

# FINAL TRANSCRIPT

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## **NSC - Q4 2008 Norfolk Southern Corp Earnings Conference Call**

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## PRESENTATION

**Operator**

Greetings and welcome to the Norfolk Southern Corporation fourth quarter earnings conference call. At this time, all participants are in a listen only mode. A brief question-and-answer session will follow the formal presentation. Questions will be taken first from those in attendance at the meeting, then from those participating over the phone. (Operator Instructions) As a reminder this conference is being recorded. It is now my pleasure to introduce Norfolk Southern's Director of Investor Relations, Leanne Marilley. Thank you Ms. Marilley, you may begin.

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**Leanne Marilley** - *Norfolk Southern Corporation - Director, IR*

Thank you and good morning.

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Before we begin today's meeting I would like to mention a few items, first, we remind our listeners and Internet participants that the slides of the presenters are available for your convenience on our website at [www.nscorp.com](http://www.nscorp.com) in the investor section. Additionally, MP3 downloads of today's meeting will be available on our website for your convenience. As usual, transcripts of the meeting will also be posted on our website and will be available upon request from our corporate communications department. At the end of the prepared portion of today's call we will conduct a question-and-answer session and invite those listening via teleconference to participate as well, time permitting. At that time if you choose to ask a question an operator will instruct you how to do so from your telephone keypad.

Please be advised that any forward-looking statements made during the course of this presentation represent our best good faith judgment as to what may occur in the future. Statements that are forward-looking can be identified by the use of the words such as believes, expect, anticipate, and project. Our actual results may differ materially from those projected and will be subject to a number of risks and uncertainties, some of which may be outside of our control. Please refer to our annual and quarterly reports filed with the SEC for discussion of those risks and uncertainties, we view as most important. Additionally, keep in mind that all references to reported results, excluding certain adjustments, such as nonGAAP numbers, have been reconciled on our website at [www.nscorp.com](http://www.nscorp.com) in the investor section.

Now it is my pleasure to introduce Norfolk Southern Chairman, President, CEO, Wick Moorman.

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**Charles "Wick" Moorman** - *Norfolk Southern Corporation - Chairman, President and CEO*

Thank you, Leanne and good morning everyone. It is my privilege to welcome you to our fourth quarter 2008 analyst meeting.

Those of you who are here today will have noticed that we have a number of our management team present. And our goal this morning is to provide you with a comprehensive overview of our strategic operational and financial initiatives. To help do that we have with us Steve Tobias, Vice Chairman, Chief Operating Officer. Deb Butler, Executive Vice President Planning and Chief Information Officer. Jim Hixon, Executive Vice President of Law and Corporate Relations. Mark Manion, our Executive Vice President of Operations.

John Rathbone our Executive Vice President, Administration. Don Seale, Executive Vice President and Chief Marketing Officer, and Jim Squires, Executive Vice President of Finance and Chief Financial Officer. We're also joined by Rob Kessler, our Vice President of Taxation, Bill Romig, our Vice President and Treasurer, Marta Stewart, our Vice President, Controller, Frank Brown, our Assistant Vice President of Corporate Communications, and Debbie Malbon, who is Jim Squires' Assistant. Since we have a full slate for your this morning let's get started.

I'm very pleased with our 2008 results that reflect a continuing high level of performance throughout our organization. Capped by a fourth quarter that reflects the strength of our diverse portfolio of transportation products in the global marketplace. Our 2008 railway operating revenues were the highest of any year in Norfolk Southern's history. And we posted our best ever income from railway operations, net income, earnings per share, and our lowest operating ratio ever which improved 1.5 percentage points year-over-year to 71.1. Stockholders benefited from a second -- seventh consecutive year of dividend growth as we increased our 2008 dividends by 27%, and we repurchased over 19 million shares of stock.

Throughout the year, we continued to sharpen our customer focus by investing in our network, developing and integrating new technologies to increase reliability, efficiency, and safety. Our financial results for 2008 demonstrate continued demand for efficient rail transportation and while economic headwinds continued to exert pressure on traffic volumes, we were able to offset reduced loadings through pricing gains and cost control. Despite lower overall volumes, we produced improvement in revenues which Don will discuss in greater detail in a moment. We also were able to control operating costs where appropriate given the business environment while providing increased levels of service. The result was a record net income of \$1.7 billion, or \$4.52 diluted earnings per share for the year.

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In the fourth year -- fourth quarter, I beg your pardon, we faced even more significant challenges as volume declines accelerated on a year-over-year basis. However, we were still able to generate improved financial results and set a number of fourth quarter records including railway operating revenues, income from railway operations, net income, earnings per share, and our best ever operating ratio of 67.5. And Jim will provide you with full details of our financial results, including some of the catalysts which drove our fourth quarter performance.

As an indication of our confidence in the strategic direction of our Company the Board increased our quarterly dividend \$0.02 per share yesterday, or 6%. Our focus is to continue to produce solid results that benefit our customers and our investors alike.

While it is unclear how long the current economic downturn will persist, all of the long-term trends point to freight railroads as the preferred way to move goods and relieve highway congestion. We will continue to make investments in our Company. And as you will hear more about today from Deb Butler, in 2009 we plan to invest \$1.4 billion in capital improvements to maintain the safety and quality of our franchise, improve operating efficiency and service, and support the business growth we expect in future years.

I'm now going to turn the podium over to Don who will provide additional details about our revenues, followed by Jim who will delve into our financial results. In addition, I've asked Steve to talk with you today about service delivery, and you will also hear, as I mentioned, from Deb about our capital plan. I will close with some comments before we take your questions. Thanks.

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**Don Seale** - Norfolk Southern Corporation - EVP, CMO

Thanks Wick and good morning, everyone. Despite the current economic headwinds fourth quarter revenue reached \$2.5 billion, an increase \$48 million of 2% over the fourth quarter last year. This was our best fourth quarter ever and our third highest revenue quarter as well. Primary drivers of these favorable results were improved yield and higher fuel revenue.

With respect to fuel, during the fourth quarter we experienced a positive lag effect in fuel surcharge revenue of \$130 million. For the year, revenue reached \$10.7 billion, up \$1.2 billion, or 13% over 2007. All of our business groups, except automotive, posted record revenues in 2008. Again, with respect to fuel revenue, the positive lag effect realized in the third and fourth quarters was mostly offset by a negative lag in the first half of the year.

Turning to yield, on slide three, the fourth quarter represented our 25th consecutive quarter of year-over-year revenue per unit growth and was our third highest quarter ever. Revenue per unit reached \$14.50 per the quarter and \$14.51 for the year, increases of 10% and 17% respectively. With the exception of automotive, all other business groups produced record revenue per unit for the quarter. For the year, all business groups achieved record RPU.

Revenue per unit for the fourth quarter was up 10% despite the impact of a volume-related contract adjustment in the fourth quarter of last year which added \$14 to total revenue per unit and \$200 per car to automotive RPU. During the quarter, approximately 65% of the RPU gain was due to strong repricing and higher contract escalators. Increased fuel revenue accounted for the remaining growth, which was partially offset by last year's contract settlement that I just mentioned, along with a negative mix effect of \$61 million. Pricing gains in the quarter averaged 7% while RCAF rate escalations averaged 2%. For the year, similar results were attained with overall price, up 9%, which included the favorable RCAF contract escalations.

Now turning to volume, as shown in slide four, total shipments were down 8% for the quarter and 3% for the year. Agriculture and coal both posted record volumes for the year while metals, construction materials and automotive volumes fell as the year progressed and the economy weakened. Paper, chemicals and intermodal volumes were also impacted throughout 2008 by the downturn in consumer spending, weaker manufacturing and the general decline in international shipping activity.

As shown in slide five, volumes that were merely soft in October accelerated downward in November and December led by large declines in steel and automotive traffic. Steel production in the quarter fell by 32% and automotive production was down

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another 24% coupled with the closure of three additional auto assembly plants served by our railroad. With that overall revenue and volume result as a backdrop I will now turn to the quarterly performances of our individual market segments starting with our coal business shown on slide six.

For the quarter, coal revenue reached \$798 million, up \$197 million, or 33% over last year's fourth quarter. Average yield rose to \$1,817 per car, up \$376, or 26%, driven by continued pricing gains, favorable RCAF contract escalators, and increased fuel revenue. Volume for the quarter was up 5%, led by higher export volume. During the quarter a new monthly coal tonnage record was set in October, exceeding the prior record set in May 2008 by 4%. Export volume was up 16% for the quarter and 48% for the year.

Through the third quarter, export shipments were up 60% prompted by Australian port capacity constraints and a weaker dollar. During the fourth quarter, growth in shipments trended lower as global steel production declined. Volume through our Norfolk export terminal declined 4% in the fourth quarter as demand for coking coal fell. Volumes through Baltimore increased by 7500 car loads or 94% due to increased coal availability from the Mon production region and new business gains.

With respect to the utility segment, as shown in slide eight, volume was up 5% in the fourth quarter as a result of higher demand due to new business, stockpile growth and improved availability of coal as the export market softened. We also secured additional long haul business from Colorado and PRB mines to our markets. Finally, domestic met traffic benefited from the decline in export coal demand which in turn increased overall coal supply. We also generated new business from the start-up of the Haverhill Ohio coke plant and spot movement of imported coke. Finally, industrial volume declined 12% due to supply constraints and the slowing industrial economy.

Now turning to the car load business, revenue for our merchandise sector reached \$1.2 billion down \$133 million or 10% in the fourth quarter. Weakness in the automotive and housing sectors plagued our merchandise groups throughout the year and contributed to a 19% volume decline in the fourth quarter. But on the plus side, each of our merchandise groups was successful in improving yield over the year. For the quarter, improved pricing and higher fuel revenue drove an 11% increase in revenue per car.

