

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

NSC - Norfolk Southern Corp 2014 Investor and Financial Analyst
Conference (Bellevue)

EVENT DATE/TIME: SEPTEMBER 23, 2014 / 5:00PM GMT



CORPORATE PARTICIPANTS

John Fleps *Norfolk Southern Corporation - Division Engineer for the Legal Division*

Katie Cook *Norfolk Southern Corporation - IR Director*

Mark Manion *Norfolk Southern Corporation - COO*

Jerry Hall *Norfolk Southern Corporation - VP - Network & Service Management*

Mark Dewberry *Norfolk Southern Corporation - Chief Engineer - Design & Construction*

Don Graab *Norfolk Southern Corporation - VP - Mechanical*

Wick Moorman *Norfolk Southern Corporation - Chairman, CEO*

PRESENTATION

John Fleps - *Norfolk Southern Corporation - Division Engineer for the Legal Division*

Good afternoon.

Unidentified Speaker

Good afternoon.

John Fleps - *Norfolk Southern Corporation - Division Engineer for the Legal Division*

All right. I hope everyone enjoyed their trip over to Bellevue this afternoon. Before we get started, I'm just going to lead you all through a quick job briefing. My name is John Fleps, I'm the division engineer for the Leg Division.

We're located here in the E5 Building at Bellevue Terminal. If we ask you evacuate for any reason, we'll head out the doors directly behind you. Take a left in the hallway and exit into the parking lot. I'll be the last one out of the room. I have a head count of the ones who's here and we'll make sure everyone's in their place when we get out to the parking lot for further instructions.

Our terminal superintendent Will Washington will be our designated 911 caller. He can also go to the entrance to the terminal, bring nay emergency responders in if needed.

Can I get a quick show hands for anyone who's CPR certified in the room to take a good quick look around you? Make note of anyone nearby just in case we need them.

We also have defibrillator in the back of the room here with us today. I don't think we'll need it but just in case. We have plenty of people trained on hand to use it if we do. As far as hazards in the room, we don't really have any present with us today but I'll just ask if you get up for any reason, please tuck your chairs in, keep the aisles clear for anyone who has to walk down.

If you need a drink or any coffee, got your lunches, there's drinks and coffee in the back of the room here. Restrooms are directly across the hall. That should about wrap it up.

Any questions regarding the briefing? All right. I'll turn it over to Ms. Katie Cook.



Katie Cook - Norfolk Southern Corporation - IR Director

Welcome to Bellevue. I think, Jeff, we're ready to go live with the webcast, right?

For those joining us through the webcast, the slides of the presenters are on our website nscorp.com in the investor section. Transcripts and mp3 downloads of today's call will be posted on our website for your convenience.

Please be advised that during this call, we may make certain forward-looking statements. These forward-looking statements are subject to a number of risks and uncertainties and actual results may differ materially from those projected.

Please refer to our annual and quarterly reports filed with the SEC for a full discussion of those risks and uncertainties we view as most important. Additionally, keep in mind that all references to reported results excluding certain adjustments, that is non-GAAP numbers, have been reconciled on our website in the investor section.

Now it is my pleasure to introduce Norfolk Southern Mark Manion.

Mark Manion - Norfolk Southern Corporation - COO

That sounds awfully official. Did everybody enjoy the train trip? I hope. Good.

Well, I tell you what, I know everybody has got a sandwich in one hand but I'm going to ask this anyway. We've got a bunch of people in our operating department that are with us here and they made that happen and I would just ask that we give them a short round of applause.

They are a terrific group. Let me just take a minute to introduce our presenters. We've got some really good presentation and you can be the judge of that.

First of all, first up we're going to have Jerry Hall who is our Vice President of Network Management and Jerry is going to talk about the tremendous leverage that we get when we move merchandise traffic from origin to destination with as few stops as possible.

Keeping in mind that the - just think about it this way, the average merchandise car wants to stop two or three times to get on different trains to get to destination to the extent that we can cut those switching events out, we can save ourselves a lot of money. Bottomline is this Bellevue project helps us do that in a big way and he will explain how that goes about.

Coming up after Jerry is going to be Mark Dewberry. Mark Dewberry is our Chief Engineer of Design and Construction and he's going to walk you through the actual Bellevue buildout project that has been going on now for the last two and a half years.

