

# FINAL TRANSCRIPT

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## **NSC - Q1 2011 Norfolk Southern Corp Earnings Conference Call**

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## CORPORATE PARTICIPANTS

**Michael Hostutler**

Norfolk Southern Corp. - Director, IR

**Wick Moorman**

Norfolk Southern Corp. - Chairman, President and CEO

**Don Seale**

Norfolk Southern Corp. - EVP and Chief Marketing Officer

**Mark Manion**

Norfolk Southern Corp. - EVP, COO

**Jim Squires**

Norfolk Southern Corp. - EVP, Finance and CFO

## CONFERENCE CALL PARTICIPANTS

**Bill Greene**

Morgan Stanley Smith Barney - Analyst

**Tom Wadewitz**

JPMorgan Chase & Co. - Analyst

**Chris Wetherbee**

Citigroup - Analyst

**Scott Flower**

Macquarie Securities - Analyst

**Justin Yagerman**

Deutsche Bank - Analyst

**Jon Langenfeld**

Robert W. Baird & Company, Inc. - Analyst

**Peter Nesvold**

Jefferies & Co. - Analyst

**Ed Wolfe**

Wolfe Trahan & Co. - Analyst

**Cherilyn Radbourne**

TD Newcrest - Analyst

**Scott Malat**

Goldman Sachs - Analyst

**Matt Troy**

Susquehanna Financial Group - Analyst

**Gary Chase**

Barclays Capital - Analyst

**Walter Spracklin**

RBC Capital Markets - Analyst

**Ken Hoexter**

BofA Merrill Lynch - Analyst

**Chris Ceraso**

Credit Suisse - Analyst

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**Jason Seidl**

*Dahlman Rose & Co. - Analyst*

**Jeff Kaufman**

*Stern, Agee & Leach - Analyst*

**Donald Broughton**

*Avondale Partners - Analyst*

## PRESENTATION

### Operator

Greetings and welcome to the Norfolk Southern Corporation first-quarter earnings conference call. (Operator Instructions)

It is now my pleasure to introduce your host, Michael Hostutler, Norfolk Southern's Director of Investor Relations. Thank you, Mr. Hostutler, you may begin.

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**Michael Hostutler** - *Norfolk Southern Corp. - Director, IR*

Thank you, and good afternoon.

Before we begin today's call, I would like to mention a few items. First, the slides of the presenters are available on our website at [www.nscorp.com](http://www.nscorp.com) in the Investors section. Additionally, transcripts and MP3 downloads of today's call will be posted on our website for your convenience.

Please be advised that any forward-looking statements made during the course of the call represent our best good faith judgment as to what may occur in the future. Statements that are forward-looking can be identify by use of words such as believe, 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 your control.

Please refer to our annual and quarterly reports filed with the SEC for discussions of those risks and uncertainties as we view as most important. Additionally, keep in mind that all references to reported results, excluding certain adjustments, that is non-GAAP numbers, have been reconciled on our website at [www.nscorp.com](http://www.nscorp.com) in the Investors section.

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

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**Wick Moorman** - *Norfolk Southern Corp. - Chairman, President and CEO*

Thank you, Michael, and good afternoon everyone. It's my pleasure to welcome you to our first-quarter 2011 earnings conference call. I'm joined by several members of our senior team today, including Don Seale, our Chief Marketing Officer, Mark Manion, our Chief Operating Officer, and Jim Squires, our Chief Financial Officer, all of whom you'll hear from this afternoon.

I am very pleased to report that Norfolk Southern had an excellent first quarter, delivering all-time first-quarter highs in revenues, income from railway operations, and earnings per share. We achieved these records in the face of severe winter weather, sharply higher fuel prices, and an unfavorable arbitration ruling which decreased earnings per share by \$0.10. Our results were driven by strong top line growth of 17%, which was achieved through a balance of increased volume, as well as increased revenue per unit.

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We saw an overall volume increase of 8%, driven by double-digit volume growth in coal, intermodal, and automotive. Revenue per unit rose by 8% as well, driven by our continued emphasis on market-based pricing, along with higher fuel surcharges. Don will provide you with the revenue and traffic details in you a few minutes.

With respect to service, we, along with all of the other North American rails, battled some unusually disruptive winter weather in the first 2 months of the quarter, but our performance improved substantially later in the quarter and on into April as we worked through these weather issues.

As most of you know, we constantly measure all aspects of our service, and Mark will give you all of the details a little later. Our improved service and handling of increased traffic volumes were largely the result of the targeted hiring that we have been describing to you. Mark will give you an update on that as well, and I'll give you a little more color on overall employment in my closing remarks.

Our record operating results and strong free cash flow enabled us to continue our focused efforts on investing in our company, while at the same time returning cash to our shareholders. We got off to a good start with our capital expenditure program, and at the same time, we were able to increase our dividend 11% during the quarter and re-purchase over \$340 million worth of our shares.

We anticipate that our continued focus on service delivery will result in customers moving more traffic on our system. This in turn makes our railroad more efficient, which then leads to our ability to generate more cash to invest and provide superior returns to our owners.

Finally, I would be remiss if I didn't mention the best news of the quarter, which is that we received formal notice that Norfolk Southern will receive its twenty-second consecutive Harriman Gold Medal for employee safety next month. The award, which is for calendar year 2010, is another tribute to the best workforce in the railroad business, but having said that, we know that there is still room for improvement and we're intent on continuing to drive safety and service to new all-time highs.

With that, I'll turn it over to Don for a look at our business in the first quarter; he'll be followed by Mark and then Jim, and I'll conclude with some remarks before we take some questions. Don?

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**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

Thank you, Wick, and good afternoon everyone.

During the first quarter, our markets continued to rebound, lead by new business initiatives, increased manufacturing output, and improving global trade patterns. Strong volume growth and favorable pricing combined to generate revenue of \$2.6 billion, up \$382 million or 17% over the same period last year. This was our highest revenue quarter since the third quarter of 2008, and our third highest revenue quarter ever. Approximately 53% or \$201 million of the revenue gain in the quarter was driven by higher revenue per unit and the remaining \$181 million was the result of increased volume. As with the fourth quarter of 2010, our volumes and related revenue could have been higher, but were impact bad harsh winter weather conditions, particularly in February.

Turning to yield for the quarter on slide 3, you'll note that we achieved our highest revenue per unit ever, reaching \$1,531, up \$117 or 8%. Improved pricing based on market demand and tighter transportation capacity across all modes combined with higher fuel surcharge revenue drove this record performance.

For the quarter, we set new ARPU levels for agriculture, metals, chemicals, and coal. Higher ARPU in coal was driven by favorable export business, increased rates from contract renewals effective January 1, and escalators in existing coal contracts. Favorable

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traffic mix consisting of increased volumes of longer-haul utility coal to our southern utilities also contributed to improved revenue per car. I

In our merchandise sector, improved pricing and favorable mix drove record ARPU results for agriculture and chemicals, while metals' record ARPU was the result of higher pricing and fuel related revenue. Finally, in automotive, changes in traffic mix due to higher volumes of lower ARPU bi-level traffic and reduced volumes of higher rated auto parts and tri-level traffic generated flat revenue per unit for the quarter.

With respect to pricing, network investments and improved service combined with tighter capacity in the truck load and barge markets across all commodities bode well for continued price improvement as the year progresses. In this regard, and as we've previously stated, our plan to price at levels that exceed the rate of rail inflation, we're pleased to advise that we're clearly meeting this objective on a quarterly basis.

Now, turning our attention to our volume performance in the first quarter, as shown on the next slide, total shipments of 1.7 million loads were up 128,000 units or 8% over the first quarter last year. With the exception of agriculture and chemicals, all other remaining business units posted year-over-year gains. During the quarter, we saw our total volume reach a 52-week high, as well as individual market highs in our paper and automotive business groups. And I might add that for the week ending April 2, a new 52-week high was again realized in automotive along with a new 52-week high in coal as well.

Now, transitioning to our major business sectors and starting with our coal markets, as shown on slide 5, coal revenue was \$816 million was up \$187 million or 30% over the first quarter 2010, and it was our second highest revenue quarter ever. Volume of 406,000 units improved by nearly 42,000 loads or 11% driven by increased global demand, changes in coal source sourcing and stockpile replenishment.

Volume weakness in domestic metallurgical coal, following a 36% increase during the fourth quarter of last year, was driven primarily by reduced coal availability and was more than offset by strong utility and export volumes. We expect domestic met coal shipments to rebound ahead; however, as stockpiles in this sector remain at 50% to 70% below targeted levels.

On the resources front, we've added new AC locomotives to our coal fleet, and we'll start initial deliveries of 1,500 new coal cars in May, all of which will be built this year. Short-term coal car leases are also being utilized to boost capacity and we've also upgraded additional tracks at our support yard at LambertsPoint. All of these added resources are focused on improving service to our valued coal customers and producing further revenue growth ahead.

Now, turning to the export market in coal, which was our strongest market segment in the first quarter, shipments totaled 71,000 loads, up 25% and 14,000 loads over the first quarter of 2010. The convergence of flooding in Australia, a 10% increase in global steel production, and robust demand for met coal in Asia resulted in our highest export volume since 1999.

At LambertsPoint, volume for the quarter reached 51,000 loads, up 16%, while shipments over Baltimore were up 49%, both due to high demand for US met coals in Asia, Europe, and South America.

With respect to our outlook in this market, global coal supply remains tight in response to the flooding in Australia. Some major ports and mines there have resumed operation, but are operating at greatly reduced capacity. As of today, global demand is exceeding supply, and we do not foresee any decline in demand for US coals from the return of Australian supply for the balance of this year. Reflecting this favorable outlook, current dynamics in the marketplace bode well for export pricing, and our C 52 export contracts, effective April 1, reflect this ongoing strong demand.

Now concluding my discussion of coal on slide 7, utility volume of nearly 277,000 loads was up 13% over the same period of last year despite a 2% decline in electricity output in our service region. Utility volume benefited from increased shipments to southeastern utilities to replenish low stockpiles and new business.



