

Reconciliation of Non-GAAP Financial Measures

Information presented by Mark R. George and Claude E. Elkins during NS' fourth quarter earnings conference call on January 26, 2024 (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 Eastern Ohio incident¹

(\$ in millions, except per share amounts)

	Fourth Quarter		
	2023 (GAAP)	Eastern Ohio incident	2023 excluding impact of incident (Non-GAAP ¹)
Railway operating expenses			
Compensation and benefits	\$ 721	\$ -	\$ 721
Purchased services and rents	551	-	551
Fuel	303	-	303
Depreciation	330	-	330
Materials and other	210	-	210
Eastern Ohio incident	150	(150)	-
Total railway operating expenses	<u>\$ 2,265</u>	<u>\$ (150)</u>	<u>\$ 2,115</u>
Income from railway operations	<u>\$ 808</u>	<u>\$ 150</u>	<u>\$ 958</u>
Income before income taxes	<u>\$ 651</u>	<u>\$ 150</u>	<u>\$ 801</u>
Income taxes	<u>124</u>	<u>37</u>	<u>161</u>
Net income	<u>\$ 527</u>	<u>\$ 113</u>	<u>\$ 640</u>
Earnings per share - diluted	<u>\$ 2.32</u>	<u>\$ 0.51</u>	<u>\$ 2.83</u>
Railway operating ratio (%)	73.7	(4.9)	68.8
	Year ended December 31,		
	2023 (GAAP)	Eastern Ohio incident	2023 excluding impact of incident (Non-GAAP ¹)
Railway operating expenses			
Compensation and benefits	\$ 2,819	\$ -	\$ 2,819
Purchased services and rents	2,070	-	2,070
Fuel	1,170	-	1,170
Depreciation	1,298	-	1,298
Materials and other	832	-	832
Eastern Ohio incident	1,116	(1,116)	-
Total railway operating expenses	<u>\$ 9,305</u>	<u>\$ (1,116)</u>	<u>\$ 8,189</u>
Income from railway operations	<u>\$ 2,851</u>	<u>\$ 1,116</u>	<u>\$ 3,967</u>
Income before income taxes	<u>\$ 2,320</u>	<u>\$ 1,116</u>	<u>\$ 3,436</u>
Income taxes	<u>493</u>	<u>270</u>	<u>763</u>
Net income	<u>\$ 1,827</u>	<u>\$ 846</u>	<u>\$ 2,673</u>
Earnings per share - diluted	<u>\$ 8.02</u>	<u>\$ 3.72</u>	<u>\$ 11.74</u>
Railway operating ratio (%)	76.5	(9.1)	67.4

Free Cash Flow

(\$ in millions)

Years Ended December 31	2023	2022
Net cash provided by operating activities	\$ 3,179	\$ 4,222
Property additions	<u>(2,349)</u>	<u>(1,948)</u>
Free cash flow ²	830	2,274
Property sales and other transactions	86	263
Investment purchases	(124)	(12)
Investment sales and other transactions	205	94
Net cash provided by (used in) financing activities	<u>115</u>	<u>(3,002)</u>
Net increase (decrease) in cash and cash equivalents	\$ <u>1,112</u>	\$ <u>(383)</u>

Revenue Per Unit

Fourth Quarter	2023	2022	Change	% Change
Total revenue per unit	\$ 1,763	\$ 1,910	\$ (147)	-8%
Less: Fuel surcharge revenue per unit	<u>180</u>	<u>240</u>	<u>(60)</u>	-25%
Revenue per unit less fuel surcharge revenue ³	\$ <u>1,583</u>	\$ <u>1,670</u>	\$ <u>(87)</u>	-5%
Merchandise revenue per unit	\$ 3,316	3,363	\$ (47)	-1%
Less: Fuel surcharge revenue per unit	<u>221</u>	<u>286</u>	<u>(65)</u>	-23%
Merchandise revenue per unit less fuel surcharge revenue ³	\$ <u>3,095</u>	<u>3,077</u>	<u>18</u>	1%
Intermodal revenue per unit	\$ 782	944	\$ (162)	-17%
Less: Fuel surcharge revenue per unit	<u>172</u>	<u>230</u>	<u>(58)</u>	-25%
Intermodal revenue per unit less fuel surcharge revenue ³	\$ <u>610</u>	<u>714</u>	\$ <u>(104)</u>	-15%
Coal revenue per unit	\$ 2,515	2,636	\$ (121)	-5%
Less: Fuel surcharge revenue per unit	<u>91</u>	<u>148</u>	<u>(57)</u>	-39%
Coal revenue per unit less fuel surcharge revenue ³	\$ <u>2,424</u>	<u>2,488</u>	\$ <u>(64)</u>	-3%
Total revenue per unit	\$ 1,763	\$ 1,910	\$ (147)	-8%
Less: Fuel surcharge and intermodal storage & fees revenue per unit	<u>200</u>	<u>316</u>	<u>(116)</u>	-37%
Revenue per unit less fuel surcharge revenue and intermodal storage & fees revenue ⁴	\$ <u>1,563</u>	\$ <u>1,594</u>	\$ <u>(31)</u>	-2%
Intermodal revenue per unit	\$ 782	944	\$ (162)	-17%
Less: Fuel surcharge and intermodal storage & fees revenue per unit	<u>206</u>	<u>361</u>	<u>(155)</u>	-43%
Intermodal revenue per unit less fuel surcharge revenue and intermodal storage & fees revenue ⁴	\$ <u>576</u>	<u>583</u>	\$ <u>(7)</u>	-1%
Years Ended December 31	2023	2022	Change	% Change
Total revenue per unit	\$ 1,802	\$ 1,865	\$ (63)	-3%
Less: Fuel surcharge revenue per unit	<u>181</u>	<u>230</u>	<u>(49)</u>	-21%
Revenue per unit less fuel surcharge revenue ³	\$ <u>1,621</u>	\$ <u>1,635</u>	\$ <u>(14)</u>	-1%
Total revenue per unit	\$ 1,802	\$ 1,865	\$ (63)	-3%
Less: Fuel surcharge and intermodal storage & fees revenue per unit	<u>210</u>	<u>302</u>	<u>(92)</u>	-30%
Revenue per unit less fuel surcharge revenue and intermodal storage & fees revenue ⁴	\$ <u>1,592</u>	\$ <u>1,563</u>	\$ <u>29</u>	2%

¹ GAAP financial results are adjusted to exclude \$150 million of expenses recognized in the fourth quarter and \$1.1 billion of expenses recognized for the year ended December 31, 2023 related to the effects of the February 3, 2023 derailment in Eastern Ohio (the Incident). The income tax effects of this non-GAAP adjustment were calculated based on the applicable tax rates to which the non-GAAP adjustment related. Management believes these non-GAAP financial measures provide valuable information regarding earnings and business trends of the Company. We use these non-GAAP financial measures internally and believe this information provides useful supplemental information to investors to facilitate making period-to-period comparisons and assessing trends in our performance by excluding the effects of the Incident.

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 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.

⁴ Revenue per unit as used here is to reflect average revenue per unit absent the effect of fuel surcharges and intermodal storage and fees. 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 the impact of intermodal storage and equipment usage charges, which can fluctuate based on customer behavior and supply chain fluidity, and is useful for period-over-period comparisons of these trends.

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.