

In it for the long haul:

NS' first sustainability report reflects commitment to environment, community, shareholders, employees

Sustainability is one of those abstract words that leaves many people scratching their heads and asking: 'What do you mean by that?' and 'Why should I care?'

For the first time, Norfolk Southern has produced a report that answers those questions and more.

Nearly six months in the making and a corporat-wide effort, the 56-page Sustainability Report 2008 details how NS is pursuing business practices that reduce environmental impacts, boost the company's bottom line, and enhance the communities it serves. **(See special pullout brochure inside.)**

The railroad's aim, according to CEO **Wick Moorman**, is to be the industry leader in fuel conservation, emissions reduction, efficient energy use, recycling, use of renewable materials, and environmental partnerships.

Yet the company's efforts extend well beyond those "green" goals. Equally important, Moorman said, are economic and social sustainability. These key aspects of NS' business performance are linked to such things as work force development, shareholder value, and community betterment.

Sustainability for NS is about positioning the company for the long haul, a business philosophy that underscores the importance of both profits and social conscience.

"Our commitment is long-term," Moorman said.

Blair Wimbush, vice president real estate and corporate sustainability officer, said the report is a way to better inform employees, a growing social-investor community, suppliers, customers, and elected officials about NS' vision for the future.

Besides being the right thing to do, the sustainability effort, he said, identifies NS in the marketplace as a good place to work and do business. The report, he added, is a symbol of the railroad's commitment.

"If we were on the political trail, we'd say, 'Good for the environment, good for the economy,'"

Wimbush said. "We can all agree that less pollution going into the air or water is a good thing, and that energy not consumed is a good thing. We want our company to stand up and say, 'We're committed to the environment.'"

NS became the nation's first railroad to name a corporate sustainability officer when Wimbush was appointed to the post in December 2007. He headed up a team of employees from departments companywide to produce the report, which can be found on the company's environmental Web site at www.nscorp.com/footprints.

"I've heard from people at all levels of the company and from all ages who are very interested in reducing our footprint on the planet," Wimbush said.

The report offers examples of how employees can make a difference.

There's **Jim Mathews**, a team leader within Material Management, whose cost-saving idea turned into a systemwide upgrade of lighting that's projected to reduce NS' energy consumption by 50 million kilowatt-hours annually.

There's **Don Usak**, manager locomotive engineering, who has led efforts to equip locomotives with idle-reduction technology that is now saving NS about 4 million gallons of diesel fuel annually.

And there's **Matt Sommer**, an associate designer in information technology, who recruited volunteers in IT to work on ways to recycle, reduce paper use, and conserve power. The idea for NS' "Think Green, Don't Print" logo, now attached to e-mails, was the brainstorm of **Mary Jane Boylan**, an IT manager.

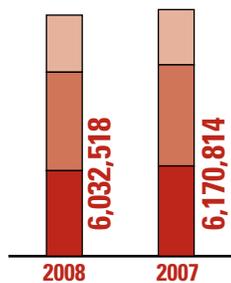
Deb Butler, executive vice president planning and chief information officer, said the outpouring of support from IT employees amazed her. "It just showed that there is an enormous amount of interest

Carloadings

Year to Date

Week Ending

10/18 10/20



■ Coal
■ Intermodal
■ General Merchandise

Week #1 began Dec. 30, 2007, for the year 2008 and Dec. 31, 2006, for the year 2007.



Be aware of your surroundings; Report anything suspicious

Norfolk Southern employees who pay attention to their surroundings have helped enhance security on railroad property. Their vigilance in noticing potentially dangerous items or people on or near railroad property has resulted in reports to NS police of suspicious items and questionable behavior that could have caused serious damage.

"We receive many reports from our employees about unusual items or trespassers whose behavior is suspect," said **Fred Alley Jr.**, NS deputy director of police. "We strongly encourage them to keep watch at their workplace and at other areas on railroad property, and to report what they believe could cause harm to employees and facilities or create security problems for the company."

Alley said NS police will respond to these reports and investigate thoroughly.

In one incident, a conductor checking a discarded backpack noted gasoline-filled beer bottles tied together with cotton wicks. In another incident, a long black tube with exposed wires was lying in the track gauge. Another report indicated a white powdery substance found in a fuse box outside the yard office at Louisville, Ky.