And then lastly, Don Graab who's our VP of Mechanical, Don is going to wrap up and he is going to talk about some specific examples where we're using new processes to our advantage and, of course, process - new better processes are our way that we are using to reduce our cost structure.

He's got some great examples including examples of new processes specifically for our mechanical department. They're making a big difference.

Okay. So those three presentations I think you will really enjoy all of them and with that, I'm going to call Jerry up first. Jerry, are you ready to take it away?

Jerry Hall - Norfolk Southern Corporation - VP - Network & Service Management

I'm ready.



Mark Manion - Norfolk Southern Corporation - COO

Okay. Here we go.

Jerry Hall - Norfolk Southern Corporation - VP - Network & Service Management

Okay. Can you hear me? Yes. Good.

As you can see from this map detailing Norfolk Southern's origin destination pairs, a great deal of our traffic moves to Northern Ohio. With over 32,000 origin destination pairs, the merchandise blocking network in essence is very complex.

We determined several years ago through our analysis that Bellevue is physically located at the right spot from NS network to minimize car handlings, reduce car miles and reduce transit times. We realized that increasing our capacity at Bellevue to handle more traffic would result to an improved service for our customers and reduced cost to NS.

One of the significant costs of operating our railroad is having to handle or switch cars in the rails or terminals, in yards of terminal I'll say. Anytime we can bypass the order terminal with the shipment, it reduces cost.

Not only that it reduced the cost associated with the crew having to switch the car but it also improves the velocity of the shipment, decreases the opportunity for mishandlings and creates additional capacity in the terminals where the handlings have been eliminated.

Now I'm going to show you a couple of examples of how expanding Bellevue will result in fewer handling. A little in the presentation, I will show you some more detailed examples of how this translates into an operating plan that reduce cost and improve service.

As you can see here, traffic movements from the Philadelphia area to the BNSF in Chicago currently get handled at four yards, Camden, Conway, Elkhart and Chicago. With additional capacity in Ohio, we will be able to accumulate all this traffic in Bellevue, build bigger blocks and run a solid train to the BNSF bypassing both Conway and Elkhart. The handlings will reduce from four to only two, Camden and Bellevue.

Another example is traffic movement from the Southeast to UP in Chicago. It currently gets handled at three yards, Chattanooga, Elkhart and Chicago. Again with the additional capacity in Bellevue, we'll be able to create blocks of cars to the net volume to run directly to the UP without having to be switched in Chicago. The handlings will reduce from three down to only two, Chattanooga and Bellevue.

Now the decision to expand our classification capabilities or ability to sort cars at Bellevue was not just a seat-of-the-pant type decision. We have computer modeling tool to help us examine opportunities to improve our network.

One modeling tool is the algorithm blocking and classification or what we call the ABC system which identifies and automatically routes traffic on the most efficient rail. ABC modeling most efficient plan was to route more traffic through Bellevue.

Another modeling tool is our operating plan developer or OPD which uses actual shipmen data to examine flawless-type scenarios and then quantify the impact of our network. OPD allows us to take a proposed service and determine the impact on items such as car miles, train miles and crew requirement.

Now by using both of these tools, ABC and OPD, it was evident that to improve service to our customers and to reduce our cost, additional traffic should be routed through Bellevue. However, there was not enough existing capacity at Bellevue to handle this additional traffic particularly in the classification yard.

By increasing the number of classification tracks at Bellevue, it allows us to build additional classifications or blocks of cars that they can gather enough of this volume and these blocks to bypass handlings at other terminals.

OPD helps us determine the volume changes we would see not only at Bellevue but also at our surrounding terminals at Elkhart, Conway and Columbus. This slide let's you know of additional trains that will originate and terminate in Bellevue as well as the reduction that will be - that we will see at Elkhart, Conway and Columbus.

As you can see after the expansion, the volume of traffic will increase by about 81% at Bellevue and additional capacity would be created to these other surrounding terminals. OPD also determines the number of additional trains that would operate on each route as a result of the increased traffic flowing into Bellevue. This slide identifies the traffic changes on the rail lines that come in and out of Bellevue in each direction.

