



# 2016 Fourth Quarter Earnings Conference Call

January 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, 2015, 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.



# 2016 Financial Highlights Fourth Quarter and Full Year

January 25, 2017

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

# Fourth Quarter and Full Year 2016 Results

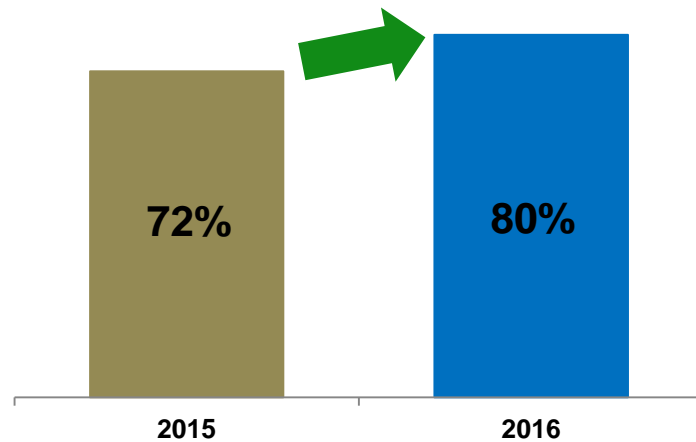
	Railway Operating Ratio %	Basis Point and % Improvement vs. 2015*		Earnings per share	\$/share and % Improvement vs. 2015*	
<b>Fourth Quarter</b>	69.4	<b>510</b>	<b>7%</b>	\$ 1.42	<b>\$0.22</b>	<b>18%</b>
<b>Full Year</b>	68.9	<b>370</b>	<b>5%</b>	\$ 5.62	<b>\$0.52</b>	<b>10%</b>

**NS' Strategic Plan delivered strong results and record 2016 OR**

- \* 2015 Fourth Quarter included restructuring costs of \$49M, which increased the railway operating ratio by 200 basis points and lowered EPS by \$0.10.
- \* 2015 Full Year included restructuring costs of \$93M, which increased the railway operating ratio by 90 basis points and lowered EPS by \$0.19.
- \* Please see non-GAAP reconciliation posted on our website.

# 2016 Improvements in: Service, Asset Utilization and Employee Productivity

## Composite Service Metric



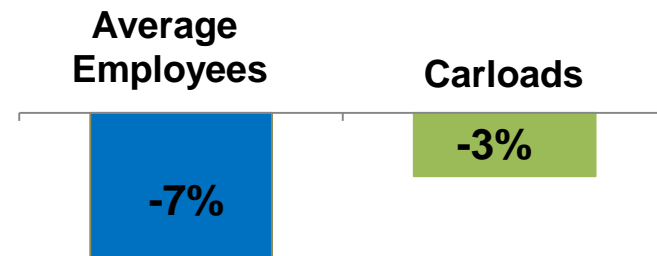
## Efficiency Initiatives

- Line and Yard rationalizations
- Organizational restructurings
- Proactive capital discipline

## Asset Utilization

- Rationalize locomotives
- Improve freight car efficiency
- Increase utilization of lines, yards and terminals

## Employee and Carload Reductions



*NS achieves balance between service and efficiency*



# Fourth Quarter 2016 Marketing Overview

January 25, 2017

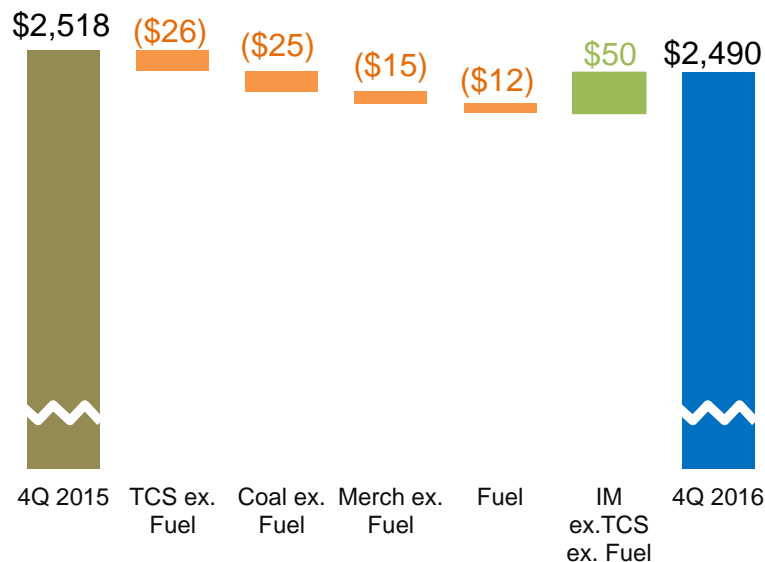
*Alan H. Shaw  
Executive Vice President  
and Chief Marketing Officer*

# Railway Operating Revenue

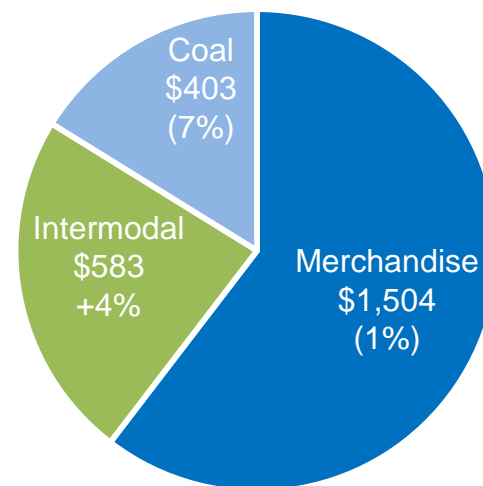
## Fourth Quarter 2016 vs. 2015

Revenue	Volume	RPU	RPU Less Fuel <sup>(1)</sup>
\$2.5 Billion	1,839,900 units	\$1,354	\$1,316
down (1%)	up 2%	down (3%)	down (3%)

