

FINAL TRANSCRIPT

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NSC - Q3 2010 Norfolk Southern Corp Earnings Conference Call

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PRESENTATION

Operator

Welcome to the Norfolk Southern Corporation third quarter earnings call. At this time, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation.

(Operator Instructions)

This conference is being recorded. It is now my pleasure to introduce your host, Leanne Marilley, Norfolk Southern Director of Investor Relations. Thank you. You may begin.

Leanne Marilley - *Norfolk Southern Corp - Director, IR*

Thank you and good afternoon. Before we begin today's call, I would like to mention a few items. First, we remind our listeners and internet participants that the slides of the presenters are available for your convenience on our website at www.nscorp.com in the investor section. Additionally, MP3 downloads of today's call will be available on our website for your convenience. As usual, transcripts of the call will also be posted on our website. 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 how to do so from your telephone key pad.

Please be advised that any forward-looking statements made during the course of this presentation represent our best good faith judgment as to what may occur in the future. Statements that are forward-looking can be identified by use of words such as believe, expect, anticipate and project. Actual results may differ 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 reports filed with the SEC for discussions of those risks and uncertainties we view is most important.

Additionally, keep in mind that all references to reported results, excluding certain adjustments such as non-GAAP numbers, have been reconciled on our website at nscorp.com in the investor section. Now, it is my pleasure to introduce Norfolk Southern Chairman, President and CEO, Wick Moorman.

Wick Moorman - *Norfolk Southern Corp - Chairman, President & CEO*

Thank you, Leanne, and good afternoon. It's my pleasure to welcome all of you to our third quarter 2010 earnings conference call. Several members of our senior management team join me, Don Seale, our Chief Marketing Officer, Mark Manion, Chief Operating Officer, and Jim Squires, Chief Financial Officer, all of whom you will hear from today.

During our second quarter call, I indicated that we were optimistic that the momentum we generated in the first half of the year would continue into the third quarter as we maintained our focus on strengthening the franchise. Today I am very pleased to report that our momentum did remain strong as Norfolk Southern delivered double digit percentage increases in revenues, operating income and bottom line results.

In doing so, we produced our fifth consecutive quarter of sequential volume growth and our second consecutive quarter with a sub 70 operating ratio. Net income and diluted earnings per share were both up 47% for the quarter as a 19% improvement in revenues more than offset a 14% increase in operating expenses. This strong operating leverage resulted in an operating ratio of 69.6% which represents a 320 basis point year-over-year improvement.

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We also achieved our lowest ever operating ratio of 71.4% for the first nine months. Volumes in the third quarter improved 15% year-over-year and 2% sequentially from the second quarter. We also posted 52-week highs in several commodity groups and Don will provide more details in a moment. Against this strengthening economic back drop, we continue to improve productivity as we safely handled increasing traffic levels. As compared to the 15% volume increase, crew starts were up only 8% and total employment up a modest 2%.

While we have experienced significant traffic volume swings over the past two years, our systems continue to provide us with increased flexibility and service consistency with respect to our operating plans. The third quarter also marked another significant milestone for our intermodal service, as last month we opened the Heartland corridor which represents the shortest, most direct, double stacked intermodal route linking the Port of Hampton Roads to the Midwest. Mark will review our operations with you in a few minutes and then Jim will provide you with an overview of our financial results. First, I'll turn it over to Don for a more in depth look at our third quarter business.

Don Seale - Norfolk Southern Corp - Chief Marketing Officer

Thank you, Wick, and good afternoon, everyone. The third quarter marked our fifth consecutive quarter of revenue growth since the beginning of last year's deep recession. Volume growth across the board and higher revenue per unit combined to generate revenues of \$2.5 billion for the quarter, up \$393 million, or 19%, over the third quarter of last year. Each of our business groups produced year-over-year gains for the quarter. Nearly 80%, or \$312 million, of our total revenue gain was driven by higher shipments while continued growth and revenue per unit contributed \$81 million of the increase.

Looking at revenue per unit in more detail on the next slide, we can see that all of our business groups had higher RPU in the quarter, resulting in a total of \$1,401 per unit, up \$46, or 3%, over last year. Negative mix within coal, chemicals, agriculture and intermodal dampened otherwise solid RPU gains across these business segments which were driven by improved pricing and higher fuel related revenue. For example, intermodals RPU growth in the quarter was negatively impacted by increased empty repositionings which accounted for 16% of total intermodal volume in third quarter 2010 compared to 11% last year. This suppressed intermodal RPU by \$13 per unit.

Coal RPU was effectively moderated by a combination of higher volumes of shorter haul utility coal to our northern utilities, heavier domestic met coal shipments to the river and higher volumes of export met coal from Pennsylvania to the port of Baltimore. Chemicals RPU was impacted by lower RPU shipments of fly ash from Tennessee to Alabama and agricultural RPU was impacted by gains in short haul grain markets in the Midwest as well as incremental gains in short haul phosphate rock shipments. With respect to managing yield, as we have stated in previous quarterly meetings, our ongoing objective is to produce pricing that exceeds the rate of rail cost inflation. And we remain confident of our ability to meet that objective.

Now transitioning to volume on slide four, our balance portfolio of business continued to deliver growth as we reached 1.75 million units, up 15% over third quarter of 2009. As with revenue, this was our fifth quarter of sequential increases. Increased volumes were led by intermodal, coal and metals which offset a small decline in our automotive business resulting from the redesign of the Ford vehicle network. As we've noted in prior quarters, this re-design will impact year-over-year comps through the end of this year.

During the quarter our chemicals and intermodal groups achieved 52 week high loadings and we continue to reinvest in our network allowing us to efficiently handle increased business and provide even better service to our customers. We are also building upon our strong focus of developing new terminals, technology and route improvements to benefit all customers across our net worth. During the quarter we added speed and capacity enhancements with the completion of one of our biggest projects, the Heartland Corridor, as Wick mentioned, which I will discuss in more detail later in my remarks.

Now let's turn to a review of our individual business group performances for the quarter. Starting with coal, volume was up 15% in the quarter as shown on slide 5 led by broad gains across the business in domestic met coal, export and utility coal, and



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the coal sector continues to recover and it produced its strongest volume since the fourth quarter of 2008 which I should note was a record year for coal over our net worth.

As depicted on slide six, metallurgical coal, coke and iron ore volumes were up 25,000 car loads in the quarter or 73% over last year. Growth was led by increased steel demand resulting from an improving domestic economy. US steel production was up 29% in the first two months of the third quarter. At the end of the quarter, only seven blast furnaces were down reflecting gradual recovery in the steel industry and domestic met stockpiles remain below target at many of our steel producers which bodes well for demand ahead.

As shown on slide seven, our export coal volume was up 5,000 car loads or 11% in the third quarter. Shorter haul export volume through the Port of Baltimore increased 94% driven by Pennsylvania coals moving to the Asian market which are no longer exporting coking coals due to strong internal demand. The increase in Baltimore traffic effectively offset a 14% decline in export coal to Lambert's Point which was impacted by higher finished steel inventories in Europe.

