

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended **JUNE 30, 2021**

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_



**NORFOLK SOUTHERN CORPORATION**  
(Exact name of registrant as specified in its charter)

**Virginia**  
(State or other jurisdiction of incorporation or organization)

**52-1188014**  
(I.R.S. Employer Identification No.)

**Three Commercial Place**  
**Norfolk, Virginia**  
(Address of principal executive offices)

**23510-2191**  
(Zip Code)

**(757) 629-2680**  
(Registrant's telephone number, including area code)

**No Change**  
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
<b>Norfolk Southern Corporation Common Stock (Par Value \$1.00)</b>	<b>NSC</b>	<b>New York Stock Exchange</b>

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (\$232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Outstanding at June 30, 2021</u>
Common Stock (\$1.00 par value per share)	246,972,217 (excluding 20,320,777 shares held by the registrant's consolidated subsidiaries)

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**Norfolk Southern Corporation and Subsidiaries  
Consolidated Statements of Income  
(Unaudited)**

	Second Quarter		First Six Months	
	2021	2020	2021	2020
	<i>(\$ in millions, except per share amounts)</i>			
<b>Railway operating revenues</b>	\$ 2,799	\$ 2,085	\$ 5,438	\$ 4,710
<b>Railway operating expenses</b>				
Compensation and benefits	624	586	1,235	1,208
Purchased services and rents	429	372	822	775
Fuel	188	84	365	273
Depreciation	294	282	586	574
Materials and other	97	151	248	317
Loss on asset disposal	—	—	—	385
<b>Total railway operating expenses</b>	<b>1,632</b>	<b>1,475</b>	<b>3,256</b>	<b>3,532</b>
<b>Income from railway operations</b>	<b>1,167</b>	<b>610</b>	<b>2,182</b>	<b>1,178</b>
Other income – net	35	49	42	71
Interest expense on debt	161	156	317	310
Income before income taxes	1,041	503	1,907	939
Income taxes	222	111	415	166
<b>Net income</b>	<b>\$ 819</b>	<b>\$ 392</b>	<b>\$ 1,492</b>	<b>\$ 773</b>
<b>Earnings per share</b>				
Basic	\$ 3.29	\$ 1.53	\$ 5.96	\$ 3.01
Diluted	3.28	1.53	5.94	3.00

*See accompanying notes to consolidated financial statements.*

**Norfolk Southern Corporation and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**  
(Unaudited)

	Second Quarter		First Six Months	
	2021	2020	2021	2020
	(\$ in millions)			
<b>Net income</b>	\$ 819	\$ 392	\$ 1,492	\$ 773
Other comprehensive income, before tax:				
Pension and other postretirement benefits	10	6	21	13
Other comprehensive income of equity investees	—	1	—	6
	10	7	21	19
Other comprehensive income, before tax				
Income tax expense related to items of other comprehensive income	(2)	(1)	(5)	(3)
	8	6	16	16
Other comprehensive income, net of tax				
	8	6	16	16
<b>Total comprehensive income</b>	\$ 827	\$ 398	\$ 1,508	\$ 789

See accompanying notes to consolidated financial statements.

**Norfolk Southern Corporation and Subsidiaries**  
**Consolidated Balance Sheets**  
**(Unaudited)**

	<b>June 30, 2021</b>	<b>December 31, 2020</b>
<i>(\$ in millions)</i>		
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,670	\$ 1,115
Accounts receivable – net	941	848
Materials and supplies	246	221
Other current assets	155	134
Total current assets	3,012	2,318
Investments	3,658	3,590
Properties less accumulated depreciation of \$11,777 and \$11,985, respectively	31,355	31,345
Other assets	729	709
<b>Total assets</b>	<b>\$ 38,754</b>	<b>\$ 37,962</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 1,116	\$ 1,016
Income and other taxes	302	263
Other current liabilities	330	302
Current maturities of long-term debt	1,048	579
Total current liabilities	2,796	2,160
Long-term debt	12,669	12,102
Other liabilities	1,937	1,987
Deferred income taxes	7,035	6,922
<b>Total liabilities</b>	24,437	23,171
Stockholders' equity:		
Common stock \$1.00 per share par value, 1,350,000,000 shares authorized; outstanding 246,972,217 and 252,095,082 shares, respectively, net of treasury shares	248	254
Additional paid-in capital	2,240	2,248
Accumulated other comprehensive loss	(578)	(594)
Retained income	12,407	12,883
<b>Total stockholders' equity</b>	14,317	14,791
<b>Total liabilities and stockholders' equity</b>	<b>\$ 38,754</b>	<b>\$ 37,962</b>

See accompanying notes to consolidated financial statements.

**Norfolk Southern Corporation and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
(Unaudited)

	<b>First Six Months</b>	
	<b>2021</b>	<b>2020</b>
	<i>(\$ in millions)</i>	
<b>Cash flows from operating activities</b>		
Net income	\$ 1,492	\$ 773
Reconciliation of net income to net cash provided by operating activities:		
Depreciation	586	574
Deferred income taxes	107	56
Gains and losses on properties	(75)	(11)
Loss on asset disposal	—	385
Changes in assets and liabilities affecting operations:		
Accounts receivable	(96)	98
Materials and supplies	(25)	(13)
Other current assets	30	30
Current liabilities other than debt	170	—
Other – net	(92)	(134)
	2,097	1,758
<b>Cash flows from investing activities</b>		
Property additions	(627)	(735)
Property sales and other transactions	66	258
Investment purchases	(5)	(5)
Investment sales and other transactions	37	(58)
	(529)	(540)
<b>Cash flows from financing activities</b>		
Dividends	(496)	(482)
Common stock transactions	6	26
Purchase and retirement of common stock	(1,525)	(669)
Proceeds from borrowings	1,087	784
Debt repayments	(85)	(314)
	(1,013)	(655)
Net increase in cash and cash equivalents	555	563
<b>Cash and cash equivalents</b>		
At beginning of year	1,115	580
At end of period	\$ 1,670	\$ 1,143
<b>Supplemental disclosures of cash flow information</b>		
Cash paid during the period for:		
Interest (net of amounts capitalized)	\$ 281	\$ 287
Income taxes (net of refunds)	249	1

See accompanying notes to consolidated financial statements.

**Norfolk Southern Corporation and Subsidiaries**  
**Consolidated Statements of Changes in Stockholders' Equity**  
**(Unaudited)**

	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Accum. Other Comprehensive Loss</b>	<b>Retained Income</b>	<b>Total</b>
<i>(\$ in millions, except per share amounts)</i>					
Balance at December 31, 2020	\$ 254	\$ 2,248	\$ (594)	\$ 12,883	\$ 14,791
Comprehensive income:					
Net income				673	673
Other comprehensive income			8		8
Total comprehensive income					681
Dividends on common stock, \$0.99 per share				(249)	(249)
Share repurchases	(3)	(19)		(569)	(591)
Stock-based compensation		12		(1)	11
Balance at March 31, 2021	251	2,241	(586)	12,737	14,643
Comprehensive income:					
Net income				819	819
Other comprehensive income			8		8
Total comprehensive income					827
Dividends on common stock, \$0.99 per share				(247)	(247)
Share repurchases	(3)	(28)		(903)	(934)
Stock-based compensation		27		1	28
Balance at June 30, 2021	<u>\$ 248</u>	<u>\$ 2,240</u>	<u>\$ (578)</u>	<u>\$ 12,407</u>	<u>\$ 14,317</u>

See accompanying notes to consolidated financial statements.

