The Rail Renaissance & Capacity Planning

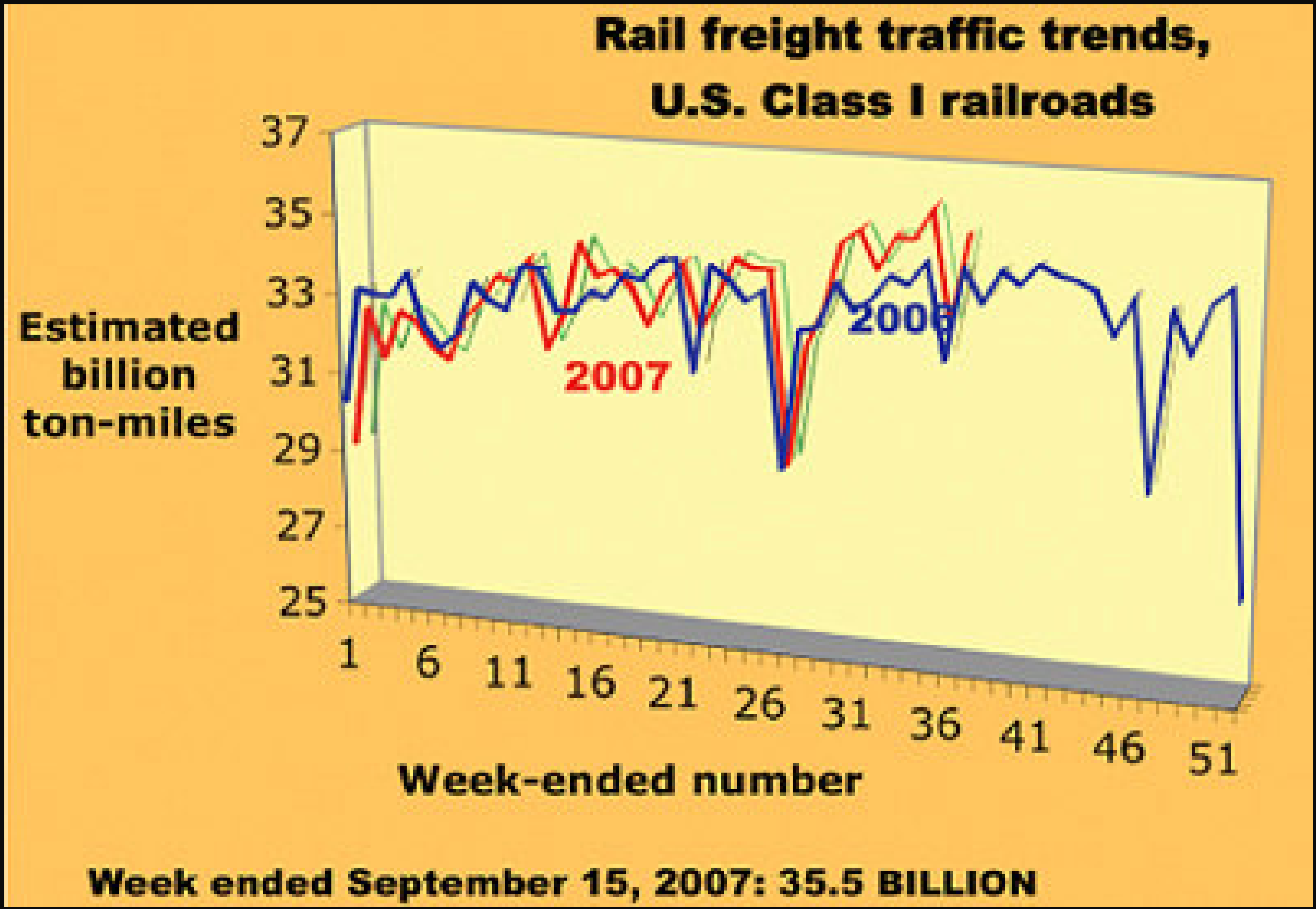
Agenda

- Industry Overview and Trends
- Public Interests in Rail
- Capacity Planning and Investment

The Industry Overview

- Growth
  - The 75 year trend of decline is transitioning to growth
- Capacity
  - Constraints: train crews, locomotives, physical network, etc
- Hedge Funds
  - Class I's, Short line holding companies and regional's are a target
- Spike in Public Interest
  - Congested highways lead political leaders to rail alternatives
- Increasing demand – new challenges
  - 2006 – record rail volumes
  - 2006 – safest year in history
  - 2007 – lower volumes & weather disruptions

Rail Industry Traffic Trend

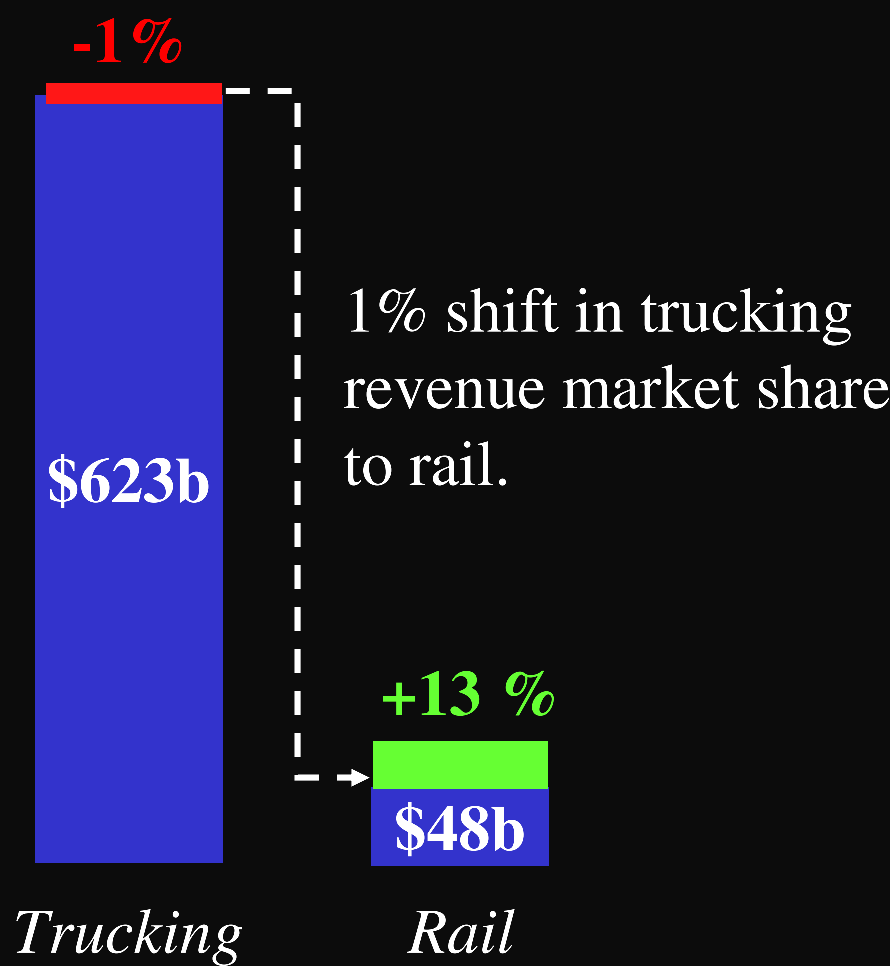


Sources: *AAR, Railway Age*

Rail vs. Truck

- During the last three years, there has been a fundamental shift in the competitive environment between rail and truck
- Shift primarily due to:
  - Increased fuel costs
  - Congestion on highway system
  - Reduced hours of service for truck drivers
  - Driver shortages
- Shift appears to be permanent

