FINAL TRANSCRIPT

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PRESENTATION

Operator

Greetings and welcome to the Norfolk Southern Corporation first quarter earning conference call. At this time all participants are in a listen-only mode. A question and answer session will follow the formal presentation . (Operator Instructions). As a reminder, this conference is being recorded.

It is now my pleasure to introduce Norfolk Southern Director of Investor Relations, Leanne Marilley. Thank you, Ms. Marilley you may begin.

Leanne Marilley - *Norfolk Souther Corporation - Director of IR*

Thank you and good morning. Before with begin today's meeting I would like to mention a few items. First we remind our listeners and Internet participants that the slides of the presenters are available for your convenience on our Web site at NSCorp.com in the investor section. Additional MP-3 down loads of today's meeting will be available on our Web site for your convenience. As usual transcripts of the meeting also will be posted on our Web site and will be available upon request from our corporate communications department. At the end of the prepared portion of today's call we will conduct a question and answer session. At that time, if you choose to ask a question, an operator will instruct you have to do so from your telephone keypad.

Please be advised any forward-looking statements made during the course of this presentation, represent our good faith judgment as to what may occur in the future. Statements that are forward-looking can be identified by use of the 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 our control. Please refer to our annual and quarterly refers filed with the SEC for a discussion those risks and uncertainties we view as most importantly. Additionally keep in mind that all references to reporter results excluding certain items such as non-GAAP numbers have been reconciled on our Web site at NSCorp.com in the investor section.

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

Wick Moorman - *Norfolk Southern Corporation - Chairman, President, CEO*

Thank you Leanne and good morning everyone. It's its my privilege to welcome all of you to our first quarter 2009 analyst cost. I'm joined today by several members of our management team include Mark Manion, our Chief Operating Officer, Don Seale, our Chief Marketing Officer and Jim Squires, our Chief Financial Officer. We also have with us [Jake Allison], our Vice President and Controller, Rob Kessler, our Vice President of taxation, Marta Stewart, our Vice President and Treasurer and Frank Brown, our Assistant Vice President of Corporate Communications.

While, as I mentioned during our January meeting we began the year facing business conditions as challenging and uncertain as any we have experienced. Our first quarter results were clearly under considerable pressure as volumes declined an unprecedented 20% year over year and revenues fell even further by 22% year over year. However, we were able to mitigate much of the negative impact through aggressive cost control as operating expenses declined 19%. The result was first quarter railway operating profit of $383 million which was 34% below last year.

Earnings Per Share were down 38% year over year. And not surprisingly our first quarter operating ratio also came under pressure, increasing 3.4 percentage points over the comparable period last year to 80.3%. Against this tough economic backdrop we are focused on those things that we can control, reducing our costs while continuing to enhance our service product and the safety and efficiency of our operations. Mark Manion will be discussing our cost reduction initiative and service performance a little later.

But before I turn the podium over to Don Seale, let me say that while I expect our results for the next few months to continue to be under considerable pressure, I am confident that we will emerge from the current economic downturn as the preferred transportation solution. The fundamental drivers of our success in recent years remain in place. And we continue to manage for the long-term despite near term economic uncertainty. We are confident that our volumes will resume growing as the economy rebounds and new industrial development projects come online. And we will be strategically positioned to attract and handle that growth. In the meantime we will continue to exercise cost discipline, improve service quality, and pursue new business opportunities and franchise enhancements.

I will now turn the program over to Don who will provide additional details about our revenues, followed by Mark who will review our first quarter operations, Jim Squires will then discuss our financial results. I'll will close with some comments about the challenges and opportunities before us and then we will take your questions. Don?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

Thank you, Wick, and good morning everyone. During the first quarter the ongoing recession continued to depress transportation demand as low tech industrial production reached its lowest point since the third quarter of 1994, accompanied by weak consumer spending and international trade. With this unfavorable economic environment revenue for the quarter was $1.94 billion, down $557 million or 22% below the same period last year. This decline was driven by a 20% reduction in volume which I'll address in a moment, coupled with lower fuel surcharge revenue.

For the quarter fuel related revenue was down $226 million versus 2008 and represented approximately 41% of the overall decrease in revenue. This decline was partially offset by a $10 million positive lag effect for fuel, which partially offset volumes and fuel revenue declines. With respect to yield as depicted on slide three, three of our seven business units posted year over year RPU gains despite lower fuel revenue and the effects of a downward adjustment in the rail cost adjustment factor which is contained in certain coal contracts. In total, revenue per unit reached $1335.00 falling $32 or 2% below the first quarter of 2008.

Gains in agriculture and paper were driven by improved pricing and a more favorable mix of longer haul traffic in the quarter. The remaining business units saw lower revenue per unit driven by declining fuel surcharge revenue and a negative mix effect in the form of reduced volumes of higher rated commodities such as coil steel, plastics, chemicals and auto parts. And finally overall yield improvement of 7% was realized from a combination of price and traffic mix.

Now turning to volume and shown on the next slide in the face of gale force economic headwinds we experienced declines across our book of business. Total volume in the quarter reached 1.5 million units, down 372,000 loads, or 20% below the first quarter of last year. Reduced consumer spending, plant closures, production curtailments, falling international volumes and increased truck competition were all major contributors to the decline.

On a more positive note revenue ton miles handled in the quarter declined by 18% compared to the 20% unit decline reflecting increased pay loads in coal and other bulk commodities. International related volumes continued to feel the impact of the global recession with export volumes down 31%, principally driven by weakness in export coal, grain pulp board, and kaolin clay. And import volumes declined by 33% in the face of weakened consumer demand.

Now transitioning to our individual business groups, coal revenue reached $602 million for the quarter, down $60 million or 9% compared to first quarter last year. Revenue per car of $1581 was up $30 or 2%. Improved pricing and fewer short haul movements were sufficient to offset lower fuel related revenue and downward RCAF contrast adjustments in the quarter.

As shown in slide six total coal volume fell by 11% in the quarter as business across all segments of the market softened. Utility volume declined by 7% due to a 3% drop in electricity demand and several power plant outages. For example power unit outages at two southeastern utilities alone reduced volume by approximately one million tons in the quarter. And a six-year low in natural gas prices pressured coal burn at certain utility plants.

During the quarter, metallurgical coal volumes were down 26% both domestically and for export to Europe. Major reduction in steel output in the US and Europe which was down 53% and 43% respectively drove these lower volumes. And finally central app coal production fell by 6% during the quarter led by the temporary closure of two primary met producers that we serve.

As shown in slide seven intermodal revenue for the quarter reached $366 million down $120 million or 25% from the same period in 2008. Revenue per unit of $604 fell $52 or 8% compared to first quarter of last year, driven primarily by a significant decline in fuel surcharge revenue. Additionally RPU was effectively impacted by a volume decline in higher RPU triple crown traffic as well as an unfavorable mix change as we handled less long haul transcon business and more local domestic intermodal business east of the Mississippi River.

Intermodal volumes as shown in the next slide were down 18% compared to first quarter 2008. Excess trucking supply and resulting truck competition impacted volumes across all of our business segments. This impact was most evident in volumes of triple crown which ended the quarter down 15% as a result of automotive plant closures and lower truck pricing. On the upside, domestic volumes increased by 2% as highway conversions and new service lanes helped partially offset economy driven declines in our premium segment. And declines in our international business continue to be driven by lower consumer spending and a week global economy.

Now turning to our carload business as shown in slide nine, revenue for our merchandise sector was $975 million, down $377 million or 28%. Recessionary weakness across the board resulted in a 29% decline in volume. On the plus side, revenue per car reached $2083 up $36 or 2% for the quarter driven by gains in agriculture and paper traffic.

Drilling down to the individual merchandise markets as shown on slide ten, agriculture volume fell 14% in the first quarter. Weakness in fertilizer demand and lower volumes of export corn and grain to midwest processors drove this decline. On the upside ethanol continued its growth trend as shipments increased by 14%. Paper, clay and forest product shipments were down 26% in the quarter as US paper production declined by 18%. In addition shipments of lumber and wood products declined by 33% in the face of the worse housing market since World War II. Offsetting some of these declines were new shipments of waste which began moving during the quarter from the Northeast to land fills in the South.

As shown on slide 12 chemicals volume fell 21% in the first quarter with lower production of basic chemicals and plastics as a result of depressed housing and automotive demand. Metals and construction volume declined 35% in the first quarter as lower domestic steel production resulted in two permanent plant closures and 16 idle blast furnaces in our service territory. On a positive note new scrubber stone shipments to coal fire power plans increased by 27% as four additional power plants completed scrubber installation over the past several months. And finally automotive car loads were down 48% in the quarter, driven by the automotive industries efforts to realign vehicle production with consumer demand. In that regard North American vehicle production of 1.8 million units was down 49% compared to the first quarter of 2008.

As we move along in the second quarter there are still no definitive signs of an economic turn around but speculation abounds that we may be approaching the bottom of the housing and automotive markets. If so these are two key economic components that could lead us to economic recovery just as they led to economic recession. In a more visible sense the agrifuels market will provide growth at Norfolk Southern for the balance of 2009 as new ethanol production and distribution terminals generate growth and inbound corn and outbound ethanol. We also expect continued growth in the construction and demolition debris markets and new shipments of municipal solid waste from the Northeast to Southeaster landfills.

