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PRESENTATION

Operator
Greetings, and welcome to the Norfolk Southern Second Quarter 2017 Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to Katie Cook, Director of Investor Relations. Thank you, Ms. Cook, you may now begin.

Katie Cook -
Thank you, Rob, and good morning. Before we begin, please note that during today's call we may make certain forward-looking statements which are subject to risks and uncertainties, and may differ materially from 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. The slides of the presenters are available on our website at norfolksouthern.com in the Investors section along with our non-GAAP

reconciliations. Additionally, a transcript and downloads will be posted after the call.

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

James A. Squires ***Norfolk Southern Corporation - Chairman, CEO and President***
Good morning, everyone, and welcome to Norfolk Southern's Second Quarter 2017 Earnings Call. With me today are Alan Shaw, Chief Marketing Officer; Mike Wheeler, Chief Operating Officer; and Marta Stewart, Chief Financial Officer.

Turning now to Slide 4, we're pleased to report another quarter of strong financial results, as we've continued to drive both resource utilization and growth. Marking our sixth consecutive quarter of year-over-year operating ratio improvements and an all-time record, we decreased our second quarter operating ratio by 230 basis points to 66.3%.

Income from operations of $888 million was up 15% compared to the prior year period. Earnings per share increased 26% to $1.71.

We continue to successfully execute our multidimensional strategy and achieved another record operating ratio of 68.1% for the first half of the year, a 130 basis point improvement from last year's record. Income from operations was up 11% to $1.7 billion, and earnings per share increased 20% to $3.18, also a first half record.

These results demonstrate that our strategic plan, built upon our core pillars of safety, service, stewardship and growth, is working as intended, providing a reliable framework that our team has successfully executed upon to propel improved operational efficiencies, which will deliver over $100 million of productivity savings this year.

The determination and perseverance of our employees to affect sustainable change has been instrumental in our achievements. Importantly, their work has also established a strong foundation for ongoing growth and success.

As reflected on Slide 5, since the inception of our strategic plan, we have commenced a broad set of initiatives, including: reducing G&A and consolidating headquarters; restructuring Triple Crown and Pocahontas land subsidiaries; rationalizing over 1,000 miles of track, including the short lining of our West Virginia Secondary and Delmarva South lines; idling our Ashtabula dock's coal terminal and restructuring yards, including the idling of Knoxville Sevier Yard and Chattanooga hump operations; and consolidating operations in the region and divisions, including the recently announced consolidation of our Central Division.

In addition to these initiatives, we have rationalized and revitalized our locomotive fleet, achieving our highest quarterly locomotive productivity and fuel efficiency on record. Productivity initiatives targeting freight car utilization are ongoing as well. Through our dynamic plan, we are continuing to aggressively pursue additional opportunities for improvement. Mike will provide you with an update on our ongoing initiatives in metrics later on the call.

Moving to Slide 6. With respect to our market approach, we remain steadfast in our commitment to deliver quality service that our customers value and growth that complements our network. Alan will provide additional details on some of our ongoing initiatives, which include: partnering with customers to develop unique key performance indicators; implementing projects that enhance both the customer's experience and improve our efficiencies; and leveraging the strength of our industrial development team to feed our pipeline for future growth.

As a result of our initiatives, and as you can see on the right of the slide, we've increased volumes by 6% while reducing average headcount 3% versus last year's levels and 10% compared to 2015.

Our strategy has supported the return of capital to shareholders through increasing dividend payments and share buybacks. As reflected on Slide 7, cumulative distributions have totaled $17.1 billion since the inception of our share repurchase program in 2006. Dividends per share have increased at a 12% compound annual growth rate over that period. In addition, we've repurchased nearly 164 million shares at an average cost of about $65 a share. As we look forward, given the strong financial results we've achieved to date and the confidence we have in our outlook, we are increasing this year's share repurchase guidance by 25% to $1 billion.

Turning now to our longer-term guidance on Slide 8. We continue to make solid progress toward achieving a sub-65 operating ratio, which I'm confident we'll accomplish by 2020 or sooner. I have consistently said that our plan is dynamic and flexible. And as we reach these targets, we're committed to driving performance improvement, whether through improved productivity or growth or both. I have every confidence in our ability to achieve and surpass our objectives and create sustainable value in both the short and long term. And I'll now turn the program over to Alan Shaw, Chief Marketing Officer. Alan?