Now drilling down to the individual markets in merchandise as shown on slide 11, automotive's year-long decline continued in the fourth quarter with volume falling 31%. During the quarter two NS served assembly plants were closed and Ford's Michigan truck plant was closed for a one-year retooling. In total, there were 107 weeks of plant down time during the fourth quarter.

Chemical traffic declined 18% in the quarter. Volume fell across all of our major chemical markets. Volume losses due to plant closures and production cuts accounted for 25% of the volume decline. And lower volumes associated with the housing sector contributed to 46% of the decrease.

As shown in slide 13, our paper and forest products business also felt the impact of the weak housing market throughout 2008. Lumber volume fell 24% in the fourth quarter, while our paper markets continued to be impacted by production cuts. Metals and construction volume saw year-over-year improvements in the first three-quarters of the year, but plummeting US and global production drove a 25% decline in volume during the fourth quarter. Iron and steel shipments were down 39% while coil and scrap volumes fell 41% and 29% respectively after posting gains through the first nine months of the year.

And as shown on slide 15, agricultural volume fell 6% in the fourth quarter after posting quarterly records in the first three-quarters of the year. Weakness in the export market and reduced volumes to processors in the Midwest drove grain shipments lower, while fertilizer demand weakened in the face of falling grain prices. On the plus side, our integrated AgriFuels market continued to be a bright spot. This market includes ethanol, biodiesel and related feedstocks. For this year the business grew 44% or 27,000 car loads. Within the agrifuels business ethanol shipments were up 38% in the quarter and 33% for the year as we gained access to 32 new ethanol distribution terminals and eight new production facilities.

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Concluding with Intermodal, revenue for the quarter of \$480 million was down \$16 million or 3% from the same period in 2007. Volume fell 5% in the quarter as the weakened domestic economy and declining international trade reduced business levels. Fourth quarter revenue per unit reached \$653, an increase of \$13 or 2%. Volume fell 5% in the quarter as the weakened domestic economy and declining international trade reduced business levels.

Turning to the market segments as shown on slide 17, domestic volume was up 11% in the quarter driven by new service lanes and highway conversions. We continue to secure new highway business in the Eastern markets as beneficial owners realize the true value that Intermodal provides versus truck. For the full year 2008 Intermodal growth was primarily in local Norfolk Southern lanes East of the Mississippi River where we gained more than 50,000 new loads. Of this total, early crescent quarter gains from Atlanta to the Northeast generated a 13% boost in volume. Several other new services, which included the Meridian Speedway, domestic service of Savannah, Georgia, and new reefer and brokerage business also contributed to this growth. And international premium and triple crown volumes all declined in the quarter in the face of much weaker international trade and reduced consumer demand.

As shown in slide 18, we're continuing to work on our major Intermodal corridor initiatives that will improve service and add capacity to our network making us even more competitive with truck between major markets. Work on the Meridian Speedway has progressed well and is expected to be completed in 2010.

During the fourth quarter, we converted our eastbound transcontinental international traffic to the Speedway as we did for domestic transcon traffic in 2007. These changes provide customers with the fastest route from the West coast to the Southeast. And as you noticed yesterday, we announced our new Titusville, Florida terminal opening on February 16th. That will provide with us improved competitive position in the Orlando and Tampa market. And also as announced last fall we're targeting new services and terminal capacity in our New England market as we progress the patriot corridor with our Pan Am Southern joint venture.

Finally, the Heartland and Crescent corridor projects will directly target highway conversion. We've completed 35% of our tunnel clearance project on Heartland, and have been able to progress this work on schedule while handling record volumes of coal, much of which is moving over this route. We expect completion of this project by mid-2010 which will cut a full day off the schedule between the Port of Hampton roads and the Ohio valley. And as I mentioned a moment ago, a new business is already flowing from our speed improvements in ongoing developments of the much larger Crescent corridor project.

Now looking ahead over the year to come, we all know that 2009 will be challenging, but the fundamentals of our diverse set of markets, our strong service product and new project growth will sustain our business going forward. The prospects for export coal, while less than 2008, continue to offer promise. Current Lamberts Point tonnage handled in January exceeds the tonnage handled in each of the months of November and December of last year. We see continued opportunity in this market as steel inventories worldwide have diminished and high quality US met coal remains in demand. And while our utility shipments will be impacted by weather and the economy which they always are coal availability for utility demand will be higher in 2009, which will be a plus.

With respect to the manufacturing economy the outlook through the first half of the year is weak at best. We plan to offset some of this softness with continued project growth in our agrifuels and scrubber stone markets. And we foresee upcoming opportunities in steel, cement, aggregates and other construction materials from the economic stimulus package that pending in Washington. We're also seeing inventories of most manufactured products shrink in the face of reduced production. We anticipate that restocking efforts will drive improved volumes as the year progresses.

In our Intermodal markets domestic growth remains solid as I just mentioned. We continue to refine our corridor strategy and will announce new projects and services throughout 2009. Finally, with respect to pricing, with a decline in oil prices and the lower RCAF index projected for 2009, we do not foresee the robust RPU gains that we achieved in 2008.

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But while the pricing environment will be more challenging, we will continue our structured and deliberate strategy to appropriately price our strong service product to fully reflect its value in the marketplace. In that regard, approximately 70% of our book of revenue has been priced for 2009. With the remaining 30% spread over the balance of the year.

With that, thank you for your attention and now Jim will present our financial report.

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**Jim Squires** - Norfolk Southern Corporation - EVP, Finance and CFO

Thank you, Don. I will now provide an overview of our financial results for the fourth quarter as well as a free cash flow and capital structure update.

Let's start with our operating results. As Don described, railway operating revenues for the quarter \$2.5 billion, up \$48 million or 2%. Slide three displays the corresponding operating expenses which decreased by 4% for the quarter. The resulting income from railway operations was \$813 million, up 19%, and the 67.5 operating ratio is a 6% improvement versus prior year. These results reflect fourth quarter records for Norfolk Southern. In fact, the operating ratio is a record for any quarter.

Turning to our expense detail, this slide presents the major components driving the decrease. As you can see, the largest reason for our overall expense decline was sharply lower fuel costs which decreased by \$84 million or 24%. This reduction was a combination of lower usage and lower prices. Our consumption for the quarter declined 10% which compares favorably to the 8% traffic volume decline Don discussed and correlates to lower train hours. A concerted effort to match locomotive horsepower with specific train requirements has yielded positive results. And this consumption improvement accounted for approximately \$38 million of the fuel expense decrease.

In addition, lower fuel prices, as illustrated on our next slide, provided a \$46 million benefit. This graph shows our average price per gallon for each of the last eight quarters. The \$2.19 average price tip fourth quarter 2008 was a 14% decline compared with the \$2.56 per gallon in the fourth quarter 2007. The other expense category that declined this quarter was compensation and benefits which decreased by \$14 million or 2%. Slide eight presents the major components driving this change. First, stock-based compensation fell \$43 million due large toll a \$19.16 per share decrease in our stock price during the quarter.

Second, train and engine crew hours were down in response to the lower volumes. Steve Tobias will review with you some of the train and crew optimization models that have allowed us to respond quickly to changes in the market. Somewhat off setting these reductions were incentive compensation and higher wage rates. Incentive compensation for the quarter was \$19 million higher than last year reflecting the improved operating results, as well as a higher eligible bonus percentage for our union employees. Wage rates were \$15 million higher, reflective of the union pay increase that went into effect last July.

Purchase services and rents rose \$9 million or 2%. This small increase in a quarter of declining volume was related to several projects that have longer term effects. The first is expenses related to positive train control technology, and the second is an energy conservation project to upgrade lighting efficiency at many of our offices and shops. The two remaining operating expense categories also reported small increases, \$9 million or 5% for depreciation, and \$1 million or 1% for materials and other. I would like to point out that within the other category, we continue to see positive development in our personal injury accrual, a tribute to and a direct result of our safety program and the employees who make it a part of their daily work. In this particular quarter, that improvement was offset by increased environmental remediation costs at existing sites.

Now let's turn to our non-operating items on slide 11. Equity and con rail earnings declined by \$18 million due to the absence of a federal tax audit settlement that benefited 2007. Gains on property sales and investments were \$10 million lower this quarter, a result of softening in the real-estate market. Somewhat offsetting these declines were coal royalties which increased \$6 million and the absence of expenses for synthetic fuel investments, the tax credits for which will you recall expired at the end of 2007.

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As illustrated here the combination of the \$127 million improvement in operating profits and the \$20 million decline in non-operating items yielded a 17% improvement in pretax results. Income taxes for the fourth quarter were \$267 million for an effective rate of 37.1% which compares with \$213 million or an effective rate of 34.8% last year. The increase in the rate for 2008 was primarily due to the absence of the con rail tax adjustment as well as the expiration of the synthetic fuel related credits.

Slide 14 depicts our bottom line results. Net income was a fourth quarter record of \$452 million, an increase of \$53 million or 13%. Diluted earnings per share were \$1.21, which was \$0.19 per share or 19% above last year. Wrapping up a record year, 2008 net income of \$1.7 billion was a \$0.25 billion, or 17% above 2007. Diluted earnings per share for 2008 were \$4.52, which was \$0.84 per share or 23% more than 2007. And now I would like to provide with you an outlook on some of our 2009 expense drivers as well as an overview of our cash flows and capital structure.

Slide 16 highlights some of the key expense drivers that will impact operating expenses in 2009. First we have seen a significant decrease in the price of diesel fuel as noted earlier in this presentation. And while we expect that prices may creep somewhat higher compared to the levels we are seeing in January, we do not foresee a return in 2009 to the record high levels experienced in 2008. Next, contract wage rates will increase in 2009. Most of our union employees will receive a 4.5% wage rate increase as of July 1st. Third, in 2008 our net pension credit was approximately \$40 million. There will be no such benefit in 2009, primarily due to the decline in the value of pension assets.