Concluding with utility coal on the next slide, volume was up 21,000 car loads or 8%, the first year-over-year gain since fourth quarter 2008. Growth in our shorter haul northern utility network was up over twice as much as longer haul shipments to southern utilities. Coal burn increased during the summer due to well above average temperatures in the east and improved economic activity. As shown on this slide for August, it was reported by Energy Ventures Analysis that eastern stocks in total were only 2.7 million tons above normal. Currently, 20% of the utility plants in our network have informed us that they are now below targeting inventory levels.

Going into the shoulder months which we are in now, lower seasonal temperatures and lower natural gas prices will moderate coal burns and slow stockpile declines, but economic growth should raise electricity demand which is up 9% in our service region. In this regard, our utility volume strengthened in September, up 16% for the month compared to overall third quarter growth of 8%. We expect utility volumes to accelerate in the third quarter and through the coming year.

Now, transitioning to intermodal on slide nine. Third quarter volume was up 122,000 units or 19% over last year. Domestic growth led the improvement for the quarter up 30% due to continued success in highway conversions and increased transloading at Pacific Coast ports. Of our total domestic increase for the quarter, we estimate that 54% came from new local business east of the Mississippi with the remaining 46% from traditional interline business such as the Transcon market. International volume increased by 11% driven by higher imports and exports. Both in domestic and international segments, revenue empty movements increased by 21% in the quarter as tight container capacity prompted repositioning for loads. Finally, our premium volume grew 23% in the quarter due to increased activity in the parcel and LTL markets.

Turning to the next slide. Our ongoing corridor strategy has been a major growth across our intermodal network. Our Heartland corridor officially opened for business on September 9. We are already seeing the benefits of this project as we have shifted over 30% of our overall Norfolk volumes to the new route. We have begun stacking key lanes such as Chicago to North Carolina and north to Columbus. When we complete our Cincinnati to Columbus clearances and our Toledo yard improvements in the second quarter 2011, we will shift another 10% of our Norfolk booked to the Heartland route.

As shown on the next slide, we also have the premier route from the port of New York to Midwest through Pennsylvania which, as you might recall, was the first major tunnel clearance project undertaken by Conrail. You will also note that business on this high speed route was up 24% for the quarter and 20% for year to date. The recently announced tunnel clearances in New Jersey in conjunction with our Pan Am southern joint venture will provide for new NS double stack service from the port of New York to upstate New York and New England. Progress on the Creuset corridor continued in the quarter with recent groundbreaking for our newest terminal at Green Castle, Pennsylvania along with ongoing work and speed enhancements over the route itself.

Finally, as shown on slide 14, the improved meridian speedway provides shippers with the most direct and fastest route between southern California and points in the southeast including Atlanta, Charlotte and Birmingham, and our Chicago to Florida business



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continues to ramp up using our new Titusville terminal. In sum, we remain very pleased with our progress and growth over our entire intermodal corridor network.

Now, concluding with our merchandise business on slide 15. Volume in this broad set of coal markets reached 588,000 loads up 11% over third quarter 2009. Metals and construction led volume growth with a gain of 20%. Increased global and domestic steel production and growth from intermill business drove the gain in iron and steel volume. Aggregates was up due to increased highway construction, paving projects and a greater seasonal push to shift before winter months. Project growth, including scrubber stone and [fraxan] shipments for natural gas drilling also contributed to gains in the quarter.

Chemicals volume increased 12% led by gains of strong growth in our petroleum business which was up 19%. Improved chemical production, increased demand for consumer goods and strong project growth drove the improvement in this commodities sector.

Our agricultural volumes were up 9% in the third quarter driven by growth in feed, fertilizer, soybeans and corn. These volumes benefited from growth to export markets along with increased volumes to key processors in the southeast, and fertilizer growth was driven by the continued ramp up of the phosphate and potash markets.

As shown on the next slide, paper and porous products volume was up 7% in the third quarter driven by increased demand for kale and clay and wood pulp in the export market. In addition, lumber volume was up as a result of modest growth in a weak housing market. Finally, automotive volume declined 1% in the quarter due to the redesign of our Ford network. Without this year-over-year adjustment which reduced volume in the quarter by 8300 loads versus last year, automotive volume would have increased 10%.

We also expect new auto assembly plants now being completed by Volkswagen shown here and BMW shown on the next slide to add to our auto business in the months ahead. These two plants combined will represent 230,000 new units of production and over 3600 new jobs in their respective markets. Volkswagen's outbound rail shipments are slated to begin late in the second quarter of next year. The plant will build a new mid sized sedan and have the capacity to build 150,000 vehicles annually. BMW's plant expansion is now complete and will increase capacity from 150,000 vehicles to 200,000 units starting in early 2011 with over 50% of production being exported out of the Port of Charleston.

Now let's turn to our outlook. As we move into the fourth quarter and beyond, we expect to see continued growth in our core business which will be supplemented by project growth and our ongoing corridor strategy. We expect chemicals will continue to expand as we marked a record high revenue level in the third quarter. Our outlook for the agricultural market remains bright and we expect the September 2010 through April 2011 grain export season to be very positive with double digit growth going forward.

Our steel business, which includes export and domestic met coal along with finished iron and steel volumes will continue to benefit from the slow but gradual recovery in global steel production. Current dynamics in the trucking industry, including labor costs, higher labor costs and tighter truckload capacity, along with improving economic conditions coupled with our developing corridor strategy bode well for continued intermodal conversion ahead. As previously mentioned, projected increase in electricity demand from economic growth along with lower stockpiles should positively impact utility coal's performance as well. We expect to see growth in all of our coal market segments in the fourth quarter and for the next year.

In summary, as shown in the final slide, we now have seen sequential volume recovery in each quarter since the third quarter of 2009. Third quarter volumes were 33,000 loads or 2% higher than the second quarter and 170,000 loads higher than the first quarter of this year. Economic conditions, while still challenging with respect to housing and unemployment, continue to show sequential improvement in industrial production and global trade. Our third quarter volume growth of 15% reflects that positive trend along with strong project growth across our core markets. We expect this positive trend to continue through the fourth quarter and throughout 2011 as gradual economic recovery and targeted business development efforts converge.



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Finally, we remain confident in our ability to provide safe, reliable and efficient service to our customers which supports higher value pricing in the market place ahead. Thank you for your attention and I will now turn the podium over to Mark for our operations report.

Mark Manion - Norfolk Southern Corp - COO

Thank you, Don. Good afternoon everyone. Starting with safety, Norfolk Southern safety performance through the third quarter stands at 0.94 injuries per 200,000 employee hours worked which is a 22 point reduction or 19% improvement for the same period in 2009. For consecutive quarters during 2010 we have improved our safety performance recording sequential improvement each quarter this year. We attribute this improvement to our ongoing safety training which re-enforces the importance of effective job briefings, team work and communication.