Revenue Change in \$ <sup>(1,2)</sup>



Revenue \$ <sup>(2)</sup> & Y-o-Y Percent Change



1. Please see reconciliation to GAAP posted on our website.  
 2. In millions.

**Year-over-year volume increased in fourth quarter with strong Intermodal growth**

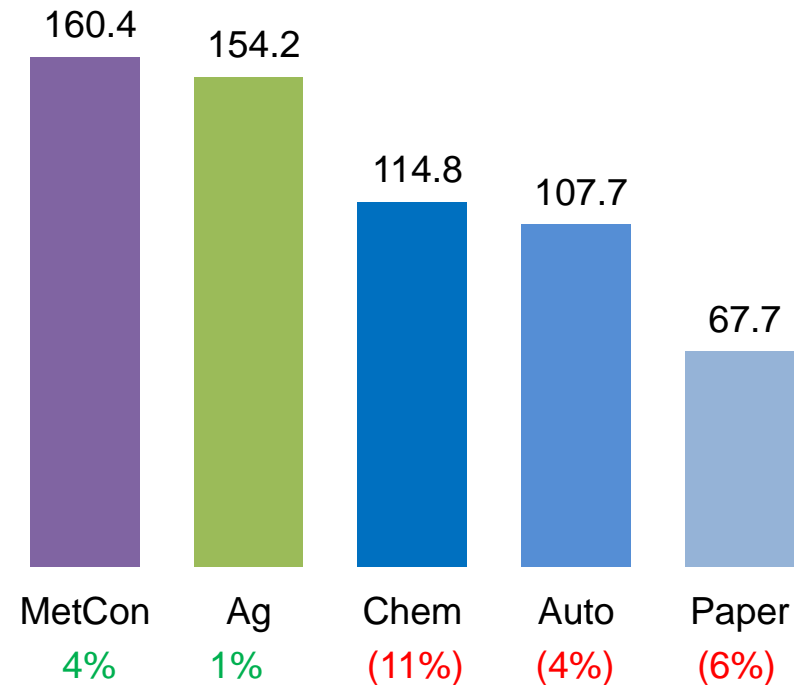
# Merchandise Market

## Fourth Quarter 2016 vs. 2015

*Growth in metals and agriculture markets offset declines in energy and auto*

Units (000's) & Y-o-Y Percent Change

Revenue	\$1,504 Million	↓	(1%)
Volume	604,800	↓	(3%)
RPU	\$2,486	↑	1%
<b>Less Fuel</b>			
Revenue	\$1,499 Million <sup>(1)</sup>	↓	(1%)
RPU	\$2,478 <sup>(1)</sup>	↑	2%



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



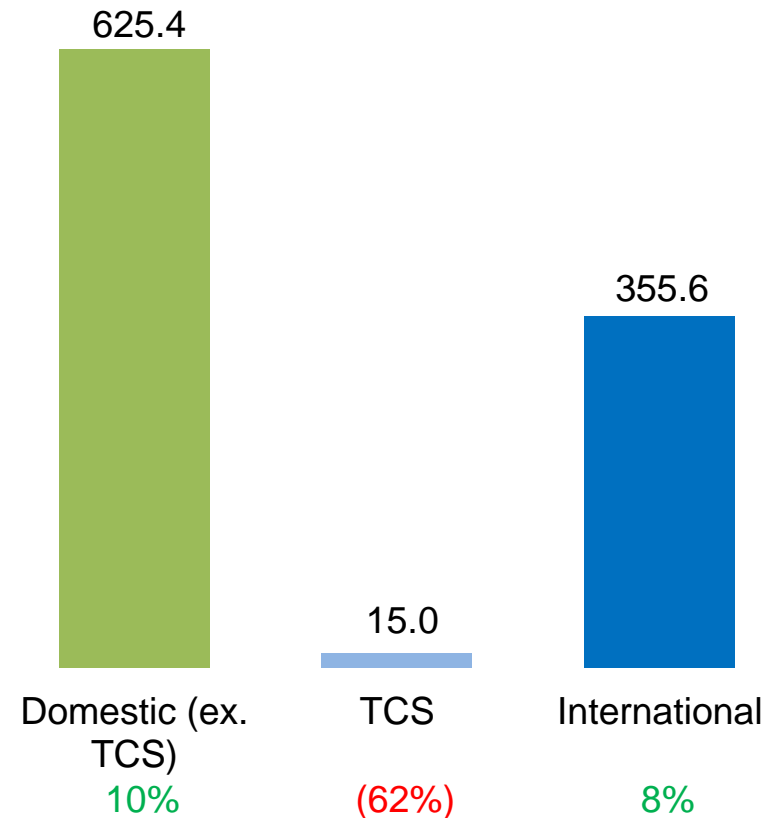
# Intermodal Market

## Fourth Quarter 2016 vs. 2015

**Strong domestic and international performance with improved service**

Revenue	\$583 Million	↑	4%
Volume	996,000	↑	7%
RPU	\$585	↓	(3%)
<b>Less Fuel</b>			
Revenue	\$525 Million <sup>(1)</sup>	↑	5%
RPU	\$527 <sup>(1)</sup>	↓	(2%)
<b>Excluding Triple Crown</b>			
Revenue	\$568 Million <sup>(1)</sup>	↑	10%
Volume	981,000	↑	10%
RPU	\$579 <sup>(1)</sup>		flat
<b>Less Fuel</b>			
Revenue	\$513 Million <sup>(1)</sup>	↑	11%
RPU	\$522 <sup>(1)</sup>	↑	1%

### Units (000's) & Y-o-Y Percent Change



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

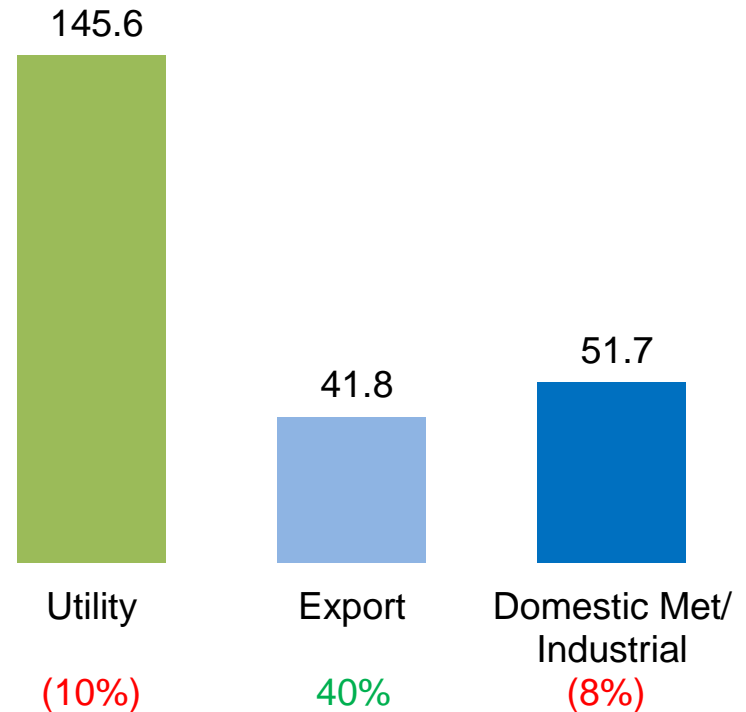
# Coal Market

## Fourth Quarter 2016 vs. 2015

*Encouraged by improved demand for export coal*

### Units (000's) & Y-o-Y Percent Change

Revenue	\$403 Million	↓	(7%)
Volume	239,100	↓	(4%)
RPU	\$1,689	↓	(3%)
<b>Less Fuel</b>			
Revenue	\$396 Million <sup>(1)</sup>	↓	(6%)
RPU	\$1,660 <sup>(1)</sup>	↓	(2%)