On the volume side, we also expect expense reductions including fewer crew starts and lower fuel consumption to the extent possible without sacrificing service. Additionally, we are targeting overtime expenses relating not only to train crew costs, but also to our roadway maintenance and mechanical areas. And finally, equipment costs are expected to decrease somewhat relative both to car programs and equipment rents.

With respect to cash flows for the fourth consecutive year our cash provided by operating activities exceeded \$2 billion. As you can see capital spending increased over this same period. However, it remained relatively stable as a percentage of cash from operations. And free cash flow was approximately \$1 billion in each year well above historical levels. This cash was used to repurchase shares including \$229 million in the fourth quarter, as well as to increase our dividends. For the time being we have reigned in our share purchases as we await additional insight regarding the effects of the economic downturn. We do have the option to acquire an additional ten million shares through 2010 under existing authorities.

Slide 18 depicts some primary measures of financial leverage. Our balance sheet remains strong with cash at year end of \$618 million, a debt to capitalization ratio, including operating leases of 46.2%, and interest coverage of over nine times. In addition, since the end of the year we have repaid \$200 million of our receivables, securitization, and issued \$500 million of seven-year debt with a yield of 5.83%. This has further increased our cash on hand.

Looking forward to 2009 we project strong liquidity. We will continue to focus on operating cash flow and especially on cost control in light of the economic situation. Our access to credit markets is good as illustrated by the successful debt offering. Norfolk Southern currently maintains the highest investment grade rating of Class I railroads in the US. In addition, we have access to non capital market borrowings such as our account receivable facility and commercial paper facility.

Our debt maturities in 2009 are \$484 million. Based on our current capital structure will decline over next five years. Our pension plan, while currently somewhat underfunded, will not require payments until 2010 at the earliest, and then only if the value of the assets doesn't recover. Norfolk Southern will continue to view dividend commitments as a high priority for distributions of free cash flow and will remain flexible with regard to share repurchases in 2009.

Finally, as Deb Butler will cover with you in more detail, we plan to maintain our commitment to capital spending, while still managing the timing of some investments in response to economic developments. We have contingency plans in place to reduce capital spending if economic conditions continue to deteriorate.

Thank you for your attention, and now for an update on our operation I will turn the program over to Steve Tobias.

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**Steve Tobias** - Norfolk Southern Corporation - Vice Chairman and COO

Thank you, Jim. Good morning. Thank you all that are present for braving the weather. We appreciate your presence and your interest.

Railroads, by design, tailor operations for consistent service performance. By planning for nonstandard events to ensure operational continuity. This includes train plans, maintenance practices, all aspects of the human element and computer support systems. Over the years we've reported on a number of successful events. Examples of our ability to adjust the unexpected and for the expected.

The economic scenario in the second half of '08 and especially the final quarter presented challenges and opportunities to improve service, consistency in a volatile business environment. While we, like many, have seen a drop-off in car loadings and business levels, the dynamics of our thoroughbred operating plan has enabled us to quickly adjust operations to fit the ebbs, flows, and change of mix as the markets transform. I will elaborate in a few more moments on what and how our variable operations and cost control. But first I would like to bring up to date on our safety performance.

Employee safety is the critical element of all operations. And I know we talk a lot about safety, and we should because a safe workforce is a consistent one. Enables plans to execute as intended. While performance for the 2008 period will not be officially reported until next month, this graph shows comparison with last year. Our current 2008 injury ratio per 200,000 man-hours shown in green is a 0.93.

In 2009, we are putting even more focus on service. Last year service became a component of our annual bonus calculation. In '09 we will increase the service component from 20% to 25% of the total bonus calculation. We will also expand calculations for two key components to include more network trains and tightened measurements on connections. The service portion of the bonus calculation is based on composite performance. Composite performance is a weighted average of the three primary service component measurements. Train performance, connection performance, and planned adherence as depicted at upper right-hand corner of slide three.

As the pronounced reduction in shipments began several months ago we relied on planning tools within the operating plan to meet our challenging times. Keep in mind that we use these systems every day and we're able to maintain consistency of operations while meeting a series of goals as we adjust our rail system to right-size with the evolving economy. These goals are safety of operations, consistent customer service, and scalable cost control. On all three we have not let up, and our top system allows us to work all three in concert with each other. In virtually near real time.

Starting in mid-October and accelerating in mid November, we systematically removed train starts from our operating plan driven by the falling number of shipments. Over Thanksgiving we curtailed operations for the first time in over a decade. As traffic volumes continued to fall we analyzed the plan and took capacity out where traffic could no longer support the existing plan. At the end of '08 going into '09 we had reduced the operating plan by over 60 network trains plus locals and yard jobs totaling almost 44,000 train starts.

We also began to reevaluate switching requirements at terminals on the system using OPD, our operating plan developer technology. We were able to quickly analyze and adjust yard operations while continuing to meet customer requirements. We've been able to substantially reduce the operations at Buckeye yard in Columbus, Ohio, our yard in Sheffield, Alabama, and Redding, Pennsylvania. We continue to analyze all of our yards and are making adjustments as appropriate.

OPD is at that time center of strategic and tactical network planning. With OPD we are able to react to changing traffic patterns and act accordingly. While it is relatively easy to remove trains from the operating plan, it is important to do so and not negatively impact car handling, car miles, car size, and train size. OPD allows us to do this evaluating components simultaneous in making the optimal network decision. In a rapidly changing environment the ability to migrating from operating plan development

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to implementation is a significant advantage. Along with OPD we have also built models to determine the required locomotives and crew base all dependent on the requirements of the operating plan. We feel our operating plan developer, at the moment, is a competitive advantage.

In addition to adjustments to the operating plan for trains, we also use OPD to manage equipment assets as business conditions change. And that can be up or down. This slide shows in orange our daily number of stored merchandise cars through the end of 2008. Stored cars are staged at locations that enable quick return to service without excessive handling once market conditions improve. Combined with coal, Intermodal, and multilevel equipment we now have approximately 20,000 cars stored across the network as depicted in the pie chart. Our coal stored number benefited from efficiencies made in our coal operations that required fewer cars. Our timely car storage focus enables to us right size our car types to customer requirements and minimize our costs.

Further, as the operating plan was reduced the requirement for locomotives decreased. The red line in this graph represents locomotives operated while the blue line indicates train hours operated. As you can see, train hours and locomotives operated remains relatively constant, albeit with day of week variation through November of last year. As we started to make significant reductions through the operating plan throughout November and into December the requirements for locomotives also declined. Over a two-month period we have reduced in-service locomotives by 127 units.

We constantly monitor our manpower needs throughout our system. Our personnel management systems within the Atlanta crew management center allow to us manage train and engine service needs directly with current operations in connection with marketing forecasts and focused localized business level projections, all matching the needs and planning geared with a thoroughbred operating plan. Given the economics, our top train plan redesign gradually reduced train counts and crew needs. As a consequence, our active train and engine service employee level gradually declined in 2008, accelerating during the fall and into '09 with the exception that we continued to find opportunity for our recently hired employees for retention and training.

Early on we slowed train and engine service hiring as some softening in business levels became apparent. Notably in the automotive sector and since December, we have curtailed them. From a high of 12,380 T&E service employees in April '08 to a current 11,622 last week. Our curtailment in hiring and the furloughing of train and engine service employees drove this reduction. We began furloughing in October and we anticipate furloughing an additional 100 employees in the next 30 days, bringing the total to over 500 T&E employees. Generally as reductions in train operations are made they are followed by reductions in other departments, such as mechanical.

Realizing the benefits we've derived from the technology developed over the last ten years has only reinforced our commitment to the future opportunity. UTCS, Leader, Pacesetter, LARS are only four of our current initiatives that will improve operation, our service delivery and help us reduce our costs. There are many others in the capital planning and pilot stage.

Deb Butler will now cover capital budgets and some related technology issues. We're all concerned about the volatility in the marketplace, like everyone. But as you can see, reacting responsibly, we're able to act and will act on circumstances as they evolve. Thank you.

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**Deb Butler** - Norfolk Southern Corporation - EVP, Planning, CIO

Thank you, Steve, and good morning. The next several slides are intended to add a little color to Norfolk Southern's 2009 capital expenditure plans.

Due to the uncertainty of the economy we plan to spend less in 2009 than we did in 2008, and as Jim mentioned we've already identified projects within the current 2009 plan that could be postponed if business conditions are substantially worse than forecast and spending needs to be adjusted further. However, our planned 2009 capital budget includes investments both to

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maintain the safety and quality of our existing franchise and to support the business growth we continue to expect in future years.

Investments in service quality and performance, especially in the Intermodal market area, have been and will remain key drivers of growth and we'll continue to look toward public/private partnerships as one method to help finance these improvements. Total planned capital investment in 2009 is \$1.41 billion compared with \$1.56 billion in 2008 capital spending. Each year a significant portion of our capital expenditures is invested to maintain our franchise including upgrading the condition of our right of way, replacing equipment, and complying with safety and regulatory requirements. As shown on slide four, approximately 72% of our 2009 capital expenditures will be spent on maintaining our railroad for continued safe and reliable operations. The remaining 28% of our budget is related to the growth and productivity of our franchise. These projects include infrastructure and terminal expansion investments, strategic opportunities, and projects that improve our productivity and efficiency.

The categories of capital expenditures we plan to make in 2009 are highlighted here. I will provide some detail for each of these types of investments in the next few slides. A large part of our budget is spent to maintain our existing franchise and a significant portion of that is needed to keep our right of way in the condition needed to move our customers' business safely and reliably. Roadway spending in 2009 is budgeted to be \$698 million, or 49% of our total capital budget. Our 2009 roadway budget contains funding for the normalized replacement of rail ties and ballasts, as well as for the continued improvement or replacement of bridges located throughout our system.