Turning to our operating performance, our road and yard crew starts increased 8.1% over the third quarter of 2009 as we modified our operating plan to efficiently handle the increasing volumes. Of course, this is well below our car load unit increase of 15% and 14% for gross ton miles for the same period.

Turning to the next slide, train and engine employment increased by 501, or 4.8%, in the third quarter as we continue to strategically hire to support traffic growth where we had let attrition decrease in employee counts in 2008 and 2009. As I stated last quarter, all TNE employees have been returned from furlough status. To date we have authorized the hiring of 1,550 conductor trainees with the first of those trainees now starting to come off training program ready for placement.

Turning to our composite service performance on slide five. This measure is a composite of train performance, connection performance and operating plan adherence. We are responding well to the 15% increase in volumes as our service improved from the first to second quarters and again from the second to third quarter. We will continue to see improvements as we align resources to our operating plan in order to meet demand and drive further improvement going forward.

Finally, turning to our productivity score card, in light of car load unit volume being up 15% for the quarter, you'll note that we will be able to very effectively manage the operating plan. Substantially higher volumes have been handled with only an 8% increase in crew starts. For the quarter, total railroad employment was increased 3% over the same period of 2009. Gross ton miles per employee continued improvement in the third quarter while gross ton miles per gallon of diesel fuel stayed constant. Gross ton miles per train hour declined 1% and car hire days per car load increased 4% with a slight degradation in train speed and terminal dwell. Thank you and let me turn it over to Jim.

Jim Squires - Norfolk Southern Corp - CFO

Thank you, Mark. Good afternoon, everyone. I will now review our financial results for the third quarter. Let's start with our operating results. As Don described, railway operating revenues for the quarter reached \$2.5 billion, up \$393 million or 19% compared to the third quarter of last year.

Slide three shows our total operating expenses which increased by \$209 million or 14% for the quarter. Income from railway operations grew 33% to \$746 million. The generous increase in revenues driven by higher volumes and revenue per unit was partly offset by increased operating expenses. The resulting operating ratio was 69.6%, only 50 basis points shy of our record third quarter operating ratio set in 2008.

Turning to our expenses, here are the major components of the \$209 million net increase. Much like our second quarter results, compensation and benefits and fuel expenses accounted for over 70% of the variance. Slide five reflects the components of the 14% increase in compensation and benefits. First volume related payroll increased \$34 million including \$18 million for train and engine employees. Second, medical benefits increased \$20 million largely related to higher agreement employee health and welfare premiums coupled with increased retiree medical costs. Third, incentive compensation was up \$13 million

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due primarily to stronger financial results. Pension expenses were \$8 million higher and payroll taxes increased \$7 million. Finally, increased agreement wage rates and other compensation expenses were offset by lower stock based compensation which reflected last year's strong improvement in performance metrics.

As shown on slide six, fuel increased by \$67 million or 35%. As displayed on slide seven, nearly two-thirds of the increase in fuel expense was due to higher prices. Our average price per gallon of diesel fuel was \$2.19, an 18% increase compared with the third quarter of 2009. Consumption was up 14%, one percentage point below the increase in unit volumes.

Slide eight highlights the \$41 million or 28% increase in materials and other expenses. Materials usage for equipment and roadway maintenance increased with higher volume levels. In addition, prior year results benefited from more favorable property tax accrual adjustments and more favorable personal injury claims development. Purchase services and rents increased \$25 million, or 7%, reflecting increased equipment rents and other volume related services.

Slide 10 displays our non-operating items. The majority of the net increase is due to a gain on the sale of land to the City of Virginia Beach and coal royalties which reflect a favorable one-time settlement reached during this quarter. As illustrated on slide 11, income before income taxes increased \$233 million or 48% principally due to higher operating income. Income taxes totaled \$269 million and the effective rate was 37.7%. Income taxes last year were \$178 million with an effective rate of 37%.

Turning to slide 13. Third quarter net income was \$445 million, an increase of \$142 million compared to last year, and diluted earnings per share were \$1.19, or \$0.38 per share increase. Slide 14 represents our year to date cash flows. Cash provided by operations increased over 50% easily covering capital expenditures, share repurchases and dividends. Share repurchases in the third quarter were \$323 million as we bought back 5.8 million shares. Cash and cash equivalents at the end of the quarter equaled \$1.1 billion. Thank you for your attention. I will now turn the program back over to Wick.

Wick Moorman - *Norfolk Southern Corp - Chairman, President & CEO*

Thank you, Jim. As you've heard, our third quarter performance continues to showcase our balanced customer portfolio, superior service product and ability to generate operating cash flows to fund substantial core and strategic investments in our franchise. From an investment perspective, our current estimate for 2010 capital spending is about \$1.5 billion. While our 2011 capital plans have not been finalized, we do anticipate that our spending next year will be higher, driven by spending on positive train control, new locomotives, the conclusion of our implementation of SAP and reinvestment in our coal car fleet.

In addition, we're also looking at our ongoing equipment strategy as to the advantages of ownership rather than our current policy of leasing some of our core assets, particularly given time and financing rates. At the same time we are and will remain committed to adding value to our owners, to our industry leading dividend yields and ongoing share repurchases.

Looking ahead, we expect that the economy will continue to expand albeit at the fairly low rates we have seen over the past couple of quarters. Our strategy remains to continue to grow our business profitably through continuing focus on, and investment in, improving our service and strengthening our franchise. We are optimistic that we can continue to grow our traffic at a pace that exceeds the growth in gross domestic product and that volume growth combined with the focus on improving margins will drive superior shareholder returns.

Our third quarter results illustrate our ability to execute this strategy and I'm confident that Norfolk Southern will build on this quarter's momentum to drive a superior product for our customers and superior financial results. Thanks for your attention. I'll now turn the program over to the operator for your questions.



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QUESTIONS AND ANSWERS

Operator

Thank you. We will now be conducting the question and answer session. (Operator Instructions) Our first question is from Jon Langenfeld with Robert W. Baird. Please go ahead with your question.

Jon Langenfeld - *Robert W. Baird - Analyst*

Good afternoon. On your intermodal side, can you talk a little bit about the pricing there? I understand the price mix impact you described but even adding that back I think your revenue per unit would be up only 2%. Can you talk about that in light of the fact that volumes were so strong and your ability to take rate increases through the year?

Don Seale - *Norfolk Southern Corp - Chief Marketing Officer*

Jon, we are seeing some improvement in truckload pricing in the marketplace with respect to our third quarter traffic, as I mentioned in the comments, about 55%, 56% of our growth in our domestic sector came east of the Mississippi which is generally shorter haul traffic, it is good business for us but it generates an RPU that is a little less than Transcon or longer haul business. That factors into the RPU as well as the increase in revenue, empty repositionings that I mentioned as well. All in all, we are seeing a gradually improving marketplace for intermodal pricing and we think that will continue based on what we see right now.

