First Quarter 2015 Results

James A. Squires
President
**Railway Operating Revenue**

**First Quarter 2015 vs. 2014**

**Fuel surcharge revenues decreased significantly.**

<table>
<thead>
<tr>
<th>Components of Revenue Change</th>
<th>$ in Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merchandise</td>
<td>$1,520</td>
</tr>
<tr>
<td>Intermodal</td>
<td>$592</td>
</tr>
<tr>
<td>Coal</td>
<td>$455</td>
</tr>
</tbody>
</table>

1Q 2015 Revenue $ in Millions & y-o-y Percent Change

**Revenue**
$2.6 Billion, down (5%)

**RPU**
$1,425, down (7%)

**RPU less fuel**
$1,334, down (2%)

**Volume**
1,802,100 units, up 2%

* Please see reconciliation to GAAP posted on our website.
**Railway Volume**  
**First Quarter 2015 vs. 2014**

**Total volume up 2%**

**Coal down (7%)**  
Weak shipments across coal markets, with (6%) decline in Utility and (20%) decline in Export

**Intermodal up 5%**  
Gains in Domestic and International markets

**Merchandise up 3%**  
Gains in all markets, with continued strength in Chemicals
Coal Market
First Quarter 2015 vs. 2014

Excess global supply and low natural gas prices.

Utility
(9%) decline to Northern utilities and (2%) decline to Southern utilities

Export
Reduced thermal and metallurgical export volumes

Domestic Met / Industrial
Gains of coke shipments offsetting metallurgical decline and customer shifts to natural gas generation

Revenue: $455 Million; down (16%) • Volume: 277,400; down (7%) • RPU: $1,642; down (9%)
**Intermodal Market**

**First Quarter 2015 vs. 2014**

**Volume growth of 5% offset by fuel and mix.**

**Domestic**
Continued focus on highway conversions and key customer growth

**International**
Gains due to customer awards and organic growth

Revenue: $592 Million; down (1%) • Volume: 926,700; up 5% • RPU: $639; down (5%)
Merchandise Market
First Quarter 2015 vs. 2014

Growth across all business units.

MetCon
Gains of aggregates and frac sand; reduced steel pipe and coil

Agriculture
Increased volumes of corn, feed, and fertilizers partially offset by reduced export soybean volumes

Chemicals
Gains of crude by rail and NGLs

Automotive
Increased vehicle production levels at NS-served plants

Paper
Strength in lumber; reduced wood chips and waste

Revenue: $1,520 Million; down (2%) • Volume: 598,000; up 3% • RPU: $2,541; down (5%)
Business Outlook

Volume

Growth in most markets.

- Opportunities for highway conversions
- Growth with strategic corridor projects
- West Coast port disruptions
- Growth of natural gas liquids
- Crude oil shipments to East Coast refiners
- Increased consumer spending
- Strength in automotive production and sales
- Improved construction activity
- Growth in ethanol and soybean exports

- Softening steel production
- Coal burn rate impacted by lower natural gas prices
- High coal stockpiles
- Strong competition in global coal markets
Business Outlook
Revenue and RPU

Declining fuel surcharges, positive pricing, negative mix.

Fuel Surcharge Revenue

- Increased pricing
- Increased volume
- Growth in ethanol and soybean exports impacting RPU
- Decreases in Export and Utility Coal
- Increased volumes of Intermodal impacting RPU
- Impact of further declines in fuel surcharge revenue
First Quarter 2015 Operations Update

Mark Manion
Executive Vice President
and Chief Operating Officer
Safety Performance
2010 – 1st QTR 2015

Safety initiatives led to employee injury reduction in first quarter.

Reportable Personal Injuries
(Per 200,000 Employee-Hours)

Train Incidents
(Per Million Train Miles)

1Q15 vs. 1Q14 COMPARISON

- Injury rate (1.08) down significantly over last year (1.49)
- Train Incident rate (3.0) is up over last year (2.6)
- Grade Crossing Accident rate (3.2) is down slightly over last year (3.8)
The quarter over quarter gain in service despite challenging weather conditions is a positive indication that NS service has turned the corner.

