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NSC - Q2 2016 Norfolk Southern Corp Earnings Call

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OVERVIEW:

NSC reported 2Q16 YoverY revenue decline of 10%, net income of $405m and diluted EPS of $1.36.

CORPORATE PARTICIPANTS

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Jim Squires *Norfolk Southern Corporation - Chairman, President, CEO*

Alan Shaw *Norfolk Southern Corporation - EVP, CMO*

Mike Wheeler *Norfolk Southern Corporation - EVP, COO*

Marta Stewart *Norfolk Southern Corporation - EVP Finance, CFO*

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Tom Wadewitz *UBS - Analyst*

Ravi Shanker *Morgan Stanley - Analyst*

Allison Landry *Credit Suisse - Analyst*

Chris Wetherbee *Citigroup - Analyst*

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PRESENTATION

Operator

Greetings and welcome to the Norfolk Southern Corporation's second-quarter 2016 earnings conference call. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Katie Cook, Director of Investor Relations. Thank you. You may begin.

Katie Cook - *Norfolk Southern Corporation - Director IR*

Thank you, Christine, and good morning. Before we begin today's call, I would like to mention a few items. The slides of the presenters are available on our website at Norfolk Southern.com in the Investors section, along with our non-GAAP reconciliations. Additionally, transcripts and downloads of today's call will be posted on our website.

During this call, we may make certain forward-looking statements which are subject to a number of risks and uncertainties and may differ materially from our actual results. Please refer to our annual and quarterly reports filed with the SEC for a full discussion of those risks and uncertainties we view as most important.

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

Jim Squires *- Norfolk Southern Corporation - Chairman, President, CEO*

Thank you, Katie, and good morning, everyone, and welcome to Norfolk Southern's second-quarter 2016 earnings call. With me today are NS's Chief Marketing Officer, Alan Shaw; our Chief Operating Officer, Mike Wheeler; and our Chief Financial Officer, Marta Stewart.

Our results this quarter, as shown on slide 4, underscore the flexibility built into our team's planning and execution. Volumes came in below expectations, so we quickly reigned in costs, pushing operating expenses down 11% in the face of a 10% decline in revenue.

As a result, we posted a 68.6% operating ratio, 140 basis points or 2% below last year. Earnings per share for the quarter were $1.36, just 4% lower than last year's $1.41. For the first six months of 2016, our 69.4% operating ratio set a record, while EPS increased 10% year-over-year.

These results reflect an unwavering focus on cost control and steadfast commitment to customer service. Thus, even as we aggressively reduced spending, we drove significant improvements in network performance, as shown by the 13% uptick in the composite service metric in the quarter and 18% increase in the first half.

Turning to slide 5, even in the current challenging environment we believe we can achieve at least $200 million of productivity savings for the full year and an operating ratio below 70%. Longer-term, we will continue positioning for top-line growth while targeting annual productivity savings of over $650 million by 2020 and an operating ratio below 65%. Given our strong start this year, we are well on our way.

Now, Alan will cover trends in revenue; Mike will provide more detail on how we're managing the operation; and Marta will summarize our financial results. Then we'll take your questions.

But before I turn over the microphone, let me add a word of thanks to all our employees. Your intelligence and hard work are the keys to our success. Thank you.

And now I'll turn the program over to Alan and then return to take your questions.

Alan Shaw *- Norfolk Southern Corporation - EVP, CMO*

Thank you, Jim, and good morning to our audience. We appreciate your joining us today.

Norfolk Southern continues to face economic headwinds, especially in regard to energy prices. Declining coal shipments and fuel surcharge revenue, coupled with the Triple Crown restructuring and reduced crude oil volume, lowered the top line in the second quarter.

Excluding Triple Crown and fuel surcharges, intermodal revenue increased slightly year-over-year. In addition to decreased fuel surcharges, the mix associated with lower coal volume and increased intermodal reduced our second-quarter revenue per unit, despite accelerated pricing growth in the quarter.

Within our merchandise market, as shown on slide 8, increased shipments of cement and steel benefited our metals and construction volume. While second-quarter and expected full-year automotive volume growth is in line with North American vehicle production, second-half volumes will be influenced by competitive losses and plant-specific outages associated with decreased model demand, limiting year-over-year comparisons.

Chemicals market declines were driven by crude oil and by plant closures and consolidations that reduced industrial intermediates traffic. Our agriculture markets were impacted by increased competition from local corn moving via truck and weaker feed exports.

Merchandise RPU, excluding fuel, increased 2% due to positive pricing despite the negative mix associated with decreased industrial intermediates and frac sand.

As reflected on slide 9, international intermodal growth of 4% partially offset losses in both domestic and Triple Crown freight. Our alignment with the ports and shipping lines adding capacity for growth will benefit the international segment over the long term.

Intermodal continues to be impacted by excess capacity in the truck market, a condition we expect to change next year. Lastly, the Triple Crown restructure will affect our year-over-year volume comparisons until midway through the fourth quarter.

Excluding Triple Crown and fuel surcharges, intermodal posted an increase of 1% in revenue, volume, and RPU. RPU benefited from strong pricing, despite the adverse mix associated with increased international freight.

Moving on to coal on slide 10, coal volumes declined as a result of sustained low natural gas prices, high stockpiles, and continued weak export conditions. RPU excluding fuel remained flat, with positive pricing neutralized by mix. Increased volumes of thermal export coal and [declines of metallurgical export coal lowered RPU, which was further affected by volume declines in certain long haul utility lanes.

Current weather conditions and natural gas prices are offering some support for the more efficient coal plants; however, we still have a significant utility stockpile overhang through which to work before volumes normalize.

On slide 11, continued mild weather early in the second quarter limited utility shipments and increased the stockpile overhang. Reported May stockpiles were at the highest point over the past few years. Although there was some improvement in June, it is expected that this inventory overhang will linger into 2017.

With normal weather patterns, we expect to handle between 13 and 15 million tons of utility coal per quarter until stockpiles reach target. However, recent hot weather and higher natural gas prices may push that upper boundary in the third quarter.

Concluding with our outlook on slide 12, continuing economic challenges dampen our volume expectations for the third quarter, although we expect volume to slightly improve sequentially as compared to the second quarter. In the fourth quarter, we will have somewhat easier comparisons to last year, during which volumes were impacted by the Triple Crown restructuring, warm weather, commodity price declines, and higher inventories. These factors, plus positive volume trends in construction related steel, agricultural, and intermodal markets, point to a modest increase in] (corrected by company after the call) fourth-quarter volume.

