**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, DC 20549**
**FORM 10-Q**

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended **MARCH 31, 2019**

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from ___________ to___________

Commission file number 1-8339

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

| | |
|---|---|
| **Virginia** | **52-1188014** |
| (State or other jurisdiction of incorporation) | (IRS Employer Identification No.) |
| **Three Commercial Place**<br>**Norfolk, Virginia** | **23510-2191** |
| (Address of principal executive offices) | (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)

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 [X] 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 [X] 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 [X] 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 [X]

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

| Class | Outstanding at March 31, 2019 |
|---|---|
| Common Stock ($1.00 par value per share) | 265,967,039 (excluding 20,320,777 shares held by the registrant’s consolidated subsidiaries) |

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**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**

## PART I. FINANCIAL INFORMATION

**Item 1. Financial Statements.**

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

| | First Quarter | |
|---|---|---|
| | **2019** | **2018** |
| | *($ in millions, except per share amounts)* | |
| **Railway operating revenues** | $ 2,840 | $ 2,717 |
| **Railway operating expenses:** | | |
| Compensation and benefits | 727 | 737 |
| Purchased services and rents | 424 | 401 |
| Fuel | 250 | 266 |
| Depreciation | 283 | 272 |
| Materials and other | 190 | 206 |
| Total railway operating expenses | 1,874 | 1,882 |
| **Income from railway operations** | 966 | 835 |
| Other income – net | 44 | 8 |
| Interest expense on debt | 149 | 136 |
| Income before income taxes | 861 | 707 |
| Income taxes | 184 | 155 |
| **Net income** | $ 677 | $ 552 |
| **Earnings per share:** | | |
| Basic | $ 2.53 | $ 1.94 |
| Diluted | 2.51 | 1.93 |

*See accompanying notes to consolidated financial statements.*

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

| | First Quarter | |
|---|---|---|
| | **2019** | **2018** |
| | *($ in millions)* | |
| **Net income** | $ 677 | $ 552 |
| Other comprehensive income (loss), before tax: | | |
| Pension and other postretirement benefits (expense) | 5 | (7) |
| Other comprehensive income (loss) of equity investees | (1) | 1 |
| Other comprehensive income (loss), before tax | 4 | (6) |
| Income tax benefit (expense) related to items of other comprehensive income (loss) | (1) | 2 |
| Other comprehensive income (loss), net of tax | 3 | (4) |
| **Total comprehensive income** | $ 680 | $ 548 |

*See accompanying notes to consolidated financial statements.*

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

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| | *($ in millions)* | |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 411 | $ 358 |
| Accounts receivable – net | 1,048 | 1,009 |
| Materials and supplies | 228 | 207 |
| Other current assets | 235 | 288 |
| Total current assets | 1,922 | 1,862 |
| Investments | 3,198 | 3,109 |
| Properties less accumulated depreciation of $12,374 at both periods | 31,158 | 31,091 |
| Other assets | 784 | 177 |
| **Total assets** | $ 37,062 | $ 36,239 |
| **Liabilities and stockholders' equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 1,334 | $ 1,505 |
| Short-term debt | 250 | — |
| Income and other taxes | 338 | 255 |
| Other current liabilities | 378 | 246 |
| Current maturities of long-term debt | 585 | 585 |
| Total current liabilities | 2,885 | 2,591 |
| Long-term debt | 10,569 | 10,560 |
| Other liabilities | 1,759 | 1,266 |
| Deferred income taxes | 6,518 | 6,460 |
| **Total liabilities** | 21,731 | 20,877 |
| Stockholders' equity: | | |
| Common stock $1.00 per share par value, 1,350,000,000 shares authorized; outstanding 265,967,039 and 268,098,472 shares, respectively, net of treasury shares | 267 | 269 |
| Additional paid-in capital | 2,213 | 2,216 |
| Accumulated other comprehensive loss | (560) | (563) |
| Retained income | 13,411 | 13,440 |
| **Total stockholders' equity** | 15,331 | 15,362 |
| **Total liabilities and stockholders' equity** | $ 37,062 | $ 36,239 |

*See accompanying notes to consolidated financial statements.*

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

| | First Three Months 2019 | First Three Months 2018 |
|---|---|---|
| | *($ in millions)* | |
| **Cash flows from operating activities:** | | |
| Net income | $ 677 | $ 552 |
| Reconciliation of net income to net cash provided by operating activities: | | |
| Depreciation | 283 | 272 |
| Deferred income taxes | 57 | 45 |
| Gains and losses on properties | (18) | (8) |
| Changes in assets and liabilities affecting operations: | | |
| Accounts receivable | (39) | (26) |
| Materials and supplies | (21) | (23) |
| Other current assets | 12 | 13 |
| Current liabilities other than debt | (27) | 12 |
| Other – net | (43) | (21) |
| Net cash provided by operating activities | 881 | 816 |
| **Cash flows from investing activities:** | | |
| Property additions | (467) | (383) |
| Property sales and other transactions | 152 | 13 |
| Investment purchases | (2) | (2) |
| Investment sales and other transactions | (33) | 1 |
| Net cash used in investing activities | (350) | (371) |
| **Cash flows from financing activities:** | | |
| Dividends | (230) | (205) |
| Common stock transactions | 2 | (1) |
| Purchase and retirement of common stock | (500) | (300) |
| Proceeds from borrowings – net of issuance costs | 250 | 543 |
| Debt repayments | — | (100) |
| Net cash used in financing activities | (478) | (63) |
| Net increase in cash, cash equivalents, and restricted cash | 53 | 382 |
| **Cash, cash equivalents, and restricted cash:** | | |
| At beginning of year | 446 | 690 |
| At end of period | $ 499 | $ 1,072 |
| **Supplemental disclosures of cash flow information:** | | |
| Cash paid during the period for: | | |
| Interest (net of amounts capitalized) | $ 112 | $ 69 |
| Income taxes (net of refunds) | 9 | 7 |

*See accompanying notes to consolidated financial statements.*

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

| | Common Stock | Additional Paid-in Capital | Accum. Other Comprehensive Loss | Retained Income | Total |
|---|---|---|---|---|---|
| | *($ in millions, except per share amounts)* | | | | |
| Balance at December 31, 2018 | $ 269 | $ 2,216 | $ (563) | $ 13,440 | $ 15,362 |
| Comprehensive income: | | | | | |
| Net income | | | | 677 | 677 |
| Other comprehensive income | | | 3 | | 3 |
| Total comprehensive income | | | | | 680 |
| Dividends on common stock, $0.86 per share | | | | (230) | (230) |
| Share repurchases | (3) | (22) | | (475) | (500) |
| Stock-based compensation | 1 | 19 | | (1) | 19 |
| Balance at March 31, 2019 | $ 267 | $ 2,213 | $ (560) | $ 13,411 | $ 15,331 |

| | Common Stock | Additional Paid-in Capital | Accum. Other Comprehensive Loss | Retained Income | Total |
|---|---|---|---|---|---|
| | *($ in millions, except per share amounts)* | | | | |
| Balance at December 31, 2017 | $ 285 | $ 2,254 | $ (356) | $ 14,176 | $ 16,359 |
| Comprehensive income: | | | | | |
| Net income | | | | 552 | 552 |
| Other comprehensive loss | | | (4) | | (4) |
| Total comprehensive income | | | | | 548 |
| Dividends on common stock, $0.72 per share | | | | (205) | (205) |
| Share repurchases | (2) | (16) | | (282) | (300) |
| Stock-based compensation | 1 | 17 | | (2) | 16 |
| Reclassification of stranded tax effects | | | (88) | 88 | — |
| Balance at March 31, 2018 | $ 284 | $ 2,255 | $ (448) | $ 14,327 | $ 16,418 |

*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 March 31, 2019, and December 31, 2018, our results of operations, comprehensive income and changes in stockholders' equity for the first quarters of 2019 and 2018, and our cash flows for the first three months of 2019 and 2018 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:

| | First Quarter | |
|---|---|---|
| | **2019** | **2018** |
| Merchandise: | *($ in millions)* | |
| Chemicals | $ 452 | $ 454 |
| Agriculture products | 385 | 357 |
| Metals and construction | 385 | 356 |
| Automotive | 251 | 243 |
| Forest and consumer | 213 | 195 |
| Merchandise | 1,686 | 1,605 |
| Intermodal | 719 | 678 |
| Coal | 435 | 434 |
| Total | $ 2,840 | $ 2,717 |

At the beginning of 2019, we recategorized certain commodities within Merchandise major commodity groups to better align with how we internally manage these commodities. Prior period amounts have been reclassified to conform to the current presentation with no net impact to overall Merchandise revenue or total railway operating revenues. Specifically, certain commodities were shifted between Chemicals, Agriculture products, Metals and construction, and Forest and consumer.

