



First Quarter 2015 Results

*Marta R. Stewart
Executive Vice President Finance
and Chief Financial Officer*

Operating Results

First Quarter 2015 vs. 2014 (\$ millions)

Weather and service recovery efforts dampened 1st quarter results

	<u>2015</u>	<u>2014</u>	(Unfavorable) Favorable <u>\$</u>	<u>%</u>
Railway operating revenues	\$ 2,567	\$ 2,689	\$ (122)	(5%)
Railway operating expenses	<u>1,961</u>	<u>2,022</u>	<u>61</u>	3%
Income from railway operations	<u>\$ 606</u>	<u>\$ 667</u>	<u>\$ (61)</u>	(9%)
Railway operating ratio	76.4	75.2	(1.2)	(2%)

Weather & Service Recovery Costs

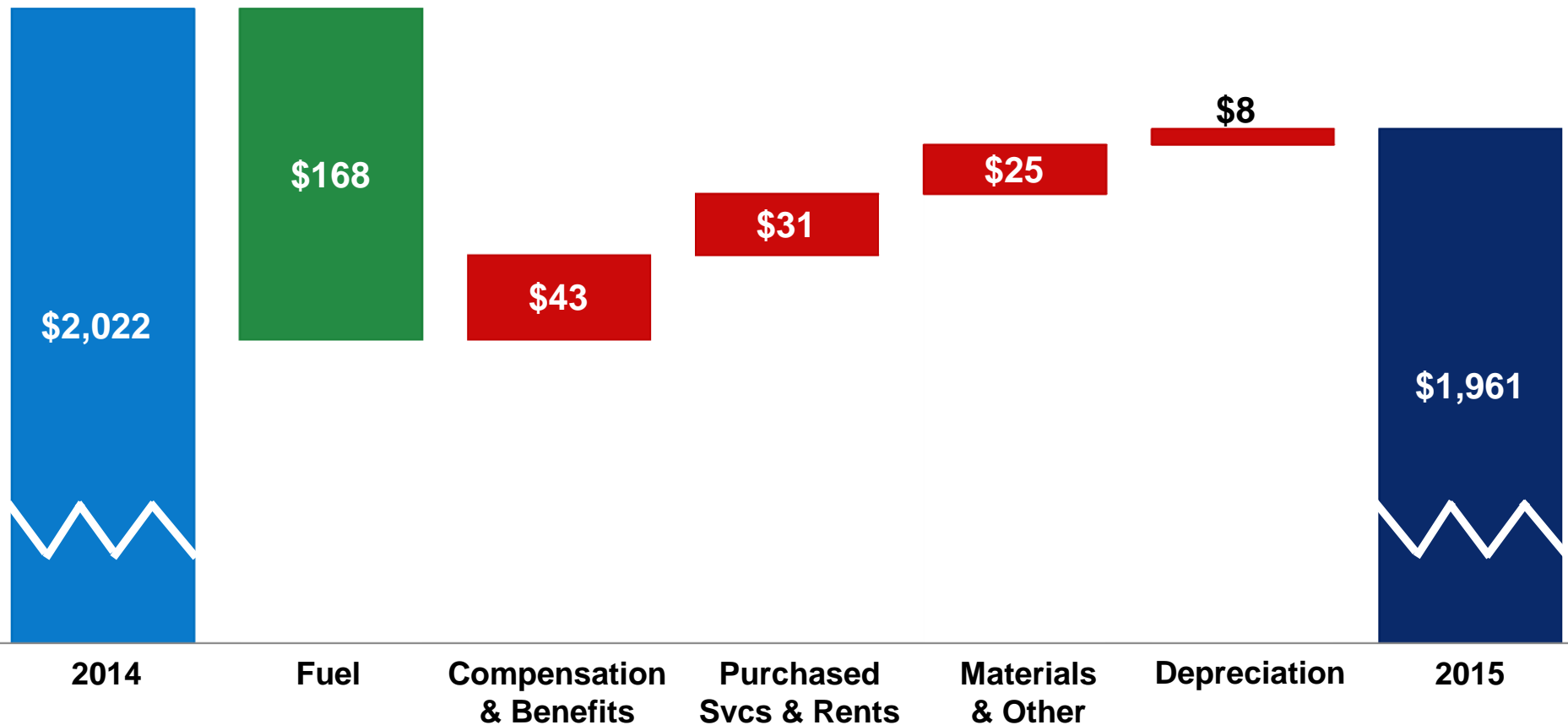
First Quarter 2015 (\$ millions)

Compensation & Benefits	\$24
Purchased Services & Rents	7
Materials & Other	6
Fuel	5
Total	\$42

Railway Operating Expenses

First Quarter 2015 vs. 2014 (\$ millions)

