

FOURTH QUARTER 2018

Quarterly Financial Data



**NORFOLK
SOUTHERN**

Finance Department
Three Commercial Place
Norfolk, Virginia 23510.2191

NORFOLK SOUTHERN RAILWAY SYSTEM



NORFOLK SOUTHERN SYSTEM

Not all lines shown.

- NS Owned/Freight Operating Rights
- NS Trackage/Haulage Rights
- NS Joint Ventures
- NS Station
- ↔ Gateway Cities to Western Railroads

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)

	Fourth Quarter			
	2018	2017 (GAAP)	Adjusted 2017 (Non-GAAP)	% Change (Non-GAAP)
Railway operating revenues				
Merchandise	\$ 1,684	\$ 1,576	\$ 1,576	7%
Intermodal	755	667	667	13%
Coal	457	426	426	7%
Total railway operating revenues	<u>2,896</u>	<u>2,669</u>	<u>2,669</u>	9%
Railway operating expenses				
Compensation and benefits	757	730	730	4%
Purchased services and rents	449	268	419	7%
Fuel	275	239	239	15%
Depreciation	281	267	267	5%
Materials and other	56	167	167	(66%)
Total railway operating expenses	<u>1,818</u>	<u>1,671</u>	<u>1,822</u>	-
Income from railway operations	1,078	998	847	27%
Other income — net	-	29	29	(100%)
Interest expense on debt	148	134	134	10%
Income before income taxes	930	893	742	25%
Income taxes				
Current	193	3	(2)	
Deferred	35	(3,078)	258	
Total income taxes	<u>228</u>	<u>(3,075)</u>	<u>256</u>	(11%)
Net income	<u>\$ 702</u>	<u>\$ 3,968</u>	<u>\$ 486</u>	44%
Earnings per share - diluted	\$ 2.57	\$ 13.79	\$ 1.69	52%
Weighted average shares outstanding - diluted	273.5	287.8	287.8	(5%)

See reconciliation of non-GAAP financial measures on page 3 and accompanying notes on page 10.

Consolidated Statements of Income

(in millions, except per share amounts)

	Years Ended December 31,			% Change (Non-GAAP)
	2018	2017 (GAAP)	Adjusted 2017 (Non-GAAP)	
Railway operating revenues				
Merchandise	\$ 6,744	\$ 6,357	\$ 6,357	6%
Intermodal	2,893	2,452	2,452	18%
Coal	1,821	1,742	1,742	5%
Total railway operating revenues	<u>11,458</u>	<u>10,551</u>	<u>10,551</u>	9%
Railway operating expenses				
Compensation and benefits	2,925	2,979	2,979	(2%)
Purchased services and rents	1,730	1,414	1,565	11%
Fuel	1,087	840	840	29%
Depreciation	1,102	1,055	1,055	4%
Materials and other	655	741	741	(12%)
Total railway operating expenses	<u>7,499</u>	<u>7,029</u>	<u>7,180</u>	4%
Income from railway operations	<u>3,959</u>	<u>3,522</u>	<u>3,371</u>	17%
Other income — net	67	156	156	(57%)
Interest expense on debt	557	550	550	1%
Income before income taxes	<u>3,469</u>	<u>3,128</u>	<u>2,977</u>	17%
Income taxes				
Current	630	583	578	
Deferred	173	(2,859)	477	
Total income taxes	<u>803</u>	<u>(2,276)</u>	<u>1,055</u>	(24%)
Net income	<u>\$ 2,666</u>	<u>\$ 5,404</u>	<u>\$ 1,922</u>	39%
Earnings per share - diluted	\$ 9.51	\$ 18.61	\$ 6.61	44%
Weighted average shares outstanding - diluted	280.2	290.3	290.3	(3%)

See reconciliation of non-GAAP financial measures on page 3 and accompanying notes on page 10.

Reconciliation of Non-GAAP Financial Measures

Information included within this Fourth 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 principles (GAAP).

Consolidated Statements of Income - excluding 2017 Tax Adjustments*

(in millions, except per share amounts)

	Fourth Quarter			Year Ended December 31,		
	2017 (GAAP)	2017 Tax Adjustments*	Adjusted 2017 (Non-GAAP)	2017 (GAAP)	2017 Tax Adjustments*	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	<u>893</u>	<u>(151)</u>	<u>742</u>	<u>3,128</u>	<u>(151)</u>	<u>2,977</u>
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 "2017 tax adjustments").