Our 2016 pricing remains strong overall, though we do see some softness in truck-competitive sectors. We continue to focus on maintaining a service product that the market values, commanding a higher price, and attracting service-sensitive business.

Lastly, as we monitor market conditions and changing volume expectations, we will control all aspects of our business impacted by these shifts. Marketing is collaborating closely with operating and finance departments to correctly align our resources with current volume trends.

To further discuss our operations, I will now turn it over to Mike.

Mike Wheeler - *Norfolk Southern Corporation - EVP, COO*

Thank you, Alan. I am pleased to announce we are continuing to operate at high service levels while achieving significant results in our cost-reduction initiatives, as Jim noted, thanks to the commitment and focus of our employees on executing these key drivers of our strategic plan. The following results are due to NS employees' hard work.

Let me begin with safety on slide 14. While our reportable injury ratio increased in the second quarter as compared to the same period last year, we have seen an improvement sequentially this year, which is encouraging. We also maintained a low serious injury ratio.

Turning to service on slide 15, you see we further improved our already-high service levels from the first quarter. This marks the sixth consecutive quarter of improved service to our customers.

For the second quarter, our service composite improved 13%, which was driven by a 32% improvement in train performance and an 11% improvement in shipments making their scheduled connection. So it is good to see all components of the service composite improving.

What is equally encouraging is we have maintained and achieved this while aggressively and successfully pursuing cost-reduction initiatives, as supported by our 68.6% operating ratio. We remain confident we can continue to keep service at a high level while we focus on continuing to identify and implement further cost-reduction initiatives.

As you can see on slide 16, our train speed and terminal dwell improved 12% and 9%, respectively, compared to the same period last year. Overall velocity, as measured at the car level, remains near our record levels and continues to aid our asset utilization and improved service for our customers. This has been a driver in being able to store 450 locomotives.

We are also very pleased to see our service and velocity metrics remain very high even with the idling of Knoxville, a major hump terminal, on May 1.

Now on slide 17, our ability to keep the railroad operating at a high level while implementing aggressive cost-cutting initiatives resulted in significant productivity savings. Our reduction in crew starts was in line with our drop in volume, and we have continued to improve our train length, re-crews, and overtime. Together, this resulted in improved employee productivity.

Also, our T&E headcount was down 9%, which helped drive the reduction in our overall corporate headcount.

I will now turn it over to Marta, who will highlight the effect of these improvements.

Marta Stewart - *Norfolk Southern Corporation - EVP Finance, CFO*

Thank you, Mike, and good morning, everyone. Let's take a look at the second-quarter financials.

Slide 19 summarizes the operating results and highlights the expense control focus that Jim discussed. While revenues declined by 10% on the 7% lower volume, our operating expenses were down 11%. This led to a much improved operating ratio of 68.6%.

The next slide shows the expense reductions by category. As was the case in the first quarter, all categories, except for depreciation, were lower. Depreciation was up 4%, reflecting continued investment in our capital assets.

Now let's take a closer look at each of the other components. Slide 21 depicts the drop in fuel expense, totaling $81 million or 32% for the quarter. Lower oil prices resulted in a 25% decrease in the price per gallon, while consumption fell by 6%.

Turning to slide 22, compensation costs were down by $57 million or 8%. As shown on the lower left of the slide, our average headcount for the quarter declined by about 2,000 employees versus last year and was flat sequentially.

Since we did not see the normal historical rise in volumes from the first to the second quarter, we were able to hold employment levels lower than previously expected. This reduced headcount, along with lower overtime and fewer re-crews, resulted in $50 million of year-over-year savings.

The associated payroll taxes were favorable by $11 million, and we had $9 million in lower pension expense. These items were partially offset by $14 million in health and welfare rate increases associated with our agreement workforce.

For the remainder of the year, we expect headcount to remain relatively flat. But we will face about a $30 million per-quarter headwind for incentive comp, since last year's third and fourth quarters included reversals of accruals. Of course, both of these expectations are based on our current volume projection.

Purchased services and rent is depicted on slide 23 and was down $54 million or 12%. Lower costs associated with the curtailed Triple Crown operations accounted for $38 million of the reduction, and expenses related to joint facilities and haulage declined by $8 million.

Slide 24 details our materials and other category, reflecting a decrease of $33 million or 14%. Reductions totaling $26 million were due to declines in materials usage for locomotives, freight cars, and roadway, with the largest drop related to locomotives as a result of the fewer units in service that Mike mentioned.

For the remainder of the year, we continue to expect favorability in materials costs, but at a somewhat moderated level of about $15 million per quarter compared with the third and fourth quarters of last year.

Next, taking a look at nonoperating income on slide 25, we had a large relative decrease of $15 million in this category, which was primarily related to three items: reduced income associated with our leased coal properties; fewer gains on property sales; and costs for external advisors.

Moving on to income taxes on slide 26, the effective rate for the second quarter was 36.3% versus 38.1% last year. The lower effective rate reflects a combination of small items including corporate-owned life insurance, tax credit, and estate tax law change.

For the full year, we continue to expect an effective income tax rate of roughly 37%.

Slide 27 shows our bottom-line results, with net income of $405 million, a decrease of 6% versus 2015, and diluted earnings per share of $1.36, down 4% compared with last year.

Wrapping up our financial overview on slide 28, cash from operations for the first six months was $1.4 billion, covering capital spending and producing $500 million in free cash flow. With respect to shareholder returns, we paid $350 million in dividends and repurchased 400 million of our shares.

Going forward and in light of the still soft volumes, we have trimmed capital spending for the full year by another $100 million, and now project $1.9 billion in total CapEx for the year. We remain on track for full-year share repurchases of $800 million.

Thank you for your attention, and I'll turn the program back to Jim.

Jim Squires - *Norfolk Southern Corporation - Chairman, President, CEO*

Thank you, Marta, and we'll now take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ken Hoexter, Bank of America Merrill Lynch.

Ken Hoexter - *BofA Merrill Lynch - Analyst*

Great; good morning. Alan, you mentioned a lot of core pricing going up or even flat in some categories. Can you give us -- it sounds like there was some competition pressuring some of the volumes in different instances as well. Can you talk about overall your thoughts on pricing, given what's going on in the truck market, going -- what's going on in different commodities on an aggregate basis?

Alan Shaw - *Norfolk Southern Corporation - EVP, CMO*

Yes, Ken; good morning. Pricing is still moving up for us. We accelerated pricing year-over-year.

