



# *Second Quarter 2015 Results*

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# Operating Results

Second Quarter 2015 vs. 2014 (\$ millions)

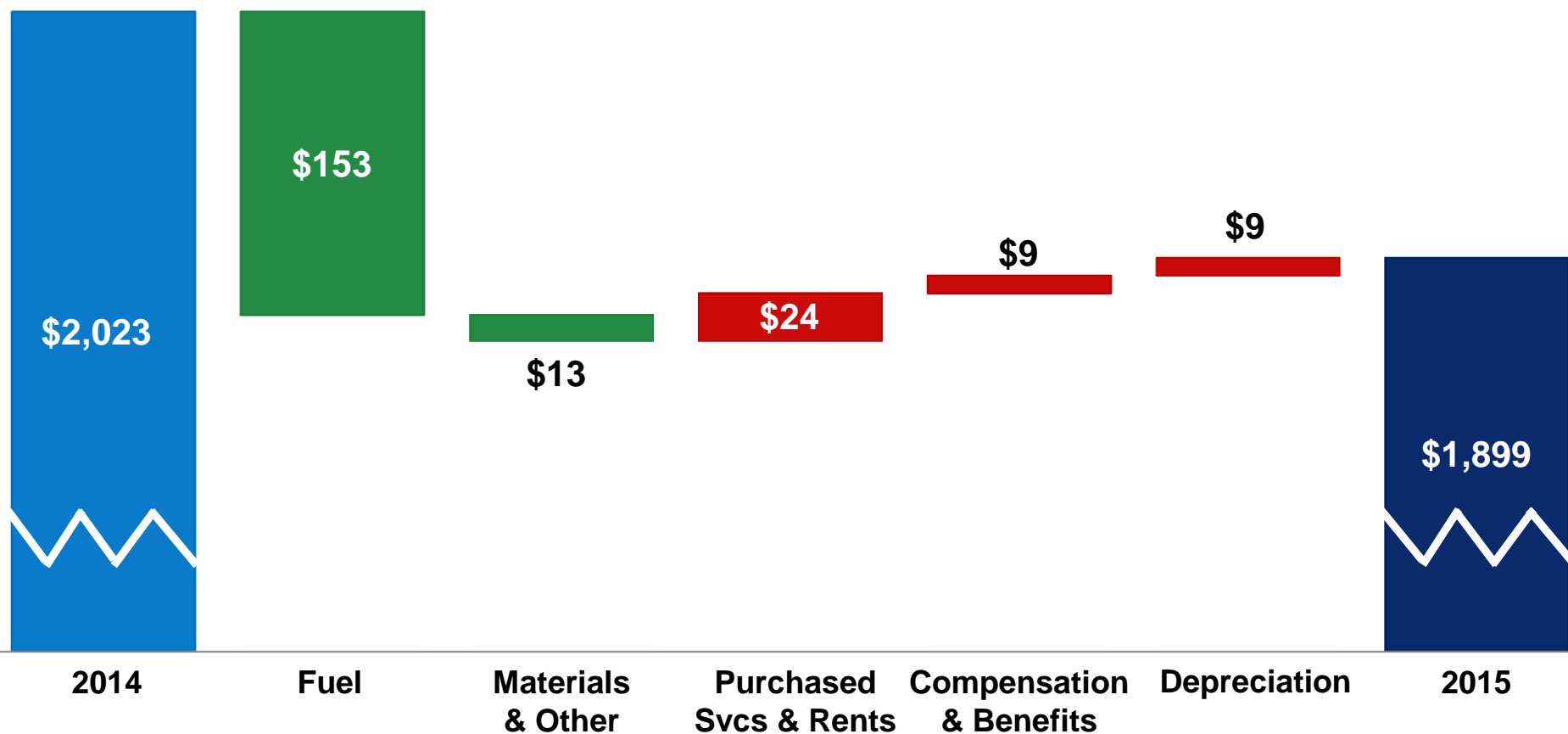
*Operating income impacted by lower coal and the net effect of fuel price*