**Norfolk Southern Corporation and Subsidiaries**  
**Consolidated Statements of Changes in Stockholders' Equity**  
**(Unaudited)**

	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Accum. Other Comprehensive Loss</b>	<b>Retained Income</b>	<b>Total</b>
<i>(\$ in millions, except per share amounts)</i>					
Balance at December 31, 2019	\$ 259	\$ 2,209	\$ (491)	\$ 13,207	\$ 15,184
Comprehensive income:					
Net income				381	381
Other comprehensive income			10		10
Total comprehensive income					391
Dividends on common stock, \$0.94 per share				(242)	(242)
Share repurchases	(2)	(21)		(443)	(466)
Stock-based compensation	1	17		(1)	17
Balance at March 31, 2020	258	2,205	(481)	12,902	14,884
Comprehensive income:					
Net income				392	392
Other comprehensive income			6		6
Total comprehensive income					398
Dividends on common stock, \$0.94 per share				(240)	(240)
Share repurchases	(2)	(10)		(191)	(203)
Stock-based compensation		22			22
Balance at June 30, 2020	<u>\$ 256</u>	<u>\$ 2,217</u>	<u>\$ (475)</u>	<u>\$ 12,863</u>	<u>\$ 14,861</u>

See accompanying notes to consolidated financial statements.



**Norfolk Southern Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

In the opinion of management, the accompanying unaudited interim consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly Norfolk Southern Corporation (Norfolk Southern) and subsidiaries' (collectively, NS, we, us, and our) financial position at June 30, 2021, and December 31, 2020, our results of operations, comprehensive income and changes in stockholders' equity for the second quarters and first six months of 2021 and 2020, and our cash flows for the first six months of 2021 and 2020 in conformity with U.S. generally accepted accounting principles (GAAP).

These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in our latest Annual Report on Form 10-K.

**1. Railway Operating Revenues**

The following table disaggregates our revenues by major commodity group:

	Second Quarter		First Six Months	
	2021	2020	2021	2020
	<i>(\$ in millions)</i>			
Merchandise:				
Agriculture, forest and consumer products	\$ 578	\$ 498	\$ 1,117	\$ 1,049
Chemicals	494	423	953	943
Metals and construction	402	293	772	660
Automotive	206	93	446	327
Merchandise	1,680	1,307	3,288	2,979
Intermodal	801	569	1,520	1,224
Coal	318	209	630	507
Total	\$ 2,799	\$ 2,085	\$ 5,438	\$ 4,710

We recognize the amount of revenues to which we expect to be entitled for the transfer of promised goods or services to customers. A performance obligation is created when a customer under a transportation contract or public tariff submits a bill of lading to us for the transport of goods. These performance obligations are satisfied as the shipments move from origin to destination. As such, transportation revenues are recognized proportionally as a shipment moves, and related expenses are recognized as incurred. These performance obligations are generally short-term in nature with transit days averaging approximately one week or less for each commodity group. The customer has an unconditional obligation to pay for the service once the service has been completed. Estimated revenues associated with in-process shipments at period-end are recorded based on the estimated percentage of service completed. We had no material remaining performance obligations at June 30, 2021 and December 31, 2020.

We may provide customers ancillary services, such as switching, demurrage and other incidental activities, under their transportation contracts. These are distinct performance obligations that are recognized at a point in time when the services are performed or as contractual obligations are met. These revenues are included within each of the commodity groups and represent approximately 6% of total "Railway operating revenues" on the Consolidated Statements of Income for the second quarter and first six months of 2021 and 5% for the second quarter and first six months of 2020.

Revenues related to interline transportation services that involve another railroad are reported on a net basis. Therefore, the portion of the amount that relates to another party is not reflected in revenues.

Under the typical terms of our freight contracts, payment for services is due within fifteen days of billing the customer, thus there are no significant financing components. “Accounts receivable – net” on the Consolidated Balance Sheets includes both customer and non-customer receivables as follows:

	<b>June 30, 2021</b>	<b>December 31, 2020</b>
	<i>(\$ in millions)</i>	
Customer	\$ 736	\$ 629
Non-customer	205	219
Accounts receivable – net	<u>\$ 941</u>	<u>\$ 848</u>

Non-customer receivables include non-revenue-related amounts due from other railroads, governmental entities, and others. “Other assets” on the Consolidated Balance Sheets includes non-current customer receivables of \$23 million at both June 30, 2021 and December 31, 2020. We do not have any material contract assets or liabilities at June 30, 2021 and December 31, 2020.

## 2. Stock-Based Compensation

	<b>Second Quarter</b>		<b>First Six Months</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<i>(\$ in millions)</i>			
Stock-based compensation expense	\$ 16	\$ 10	\$ 32	\$ 12
Total tax benefit	8	3	25	29

During 2021, we granted stock options, restricted stock units (RSUs) and performance share units (PSUs) pursuant to the Long-Term Incentive Plan (LTIP), as follows:

	<b>Second Quarter</b>		<b>First Six Months</b>	
	<b>Granted</b>	<b>Weighted-Average Grant-Date Fair Value</b>	<b>Granted</b>	<b>Weighted-Average Grant-Date Fair Value</b>
Stock options	—	\$ —	42,770	\$ 62.49
RSUs	2,740	283.60	176,855	238.74
PSUs	120	274.17	50,060	240.69

## Stock Options

	Second Quarter		First Six Months	
	2021	2020	2021	2020
	(\$ in millions)			
Options exercised	128,934	162,400	341,480	685,638
Cash received upon exercise	\$ 12	\$ 12	\$ 31	\$ 55
Related tax benefit realized	5	3	12	16

## Restricted Stock Units

RSUs granted primarily have a four-year ratable restriction period and will be settled through the issuance of shares of Norfolk Southern common stock (Common Stock). Certain RSU grants include cash dividend equivalent payments during the restriction period in an amount equal to the regular quarterly dividends paid on Common Stock.

	Second Quarter		First Six Months	
	2021	2020	2021	2020
	(\$ in millions)			
RSUs vested	1,730	—	259,127	202,299
Common Stock issued net of tax withholding	1,222	—	183,511	143,712
Related tax benefit realized	\$ —	\$ —	\$ 7	\$ 4

## Performance Share Units

PSUs provide for awards based on the achievement of certain predetermined corporate performance goals at the end of a three-year cycle and are settled through the issuance of shares of Common Stock. All PSUs will earn out based on the achievement of performance conditions and some will also earn out based on a market condition. The market condition fair value was measured on the date of grant using a Monte Carlo simulation model. No PSUs were earned or paid out during the second quarters of 2021 or 2020.

	First Six Months	
	2021	2020
	(\$ in millions)	
PSUs earned	78,727	235,935
Common Stock issued net of tax withholding	49,967	156,450
Related tax benefit realized	\$ 1	\$ 7

## 3. Loss on Asset Disposal

In 2020, we sold 703 locomotives deemed excess and no longer needed for railroad operations. We evaluated these locomotive retirements and concluded they were abnormal. Accordingly, we recorded a \$385 million loss to adjust their carrying amount to their estimated fair value, which resulted in a \$97 million tax benefit.