We are facing some competition with respect to truck. Doesn't mean we're taking lower prices; it more, Ken, limits our upside potential in certain truck-competitive markets.

Ken Hoexter - *BofA Merrill Lynch - Analyst*

I'm sorry, just -- so in aggregate, still above inflation? I mean, can you give a parameter of how in aggregate you're thinking about pricing overall?

Alan Shaw - *Norfolk Southern Corporation - EVP, CMO*

Yes. We are taking a measured and disciplined approach to pricing. We're focused on competitive pricing above rail inflation. We continue to exceed that, and we are exceeding the pricing levels that we achieved last year.

Ken Hoexter - *BofA Merrill Lynch - Analyst*

Okay, wonderful. Then a follow-up on a different subject. But just looking, Jim, talking about your long-term double-digit growth and sub-65% target. Great to see the progress with the $200 million.

When you think about the $650 million, to get to that scale, is that new programs? Is that shutting additional yards? You mentioned one of the hump yards you shut down.

Can you give maybe some parameters on other -- as you've moved along in this development, your thoughts on how you're going to get there?

Jim Squires - *Norfolk Southern Corporation - Chairman, President, CEO*

Sure. Well, we've previously outlined a goal of $650 million in annual productivity savings by 2020, and we are making good progress on that thus far. We're only six months into a five-year plan, so we still have a lot of ground to cover.

But the big buckets of that $650 million, as you know, are in comp and benefits, fuel consumption, locomotive maintenance, and reduced equipment costs and fees. And we're making progress in all of those areas.

We have plans in place to continue pushing productivity gains for the remainder of this year and five-year plan period.

Ken Hoexter - *BofA Merrill Lynch - Analyst*

Great. Thanks for the time this morning. Appreciate the insight.

Operator

Tom Wadewitz, UBS.

Tom Wadewitz - *UBS - Analyst*

Yes, good morning. I wanted to ask you a little bit about how we might think about operating ratio in the second half. It sounds like you're having a little more constructive outlook for volumes, that there could be some improvement. I know you've got good operating leverage in your scheduled carload network, and presumably in intermodal as well.

So I'm just wondering. I think you talked about some costs pressures from incentive comp and so forth. How would you think about operating ratio in second half, and maybe the impact of operating leverage if volume improved relative to what might be happening on the cost side?

Marta Stewart - *Norfolk Southern Corporation - EVP Finance, CFO*

Yes, Tom, thank you. Good morning. We still are guiding towards the below-70% operating ratio for the full year. You are correct that we had good movement on that in the second quarter.

For the remainder of the year, the two items that I will point out -- you mentioned one of them -- that will cause the 68.4% to maybe go up a little bit but still stay below 70%, is the incentive comp and then also the rate of decline in the materials expense. But we're comfortable with our continuing our guidance of below-70% for the full year.

Tom Wadewitz - *UBS - Analyst*

How do you think about volumes? Like, I mean, I guess if we see volumes develop a little bit better and you do see less-worse third quarter and then improvement year-over-year in fourth quarter, is it fair to think that there'll be nice impact in terms of operating leverage and nice impact to the OR? Or should we be cautious on how we anticipate that coming through?

Jim Squires - *Norfolk Southern Corporation - Chairman, President, CEO*

Certainly volume growth represents upside. Volume growth beyond our expectations would represent upside, particularly if it occurs in lines of business with high operating leverage. So, yes, that's certainly a possibility.

We believe we have the capacity to take advantage of natural operating leverage in those businesses. Now I'll turn it over to Alan to talk a little bit more about the volume outlook generally in the second half.

Alan Shaw - *Norfolk Southern Corporation - EVP, CMO*

Tom, I spoke a little bit about it in the remarks as I walked through our different commodities. For us, it's going to be a coal and intermodal outlook, and merchandise ups and downs are going to be dependent upon energy prices.

If you take a look at the forward curve for commodities and energy prices, the fourth quarter is higher than it stands today, although I'll note that just this month WTI has pulled back 12%. So that creates some caution to our outlook.

But generally, we see that sequential growth in the third quarter. Fourth-quarter comps should be much easier for us, because fourth quarter last year is when we saw the commodities downdraft and we saw the Triple Crown restructuring towards the middle of the quarter.

Tom Wadewitz - *UBS - Analyst*

Right. Okay; great. Thanks for the time.

Operator

Ravi Shanker, Morgan Stanley.

Ravi Shanker - *Morgan Stanley - Analyst*

Thanks. Good morning, everyone. I just want to clarify a response to a previous question on pricing. Did you say that your year-on-year pricing is actually above what it was last year? Or just that you're getting higher price versus last year?

Alan Shaw - *Norfolk Southern Corporation - EVP, CMO*

Ravi, I did say that our year-on-year pricing is higher than it stood at this point last year. We are taking a long-term approach, as are our customers.

There is an expectation that the trucking market is going to tighten at some point next year. And we've started to see some sequential improvement in demand in the truck market just this month. And we're leveraging the benefit of our improved service product.

Ravi Shanker - *Morgan Stanley - Analyst*

Okay, got it. And not that anyone knows what the weather will do, but does your 4Q volume growth forecast assume a normal winter or a warm winter, just given that we're having record heat this year?

Alan Shaw - *Norfolk Southern Corporation - EVP, CMO*

We are assuming normal weather patterns. And certainly weather and natural gas prices will determine how quickly stockpiles return to normal within the coal network. In any case, we don't believe that that will occur until sometime next year.

Ravi Shanker - *Morgan Stanley - Analyst*

Great. Thank you.

Operator

Allison Landry, Credit Suisse.

Allison Landry - *Credit Suisse - Analyst*

Good morning; thanks. I just wanted to follow up on the OR commentary for the back half. I just want to make sure I understand it correctly.

So potentially a little bit worse sequentially in Q3, but then maybe with volume growth in Q4, the normal sequential deterioration that you'd see in the OR then; maybe the cadence is off. Is that the right way to think about it?

Marta Stewart - *Norfolk Southern Corporation - EVP Finance, CFO*

I think directionally I think you're right, Allison. I think the right way to think about it is it's very dependent on the volumes that come. You all are familiar with our incremental margin hierarchy, which is when the volumes come back in merchandise that is the most positive incrementally; and then coal; and then intermodal, because of the specific costs that it has.

So it's very dependent on the volume. You're not going to see a very -- you're not going to see a huge change in any of these items.