With respect to our coal markets weakened global steel production will continue to suppress export and domestic met markets at least through the second quarter. Utility demand will continue to be affected by lower electricity production along with stock piles that are either at target or slightly above target levels. And natural gas prices below $4 per million BTU which are expected throughout the summer will also impact the utility coal market.

Within our intermodal markets as summarized in slide 16 growth from highway conversions in local domestic markets will continues to help us buffer the effects of the weakened international market. In that regard we are pressing ahead with our corridor initiatives and launching new services to expand market reach for both intermodal and carload traffic. I'll briefly highlight three of these new projects that saw substantial progress in the first quarter.

First as shown on slide 17, in February we along with our partners the Canadian National and West Tennessee railroad announced our latest initiative, The MidAmerica Corridor. This new corridor which stretches from Chicago and St. Louis to Corinth, Mississippi and beyond will provide shorter, faster routes for merchandise traffic between the Midwest and Southeast. Also new coal flows will be targeted over this corridor from the Illinois basin to NS served utility plants in the Southeast. And ultimately this new routing could support a new more direct service for intermodal between Chicago and the Florida markets.

With respect to the Florida market as shown on the next slide we launched a slate of new intermodal services between Chicago, Atlanta, Dallas, L.A. and Kansas City in our new intermodal terminal at Titusville, Florida which covers the Orlando and Tampa markets. This is a good shot of our new terminal in action with the March lodge of Space Shuttle from Cap Canaveral as a back drop. I guess you could say that we started this new service with a bang. And a third initiative the Pan Am Southern on slide 15 received required approval from the STB on March 10th and closed on April 9 which will allow to us proceed with our joint venture with the Pan Am railway to better serve the New England market. This new joint venture will include upgrades of the Corridor's main line to provide for faster and more reliable service along with new automotive, intermodal and carload transload terminals along the road. With projects like the MidAmerica corridor, our new Florida intermodal service and Pan Am Southern's expanded service into New England, when the economy does recover we plan to be ready to take full advantage of the opportunities that lie ahead.

Finally, I'll conclude my remarks by restating as we focus on launching new services and managing through a challenging economy we never lose focus on what our primary mission is all about. And that's providing industry leading service in the safest and most efficient manner possible at price levels that reflect the true value of that service. As we outlined our call in January we entered this year with 70% of our book of business priced for the year. At the end of the first quarter approximately 10% of the remaining book has been repriced at levels that reflect this overall value proposition. The remaining 20% of the book will be repriced mostly in the third and fourth quarters of the year.

Now thank you for your attention and I will now turn the program over to Mark Manion for our operations report. Mark?

Mark Manion - *Norfolk Southern Corp. - COO*

Thank you, Don, and good morning everyone. We continue to reduce costs aggressively and do it in a balanced way so we provide good customer service. I'll give you more detail on that but first let me bring you up to date with our safety performance.

As shown here on slide two, our safety process remains strong with initiatives in place for continued improvement. Our estimated injury ratio for three months in 2009 is .94. That is 19% lower than our first quarter last year which was a ratio of 1.16. Let's turn to our operations for the first quarter.

On slide three the green bars represent car loads for 2008. And you can see volumes were down about 20% in first quarter. Furthermore gross ton miles were down about 18%. With regard to the operating plan beginning on slide four. For road trains we reduced crew starts quarter over quarter by 14% and for yard assignments we reduced crew starts by 11%.

We will continue to monitor business conditions closely and we expect further reductions in crew starts being mindful that this business is not necessarily a business where volume reductions equate to an equivalent number of train starts. While you can take a certain number of trains out of the network you have to keep running some number of trains if you are going to maintain a scheduled operation and the level of service our customers want.

As we discussed in our last meeting we have some terrific tools which enable to us respond to changing traffic conditions with revised operating plans which reduced trains without adding additional equipment expenses or delays or any degradation in service levels. Clearly the amount of variable cost you can reduce depends largely upon the type of business. Coal and intermodal are the easiest to reduce variable expenses through the elimination of trains while merchandise tends to be the most difficult. Nonetheless we are continuing to scrub our train and yard plans on a weekly basis as we see changing traffic patterns.

In the first quarter our service metric shown on slide five improved significantly in terms of train performance, connection performance, plan adherence and of course our composite service measure. Train performance increased nearly 16% while connection performance and plan adherence increased to a lesser extent but from already exceptionally high levels.

Illustrating operating plan efficiency, slide six shows our car days per carload measure. Car days per carload represents the number of days involved in moving foreign cars through the load empty cycle on Norfolk Southern. While this calculation is specific to measure of foreign cars for which car higher is paid the velocity is generally indicative of all cars on the system. Despite a significantly reduced operating plan, car days per carload decreased quarter over quarter indicating an efficient and balanced plan.

Let me emphasize this point. Maintaining an efficient and balanced operating plan and then following it is of prime importance to us. One thing we are always mindful of is how easy it is to seriously impair the level of a railroad service and how hard it is to then restore that service. Following the operating plan is key to service and cost control.

This benefit is further illustrated when we turn to slide seven, car rental expense. As you may recall due to traffic flows Norfolk Southern is a net payer of equipment rents. Through a solid operating plan and strong execution we were able to manage rental payments to produce a net equipment rent reduction of $6 million. In addition to reducing our operating plan, we are also taking out our asset base as shown here on slide eight. We have about 32,300 cars in storage now and that represents roughly 28% of our fleet. Additionally as we see on slide nine we have what is now over 400 locomotives stored. This represents about 11% of our fleet.

Slide ten shows the total number of railroad employees for each of the last five months. As you can see beginning in November 2008 we have reduced employees in the wake of volume declines through furloughs and attrition. With regard to furloughed employees we have approximately 1200 total with about 1,050 coming from train and engine service, the balance are primarily mechanical employees as we have significantly curtailed our car repair programs. Additionally we have reduced over time expense 41% in the first quarter of 2009 and we will continue to take costs out wherever we can.

While we've reduced our employee count it's important to note the real savings comes from reduced crews starts and improving system velocity. Our T&E employees are essentially paid on an activity basis. So while we furloughed 9% of our T&E forces we don't think there's a good short term cost advantage to significantly increasing the T&E furlough pace. We will incur some additional costs in health and welfare benefits, but we think it's more expensive in the long run to let people go than have to hastily try and rehire them when business recovers. The result of this is some T&E employees aren't making as many trips and consequently not earning as much.

Turning to slide 11, going forward we will continue our focus on safety using the tools available to us, we will ensure the operating plan is correctly sized to the underlying traffic volumes and changing patterns. As we have to date we will approach the plan development in a balanced and customer focused framework, not just optimizing one or two elements to the detriment of the overall cost structure, but looking at it from a comprehensive perspective. And finally as our operating plan evolves we will make sure we have correctly sized our asset base to support it efficiently.

I thank you and turn the program over to Jim Squires. Jim.

Jim Squires - *Norfolk Southern Corp. - CFO*

Thank you, Mark. I'll now provide a review of our overall financial results for the quarter. Let's starts with our operating results. As Don described, railway operating revenues for the quarter were $1.9 billion, down $557 million or 22% compared to last year. Slide three displays our corresponding operating expenses which decreased by $362 million or 19% for the quarter. The resulting income from railway operations was $383 million, down 34%. The substantial decrease in revenues due primarily to lower volumes this quarter resulted in an increased operating ratio of 80.3.

Turning to our expense detail, this slide presents the major components driving the $362 million decrease. As you can see, all of our expense categories are down this quarter with the exception of depreciation, which reflects our ongoing investment in infrastructure. The largest reason for our overall expense decline was sharply lower fuel costs which decreased by $245 million or 61%. This reduction was a combination of lower usage and lower prices. Our consumption for the quarter declined commensurate with the 20% traffic volume decline Don discussed. And this consumption improvement accounted for approximately $70 million of the fuel expense decrease.

In addition lower fuel prices as illustrated on our next slide provided a $175 million benefit. This graph shows our average price per gallon for each of the last nine quarters. The $1.39 average price in the first quarter of 2009 was a 50% decline compared with the $2.79 price per gallon in the first quarter of 2008. The next largest expense decline was compensation and benefits which decreased $66 million or 9%. Slide eight presents the major components driving this change.

First, stock based and other incentive compensation fell $56 million, due largely to a $13 per share decreased in our stock price during the quarter, coupled with a $4 per share increase during the first quarter of 2008. As well as reduced performance relative to financial measures. Second, volume related labor was reduced by $47 million in the quarter. The reductions primarily reflect reduced train and engine crew hours and other labor in response to the lower volumes, as well as a significant reduction in overtime. Somewhat offsetting these reductions were higher wage rates up by $13 million reflective of the agreement pay increase that went into effect last July. Pension benefits increased by $10 million primarily due to reduced asset values. Also medical benefits for active and retired employees were up by $10 million.

