(1%)
Coal	403	464	(13%)	1,306	1,364	(4%)
Total railway operating revenues	2,841	2,947	(4%)	8,606	8,562	1%
Railway operating expenses						
Compensation and benefits	682	725	(6%)	2,121	2,168	(2%)
Purchased services and rents	423	450	(6%)	1,265	1,281	(1%)
Fuel	226	274	(18%)	730	812	(10%)
Depreciation	286	276	4%	853	821	4%
Materials and other	228	202	13%	610	599	2%
Total railway operating expenses	1,845	1,927	(4%)	5,579	5,681	(2%)
Income from railway operations	996	1,020	(2%)	3,027	2,881	5%
Other income — net	22	30	(27%)	88	67	31%
Interest expense on debt	150	142	6%	452	409	11%
Income before income taxes	868	908	(4%)	2,663	2,539	5%
Income taxes						
Current	119	157	(24%)	382	437	(13%)
Deferred	92	49	88%	225	138	63%
Total income taxes	211	206	2%	607	575	6%
Net income	\$ 657	\$ 702	(6%)	\$ 2,056	\$ 1,964	5%
Earnings per share — diluted	\$ 2.49	\$ 2.52	(1%)	\$ 7.70	\$ 6.95	11%
Weighted average shares outstanding — diluted	264.3	278.2	(5%)	266.9	282.6	(6%)

Notes

1. Stock Repurchase Program

We repurchased and retired 8.4 million shares of common stock under our stock repurchase program during the first nine months of 2019, at a cost of \$1.6 billion. During the first nine months of 2018, we repurchased and retired 12.8 million shares (5.7 million under an accelerated share repurchase program and 7.1 million shares under our ongoing program) at a cost of \$2.1 billion.

Since the beginning of 2006, we have repurchased and retired 194.0 million shares at a total cost of \$15.7 billion.

Consolidated Balance Sheets

(\$ in millions)

	September 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 452	\$ 358
Accounts receivable — net	973	1,009
Materials and supplies	266	207
Other current assets	325	288
Total current assets	2,016	1,862
Investments	3,376	3,109
Properties less accumulated depreciation of \$12,381 and \$12,374, respectively	31,394	31,091
Other assets	714	177
Total assets	\$ 37,500	\$ 36,239
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 1,407	\$ 1,505
Short-term debt	350	-
Income and other taxes	202	255
Other current liabilities	401	246
Current maturities of long-term debt	401	585
Total current liabilities	2,761	2,591
Long-term debt	11,085	10,560
Other liabilities	1,727	1,266
Deferred income taxes	6,689	6,460
Total liabilities	22,262	20,877
Stockholders' equity:		
Common stock \$1.00 per share par value, 1,350,000,000 shares authorized; outstanding 260,746,663 and 268,098,472 shares, respectively, net of treasury shares	262	269
Additional paid-in capital	2,219	2,216
Accumulated other comprehensive loss	(553)	(563)
Retained income	13,310	13,440
Total stockholders' equity	15,238	15,362
Total liabilities and stockholders' equity	\$ 37,500	\$ 36,239

2. Leases

On January 1, 2019, we adopted Financial Accounting Standards Board Accounting Standards Update 2016-02, "Leases (Topic 842)" which requires lessees to recognize right-of-use (ROU) assets and lease liabilities on the balance sheet for leases greater than twelve months. As a result of the adoption, the Consolidated Balance Sheet at September 30, 2019 includes the recognition of ROU assets of \$561 million included in "Other assets," current lease liabilities of \$97 million included in "Other current liabilities," and non-current lease liabilities of \$464 million included in "Other liabilities."

Consolidated Statements of Cash Flows

(S in millions)

	First Nine Months	
	2019	2018
Cash flows from operating activities		
Net income	\$ 2,056	\$ 1,964
Reconciliation of net income to net cash provided by operating activities:		
Depreciation	854	822
Deferred income taxes	225	138
Gains and losses on properties	(4)	(26)
Changes in assets and liabilities affecting operations:		
Accounts receivable	34	(102)
Materials and supplies	(59)	(45)
Other current assets	40	45
Current liabilities other than debt	(72)	173
Other — net	(77)	(85)
Net cash provided by operating activities	2,997	2,884
Cash flows from investing activities		
Property additions	(1,494)	(1,326)
Property sales and other transactions	282	93
Investment purchases	(12)	(4)
Investment sales and other transactions	(99)	96
Net cash used in investing activities	(1,323)	(1,141)
Cash flows from financing activities		
Dividends	(705)	(627)
Common stock transactions	21	38
Purchase and retirement of common stock	(1,550)	(2,300)
Proceeds from borrowings — net of issuance costs	1,404	2,023
Debt repayments	(750)	(750)
Net cash used in financing activities	(1,580)	(1,616)
Net increase in cash, cash equivalents, and restricted cash	94	127
Cash, cash equivalents, and restricted cash		
At beginning of year	446	690
At end of period	\$ 540	\$ 817
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest (net of amounts capitalized)	\$ 392	\$ 327
Income taxes (net of refunds)	404	314