Revenue Effect of 1% Shift in Truck Industry



Trucking

$623 billion industry

Railroads

$48 billion industry

1% shift of trucking's revenue to rail

Top-line growth of 13% for railroads ($6.2 billion)

Data Source: AAR, ATA

Increased Public Interest in Rail

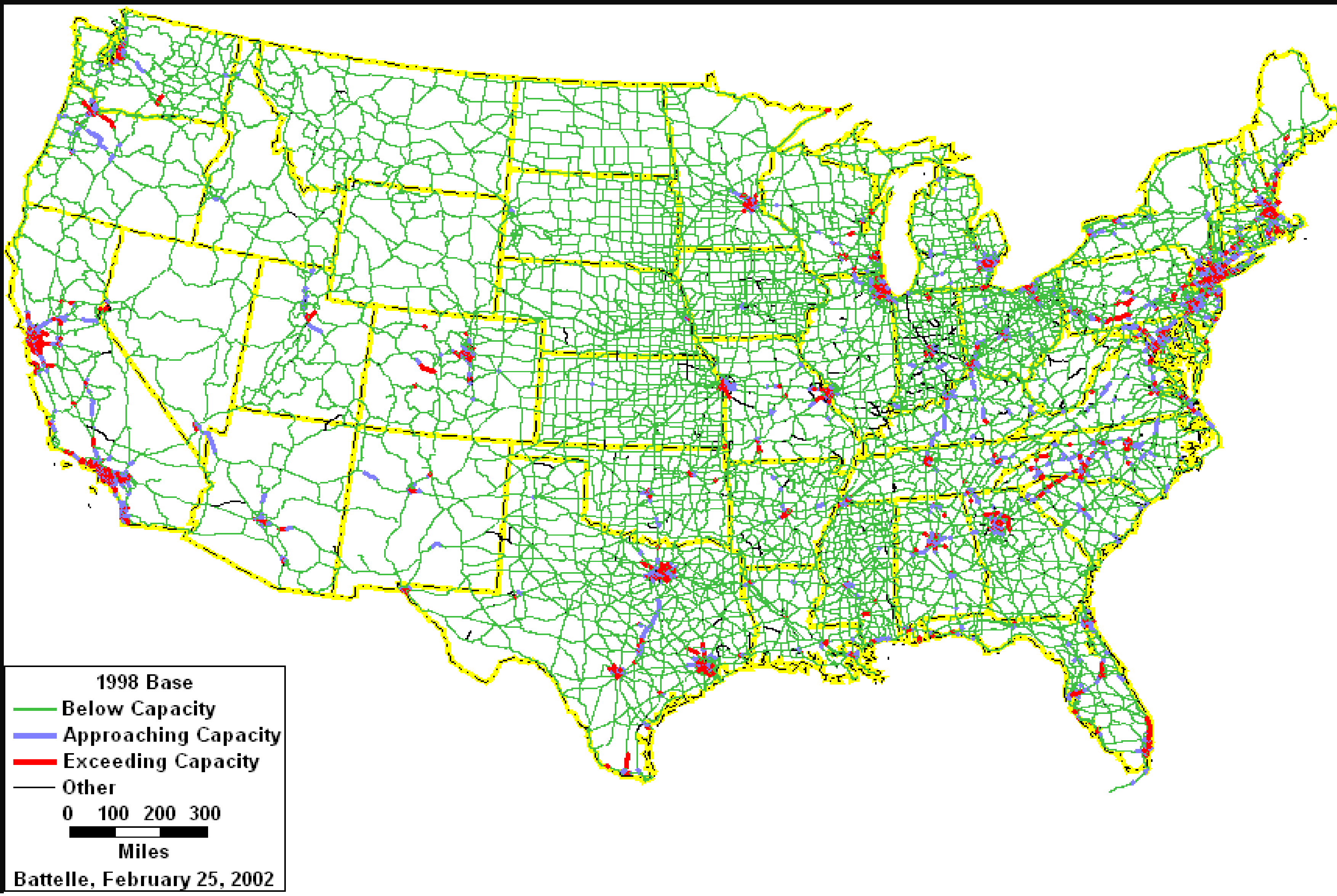
- Increased awareness of rail as a solution to congestion, pollution, and fuel inefficiency
- Increased motivation to invest public money in rail infrastructure
  - The Heartland Corridor
  - CREATE
  - Green Power (Locomotives)