Materials and other expenses decreased $40 million or 17%. Slide ten provides additional details to define this decrease. As you will recall last year we reached a legal settlement related to the January 2005 Graniteville accident. The absence of expenses related to this settlement and favorable personal injury and other loss and damaged claims development combined to result in a $29 million year over year expense reduction. The other large component of the decrease was a $12 million reduction related primarily to materials used in operations as we have aligned engineering and freight car material use to conform with lower traffic volumes. Other expenses include a mix of relatively small items.

Purchase services and rents decreased $20 million or 5% reflecting decreased volumes. Intermodal operating costs declined $14 million, transportation services comprised primarily of automotive related costs fell $7 million and equipment rents decreased $6 million. Partially offsetting these declines we incurred additional costs during the quarter preparing for positive train control requirements. And finally as reflected on slide 12, depreciation expense increased by $9 million or 5% reflecting both continuing investment in our network and equipment and the impact of higher replacement costs.

Now let's turn to our nonoperating items on slide 13. Corporate-owned life insurance contributed a net $8 million. In addition, coal royalties were up $6 million. All other nonoperating items were a net unfavorable of $4 million.

As illustrated on slide 14 income before income taxes decreased $193 million or 41% largely related to lower operating income. Income taxes for the first quarter were $106 million or an effective tax rate of 37.5% which compares with $185 million or an effective rate of 38.9% last year. Slide 16 depicts our bottom line results. First quarter net income was $177 million, a decrease of $114 million or 39%. Diluted Earnings Per Share were $0.47 which was $0.29 per share or 38% below last year.

Now turning to cash flows, cash provided by operating activities was down. However, free cash flow generated for the period was a positive $111 million. While we did not acquire shares this quarter dividends were up reflecting the $0.02 per share increase approved this year in January as well as the $0.03 per share increase approved in July last year.

As you will recall cash and cash equivalents at the end of 2008 were $618 million. This balance at the end of March was $884 million reflects in part the cash provided from our $500 million debt offering in January. Some of this cash was used to repay $200 million of accounts receivable borrowings in January. Subsequent to the quarter ends we repaid $400 million in term debt and we have no significant remaining maturities for the balance of the year.

And with that I will turn it back over to Wick.

Wick Moorman - *Norfolk Southern Corporation - Chairman, President, CEO*

Thank you, Jim. Well, as you've heard the first quarter posed some extraordinary challenging quarter for us. The word unprecedented is used a lot these days with good cause. And to give you a point of comparison our volume declines year over year of 20% compared to the 10% year over year declines we saw at the peak of the 1981, 1982 recession.

As I said earlier to successfully manage through this environment we are focused on effectively addressing current conditions while at the same time preparing for the future. As we address these challenges, we are following two basic principals. The first is obviously that we have to reduce costs whenever and however possible. As you know Norfolk Southern has a long history of effective cost control and we demonstrated our capability to respond quickly to changing traffic conditions in the past.

However, along with cost control we are keeping our other principal in mind and that is that we are not cutting costs in a way that will degrade our service products or customer service. Or that will have a significant negative impact on our ability to respond aggressively when economic conditions start to improve. When the economy rebounds, and it will, we will be ready to capture the maximum possible benefits.

An example of this thinking something our capital program for the year. We've identified about $125 million in reductions to our announced 2009 capital program. And we are planning on making those reductions barring a rapid economic turnaround. However, our revised 2009 capital spending forecast of $1.3 billion is still the third highest in our history. And will set the stage for future growth as well as keep our property in good operating condition.

Another example is the funding, both capital and expense for our Track 2012 initiatives. These projects focused on service, asset utilization, workforce productivity and fuel consumption, all have very solid returns and they will drive Norfolk Southern to the next level. We are fully funding all of them in 2009. As part of Track 2012 we are also looking at all of the other elements in our longer term cost structure including some of our staffing requirements to see where improvements can be made.

And as we focus on cost control we are also being careful not to pursue what will eventually be false economies. You will recall that at our last meeting we did discuss the potential for equipment costs to increase if service starts to slip. Mark showed you how we've been able to significantly reduce our equipment and crew costs while actually improving our service metrics; the result of the very disciplined and deliberate set of processes that we have in place to manage our network.

Additionally as Mark mentioned we've hired a lot of train and engine service employees over the past few years. Our models tell us that we are going to need them and the valuable institutional knowledge that they are acquiring to offset attrition in the near future. If we are going to be able to respond to increased traffic volumes in the economic recovery in the same way that we responded in 2003, we believe that it makes great business sense to keep as many of these people working as we can albeit at reduced pay levels.

Notwithstanding the current challenges the longer term trends point to freight railroads as the preferred way to move goods and relief highway congestion. Our long-term strategy remain the same that, an unwaivering emphasis on improving service and a continuing process to strengthen our franchise through strong industrial development and key partnerships with our customers and interline rail partners.

From a service standpoint we are consistently ranked as the best service provider in the industry by our customers as evidenced most recently by Toyota's awarding us their 2008 President's award for overall logistical excellence for rail carriers. It's Toyota's highest award for rail carriers and NS has captured the award six times in the past 13 years. At the end of the day we are a service Company and superior customer service will drive superior financial results.

From the standpoint of franchise enhancement as Don mentioned we closed last week on the Pan Am Southern, our joint venture with Pan Am Railway. This corridors improved access to the Boston market and its associated terminal facilities are very positive additions to our franchise as is the recently announced MidAmerican Corridor initiative with CN. These types of initiatives are going to set the stage for us to broaden our product and market reach and we believe they offer significant growth opportunities in future years. They also are great examples of the theme I touched on earlier; our willingness to continue to invest in the future.

Turning to our economic outlook we expect that there will be continued significant pressure on volumes across all of our major business groups in the second quarter. No one has any real idea when current economic conditions will improve or at what pace that improvement will occur. But our current best hypothesis is that we might see a bottom in the second quarter with some improvement in the second half. If for no other reason that a lot of stimulus money will be injected into the economy by that time. Let me be quick to add that this is just a hypothesis with little if any real data to support it but it does seem like a reasonable assumption at this time.

Looking beyond this year again the pace of economic recovery is very uncertain. But I will reiterate what we've already said and that is that we are confident in the long-term future of our Company and our industry. All of the factors that propelled our growth over the past five years are still there albeit somewhat overshadowed by the economic downturn. And now along with all of the other factors, the railroads advantage in terms of energy independence and carbon footprint are becoming more and more important in the considerations of many transportation buyers.

The greatest threat to our continued prosperity is the possibility of action in Washington, either legislative or regulatory which might change the economic framework under which we operate. A lot has been said recently about this so I will just say at a time when the rail industry has at last been able to produce turns modestly in excess of its cost of capital. And at a time when the overwhelming majority of the population and public policy leaders are interested in moving more traffic to the rails I find it ironic that a fairly narrow group of self interested companies has been able to progress this idea at all.

However I'm still optimistic that when the smoke clears common sense and sound public policy will prevail and our industry will continue to grow business and produce positive returns and positive outcomes for all of our key constituencies. When that happens it's our intention to keep Norfolk Southern in its role as an industry leader.

Thanks and I will now turn the program over to the operator, who will instruct our telephone participants how to ask a question.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator instructions). Our first question is coming from Ken Hoexter with Banc of America-Merrill Lynch. PLease state your question

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

Great. Good morning. Wick, just coming back to the export coal or maybe it's a Don question but we've seen such rapid decline in the export volumes. Do you get the feeling like we are still on that cliff and are still seeing them fall pretty rapidly? Have things started to stabilize at these new levels post the contract year? Can you talk a little bit about where we are in that process?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

Good morning, it's Don. Until we see some stabilization in steel making in Europe I don't think we will see export metallurgical coal pick back up. The Australian's settled at a lower price in Europe. They certainly are more competitive going forward after the April 1st settlement. But steel production or the lack thereof is still the big story in Europe.

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

Okay. What percent of coal within your region has switched over to natural gas? Is that more, is base load staying the same and you are seeing other switch? I just want to see what kind of percentage of your base is, or can you exposed to the swap to natural gas?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

Ken, we are seeing, we are certainly seeing gas below $4. It's about $3.50 per million BTU currently. We are seeing it compete on the margin at certain plants particularly in the Northern half of our utility universe. Some in South but more concentrated in the North. We can't give you a number in terms of the overall percentage but natural gas prices at these low prices certainly are competing with coal on the margin.

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

You gave fuel revenues of $226 million in the quarter. Can you give that for what it was quarterly last year?

Jim Squires - *Norfolk Southern Corp. - CFO*

Actually, Ken, this is Jim. Fuel surcharge revenue in the quarter was $94 million versus $320 million in 1Q 2008. So the variance was negative $226 million.

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

Okay. Can you provide what it is for through Q4 or have you given that each of the quarters?

Jim Squires - *Norfolk Southern Corp. - CFO*

That's been filed. The fuel surcharges and the comparisons are now on file with the STB. So which number are you looking for?

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

Okay. I will come back afterward then. Then last question I have is just on the traffic benefits from the Pan Am Southern and MidAmerican corridor. It seems like you get access to great markets particularly with Boston and the Northeast. Is that something you are already getting those revenues now with these investments you are looking to improve your flows by making more capital investments on those infrastructure or is this -- or does open up new markets for you directly?