Program spending is projected to be 13% higher than 2008 spending, although our plans to replace rail, crossties and ballasts are all slightly below 2008 levels on a unit basis. The increase in roadway spending in 2009 is primarily due to increased unit cost projections. These costs are a moving target in today's environment and we'll adjust our spending throughout 2009 to reflect actual costs. However, due to the long lead times required roughly two-thirds of the material needed to support the 2009 programs has already been purchased or committed.

Freight car acquisitions and improvements will total \$45 million or 3% of our expected capital expenditures this year. As shown on slide nine, in 2009 we plan to acquire 514 newly built super jumbo covered hoppers to protect our core Southeastern feed grain business. These cars replace more expensive leased cars that we will turn back, and as a result, the project has very attractive returns. To maintain capacity in certain freight car fleets where we expect high demand in future years we plan to buy out the leases of 331 freight cars as those leases expire in 2009.

And as Steve mentioned, we're reaping the benefits of several 2008 initiatives including the scheduling of unit coal trains that significantly improve the velocity of our coal car fleet. Although we're still faced with replacement of large percentage of our coal fleet over the next several years we will be able to defer new coal car purchases until 2010 and later years. Locomotive spending will total \$79 million or 6% of our expected capital expenditures this year. We do not plan to acquire new locomotives in 2009 due partly to aggressive spending in previous years and partly to asset utilization improvements. We will, however, continue to make capital improvements to the fleet to maintain capacity and improve efficiency and reliability.

Emission kits for both GE and E&D locomotives will be installed to meet government requirements. We'll invest in communication management units which are GPS locomotive information systems that are central to a number of our track 2012 initiatives including positive train control. Hybrid initiatives include the construction of a six-axle locomotive with lead-acid power plants to be used for pusher service in the state of Pennsylvania and the construction of several GenSet locomotives for local switching.

As shown on slide 12, investments in facility and terminals throughout our network will total \$141 million or 10% of our total planned capital expenditures. We expect Intermodal to be a high growth market over the long-term and we will continue to invest in Intermodal terminal capacity. This was our strategy during the lean recession years in 2002 and early 2003, and it positioned us well when traffic growth resumed. Investments to support other marketing initiatives include facilities for moving ethanol and municipal solid waste. Non commercial facility investments include new locomotive facilities in Pittsburgh, Pennsylvania, and Atlanta, Georgia, the renovation of several buildings used by transportation and mechanical forces, and new or upgraded wastewater treatment plants.

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Investments in computers and technology are budgeted to be \$67 million or 5% of our total capital expenditures. We invest in technology to enhance safety, to improve operational efficiency and equipment utilization and to give us the tools to better plan and manage our network and processes. All of these investments are targeted to help us meet our track 2012 goals. As shown on slide 15, projects that will be funded next year include the continued rollout of optimized train control. That's Norfolk Southern's version of positive train control.

Also Leader, locomotive engineer coaching system that's expected to yield fuel savings and to reduce equipment wear and tear as a result of better train handling. Also UTCS, our new dispatching system. Several new and replacement systems are budgeted in order to maintain our core systems and to provide new planning tools to assist in improving yard, crew, train, locomotive, and freight car performance.

Investments in infrastructure are budgeted to be \$170 million or 12% of our total capital expenditures. Most of the infrastructure investments planned for 2009 are projects to increase main line capacity, to improve the network to accommodate future traffic growth and to support public/private partnerships such as the Heartland and Crescent corridors and the Chicago Create project. Crescent corridor investments include the 2009 spending required to complete our matching obligation of the Virginia commonwealth funds for capital improvements along the Crescent corridor in Virginia.

Projects that fall outside of the categories I have previously describe total \$213 million or 15% of our planned capital expenditures in 2009. Included in this category are core investments such as the replacement of roadway machinery and vehicles, communications and signal projects, and public improvements such as grade crossing separations. Also included is funding for projects that require capital investments of less than \$500,000 per project.

So to summarize, the \$1.41 billion to be spent on 2009 capital investments represents a decrease of \$144 million or 9% compared with 2008 capital spending. As always, business needs, the economic environment, and strategic initiatives such as track 2012 are the key drivers of our capital investment decisions.

Thank you, and with that I will turn the program back over to Wick.

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**Charles "Wick" Moorman** - Norfolk Southern Corporation - Chairman, President and CEO

Thank you, Deb. Well, obviously 2008 was a terrific year for Norfolk Southern. We were pleased with our performance, especially in light of the reduced volumes and the economic uncertainty, and we remain confident in the strength of our franchise going forward.

Looking ahead, it goes without saying that we're looking at a set of business conditions and an economic outlook that are as troubled and uncertain as anything we have seen in many, many years. As you will have seen, January car loadings continue to be down substantially. And there is little doubt that our first quarter and full year 2000 -- 2009 earnings will be under pressure. Barring some unforeseen improvements in the economy.

To manage through this environment we'll remain focused on a few key principles. First, we'll obvious continue to control costs to the fullest extent possible, without negatively impacting customer systems. As you all know, Norfolk Southern has a long history of effective cost control, and Steve showed you how we have the tools to respond to quickly changing traffic conditions. Second, as you have heard this morning, guided by our track 2012 process, we will continue to take a long-term perspective as we enhance our new traffic corridors, improve our technology and support our operations with the tools necessary to provide superior service. We'll keep our property and assets maintained at a level that will allow us to provide that service. This recession will end some day, and just as in 2003, we'll be positioned to take full advantage of all of our opportunities when it ends.

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Third, we'll continue to aggressively pursue new business development plans and products, such as our just announced Chicago-Titusville, Florida service. Economic disruption will create business opportunities for us, and we will take full advantage of them. And we'll also continue to make sure that we realize the full value of our superior service product.

2009 will present significant challenges for Norfolk Southern, but let me conclude by saying that I am as optimistic as I ever have been about the longer term prospects for our Company. All of the structural reasons for our success in recent years are still in place, if somewhat masked by current economic conditions. And when the economy recovers, our combination of superior service, at a cost that makes sense, along with a superior environmental footprint, will make us the preferred transportation solution.

Thank you for your patience. We've obviously given you a lot of information today. I really can't imagine that you would have any questions left at the end of this, but I see hands going up already. And I will first take questions from here in the audience, and then I'll turn the program over to the operator, who will handle the questions by telephone. So, thank you, and I saw -- if you would identify yourself when you ask the question, please, but I saw Tom, your hand go up first. By just a microsecond, though.

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## QUESTIONS AND ANSWERS

### Unidentified Audience Member

Alright thanks, Wick. I have some questions. I'm guessing Don may be a popular person today. You made a comment, Don, about pricing being more challenged but you also said that there's some negative impacts on yield which are fairly evident in terms of lower fuel surcharge, and RCAF when you look it with respect to fuel, it was a big driver of the move up, and so obviously fuel causes it to go down. What did you mean by the pricing is more challenging, and if you strip out fuel and strip out RCAF do you think that the trend in core pricing, if you will, is really going to change a lot looking forward?

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**Charles "Wick" Moorman** - Norfolk Southern Corporation - Chairman, President and CEO

Come on up, Don, because you are going to get that question in seven variations, I would guess.

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**Don Seale** - Norfolk Southern Corporation - EVP, CMO

I fully expected to get that question. With respect to RPU, the statement that I made is we don't expect the robust RPU gains in 2009 that we saw in 2008. Lower fuel revenue will be a component, the lower RCAF will be a component of that. But as I mentioned, when we look at price, in the fourth quarter and for the year, we averaged about 7% on price, about 2% favorable percentage points in the fourth quarter on the RCAF. We have 70% of the book of business repriced for 2009. We're satisfied with the pricing that was attained in that 70%.

So while we're looking at the market, obviously the market that we're facing in 2009 is a more challenging market than we faced at the beginning of 2008, no doubt about that. That I think we're all in agreement. But in terms of the fundamentals of pricing, we're going to continue to be very deliberate, using strategy that we've deployed in the past, make sure it matches the value proposition, service product that we're delivering, which is a good one.

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**Unidentified Audience Member**

Okay. I guess another component within that would be impact of coal contract expirations were favorable in 2008. As you look to 2009 do you have more benefit from coal contracts which you can price up to a large extent? And I was wondering if you could maybe compare the impact in '09 versus what it would have been in '08?

**Don Seale** - Norfolk Southern Corporation - EVP, CMO

We have a comparable year of 2009 to 2008. We did some repricing of fairly significant coal contracts in August of 2008, which will continue to run obviously through 2009. These are longer term contracts. We also had some new prices go into effect January 1st on some coal contracts. So in terms of the overall impact of coal contract pricing, comparable result in '09 to what we saw in '08.

**Unidentified Audience Member**

Okay. One last one. I'll pass it along. Any quick comment you can make on volumes recently and on production that -- restarting of plants? I think one of the other railroads said, hey, volumes are off only 7%,8% in the last week versus maybe down 25 in the quarter. And I just wonder if you're seeing any improvement in the most recent data that's not quite as grim as the prior data? Thank you.

**Don Seale** - Norfolk Southern Corporation - EVP, CMO

With respect to volume that truly is the wildcard with respect to 2009. Frankly, we didn't expect the first two weeks, first three weeks of January to be robust. A lot of plants took down time. Chrysler took a full month of down time, which was announced back in December. So we expected volumes in automotive, metals, chemicals, some of those products to be fairly low in the first two or three weeks. So far through January volumes are weak at best.

