

Reconciliation of Non-GAAP Financial Measures

Information presented by James A. Squires, Alan H. Shaw, and Mark R. George during NS' fourth quarter earnings conference call on January 27, 2021 (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 loss on asset disposal and impairment of investment¹

(\$ in millions except per share amounts)

	Year Ended December 31		
	2020 (GAAP)	Loss on asset disposal and impairment of investment	2020 excluding impact of charges (Non-GAAP ¹)
Railway operating expenses			
Compensation and benefits	\$ 2,373	\$ -	\$ 2,373
Purchased services and rents	1,687	(99)	1,588 ¹
Fuel	535	-	535
Depreciation	1,154	-	1,154
Materials and other	653	-	653
Loss on asset disposal	385	(385)	- ¹
Total railway operating expenses	<u>\$ 6,787</u>	<u>\$ (484)</u>	<u>\$ 6,303¹</u>
Income from railway operations	<u>\$ 3,002</u>	<u>\$ 484</u>	<u>\$ 3,486¹</u>
Income before income taxes	\$ 2,530	\$ 484	\$ 3,014 ¹
Income taxes	517	122	639 ¹
Net income	<u>\$ 2,013</u>	<u>\$ 362</u>	<u>\$ 2,375¹</u>
Earnings per share - diluted	<u>\$ 7.84</u>	<u>\$ 1.41</u>	<u>\$ 9.25¹</u>
Railway operating ratio (%)	69.3	(4.9)	64.4 ¹

Revenue Per Unit

Fourth Quarter	2020	2019	Change	% Change
Total revenue per unit	\$ 1,445	\$ 1,492	\$ (47)	-3%
Less: Fuel surcharge revenue per unit	42	74	(32)	-43%
Revenue per unit less fuel surcharge revenue ²	<u>\$ 1,403</u>	<u>\$ 1,418</u>	<u>\$ (15)</u>	-1%
Merchandise revenue per unit	\$ 2,845	\$ 2,839	\$ 6	0%
Less: Fuel surcharge revenue per unit	14	61	(47)	-77%
Merchandise revenue per unit less fuel surcharge revenue ²	<u>\$ 2,831</u>	<u>\$ 2,778</u>	<u>\$ 53</u>	2%
Intermodal revenue per unit	\$ 674	\$ 678	\$ (4)	-1%
Less: Fuel surcharge revenue per unit	62	95	(33)	-35%
Intermodal revenue per unit less fuel surcharge revenue ²	<u>\$ 612</u>	<u>\$ 583</u>	<u>\$ 29</u>	5%
Coal revenue per unit	\$ 1,917	\$ 1,811	\$ 106	6%
Less: Fuel surcharge revenue per unit	-	11	(11)	-100%
Coal revenue per unit less fuel surcharge revenue ²	<u>\$ 1,917</u>	<u>\$ 1,800</u>	<u>\$ 117</u>	7%
Years Ended December 31	2020	2019	Change	% Change
Total revenue per unit	\$ 1,465	\$ 1,495	\$ (30)	-2%
Less: Fuel surcharge revenue per unit	53	76	(23)	-30%
Revenue per unit less fuel surcharge revenue ²	<u>\$ 1,412</u>	<u>\$ 1,419</u>	<u>\$ (7)</u>	0%

Revenue

Fourth Quarter	2020	2019	Change	% Change
Intermodal revenue	\$ 730	\$ 697	\$ 33	5%
Less: Fuel surcharge revenue	66	97	(31)	-32%
Intermodal revenue unit less fuel surcharge revenue ²	<u>\$ 664</u>	<u>\$ 600</u>	<u>\$ 64</u>	11%
Years Ended December 31	2020	2019	Change	% Change
Intermodal revenue	\$ 2,654	\$ 2,824	\$ (170)	-6%
Less: Fuel surcharge revenue	281	405	(124)	-31%
Intermodal revenue unit less fuel surcharge revenue ²	<u>\$ 2,373</u>	<u>\$ 2,419</u>	<u>\$ (46)</u>	-2%

Free Cash Flow

(\$ in millions)

Years Ended December 31	2020	2019
Net cash provided by operating activities	\$ 3,637	\$ 3,892
Property additions	<u>(1,494)</u>	<u>(2,019)</u>
Free cash flow ³	2,143	1,873
Property sales and other transactions	333	377
Investment purchases	(13)	(18)
Investment sales and other transactions	(1)	(104)
Net cash used in financing activities	<u>(1,927)</u>	<u>(1,994)</u>
Net increase in cash, cash equivalents, and restricted cash	<u>\$ 535</u>	<u>\$ 134</u>

¹ GAAP financial results are adjusted to exclude the effects of two non-cash charges. The Company recorded a \$385 million loss on asset disposal related to the sale of 703 locomotives. The Company also recorded an other-than-temporary impairment to the carrying value of an equity method investment in the amount of \$99 million, which is included in "Purchased services and rents" on the 2020 Consolidated Statements of Income. The income tax effects of the non-GAAP adjustments were calculated based on the applicable tax rates to which the non-GAAP adjustments relate. 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 these two charges.

² Revenue per unit and revenue as used here is to reflect average revenue per unit and revenue 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.

³ 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 from, 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.