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With respect to utility stockpile levels, many NS serve utilities have inventories that are still well below their targeted levels. Looking ahead, customers will use the shoulder months to replenish coal stocks in preparation for the summer cooling season, and we expect our utility tonnage to reflect that favorable trend.

Turning now to intermodal on slide 8, revenue of \$485 million was up \$75 million or 18% over the first quarter of 2010. This revenue gain was primarily from volume growth, fuel related revenue and contractual rate increases. Volume reached 747,000 units, lead by strong gains in our domestic and premium business.

Our domestic growth was driven by tightening truck capacity, new business initiatives, and improving economic conditions. Also, widespread interest in intermodal as a less carbon-intensive alternative to truck continues to increase demand across our customer base. Of our total domestic increase for the quarter, we estimate that 60% came from local business east of the Mississippi, which was up 21%, with the remaining 40% from traditional inter-line business, such as the transcontinental market, which increased by 14%.

Premium volume, which was up 19%, benefited from tight truck capacity and highway conversions in the LTL segment, in addition to volume resulting from the new FedEx business that I mentioned in January. Finally, international and triple crown volumes were both up 2% for the quarter as global trade and retail sales slowly improve.

As all of you know, we're investing for future growth and improved customer service across our intermodal network. Shown on slide 9 are 5 major new intermodal terminals that we expect to be completed by the summer of 2013, as we continue our unrelenting focus on upgrading corridor speeds and terminal capacity. Our clear objective here is to take intermodal customer service up to the next level and to fully support future growth and higher profitability ahead.

Now, turning to merchandise, as shown on slide 10, total revenue in this broad car load segment was \$1.3 billion, up \$120 million, or 10%, over the first quarter 2010. Volume for the quarter was 558,000 car loads, up 3%, lead by gains in metals and construction materials, paper, and automotive traffic.

Drilling down to specific market segments in our merchandise business, automotive volume grew 12% over first quarter 2010 as shown on slide 11, driven by the increase in North American light vehicle production, robust vehicle sales, and quality whole releases from the manufacturers. Shipments for the Detroit 3, along with the majority of our international brand names, saw year-over-year improvement in the quarter. New vehicle business secured in the third quarter last year also contributed to our ongoing volume growth.

Now, turning to our metals and paper business on the next slide, metals and construction business first-quarter car loads were up 7%, primarily driven by increases in coil steel, miscellaneous construction, and aggregates traffic. Coil steel car loads benefited from increased domestic steel production and related volume growth of inter-mill shipments.

Miscellaneous construction was driven by the continued ramp up of natural gas drilling of the Marcellus Shale region of Pennsylvania and aggregates car loads benefited from increased highway construction and paving projects. Our paper and forest products volume was up 2% in the quarter, primarily due to gains in pulp board, newsprint, and printing paper reflecting stronger demand and higher production rates.

Concluding our car load discussion with chemicals and agricultural on slide 3, chemicals volume was down 1% in the quarter, due to tough comparisons to first quarter of last year that included 5,700 car loads of TBA fly ash business. Adjusting for the TBA business, which has now been completed, chemicals volume would have been up 5% in the quarter benefiting from increased chemical production, new plastics business, and continued ramp up of new business initiatives to handle waste related products.



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Finally, agricultural volume declined 2% as strong soy bean shipments could not offset declines in corn traffic to the export market and to selected feed mills. Corn carry-over stocks are headed to a 15-year low this year as high demand for ethanol in domestic and export markets deplete available corn inventories.

Despite this decline, we're optimistic about our AG business going forward and continue to invest in our agricultural network. In that regard, we're purchasing 2,100 new grain hoppers this year to replace leased units and delivery began in April and will run until October at a rate of 100 per week. The majority of the new cars will be used in our long-haul unit grain train network.

Now transitioning, looking ahead, as you will note on slide 14, we expect further growth across most of our portfolio of business for the balance of this year and beyond. As shown here, we expect automotive volumes to remain positive. Throughout the years, North American light vehicle production is forecasted to grow by 14%. Our volume would also be driven by the addition of new business that we expect to start handing in August from the new VW automotive assembly plant in Chattanooga Tennessee.

We expect our metals business to remain solid for the balance of year, driven by domestic steel production and new business from plants locating on our network, including two in the state of Alabama.

Our agribusiness network will continue to expand with growth coming from 4 new ethanol terminals and higher volumes of grain, and we expect record acreage to be planted this year to support overall demand as we move ahead. Increased basic chemical production will continue to drive higher chemicals volume, although our growth will be somewhat moderated by difficult year-over-year comparisons, as I mentioned before.

In our coal markets, we expect utility coal volume to increase as stockpiles are replenished and new business gains ramp up. And we remain bullish on export in the face of strong Asian and global demand and tight capacity around the world. And, worldwide thermal coal demand should also provide some targeted opportunities to move steam coal from NS mines to the global steam coal market. We remain optimistic about both domestic met coal and steel shipments, although potential for growth in the met coal segment will be subject to coal availability for the balance of the year.

In the domestic and premium intermodal markets volume will be delivered by robust demand and continue highway conversions, and we're optimistic that international volume levels will continue to increase for the remainder of this year as well. In the only market with prospects that are relatively flat, forest products, we're cautiously optimistic that lumber and related wood products will improve as the year progresses, but for now we see it as a modest recovery at best.

To summarize, we are very encouraged by our strong first-quarter results and expect to build on this momentum for the remainder of the year. In the months ahead, we plan to fully capitalize on our growth initiatives, the changing nature of overall transportation capacity in our markets, and the ongoing economic recovery that we're seeing.

Thank you for your attention, and now Mark will tell you how we're delivering service to our customers in a safe and efficient manner. Mark?

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**Mark Manion** - Norfolk Southern Corp. - EVP, COO

Thank you, Don, and good afternoon everyone.

Starting with safety, we ended the first quarter of 2011 with a safety ratio of 0.77 compared to 1.10; that's a 30% improvement over the same period last year. On the service front, we ended the first quarter with a composite service performance of 72.04% versus 75.84% for the same period last year, a 5% reduction. While it's old news now, the performance decline was a result of extraordinary weather across the network, driven greatly by the record-breaking snowfall in Chicago and the surrounding areas starting on January 31 and the recovery that lasted for weeks afterward.



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Turning to the next slide, as a result of the winter storms, train speed was severely impacted in February, but partially recovered in March, followed by continued improvement in April. On the next slide, the same improvement trend can be seen in terminal dwell; in fact, at this point, we have improved over last year, reflecting greater fluidity in our yards and terminals. This next slide illustrates our actual TNE employment count, by month, from the beginning of 2010 and then projected through the end of 2011. This is a count of currently active qualified TNE employees and trainees.

Since the beginning of 2010, we authorized the hiring of approximately 2,700 conductors. Over the same time period, we have put 760 of these individuals on the ground, working. By the end of the year, we expect our TNE population to be about the same levels as we saw in early 2008.

The projected increase of over 1,100 qualified TNE employees by year end is primarily driven by catching up on hiring over the past year, backfilling engineer trainees as we ramp up locomotive engineer training, and traffic growth. And remember, this isn't just the new traffic growth we're experiencing now. This is the traffic growth we are projecting a year from now.

In addition, we also anticipate a higher percentage of retirements than would normally be expected, due to an increase in the number of eligible employees who deferred retirement during the most recent business cycle. The training pipeline is full. As you can see, we've reached a point where we are substantially exceeding attrition at an accelerating rate, but as the year progresses, the hiring and trainee counts are declining as we reach a more steady state of qualified TNE employees.

Finally, turning to our productivity score card, in the first quarter, car load volumes were up 8%, while crew starts were up a corresponding 5%. Total railroad employment was up 7%, driven largely by the increase in conductor trainees that we discussed on the previous slide. Our efficiency metrics of gross ton miles per employee and gross ton miles per train hour were up 2% and 3%, respectively.

Gross ton miles per gallons in diesel fuel were down 2%, driven by weather related operational issues that impacted us in the quarter, coupled with the addition of less fuel efficient lease locomotives. With improved velocity, we expect this to improve our fuel efficiency as well.

As you may recall, we added 42 new AC locomotives in the fourth quarter and an additional 50 locomotives that have been received this year. As you've seen today, and as we have been saying for a while, we have been aggressively hiring and training conductors since the beginning of 2010. We're now seeing the benefits of these resources across our network in terms of improved velocity, increased efficiency, and improving service performance.

Thank you, and now I'll turn it over to Jim.

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**Jim Squires** - Norfolk Southern Corp. - EVP, Finance and CFO

Thank you, Mark. I will now review our financial results for the first quarter.

As Wick mentioned, we're off to a strong start, having achieved a number of first-quarter records, including revenue income from operations and earnings per share, even with the effective and unfavorable arbitration decision related to certain insurance claims for the 2005 Graniteville derailment, and I'll speak to this adjustment as I discuss each effective component of our results.

As Don described, our railway operating revenues for the quarter reached \$2.6 billion, up \$382 million or 17%, compared to the first quarter of last year, including an increase in fuel surcharge revenues of \$90 million. We set a new first-quarter record for revenues, even with an unfavorable fuel lag of \$40 million for the quarter.

Total railway operating expenses increased by \$337 million or 20%, to \$2 billion for the quarter. Income from railway operations totaled \$600 million, an 8% increase and also a new first-quarter record. The resulting operating ratio was 77.1%.



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Excluding the \$58 million unfavorable Graniteville-related arbitration decision, operating expenses would have increased \$279 million or 17% for the quarter, and income from railway operations would have totaled \$658 million up 19%. The resulting operating ratio would have been 74.9% for the quarter, a 30-basis point improvement compared to last year's 75.2%. Further, when considering the unfavorable fuel revenue lag, our operate ratio would have been reduced to 73.8%.

Turning to our expenses, fuel and materials and other expenses accounted for almost two-thirds of the \$337 million variance, and the next slide reflects that more than 75% of the fuel expense increase is due to higher prices, with the balance due to consumption. As shown next, our average diesel fuel price per gallon continued its upward trend with the steepening slope in the most recent quarter. The \$2.88 price per gallon in the first quarter of 2011 was 35% higher than last year's \$2.13 and was up 17% compared to last quarter's \$2.46.

