

Reconciliation of Non-GAAP Financial Measures

Information presented by Alan H. Shaw, Claude E. Elkins, and Mark R. George during NS' fourth quarter earnings conference call on January 26, 2022 (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 loss on asset disposal and impairment of investment¹

(\$ in millions except per share amounts)

	Year Ended December 31		
	2020 (GAAP)	Loss on asset disposal and impairment of investment	2020 excluding impact of charges (Non-GAAP ¹)
Railway operating expenses			
Compensation and benefits	\$ 2,373	\$ -	\$ 2,373
Purchased services and rents	1,687	(99)	1,588 ¹
Fuel	535	-	535
Depreciation	1,154	-	1,154
Materials and other	653	-	653
Loss on asset disposal	385	(385)	- ¹
Total railway operating expenses	\$ 6,787	\$ (484)	\$ 6,303¹
Income from railway operations	\$ 3,002	\$ 484	\$ 3,486¹
Income before income taxes	\$ 2,530	\$ 484	\$ 3,014 ¹
Income taxes	517	122	639 ¹
Net income	\$ 2,013	\$ 362	\$ 2,375¹
Earnings per share - diluted	\$ 7.84	\$ 1.41	\$ 9.25¹
Railway operating ratio (%)	69.3	(4.9)	64.4 ¹

Revenue Per Unit

Fourth Quarter	2021	2020	Change	% Change
Total revenue per unit	\$ 1,660	\$ 1,445	\$ 215	15%
Less: Fuel surcharge revenue per unit	118	42	76	181%
Revenue per unit less fuel surcharge revenue ²	\$ 1,542	\$ 1,403	\$ 139	10%
Merchandise revenue per unit	\$ 3,010	\$ 2,845	\$ 165	6%
Less: Fuel surcharge revenue per unit	110	14	96	686%
Merchandise revenue per unit less fuel surcharge revenue ²	\$ 2,900	\$ 2,831	\$ 69	2%
Intermodal revenue per unit	\$ 826	\$ 674	\$ 152	23%
Less: Fuel surcharge revenue per unit	137	62	75	121%
Intermodal revenue per unit less fuel surcharge revenue ²	\$ 689	\$ 612	\$ 77	13%
Coal revenue per unit	\$ 2,218	\$ 1,917	\$ 301	16%
Less: Fuel surcharge revenue per unit	22	-	22	
Coal revenue per unit less fuel surcharge revenue ²	\$ 2,196	\$ 1,917	\$ 279	15%
Years Ended December 31	2021	2020	Change	% Change
Total revenue per unit	\$ 1,584	\$ 1,465	\$ 119	8%
Less: Fuel surcharge revenue per unit	88	53	35	66%
Revenue per unit less fuel surcharge revenue ²	\$ 1,496	\$ 1,412	\$ 84	6%

Free Cash Flow

(\$ in millions)

Years Ended December 31	2021	2020
Net cash provided by operating activities	\$ 4,255	\$ 3,637
Property additions	<u>(1,470)</u>	<u>(1,494)</u>
Free cash flow ³	2,785	2,143
Property sales and other transactions	159	333
Investment purchases	(10)	(13)
Investment sales and other transactions	99	(1)
Net cash used in financing activities	<u>(3,309)</u>	<u>(1,927)</u>
Net increase (decrease) in cash and cash equivalents	\$ <u>(276)</u>	\$ <u>535</u>

Free Cash Flow Conversion

(\$ in millions)

Year Ended December 31	2021
Net cash provided by operating activities	\$ 4,255
Property additions	<u>(1,470)</u>
Free cash flow ³	\$ <u>2,785</u>
Net income	\$ <u>3,005</u>
Ratio of free cash flow to net income ⁴	93%

¹ 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 income tax effects of the non-GAAP adjustments were calculated based on the applicable tax rates to which these non-GAAP adjustments relate.

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.

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.