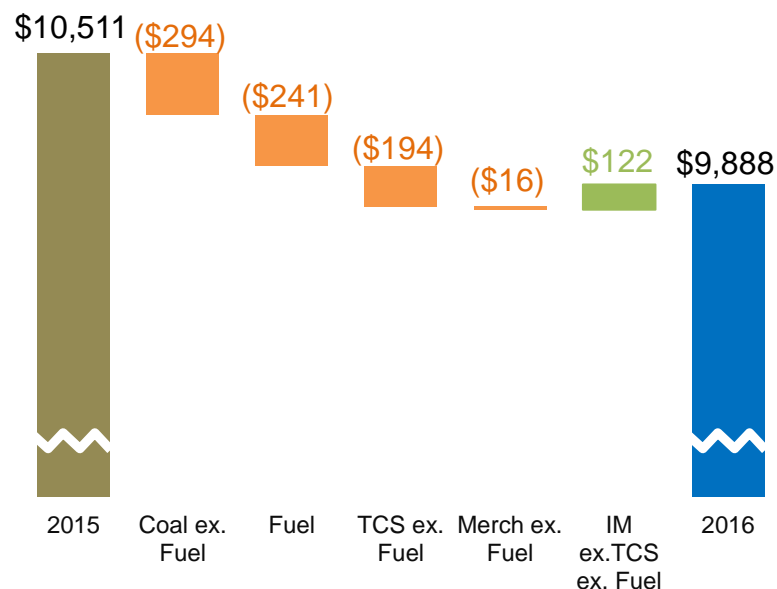


1. Please see reconciliation to GAAP posted on our website.

# Full Year Performance

Revenue	Volume	RPU	RPU Less Fuel <sup>(1)</sup>
\$9.9 Billion	7,259,700 units	\$1,362	\$1,330
down (6%)	down (3%)	down (3%)	down (1%)

## Revenue Change in \$ <sup>(1,2)</sup>



1. Please see reconciliation to GAAP posted on our website.
2. In millions.

## Coal, fuel surcharge, and Triple Crown restructuring account for the decline:

- (17%) decline in Coal revenue excluding fuel surcharge
- (51%) decline in fuel surcharge revenue
- (77%) decline in Triple Crown revenue excluding fuel surcharge, as a result of the restructuring in 4Q 2015

**Challenging economic conditions and restructuring of TCS impacted 2016 results**

# 2017: Return to Growth

## Volume

- Improved economic conditions
- Intermodal volume gains
  - Strong service product
  - Tightening capacity in the trucking market
- Coal growth with market normalization
  - Normal weather conditions and higher natural gas prices
  - Improved export pricing and demand
- Merchandise flat overall
  - Continued challenges in energy markets
  - Automotive plant downtime
  - Improving construction activity

## Pricing

- Focus on Pricing
  - Solid pricing to continue
  - Domestic truck rate increases projected as capacity tightens
  - Leveraging value of service product
- Long-term view of markets and pricing

## Volume and Resource Alignment

- Adapt and evolve through changing market conditions and volume expectations

***Solid pricing and strong Intermodal volumes position NS for growth in 2017***



# 2016 Operations Overview

January 25, 2017

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

# 2016 Summary

**First Year on Record with Service Composite above 80% and Operating Ratio below 70%.**

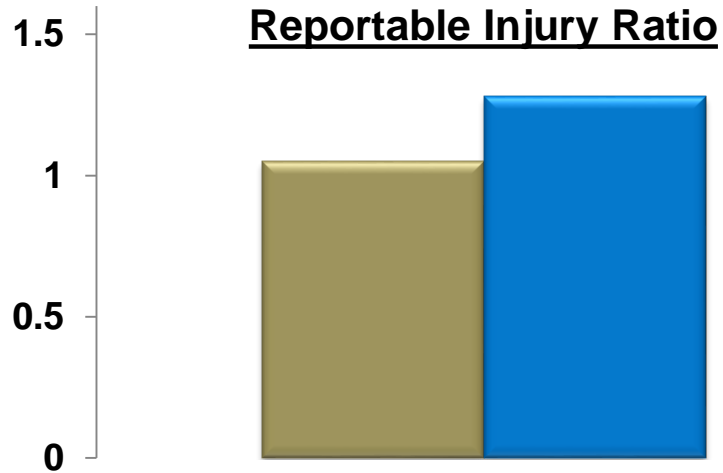
- **Record Operating Ratio**
- **Record Fuel Efficiency**
- **Record Train Length**
- **Best Locomotive Productivity in Last Decade**
- **Best Train Accident Rate Since Conrail Consolidation**

# Injury Ratios

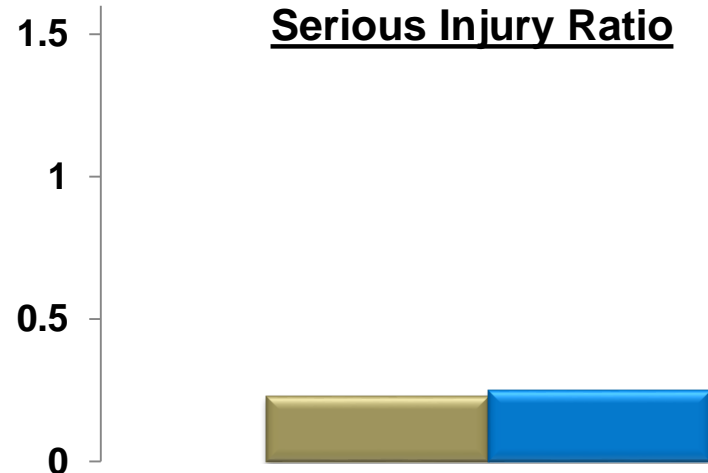
Per 200,000 employee hours worked

■ 2015 ■ 2016

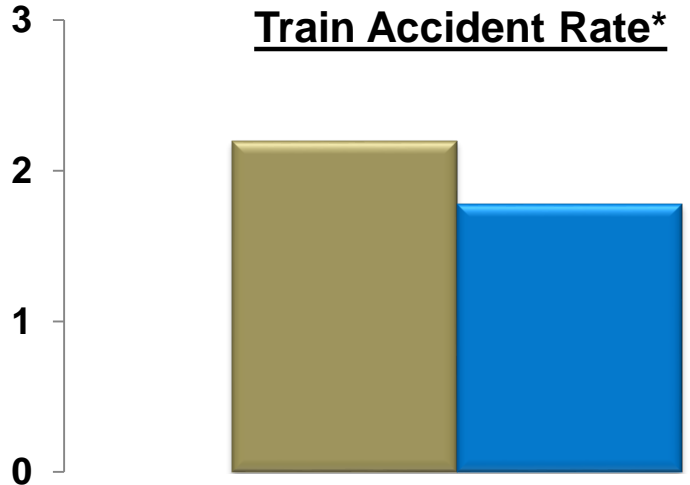
Reportable Injury Ratio



Serious Injury Ratio



Train Accident Rate\*

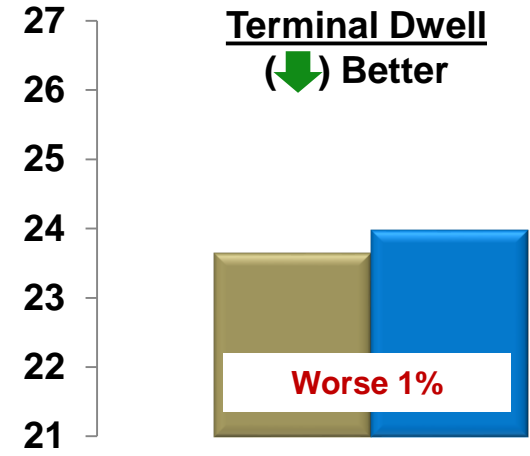
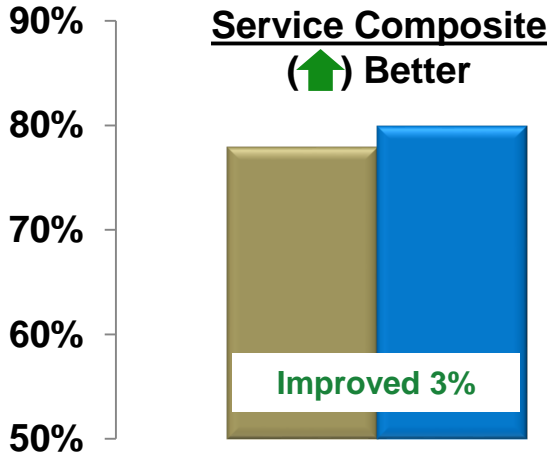