We recognize the amount of revenue we expect to be entitled to 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 NS for the transport of goods. These performance obligations are satisfied as the shipments move from origin to destination. As such, transportation revenue is 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 revenue associated with in-process shipments at period-end is recorded based on the estimated percentage of service completed to total transit days. We had no material remaining performance obligations as of March 31, 2019 or December 31, 2018.

Under the typical payment 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:

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| | ($ in millions) | |
| Customer | $ 793 | $ 740 |
| Non-customer | 255 | 269 |
| Accounts receivable – net | $ 1,048 | $ 1,009 |

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 $55 million at both March 31, 2019 and December 31, 2018. We do not have any material contract assets or liabilities.

Certain ancillary services may be provided to customers under their transportation contracts such as switching, demurrage and other incidental service revenues. These are distinct performance obligations that are recognized at a point in time when the services are performed or as contractual obligations are met. This revenue is included within each of the commodity groups and represents approximately 5% and 4% of total “Railway operating revenues” on the Consolidated Statements of Income for the quarters ended March 31, 2019 and 2018, respectively.

**2. Stock-Based Compensation**

| | First Quarter | |
|---|---|---|
| | 2019 | 2018 |
| | ($ in millions) | |
| Stock-based compensation expense | $ 16 | $ 16 |
| Total tax benefit | 23 | 14 |

During the first quarter 2019, a committee of nonemployee members of our Board of Directors (and the Chief Executive Officer under delegated authority by such committee) granted stock options, restricted stock units (RSUs) and performance share units (PSUs) pursuant to the Long-Term Incentive Plan (LTIP), as follows:

| | First Quarter | |
|---|---|---|
| | Granted | Weighted-Average Grant-Date Fair Value |
| Stock options | 42,380 | $ 45.61 |
| RSUs | 208,320 | 163.33 |
| PSUs | 93,710 | 97.75 |

**Stock Options**

| | First Quarter | |
| --- | --- | --- |
| | 2019 | 2018 |
| | *($ in millions)* | |
| Stock options exercised | 406,371 | 254,982 |
| Cash received upon exercise | $ 28 | $ 17 |
| Related tax benefit realized | 9 | 4 |

**Restricted Stock Units**

Beginning in 2018, 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). RSUs granted in previous years have a five-year restriction period and will also be settled through the issuance of shares of 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.

| | First Quarter | |
| --- | --- | --- |
| | 2019 | 2018 |
| | *($ in millions)* | |
| RSUs vested | 165,549 | 160,200 |
| Common Stock issued net of tax withholding | 118,881 | 99,968 |
| Related tax benefit realized | $ 2 | $ 3 |

**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.

| | First Quarter | |
| --- | --- | --- |
| | 2019 | 2018 |
| | *($ in millions)* | |
| PSUs earned | 331,099 | 154,189 |
| Common Stock issued net of tax withholding | 221,241 | 94,399 |
| Related tax benefit realized | $ 9 | $ 3 |

### 3. Earnings Per Share

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

| | Basic | | Diluted | |
|---|---|---|---|---|
| | First Quarter | | | |
| | 2019 | 2018 | 2019 | 2018 |
| | *($ in millions, except per share amounts, shares in millions)* | | | |
| Net income | $ 677 | $ 552 | $ 677 | $ 552 |
| Dividend equivalent payments | (1) | (1) | — | (1) |
| Income available to common stockholders | $ 676 | $ 551 | $ 677 | $ 551 |
| Weighted-average shares outstanding | 267.1 | 283.5 | 267.1 | 283.5 |
| Dilutive effect of outstanding options and share-settled awards | | | 2.3 | 2.4 |
| Adjusted weighted-average shares outstanding | | | 269.4 | 285.9 |
| Earnings per share | $ 2.53 | $ 1.94 | $ 2.51 | $ 1.93 |

During the first quarter of 2019 and 2018, dividend equivalent payments were made to certain 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. The dilution calculations exclude options having exercise prices exceeding the average market price of Common Stock of zero for the quarters ended March 31, 2019 and 2018.

**4. 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:

| | Balance at Beginning of Year | Net Income (Loss) | Reclassification of Stranded Tax Effects | Reclassification Adjustments | Balance at End of Period |
|---|---|---|---|---|---|
| | | | ($ in millions) | | |
| ***Three Months Ended March 31, 2019*** | | | | | |
| Pensions and other postretirement liabilities | $ (497) | $ — | $ — | $ 4 | $ (493) |
| Other comprehensive loss of equity investees | (66) | (1) | — | — | (67) |
| Accumulated other comprehensive loss | $ (563) | $ (1) | $ — | $ 4 | $ (560) |
| ***Three Months Ended March 31, 2018*** | | | | | |
| Pensions and other postretirement liabilities | $ (300) | $ (11) | $ (86) | $ 6 | $ (391) |
| Other comprehensive income (loss) of equity investees | (56) | 1 | (2) | — | (57) |
| Accumulated other comprehensive loss | $ (356) | $ (10) | $ (88) | $ 6 | $ (448) |

In February 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-02, “*Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.*” We adopted the provisions of ASU 2018-02 in the first quarter of 2018 resulting in an increase to “Accumulated other comprehensive loss” of $88 million and a corresponding increase to “Retained income,” with no impact on “Total stockholders’ equity.”

**5. Stock Repurchase Program**

We repurchased and retired 2.9 million shares and 2.1 million shares of Common Stock under our stock repurchase program in the first three months of 2019 and 2018, respectively, at a cost of $500 million and $300 million, respectively.

Since the beginning of 2006, we have repurchased and retired 188.5 million shares at a total cost of $14.6 billion.

**6. 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 $1.3 billion at both March 31, 2019, and December 31, 2018.

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 amounts payable to CRC for the operation of the Shared Assets Areas totaling $37 million and $38 million for the first quarters of 2019 and 2018, respectively. Our equity in the earnings of Conrail, net of amortization, included in “Purchased services and rents” was $8 million and $16 million for the first quarters of 2019 and 2018, respectively.

“Other liabilities” includes $280 million at both March 31, 2019, and December 31, 2018, for long-term advances from Conrail, maturing 2044, that bear interest at an average rate of 2.9%.

**Investment in TTX**

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

Amounts paid to TTX for use of equipment are included in “Purchased services and rents” and amounted to $62 million and $66 million of expense for the first quarters of 2019 and 2018, respectively. Our equity in the earnings of TTX, also included in “Purchased services and rents,” totaled $13 million and $16 million for the first quarters of 2019 and 2018, respectively.

**7. Debt**

We have a $400 million accounts receivable securitization program expiring in May 2019. We had $250 million outstanding under this program at March 31, 2019, reflected as “Short-term debt” on the Consolidated Balance Sheets, and no amounts outstanding at December 31, 2018.

The “Cash, cash equivalents, and restricted cash” line item in the Consolidated Statements of Cash Flows includes restricted cash of $88 million at March 31, 2019 and December 31, 2018 reflecting deposits held by a third-party bond agent as collateral for certain debt obligations maturing in 2019. The restricted cash balance is included as part of “Other current assets” on the Consolidated Balance Sheets in both periods.

**8. Leases**

In February 2016, the FASB issued ASU 2016-02, “*Leases (Topic 842*),” and subsequent amendments, which replaced existing lease guidance in GAAP and requires lessees to recognize right-of-use (ROU) assets and lease liabilities on the balance sheet for leases greater than twelve months and disclose key information about leasing arrangements. We adopted the standard on January 1, 2019 using the modified retrospective method and used the effective date as our date of initial application. Financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019. There were no adjustments to “Retained income” on adoption.

The new standard provides a number of optional practical expedients for transition. We elected the package of practical expedients under the transition guidance which permitted us not to reassess under the new standard our prior conclusions for lease identification and lease classification on expired or existing contracts and whether initial direct costs previously capitalized would qualify for capitalization under FASB Accounting Standards Codification (ASC) 842. We also elected the practical expedient related to land easements, which allowed us to not reassess our current accounting treatment for existing agreements on land easements, which are not accounted for as leases. We did not elect the hindsight practical expedient to determine the reasonably certain lease term for existing leases.

The new standard also provides practical expedients and recognition exemptions for an entity's ongoing accounting policy elections. We elected the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, we do not recognize ROU assets or lease liabilities.

We are committed under long-term lease agreements for equipment, lines of road, and other property. Some of these agreements contain variable payment provisions that depend on an index or rate, initially measured using the index or rate at the lease commencement date, and are therefore not included in our future minimum lease payments. These variable lease agreements include usage-based payments for equipment under service contracts, lines of road, and other property. Our long-term lease agreements do not contain any material restrictive covenants.

Our equipment leases have remaining terms of less than 1 year to 9 years and our lines of road and property leases have remaining terms of less than 1 year to 138 years. Some of these leases may include options to extend the leases for up to 99 years, and some may include options to terminate the leases within 30 days. Because we are not reasonably certain to exercise these renewal options, the options are not considered in determining the lease term, and associated payments are excluded from future minimum lease payments.