"Fortunately, no harm came to any of our employees or our facilities as a result of these incidents; however, we cannot become complacent," Alley said. "Every NS employee can make our workplace safer by reporting these kinds of incidents. In a time of heightened security, it's vitally important that everyone at NS pay attention to their surroundings and report any type of suspicious packages, activities, or people on or near our property. Our employees become another set of eyes out there."

If you see anything suspicious, call the NS Police Control Center at 1-800-453-2530.

Record third-quarter results reported For third-quarter 2008 vs. third-quarter 2007:

- Railway operating revenues increased 23 percent to a record \$2.9 billion.
- Income from operations increased 31 percent to a record \$894 million.
- Net income increased 35 percent to a record \$520 million.
- Diluted earnings per share rose 41 percent to a record \$1.37.
- The railway operating ratio improved by 2 percentage points to a record 69.1 percent.

Norfolk Southern reported third-quarter 2008 net income of \$520 million, or \$1.37 per diluted share, compared with \$386 million, or \$0.97 per diluted share, for the same period of 2007. Third-quarter income from railway operations increased 31 percent to a record \$894 million.

"Our third quarter performance again demonstrates the strength of our diversified traffic base. We are also continuing to provide the high-quality service our customers require in this difficult economic environment," said CEO **Wick Moorman**.

Third-quarter railway operating revenues were \$2.9 billion, up 23 percent compared with the same period a year earlier. Continued weakness in the automotive and housing-related industries, mostly offset by strength in coal shipments, contributed to a 1 percent reduction in traffic volume compared with the third quarter of 2007.

General merchandise revenues were \$1.5 billion, an increase of 13 percent compared with the same period last year, despite a 6 percent decline in volume.

Coal revenues climbed 52 percent to \$876 million in the quarter compared with the same period of 2007. Traffic volume increased by 23,548 carloads, or 6 percent, and set a record for the number of tons shipped in a quarter.

Despite flat volumes, intermodal revenues were \$560 million, up 16 percent compared with the same period of 2007.

Railway operating expenses were \$2 billion for the quarter, a 20 percent increase compared with the third quarter of 2007.

The railway operating ratio for the quarter improved by 2 percentage points to a record 69.1 percent, compared with 71.1 percent in 2007.

Financial reports 101 – Understanding the quarterly results

Every three months, Norfolk Southern releases a report that provides employees and shareholders a financial snapshot of its performance.

These quarterly reports detail such results as “earnings per diluted share” and “operating ratio.” They’re terms Wall Street analysts eat for breakfast, but the less financially inclined may find them hard to chew.

Jim Squires, NS executive vice president finance and CFO, said the numbers found in the reports offer many different ways to judge the railroad’s performance.

“It’s kind of a mosaic,” he said.

A key measure for the company – just as it is for every employee – is whether it’s making more money than it’s spending.

Consider this, for example: To cover second-quarter 2008 utility costs, Squires said NS had to haul more than 12,000 units of freight to generate enough revenue to operate telephone systems, heat and light facilities, and keep the water and sewer systems flowing. To pay for locomotive fuel, NS had to ship more than 303,000 units. That’s why NS is so focused on finding ways to save on utilities and fuel costs, Squires said.

For employees who need a crash course in financial reports 101, here’s help translating the terms and why they’re important.



Railway operating revenues: This is the money that NS charges customers for providing rail freight transportation services. This makes up the bulk of NS’ income. Other sources of income, such as real-estate rentals and sales, are not included in railway operating revenues.

Revenue per unit: This is the amount of revenue earned for each unit transported. A unit is a railcar, container, or trailer. Revenue includes any fuel surcharge. Overall, NS’ three major market groups – coal, general merchandise, and intermodal – generated an average of \$1,527 in revenue per unit during the third quarter of 2008.

Railway operating expenses: This is what NS spends to run the railway business. The largest category is employee pay and benefits, accounting for about 35 percent of total operating expenses. Other big expenses include diesel fuel to run the trains; utilities, including electricity, telephones, and water; maintenance and upkeep of rail lines; purchased services such as fees paid to trucking firms to haul containers and rent paid to use other railroads’ lines, equipment or services; and repair of locomotives and freight cars.