	<u>2015</u>	<u>2014</u>	<b>(Unfavorable)</b> <b>Favorable</b> <u>\$</u>	<u>%</u>
Railway operating revenues	\$ 2,713	\$ 3,042	\$ (329)	(11%)
Railway operating expenses	<u>1,899</u>	<u>2,023</u>	<u>124</u>	6%
Income from railway operations	<u>\$ 814</u>	<u>\$ 1,019</u>	<u>\$ (205)</u>	(20%)
Railway operating ratio	70.0	66.5	(3.5)	(5%)

# Railway Operating Expenses

Second Quarter 2015 vs. 2014 (\$ millions)

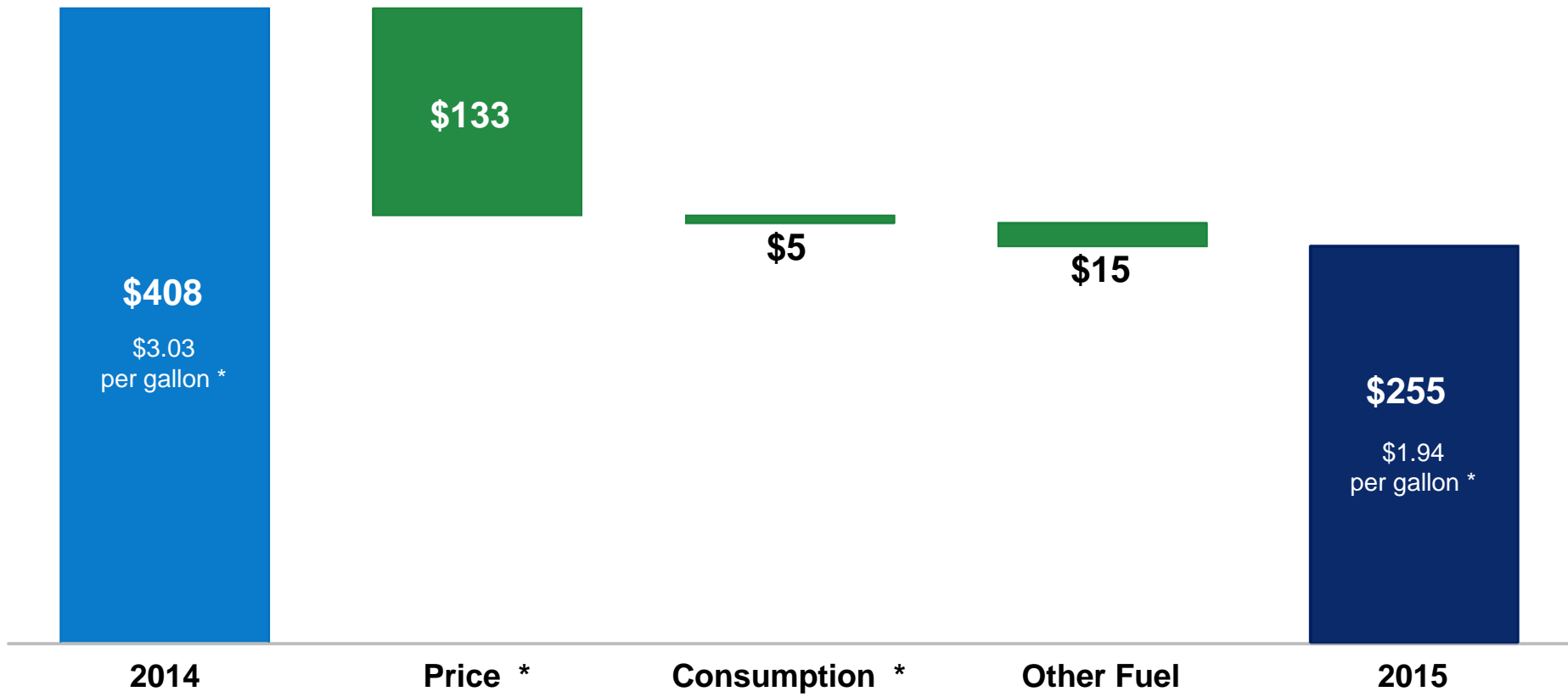
Net decrease of \$124 / 6%



# Fuel

Second Quarter 2015 vs. 2014 (\$ millions)

