Transportation Trades Department, AFL-CIO

March 8, 2024

Norfolk Southern Shareholders:

I am writing on behalf of the Transportation Trades Department, AFL-CIO and the unionized workers on Norfolk Southern as represented by our affiliated unions. We are gravely concerned by recent news reports that a hedge fund, Ancora Holdings, has amassed a $1 billion stake in Norfolk Southern with the intention of ousting Alan Shaw as CEO of Norfolk Southern.[1] We urge you not to replace Mr. Shaw with Ancora's proposed candidate, as it will have lasting deleterious effects on the safety and service of NS, and the railroad industry as a whole.

Replacing Mr. Shaw with Ancora's proposed candidate would be a tremendous mistake and a detrimental step for Norfolk Southern, its shareholders, and the entire Class I freight rail industry.

Ancora and other Wall Street analysts made misguided calls to replace Mr. Shaw because of a rise in Norfolk Southern's operating ratio and a decrease in profits last year. The East Palestine derailment has cost Norfolk Southern and its shareholders $1.1 billion to date and that cost will likely increase.[2] There have been more than 1,500 train accidents since East Palestine and the industry is averaging about 1,000 derailments a year. It is pure luck that the subsequent train derailments or accidents did not rise to the catastrophic levels of East Palestine.

Given the current negative safety trends in the industry, one of these derailments or accidents will inevitably be on the scale of East Palestine. These derailments will cost shareholders more in the long run than if Norfolk Southern invests now to prevent them. The improvements that Mr. Shaw has made and that stakeholders including labor are asking for will help retain shareholder value in the long term. For example, while things were not perfect in 2013 and 2014, the industry was in much better shape and Norfolk Southern made record profits respectively, at $1.9 billion in 2013 and $2 billion in 2014.[3]

Under Mr. Shaw's leadership, Norfolk Southern has taken meaningful steps since the East Palestine derailment to improve safety, including:

- Reinstating joint management-labor safety committees to discuss and address safety concerns on a regular basis;
- Appointing Atkins Nuclear Secured to conduct an independent safety review;
- Working collaboratively with unions to improve safety through partnerships like the Signal Safety Collaboration initiative with the Brotherhood of Railroad Signalmen;
- Reaching paid sick leave agreements with all the undersigned unions; and
- Being the first Class I railroad to enter a Confidential Close Call Reporting System (C3RS) pilot program with the Brotherhood of Locomotive Engineers and Trainmen (BLET) and the International Association of Sheet Metal, Air, Rail and Transportation Workers-Transportation Division (SMART-TD).

We believe that Norfolk Southern only took these steps because of the public outcry following the East Palestine derailment. Still, the fact remains that Mr. Shaw deserves credit for his leadership in implementing the railroad's

[1] https://www.wsj.com/business/deals/ancora-led-group-takes-aim-at-norfolk-southern-pushes-to-oust-ceo-shaw-dbd029f7
[2] https://apnews.com/article/biden-east-palestine-train-derailment-fire-fef900778896348aa3b89d7bbc401401
[3] https://www.annualreports.com/HostedData/AnnualReportArchive/n/NYSE_NSC_2014.pdf

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ongoing safety reforms. Our collective strident criticisms of the Class I freight rail industry, including Norfolk Southern, over the past several years should underscore the gravity of us issuing this praise.

Let us be clear though: while we support these incremental safety improvements, additional actions are needed. We call on Norfolk Southern to take the following actions in order to keep the commitments they have made publicly:

- Commit to life-long health monitoring of the Brotherhood of Maintenance of Way Employes Division (BMWED) workers who were exposed during the East Palestine derailment site cleanup because Norfolk Southern did not provide proper PPE;
- Expand the Confidential Close Call Reporting System pilot program to all rail workers and make the program permanent; and
- Fully implement the safety recommendations of Atkins Nuclear Secured and the Federal Railroad Administration's Safety Culture Assessment of Norfolk Southern.

Ancora's presentation to shareholders about Norfolk Southern's current performance only underscores Ancora's whole focus on implementing a more extreme version of so-called "Precision Scheduled Railroading" (PSR) and putting short-term profits above all else, including the long-term functional operation of Norfolk Southern. Ancora's proposed Chief Operating Officer (COO) Jamie Boychuk is the former COO of CSX and was one of the chief architects of implementing PSR there. Under Mr. Boychuk's tenure at CSX, service and safety deteriorated. The Surface Transportation Board held hearings in 2017[4] on CSX's widespread service issues stemming from the disastrous implementation of PSR when Mr. Boychuk became COO. During his last full year in 2022, CSX's rate of total accidents and incidents per million train miles rose to its highest levels since 2005.[5] CEO Joe Hinrichs let him go because PSR broke the railroad and destroyed relationships with their customers and workers. One of Ancora's Board of Director nominees, Sameh Fahmy, also implemented PSR while he was at Kansas City Southern.