Jon Langenfeld - *Robert W. Baird - Analyst*

Okay. Good. Second question, any insight from the oceanliners in terms of the international import traffic as it relates to intermodal in terms of what sort of signals they are giving you relative to year end into the early part of next year with the Chinese new year being so early this time?

Don Seale - *Norfolk Southern Corp - Chief Marketing Officer*

I think in general the consensus is that we experienced a mini peak, I would call it a mini peak this year starting in August. That mini peak is already beginning to top out. That is not too surprising. I think that they are seeing slow and steady recovery of volumes but it is uneven and it's certainly not in a straight line in terms of volume growth.

Jon Langenfeld - *Robert W. Baird - Analyst*

Thank you.

Operator

Next question is from Bill Greene with Morgan Stanley. Please go ahead with your question.

Bill Greene - *Morgan Stanley - Analyst*

Yes. Hi there. Good afternoon. Wick, I remember at the investor day that you had a year or year and a half ago you talked about Norfolk Southern's approach to a downturn being conservative and you wanted to maintain resources to be prepared for when the volumes came back. Clearly we are seeing sort of the upside advantage, the incremental margins have come back from that perspective. What I also thought would happen was that Norfolk Southern would see materially better incremental margins



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than competitors. I don't think we are seeing that. I'm wondering if there are sort of lessons learned here or any way to kind of think about how you might approach this differently going forward based on kind of similar performance to the peers at this point?

Wick Moorman - *Norfolk Southern Corp - Chairman, President & CEO*

Well, I won't comment so much about performance as compared to our peers. I think that we did have a policy as we talked about in terms of trying to think conservatively going into the downturn. At the time that we were talking about that, the downturn really had not hit us in the way that it did. As we have recovered, I think that we have shown good operating leverage. We did keep an eye on being able to recover well. I think that we have seen some extraordinary volume shifts as we have talked about and you have seen good operating metrics and good operating leverage as Mark and Jim have described. I think that all things considered we have come through in a way that we would have expected. The other thing that we have continued to do, as you know, is continue to invest in the property and that is a point we talked about a lot that we were going to continue with strengthening the franchise, investing in the technology we think that is important for the future and that's what we did and that's what we continue to do.

Bill Greene - *Morgan Stanley - Analyst*

That's true. That's sort of a good segue to the second question. If I think about what you are doing with intermodal and the huge investments that you have made there, clearly it is going to deliver volume growth but my sense is, and I think Don even mentioned this, it is truckload conversion that will drive a lot of this from the highway. I sort of think of that as kind of definitionally being more competitive business. How do we guarantee or how do we ensure that the returns there can be as good as some of the other businesses? I'm thinking for example, like bulk?

Wick Moorman - *Norfolk Southern Corp - Chairman, President & CEO*

Well, I think you raised a good question. It is definitionally competitive but we think that we are out there competing very effectively for that business and we think that as that business develops the combination of the volumes that we will handle and volumes always -- more volume improves margin as we spread network costs over larger and larger number of units and the focus that a lot of our investment has in terms of making the intermodal operation more and more efficient in terms of technology and in terms of terminals. We feel confident that we are going to continue to develop business growth and volumes that are at margins that we are comfortable with and provide a good return for our shareholders. I think if you kind of think about it from a very high level, the operating ratios that we are posting with the large volume increases we are seeing in the domestic intermodal are an illustration that we are able to do that.

Bill Greene - *Morgan Stanley - Analyst*

Yes. Okay. Thanks for the time.

Operator

Your next question is from Tom Wadewitz with JPMorgan. Please go ahead with your question.

Tom Wadewitz - *JPMorgan - Analyst*

Good afternoon. I wanted to ask you a bit more on coal. You seem to have a pretty optimistic outlook I think across the board in all the major drivers of your coal volume. How does some of the potential production issues and greater regulatory push



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back on Central Appalachian coal, how does that affect your network? Is that a risk or is it as simple as if you don't source it from Central App you'll source it from somewhere else? I guess it's really a second question, but also how do we think about natural gas sensitivity? It just seems like natural gas may stay at low levels which eventually would be a risk for coal. Those two questions on coal outlook.

Wick Moorman - *Norfolk Southern Corp - Chairman, President & CEO*

Tom, we certainly are seeing more diversity with respect to coal sourcing taking place, although I would point out that Central App production is up this year about 4% even with what is going on in terms of further environmental restrictions on mining. We are well positioned to source coal from Central App, Northern App, Illinois Basin, RPRV, and we are participating in all of those flows. We feel comfortable that demand is going to be there and the sourcing of the coal is going to be there to match up with it. With respect to natural gas, we still see gas at low cost levels but quarter-over-quarter it was up over about 38%, 39% compared to last year. Coming through this summer, we saw very, very little diversion of coal burn to gas. It took all the generation capacity there. I think that based on continued economic recovery and the demand for natural gas right now, it is a little bit below \$4 but I think depending upon what the winter looks like, we will see that come back up over \$4. Everything that we are being told by our utilities is for us to expect heavy demand for utility coal restocking for the stockpile replenishment as well as ongoing generation demand.

Tom Wadewitz - *JPMorgan - Analyst*

One follow-up on that, is there potentially a lag impact from the low natural gas where you have minimum commitments in your contracts and the miners do as well and then when you start to roll over those and have lower minimums or as the utilities negotiate lower minimums that you would see kind of a lagged impact if you do have lower natural gas or you think you have already kind of seen the switching that is likely to take place given current gas prices?

Wick Moorman - *Norfolk Southern Corp - Chairman, President & CEO*

I think what we are seeing is the latter. That we have already seen it.

Tom Wadewitz - *JPMorgan - Analyst*

Okay. Great. Thanks for your time.

Operator

The next question is from Walter Spracklin with RBC Capital Markets. Please go ahead.

Walter Spracklin - *RBC Capital Markets - Analyst*

Thanks very much. Good afternoon. My first question is on the pricing. I know it is not something you like to give color on or guidance on. I guess perhaps you could give us a sense of how your renewals were doing in the quarter and perhaps what percentage of your book next year is locked in for -- locked in currently?

Don Seale - *Norfolk Southern Corp - Chief Marketing Officer*

We have, Walter, well over 90% of the business obviously locked in for this year and we are right at 60% locked in for 2011. With respect to our ongoing renewals, they are within our target of meeting the overall objective that we have for pricing and yield.

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Walter Spracklin - RBC Capital Markets - Analyst

I guess that's your inflation plus kind of target?

Don Seale - Norfolk Southern Corp - Chief Marketing Officer

Right.

Walter Spracklin - RBC Capital Markets - Analyst

My second question is essentially on your capital program, I'm sort of trying to get an order of magnitude here. There are two components I would just like you to address. The first is the condition of your coal fleet, just looking at that and its condition, what sense of an increase are you seeing in renewing that coal fleet and then the second one, the order of magnitude of that switch that you mentioned from an ownership policy, or from a leasing policy to an ownership policy just so we can get our head around some of the financial impact of that shift in policy?