I guided to the two specific items in expense going forward that will be slightly different in the third and fourth quarters. But as Mike and the operating team continue to run the railroad very, very efficiently, you're mostly going to see a continuation, operating expense-wise, of what you saw in the second quarter.

Allison Landry - *Credit Suisse - Analyst*

Okay, that's helpful; thanks. Then thinking about CapEx and maybe if you could provide any initial thoughts on spending for 2017, considering what will likely be two consecutive down years for GTMs; and then the percentage of the locomotive fleet that's in storage.

Jim Squires - *Norfolk Southern Corporation - Chairman, President, CEO*

Sure, I'll take that one, Allison. We have previously guided to CapEx at 19% of revenue through the completion of PTC. Thereafter, we expect to be able to reduce CapEx by several percentage points relative to sales.

We've been aggressive this year on CapEx in light of volumes, revenue, and cash flow that have not met initial expectations. We've reduced CapEx, as Marta mentioned, fully $200 million relative to our original plan.

And that's important because we're focused on making the investments we need to make. We will invest as required to operate safely, efficiently, and provide a high level of service product.

Beyond that, it's all about the returns. If they are there, we'll invest more; if they are not, we won't. We recognize the need to generate ample free cash flow for shareholders, and that's all part of our strategy.

Allison Landry - *Credit Suisse - Analyst*

Okay. Then maybe just a follow-up on that. Marta, I think you had mentioned at some of the conferences in the last few months that you guys are still expecting to acquire, I think, another 50 new locomotive units next year. Is that still the way that you guys are thinking about it?

Marta Stewart - *Norfolk Southern Corporation - EVP Finance, CFO*

That's correct. We have 50 new locomotives coming in next year.

Allison Landry - *Credit Suisse - Analyst*

Okay, great. Thank you for the time.

Operator

Chris Wetherbee, Citi.

Chris Wetherbee - *Citigroup - Analyst*

Great, thanks; good morning. Just wanted to follow-up on that CapEx question, and just conceptually thinking about maybe the cadence of volume growth as you look out over the course of the next year or so, and the progress of locomotive that you need to take on. I guess maybe the question comes up of why wouldn't we maybe see CapEx fall a little bit before PTC goes down if you have lower incremental spending on equipment coming? I just want to make sure I get all of the moving parts when we think about that maybe for 2017 and 2018.

Jim Squires - *Norfolk Southern Corporation - Chairman, President, CEO*

I'd like to turn it over to Mike to talk about our locomotive strategy in particular, so that's obviously a significant capital budget item. To reiterate what I said a minute ago, we will invest as necessary to provide a safe, efficient, high-service product. After that, we'll see. It just depends on the returns on the incremental dollar of investment.

What I would love for investors to take away from this call is our commitment to disciplined capital spending in the here and now. As noted, we've tightened the reins on capital spending this year, just as we have on expense, to reflect lower than expected revenue and cash flow.

That's really important in our business. It's an asset-intensive business; we've got to stay disciplined on CapEx as with expenses, and that's part of our plan to drive free cash flow.

Mike, why don't you talk a little bit about the locomotive strategy specifically?

Mike Wheeler - *Norfolk Southern Corporation - EVP, COO*

Yes. Well, we still do have the 50 locomotives due next year. We continue to progress down the really innovative DC-to-AC rebuild strategy that we have in place, which over the next several years will allow us to bring the age of our fleet down and get good locomotives at a much lower capital cost than new.

Chris Wetherbee - *Citigroup - Analyst*

Okay, that's helpful. So it's productivity as well. That makes sense.

Can I ask a question, just a follow-up on productivity, the $200 million or better I think for this year? Can you give us a sense of maybe how that might be portioned out into the back half of the year? Maybe where you are and how we should be thinking about it for 3Q and 4Q.

Jim Squires - *Norfolk Southern Corporation - Chairman, President, CEO*

We've outlined an annual productivity objective, and that's where we're going to stay in terms of our productivity goals. We have seen significant progress in productivity in the first half; obviously you see that in the numbers.

We've said that we continue to believe we can do $200 million or better for the full year.

Chris Wetherbee - *Citigroup - Analyst*

Okay, so thinking about it, roughly equal? Or any sense of what the progress has been toward that goal this year?

Jim Squires - *Norfolk Southern Corporation - Chairman, President, CEO*

We did say in the first quarter that we frontloaded some of the productivity. You saw that in the first quarter, and we continued on track during the second quarter. For the full year, we're still thinking we can do at least $200 million.

Marta Stewart - *Norfolk Southern Corporation - EVP Finance, CFO*

Right. And generally speaking, the frontend loading that Jim described is in the materials area. So the detail that we gave with regard to the $42 million materials reduction in the first quarter and then $26 million this quarter, you can see that frontend loading there because we expect $15 million going forward.

So if you look at that difference, that's the area where we had the frontend loading.

Chris Wetherbee - *Citigroup - Analyst*

Okay. That's perfect. Thank you very much for the time; I appreciate it.

Operator

Bascome Majors, Susquehanna.

Bascome Majors - *Susquehanna Financial Group - Analyst*

Yes, thanks for taking my question here. The STB has promised a decision on the NIT League's competitive switching proposal by the end of this month, which is just a few days away. I was hoping you could shed some light on what your expectations are to both the timing and the content of that, when we receive it, based on your engagement with the agency.

Jim Squires - *Norfolk Southern Corporation - Chairman, President, CEO*

The STB had publicized a schedule for issuing rulings in that case and several others earlier this year. My understanding is that's not a deadline; it's not binding on the STB. It's their current expectation as to when they'll issue rulings.

So I don't have any further insight to shed on the timeline or what may come from the STB. We have certainly made our case for the status quo when it comes to competition in the industry, and we'll just have to wait and see how the STB rules there and in the other matters that are pending.

Bascome Majors - *Susquehanna Financial Group - Analyst*

Understood. Maybe one more. The truck competition in your carload merchandise business, can you shed a little light on where you might be bleeding share to truck, or either seeing a bit more acute pressure on price in some of this carload business, as you alluded to earlier?

And from a high level, do you have a sense of how much this has been a drag on your overall volumes?

Alan Shaw - *Norfolk Southern Corporation - EVP, CMO*

Bascome, we talked about intermodal. Your question is specific to merchandise at carload, correct?