Leases with an initial term of twelve months or less are not recorded on the balance sheet. We recognize lease expense for these leases on a straight-line basis over the lease term. We do not separate lease and non-lease components.

Operating lease amounts included in the Consolidated Balance Sheet are as follows:

| | | March 31, 2019 |
|---|---|---|
| **Assets** | **Classification** | *($ in millions)* |
| ROU assets | Other assets | $ 593 |
| **Liabilities** | | |
| Current lease liabilities | Other current liabilities | $ 93 |
| Non-current lease liabilities | Other liabilities | 500 |
| Total lease liabilities | | $ 593 |

The components of operating lease expense, primarily included in "Purchased services and rents," were as follows:

| | First Quarter 2019 |
|---|---|
| | *($ in millions)* |
| Operating lease expense | $ 27 |
| Variable lease expense | 12 |
| Short-term lease expense | 2 |
| Total lease expense | $ 41 |

At March 31, 2019, we do not have any material finance lease assets or liabilities, nor do we have any material subleases.

During March 2019, we entered into a non-cancellable lease for an office building with an estimated construction cost of $550 million. The lease will commence upon completion of the construction (for which we are a construction agent) of the office building which is expected to be in 2021. The initial term of the lease is five years, with options to renew, purchase, or sell the office building at the end of the lease term. Upon lease commencement, the ROU asset and lease liability will be determined and recorded. The lease also contains a residual value guarantee of up to ninety percent of the total construction cost.

Other information related to operating leases was as follows:

| | | First Quarter 2019 |
|---|---|---|
| | | *($ in millions)* |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from operating leases | $ | 27 |
| Right-of-use assets obtained in exchange for new operating lease liabilities | | 29 |
| Weighted-average remaining lease term (years) on operating leases | | 8.68 |
| Weighted-average discount rates on operating leases | | 3.52% |

During the first quarter, cash proceeds from a sale and leaseback transaction were $82 million and the gain on the transaction was $15 million.

Future minimum lease payments under non-cancellable operating leases were as follows:

| | | March 31, 2019 |
|---|---|---|
| | | *($ in millions)* |
| 2019 - 9 months | $ | 84 |
| 2020 | | 105 |
| 2021 | | 99 |
| 2022 | | 76 |
| 2023 | | 68 |
| 2024 and subsequent years | | 266 |
| Total lease payments | $ | 698 |
| Less: Interest | | 105 |
| Present value of lease liabilities | $ | 593 |

Undiscounted future minimum lease payments under non-cancellable operating leases accounted for under ASC 840 "*Leases*" were as follows:

| | December 31, 2018 |
|---|---|
| | *($ in millions)* |
| 2019 | $ 101 |
| 2020 | 95 |
| 2021 | 88 |
| 2022 | 75 |
| 2023 | 69 |
| 2024 and subsequent years | 267 |
| Total | $ 695 |

**9. Pensions and Other Postretirement Benefits**

We have both funded and unfunded defined benefit pension plans covering principally salaried employees. We also provide specified health care and life insurance 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, a defined percentage of health care expenses is covered for retired employees and their dependents, reduced by any deductibles, coinsurance, and, in some cases, coverage provided under other group insurance policies. Those participants 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 first quarter are as follows:

| | Pension Benefits | | Other Postretirement Benefits | |
|---|---|---|---|---|
| | First Quarter | | | |
| | 2019 | 2018 | 2019 | 2018 |
| | ($ in millions) | | | |
| Service cost | $ 9 | $ 10 | $ 2 | $ 2 |
| Interest cost | 23 | 20 | 4 | 4 |
| Expected return on plan assets | (45) | (44) | (4) | (4) |
| Amortization of net losses | 11 | 14 | — | — |
| Amortization of prior service benefit | — | — | (6) | (6) |
| Net benefit | $ (2) | $ — | $ (4) | $ (4) |

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,” “Accounts payable,” and “Short-term debt” 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 March 31, 2019 or December 31, 2018. The carrying amounts and estimated fair values, based on Level 1 inputs, of long-term debt consisted of the following:

| | March 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | **Carrying Amount** | **Fair Value** |
| | *($ in millions)* | | | |
| Long-term debt, including current maturities | $ (11,154) | $ (12,698) | $ (11,145) | $ (12,203) |

## 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. 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.

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 findings are subject to appeal. 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.

### 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 casualties and other claims expense is employee personal injury costs. The independent actuarial firm engaged by us 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. 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, exposure to repetitive motion resulting in various musculoskeletal disorders, and exposure to excessive noise resulting in hearing loss. 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, automobile liability, 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 $58 million and $55 million at March 31, 2019 and December 31, 2018, respectively, of which $15 million is classified as a current liability at both dates. At March 31, 2019, the liability represents our estimates of the probable cleanup, investigation, and remediation costs based on available information at 112 known locations and projects compared with 114 locations and projects at December 31, 2018. At March 31, 2019, fifteen sites accounted for $39 million of the liability, and no individual site was considered to be material. We anticipate that much of this liability will be paid out over five years; however, some costs will be paid out over a longer period.

At eleven 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 dealing with 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 obtain on behalf of ourself and our subsidiaries insurance for potential losses for third-party liability and first-party property damages. We are currently self-insured up to $50 million and above $1.1 billion ($1.5 billion for specific perils) per occurrence and/or policy year for bodily injury and property damage to third parties and up to $25 million and above $200 million per occurrence and/or policy year for property owned by us or in our care, custody, or control.

**12. New Accounting Pronouncements**

In June 2016, the FASB issued ASU 2016-13, *"Credit Losses - Measurement of Credit Losses on Financial Instruments,"* which replaces the current incurred loss impairment method with a method that reflects expected credit losses. The new standard is effective as of January 1, 2020, and early adoption is permitted as of January 1, 2019. Because credit losses associated from our accounts receivables have historically been insignificant, we do not expect this standard to have a material effect on our financial statements. We will not adopt the standard early.

**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. Our Norfolk Southern Railway Company subsidiary operates approximately 19,500 route miles in 22 states and the District of Columbia, serves every major container port in the eastern United States, and provides efficient connections to other rail carriers. Norfolk Southern is a major transporter of industrial products, including chemicals, agriculture, and metals and construction materials. In addition, the railroad operates the most extensive intermodal network in the East and is a principal carrier of coal, automobiles, and automotive parts.

Our first quarter 2019 results reflect the initial steps in the implementation of our new strategic plan that we unveiled in February. We achieved a record low first-quarter operating ratio (a measure of the amount of operating revenues consumed by operating expenses) of 66.0%, in addition to first-quarter records for railway operating revenues, income from railway operations, net income, and diluted earnings per share. We have started the year with positive momentum as we build a stronger company for our shareholders, customers, and employees.

## SUMMARIZED RESULTS OF OPERATIONS

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

| | First Quarter | | |
|---|---|---|---|
| | 2019 | 2018 | % change |
| Income from railway operations | $ 966 | $ 835 | 16% |
| Net income | $ 677 | $ 552 | 23% |
| Diluted earnings per share | $ 2.51 | $ 1.93 | 30% |
| Railway operating ratio (percent) | 66.0 | 69.3 | (5%) |

Income from railway operations rose as a result of increased railway operating revenues, driven by higher average revenue per unit, reflecting pricing gains, higher fuel surcharge revenue, and increased accessorial charges. Overall volumes were flat, as gains in intermodal were tempered by declines in coal and merchandise. Railway operating expenses were relatively flat as fuel price declines, decreased compensation expense, and lower expenses due to increased network velocity were offset by increases in purchased services. Our share repurchase program resulted in diluted earnings per share growth that exceeded that of net income.