Delving deeper into diesel fuel price, this slide shows the per gallon components of the price, comprised of crude oil in gray and other costs in green. These other costs primarily reflect crack, spread, sales tax, and transportation costs. What we see here is that while WTI increased by 20%, other costs increased \$0.38 per gallon or 146%. This drastic increase in the non-WTI related price per gallon increased diesel fuel expense by \$48 million this quarter.

As highlighted next, materials and other expenses were up \$81 million or 42%. The majority of this increase is due to the arbitration ruling I mentioned earlier. Maintenance-related locomotive material usage and derailment expenses were also higher.

Next, compensation and benefits increased by \$66 million or 9%. Looking at the major components of this increase on the following slide, employee activity levels due to higher volumes added \$20 million, including \$7 million more for trainees. Payroll taxes increased by \$12 million, due to higher pay levels as well as increased railroad unemployment insurance tax rates. Medical benefits for our agreement employees increased \$11 million, largely related to higher health and welfare premiums.

Additional items included increased incentive in stock-based compensation, up \$5 million higher; pension expenses up \$4 million; and increased agreement wage rates, up \$3 million. Purchase services and rents increased \$48 million or 14%, reflecting volume-related operating activities and equipment rents and the absence of last year's favorable settlement with a freight car supplier.

The next slide displays our non-operating items. Other income net was up \$7 million or 35% due largely to higher coal royalties and reduced interest expense on uncertain tax positions. Interest expense decreased \$7 million, reflecting net debt reductions over the last 12 months. As illustrated on the following slide, income before income taxes increased \$59 million or 13% due largely to higher operating income. Excluding the arbitration ruling, income before income taxes would have increase by \$117 million or 26%.

Income taxes, displayed next, totaled \$190 million, down \$9 million compared to 2010. The effective rate was 36.9% in the first quarter 2011, compared to 43.6% in the first quarter of 2010. The effective tax rate difference is almost entirely due to last year's \$27 million deferred tax charge from enactment of healthcare legislation and a favorable adjustment to tax reserves as a result of a tax audit this year.

Net income and EPS comparisons are displayed on the following slide. The \$68 million net income increase is at 26%, improvement compared to last year; diluted earnings per share was \$0.90 or 32% higher than last year, a first-quarter record. Excluding the arbitration decision, our net income would have been \$361 million, up 40% compared to last year; similarly our diluted earnings per share would have been \$1 or 47% higher than last year.

Lastly, as displayed on slide 16, cash from operations easily covered capital expenditures as well as dividends of \$142 million. In addition, we used cash on hand to help pay down \$408 million in debt and generate \$343 million in share re-purchases.



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Cash and cash equivalents at the end of the quarter totaled \$236 million. We've deployed substantial cash over the last year in the form of share re-purchases and capital expenditures. The veil of uncertainty we faced this time last year has been removed and we are confident in the future of rail transportation and especially in our franchise.

Thank you for your attention and I will now turn the program back to Wick.

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**Wick Moorman** - *Norfolk Southern Corp. - Chairman, President and CEO*

Thanks, Jim.

As you can see, Norfolk Southern delivered an excellent financial performance during the quarter, which reflected the strong market for freight rail transportation and the value of our service product. As Don told you, we see continuing opportunities for growth in almost every segment of our business, and we're optimistic about our prospect for the balance of 2011.

In closing, I want to say a few words about operating ratio and head count. As all of you know, Norfolk Southern has focused on reducing its operating ratio more for many years, and in fact, we've been an industry leader over the years with respect to operating ratio improvement.

While we don't publish our goals and forecasts, we remain intent on continuing to lower our operating ratio, and we certainly expect to do as well as any carrier in the industry in that regard in the future. However, there's always a tension between efficiency and effectiveness, and if we see opportunities which will provide more earnings per share and greater returns for our shareholders, while giving up some slight improvement in operating ratio, we'll take that trade-off every time.

As to employment, our head count increases were in 3 main areas, the first as Mark has shown you, is in train and engine service, the people who run our freight trains. As you know, our business levels to some extent out ran our resource levels last quarter, and these new employees will help us restore our service levels even as our business continues to grow. Something to note here, as you've heard before, is that the TNE workforce is paid on an activity basis, so that higher head counts do not translate directly to higher expenses.

The second increase in head count is in our engineering group and these are employees to execute our expanded capital program. And finally, as we described to you earlier in the year, we've added resources in our mechanical department to restore our locomotive and freight car repair programs to levels commensurate with the business volumes that we anticipate.

I'm particularly proud of the way these new employees have integrated into the Norfolk Southern culture. One important way this has been borne out is in the continued progress in our safety process. Although 30% of our agreement workforce has been with the Company less than 5 years, they've continued to help generate positive momentum in our safety process, as shown by our most recent Harriman Award performance.

Looking ahead, we feel confident that the economic recovery is well underway and barring some extraneous event, it will continue well on into 2012. We're watching the events in Washington very carefully, which parenthetically is a phrase that I could have used in any one of these reports for the past many years, and in particular, we have some concerns about the upcoming STB hearing on competitiveness.

However, at the end of the day, the vast majority of public officials and our customers believe that a strong and healthy rail industry is vital to all of our interests, and I remain optimistic that we will continue to be allowed to earn an adequate return and invest in our future. In sum, we at Norfolk Southern feel good about the results that we're producing and confident about our future ability to produce superior service for our customers and superior returns for our shareholders.

Thanks and I'll now turn the program over for your questions.



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## QUESTIONS AND ANSWERS

### Operator

Thank you. Ladies and gentlemen, at this time we will we will be conduct a question-and-answer session. (Operator Instructions)

Our first question comes from the line of Bill Greene with Morgan Stanley Smith Barney. Please proceed with your question.

### Bill Greene - Morgan Stanley Smith Barney - Analyst

Yes. Hi there, good afternoon. Can I ask a question on -- Don, on some of your yield comments. In the past on the calls, you'd talked about yields being a decent proxy for price, but it sounded like there were a lot more moving parts here. Is it fair for us to use this yield number as a good proxy for price or can you offer more clarity there?

### Don Seale - Norfolk Southern Corp. - EVP and Chief Marketing Officer

Well, Bill, that's a good question, and certainly, as I've mentioned, the transportation market continues to evolve. Transportation capacity in the first quarter was tighter in the trucking industry, the barge industry, as well as rail, so our yields, we were pleased with them in the first quarter. So, certainly I think that you are in line to take a look at the 8% and look at it along those lines.

### Bill Greene - Morgan Stanley Smith Barney - Analyst

Is it possible for you to break out what the fuel impact was in that then?

### Don Seale - Norfolk Southern Corp. - EVP and Chief Marketing Officer

Our fuel year over year was \$90 million, as Jim mentioned.

### Jim Squires - Norfolk Southern Corp. - EVP, Finance and CFO

That was. That was the increase; the fuel revenue in 1Q '11 was 249 versus 159 in 1Q '10.

### Bill Greene - Morgan Stanley Smith Barney - Analyst

Okay. Perfect. Thanks.

Don, can I also ask, is there a limit on the export coal numbers. You're already at all time highs, what's the capacity limitation now of the system before you'd have to put more capital to work?

### Don Seale - Norfolk Southern Corp. - EVP and Chief Marketing Officer

Bill, we have plenty of extra capacity at Lamberts Point; we're not bumping up against capacity constraints. The limiting factor is the availability of coal on a given basis, and we see that holding steady. Central App production was up 2.4% in the first quarter, and I think coal pricing is favorable. And we've noticed that in the past, and as we've noted in past calls that with favorable coal pricing comes coal production.



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**Bill Greene** - Morgan Stanley Smith Barney - Analyst

Right. Okay. Thanks for the time.

**Wick Moorman** - Norfolk Southern Corp. - Chairman, President and CEO

Thank you. Bill.

**Operator**

Our next question comes from the line of Tom Wadewitz from JPMorgan. Please proceed with your question.

**Tom Wadewitz** - JPMorgan Chase & Co. - Analyst

Yes. Good afternoon.

**Wick Moorman** - Norfolk Southern Corp. - Chairman, President and CEO

Hi, Tom.

**Tom Wadewitz** - JPMorgan Chase & Co. - Analyst

I wanted to ask you about a comment that I know you're reluctant to -- a question you're reluctant to give us a lot of detail on, but maybe directionally, do you -- Don do you think your base pricing is potentially stronger this year than what you had seen last year? How -- what can you give us in terms of your thoughts on base pricing?

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

Tom, we're seeing the transportation market continue to change as I mentioned, and I would say that pricing is stronger across all modes right now than it was this time last year.

**Tom Wadewitz** - JPMorgan Chase & Co. - Analyst

Okay.

When we try to break down that 8% yield growth and you gave us some field numbers, is there much of mix effect in that as well, or is mix fairly modest?

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

The mix effect for the quarter was negative. It wasn't a large number, but it was a negative mix number.

**Tom Wadewitz** - JPMorgan Chase & Co. - Analyst

Okay.

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Let's see. As you're putting resources in place and it seems that recently you've seen a little pick up in velocity, how close are you to having adequate capacity in terms of conductors and so forth, and as that takes place, do you think the incremental margins that you realize will improve from the level you've had in first quarter?

**Wick Moorman** - *Norfolk Southern Corp. - Chairman, President and CEO*

Well, we -- as you saw, Mark commented on, we continue to add resources. I would say that you've seen a significant improvement over the past couple of months in our public metrics. We've certainly seen that in our private metrics. Having said that, as we continue to add resources, we expect continued improvement in all of our metrics on into, I would say, Mark, the second half of the year, and as we turn the system faster, we get more efficient, and our margins start to look better.

**Jim Squires** - *Norfolk Southern Corp. - EVP, Finance and CFO*

Tom, let me follow-up on that, on the question of incremental margin, in particular.

I think we had a couple of incremental margin headwinds this quarter, setting aside the charge. One was certainly weather, and that dinged expenses and also caused us to defer some revenue as well, as Don mentioned.

Another factor was fuel. With the incremental margin or decremental margin that you see in fuel, that held back overall incremental margin improvement.