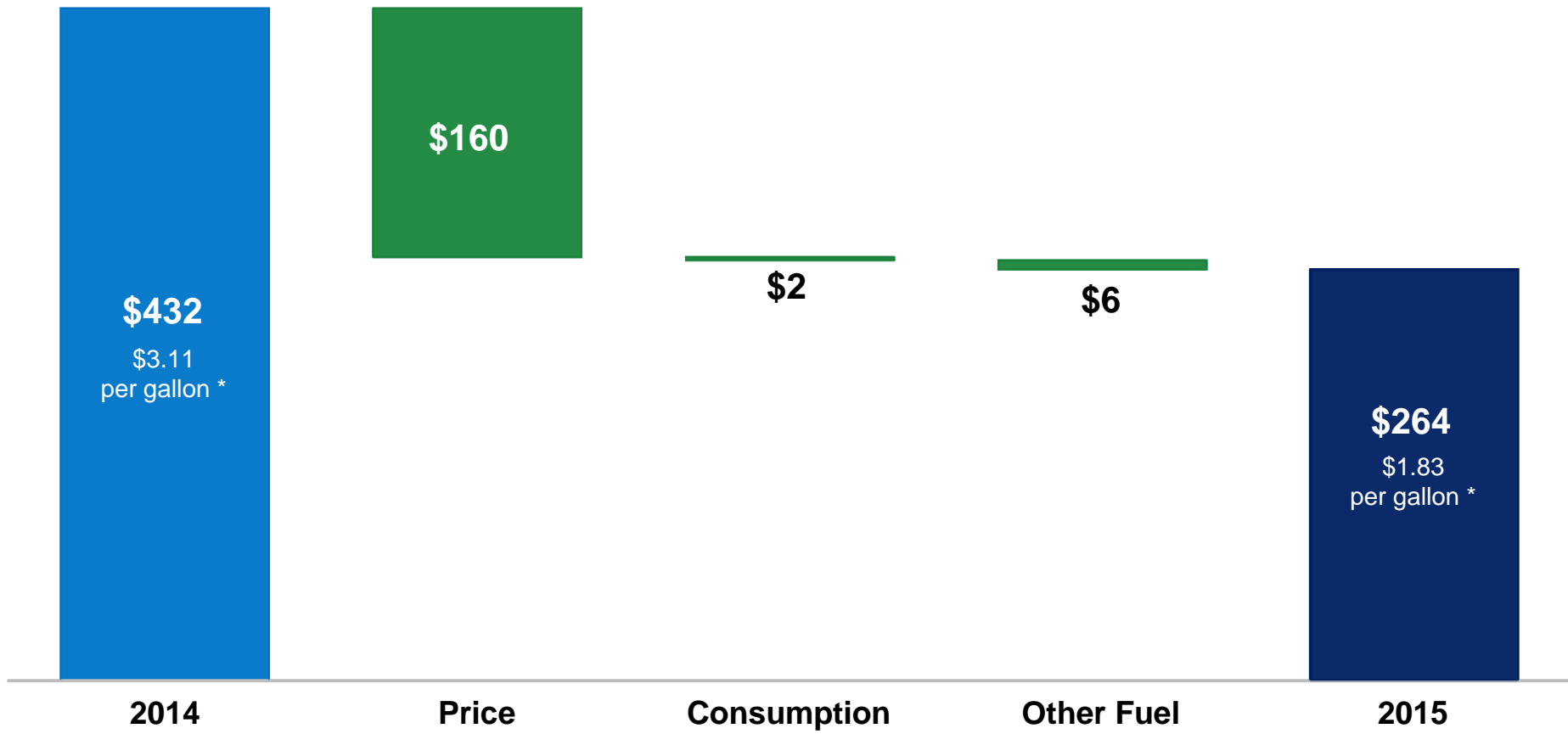
Net decrease of \$61 / 3%



Fuel

First Quarter 2015 vs. 2014 (\$ millions)