Wick Moorman - *Norfolk Southern Corporation - Chairman, President, CEO*

We are already getting some of the benefits. We have had an agreement in place with Pan Am for some time to access the Boston market. What this initiative will allow us to do with allow us to do with the terminal capacity that will come with it both in the immediate Boston area and the new terminal we will be constructing at Mechanicsville is to open up some new markets with the Boston terminals themselves in intermodal and automotive and some other pieces of business that will be pursuing.

The new intermodal terminal at Mechanicsville will also allow us to substantially reduce operating costs. Because today we have to run a lot of service over a long-distance single stack and this will allow to us double stack that service all the way in and out of Mechanicsville and then just reduce the height to get through the Husic Tunnel on into Boston.

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

Okay. And then pricing on intermodal is that something that obviously with the trucks getting more and more competitive are you seeing that continue to increase with the excess capacity on the truck side? Obviously that was a big impact on the intermodal revenue side. Does that continue to get more aggressive? How aggressive are you willing to be to keep some of those volumes as opposed to letting them walk away?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

We are certainly seeing truck pricing fall right now with excess supply. We did have also a fairly significant fuel surcharge impact in intermodal for the quarter, about $46 million. So we are seeing truck pricing competitive and we are competing in the marketplace.

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

Great. Thanks for the time.

Operator

Our next question is coming from John Larkin with Stifel Nicolaus. Please state your question.

John Larkin - *Stifel Nicolaus - Analyst*

Yes. Good morning, everyone.

Wick Moorman - *Norfolk Southern Corporation - Chairman, President, CEO*

Good morning, John.

John Larkin - *Stifel Nicolaus - Analyst*

Just want to do get a handle maybe from Don on whether or not all this talk of inventory destocking is having a pronounced impact on the weak traffic volumes? And whether or not you believe that at some point here in the next quarter or two we may have destocked as far as we need to destock and you may see a bit of a rebound as we restock to a lower demand level.

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

Good morning, John. Certainly the destocking in the quarter. The sales, the inventory ratio of 1.43 did decline from 1.45 in February, from February to March. So but we are still seeing inventories relatively high compared to demand in automotive, steel, and some of the basic commodities. So we don't see that destocking turning around at least not what we've seen so far in the month of April.

John Larkin - *Stifel Nicolaus - Analyst*

Okay. And then as far as your base load same store sales increases on your carload traffic, I think previously you've guide to do something on the order of 5% to 6% exclusive of fuel surcharge. Is it fair to assume that your pricing came in roughly in line with those numbers?

Jim Squires - *Norfolk Southern Corp. - CFO*

As we indicated in the presentation, John, our yield in terms of combination of rate and mix was 7% for the quarter.

John Larkin - *Stifel Nicolaus - Analyst*

Okay. Thank you. And then lastly maybe one question on the Track 2012 initiatives which as I understand it is to to basically get the Company to a position where it can run in the 60's as far as operating ratio is concerned in good and bad times both. How is that tied to management incentives? And given the events of the last couple of quarters has it become necessary to kind of reset the timetable for the achievement of those objectives?

Wick Moorman - *Norfolk Southern Corporation - Chairman, President, CEO*

Well, we set a number of objectives in Track 2012. Clearly we set a total revenue objective. We set an OR objective. We first and foremost set a safety objective and then we set objectives tied to the four components that I mentioned. Service, delivery, asset utilization, workforce productivity, and fuel consumption. We've clearly had to rethink the OR and the revenue goals, given the economic times that we are living in, but we have not backed away from any of the goals in the specific projects that we are looking at.

We had some very good projects under way and we are planning on talking a lot more about them in June at our investors day meeting down in Atlanta. But in terms of the specific goals and the investments we are making in them we have not backed away. In terms of some of the over arching goals we are clearly not going to be able to achieve what we thought we might achieve a couple of years ago in terms of revenues given the recession that we are living through.

John Larkin - *Stifel Nicolaus - Analyst*

All right. Thank you very much.

Operator

Our next question is coming from Tom Wadewitz with JPMorgan. Please state your question.

Tom Wadewitz - *JPMorgan - Analyst*

Yes. Good morning.

Wick Moorman - *Norfolk Southern Corporation - Chairman, President, CEO*

Good morning, Tom.

Tom Wadewitz - *JPMorgan - Analyst*

Let's see, a question for Don. The mix effect, I guess you mentioned some I guess higher priced traffic that was weaker but you also said that RTM's were down less than carload. So it's unclear to me whether mix was positive or negative in the quarter. Can you give us a sense on that?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

Good morning, Tom. Tom, mix was negative by $40 million in the quarter.

Tom Wadewitz - *JPMorgan - Analyst*

Okay. Negative by $40 million. All right. In terms of the view on pricing do you think there's been much of a change? I meanyou've got most of your contracts locked in for this year. What's your view on the way pricing has changed? It seems like your pricing has stayed pretty firm and that that's pretty like to the continue to come in well through the year. And the yield weakness in terms of revenue per car being down is really the driven largely by the fuel surcharge and little mix. Is that a fair way to think about it or is there any kind of change that's notable on pricing?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

The way you just summarized it is a very fair way to look at it.

Tom Wadewitz - *JPMorgan - Analyst*

Okay. All right. Good. That's helpful. On the approach on cost reduction, I think Marks comments were pretty helpful in the way you are approaching that. The, in terms of headcount and so forth. How do we think about the cost per worker going forward and how much of that is sustainable? If you do it through cost per worker reduction instead of lower head count that's fine and that seems like a reasonable approach. But it also seems that if you are taking head count down, that would be more sticky whereas the cost per worker could be pretty variable in a given quarter. How would you view that is that decline in cost per worker going to be true in the next couple of quarters as well?

Mark Manion - *Norfolk Southern Corp. - COO*

Well, good morning, Tom, this is Mark. What we will see going forward is that we continue to have initiatives to reduce our expenses. Clearly there are more locomotives that we will be taking out of the system. That's an ongoing thing. Pretty good number as we go forward. That of course will reduce fuel costs. It will take material costs out. It will take personnel costs out.

We continue to size our operating plan. As we do that we have personnel reductions that surround that as well. And we've got cost reduction initiatives going on in our engineering area as well. So we will see overall costs reduced further. We will see personnel costs reduced further and that plays to more efficiency as far as our cost per person.

Wick Moorman - *Norfolk Southern Corporation - Chairman, President, CEO*

Tom, let me give you a little more color on that too in terms of why we are thinking the way we are thinking. And that is that our 2007 and 2008 attrition rate in our T&E workforce was running between 8% and 9%. And it may back off just a little bit this year but it's still, we are still attriting people out at a fairly high rate and that's to some extent due to the demographics of our workforce. So we are trying to kind of think about how to manage through this attrition.

And building on the point Mark has been making, particularly in the T&E workforce there has to be enough work out there so that people on the boards can get some number of turns and make some amount of money, a living wage if you will. But we pay people in T&A on an activity basis. So in terms of our T&E headcount the best way we know to manage it is just manage crew starts and then we will sort out how many people we can keep employed for the level of activity we have. So that they can still make a reasonable wage albeit a some what reduced wage.

Tom Wadewitz - *JPMorgan - Analyst*

Right, okay. I appreciate that seems to make a lot of sense. One last one for you, Wick, and I will pass it along. Obviously the legislation issues in D.C are a significant focus, significant interest to investors. What's your view about something getting done versus not getting done? Do you think it's at this point -- has your view evolved that there will be rail legislation and you kind of try to shape it the best way you can or do you think it's still significant uncertainty as to whether something actually gets done in terms of new rail legislation?

Wick Moorman - *Norfolk Southern Corporation - Chairman, President, CEO*

As you know, Tom, as all of you know there's a lot of conversation going on about this right now and I really don't want to talk too much about some of the discussions. I would say that my best view is that there is still some significant uncertainty as to whether or not any legislation emerges. However, I would say that the whatever the probabilities are they are higher this year than they were last year that we might see something legislatively.

And that's why we have been engaged as an industry in a lot of discussions on the hill presenting our economic case as to why the industry framework works today and needs to remain essentially in a fashion where it will work for us in the future to sustain investments, sustain employment, and do the things that we think the American public and policy leaders want to do. And I am optimistic as I said earlier that at the end of the day that if legislation emerges that is we will get legislation that allows us to continue to be profitable and to grow.

Tom Wadewitz - *JPMorgan - Analyst*

Right. Okay. Great. Thank you for the comments. Thanks for the time.

Operator

Our next question is coming from Walter Spracklin with RBC Capital Markets. Please state your question.

Walter Spracklin - *RBC Capital Markets - Analyst*

Thanks very much, good morning, guys.

Wick Moorman - *Norfolk Southern Corporation - Chairman, President, CEO*

Morning.

Walter Spracklin - *RBC Capital Markets - Analyst*

Just on the pricing just to make sure I understand you mention that you had $40 million mix impact but 7% overall yield improvement. Is that to suggest that your base pricing was up around 7%?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

That's correct.

Walter Spracklin - *RBC Capital Markets - Analyst*

Okay. On the cost reduction, Wick, you did a real good job here of emphasizing the importance of not cutting too much too quickly. As we look forward to focus on the turn in the economy, what are the biggest challenges for you as an organization when we do start to see volumes come back?

