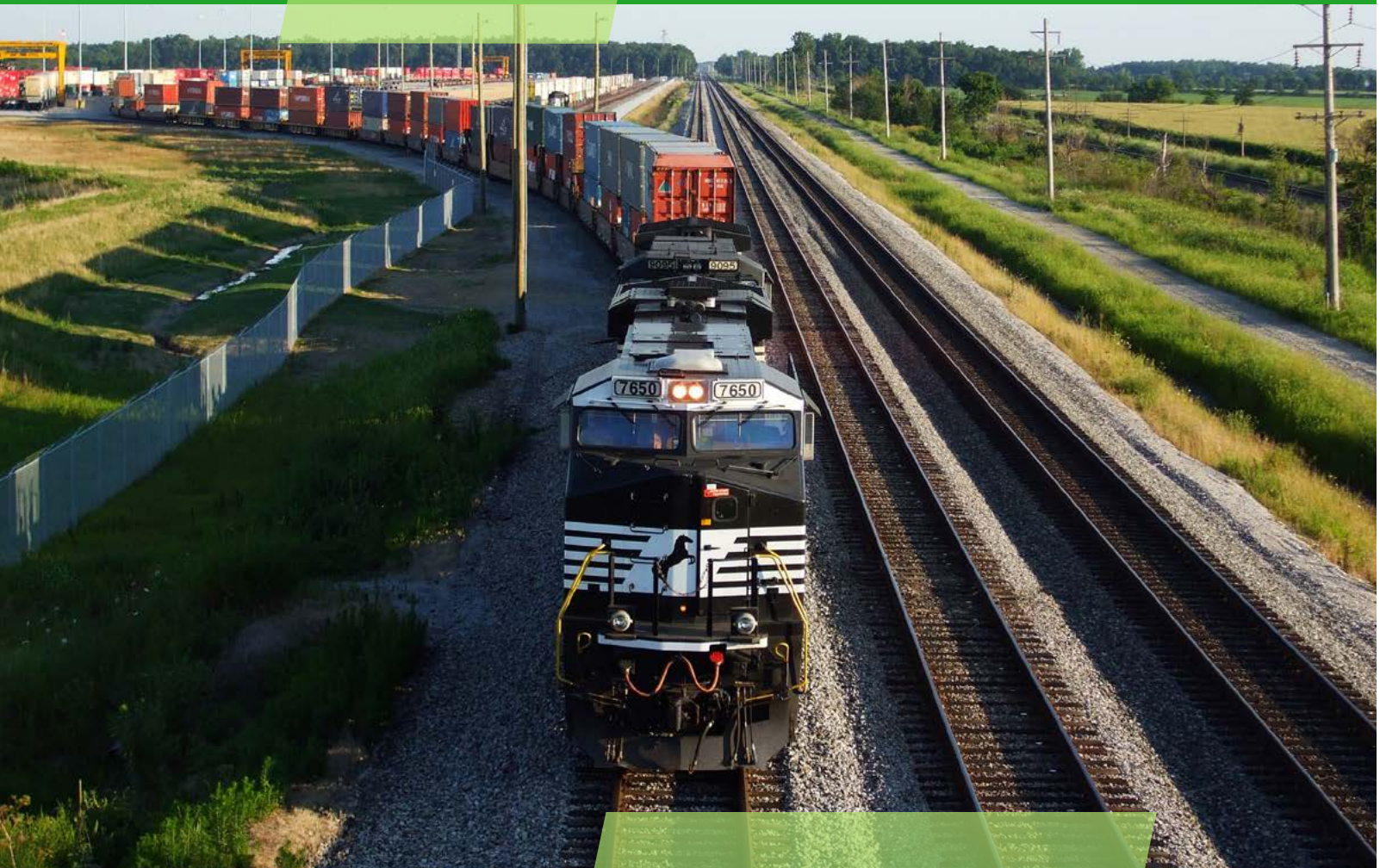


*First Quarter 2014*

# *Quarterly Financial Review*



*Norfolk Southern Corporation  
Finance Department  
Three Commercial Place  
Norfolk, Virginia 23510.2191*

# Norfolk Southern Railway System



**Norfolk Southern System**

- NS Owned/Freight Operating Rights
- ⋯ Trackage/Haulage Rights & Joint Ventures
- ← Gateway Cities to Western Railroads

(Not all lines shown)

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Investor Inquiries: Michael J. Hostutler..... (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

First Quarter  
(in millions, except per share amounts)

	2014	2013
<b>Railway operating revenues</b>		
Coal	\$ 541	\$ 635
General merchandise	1,552	1,530
Intermodal	596	573
<b>Total railway operating revenues</b>	<b>2,689</b>	<b>2,738</b>
<b>Railway operating expenses</b>		
Compensation and benefits	740	780
Purchased services and rents	392	393
Fuel	432	429
Depreciation	237	227
Materials and other	221	218
<b>Total railway operating expenses</b>	<b>2,022</b>	<b>2,047</b>
<b>Income from railway operations</b>	<b>667</b>	<b>691</b>
Other income — net (note 1)	26	135
Interest expense on debt	139	129
<b>Income before income taxes</b>	<b>554</b>	<b>697</b>
Provision for income taxes		
Current	194	173
Deferred	(8)	74
<b>Total income taxes</b>	<b>186</b>	<b>247</b>
<b>Net income</b>	<b>\$ 368</b>	<b>\$ 450</b>
<b>Earnings per share (note 1)</b>		
Basic	\$ 1.18	\$ 1.43
Diluted	1.17	1.41
<b>Weighted average shares outstanding (note 2)</b>		
Basic	309.5	314.5
Diluted	312.6	318.1

### Notes

#### 1. Other Income — Net

In first quarter 2013, we recognized a \$97 million gain on a land sale, which increased net income by \$60 million or \$0.19 per share.

#### 2. Stock Repurchase Program

In each of the first quarters of 2014 and 2013, we repurchased 0.5 million shares of common stock, totaling \$50 million and \$33 million, respectively. We have remaining authorization from our Board of Directors to repurchase up to 37.7 million shares through December 31, 2017. The timing and volume of purchases is guided by our assessment of market conditions and other pertinent factors. Any near-term share repurchases are expected to be made with internally generated cash, cash on hand, or proceeds from borrowings. Since the beginning of 2006, we have repurchased and retired 137.3 million shares at a total cost of \$8.2 billion.