Total decrease of \$168 / 39%



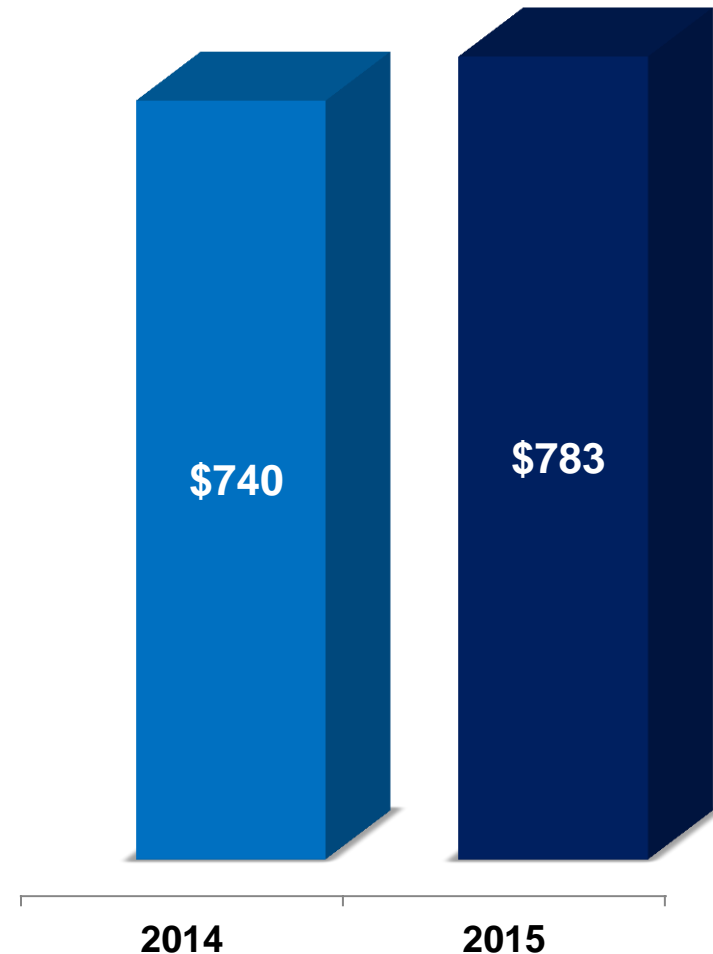
*Price per gallon reflects locomotive fuel only

Compensation and Benefits

First Quarter 2015 vs. 2014 (\$ millions)

Net increase of \$43 / 6%

- Increased pay rates
- Higher payroll taxes
- Increased employee activity levels
- Labor agreement signing bonus
- Reduced incentive and stock-based compensation



Purchased Services and Rents

First Quarter 2015 vs. 2014 (\$ millions)

Net increase of \$31 / 8%

- **Higher volume-related costs:**
 - Equipment rents
 - Intermodal terminals
- **Higher service-related costs:**
 - Slower velocity also increased equipment rents and intermodal terminal costs

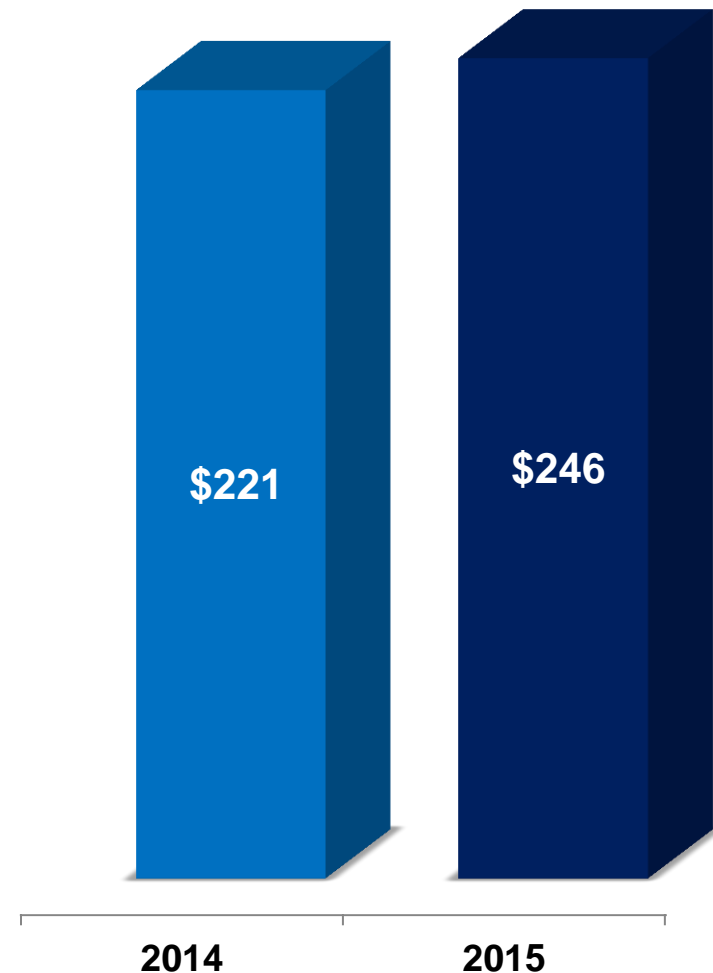


Materials and Other

First Quarter 2015 vs. 2014 (\$ millions)

Net increase of \$25 / 11%

- Increased material expenses
- Higher environmental and personal injury accruals
- Higher travel costs, primarily for train service employees