**DETAILED RESULTS OF OPERATIONS**

**Railway Operating Revenues**

The following tables present a comparison of revenues ($ in millions), volumes (units in thousands), and average revenue per unit ($ per unit) by commodity group. At the beginning of 2019, we made changes in the categorization of certain commodity groups within Merchandise. Prior period railway operating revenues, units, and revenue per unit have been reclassified to conform to the current presentation (see Note 1).

| | First Quarter | | |
|---|---|---|---|
| **Revenues** | **2019** | **2018** | **% change** |
| Merchandise: | | | |
| Chemicals | $ 452 | $ 454 | — |
| Agriculture products | 385 | 357 | 8% |
| Metals and construction | 385 | 356 | 8% |
| Automotive | 251 | 243 | 3% |
| Forest and consumer | 213 | 195 | 9% |
| Merchandise | 1,686 | 1,605 | 5% |
| Intermodal | 719 | 678 | 6% |
| Coal | 435 | 434 | — |
| Total | $ 2,840 | $ 2,717 | 5% |
| **Units** | | | |
| Merchandise: | | | |
| Chemicals | 125.9 | 126.6 | (1%) |
| Agriculture products | 130.9 | 129.9 | 1% |
| Metals and construction | 173.9 | 175.9 | (1%) |
| Automotive | 98.1 | 102.8 | (5%) |
| Forest and consumer | 69.4 | 70.9 | (2%) |
| Merchandise | 598.2 | 606.1 | (1%) |
| Intermodal | 1,071.0 | 1,049.2 | 2% |
| Coal | 236.3 | 249.1 | (5%) |
| Total | 1,905.5 | 1,904.4 | — |
| **Revenue per Unit** | | | |
| Merchandise: | | | |
| Chemicals | $ 3,587 | $ 3,585 | — |
| Agriculture products | 2,945 | 2,744 | 7% |
| Metals and construction | 2,217 | 2,023 | 10% |
| Automotive | 2,557 | 2,362 | 8% |
| Forest and consumer | 3,070 | 2,755 | 11% |
| Merchandise | 2,819 | 2,647 | 6% |
| Intermodal | 671 | 647 | 4% |
| Coal | 1,839 | 1,743 | 6% |
| Total | 1,490 | 1,427 | 4% |

Railway operating revenues increased $123 million in the first quarter over the same period last year. The table below reflects the components of the revenue change by major commodity group ($ in millions).

| | First Quarter Increase (Decrease) | | |
|---|---|---|---|
| | **Merchandise** | **Intermodal** | **Coal** |
| Volume | $ (21) | $ 14 | $ (22) |
| Fuel surcharge revenue | 14 | 9 | (1) |
| Rate, mix and other | 88 | 18 | 24 |
| Total | $ 81 | $ 41 | $ 1 |

Most of our contracts include negotiated fuel surcharges, typically tied to either On-Highway Diesel (OHD) or West Texas Intermediate Crude Oil (WTI). Approximately 90% of our revenue base is covered by these negotiated fuel surcharges, with over 75% tied to OHD. In the first quarter of 2019, contracts tied to OHD accounted for about 95% of our fuel surcharge revenue. Revenues associated with these surcharges totaled $153 million and $131 million in the first quarters of 2019 and 2018, respectively.

**Merchandise**

Merchandise revenue grew in the first quarter, as higher average revenue per unit was driven by pricing gains and increased fuel surcharge revenue. Overall volumes fell, as gains in agriculture products were offset by declines in the remaining groups.

Chemicals volume decreased driven by reduced shipments of liquefied petroleum gas, crude oil, and plastics partially offset by gains in municipal waste and petroleum shipments.

Agriculture products volume rose, as increases in corn and feed shipments more than offset declines in ethanol, primarily due to severe flooding in the Midwest, and wheat traffic.

Metals and construction volume fell, largely the result of decreases in iron and steel traffic, partially offset by higher aggregate shipments due to an extended shipping season.

Automotive volume declined as a result of decreases in U.S. light vehicle production and railcar availability, due to disruptions across the U.S. multilevel network.

Forest and consumer volume declined, reflecting decreases in kaolin, lumber, and graphic paper traffic.

Merchandise revenues for the remainder of the year are expected to continue to be higher year-over-year, reflecting higher average revenue per unit, driven by pricing gains.

**Intermodal**

Intermodal revenue increased, driven by higher average revenue per unit, a result of pricing gains and increased fuel surcharge revenues, as well as volume growth.

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

| | First Quarter | | |
|---|---|---|---|
| | 2019 | 2018 | % change |
| Domestic | 656.3 | 671.7 | (2%) |
| International | 414.7 | 377.5 | 10% |
| Total | 1,071.0 | 1,049.2 | 2% |

Domestic volumes fell as a result of inclement winter weather in the Midwest and trailer lane rationalizations. International volumes rose due to increased demand from existing accounts.

Intermodal revenues for the remainder of the year are expected to continue to increase, driven by volume growth in addition to higher average revenue per unit due to pricing gains.

**Coal**

Coal revenues were relatively flat, as higher average revenue per unit, the result of pricing gains, was tempered by volume decreases.

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

| | First Quarter | | |
|---|---|---|---|
| | 2019 | 2018 | % change |
| Utility | 15,755 | 15,865 | (1%) |
| Export | 6,388 | 7,238 | (12%) |
| Domestic metallurgical | 2,931 | 3,147 | (7%) |
| Industrial | 1,222 | 1,260 | (3%) |
| Total | 26,296 | 27,510 | (4%) |

Utility coal tonnage was relatively flat as volume declines due to plant outages and inclement weather were offset by higher volumes from increased network velocity and demand to replenish low stockpiles. Export coal tonnage dropped as a result of a decline in coal availability and weak thermal seaborne pricing. Domestic metallurgical coal tonnage fell due to customer sourcing changes and plant outages. Industrial coal tonnage decreased as a result of customer sourcing changes and pressure from natural gas conversions.

Coal revenues for the remainder of the year are expected to decline. Utility demand continues to be impacted by lower natural gas prices. Export will be impacted by a lower average revenue per unit, mainly the result of softening seaborne metallurgical prices, and reduced volume due to weak thermal seaborne pricing and supply issues.

**Railway Operating Expenses**

Railway operating expenses summarized by major classifications were as follows ($ in millions):

| | First Quarter | | |
|---|---|---|---|
| | 2019 | 2018 | % change |
| Compensation and benefits | $ 727 | $ 737 | (1%) |
| Purchased services and rents | 424 | 401 | 6% |
| Fuel | 250 | 266 | (6)% |
| Depreciation | 283 | 272 | 4% |
| Materials and other | 190 | 206 | (8%) |
| Total | $ 1,874 | $ 1,882 | — |

**Compensation and benefits** expense decreased as follows:

- employment levels (down $11 million),
- higher capitalized labor ($8 million),
- overtime and recrews (down $6 million),
- payroll taxes on stock-based compensation (down $4 million),
- other (down $1 million), and
- increased pay rates (up $20 million).

Average rail headcount for the quarter was down by about 175 compared with the first quarter 2018 and down by about 375 sequentially. We expect that headcount for the remainder of the year will continue to decline and that our year-end headcount will be down at least 500 as compared to prior year.

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

| | First Quarter | | |
|---|---|---|---|
| | 2019 | 2018 | % change |
| Purchased services | $ 346 | $ 318 | 9% |
| Equipment rents | 78 | 83 | (6%) |
| Total | $ 424 | $ 401 | 6% |

The rise in purchased services was largely the result of higher intermodal-related costs, increased technology-related expenses, and lower earnings in equity affiliates. Equipment rents fell, the result of increased network velocity.

**Fuel** expense, which includes the cost of locomotive fuel as well as other fuel used in railway operations, decreased primarily due to lower locomotive fuel prices (down 4%), as well as decreased consumption (down 1%).

**Materials and other** expenses decreased as follows ($ in millions):

| | First Quarter | | |
|---|---|---|---|
| | 2019 | 2018 | % change |
| Materials | $ 87 | $ 90 | (3%) |
| Casualties and other claims | 49 | 47 | 4% |
| Other | 54 | 69 | (22%) |
| Total | $ 190 | $ 206 | (8%) |

Materials costs decreased due primarily to lower locomotive repair costs. Casualties and other claims expenses increased, largely a result of higher costs related to environmental remediation matters, partially offset by lower derailment-related costs. Other expense decreased, reflecting higher gains from the sale of operating property.

**Other Income – Net**

Other income – net increased $36 million in the first quarter primarily driven by higher investment returns on corporate-owned life insurance.

**Income Taxes**

The first-quarter effective tax rate was 21.4% compared with 21.9% for the same period last year.  Both periods reflect favorable tax benefits on stock-based compensation. The current year also benefited from higher returns on corporate-owned life insurance, while the prior year included benefits of certain 2017 tax credits enacted retroactively by the Bipartisan Budget Act of 2018.

**FINANCIAL CONDITION AND LIQUIDITY**

Cash provided by operating activities, our principal source of liquidity, was $881 million for the first three months of 2019, compared with $816 million for the same period of 2018, primarily the result of improved operating results partially offset by increased interest payments. We had working capital deficits of $963 million at March 31, 2019, compared with $729 million at December 31, 2018. Cash, cash equivalents, and restricted cash totaled $499 million at March 31, 2019. We expect cash on hand combined with cash provided by operating activities will be sufficient to meet our ongoing obligations. 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, 2018 with the exception of additional lease obligations (see Note 8).

Cash used in investing activities was $350 million for the first three months of 2019, compared with $371 million in the same period last year, reflecting increased property sale proceeds partially offset by higher property additions.

Cash used in financing activities was $478 million in the first three months of 2019, compared with $63 million in the same period last year, largely the result of lower proceeds from borrowing and higher repurchases of Common Stock. We repurchased 2.9 million shares of Common Stock, totaling $500 million, in the first three months of 2019, compared to 2.1 million shares, totaling $300 million, in the same period last year.  The timing and volume of future share repurchases will be guided by our assessment of market conditions 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 total-debt-to-total capitalization ratio was 42.7% at March 31, 2019, and 42.0% at December 31, 2018.