Income from railway operations: This is the amount of railway operating revenues, or dollars, less operating expenses.

Net income: This is the amount remaining after NS has accounted for operating expenses, other income and nonoperating expenses, made interest payments on debt, and state and federal income taxes. Net income represents NS’ profit for the quarter.

Railway operating ratio: The ratio measures how much of the company’s operating expenses represent as a percentage of operating revenues – the lower the ratio the better. For example, a 70 percent operating ratio means that the costs of running the railway business consumed 70 percent of the money NS earned from its rail freight customers. The ratio is calculated by dividing railway operating expenses by operating revenues. NS traditionally has maintained the lowest operating ratio among U.S. railroads.

Earnings per diluted share: This figure is the company’s quarterly net income divided by all of its outstanding shares of common stock. The term “diluted share” refers to the “dilutive” effect of any outstanding stock options, if exercised, or other stock-based incentive awards, if earned.

THANK YOU FOR YOUR SERVICE TO OUR NATION

David G. Helmer



DAVID G. HELMER, director costs, retired

la Drang

Note: In November 1965, nearly 450 men of the 1st Battalion, 7th Cavalry, under the command of Lt. Col. Hal Moore, were dropped by helicopter into a small clearing in the la Drang Valley. They were immediately surrounded by 2,000 North Vietnamese soldiers. Three days later, only two and a half miles away, a sister battalion was chopped to pieces. Together, these actions at the landing zones X-Ray and Albany constituted one of the most savage and significant battles of the Vietnam War. It was the subject of the book, "We Were Soldiers Once ... and Young" by Moore and contributing writer Joe Galloway and later a film starring Mel Gibson.

"In late August 1965, we assisted the 101st Airborne in securing Highway 19 west to An Khe – in the center of the highlands – which would later become the major base of the 1st Air Cavalry that followed the next month. In early October, we extended our line of operations another 50 miles farther west to Plieku – crossing the infamous Mang Yang Pass – scene of the massacre of the French Mobile Group 100 in an earlier war.

"In late October, Gen. Kincad of the 1st Air Cavalry was ordered to find the North Vietnamese Army operating on a land mass near the Cambodian border and the la Drang Valley. The 597th and other truck companies were called to support the first major action of the 1st Air Cavalry. The fighting lasted less than two days, with major casualties.

"We operated fuel and ammunition convoys from the supply depots in Plieku to the operating Battalion areas of the 1st Air Cavalry. The North Vietnamese knew the area, and the Americans did not. Some of the fuel supplies we dropped in the Battalion areas were zapped by the NVA before we returned to Plieku for reloading.

"According to an AP reporter who hitched a ride with one of our convoys, air troopers were found with hands tied behind their backs and shot in the head. Men were crying out for mercy as the enemy roamed the battlefield looking for the living and ending their lives in this unreal world thousands of miles from home.

"After the combat stopped and the NVA slipped back into Cambodia, the 597th moved several truckloads of captured weapons (with Soviet bloc markings) back to An Khe.

"Also, 200 or so body bags were on the tarmac at the airport in Plieku after the combat, and we transported them back to Qui Nhon to the Graves Registration point for further shipping back to the USA.

"The losses to the 1st Air Cavalry greatly limited its combat operations for several months."

PFC. ADAM L. MARION

nephew of project supervisor
Jimmie Shores and Kay Shores
Gray, Ga.

Pfc. Adam L. Marion



"Pfc. Adam L. Marion made the ultimate sacrifice for his country serving in the 171st Engineering Company, North Carolina National Guard. He died in Baghdad, Iraq, from wounds sustained when enemy forces attacked his base with indirect fire. He operated a vehicle that cleared roadside bombs, and he had participated in more than 100 explosive clearing missions. He was 26 years old.

"Pfc. Marion worked with children in parks and recreation programs and at a home for abused children before entering military service. His love for children and his dedication to making life better for them continued in Iraq.

"Adam sported a tattoo that read 'Freedom Isn't Free' and will be remembered by family, friends, and fellow Americans for the sacrifice he made for our ongoing freedom."