Alan Shaw - *Norfolk Southern Corporation - EVP, CMO*

So I'll address that. I mentioned the fact that we are seeing additional competition within our ag markets. That also has to do with the strength of the crop in the Southeast; it opens up local corn into our network, which can move via truck. We're seeing some truck competition in the paper market into the Southeast.

So it certainly has had an impact, as we know, on our domestic intermodal volumes and also on our carload business.

Going forward, it's -- we're going to be looking closely at energy prices, the impact they have on truck, on truck availability, and on commodity prices and retail inventories.

Bascome Majors - *Susquehanna Financial Group - Analyst*

Thank you for the time.

Operator

Rob Salmon, Deutsche Bank.

Rob Salmon - *Deutsche Bank - Analyst*

Hey, good morning, and thanks for taking the question. I'm going to circle back to Chris's question of running productivity.

You guys have done a good job extending train lengths. They were up a little bit in the quarter.

However, if I'm looking at headcount per carload, that was essentially flat. Can you walk me through some of the puts and takes, and what it would take to get back to a little under 70 where you peaked out a couple years ago with regard to headcount per carload?

Is this a mix issue? Or should we be thinking about a lot of operating leverage as volumes build, particularly in the merchandise and intermodal?

Mike Wheeler - *Norfolk Southern Corporation - EVP, COO*

Yes, there is a mix issue there. And as volumes are softening, we take train starts out of the network to build up other trains, and that's a balancing act. You don't want to do that real quickly because you don't want to hurt the service on the network. So that's the challenge there.

But the good news is, going forward that gives you great operating leverage. And for us, we've got capacity on the trains in all commodity groups, really; we've got capacity on the network; and we've got capacity in our resources of locomotives and crews. So we've got a lot of leverage to the upside.

But if volumes remain soft, we continue to whittle at the resources to make sure that all the productivity and efficiency is there.

Rob Salmon - *Deutsche Bank - Analyst*

Can you give us a sense of the -- how much below you are the optimal train size opportunity in your merchandise and intermodal networks, as I think about what that leverage could be?

Mike Wheeler - *Norfolk Southern Corporation - EVP, COO*

We've got a good ways to go, both on the merchandise side and the intermodal site. We're very comfortable where that's at.

Being able to add more units to both of those trains before we start train starts, and then if we need to do train starts we'll add that on; that will be a good news story. But we feel very comfortable about capacity on both of those, particularly the intermodal. We have such a great double-stack network that gives us a lot of efficiency.

Rob Salmon - *Deutsche Bank - Analyst*

Any sense in terms of just the magnitude of delta versus optimal?

Mike Wheeler - *Norfolk Southern Corporation - EVP, COO*

No, because I think you get down to the lane level and the terminal level, and a lot of details there. But we take every opportunity we can.

Rob Salmon - *Deutsche Bank - Analyst*

Understood. Appreciate the time.

Operator

Jason Seidl, Cowen.

Jason Seidl - *Cowen and Company - Analyst*

Thank you, operator, and good morning, everybody. Two quick things for me.

One, following up on your commentary in the intermodal versus truck marketplace, I think you guys said that there had been some sequential improvement especially over the last month. I was wondering if you could elaborate on that and let us know: Has it been an increase in truck spot pricing? Has there been a decrease in available trucks? Any color would be appreciated on that comment.

Alan Shaw - *Norfolk Southern Corporation - EVP, CMO*

Jason, we have seen an increase in truck spot pricing. It's increasing sequentially; it's not increasing year-over-year.

Jason Seidl - *Cowen and Company - Analyst*

Okay. That's a good update. Also, maybe this one might be for Jim. Jim, I think when we came into this year, in terms of the total restructuring plan at Norfolk you talked about 1,600 miles of track divestitures and that you would do 1,000 -- or at least let us know where the 1,000 was going -- by the end of this year.

I think you've done just over 300 miles so far this year. Wondered if you can give us an update.

Jim Squires - *Norfolk Southern Corporation - Chairman, President, CEO*

Sure. We're making good progress there as in other areas of productivity and restructuring, and we're on track to hit or exceed that mileage goal for the full year.

Mike, why don't you talk a little bit more specifically about some of the areas where we're working that?

Mike Wheeler - *Norfolk Southern Corporation - EVP, COO*

Yes. We've got a lot going on there. We've got two pieces to this: this is where we're doing some short-lining, and we've got a short line of the West Virginia secondary that will happen here, actually next week. So that's a piece of it. We're looking at other parts of the railroad as well.

But the other piece to it on the network rationalization is where we've spent a lot of time looking at where we can take resources out of the track structure without hurting service or safety. And that's been a good news story.

We've got over 1,000 miles of that that's already happened on the railroad. Some of the benefits that we've seen in our cost reduction is related to that. More to come as we go forward.

So we feel very comfortable about meeting or exceeding that. And I think we're thinking about giving an update on third quarter on the details of actually where these are at.

But anyway, a wrap-up is: we're ahead of schedule on it and we're seeing good costs come out of the network. But more importantly, safety and service has remained high on those areas.

Jason Seidl - *Cowen and Company - Analyst*

That was a great update, guys. I appreciate the time as always.

Operator

Scott Group, Wolfe Research.

Scott Group - *Wolfe Research - Analyst*

Hey, thanks. Morning, guys. Marta, can you help clarify one thing? I get the incentive comp's a year-over-year headwind in the third quarter. Is it a sequential headwind from 2Q to 3Q?

Marta Stewart - *Norfolk Southern Corporation - EVP Finance, CFO*

It's very small sequential headwind going forward. As you saw, it wasn't one of the year-over-year items that I needed to highlight, so that gives you an indication it's a smaller size.

Scott Group - *Wolfe Research - Analyst*

So if it's a small sequential headwind and you are expecting some volume improvement, I guess I'm a little confused why you're not -- why you think the operating ratio gets worse in the third quarter than the second quarter.

Marta Stewart - *Norfolk Southern Corporation - EVP Finance, CFO*

We're really just talking very tiny basis points. I think in response to Allison's questions, I think the best thing when you're looking at the expense projection sequentially going forward -- other than the two items that I mentioned, the incentive comp and the materials -- we think you will see us at about the run rate that we have in the second quarter.

So we're really talking degrees, very small degrees. And again, I'll emphasize it depends on the volume growth and the commodities that it comes in.

Scott Group - *Wolfe Research - Analyst*

Okay, that makes sense. Can you give an update just on the fuel surcharge side and how much of the business you've transitioned over?