We have in place and available a $750 million credit agreement expiring in May 2021, which provides for borrowings at prevailing rates and includes covenants. We had no amounts outstanding under this facility at both March 31, 2019, and December 31, 2018, and are in compliance with all of its covenants. We have a $400 million account receivable securitization program expiring in May 2019. We had $250 million outstanding under this program at March 31, 2019, and no amounts outstanding at December 31, 2018.

## 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 disclosure contained in our Form 10-K at December 31, 2018.

## 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.

### 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 with 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. Copies of our press releases and additional information about us is available at www.norfolksouthern.com, or you can contact our Investor Relations department by calling 757-629-2861.

## **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 March 31, 2019. Based on such evaluation, our officers have concluded that, at March 31, 2019, 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 first quarter of 2019, we implemented controls to support the adoption of the new lease accounting standard ASU No. 2016-02, *"Leases (Topic 842)*." We have not identified any other 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 findings are subject to appeal. 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.

**Item 1A. Risk Factors.**

The risk factors included in our 2018 Form 10-K remain unchanged and are incorporated herein by reference.

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

| Period | (a) Total Number of Shares (or Units) Purchased [1] | (b) Average Price Paid per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs [2] | (d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that may yet be purchased under the Plans or Programs [2] |
|---|---|---|---|---|
| January 1-31, 2019 | 1,089,814 | 160.66 | 1,089,201 | 38,278,718 |
| February 1-28, 2019 | 928,331 | 177.68 | 921,840 | 37,356,878 |
| March 1-31, 2019 | 894,511 | 180.45 | 893,393 | 36,463,485 |
| Total | 2,912,656 | | 2,904,434 | |

(1) Of this amount, 8,222 represent shares tendered by employees in connection with the exercise of options under the stockholder-approved Long-Term Incentive Plan.

(2) 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 March 31, 2019, 36.5 million shares remain authorized for repurchase.

**Item 6. Exhibits.**

| | |
|---|---|
| 3(ii) | The Bylaws of Norfolk Southern Corporation, as amended March 26, 2019, are incorporated by reference to Exhibit 3(ii) to Norfolk Southern Corporation's Form 8-K filed on March 26, 2019. |
| 10.1 | A Construction Agency Agreement, dated March 1, 2019, between Norfolk Southern Railway Company ("NSRC") and BA Leasing BSC, LLS. This Agreement is incorporated by reference herein to Exhibit 10.1 to Norfolk Southern Corporation's Form 8-K filed March 5, 2019. |
| 10.2 | A Lease Agreement, dated March 1, 2019, between NSRC and BA Leasing BSC, LLS. This Agreement is incorporated by reference herein to Exhibit 10.2 to Norfolk Southern Corporation's Form 8-K filed March 5, 2019. |
| 10.3 | A Participation Agreement, dated March 1, 2019, between NSRC and BA Leasing BSC, LLS, Bank of America, N.A. as Administrative Agent, and each of the Rent Assignees listed on Schedule II thereto. This Agreement is incorporated by reference herein to Exhibit 10.3 to Norfolk Southern Corporation's Form 8-K filed March 5, 2019. |
| 10.4 | Guaranty of NSRC's obligations under the Participation Agreement, Construction Agency Agreement, Lease Agreement and related documents by Norfolk Southern Corporation. This Agreement is incorporated by reference herein to Exhibit 10.4 to Norfolk Southern Corporation's Form 8-K filed March 5, 2019. |
| 10.5*,** | Form of Norfolk Southern Corporation Long-Term Incentive Plan, Off-Cycle Award Agreement for Non-Qualified Stock Options as approved by the Compensation Committee on April 23, 2019. |
| 10.6*,** | Form of Norfolk Southern Corporation Long-Term Incentive Plan, Off-Cycle Award Agreement for Performance Share Units as approved by the Compensation Committee on April 23, 2019. |
| 10.7*,** | Form of Norfolk Southern Corporation Long-Term Incentive Plan, Off-Cycle Award Agreement for Restricted Stock Units as approved by the Compensation Committee on April 23, 2019. |
| 10.8* | Norfolk Southern Corporation Executives' Deferred Compensation Plan, as amended and restated effective January 1, 2019 is incorporated by reference to Exhibit 10(ww) to Norfolk Southern's Form 10-K filed on February 8, 2019. (See SEC File No. 001-08339) |
| 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 first quarter of 2019, formatted in Inline Extensible Business Reporting Language (iXBRL) includes (i) the Consolidated Statements of Income for the first quarter of 2019 and 2018; (ii) the Consolidated Statements of Comprehensive Income for the first quarter of 2019 and 2018; (iii) the Consolidated Balance Sheets at March 31, 2019 and December 31, 2018; (iv) the Consolidated Statements of Cash Flows for the first three months of 2019 and 2018; (v) the Consolidated Statements of Changes in Stockholders' Equity for the first quarter of 2019 and 2018; and (vi) the Notes to Consolidated Financial Statements. |

* *Management contract or compensatory arrangement.*

** *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: | April 24, 2019 | /s/ Jason A. Zampi |
| | | Jason A. Zampi<br>Vice President and Controller<br>(Principal Accounting Officer) (Signature) |
| Date: | April 24, 2019 | /s/ Denise W. Hutson |
| | | Denise W. Hutson<br>Corporate Secretary (Signature) |

**Exhibit 10.5**

## Norfolk Southern Corporation Long-Term Incentive Plan
## Form of Off-Cycle Award Agreement

## Non-Qualified Stock Option

This AGREEMENT dated as of <Date> (Award Date), between NORFOLK SOUTHERN CORPORATION (Corporation), a Virginia corporation, and <Employee Name> (Participant), Employee ID No. <Emp_Id>.

1. Award Contingent Upon Execution of this Agreement and of Non-Compete. This Award is contingent upon the Participant's execution of this Agreement and the associated non-compete agreement, which is a condition precedent to this Award. This Award shall be void, and the Participant shall not be entitled to any rights hereunder, unless the Participant executes the non-compete agreement on or before <Date>, and thereafter fully complies with its terms.

2. Terms of Plan Govern. Each Award made hereunder is made pursuant to the Norfolk Southern Corporation Long-Term Incentive Plan (Plan), all the terms and conditions of which are deemed to be incorporated in this Agreement and which forms a part of this Agreement. The Participant agrees to be bound by all the terms and provisions of the Plan and by all determinations of the Committee thereunder. Capitalized terms used in this Agreement but not defined herein shall have the same meanings as in the Plan.

3. Award of Non-Qualified Stock Option. The Corporation hereby grants to the Participant on Award Date a Non-Qualified Stock Option (NQSO) to purchase <#_of_NQSOs> shares of the Corporation's Common Stock at a price of $<Share Price> per share.

(a) Duration of Option. This Option (to the extent not earlier exercised) will expire at 11:59 p.m. on <Date>, being ten (10) years from the Award Date for NQSOs awarded in January of the current year ("On-Cycle Award Date"). However, this Option is subject to earlier termination if the Participant's employment with the Corporation or a Subsidiary Company is terminated for a reason other than Disability or death, as follows: (i) if the Participant's employment is terminated because of the Participant's Retirement, the Option shall expire on the earlier of 11:59 p.m. on <Date> or 11:59 p.m. on the date that is five years after date of the Participant's Retirement; (ii) if the Participant's employment is terminated for any other reason, the Option shall expire at the close of business on the last day of active service by the Participant with the Corporation or a Subsidiary Company. If the Participant is granted a leave of absence and his or her employment with the Corporation or a Subsidiary Company terminates at any time during or at the end of the leave of absence, the Option grant shall expire at the close of business on the last day of employment with the Corporation or a Subsidiary Company.

Notwithstanding the foregoing, if the Participant Engages in Competing Employment within a period of two years following Retirement or Disability, the term of this Option shall terminate immediately, and all rights of the Participant to such Options shall terminate immediately without further obligation on the part of the Corporation or any Subsidiary Company. A Participant "Engages in Competing Employment" if the Participant works for or provides services for any Competitor, on the Participant's own behalf or on behalf of others, including, but not limited to, as a consultant, independent contractor, director, owner, officer, partner, joint venturer, or employee. For this purpose, a "Competitor" is any entity in the same line of business as the Corporation in North American markets in which the Corporation competes, including, but not limited to, any North American Class I rail carrier, any other rail carrier competing with the Corporation (including without limitation a holding or other company that controls or operates or is otherwise affiliated with any rail carrier competing with the Corporation), and any other provider of transportation services competing with Corporation, including motor and water carriers.

In addition, notwithstanding the foregoing, term of this Option shall terminate immediately, and all rights of the Participant to such Options shall terminate immediately without further obligation on the part of the Corporation or any Subsidiary Company, if:

i. the Participant's employment is terminated by reason of the Retirement or Disability of the Participant, and
ii. it is determined that the Participant engaged in any of the following:
   A. the Participant engaged in an act of fraud, embezzlement or theft in connection with the Participant's duties or in the course of the Participant's employment with the Corporation or Subsidiary Company; or
   B. the Participant disclosed confidential information in violation of a confidentiality agreement with the Corporation or a Subsidiary Company, or otherwise in violation of the law.