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***
Thank you, Jim, and good morning, everyone. Our second quarter was marked by strong year-over-year volume improvement in intermodal and coal, generating total revenue of $2.6 billion, up 7% versus 2016. Intermodal reached a record quarterly volume with a year-over-year increase of 57,000 units, benefiting from continued highway conversions and new service offerings. Utility coal increased 27,000 shipments in the second quarter as a result of a previously reported market share gain and higher year-over-year natural gas prices. Export coal grew 25,000 units due to improved seaborne pricing which made U.S. coals more competitive in the international market. Positive pricing was partially offset by mix, improving our revenue per unit in all 7 groups and 1% in total. Overall, our merchandise volume was flat in the second quarter, as gains in frac sand and steel were offset by declines in crude oil.

Growth in the metals and construction segment was driven by increase within shipments of frac sand due to increased drilling activity in the Marcellus and Utica Shale regions. Additionally, improvements in steel pricing, change in supply chains and inventory replenishment led to higher volumes in our steel franchise.

These gains were partially offset by declines in our crude oil volume, which has been negatively impacted by pipeline activity. Automotive volume declined due to decreases in U.S. vehicle production, while paper was impacted by strong truck competition. Merchandise revenue increased 1% versus second quarter 2016 to $1.6 billion, with a corresponding 2% increase in revenue per unit. Positive pricing was impacted by mix shifts as well as excess truck capacity.

On Slide 12, intermodal revenue increased 10% to $593 million as volume increased 6% to over 1 million units. Domestic volume grew in the second quarter due to continued highway conversions and collaboration with our channel partners to develop new markets. These gains were partially offset by headwinds due to elevated truck capacity. Our alignment with shipping partners growing at East Coast ports led to 5% growth in our international volume. Revenue per unit was up 4%. Intermodal pricing continues to be impacted by excess truck capacity, a condition we expect to improve as the year progresses. Tightening capacity is expected to drive stronger pricing growth in 2018.

Moving to Slide 13, our coal revenue grew an impressive 32% versus the same period last year to $447 million. Volume increased 27% and revenue per unit improved 4% compared to second quarter 2016. Increased utility coal volume resulted from the previously discussed market share gain, coupled with favorable natural gas prices, compared to prior year levels.

Growth in the segment was also driven by increased export volume as tightening international supply improved seaborne pricing. Year-over-year, revenue per unit increased 4%. Positive pricing, particularly in our export market, was partially offset by increased short-haul Utility North volume and mix shifts within the export market, similar to what we saw in the first quarter.

Moving to Slide 14, we expect year-over-year growth in the third quarter led by intermodal and coal, with low to mid-single-digit decline in our merchandise volume. Comparisons to last year become more difficult, as overall volumes began to accelerate sequentially in the third quarter of 2016. Merchandise volume is expected to be negatively impacted by continued diversions of crude oil and natural gas liquids to pipelines. Steel shipments are expected to decline sequentially as customer inventories were replenished in the first half of this year. Moreover, a projected annual 6% decrease in U.S. vehicle production will negatively impact automotive volume in the second half, with the largest year-over-year decrease in the third quarter. Partially offsetting these declines, we project continued growth in frac sand due to increased natural gas production, although the year-over-year growth will be less than what we experienced in the second quarter.

We are generating opportunities as our customer supply chains adapt to the rapidly evolving e-commerce and consumer markets. Our marketing and operations teams are collaborating together with our customers to align their growth with ours through new strategic services that capitalize on these quickly changing market trends.

Our intermodal franchise benefited from these new services in the second quarter, which will provide ongoing growth for years to come. We are also prepared for growth as the truck market continues to tighten, driving highway to rail conversions. Strong service products that focus on the needs of our customers as well as efficient operations provide confidence that our growing intermodal franchise will continue to enhance shareholder value.

While we project year-over-year improvement in the coal market in the second half, the pace of this growth will lessen due to a sequential decline in export coal and higher utility volume in the second half of last year. Export tonnage will likely moderate from first half levels to the 4 to 5 million ton per quarter range, with volume contingent on sustained seaborne price levels.