#### 4. Earnings Per Share

The following table sets forth the calculation of basic and diluted earnings per share:

	Basic		Diluted	
	2021	2020	2021	2020
	<b>Second Quarter</b>			
	(\$ in millions, except per share amounts, shares in millions)			
Net income	\$ 819	\$ 392	\$ 819	\$ 392
Dividend equivalent payments	—	—	—	—
Income available to common stockholders	\$ 819	\$ 392	\$ 819	\$ 392
Weighted-average shares outstanding	248.9	255.4	248.9	255.4
Dilutive effect of outstanding options and share-settled awards			1.1	1.3
Adjusted weighted-average shares outstanding			250.0	256.7
Earnings per share	\$ 3.29	\$ 1.53	\$ 3.28	\$ 1.53

  

	Basic		Diluted	
	2021	2020	2021	2020
	<b>First Six Months</b>			
	(\$ in millions, except per share amounts, shares in millions)			
Net income	\$ 1,492	\$ 773	\$ 1,492	\$ 773
Dividend equivalent payments	(1)	(1)	—	(1)
Income available to common stockholders	\$ 1,491	\$ 772	\$ 1,492	\$ 772
Weighted-average shares outstanding	250.1	256.3	250.1	256.3
Dilutive effect of outstanding options and share-settled awards			1.2	1.4
Adjusted weighted-average shares outstanding			251.3	257.7
Earnings per share	\$ 5.96	\$ 3.01	\$ 5.94	\$ 3.00

During the second quarters and first six months of 2021 and 2020, dividend equivalent payments were made to holders of stock options and RSUs. For purposes of computing basic earnings per share, dividend equivalent payments made to holders of stock options and RSUs were deducted from net income to determine income available to common stockholders. For purposes of computing diluted earnings per share, we evaluate on a grant-by-grant basis those stock options and RSUs receiving dividend equivalent payments under the two-class and treasury stock methods to determine which method is more dilutive for each grant. For those grants for which the two-class method was more dilutive, net income was reduced by dividend equivalent payments to determine income available to common stockholders. There are no options excluded from the dilution calculations due to exercise prices exceeding the average market price of Common Stock for the second quarters and first six months ended June 30, 2021 and 2020.

## 5. Accumulated Other Comprehensive Loss

The changes in the cumulative balances of “Accumulated other comprehensive loss” reported in the Consolidated Balance Sheets consisted of the following:

	<b>Balance at Beginning of Year</b>	<b>Net Income</b>	<b>Reclassification Adjustments</b>	<b>Balance at End of Period</b>
	<i>(\$ in millions)</i>			
<b>Six months ended June 30, 2021</b>				
Pensions and other postretirement liabilities	\$ (526)	\$ —	\$ 16	\$ (510)
Other comprehensive income (loss) of equity investees	(68)	—	—	(68)
Accumulated other comprehensive loss	<u>\$ (594)</u>	<u>\$ —</u>	<u>\$ 16</u>	<u>\$ (578)</u>
<b>Six months ended June 30, 2020</b>				
Pensions and other postretirement liabilities	\$ (421)	\$ —	\$ 10	\$ (411)
Other comprehensive income (loss) of equity investees	(70)	6	—	(64)
Accumulated other comprehensive loss	<u>\$ (491)</u>	<u>\$ 6</u>	<u>\$ 10</u>	<u>\$ (475)</u>

## 6. Stock Repurchase Program

We repurchased and retired 5.7 million and 3.9 million shares of Common Stock under our stock repurchase program during the first six months of 2021 and 2020, respectively, at a cost of \$1.5 billion and \$669 million, respectively.

## 7. Investments

### Investment in Conrail

Through a limited liability company, we and CSX Corporation (CSX) jointly own Conrail Inc. (Conrail), whose primary subsidiary is Consolidated Rail Corporation (CRC). We have a 58% economic and 50% voting interest in the jointly-owned entity, and CSX has the remainder of the economic and voting interests. Our investment in Conrail was \$1.5 billion and \$1.4 billion at June 30, 2021 and December 31, 2020, respectively.

CRC owns and operates certain properties (the Shared Assets Areas) for the joint and exclusive benefit of Norfolk Southern Railway Company (NSR) and CSX Transportation, Inc. (CSXT). The costs of operating the Shared Assets Areas are borne by NSR and CSXT based on usage. In addition, NSR and CSXT pay CRC a fee for access to the Shared Assets Areas. “Purchased services and rents” and “Fuel” include expenses payable to CRC for operation of the Shared Assets Areas totaling \$37 million and \$30 million for the second quarters of 2021 and 2020, respectively, and \$71 million and \$65 million for the first six months of 2021 and 2020, respectively. Our equity in Conrail’s earnings, net of amortization, was \$14 million and \$13 million for the second quarters of 2021 and 2020, respectively, and \$28 million and \$22 million for the first six months of 2021 and 2020, respectively. These amounts offset the costs of operating the Shared Assets Areas and are included in “Purchased services and rents.”

“Other liabilities” includes \$534 million at both June 30, 2021, and December 31, 2020 for long-term advances from Conrail, maturing in 2050 that bear interest at an average rate of 1.31%.

## Investment in TTX

We and eight other North American railroads collectively own TTX Company (TTX), a railcar pooling company that provides its owner-railroads with standardized fleets of intermodal, automotive, and general use railcars at stated rates. We have a 19.65% ownership interest in TTX.

Expenses incurred for use of TTX equipment are included in "Purchased services and rents." This amounted to \$61 million and \$58 million for the second quarters of 2021 and 2020, respectively, and \$124 million and \$118 million for the first six months of 2021 and 2020, respectively. Our equity in TTX's earnings offsets these costs and totaled \$14 million and \$10 million for the second quarters of 2021 and 2020, respectively, and \$31 million and \$14 million for the first six months of 2021 and 2020, respectively.

## 8. Debt

In May 2021, we issued \$500 million of 2.30% senior notes due 2031 and \$600 million of 4.10% senior notes due 2121.

In May 2021, we renewed, amended and restated our accounts receivable securitization program with a maximum borrowing capacity of \$400 million and a term that expires in May 2022. We had no amounts outstanding under this program and our available borrowing capacity was \$400 million at both June 30, 2021 and December 31, 2020.

## 9. Pensions and Other Postretirement Benefits

We have both funded and unfunded defined benefit pension plans covering eligible employees. We also provide specified health care benefits to eligible retired employees; these plans can be amended or terminated at our option. Under our self-insured retiree health care plan, for those participants who are not Medicare-eligible, certain health care expenses are covered for retired employees and their dependents, reduced by any deductibles, coinsurance, and, in some cases, coverage provided under other group insurance policies. Eligible retired participants and their spouses who are Medicare-eligible are not covered under the self-insured retiree health care plan, but instead are provided with an employer-funded health reimbursement account which can be used for reimbursement of health insurance premiums or eligible out-of-pocket medical expenses.

Pension and postretirement benefit cost components for the second quarter and first six months were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2021	2020	2021	2020
	Second Quarter			
	(\$ in millions)			
Service cost	\$ 11	\$ 10	\$ 1	\$ 2
Interest cost	14	18	2	3
Expected return on plan assets	(48)	(47)	(3)	(3)
Amortization of net losses	16	13	1	—
Amortization of prior service benefit	—	—	(7)	(7)
Net benefit	<u>\$ (7)</u>	<u>\$ (6)</u>	<u>\$ (6)</u>	<u>\$ (5)</u>

	Pension Benefits		Other Postretirement Benefits	
	2021	First Six Months		2020
		2020	2021	
(\$ in millions)				
Service cost	\$ 22	\$ 20	\$ 3	\$ 3
Interest cost	27	37	4	6
Expected return on plan assets	(96)	(95)	(6)	(6)
Amortization of net losses	33	26	1	—
Amortization of prior service benefit	—	—	(13)	(13)
Net benefit	<u>\$ (14)</u>	<u>\$ (12)</u>	<u>\$ (11)</u>	<u>\$ (10)</u>

The service cost component of defined benefit pension cost and postretirement benefit cost are reported within “Compensation and benefits” and all other components of net benefit cost are presented in “Other income – net” on the Consolidated Statements of Income.