2016 Best Train Accident Rate Since Conrail Consolidation

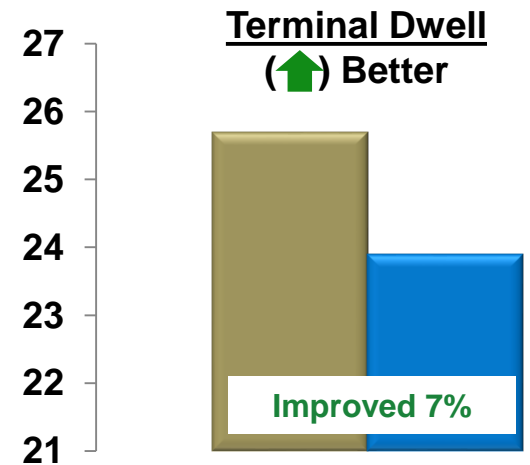
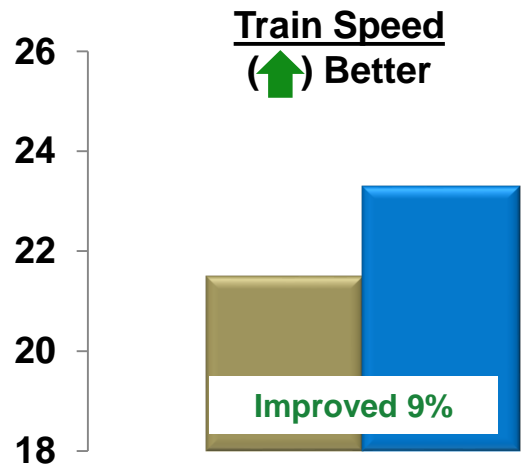
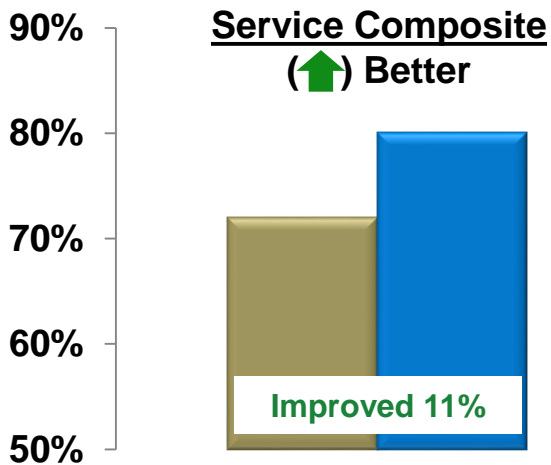
# Service Metrics

## Velocity Remains Near Record Levels

4Q15 4Q16



2015 2016





# Productivity Savings

## Year-over-Year Comparisons

	4Q16	2016
Carloads	2%	(3%)
Crew Starts	(5%)	(5%)
Recrews	4%	(28%)
Total OT (\$)	(21%)	(38%)
Train Length	2.3%	2.2%
GTM/T&E Emp	9%	6%
T&E Headcount	(9%)	(9%)

Significantly Improved Employee Productivity



# Fourth Quarter 2016 Financial Overview

January 25, 2017

*Marta R. Stewart*  
*Executive Vice President Finance*  
*and Chief Financial Officer*

# Operating Results

Fourth Quarter 2016 vs. 2015 (\$ millions)

*Sustained cost control resulted in an operating ratio of 69.4%*

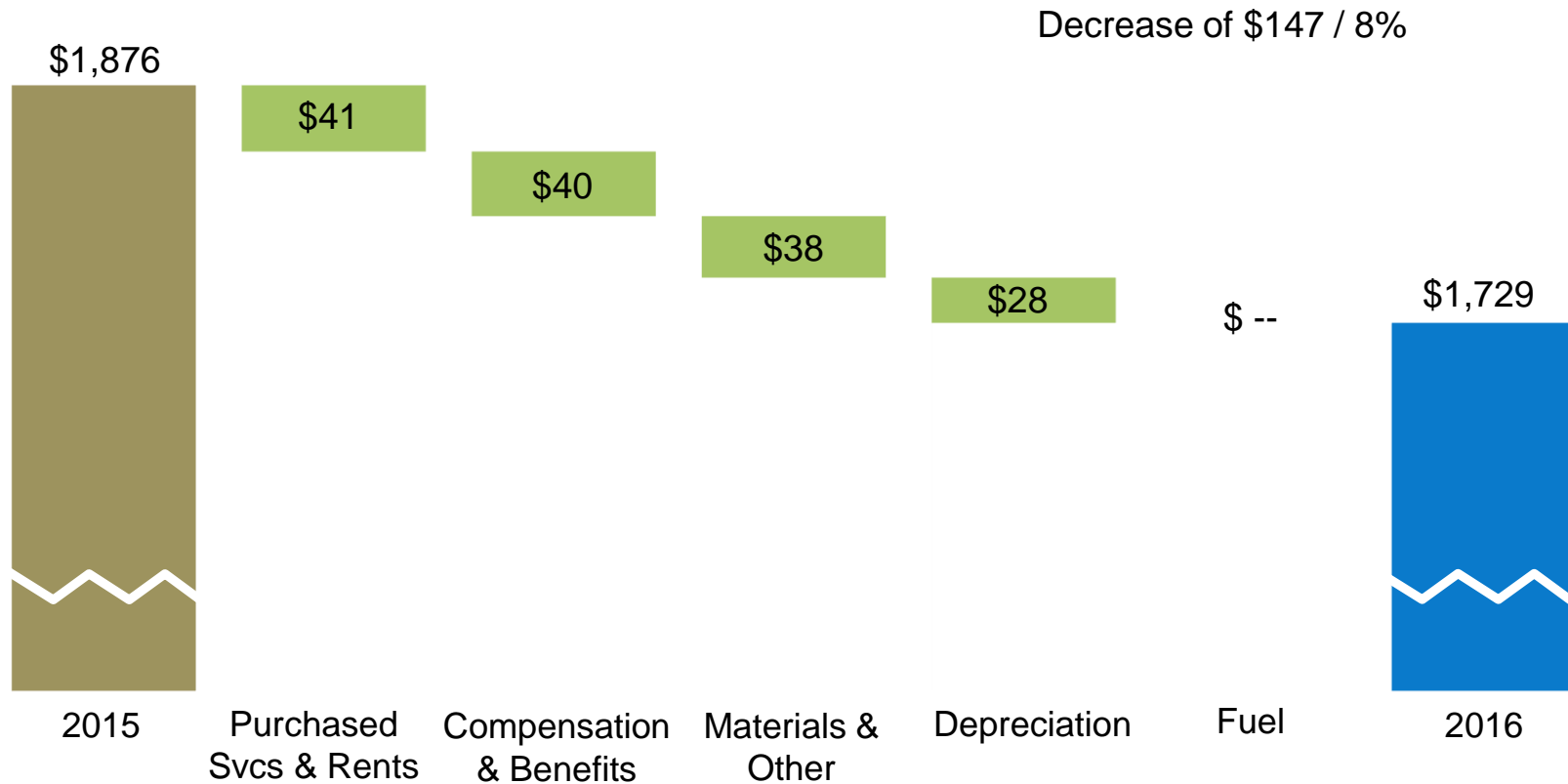
	2016	2015 *	\$	%
Railway operating revenues	\$ 2,490	\$ 2,518	\$ (28)	(1%)
Railway operating expenses	\$ 1,729	\$ 1,876	\$ 147	8%
Income from railway operations	\$ 761	\$ 642	\$ 119	19%
Railway operating ratio (%)	69.4	74.5	5.1	7%
			(Unfavorable)	Favorable