Alan Shaw - *Norfolk Southern Corporation - EVP, CMO*

Yes, Scott, first and foremost, we are focused on price. So as we enter into any negotiation, that's our target initially.

We have been successful and made some progress; and right now about 40% of our revenue is tied to WTI.

Scott Group - *Wolfe Research - Analyst*

Okay, and then just lastly, Alan, can you just give us an update? What's the mix of your coal business in terms of how much is App versus Illinois Basin and PRB today?

Alan Shaw - *Norfolk Southern Corporation - EVP, CMO*

The second quarter we saw a mix increase of Central App. So we had about 34% of our volume was Central App; about 30% was Northern App. Illinois basin was about 21%; and then PRB, Scott, filled in the rest.

Scott Group - *Wolfe Research - Analyst*

Okay. Thank you, guys.

Operator

Justin Long, Stephens.

Justin Long - *Stephens Inc. - Analyst*

Thanks and good morning. First, I was wondering if you could just comment on how you are thinking about the progression of your intermodal volumes in the back half of the year. And bigger picture, do you think this recent weakness in intermodal volumes that we've seen for the industry as a whole is a temporary headwind? Or do you have concern the consumer could be rolling over?

Alan Shaw - *Norfolk Southern Corporation - EVP, CMO*

Justin, we think we're going to have continued improvement in our intermodal volumes. June was a good month for us. We see continued growth as we and our customers see the benefit of our improved service product.

Secondly, our customers are preparing for a tightness in truck capacity. And what you're seeing there is more growth with asset-based carriers.

So, we do think it's a temporary headwind. As fuel prices go up, that will also benefit us. But certainly we're paying close attention to retail inventory levels.

Justin Long - *Stephens Inc. - Analyst*

Okay, but just to be clear, you think your intermodal volumes will be up in the back half? Is that what you said?

Alan Shaw - *Norfolk Southern Corporation - EVP, CMO*

Yes.

Justin Long - *Stephens Inc. - Analyst*

Okay, great.

Alan Shaw - *Norfolk Southern Corporation - EVP, CMO*

Ex Triple Crown.

Justin Long - *Stephens Inc. - Analyst*

Ex Triple Crown? Okay, got you. Secondly, we've always heard about coal being the highest-margin business for the rails. But with your coal volumes down over 20% year-to-date and the pressure we've seen over the last couple of years, has this changed? Has the gap between coal margins and your consolidated margins closed?

Alan Shaw - *Norfolk Southern Corporation - EVP, CMO*

There continues to be pressure on our coal franchise. That market is dynamic, and so are we, and so we are focused on improving the profitability and the returns on all of our lines of business.

Justin Long - *Stephens Inc. - Analyst*

Okay. But that gap between coal and everything else really hasn't changed?

Alan Shaw - *Norfolk Southern Corporation - EVP, CMO*

As I suggested, we're focused on improving the profitability on all lines of our business.

Justin Long - *Stephens Inc. - Analyst*

Okay. I'll leave it at that. Thank you.

Operator

Brandon Oglenski, Barclays.

Brandon Oglenski - *Barclays Capital - Analyst*

Hey, good morning, everyone. Thanks for taking the question. So, Jim, appreciate that you guys managed through a pretty difficult second quarter with the sub-70% OR. But we do have a lot of the industry that's running even sub-65% OR, if not even well below that, in the current volume environment.

As we've talked a lot about the OR progression sequentially flattish, if not even up a little bit into the back half of the year, how much of your productivity savings are really just hoping for volume growth?

Versus -- what more can you do structurally? We've seen Triple Crown; we've seen the hump yard closures; we've seen you go from two to three operating regions -- or three to two. So what structurally is left in the network that you can identify from a cost standpoint?

Jim Squires - *Norfolk Southern Corporation - Chairman, President, CEO*

Well, the key to delivering on a plan is flexibility, and that's what we demonstrated in the second quarter. The plan is dynamic. It is flexible and able to address changing market conditions, as we've outlined.

We will continue to evaluate efficiencies in all areas and ensure that we have the opportunity to adjust things going forward as necessary.

Certainly there is a component of growth assumed in our longer-range plan, and we believe we'll see that. If we don't, we will make adjustments as necessary to achieve our goals.

Brandon Oglenski - *Barclays Capital - Analyst*

Okay. But as of now, then, there's nothing really structurally on the plate that you're looking at changing operationally for the Company?

Jim Squires - *Norfolk Southern Corporation - Chairman, President, CEO*

We've made a number of changes that I would characterize as structural already, and we'll be on the lookout for further opportunities there. Cost-cutting is always a combination of short-term cost reductions in response to immediate business conditions and then a long-term outlook on structure. And we have initiatives in place in both areas, both short-term reductions as necessary and longer-term structural activities that will help to shape the cost structure of the Company in the future.

Brandon Oglenski - *Barclays Capital - Analyst*

Okay. Thanks for that. Just a real clarification on CapEx. I know we talked a little bit about the outlook heading into next year and the years beyond. But should we be thinking CapEx actually can come down?

Jim Squires - *Norfolk Southern Corporation - Chairman, President, CEO*

Post-PTC, we have guided to CapEx below current levels relative to sales. So, yes, when we get to that point.

As I've said, the keys are safety, efficiency, and customer service. That forms your baseline for capital spending.

Beyond that baseline, it's all about the returns on the incremental investment. And we will look carefully at every additional dollar we spend.

As I mentioned, what we would love investors to focus on out of this call is the way we have managed CapEx this year. In response to business conditions, we have been every bit as determined to modulate CapEx as we have expenses. And that's our commitment going forward as well.

Brandon Oglenski - *Barclays Capital - Analyst*

Okay. Appreciate the time. Thank you.

Operator

Brian Ossenbeck, JPMorgan.

Brian Ossenbeck - *JPMorgan - Analyst*

Hey, good morning. Thanks for taking my question. Alan, I just wanted to get your view on export coal trends. Could be volatile, but you did a little bit better than the $3 million per quarter in 2Q.

So you see the coking coal benchmark nearing 100; API2 is close to 60. Do you think you can perhaps run closer to 3.6 throughout the rest of the year if the pricing holds? Or was there something one-off that helped boost volumes this quarter?

Alan Shaw - *Norfolk Southern Corporation - EVP, CMO*

Brian, it is an extremely volatile market. We are impacted by the health of the producers and bankruptcies.

And they are doing everything they can to produce coal and sell it overseas, but it's highly dependent upon global demand and seaborne trade. And right now those are fairly weak.