## 10. Fair Values of Financial Instruments

The fair values of “Cash and cash equivalents,” “Accounts receivable – net,” and “Accounts payable,” approximate carrying values because of the short maturity of these financial instruments. The carrying value of corporate-owned life insurance is recorded at cash surrender value and, accordingly, approximates fair value. There are no other assets or liabilities measured at fair value on a recurring basis at June 30, 2021 or December 31, 2020. The carrying amounts and estimated fair values, based on Level 1 inputs, of long-term debt consist of the following:

	June 30, 2021		December 31, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(\$ in millions)				
Long-term debt, including current maturities	\$ (13,717)	\$ (16,924)	\$ (12,681)	\$ (16,664)

## 11. Commitments and Contingencies

### Lawsuits

We and/or certain subsidiaries are defendants in numerous lawsuits and other claims relating principally to railroad operations. When we conclude that it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, it is accrued through a charge to earnings and, if material, disclosed below. While the ultimate amount of liability incurred in any of these lawsuits and claims is dependent on future developments, in our opinion, the recorded liability is adequate to cover the future payment of such liability and claims. However, the final outcome of any of these lawsuits and claims cannot be predicted with certainty, and unfavorable or unexpected outcomes could result in additional accruals that could be significant to results of operations in a particular year or quarter. Any adjustments to the recorded liability will be reflected in earnings in the periods in which such adjustments become known. For lawsuits and other claims where a loss may be reasonably possible, but not probable, or is probable but not reasonably estimable, no accrual is established but the matter, if potentially material, is disclosed below. We routinely review relevant information with respect to our lawsuits and other claims and update our accruals, disclosures and estimates of reasonably possible losses based on such reviews.

In 2007, various antitrust class actions filed against us and other Class I railroads in various Federal district courts regarding fuel surcharges were consolidated in the District of Columbia by the Judicial Panel on Multidistrict Litigation. In 2012, the court certified the case as a class action. The defendant railroads appealed this certification, and the Court of Appeals for the District of Columbia vacated the District Court's decision and remanded the case for further consideration. On October 10, 2017, the District Court denied class certification. The decision was upheld by the Court of Appeals on August 16, 2019. Since that decision, various individual cases have been filed in multiple jurisdictions and also consolidated in the District of Columbia. We believe the allegations in the complaints are without merit and intend to vigorously defend the cases. We do not believe the outcome of these proceedings will have a material effect on our financial position, results of operations, or liquidity.

In 2018, a lawsuit was filed against one of our subsidiaries by the minority owner in a jointly-owned terminal railroad company in which our subsidiary has the majority ownership. The lawsuit alleged violations of various state laws and federal antitrust laws. It is reasonably possible that we could incur a loss in the case; however, we intend to vigorously defend the case and believe that we will prevail. The potential range of loss cannot be estimated at this time.

## **Casualty Claims**

Casualty claims include employee personal injury and occupational claims as well as third-party claims, all exclusive of legal costs. To aid in valuing our personal injury liability and determining the amount to accrue with respect to such claims during the year, we utilize studies prepared by an independent consulting actuarial firm. Job-related personal injury and occupational claims are subject to the Federal Employer's Liability Act (FELA), which is applicable only to railroads. FELA's fault-based tort system produces results that are unpredictable and inconsistent as compared with a no-fault workers' compensation system. The variability inherent in this system could result in actual costs being different from the liability recorded. While the ultimate amount of claims incurred is dependent on future developments, in our opinion, the recorded liability is adequate to cover the future payments of claims and is supported by the most recent actuarial study. In all cases, we record a liability when the expected loss for the claim is both probable and reasonably estimable.

**Employee personal injury claims** – The largest component of claims expense is employee personal injury costs. The independent actuarial firm we engage provides quarterly studies to aid in valuing our employee personal injury liability and estimating personal injury expense. The actuarial firm studies our historical patterns of reserving for claims and subsequent settlements, taking into account relevant outside influences. The actuarial firm uses the results of these analyses to estimate the ultimate amount of liability. We adjust the liability quarterly based upon our assessment and the results of the study. The accuracy of our estimate of the liability is subject to inherent limitation given the difficulty of predicting future events such as jury decisions, court interpretations, or legislative changes. As a result, actual claim settlements may vary from the estimated liability recorded.

**Occupational claims** – Occupational claims include injuries and illnesses alleged to be caused by exposures which occur over time as opposed to injuries or illnesses caused by a specific accident or event. Types of occupational claims commonly seen allege exposure to asbestos and other claimed toxic substances resulting in respiratory diseases or cancer. Many such claims are being asserted by former or retired employees, some of whom have not been employed in the rail industry for decades. The independent actuarial firm provides an estimate of the occupational claims liability based upon our history of claim filings, severity, payments, and other pertinent facts. The liability is dependent upon judgments we make as to the specific case reserves as well as judgments of the actuarial firm in the quarterly studies. The actuarial firm's estimate of ultimate loss includes a provision for those claims that have been incurred but not reported. This provision is derived by analyzing industry data and projecting our experience. We adjust the liability quarterly based upon our assessment and the results of the study. However, it is possible that the recorded liability may not be adequate to cover the future payment of claims. Adjustments to the recorded liability are reflected in operating expenses in the periods in which such adjustments become known.

**Third-party claims** – We record a liability for third-party claims including those for highway crossing accidents, trespasser and other injuries, property damage, and lading damage. The actuarial firm assists us with the calculation



of potential liability for third-party claims, except lading damage, based upon our experience including the number and timing of incidents, amount of payments, settlement rates, number of open claims, and legal defenses. We adjust the liability quarterly based upon our assessment and the results of the study. Given the inherent uncertainty in regard to the ultimate outcome of third-party claims, it is possible that the actual loss may differ from the estimated liability recorded.

## **Environmental Matters**

We are subject to various jurisdictions' environmental laws and regulations. We record a liability where such liability or loss is probable and reasonably estimable. Environmental specialists regularly participate in ongoing evaluations of all known sites and in determining any necessary adjustments to liability estimates.

Our Consolidated Balance Sheets include liabilities for environmental exposures of \$50 million at June 30, 2021, and \$54 million at December 31, 2020, of which \$15 million is classified as a current liability at the end of both periods. At June 30, 2021, the liability represents our estimates of the probable cleanup, investigation, and remediation costs based on available information at 96 known locations and projects compared with 100 locations and projects at December 31, 2020. At June 30, 2021, seventeen sites accounted for \$36 million of the liability, and no individual site was considered to be material. We anticipate that most of this liability will be paid out over five years; however, some costs will be paid out over a longer period.

At eight locations, one or more of our subsidiaries in conjunction with a number of other parties have been identified as potentially responsible parties under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 or comparable state statutes that impose joint and several liability for cleanup costs. We calculate our estimated liability for these sites based on facts and legal defenses applicable to each site and not solely on the basis of the potential for joint liability.

With respect to known environmental sites (whether identified by us or by the Environmental Protection Agency or comparable state authorities), estimates of our ultimate potential financial exposure for a given site or in the aggregate for all such sites can change over time because of the widely varying costs of currently available cleanup techniques, unpredictable contaminant recovery and reduction rates associated with available cleanup technologies, the likely development of new cleanup technologies, the difficulty of determining in advance the nature and full extent of contamination and each potential participant's share of any estimated loss (and that participant's ability to bear it), and evolving statutory and regulatory standards governing liability.

