

SECOND QUARTER 2019

Quarterly Financial Data



Accounting Department
Three Commercial Place
Norfolk, Virginia 23510.2191

NORFOLK SOUTHERN RAILWAY SYSTEM



INVESTOR INQUIRIES: PETE SHARBEL (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

(in millions, except per share amounts)

	Second Quarter			First Six Months		
	2019	2018	% Change	2019	2018	% Change
Railway operating revenues						
Merchandise	\$ 1,756	\$ 1,718	2%	\$ 3,442	\$ 3,323	4%
Intermodal	701	714	(2%)	1,420	1,392	2%
Coal	468	466	-	903	900	-
Total railway operating revenues	<u>2,925</u>	<u>2,898</u>	1%	<u>5,765</u>	<u>5,615</u>	3%
Railway operating expenses						
Compensation and benefits	712	706	1%	1,439	1,443	-
Purchased services and rents	418	430	(3%)	842	831	1%
Fuel	254	272	(7%)	504	538	(6%)
Depreciation	284	273	4%	567	545	4%
Materials and other	192	191	1%	382	397	(4%)
Total railway operating expenses	<u>1,860</u>	<u>1,872</u>	(1%)	<u>3,734</u>	<u>3,754</u>	(1%)
Income from railway operations	<u>1,065</u>	<u>1,026</u>	4%	<u>2,031</u>	<u>1,861</u>	9%
Other income — net	22	29	(24%)	66	37	78%
Interest expense on debt	153	131	17%	302	267	13%
Income before income taxes	<u>934</u>	<u>924</u>	1%	<u>1,795</u>	<u>1,631</u>	10%
Income taxes						
Current	136	170	(20%)	263	280	(6%)
Deferred	76	44	73%	133	89	49%
Total income taxes	<u>212</u>	<u>214</u>	(1%)	<u>396</u>	<u>369</u>	7%
Net income	<u>\$ 722</u>	<u>\$ 710</u>	2%	<u>\$ 1,399</u>	<u>\$ 1,262</u>	11%
Earnings per share — diluted	\$ 2.70	\$ 2.50	8%	\$ 5.21	\$ 4.43	18%
Weighted average shares outstanding — diluted	267.1	283.7	(6%)	268.3	284.8	(6%)

Notes

1. Stock Repurchase Program

We repurchased and retired 5.7 million shares and 4.8 million shares of common stock under our stock repurchase program in the first six months of 2019 and 2018, respectively, at a cost of \$1.1 billion and \$700 million, respectively. Since the beginning of 2006, we have repurchased and retired 191.3 million shares at a total cost of \$15.2 billion.

Consolidated Balance Sheets

(\$ in millions)

	June 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 274	\$ 358
Accounts receivable — net	1,039	1,009
Materials and supplies	256	207
Other current assets	345	288
Total current assets	1,914	1,862
Investments	3,301	3,109
Properties less accumulated depreciation of \$12,372 and \$12,374, respectively	31,201	31,091
Other assets	756	177
Total assets	\$ 37,172	\$ 36,239
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 1,407	\$ 1,505
Income and other taxes	270	255
Other current liabilities	373	246
Current maturities of long-term debt	401	585
Total current liabilities	2,451	2,591
Long-term debt	11,076	10,560
Other liabilities	1,738	1,266
Deferred income taxes	6,596	6,460
Total liabilities	21,861	20,877
Stockholders' equity:		
Common stock \$1.00 per share par value, 1,350,000,000 shares authorized; outstanding 263,406,773 and 268,098,472 shares, respectively, net of treasury shares	265	269
Additional paid-in capital	2,226	2,216
Accumulated other comprehensive loss	(557)	(563)
Retained income	13,377	13,440
Total stockholders' equity	15,311	15,362
Total liabilities and stockholders' equity	\$ 37,172	\$ 36,239

2. Leases

On January 1, 2019, we adopted Financial Accounting Standards Board Accounting Standards Update 2016-02, "Leases (Topic 842)" which requires lessees to recognize right-of-use (ROU) assets and lease liabilities on the balance sheet for leases greater than twelve months. As a result of the adoption, the Consolidated Balance Sheet at June 30, 2019 includes the recognition of ROU assets of \$586 million included in "Other assets," current lease liabilities of \$98 million included in "Other current liabilities," and non-current lease liabilities of \$488 million included in "Other liabilities."