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year-to-date statement will appear  
here next quarter

## Consolidated Balance Sheets

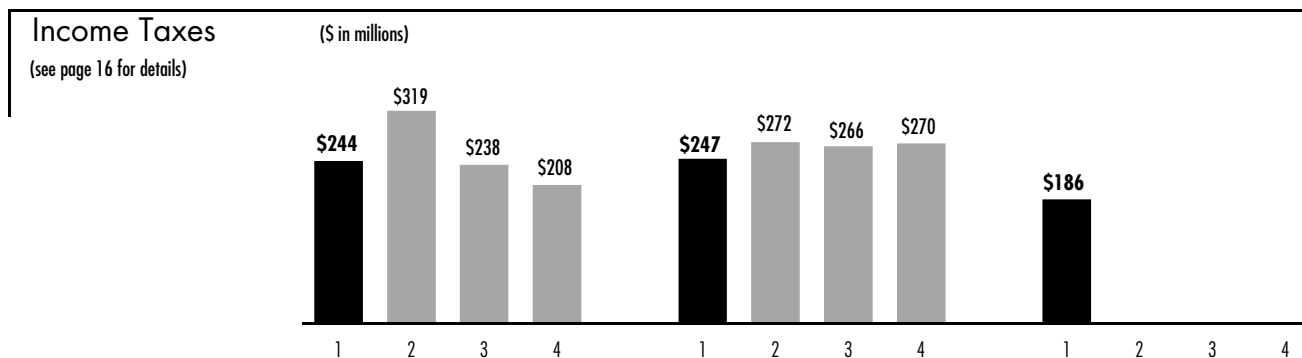
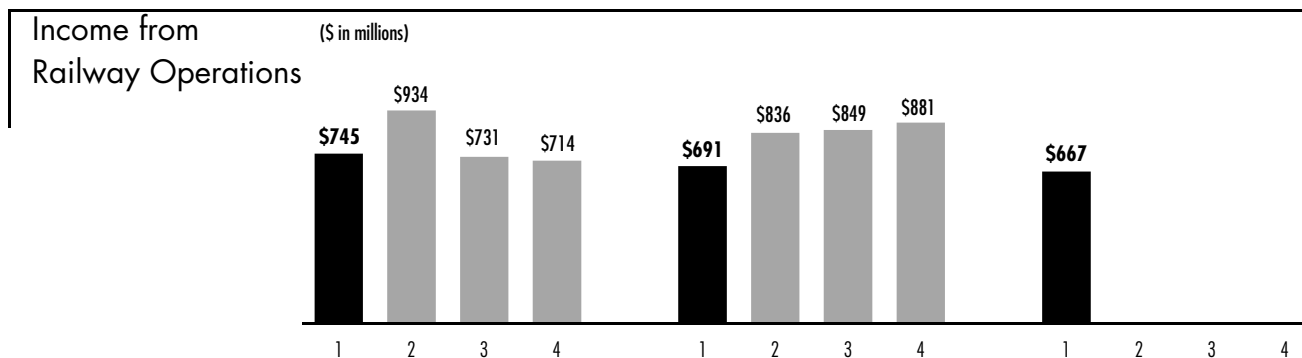
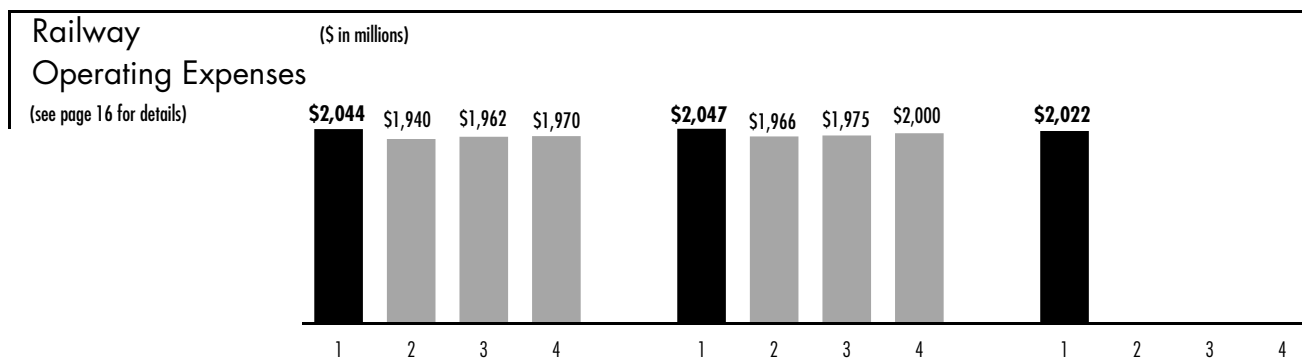
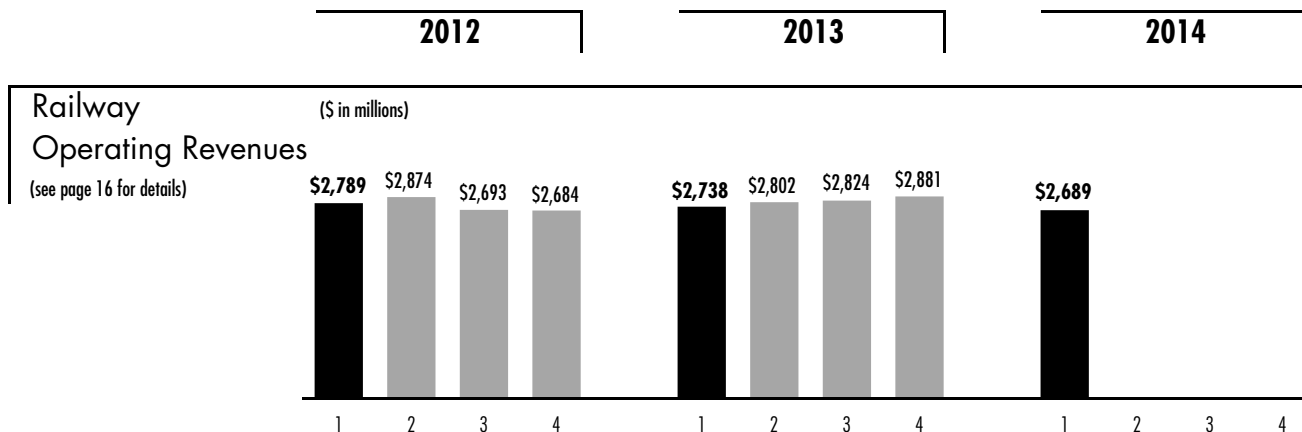
	March 31,	December 31,
	(\$ in millions)	
	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,522	\$ 1,443
Short-term investments	10	118
Accounts receivable — net	1,109	1,024
Materials and supplies	240	223
Deferred income taxes	179	180
Other current assets	70	87
Total current assets	3,130	3,075
Investments	2,466	2,439
Properties less accumulated depreciation of \$10,512 and \$10,387, respectively	26,768	26,645
Other assets	336	324
<b>Total assets</b>	\$ 32,700	\$ 32,483
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 1,194	\$ 1,265
Short-term debt	-	100
Income and other taxes	323	225
Other current liabilities	359	270
Current maturities of long-term debt	445	445
Total current liabilities	2,321	2,305
Long-term debt	8,909	8,903
Other liabilities	1,130	1,444
Deferred income taxes	8,647	8,542
<b>Total liabilities</b>	21,007	21,194
Stockholders' equity:		
Common stock \$1.00 per share par value, 1,350,000,000 shares authorized; outstanding 309,646,086 and 308,878,402 shares, respectively, net of treasury shares	311	310
Additional paid-in capital	2,085	2,021
Accumulated other comprehensive loss	(193)	(381)
Retained income	9,490	9,339
<b>Total stockholders' equity</b>	11,693	11,289
<b>Total liabilities and stockholders' equity</b>	\$ 32,700	\$ 32,483

# Consolidated Statements of Cash Flows

First Quarter  
(S in millions)

