

A photograph of Alan Shaw, President and CEO of Norfolk Southern, speaking at a podium. He is wearing a dark suit and a white shirt. The background is a blue screen with the Norfolk Southern logo and the words 'NORFOLK SOUTHERN' visible.

Remarks From President & CEO Alan Shaw

North American Rail Shippers Annual Meeting
May 26, 2023

We are all here because we believe in the future of the rail industry and we want to make it better.

That's what we're doing at Norfolk Southern. We have a vision for a better way forward at Norfolk Southern, and that's our balanced approach of service, productivity, and growth. Last December, we outlined a new plan. We charted a new course in the industry. We said we're going to operate in the best long-term interests of our customers, employees, the communities we serve, and shareholders. That's how we're going to drive long-term value creation.

This is a paradigm shift from what we had done before and what others in the industry have done, and I'm confident in our new strategy. We built the team to execute it. We have the franchise to deliver it. The strategy works.

We got a lot of proof points last fall and in January when our service was at two-year highs and our volumes were exceeding normal seasonality. Our commitment to that plan got tested on February 3 in East Palestine, in a way that I never would have imagined. Our response to East Palestine was fully aligned with that better way forward of operating in the best interests of our customers, our employees, the communities we serve, and our shareholders.

February 3 was a Friday night. I live in Atlanta. We were there and I got the call. The first thing you think about is, were there any injuries? Were there any deaths? Luckily, no. Then the next question you always ask is, was hazmat involved? The answer was yes. So you start thinking, okay, this is a situation that's a potential crisis. This has got to be managed.

We brought the team together and said, look, we're going to follow our North Star. We're going to do more than less and we're going to make it right. More than less means more of Norfolk Southern's financial resources. More than less means more of my own personal involvement. I told the team, think about what you want this to look like five years from now, ten years from now. When you look back, how do you want Norfolk Southern's response to be judged? If you make decisions based on that and you think about doing the right things, ultimately, you're going to come up with the right decision and it's going to work out.

I was there in immediate aftermath. I was there during the vent and burn, stood shoulder to shoulder with Governor DeWine and had Governor Shapiro on the phone. I saw the smoke plume. It was terrifying. I hope I never see anything like that again and we immediately knew this was going to have an impact on the town.

When I went up there, I immediately went to Norfolk Southern's Family Assistance Center. We set up a family assistance center within 24 hours of the derailment. After that, I went to the Red Cross shelter, and I introduced myself. I made sure that people knew who I was and who I represented. More importantly, I made sure people were getting everything they needed from Norfolk Southern.

East Palestine is a railroad community. East Palestine grew up around the railroad. The rail history and the economic growth engine that is the North American rail network is interwoven through that town. We have thirteen employees who live there. I wrote a note to those employees right after the derailment, and I made them a promise. I said, we're going to do the right things. You're in a tough spot. Your town has been upended and you work for Norfolk Southern. We're going to do the right things so that you're proud of your connection with Norfolk Southern and of the way that we're going to respond to this.

I got a thoughtful note back from one of our employees, Jeremy Vranesevich. Jeremy works in mechanical for us in Conway Yard, which is just across the Ohio border in Pennsylvania. Jeremy said he trusted Norfolk Southern, trusted me and trusted that we were going to do the right things. After reading his letter, I asked him if I could come see him.

I went back that Saturday and he invited me into his home. His wife and his three-year old daughter were there and he had invited a bunch of his neighbors over. We talked and I apologized. I asked for feedback and direction on how Norfolk Southern could help. It was a really hard conversation and it was emotional because they were scared. They didn't know who to trust. They gave me a lot of feedback, which I appreciated.

As Jeremy was walking me out to the car, I was so impressed with him, I told him I wanted him to report to my Chief of Staff. I wanted somebody that I can pick up the phone each and every day and find out exactly what's going on. I told him I wanted to give him \$1,000,000 and I wanted him to spend that money to help the community recover because he cares about East Palestine as well as Norfolk Southern.

This was the Saturday before Valentine's Day. So, Jeremy walked into the flower shop and purchased 100 floral arrangements. Then he and other Norfolk Southern employees hand-delivered them to the retirement communities around the town. That's the stuff that we are doing on the ground each and every day. We're taking it step by step and we're doing the next right thing.

We understand that the financial commitment we're making to the community is important. We've already committed over \$35 million to help the community recover and thrive. That's just a piece of it. What's even more important is the personal involvement.

They want to know that we're going to be there, that we're not just going to cut a check and walk away. We've got to be there to show we care.