In the last 20 years…

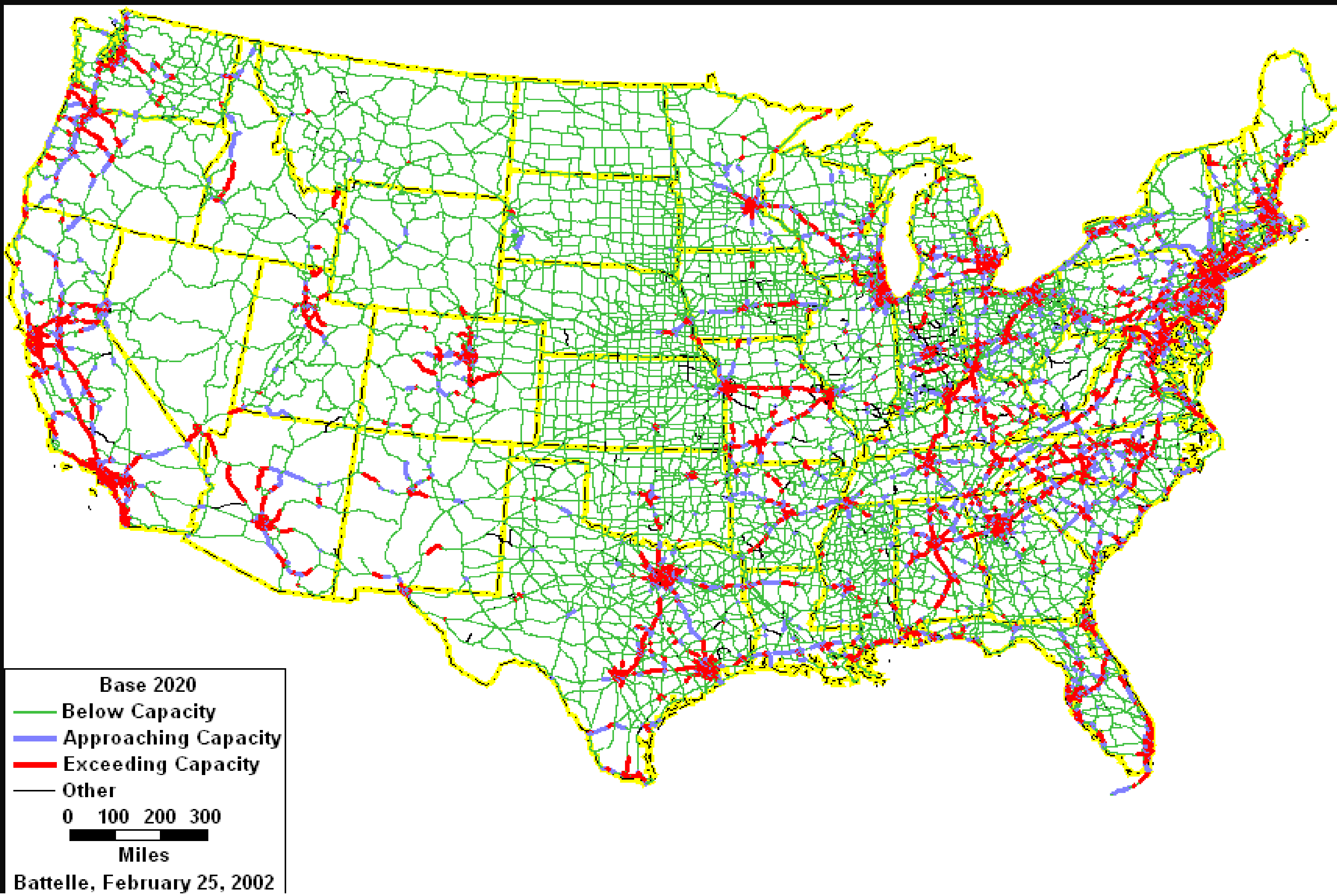
- Vehicle travel increased 78%
- Road miles increased only 1%