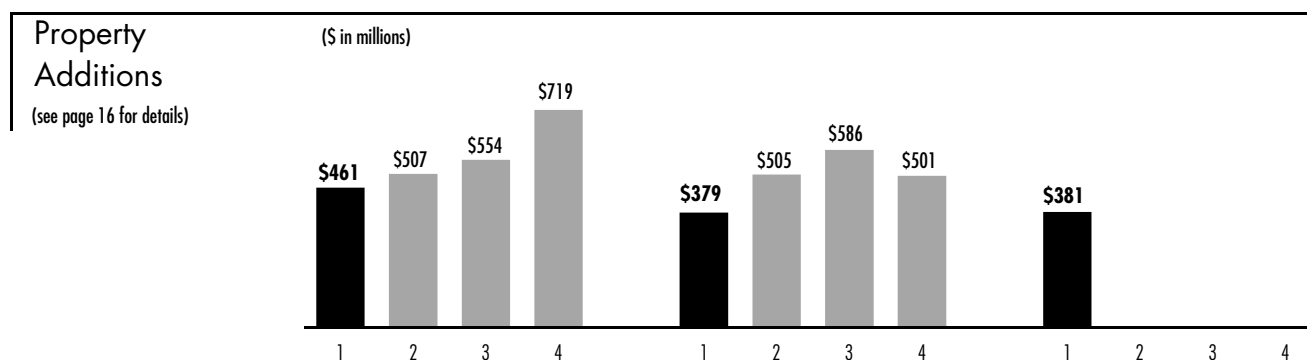
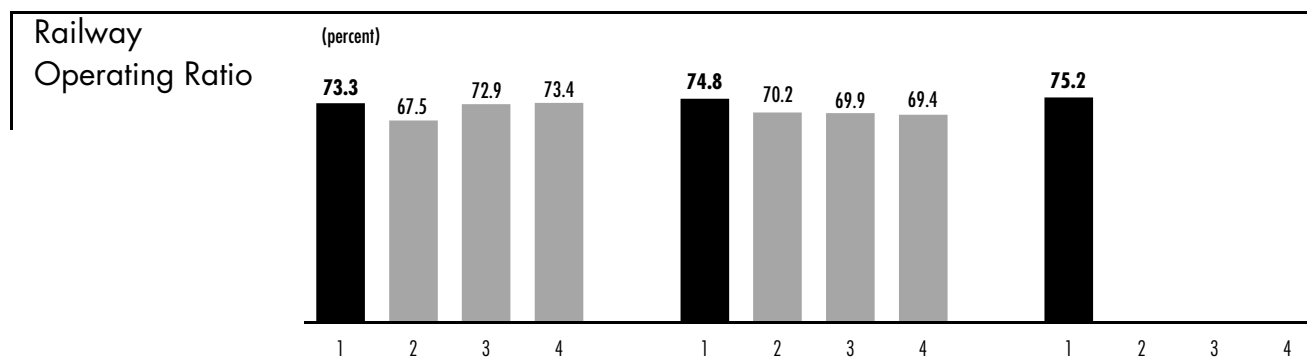
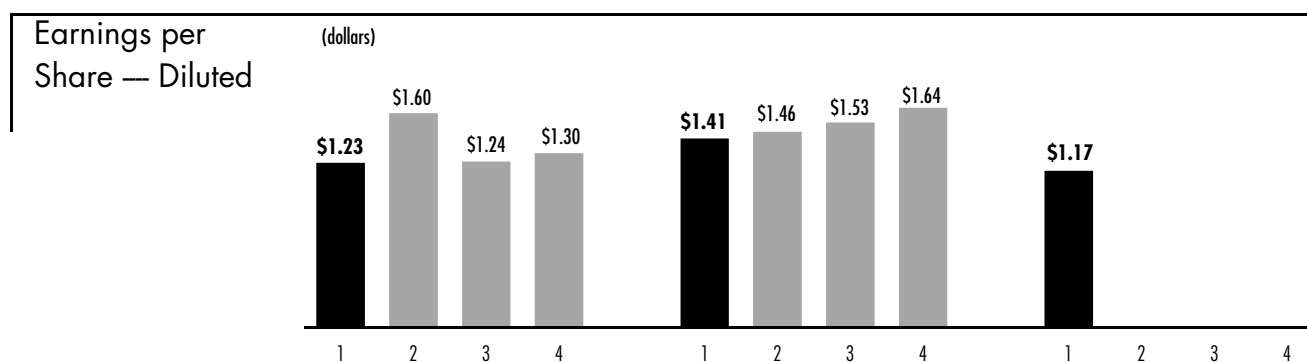
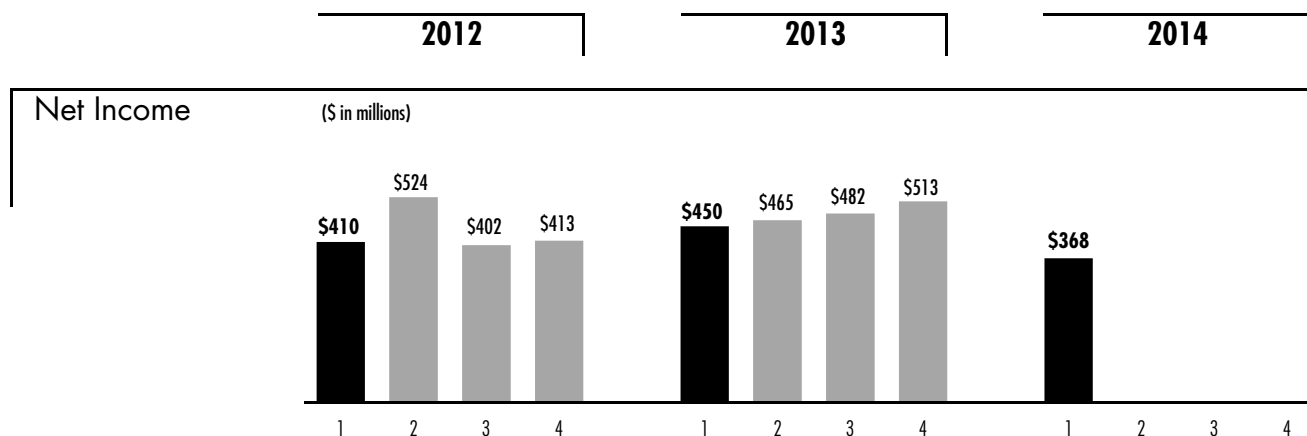
	2014	2013
<b>Cash flows from operating activities</b>		
Net income	\$ 368	\$ 450
Reconciliation of net income to net cash provided by operating activities:		
Depreciation	238	228
Deferred income taxes	(8)	74
Gains and losses on properties and investments (note 1)	(2)	(99)
Changes in assets and liabilities affecting operations:		
Accounts receivable	(85)	(49)
Materials and supplies	(17)	(30)
Other current assets	17	17
Current liabilities other than debt	86	96
Other — net	(9)	36
Net cash provided by operating activities	588	723
<b>Cash flows from investing activities</b>		
Property additions	(381)	(379)
Property sales and other transactions	22	19
Investments, including short-term	(3)	(5)
Investment sales and other transactions	108	(1)
Net cash used in investing activities	(254)	(366)
<b>Cash flows from financing activities</b>		
Dividends	(167)	(157)
Common stock issued — net	62	55
Purchase and retirement of common stock (note 2)	(50)	(33)
Debt repayments	(100)	(203)
Net cash used in financing activities	(255)	(338)
Net increase in cash and cash equivalents	79	19
<b>Cash and cash equivalents</b>		
At beginning of period	1,443	653
At end of period	\$ 1,522	\$ 672
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for:		
Interest (net of amounts capitalized)	\$ 75	\$ 62
Income taxes (net of refunds)	60	23