In line with our projections last quarter, we anticipate third quarter utility tonnage between 17 million and 19 million tons, with the fourth quarter tonnages contingent on summer burn, stockpile levels and natural gas prices. Our best-in-class industrial development team consistently works with potential new customers, strengthening our position in the supply chain. Our list of active projects remains robust and will provide continued growth opportunities that will benefit future year volumes, further underscoring the sustainability of our plan.

Our strategic plan maintains a focus on the customer experience. Part of this focus includes working with our customers to align our service metrics with our customer's view of our performance as well as partnering to ensure we provide effective tools to schedule and manage their business with Norfolk Southern. Our aim is to continually evolve the elements of our operations that drive quality growth and efficiency.

This approach increases our value to customers and strengthens our position in the marketplace for the near and long term.

As our customers are innovating to serve a dynamic, changing world, we are doing the same, working together to design efficient supply chain solutions for their emerging needs. For example, we recently repurposed a Triple Crown yard to provide innovative solutions for the gas market. We further enhance this service by combining aspects of unit train operations with the demand for single car shipments. Customers value these types of innovative solutions, driven by the continuity in our long-standing customer relationships, market knowledge and seamless marketing and operating philosophy. With our strong partnerships throughout the supply chain, we'll continue to enhance our ability to serve our customers while generating strong returns for our shareholders.

I will now turn it over to Mike, who will discuss our operational performance.

Michael Joseph Wheeler ***Norfolk Southern Corporation - COO and EVP***
Thank you, Alan, and good morning. In the second quarter, we continued to grow our business and provide a good service product to our customers. We also achieved our strong results while streamlining our operations and idling our largest hump yard to date in Chattanooga. Our all-time record operating

ratio for the quarter as well as for the first half of the year is a testament to our strategic plan and the hard work of our employees.

As shown on Slide 16, there were significant milestones achieved in the quarter as well as the first half of the year that were key drivers of our success. The efforts towards driving locomotive productivity, fuel efficiency and train length, which we will discuss in more detail later in the presentation, all helped to drive our record operating ratio.

As noted on Slide 17, we are continuing to take steps to improve service and reduce cost. We've idled our largest hump yard yet in Chattanooga in the second quarter, and this is the fourth major hump yard idled. We have also announced the consolidation of our Central Division, which will further reduce the number of operating divisions from 10 to 9. This is a continuation of the steps we took in 2016, wherein we consolidated from 11 to 10 divisions and reduced the number of operating regions by 1/3.

In addition, as we discussed on our last call, we removed another 100 locomotives from service in the second quarter, and we did so while handling more volume. All of these actions drive the pillars of our strategic plan: safety, service, productivity and growth, and puts us on track to exceed $100 million of annual productivity savings this year.

Moving to safety on Slide 18. We are pleased to see a 12% improvement in our reportable injury ratio as well as a 23% improvement in our serious injury ratio. These reductions demonstrate our continued dedication to maintaining a safe and productive working environment for our employees throughout operations, which is a cornerstone of our strategy. Working safely and efficiently is a key component of our efforts to drive sustainable value creation.

Our network metric performance shown here on Slide 19 did trend down in the second quarter due to a number of episodic events that were concentrated in the Southeast. More importantly, our metrics have trended higher in the recent weeks. We are confident we will remain at these high levels while handling additional volume and continuing to aggressively pursue productivity initiatives.

Our customer facing metrics are allowing us to have specific data driven discussions with our customers, deepening our already strong relationships.

Moving to some of our productivity initiatives, starting on Slide 20, you can see we continue to increase employee productivity, which is driven by optimizing our train plan as well as our improvements in train length. As you may recall, 2016 was a record year for train length, and we are on track to set a new record for the full year of 2017. The second quarter was the highest quarterly train length on record, and June represented the highest monthly train length at Norfolk Southern. This marks the seventh consecutive quarter of sequential improvement, and we're excited to build on our momentum.

As shown on Slide 21, train length, along with the continued rationalization of our yard and local fleets, has resulted in significant improvements in our locomotive productivity. We removed 150 locomotives from service in 2016, and another 150 so far this year. The second quarter was the highest quarter of locomotive productivity in our company's history, and we are on pace to set a new record for the full year. We will continue to actively manage our locomotives to ensure we are driving the highest value for shareholders while we continue to support the needs of our customers. Not only do these improvements result in a lower maintenance cost, they also enhance our fuel efficiency, which I will discuss on Slide 22.