Wick Moorman - Norfolk Southern Corp - Chairman, President & CEO

Well, let me first of all kind of give you again the caveat that we really haven't made any hard and fast decisions on capital budget to date. To give you some idea of where we are, we have discussed this before in a number of forums, we have a fairly sizable coal fleet in excess of 20,000 cars that we own and we think that's advantageous for us. In fact, the demands of our business around export and some of our other business really make it very desirable for us to own our own fleet. The majority of that fleet over the next six, seven, eight years will be reaching the end of its useful life. We have already renewed in excess of 3,000 of those cars. We will have a program that begins next year that order of magnitude is probably going to average somewhere between 1,000 and 2,000 cars, maybe a little higher in some of the out years.

Walter Spracklin - RBC Capital Markets - Analyst

That's on a per year basis, the 1,000 and 2,000?

Wick Moorman - Norfolk Southern Corp - Chairman, President & CEO

On a per year basis. As to your other question, we are going to look at a fairly substantial portion of our assets that we currently have it under lease. We will look at when those leases will expire. We will look to determine whether or not we think that those are assets that because our assets are long-lived that if we buy them today, we are going to be using them for the foreseeable future. We own a lot of equipment so it is conceivable that we may be looking at assets that cost even up to a few hundred million dollars, but we are going to do this. This is something we will take a look at. We will look at financing. We will think about all the iterations. We will not do anything that we don't have a very clear view is going to provide positive value for us and our owners.

Walter Spracklin - RBC Capital Markets - Analyst

Okay. That makes sense. I appreciate the color.



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Operator

The next question is from Scott Flower with Macquarie Securities. Please go ahead with your question.

Scott Flower - *Macquarie Securities - Analyst*

Yes. Good afternoon. Just a couple questions. One was, Don, you were helpful on intermodal. What was the overall drag on your revenue per unit per mix in terms of the aggregate for the book of business?

Don Seale - *Norfolk Southern Corp - Chief Marketing Officer*

Scott, we do not have that for distribution on the call.

Scott Flower - *Macquarie Securities - Analyst*

Okay. Just one clarification, on the \$13 that you did mention for intermodal, is that just the empties or is that overall mix?

Don Seale - *Norfolk Southern Corp - Chief Marketing Officer*

That's for the empty repositioning.

Scott Flower - *Macquarie Securities - Analyst*

So that would not include the shorter haul impact of the eastern local business?

Don Seale - *Norfolk Southern Corp - Chief Marketing Officer*

No.

Scott Flower - *Macquarie Securities - Analyst*

So that's over and above the \$13?

Don Seale - *Norfolk Southern Corp - Chief Marketing Officer*

Correct.

Wick Moorman - *Norfolk Southern Corp - Chairman, President & CEO*

The 13 was just related to empty revenue repositions.

Scott Flower - *Macquarie Securities - Analyst*

Then on the -- curious for Mark, on the thousand or so head count that you authorized in terms of hiring and training, how many of those are currently on the property?

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Mark Manion - *Norfolk Southern Corp - COO*

We have really just started to bring in our newly trained conductors. I have got about 60 that are on the ground, on the job and we will add another 300 by the end of the year and then we will continue with the pipeline we have got built up, we will continue a pretty hefty roll out of conductors into next year.

Scott Flower - *Macquarie Securities - Analyst*

Are they 300 folks in training that will be on the ground by the end of the year, are they already in the head count numbers or are they just actually starting and going in to training?

Mark Manion - *Norfolk Southern Corp - COO*

The 500 I was speaking of are in training now and, of those, 300 will be actively on the ground working by the end of the year, a total of about 360 by the end of the year.

Scott Flower - *Macquarie Securities - Analyst*

I'm just curious were the 500 actually in the third quarter head count numbers or are those actually going to show up more in fourth quarter?

Mark Manion - *Norfolk Southern Corp - COO*

That is a third quarter count.

Scott Flower - *Macquarie Securities - Analyst*

Okay, and then the other quick question, and just any color you can give, any further update you can give us on the deployment of movement planner across the network?

Mark Manion - *Norfolk Southern Corp - COO*

Yes, we have got four divisions so far under way with movement planner and our schedule calls to add another four divisions during 2011.

Scott Flower - *Macquarie Securities - Analyst*

Great. Well, thank you all very much.

Operator

The next question is from Ken Hoexter with Banc of America. Please go ahead with your question.

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Ken Hoexter - Banc of America - Analyst

Great. Good afternoon. Can you, Wick, maybe just talk a bit about the potential cost savings from the new corridor that you have seen since you have launched Heartland in terms of cutting down maybe mileage or your ability to double stack, maybe just talk about the cost side of that equation.

Wick Moorman - Norfolk Southern Corp - Chairman, President & CEO

Well, we don't give out the cost figures on any of that. We predicated the project on the fact that we were going to be able to move a significant amount of traffic, particularly over the long-term, on this more direct route instead of sending it around a couple of far more circuitous paths. Mark, we have put a couple of extra trains over there already, I believe. What are the numbers?

Mark Manion - Norfolk Southern Corp - COO

We have. We have added two trains over there and, more importantly, we are filling out the trains that we have got, double stacking them.

Wick Moorman - Norfolk Southern Corp - Chairman, President & CEO

We are seeing the benefits of the corridor being opened up now and we expect as business grows that those benefits will become significantly higher.

Ken Hoexter - Banc of America - Analyst

So when you mentioned earlier it was what? You shifted 30% of -- you through out some numbers in the intro. 30% you were moving 20% more? Is that -- I just want to understand what you were kind of providing. Is that of the total intermodal or is that within that region?

Wick Moorman - Norfolk Southern Corp - Chairman, President & CEO

Ken, in the corridor there is about 60% of the business that currently moves to and from Hampton Roads and some of the other corridors that feed into the Heartland Corridor. That will be converted. We have ramped up 30% of that 60% conversion. Ken, if you -- to give you the color, we were running one single stack intermodal train each way through there daily. We were running a couple en route that were double stacked. That is the traffic that we will, first of all, now be able to load up the train that we were running and then shift the other traffic. As Don mentioned we shifted a good amount when we finished the clearance project to Cincinnati from Columbus -- we'll ship more.

Ken Hoexter - Banc of America - Analyst

That's helpful. Thank you, Wick. Don, when you were talking in one of the answers before going through the utility coal and your outlook there, you kind of left off on the export side. It looked like we have seen that kind of slowing trend on your slide earlier. You talked about Europe having high inventories, is there an outlook that continues that trend on softening over the next few quarters on the export side or are you as confident there as you are on the utilities side?