SHAUN LOVE

Electrician
Roanoke

"I was stationed in Guam with the U.S. Navy in 2004. I served in the Navy for eight years and have been out for two years. I work at the Roanoke Locomotive Shop."

ANTHONY MORROW

operations supervisor trainee
Linwood, N.C.

"I joined Norfolk Southern on June 16, 2008. I spent 12 years in the U.S. Air Force, where I was a flight engineer on the C-5 aircraft, which gave me the opportunity to travel to more than 75 countries. I left planes to play with trains."

NORFOLK SOUTHERN HONORS ITS VETERANS AND THEIR FAMILIES

JON COOK II, special agent NS Police, Chicago

"I joined the Illinois Army National Guard and shipped off to basic training as a 14M air defense artillery crewmember just two weeks after graduating from high school. Once training was completed, I returned home, where I worked full time at one of the armories as a recruiter assistant for about two years. Once my orders ended, I began looking for a career in the law enforcement field.

"In 2003, I attended the Chicago Police Academy and shortly after began working with the Harvey Police Department, a small suburban department south of Chicago. I worked for about six months, then got a phone call from my National Guard unit commander telling me of a getaway that I had won, a year in beautiful sunny Iraq.

"I was in Iraq for a year between Camp Caldwell in Kirkush and Camp Anaconda in Balad. My unit's mission was to provide convoy security for the supply convoys that provided our fuel, food, water, and other supplies. We also provided security for the new Iraqi Army when they had missions, e.g. the assault on Al Fallujah, Iraq, in October 2004. A year later, I returned home and tried to pick up where I left off.

"I joined the NS Police Department in 2007.

"My latest orders started Sept. 29, and I was deployed for one year in support of Operation Enduring Freedom in Afghanistan. I deployed with the 33rd Brigade combat team Illinois Army National Guard. My unit is A Company 33rd BSTB combat engineers. At the time of deployment, our mission was unknown."

Jon Cook II



PL. JASON CRASK

son of terminal superintendent
Mike Crask and Kathy Crask
Danville, Ky.

"Jason is 21 years old and has been in the Marine Corps for about a year and a half. He is stationed in Hawaii and is currently deployed to Karma, Iraq. He was deployed Aug. 4, 2008, and should return home in the spring. He is an expert in marksmanship, but with his southern drawl they gave up on trying to teach him to communicate with the Iraqis."

ERVIN MULLINS

senior piermaster/F.S.O.
Norfolk

"I served in the U. S. Navy from April 1967 through May 1971. When I was a crewman aboard the USS Enterprise with Carrier Air Wing 9, assigned to Carrier Airborne Early Warning Squadron 112, fire broke out Jan. 19, 1969.

"I was not assigned to flight deck duty at the time. Those who were on the flight deck were able to put out the fire. At the end of the day, 19 sailors died, and more than 200 were injured. They are the ones who should be remembered."

AFC STEVEN FELGER

son of Jim Felger
supervisor of work equipment
Illinois Division

"My son Steven is serving in the U.S. Air Force stationed at Midenhall Royal Air Force Base in Midenhall, England. Steven is a "Boomer" on a KC-135. That is to say, he is an in-flight refueling boom operator. He lies down in the back of this KC-135 flying tanker and, using controls, guides the boom and the receiver aircraft until connected to offload fuel.

"Airman Felger recently returned to Midenhall from the country of Qatar. He volunteered to serve in Qatar for a two-month hitch refueling combat aircraft in support of Operation Iraqi Freedom and Operation Enduring Freedom missions that are supporting the Iraq and Afghanistan wars.

"While on a refueling mission over Iraq and Afghanistan, he carried a U.S. flag. The crew and Steven all signed a certificate of their mission. Steven then sent this flag to his grandpa, Carl Felger, who served in WWII and also retired from former Conrail. Needless to say, his grandpa was very proud – as are all Steven's family and friends.

"Steven would like to work for the railroad someday. I tell him, 'We do our fueling on the ground.'"

Savings come from innovative track lubrication system

Norfolk Southern's Pocahontas Division lies deep within coal country. Trains have to navigate sharper curves and steeper grades than those on most parts of the railroad, and they carry very heavy loads. How does NS work to reduce fuel consumption and wear and tear on rails and equipment under these circumstances? The answer is "top-of-rail" lubrication.

