

# Annual Meeting of Stockholders

## Norfolk, Va. - May 14, 2009

Prepared remarks by:

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**Norfolk Southern Corporation**



Before I begin my remarks, I invite you to view a brief video presentation highlighting your company's achievements and initiatives over the past year.

[Click here to view the video](#)

Obviously, circumstances have changed dramatically since 2008. As I wrote in the annual report, 2008 was a terrific year. Most of the images you just saw are a composite of scenes from our video annual report, which I hope you have seen on our Web site or on the DVD that came with your print version.

In the next few minutes, I'd like to review the state of our business today and how we're responding to the current economic conditions, and then talk about the opportunities and challenges we face for the rest of the year and beyond.

First, though, a couple of comments on our past performance: As most of you know, we enjoyed strong financials for the past five years as the conditions fell into place to favor rail as the solution to the nation's transportation crisis, and our 2008 results were certainly a continuation of the trend. 2008 operating revenue was a record \$10.7 billion. Net income last year was a record \$1.7 billion. The operating ratio of 71.1 was our best ever. We raised the annual dividend 27 percent and bought back 19.4 million shares of stock.

Our great run from 2004 through 2008 was driven by two factors – strong volume growth, which began in late 2003 and ran through 2006, and vastly improved pricing power, which began at about the same time and has continued up to the present. I'll comment a little later on our long-term expectations in terms of pricing, but our current traffic volumes are being seriously affected by the economic recession.

We very clearly saw the beginning of erosion in the housing market in the third quarter of 2006, our 2007 volumes ran 3 percent down, and that decline continued down another 3 percent in 2008. The declines we saw were driven by both housing-related commodities and an even longer-running downturn in our automotive business, but they were largely offset by other sectors of our business that were not yet affected by the economy.

The moderate decline in our traffic numbers continued up until about November last year, when someone just reached up and turned the light switch off. Beginning in November, volume tumbled 8 percent year over year. In December, it dropped between 16 and 17 percent year over year, and that continued in the first quarter of this year, when we saw volume down consistently at about 20 percent. Our April volumes were actually somewhat worse, with traffic down more than 25 percent, driven by a further softening in our coal business.

Compare that to the last recession we had in 1981-82, when volumes were down 10 percent year over year. So the impact today is twice or even greater than the last time we experienced anything like this.

Our current traffic levels and first-quarter financials reflect the national and global economy. Every major business group is down, some substantially: auto 45 to 50 percent; steel 40 to 45 percent; chemicals, intermodal, agriculture, paper and forest products, coal – all down, and obviously a cause for concern. Usually, we are diversified enough that strength in some of our business groups will offset weakness in other groups. As of today, that's just not happening.

One positive note in all of this is that our domestic intermodal has held up reasonably well. It was up 2 percent year over year for the first quarter, evidence that we still are seeing people wanting to convert to intermodal from the highway, which is very promising for the long term.

So how long will this downturn continue? I think that there is some chance that we may see a bottoming out in the second quarter, and I'm hopeful there is enough stimulus money out there that maybe we will see a little bounce in the second half of this year. But the fact of the matter is that while there is a lot of speculation going on, nobody knows when we'll start to see this economy recover.

The more important issue at hand is how Norfolk Southern is responding in light of the economy. Obviously, our primary focus is on cost control. We have been actively working to reduce crew starts and store surplus cars and locomotives to match up with reduced requirements, and we'll continue to move our cost structure lower as the recession continues. Norfolk Southern has a long history of effective cost control, and we'll respond effectively to the current downturn.

However, as we reduce expenses, we're also very mindful that we not diminish our service levels or do anything that will hamper our ability to grow and respond appropriately.

When the economy rebounds, and it will, we will be ready to capture the maximum possible benefits. An example is our capital spending program for this year. We have identified about \$125 million in reductions for the year and are planning on making these reductions barring a rapid economic turnaround. However, our revised forecast is still the third highest in our history and will set the stage for future growth as well as keep our property in good operating condition.

Longer term, it will get better. It's important to keep an eye on quarterly earnings, and we do, but we think it's more important to manage for the future, because the decisions we make today are

the decisions that will be important five years from now. Rail's future and our potential to help solve our nation's transportation crisis are as promising today as they have ever been.

The factors that drove our growth over the past five years – higher fuel efficiency in a world with rising energy costs along with ever-increasing highway congestion – are still there, along with our superior performance in terms of emissions and sustainability. The fact that we are three- to four-times more efficient than trucks in terms of fuel consumption and emissions resonates with more and more of our customers as well as public policy leaders and the general public.

However, there is another piece important to the long-term health of the rail industry. Capitol Hill legislation that would in effect reregulate the industry and also repeal the railroads' limited antitrust exemptions could seriously cripple Norfolk Southern and other U.S. railroads.

If current legislative efforts are successful, it would be a disastrous impediment to capital investments in the rail industry at the very time they are most needed to help the nation get out of its transportation crisis. We are in talks with congressional staff to find a compromise to preserve balanced regulation. By preserving balanced regulation, the freight railroads will be ready to serve the nation when the economy recovers. I ask for your support in this critical effort to keep the freight rail industry healthy.

I'll conclude by saying again that the fundamentals of our business are very strong. While it's easy in our business to make short-term decisions that will come back to haunt us, we're staying focused on Track 2012 service and productivity improvements, another example of our continuing investments in this downturn, and our longer-range plan to take Norfolk Southern to the next level of performance and shareholder returns.

We never lose sight of the fact that we're a service company, and we continually strive to improve our customer service by intensively managing all of our assets: people, infrastructure, equipment, and information. We know that providing a superior level of service provides higher value for our customers, and, as I said earlier, we have been able to realize that higher value in our pricing and anticipate that we will continue to do so in the future.

Lastly, I want to mention our most critical asset at Norfolk Southern, the people who run it every day. I'm very proud that our people continue to lead the industry to make us the nation's safest railroad. Winning the Harriman Gold Medal Award for 19 years is a truly remarkable performance and a tribute to the hard work of a great many people all across our company. Safety is at the core of everything we do at Norfolk Southern, and it's really the cornerstone of Norfolk Southern's culture.

We are a great company, and we have a lot to look forward to as “the future of transportation.”

Thank you.