As I mentioned earlier, I'm going to now show you some more detailed examples of how the increased fast track capacity in Bellevue translates into an improved operating plan by allowing us to build additional and bigger blocks for trains so that we can bypass terminals and reduce transit times.

For example, packing leaving from Moraine, Ohio to the CN's Kirk Yard near Chicago currently has to be handled at both Bellevue and Elkhart due to not having enough classification tracks in Norfolk Southern to separate out the CN cars.

Now into the new plan with additional capacity, the CN classification can be built right here at Bellevue allowing it to bypass Elkhart, eliminating one handling and reducing the transit time by one day and even greater savings that involved traffic moving from Bellevue to Detroit.

Again, due to not having enough classification tracks from Bellevue, we create Detroit buildups. We currently have to send all this traffic at Elkhart to be added to a train for Detroit. And around new plan with additional classification tracks, this traffic will be built up at Bellevue for direct delivery to Detroit. This will reduce the car miles, bypass handling at Elkhart and reduce the transit time by 2.3 days.

Now another advantage of rerouting traffic on the most efficient rail through Bellevue is it creates additional capacity at other terminals which opens up cost saving opportunity. For example, additional capacity created at Elkhart will allow us to perform what we call block swapping.

Block swapping is when you set a block of cars up at one train and then pick it up with the following train. The savings due to not having to send these cars over the hump can be grade classified.

A good example will be train 33E that originates at Bellevue moving a block of cars destined for the Union Pacific in Chicago and dropping it off at Elkhart. In train 35E that originates at Elkhart will now be able to pick up this block of cars in part rather than having to wait for them to be classified saving an entire day of oil.

There are four major categories of saving which were used to justify the Bellevue expansion project, Chicago area railroad savings, train overhead savings, yard locomotive savings and network savings. I'm going to a little detail on the major categories in the following slides.

In regard to the Chicago area railroad savings, as you can see from this amp depicting the major rail lines in Chicago, it is a very complex gateway. Due to our current capacity constraints, we've seen traffic daily into the belt railroad in Chicago to be switched and delivered to the other railroads. In a space of switch key fee for every car that is handled.

With the expansion of Bellevue, we'll be able to create those classifications ourselves and provide direct interchange to other carriers eliminating the extra handling in Chicago. So this will not only reduce the switch fees paid by ns but will also improve customer service by eliminating that stop in Chicago.

In regard to train overhead savings, the major winter storm strike in Northern Indiana, our production has negatively impacted at our classification facility in Elkhart. In an effort to keep traffic moving, we sent what we refer to as overhead trains destined for Elkhart to other terminals to be switched.

The added capacity at Bellevue will reduce the volume at Elkhart which will make it more manageable during the winter month and eliminate the need to overhead. Winter storms will have a little impact on the proposed block swapping opportunities that we talked about earlier.



In regard to network savings, when we used the results of our operating plan developer and input the new plan into our cost system, we can determine the financial cost or savings associated with the change.

And as you can see, there are numerous categories to savings that are realized from the expansion of Bellevue. Each one of these categories are direct result of rerouting traffic on the most efficient route, building bigger blocks, building a larger train and handling fewer cars or fewer times in our terminals.

One excellent example of network savings is the reduction in car handlings, car miles and car days associated with running a more efficient operating plan. These reductions translate in the savings such as crew cost, terminal cost, locomotive cost, and car hire cost.

In summary, the investor in expansion in Bellevue will result a lower cost for Norfolk Southern and improve service to our customers. And with that, I want to turn it over to mark Dewberry to explain about exactly what it took to construct this extra capacity at Bellevue. Mark?

Mark Dewberry - *Norfolk Southern Corporation - Chief Engineer - Design & Construction*

Let me try this light adjustment here. Is that too dark in front? Okay? Okay.

This is Linwood and in this classification yard 50 miles outside of Charlotte, North Carolina. This photograph was taken just before it opened in 1979. There hasn't been another classification yard built on in this line since this one.

Thirty five years later, we're doubling the capacity at Bellevue classification yard to handle growing traffic on our network. Bellevue is located about half way in between New York and Chicago at the intersection of five of our lines. This is a satellite shot of the facility. It's more than 5.5 miles long.