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Don Seale - Norfolk Southern Corp - Chief Marketing Officer

We remain positive on export. Ken, as I mentioned, our export traffic on the Port of Baltimore is up significantly. We saw some tough comps at Lamberts Point. The business did soften a little bit in the third quarter. I will tell you that based on what we are seeing in the fourth quarter in terms of bookings and the look ahead, we see that as a pause as opposed to a change in market direction.

Ken Hoexter - Banc of America - Analyst

Okay. Lastly, throw in on the empties. Is that -- I guess now that we have seen a bit of a slow down on the intermodal side, is that the empty repositioning lightening up or is that something that you are seeing continue into the fourth quarter?

Don Seale - Norfolk Southern Corp - Chief Marketing Officer

So far in October, we see that continuing. I would suspect that it would start to mitigate at some point if container capacity, overall capacity improves.

Ken Hoexter - Banc of America - Analyst

Great. Thanks for the time.

Operator

Your next question is from Gary Chase with Barclay's Capital. Please go ahead with your question.

Gary Chase - Barclays Capital - Analyst

Good afternoon, everybody. Just wanted to see if I could get a little bit more clarity on some of the answers to what you were just discussing there with Ken. Is there a way for you to give us a sense of how much traffic in the network is presently double stacked or how much was say before you opened the Heartland Corridor and how much of that is changing.

Wick Moorman - Norfolk Southern Corp - Chairman, President & CEO

Well, we were running stacks -- so we can clarify that we were running stacks but we were running them up over Harrisburg back over to Columbus and towards Chicago or over from Norfolk to Knoxville and back up. The available business that we will be converting, a third of that, approximately a third of that has already been converted. Another 10% will be converted after we finish the Cincinnati clearances that we mentioned, and then of course we will have market growth with that on top of that shift.

Don Seale - Norfolk Southern Corp - Chief Marketing Officer

To amplify that a little bit more, if you look at our overall intermodal network which we think is a great network and we have a premier service in a number of significant corridors, I believe I'm correct to think this was the last one that wasn't cleared for stack. The vast majority of our traffic that we can stack, we are stacking in all of those corridors.

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Mark Manion - Norfolk Southern Corp - COO

It is just a complete network after we finish Cincinnati. The Bergen Tunnel in New Jersey opened up the northern route coming out of the shared asset area.

Gary Chase - Barclays Capital - Analyst

Is there a way to think about how much mileage you might be saving? Is there a statistic you can give us to give us some flavor for just how circuitous those alternate routings were?

Wick Moorman - Norfolk Southern Corp - Chairman, President & CEO

250 mile savings from Port of Hampton Roads, Port of Virginia to the Ohio Valley, Columbus, for example.

Don Seale - Norfolk Southern Corp - Chief Marketing Officer

Which is a full day's transit.

Gary Chase - Barclays Capital - Analyst

Then just one other quick one, Don. You mentioned the coal inventories and I'm wondering if there is any different flavor between the northern and southern utilities and when you think about what is changing at the margin whether we would expect that ramp in utility volume to be more northern or southern focused?

Don Seale - Norfolk Southern Corp - Chief Marketing Officer

We will continue to see the northern utility coal move. We are seeing increased demand to the south. I think that that will continue to trend up. I mentioned that 20%, which is essentially 20 utility plants in our network of 100 utility plants, are now telling us they are below their targeted inventory levels. We will tell you that a good portion of those 20 are not in the northern utility region.

Gary Chase - Barclays Capital - Analyst

Okay, guys. Thank you.

Operator

The next question is from Jason Seidl with Dahlman Rose. Please go ahead with your question.

Jason Seidl - Dahlman Rose - Analyst

Evening, guys. Don, could you go over some of the mix shift that you saw in the car loads and how it is going to impact 4Q so we can start thinking about revenue per unit for 4Q? Are we going to see the miles sort of continue that you saw in 3Q or are some going to abate?

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Don Seale - Norfolk Southern Corp - Chief Marketing Officer

In terms of the description that we gave here on third quarter, certainly the coal RPU will continue to see a mix affects that I described, although we will continue to see a little bit more southern utility coal as I just mentioned which will help mitigate some of that. With respect to the car load business, we are going to continue to see in the fourth quarter some of the dynamics in the grain market that I mentioned, the chemical market with the fly ash will actually see a reduction in fly ash so it's some improvement in chemical RPU from the fourth quarter and everything else in terms of metals and construction should be fairly constant for the fourth quarter.

Jason Seidl - Dahlman Rose - Analyst

All right. Perfect. That's very good color. Thank you. For the second question, did you guys break out your favorable one-time settlement in the coal royalties? If you did not, could you let me know what it was?

Jim Squires - Norfolk Southern Corp - CFO

Sure. This is Jim. I mentioned the majority of the increase, other income that was first the gain on the land sale to (inaudible) which was \$35 million and then the settlement portion of the coal royalties increase was \$13 million.

Jason Seidl - Dahlman Rose - Analyst

It was \$13 million.

Jim Squires - Norfolk Southern Corp - CFO

Yes, items were 48 combined and excluding from the 81, that 48 brings you down to \$33 million in other income.

Jason Seidl - Dahlman Rose - Analyst

Fantastic. Thank you very much, gentlemen.

Operator

Our next question is from Scott Malat with Goldman Sachs. Please go ahead with your question.

Scott Malat - Goldman Sachs - Analyst

All right. Thanks. Just a quick follow-up on the other income. I know it is a bit lumpy but how do we think about that line? Is the run rate kind of \$15 million from here or should we think of it differently?

Wick Moorman - Norfolk Southern Corp - Chairman, President & CEO

Well, looking back, on average with some uninformative volatility and other income net, but this quarter is recurring item, other income net we're about (inaudible) other income net going forward -- recurring items, that is.

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Scott Malat - *Goldman Sachs - Analyst*

Thanks. The other question I had was just a little side, there has been a small business bill, I think it applies to you also though in September. They made a provision for accelerated depreciation of assets. I think they can depreciate 50% of CapEx incurred and placed in service in 2010. Wondering if you get a benefit on that?

Wick Moorman - *Norfolk Southern Corp - Chairman, President & CEO*

Yes and you saw a large increase in deferred taxes reflecting the benefit of that deferred in our tax provision three-quarters so that explains the increase in deferred taxes. We will see an advantage of the benefit in the fourth quarter.

Scott Malat - *Goldman Sachs - Analyst*

So it is the same kind of run rate from there?

Wick Moorman - *Norfolk Southern Corp - Chairman, President & CEO*

Bear in mind that the third quarter reflects three quarters' worth of bonus depreciation and its impact on deferred taxes. So in the fourth quarter you get one quarter's worth.

Operator

The next question is from Ed Wolfe with Wolfe Trahan, please go ahead with your question.

Ed Wolfe - *Wolfe Trahan & Co - Analyst*

Thanks. Good afternoon, guys. Just back to the yields again. The mix adjusted yields are just difficult to understand how much they have come down relative to last quarter. Other than what you have said in the various mix within the different segments, is there anything else going on here? Is there a large customer who repriced the wrong direction or anything like that?