## Consolidated Financial Information





# Consolidated Financial Information

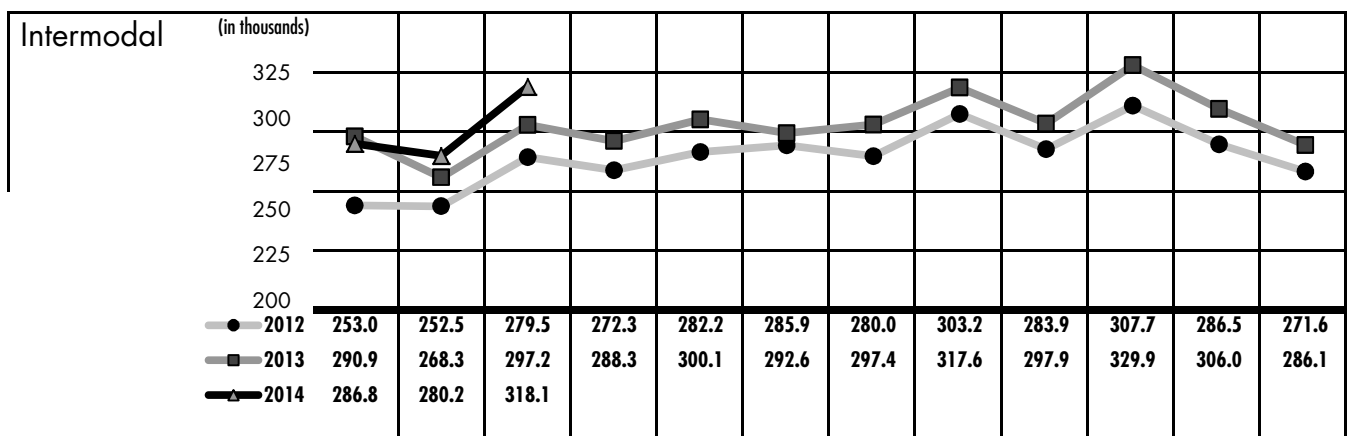
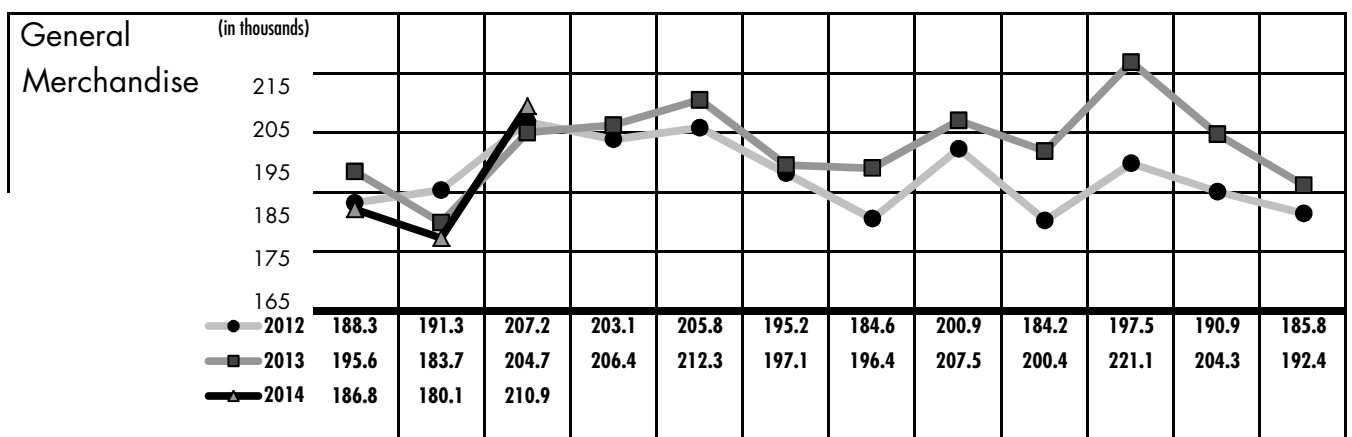
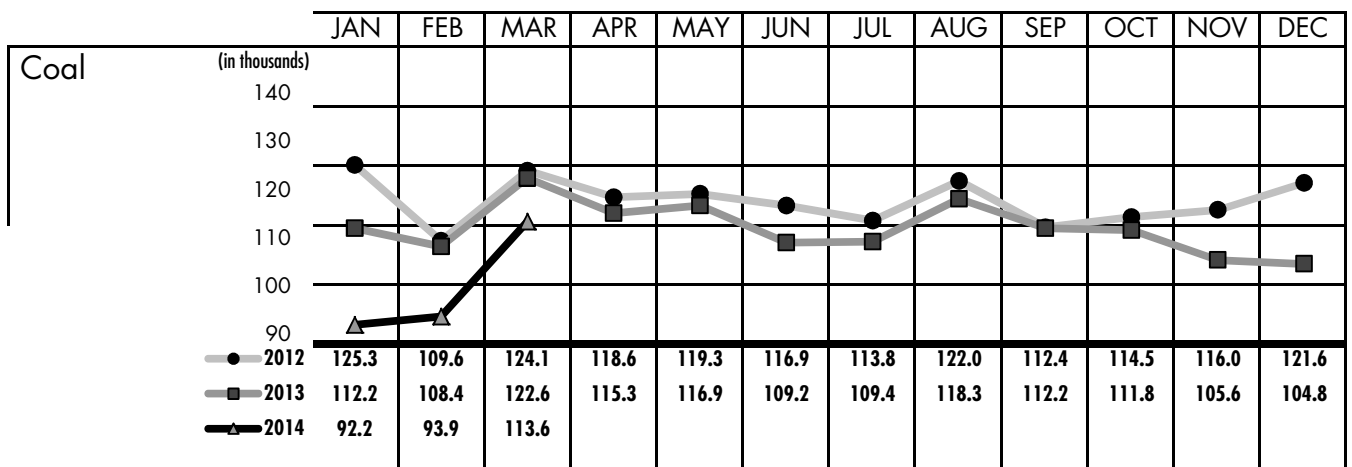


## Railway Operating Revenues Analysis

Commodity and Period	Revenues (\$ in millions)			Units (in thousands)			Revenue per Unit (\$ per unit)		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
<b>First Quarter</b>									
Coal	\$ 766	\$ 635	\$ 541	359.0	343.2	299.7	\$ 2,134	\$ 1,850	\$ 1,805
Chemicals	362	394	443	96.0	106.0	116.1	3,772	3,719	3,820
Agriculture/consumer/gov't	370	361	361	152.3	147.9	147.1	2,429	2,441	2,457
Metals and construction	342	336	331	165.5	154.8	149.9	2,068	2,172	2,207
Automotive	226	244	227	96.3	98.7	92.3	2,345	2,467	2,455
Paper/clay/forest	196	195	190	76.7	76.6	72.4	2,552	2,539	2,620
General merchandise	1,496	1,530	1,552	586.8	584.0	577.8	2,549	2,619	2,686
Intermodal	527	573	596	785.0	856.4	885.1	671	669	673
<b>Total</b>	<b>\$ 2,789</b>	<b>\$ 2,738</b>	<b>\$ 2,689</b>	<b>1,730.8</b>	<b>1,783.6</b>	<b>1,762.6</b>	<b>1,611</b>	<b>1,535</b>	<b>1,525</b>

This area intentionally left blank; second quarter and year-to-date analyses will appear here next quarter.

