

Reconciliation of Non-GAAP Financial Measures

Information presented by Alan H. Shaw, Mark R. George, and James A. Squires during NS' second quarter earnings conference call on July 28, 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).

Revenue Per Unit

Second Quarter	2021	2020	Change	% Change
Total revenue per unit	\$ 1,542	\$ 1,440	\$ 102	7%
Less: Fuel surcharge revenue per unit	82	47	35	74%
Revenue per unit less fuel surcharge revenue ¹	<u>\$ 1,460</u>	<u>\$ 1,393</u>	<u>\$ 67</u>	5%
Merchandise revenue per unit	\$ 2,896	\$ 2,897	\$ (1)	0%
Less: Fuel surcharge revenue per unit	55	28	27	96%
Merchandise revenue per unit less fuel surcharge revenue ¹	<u>\$ 2,841</u>	<u>\$ 2,869</u>	<u>\$ (28)</u>	-1%
Intermodal revenue per unit	\$ 754	\$ 644	\$ 110	17%
Less: Fuel surcharge revenue per unit	108	63	45	71%
Intermodal revenue per unit less fuel surcharge revenue ¹	<u>\$ 646</u>	<u>\$ 581</u>	<u>\$ 65</u>	11%
Coal revenue per unit	\$ 1,837	\$ 1,864	\$ (27)	-1%
Less: Fuel surcharge revenue per unit	7	7	-	0%
Coal revenue per unit less fuel surcharge revenue ¹	<u>\$ 1,830</u>	<u>\$ 1,857</u>	<u>\$ (27)</u>	-1%

Free Cash Flow

(\$ in millions)

Six Months Ended June 30	2021	2020
Net cash provided by operating activities	\$ 2,097	\$ 1,758
Property additions	<u>(627)</u>	<u>(735)</u>
Free cash flow ²	1,470	1,023
Property sales and other transactions	66	258
Investment purchases	(5)	(5)
Investment sales and other transactions	37	(58)
Net cash used in financing activities	<u>(1,013)</u>	<u>(655)</u>
Net increase in cash and cash equivalents	<u>\$ 555</u>	<u>\$ 563</u>

Railway operating ratio - excluding loss on asset disposal and impairment of investment³

	Year Ended December 31		
	2020 (GAAP)	Loss on asset disposal and impairment of investment	2020 excluding impact of charges (Non-GAAP ³)
Railway operating ratio (%)	69.3	(4.9)	64.4 ³

¹ 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.

² 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.

³ 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.