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 the 2017 tax adjustments. 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 10 for additional information regarding adoption of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2017-07.

Consolidated Balance Sheets

(\$ in millions)

	At December 31,	
	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 358	\$ 690
Accounts receivable — net	1,009	955
Materials and supplies	207	222
Other current assets	288	282
Total current assets	1,862	2,149
Investments	3,109	2,981
Properties less accumulated depreciation of \$12,374 and \$11,909, respectively	31,091	30,330
Other assets	177	251
Total assets	\$ 36,239	\$ 35,711
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 1,505	\$ 1,401
Short-term debt	-	100
Income and other taxes	255	211
Other current liabilities	246	233
Current maturities of long-term debt	585	600
Total current liabilities	2,591	2,545
Long-term debt	10,560	9,136
Other liabilities	1,266	1,347
Deferred income taxes	6,460	6,324
Total liabilities	20,877	19,352
Stockholders' equity:		
Common stock \$1.00 per share par value, 1,350,000,000 shares authorized; outstanding 268,098,472 and 284,157,187 shares, respectively, net of treasury shares	269	285
Additional paid-in capital	2,216	2,254
Accumulated other comprehensive loss	(563)	(356)
Retained income	13,440	14,176
Total stockholders' equity	15,362	16,359
Total liabilities and stockholders' equity	\$ 36,239	\$ 35,711

See accompanying notes on page 10.

Consolidated Statements of Cash Flows

(\$ in millions)

	Years Ended December 31,	
	2018	2017
Cash flows from operating activities		
Net income	\$ 2,666	\$ 5,404
Reconciliation of net income to net cash provided by operating activities:		
Depreciation	1,104	1,059
Deferred income taxes	173	(2,859)
Gains and losses on properties	(171)	(92)
Changes in assets and liabilities affecting operations:		
Accounts receivable	(70)	(41)
Materials and supplies	15	35
Other current assets	(46)	(71)
Current liabilities other than debt	223	135
Other — net	(168)	(317)
Net cash provided by operating activities	<u>3,726</u>	<u>3,253</u>
Cash flows from investing activities		
Property additions	(1,951)	(1,723)
Property sales and other transactions	204	202
Investment purchases	(10)	(7)
Investment sales and other transactions	99	47
Net cash used in investing activities	<u>(1,658)</u>	<u>(1,481)</u>
Cash flows from financing activities		
Dividends	(844)	(703)
Common stock transactions	40	89
Purchase and retirement of common stock	(2,781)	(1,012)
Proceeds from borrowings — net of issuance costs	2,023	290
Debt repayments	(750)	(702)
Net cash used in financing activities	<u>(2,312)</u>	<u>(2,038)</u>
Net decrease in cash, cash equivalents, and restricted cash	(244)	(266)
Cash, cash equivalents, and restricted cash		
At beginning of year	690	956
At end of year	<u>\$ 446</u>	<u>\$ 690</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest (net of amounts capitalized)	\$ 496	\$ 528
Income taxes (net of refunds)	519	705

See accompanying notes on page 10.

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%
Fourth Quarter									
Chemicals	\$ 445	\$ 417	7%	122.2	118.6	3%	\$ 3,645	\$ 3,526	3%
Agriculture/consumer/gov't	430	391	10%	152.5	146.0	4%	2,815	2,677	5%
Metals and construction	352	337	4%	167.7	171.5	(2%)	2,098	1,964	7%
Automotive	250	242	3%	98.0	104.6	(6%)	2,550	2,312	10%
Paper/clay/forest	207	189	10%	71.3	70.3	1%	2,903	2,689	8%
Merchandise	1,684	1,576	7%	611.7	611.0	-	2,752	2,580	7%
Intermodal	755	667	13%	1,118.5	1,060.4	5%	675	629	7%
Coal	457	426	7%	255.0	253.7	1%	1,792	1,677	7%
Total	\$ 2,896	\$ 2,669	9%	1,985.2	1,925.1	3%	1,458	1,387	5%
Year									
Chemicals	\$ 1,808	\$ 1,668	8%	498.0	467.2	7%	\$ 3,631	\$ 3,571	2%
Agriculture/consumer/gov't	1,674	1,547	8%	614.4	589.0	4%	2,724	2,627	4%
Metals and construction	1,462	1,426	3%	715.7	727.5	(2%)	2,042	1,960	4%
Automotive	991	955	4%	403.9	423.1	(5%)	2,453	2,257	9%
Paper/clay/forest	809	761	6%	287.1	284.6	1%	2,819	2,673	5%
Merchandise	6,744	6,357	6%	2,519.1	2,491.4	1%	2,677	2,552	5%
Intermodal	2,893	2,452	18%	4,375.7	4,074.1	7%	661	602	10%
Coal	1,821	1,742	5%	1,033.5	1,046.0	(1%)	1,762	1,665	6%
Total	\$ 11,458	\$ 10,551	9%	7,928.3	7,611.5	4%	1,445	1,386	4%