You mentioned that you didn't want to bring costs down as much but in other calls there's been less of a focus that you placed on it than in this one in terms of being balanced and moderate in your cost reduction initiatives. Can you talk to us a bit about what are the most difficulties or the most difficult things to bring back on? What are the big challenges that you have when you see volumes come back and then particularly if they come back quickly?

Wick Moorman - *Norfolk Southern Corporation - Chairman, President, CEO*

Well, if volumes were to come back very quickly as we continue in our current initiatives to reduce headcount and cut costs and I would say that I think -- let me say parenthetically I think that if you kind of look at the overall numbers we did I think a strong job in the first quarter of reducing headcount particularly if you just kind of get past this one number what have percentage of people were furloughed. Because as we believe that's not the appropriate number to look at. But your question is a good one and one we think about a lot.

Clearly the biggest issue is probably calling back people that have been furloughed and getting the people in place to run the trains and maintain the locomotives, pulling locomotives out of service. But our goal in all of this is to take out cost in a deliberate manner, but to take out costs that reflect our volume declines to the extent we can. But always with the mindset that if volumes do start to ramp up quickly we are able to respond without undue strain or undue damage to our -- the service delivery to our customers.

Walter Spracklin - *RBC Capital Markets - Analyst*

Yes that, makes a lot of sense, just one more question and pass it on is on pricing. And, Don, perhaps you could talk to us about a bit about the renewal pricing you are seeing in the current environment today? Clearly push back is always going to be evident in negotiations but are you seeing or having to take not as much pricing as would you normally have taken because of some of the difficulties your customers are having? And perhaps can you give us a sense of what your 2010, 2010 book is in terms of how much of that is completed for 2010?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

Well, I won't go out to 2010 but in the first quarter the 10% of the additional book that we priced we were able to realize prices that were in line with what we think the services were for the marketplace as we look across modal competition. Certainly the deliberations and negotiations are more difficult in today's environment. We are working very closely though with our customers trying to put together packages that support their requirements and service needs while at the same time generating the proper price and return for what we see as very good rail service.

Walter Spracklin - *RBC Capital Markets - Analyst*

Is it safe to say you got very good cost inflation, you covered your cost?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

We were satisfied with the 10% we repriced in the first quarter in line with the yield improvement that we've been discussing with you quarter to quarter.

Walter Spracklin - *RBC Capital Markets - Analyst*

Good. That's great. Thanks for the color, guys.

Wick Moorman - *Norfolk Southern Corporation - Chairman, President, CEO*

Thanks.

Operator

Our next question is coming from Randy Cousins with BMO Capital. Please state your question.

Randy Cousins - *BMO Capital - Analyst*

Good morning. Don, I wonder if you could talk a bit about customer retention. You've had in Q3 and Q2 of last year had you extraordinarily strong growth in your traditional truckload business. How many of those customers have you held on to? I guess as a corollary question you opened up the [Rickenbacker] last year. How is that facility performing? What kind of volumes are you pumping through it?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

Rickenbacker has surpassed our expectation since we opened it last March, a year ago, a little over a year ago. It's doing quite well. Our domestic intermodal in the quarter was up 2% which offset a lot of moving parts but we still see strong conversion opportunities and strong conversion execution on our local intermodal business East of the Mississippi with our key truckload partners. So even though the truck market is tougher, there's no doubt about that, we are continuing to see conversion into the new service delay, service lanes that we've opened. New terminals that we've opened like Rickenbacker but also our overall service product in conjunction with our truckload partners is quite good.

Randy Cousins - *BMO Capital - Analyst*

And in terms of further retention for the new customer that you signed up last year, have you retained 80% of them, 90% of them, 100% of them?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

We have retain a good high percentage. I would say it's in the high 90's. Where we are seeing dilution, the premium traffic is down. That is UPS and some other freight that has declined with the consumer economy being down. But in terms share shifts we are pleased with the way we've been able to retain customers, retain business, and then grow business on top of that in that local domestic sector.

Randy Cousins - *BMO Capital - Analyst*

And coming back to your export metallurgical coal the indications are the Aussie's have signed prices at about $130 per ton. The Aussie dollar is substantially lower. Water born shipping rates have come down with the fuel price. Do you have take or pay contracts with some of the steel mills in Europe so that your volume or at least your revenue side is set? Or could you give us some sense as to sort of how the pricing dynamic transportation or water born transportation cost has the potential to impact your export coal business?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

No doubt about it the Aussie's are competitive after settling at the $129, $130 level that they did into Europe. But as I mentioned earlier our larger concern is with the lack of metallurgical coal demand in Europe that is closely associated with the big reduction in steel production.

Randy Cousins - *BMO Capital - Analyst*

Does the lower net coal price, has it any impact whatsoever on the rates that you get for export coal?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

We have repriced our export effective April 1st. We were aware of the global competition including the Aussie's when we repriced that. And we feel we are competitive with respect to transportation on export coal but demands is being severely depressed because of the steel industry only operating at about 45% of capacity in Europe.

Randy Cousins - *BMO Capital - Analyst*

Okay. So I guess it's safe to say though that the rate you are going to get post April 1st is lower than the rate you are currently getting?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

The total cost to the shipper will be lower because fuel is substantially down so it's a better deal for the customers than what was out there last year. But we have been able to slightly improve our yield in terms of overall position on export coal.

Randy Cousins - *BMO Capital - Analyst*

Okay. Then I guess the final question for Jim would be just on sort of the costs. If I look at the cost items and start to look at the ones I'll call sticky as once that seem to flex one of the ones that stood out for me is purchase services. It was down about $20 million, 5% drop in that number. Is there something unusual there or could we see that number come down more aggressively as we go forward or is it like a $20 million drop quarter to quarter a more reasonable view to take in terms of a run rate?

Jim Squires - *Norfolk Southern Corp. - CFO*

There are significantly variable items within purchase services and you saw that. I mean some of the bigger items that did flex down in the quarter include intermodal services which were down $14 million. Transportation services being primarily auto, automotive related third party services were down $7 million. And so those things do tend to vary with volumes. And so we would expect to see some additional favorability within purchase services as a result of those items in subsequent quarters.

Randy Cousins - *BMO Capital - Analyst*

So would it be fair to assume that purchase services is going to come down a little bit more aggressively than it did in Q1?

Jim Squires - *Norfolk Southern Corp. - CFO*

Well if you look at the decline in purchase services spending sequentially versus fourth quarter you do see a significantly greater rate of decline. So I think as volume really accelerated late in the year continuing this quarter you saw an increase in the rate of decline in purchases service spending as well.

Randy Cousins - *BMO Capital - Analyst*

Okay. Thank you.

Operator

Our next question is coming from William Greene with Morgan Stanley. Please state your question.

William Greene - *Morgan Stanley - Analyst*

Ye, just a couple of quick follow-ups. The second quarter to date volumes are really quite weak so two questions fall from that. Number one, is there something specific about the early part of this quarter that we are missing? Was there a loss of a contract somewhere here that maybe is affecting this? And then secondly how do you think about the timing? When do you actually have to react from a head count and a capex perspective if the volumes are this weak here in the second quarter if your comments about a rebound don't occur?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

Bill, with respect to the first part of the question, in April in terms of the volumes as I mentioned we have two metallurgical coal mines that have temporarily curtailed production in central app. That is impacting our overall coal. Also our comps continue to be rather tough. As will you recall our coal business was up 4% last year. It was up 5% in the fourth quarter. We are facing those comps as we go through. So we are seeing weaker export demand, some the temporary curtailment of production at the metallurgical perspective in central app, plus some utility demands that's off that we talked about. So nothing, nothing in terms of losses but certainly a lot of moving parts associated with a very weak economy as well as a reduction in electricity demand and a reduction in metallurgical coal demand.

Wick Moorman - *Norfolk Southern Corporation - Chairman, President, CEO*

Yes. And thinking about how we react we kind of outlined the way we think about this. As we see volumes decline further as Mark indicated we will continue to manage the train plan down. As Don pointed out a lot of the weakness we are seeing in April is further fall off in coal. And that means we reduced the coal train plan. We've already taken some steps to reduce capital this year, but we will only reduce it in a prudent way. So I think we are taking all of the appropriate actions in terms of cost control that we should and we will continue to take them. And as Mark also indicated we will take further steps this quarter in cost reduction as well.

William Greene - *Morgan Stanley - Analyst*

Okay. And then just quickly on the intermodal side, how much of the domestic intermodal was helped by J. B. Hunt? Is that where you classify it?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

The truckload sector we continue to gain highway convergence with Hunt and with some other truckload partners and IMC's as well.

William Greene - *Morgan Stanley - Analyst*

Okay. And what's the pricing gap versus truck broadly in intermodal broadly for you now?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

Well we are following the market, Bill, and a good rule of thumb is 10% to 15%.

William Greene - *Morgan Stanley - Analyst*

Okay. And then just lastly on the automotive side I think you have the Ford contract coming up for renegotiation. I might be wrong on the timing but I think do you. And does the fact that the government is looking so heavily at automotive issues affect how you think about what we should do here in terms of pricing?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

That is a great question. We do have the Ford contract ending at the end of this year. We are in dialogue with them about that contract. With respect to the government, as you know Ford has not elect to do take government loans. But it's very difficult to even be able to talk about the impact with the other two Detroit three who have taken loans with respect to pricing.