Traffic congestion costs the U.S. $67 billion annually

Congested Highway Segments - 1998

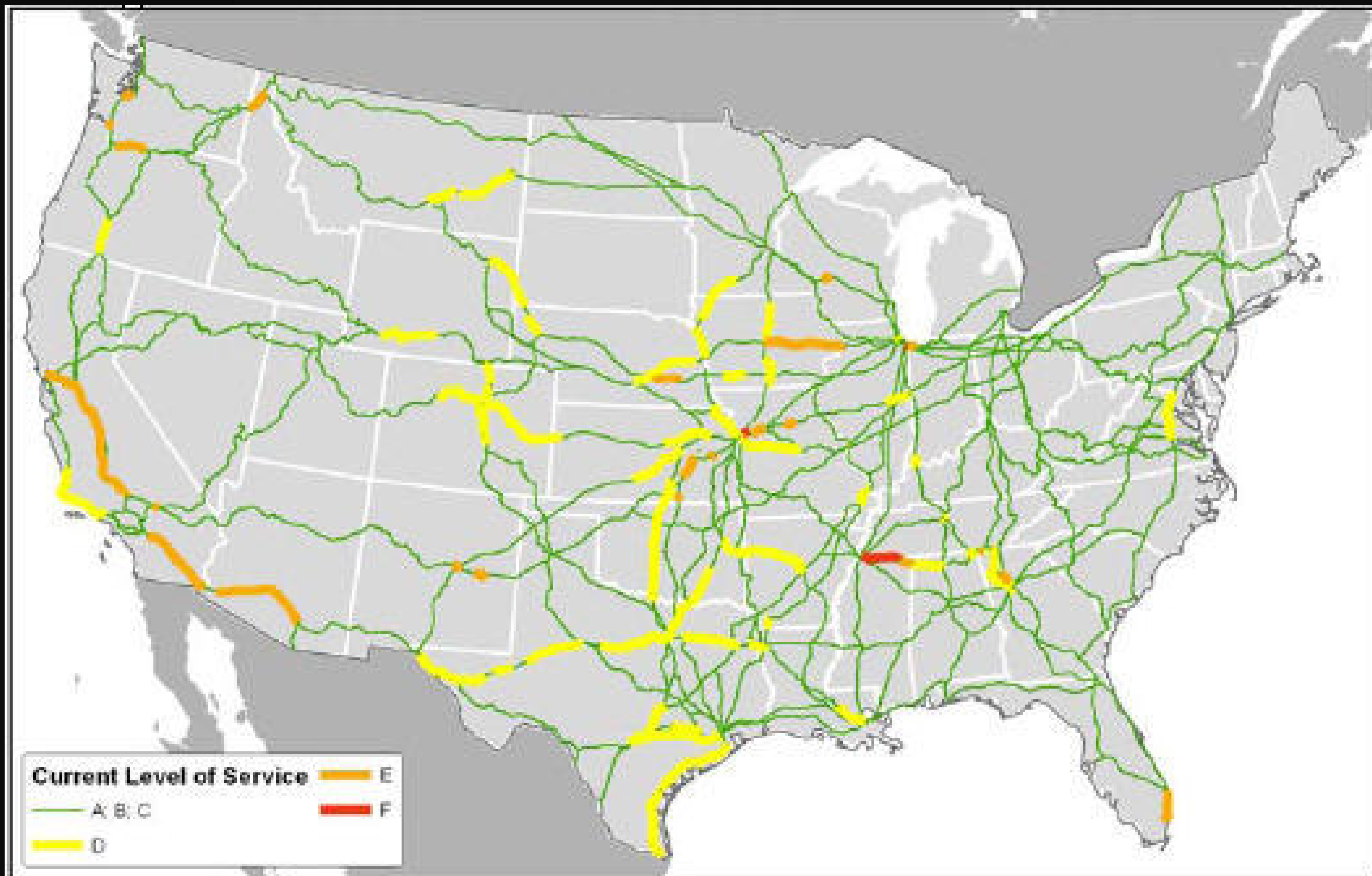


Potential Congested Segments - 2020



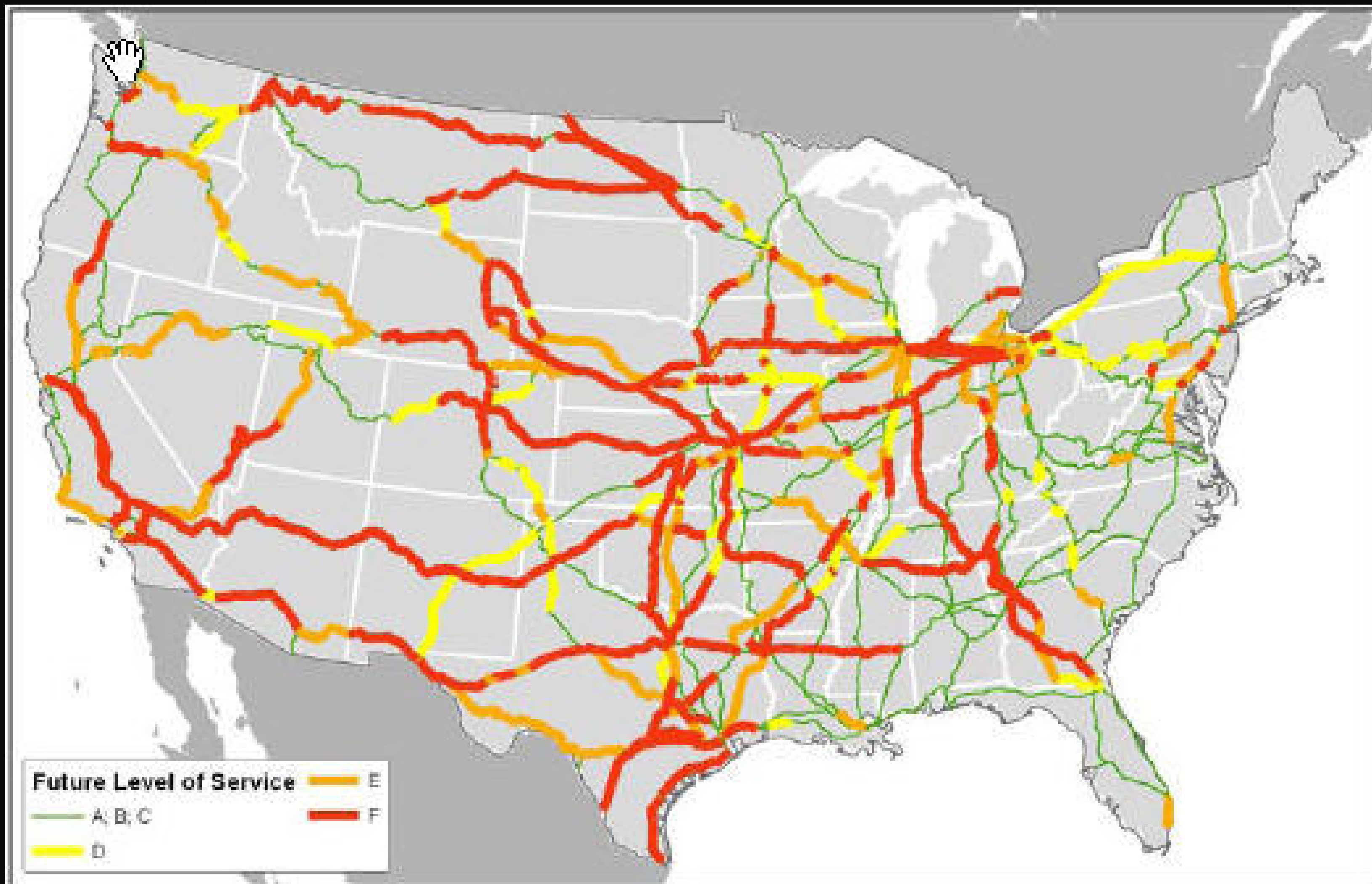
AAR Capacity Study

Current Volume & Current Capacity



Source: National Rail Freight Infrastructure Capacity and Investment Study-AAR

AAR Capacity Study – 2035 Volume
without Infrastructure Improvements



Source: National Rail Freight Infrastructure Capacity and Investment Study-AAR

AAR Capacity Study – 2035 Volume
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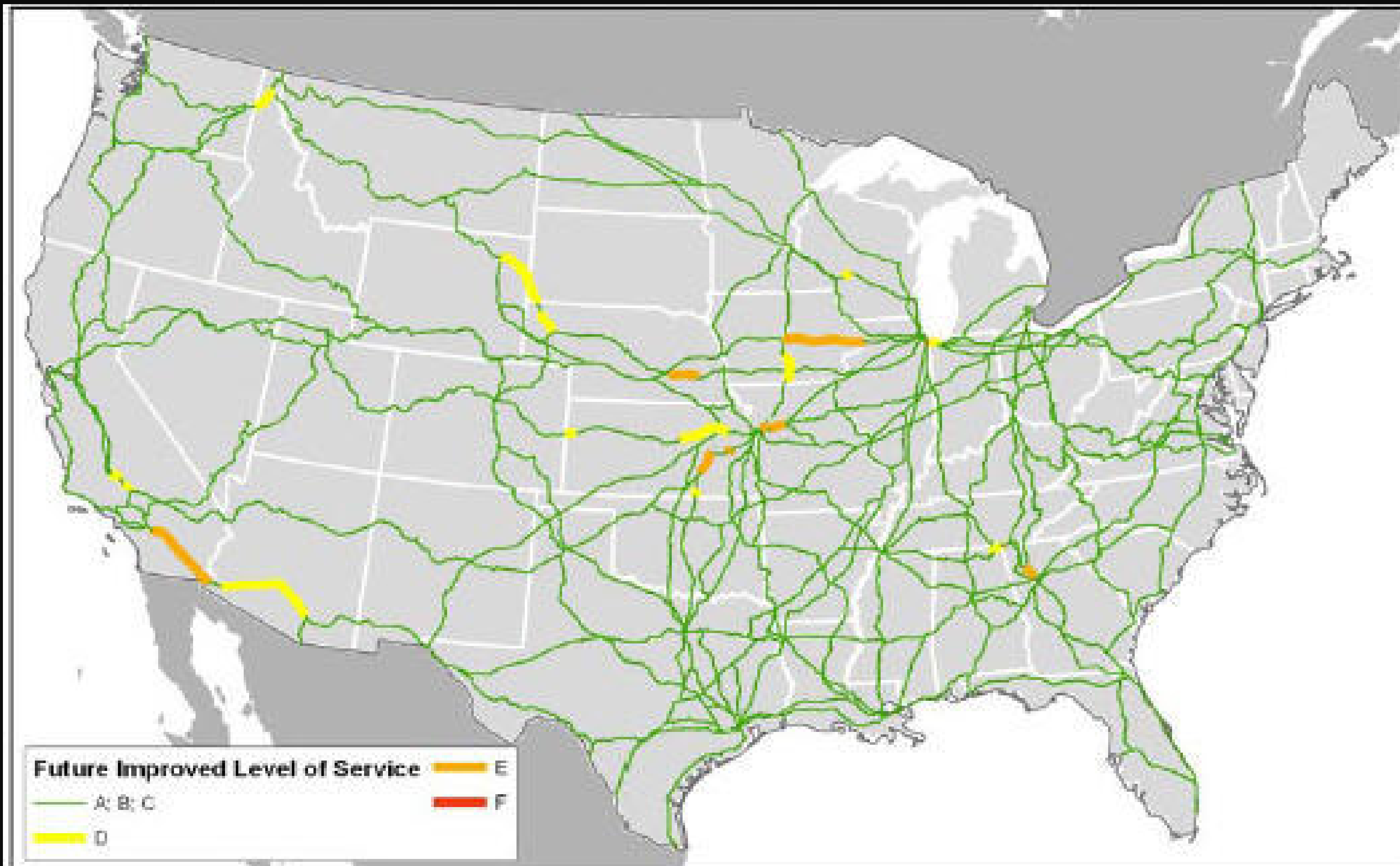