* 1Q15 based on official Composite data
Recovery in Train Speed and Dwell indicates the effects of winter have abated.
Going Forward
Additional Crews and Locomotives: March 1\textsuperscript{st} vs. July 1\textsuperscript{st}

Additional resources will be available during the 2\textsuperscript{nd} quarter, which will improve service and asset utilization.

1. Additional Crew Resources:
   - Qualified conductors +600
   - Locomotive Engineers +50

2. Additional Locomotives: +200
   - SD90MAC receipts +40
   - Reduction in B/O percentage +160
3. Infrastructure
   - Chicago Connection Track: April 10th
   - Goshen, IN Siding Extension: April 27th
   - Bellevue Plan
     - Phase 2-A: April 6th
     - Phase 2-B: June/July
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

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
<th>$</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Railway operating revenues</td>
<td>$2,567</td>
<td>$2,689</td>
<td>$(122)</td>
<td>(5%)</td>
</tr>
<tr>
<td>Railway operating expenses</td>
<td>1,961</td>
<td>2,022</td>
<td>61</td>
<td>3%</td>
</tr>
<tr>
<td>Income from railway operations</td>
<td>$606</td>
<td>$667</td>
<td>$(61)</td>
<td>(9%)</td>
</tr>
<tr>
<td>Railway operating ratio</td>
<td>76.4</td>
<td>75.2</td>
<td>(1.2)</td>
<td>(2%)</td>
</tr>
</tbody>
</table>
## Weather & Service Recovery Costs

### First Quarter 2015 ($ millions)

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation &amp; Benefits</td>
<td>24</td>
</tr>
<tr>
<td>Purchased Services &amp; Rents</td>
<td>7</td>
</tr>
<tr>
<td>Materials &amp; Other</td>
<td>6</td>
</tr>
<tr>
<td>Fuel</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>42</strong></td>
</tr>
</tbody>
</table>
Railway Operating Expenses
First Quarter 2015 vs. 2014 ($ millions)

Net decrease of $61 / 3%

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,022</td>
<td>$168</td>
<td>$43</td>
<td>$31</td>
<td>$25</td>
<td>$8</td>
<td>$1,961</td>
</tr>
</tbody>
</table>
## Fuel

**First Quarter 2015 vs. 2014 ($ millions)**

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>$432</td>
<td>$264</td>
</tr>
<tr>
<td></td>
<td>$3.11 per gallon *</td>
<td>$1.83 per gallon *</td>
</tr>
<tr>
<td>Consumption</td>
<td>$160</td>
<td>$2</td>
</tr>
<tr>
<td>Other Fuel</td>
<td>$6</td>
<td></td>
</tr>
</tbody>
</table>

*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

2014: $740
2015: $783

$43 / 6% increase
Purchased Services and Rents
First Quarter 2015 vs. 2014 ($ 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

2014: $392
2015: $423
Materials and Other
First Quarter 2015 vs. 2014 ($ millions)

Net increase of $25 / 11%

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

2014: $221
2015: $246

Net increase: $25 (11%)
Depreciation
First Quarter 2015 vs. 2014 ($ millions)

*Increase of $8 / 3%*

- Increased capital base

<table>
<thead>
<tr>
<th></th>
<th>Mar 2014</th>
<th>Mar 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Properties</td>
<td>$37,280</td>
<td>$38,849</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>$237</td>
<td>$245</td>
<td></td>
</tr>
</tbody>
</table>
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%)

Diluted Earnings per Share
Change vs. Prior Period: (15%)
### Cash Flows and Balances
*First Quarter 2015 vs. 2014 ($ millions)*

<table>
<thead>
<tr>
<th>Category</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash from operating activities</td>
<td>$605</td>
<td>$588</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>(392)</td>
<td>(381)</td>
</tr>
<tr>
<td>*Free cash flow</td>
<td>$213</td>
<td>$207</td>
</tr>
</tbody>
</table>

**Returns to shareholders:**

<table>
<thead>
<tr>
<th>Category</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends</td>
<td>$(181)</td>
<td>$(167)</td>
</tr>
<tr>
<td>Share repurchases</td>
<td>$(415)</td>
<td>$(50)</td>
</tr>
</tbody>
</table>

Almost $600 million returned to shareholders

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