When I talk to our team up there, when they come home from East Palestine, they want to get back. There are only two reasons for that. Number one, you know you're making an impact in the community. And two, the community recognizes that and is giving them positive reinforcement.

Each and every day we've got about **300 Norfolk Southern employees** and contractors who are working on the environmental remediation, working on community assistance and helping East Palestine thrive.

I was walking through town last Friday and had some members come up to me and thank me for what Norfolk Southern is doing in the community. I can tell you this, three and a half months ago that was not happening. I was getting a different level of feedback. We've turned the narrative there because we built the trust and we're doing the right thing.

Rail is the safest, most efficient, most sustainable way to transport goods over land. We can do better. Last year, Norfolk Southern's derailments were the lowest in the last two decades. And we can do better. Last year Norfolk Southern's employee injury rate was amongst the lowest in all of industry and was the lowest in a decade. And we can do better. So, we are investing in safety.

As soon as the National Transportation Safety Board (NTSB) report came out on East Palestine, it said the Norfolk Southern crew was doing everything it was supposed to do. There were no track defects. Wayside detectors were working. It was really focused on a catastrophic wheel bearing failure of a car that no railroad owns. Candidly, it touched three roads before it got to us on that trip. That tells you it takes an industry-wide response.

We're taking a balanced approach. We're standing up for East Palestine, Norfolk Southern and the entire rail industry because the rail industry is safe.

The ability to get together in a room like this and think about how to make the rail industry better is really important. That's what's great about the rail industry. It's a tight-knit community. We work together and we get stuff done based on trust. Change moves at the speed of trust.

We've done a couple of things. We implemented a six-point safety plan as soon as we got the preliminary results of the NTSB report. I've been on the Hill. I've been advocating for a lot of the provisions in the Railway Safety Act, the Vance-Brown bill, and the Johnson-Sykes bill. A lot of them make a whole lot of sense. I don't think they're going to be that onerous for the rail industry and for our customers. I've been pushing for those provisions.

I've also engaged with my craft colleagues over the last couple of weeks. I've personally spoken to each of the heads of our 12 labor unions. And I said, look, we want to work together on safety, right? Because this is this is going to take all 20,000 employees to do this. It's a holistic peer-to-peer approach to enhancing safety at Norfolk Southern. Earlier this week, we saw something pretty unique in the rail industry – a joint letter from me and the heads of those 12 labor unions to our employees reinforcing our commitment to collaborate on safety. The visual of a letter from me and the 12 leaders of labor unions with the Norfolk Southern logo and the logos of 12 labor unions on the top of that letterhead is pretty powerful.

I was an aerospace engineer, as Bruce said. I didn't get a job in aerospace engineering when I graduated. I got out of college in 1989 and the Berlin Wall came down and I was like, well, okay, well, no one's going to build fighter pilots or fighter jets now. So, I got a job at Newport News Shipbuilding. They installed nuclear reactors on aircraft carriers and my job was in the nuclear department.

I was working with tradesman, a team of about 10 to 15 tradesmen on installing nuclear reactors in the USS George Washington, who is one of my favorite presidents. I love my job now, but it's really cool to have your office on an aircraft carrier, I can tell you that.

I got exposure to Admiral Hymen Rickover of the nuclear Navy. He is about zero tolerance for failure on safety. Admiral Rickover had incredibly high standards, and knew that if there was a reactor release, it would be the end of the nuclear Navy. The nuclear Navy just celebrated 75 years and there has been no reactor release that's harmed the environment or harmed any personnel.

As I started thinking about enhancing safety at Norfolk Southern, I wanted to do something different. There are a lot of safety consultants out there who work in the rail industry, and they do a great job. I wanted something better. I wanted a little bit of that nuclear Navy DNA. And to my good fortune, with all of this is going on, one of my friends put me in touch with Admiral Kirk Donald, who's now retired, but used to oversee the Navy nuclear propulsion program. I got in touch with him, and I said, I need some help because I know how seriously you take safety.

We announced yesterday that a team featuring three former admirals from the nuclear Navy are going to spend about two or three years on Norfolk Southern, reporting directly to me on advancing safety. That's how seriously I take it. We're going to be the gold standard of safety in the rail industry. To do that, I went to the gold standard of safety in all of industry, and that's the nuclear Navy.

Safety is critical to us. I started my current job about a year ago. As I go out into the crew rooms and I talk to our people, I talk about safety, and I also talk about this vision of a customer-centric, operations-driven service model. That's important to me.