Our fuel efficiency improved 7% in the second quarter versus the same period last year, and resulted in an all-time quarterly record. As you may recall, 2016 was a record year for this measure. We accomplished this by continuing to improve train lengths, locomotive rationalizations, and implementing our energy management initiatives. Together, these initiatives continue to drive improvements for this measure.

In closing, we are confident we will continue to provide a level of service to our customers that will grow our business, while at the same time driving long-term productivity savings and superior returns for shareholders. We are proud of the accomplishments we had made and continue to identify opportunities to drive additional efficiencies for the benefit of NS shareholders. I will now turn it over to Marta, who will cover our financial achievements.

Marta R. Stewart ***Norfolk Southern Corporation - CFO and EVP of Finance***
Thank you, Mike, and good morning, everyone. Let's begin with our summarized second quarter results on Slide 24.

The continued execution of our strategic plan delivered a 7% increase in revenues, which, when coupled with only a 4% increase in expenses, resulted in more than $100 million of additional operating income and, as Jim noted, an all-time record low quarterly operating ratio of 66.3%.

Turning to the component changes in operating expenses on Slide 25, in total, they were higher by $65 million or 4%, as our sustained focus on controlling expenses helped mitigate costs associated with inflation and with the 6% volume increase.

Slide 26 highlights the drivers of the variance in compensation and benefits, which rose by $36 million or 5% year-over-year. As I've mentioned on last quarter's call, inflationary increases continue at a quarterly run rate of $30 million to $35 million, which is higher than historically, primarily due to the large increase in premiums on union medical plans.

Also previously noted is an increase in incentive compensation associated with the improvement in operating results. Partially offsetting these items were reduced employee levels, which resulted in $16 million of lower expense, as headcount was more than 800 employees lower than the second quarter of 2016 and down almost 400 sequentially.

With the efficiency improvements Mike mentioned, we now expect that we can hold overall headcount at this lower level for the remainder of the year.

Fuel expense as shown on Slide 27 rose by $16 million, entirely attributable to higher prices which added $18 million. Fuel efficiency continues to improve, and as Mike mentioned, we achieved a record on this metric, which resulted in 2% fewer gallons consumed on 6% more volume.

Moving on to purchase services and rents on Slide 28. This category was up $8 million, or 2% year-over-year, largely due to the increase in intermodal traffic.

Slide 29 displays other income, which rose $28 million for the quarter, due principally to higher returns on corporate-owned life insurance and increased income from coal properties.

Turning to income taxes on Slide 30. The effective rate for the quarter was 36.3%, unchanged from the second quarter of 2016.

Summarizing second quarter earnings on Slide 31, net income was $497 million, up 23% compared with 2016, and diluted earnings per share were $1.71, up 26% versus the second quarter of last year.

Wrapping up our financial overview on Slide 32. Free cash flow for the first 6 months was nearly $700 million, up $200 million versus the prior year. And as Jim noted, with the improvement in cash flow and our confidence in future free cash generation, we have increased our full year target for share repurchases from $800 million to $1 billion. Thanks for your attention, and I'll now turn the call back to Jim.

James A. Squires ***Norfolk Southern Corporation - Chairman, CEO and President***
As evidenced by our record results just 1.5 years into our plan, our team is engaged and energized. Having consistently delivered strong performance, we are confident in our ability to reach a sub-65 operating ratio by 2020 or sooner. Additionally, as we reach our targets, we'll continue to achieve improvements that drive shareholder value. Before taking your questions, I want to thank Marta for her many contributions and devoted service over the years, as she will retire from Norfolk Southern on August 1. She's been an outstanding leader in our organization, a terrific member of the management team, and instrumental to Norfolk Southern's success. On a personal note, she's also been a trusted partner and great friend, so it is a bittersweet goodbye for me. Our search for Marta's successor is ongoing. We are working with a nationally recognized executive search firm and are considering both external and internal candidates. While the search continues, the board has elected Tom Hurlbut, currently VP and Controller, to the position of interim CFO, effective August 1. And with that, we'll now open the line for Q&A.