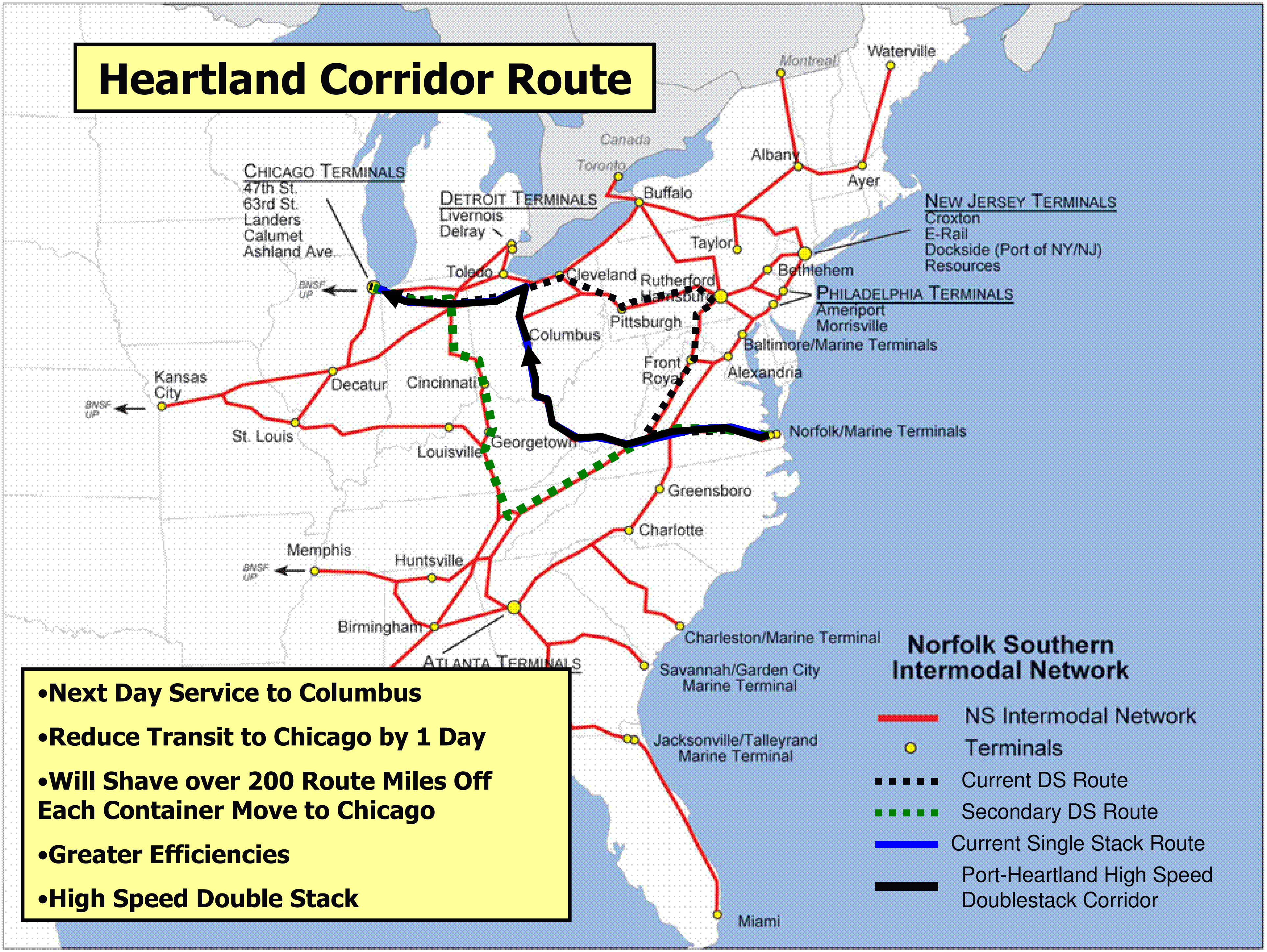


Source: National Rail Freight Infrastructure Capacity and Investment Study-AAR

Heartland Corridor Route



- **Next Day Service to Columbus**
- **Reduce Transit to Chicago by 1 Day**
- **Will Shave over 200 Route Miles Off Each Container Move to Chicago**
- **Greater Efficiencies**
- **High Speed Double Stack**

Heartland Corridor Project Scope

- 28 Tunnels
  - 30,000+ feet to be Cleared
  - Virginia, West Virginia and Kentucky
- 24 Overhead Obstructions
  - Bracing Modifications, Fencing Modifications, Overhead Wire Removal, Miscellaneous Signal Work
  - West Virginia and Ohio