Customer-centric means you listen to your customers. I'm lucky that 25 of my years at Norfolk Southern, I was in customer-facing roles, I built good relationships and I got a lot of feedback on what we do well and what we need to do better. I thought about Norfolk Southern as really focused on our customer instead of just being focused on Norfolk Southern.

Balanced strategy with three main elements



**Reliable and
resilient service**



**Continuous
productivity
improvement**



**Smart and
sustainable
growth**

Operations-driven means having a vigilant standard of care for operations because we are an operating company. 100 percent of our revenue comes from our customers and 100 percent of our revenue is handled by operations. Every day that I'm in the office, the first place I go, even before I go to my office, is our Network Operations Center because I want to know what's going on with operations. I want to know the quality of service that we're delivering to our customers each and every day. We have invested in our operations team. What you've seen us do over the last year, I refreshed the entire operations leadership team at Norfolk Southern with an intense focus on safety and service. I want to be operationally excellent.

Turning to the service model, we make one product - service. And we sell one product – service. Our customers have options and if we don't give them a good service product and we don't give them value, they're going to engineer a solution around us. They might not be able to do it overnight, it might take them some time, but they're going to get it done. That's the customer-centric, operations-driven service model that we've been talking about. And that defines the strategy that we laid out last year, the better way forward in the industry. It looks at the long-term.

We've got a fantastic franchise.

We serve over
60%
of the consumption
in the United States.

We serve over
50%
of the manufacturing

and over
50%
of the U.S. light
vehicle production

We have the premier intermodal franchise in the East. We've got a franchise that faces the fastest growing segments of the U.S. economy.

If you're going to be a growth organization, you don't necessarily just try and time the market, which is what rail has done in the past. A lot of stuff in Precision Scheduled Railroading works, the stuff that's about working safely and serving your customers and managing your assets and developing your people and controlling costs. The difference was this intense focus on near-term operating ratio. You go out and you talk to somebody in operations, and you say, hey, we've got to lower the operating ratio. You know what they're going to do? They're going to start cutting people and that doesn't work. Operating ratio is a ratio that has revenue in it too. So, you can improve your margins by growing your revenue, and that's our focus. There's no longer this intense near-term focus on operating margins through just cost cuts, but a longer-term approach.

If you're going to grow, you figure out what strategic assets you will need. Think about East Palestine—we said, what do we want this to look like five years from now, ten years from now? This is why it fits within our strategy. Same thing is, what do we want our franchise to look like five years from now? Ten years from now? What assets do we know we are going to need through the economic cycles that are going to happen? Generally, for us it's track, locomotives, investments in intermodal terminals; investments in freight cars that help us compete with truck; technology, and people. We're investing in that for the long term.

I made the promise last year that in the first economic downturn, we're not going to furlough. We're going to keep hiring. Right now, there's a lot of murkiness out there and no one knows what's going to happen the second half of this year, but our pipeline of conductor trainees is near the highest on record because we're hiring. We know we're going to get through this cycle. That's the balance between service productivity and growth. I want to compete with truck based on service because there's a lot of reasons that people want to use rail relative to truck—capacity, sustainability, and it's more efficient.

Where we've failed is when we haven't provided a good service product, so, we're really focused on service. You've seen us do a couple of things. We delivered a great service product early this year. We just hired the industry's first VP of First Mile, Last Mile— we took someone from the short line industry because the short line industry is really entrepreneurial. The short line industry, in my view, has been applying this strategy for a while. They understand how to serve customers. They understand how to grow and I wanted some of that DNA at Norfolk Southern.

Last fall, I was at a customer event and one of our customers came up to me, somebody who we'd been given really lousy service to earlier in the year. He told me that what he was seeing from our team is this awesome alignment now between marketing and operations, service and growth. I was like, wow, you know, as a leader, that's all you ever want is to have your team aligned around a common goal and trust in each other to deliver. So, there's an example of what we're doing.

Another example is—when I talk about our commitment to taking a long-term approach—it's being tested because volumes are weak. But we're still hiring. We're still bringing on more locomotives. We're still refurbishing locomotives because we're focusing on long-term productivity. Every single one of our customers is focused on productivity. We've got to be too. We've got to be efficient, which means ultimately, over the long term, you'll actually be able to handle more business, more volume with the same number of resources. But productivity isn't measured by just cutting crew starts or cutting overtime. Productivity can be a measure, too. We think of productivity in terms of crew starts per gross ton mile and you can grow crew starts as long as you're growing your volumes. That's productivity and that's positive for our customers and positive for us.