Consolidated Statements of Cash Flows

(S in millions)

	First Six Months	
	2019	2018
Cash flows from operating activities		
Net income	\$ 1,399	\$ 1,262
Reconciliation of net income to net cash provided by operating activities:		
Depreciation	567	546
Deferred income taxes	133	89
Gains and losses on properties	(7)	(14)
Changes in assets and liabilities affecting operations:		
Accounts receivable	(30)	(92)
Materials and supplies	(49)	(38)
Other current assets	55	19
Current liabilities other than debt	(30)	134
Other — net	(86)	(80)
Net cash provided by operating activities	1,952	1,826
Cash flows from investing activities		
Property additions	(979)	(836)
Property sales and other transactions	214	48
Investment purchases	(12)	(4)
Investment sales and other transactions	(75)	6
Net cash used in investing activities	(852)	(786)
Cash flows from financing activities		
Dividends	(458)	(408)
Common stock transactions	18	15
Purchase and retirement of common stock	(1,050)	(700)
Proceeds from borrowings — net of issuance costs	1,054	543
Debt repayments	(750)	(750)
Net cash used in financing activities	(1,186)	(1,300)
Net decrease in cash, cash equivalents, and restricted cash	(86)	(260)
Cash, cash equivalents, and restricted cash		
At beginning of year	446	690
At end of period	\$ 360	\$ 430
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest (net of amounts capitalized)	\$ 271	\$ 246
Income taxes (net of refunds)	215	126

3. Restricted Cash

The "Cash, cash equivalents, and restricted cash" line item includes restricted cash of \$86 million at June 30, 2019 and \$88 million at December 31, 2018, reflecting deposits held by a third-party bond agent as collateral for certain debt obligations maturing in 2019. The restricted cash balance is included as part of "Other current assets" on the Consolidated Balance Sheets in both periods.

Railway Operating Revenues Analysis

Commodity and Period	Revenues (S in millions)			Units (in thousands)			Revenue per Unit (S per unit)		
	2019	2018	% Change	2019	2018	% Change	2019	2018	% Change
First Quarter									
Chemicals	\$ 452	\$ 454	-	125.9	126.6	(1%)	\$ 3,587	\$ 3,585	-
Agriculture products	385	357	8%	130.9	129.9	1%	2,945	2,744	7%
Metals and construction	385	356	8%	173.9	175.9	(1%)	2,217	2,023	10%
Automotive	251	243	3%	98.1	102.8	(5%)	2,557	2,362	8%
Forest and consumer	213	195	9%	69.4	70.9	(2%)	3,070	2,755	11%
Merchandise	1,686	1,605	5%	598.2	606.1	(1%)	2,819	2,647	6%
Intermodal	719	678	6%	1,071.0	1,049.2	2%	671	647	4%
Coal	435	434	-	236.3	249.1	(5%)	1,839	1,743	6%
Total	\$ 2,840	\$ 2,717	5%	1,905.5	1,904.4	-	1,490	1,427	4%
Second Quarter									
Chemicals	\$ 473	\$ 465	2%	129.8	133.0	(2%)	\$ 3,646	\$ 3,495	4%
Agriculture products	406	379	7%	141.3	137.4	3%	2,870	2,759	4%
Metals and construction	416	413	1%	196.7	206.8	(5%)	2,112	1,997	6%
Automotive	251	253	(1%)	101.8	104.7	(3%)	2,471	2,421	2%
Forest and consumer	210	208	1%	68.6	73.6	(7%)	3,057	2,825	8%
Merchandise	1,756	1,718	2%	638.2	655.5	(3%)	2,751	2,621	5%
Intermodal	701	714	(2%)	1,048.5	1,091.8	(4%)	668	654	2%
Coal	468	466	-	258.3	273.6	(6%)	1,815	1,704	7%
Total	\$ 2,925	\$ 2,898	1%	1,945.0	2,020.9	(4%)	1,504	1,434	5%
Year-to-date									
Chemicals	\$ 925	\$ 919	1%	255.7	259.6	(2%)	\$ 3,617	\$ 3,539	2%
Agriculture products	791	736	7%	272.2	267.3	2%	2,906	2,752	6%
Metals and construction	801	769	4%	370.6	382.7	(3%)	2,161	2,009	8%
Automotive	502	496	1%	199.9	207.5	(4%)	2,513	2,392	5%
Forest and consumer	423	403	5%	138.0	144.5	(4%)	3,064	2,790	10%
Merchandise	3,442	3,323	4%	1,236.4	1,261.6	(2%)	2,784	2,634	6%
Intermodal	1,420	1,392	2%	2,119.5	2,141.0	(1%)	670	650	3%
Coal	903	900	-	494.6	522.7	(5%)	1,826	1,723	6%
Total	\$ 5,765	\$ 5,615	3%	3,850.5	3,925.3	(2%)	1,497	1,430	5%