# Monthly Railway Units



## Railway Operating Revenues Variance Analysis

(\$ in millions)

First Quarter  
2014 vs. 2013

	Coal		General Merchandise		Intermodal		Total	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
<b>Revenue Variance due to:</b>								
Volume	\$ (80)	(13%)	\$ (16)	(1%)	\$ 19	3%	\$ (32)	(1%)
Revenue per unit	(14)	(2%)	38	3%	4	1%	(17)	(1%)
Total	<u>\$ (94)</u>	(15%)	<u>\$ 22</u>	1%	<u>\$ 23</u>	4%	<u>\$ (49)</u>	(2%)

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year-to-date analysis will appear  
here next quarter.

## Coal Tonnage by Market

(tons in thousands)

First Quarter

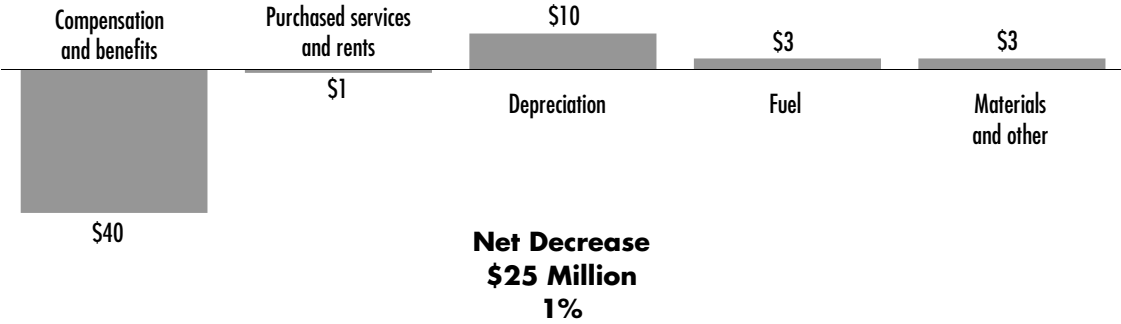
	2012		2013		2014	
	Tons	Change vs. 2011	Tons	Change vs. 2012	Tons	Change vs. 2013
Utility	26,261	(17%)	23,958	(9%)	21,196	(12%)
Export	6,724	(10%)	8,419	25%	6,503	(23%)
Domestic metallurgical	4,572	21%	4,042	(12%)	3,186	(21%)
Industrial	1,921	5%	1,800	(6%)	1,971	10%
Total	<u>39,478</u>	(11%)	<u>38,219</u>	(3%)	<u>32,856</u>	(14%)

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year-to-date analysis will appear  
here next quarter.