William Greene - *Morgan Stanley - Analyst*

Sorry, I didn't understand, you say it's difficult to talk pricing with them because of the loans?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

It's difficult to ascertain the impact of government loans on transportation pricing. It's, the correlation between the two are difficult to quantify.

Wick Moorman - *Norfolk Southern Corporation - Chairman, President, CEO*

It's, and as you know as everyone knows we are, everyone is still looking at all of the Detroit three right now in terms of where they will be in six months time. So I think that's an issue that's just still very murky for us.

William Greene - *Morgan Stanley - Analyst*

Okay. Thanks for your help.

Operator

Our next question is money from Jason Seidl Dahlman Rose & Company. Please state your question.

Jason Seidl - *Dahlman Rose & Company - Analyst*

Gentlemen, good morning. A couple quick questions here, Jim, just some clarification, points. You have the debt offering in 1Q, were there any costs associated with that offering in your interest expense number?

Jim Squires - *Norfolk Southern Corp. - CFO*

Minimal.

Jason Seidl - *Dahlman Rose & Company - Analyst*

Minimal. Okay. Also when we look at your stock incentive compensation break out it was $56 million below the prior year. Could you split that out for us so we get a better feel over what's going on, sort of how much is stock versus how much is incentive comp?

Jim Squires - *Norfolk Southern Corp. - CFO*

Sure. The stock base compensation component was $50 million of the $56 million and the incentive compensation -- bonus compensation was $6 million.

Jason Seidl - *Dahlman Rose & Company - Analyst*

Okay. That's very helpful. Thank you. On a capex reduction, Jim, thank you mentioned or maybe it was Wick that mentioned it of $125 million when should we expect that to flow through your cash flow, is this going to be in the first half of the year? Or should we see this in 2Q?

Wick Moorman - *Norfolk Southern Corporation - Chairman, President, CEO*

It's spread out throughout the year and there were a lot of different items associated with it. So you will probably, I would say you will see it second through fourth quarters. We -- that spread a lot of those purchases out.

Jason Seidl - *Dahlman Rose & Company - Analyst*

Okay. And maybe this is one for Wick. Wick, what gets you to the point where you want to start participating in your share repurchase authorization again?

Wick Moorman - *Norfolk Southern Corporation - Chairman, President, CEO*

If you really want a good answer to that, a little clearer picture into the economic situation in the future. I mean we are just going to be very guarded right now because we don't know where this economy is going. And as was pointed out earlier we've seen some further deterioration in volume in April. We are tracking that very closely. We are responding to it from a cost standpoint. But I think until we have a better picture of the economy going forward and when the bottom comes and is past and what the rate of recovery will be we are just going to be very careful in thinking about cash in general.

Jason Seidl - *Dahlman Rose & Company - Analyst*

I think we will all feel a little better if we get a clearer picture of the economy. Listen everyone that you for the time as always.

Ed Wolfe - *Wolfe Research - Analyst*

Thanks.

Wick Moorman - *Norfolk Southern Corporation - Chairman, President, CEO*

Our next question is coming froE ed Wolfe with Wolfe Research. Please state your question.

Ed Wolfe - *Wolfe Research - Analyst*

Hi, thanks, good morning, guys. With the price fuel mix break out, before you said seven or eight for both price and mix and then said mix was a negative $40 million, to me that means price is more than 8%. Am I thinking about that wrong? Then you said back to, that's about 7% so I got confused there.

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

Yes. Ed, this is Don. If you break it out that way it was north of eight, about 8.5%. But the combined rate mix effect was 7% and that's the way we take a look at it.

Ed Wolfe - *Wolfe Research - Analyst*

Okay. When you think about RCAF how do you split RCAF between fuel and price?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

The RCAF that we have in our fuel contracts the remain RCAF escalation provisions in contracts generally have fuel backed out or a percentage of the RCAF backed out for fuel.

Ed Wolfe - *Wolfe Research - Analyst*

So does that 8% of price include the RCAF net of fuel or is RCAF completely separate?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

The RCAF would be the percentage of RCAF that is in the contract that backs out fuel.

Ed Wolfe - *Wolfe Research - Analyst*

Okay. But in the overall numbers that you gave of 8.5% for price the RCAF piece net of fuel is there?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

Yes.

Ed Wolfe - *Wolfe Research - Analyst*

Okay. I'm trying to make sure I understand that. I'm sorry to keep talking about the head count but you said you are down I think it was 1,200 or so heads and that implies that from the average in the quarter there's another 600 or so that are out as we start second quarter. Is that a fair number to hold it there or through attrition do we assume that goes down from here?

Wick Moorman - *Norfolk Southern Corporation - Chairman, President, CEO*

No, I think given the volumes we are seeing today and given the attrition that you are seeing if you kind of look at the slope of the graph and that is I mean it's not a straight line all the way down. But we will see further reductions over the next, over the course of the second quarter.

Ed Wolfe - *Wolfe Research - Analyst*

And you talked about several coal outages. Can you talk about the different ones and the timing for them to come back as you see it?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

We had one major one come back yesterday. That was in the state of Georgia. I won't name the utility but it was significant and it came back yesterday. It takes PRB coal and that will be good. We still have a fairly major outage in the State of Tennessee with a utility that probably will be out through the second quarter. We also have another unit out with Pennsylvania Power and Light up in Pennsylvania. That scrubber installation which was planned which will be a good thing when it's done because it will enhance the coal flow to that plant for us. So. Though are three examples.

Wick Moorman - *Norfolk Southern Corporation - Chairman, President, CEO*

And to build on the point Don was making as some of these outages occur they were for scrubber installation. We think that's a positive for Norfolk Southern. And it's one of the reasons as Don mentioned why we think ultimately the MidAmerican Corridor and its access to the Illinois coal basin is an important addition to our franchise.

Ed Wolfe - *Wolfe Research - Analyst*

Is there a way, Don , to look at the number of loads or how you want to talk about the tons that the Georgia plant were down for the quarter and how we can thing about that coming back?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

Well, those two plants that I mentioned in the Southeast were about one million tons and, Ed, you could realistically expect about half of that come back with the unit that came back on yesterday.

Ed Wolfe - *Wolfe Research - Analyst*

That was one million in the quarter?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

One million tons in the quarter, that's correct.

Ed Wolfe - *Wolfe Research - Analyst*

And it came back yesterday?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

Yes.

Ed Wolfe - *Wolfe Research - Analyst*

Okay.

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

That was one million tons between the two plants that I mentioned not just that one plant.

Ed Wolfe - *Wolfe Research - Analyst*

Half back now, half back maybe after second quarter. East of the Mississippi intermodal trends, can you talk a little bit, it seems like when oil was up at about $150 a year ago everybody on the shipper side was rushing to move towards intermodal and was willing to pay up front to maybe move some infrastructure to do that. Does that grandfather itself as we get into May, June, July a bit and how do you think about those domestic Eastern intermodal moves as we move throughout the year?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

Well we continue to see beneficial owners moving ahead with plans to convert highway freight to intermodal. And we are working very closely with our truckload partners and our IMC partners with the beneficial owners. And we are continuing to see those customers stay with that conversion plan. The environmental issues are there. The cost issues are there.

Certainly rates continues to change, but we don't see a lot of customers veering off of that strategy because I think, one, there is a clear belief on the part of most customers that transportation demand will pick back up eventually. And energy prices will pick back up eventually. And costs will go back up with truck and intermodal will be better placed environmentally and from a competitive standpoint when all that happens. So we are continuing to see strong interest in intermodal conversions in the East.

Ed Wolfe - *Wolfe Research - Analyst*

So the domestic volumes in the East were up how much?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

We were, our domestic volume in the East was up 2%. Our domestic business overall was up 2%.

Ed Wolfe - *Wolfe Research - Analyst*

And what was it like in fourth quarter?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

Fourth quarter it was up higher tune that, about 8% or 9%.

Ed Wolfe - *Wolfe Research - Analyst*

I'm sorry to do this but if you have it can we go back through the quarters last year? So eight or nine in fourth quarter? What was third and second?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

I don't have it here in front of me, Ed but we certainly have that and we've been telling that in each of the quarters so we can certainly provide that to you.

Ed Wolfe - *Wolfe Research - Analyst*

We will search that back up. A couple more quick ones. Positive train control, I think it was you, Jim, who mentioned during the cost side of thing that there was some cost for preparation of [Inaudible -- audio difficulties], what is that and how does that look going forward?

Jim Squires - *Norfolk Southern Corp. - CFO*

Right. That was specifically related to GPS mapping initiative we have underway. And we spent a couple of million dollars in the quarter on that. So it wasn't a significant component of that overall number. But that's going to be ongoing and we will continue to spend on that specifically throughout the year, probably to the tune of about $5 million or $6 million a quarter. And then the spending will ramp up as we approach the PDC Mandate in a few years.

Wick Moorman - *Norfolk Southern Corporation - Chairman, President, CEO*

We have some other kind of lesser expenses in various technology areas, in IT in particular. And then we have a significant capital component for positive train control as well.