QUESTIONS AND ANSWERS

Operator
(Operator Instructions) Our first question today is from the line of Allison Landry with Credit Suisse.

Allison M. Landry ***Credit Suisse AG, Research Division - Director***
So I just wanted to ask about the long-term target. It seemed like there was sort of a slight shift in the language. Previously, you've talked about a 65 or below by 2020. And now it's sort of 65 or -- by 2020 or sooner. Is that -- should we read anything into that as you're stepping up the operational initiatives as well as various customer projects? Or really, is it just semantics?

James A. Squires ***Norfolk Southern Corporation - Chairman, CEO and President***
Good morning, Allison. Let me start by pointing out again that the second quarter of this year represented our sixth consecutive quarter of year-over-year OR improvements and all-time records in both the quarter and for the first half. So our plan is working as planned, and it's allowing us to deliver a lot of financial improvements through operational gains. So we are very confident that we can reach our goals. And we're pulling all the levers, we've got the pedal to the metal and as soon as we can get there, we will.

Allison M. Landry ***Credit Suisse AG, Research Division - Director***
Okay. So is that -- would you characterize that with good results over the last few quarters as maybe pulling that target forward a little bit?

James A. Squires ***Norfolk Southern Corporation - Chairman, CEO and President***
Yes, things are going really well. The plan is working as planned, and we're making rapid progress. So yes, we are very confident.

Allison M. Landry ***Credit Suisse AG, Research Division - Director***
Okay, great. And then if I could just ask about the third quarter. Historically, the OR is flat to slightly down on a sequential basis. So as I think about some of the puts and takes on the volume side that you discussed earlier, is that still the right way to think about it? Or are there any cost items or other items that might drive a deviation from historical patterns?

James A. Squires ***Norfolk Southern Corporation - Chairman, CEO and President***
We do feel confident we'll post a lower operating ratio year-over-year in the second half of the year. Now the pace of improvements quarter-by-quarter will depend on various factors. Long-term, obviously, the drivers are top line growth and productivity, and that doesn't change. Quarter-by-quarter, things like real estate gains can make a difference, can tip the balance. And recall that in the third quarter of last year, we did have a significant real estate gain.

Operator
Our next question comes from the line of the Jason Seidl with Cowen and Company.

Jason H. Seidl ***Cowen and Company, LLC, Research Division - MD and Senior Research Analyst***
Could you parse out some of those comments you made about episodic events in the second quarter impacting you a little bit on the negative side? And then maybe talk about how your metrics are trending

up and what that can mean on a sequential basis and how we're looking at your numbers from 2Q to 3Q?

James A. Squires ***Norfolk Southern Corporation - Chairman, CEO and President***
Sure. Well, let me set the backdrop and then I'll hand it off to Mike to talk about some of the specific things we encountered in the second quarter. You did see network velocity slow down a little bit in the second quarter and you saw dwell tick up some. We've turned the corner on that. Third quarter today, the metrics are looking good. We are steadfast in our commitment to deliver quality service and customer value. And network performance, even through the second quarter of this year, remained well above 2015 levels, and as I said, it's been trending higher. So this is the platform for growth, and we are committed to keeping network performance and service performance at a level that allows us to grow and trudge productivity as well. So with that, Mike, why don't you comment a little bit on some of the things we experienced in the second quarter?

Michael Joseph Wheeler ***Norfolk Southern Corporation - COO and EVP***
Yes, okay. Will do. We had really 3 things that were going on. They were going on pretty close together, but we had a lot of flooding pretty much between Louisville and Kansas City on that line during the quarter. We also had some flooding just outside of our Cincinnati terminal, which is a high-volume terminal there. Then we also had during the quarter, we had some fires going on down in North Florida that were shutting our line down different times during the quarter. Come near the tracks, we'd shut the tracks down and open back up. So those 3 things were going on. Dealt with those through the quarter and we feel very comfortable about how we've bounced back. Last month, our train speed has increased 10% back to prior levels and our dwell's back to what it was prior to some of these stuff. So we feel really comfortable about how we've responded and returned to service to where we want it to be and it continues to trend higher, and we're going to continue to work on that.

