

Norfolk Southern Corporation and Subsidiaries
Consolidated Statements of Income
(Unaudited)

| | Fourth Quarter | | Years Ended December 31, | |
|--|---|-----------------|---------------------------------|-----------------|
| | 2018 | 2017 | 2018 | 2017 |
| | <i>(\$ in millions, except per share amounts)</i> | | | |
| Railway operating revenues | | | | |
| Merchandise | \$ 1,684 | \$ 1,576 | \$ 6,744 | \$ 6,357 |
| Intermodal | 755 | 667 | 2,893 | 2,452 |
| Coal | 457 | 426 | 1,821 | 1,742 |
| Total railway operating revenues | <u>2,896</u> | <u>2,669</u> | <u>11,458</u> | <u>10,551</u> |
| Railway operating expenses | | | | |
| Compensation and benefits | 757 | 730 | 2,925 | 2,979 |
| Purchased services and rents | 449 | 268 | 1,730 | 1,414 |
| Fuel | 275 | 239 | 1,087 | 840 |
| Depreciation | 281 | 267 | 1,102 | 1,055 |
| Materials and other | 56 | 167 | 655 | 741 |
| Total railway operating expenses | <u>1,818</u> | <u>1,671</u> | <u>7,499</u> | <u>7,029</u> |
| Income from railway operations | 1,078 | 998 | 3,959 | 3,522 |
| Other income – net | — | 29 | 67 | 156 |
| Interest expense on debt | 148 | 134 | 557 | 550 |
| Income before income taxes | 930 | 893 | 3,469 | 3,128 |
| Income taxes | | | | |
| Current | 193 | 3 | 630 | 583 |
| Deferred | 35 | (3,078) | 173 | (2,859) |
| Total income taxes | <u>228</u> | <u>(3,075)</u> | <u>803</u> | <u>(2,276)</u> |
| Net income | <u>\$ 702</u> | <u>\$ 3,968</u> | <u>\$ 2,666</u> | <u>\$ 5,404</u> |
| Earnings per share – diluted | \$ 2.57 | \$ 13.79 | \$ 9.51 | \$ 18.61 |
| Weighted average shares outstanding – diluted | 273.5 | 287.8 | 280.2 | 290.3 |

See accompanying notes to consolidated financial statements.

Norfolk Southern Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
(Unaudited)

| | Fourth Quarter | | Years Ended December 31, | |
|--|-------------------------|-------------|---------------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| | <i>(\$ in millions)</i> | | | |
| Net income | \$ 702 | \$ 3,968 | \$ 2,666 | \$ 5,404 |
| Other comprehensive income (loss), before tax: | | | | |
| Pension and other postretirement benefits | (157) | 134 | (148) | 155 |
| Other comprehensive income (loss) of equity investees | (11) | 20 | (9) | 19 |
| Other comprehensive income (loss), before tax | (168) | 154 | (157) | 174 |
| Income tax benefit (expense) related to items of other comprehensive income (loss) | 40 | (35) | 38 | (43) |
| Other comprehensive income (loss), net of tax | (128) | 119 | (119) | 131 |
| Total comprehensive income | \$ 574 | \$ 4,087 | \$ 2,547 | \$ 5,535 |

See accompanying notes to consolidated financial statements.

Norfolk Southern Corporation and Subsidiaries
Consolidated Balance Sheets
(Unaudited)

| | At December 31, | |
|--|-------------------------|------------------|
| | 2018 | 2017 |
| | <i>(\$ in millions)</i> | |
| 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 to consolidated financial statements.

Norfolk Southern Corporation and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

| | Years Ended December 31, | |
|--|---------------------------------|-------------|
| | 2018 | 2017 |
| | <i>(\$ in millions)</i> | |
| 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 | 3,726 | 3,253 |
| 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 | (1,658) | (1,481) |
| 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 | (2,312) | (2,038) |
| 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 | \$ 446 | \$ 690 |
| Supplemental disclosures of cash flow information | | |
| Cash paid during the period for: | | |
| Interest (net of amounts capitalized) | \$ 496 | \$ 528 |
| Income taxes (net of refunds) | 519 | 705 |

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS:

1. Pensions and Other Postretirement Benefits

We adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," 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 the fourth quarter 2017 and for the year 2017, respectively, with no impact on "Net income."

2. Tax Reform

As a result of the enactment of the Tax Cuts and Jobs Act ("tax reform") signed into law on December 22, 2017, the Consolidated Statements of Income included 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 Programs

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.