\* Fourth Quarter 2015 included restructuring costs of \$49 million, which increased the railway operating ratio by 200 basis points.

# Railway Operating Expenses

## Fourth Quarter 2016 vs. 2015 (\$ millions)

Four consecutive quarters with operating expense reductions

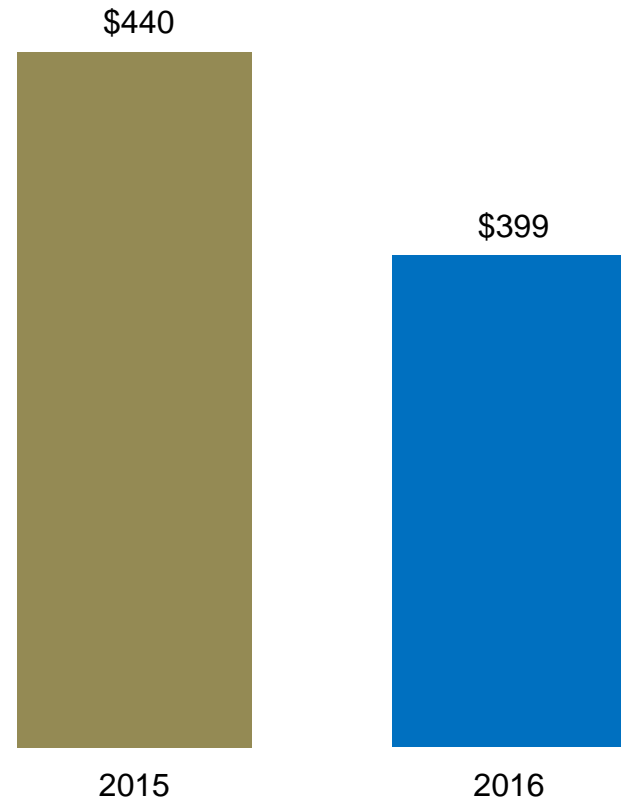


# Purchased Services and Rents

## Fourth Quarter 2016 vs. 2015 (\$ millions)

Net decrease of \$41 / 9%

- Reduced Triple Crown operations - \$21
- Lower transportation and engineering related expenses - \$12
- Decreased equipment rents - \$3

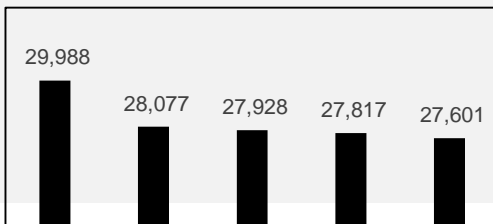


# Compensation and Benefits

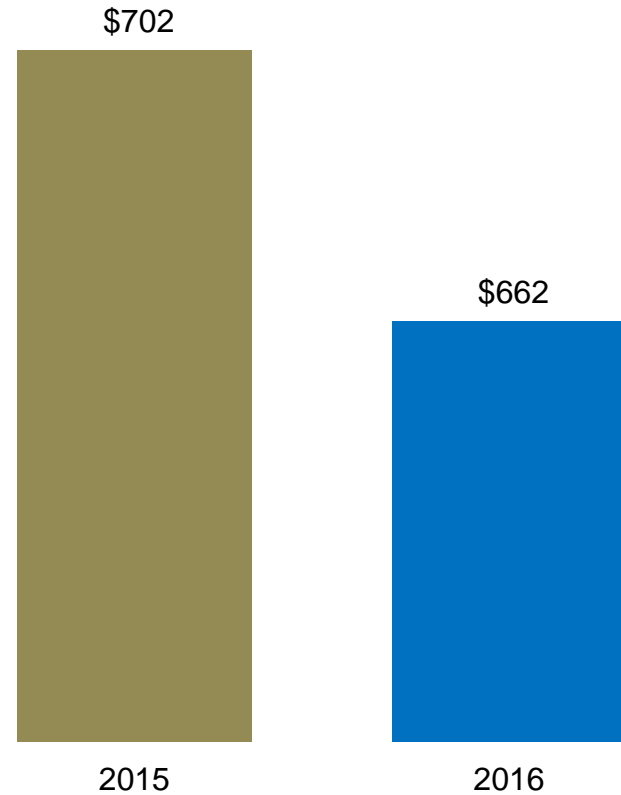
## Fourth Quarter 2016 vs. 2015 (\$ millions)

Net decrease of \$40 / 6%

- Reduced employee counts and overtime - \$42
- Prior year labor agreement lump sum payment - \$13
- Lower pension expense - \$10
- Higher bonus accruals - \$21
- Wage inflation - \$16
- Higher health and welfare rates - \$12



Average Rail Employees

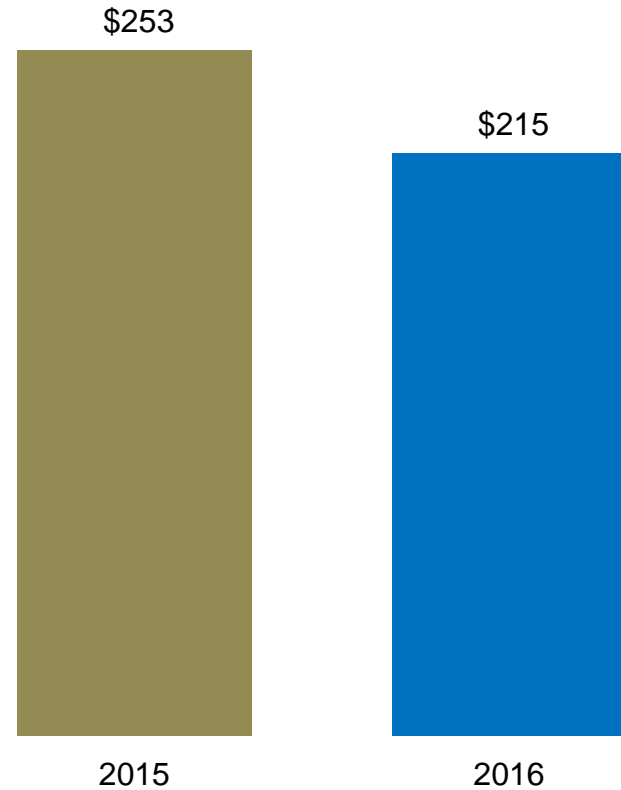


# Materials and Other

## Fourth Quarter 2016 vs. 2015 (\$ millions)

Net decrease of \$38 / 15%

- Lower locomotive and engineering material usage - \$16
- Lower travel costs - \$6