NS is one of the pioneers in this type of track lubrication.

"We started this in the early- to mid-1990s," said **Gerhard Thelen**, vice president operations planning and support. "Traditionally, flange lubricators, mounted along the rail in areas with significant curves, were used to apply grease to the gauge face of the rail and transfer this grease to the flanges on locomotive and freight car wheels to prevent wheel and track wear. By using a top-of-rail system, we not only reduce wear and tear. We are seeing significant fuel savings."

"By using a top-of-rail system, we not only reduce wear and tear; we are seeing significant fuel savings."

Gerhard Thelen,
vp operations planning
and support

"We had a choice to make in how to provide track lubrication," said **Kevin Conn**, research engineer in NS' research and tests department. "We knew we would always have heavier cars exerting more force on the rails. So we had to decide if we would build a stronger track structure or find a way to reduce the amount of energy on existing track structure. We made the right decision and are seeing the benefits of that decision."

Top-of-rail systems apply lubricant directly to the tops of both rails, reducing the wheel-to-rail friction of the cars. That reduces the energy needed to move the train, saving fuel and further reducing wear on equipment and track.

"It's similar to operating a vehicle with four-wheel drive," Conn said. "When you put the vehicle into four-wheel-drive mode on dry road and try to turn, you encounter a lot of resistance. It's harder to turn, you're using more fuel, and there's more wear on the vehicle. If you do the same thing on wet or slippery roads, turning is much easier because you have reduced the friction between the tire and the road surface, thus less wear."

So, how does the system work?

Top-of-rail wayside systems are solar powered. A wheel sensor counts the number of wheels that pass, and a pump disburses lubricant to the top of the track. The passing wheels distribute the lubricant along the track. The material then dries and forms a thin film on the wheel

tread that is low enough to reduce lateral curving forces while still maintaining enough friction for locomotive traction.

Thelen said fuel cost savings of 4 percent are expected. "There are significant fuel cost savings considering we use more than 500 million gallons of diesel fuel annually, he said. "For every penny per gallon we reduce our fuel costs, we save \$5 million."

There are other benefits.

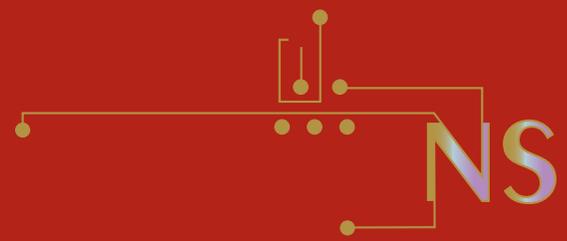
"The rails on curves can spread as the rolling stock moves over them. Reducing the forces that cause this means we will have to regauge the track less often. We may also be able to extend gauging and replacement cycles by as much as 40 percent over a 10- to 12-year period. This means maintenance of way forces spend less time with track out of service to perform maintenance, which allows us to provide better service to our customers," said **Tim Drake**, vice president engineering.

There are 175 systems on the Pocahontas and Virginia divisions with 85 more to be purchased by the end of 2008.

A tradition of innovation

"I was on a commercial airline flight which came in for a landing in Washington – and dropped suddenly to the runway, a fall of about 35 to 40 feet. And yet we landed without much of a bump. As soon as I left the plane, I crawled up beneath it and found that the shock of landing had been absorbed by a hydraulic strut," said **Bill Brosnan**, who later became president of Southern Railway. "I told **Stanley Crane**, director of research and tests, 'If they can cushion a plane, we can cushion a car.'" This resulted in the design of and patent on a sliding sill so effective in preventing damage to lading that it was in use for many years.

Have you looked beneath the surface to find innovative ways to improve Norfolk Southern? Talk to your supervisor or send your ideas to www.innovations.ns.com.



Commitment – Continued from front page

within the company for this type of thing,” said Butler, who chairs NS’ Environmental Policy Council and provides executive oversight of the company’s sustainability process.

The lighting initiative, which features a type of lighting technology that is task-specific and more energy efficient, is both environmentally sound and a money saver for NS. It proves the case that environmentally friendly business practices often are the most cost-efficient, Butler said.