I think those three sectors that I just mentioned are the sectors that are probably ones to watch. We're seeing inventories in steel, for example, based on our observation, beginning to come down. We've seen the scrap price, which is a pretty good proxy, which was about \$550 back in June, July, \$550 a ton. It got as low as \$90. Now scrap price are beginning to go back up. They're up about \$140, \$145. Not back to the \$550 level, but it's beginning to show that there's a rebound. We know inventories are being pulled down because steel production was cut substantially in the fourth quarter.

So we know that eventually those inventories are going to have to be restocked. We're seeing some of that in the global steel market, and I mentioned export coal. Our export coal for January, our loadings, are going to almost equal the export loadings that is we cape November, December combined. That tells us that there's some fundamental reach-back of coke making in Europe, for example that is beginning to rebound a little bit. Now I can't read too much into that, and I'd prefer that you not read too much into it, either, because that's only one month.

**Charles "Wick" Moorman** - Norfolk Southern Corporation - Chairman, President and CEO

Someone asked me earlier how our crystal ball was. We've always set's cloudy. It's gone opaque on us. So we just -- we're looking at this economy in the same way everyone else is and watching, but as Don said, we fully expected the first few weeks of the year to be very slow for us, and for the economy, and they have been. So, we'll go to Tony next. Thank you.

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**Unidentified Audience Member**

Two quick general ones. One is for you, Wick. Where do you see the government scene shaking out? And what I'm specifically referring to is the stimulus bill and the potential transportation bill reauthorization later this year and how that may shake out for you and for the industry?

And compare that to state government budgets which are obviously hurt, and we've heard bad things about Virginia which is important to projects. I don't know if that affects that so I was wondering how does that shake out for the various corridor projects and other things you have where you're counting on public support? Then I've got a quick one for Steve.

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**Charles "Wick" Moorman** - *Norfolk Southern Corporation - Chairman, President and CEO*

Okay. In terms of the stimulus package and whatever evolves to be clearly, it's in a state of flux, and then the reauthorization of the highway bill which will be later this year, and might possibly go into next year. We're still out making our case as aggressively as we possibly can that some of our projects, the Crescent corridor being a prime example, are absolutely terrific public/private partnerships that will relieve highway congestion, relieve a lot of pressure on highway spending and have a lot of benefits, public benefits. And we -- I will tell you, we talked to a lot of folks about them, and universally, they get it.

Now how that translates ultimately into funding we'll have to see. In terms of the stimulus package, the term of art, obviously, is shovel ready. We do have shovel-ready projects. Some are Crescent corridor related, some are other infrastructure projects. There are some substantial projects in create, which are shovel-ready, which have benefits for the rail network and Amtrak and metro as well. So we're working more with the states than the Federal Government on the stimulus package, just because it will be the states that ultimately decide upon their priorities and the distribution of money, and we'll see where that comes out as well.

The state of Virginia, you mentioned the state of Virginia authorized \$40 million last year for Crescent-related project, and those projects are underway and, in fact, two or three of them have been -- now been completed. And that kind of, just to finish that question, really leads to what we tell people is a significant advantage for rail projects, and that is that we can, because we have right of way, because the projects are not -- do not have, I should say, the environmental issues that a big Road project has, we can go on them much, much faster than most highway construction.

And an example of that is the Heartland corridor where we are substantially along on that, as Don mentioned. And we are, if you look back at the projects authorized in the last highway bill, the projects of national significance, we're one of very few that have progressed in the way that the Heartland corridor has progressed. So there's a great story there, I think.

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**Unidentified Audience Member**

Do you want to net that out though against re-reg stuff since you are talking about Washington?

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**Charles "Wick" Moorman** - *Norfolk Southern Corporation - Chairman, President and CEO*

I have no idea. Re-reg obviously is a topic that will be discussed, and we, along with all the other railroads and the AAR and a lot of other allies are up making the case that it's just a terrible idea. And there are a lot of folks in Washington who know that. So we'll continue to talk about those issues.

You can talk to Jim Hixon a little more later. He is leading the charge for us up there. You've got one for Steve?

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**Unidentified Audience Member**

Yes, how to phrase this the right way but what would you say your variable cost percentage is? That is if you expected volume, if you just picked a random number of 5% drop for the year-over-year, where would your cost ex price, those market factors, drop, and where is it now and where will these new tools get you to? How are you improving that?

**Steve Tobias** - Norfolk Southern Corporation - Vice Chairman and COO

I'm loathe to give you much, Tony, that you can put in your model. Just as a general matter of principle. But I'm really not comfortable giving you a percentage on a specific business drop, because as Wick has pointed out, the crystal ball is maybe even -- if it hasn't -- if it is not opaque, it's certainly beginning to wither a little bit.

What's in our projected 5% decrease is something we would have to look at from a mix standpoint in a real term. But in a general sense, somewhere between 30% and 50% of our costs I would put in a category of variable, from a bucket standpoint. We have to weigh that against the realities of the operation and what business actually does ebb, flow, and mix change. Does that answer your question?

**Unidentified Audience Member**

Yes, is it changing? [Inaudible - microphone inaccessible].

**Steve Tobias** - Norfolk Southern Corporation - Vice Chairman and COO

It depends on the volume, it depends on the business mix and what that evolution takes place. As I said in my presentation we are increasingly getting closer and closer to real time from the standpoint of being able to modify our operations based on what's going on in the marketplace. And we're constantly working this. It's not a, well, we'll do this and get the result in two weeks. It's a now thing.

It would be Herculean and very difficult to jump into the system and completely redesign the whole entity of what we do operationally. But from a micro standpoint, we're able to work it on a daily basis and make changes as we go that affect entire flows and corridors. And that in the long run, helps us take costs out when we're in a decreasing environment like we are today.

**Charles "Wick" Moorman** - Norfolk Southern Corporation - Chairman, President and CEO

If you look at our tools and what we think helps us with our tools, the first, as Steve mentioned, is that we have the ability to go in and very quickly make operational changes and weigh, as we make them, all of the trade-offs that might add costs in terms of additional car miles, in terms of additional switching. Because when you take trains out, you can very quickly ramp up the time cars spend on the railroad, your locomotive requirement and things like that. So we have tools that now allow us to respond very quickly.

The other thing, as Steve showed you, is and where I think our tools are really good, is on things like crews and labor is giving us a very good way to look ahead and look ahead out over the period of a year or two, and decide what we need to be doing in terms of hiring. We saw volumes start to fall off year-over-year, as you know in 2007, and really started back then to adjust our T&E hiring down. And we have adjusted it down all the way through, and so when -- but at the same time, also tried to retain the people we had hired. And we talked about that before.

We tried to make sure to enable them to at least have enough work to stay with us, because we invest a lot of money to train people. When we reached the point, as you saw, with the precipitous declines in volumes in the fourth quarter that we felt it

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was no longer economically justified to do that we took the appropriate steps. But it's that look ahead capability of our tools that I think is so important. So, there's -- right in the back first. Yes, sir.

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**Steve Kron** - *Goldman Sachs - Analyst*

Thank you. [Steve Kron] with Goldman Sachs. First question for Don, surprisingly.

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**Charles "Wick" Moorman** - *Norfolk Southern Corporation - Chairman, President and CEO*

Come on up, Don.

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**Steve Kron** - *Goldman Sachs - Analyst*

You had mentioned on the coal business restocking of stockpiles. Could you give us a sense in terms of where the stockpiles are, north, south?

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**Don Seale** - *Norfolk Southern Corporation - EVP, CMO*

In our utility universe the northern utilities are slightly below target. I would say -- I won't give you a percentage, but they are below target, and we know the plants that are. In the South, they were at target, but with the weather patterns that we're having, they're beginning to move down a little bit. Coal availability, as I mentioned, is better. That is if production stays up.

We're seeing some of the suppliers, [PRB] namely one, beginning to ratchet production down. So that remains to be a little bit of something that has to evolve. But coal availability is better right now. Pricing of coal in some cases are better, and we're seeing utilities reach out and buy coal and we're beginning to move that coal at a little better pace. When the export market this past year was so robust, we literally saw some coal constraints, and I think some pricing constraints and some of the utilities stayed on the sidelines as a result of that.

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**Steve Kron** - *Goldman Sachs - Analyst*

And then a question on Intermodal. I was a little surprised to see the domestic business up year-over-year, particularly given that diesel prices had fallen so significantly. I would have expected that trucks would have come back more competitively. Can you talk about the pricing environment? And -- obviously you have the capital projects that you have invested in, but it seem to be a surprising result in a declining fuel environment.

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**Don Seale** - *Norfolk Southern Corporation - EVP, CMO*

Well as I mentioned in the comments, and you have heard us talk about this before, we have a very clear-cut strategy of continuing to build our capability east of the Mississippi in terms of our local network. New facilities, new ramps, like the Rickenbacker Intermodal terminal. We've positioned that facility to handle domestic freight as well as international freight from either coast. So we're trying to be as flexible as we can be.

Now we're seeing our truckload partners in the domestic Intermodal mark not waver at all in today's environment with respect to their ongoing objectives of converting highway freight to rail. I think that there's a couple drivers to that. One, no one believes that fuel is going to stay down. No one believes that highway congestion is going to mitigate. It is going to get worse. No one believes that the demographics are going to reverse and that drivers are going to be plentiful. And then a lot of the receivers,

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Wal-Mart, Target, a lot of the beneficial owners, are clearly placing in their specs for transportation a reduced carbon footprint, and Intermodal fits that bill.

So even in today's environment where we have truck supply rising, and truck pricing dipping in a lot of markets, we're seeing our truckload partners stay engaged with that strategy that we've deployed together. And you will continue to see us roll out new services, too. The Titusville facility and the Chicago-Florida, L.A.-Florida, Atlanta-Florida market is an example. And you will continue to see us get benefits from the Crescent corridor speed work that we're doing. We're incrementally doing speed enhancements along those corridors. As we have indicated to you in the past that's not going to be a project that is done overnight. It will be done over a period of time. It's a very large project with a large opportunity attached to it.