The third was labor. Now, on the labor front, we have a lot of trainees in the pipeline, and those are not fully productive employees today. As we move through the year, those trainees will become more productive and will start to substitute for employees working over time today, and that will be, that will be a good dose of labor productivity for us. In addition we should start to see -- we'll see the weather effect abate, and we should see an abatement of the fuel impact on margin as well provided fuel stabilizes from here into the second half.

**Tom Wadewitz** - *JPMorgan Chase & Co. - Analyst*

Do you care to give us any numbers around the magnitude of those effects on -- in first quarter?

**Jim Squires** - *Norfolk Southern Corp. - EVP, Finance and CFO*

Sure. Yes, sure.

Well let's, let's talk a little bit about the adjusted operating ratio, and a number of folks in the community, investor community, have been looking at this in terms of the impact of fuel price changes in both revenue and expense, so why don't I walk through that. Overall, the impacts of fuel price in revenue and expense hit the operating ratio, 180 basis points. We -- as we figure it, and then on top of that, there was 220-basis points increase in the operating ratio as a result of the arbitration charge, so in total 400 basis points from the arbitration charge and fuel price, taking the operating ratio from what it would have been at 73.1 to reported the 77.1.

And, just a little bit more detail on the fuel price components to make sure you have those, we mentioned the \$90 million increase in fuel revenue of that, \$77 million was price related. On the expense side of the \$135 million expense increase, \$104 million was price related.



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**Wick Moorman** - Norfolk Southern Corp. - Chairman, President and CEO

Another color we can give you -- and these numbers are also very approximate -- is that we have a rough estimate that we forewent somewhere between \$25 million and \$30 million worth of revenues and that the additional expenses incurred were somewhere between \$5 million and \$10 million, but I caution you those are somewhat soft numbers.

**Jim Squires** - Norfolk Southern Corp. - EVP, Finance and CFO

And, just lastly, to round out the pro forma adjustments here, with the adjusted operating ratio of 73.3, we would be at about a 43% incremental margin.

**Tom Wadewitz** - JPMorgan Chase & Co. - Analyst

Okay. Great. Yes. All the detail is very helpful. Good to see the improvement and thank you for the time.

**Operator**

Our next question comes from the line of Chris Wetherbee from Citigroup. Please proceed with your question.

**Chris Wetherbee** - Citigroup - Analyst

Great. Thank you very much.

I guess on the head count side, as you think about the trajectory as you go forward, just want to get a sense -- obviously, you've done some pre-hiring here. I just want to get a sense of how that should look sequentially in the near term, 2Q relative to the first quarter, maybe where you ended the quarter as far as head count is concerned.

And then how you think about the potential cost per employee. Jim, to your point, as you're bringing the employees on as full-time employees, they're replacing some over time. Do you see any benefit in the cost per employee as you cycle these trainees into the program.

**Jim Squires** - Norfolk Southern Corp. - EVP, Finance and CFO

We should. And if you'll refer to Mark's slide that shows the trend in the head count, TNE head count divided between full time and trainees, you see the trainee count start to taper off as though folks get folded into the permanent workforce; and there will be, there should be a productivity boost from that as I said, those newly minted employees will be standing in for people working over time today. You should see a benefit in cost per TNE employee.

**Chris Wetherbee** - Citigroup - Analyst

And just thoughts on total head count as you think about 2Q and maybe 3Q?

**Wick Moorman** - Norfolk Southern Corp. - Chairman, President and CEO

I don't have the numbers in front of me. It will continue to go up a little, but nominally. We're looking here.

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**Mark Manion** - Norfolk Southern Corp. - EVP, COO

If I can jump in while you're looking at that ,

**Wick Moorman** - Norfolk Southern Corp. - Chairman, President and CEO

Yes.

**Mark Manion** - Norfolk Southern Corp. - EVP, COO

Between now and the end of the year, we'll add about 1,100 TNE employees, and that's pretty much evenly divided out. It comes out to about 100, 125 to 150 people per month that are on the ground and additional workforce, and keep in mind, those people are -- about half of those people are actually -- or a combination of new business projection as well as taking the place of conductors that are stepping up to, for engineer training, so that 1,100 people will be pretty well evenly distributed throughout the rest of the year.

**Chris Wetherbee** - Citigroup - Analyst

Okay. That, that's very helpful.

And then Don just a bit on the coal side, you mentioned the coal stock piles in the domestic and utility business. Just curious if you could give a little bit of color about where they stand relative -- I think you said they were lower than normal, but what's the magnitude there if you can give some color on that.

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

Chris, we have 30% of our utility network that is below target, and on our domestic met market we've got inventories that are between 50% and 70% below target across the board.

**Chris Wetherbee** - Citigroup - Analyst

Okay.

And -- I was just curious on the utility side, if there's a level below target that you're seeing on a day basis or how you guys think about that?

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

Well, we track it. We track it on a day's inventory basis and that 30% would reflect those essentially 30 utilities out of our universe of 100 that are well below their targeted days of inventory that they're comfortable with.

**Chris Wetherbee** - Citigroup - Analyst

Okay. That's helpful.

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And then Wick finally, could you elaborate on the comment about the competitiveness hearing? I'm just curious if there's something specific about. Obviously, there's concerns about the thought around discussing the hearing here, but I'm just curious if there's something specific that you want to elaborate as far as your concerns?

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**Wick Moorman** - *Norfolk Southern Corp. - Chairman, President and CEO*

Well, I think the concerns are right now general. There's going to be a lot of discussion of competitiveness at that hearing. There are going to be a lot of witnesses, and I think the concern always is that the rail industry articulates its very strong case for the economic regulatory structure that's in place today. We've got a lot of customers who have written letters of support for us, economic development agencies and the like, and we just want to make sure that the Board hears the very positive story that the rails have to tell about where we are and where we're going.

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**Chris Wetherbee** - *Citigroup - Analyst*

Okay. Great. That's helpful. Thank you very much for the time. I appreciate it

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**Operator**

Our next question comes from the line of Scott Flower from Macquarie Securities. Please proceed with your question.

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**Scott Flower** - *Macquarie Securities - Analyst*

Yes. Good afternoon all.

Just a couple questions. Don, I was wondering on the export side, you had a high run rate in terms of volumes in first quarter running about 7.5, is that reasonable to think that can be sustained? That would be toward the high end of what you were thinking about in the fourth-quarter call?

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**Don Seale** - *Norfolk Southern Corp. - EVP and Chief Marketing Officer*

Scott, based on what we're seeing in Asia in terms of overall demand as well as Europe and South America and the available global coal supply, we feel that that is sustainable based on the run rate that our customers are telling us to expect.

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**Scott Flower** - *Macquarie Securities - Analyst*

Okay.

And then I know that you said the capacity at Lamberts was adequate, but is that from some of the capital work you described in terms of staging tracks or is that if you added another shift? Help me understand capacity at Lamberts, because I understand you can go much higher, but I thought that might take some other capital or adding another shift that you wanted contracts to be sure of that.

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**Don Seale** - *Norfolk Southern Corp. - EVP and Chief Marketing Officer*

Scott, the capacity is there and what we're doing in terms of small investments there is just enhancing our efficiency at the peer itself. The investment we made with bringing back some track into service was resuming about 1,100 car spots of track capacity at the terminal just to improve the efficiency at the peer.

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**Scott Flower** - Macquarie Securities - Analyst

Okay.

What do you think the run rate is in terms of capacity throughput as it currently is configured at Lamberts?

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

30 million to 35 million tons.

**Scott Flower** - Macquarie Securities - Analyst

Okay.

And then just one other quick coal question. How much of what you saw in first quarter was met versus thermal? Obviously, the majority is met, but I'm just wondering whether some incremental thermal is sneaking in with EP2 being this high.

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

With respect to our export market, the vast majority was met. I would say no more than 2% was thermal coal, although as I mentioned in my remarks, we see some opportunities to expand that.

**Scott Flower** - Macquarie Securities - Analyst

Okay.

And then just a couple quick questions on operations. What would the composite service metric be now? What is that running in April?

**Mark Manion** - Norfolk Southern Corp. - EVP, COO

We are in the neighborhood of 76, 75 to 76, and the good story is -- that the -- it is trending the right direction, Scott.

**Scott Flower** - Macquarie Securities - Analyst

Oh, absolutely. And then --

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

One other things that I might add, Scott, if I could elaborate on the Lamberts point comment you were making.

**Scott Flower** - Macquarie Securities - Analyst

Yes.

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**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

The, one of the things that we have in the mill to generate more throughput on the side of additional head count is we are hiring in not only transportation but also engineering and the mechanical side in order to support more 2-side operation. Up to now, for the most part we can pretty well handle the business that's going through there, dumping on one side. We occasionally have 2-side operation, but just to make sure that we can handle more going forward, which we think will -- is a likelihood, we are gearing up to be able to handle 2-sided operation much of the time if necessary.

**Scott Flower** - Macquarie Securities - Analyst

Okay.

And, and then I know that you talked about the locomotives that you had delivered through first quarter, but are you adequate on locos or do you have further deliveries through the year?

**Mark Manion** - Norfolk Southern Corp. - EVP, COO

We feel good about the locomotives route now. We've still got our leased locomotives, about 260 of them, and as the velocity continues to increase, which we anticipate, we -- our plan is to side line those locomotives as we see the ability to do so.

So, that is really what's in our radar right now is, or in our scope right now is increasing our velocity and actually reducing some of those leased locomotives as we have the opportunity to do it.

**Scott Flower** - Macquarie Securities - Analyst

Okay.

And then two last very quick catch ups with Jim. What was the fuel lag impact? I know you mentioned it, I just happened to miss it.

**Jim Squires** - Norfolk Southern Corp. - EVP, Finance and CFO

\$40 million.

**Scott Flower** - Macquarie Securities - Analyst

I'm sorry?

**Jim Squires** - Norfolk Southern Corp. - EVP, Finance and CFO

\$40 million.

**Scott Flower** - Macquarie Securities - Analyst

\$40 million?

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**Jim Squires** - Norfolk Southern Corp. - EVP, Finance and CFO

Right.

**Scott Flower** - Macquarie Securities - Analyst

And then -- I'm sorry?