On growth, I talked about some of the strength of our franchise, and I firmly believe there are a couple of market trends that were in place before the pandemic that were accelerated by the pandemic, which point to rail and point to Norfolk Southern that was the positioning of inventory next to the consumer. For somebody who wants to build inventory, rail can deploy so much more capacity than truck. Customers really started talking to us about sustainability in 2019. Rail handles about 40% of the nation's freight, but only emits about 8% of the nation's freight carbon. So, it's much more sustainable than truck.

And then there's E-commerce. E-commerce is highly intermodal intensive. Now, most people think of E-commerce as an Amazon or UPS van going through your neighborhood. That's true. But generally, that package that's in there probably was moved from a warehouse to fulfillment center on a Norfolk Southern train if you're in the East. Those are all things that give me confidence to invest in the long term in Norfolk Southern because I feel like we're going to grow. And so that's why we charted this new course in the industry and pivoted away from what had been done in the past.

We have confidence in the U.S. economy, we have confidence in our customers, and we have confidence in our business partners. We know we're going to grow and we're investing in the long term.

Ultimately, that's what we did in East Palestine. What we're doing is all based on trust. Trust is the lubricant of a high performing organization and change moves at the speed of trust. What that means is that you're all aligned around a common goal, and you trust that the person you're working with, whether it's somebody in marketing or operations, or your customers, or the short lines you're serving. You trust that they're going to do a good job too, and they're focused on the same goal. If you can get to that point, then you can win in that supply chain ecosystem. I'm asking our customers to trust us, to build Norfolk Southern into their supply chain and to trust that we're going to deliver a safe and reliable and efficient service product. That's why we're trying to build resilience in Norfolk Southern and invest in the long-term.

Our employees trust us. I've asked them to trust that we're going to run Norfolk Southern in a manner that they can be proud of five years from now, ten years from now. I've asked them to trust that we're going to give them a safe operating environment and that they're going to get home to their families in the same shape that they went to work that day. In East Palestine, I made a lot of promises when I was there in the immediate aftermath. There are a lot of people checking on me to make sure I'm going to keep those promises. I asked them for their trust. I asked for the ability to earn their trust. Certainly, the folks in these families are looking at this to make sure that we make it right, as we said we're going to do. Our employees want to know that we're going to do the right things so they can be proud to wear that NS logo. I'm also blown away by the amount of support I've gotten from our customers and our business partners. I've gotten texts, emails and handwritten letters sent to my home. And lastly, I'm a dad. I've got four kids ranging from 12 to 21 years old. They've seen a lot of things said about me and about Norfolk Southern. They want to make sure I'm doing the right things and keeping my promises.

I'm a relationship guy. You know, I've worked in the industry with customers for 25 years, and one of the things that I really appreciate about the rail industry is you get to understand folks' integrity and their credibility. That's what's great about the rail industry. It's a tight knit community. We work together and we get stuff done based on trust. Change moves at the speed of trust.

During the pandemic, I read a book called Team of Teams by General McChrystal. He's a fantastic U.S. Army general who used to be in charge of Joint Special Ops Command, JSOC, in the wars in Afghanistan and Iraq. The book was about how when he was overseas, he was pulling together Navy SEALs, Army Rangers, CIA, Army, to have a common goal on how to defeat al Qaeda. I read this book and I was just blown away. I was like, wow, this has so much application to my company. Pulling together marketing, pulling together operations, and finance, and law, and HR around this common goal in a customer-centric, operations-driven service organization. At that time, I had befriended one of our customers whose son was commander of SEAL Team Eight. I got to meet his son on a fishing trip and I became really good friends with Brian. We're still close and we would sit and talk about management all the time. I said, is this real? I mean, does this stuff really work? Is this how you guys operate? He's like, yeah, this is legit. It's about trust and it's about a common goal. It's about cohesion and communication. We're rolling that out throughout the organization right now because that's the organization I want to become. We were talking the other day about leadership and taking the long-term approach. He told me it's easy to get near-term results by being a jerk, but over the long-term, you get the results by being the leader you want to follow.

I think about that all the time. I've got to be a role model. I've got to be a role model to the employees at NS. I've got to be a role model to my family. And I've got to build trust with our customers.

If you think about it, that's Norfolk Southern strategy right there. We're not focused on those near-term results by just cutting and providing bad service. We're focused on the long-term by building relationships that offer balance between service, productivity, and growth, helping our customers grow and compete in a global marketplace and engaging with all 20,000 employees, whether they're management or whether they're my craft colleagues.