So, our guidance has typically been 2.5 million to 3 million tons a quarter. We exceeded that, as you noted, last quarter.

We're going to continue with that guidance for this quarter. But it's so volatile and there's a lot of pressures there that it would be difficult to call an upside or a downside to that.

Brian Ossenbeck - *JPMorgan - Analyst*

Okay, fair enough. Then I don't know if you've commented on it specifically, but if you could, in the context of a long-term strategic plan, what type of options do you think there are for Lambert's Point considering the way that the markets are now? China demand is down, and clearly the volatility remains. Have you thought through, or is that built into the strategic plan at all?

Alan Shaw - *Norfolk Southern Corporation - EVP, CMO*

What is built into the strategic plan is our continuing focus on monitoring our markets and adjusting our resources accordingly. You saw that as we've idled Ashtabula and we've idled Knoxville yard, and we combined the Pocahontas division with the Virginia division, which was effectively a coal play.

Brian Ossenbeck - *JPMorgan - Analyst*

Right. Just one quick follow-up for Marta. In the past, you've given out the net fuel impact, which was, obviously, quite significant in 2015. I think it was about $20 million unfavorable in the first quarter. Do you have the impact and what it was the second quarter?

Marta Stewart - *Norfolk Southern Corporation - EVP Finance, CFO*

Well, if you look at our fuel surcharge revenue, it was $50 million in the quarter, which was a $69 million reduction. So comparing that to the drop in fuel expense of $81 million, there was a little bit of a net -- a small tailwind in the quarter.

Brian Ossenbeck - *JPMorgan - Analyst*

Okay. All right. Thanks for your time.

Operator

Scott Schneeberger, Oppenheimer.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Thanks; good morning. You mentioned in your prepared remarks in the automotive sector some competitive losses and lesser demand impacting the back half. Could you just elaborate a little bit on what you're seeing, and perhaps some feel for the magnitude of what that might be?

Alan Shaw - *Norfolk Southern Corporation - EVP, CMO*

Yes, Scott. We said that there are some specific models, typically in passenger cars, in which the plants are undergoing retooling, which are going to impact our volumes in the second half of the year. We also, as you'll recall on our first-quarter call, pointed towards the fact that comps would get a lot more difficult towards the latter end of the year, because the second half of 2015 service started to improve and we started to work through the backlog of shipments in the automotive network. That, in and of itself, will put pressure on year-over-year comps.

We still feel, consistent with what we said on the first-quarter call, that our overall volumes for the year in automotive are going to approximate the North American vehicle growth, which Ward's right now puts at 1.1%.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Great, thanks. Then I don't know if I -- you might have mentioned it; I don't know if I caught it. The $100 million reduction in the CapEx this year, could you elaborate on maybe what the top two or three categories are that you're able to trim in the here and now? Thanks.

Marta Stewart - *Norfolk Southern Corporation - EVP Finance, CFO*

All right. Yes, Scott. Well, we've actually so far this year had $200 million in capital reductions. On the first-quarter call, we lowered our CapEx forecast for the full year from $2.1 billion to $2 billion.

Today, we indicated, as Jim has mentioned a couple of times, that we are modulating our capital. We're being proactive as we see the volume softening and lowered another $100 million. So we're currently at $1.9 billion.

And the reductions have come in three general areas. The first area is in the unit costs; and that's a very good news story. Because what Mike and the operating team has been able to do is, in our maintenance of way area, they are reducing -- because we have more track time and some other efficiencies that they have come up with, the self-constructed assets that we do on our right-of-way, they've got less labor cost per unit.

They have also got slightly lower pricing on some of the materials. So the reductions there are in the unit cost. So they are putting in the same number of units that we had planned, but it costs less.

The next biggest grouping is in the locomotive area. Mike mentioned that we do a lot of our locomotive work in-house. We have rebuilds that we had in the capital plan. As the year went on and the volumes didn't come, we pulled out some of those rebuilds. We have the flexibility to defer those and do them at a later year when we need the locomotives.

And the third area is spread around all the various parts of the capital budget. That is where we've either been able to trim the costs, in some cases in the materials cost, or we've been able to defer it because the volumes haven't come.

An example of that would be parking at an intermodal terminal. So we might say we were going to expand parking, but we'll do it next year.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Okay, thank you.

Operator

John Larkin, Stifel.

John Larkin - *Stifel Nicolaus - Analyst*

Yes, good morning, everybody, and thanks for taking my question. Just wanted to focus in on intermodal a little bit, if that's okay. In your case, international freight looks a little better than domestic. That's kind of backwards relative to what we're seeing across the broader industry.

Is there any particular reason why your intermodal is up? You've apparently grabbed some market share there.

Is that a service issue? Is that pricing, cost differential? Just geographic franchise advantage? What's really driving that?

And then what's holding back the growth of domestic? Was it the service quality issues which perhaps caused a bit of a market share loss? Are you gaining any of that market share loss back on the domestic side? Thanks.

Alan Shaw - *Norfolk Southern Corporation - EVP, CMO*

John, the international is a story of our network reach and it's a story of a shift, although moderate, but continual, from West Coast ports to East Coast ports. Certainly our port partners on the East Coast feel that the widening of the Panama Canal will continue that progression.

With respect to our domestic intermodal franchise, that has clearly been limited by surplus dry van capacity in the truck market and then high retail inventory levels. As both of those moderate, we'll continue to see -- we'll start to see growth in that network.

And our continued improvements in our service product are helping us convert from highway to rail.

John Larkin - *Stifel Nicolaus - Analyst*

Got it. Thank you very much for that. And then on the labor side, are there any major labor contract negotiations forthcoming here?

What would you expect labor cost, fully loaded with fringes, to inflate at here over the next couple of years?

Jim Squires - *Norfolk Southern Corporation - Chairman, President, CEO*

I'll turn it over to Marta to comment on projected labor inflation. The entire industry, as you know, is engaged in collective bargaining over the terms of industry-wide agreements going forward, and we'll just have to see how that proceeds.

Obviously, it's a protracted negotiation. It always is. Particularly in an election year, though, you tend to see that even more projected than usual.

Marta, what are you seeing in terms of labor inflation down the road?

Marta Stewart - *Norfolk Southern Corporation - EVP Finance, CFO*

So for this year, 2016, we guided to overall comp and benefit inflation, labor inflation, of 3.5%. That's a blend of wage inflation and medical inflation, which has been running quite high this year.

For next year, it's still too soon to give a number. But we'll try to clarify that for you on the January call.