3. Restricted Cash

The "Cash, cash equivalents, and restricted cash" line item includes restricted cash of \$88 million at both September 30, 2019 and December 31, 2018, reflecting deposits held by a third-party bond agent as collateral for certain debt obligations maturing in October 2019. The restricted cash balance is included as part of "Other current assets" on the Consolidated Balance Sheets in both periods.

Railway Operating Revenues Analysis

Commodity and Period	Revenues (S in millions)			Units (in thousands)			Revenue per Unit (S per unit)		
	2019	2018	% Change	2019	2018	% Change	2019	2018	% Change
First Quarter									
Chemicals	\$ 452	\$ 454	-	125.9	126.6	(1%)	\$ 3,587	\$ 3,585	-
Agriculture products	385	357	8%	130.9	129.9	1%	2,945	2,744	7%
Metals and construction	385	356	8%	173.9	175.9	(1%)	2,217	2,023	10%
Automotive	251	243	3%	98.1	102.8	(5%)	2,557	2,362	8%
Forest and consumer	213	195	9%	69.4	70.9	(2%)	3,070	2,755	11%
Merchandise	1,686	1,605	5%	598.2	606.1	(1%)	2,819	2,647	6%
Intermodal	719	678	6%	1,071.0	1,049.2	2%	671	647	4%
Coal	435	434	-	236.3	249.1	(5%)	1,839	1,743	6%
Total	\$ 2,840	\$ 2,717	5%	1,905.5	1,904.4	-	1,490	1,427	4%
Second Quarter									
Chemicals	\$ 473	\$ 465	2%	129.8	133.0	(2%)	\$ 3,646	\$ 3,495	4%
Agriculture products	406	379	7%	141.3	137.4	3%	2,870	2,759	4%
Metals and construction	416	413	1%	196.7	206.8	(5%)	2,112	1,997	6%
Automotive	251	253	(1%)	101.8	104.7	(3%)	2,471	2,421	2%
Forest and consumer	210	208	1%	68.6	73.6	(7%)	3,057	2,825	8%
Merchandise	1,756	1,718	2%	638.2	655.5	(3%)	2,751	2,621	5%
Intermodal	701	714	(2%)	1,048.5	1,091.8	(4%)	668	654	2%
Coal	468	466	-	258.3	273.6	(6%)	1,815	1,704	7%
Total	\$ 2,925	\$ 2,898	1%	1,945.0	2,020.9	(4%)	1,504	1,434	5%
Third Quarter									
Chemicals	\$ 481	\$ 481	-	130.1	134.7	(3%)	\$ 3,699	\$ 3,573	4%
Agriculture products	394	388	2%	132.1	136.8	(3%)	2,986	2,837	5%
Metals and construction	391	401	(2%)	191.0	199.9	(4%)	2,045	2,006	2%
Automotive	247	245	1%	99.5	98.4	1%	2,480	2,486	-
Forest and consumer	218	222	(2%)	69.2	76.0	(9%)	3,145	2,929	7%
Merchandise	1,731	1,737	-	621.9	645.8	(4%)	2,783	2,690	3%
Intermodal	707	746	(5%)	1,059.9	1,116.2	(5%)	668	669	-
Coal	403	464	(13%)	218.7	255.8	(15%)	1,842	1,812	2%
Total	\$ 2,841	\$ 2,947	(4%)	1,900.5	2,017.8	(6%)	1,495	1,461	2%
Year-to-date									
Chemicals	\$ 1,406	\$ 1,400	-	385.8	394.3	(2%)	\$ 3,645	\$ 3,551	3%
Agriculture products	1,185	1,124	5%	404.3	404.1	-	2,932	2,781	5%
Metals and construction	1,192	1,170	2%	561.6	582.6	(4%)	2,122	2,008	6%
Automotive	749	741	1%	299.4	305.9	(2%)	2,502	2,422	3%
Forest and consumer	641	625	3%	207.2	220.5	(6%)	3,091	2,838	9%
Merchandise	5,173	5,060	2%	1,858.3	1,907.4	(3%)	2,784	2,653	5%
Intermodal	2,127	2,138	(1%)	3,179.4	3,257.2	(2%)	669	656	2%
Coal	1,306	1,364	(4%)	713.3	778.5	(8%)	1,831	1,752	5%
Total	\$ 8,606	\$ 8,562	1%	5,751.0	5,943.1	(3%)	1,496	1,441	4%