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**Steve Kron** - *Goldman Sachs - Analyst*

Let me, I'm sorry, one quick follow-up. Can you talk about the pricing differential between you and truck? You talked about short haul. Is short getting shorter? I'm assuming it's 500 miles, but maybe you can give us a sense in terms of that domestic short haul business?

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**Don Seale** - *Norfolk Southern Corporation - EVP, CMO*

We used to talk about rule of thumb of length of haul of X and generally rail transportation, rail Intermodal, was 500 miles and north above. We have corridors today and I think I've mentioned these to you in the past. For example, the international and domestic market out of the Savannah market going to Atlanta. That was a market that five years ago we looked at it as a short haul market that was truck dominated.

Today with a good efficient service and double stack configuration, with a -- with the right size train we're very productive in that lane and we're able to compete and make the kind of margins that we're after in the business. So the rule of 500 is changing, and I would submit to you that that will continue to evolve and change over time. As trucking becomes more expensive over time.

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**Charles "Wick" Moorman** - *Norfolk Southern Corporation - Chairman, President and CEO*

When we look at our franchise we believe that in the future, while international Intermodal will come back as the recession ends, and we're well positioned to handle that business, whether it comes in through west coast ports or east coast ports, as we told you, but we really look at domestic truckload freight as the next great opportunity.

And that's why we're talking about all of the franchise enhancements in terms of our corridor projects, and I have to tell you we think we're very well positioned to take a lot of truckload freight off the highway and take it at profitable rates for us, even in the shorter haul lanes. It's a big strategic direction for us.

Ken, you were next.

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**Ken Hoexter** - *Banc of America - Merrill Lynch - Analyst*

Hi. Ken Hoexter, Banc of America-Merrill Lynch. Don you mentioned the auto yields were I guess impacted by \$200 per car gain last year because of volume. Could you just refresh our memory on that a little bit? Was it that the auto carriers last year didn't meet volume commitments so you got a better take or pay kind of contract? And then obvious until year if volumes are down as much as they are, did that take or pay agreement go away? I'm just wondering why there was that mark to market agreement last year.

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**Don Seale** - Norfolk Southern Corporation - EVP, CMO

Ken, as you might recall this was a contract volume adjustment in the fourth quarter of last year, to the tune of about \$26 million, which related to those per car numbers, the \$200 for automotive in the fourth quarter last year. It was a one-time adjustment.

**Ken Hoexter** - Banc of America - Merrill Lynch - Analyst

Okay. So ex that, what would auto yields have looked like?

**Don Seale** - Norfolk Southern Corporation - EVP, CMO

Obviously they would have been much better. We had that comp. I don't -- maybe Marta can give us that number. She is looking it up. But I didn't go back and take that out.

**Ken Hoexter** - Banc of America - Merrill Lynch - Analyst

Okay. And then similarly, Intermodal yields were much lower than the rest. Is there any -- is that just because they're priced more frequently? Is that -- I'm just wondering if it was more on the domestic side relative to the international side, just R&D international contracts have inflators as well, built in for a few years?

**Don Seale** - Norfolk Southern Corporation - EVP, CMO

Ken, you are referring to yield, and I want to make sure that you are referring to the RPU, which is equal to the yield. That's the definition you are giving of that. And as you know, on Intermodal, we have Intermodal fuel surcharges marking on highway diesel fuel prices, and they change weekly. We have a 60-day lag on the other business, which is coal and merchandise related to the west Texas intermediate crude oil price. So Intermodal fuel surcharges move quicker than the 60-day lag in the other. And that's the difference in terms of the overall RPU delta.

Also, we had a mix effect in Intermodal. We handled a fewer number of trailers. Triple crown was down due to the automotive production cut, and that was a negative mix, and we handled fewer trailers and a higher number of domestic containers, which have a lower RPU, but a good margin. So we had a mix effect, and that mix was included in that negative \$61 million mix effect for the quarter for the total book of business, for all of -- for the entire book.

**Ken Hoexter** - Banc of America - Merrill Lynch - Analyst

And then refresh my memory. I believe it was last year you had adjusted your fuel surcharge up to rebasing up to \$60, which allowed some of the yields to be very impressive over the last couple quarters. What percent of business is impacted by that rebasing to \$60, and how much has been done and how much do you still aim to do?

**Don Seale** - Norfolk Southern Corporation - EVP, CMO

We have, at the end of the year we have about 95% of our total book of business with a fuel surcharge. And I have to tell you that we have a variety of fuel surcharges negotiated in contracts, and different rate items. So we have 95% coverage on a number of different types of fuel surcharges.

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**Ken Hoexter** - Banc of America - Merrill Lynch - Analyst

Right. So specifically dealing with that, wasn't there a \$60 rebasing of fuel and what percentage of freight did that impact?

**Don Seale** - Norfolk Southern Corporation - EVP, CMO

Ken, what I'm saying is we've had different fuel levels negotiated, and I couldn't really give you a percentage, because, frankly, it varies between businesses, volumes, et cetera. So I really can't get into the percentage of at a certain level, because we have numerous fuel surcharges, but the coverage is the key thing. Is that we've been able to get up to that level, that 95%, and by the end of 2009, we should be able to tell that you we've been able to get that much closer to 100%.

**Ken Hoexter** - Banc of America - Merrill Lynch - Analyst

Okay, I'm sorry, I thought that \$60 was perhaps on something public, like all of your tariff business. I thought it was a public number.

**Don Seale** - Norfolk Southern Corporation - EVP, CMO

Well, as you may all recall, we have no fuel surcharge on our public tariff prices. We have no fuel surcharge whatsoever on our originated public prices. We take the prices, adjust those to market, and that's what we -- that's how we've been able to manage that business.

**Ken Hoexter** - Banc of America - Merrill Lynch - Analyst

And what percent of business is that?

**Don Seale** - Norfolk Southern Corporation - EVP, CMO

It's about 6% of our book, in terms of originations and then we have another approximately 5% on a received basis, but that's using the originating carriers' fuel surcharge that originates the freight coming to us. So the answer to your question, about 6% of our book is public prices.

**Ken Hoexter** - Banc of America - Merrill Lynch - Analyst

Perfect. And then one last question if I may. Have you ever delineated the difference on whether it's revenue per car or margin basis between your utility and export coal? And if you are not going to give an exact number can you kind of put in a ballpark and maybe walk us through? Because there is the perception that utility coal is massively more profitable, much higher revenue per car, and the potential loss of the met coal business coming up in the year ahead, or perceived decrease for steel demand is going to cause met coal to go down.

**Charles "Wick" Moorman** - Norfolk Southern Corporation - Chairman, President and CEO

I think you misspoke you said the perception was utility. You mean the perception to export?

**Ken Hoexter** - Banc of America - Merrill Lynch - Analyst

Export, thank you.

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**Charles "Wick" Moorman** - Norfolk Southern Corporation - Chairman, President and CEO

I will tell you, from a margin standpoint, they're both very good businesses for us. I mean we're happy to haul coal wherever people want it hauled. The only difference I would say between them is the export coal is done on a slightly shorter haul than our average -- I mean, you are right, export coal is a little bit longer haul.

**Don Seale** - Norfolk Southern Corporation - EVP, CMO

Ken, our export book is about 430 miles per car on average. And if you back that business out, our utility and everything else, domestic met, utility, and industrial coal, is about 285 miles (corrected by company after the call). So there's a big delta between the length of haul in export versus the rest of coal.

**Charles "Wick" Moorman** - Norfolk Southern Corporation - Chairman, President and CEO

Okay. In the back.

**Scott Group** - Wolfe Research - Analyst

Thanks. It's Scott Group from Wolfe Research. Don, can we go back to commentary on pricing and can you just one more time run us through the price, fuel, and mix impact? I guess I missed the commentary on of what you were saying is price, how much is pure price and how much is RCAF in there?

**Don Seale** - Norfolk Southern Corporation - EVP, CMO

Be glad to do that. The RPU was up in the quarter up 10%, 65% of that 10% came from price, and out of that price, there was 7% pure price, 2% was the effect of the positive RCAF adjustment. And that's pretty much what we've seen throughout 2008, a plus two percentage points for RCAF, which we foresee that going down in 2009 because of falling oil prices. So pure price 7%, RCAF 2%, and --

**Scott Group** - Wolfe Research - Analyst

Okay. So that RCAF, that does include RCAF with fuel?

**Don Seale** - Norfolk Southern Corporation - EVP, CMO

That RCAF with the way we have it in our contracts, and the RCAF in our book of business is generally more related to coal than some of the other businesses. A percentage of the RCAF has been backed out in a negotiation to take fuel out of the RCAF, and then a negotiated fuel surcharge applies in conjunction with that adjusted RCAF for fuel.

**Scott Group** - Wolfe Research - Analyst

But to the extent that you have any RCAF that's old legacy contracts that have RCAF with fuel in them, is that total RCAF being put in what you are calling the 6.5% price?

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**Don Seale** - Norfolk Southern Corporation - EVP, CMO

We do not have any appreciable business left with just RCAF with fuel in it.

**Scott Group** - Wolfe Research - Analyst

So then I guess what I'm missing, is I don't necessarily understand why RCAF, exclusive of fuel is going to be down next year and then why that would have an impact on what you guys call pure price?

**Don Seale** - Norfolk Southern Corporation - EVP, CMO

Well in terms of pure price, and that's why I segmented the 7% and 2% with respect to pure price, it will be a separate relationship. But in terms of total RPU growth, our downward movement in RPU, you'll see the impact of that negative RCAF.