Ed Wolfe - *Wolfe Research - Analyst*

Great. Last one. Wick, maybe this is a good one for you or for Mark but when you think about the locos and cars that are off-line and the furloughed employees that are off-line, if demands did come back pretty strong which so far there's no evidence but let's say that happened quickly in say the fourth quarter, where is the constraint? Is it getting the locos out and functioning? Is it getting the furloughed people back up to front? Where would you say it would take the longest to meet that constraint?

Mark Manion - *Norfolk Southern Corp. - COO*

That really, I don't see that as being particularly problematic. The furloughed people, it would be a matter of them accepting the call to come back. And have reason to think that we would get a pretty healthy percentage of them back in the workforce. And we have plans for doing some quick training and ramping them up quickly that are in place as we speak.

And similarly with the locomotives, of the locomotives that we've side lined we have purposely stored them in shop facilities that handle the heavy work as far as the locomotive fleet goes. So we purposely, when we put them in storage we ensure that they are in good running condition when we put them in storage so that we can get them back out again in good shape. So I really don't see it as an issue.

Ed Wolfe - *Wolfe Research - Analyst*

Great. Thanks guys, for the time.

Wick Moorman - *Norfolk Southern Corporation - Chairman, President, CEO*

Thanks.

Operator

Our next question is coming from John Barnes with BB&T Capital Markets. Please state your question.

John Barnes - *BB&T Capital Markets - Analyst*

Hi. Good morning, guys. Two quick ones for you. Number one looking at cost and I hate to keep hammering this your cost X fuel was down about 7.5%, 7.7%. If you look at it on a per carload basis or on a gross ton mile basis. I guess my question is can you reduce cost at a similar level to the carload decline or the gross ton mile decline? Or is it a case where you were running lean before so you are in a little bit tougher situation trying to take that much cost out of the system?

Mark Manion - *Norfolk Southern Corp. - COO*

Well given today's volumes as I've said there is a significant amount of locomotive that we anticipate will get stored up. And as we put more locomotives in storage the other costs fallout as well. We don't have the fuel spend. We don't have the material spend. We have personnel costs that drop out. So the way we see it there is considerably more work to be done and can be gained on the cost savings side of things and that does apply to the engineering side as well.

John Barnes - *BB&T Capital Markets - Analyst*

Okay. But can it mirror the volume declines?

Wick Moorman - *Norfolk Southern Corporation - Chairman, President, CEO*

It depends on how deep the volume declines are. At a certain point as everyone points out we have short term variable or flex costs in the cost structure, longer term variable which just take awhile to get out and then a certain amount of cost which is very long-term variable or fixed. And so if volume declines go deeply enough you have less ability, they are just diminishing returns and what you can do on your cost structure.

It's really a function of where volumes go. We are all the same in that when volumes starting to South there's some amount of spending that we are doing that we just go eliminate that may not have anything to do with activity level but it has something to do with improving the property or doing something else that we think is desirable. So I would just say it's not a straight line and it really depends on what happens to volumes.

John Barnes - *BB&T Capital Markets - Analyst*

Okay. Very good. The last one. Just talking to a couple of the intermodal companies recently most of them made the point that in order for them to remain competitive in this environment they were eventually going to have to get some rate relief from the rails that they were partnered with. And I'm curious as to your thought process, it seems to me that intermodal is the most competitive of your products in that it's a direct truck substitute type of product. How do you balance the need to keep your intermodal partners healthy and not give up on pricing because you've done such a phenomenal job at keeping pricing moving in the right direction?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

John, it's Don. One, we have to collaborate and continue to plan very closely with all of our intermodal partners which we are doing. What we are facing unfortunately in intermodal that I haven't mentioned too much of in the call, I mentioned it in the prepared remarks, is that the international component of our intermodal business is quite large as you know. And the imported traffic and consumer demand is down so dramatically that it's impacting our international business substantially. So that is a big component of intermodal. That unfortunate we haven't lost -- we don't see any losses to motor carrier, we don't see share losses to another railroad, we just see expressed volumes in terms of what's entering the country and what's being consumed. And that includes also what used to be exported in containers.

Now, on the domestic intermodal market it continues to be a big, big target for us because as you know while we've grown our intermodal business there is still a very high percentage of the market moving by truck. And truck dynamics are low and favorable right now but no one expects them to continue to be there. So we are working very closely with all of our intermodal partners to weather the storm, get through this very rough patch in the market and be there with new services, products, terminals, and capabilities to grow that business significantly when demands picks up.

John Barnes - *BB&T Capital Markets - Analyst*

Okay. Can I ask you one more question on the port activity real quick? The West coast ports, L.A. and Long Beach in the last couple of weeks it appears that there's been a bit of a change in philosophy there in terms of fees and that type of thing. I mean a couple of the commentaries that you've read recently they acknowledged that they've made some mistakes in terms of chasing off business or making it too difficult to work out there. Are you worried at all about a shift back to the West coast ports being more a larger piece of the supply chain? And maybe stripping out some of the volumes of that have come through the East coast ports that your have benefited from.

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

We said all along we like traffic over either coast. We want our customers to be able to choose the coast and the ports and we want to be able to provide service from either the West coast ports or the East coast ports that benefit the ultimate customer and the steam ship lines. So conversion to west coast ports or an increase in volume we would gladly that take it right now.

John Barnes - *BB&T Capital Markets - Analyst*

Okay. All right. Thanks for your time, guys.

Operator

Our next question is coming from Chris Ceraso with Credit Suisse. Please state your question.

Chris Ceraso - *Credit Suisse - Analyst*

Thanks for taking the call. Just a quick one left here. We've noticed a pretty pronounced seasonality in the wages as a percent of sales. In Q1 versus the rest of the quarters for the past few years it's a fair amount higher in Q1. Should we expect the same kind of effect this year or is fuel going to mess with that and your changes in head count going to screw that up?

Jim Squires - *Norfolk Southern Corp. - CFO*

I think what you may be observing, Chris, this is Jim, is the effects on compensation expense in first quarters from stock-based compensation and grants made in the first quarter. More broadly speaking though we do expect to see favorability in compensation and benefits going forward from both incentive and stock based compensation. And, of course, this depends on how the stock performance, it depends on how the business performs. And how those performances affect compensation. But I think it's like that will we will see additional favorability at least in the second and third quarter from both bonus and stock-based compensation.

Chris Ceraso - *Credit Suisse - Analyst*

Right, I guess that's the point. If you cut the stock comp already in Q1 is there as much room to see a step down as we work into Q2 and Q3?

Jim Squires - *Norfolk Southern Corp. - CFO*

It's adjusted quarterly and given the trends in the stock price last year we are likely to see favorability in both stock-based compensation which is influenced both by the comparisons with regard to the stock price and in terms of business performance through the earn out assumption. So we would see favorability there in all likelihood as well as in the bonus which is based on business performance.

Chris Ceraso - *Credit Suisse - Analyst*

Okay. Thanks for the help.

Operator

Our next question is coming from Matt Troy with Citigroup. Please state your question.

Matt Troy - *Citigroup - Analyst*

Yes, just a few questions on cash flow. First, on the pension side it's obviously an issue for corporate America but just curious in terms of funding requirements as you see them taking shape now that we are four months into the year, if the equities were to hold recent gains what can we expect in terms of cash flow funding requirements or outlook for the year?

Jim Squires - *Norfolk Southern Corp. - CFO*

We will not have to make a cash contribution to our pension fund this year. We know that. Next year we are less certain, but -- so we will make that calculation late this year but none this year.

Matt Troy - *Citigroup - Analyst*

Right, so that hasn't changed. On the capex side, then, can you give us an update, mix of maintenance verse expansion area and capex? And on the latter bucket could you maybe break out the top two or three projects that you are looking at in 2009 that are -- continued to be justified despite the sharp fall off in volumes?

Jim Squires - *Norfolk Southern Corp. - CFO*

Let me just give you the break down on property additions in the first quarter for starters. Total capex was $243 million in the quarter, $200 million of which was basically track related, essentially maintenance spending. The other $43 million was various types of equipment. No coal cars, no locomotives but we did commit to purchase some -- or commit to purchase some covered hoppers that are base load part of our agriculture equipment fleet in the quarter. That we would regard I think as replacement spending as well essentially since it goes to a base load business below it would be more or less our run rate [lead to a turnaround]. Yes. And so I think the cuts that Wick outlined earlier are a combination of reductions mostly in the discretionary capital spending area as you would expect given business levels.

Matt Troy - *Citigroup - Analyst*

Now, might that skew change into the back half of the year if volumes were to stabilize? Are there one or two projects that are either shovel ready or in process where on going investments justified, warranted, and planned for the back half of the year?

Wick Moorman - *Norfolk Southern Corporation - Chairman, President, CEO*

Well, if economic conditions change we clearly have put a few projects, some infrastructure additions, for example, on the back burner that we would look at cranking back up. We are talking a lot in terms of other programs about some of our quarter initiatives particularly the crescent quarter where we think we have a lot of shovel ready projects should economic conditions improve. So we are going to watch the capital quarter by quarter. And make adjustments as need be. The $125 million that we've outlined if business conditions do improve rapidly that's and in we are certainly capable of spending in the second half of the year. So we are watching that very closely.