At the beginning of 2019, we recategorized certain commodities within Merchandise major commodity groups to better align with how we internally manage these commodities. Prior period amounts have been reclassified to conform to the current presentation with no net impact to overall Merchandise revenue or total railway operating revenues. Specifically, certain commodities were shifted between Chemicals, Agriculture products, Metals and construction, and Forest and consumer.

Railway Operating Revenues Variance Analysis

(\$ in millions)

Third Quarter
2019 vs. 2018

	Merchandise		Intermodal		Coal	
	Amount	Percent	Amount	Percent	Amount	Percent
Revenue Variance due to:						
Volume	\$ (64)	(4%)	\$ (38)	(5%)	\$ (67)	(15%)
Fuel surcharge revenue	(10)	(1%)	(12)	(2%)	(14)	(3%)
Rate, mix and other	68	4%	11	1%	20	4%
Total	<u>\$ (6)</u>	-	<u>\$ (39)</u>	(5%)	<u>\$ (61)</u>	(13%)

Year-to-date
2019 vs. 2018

	Merchandise		Intermodal		Coal	
	Amount	Percent	Amount	Percent	Amount	Percent
Revenue Variance due to:						
Volume	\$ (130)	(3%)	\$ (51)	(2%)	\$ (114)	(8%)
Fuel surcharge revenue	4	-	(8)	-	(23)	(2%)
Rate, mix and other	239	5%	48	2%	79	6%
Total	<u>\$ 113</u>	2%	<u>\$ (11)</u>	(1%)	<u>\$ (58)</u>	(4%)

Intermodal Units by Market

(in thousands)

	Third Quarter			Year-to-date		
	2019	2018	% Change	2019	2018	% Change
Domestic	643.2	704.0	(9%)	1,935.3	2,082.2	(7%)
International	416.7	412.2	1%	1,244.1	1,175.0	6%
Total	<u>1,059.9</u>	<u>1,116.2</u>	(5%)	<u>3,179.4</u>	<u>3,257.2</u>	(2%)

Coal Tonnage by Market

(in thousands)

	Third Quarter			Year-to-date		
	2019	2018	% Change	2019	2018	% Change
Utility	14,124	16,213	(13%)	47,008	48,773	(4%)
Export	5,403	6,621	(18%)	18,417	21,775	(15%)
Domestic metallurgical	3,649	4,226	(14%)	10,431	11,624	(10%)
Industrial	1,125	1,352	(17%)	3,528	4,069	(13%)
Total	<u>24,301</u>	<u>28,412</u>	(14%)	<u>79,384</u>	<u>86,241</u>	(8%)

Financial, Traffic and Operating Statistics

	2018				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
(S in millions — except as noted)					
Railway operating revenues	\$ 2,717	\$ 2,898	\$ 2,947	\$ 2,896	\$ 11,458
Railway operating expenses:					
Compensation and benefits	737	706	725	757	2,925
Purchased services	318	342	347	360	1,367
Equipment rents	83	88	103	89	363
Fuel	266	272	274	275	1,087
Depreciation	272	273	276	281	1,102
Materials	90	92	95	85	362
Casualties and other claims	47	38	46	45	176
Other	69	61	61	(74)	117
Total railway operating expenses	1,882	1,872	1,927	1,818	7,499
Income from railway operations	835	1,026	1,020	1,078	3,959
Other income — net	8	29	30	-	67
Interest expense on debt	136	131	142	148	557
Income before income taxes	707	924	908	930	3,469
Total income taxes	155	214	206	228	803
Net income	\$ 552	\$ 710	\$ 702	\$ 702	\$ 2,666
Weighted average shares outstanding — diluted (in millions)	285.9	283.7	278.2	273.5	280.2
Earnings per share — diluted (dollars)	\$ 1.93	\$ 2.50	\$ 2.52	\$ 2.57	\$ 9.51
Dividends per share (dollars)	\$ 0.72	\$ 0.72	\$ 0.80	\$ 0.80	\$ 3.04
Railway operating ratio (percent)	69.3	64.6	65.4	62.8	65.4
Property additions	\$ 383	\$ 453	\$ 490	\$ 625	\$ 1,951
Cash and cash equivalents	\$ 1,072	\$ 430	\$ 729	\$ 358	\$ 358
Total debt	\$ 10,287	\$ 9,646	\$ 11,135	\$ 11,145	\$ 11,145
Total debt-to-total capitalization (percent)	38.5	36.8	41.8	42.0	42.0
Gross ton miles (GTMs) (in billions)	95.2	100.8	101.3	97.6	394.9
Revenue ton miles (in billions):					
Merchandise	29.5	31.5	31.5	29.7	122.2
Intermodal	11.1	11.7	11.8	11.8	46.4
Coal	9.4	10.0	10.0	9.4	38.8
Total	50.0	53.2	53.3	50.9	207.4
Railroad employees (average)	26,430	26,535	26,444	26,638	26,512
GTMs (thousands) per employee	3,600	3,800	3,833	3,661	14,894
Locomotive diesel fuel consumed (in thousands of gallons)	121,450	116,754	115,320	118,244	471,768
Average price (dollars) per gallon of locomotive diesel fuel	\$ 2.046	\$ 2.215	\$ 2.263	\$ 2.201	\$ 2.180
Gallons of fuel consumed per thousand GTMs	1.28	1.17	1.14	1.22	1.20
Train speed (miles per hour)	19.0	18.4	19.5	19.3	19.1
Terminal dwell (hours)	29.0	28.7	26.8	25.9	27.6