A determination under this paragraph shall be made by the Committee with respect to a participant who was, at any time, employed at the level of Vice President or above, and this determination shall be made by the Vice President Human Resources with respect to all other participants, and in either situation upon consultation with the Corporation's chief legal officer.

Participant understands that nothing in this Agreement (1) prohibits or impedes Participant from reporting possible violations of federal law or regulation to any governmental agency or entity (including but not limited to the Department of Justice, the Securities and Exchange Commission (SEC), the Congress, and any agency Inspector General), from making other disclosures that are protected under the whistleblower provisions of federal law or regulation, or from receiving a monetary award from the SEC related to participation in an SEC investigation or proceeding, or (2) requires Participant to obtain prior authorization of the Corporation to make any such reports or disclosures or to notify the Corporation of such reports or disclosures.

(b) Exercise of Option. This Option may be exercised in whole or in part at any time or times prior to its expiration; provided that the first exercise of this Option shall not occur before the fourth anniversary of the On-Cycle Award Date. Notwithstanding the foregoing, if the Participant's employment with the Corporation or a Subsidiary Company is terminated by reason of the Participant's Retirement or death before the fourth anniversary of the date on which the Option was granted, the Participant (or, in the case of death, the Participant's Beneficiary) may first exercise this Option on the later of the first anniversary of the date on which this Option was granted or the effective date of the Participant's Retirement or death. Notice of the exercise of all or any part of this Option shall be given in the manner prescribed by the Secretary of the Corporation. Such notice shall be irrevocable, shall specify the number of shares to be purchased and the purchase price to be paid therefore, and must be accompanied by the payment of the purchase price as provided in paragraph 3(c) herein. Upon the exercise of such Option, the Common Stock purchased will be distributed.

(c) Payment of Option Price. The purchase price of Common Stock upon exercise of this Option shall be paid in full to the Corporation at the time of the exercise of the Option in cash or by the surrender to the Corporation of shares of previously acquired Common Stock which shall have been held by the Participant for at least six (6) months and which shall be valued at Fair Market Value on the date the Option is exercised, or by a combination of cash and such Common Stock.

(d) Nontransferability. This Option may be exercised during the lifetime of the Participant only by the Participant, and following death only by the Participant's Beneficiary. If a Beneficiary dies after the Participant dies but before the Option is exercised and before such rights expire, such rights shall become assets of the Beneficiary's estate. Except as provided in this paragraph, Options may not be assigned or alienated, whether voluntarily or involuntarily including, without limitation, under any domestic relations order, and any such attempted assignment or alienation shall be null, void and of no effect.

4. Dividend Equivalent Payments. Except as otherwise provided herein, for a period from the date of the Agreement to four (4) years from the On-Cycle Award Date, the Corporation shall make to the Participant who holds an option under this Agreement on the declared record date a cash payment on the

outstanding shares of Common Stock covered by this Option, payable on the tenth (10th) day of March, June, September and December, in an amount equal to dividends declared by the Board of Directors of the Corporation and paid on Common Stock. If the employment of the Participant is terminated for any reason, including Retirement, Disability or death, prior to the declared record date for any dividend, the Corporation shall have no further obligation to make any payments commensurate with dividends on shares of Common Stock covered by this Option. Each dividend equivalent shall be equal to the amount of the regular quarterly dividend paid in accordance with the Corporation's normal dividend payment practice as may be determined by the Committee, in its sole discretion. Dividend equivalent payments shall not be made during a Participant's leave of absence.

5. Savings Clause for Rules of Professional Responsibility. Nothing contained in this Agreement will operate or be construed to restrict a lawyer in the practice of law in contravention of Rule 5.6 of the Virginia Rules of Professional Conduct or a similar professional conduct rule applicable to a lawyer who is an active member of any other state bar.

6. Recoupment. The Participant acknowledges that the Corporation shall recover from any Participant who is a current or former executive officer all or any portion of any exercised Options to the extent required by Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Public Law No. 111-203, or as may otherwise be required by law.

7. Governing Law. The Participant agrees that this Award shall be governed by and interpreted in accordance with the laws of the Commonwealth of Virginia without regard to Virginia's choice of law rules. The Participant consents to the personal jurisdiction of the federal and/or state courts serving the Commonwealth of Virginia and waives any defenses of forum non conveniens. The Participant agrees that any and all initial judicial actions related to this Award shall only be brought in the United States District Court for the Eastern District of Virginia, Norfolk Division or the appropriate state court in the City of Norfolk, Virginia regardless of the place of residence or work location of the Participant at the time of such action.

IN WITNESS WHEREOF, the Corporation has caused this Agreement to be executed by its duly authorized officer, and the Participant has executed this Agreement by his or her electronic acceptance hereof, in acceptance of the above-mentioned Award, subject to the terms of the Plan and of this Agreement, all as of the day and year first above written.

By:

**NORFOLK SOUTHERN CORPORATION**

**Exhibit 10.6**

# Norfolk Southern Corporation Long-Term Incentive Plan
# Form of Off-Cycle Award Agreement

## Performance Share Units

This AGREEMENT dated as of <Date> (Award Date), between NORFOLK SOUTHERN CORPORATION (Corporation), a Virginia corporation, and <Employee Name> (Participant), Employee ID No. <Emp_Id>.

1. Award Contingent Upon Execution of this Agreement and of Non-Compete. This Award is contingent upon the Participant's execution of this Agreement and the associated non-compete agreement, which is a condition precedent to this Award. This Award shall be void, and the Participant shall not be entitled to any rights hereunder, unless the Participant executes the non-compete agreement on or before <Date>, and thereafter fully complies with its terms.

2. Terms of Plan Govern. Each Award made hereunder is made pursuant to the Norfolk Southern Corporation Long-Term Incentive Plan (Plan), all the terms and conditions of which are deemed to be incorporated in this Agreement and which forms a part of this Agreement. The Participant agrees to be bound by all the terms and provisions of the Plan and by all determinations of the Committee thereunder. Capitalized terms used in this Agreement but not defined herein shall have the same meanings as in the Plan.

3. Award of Performance Share Units. The Corporation hereby confirms an Award to the Participant on Award Date of <PSUs> Performance Share Units (PSUs). The award of PSUs shall entitle the Participant to receive shares of Common Stock of the Corporation upon the Corporation's achievement over a Performance Cycle of performance goals established by the Committee in January of the current year for the selected Performance Criteria. The determination of whether the performance goals were achieved shall be a two-step calculation, as follows:

(a) The initial Performance Criterion will be the average of the Corporation's annual after-tax returns on average invested capital for the three-year Performance Cycle beginning January 1 of the current year.

(b) The final number of PSUs earned will be determined by multiplying the number of PSUs earned under (a) by a total shareholder return factor based on the ranking of the three-year total return to the Corporation's stockholders as compared with the total shareholder return on the publicly traded stocks of the other North American Class I railroads (which, as of the Award Date, are Canadian National Railway Company, Canadian Pacific Railway Limited, CSX Corporation, Kansas City Southern and Union Pacific Corporation), as set forth in the following table:

| | TSR Modifier |
|---|---|
| Rank 1 | 1.250 |
| Rank 2 | 1.125 |
| Rank 3 or 4 | 1.000 |
| Rank 5 | 0.875 |
| Rank 6 | 0.750 |

For this purpose, the three-year total return shall be measured using the closing price per share of stock or equivalent on the New York Stock Exchange (or if unavailable, on another U.S. stock exchange) as determined during the 20 days on which stock is traded ending on and including December 31 of the prior year and December 31 of the end of the three-year performance cycle or, if a stock is not traded on that day, on the most recent trading day immediately preceding such date. A company will be excluded from the ranking if it ceases to be publicly traded at any time during the three-year period as a result of the company's being acquired by another company or going private, but included and ranked at the bottom of the group if the company ceases to be publicly traded as a result of becoming subject to a bankruptcy, reorganization or liquidation proceeding.

4. Forfeiture of Performance Share Units.

(a) If the Participant's employment is terminated for any reason other than the Participant's Retirement, Disability or death before the expiration of the Performance Cycle, or if the Participant's employment is terminated by reason of the Participant's Retirement before October 1 of the current year, then all PSUs awarded hereunder shall be forfeited immediately and all the Participant's rights to such shares shall terminate immediately without further obligation on the part of the Corporation or any Subsidiary Company.

(b) If the Participant is granted a leave of absence before the end of the Performance Cycle, the Participant shall not forfeit rights with respect to any Performance Shares that were being earned during the Performance Cycle, unless the Participant's employment with the Corporation or a Subsidiary Company terminates at any time during or at the end of the leave of absence and before the end of the Performance Cycle, at which time the Participant shall forfeit all rights with respect to any Performance Shares that were being earned during the Performance Cycle.