Matt Troy - *Citigroup - Analyst*

Okay. Thanks. One last question, just on the pricing issue taken from a different perspective, could you give us a sense of in terms of the business mix as you look across your revenue base what is contract versus spot or tariff. What I'm trying to get a sense of here is what kind of platform you've got embedded in contract escalations that are in place that would support pricing gains away from your ability to negotiate spot rates and what is obviously a very weak market? What percentage of the book had some kind of escalation baked into a contract?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

We have approximately 65% of our book of business under contracts of varying duration. The balance of the business would be priced annually. Some of that would be less thatn on annual basis. But in general 65% contract, the balance split between and annual pricing and a variable rate pricing schedule over the course of a year.

Matt Troy - *Citigroup - Analyst*

Great. Thanks for the detail.

Operator

Our next question is coming from Gary Chase with Barclays Capital. Please state your question.

Gary Chase - *Barclays Capital - Analyst*

Good morning, everybody. Wanted to just ask a couple of clean ups here, the -- a couple of people asked about volume trends in the last few weeks. I mean isn't it normal to see this kind of disruption around the Easter holiday? Is it any more than that? I know you noted the plant shutdowns. But is it any more than just what you normally see around the holiday?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

Well we certainly see every year a weakening of shipment volumes around Good Friday and the Easter holiday. So that's something we do see every year. The other impacts we are seeing are very much economic related as we've described here this morning.

Gary Chase - *Barclays Capital - Analyst*

Well, I think though there's, the head lines have gotten a little bit worse but I'm not sure of the underlying reality has changed much. It's just the with Easter moving around it's just sort of you had better comps earlier and the worse comps are later. Is that a fair characterization or do you think things have actually gotten a little bit worse?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

That's that certainly plays into it but as we discussed this morning our coal business we are seeing in April the impact of a weaker export market, weaker utility market, and weaker domestic metallurgical coal market here in the US.

Gary Chase - *Barclays Capital - Analyst*

Okay. And just a couple others, Don. You mentioned the fuel impact in the quarter was down $226 million year on year. Presumably a significant portion of that is going to be related to volume. Can you tell us what that is and how much of it was just, how much of the surcharge reduction was a function of fuel price?

Jim Squires - *Norfolk Southern Corp. - CFO*

Gary, we have not, chosen not to break it out that way. Believing that the fuel surcharges are a variable pricing mechanism and they are not related per se to volume change. So that's our perspective on the fuel surcharge variance, it's price related.

Gary Chase - *Barclays Capital - Analyst*

Okay. So when we look at the actual surcharges from last year, is the variance going to be more than $226 million then? Or -- when you file with the STB and you compare it to was filed for the first quarter of 2008 is the difference between those going to be $226 million or more than that because of the volume differential?

Jim Squires - *Norfolk Southern Corp. - CFO*

That will be the number. It's the actual amount of fuel surcharges billed. There is a small amount of capitalized fuel included in the numbers with the STB as well so there might be a discrepancy of a couple of million dollars. But it's going to be roughly $320 million for 1Q 2008 versus $94 million for 1Q 2009.

Gary Chase - *Barclays Capital - Analyst*

Okay, and I apologize, Jim, there is going to be volume related is going to be at least a contributor to that $226 million, yes?

Jim Squires - *Norfolk Southern Corp. - CFO*

I understand the point you are making and you can look at the change in fuel charge revenue as influenced by volume. But I guess what we are saying is that we view the fuel surcharges as a variable pricing mechanism. That's what they are and they are not driven directly in our minds nor under the contracts by the amount of volume that is being shipped.

Gary Chase - *Barclays Capital - Analyst*

Okay. Maybe we will follow up with you off-line on that. Just the last one I have is how much of your domestic utility coal business rolls this year and is it right, Don, to think of that as what is most at risk from switching to met gas?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

Certainly the coal is most susceptible to natural gas at low prices. The metallurgical coal is not. It's not a substitute and that would include domestic met as well as export met. In terms of our repricing and utility coal, we did much of that in the third quarter and fourth quarter of 2008 for effective dates either in those quarters or January 1st.

Gary Chase - *Barclays Capital - Analyst*

Okay. But wouldn't you have had base line minimums in those contracts or are you running way above those now or do you not? What's the freedom of -- under a contract that's already negotiated is there a lot of flexibility to actually switch back to gas?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

Well, in our contracts obviously there are commitments made in the contract, mutuality commitments in the contract. But certainly the utility has the flexibility to adjust volumes based on stockpile requirements, on electrical generation which is down 3% as I mentioned. Which is unprecedented in itself, to use that word again.

Gary Chase - *Barclays Capital - Analyst*

Okay. Sorry, just one last one, the RCAF thing, it wouldn't have been a big impact. Were you highlighting that as something that was a modest negative in coal, I mean it was only down 3%?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

It was a modest, modest negative in coal for the quarter.

Gary Chase - *Barclays Capital - Analyst*

Okay. Thanks very much.

Operator

Next question, David Feinberg with Goldman Sachs. Please state your question.

David Feinberg - *Goldman Sachs - Analyst*

Good morning. I'll make it quick. A question for Wick, I am trying to follow up on your hypothesis about potential recovery for the US economy. Your thoughts about second quarter stabilization, second half 2009 recovery, which parts of your business or which traffic types would you expect to lead us out of the recovery? I was trying to tie together your comments with regard to physical stimulus and thought you might be implying that intermodal would be the first place we would expect to pick up. Am I reading too far between the lines?

Wick Moorman - *Norfolk Southern Corporation - Chairman, President, CEO*

You are doing a lot of extensive reading, but I think that and Don mentioned this as well. If in fact we target to see some economic recovery in the second half, I think we will start to see some increased level of activity in housing and automotive. And with all of the other by-products of that if you will in terms of our business groups, which would include some ramp up in the level of steel production. Some possible ramp up in some of our chemical business and some other pieces as well. And obviously intermodal with a little bit of a boost in retail sales particularly on the import side would be where we would see it.

David Feinberg - *Goldman Sachs - Analyst*

And maybe a follow up there. Just looking at the slides that comment that you make about perhaps seeing the bottom in the housing in automotive market, I just want to make sure that I clearly understand that. That's not based on what your customers are telling you, that's based, what looking at the macro data and looking at your weekly volumes, is that the right way to think about it?

Wick Moorman - *Norfolk Southern Corporation - Chairman, President, CEO*

No, I mean, it's -- you are assigning more data to this than exists. We are just trying to kind of look at what all of the economists are saying and ranging, and that's a broad range of opinion, and at least trying to think in our own minds about what this might look like. And we keep coming back to the fact that there is an enormous amount of stimulus money that's going to be pumped into the economy. It will be, it will start reaching the economy in a meaningful way in the second half. And it seems reasonable to assume that that might be the trigger to at least start some pattern of recovery; albeit I think slow.

David Feinberg - *Goldman Sachs - Analyst*

Great. And then my last question for Don, I'm trying to reconcile on the intermodal segment when talking about the domestic business increased volume from truck conversion yet increased competition from truck. How do we think about reconciling those two trends leading to volume growth in one part of your business but significant volume decline in another?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

It's a big truck market over the 49 continuous states. So we are seeing, we are seeing continued gains in the Eastern portion of our intermodal business. We saw some actual declines in the trans-continental segment. So we are seeing head to head competition with truck. There's no doubt about that but I also mentioned the differential between pricing and truck versus intermodal. And intermodal still offers a good value proposition for a lot of customers.

Wick Moorman - *Norfolk Southern Corporation - Chairman, President, CEO*

But one other piece of that I think that we keep talking about that's important is the whole issue around service. Domestic truckload carriers are not going to convert to intermodal. Beneficial owners are not going to convert to intermodal until they are convinced that we can offer a level of service that is suitable for their business needs. And I think the fact that we have been demonstrating now for a considerable period of time that we can provide those service products and those service levels and do it on a sustained basis not just up and down, I think that's convinced a lot of people that rail intermodal is a viable alternative. And we are seeing that in our numbers.

David Feinberg - *Goldman Sachs - Analyst*

Do you then risk once you've convert a truck customer to intermodal losing them back to the truck once it's in that container, is that the right way to think about it?

Don Seale - *Norfolk Southern Corporation - EVP, Chief Marketing Officer*

Losing it back to motor carrier? As Wick indicated with sustained good service levels, and competitive customer service, that customer becomes a long-term customer for intermodal.

David Feinberg - *Goldman Sachs - Analyst*

Great. I will leave it there. Thank you.

Operator

Our last question is coming from Lee Klaskow with Longbow Research. Please state your question.

Lee Klaskow - *Longbow Research - Analyst*

Ye, hi, thanks, all my questions have been answered.

Wick Moorman - *Norfolk Southern Corporation - Chairman, President, CEO*

Thanks, Lee.

Operator

Gentlemen, I would like to turn it back over to management for any closing comments.

Wick Moorman - *Norfolk Southern Corporation - Chairman, President, CEO*

Well, we will just say in closing that we appreciate all of the questions today. And we are going to continue to pursue the initiatives we've outlined and we look forward to speaking with you in the future. Thanks.

Operator

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time and we thank you for your participation.