Railway Operating Revenues Variance Analysis

(\$ in millions)

Fourth Quarter
2018 vs. 2017

	Merchandise		Intermodal		Coal	
	Amount	Percent	Amount	Percent	Amount	Percent
Revenue Variance due to:						
Volume	\$ 2	-	\$ 37	5%	\$ 2	1%
Fuel surcharge revenue	35	2%	34	5%	8	2%
Rate, mix and other	71	5%	17	3%	21	5%
Total	\$ 108	7%	\$ 88	13%	\$ 31	7%

Year
2018 vs. 2017

	Merchandise		Intermodal		Coal	
	Amount	Percent	Amount	Percent	Amount	Percent
Revenue Variance due to:						
Volume	\$ 71	1%	\$ 182	7%	\$ (21)	(1%)
Fuel surcharge revenue	119	2%	159	6%	20	1%
Rate, mix and other	197	3%	100	4%	80	5%
Total	\$ 387	6%	\$ 441	18%	\$ 79	5%

Coal Tonnage by Market

(in thousands)

	Fourth Quarter			Year		
	2018	2017	% Change	2018	2017	% Change
Utility	16,915	15,300	11%	65,688	67,899	(3%)
Export	6,271	7,271	(14%)	28,046	26,460	6%
Domestic metallurgical	3,876	4,028	(4%)	15,500	15,675	(1%)
Industrial	1,341	1,286	4%	5,410	5,545	(2%)
Total	28,403	27,885	2%	114,644	115,579	(1%)

Intermodal Units by Market

(in thousands)

	Fourth Quarter			Year		
	2018	2017	% Change	2018	2017	% Change
Domestic	718.9	694.4	4%	2,801.1	2,585.0	8%
International	399.6	366.0	9%	1,574.6	1,489.1	6%
Total	1,118.5	1,060.4	5%	4,375.7	4,074.1	7%

Financial, Traffic and Operating Statistics

	2017				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter (Non-GAAP)	Year (Non-GAAP)
(\$ in millions — except as noted)					
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

See reconciliation of non-GAAP financial measures on page 3 and accompanying notes on page 10.