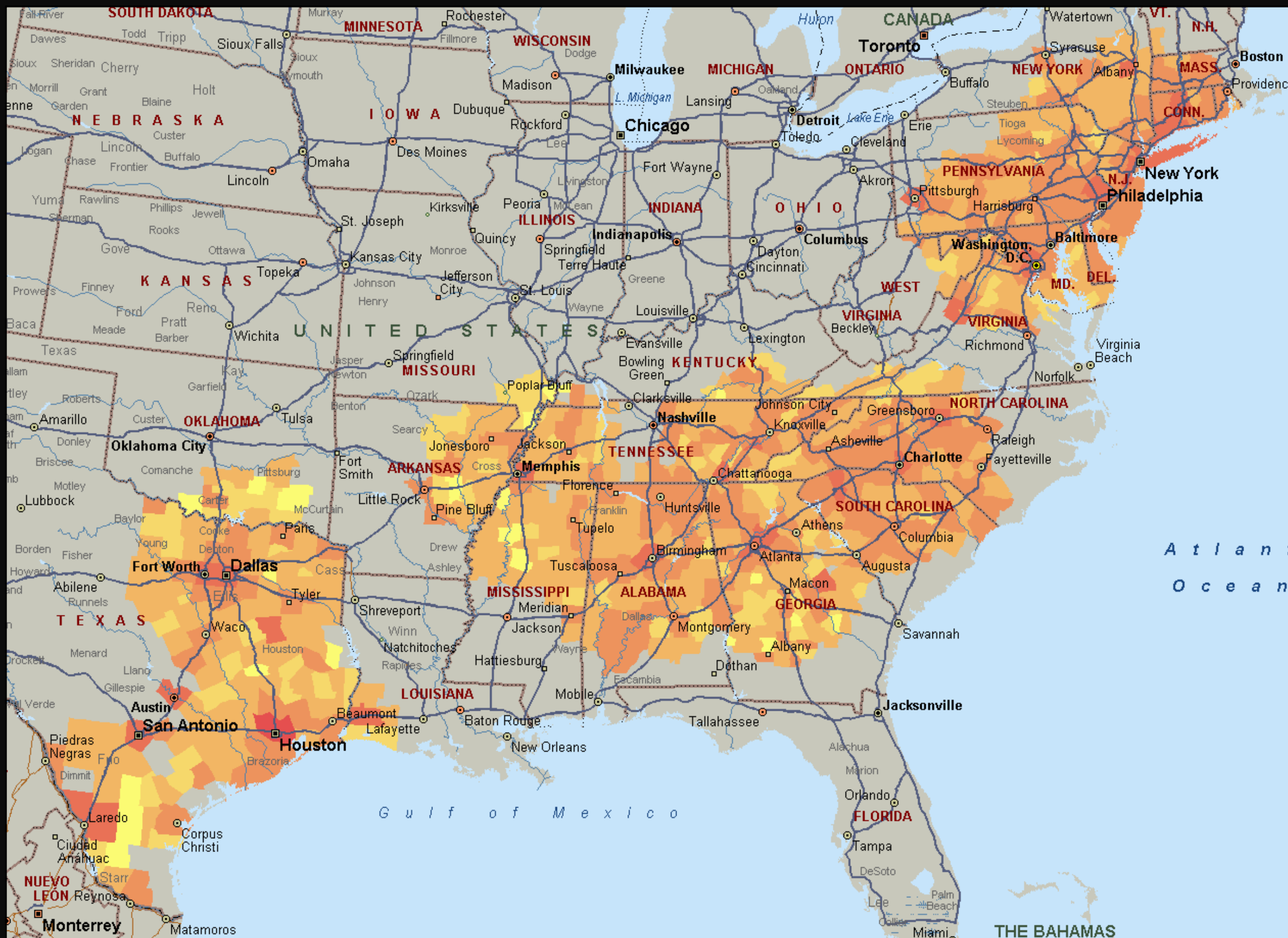
I-81 Crescent Corridor

Route Improvements

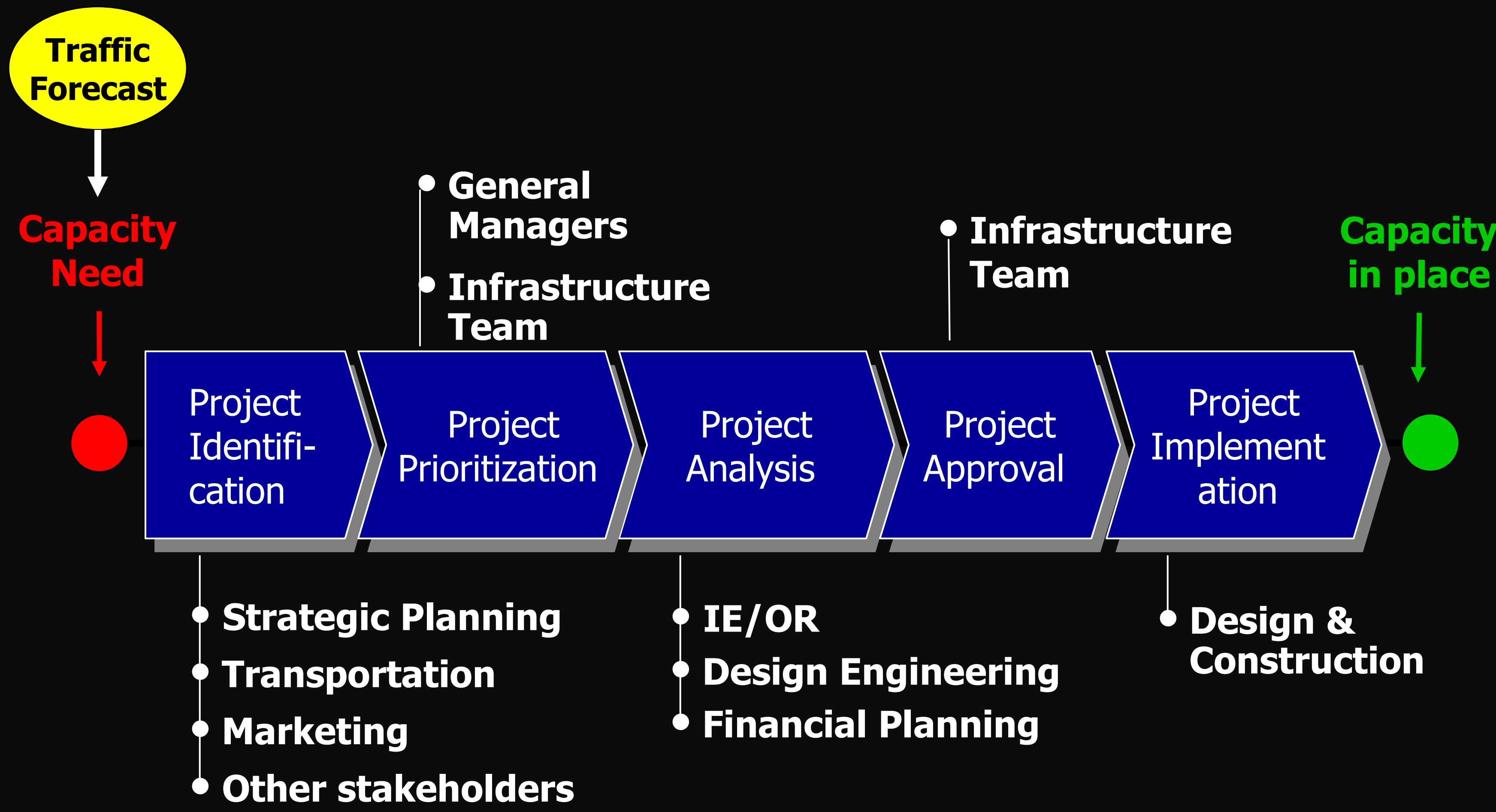
Crescent Corridor
Significant Freight Potential