At the beginning of 2019, we recategorized certain commodities within Merchandise major commodity groups to better align with how we internally manage these commodities. Prior period amounts have been reclassified to conform to the current presentation with no net impact to overall Merchandise revenue or total railway operating revenues. Specifically, certain commodities were shifted between Chemicals, Agriculture products, Metals and construction, and Forest and consumer.

Railway Operating Revenues Variance Analysis

(\$ in millions)

Second Quarter
2019 vs. 2018

	Merchandise		Intermodal		Coal	
	Amount	Percent	Amount	Percent	Amount	Percent
Revenue Variance due to:						
Volume	\$ (45)	(3%)	\$ (28)	(4%)	\$ (26)	(6%)
Fuel surcharge revenue	-	-	(5)	(1%)	(8)	(2%)
Rate, mix and other	83	5%	20	3%	36	8%
Total	<u>\$ 38</u>	2%	<u>\$ (13)</u>	(2%)	<u>\$ 2</u>	-

Year-to-date
2019 vs. 2018

	Merchandise		Intermodal		Coal	
	Amount	Percent	Amount	Percent	Amount	Percent
Revenue Variance due to:						
Volume	\$ (66)	(2%)	\$ (14)	(1%)	\$ (48)	(5%)
Fuel surcharge revenue	14	-	4	-	(9)	(1%)
Rate, mix and other	171	5%	38	3%	60	7%
Total	<u>\$ 119</u>	4%	<u>\$ 28</u>	2%	<u>\$ 3</u>	-

Intermodal Units by Market

(in thousands)

	Second Quarter			Year-to-date		
	2019	2018	% Change	2019	2018	% Change
Domestic	635.8	706.5	(10%)	1,292.1	1,378.2	(6%)
International	412.7	385.3	7%	827.4	762.8	8%
Total	<u>1,048.5</u>	<u>1,091.8</u>	(4%)	<u>2,119.5</u>	<u>2,141.0</u>	(1%)

Coal Tonnage by Market

(in thousands)

	Second Quarter			Year-to-date		
	2019	2018	% Change	2019	2018	% Change
Utility	17,129	16,695	3%	32,884	32,560	1%
Export	6,626	7,916	(16%)	13,014	15,154	(14%)
Domestic metallurgical	3,851	4,251	(9%)	6,782	7,398	(8%)
Industrial	1,181	1,457	(19%)	2,403	2,717	(12%)
Total	<u>28,787</u>	<u>30,319</u>	(5%)	<u>55,083</u>	<u>57,829</u>	(5%)

Financial, Traffic and Operating Statistics

(\$ in millions — except as noted)