The risk of incurring environmental liability for acts and omissions, past, present, and future, is inherent in the railroad business. Some of the commodities we transport, particularly those classified as hazardous materials, pose special risks that we work diligently to reduce. In addition, several of our subsidiaries own, or have owned, land used as operating property, or which is leased and operated by others, or held for sale. Because environmental problems that are latent or undisclosed may exist on these properties, there can be no assurance that we will not incur environmental liabilities or costs with respect to one or more of them, the amount and materiality of which cannot be estimated reliably at this time. Moreover, lawsuits and claims involving these and potentially other unidentified environmental sites and matters are likely to arise from time to time. The resulting liabilities could have a significant effect on financial position, results of operations, or liquidity in a particular year or quarter.

Based on our assessment of the facts and circumstances now known, we believe we have recorded the probable and reasonably estimable costs for those environmental matters of which we are aware. Further, we believe that it is unlikely that any known matters, either individually or in the aggregate, will have a material adverse effect on our financial position, results of operations, or liquidity.

## **Insurance**

We purchase insurance covering legal liabilities for bodily injury and property damage to third parties. This insurance provides coverage above \$75 million and below \$800 million (\$1.1 billion for specific perils) per occurrence and/or policy year. In addition, we purchase insurance covering damage to property owned by us or in our care, custody, or control. This insurance covers approximately 87% of potential losses above \$75 million and below \$275 million per occurrence and/or policy year.

## **12. New Accounting Pronouncements**

On January 1, 2021, we adopted Financial Accounting Standards Board Accounting Standards Update 2019-12, "*Simplifying the Accounting for Income Taxes*," which adds new guidance to simplify the accounting for income taxes, changes the accounting for certain income tax transactions, and makes other minor changes. There was no material impact to the financial statements upon adoption.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Norfolk Southern Corporation and Subsidiaries**

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes.

#### **OVERVIEW**

We are one of the nation's premier transportation companies, moving goods and materials that help drive the U.S. economy. We connect customers to markets and communities to economic opportunity with safe, reliable, and cost-effective shipping solutions. Our Norfolk Southern Railway Company subsidiary operates in 22 states and the District of Columbia. We are a major transporter of industrial products, including agriculture, forest and consumer products, chemicals, and metals and construction materials. In addition, in the East we serve every major container port and operate the most extensive intermodal network, and are a principal carrier of coal, automobiles, and automotive parts.

Our 2021 financial results reflect a significant improvement in profitability over last year, the result of sustained focus on margin improvement and prior year results that were negatively impacted by the COVID-19 pandemic. We experienced volume growth across all of our major commodity groups due to higher demand for our service compared to the prior year. Our second-quarter operating ratio (a measure of the amount of operating revenues consumed by operating expenses) was 58.3% and net income and diluted earnings per share more than doubled compared to one year ago.

We continue to monitor the global economy, particularly as it is influenced by the ongoing COVID-19 pandemic. The pandemic caused significant economic disruption during 2020, and resulting supply chain challenges persist. We remain committed to monitoring the evolving nature of the pandemic and its impact to our business as well as protecting our employees and providing excellent transportation service products for our customers.

#### **SUMMARIZED RESULTS OF OPERATIONS**

*(\$ in millions, except per share amounts)*

	<b>Second Quarter</b>			<b>First Six Months</b>		
	<b>2021</b>	<b>2020</b>	<b>% change</b>	<b>2021</b>	<b>2020</b>	<b>% change</b>
Income from railway operations	\$ 1,167	\$ 610	91%	\$ 2,182	\$ 1,178	85%
Net income	\$ 819	\$ 392	109%	\$ 1,492	\$ 773	93%
Diluted earnings per share	\$ 3.28	\$ 1.53	114%	\$ 5.94	\$ 3.00	98%
Railway operating ratio (percent)	58.3	70.7	(18%)	59.9	75.0	(20%)

Income from railway operations increased in both periods, primarily a result of higher railway operating revenues, driven by increased volumes and higher average revenue per unit. Overall volumes were up 25% for the second quarter and 13% for the first six months. In both periods, railway operating expenses included increases due to higher fuel, purchased services, and compensation and benefits costs. These increases were partially offset by higher gains on the sale of operating properties.

Additionally, the comparison of our current-year results for the first six months were impacted by a \$385 million loss on asset disposal in 2020 related to locomotives sold or designated as held-for-sale. For more information on the impact of this charge, see Note 3.

The following tables adjust our 2020 GAAP financial results for the first six months to exclude the loss on asset disposal. The income tax effect of this non-GAAP adjustment was calculated based on the applicable tax rates to which the non-GAAP adjustment related. 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 by excluding the 2020 charge. While we believe that these non-GAAP financial measures are useful in evaluating our 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.

<b>Non-GAAP Reconciliation for First Six Months of 2020</b>				
	<b>Reported</b>	<b>Loss on Asset Disposal</b>	<b>Adjusted (non-GAAP)</b>	
<i>(\$ in millions, except per share amounts)</i>				
Railway operating expenses	\$ 3,532	\$ (385)	\$ 3,147	3,147
Income from railway operations	\$ 1,178	\$ 385	\$ 1,563	1,563
Income before income taxes	\$ 939	\$ 385	\$ 1,324	1,324
Income taxes	\$ 166	\$ 97	\$ 263	263
Net income	\$ 773	\$ 288	\$ 1,061	1,061
Diluted earnings per share	\$ 3.00	\$ 1.11	\$ 4.11	4.11
Railway operating ratio (percent)	75.0	(8.2)	66.8	66.8

In the table below, references and comparisons to the 2020 results for the first six months use the adjusted, non-GAAP results from the reconciliation in the table above.

	<b>First Six Months</b>		
	<b>2021</b>	<b>Adjusted 2020 (non-GAAP)</b>	<b>2021 vs. Adjusted 2020 (non-GAAP)</b>
<i>(\$ in millions, except per share amounts)</i>			<i>% change</i>
Railway operating expenses	\$ 3,256	\$ 3,147	3%
Income from railway operations	\$ 2,182	\$ 1,563	40%
Income before income taxes	\$ 1,907	\$ 1,324	44%
Income taxes	\$ 415	\$ 263	58%
Net income	\$ 1,492	\$ 1,061	41%
Diluted earnings per share	\$ 5.94	\$ 4.11	45%
Railway operating ratio (percent)	59.9	66.8	(10%)

## DETAILED RESULTS OF OPERATIONS

### Railway Operating Revenues

The following tables present a comparison of revenues (\$ in millions), units (in thousands), and average revenue per unit (\$ per unit) by commodity group.