- Long haul Service: intermodal services along I-20, I-40, I-75, I-85 and I-81 Corridors are largely undeveloped
- Reduced Highway Congestion: significantly along portions of these routes, particularly in Virginia
- Truck Diversion: NS estimates that there are over 1 million divertible truckloads in this corridor
- Existing Interest: of intermodal and motor carriers in developing services in this corridor

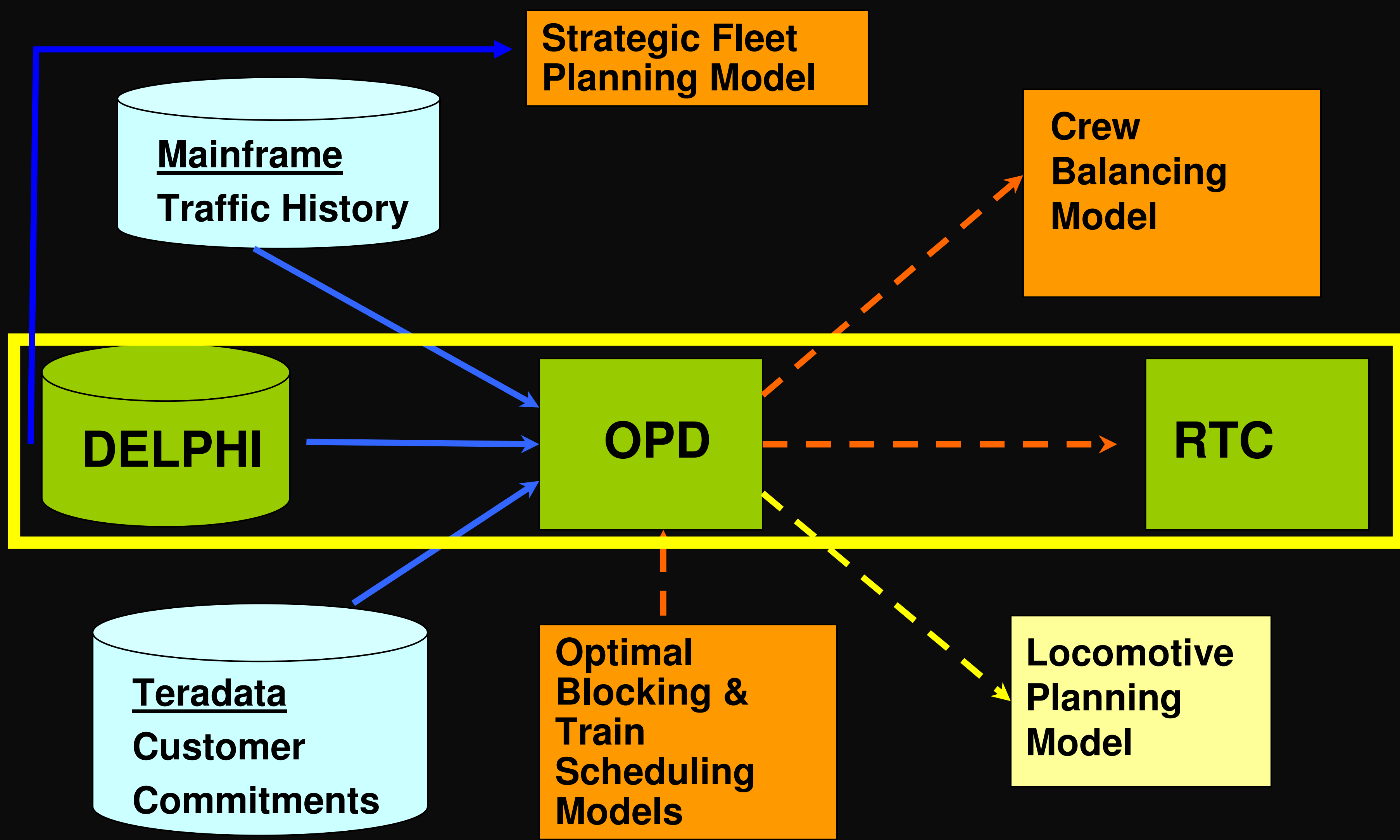
Market Assessment of Freight Volumes

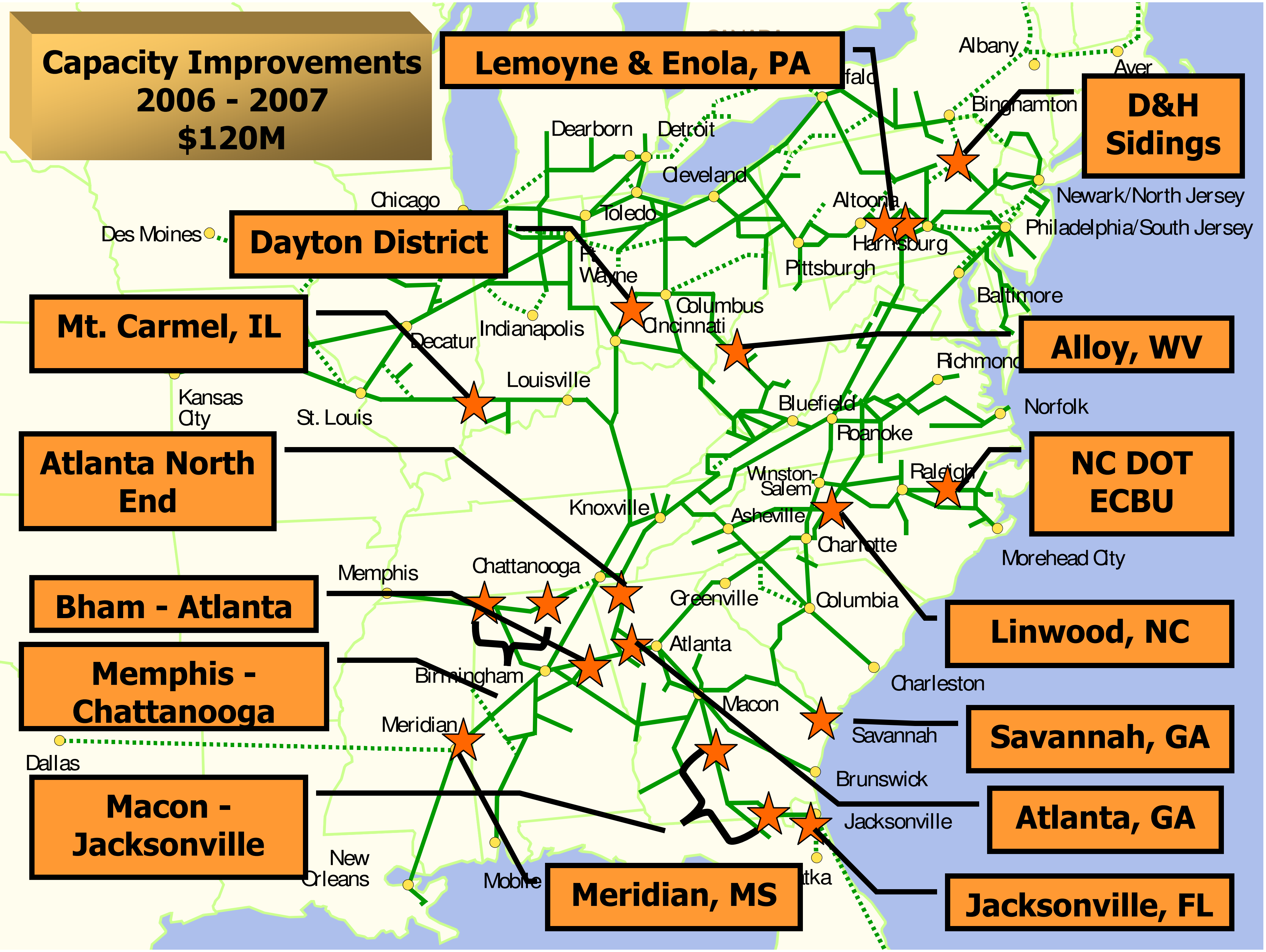


Capacity Expansion Planning Process



Planning Systems for Operations, Infrastructure and Assets




Capacity Improvements
2006 - 2007
$120M
Lemoyne & Enola, PA
D&H Sidings
Dayton District
Mt. Carmel, IL
Alloy, WV
Atlanta North End
NC DOT ECBU
Bham - Atlanta
Memphis - Chattanooga
Linwood, NC