**Jim Squires** - Norfolk Southern Corp. - EVP, Finance and CFO

Negative.

**Scott Flower** - Macquarie Securities - Analyst

Okay.

And then you had mentioned, there was some favorable tax audit adjustment this year in the tax line?

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

Right. That was relatively minimal. The big factor in the change in the effective rate was last year's deferred tax asset write down.

**Scott Flower** - Macquarie Securities - Analyst

What -- the amount this year was what, \$4 million or \$5 million or something?

**Jim Squires** - Norfolk Southern Corp. - EVP, Finance and CFO

Yes, it would be in that neighborhood. To bring it down from a statutory rate plus a standard state income tax rate to the reported 36.9%.

**Scott Flower** - Macquarie Securities - Analyst

But we'll go back to 38% next quarter?

**Jim Squires** - Norfolk Southern Corp. - EVP, Finance and CFO

Well, for the full-year right now, we're looking at a rate somewhere from the mid- to high 30s.

**Scott Flower** - Macquarie Securities - Analyst

Okay. Great. Well thank you all very much.

**Wick Moorman** - Norfolk Southern Corp. - Chairman, President and CEO

Thank you, Scott.

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**Operator**

Our next question comes from the line of Justin from Deutsche Bank. Please proceed with your question.

**Justin Yagerman** - *Deutsche Bank - Analyst*

Hey, good afternoon. Thanks for taking my call.

I wanted to ask -- I seem to recall you talking about some negative mix issues in prior quarters as it relates to the coal business, some shorter haul impacting, and it sounds like you guys have reversed some of that trend and are seeing a longer haul, especially on the utility coal side. Can you talk a little bit about what's changed?

**Don Seale** - *Norfolk Southern Corp. - EVP and Chief Marketing Officer*

Well, we certainly saw our southern based utility coal move at a higher volume, and as I've pointed out in past quarters, our southern utility coal is generally about 30% higher ARPU than our northern utility coal, but also within the export market, as I mentioned our Baltimore export tonnage was up 49%, which was higher than the increase in Lamberts Point, Lamberts Point being the higher ARPU coal traffic and Baltimore being lower ARPU. So, there's a lot of moving parts to mix and the overall effect in the quarter is, as I previously mentioned, was modestly negative.

**Justin Yagerman** - *Deutsche Bank - Analyst*

Okay. All right. That's helpful.

And on the export coal outlook, specifically, I was curious whether you had any thoughts of moving to quarterly contracts. One of our competitors has discussed that, and when you look at those contracts, if you were to be moving to the quarterly, would those be take or pay contracts?

**Don Seale** - *Norfolk Southern Corp. - EVP and Chief Marketing Officer*

Well, we, we're constantly assessing contract structure and contract production, so I really can't tell you whether we will go that way or not, but we're assessing the market on a continuous basis.

**Justin Yagerman** - *Deutsche Bank - Analyst*

Are the contracts you do have currently, are those take or pay?

**Don Seale** - *Norfolk Southern Corp. - EVP and Chief Marketing Officer*

We have volume commitments in some contracts, yes.

**Justin Yagerman** - *Deutsche Bank - Analyst*

Okay.

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I was curious on the automotive side or anywhere else that you were seeing anything, if the disruptions due to Japan have impacted any production on your line? Is that something you've been hearing about or as we're working through whatever inventory was already stocked in -- prior to that disaster, are you starting to hear about any potential issues arising as we look out over the next quarter or 2?

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**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

Well, we're certainly watching that situation closely. As I mentioned, our auto traffic volume was up 12% in the first quarter and the big 3 volume continues to out pace what we had projected.

Now, the international auto manufacturers that are more dependent upon a supply chain from Japan, we are seeing some production reductions at some of the plants in the US that are operated by the international manufacturers. We don't know yet what the net effect of all that will be, but our sense is that the auto market is rising, at a fairly rapid pace, and that if one manufacturer doesn't supply the product, the consumer will probably buy the product from a manufacturer that does produce the product.

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**Justin Yagerman** - Deutsche Bank - Analyst

Yes. That's a fair assumption. And, the last question I had on the export coal side, moving back to that, the interesting commentary around steam coal and the demand, albeit a very small part of total, where are you seeing the end market demand for that export steam coal and where do you see that growing fastest in terms of that leaving the east coast?

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**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

Well, we're seeing South America grow very rapidly. Certainly, we're seeing Korea and China taking their share; and of course, we're seeing Western Europe, which is our more traditional export metallurgical coal market, rebound very, very well as well, because global steel production is up 10% and we see that continuing to surge. And, Australian supply of net coal is still impacted to the tune of about 80% of their production.

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**Justin Yagerman** - Deutsche Bank - Analyst

Yes, but -- I guess that is definitely interesting. The question was looking at the steam coal, which I realize is a very small part of the whole, but did you call that out as something you see maybe growing in the future. Just kind of curious where that growth, that end market growth is coming from?

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**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

Western Europe would be one of those destinations and we see some opportunity possibly in Asia as well.

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**Justin Yagerman** - Deutsche Bank - Analyst

Got it. All right. Thanks so much for your time. I appreciate it.

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**Operator**

Our next question comes from the line of Jon Langenfeld from Robert W. Baird. Please proceed with your question.

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**Jon Langenfeld** - *Robert W. Baird & Company, Inc. - Analyst*

Good afternoon.

On the intermodal side could you reflect a little bit on the modest volume growth on the international side and just what you're hearing from the steamship lines? The import volumes to the US have been pretty good, upper single digits, so we continue to see slower growth on the international intermodal across the board, so I was wondering if you had any details or explanations behind that?

**Don Seale** - *Norfolk Southern Corp. - EVP and Chief Marketing Officer*

Well, we -- on the domestic side we're seeing increasing opportunities for highway conversion of truck load freight to rail, particularly in the eastern network that we're ramping up. As it relates to international business, we're continuing to see some international business on the West Coast, coming through the West Coast where it's transloaded to 53-foot domestic boxes. And once that freight is transloaded into those domestic boxes, it's counted in our domestic count, so while we were up 2% in international ISO boxes, I would say that the volume is slightly higher than that because of because of the transload activity that's taking place.

The final comment that I'll make on international is that as retail sales and consumption continue to improve, we expect international volumes to follow that.

**Jon Langenfeld** - *Robert W. Baird & Company, Inc. - Analyst*

If you looked at your international volumes, just on the east coast where I believe transloading to the domestic intermodal is less prevalent -- so if you look at international there, how has that trended and then more specifically, how has that Heartland corridor helped you?

**Don Seale** - *Norfolk Southern Corp. - EVP and Chief Marketing Officer*

We're seeing increased activity on the Heartland corridor, both organic growth in addition to volume that we have shifted intentionally from the old corridors to the Heartland corridor for the efficiency of it, and we're continuing to see our volume from other East Coast ports improve as well.

**Jon Langenfeld** - *Robert W. Baird & Company, Inc. - Analyst*

So, that would be higher -- 2% international overall. Would your East Coast be faster and the trans-con international segment be less?

**Don Seale** - *Norfolk Southern Corp. - EVP and Chief Marketing Officer*

Yes. That's correct.

**Jon Langenfeld** - *Robert W. Baird & Company, Inc. - Analyst*

Got it. Thank you.

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**Operator**

Our next question comes from the line of Peter Nesvold from Jefferies & Company. Please proceed with your company.

**Peter Nesvold - Jefferies & Co. - Analyst**

Thanks for taking the call.

I think a lot of my questions have been addressed. I'm not sure if this was asked. I had to jump off for a quick second, but you mentioned during the prepared comments that you're entering a period of elevated attrition as retirements approach. Is there a point at which you start to see a measurable change in the comp and benefits line as a result of that, i.e., the average age of the workforce would -- arguably should be declining meaningfully I guess over the next year or so?

**Wick Moorman - Norfolk Southern Corp. - Chairman, President and CEO**

You will see some decline in terms of the average compensation. One reason that Jim pointed out was over time, the other is that new contract employees are on step rates and it takes a few years for them to reach 100% of the contract rate, so there will be some modest decline as that progresses too.

**Peter Nesvold - Jefferies & Co. - Analyst**

Okay.

And on the April 1 contracting increase for export coal, have you quantified how much the average rate is going up?

**Don Seale - Norfolk Southern Corp. - EVP and Chief Marketing Officer**

No. We would not quantify that because they're in confidential contracts.

**Peter Nesvold - Jefferies & Co. - Analyst**

Okay.

And then last question. It looked like you hauled about 8 million tons of export coal in the quarter, is it fair to just annualized that to 32 million as the run rate for here.

**Don Seale - Norfolk Southern Corp. - EVP and Chief Marketing Officer**

Well, it was 7.4 actually, and we're optimistic that that market will continue to be strong, as I've mentioned, based on the input we're getting from both the suppliers and customer receivers.

**Peter Nesvold - Jefferies & Co. - Analyst**

Great. Okay. Thank you.

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**Operator**

Our next question comes from the line of Ed Wolf with Wolf Trahan. Please proceed with your question.

**Ed Wolfe** - *Wolfe Trahan & Co. - Analyst*

Thanks. Good afternoon.

I guess the inverse of Peter's question -- as employees start to come on line and get trained and then they become active, at what point in that life of the employee do you start to see the comp for employee increase?

**Wick Moorman** - *Norfolk Southern Corp. - Chairman, President and CEO*

I'm not quite sure we understand your question, Ed. In terms of the way the contract employees are paid, there are -- it's a 4 year step process where they start at 80% and then reach 100% of the contract rate once they've been here 4 years, they're paid at 100% of their rate.

**Ed Wolfe** - *Wolfe Trahan & Co. - Analyst*

When they're in the training program, are they getting paid as if the day they become active or is there a big step up at that point is what I'm asking?

**Wick Moorman** - *Norfolk Southern Corp. - Chairman, President and CEO*

They -- trainee's certainly are compensated, what Mark? \$700 a period?

**Mark Manion** - *Norfolk Southern Corp. - EVP, COO*

I don't know the exact figure.

**Wick Moorman** - *Norfolk Southern Corp. - Chairman, President and CEO*

Yes, we can get you an exact figure. The trainees are certainly compensated less than fully qualified employees.