“When we talk about sustainability, it’s not just a word,” she said. “It goes beyond the green message we put out in TV and print advertising. Even though railroads are a more environmentally friendly mode of transportation than the competition, there is still so much we can do as a company to make ourselves better.”

Increasingly, prospective employees and customers are looking to see what NS is doing to preserve the environment. Having a sustainability report to highlight those efforts can serve as a recruiting tool and a way to attract and retain customers, Butler said.

“Many multinational corporations are more aware that shipping goods by rail rather than by road reduces greenhouse gas emissions,” said **Jerri Parks**, director intermodal and automotive systems.

In spring 2007, Parks launched an intermodal group project to work up a “rail vs. road” data analysis for customers. The data, which includes a comparison of fuel consumption and emissions between trains and trucks over specific routes, is crunched by computer software to identify the “carbon footprint” – or the estimated amount of greenhouse gases emitted. Along with price and service, it is now part of a “bid optimization” process NS offers its intermodal trucking partners and their customers.

NS has worked up carbon-footprint plans for companies such as Proctor & Gamble, General Mills, Kellogg’s, Campbell’s Soup, Tyco, and Unilever, she said.

“When we do bids, we can tell them, ‘Here’s the rate, here’s the service and here’s the carbon footprint,’ ” said Parks, a sustainability team member. “It’s a great marketing tool for us. We can’t say that customers right now are making modal decisions because of the carbon footprint, but we think that over time, fuel conservation, fuel consumption, and fuel emissions are going to become more important for them to look at.”

A byproduct of the focus on sustainability is making NS a more attractive job choice for recent college graduates and for professionals weighing career moves, said **Juan Cunningham**, director management development and staffing.

“It’s certainly something we seek to leverage,”

Cunningham said. “Many enlightened students find working for an organization that’s doing the right thing by making Mother Earth more green is something that’s more attractive to them than companies that are not.”

During recent trips to law schools to recruit summer law clerks, **Helen Hart**, an NS general attorney, said most students asked about the railroad’s commitment to environmental matters. Many already had done their homework and knew that moving goods by train is more fuel-efficient and produces about three times less greenhouse gas emissions than trucks.

“I think the new generation of job applicants is interested in what companies are doing to be environmentally responsible,” said Hart, a sustainability team member.

The report details ways NS is conserving fuel and reducing greenhouse gas emissions, ranging from the use of advanced railroad technology to hybrid-powered cars and trucks. It also notes the railroad’s move to expand recycling and re-use programs and, where feasible, to introduce renewable power sources. To date, for example, NS has installed a 50-kilowatt wind turbine at its Bellevue, Ohio, yard, and solar panels in Birmingham, Ala., to run wastewater treatment plants. Another wind turbine is being installed in Kansas City, Mo. Solar energy also powers rail-lubrication devices at many track locations.

Just as important, however, are NS’ contributions to social and economic sustainability, Wimbush said.

“It has to be all-encompassing,” he said. “Communities depend upon us for jobs, whether it’s in Norfolk or Harrisburg or Chattanooga, and we provide economic support for them.

“We think of sustainability as being a good corporate citizen, contributing to the life and vitality of communities through volunteering and contributing to the arts and to social and environmental programs,” Wimbush added. “We also want to treat our employees well, and be committed to equal opportunity and diversity, and our report reflects that.”

The sustainability report was a team effort led by Wimbush and including **Wade Bishop**, director of environmental engineering and audits; **Frank Brown**, avp corporate communications; **Don Graab**, avp mechanical; **Jack Groder**, market research analyst; **Rick Harris**, director corporate communications; **Hart**; **John Irwin**, avp transportation network; **Parks**; and **Karin Stamy**, general attorney. Design credits go to **Frank Wright**, manager design resources; **Sarah Cunningham**, graphics designer; and **Audra Byrn** and **Patty McDonald**, designer contractors.

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Thank you for your military service

JACQUELINE ROMIG

Daughter of conductor Andrew Romig and Brenda Romig, Gang Mills, N.Y.

Jacqueline Romig joined the U.S. Navy after a short time in Florida at Keiser University. Seaman Romig is currently serving in San Diego, Calif., training to be a SONAR technician. When finished with her training, she will set out to sea for six months.