# Fuel

## Fourth Quarter 2016 vs. 2015 (\$ millions)

*Improvement in fuel efficiency helps offset higher fuel prices*

- 6% lower consumption
- 8% higher price per gallon



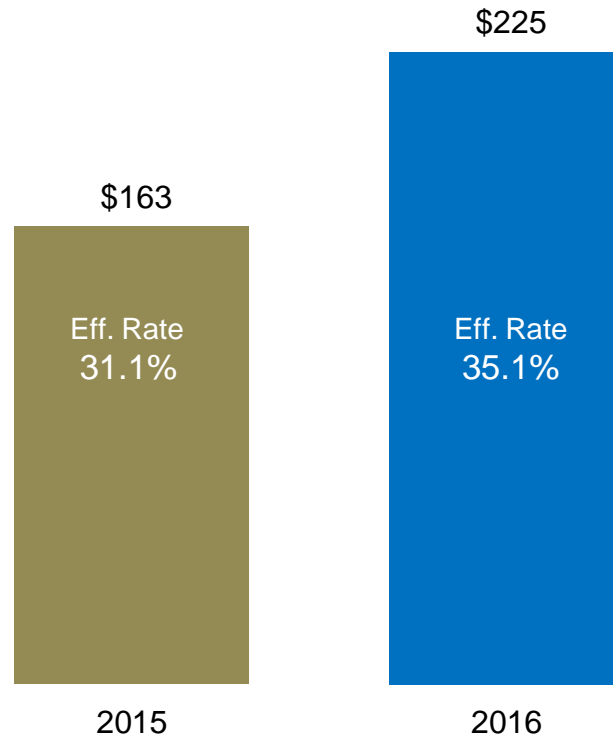
\* Reflects locomotive fuel only



# Income Taxes

Fourth Quarter 2016 vs. 2015 (\$ millions)

Effective tax rate for the quarter of 35.1%

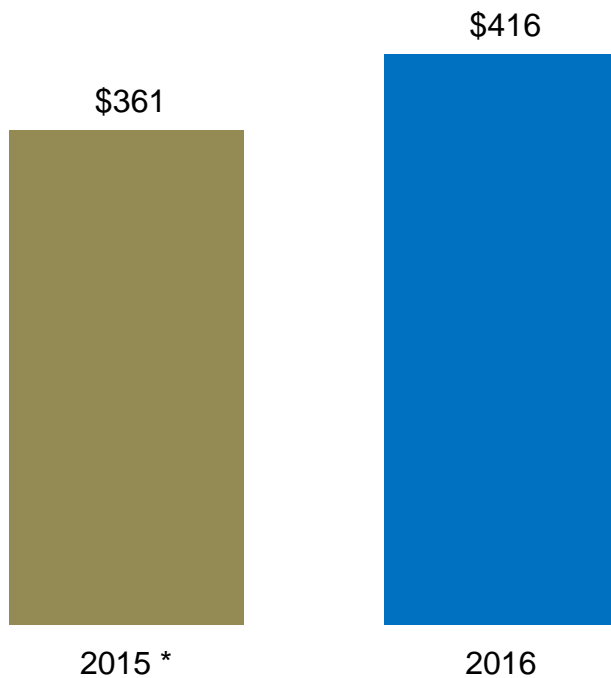


# Net Income and Diluted Earnings per Share

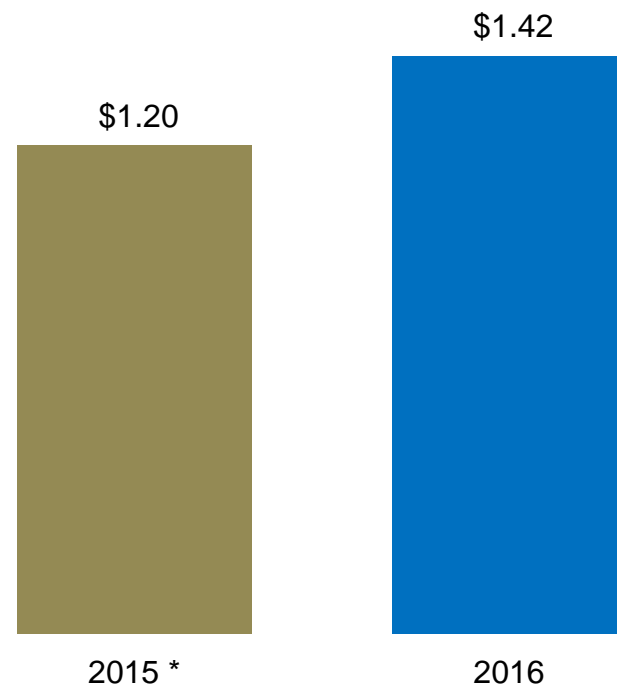
## Fourth Quarter 2016 vs. 2015 (\$ millions except per share)

