

Reconciliation of Non-GAAP Financial Measures

Information presented by James A. Squires, Alan H. Shaw, and Mark R. George during NS' third quarter earnings conference call on October 27, 2021 (posted elsewhere on our website) included non-GAAP financial measures, as defined by Securities and Exchange Commission Regulation G. Non-GAAP financial measures should be considered in addition to, not as a substitute for, the financial measures reported in accordance with U.S. generally accepted accounting principles (GAAP).

Consolidated Statements of Income - excluding impairment of investment¹

(\$ in millions except per share amounts)

	Third Quarter		
	2021 (GAAP)	Impairment of investment	2020 excluding impact of charge (Non-GAAP ¹)
Railway operating expenses			
Compensation and benefits	\$ 578	\$ -	\$ 578
Purchased services and rents	486	(99)	387 ¹
Fuel	126	-	126
Depreciation	293	-	293
Materials and other	183	-	183
Total railway operating expenses	<u>\$ 1,666</u>	<u>\$ (99)</u>	<u>\$ 1,567¹</u>
Income from railway operations	<u>\$ 840</u>	<u>\$ 99</u>	<u>\$ 939¹</u>
Income before income taxes	\$ 724	\$ 99	\$ 823 ¹
Income taxes	155	25	180 ¹
Net income	<u>\$ 569</u>	<u>\$ 74</u>	<u>\$ 643¹</u>
Earnings per share - diluted	<u>\$ 2.22</u>	<u>\$ 0.29</u>	<u>\$ 2.51¹</u>
Railway operating ratio (%)	66.5	(4.0)	62.5 ¹
Effective tax rate (%)	21.4	0.5	21.9 ¹

Revenue Per Unit

Third Quarter	2021	2020	Change	% Change
Total revenue per unit	\$ 1,619	\$ 1,418	\$ 201	14%
Less: Fuel surcharge revenue per unit	99	43	56	130%
Revenue per unit less fuel surcharge revenue ²	<u>\$ 1,520</u>	<u>\$ 1,375</u>	<u>\$ 145</u>	11%
Merchandise revenue per unit	\$ 2,946	\$ 2,822	\$ 124	4%
Less: Fuel surcharge revenue per unit	87	14	73	521%
Merchandise revenue per unit less fuel surcharge revenue ²	<u>\$ 2,859</u>	<u>\$ 2,808</u>	<u>\$ 51</u>	2%
Intermodal revenue per unit	\$ 796	\$ 655	\$ 141	22%
Less: Fuel surcharge revenue per unit	119	63	56	89%
Intermodal revenue per unit less fuel surcharge revenue ²	<u>\$ 677</u>	<u>\$ 592</u>	<u>\$ 85</u>	14%
Coal revenue per unit	\$ 2,057	\$ 1,698	\$ 359	21%
Less: Fuel surcharge revenue per unit	17	3	14	467%
Coal revenue per unit less fuel surcharge revenue ²	<u>\$ 2,040</u>	<u>\$ 1,695</u>	<u>\$ 345</u>	20%

Free Cash Flow

(\$ in millions)

Nine Months Ended September 30	2021	2020
Net cash provided by operating activities	\$ 3,313	\$ 2,767
Property additions	<u>(1,025)</u>	<u>(1,053)</u>
Free cash flow ³	2,288	1,714
Property sales and other transactions	135	291
Investment purchases	(5)	(6)
Investment sales and other transactions	48	(50)
Net cash used in financing activities	<u>(2,116)</u>	<u>(1,170)</u>
Net increase in cash and cash equivalents	<u>\$ 350</u>	<u>\$ 779</u>

Free Cash Flow Conversion

(\$ in millions)

Nine Months Ended September 30	2021
Net cash provided by operating activities	\$ 3,313
Property additions	<u>(1,025)</u>
Free cash flow ³	<u>\$ 2,288</u>
Net income	<u>\$ 2,245</u>
Ratio of free cash flow to net income ⁴	102%

Railway operating ratio - excluding loss on asset disposal and impairment of investment⁵

	Year Ended December 31		
	2020 (GAAP)	Loss on asset disposal and impairment of investment	2020 excluding impact of charges (Non-GAAP ⁵)
Railway operating ratio (%)	69.3	(4.9)	64.4 ⁵

¹ Third quarter 2020 GAAP financial results are adjusted to exclude the effects of an other-than-temporary impairment to the carrying value of an equity method investment. The Company recorded this non-cash impairment charge in "Purchased services and rents" on the Consolidated Statements of Income. The Company uses these non-GAAP financial measures internally and believes this information provides useful supplemental information to investors to facilitate making period-to-period comparisons by excluding the effects of the impairment of the investment.

² Revenue per unit as used here is to reflect average revenue per unit absent the effect of fuel surcharges. Management believes this non-GAAP financial measure provides useful supplemental information to investors regarding the Company's pricing trends, by excluding the volatility introduced by fuel surcharges, and is useful for period-over-period comparisons of these trends.

³ Free cash flow as used here is a function of cash provided by operating activities reduced by property additions and is a measure of cash available for other investing and financing activities, primarily including payment of dividends, repurchases of common stock and repayments of debt. Management believes that this non-GAAP financial measure provides useful supplemental information to investors regarding the Company's ability to generate cash flows after taking into consideration cash necessary to cover operations and maintain and grow our capital base.

⁴ Free cash flow conversion as used here is cash from operations less property additions as a ratio of net income. Management believes this non-GAAP financial measure provides useful supplemental information to investors regarding the Company's ability to generate cash, which can be used for investing and financing activities, prior to incurring additional external financing.

⁵ GAAP financial results are adjusted to exclude the effects of two non-cash charges. The Company recorded a \$385 million loss on asset disposal related to the sale of 703 locomotives. The Company also recorded an other-than-temporary impairment to the carrying value of an equity method investment in the amount of \$99 million, which is included in "Purchased services and rents" on the 2020 Consolidated Statement of Income. The Company uses this non-GAAP financial measure internally and believes this information provides useful supplemental information to investors to facilitate making period-to-period comparisons by excluding the effects of these two charges.

The Company uses these non-GAAP financial measures internally and believes this information provides useful supplemental information to investors regarding the Company's financial performance as compared to prior periods. While the Company believes that these non-GAAP financial measures are useful in evaluating the Company's business, this information should be considered as supplemental in nature and is not meant to be considered in isolation from, or as a substitute for, the related financial information prepared in accordance with GAAP. In addition, these non-GAAP financial measures may not be the same as similar measures presented by other companies.