**Ed Wolfe** - *Wolfe Trahan & Co. - Analyst*

So, when I think about comp for employee up 2.8% in first quarter, directionally throughout the year, I would think that that would be coming down as your ramping up the trainees and seeing some people turnover or is that a fair number going forward?

**Jim Squires** - *Norfolk Southern Corp. - EVP, Finance and CFO*

Well, I think it will depend to a significant extent on how much we substitute these new employees for those working over time today. That's going to be a big factor and that is our plan; and we're already seeing over time come down as a result of the trainees coming on-line.

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**Wick Moorman** - Norfolk Southern Corp. - Chairman, President and CEO

Yes. I think right now we would expect that to come down.

**Ed Wolfe** - Wolfe Trahan & Co. - Analyst

Okay.

Switching gears, the coal revenue per car load is up 16% sequentially over fourth quarter. Can you talk about some of the drivers and what percentage of your export coal business repriced in January relative to April?

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

Ed, we had several contracts. I can't give you the percentage, but we had 3 or 4 utility contracts that repriced January 1; and then of course, we have contract escalates to that also took modifications in the quarter as well.

**Ed Wolfe** - Wolfe Trahan & Co. - Analyst

And what percent of business, the export coal business reprices or escalates in April?

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

All our export coal adjusted April 1.

**Ed Wolfe** - Wolfe Trahan & Co. - Analyst

Including the export coal that the 3 or 4 contracts that went on January 1, they also took an increase in April?

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

No, Ed, those were domestic utility contracts.

**Ed Wolfe** - Wolfe Trahan & Co. - Analyst

Oh, okay. I'm slow, I appreciate that.

What was the increase on average that you took in April?

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

We can't address that as I mentioned. Those are contract confidential terms.

**Ed Wolfe** - Wolfe Trahan & Co. - Analyst

You can't talk about what an average (technical difficulty) across the book?

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**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

No, I can't.

**Ed Wolfe** - Wolfe Trahan & Co. - Analyst

Okay.

Why were Baltimore export volumes, Don, up 3 times that of Lamberts in first quarter?

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

The demand for Pennsylvania higher sulfur coals that are being blended in the world market were high. The capacity for production out of the Pittsburgh 8 Seam was there, and we were very pleased to handle it.

**Ed Wolfe** - Wolfe Trahan & Co. - Analyst

So, does that mix continue for a little while or does it reverse fairly quickly where Lamberts catches up a little bit.

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

We see the mix coming out of the Pittsburgh 8 Seam in Pennsylvania continuing to be very strong.

**Ed Wolfe** - Wolfe Trahan & Co. - Analyst

Okay.

Is there an opportunity for coal royalties to materially increase now that we're seeing global demand increase in pricing increase, the value of it?

**Jim Squires** - Norfolk Southern Corp. - EVP, Finance and CFO

Probably not materially. We may see some trend in that direction, but it's a relatively small item in the grand scheme of things.

**Ed Wolfe** - Wolfe Trahan & Co. - Analyst

Okay.

Then, last question, just the mix of intermodal? I think I heard Don say 60% give or take is local east and 40% of the volume is transcon in first quarter. Did I hear that right?

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

If you look at the split, 60% of our current book in the first quarter was domestic, 40% international. 60% of the growth that we had was east of the Mississippi in our local market.

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**Ed Wolfe** - Wolfe Trahan & Co. - Analyst

And so how does that look now, that mix, give or take between the local market and the transcon on the domestic piece?

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

We are growing faster in the, in the domestic local market, Ed. I don't have the numbers in front of me here in terms of the total domestic local versus transcon, but we can get that for you.

**Ed Wolfe** - Wolfe Trahan & Co. - Analyst

Is the trans con just directionally larger than the domestic?

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

Well, you've got to keep in mind that the domestic market east of the Mississippi in our local market is a relatively new market. It's ramping up. It is a huge truck load market that has not been tapped traditionally for intermodal, and we are tapping that and we're seeing it grow and as in past quarters, we've been sharing the increases on some of the corridors; and for example, on the Crescent Corridor in the first quarter or volume was up 37% for domestic intermodal.

**Ed Wolfe** - Wolfe Trahan & Co. - Analyst

Okay. I appreciate it.

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

It's growing much faster than our conventional transcon market.

**Ed Wolfe** - Wolfe Trahan & Co. - Analyst

No, I get that. I appreciate it. Thank you for the time.

**Wick Moorman** - Norfolk Southern Corp. - Chairman, President and CEO

Thanks, Ed.

**Operator**

Our next question comes from line of Cherilyn Radbourne for TD Newcrest. Please proceed with your question.

**Cherilyn Radbourne** - TD Newcrest - Analyst

Thanks very much and good evening.

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Just continuing on with the intermodal business, was wondering if you could offer any comments on the new business you secured with FedEx and just how that ramped up during the quarter and whether it was focused in particular lanes or more broadly throughout the network?

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

I did not catch your question. Could you repeat it for me?

**Wick Moorman** - Norfolk Southern Corp. - Chairman, President and CEO

FedEx, how did it ramp up and where?

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

We saw, we saw FedEx ramp up pretty much across our network in the east, but I will tell you that the strongest lanes were Chicago - Harrisburg, Chicago - Pittsburgh, those types of lanes in the northeast.

**Cherilyn Radbourne** - TD Newcrest - Analyst

Okay. That's helpful.

Last question from me, if you did mention that you lost some revenue in the quarter due to winter, and depending on what that was, presumably some of it may get moved in Q2, so I was just wondering whether you could comment on if you had a backlog in certain segments as you exited the quarter?

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

Well, as we stated, we estimate that we had \$25 million to \$30 million of weather impacted revenue that we did not realize in the first quarter. Of that \$25 million to \$30 million, we estimate that half of that, approximately half of that revenue, was deferred and we will recover that in the second quarter.

**Cherilyn Radbourne** - TD Newcrest - Analyst

Thank you. That's all for me.

**Wick Moorman** - Norfolk Southern Corp. - Chairman, President and CEO

Thank you.

**Operator**

Our next question comes from the line of Scott Malat from Goldman Sachs. Please proceed with your question.

**Scott Malat** - Goldman Sachs - Analyst

Evening, thanks.

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You gave some great detail around the employees; it's very helpful. I just wanted to understand as I just think about these numbers long-term, if we look at a gross ton miles per employee, historically, it peaked in 2004 and it was down every year until 2010, and now we're improving again, but I think the productivity number is still down 10% since those peaks. Can you help me understand the difference there? Is that intermodal needs more employees? Are there other mix changes that have caused this? I'm just trying to figure out how to think about the normal run rate of employee productivity going forward for whatever normal is?

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**Wick Moorman** - *Norfolk Southern Corp. - Chairman, President and CEO*

Well, if you -- to some extent there is a mix effect, particularly in intermodal. It doesn't generate gross ton miles in quite the same way, so there may be something going on there. The other thing I would tell you is that you also have to think about it the way we think about it, and that is in terms of our service levels. We need a certain number of employees to generate the higher service levels. As we went into the 2005 and 2006 traffic surges, we were adding employees to make sure that we have maintained adequate service levels.

As we look ahead, the hiring we discussed, we're hiring in anticipation, as Mark said, for business that we will be handling in six months or a year. We have realize some efficiencies in terms of operations per employee. We certainly realize some thought the 2009 downturn that we think we'll hold on to, so I would tell you that I think we will start to -- we'll continue to push those efficiency numbers up. I don't know without doing a lot of analysis how that would compare ultimately with 2004.

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**Scott Malat** - *Goldman Sachs - Analyst*

Okay. Great.

So then, I guess as I understand it, you're adding employees now for the future and yes, okay, you could continually improve volumes, you'll continually add, but it's a little bit of a stair step up that you'll digest and get better employee productivity for a while after that, is that a fair way to think of it?

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**Mark Manion** - *Norfolk Southern Corp. - EVP, COO*

Well, that's partly it is. The thing that we need to keep in mind is that we still have a need for additional employees for the business that we've got out there, and of that 1,100 people that I've referred to, about half of that is catching up from over the past year, and but as I also referred to, the other half of it is growth that we are looking forward to in the months out as well as backfilling for these locomotive engineer trainees and so forth. So, there is a need to hire for our current business needs as well as hiring for the growth that's anticipated in the future, this year and on into 2012.

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**Wick Moorman** - *Norfolk Southern Corp. - Chairman, President and CEO*

Let me add one other things that occurs to me about 2004, and that is it was really only after 2004 that we began hiring and having significant number of trainees on the property. We went through a long period of time in our agreement workforce and our non-agreement workforce where we had relatively low attrition; and we're a company like every other company, we've got a lot of places where we have an aging workforce and have had that for the past 5 or 6 years, and we consciously decided in the 2004 and 2005 time frame that we had to try to get ahead of that curve. And, we're continuing to see that attrition, so at any given time we have several hundred more trainees on the property than we had in 2004.

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**Scott Malat** - *Goldman Sachs - Analyst*

Okay. Thanks. That's helpful.



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The only other thing is just on the premium intermodal volume, just the parcel and the LPL business, following up on that -- can you help us think about any sizing of this today and help us think about the opportunity there? Thanks.

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

Well, certainly, those are significantly sized markets with opportunity for growth for us. They represent companies like United Parcel Service and FedEx, both of whom have a very large base of business and an opportunity that's based on service performance.

**Scott Malat** - Goldman Sachs - Analyst

There's no way to help us just size that of intermodal? Is it material now or it's just pretty small now and it just has a good opportunity?

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

Well, it's material now, and it's certainly has a good opportunity as well going forward; as the pie chart shows in the presentation, it was 65,000 loads.

**Scott Malat** - Goldman Sachs - Analyst

Okay.

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

In the quarter.

**Scott Malat** - Goldman Sachs - Analyst

I missed that. Thanks.

**Operator**

Our next question comes from the line of Matt Troy from Susquehanna. Please proceed with your question.

**Matt Troy** - Susquehanna Financial Group - Analyst

I had a question reverting back to the coal volumes. Despite TFX doing better on the export side, you trounced them on the utility side; they're citing weather and stock piles. You don't seem to have those problems. Shifting through the noise, it seems you've taken some share. I was wondering if you can speak to that, specifically, on the domestic side, what that new business might look like and how sticky it might be?