Revenues	Second Quarter			First Six Months		
	2021	2020	% change	2021	2020	% change
Merchandise:						
Agriculture, forest and consumer products	\$ 578	\$ 498	16%	\$ 1,117	\$ 1,049	6%
Chemicals	494	423	17%	953	943	1%
Metals and construction	402	293	37%	772	660	17%
Automotive	206	93	122%	446	327	36%
Merchandise	1,680	1,307	29%	3,288	2,979	10%
Intermodal	801	569	41%	1,520	1,224	24%
Coal	318	209	52%	630	507	24%
Total	\$ 2,799	\$ 2,085	34%	\$ 5,438	\$ 4,710	15%
Units						
Merchandise:						
Agriculture, forest and consumer products	187.7	165.8	13%	366.0	347.3	5%
Chemicals	133.7	112.1	19%	260.7	254.4	2%
Metals and construction	176.3	136.1	30%	331.3	291.0	14%
Automotive	82.3	37.1	122%	176.0	127.5	38%
Merchandise	580.0	451.1	29%	1,134.0	1,020.2	11%
Intermodal	1,062.6	884.4	20%	2,079.0	1,839.5	13%
Coal	173.2	111.6	55%	339.7	275.1	23%
Total	1,815.8	1,447.1	25%	3,552.7	3,134.8	13%
Revenue per Unit						
Merchandise:						
Agriculture, forest and consumer products	\$ 3,076	\$ 3,004	2%	\$ 3,051	\$ 3,021	1%
Chemicals	3,691	3,771	(2%)	3,654	3,705	(1%)
Metals and construction	2,285	2,154	6%	2,332	2,269	3%
Automotive	2,507	2,499	—%	2,534	2,566	(1%)
Merchandise	2,896	2,897	—%	2,899	2,920	(1%)
Intermodal	754	644	17%	731	665	10%
Coal	1,837	1,864	(1%)	1,854	1,841	1%
Total	1,542	1,440	7%	1,531	1,502	2%

Railway operating revenues increased \$714 million in the second quarter and \$728 million for the first six months compared with the same periods last year. The table below reflects the components of the revenue change by major commodity group (\$ in millions).

	Second Quarter Increase (Decrease)			First Six Months Increase (Decrease)		
	Merchandise	Intermodal	Coal	Merchandise	Intermodal	Coal
Volume	\$ 374	\$ 115	\$ 115	\$ 332	\$ 159	\$ 119
Fuel surcharge revenue	19	58	2	(6)	52	(1)
Rate, mix and other	(20)	59	(8)	(17)	85	5
<b>Total</b>	<b>\$ 373</b>	<b>\$ 232</b>	<b>\$ 109</b>	<b>\$ 309</b>	<b>\$ 296</b>	<b>\$ 123</b>

Approximately 90% of our revenue base is covered by contracts that include negotiated fuel surcharges. Revenues associated with these surcharges totaled \$148 million and \$69 million in the second quarters of 2021 and 2020, respectively, and \$245 million and \$200 million for the first six months of 2021 and 2020, respectively. The increase in fuel surcharge revenues is driven by higher fuel commodity prices and increased volumes.

### Merchandise

Merchandise revenues increased in both periods due to increased volume. Overall, volumes increased in all merchandise commodity groups and across almost all markets within those commodity groups reflecting economic recovery following the onset of the COVID-19 pandemic.

Agriculture, forest and consumer products volume increased in both periods across almost all markets as the economy has greatly improved since the early months of the pandemic. The markets with the largest gains in both periods were ethanol, pulpboard, corn, lumber, and food industry products. Soybean volume increased for the first six months due to additional export opportunities.

Chemicals volume increased in both periods due to economic and production recovery since the beginning of the pandemic, which was partially offset by ongoing challenges in the energy market. The markets seeing the largest gains were industrial chemicals, plastics, and solid waste.

Metals and construction volume rose in both periods across almost all markets due to the economic improvement since the beginning of the pandemic. The markets with the largest gains in both periods were those that serve the metal production industry, including coil, scrap metal, iron and steel.

Automotive volumes were higher in both periods due primarily to the pandemic-induced production shutdown in the second quarter of the prior year. In addition, volume was higher due to increased retail demand, partially offset by the negative impact on production due to the global microchip shortage.

Merchandise revenues for the remainder of the year are expected to be higher due to increased volumes and higher average revenue per unit due to increased fuel surcharge revenue and pricing gains.

## Intermodal

Intermodal revenues increased in both periods, the result of volume growth and higher average revenue per unit driven by higher accessorial charges, increased fuel surcharge revenue and pricing gains.

Intermodal units (in thousands) by market were as follows:

	Second Quarter			First Six Months		
	2021	2020	% change	2021	2020	% change
Domestic	661.9	566.6	17%	1,300.9	1,164.9	12%
International	400.7	317.8	26%	778.1	674.6	15%
Total	<u>1,062.6</u>	<u>884.4</u>	20%	<u>2,079.0</u>	<u>1,839.5</u>	13%

Domestic volume grew in both periods due to strong consumer demand and tightened truck capacity. International volume rose in both periods, the result of continued strong import demand.

Intermodal revenues for the remainder of the year are expected to rise, driven by higher average revenue per unit, due to higher fuel surcharge revenue and pricing gains, and volume growth.

## Coal

Coal revenues increased in both periods due to increased volume.

Coal tonnage (in thousands) by market was as follows:

	Second Quarter			First Six Months		
	2021	2020	% change	2021	2020	% change
Utility	8,563	5,700	50%	17,109	14,598	17%
Export	6,580	3,669	79%	13,273	9,738	36%
Domestic metallurgical	3,325	2,338	42%	5,812	4,614	26%
Industrial	871	747	17%	1,770	1,728	2%
Total	<u>19,339</u>	<u>12,454</u>	55%	<u>37,964</u>	<u>30,678</u>	24%

Coal tonnage rose in both periods driven by increased export and domestic metallurgical volumes due to improved global economic conditions. Utility tonnage increased in both periods due to higher natural gas prices, reduced stockpiles, and improved industrial electricity demand.

Coal revenues for the remainder of the year are expected to rise, primarily a result of increased demand.

## Railway Operating Expenses

Railway operating expenses summarized by major classifications follow (\$ in millions):

	Second Quarter			First Six Months		
	2021	2020	% change	2021	2020	% change
Compensation and benefits	\$ 624	\$ 586	6%	\$ 1,235	\$ 1,208	2%
Purchased services and rents	429	372	15%	822	775	6%
Fuel	188	84	124%	365	273	34%
Depreciation	294	282	4%	586	574	2%
Materials and other	97	151	(36%)	248	317	(22%)
Loss on asset disposal	—	—	—%	—	385	(100%)
<b>Total</b>	<b>\$ 1,632</b>	<b>\$ 1,475</b>	<b>11%</b>	<b>\$ 3,256</b>	<b>\$ 3,532</b>	<b>(8%)</b>

**Compensation and benefits** expense increased in both periods as follows:

- incentive and stock-based compensation (up \$39 million for the quarter and \$61 million for the first six months),
- overtime and reworks (up \$19 million for the quarter and \$26 million for the first six months),
- increased pay rates (up \$11 million for the quarter and \$21 million for the first six months),
- health and welfare benefits for craft employees (down \$6 million for the quarter and \$15 million for the first six months),
- employee activity levels (down \$30 million for the quarter and \$81 million for the first six months), and
- other (up \$5 million for the quarter and \$15 million for the first six months).

Average rail headcount for the quarter was down by over 1,500 compared with the second quarter of 2020.

**Purchased services and rents** increased in both periods as follows (\$ in millions):

	Second Quarter			First Six Months		
	2021	2020	% change	2021	2020	% change
Purchased services	\$ 352	\$ 302	17%	\$ 670	\$ 623	8%
Equipment rents	77	70	10%	152	152	—%
<b>Total</b>	<b>\$ 429</b>	<b>\$ 372</b>	<b>15%</b>	<b>\$ 822</b>	<b>\$ 775</b>	<b>6%</b>

The increase in purchased services in both periods was due to higher volume-related intermodal, operational, and transportation costs, as well as increased technology-related expenses. Equipment rents increased in the second quarter due to greater volume-related time and mileage expense, partially offset by higher equity in TTX earnings.

**Fuel** expense, which includes the cost of locomotive fuel as well as other fuel used in railway operations, increased due to higher locomotive fuel prices (up 89% in the second quarter and 25% in the first six months) and increased consumption (up 21% in the second quarter and 7% in the first six months).