**Scott Group** - Wolfe Research - Analyst

Okay and then one last bit on that 6.5% pure price. The tough comp with the auto contract issue, is that reflected in lower pure price gains this quarter, meaning the 6.5% versus the -- I think it was 9.5% last quarter some is that one of the factors that's driving that deceleration and maybe what else do you think is driving that deceleration?

**Don Seale** - Norfolk Southern Corporation - EVP, CMO

In terms of the total yield, our RPU for automotive, the RPU for automotive was impacted negatively this year because of that comp from last year.

**Scott Group** - Wolfe Research - Analyst

Okay. Moving on from price, just couple last quick ones also, for you, Don. Export coal, you mentioned would be down versus '08. I just wanted to get your sense. Do you think it could be back down to '07 levels or still above '07?

**Don Seale** - Norfolk Southern Corporation - EVP, CMO

We have no good visibility on that total volume. We have some contracts in place. Those are good contracts. The toggle, or the variable, is how much steel production comes back in Europe. So it's an interdependent.

It also has implications in terms of currency exchange, what our currency does, vis-a-vis the Euro, et cetera. Also ocean shipping rates, what the Australian's do. There are a lot of moving parts in the export market. But I would say at this point the number one variable in volume is the world's steel production.

**Scott Group** - Wolfe Research - Analyst

You mentioned that January was up versus, I think, November and December. Can you compare with it January in '08 and January in '07?

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**Don Seale** - Norfolk Southern Corporation - EVP, CMO

Our volumes at Lambert's Point and Baltimore will be comparable. Won't be the same, but they will be comparable to the January '08 numbers.

**Scott Group** - Wolfe Research - Analyst

Okay, great. And one last real quick one on maybe for Jim or Steve. Headcount was up slightly in the quarter on volumes down 8%, and we saw the slides with -- obvious you took out a lot more heads later in the quarter sought wasn't fully reflected in the averages. Can you give a sense on kind of where we stand in first quarter year-over-year headcount?

**Charles "Wick" Moorman** - Norfolk Southern Corporation - Chairman, President and CEO

First quarter with all the furloughs you have seen, we're down year-over-year. We were up slightly in the fourth quarter. That was driven primarily by the fact that we -- as we showed you, we tried to maintain T&E headcount about where it had been for awhile.

And we had continued in 2008 to bring in a substantial number of new trainees, primarily for our operating department. I've talked before about some of the demographic issues that we faced, and we felt and still feel it's important for us to have enough people in the pipeline, and that's what drove the year-over-year increase.

**Scott Group** - Wolfe Research - Analyst

But you are down year-over-year in first quarter by --

**Charles "Wick" Moorman** - Norfolk Southern Corporation - Chairman, President and CEO

I don't have the exact number. I don't think we looked it up when we came, but we're -- clearly with furloughs we're down. Thanks for the time. One more. Yes, sir.

**Gary Chase** - Barclays Capital - Analyst

Good morning. It's Gary Chase from Barclays Capital. Don, I didn't want you to be disappointed so I'm going to ask you RCAF variations five, six, and seven. If you could -- if you think about the 2% you highlighted in the quarter and you look at what that index did during 2008 it feels like about 10% of the overall business. Is that a good ballpark for what you are exposed to for RCAF inclusive of fuel?

**Don Seale** - Norfolk Southern Corporation - EVP, CMO

Gary as I mentioned, the majority of our business does not have any relativity to the RCAF. You take the Intermodal generally, some, but not much. The merchandise, the car load sector, some but not much. And some of the older coal contracts have in that there, so the number that you are citing is -- sounds high to me, because of that.

**Gary Chase** - Barclays Capital - Analyst

Okay. And then for the business that isn't exposed to that, do you have a way to size for us what the exposure is to the index exclusive of fuel?

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**Don Seale** - Norfolk Southern Corporation - EVP, CMO

No, because those are contractual terms, and frankly, those are things that are put into place in confidence, and we can't share those. I will tell you this, that the number of RCAF-related contracts are diminishing as we go forward. It's a shrinking percentage, and it will continue to shrink as we have legacy contracts roll over and turn over, they're renegotiated. We're putting escalators in that are a little bit more predictable with less variability up and down. And that's good for us and it is good for the customer in terms of being able to plan.

**Gary Chase** - Barclays Capital - Analyst

I think you cited as well during the fourth quarter you had an equivalent week's shutdown within the auto business. Can you give us a sense of what you are expecting that to be in the first quarter?

**Don Seale** - Norfolk Southern Corporation - EVP, CMO

Boy, that's a great question, and I wish I knew the answer. We had 107 weeks of production down time in the fourth quarter. We know that looking into 2009, if you look at Ward's Automotive and lack at the data, and this is just data that we're getting from the same sources that you would get production and sales numbers from, and then talking to our accounts, it looks like auto production is going to be down to about 12 million units in the US and sales are going to be somewhere in the range of 10.2 million. Those are very weak numbers.

And now, will that change? You are probably seeing the same thing I am that already the consumer is beginning to turn away from small cars, and they are buying large vehicles again. And the producers have turned production off on the large vehicles and are producing small ones. So, stay tuned, I guess is the best answer.

**Charles "Wick" Moorman** - Norfolk Southern Corporation - Chairman, President and CEO

All right, let's -- I think we've got a couple of questions on the phone. Let's see if there's another RCAF issue to be discussed here.

**Operator**

Thank you. We will now be conducting a question-and-answer session. (Operator Instructions) One moment, please, while we poll for questions. Our first question is from Mr. William Greene with Morgan Stanley. Please state your question.

**William Greene** - Morgan Stanley - Analyst

One more price question, are you seeing more push-back in your pricing discussions because of the economy, or are you feeling actually a little bit less from customers given how much the fuel surcharges have come in?

**Charles "Wick" Moorman** - Norfolk Southern Corporation - Chairman, President and CEO

We, I would say, are seeing a little push back in a few places, not an extraordinary amount. We'll continue to monitor that. We'll continue to talk to our customers and respond accordingly when a request comes in.

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**William Greene** - Morgan Stanley - Analyst

Okay. Then, Wick, can I ask you about, as you looked at 2009, I think it's a fair assumption that if the volume pressures continue, as you mentioned, will you be challenged, I think on the earnings front, which could very well mean that you fall below the cost of capital on a return basis. Does that reset the clock on revenue adequacy from your perspective?

**Charles "Wick" Moorman** - Norfolk Southern Corporation - Chairman, President and CEO

That's a very interesting question that we do not really know the answer to, nor would I say does the STB. Clearly the question of revenue adequacy is out there, and we'll continue to discuss it. Having said that, our hope and expectation is that we'll continue to earn our cost of capital in 2009, and that's what we are intent on doing. But, Bill, that's a great question.

**William Greene** - Morgan Stanley - Analyst

All right, well thank you for your help.

**Charles "Wick" Moorman** - Norfolk Southern Corporation - Chairman, President and CEO

Surely.

**Operator**

Thank you. Our next question is from Mr. Walter Spracklin with RBC Capital Markets. Please state your question.

**Walter Spracklin** - RBC Capital Markets - Analyst

Thanks very much. I'll give you a break on the RCAF questions and go to some others here. The first one is perhaps for Deborah here. You gave a good break-down, appreciate that, of your CapEx program. And if you look at that 28% that you mentioned was on the growth productivity, clearly you wouldn't -- if the economy does stay down or get worse, clearly I don't think you are going to wipe out that full 28%, but maybe you could give us a sense of priority, what kind of levels would we see it drop on an incremental basis, depending on how the economy unfolds?

**Charles "Wick" Moorman** - Norfolk Southern Corporation - Chairman, President and CEO

Deb just empowered me to answer that question. When we did the budget initially went through and identified 15% that we could go in and take out. And it was a combination of some in the 28% bracket and some in the core bracket. Clearly, we would be able to do that, but it's also very cheer that if economic conditions were to deteriorate even further and we became concerned, we would be able to cut more out of the budget.

The fact of the matter is that it is our property is in good shape and we want to maintain it accordingly. But if we have to flex a little bit in the spending, we can do that. The downside of that is -- and we've seen in this the industry and talked to you about it, it's very difficult to play catch up. So if we can avoid doing that, we will. We think playing catch-up ultimately costs you more money than you save.

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**Walter Spracklin** - RBC Capital Markets - Analyst

Okay, that's some good color. On the free cash flow trends, you talked about scaling back down on your share buyback. Can you give us some commentary as to your balance sheet? I know you did give us a sense of your cash and what was coming up. Specifically, how do you look at your balance sheet in terms of where your comfort level is? If you have any target sort of debt to total capitalization is? And as a follow-up to that, what do you have left in your securitized receivables? I know you paid down \$200 million. What's left in securitized receivables?

**Charles "Wick" Moorman** - Norfolk Southern Corporation - Chairman, President and CEO

Let me bring Jim up, and he can comment on that for just a moment.

**Jim Squires** - Norfolk Southern Corporation - EVP, Finance and CFO

First of all, in terms of our credit metrics, I think our leverage levels have been pretty constant for the last several years, and I think right now our goal is to maintain our credit ratios at about where they are for the time being. Let's see. In terms of the AR facility, we have \$100 million drawn. As I mentioned, we paid down \$200 million just after our \$500 million notes issuance and we have total capacity under the AR facility at any given time between \$300 million and \$400 million, generally. So \$200 million to \$300 million capacity there now.

**Walter Spracklin** - RBC Capital Markets - Analyst

That will flow to the balance sheet as debt repayment, I guess?

**Jim Squires** - Norfolk Southern Corporation - EVP, Finance and CFO

Correct, that's on the balance sheet.

**Walter Spracklin** - RBC Capital Markets - Analyst

And on the -- just while I have you there, Jim, the tax rate up last year versus '07, any sense what we should be plugging in our models for 2009?