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

As I mentioned earlier with respect to utility, we saw replenishing stock piles with existing customers. We also have a TBA plant at Kingston Tennessee that is ramping back up. It was down because of an operational issue with the fly ash spill at that location

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last year and we've had some modest share gains in a couple of other places, but the big drivers in the quarter is stockpile replenishment, number 1, and then a distant second, the ramping up of the TBA plant.

**Matt Troy** - *Susquehanna Financial Group - Analyst*

Interesting. So, despite being in the same region and serve similar, areas impacted by the same weather, your utility customers have lower stock piles?

**Don Seale** - *Norfolk Southern Corp. - EVP and Chief Marketing Officer*

As I mentioned, based on the data that we're looking at, about 30% of our utility receivers tell us that they would like to improve the level of their stock piles.

**Matt Troy** - *Susquehanna Financial Group - Analyst*

That's certainly a good news story for you folks.

Second question would be in terms of just -- you're CapEx budget, has that changed for the year and is the bonus tax depreciation leading you to pull forward any investment that may have been in 2012 or 2013 CapEx expenditure?

**Wick Moorman** - *Norfolk Southern Corp. - Chairman, President and CEO*

We are on track pretty well for our announced capital budget of about \$2.2 billion. Certainly, the bonus depreciation was something, at least a slight factor in our decision to buy a lot of equipment that we normally lease, but we've not pulled any substantial items forward from 2012 on account of it.

**Matt Troy** - *Susquehanna Financial Group - Analyst*

Okay. Thank you.

And two last quick ones. I know that there's some catch up across the industry in CapEx given what we've been through in the last 2 to 3 years. I was just wondering if you could give what a typical year once your catch up is done, what CapEx might look like on a run rate basis, either an absolute dollars for maintenance or just in a percentage of revenues? What should we be thinking about modeling in the out years?

**Wick Moorman** - *Norfolk Southern Corp. - Chairman, President and CEO*

Well, our out years for our out years, you should keep in mind that for the next few years, we have a couple of things that we'll be doing. One is obviously the extraordinarily large investment in positive train control, which we all have to undertake.

The second is that we have a substantial percentage of our coal fleet to replace over probably the next 5- to 7- year period. We're buying 1,500 coal cars this year, and that's just because the fleet is becoming life expired. With all of that said, over the long-term, we have consistently said and I think it's still a reasonable place to be, that we'll be somewhere around 15% of revenues plus or minus.



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**Matt Troy** - *Susquehanna Financial Group - Analyst*

Okay. That's excellent.

And, and the last question was, I appreciate your comment earlier in the confidence when you said that you were continuing to lower your OR as well as anyone else in the industry. I just want to level set expectations, because you did have a settlement this quarter. When we think about the seasonality and the flow through the year, should we be using the 74.9% OR as the true OR to use as the basis 1Q OR? Fuel is going to be what it's going to be but ex- the settlement is the 74.9% number a good number to base off and expect improvement going forward, ex- fuel?

**Wick Moorman** - *Norfolk Southern Corp. - Chairman, President and CEO*

Well, I -- the wild card -- let me just say this, the wild card is fuel, because it's hard for me to say it's 74.9% when we had, as Jim pointed out, also a significant lag effect. If you normalize that out, it's a lower number, but I would just suggest that as you look at our operating ratio and look at our operating ratio trends through past years, we expect to consistently lower the operating ratio year over year on a quarterly basis, ex- the items that we really don't have much control over like fuel or an arbitration award or something else that comes along.

**Matt Troy** - *Susquehanna Financial Group - Analyst*

Understood, and congrats on a great quarter, guys. Thank you.

**Michael Hostutler** - *Norfolk Southern Corp. - Director, IR*

Thanks.

**Operator**

Our next question comes from the line of Gary Chase with Barclays Capital. Please proceed with your question.

**Gary Chase** - *Barclays Capital - Analyst*

Hey, everybody.

Just a quick one for Mark. I just want to verify. When you spoke about the 1,100 heads, that's a net number, right, and presumably a bit fluid based on whether or not these volumes you've been talking about for 2012 materialize or whether you have line of sight for necessities as we approach year-end? Is that fair?

**Mark Manion** - *Norfolk Southern Corp. - EVP, COO*

That's right Gary. That's a net number and that does put us about equal where we were in 2008; and also keep in mind that we've got some flexibility here. If we see we need to pull back on that, we can do that. The people that would be coming out -- that would be with us, for example, on your chart there in the fourth quarter, they're not even in training yet. Some of those people aren't even hired yet, so we've got flexibility to adjust if we need to.



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**Gary Chase** - Barclays Capital - Analyst

And just switching gears, Don, when you talk about the mix shift toward some of these southern utilities in that coal line, would it be possible to describe that as dramatic? Was there something unusual that happened in the fourth quarter because this is very difficult to get from the fourth quarter yield numbers to the first? Is it really feasible to believe that that was driven largely by that mix shift that you described or no?

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

Gary, there was no dramatic changes in the first quarter with respect to our utility base. Bottom line is that we handled 13% more volume, year over year. We had our southern utilities taking more coal and our coal suppliers were mining and shipping that coal to them, so we had the perfect situation of increasing our longer haul southern based utility coal.

**Gary Chase** - Barclays Capital - Analyst

And not a dramatic shift from where you were in the fourth quarter, right?

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

I will tell you that we did a better job handling the coal in the first quarter than we did the fourth quarter.

**Gary Chase** - Barclays Capital - Analyst

Okay.

And then, just when you noted the capacity being tighter across the number of markets -- I don't typically think of this business as one where you can immediately monetize those types of conditions. Am I wrong in thinking that? And if not, does it mean that you think there's more upside as we move through the year?

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

I think that as we move quarter to quarter, and we've seen a tightening in transportation capacity since 2009 when capacity was taken out, as the economy continues to improve and freight demand ramps up each quarter, there certainly is an opportunity for us to realize additional value from our transportation product in each quarter. We have about 68% of our book of business priced for 2011, so we have remaining business to be priced and we expect transportation demand and capacity to both sort out in the subsequent quarters for the rest of the year in a tighter fashion for supply.

**Gary Chase** - Barclays Capital - Analyst

And you think there's opportunity on that remaining 30 odd %?

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

We do.

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**Gary Chase** - Barclays Capital - Analyst

Okay. Thanks everybody.

**Operator**

Our next question comes from the line of Walter Spracklin from RBC Capital Markets. Please proceed with your question.

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

Thanks very much. Good evening everyone.

Wick, you mentioned that you're going to keep up the (inaudible) on the operating ratio discussion that you had and you said you're going to keep up with and do better than any of the other competitors. And, just so we understand and we're framing this in the right context, there's -- all of them do have fairly aggressive targets out there in the next, call it 2 -- 3 to 5 years. Is that what you're talking about? Are you -- obviously you're aware of those. Are those comments made in the context of those operating ratio targets?

**Wick Moorman** - Norfolk Southern Corp. - Chairman, President and CEO

Well, I'll say this. We certainly know what other people say about operating ratio goals, and we're competitive people, and it's -- we're going to work very hard to make sure that we don't fall behind others in what we're achieving in the industry.

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

Okay.

And second question, very quickly. I know it's been a long call here. Back on the domestic local intermodal business, obviously you're getting some really good growth here. Your investments seem to be paying off quite nicely. My question is, is it coming in quicker than you would have expected? Is fuel causing that to come on to your network convert from road to rail a little quicker than you're expecting and is that a sticky business?

In other words, if fuel comes back down, how, have you had some discussions with those customers that might be impressed with the service and more likely to stick around even if fuel prices come back down?

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

We're finding a pervasive interest in highway conversion to intermodal from a sustainability perspective, from an overall cost perspective, but also from a service and supply chain support perspective. So, fuel certainly is a component of it, but we see an ongoing building momentum in domestic intermodal demand as more and more customers are looking to that product as a fundamental shift in their supply chain support.

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

It's a great story. Okay. Thanks very much guys.



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**Wick Moorman** - Norfolk Southern Corp. - Chairman, President and CEO

Thank you.

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**Operator**

Our next question comes from the line of Ken Hoexter from Merrill Lynch. Please proceed with your question.

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**Ken Hoexter** - BofA Merrill Lynch - Analyst

Great.

Wick, and the follow-up on your earlier operating ratio commentary and your competitive nature I like those comments, but if you step back, was there a change in how you would address pricing in the quarter or have you adjusted with your sales force anything because it seems your pricing accelerated pretty significantly? You were the fastest on pricing with -- amongst all the rails this quarter, so I just want to see if there was something you put to the sales force to go chase that?

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**Wick Moorman** - Norfolk Southern Corp. - Chairman, President and CEO

Ken, I'll just say that we have maintained a consistent philosophy on pricing all along. We price to the market in every instance that we can. As you know, we've discussed over the past few quarters that there are a lot of moving parts in our business, and because of that, we have opted and I think rightly so that we -- over the long-term revenue per unit is as good an indicator of where the industry in our business is going as any, but we haven't changed our philosophy about pricing at all.

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**Ken Hoexter** - BofA Merrill Lynch - Analyst

It just seems odd, because the last couple quarters, maybe the last 2 quarters it seemed like you were maybe trailing the group average on that metric, and so you're suggesting that it's more mix changes or --

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**Wick Moorman** - Norfolk Southern Corp. - Chairman, President and CEO

Ken, one of the things that you always have to remember, Don has pointed out many, many times, is that pricing -- we maintain a consistent philosophy on pricing, in pricing the market. Pricing opportunities vary depending on timing. There are all kinds of things going on, but I can assure you -- Don, looking at me nodding his head -- that we always have and always will price to the market.

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**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

Ken, that's the basis and we have had no change in our philosophy or our approach in the market. As I pointed out, we are seeing the market change and we have seen it devolve over the last 3 to 4 quarters as demand has increased and supply of transportation has tightened, but we haven't changed our approach within that environment. We're just pricing to the market, taking advantage from an opportunity where it exists for our service in the marketplace.