**Materials and other** expenses decreased in the both periods as follows (\$ in millions):

	Second Quarter			First Six Months		
	2021	2020	% change	2021	2020	% change
Materials	\$ 61	\$ 62	(2%)	\$ 122	\$ 134	(9%)
Claims	43	40	8%	81	82	(1%)
Other	(7)	49	(114%)	45	101	(55%)
Total	\$ 97	\$ 151	(36%)	\$ 248	\$ 317	(22%)

Materials expense decreased in both periods due to lower maintenance costs as a result of fewer locomotives and freight cars in service. Claims expense increased in the second quarter due to higher costs resulting from derailments. Claims expense decreased in the first six months as a result of lower costs associated with personal injuries, partially offset by increased costs related to derailments and environmental remediation matters. Other expense decreased in both periods due to higher gains from sales of operating property. Gains from operating property sales totaled \$67 million and \$2 million for the second quarters of 2021 and 2020, respectively, and \$71 million and \$13 million in the first six months of 2021 and 2020, respectively.

#### **Other income – net**

Other income – net decreased \$14 million in the second quarter and \$29 million for the first six months. Both periods experienced lower returns on corporate-owned life insurance investments partially offset by the absence of expenses associated with the debt exchange transaction in the prior year.

#### **Income taxes**

The second-quarter effective tax rate was 21.3% compared with 22.1% in the same period last year. The current year includes a \$23 million reduction in deferred taxes associated with a state tax law change enacted in the second quarter of 2021. Both periods reflect tax benefits on stock-based compensation, while tax benefits from returns on corporate-owned life insurance were lower in 2021.

The effective tax rates were 21.8% and 17.7% for the first six months of 2021 and 2020, respectively. The first six months of 2020 includes a \$19 million reduction of taxes from the resolution of our 2012 amended federal return. The effective rate for 2021 also reflects lower tax benefits on stock-based compensation and returns on corporate-owned life insurance.

### **FINANCIAL CONDITION AND LIQUIDITY**

Cash provided by operating activities, our principal source of liquidity, was \$2.1 billion for the first six months of 2021, compared with \$1.8 billion for the same period of 2020, primarily due to improved operating results. We had working capital of \$216 million and \$158 million at June 30, 2021 and December 31, 2020, respectively. Cash and cash equivalents totaled \$1.7 billion at June 30, 2021.

Cash used in investing activities was \$529 million for the first six months of 2021, compared with \$540 million for the same period last year. The decrease was primarily driven by lower property additions and reduced corporate-owned life insurance policy loan repayments, partially offset by lower proceeds from property sales.

Cash used in financing activities was \$1.0 billion for the first six months of 2021, compared with \$655 million in the same period last year, reflecting higher repurchases of Common Stock, partially offset by higher proceeds from borrowing and lower debt repayments. We repurchased \$1.5 billion of Common Stock in the first six months of 2021 compared to \$669 million in the same period last year. The timing and volume of future share repurchases

will be guided by our assessment of market conditions, cash flow and other pertinent factors. Any near-term purchases under the program are expected to be made with internally-generated cash, cash on hand, or proceeds from borrowings.

Our debt-to-total capitalization ratio was 48.9% at June 30, 2021, and 46.2% at December 31, 2020.

In May 2021, we issued \$500 million of 2.30% senior notes due 2031 and \$600 million of 4.10% senior notes due 2121. The proceeds of the 2.30% senior notes due 2031 will be allocated to existing or future investments in projects that provide environmental benefits. The proceeds of the notes due 2121 will be used for general corporate purposes.

In May 2021, we renewed, amended and restated our accounts receivable securitization program with a maximum borrowing capacity of \$400 million. The term expires in May 2022. We had no amounts outstanding under this program and our available borrowing capacity was \$400 million at both June 30, 2021, and December 31, 2020.

We also have in place and available an \$800 million credit agreement expiring in March 2025, which provides for borrowings at prevailing rates and includes covenants. We had no amounts outstanding under this facility at June 30, 2021 or December 31, 2020. In addition, we have investments in general purpose corporate-owned life insurance policies and had the ability to borrow against these policies up to \$720 million and \$750 million at June 30, 2021 and December 31, 2020, respectively.

We expect cash on hand combined with cash provided by operating activities will be sufficient to meet our ongoing obligations. In addition, we believe our currently-available borrowing capacity, access to additional financing, and ability to reduce or defer expenditures on property additions and decrease shareholder distributions, including share repurchases, provide additional flexibility to meet our ongoing obligations. Nonetheless, we are monitoring the ongoing impacts of the COVID-19 pandemic, which could lead to a decline of cash inflows from operations. There have been no material changes to the information on future contractual obligations contained in our Form 10-K for the year ended December 31, 2020, with the exception of additional senior notes (see Note 8).

## **APPLICATION OF CRITICAL ACCOUNTING POLICIES**

The preparation of financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. These estimates and assumptions may require judgment about matters that are inherently uncertain, and future events are likely to occur that may require us to make changes to these estimates and assumptions. Accordingly, we regularly review these estimates and assumptions based on historical experience, changes in the business environment, and other factors we believe to be reasonable under the circumstances. There have been no significant changes to the application of the critical accounting policies contained in our Form 10-K at December 31, 2020.

## **OTHER MATTERS**

### **Labor Agreements**

Approximately 80% of our railroad employees are covered by collective bargaining agreements with various labor unions. Pursuant to the Railway Labor Act, these agreements remain in effect until new agreements are reached, or until the bargaining procedures mandated by the Railway Labor Act are completed. We largely bargain nationally in concert with other major railroads, represented by the National Carriers' Conference Committee. Moratorium provisions in the labor agreements govern when the railroads and unions may propose changes to the agreements. The current round of bargaining commenced on November 1, 2019, with both management and the unions serving their formal proposals for changes to the collective bargaining agreements and negotiations are ongoing.

## **New Accounting Pronouncements**

For a detailed discussion of new accounting pronouncements, see Note 12.

## **Inflation**

In preparing financial statements, GAAP requires the use of historical cost that disregards the effects of inflation on the replacement cost of property. As a capital-intensive company, we have most of our capital invested in long-lived assets. The replacement cost of these assets, as well as the related depreciation expense, would be substantially greater than the amounts reported on the basis of historical cost.

## **FORWARD-LOOKING STATEMENTS**

Certain statements in Management's Discussion and Analysis of Financial Condition and Results of Operations are "forward-looking statements" within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, as amended. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or our achievements or those of our industry to be materially different from those expressed or implied by any forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "would," "should," "expect," "plan," "anticipate," "intend," "believe," "estimate," "project," "consider," "predict," "potential," "feel," or other comparable terminology. We have based these forward-looking statements on our current expectations, assumptions, estimates, beliefs, and projections. While we believe these expectations, assumptions, estimates, beliefs, and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which involve factors or circumstances that are beyond our control. These and other important factors, including those discussed under "Risk Factors" in our latest Form 10-K, as well as our subsequent filings with the Securities and Exchange Commission, may cause actual results, performance, or achievements to differ materially from those expressed or implied by these forward-looking statements. The forward-looking statements herein are made only as of the date they were first issued, and unless otherwise required by applicable securities laws, we disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

## **Additional Information**

Investors and others should note that we routinely use the Investor Relations and Sustainability sections of our website ([www.norfolksouthern.com/content/nscorp/en/investor-relations.html](http://www.norfolksouthern.com/content/nscorp/en/investor-relations.html) & [www.nscorp.com/content/nscorp/en/about-ns/sustainability.html](http://www.nscorp.com/content/nscorp/en/about-ns/sustainability.html)) to post presentations to investors and other important information, including information that may be deemed material to investors. Information about us, including information that may be deemed material, may also be announced by posts on our social media channels, including Twitter ([www.twitter.com/nscorp](http://www.twitter.com/nscorp)) and LinkedIn ([www.linkedin.com/company/norfolk-southern](http://www.linkedin.com/company/norfolk-southern)). We may also use our website and social media channels for the purpose of complying with our disclosure obligations under Regulation FD. As a result, we encourage investors, the media, and others interested in Norfolk Southern to review the information posted on our website and social media channels. The information posted on our website and social media channels is not incorporated by reference in this Quarterly Report on Form 10-Q.

