

## Reconciliation of Non-GAAP Financial Measures

Information presented by James A. Squires, Alan H. Shaw, and Cynthia C. Earhart during NS' fourth quarter earnings conference call on January 24, 2019 (posted elsewhere on our website) included 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<sup>1</sup>

(\$ in millions except per share amounts)

	Fourth Quarter			Year-Ended December 31,		
	2017 (GAAP)	2017 Tax Adjustments <sup>1</sup>	Adjusted 2017 (Non-GAAP)	2017 (GAAP)	2017 Tax Adjustments <sup>1</sup>	Adjusted 2017 (Non-GAAP)
Railway operating expenses						
Compensation and benefits	\$ 730	\$ -	\$ 730	\$ 2,979	\$ -	\$ 2,979
Purchased services and rents	268	151	419	1,414	151	1,565
Fuel	239	-	239	840	-	840
Depreciation	267	-	267	1,055	-	1,055
Materials and other	167	-	167	741	-	741
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	<u>\$ 998</u>	<u>\$ (151)</u>	<u>\$ 847</u>	<u>\$ 3,522</u>	<u>\$ (151)</u>	<u>\$ 3,371</u>
Income before income taxes	\$ 893	\$ (151)	\$ 742	\$ 3,128	\$ (151)	\$ 2,977
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	<u>\$ 13.79</u>	<u>\$ (12.10)</u>	<u>\$ 1.69</u>	<u>\$ 18.61</u>	<u>\$ (12.00)</u>	<u>\$ 6.61</u>
Railway operating ratio (%)	62.6	5.7	68.3	66.6	1.5	68.1
Dividend payout ratio				13%		37%

### Revenue Per Unit

Fourth Quarter	2018	2017	Change	% Change
Total revenue per unit	\$ 1,458	\$ 1,387	\$ 71	5%
Less: Fuel surcharge revenue per unit	94	58	36	62%
Revenue per unit less fuel surcharge revenue <sup>2</sup>	<u>\$ 1,364</u>	<u>\$ 1,329</u>	<u>\$ 35</u>	3%
Merchandise revenue per unit	\$ 2,752	\$ 2,580	\$ 172	7%
Less: Fuel surcharge revenue per unit	87	29	58	200%
Merchandise revenue per unit less fuel surcharge revenue <sup>2</sup>	<u>\$ 2,665</u>	<u>\$ 2,551</u>	<u>\$ 114</u>	4%
Intermodal revenue per unit	\$ 675	\$ 629	\$ 46	7%
Less: Fuel surcharge revenue per unit	106	80	26	33%
Intermodal revenue per unit less fuel surcharge revenue <sup>2</sup>	<u>\$ 569</u>	<u>\$ 549</u>	<u>\$ 20</u>	4%
Coal revenue per unit	\$ 1,792	\$ 1,677	\$ 115	7%
Less: Fuel surcharge revenue per unit	58	28	30	107%
Coal revenue per unit less fuel surcharge revenue <sup>2</sup>	<u>\$ 1,734</u>	<u>\$ 1,649</u>	<u>\$ 85</u>	5%

## Revenue Per Unit

Twelve Months Ended December 31	2018	2017	Change	% Change
Total revenue per unit	\$ 1,445	\$ 1,386	\$ 59	4%
Less: Fuel surcharge revenue per unit	83	47	36	77%
Revenue per unit less fuel surcharge revenue <sup>2</sup>	<u>\$ 1,362</u>	<u>\$ 1,339</u>	<u>\$ 23</u>	2%

## Free Cash Flow

(\$ in millions)

Twelve Months Ended December 31	2018	2017
Net cash provided by operating activities	\$ 3,726	\$ 3,253
Property additions	<u>(1,951)</u>	<u>(1,723)</u>
Free cash flow <sup>3</sup>	1,775	1,530
Property sales and other transactions	204	202
Investment purchases	(10)	(7)
Investment sales and other transactions	99	47
Net cash used in financing activities	<u>(2,312)</u>	<u>(2,038)</u>
Net decrease in cash, cash equivalents, and restricted cash	<u>\$ (244)</u>	<u>\$ (266)</u>

<sup>1</sup> GAAP financial results are adjusted to exclude the effects of the Tax Cuts and Jobs Act, 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. Dividend payout ratio is dividends paid as a percentage of net income, which was adjusted to exclude the effects of the 2017 tax adjustments.

<sup>2</sup> Revenue per unit as used here is to reflect average revenue per unit absent the effect of fuel surcharges. Management believes this non-GAAP financial measure provides useful supplemental information to investors regarding the Company's pricing trends, by excluding the volatility introduced by fuel surcharges, and is useful for period-over-period comparisons of these trends.

<sup>3</sup> Free cash flow as used here is a function of cash provided by operating activities reduced by current period property additions and is a measure of cash available for other investing and financing activities, primarily including payment of dividends, repurchases of common stock and repayments of debt. Management believes that this non-GAAP financial measure provides useful supplemental information to investors regarding the Company's ability to generate cash flows after taking into consideration cash necessary to cover operations and maintain and grow our capital base.

The Company uses these non-GAAP financial measures internally and believes this information provides useful supplemental information to investors regarding the Company's financial performance as compared to prior periods. 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.