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**Ken Hoexter** - BofA Merrill Lynch - Analyst

Okay.



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Let me jump to -- same thing on volumes. You've moved, oddly enough, in the same quarter to the head of the group in terms of pricing strength as well as on volumes. To a question earlier it seemed to be just asking solely around coal, but are there some share shifts going on overall within the -- within your commodity mix? In other words, do you think you're gaining some share that's leading that or is it just back to your service provision as --

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**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

Well, certainly first and foremost it's all about the value of the service in the market place. Secondly the big share shift that's taking place is from a highway to our intermodal service, and third, we're working very closely with our customers to collaborate with them on the best way to support their business plans and their supply chain requirements. We've always done that, though that's not a change in our strategy. We'll continue to do that going forward.

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**Ken Hoexter** - BofA Merrill Lynch - Analyst

Okay. Thanks. I appreciate the time.

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**Operator**

Our next question comes from the line of Chris Ceraso from Credit Suisse Group. Please proceed with your question.

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**Chris Ceraso** - Credit Suisse - Analyst

Thanks good evening.

Just a couple questions. I think you mentioned a couple quarters ago that you had picked up some very short haul. I think you called it project business. I'm not sure if that was just in the coal franchise or in other commodities. Has that run its course or is that still with you?

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**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

We still have quite a bit of that, and as you'll recall that I mentioned in the remarks today, that our domestic metallurgical coal is good example of that. It's good business for us, but it's shorter haul, a lot of it goes to the river, lower ARPU business. It was up 36% in the fourth quarter. It was down this quarter, so those are the kind of moving parts that we have in the business and there's not much rateable volume in each market that will be the same each quarter.

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**Chris Ceraso** - Credit Suisse - Analyst

How much longer does that -- is this the typical annual contractor? How long does that run?

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**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

Chris, how long does what run?

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**Chris Ceraso** - Credit Suisse - Analyst

The business, this project business that you won that's shorter haul?



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**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

Generally for a 12-month cycle.

**Chris Ceraso** - Credit Suisse - Analyst

Okay.

And then just a question for Wick, you brought up the topic of the hearings and the STB. Outside of an actual change in legislation, what is it exactly that you're concern the STB might do that might make life more difficult to you? What sort of bounds do they have to make changes if the laws don't change?

**Wick Moorman** - Norfolk Southern Corp. - Chairman, President and CEO

Well, they have, they do have certain bounds and they -- any changes they've made would be made over some period of time, but within their regulatory purview, they have the ability to make changes in our regulatory structure. And, so it's something, as I say, that causes us some concern and we're going to watch that very closely.

**Chris Ceraso** - Credit Suisse - Analyst

Okay.

Is this definition of types of traffic or anything specific that you're concerned about?

**Wick Moorman** - Norfolk Southern Corp. - Chairman, President and CEO

Well, there are a number of different changes that one could hypothesize about. As you know, they just had a hearing about exemptions, and this will be around general competitiveness issues. The STB has a fair number of components of our business that they regulate, so we will watch with interest what they do.

**Chris Ceraso** - Credit Suisse - Analyst

Okay. Thank you.

**Operator**

Our next question comes from the line of Jason Seidl from Dahlman Rose. Please proceed with your question.

**Jason Seidl** - Dahlman Rose & Co. - Analyst

Evening gentlemen. I'll try to keep this quick.

You guys mentioned there was a bunch of transloading going on the 53 footers. We've seen a shortness in this type of equipment before. Could you talk to where we are right now with 53 feet domestic equipment capabilities?

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**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

Well, coming off last year, Jason, when a lot of buyers of containers, domestic 53-foot containers, could not get the boxes built in China nor could they get those boxes delivered, we're seeing a better supply of 53-foot boxes this year as those deliveries from China take place. So, we have seen some of our intermodal partners increase their domestic fleet, and as we pointed out in our capital discussions in January, we are also taking delivery of some additional 53-foot containers and supporting chassis this year.

**Jason Seidl** - Dahlman Rose & Co. - Analyst

Now when do you think those will hit your network.

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

We are already receiving some of those boxes.

**Jason Seidl** - Dahlman Rose & Co. - Analyst

Okay. Very good.

My next question also stays on the intermodal side. We talked a little bit about this new FedEx business. Can you talk about the impacts on the ARPU, the FedEx business has had in your intermodal business? Is that going to be positive, negative or is it a wash?

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

It's just beginning and its ramping up, so the impact at this point is immaterial, but --

**Jason Seidl** - Dahlman Rose & Co. - Analyst

Is it shorter length of haul business?

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

Pardon me?

**Jason Seidl** - Dahlman Rose & Co. - Analyst

Does it have a shorter length of haul than your typical intermodal or no?

**Don Seale** - Norfolk Southern Corp. - EVP and Chief Marketing Officer

No, it will have a slightly higher ARPU than the base, because it's domestic and longer haul.



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**Jason Seidl** - *Dahlman Rose & Co. - Analyst*

All right. That's all I have. Thank you very much for all the color today.

**Wick Moorman** - *Norfolk Southern Corp. - Chairman, President and CEO*

Thanks.

**Operator**

Our next question comes from the line of Jeff Kauffman from Sterne, Agee. Please proceed with your question.

**Jeff Kaufman** - *Stern, Agee & Leach - Analyst*

Thank you. I know it's been a long call, so thank you for taking my question.

Don, I want to follow up on a question Ed Wolf asked and something we hit on before. The sequential increase on the coal franchise -- on basically flat utility volume, it looked like RTMs were up \$1.2 billion. Can you just give me an idea of how much of that 1.2 was attributable to the utility coal? And since it's kind of flat tonnage, I can get an idea of the length of haul impact here, because your length of haul sequentially was up about 20 miles and that is a pretty big jump, fourth quarter to first.

**Don Seale** - *Norfolk Southern Corp. - EVP and Chief Marketing Officer*

Well, the overall increase in utility was up 13% in loads, quarter to quarter.

**Jeff Kaufman** - *Stern, Agee & Leach - Analyst*

Yes.

**Don Seale** - *Norfolk Southern Corp. - EVP and Chief Marketing Officer*

And of course, our export coal was up 25%, as I indicated. The moving part in utility that was favorable on length of haul was that we had an increase in our southern utility business that was up greater than the increase in our northern utility business, which is shorter haul.

**Jeff Kaufman** - *Stern, Agee & Leach - Analyst*

Okay.

Don, I'm sorry. When you're talking about that 13%, you mean year on year? Correct? I'm talking quarter to quarter.

**Don Seale** - *Norfolk Southern Corp. - EVP and Chief Marketing Officer*

That's year over year, not sequentially, versus the first quarter last year.



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**Jeff Kaufman** - *Stern, Agee & Leach - Analyst*

Okay.

So, if I go back to first quarter last year, it's about 1.8 billion ton miles difference. I can figure out how much utility tonnage is up, but how much of the ton mile change was utility related versus other?

**Don Seale** - *Norfolk Southern Corp. - EVP and Chief Marketing Officer*

I don't have that number in front of me, but we can certainly check it.

**Jeff Kaufman** - *Stern, Agee & Leach - Analyst*

Okay. I'll follow-up offline with that.

And then 1 final question and I'll leave it be. About a 10% increase in REV for RTM sequentially. Normally, it's a little closer to 5%. Is it fair to say the difference between 5% and 10% is the repricing between the 3 to 4 utility contracts we spoke about earlier?

**Don Seale** - *Norfolk Southern Corp. - EVP and Chief Marketing Officer*

No, I wouldn't be that precise. The utility contracts that we repriced January 1 were not large contracts.

**Jeff Kaufman** - *Stern, Agee & Leach - Analyst*

Okay. So, there's more to it than that.

**Don Seale** - *Norfolk Southern Corp. - EVP and Chief Marketing Officer*

Yes.

**Jeff Kaufman** - *Stern, Agee & Leach - Analyst*

Listen, congratulations terrific quarter, and thank you, guys.

**Wick Moorman** - *Norfolk Southern Corp. - Chairman, President and CEO*

Thank you.

**Operator**

Our last question in the queue comes from the line the Donald brought even from Avondale partners. Please proceed with your question.



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**Donald Broughton** - *Avondale Partners - Analyst*

Well, I guess last, but not least. I'm the caboose. (Laughter)

I know you don't run them anymore, but that said, fuel has gotten to a price -- diesel has gotten to such a price that you're seeing shorter and shorter and shorter lengths of haul converted to intermodal, and certainly that's a bigger and bigger -- as you know, the demand curve is (inaudible) not really linear. Is there a point at which you change your thinking in your equipment that you run fewer, are willing to run more flats? I know so much of your investment in these corridors has been on driving double stack volume. Is there a point at which there's so market share available, you're willing to add more flats to your system?

**Don Seale** - *Norfolk Southern Corp. - EVP and Chief Marketing Officer*

Don, first and foremost in the intermodal market, double stack technology is in our view the way to go with respect to the ultra short haul market, and a good example of that is Savanna to Atlanta, with our international business coming through the port of Savanna, a little over 225 miles in the haul. And, running a 10,000-foot double stack clean train is the way to go about that to compete and also to generate the margins that we're seeking, so double stack first and foremost; we never say never with respect to adding platforms for trailers.

**Donald Broughton** - *Avondale Partners - Analyst*

Yes.

**Don Seale** - *Norfolk Southern Corp. - EVP and Chief Marketing Officer*

If the money is there and the market evolves to that point, we're certainly not ruling that out.

**Donald Broughton** - *Avondale Partners - Analyst*

Thank you for your patience, in answering all our questions and congratulations on a good quarter.

**Wick Moorman** - *Norfolk Southern Corp. - Chairman, President and CEO*

Thank you, Don.

**Operator**

There are no further questions in the queue. I'd like hand the call back over to management for closing comments.

**Michael Hostutler** - *Norfolk Southern Corp. - Director, IR*

Thanks for your patience, and thanks for all the good questions. We look forward to talking to all of you in the next quarter.

**Operator**

Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time and have a wonderful day.



Apr. 27. 2011 / 8:30PM, NSC - Q1 2011 Norfolk Southern Corp Earnings Conference Call

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