Net income up 15% and earnings per share up 18%

### Net Income



### Diluted Earnings per Share

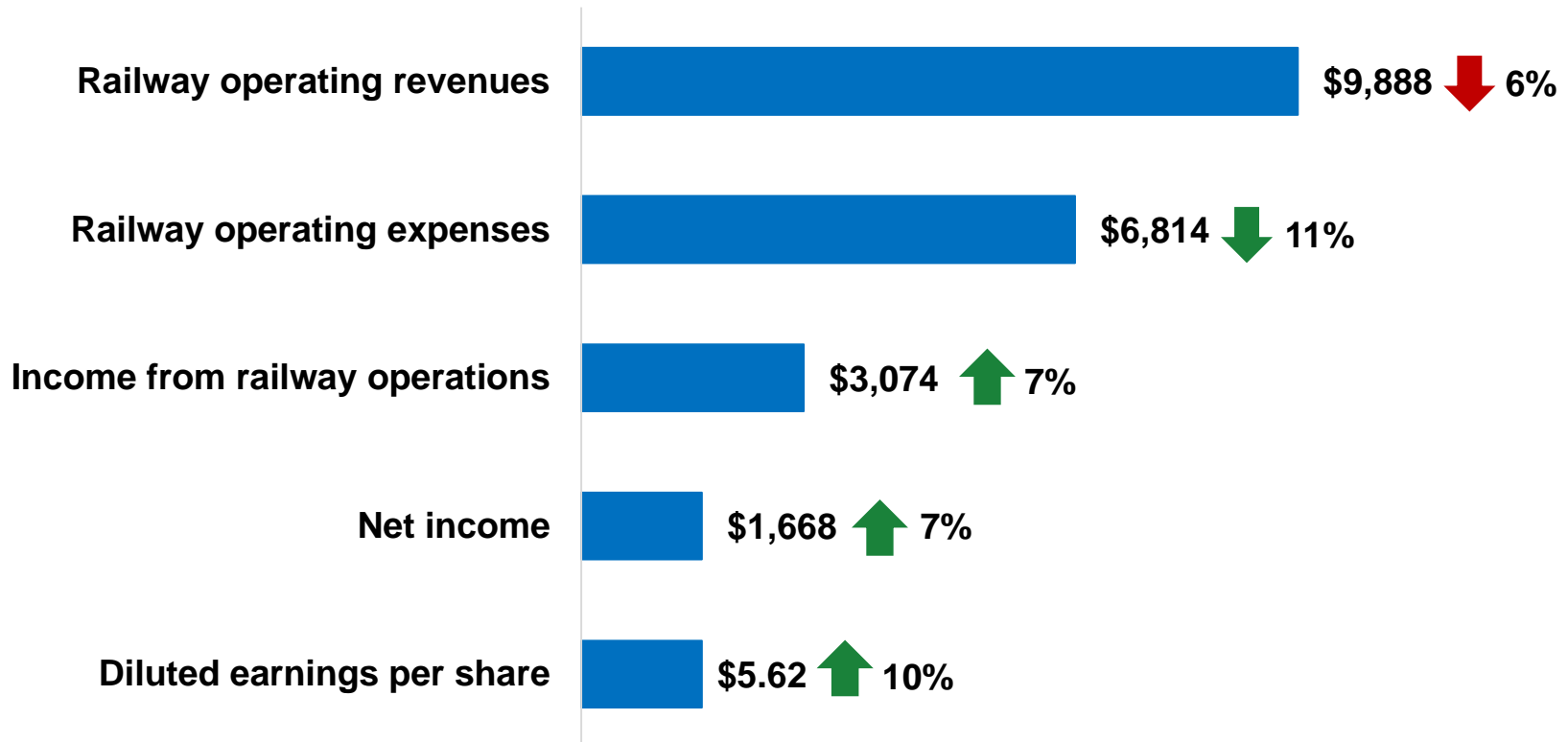


\* Fourth Quarter 2015 included restructuring costs of \$49 million, which reduced net income by \$31 million and earnings per share by \$0.10.

# Full Year Highlights

## 2016 (\$ millions except per share)

Record operating ratio of 68.9%, \$250 million of productivity savings



2015 included restructuring costs of \$93 million, which reduced net income by \$58 million, EPS by \$0.19, and increased the operating ratio by 90 basis points.

# Cash Flows

## 2016 vs. 2015 (\$ millions)

*Free cash flow of \$1.1 billion and \$1.5 billion returned to shareholders*

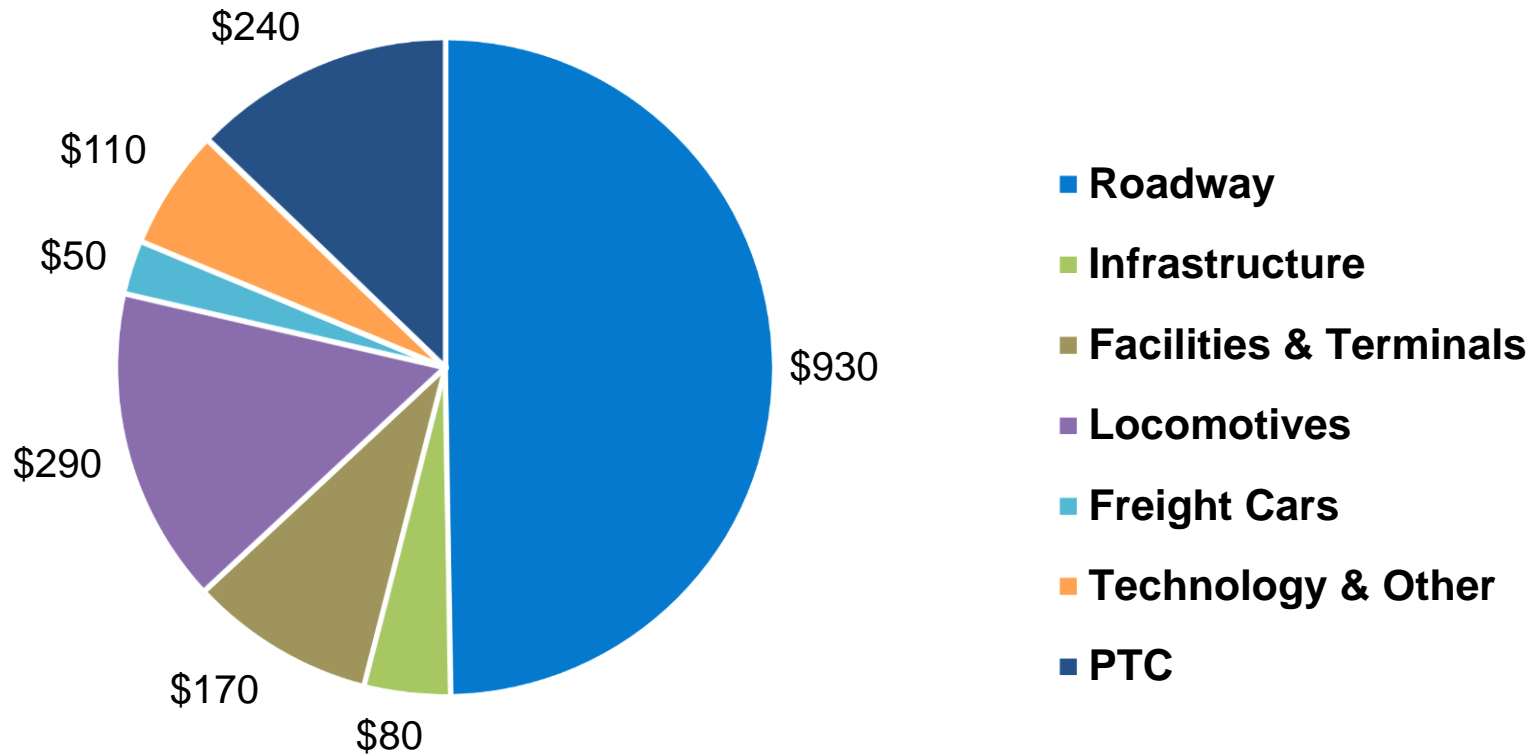
	2016		2015	
<b>Cash from operating activities</b>	\$	3,034	\$	2,908
<b>Capital expenditures</b>	\$	(1,887)	\$	(2,385)
<b>Free cash flow <sup>(1)</sup></b>	\$	1,147	\$	523
<b>Returns to shareholders:</b>				
<b>Dividends</b>	\$	(695)	\$	(713)
<b>Share repurchases</b>	\$	(803)	\$	(1,075)

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

# 2017 Capital Improvement Budget

(\$ millions)