# Railway Operating Expenses Variance Analysis

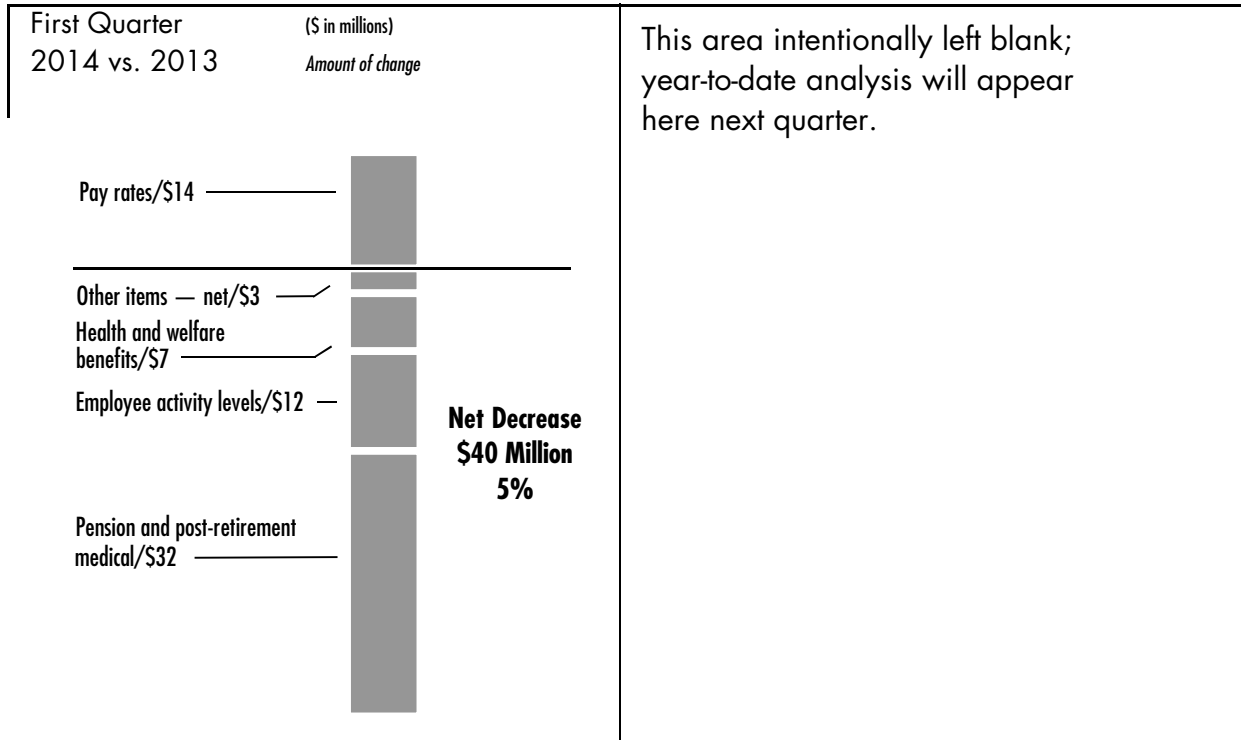
First Quarter  
2014 vs. 2013

(\$ in millions)  
*Amount of change*

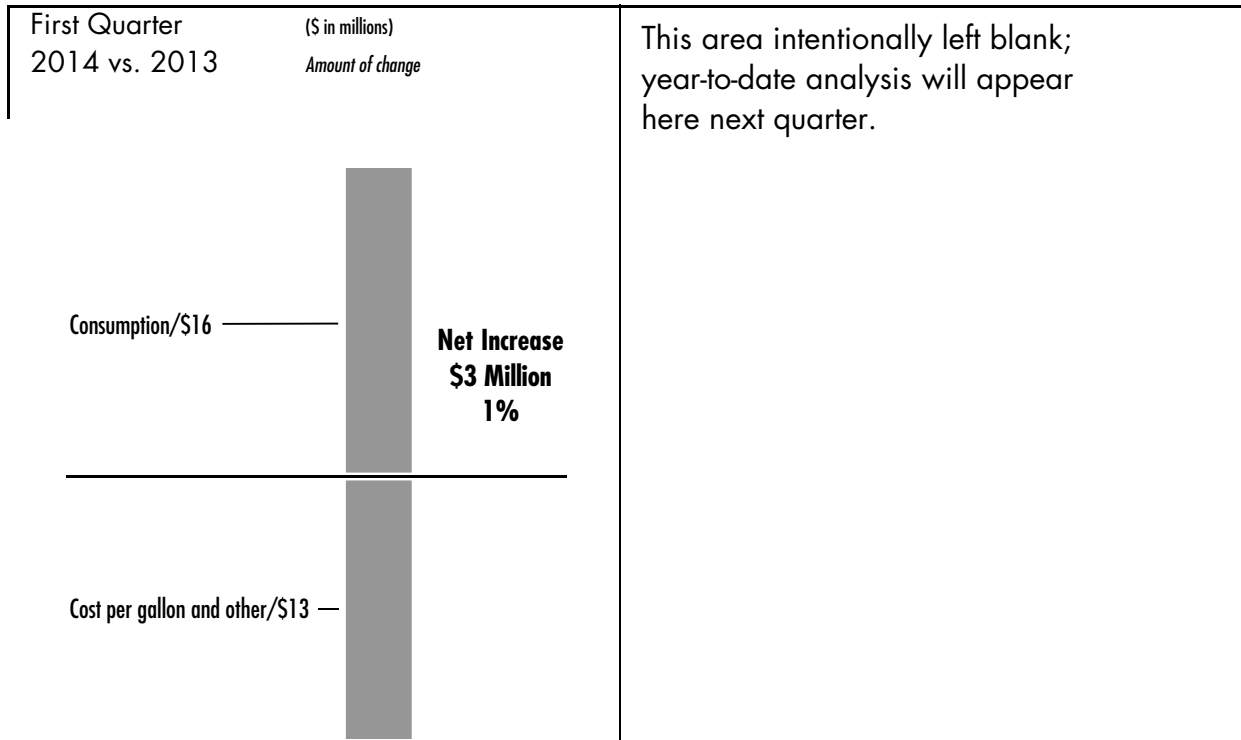


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## Compensation and Benefits Expense Analysis



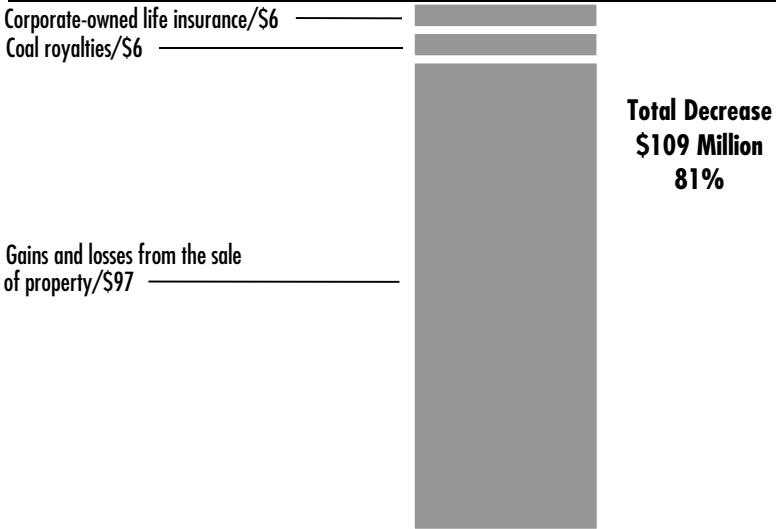
## Fuel Expense Analysis



# Other Income – Net Analysis

First Quarter  
2014 vs. 2013

(*\$ in millions*)  
*Amount of change*



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year-to-date analysis will appear  
here next quarter.

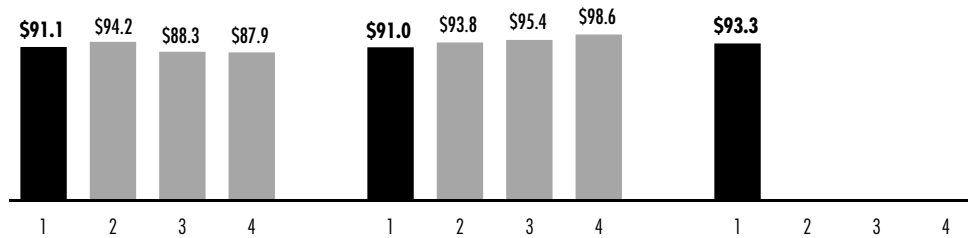
## Productivity Measures

2012

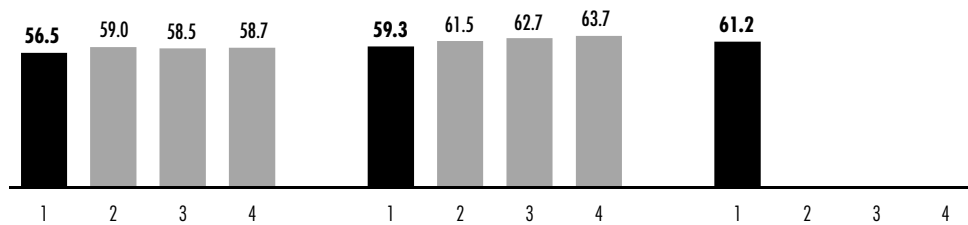
2013

2014

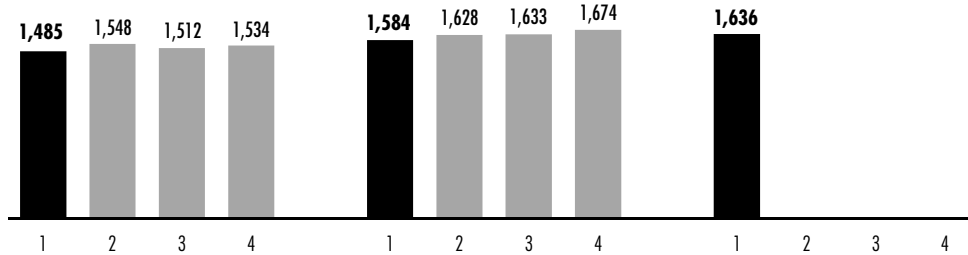
Operating Revenues  
per Employee  
(\$ in thousands)



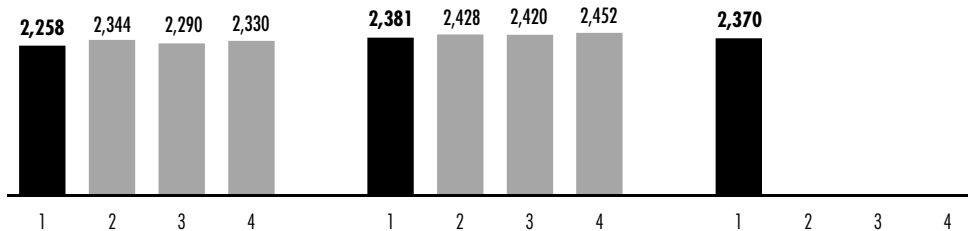
Units per  
Employee



Revenue Ton Miles  
per Employee  
(in thousands)



Revenue Ton Miles  
per Mile of Road  
Operated  
(in thousands)