Ancora's proposed strategy is not new and we have previously witnessed the disastrous results in the rail industry. Contrary to what Ancora claims, PSR has led to increased operational and safety issues, worsening service performance, and less capacity to move volume. The rate of total accidents/incidents per million train miles increased by 19% across the Class I railroads from 2014 to 2022 according to federal data. The Surface Transportation Board held unprecedented hearings in April 2022 on the freight rail service crisis and issued emergency service orders because the Class I railroads, including Norfolk Southern, were unable to meet their basic common carrier service obligations under federal law. Replacing Alan Shaw with a new CEO that doubles down on a failed strategy will not eliminate complaints from elected officials and the communities that Norfolk Southern serves. Rather, such a move would demonstrate that Norfolk Southern is not serious about improving safety or keeping their public promises.

Ancora has been explicit that a large part of its plan is to "reduce headcount." If Ancora succeeds, it will amount to an attack on the workers who make Norfolk Southern profitable. Adopting Ancora's business model will damage employee morale, cause experienced senior employees to leave the company, hinder employee recruitment efforts, and reduce the ability of retained employees to provide safe and effective service.

Let us be clear: implementing this failed strategy will destroy shareholder value and irrevocably damage the company. Once Ancora has extracted value from the company, it will move on and leave shareholders, employees,

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[4] https://www.stb.gov/audio-meeting/public-listening-session-regarding-csx-transportation-inc-s-rail-service-issues-docket-no-ep-742/

[5] https://safetydata.fra.dot.gov/OfficeofSafety/publicsite/Query/TenYearAccidentIncidentOverview.aspx

customers, and the government to pick up the pieces.

Ancora's track record for other takeovers should give investors pause. Ancora conducted a hostile takeover of the retail chain Bed, Bath and Beyond in 2019 and made promises to shareholders that are eerily similar to what they are promising here: bring in a new management team and increase sales and net profits, all while cutting costs at the same time. Contrary to Ancora's promises, Bed, Bath and Beyond declared bankruptcy just four years later in 2023. While one activist investor made almost $58 million in the process, the bankruptcy wiped out a large amount of shareholder value.[6] It is notable that Ancora's cost-cutting actions took away the things that customers loved about the company and turned them away from shopping there, leading to a precipitous drop in revenue.[7]

It is not hyperbole to say that the future of the rail industry is at stake in this ouster attempt by Ancora Holdings. Executives across the industry are closely watching the outcome and what happens will influence not only what Norfolk Southern does, but the rest of the industry as well.

The railroad industry has survived for more than 150 years by focusing on the long term, not just the short term. We need leaders focused on ensuring there is a railroad industry another 150 years from now. The current era of Precision-Scheduled Railroading (PSR) that has focused on maximizing short-term profits at the expense of everything, including properly running a railroad, has destroyed the Class I railroads' ability to operate effectively. Doubling-down on PSR will turn off NS's customers and decimate its workforce. If there is no railroad to run at the end of the day, which will be the ultimate outcome of PSR, then the long-term return to shareholders from PSR is precisely zero.

Accordingly, rail labor will do all that we can to repel Ancora's attack on Norfolk Southern. We do not see eye to eye with Mr. Shaw on everything and believe that he needs to do more to regain the trust of the residents of East Palestine, Ohio and Darlington, Pennsylvania, as well as Norfolk Southern's workers. However, he has taken meaningful steps in recent months to make Norfolk Southern a better railroad. We firmly believe that keeping Mr. Shaw as CEO will make shareholders more money in the long-term than if he is replaced with Ancora's proposed candidate. Replacing Alan Shaw would erase the progress that Norfolk Southern has made since East Palestine and the industry would be in much worse shape.

For the sake of rail workers and to ensure the long-term success of the company, we request that you reject Ancora Holdings' attempt to replace Alan Shaw as CEO of Norfolk Southern with their proposed candidate.

Sincerely,

Greg Regan, President
Transportation Trades Department, AFL-CIO

CC: Norfolk Southern Board of Directors

[6] https://www.nytimes.com/2022/08/18/business/bed-bath-beyond-shares.html
[7] https://www.nytimes.com/2023/04/23/business/bed-bath-beyond-bankruptcy.html