This colored line shows that 38 miles of track were build in for the expansion. So what is a classification yard and how does it work? Think of it as a 600-acre package sorting facility with the packages can weigh 140 tons each.

When a train arrives at Bellevue yard, it goes into one of 12 two-mile long receiving tracks. From there, the cars are pushed over a hill called the hump and released individually or few at a time of one of two lead tracks.

At that point, the hum computer takes over and used some heavy-duty breaking equipment called retarders in a series of switches to guide each 140-to package into one of 80 classification tracks grouped with other cars going to the same destination. A lot more on hump operation later.

From here, several tracks of cars are pulled out at classification yard using the pullback tracks and move to one of two forwarding yards to put together trains with the correct cars to go to the next destination.

At Bellevue, westbound trains are put together on the north side of the yard, eastbound trains on the south side. With this expansion, we've added two receiving tracks. We built a second lead over the hump. We added 38 class tracks to make a total of 80 classification tracks, the largest class yard on our system.

We added one pullback and three forwarding tracks. In addition to that, we built a 4.5-mile long second main all the way around the yard. Those red lines on the left hand side of the slide are the intersections of our five lines. From there, we can go north to Sandusky with connections to our Chicago line to go east and west.

We can go east to Cleveland, south to Columbus and west to Chicago or route through Fort Wayne or Toledo. I guess you could say this is an historic railroad junction. This has been occupied by the New York Central, the Pennsylvania Railroad, the Nickel Plate and it's still a junction between the Wheeling & Lake Erie and NS.



The curves it is or railroad junctions were really tight. The speed was slow. One of the first things we did in the project was reconfigure this historic junction with lighter curves, bigger switches and new signal system to increase the speed back 10 miles an hour for what will soon be 150 train moves a day through the junction.

This is Bellevue yard shortly after it opened in 1967. You can see the original idea was contemplated to build a second classification yard at some point in the future because after this area was less than developed. Forty seven years later, that was a good idea.

Another part of that 1967 designed the car shop, the place where rail cars are repaired. It's going to end up in the middle of the class yard with no vehicle access. There is also no backup power at the yard. I'll go over in detail how we address each of those issues with the construction.

So this is where we started in April of 2012. We buried a lot of electrical conduit. We put in hundreds of handholes so we could find the conduit after we buried it. We did drainage and electrical work. We put up high mast lights so the facility can operate 24 hours a day safely.

We built a building where train crews report to work and it has a control tower and this is ranger tower. This building in the tower is located between the classification yard and the pullback track where tracks of cars are selected to build trains.

We built a mechanical building and an expedited track where rail cars needing minor repair can be fixed quickly and put right back into service. And we built a facility for our track and bridge forces where they can meet, plan their work and maintain the infrastructure around the yard in the surrounding routes.

We built the soil nail wall, that's a concrete retaining wall you build from the top down with no foundation. We did it to provide road access beside the track and never touched the state overhead highway bridge.

We put in a pedestrian tunnel under the 40 yard and the two main lines so employees can get to work even if trains are blocking the track. That's why the tunnel is underground there between the employee park and the administration building. That's a V walk-in underground under the yard in the tunnel.

At building is where you come up from underground at the tunnel along steps. That locomotive is on main line number one and it's pulling the train. Those people there are two train crews. One crew has brought the train in to administer tour duty. The other crew will take it on to the next destination. This has become a crew change point because train crews know they can be where they need to be on time.

Remember that heavy-duty breaking equipment I mentioned on the hump, that's one of those pieces of equipment. That's a retarder. This is what slows the 280,000 panel rail cars when they're free rolling down the 3% grade.

It does this by pushing two metal bars together squeezing on the steel rail wheels using the force of compressed air. This makes a distinctive sound known around the yard as the Bellevue symphony because it's a signal that trains are being built.

The ground floors that surround this equipment are significant. We built retaining wall right beside this master retarder and on the right side of these forms, we dug a trench wide enough for two tractor trailers to pass each other and deep enough for them to be below the ground line. Also it kind of increase supports for that wall. That rail car is on that master retarder.

We had to tie the top of this wall with rock anchors. Those are systems of cable twisted together drilled diagonally into the ground until they're 26 feet into rock and their tension then tied to the top of the wall to hold it back.