Total Spending = \$1.9 billion





# Norfolk Southern Strategic Plan Update

January 25, 2017

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

# Driving Increased Shareholder Value

## Key Focus Areas

*Optimize revenue – both pricing and volume*



*Improve productivity to deliver efficient and superior service*



*Increase asset utilization*



*Focus capital investment to support long-term value creation*



*Reward shareholders with significant return of capital*



## Key Financial Targets

2016 Actual

2020 Target

*Disciplined pricing increases above rail inflation*

*Operating Ratio < 70*

*Operating Ratio < 65*

*Double-digit compound annual EPS growth*

*CapEx ~19% of revenue*

*CapEx ~17% of revenue*

*Dividend payout target of ~33% over the longer term and continuation of dividend growth and significant share repurchases*

# Revenue per Unit and Volume Outlook

## % Compound Annual Growth Rate (CAGR) 2020 vs. 2016

- **RPU CAGR 2020 vs. 2016 ~2.5%**
  - Increased pricing initiatives drive RPU in excess of CPI
- **Volume CAGR 2020 vs. 2016 ~2.5%**
  - Volumes have generally tracked GDP on a historic basis

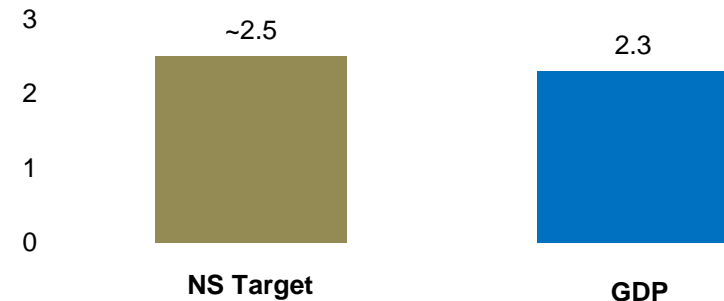
Revenue Per Unit (RPU) Expectations

(%)



Volume Expectations

(%)



*NS is well positioned to leverage the value of our service product*



# Volume Growth Details

2016 – 2020 Outlook	
Merchandise	<p><b>Expected CAGR: ~ 2%</b></p> <ul style="list-style-type: none"><li>■ Growth in line with market trends</li><li>■ Generally tracking GDP growth</li><li>■ Improved commodities, with some pipeline-related headwinds in crude oil and natural gas liquids</li></ul>
Intermodal	<p><b>Expected CAGR: ~ 4%</b></p> <ul style="list-style-type: none"><li>■ Strong service product supports highway conversions and drives organic growth</li><li>■ Tightening truck capacity</li><li>■ International growth above GDP</li></ul>
Coal	<p><b>Expected CAGR: ~ 1%</b></p> <ul style="list-style-type: none"><li>■ Volumes increase in 2017 as inventories normalize</li><li>■ Modest annual decreases from 2017 levels thereafter</li><li>■ Assumes normalized weather conditions, and increasing natural gas prices based on forward curve</li></ul>

# Resource Flexibility

## T&E Workforce

- Proactively aligning resources with demand
- Minimum employee levels at core locations
- Ongoing hiring model enhancements

## Locomotives

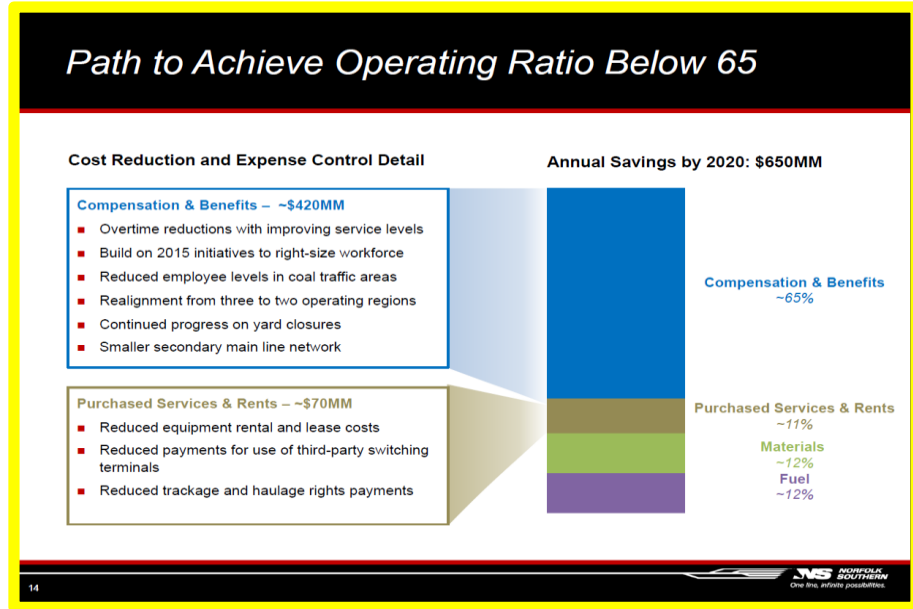
- Continuing to invest in the reliability of our fleet
  - New locomotives: 50 in 2016 and 50 in 2017
  - Significant acceleration of DC to AC rebuilds
- Maintain road locomotive surge fleet

# Ongoing Productivity Initiatives

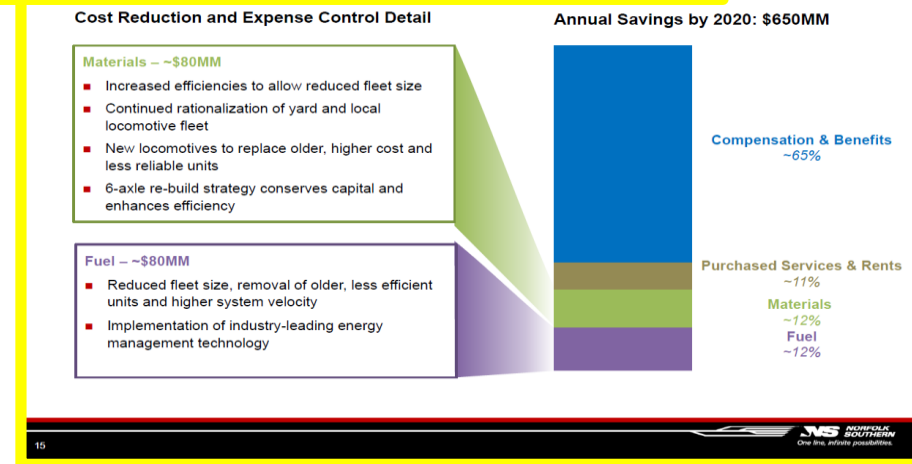
- Continuing locomotive fleet rationalization
  - Particularly leveraging AC units within the fleet
- Rationalizing freight car fleet
  - More homogeneous and flexible fleet composition
  - Enhancing technology to optimize distribution of empties to customers
- Ongoing line rationalization focus
  - Reducing costs on lower density branch lines
- Improving fuel efficiency
  - Utilizing technology
  - Improving locomotive productivity

# Path to Productivity Continues

- \$650 million in productivity savings annually by 2020
- \$250 million realized in 2016 plus \$100 million targeted for 2017
- Relentless focus on expense management
- Achievement of goal through adaptivity – regardless of market conditions



65 (cont'd)



# Norfolk Southern's Strategic Plan

- Excellent service plan is core to strategy
- Revenue plan drives profitable growth
- Cost reduction plan leverages improving cost structure
- Committed to delivering shareholder value

*Thank You*