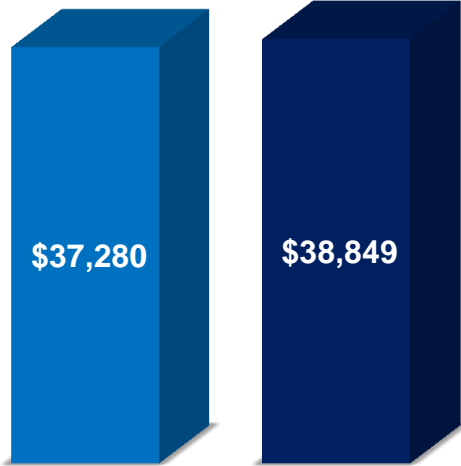
Depreciation

First Quarter 2015 vs. 2014 (\$ millions)

Increase of \$8 / 3%

- Increased capital base

Properties Balance



Mar 2014

Mar 2015



2014

2015

Expense Headwinds

- **Service recovery costs**
- **Wage increases and payroll tax rates**
- **Labor agreement lump sum**
- **Roanoke relocation costs**

Income Taxes

First Quarter 2015 vs. 2014 (\$ millions)

Effective tax rate for the quarter was 37.4%

- 2014 included \$20 million reduction for state tax law change

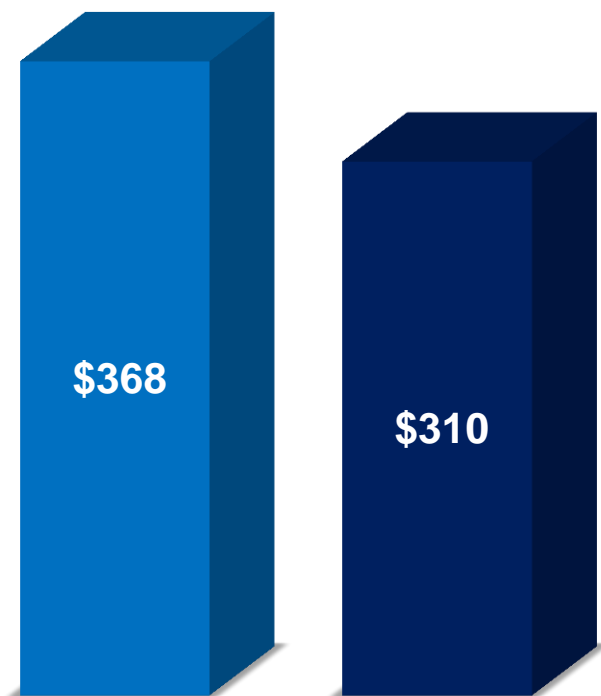


Net Income and Diluted Earnings per Share

First Quarter 2015 vs. 2014 (\$ millions except per share)

Decline of \$58 million or 17 cents per share

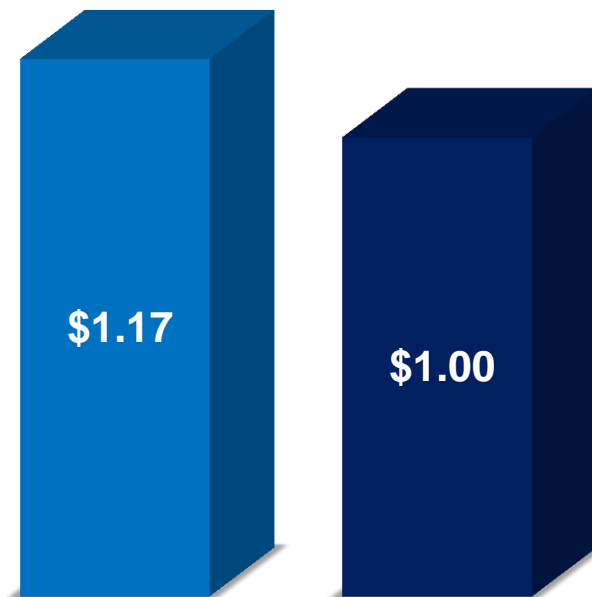
Net Income
Change vs. Prior Period: **(16%)**



2014

2015

Diluted Earnings per Share
Change vs. Prior Period: **(15%)**



2014

2015

Cash Flows and Balances

First Quarter 2015 vs. 2014 (\$ millions)

Almost \$600 million returned to shareholders

	<u>2015</u>	<u>2014</u>
Cash from operating activities	\$ 605	\$ 588
Capital expenditures	<u>(392)</u>	<u>(381)</u>
*Free cash flow	<u>\$ 213</u>	<u>\$ 207</u>
 Returns to shareholders:		
Dividends	\$ (181)	\$ (167)
Share repurchases	\$ (415)	\$ (50)

*Please see reconciliation to GAAP posted on our web site.

Thank You