That's the wall holding up the ground around that trench. That's going to be the back wall of the bridge that brings our new hum lead across the trench. Those are the supports for the wall on the other side and all of this together makes our vehicle access to the car shop with our new hump lead coming over the top.



This is the vehicle access to the middle of the class yard. It's a new hump lead. There's a old hump lead with retarder. So this is where we were after 13 months of work. This is May of 2013.

We built three buildings. We built 42 miles of electrical conduit. They will soon be carrying 145 miles of cable. Our hump underpass is well underway but it's not finished and our 4.5-mile second main is on scheduled to be complete by the end of 2013.

In May of 2013, traffic projections indicated that we're going to need this capacity by the end of 2014, sooner than we thought. The way to meet that new goal is to go ahead and build the class yard tracks in 2013 instead of starting them the beginning of 2014 when they're originally scheduled.

New problems with that, number one, 2013 was half gone and number two, there were two buildings in the way up here. A closer look at them, those are the buildings, the structures themselves were no big deal because the new building, ranger tower was ready to take their place.

But there was a lot of signal control and computer equipment and cabling associated with those buildings that were running the old yard. Signal construction forces started in right away running cable to the new building and moving out equipment.

Our track forces built the connection to the middle of the class yard and started building tracks side by side that won't hook to anything on either end and that was very slow. This is July.

By August, that signal control has been moved. Those buildings are gone. We hook into a live track and we're bringing in time rail and stone. You can see where you've unloaded rock on about five tracks here to move the rails and build the surface on the track but our track structure construction is running way out ahead of our rock delivery.

September, we've accelerated the rock delivery. We're building a balance job of smoothing the rails with surfacing and building the track structure. October, our track construction has cut off vehicle access to the car shop for the yard but that's Okay because our underpass under the new hump lead is finished and ready for service.

November, on November the 6th, we opened up at second main line around the yard. We had added the class tracks to the 2013 schedule and keep our commitment to open the second main by the end of 2013.

December, that marked the start of our really tough winter but all the tracks and switches in the class yard are built, they're 75% covered up with stone and surfaced.

This is the class yard now. Right now, the complex computer and signal work is going on to make this hump up operation work right. If you look at the hump area in this square, remember we built a second lead over the hump. That lets us classified two sets of cars at the same time.

It also enables us with this switch configuration here that's a double crossover. It lets us switch from either lead to the opposite yard. Each time we put a car over to hump, we've got 80 locations to organize that freight. There's the hump, the double crossover, the underpass, the new hump lead and the old hump lead.

Recall that one of the chores for this project was to add backup power. We did this by putting in 22 sets of generators throughout the yard, 13 of them are within the limits of this slide. They back up lights, computers, buildings, switch heaters, compressors, power switches, everything considered essential to keep the facility in operation if there's a power outage.

You'll see these generators all over the yard. They vary in size. Some of them will fit in the back of a pickup truck, others are as big as a garage. They all have the same color scheme, green on top, black on the bottom.

This is the lap switch. These are the switches on the hump. It leads to those 80 classification tracks. This is unique and that the rail car can come into this on one track and lead the switch on one of three tracks.



This is one of the Bellevue retarders built in a shop. The rails that cars run on are built right into the new equipment. These cylinders on the side expand under the force of compressed air and push these two bars called beams right on the steel wheels.

As I mentioned before, the ground forces on this equipment were significant. This between 30 and 32 concrete supports, 20 feet in ground under each one of these retarders. The retarders have to sit on a specific slope because if they don't, the cars aren't going to roll right, computers aren't going to work right.

Looking down the new um lead down through the master retarder, you can see a second retarder for each group of tracks. When a car goes over to hump at Bellevue, a scanner reads the bar code on the side. It tells the computer the car's destination and its links.

If this car starts down the hump, it's weighed and the electric guy to the number of axels. A weather station on the hump is tracking the rain fall, the wind speed, the wind direction and the air temperature because all of those things impact the roll ability of a rail car on steel rails.

Radar hits the car, it rolls down the hill telling the computer how fast it's going. Electric circuits running through the rails of all 80 tracks are telling the hump computer the location of the first car in each track.