(c) Notwithstanding any provision of this Agreement to the contrary, if the Participant's employment is terminated by reason of the Retirement or Disability of the Participant, and if the Participant Engages in Competing Employment within a period of two years following Retirement or Disability and before the end of the Performance Cycle, the Participant shall immediately forfeit all rights with respect to any Performance Shares that were being earned during the Performance Cycle without further obligation on the part of the Corporation or any Subsidiary Company.

A Participant "Engages in Competing Employment" if the Participant works for or provides services for any Competitor, on the Participant's own behalf or on behalf of others, including, but not limited to, as a consultant, independent contractor, director, owner, officer, partner, joint venturer, or employee. For this purpose, a "Competitor" is any entity in the same line of business as the Corporation in North American markets in which the Corporation competes, including, but not limited to, any North American Class I rail carrier, any other rail carrier competing with the Corporation (including without limitation a holding or other company that controls or operates or is otherwise affiliated with any rail carrier competing with the Corporation), and any other provider of transportation services competing with Corporation, including motor and water carriers.

Moreover, notwithstanding the foregoing, the Participant shall immediately forfeit all rights with respect to any Performance Shares that were being earned during the Performance Cycle without further obligation on the part of the Corporation or any Subsidiary Company if:

i. the Participant's employment is terminated by reason of the Retirement or Disability of the Participant before the expiration of the Performance Cycle, and
ii. it is determined that the Participant engaged in any of the following:
    A. the Participant engaged in an act of fraud, embezzlement or theft in connection with the Participant's duties or in the course of the Participant's employment with the Corporation or Subsidiary Company; or
    B. the Participant disclosed confidential information in violation of a confidentiality agreement with the Corporation or a Subsidiary Company, or otherwise in violation of the law.

A determination under this paragraph shall be made by the Committee with respect to a participant who was, at any time, employed at the level of Vice President or above, and this determination shall be made by the Vice President Human Resources with respect to all other participants, and in either situation upon consultation with the Corporation's chief legal officer.

(d) Participant understands that nothing in this Agreement (1) prohibits or impedes Participant from reporting possible violations of federal law or regulation to any governmental agency or entity (including but not limited to the Department of Justice, the Securities and Exchange Commission (SEC), the Congress, and any agency Inspector General), from making other disclosures that are protected under the whistleblower provisions of federal law or regulation, or from receiving a monetary award from the SEC related to participation in an SEC investigation or proceeding, or (2) requires Participant to obtain prior authorization of the Corporation to make any such reports or disclosures or to notify the Corporation of such reports or disclosures.

5. Distribution of Performance Share Units.

Any PSUs earned at the end of the three-year Performance Cycle shall be distributed in whole shares of Common Stock of the Corporation, subject to tax withholding as provided in Section 7 of this Agreement, and unless otherwise determined by the Corporation any fractional share shall be added to the federal tax withholding amount.

Except as provided in Section 4, if a Participant's employment is terminated before the end of the Performance Cycle by reason of the Participant's Retirement after September 30 of the current year, or by reason of the Participant's Disability or death, the Participant's rights with respect to any Performance Shares being earned during the Performance Cycle shall continue as if the Participant's employment had continued through the end of the Performance Cycle.

No dividend equivalent payments shall be made with respect to the award of PSUs hereunder.

6. Savings Clause for Rules of Professional Responsibility. Nothing contained in this Agreement will operate or be construed to restrict a lawyer in the practice of law in contravention of Rule 5.6 of the Virginia Rules of Professional Conduct or a similar professional conduct rule applicable to a lawyer who is an active member of any other state bar.

7. Tax Withholding. The minimum necessary tax withholding obligation with respect to an award of PSUs will be satisfied with shares of Common Stock of the Corporation based on the Fair Market Value of the Corporation's Common Stock on the first day on which such stock is traded after a full trading day has elapsed following the release of the Corporation's annual financial information for the last year of the Performance Cycle, regardless of when any such Common Stock is actually delivered to the Participant's account. Unless otherwise determined by the Corporation, the value of any fractional share amount created as a result of withholding will be added to the federal tax withholding amount.

8. Nontransferability. This Agreement and the PSUs granted to the Participant shall not be subject to any assignment, pledge, levy, garnishment, attachment or other attempt to assign or alienate such shares prior to their delivery to Participant, including, without limitation, under any domestic relations order, and any such attempted assignment or alienation shall be null, void and of no effect.

9. Recoupment. The Participant acknowledges that the Corporation shall recover from any Participant who is a current or former executive officer all or any portion of any PSUs awarded to the extent required by Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Public Law No. 111-203, or as may otherwise be required by law. In addition, any Participant who at any time is a Board-elected officer at the level of Vice President or above agrees that he will, upon the demand of the Board of Directors, reimburse all or any portion of PSUs awarded if (a) financial results are restated due to the material noncompliance of the Corporation with any financial reporting requirement under the securities laws, (b) a lower PSU distribution would have been made to the officer based upon the restated financial results, and (c) the PSUs were distributed within the three-year period prior to the date the applicable restatement was disclosed. The Participant acknowledges and agrees that the Board of Directors or the Corporation may, without waiving any other legal remedy allowed by law, deduct the full amount of such repayment obligation from any amounts the Corporation then owes, or will in the future owe, to the Participant. Nothing in this Agreement shall waive the Committee's, Board of Directors' or Corporation's rights to take any such other action as the Committee, Board of Directors or the Corporation may deem appropriate in view of all the facts surrounding the particular financial restatement.

10. Governing Law. The Participant agrees that this Award shall be governed by and interpreted in accordance with the laws of the Commonwealth of Virginia without regard to Virginia's choice of law rules. The Participant consents to the personal jurisdiction of the federal and/or state courts serving the Commonwealth of Virginia and waives any defenses of forum non conveniens. The Participant agrees that any and all initial judicial actions related to this Award shall only be brought in the United States District Court for the Eastern District of Virginia, Norfolk Division or the appropriate state court in the City of Norfolk, Virginia regardless of the place of residence or work location of the Participant at the time of such action.

IN WITNESS WHEREOF, the Corporation has caused this Agreement to be executed by its duly authorized officer, and the Participant has executed this Agreement by her electronic acceptance hereof, in acceptance of the above-mentioned Award, subject to the terms of the Plan and of this Agreement, all as of the day and year first above written.

By:

**NORFOLK SOUTHERN CORPORATION**

**Exhibit 10.7**

# Norfolk Southern Corporation Long-Term Incentive Plan
# Form of Off-Cycle Award Agreement

## Restricted Stock Units

This AGREEMENT dated as of <Date> (Award Date), between NORFOLK SOUTHERN CORPORATION (Corporation), a Virginia corporation, and <Employee Name> (Participant), Employee ID No. <Emp_Id>.

1. Award Contingent Upon Execution of this Agreement and of Non-Compete. This Award is contingent upon the Participant's execution of this Agreement and the associated non-compete agreement, which is a condition precedent to this Award. This Award shall be void, and the Participant shall not be entitled to any rights hereunder, unless the Participant executes the non-compete agreement on or before <Date>, and thereafter fully complies with its terms.

2. Terms of Plan Govern. Each Award made hereunder is made pursuant to the Norfolk Southern Corporation Long-Term Incentive Plan (Plan), all the terms and conditions of which are deemed to be incorporated in this Agreement and which forms a part of this Agreement. The Participant agrees to be bound by all the terms and provisions of the Plan and by all determinations of the Committee thereunder. Capitalized terms used in this Agreement but not defined herein shall have the same meanings as in the Plan.

3. Award of Restricted Stock Units. The Corporation hereby grants to the Participant on Award Date <#_of_RSUs> Restricted Stock Units. Each Restricted Stock Unit is a contingent right to receive a Restricted Stock Unit Share, subject to the restrictions and other terms and conditions set forth in the Plan and this Agreement. Each Restricted Stock Unit shall equal the Fair Market Value of one share of the Common Stock of the Corporation on the date all applicable restrictions lapse.

The Participant's Award of Restricted Stock Units shall be recorded in a memorandum account. The Participant shall have no beneficial ownership interest in the Common Stock of the Corporation represented by the Restricted Stock Units awarded. The Participant shall have no right to vote the Common Stock represented by the Restricted Stock Units awarded or to receive dividends, except for Dividend Equivalent payments as set forth below.

(a) Restriction Periods. The Restricted Stock Units are subject to Restriction Periods which shall terminate ratably in three installments, with the first Restriction Period terminating on the second anniversary of the On-Cycle Award Date, and the subsequent Restriction Periods terminating on the third and fourth anniversaries of the On-Cycle Award Date, or if Corporation's Common Stock is not traded on any such termination date, on the next date on which the Corporation's Common Stock is traded. If the termination of a Restriction Period will result in a fractional share, then the amount shall be rounded down to the nearest whole share and the Restriction Period for all fractional shares shall terminate upon the expiration of the last Restriction Period for the Award. For purposes of this Agreement, "On-Cycle Award Date" shall mean the Award Date for RSUs awarded in January of the current year.