Don Seale - *Norfolk Southern Corp - Chief Marketing Officer*

Ed, no, there is no specific affect like that.

Ed Wolfe - *Wolfe Trahan & Co - Analyst*

Is there any way to break out what the impact from mix was in fuel relative to rate?

Don Seale - *Norfolk Southern Corp - Chief Marketing Officer*

No. That is something that we are not providing in this discussion because frankly, I think that everyone understands our position with respect to discussing price in the marketplace.



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Mark Manion - Norfolk Southern Corp - COO

Let me amplify that. We have said repeatedly, Don has said and we obviously believe this that we are very confident that over currently and over a sustained period of time we are going to be able to maintain pricing above the levels of rail inflation and we have metrics that we look at and, as I say, it gives us a confidence that we are doing that and will continue to do that. I want to emphasize that we do operate in what we feel is a very complex, competitive marketplace. We do not think it is to our advantage to enter into any kind of detailed discussion about price. That's why we say what we say and don't say what we don't say.

Ed Wolfe - Wolfe Trahan & Co - Analyst

Fair enough. Mark, can you talk a little bit about the conductors? What is the attrition rate in 2011 if you didn't hire anybody?

Mark Manion - Norfolk Southern Corp - COO

Our attrition rate generally runs about 8%, about 1,000 people. As I said we've -- in our T&E ranks we have authorized hiring 1,550 people this year and we are up about 500, as I said, year-over-year so far and I would think next year we will be at least 1,500 and probably more like authorizing 1,800 or even above that come next year and that's just in the transportation side.

Ed Wolfe - Wolfe Trahan & Co - Analyst

Thank you. That's helpful. Then, Don, just a little bit more on the coal expectations. I think you said on the export side there has been a pickup in the fourth quarter. That gives you confidence the lull and third quarter was just a lull. Is that both on the steam and the met export side or is that one way heavier than the other?

Don Seale - Norfolk Southern Corp - Chief Marketing Officer

Most of our -- the vast majority of our export is metallurgical coal, very little steam.

Ed Wolfe - Wolfe Trahan & Co - Analyst

So that pickup is on the met side export?

Don Seale - Norfolk Southern Corp - Chief Marketing Officer

Right.

Ed Wolfe - Wolfe Trahan & Co - Analyst

In the US, what is your view on met on very tough comps for next year? How do you think about that?

Don Seale - Norfolk Southern Corp - Chief Marketing Officer

Well, as I mentioned in the comments, and you see in our numbers up dramatically in the third quarter in terms of domestic met volume, we are being told that stocks of domestic met coal for steel production are still below target levels, substantially below target levels. We are planning on continued growth in that segment.

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Ed Wolfe - Wolfe Trahan & Co - Analyst

Okay. The last question. One of your competitors reduced their PTC capital spending. Are you doing any of that? Is that in the forecast for either this year or next?

Jim Squires - Norfolk Southern Corp - CFO

Haven't really seen too much about what anyone else has said. Our PTC spending next year -- we are not planning on reducing it in any way. We continue to plan and move forward to follow the legislation's mandate and have the system operational where we need it to by the end of 2015.

Ed Wolfe - Wolfe Trahan & Co - Analyst

What are you planning to spend in 2010?

Jim Squires - Norfolk Southern Corp - CFO

Order of magnitude this year is under 100 and it will be more than that next year.

Don Seale - Norfolk Southern Corp - Chief Marketing Officer

Next year is in the range of 100, 120.

Ed Wolfe - Wolfe Trahan & Co - Analyst

Thanks for the time, guys.

Operator

Next question is from Chris Ceraso with Credit Suisse Group. Please go ahead.

Chris Ceraso - Credit Suisse - Analyst

Thanks. Good evening. A couple of questions on incremental margin. First, if I think about the business overall, this year you have been running on a year-over-year basis in the, call it 50% range give or take. As you get into next year and you are starting to hire people and you're starting to add equipment, where does that moderate to? Is something in the 30% range more normal for this business? How do you think about that?

Jim Squires - Norfolk Southern Corp - CFO

Chris, I think there is still room to run on incremental margin, especially this year. Getting into next year it becomes more challenging. We think that certainly lower operating ratios, that would be one key to improved incremental margins are also within reach. But it is fair to say we think that it will become more challenging next year to produce further improvements in incremental margins.

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Chris Ceraso - *Credit Suisse - Analyst*

You will still earn some incremental margin on revenue growth, right? It just won't be as high?

Jim Squires - *Norfolk Southern Corp - CFO*

Right. When I say further improvements I mean in comparison to the incremental margin we have seen this year.

Chris Ceraso - *Credit Suisse - Analyst*

Maybe you can help me with the marginal economics of the intermodal business, particularly as you go from single to double stack. What is the marginal benefit of adding a second box on top? Is that a 90% profit on that or what are the economics of the extra box?

Jim Squires - *Norfolk Southern Corp - CFO*

Well, I don't know that I have the exact numbers in front of me. I think it is fair to say it is significant just in terms of it is that many more boxes, you are leveraging your train starts. You are leveraging your network costs. You still have costs around lifts. There is some incremental fuel cost. I'm not sure I would be comfortable with 90%. It depends also on type of business as to whether there is dray involved and who is paying for the dray. It is certainly a significant driver of efficiency to be able to stack.

Chris Ceraso - *Credit Suisse - Analyst*

Thank you.

Operator

Next question is from Cherilyn Radbourne with TD Newcrest. Please go ahead with your question.

Cherilyn Radbourne - *TD Newcrest - Analyst*

Thanks very much and good afternoon. I think most of my questions have been asked already but nobody has asked you about the regulatory landscape. Maybe I will just ask you for a bit of an update there and any comments you have on the risk the FTD may start to direct its attention to rail to rail competition and access issues, et cetera?

Wick Moorman - *Norfolk Southern Corp - Chairman, President & CEO*

Well, a lot of folks talk about this all the time so I will be brief, but while never saying never, it certainly looks like this Congress will adjourn without anything having happened on the legislative front in terms of rail regulation. We will have to see what the new Congress brings. It is an issue that has been out there for 20 years. We will obviously be continuing to talk about it. As far as the STB goes, that's an interesting question but the STB has as its first mandate to ensure that railroads earn an adequate return on capital. I think we are confident that the STB knows that mandate and will be guided by it in the decisions that they make in the future. We will obviously continue to watch that very closely as well.

Cherilyn Radbourne - *TD Newcrest - Analyst*

Thank you. That's all my questions.



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Operator

Next question is from Jeff Kaufmann with Sterne Agee. Please go ahead with your question.

Unidentified Participant #1 -- Analyst

Hi. It's actually (inaudible) stepping in for Jeff Kaufmann. We had a quick question on a better sense of why train speeds were down while terminal dwell was up? Trying to understand if this is something new and unique or what is going on?