Computer processes all of this information, lands the switches to the correct one of 80 tracks, operates the two retarders where the car rolls in to the track and couples up to the first car in that track at less than 4 miles an hour with no damage.

Now let's see what this trip over the hump looks like to one of our customer's 140-ton packages. Now these cars are being pushed up by the receiving yard, the locomotive maybe 50 cars back, it maybe 100 cars back and nobody is on that locomotive.

This gentleman coming up on the right is the hump conductor. You can see that belt pack controls this one and he was running that engine with that control but at this point, he's turned control the locomotive over to the hum computer.

We're coming up over the crest of the hump and he's releasing the car ahead of it. It's rolling away by gravity. Those squares in the distance with red text on them, those are cut boards. They're telling the hump conductor whether to release the cars individually or few at a time up to five.

At this point, we're about to be released. We're going to be weighed between those light posts. Just beyond those posts is a double crossover view. Look to your left as we go through that crossover, you'll be looking right down the new hump lead.

Radar is hitting the car. It's telling the hump computer how fast we're moving. We're coming up on the first retarder. A little bit of symphony to slow the car. There's a left turn out.

We're coming up on the second retarder, the hump computer's last opportunity to slow the car before it couples up. There's some backup powers stations one on each side of the track. The first car in this particular track is weighed down in the yard.

Now imagine this happening 3,600 times every 24 hours, probably look about like this. As you can see heading rail infrastructure can be complex and expensive as I'm sure you heard today, NS has the processes in place to plan, look ahead, see all alternatives and select the projects wisely and then have the people to execute what's been selected and that's what we got here with Bellevue.

Thanks. I'll bring up Don Graab now.

Don Graab - Norfolk Southern Corporation - VP - Mechanical

Well, good afternoon. Well, we're not afraid to spend capital dollars when it's necessary. Process improvements are first choice to achieve result.

We recognize process improvements are the most responsive way to create capacity in the short term. Recent process improvements include, right here, crew redistricting, the movement planner future of our UTCS, Unified Training Control System and LEADER.



Presently, we're directing resources to process improvements focused on terminals. Two big undertakings for 2013 and 2014 are our NGauge and NSight initiatives.

NGauge is all about improving processes in terminals. Terminal operations are big slice of our operating expenses. Through our NGauge process, we've been able to standardize the way we do business, spread the best practices and cut cost.

But today, I'm going to talk in more detail about NSight, the process improvement program directed at car and locomotive shops, the areas of my responsibility.

Our NSight program is an all-out application for the principles of winning the shop operations. While the principles of winning for the most part from Toyota, the term lean is largely an American name.

Originally called the Toyota Production System, lean is called a number of things by different companies. We choose the brand our lean program with the name NSight. So NSight is Norfolk Southern's version of lean, our unique application of the lean principles that is sometimes unpredictable nature of car and locomotive repairs.

At the most basic level, lean thinking can be separated into broad categories. One category is about people and one about processes. And while there are numbers of nuggets to learn about lean and the lean program is destined as stall and less serious consideration is given to the people side with the lean's success formula.

Many companies have gone after over this aspect of lean and they failed. Not so much in their initial gains but their inability to sustain the gains. The corner side of the people side of lean is respect from people. Other highlights include consensus decision making and developing employee engagement to increase trust and shared goals.

In the end, successfully implementing a true lean process to inspire more of our cultural change than just putting concepts into action. But one of the great things about our situation is we're coming off our three-year behavioral-based leadership initiative which is the ideal foundation for managing our workforce effectively.

While there are numbers of nuggets to learn about lean, ns shops do not have the luxury of taking the standard manufacturing type concepts for the assembly line. The fact to the matter is we live in a world where there's constant variance, many different vehicles, many different problems with the vehicles.

So where do we begin? We begin by teaching the seven ways and those ways are waiting, over production, excess inventory, unnecessary transport, unnecessary movement which usually refers to people, employees, over processing, and defects.

Suffice is to say our NSight process is focused on reducing waste. We're going to talk more about these concepts in our ship tour later this afternoon.

And while there are many aspects to our successful lean program, I'm just going to touch on five and those are five S which stands for sort, straighten, shine, standardize, and sustain, level the load, standardize the work, reduce set-up time, and visual management.