2018					2018 vs. 2017				
First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year	Increase (Decrease)				
First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter (Non-GAAP)	Year (Non-GAAP)
\$ 2,717	\$ 2,898	\$ 2,947	\$ 2,896	\$ 11,458	\$ 142	\$ 261	\$ 277	\$ 227	\$ 907
737	706	725	757	2,925	(22)	(13)	(46)	27	(54)
318	342	347	360	1,367	14	24	38	22	98
83	88	103	89	363	10	14	35	8	67
266	272	274	275	1,087	53	82	76	36	247
272	273	276	281	1,102	13	9	11	14	47
90	92	95	85	362	(2)	5	10	1	14
47	38	46	45	176	7	3	7	14	31
69	61	61	(74)	117	(9)	(17)	21	(126)	(131)
1,882	1,872	1,927	1,818	7,499	64	107	152	(4)	319
835	1,026	1,020	1,078	3,959	78	154	125	231	588
8	29	30	-	67	(32)	(19)	(9)	(29)	(89)
136	131	142	148	557	(6)	(9)	8	14	7
707	924	908	930	3,469	52	144	108	188	492
155	214	206	228	803	(67)	(69)	(88)	(28)	(252)
\$ 552	\$ 710	\$ 702	\$ 702	\$ 2,666	\$ 119	\$ 213	\$ 196	\$ 216	\$ 744
285.9	283.7	278.2	273.5	280.2	(6.9)	(7.5)	(11.3)	(14.3)	(10.1)
\$ 1.93	\$ 2.50	\$ 2.52	\$ 2.57	\$ 9.51	\$ 0.45	\$ 0.79	\$ 0.77	\$ 0.88	\$ 2.90
\$ 0.72	\$ 0.72	\$ 0.80	\$ 0.80	\$ 3.04	\$ 0.11	\$ 0.11	\$ 0.19	\$ 0.19	\$ 0.60
69.3	64.6	65.4	62.8	65.4	(1.3)	(2.3)	(1.1)	(5.5)	(2.7)
\$ 383	\$ 453	\$ 490	\$ 625	\$ 1,951	\$ (55)	\$ 8	\$ 58	\$ 217	\$ 228
\$ 1,072	\$ 430	\$ 729	\$ 358	\$ 358	\$ 117	\$ (212)	\$ 5	\$ (332)	\$ (332)
\$ 10,287	\$ 9,646	\$ 11,135	\$ 11,145	\$ 11,145	\$ 168	\$ (227)	\$ 1,255	\$ 1,309	\$ 1,309
38.5	36.8	41.8	42.0	42.0	(6.2)	(7.0)	(1.9)	4.5	4.5
95.2	100.8	101.3	97.6	394.9	1%	4%	5%	2%	3%
29.5	31.5	31.5	29.7	122.2	1%	6%	5%	1%	3%
11.1	11.7	11.8	11.8	46.4	9%	9%	7%	4%	7%
9.4	10.0	10.0	9.4	38.8	(9%)	(2%)	(1%)	-	(3%)
50.0	53.2	53.3	50.9	207.4	1%	5%	4%	2%	3%
26,430	26,535	26,444	26,638	26,512	(4%)	(2%)	(1%)	-	(2%)
3,600	3,800	3,833	3,661	14,894	4%	7%	6%	1%	5%
121,450	116,754	115,320	118,244	471,768	2%	5%	4%	2%	3%
\$ 2.046	\$ 2.215	\$ 2.263	\$ 2.201	\$ 2.180	21%	38%	33%	13%	25%
1.28	1.17	1.14	1.22	1.20	1%	1%	(2%)	-	-
19.0	18.4	19.5	19.3	19.1	(16%)	(14%)	(10%)	(6%)	(12%)
29.0	28.7	26.8	25.9	27.6	19%	14%	8%	(3%)	9%

Notes to Consolidated Financial Statements

1. Pension and Other Postretirement Benefits

We adopted FASB ASU 2017-07 on January 1, 2018. The retrospective application resulted in the reclassification of \$16 million and \$64 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 in 2017 and for the full year 2017, respectively, with no impact on "Net income." 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 operating ratio.

2. Tax Reform

As a result of the 2017 tax adjustments, the Consolidated Statements of Income includes a \$151 million benefit in "Purchased services and rents" and a \$3,331 million benefit in "Total income taxes," which added \$3,482 million to "Net income" and \$12.10 and \$12.00 to "Earnings per share - diluted" in the fourth quarter 2017 and for the year 2017, respectively.

3. Stock Repurchase Program

We repurchased and retired 17.1 million shares (7.0 million shares under an accelerated stock repurchase program (ASR) and 10.1 million shares under our ongoing program) and 8.2 million shares of common stock under our stock repurchase programs in 2018 and 2017, respectively, at a cost of \$2.8 billion and \$1.0 billion, respectively. We entered into an ASR on August 2, 2018 with two 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 ASR was settled during the fourth quarter of 2018.

Since the beginning of 2006, we have repurchased and retired 185.6 million shares at a total cost of \$14.1 billion.

4. 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 tax reform 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" on the Consolidated Balance Sheets.

5. Restricted Cash

The "Cash, cash equivalents, and restricted cash" line item on the Consolidated Statements of Cash Flows includes restricted cash of \$88 million at December 31, 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 current assets" on the Consolidated Balance Sheets.



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