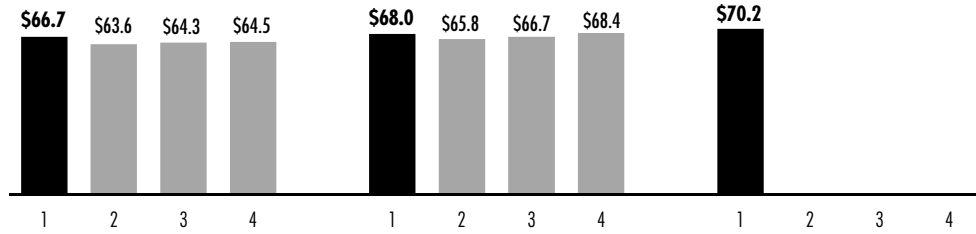
# Productivity Measures

2012

2013

2014

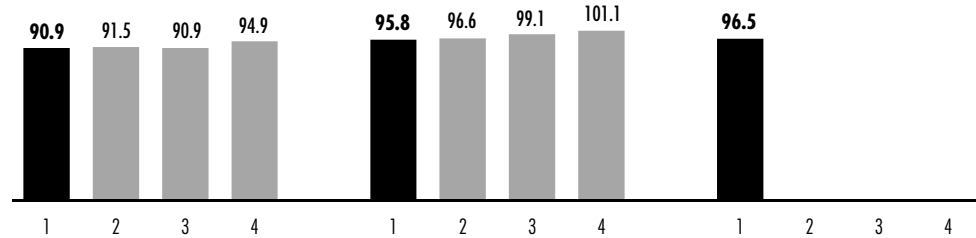
Operating Expenses (in thousands)  
per Employee



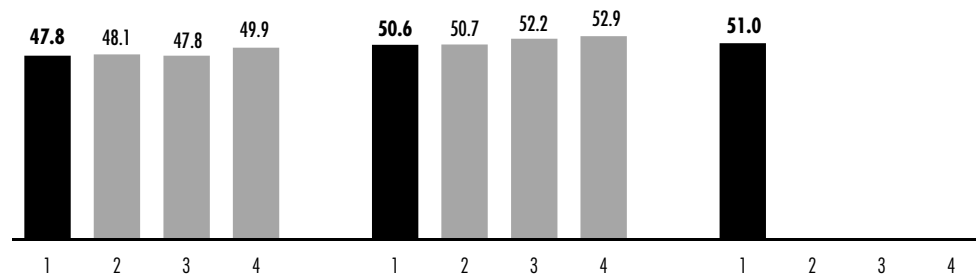
Operating Expenses (dollars)  
per Unit



Gross Ton Miles (in thousands)  
per Train Hour



Revenue Ton Miles (in thousands)  
per Train Hour



## Financial, Traffic and Operating Statistics

Consolidated Financial Data		2012					2013					2014				
(\$ in millions — except as noted)		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to-date
6	Railway operating revenues:															
8	Coal	\$ 766	\$ 755	\$ 701	\$ 657	\$ 2,879	\$ 635	\$ 626	\$ 641	\$ 641	\$ 2,543	\$ 541				\$ 541
8	General merchandise	1,496	1,556	1,425	1,443	5,920	1,530	1,588	1,578	1,622	6,318	1,552				1,552
8	Intermodal	527	563	567	584	2,241	573	588	605	618	2,384	596				596
6	Total railway operating revenues	2,789	2,874	2,693	2,684	11,040	2,738	2,802	2,824	2,881	11,245	2,689				2,689
6	Railway operating expenses:															
	• Compensation and benefits	786	724	724	726	2,960	780	726	735	761	3,002	740				740
	• Purchased services	318	320	333	350	1,321	321	343	349	340	1,353	324				324
	• Equipment rents	73	72	70	68	283	72	67	71	66	276	68				68
	• Fuel	413	390	379	395	1,577	429	391	390	403	1,613	432				432
	• Depreciation	224	229	230	233	916	227	226	230	233	916	237				237
	• Materials	112	95	109	92	408	101	116	100	105	422	108				108
	• Casualties and other claims	38	30	33	29	130	35	20	23	12	90	30				30
	• Other	80	80	84	77	321	82	77	77	80	316	83				83
6	Total railway operating expenses	2,044	1,940	1,962	1,970	7,916	2,047	1,966	1,975	2,000	7,988	2,022				2,022
6	Income from railway operations	745	934	731	714	3,124	691	836	849	881	3,257	667				667
	• Other income (expense) (note 1)	(91)	(91)	(91)	(93)	(366)	6	(99)	(101)	(98)	(292)	(113)				(113)
	• Income before income taxes	654	843	640	621	2,758	697	737	748	783	2,965	554				554
	• Income taxes — current	156	269	97	121	643	173	203	194	223	793	194				194
	• Income taxes — deferred	88	50	141	87	366	74	69	72	47	262	(8)				(8)
6	Total income taxes	244	319	238	208	1,009	247	272	266	270	1,055	186				186
7	Net income	\$ 410	\$ 524	\$ 402	\$ 413	\$ 1,749	\$ 450	\$ 465	\$ 482	\$ 513	\$ 1,910	\$ 368				\$ 368
7	Earnings per share — diluted (dollars) (note 1)	\$ 1.23	\$ 1.60	\$ 1.24	\$ 1.30	\$ 5.37	\$ 1.41	\$ 1.46	\$ 1.53	\$ 1.64	\$ 6.04	\$ 1.17				\$ 1.17
7	Railway operating ratio	73.3	67.5	72.9	73.4	71.7	74.8	70.2	69.9	69.4	71.0	75.2				75.2
7	Property additions:															
	• Equipment	\$ 187	\$ 176	\$ 148	\$ 265	\$ 776	\$ 88	\$ 140	\$ 200	\$ 122	\$ 550	\$ 110				\$ 110
	• Road	274	331	406	454	1,465	291	365	386	379	1,421	271				271
7	Total property additions	\$ 461	\$ 507	\$ 554	\$ 719	\$ 2,241	\$ 379	\$ 505	\$ 586	\$ 501	\$ 1,971	\$ 381				\$ 381
	• Cash, cash equivalents and short-term investments	\$ 831	\$ 371	\$ 708	\$ 668	\$ 668	\$ 687	\$ 587	\$ 1,004	\$ 1,561	\$ 1,561	\$ 1,532				\$ 1,532
	• Total debt, excluding notes payable to Conrail	\$ 8,017	\$ 7,999	\$ 8,480	\$ 8,682	\$ 8,682	\$ 8,485	\$ 8,477	\$ 8,946	\$ 9,448	\$ 9,448	\$ 9,354				\$ 9,354
	• Total debt-to-total capitalization (percent)	45.0	45.0	46.5	47.1	47.1	45.6	45.4	46.5	45.6	45.6	44.4				44.4
	• Weighted average shares outstanding — diluted (in millions) (note 2)	332.9	327.5	321.8	318.6	325.2	318.1	317.8	313.9	312.3	315.5	312.6				312.6

**Note 1** In first quarter 2013, we recognized a \$97 million gain on a land sale, which increased net income by \$60 million, or \$0.19 per share.

**Note 2** In each of the first quarters of 2014 and 2013, we repurchased 0.5 million shares of common stock, totaling \$50 million and \$33 million, respectively, and 5.7 million shares totaling \$400 million for the same period of 2012. We have remaining authorization from our Board of Directors to repurchase up to 37.7 million shares through December 31, 2017. The timing and volume of purchases is guided by our assessment of market conditions and other pertinent factors. Any near-term share repurchases are expected to be made with internally generated cash, cash on hand, or proceeds from borrowings. Since the beginning of 2006, we have repurchased and retired 137.3 million shares at a total cost of \$8.2 billion.