(b) Restrictions. Until the expiration of the Restriction Period or the lapse of restrictions in the manner provided in paragraph 3(c) of this Agreement, Restricted Stock Units shall be subject to the following restrictions:

i. the Participant shall not be entitled to receive the Restricted Stock Unit Shares to which the Participant may have a contingent right to receive in the future;

ii. the Restricted Stock Units may not be sold, transferred, assigned, pledged, conveyed, hypothecated, used to exercise options or otherwise disposed of; and

iii. the Restricted Stock Units may be forfeited immediately as provided in this Agreement and in the Plan.

(c) Forfeiture of Restricted Stock Units.

i. If the Participant's employment is terminated by reason of the Retirement of the Participant before October 1, <year of grant>, then the Restricted Stock Units shall be forfeited immediately and all rights of the Participant to such Units shall terminate immediately without further obligation on the part of the Corporation or any Subsidiary Company.

ii. If the Participant's employment is terminated for any reason other than Retirement, Disability or death, any Restricted Stock Units that are subject to a Restriction Period shall be forfeited immediately without further obligation on the part of the Corporation or any Subsidiary Company, and all rights of the Participant with respect to such Restricted Stock Units shall terminate. If the Participant is granted a leave of absence before the expiration of the Restriction Period, the Participant shall not forfeit any rights with respect to any Restricted Stock Units subject to the Restriction Period, except for Dividend Equivalent Payments as provided in Section 4 of this Agreement, unless the Participant's employment with the Corporation or a Subsidiary Company terminates at any time during or at the end of the leave of absence and before the expiration of the Restriction Period, at which time all rights of the Participant with respect to such Restricted Stock Units shall terminate without further obligation on the part of the Corporation or any Subsidiary Company.

iii. Notwithstanding any provision of this Agreement to the contrary, if the Participant's employment is terminated by reason of the Retirement or Disability of the Participant, and the Participant Engages in Competing Employment within a period of two years following Retirement or Disability, and before the expiration of the Restriction Period, then any Restricted Stock Units subject to a Restriction Period shall be forfeited immediately and all rights of the Participant to such Units shall terminate without further obligation on the part of the Corporation or any Subsidiary Company.

A Participant "Engages in Competing Employment" if the Participant works for or provides services for any Competitor, on the Participant's own behalf or on behalf of others, including, but not limited to, as a consultant, independent contractor, director, owner, officer, partner, joint venturer, or employee. For this purpose, a "Competitor" is any entity in the same line of business as the Corporation in North American markets in which the Corporation competes, including, but not limited to, any North American Class I rail carrier, any other rail carrier competing with the Corporation (including without limitation a holding or other company that controls or operates or is otherwise affiliated with any rail carrier competing with the Corporation), and any other provider of transportation services competing with Corporation, including motor and water carriers.

Moreover, notwithstanding any provision of this Agreement to the contrary, the Restricted Stock Units shall be forfeited immediately and all rights of the Participant to such Units shall terminate if:

A. the Participant's employment is terminated by reason of the Retirement or Disability of the Participant before the expiration of the Restriction Period, and
B. it is determined that the Participant engaged in any of the following:
    1. the Participant engaged in an act of fraud, embezzlement or theft in connection with the Participant's duties or in the course of the Participant's employment with the Corporation or Subsidiary Company; or
    2. the Participant disclosed confidential information in violation of a confidentiality agreement with the Corporation or a Subsidiary Company, or otherwise in violation of the law.

A determination under this paragraph shall be made by the Committee with respect to a participant who was, at any time, employed at the level of Vice President or above, and this determination shall be made by the Vice President Human Resources with respect to all other participants, and in either situation upon consultation with the Corporation's chief legal officer.

Participant understands that nothing in this Agreement (1) prohibits or impedes Participant from reporting possible violations of federal law or regulation to any governmental agency or entity (including but not limited to the Department of Justice, the Securities and Exchange Commission (SEC), the Congress, and any agency Inspector General), from making other disclosures that are protected under the whistleblower provisions of federal law or regulation, or from receiving a monetary award from the SEC related to participation in an SEC investigation or proceeding, or (2) requires Participant to obtain prior authorization of the Corporation to make any such reports or disclosures or to notify the Corporation of such reports or disclosures.

(d) Distribution of Restricted Stock Units.

i. Restricted Stock Units that are not forfeited as provided above shall vest upon the expiration of each Restriction Period. Notwithstanding the foregoing, if the Participant dies while employed by the Corporation, or the Participant dies after Retirement or Disability, then the Restricted Stock Units shall all vest upon the Participant's death, and all the Restricted Periods on the Restriction Stock Units shall lapse immediately.

ii. Upon each vesting and expiration of the Restriction Periods applicable to the Restricted Stock Units, whole shares of Common Stock of the Corporation equal to the Fair Market Value of the Restricted Stock Units on the date the applicable restrictions of the Restricted Stock Units have lapsed shall be distributed to the Participant or the Participant's Beneficiary in the event of the Participant's death, subject to tax withholding as provided in Section 6 of this Agreement.

iii. The Committee, in its sole discretion, may waive any or all restrictions with respect to Restricted Stock Units. Notwithstanding any waiver, any delivery of Restricted Stock Units to the Participant may not be made earlier than delivery would have been made absent such waiver of restrictions.

4. Dividend Equivalent Payments. Except as otherwise provided herein, the Corporation shall make to a Participant who holds Restricted Stock Units on the declared record date a cash payment on the number of shares of Common Stock represented by the Restricted Stock Units held by Participant on such record date. The dividend equivalent payment shall be payable on the tenth (10th) day of March, June, September, and December. Each dividend equivalent shall be equal to the regular quarterly dividend declared by the Board of Directors of the Corporation and paid on Common Stock and shall be paid in accordance with the Corporation's normal dividend payment practice as may be determined by the Committee, in its sole discretion. Dividend equivalent payments shall not be made during a Participant's leave of absence.

5. Savings Clause for Rules of Professional Responsibility. Nothing contained in this Agreement will operate or be construed to restrict a lawyer in the practice of law in contravention of Rule 5.6 of the Virginia Rules of Professional Conduct or a similar professional conduct rule applicable to a lawyer who is an active member of any other state bar.

6. Tax Withholding. The minimum necessary tax withholding obligation with respect to an award of Restricted Stock Units will be satisfied with shares of Common Stock of the Corporation based on the Fair Market Value of the Corporation's Common Stock on the expiration of the Restriction Period with respect to such Restricted Stock Units, regardless of when any such Common Stock is actually delivered to the Participant's account. Unless otherwise determined by the Corporation, the value of any fractional share amount created as a result of withholding will be added to the federal tax withholding amount.

7. Nontransferability. This Agreement and the RSUs granted to the Participant shall not be subject to any assignment, pledge, levy, garnishment, attachment or other attempt to assign or alienate such shares prior to their delivery to Participant, including, without limitation, under any domestic relations order, and any such attempted assignment or alienation shall be null, void and of no effect.

8. Governing Law. The Participant agrees that this Award shall be governed by and interpreted in accordance with the laws of the Commonwealth of Virginia without regard to Virginia's choice of law rules. The Participant consents to the personal jurisdiction of the federal and/or state courts serving the Commonwealth of Virginia and waives any defenses of forum non conveniens. The Participant agrees that any and all initial judicial actions related to this Award shall only be brought in the United States District Court for the Eastern District of Virginia, Norfolk Division or the appropriate state court in the City of Norfolk, Virginia regardless of the place of residence or work location of the Participant at the time of such action.

IN WITNESS WHEREOF, the Corporation has caused this Agreement to be executed by its duly authorized officer, and the Participant has executed this Agreement by her electronic acceptance hereof, in acceptance of the above-mentioned Award, subject to the terms of the Plan and of this Agreement, all as of the day and year first above written.

By:

**NORFOLK SOUTHERN CORPORATION**

**Exhibit 31-A**

## 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: April 24, 2019

/s/ James A. Squires

James A. Squires

Chairman, President and Chief Executive Officer

**Exhibit 31-B**

## CERTIFICATIONS

I, Cynthia C. Earhart, 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: April 24, 2019

/s/ Cynthia C. Earhart

Cynthia C. Earhart

Executive Vice President Finance and Chief Financial Officer

**Exhibit 32**

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 March 31, 2019, 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: April 24, 2019

I certify, to the best of my knowledge, that the Quarterly Report on Form 10-Q for the period ended March 31, 2019, 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/ Cynthia C. Earhart

Cynthia C. Earhart
Executive Vice President Finance and Chief Financial Officer
Norfolk Southern Corporation

Dated: April 24, 2019