Again we're going to talk a little bit more about this at the tour but for now, let's dive deeper into just one of these topics, level of load. Turning in 2013, we made a very conscious effort to stabilize the flow of cars to the repair tracks.

Either car could have been identified as having a defect in the train yard that need to be remedied before the train can depart. And into our efforts with our transportation department, we created predictable switching and even the sorting of cars in advance of a time that they go in the repair track.



And as a result, we're able to adjust our head count of car repair forces to the median not the peak. Another aspect of leveling the load is also balancing the workforce. It's easy to let a workforce in a seven-day week operation gravitate for a Saturday-Sunday off. But the fact here is when that occurs, it creates peak in the demand for our service.

To show you what leveling load can mean in terms of productivity here's a graph of car maintenance personnel over the last two years. Then you can see there's been a study improvement. Not only that but if you look at the red line across the top, this is actually occurred during the time of increased traffic.

Another benefit of this leveling the load exercise focus on car maintenance has been that we've actually achieved the lowest bad order ratio in recent history. We're down to about 3% of our freight cars from merchandise traffic being out of service from maintenance.

At the same time, we actually increased the level of repairs we are performing and reaped the benefit of the increased velocity of these cars moving across the shop tracks that yielded \$1.5 million reduction in car hire for private and foreign river of cars.

So in the end as we look to at the people side of lean converged with the constant focus on process improvements, we hope to create an environment that is one of problem solving, an environment that reaches down to the all levels of NS organization and brings the employees into the problem-solving circle.

In the final analysis, no one knows the work better than employees and NSight is directed to focus on engaging the employees at the workplace and in fact Toyota summed this up saying that indeed there's an eight waste, the unused creativity of employees.

So in closing, we're focused on two major process improvement initiative, NGauge which is focused on terminals and NSight which is focused on car and locomotive shop activities. Thank you very much.

Katie Cook - Norfolk Southern Corporation - IR Director

I think what we'll do at this point is take a 10-minute bio break ad then meet back in here as quickly and efficiently as we can or do you want to just - are we good to jump in to Q&A?

* We might do the bio break first.

Katie Cook - Norfolk Southern Corporation - IR Director

Sounds good. So a 10-minute bio break in and out as quickly as we can and then we'll wrap up and we'll break out into our tour groups.

Wick Moorman - Norfolk Southern Corporation - Chairman, CEO

If I could ask everyone to take their seats. Thanks.

While we are about to wrap this portion of the presentation, I think Katie tells me that we could - if you have any specific questions about what you've seen here, we've got time for maybe one or two quick questions. Does everybody understand how a hump yard works now, right? Anything? Any questions at all?

Well, we'll set off on the tour here shortly and once we're done with that, the buses will head on back hopefully with you and your bags together. Let me try to wrap it up very briefly then.



First of all, again, thanks for coming and sharing the day with us. We know that you all have very bus schedules. Hopefully, you found this to be worthwhile. I know that we have some great presenters who have really done I think an outstanding job of showing how the railroad works and how we think about everything that we do and how we plan to grow in the future and handle that growth.

I think as we depart though, I think we've accomplished my other goal which I talked about some last night which is really just showcasing the great team at Norfolk Southern. At the end of the day, a railroad or any company is all about the people and I have believe - I've always believe that we have the best people in the railroad business and hopefully saw today what our capabilities are and how good all the ns team are at doing the job and delivering our customer's freight in the way that we need to.

So having said that, enjoy the tour. If you got any positive feedback on the tour, my E-mail address is wick.moorman. If you got suggestions or amendments, it katie., you know, never mind that.

No. Let me close by saying that a lot of people worked very hard to put this together. Mark mentioned our operating team who not only got this together for all of you but if some of you don't know, we did for our board last week. So they're more than ready to see senior management leave.

But let me also really thank Katie and all of Marta's team, [Sheryl] and [Becky] who you saw over there, and everyone else who helped put this together, you all have done a great job and it's much appreciated by all of us and let's give them a brief round of applause. Thank you.

And having said that, if there are no further questions, let's go look at the hump yard. Go get -- no, no. Go get on the same bus that you were color coded.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2014, Thomson Reuters. All Rights Reserved.