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The information required by this item is included in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Financial Condition and Liquidity."

## **Item 4. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer, with the assistance of management, evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)) at June 30, 2021. Based on such evaluation, our officers have concluded that, at June 30, 2021, our disclosure controls and procedures were effective in alerting them on a timely basis to material information required to be included in our periodic filings under the Exchange Act.

### **Changes in Internal Control Over Financial Reporting**

During the second quarter of 2021, we have not identified any changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### **Item 1. Legal Proceedings**

In 2007, various antitrust class actions filed against us and other Class I railroads in various Federal district courts regarding fuel surcharges were consolidated in the District of Columbia by the Judicial Panel on Multidistrict Litigation. In 2012, the court certified the case as a class action. The defendant railroads appealed this certification, and the Court of Appeals for the District of Columbia vacated the District Court's decision and remanded the case for further consideration. On October 10, 2017, the District Court denied class certification. The decision was upheld by the Court of Appeals on August 16, 2019. Since that decision, various individual cases have been filed in multiple jurisdictions and also consolidated in the District of Columbia. We believe the allegations in the complaints are without merit and intend to vigorously defend the cases. We do not believe the outcome of these proceedings will have a material effect on our financial position, results of operations, or liquidity.

In 2018, a lawsuit was filed against one of our subsidiaries by the minority owner in a jointly-owned terminal railroad company in which our subsidiary has the majority ownership. The lawsuit alleged violations of various state laws and federal antitrust laws. It is reasonably possible that we could incur a loss in the case; however, we intend to vigorously defend the case and believe that we will prevail. The potential range of loss cannot be estimated at this time.

### **Item 1A. Risk Factors**

The risks set forth in "Risk Factors" included in our 2020 Form 10-K could have a material adverse effect on our financial position, results of operations, or liquidity in a particular year or quarter, and could cause those results to differ materially from those expressed or implied in our forward-looking statements. Those risks remain unchanged and are incorporated herein by reference.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

<u>Period</u>	<u>(a) Total Number of Shares (or Units) Purchased <sup>(1)</sup></u>	<u>(a) Total Number of Shares (or Units)</u>	<u>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup></u>	<u>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that may yet be purchased under the Plans or Programs <sup>(2)</sup></u>
April 1-30, 2021	744,795	\$ 274.95	744,521	17,619,847
May 1-31, 2021	1,186,333	283.64	1,186,121	16,433,726
June 1-30, 2021	1,455,862	270.41	1,455,862	14,977,864
Total	<u>3,386,990</u>		<u>3,386,504</u>	

<sup>(1)</sup> Of this amount, 486 represent shares tendered by employees in connection with the exercise of options under the stockholder-approved Long-Term Incentive Plan.

<sup>(2)</sup> On September 26, 2017, our Board of Directors authorized the repurchase of up to an additional 50 million shares of Common Stock through December 31, 2022. As of June 30, 2021, 15.0 million shares remain authorized for repurchase.

## **Item 6. Exhibits**

- 1.1 [Underwriting Agreement, dated May 3, 2021, among the Registrant and BofA Securities, Inc., Morgan Stanley & Co. LLC and Wells Fargo Securities, LLC, is incorporated by reference to Exhibit 1.1 on Norfolk Southern Corporation's Form 8-K filed with the Securities and Exchange Commission on May 5, 2021.](#)
- 4.1 [Indenture, dated as of February 28, 2018, between the Registrant and U.S. Bank National Association, as trustee is incorporated by reference to Exhibit 4.1 on Norfolk Southern Corporation's Form 8-K filed with the Securities and Exchange Commission on February 28, 2018.](#)
- 4.2 [Sixth Supplemental Indenture, dated as of May 12, 2021, between the Registrant and U.S. Bank National Association, as Trustee is incorporated by reference to Exhibit 4.2 on Norfolk Southern Corporation's Form 8-K filed on May 12, 2021.](#)
- 10.1 [Amended and Restated Transfer and Administration Agreement dated as of May 28, 2021 is incorporated by reference to Exhibit 10.1 on Norfolk Southern Corporation's Form 8-K filed on May 28, 2021.](#)
- 31-A\* [Rule 13a-14\(a\)/15d-014\(a\) CEO Certifications.](#)
- 31-B\* [Rule 13a-14\(a\)/15d-014\(a\) CFO Certifications.](#)
- 32\* [Section 1350 Certifications.](#)
- 101\* The following financial information from Norfolk Southern Corporation's Quarterly Report on Form 10-Q for the second quarter of 2021, formatted in Inline Extensible Business Reporting Language (iXBRL) includes (i) the Consolidated Statements of Income for the second quarter and first six months of 2021 and 2020; (ii) the Consolidated Statements of Comprehensive Income for the second quarter and first six months of 2021 and 2020; (iii) the Consolidated Balance Sheets at June 30, 2021 and December 31, 2020; (iv) the Consolidated Statements of Cash Flows for the first six months of 2021 and 2020; (v) the Consolidated Statements of Changes in Stockholders' Equity for the second quarter and first six months of 2021 and 2020; and (vi) the Notes to Consolidated Financial Statements.
- 104\* Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

\* Filed herewith.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**NORFOLK SOUTHERN CORPORATION**  
Registrant

Date: July 28, 2021

/s/ Clyde H. Allison, Jr.  
Clyde H. Allison, Jr.  
Vice President and Controller  
(Principal Accounting Officer) (Signature)

Date: July 28, 2021

/s/ Denise W. Hutson  
Denise W. Hutson  
Corporate Secretary (Signature)

## CERTIFICATIONS

I, James A. Squires, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Norfolk Southern Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: July 28, 2021

/s/ James A. Squires

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James A. Squires  
Chairman, President and Chief Executive Officer



## CERTIFICATIONS

I, Mark R. George, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Norfolk Southern Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: July 28, 2021

/s/ Mark R. George

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Mark R. George

Executive Vice President Finance and Chief Financial Officer

CERTIFICATIONS OF CEO AND CFO REQUIRED BY RULE 13a-14(b) OR RULE  
15d-14(b) AND SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE U.S. CODE

I certify, to the best of my knowledge, that the Quarterly Report on Form 10-Q for the period ended June 30, 2021, of Norfolk Southern Corporation fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Norfolk Southern Corporation.

Signed: /s/ James A. Squires  
James A. Squires  
Chairman, President and Chief Executive Officer  
Norfolk Southern Corporation

Dated: July 28, 2021

I certify, to the best of my knowledge, that the Quarterly Report on Form 10-Q for the period ended June 30, 2021, of Norfolk Southern Corporation fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Norfolk Southern Corporation.

Signed: /s/ Mark R. George  
Mark R. George  
Executive Vice President Finance and Chief Financial Officer  
Norfolk Southern Corporation

Dated: July 28, 2021