Don Seale - Norfolk Southern Corp - Chief Marketing Officer

Let me address that. Train speeds are down. The good news is that the railroad is operating well. Good fluidity in the terminals. Good connection performance which, of course, is very important to our customers. As we paddle hard in order to get the resource level up to where these nice volumes have been, that will improve our train speed. These conductor forces that are now coming on will give us a lot of help in that area and we are also taking delivery of more locomotives through the fourth quarter and actually first quarter as well. Those resources will give us a nice boost as we get our train speeds back up.

Unidentified Participant #1 -- Analyst

Got it. Then on the terminal dwell side?

Don Seale - Norfolk Southern Corp - Chief Marketing Officer

Terminal dwell has been really the same story to the extent that we have instances where we don't have crews available to pull a train as timely as we would like. That, of course, increases our dwell time. Over these next several months as our crews come available, we will see not only the velocity improve but we will see that dwell time drop back to the historically low levels that we have had.

Unidentified Participant #1 -- Analyst

You think that will happen next quarter or in two quarters?

Don Seale - Norfolk Southern Corp - Chief Marketing Officer

That is something that we will see as we go on through, as we go on through the quarter we will see improvement in November and then even more so in December as we have more resources available.

Unidentified Participant #1 -- Analyst

Got it. Thank you so much. Very helpful.

Don Seale - Norfolk Southern Corp - Chief Marketing Officer

Thank you.

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Operator

Our next question is from Justin Yagerman with Deutsche Bank. Please go ahead.

Rob Salmon - Deutsche Bank - Analyst

Good evening, guys. It is Rob Salmon on for Justin. You had spoken a little bit earlier about the movement planner software that you guys are implementing. Could you give us a sense what sort of productivities improvements you're seeing on the four divisions where it is currently running? Whether you are talking about gross ton miles per train hour or gross ton miles per gallon, what that technology is helping you guys do?

Don Seale - Norfolk Southern Corp - Chief Marketing Officer

Keep in mind it is pretty early in the game. We like what we see so far. With this relative deployment so far we are seeing in the neighborhood of a 2 to 4-mile an hour improvement which in railroad parlance is a pretty big deal. That equate to about a 10% to 20% velocity improvement. We will keep working on that, we will keep rolling that out and the early indications are that is the nature of the improvement.

Rob Salmon - Deutsche Bank - Analyst

That's helpful on that front. A couple kind of quick just basic update questions. I didn't see a fuel surcharge revenue in the slide. Could you guys provide us with what that was in the third quarter?

Jim Squires - Norfolk Southern Corp - CFO

Sure. The fuel surcharge revenue in the third quarter of this year was \$179 million versus \$99 million in the third quarter of 2009 for a favorable delta of \$80 million.

Rob Salmon - Deutsche Bank - Analyst

Thanks. And then finally, on the sideline capacity, could you give us a sense what sort of locomotives you guys currently have parked that could be deployed as well as rail cars?

Don Seale - Norfolk Southern Corp - Chief Marketing Officer

Well, we do not have any locomotives in storage. We pulled them into action and we have leased some locomotive power but, more importantly, we are taking delivery of some new power. As I mentioned this fourth quarter, we are going to get 42 locomotives and then another 50 as we go into 2011 during the first half.

Rob Salmon - Deutsche Bank - Analyst

And on the rail car side?

Don Seale - Norfolk Southern Corp - Chief Marketing Officer

On the rail car side, we have still got some storage but it has dwindled down, last I looked it was in the 6,000 to 7,000 range.

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Rob Salmon - Deutsche Bank - Analyst

Really appreciate the time guys.

Operator

Our next question is from Anthony Gallo with Wells Fargo. Please go ahead with your question.

Anthony Gallo - Wells Fargo - Analyst

Thanks for getting to my question. I guess it's also on network capacity. If I have my numbers right, it looks like your 2010 car loads will finish up somewhere between 10% and 12% below 2007 levels, let's call it the pre-recession peak. It sounds like you have got resource needs now. I'm just trying to reconcile, car loads aren't where they used to be but assets are. I'm just trying to reconcile that.

Mark Manion - Norfolk Southern Corp - COO

We do -- in light of the volume that came on rapidly, that created the resource needs. Like I said, that should rectify itself as we go through the fourth quarter and on into the new year. That's good. Then that will help us get our velocity back up to where it has historically been and, as you know, that in itself that creates room on the railroad. There is a lot of benefit to that. We get the benefit of turning the assets more quickly and frees up capacity on the railroads.

Wick Moorman - Norfolk Southern Corp - Chairman, President & CEO

If you look at where we are compared to those volumes, we are certainly not seeing infrastructure issues in terms of capacity. Locomotives, we had retired some, so the number had gone down but, as Mark said, we have a few leased right now because of velocity issues. Where we are still substantially below 2007 though is on the train and engine service head count and, as Mark has outlined, we have plans to bring that back up. But if you look at the relative numbers between 2007 and 2008 train engine service and our current numbers in service today, we are down substantially and that's the issue we are addressing.

Anthony Gallo - Wells Fargo - Analyst

Does mix play a role? Is there coincidentally less unit train business now than there was in 2007?

Mark Manion - Norfolk Southern Corp - COO

No, there is no lapse. Mix does play something of a role in terms of how we dispatch crews and locomotives. So that -- we are seeing, as Don pointed out, we are really seeing some very heavy unit train business right now because in addition to the coal we are handling a lot more export grain than we were a couple of years ago and some additional grain for domestic users as well as we have implemented our 75 car unit grain train network. If anything, we are seeing more unit trains rather than fewer these days.

Anthony Gallo - Wells Fargo - Analyst

Thank you .

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Operator

The last question is from [Donald Brown] with Avondale Partners. Please go ahead with your question.

Donald Brown - *Avondale Partners - Analyst*

Good afternoon, gentlemen. The plant experience for BMW and the Volkswagen plant, only you serve those plants or do both you and CSX serve those plants? In other words, are you going to be able to capture all the incremental volume or is there some competition for that?

Don Seale - *Norfolk Southern Corp - Chief Marketing Officer*

Don, we serve the BMW plant exclusively and the Volkswagen plant will be jointly served and we are confident that we will get our share of the business.

Donald Brown - *Avondale Partners - Analyst*

I'm sure of that. When is the Volkswagen plant due to open?

Don Seale - *Norfolk Southern Corp - Chief Marketing Officer*

It will be ramping up production in the second quarter of 2011.

Donald Brown - *Avondale Partners - Analyst*

Fantastic. Well, good luck at having a great 2011.

Operator

There are no further questions in queue. I'd like to turn to the call back to management for closing remarks.

Wick Moorman - *Norfolk Southern Corp - Chairman, President & CEO*

Thank you very much for being with us today. Thanks for the great questions and we look forward to talking with all of you throughout the quarter and with you being with us for our next earnings call in January. Thanks.

Operator

This concludes today's teleconference. You may disconnect your lines. Thank you for your participation.

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