2019					2019 vs. 2018				
First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to-date	First Quarter	Second Quarter	Increase (Decrease) Third Quarter	Fourth Quarter	Year-to-date
\$ 2,840	\$ 2,925	\$ 2,841		\$ 8,606	\$ 123	\$ 27	\$ (106)		\$ 44
727	712	682		2,121	(10)	6	(43)		(47)
346	347	355		1,048	28	5	8		41
78	71	68		217	(5)	(17)	(35)		(57)
250	254	226		730	(16)	(18)	(48)		(82)
283	284	286		853	11	11	10		32
87	82	85		254	(3)	(10)	(10)		(23)
49	50	48		147	2	12	2		16
54	60	95		209	(15)	(1)	34		18
1,874	1,860	1,845		5,579	(8)	(12)	(82)		(102)
966	1,065	996		3,027	131	39	(24)		146
44	22	22		88	36	(7)	(8)		21
149	153	150		452	13	22	8		43
861	934	868		2,663	154	10	(40)		124
184	212	211		607	29	(2)	5		32
\$ 677	\$ 722	\$ 657		\$ 2,056	\$ 125	\$ 12	\$ (45)		\$ 92
269.4	267.1	264.3		266.9	(16.5)	(16.6)	(13.9)		(15.7)
\$ 2.51	\$ 2.70	\$ 2.49		\$ 7.70	\$ 0.58	\$ 0.20	\$ (0.03)		\$ 0.75
\$ 0.86	\$ 0.86	\$ 0.94		\$ 2.66	\$ 0.14	\$ 0.14	\$ 0.14		\$ 0.42
66.0	63.6	64.9		64.8	(3.3)	(1.0)	(0.5)		(1.6)
\$ 467	\$ 512	\$ 515		\$ 1,494	\$ 84	\$ 59	\$ 25		\$ 168
\$ 411	\$ 274	\$ 452		\$ 452	\$ (661)	\$ (156)	\$ (277)		\$ (277)
\$ 11,404	\$ 11,477	\$ 11,836		\$ 11,836	\$ 1,117	\$ 1,831	\$ 701		\$ 701
42.7	42.8	43.7		43.7	4.2	6.0	1.9		1.9
94.5	97.4	92.4		284.3	(1%)	(3%)	(9%)		(4%)
29.1	30.6	29.0		88.7	(1%)	(3%)	(8%)		(4%)
11.2	11.0	10.9		33.1	1%	(6%)	(8%)		(4%)
9.0	9.6	8.2		26.8	(4%)	(4%)	(18%)		(9%)
49.3	51.2	48.1		148.6	(1%)	(4%)	(10%)		(5%)
26,257	25,033	24,002		25,097	(1%)	(6%)	(9%)		(5%)
3,599	3,893	3,848		11,328	-	2%	-		1%
119,810	115,731	109,565		345,106	(1%)	(1%)	(5%)		(2%)
\$ 1.960	\$ 2.079	\$ 1.958		\$ 1.999	(4%)	(6%)	(13%)		(8%)
1.28	1.20	1.20		1.22	-	3%	5%		2%
21.7	21.9	22.6		22.1	14%	19%	16%		16%
22.2	18.2	18.1		19.5	(23%)	(37%)	(32%)		(31%)



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