**Jim Squires** - Norfolk Southern Corporation - EVP, Finance and CFO

Sure. In fourth quarter, the increase was about equally due to the roll-off of the synthetic fuel credits in 2007 that and the absence of the con rail adjustment were about -- each about half of the increase in the effective rate. For '09 we're look at something like the statutory rate plus three or four percentage points for the state taxes.

**Walter Spracklin** - RBC Capital Markets - Analyst

Okay, perfect. That's all my questions. Thanks very much, guys.

**Charles "Wick" Moorman** - Norfolk Southern Corporation - Chairman, President and CEO

Thank you.

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**Operator**

Thank you. Our next question is from Mr. Randy Cousins with BMO Capital Markets. Please state your question.

**Randy Cousins** - BMO Capital Markets - Analyst

Good morning. My question is for Don. With reference to your slide that's got RPU on it. Last year you had a \$399 increase in RPU in your coal franchise, and everybody has different views on what's going to happen with met coal or met coal pricing. But for us I wonder if you could give us some granularity in terms of that \$399 increase. How much of it it was due to mix, what would you attribute to fuel, what would you classify as repricing of contracts, and how much would you put in as RCAF, at least for the coal component?

**Don Seale** - Norfolk Southern Corporation - EVP, CMO

Randy, you just covered really all the components of that increase. I will remind everyone that the length of haul for export, as I mentioned, is longer, so the revenue per car, for export, is higher than the revenue per car generally for the lower mileage other coal. So that boost RPU. We had a favorable RCAF, which we've talked about quite a bit. And then we had some other favorable mix. Export was up 48% for the year, after being up 25% in 2007. So we've had a good run on export, and that's a higher RPU, and we had pricing gains wrapped into that, too. So that number for 2008 is an amalgamation of all those moving parts.

**Randy Cousins** - BMO Capital Markets - Analyst

But I was wondering if you could give us some kind of granularity, if nothing else, just how much of the \$399 was just repricing?

**Don Seale** - Norfolk Southern Corporation - EVP, CMO

We can't break it out that way for you. I will tell you that it was a significant part. Fuel was a significant part, and then that mix effect which was positive with respect to export was a significant part of it as well.

**Randy Cousins** - BMO Capital Markets - Analyst

And then the other category that had a really substantial percentage increase was ag. And I guess there's no -- presumably no RCAF business in that chunk, but I wonder if again if you could give us some sense as to what your sense is on ag pricing or how you see your arc trending for 2009 in the ag category?

**Don Seale** - Norfolk Southern Corporation - EVP, CMO

Again, in the agricultural world we had longer haul export traffic, longer haul midwestern to southeastern feeder traffic, which is higher RPU. We had the 27,000 car load increase in the agrifuels market that I mentioned, ethanol up 33% for the year, that's higher RPU. Plus we had good pricing in the market.

**Randy Cousins** - BMO Capital Markets - Analyst

Okay. And then my last question has to do with your slide on Intermodal volumes. I wondered if you could give us -- you gave us the fourth quarter numbers in terms of sort of the change by sort of Intermodal category. Could you give us some sense of

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what those numbers were for the year? And then finally, what's happening on the international side? Are you seeing more stuff coming in, or is the growth on the coast and the gulf or East coast and the gulf, are you seeing more transcon business coming back at you?

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**Don Seale** - Norfolk Southern Corporation - EVP, CMO

We are continuing to see our East coast international business grow at a faster pace than our transcontinental West coast port of entry international freight. We closed out 2008 with about in the range of 54%, almost 55% of our total international business coming through East coast ports versus West. If we go back five years ago we only had about 20% of our international business coming through the East coast ports.

So all water service with the larger vessels, that a lot of the steamship lines are deploying, the use of the Suez Canal, we're seeing all water service continue to grow, although the international volumes, in terms of imports and exports in the fourth quarter, were down. Exports were more favorable in the first three-quarters. They both were less than favorable in the fourth quarter.

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**Randy Cousins** - BMO Capital Markets - Analyst

And for the year? Can you give us -- Don, can you give us some sense of how these components worked out for the year as opposed to just the fourth quarter?

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**Don Seale** - Norfolk Southern Corporation - EVP, CMO

Yes. I don't have the percentages here in front of me, but our international business was down a little more at the 15% level in the fourth quarter because of something I just mentioned is that the exports through the first three-quarters was helping almost offset the decline in imports. Now I think I showed you that chart in the third quarter.

In the fourth quarter we saw exports decline as -- in addition to the imports. So for the year, for the first three-quarters we had a more favorable trend on international than we did in the fourth quarter. I don't have the percentage in my head.

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**Randy Cousins** - BMO Capital Markets - Analyst

What about for domestic truckload? Because again, that's one where that's the truck-truck-train conversion opportunity. Did that slow in the fourth quarter, or how did it track for the year?

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**Charles "Wick" Moorman** - Norfolk Southern Corporation - Chairman, President and CEO

Well, the domestic really, the conversion was good in the first quarter. It really accelerated in quarters two and three when we saw diesel prices spike up. Even in the third quarter when diesel started to go down it was at a very high rate. I think the percentage was off slightly in the fourth quarter but that, we think, was just more reflection of total volumes than a willingness of people to convert.

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**Randy Cousins** - BMO Capital Markets - Analyst

Because I guess it kinds of lead to my last question which is retention. Of the guys you converted in the first three-quarters of last year how many have you retained, or any issues or concerns as a percentage of that new business looking to 2009?

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**Charles "Wick" Moorman** - Norfolk Southern Corporation - Chairman, President and CEO

We have had a very high retention rate, and I think that's evidenced by the fact that the conversion numbers have continued to be positive year-over-year. Highway truck prices I guess have come down. It's a tough marketplace out there in the trucking industry right now, but when we talk to our partners in the Intermodal business, all of them remain convinced that they want to stay on the railroad and continue to convert business to the railroad.

**Randy Cousins** - BMO Capital Markets - Analyst

Okay. Great, thank you. That's it for me.

**Charles "Wick" Moorman** - Norfolk Southern Corporation - Chairman, President and CEO

One more.

**Operator**

Thank you. Our final question comes from Mr. John Larkin with Stifel Nicolaus. Please state your question.

**John Larkin** - Stifel Nicolaus - Analyst

Yes, good morning, gentlemen. At the risk of asking a longer term question here, I was wondering if you could just remind us of the highlights of the track 2012 program and what impact that will have over time on your margins, in particular, assuming that at some point we get back to a more normal economic environment?

**Charles "Wick" Moorman** - Norfolk Southern Corporation - Chairman, President and CEO

Well, John, batting cleanup, that's a great question to ask. The track 2012 process is now our four-year vision for where we want to go. We started by setting obviously some revenue goals. We're rethinking them in light of the downturn, but then we set really the goals that will drive the Company. OR goals, safety goals, and then goals around the four processes that are really the four levers of the railroad business.

The first, which we talk about all the time is our service levels. We have some aggressive goals there, and then the other three are on the margin side. And they are asset utilization goals, workforce productivity goals, and a goal to continue to reduce fuel consumption across the railroad as an indicator of better productivity for the fuel we use. We have a significant number of initiatives underway, a Steering Committee, which Deb Butler leads. I would tell that you a lot of the projects will I think, be very meaningful in terms of reaching our OR goal, which we don't announce, but as I said before, we think that a sustainable operating ratio, with a number that starts with six is obviously where we want to be.

And as we push ahead, I would tell you that I think that you will start to see those incremental improvements probably start to kick in midyear this year with some projects with a lot more accelerating in the next year. A lot of them are technology based, and require substantial implementation time. A couple that you have seen mentioned today are Leader and our LARS process for locomotive allocation. UTCS will help on the productivity side and we have a lot of really good initiatives out there. So longer term, John, we want to take the operating ratio down from where it is today, and we think to track 2012 goals are what will enable us to do that.

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**John Larkin** - *Stifel Nicolaus - Analyst*

I really appreciate the answer. If you do have another minute, I had another question that is somewhat long-term in nature. Probably more so than any other North American railroad you've done a great job of kind of laying out what I would call a strategic marketing plan that consists of projects like the trackage rights on the old Delaware and Hudson, The Patriot corridor, the Heartland corridor, the Crescent corridor, the Meridian Speedway, now the Titusville project, which really extends the reach of the railroad, allows to you improve your service, grab additional market share, et cetera.

And just when I think you have exhausted all of those possibilities, yesterday you reported another one. Are we still in the early stages of this longer term strategic marketing effort? Are there other projects that are on the drawing board that we could see revealed over the coming years, or have we pretty much exhausted most of the opportunities here that you see?

**Charles "Wick" Moorman** - *Norfolk Southern Corporation - Chairman, President and CEO*

We're not exhausted quite yet. We have some more ideas, and if we can bring them to fruition we'll be talking about them, hopefully over the course of the next year or two. We think there's still some places to go which, as you said, extend the reach of our franchise and give us a competitive advantage through better service and better routes. But we also, I want to say, we have a lot that we've announced already that we still got work to do. We're still finishing the Speedway, the Heartland work gets done in 2010. Crescent is a work in project, and it will be a longer project. Although we are starting, as Don mentioned, to see incremental traffic gains just with the incremental work we've done so far. So we think there are more good ideas out there, and we're pursuing them, but we're also paying a lot of attention to getting the things finished that we've already announced.

**John Larkin** - *Stifel Nicolaus - Analyst*

Thanks very much. Appreciate you taking my questions. Take care.

**Charles "Wick" Moorman** - *Norfolk Southern Corporation - Chairman, President and CEO*

Thank you, John. Thank you, everyone. It's been a longer meeting than usual, but hopefully we've given you some color for the year. And we look forward to talking with you again. Thanks.

**Operator**

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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