John Larkin - *Stifel Nicolaus - Analyst*

Appreciate it. Thank you.

Operator

David Vernon, Sanford Bernstein.

David Vernon - *Bernstein - Analyst*

Hey, good morning and thanks for taking the question. Marta and Jim, I just want to try to get a sense for what's between where we are today, at a $200 million annual run rate of productivity, and the $600 million that you've got in your longer-term plan. I think I'm hearing you say, Marta, that expenses are going to be flat to maybe sequentially up a little bit here in the back half.

I'm just tried to get an understanding of what is it that is between us and that higher productivity number. Is it capital investments, system investments, labor?

And then maybe as a follow-up, are you thinking at all about maybe some more extensive coproduction with CSX in some of the lower-density markets like coal, whether it's at the terminals or in the actual coal lines, up into the coal fields themselves?

Jim Squires - *Norfolk Southern Corporation - Chairman, President, CEO*

Six months into a five-year plan, we've made substantial progress on productivity, and we're sticking to our $200 million projected annual savings this year, at least $200 million. So we're well on our way to the $650 million by 2020.

As you know, the components of that $650 million are heavily weighted to compensation and benefits savings, and that's a variety of elements. We have additional room to run in terms of fuel consumption improvements. That's part of the long-range plan.

We'll continue to whittle away at locomotive maintenance costs. That's another component of the plan. And reduced equipment costs is a fourth element where we still have opportunity.

Now in terms of coproduction, anywhere it makes sense to for us to share assets with others operationally, we will certainly be open to doing so. That's a way to improve asset utilization for both parties.

David Vernon - *Bernstein - Analyst*

But maybe just as a follow-up to that, like, as you think about going from that $200 million to, say, $400 million or whatever it's going to be on labor and compensation, how important is a volume inflection to getting to that number? Can you -- is there something you're going to do operationally or investment-wise that's going to allow you to then run that much more productively in a year or two?

Like, I'm just trying to get a sense for what the keys are to unlock that additional benefit. And I know it's an annual process where you're looking at ways to pull cost out, but is there anything you can point to that says, when we get here, this is going to help us run a lot more productively?

Jim Squires - *Norfolk Southern Corporation - Chairman, President, CEO*

Well, certainly volume helps productivity. There's no doubt about it, because of the incremental operating leverage inherent in the business.

But the key to the plan is flexibility. We believe that we can achieve these levels of productivity going forward. We recognize the plan is dynamic; volume conditions are changeable, and we'll make the adjustments as necessary.

If required, we'll go after deeper structural costs to achieve our goals.

David Vernon - *Bernstein - Analyst*

All right. Well, thanks a lot for the time and good job so far as far as getting the cost out. Talk soon.

Operator

Jeff Kauffman, Buckingham Research.

Jeff Kauffman - *Buckingham Research Group - Analyst*

Thank you very much. A lot of my questions have been asked, so let me just throw out a quick one. If I back out the fuel impact, it looks like revenue per unit was just a little bit less than flat. Can you break out the mix versus pricing component of that?

Alan Shaw - *Norfolk Southern Corporation - EVP, CMO*

It is all mix, Jeff. If you take a look at the mix effect within coal, our export volumes trended more towards thermal coal than metallurgical coal.

You take a look at it within intermodal. And as we've talked about, domestic volumes were pressured. The TCS restructuring impacted RPU, and international business has a lower RPU than domestic for us.

And then I'd take a deeper dive into our merchandise market, and you can see declines in frac sand and crude oil pressuring overall RPU. So it was slightly down ex-fuel, but it was all a mix impact.

Jeff Kauffman - *Buckingham Research Group - Analyst*

All right, if I back out the mix, what does core pricing look like, say, this quarter and relative to last quarter?

Alan Shaw - *Norfolk Southern Corporation - EVP, CMO*

It's up this quarter over last quarter, and it's up over the same quarter last year, and it's up over rail inflation.

Jeff Kauffman - *Buckingham Research Group - Analyst*

Okay. Hey, congratulations. Thank you.

Operator

Walter Spracklin, RBC.

Walter Spracklin - *RBC Capital Markets - Analyst*

Yes, thanks very much. Good morning, everyone. Just wanted to touch on a little bit broader topic of new technology that you might have coming down the pipe. I know in the past technological innovation, like distributed power, has allowed you to increase train length; and some of the Trip Optimizer software has given you some pretty interesting fuel improvement.

I guess the first part of that question: Are we pretty much done now? I know you've talked a bit about train lengths and how there is still a little bit of opportunity, but it sounds like it's more product-driven rather than technologically driven. Just correct me if I'm wrong there.

And the second part, is there anything -- and perhaps this is for Mike. Mike, when you look down the pipe, is there anything that gets you excited in terms of technological improvements that could lead to some further cost savings?

I know within trucking we're going as far as talking about autonomous trucks. Could we eventually see one-person crews, that kind of thing? Just love to get your thoughts on that.

Mike Wheeler - *Norfolk Southern Corporation - EVP, COO*

Yes. Well, on the run rate of the things you talked about, which is DP and the fuel efficiency technology we're using, we still have run rate to go there and we still continue to implement it across the railroad. So we still have some opportunities going forward.

As Jim noted on the fuel efficiency as part of our plan, that's a part of it. So yes, we feel like there is opportunity there.

On the technology side, I don't see that there's any one big thing that we're hanging our hat on. But I will tell you that we have technology embedded throughout our organizations on making us better. Whether it's using alerts or using mobile platforms for the supervisors out in the field, things like that, we have just continued to utilize technology throughout our operational organization to make us safer and more efficient.

Walter Spracklin - *RBC Capital Markets - Analyst*

And on one-person crews?

Mike Wheeler - *Norfolk Southern Corporation - EVP, COO*

That's a big industry initiative. And there's going to have to be a lot with the regulatory side there as well. Of course, you know we've got a lot of one-person crews at our railroad now, whether it's pusher, whether it's remote control. But we work with the regulators on what are the opportunities there going forward in the industry.

Walter Spracklin - *RBC Capital Markets - Analyst*

All right. Thank you very much.

Operator

Thank you. We have reached the end of the question-and-answer session. Mr. Squires, I would now like to turn the floor back over to you for closing comments.

Jim Squires - *Norfolk Southern Corporation - Chairman, President, CEO*

Well, thank you very much for attending today's conference call, and we'll be back to report on our third-quarter results in a few months. Thank you.

Operator

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