Total decrease of \$153 / 38%



\* Reflects locomotive fuel only

# Materials and Other

Second Quarter 2015 vs. 2014 (\$ millions)

Net decrease of \$13 / 5%

- Lower environmental expenses
- Favorable personal injury experience
- Reduced locomotive material expenses
- Higher travel costs, primarily for train service employees
- Roanoke relocation costs



# Purchased Services and Rents

Second Quarter 2015 vs. 2014 (\$ millions)

Net increase of \$24 / 6%

- Higher volume-related and service-recovery costs:
  - Intermodal operations
  - Equipment rents
  - Joint facilities
- Higher IT costs



# Compensation and Benefits

Second Quarter 2015 vs. 2014 (\$ millions)

Net increase of \$9 / 1%

- Increased pay rates
- Higher payroll taxes
- Increased number of trainees
- Higher labor hours related to service recovery
- Lower incentive and stock-based compensation



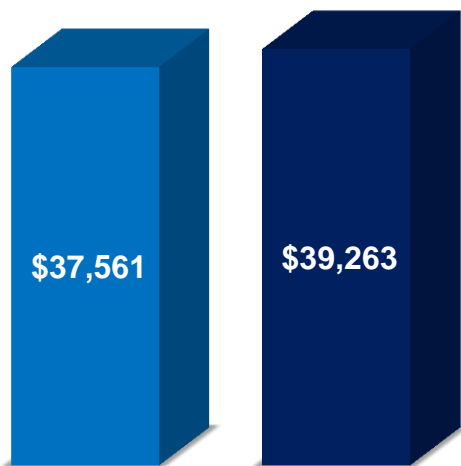
# Depreciation

Second Quarter 2015 vs. 2014 (\$ millions)

Increase of \$9 / 4%

- **Increased capital base**

### Properties Balance



June 2014

June 2015



2014

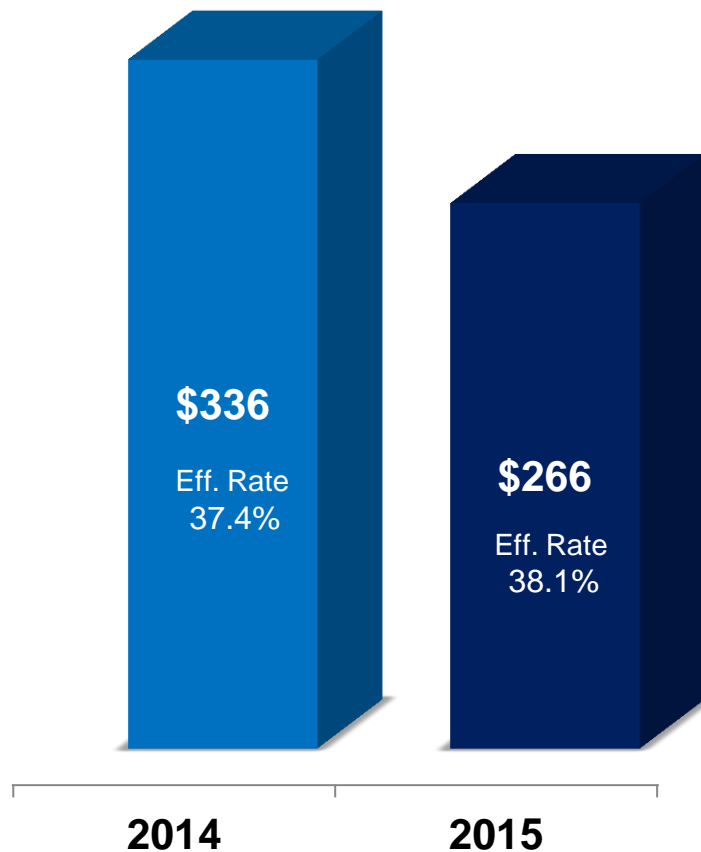
2015



# Income Taxes

Second Quarter 2015 vs. 2014 (\$ millions)