	2018				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Railway operating revenues	\$ 2,717	\$ 2,898	\$ 2,947	\$ 2,896	\$ 11,458
Railway operating expenses:					
Compensation and benefits	737	706	725	757	2,925
Purchased services	318	342	347	360	1,367
Equipment rents	83	88	103	89	363
Fuel	266	272	274	275	1,087
Depreciation	272	273	276	281	1,102
Materials	90	92	95	85	362
Casualties and other claims	47	38	46	45	176
Other	69	61	61	(74)	117
Total railway operating expenses	1,882	1,872	1,927	1,818	7,499
Income from railway operations	835	1,026	1,020	1,078	3,959
Other income — net	8	29	30	-	67
Interest expense on debt	136	131	142	148	557
Income before income taxes	707	924	908	930	3,469
Total income taxes	155	214	206	228	803
Net income	\$ 552	\$ 710	\$ 702	\$ 702	\$ 2,666
Weighted average shares outstanding — diluted (in millions)	285.9	283.7	278.2	273.5	280.2
Earnings per share — diluted (dollars)	\$ 1.93	\$ 2.50	\$ 2.52	\$ 2.57	\$ 9.51
Dividends per share (dollars)	\$ 0.72	\$ 0.72	\$ 0.80	\$ 0.80	\$ 3.04
Railway operating ratio (percent)	69.3	64.6	65.4	62.8	65.4
Property additions	\$ 383	\$ 453	\$ 490	\$ 625	\$ 1,951
Cash and cash equivalents	\$ 1,072	\$ 430	\$ 729	\$ 358	\$ 358
Total debt	\$ 10,287	\$ 9,646	\$ 11,135	\$ 11,145	\$ 11,145
Total debt-to-total capitalization (percent)	38.5	36.8	41.8	42.0	42.0
Gross ton miles (GTMs) (in billions)	95.2	100.8	101.3	97.6	394.9
Revenue ton miles (in billions):					
Merchandise	29.5	31.5	31.5	29.7	122.2
Intermodal	11.1	11.7	11.8	11.8	46.4
Coal	9.4	10.0	10.0	9.4	38.8
Total	50.0	53.2	53.3	50.9	207.4
Railroad employees (average)	26,430	26,535	26,444	26,638	26,512
GTMs (thousands) per employee	3,600	3,800	3,833	3,661	14,894
Locomotive diesel fuel consumed (in thousands of gallons)	121,450	116,754	115,320	118,244	471,768
Average price (dollars) per gallon of locomotive diesel fuel	\$ 2.046	\$ 2.215	\$ 2.263	\$ 2.201	\$ 2.180
Gallons of fuel consumed per thousand GTMs	1.28	1.17	1.14	1.22	1.20
Train speed (miles per hour)	19.0	18.4	19.5	19.3	19.1
Terminal dwell (hours)	29.0	28.7	26.8	25.9	27.6

2019					2019 vs. 2018				
First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to-date	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to-date
\$ 2,840	\$ 2,925			\$ 5,765	\$ 123	\$ 27			\$ 150
727	712			1,439	(10)	6			(4)
346	347			693	28	5			33
78	71			149	(5)	(17)			(22)
250	254			504	(16)	(18)			(34)
283	284			567	11	11			22
87	82			169	(3)	(10)			(13)
49	50			99	2	12			14
54	60			114	(15)	(1)			(16)
1,874	1,860			3,734	(8)	(12)			(20)
966	1,065			2,031	131	39			170
44	22			66	36	(7)			29
149	153			302	13	22			35
861	934			1,795	154	10			164
184	212			396	29	(2)			27
\$ 677	\$ 722			\$ 1,399	\$ 125	\$ 12			\$ 137
269.4	267.1			268.3	(16.5)	(16.6)			(16.5)
\$ 2.51	\$ 2.70			\$ 5.21	\$ 0.58	\$ 0.20			\$ 0.78
\$ 0.86	\$ 0.86			\$ 1.72	\$ 0.14	\$ 0.14			\$ 0.28
66.0	63.6			64.8	(3.3)	(1.0)			(2.1)
\$ 467	\$ 512			\$ 979	\$ 84	\$ 59			\$ 143
\$ 411	\$ 274			\$ 274	\$ (661)	\$ (156)			\$ (156)
\$ 11,404	\$ 11,477			\$ 11,477	\$ 1,117	\$ 1,831			\$ 1,831
42.7	42.8			42.8	4.2	6.0			6.0
94.5	97.4			191.9	(1%)	(3%)			(2%)
29.1	30.6			59.7	(1%)	(3%)			(2%)
11.2	11.0			22.2	1%	(6%)			(3%)
9.0	9.6			18.6	(4%)	(4%)			(4%)
49.3	51.2			100.5	(1%)	(4%)			(3%)
26,257	25,033			25,646	(1%)	(6%)			(3%)
3,599	3,891			7,482	-	2%			1%
119,810	115,731			235,541	(1%)	(1%)			(1%)
\$ 1.960	\$ 2.079			\$ 2.018	(4%)	(6%)			(5%)
1.28	1.20			1.24	-	3%			2%
21.7	21.9			21.8	14%	19%			17%
22.2	18.2			20.2	(23%)	(37%)			(30%)



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