## Financial, Traffic and Operating Statistics

Traffic and Operating Statistics		2012					2013					2014				
Page	Item	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to-date
	• No corresponding charts for this data.															
8	Railway units (in thousands):															
8	Coal	359.0	354.8	348.2	352.1	1,414.1	343.2	341.4	339.9	322.2	1,346.7	299.7				299.7
8	General merchandise	586.8	604.1	569.7	574.2	2,334.8	584.0	615.8	604.3	617.8	2,421.9	577.8				577.8
8	Intermodal	785.0	840.4	867.1	865.8	3,358.3	856.4	881.0	912.9	922.0	3,572.3	885.1				885.1
8	Total railway units	1,730.8	1,799.3	1,785.0	1,792.1	7,107.2	1,783.6	1,838.2	1,857.1	1,862.0	7,340.9	1,762.6				1,762.6
	• Revenue ton miles (RTMs) (in billions):															
	• Coal	11.8	12.2	12.0	12.2	48.2	12.0	11.8	12.0	11.7	47.5	10.7				10.7
	• General merchandise	25.2	25.8	24.7	25.1	100.8	26.4	27.3	26.6	27.4	107.7	27.0				27.0
	• Intermodal	8.5	9.2	9.4	9.5	36.6	9.3	9.5	9.7	9.9	38.4	9.4				9.4
	• Total	45.5	47.2	46.1	46.8	185.6	47.7	48.6	48.3	49.0	193.6	47.1				47.1
	• Revenue (dollars) per thousand RTMs:															
	• Coal	\$ 64.77	\$ 62.08	\$ 58.45	\$ 53.61	\$ 59.69	\$ 53.15	\$ 52.67	\$ 53.32	\$ 55.12	\$ 53.55	\$ 50.63				\$ 50.63
	• General merchandise	\$ 59.42	\$ 60.23	\$ 57.67	\$ 57.57	\$ 58.74	\$ 57.86	\$ 58.27	\$ 59.41	\$ 59.07	\$ 58.65	\$ 57.40				\$ 57.40
	• Intermodal	\$ 62.23	\$ 61.09	\$ 60.21	\$ 61.36	\$ 61.20	\$ 61.77	\$ 62.02	\$ 62.07	\$ 62.76	\$ 62.16	\$ 63.36				\$ 63.36
	• Total	\$ 61.34	\$ 60.88	\$ 58.39	\$ 57.30	\$ 59.47	\$ 57.44	\$ 57.63	\$ 58.43	\$ 58.87	\$ 58.10	\$ 57.05				\$ 57.05
	• Gross ton miles (GTMs) (in billions)	86.5	89.8	87.8	89.0	353.1	90.3	92.6	91.7	93.5	368.1	89.2				89.2
	• Revenue ton miles (RTMs) (in billions)	45.5	47.2	46.1	46.8	185.6	47.7	48.6	48.3	49.0	193.6	47.1				47.1
	• Railroad employees (average)	30,630	30,503	30,493	30,543	30,543	30,095	29,870	29,597	29,227	29,698	28,811				28,811
	• Total operating expenses (dollars) per thousand GTMs	\$ 23.62	\$ 21.60	\$ 22.37	\$ 22.13	\$ 22.42	\$ 22.68	\$ 21.23	\$ 21.53	\$ 21.41	\$ 21.70	\$ 22.66				\$ 22.66
	• Compensation and benefits (dollars) per thousand GTMs	\$ 9.08	\$ 8.06	\$ 8.25	\$ 8.16	\$ 8.38	\$ 8.64	\$ 7.84	\$ 8.01	\$ 8.14	\$ 8.16	\$ 8.29				\$ 8.29
	• Total operating expenses (dollars) per thousand RTMs	\$ 44.95	\$ 41.09	\$ 42.54	\$ 42.06	\$ 42.64	\$ 42.94	\$ 40.43	\$ 40.87	\$ 40.87	\$ 41.27	\$ 42.90				\$ 42.90
	• Compensation and benefits (dollars) per thousand RTMs	\$ 17.29	\$ 15.34	\$ 15.70	\$ 15.50	\$ 15.94	\$ 16.36	\$ 14.93	\$ 15.21	\$ 15.55	\$ 15.51	\$ 15.70				\$ 15.70
14	Total operating revenues (\$ in thousands) per employee	\$ 91.1	\$ 94.2	\$ 88.3	\$ 87.9	\$ 361.5	\$ 91.0	\$ 93.8	\$ 95.4	\$ 98.6	\$ 378.6	\$ 93.3				\$ 93.3
15	Total operating expenses (\$ in thousands) per employee	\$ 66.7	\$ 63.6	\$ 64.3	\$ 64.5	\$ 259.2	\$ 68.0	\$ 65.8	\$ 66.7	\$ 68.4	\$ 269.0	\$ 70.2				\$ 70.2
	• GTMs (thousands) per employee	2,826	2,944	2,877	2,914	11,560	2,999	3,101	3,100	3,197	12,393	3,097				3,097
14	RTMs (thousands) per employee	1,485	1,548	1,512	1,534	6,078	1,584	1,628	1,633	1,674	6,517	1,636				1,636
14	Units per employee	56.5	59.0	58.5	58.7	232.7	59.3	61.5	62.7	63.7	247.2	61.2				61.2
14	RTMs (thousands) per mile of road operated	2,258	2,344	2,290	2,330	9,221	2,381	2,428	2,420	2,452	9,680	2,370				2,370
15	Total operating expenses (dollars) per unit	\$ 1,181	\$ 1,078	\$ 1,099	\$ 1,099	\$ 1,114	\$ 1,148	\$ 1,070	\$ 1,063	\$ 1,074	\$ 1,088	\$ 1,147				\$ 1,147
	• Compensation and benefits (dollars) per unit	\$ 454	\$ 402	\$ 406	\$ 405	\$ 416	\$ 437	\$ 395	\$ 396	\$ 409	\$ 409	\$ 420				\$ 420
	• RTMs (in thousands) per unit	26.3	26.2	25.8	26.1	26.1	26.7	26.5	26.0	26.3	26.4	26.7				26.7
	• Locomotive diesel fuel consumed (in thousands of gallons)	119,779	114,428	111,804	113,297	459,308	122,673	117,383	114,107	122,141	476,304	126,082				126,082
	• Average price (dollars) per gallon of locomotive diesel fuel	\$ 3.160	\$ 3.149	\$ 3.131	\$ 3.237	\$ 3.169	\$ 3.191	\$ 3.027	\$ 3.133	\$ 3.020	\$ 3.093	\$ 3.105				\$ 3.105
	• RTMs per gallon of fuel consumed	380	413	412	413	404	389	414	424	401	406	374				374
15	GTMs (in thousands) per train hour	90.9	91.5	90.9	94.9	92.0	95.8	96.6	99.1	101.1	98.1	96.5				96.5
15	RTMs (in thousands) per train hour	47.8	48.1	47.8	49.9	48.4	50.6	50.7	52.2	52.9	51.6	51.0				51.0
	• Percent of loaded-to-total car miles	59.0	58.8	58.6	59.0	58.8	58.7	58.4	58.7	58.8	58.7	59.1				59.1
	• Total new crossties installed (in thousands)	724	700	693	517	2,634	610	763	741	355	2,469	676				676
	• Total track miles of rail laid (miles)	104	119	165	121	509	112	181	166	90	549	135				135

*First Quarter 2014*

***Quarterly Financial Review***