**Effective tax rate for the quarter was 38.1%**



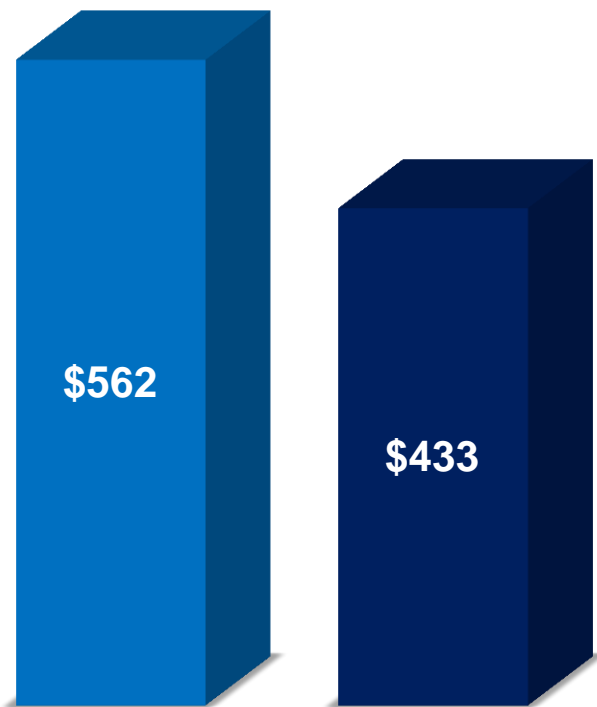
# Net Income and Diluted Earnings per Share

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

Decline of \$129 million or 38 cents per share

## Net Income

Change vs. Prior Period: **(23%)**

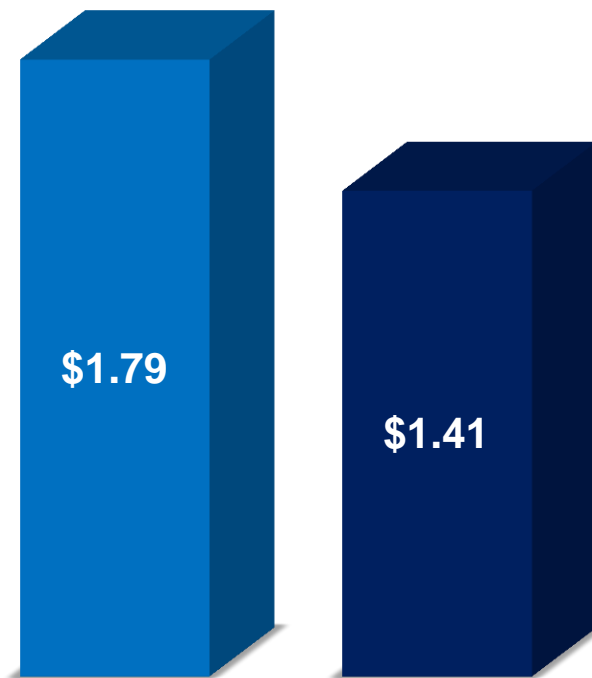


2014

2015

## Diluted Earnings per Share

Change vs. Prior Period: **(21%)**



2014

2015

# Cash Flows and Balances

First Six Months 2015 vs. 2014 (\$ millions)

**Free cash flow of \$0.6 billion and \$1.1 billion returned to shareholders**

	<u>2015</u>	<u>2014</u>
Cash from operating activities	\$ 1,473	\$ 1,437
Capital expenditures	<u>(886)</u>	<u>(809)</u>
*Free cash flow	<u>\$ 587</u>	<u>\$ 628</u>
<b>Returns to shareholders:</b>		
Share repurchases	\$ (765)	\$ (100)
Dividends	\$ (360)	\$ (335)

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

# Thank You