Savannah, GA
Macon - Jacksonville
Atlanta, GA
Meridian, MS
Jacksonville, FL
Albany
Ayer
Binghamton
Dearborn
Detroit
Cleveland
Chicago
Toledo
Des Moines
Altoona
Harrisburg
Newark/North Jersey
Philadelphia/South Jersey
Pittsburgh
Ft. Wayne
Columbus
Cincinnati
Baltimore
Indianapolis
Decatur
Richmond
Louisville
Kansas City
St. Louis
Norfolk
Bluefield
Roanoke
Winston-Salem
Raleigh
Knoxville
Asheville
Charlotte
Morehead City
Memphis
Chattanooga
Greenville
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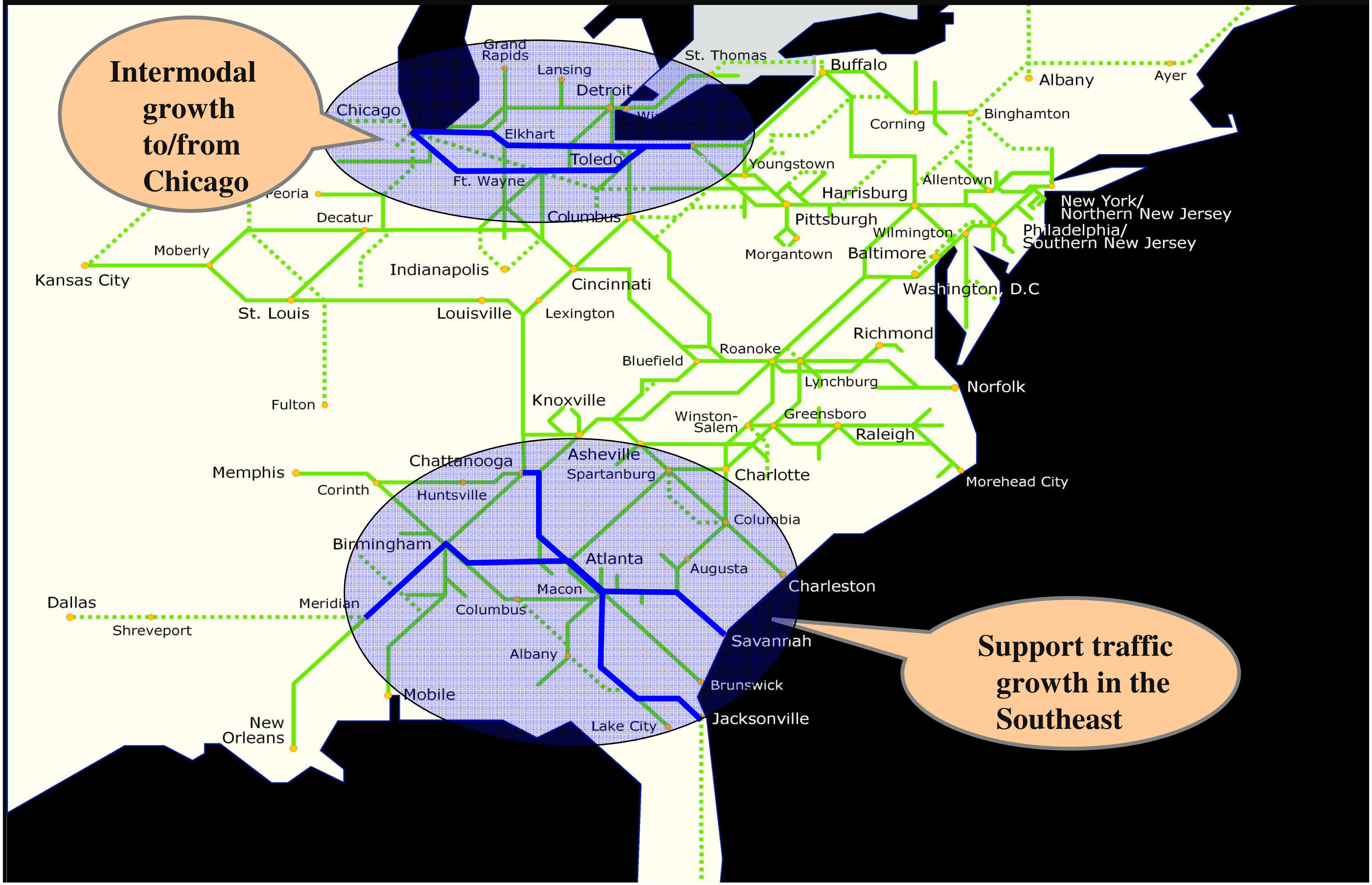
Macon
Meridian
Savannah
Dallas
Brunswick
Jacksonville
New Orleans
Mobile

2007 -2010 Infrastructure Focus



Wrap - Up

Norfolk Southern is:

- Creating corridors for the future
- Working with truckers to divert freight to rail
- Investing for growth

Thank you for your time