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***
We have seen improvement since the beginning of the third quarter. We've seen it in our network performance metrics. We've seen it in our customer facing metrics. And more importantly, as Jim and Mike and I get out and talk to our customers, we see it in the feedback from our customers. They sense the improvement; they're seeing the improvement in our service product.

Michael Joseph Wheeler ***Norfolk Southern Corporation - COO and EVP***
Yes. And we're pleased with where it's at, and we're going to continue to keep it there and continue to further improve.

Jason H. Seidl ***Cowen and Company, LLC, Research Division - MD and Senior Research Analyst***
All right. I guess my follow-up is going to be more on the top line side. Our -- we get our -- as you know, our big railroad shipper survey, and your Eastern competitor probably got the worst ratings in service, and we just held a dinner last night with some railroad people. And clearly, they're having some service challenges over there. Have you seen freight come over from the other Eastern railroads due to poorer-than-expected service, where it can come over? And if it's come over, has it come over at regular pricing

or have you been able to actually increase the pricing on that?

James A. Squires ***Norfolk Southern Corporation - Chairman, CEO and President***
Look, Jason, again, let me just set the stage here and then I'm going to let Alan comment specifically on what's going on with the top line in that regard. But first off, our focus is very much on enhancing value at NSC and driving our plan to continue to drive productivity and growth. And growth is an important part of that plan. We'll take the market share whether it's from truck or competitors, as long as it complements our network and obviously, falls to the bottom line. Those are the keys. So Alan, what are you seeing in terms of the landscape?

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***
So Jason, we are always talking to our customers. As Jim noted, our primary form of competition is truck. But we're talking to our customers about service products that offer a sustainable view in their markets and allow them to grow. And we have seen some business move over to us. It's a small amount, I'll tell you that, but it's early. We've got a really good service product. The customers value the continuity of our market approach, of our operating philosophy, and our focus on allowing them to grow with their customers.

Jason H. Seidl ***Cowen and Company, LLC, Research Division - MD and Senior Research Analyst***
Okay. Marta, congratulations on the retirement and best of luck to you.

Operator
Next question's from the line of Tom Wadewitz with UBS.

Thomas Richard Wadewitz ***UBS Investment Bank, Research Division - MD and Senior Analyst***
What -- I guess, the question on rail competition and kind of customer conversations and so forth, you gave us some perspective on that. I think, Alan, you said it's early. So would you think -- I guess, the nature of the customer conversations recently, would you say that this is something that's likely to build in terms of the potential force in business to come over? Or would you say, "Look, business kind of naturally falls to one or the other," and you really shouldn't consider too much in terms of share gain as you look the next couple of quarters. How would you frame that?

James A. Squires ***Norfolk Southern Corporation - Chairman, CEO and President***
Again, let me do the framing and then hand it off to Alan. I want to emphasize that we have been in front of our customers a lot. That is just part of our regular routine. Mike, Alan and I are in front of our customers all the time. We are going to them; we are in their offices and their conference rooms hearing about their business and how we can gain more of it. So that's a big focus for all 3 of us. We want the feedback from our customers all the time and we're getting it. So Alan, talk a little bit more about the market share opportunity.

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***
We're going to capitalize on opportunities that fit our network, and if customers see that we provide a

predictable, efficient service product that meets their needs, whether that's in competition with truck or another rail carrier, then we're going to go after that business, Jim, as long as it fits our network, and we can drive value our shareholders.

Thomas Richard Wadewitz ***UBS Investment Bank, Research Division - MD and Senior Analyst***
Okay. But when you said it's early, does that imply that there might be some building in the opportunity or am I over reading that comment?

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***
I'll tell you that the average duration of our contract is 3 years. And so it takes time for some things to play out.

Thomas Richard Wadewitz ***UBS Investment Bank, Research Division - MD and Senior Analyst***
Right. Okay. For the -- I guess, for the follow-up question, it seems you had weakness in 2015 into '16 in coal, some other NG-related areas, and you've had pretty significant strength year-over-year in the first half. I think we're kind of -- for the industry transitioning to a slower pace of growth and volume overall, how does that affect how you would view the opportunity for margin improvement year-over-year? Or if you wanted to take and say, we're really focus on productivity? Just trying to think about how we think of those 2 things, productivity or OR improvement, as you may have a slower year-over-year volume growth backdrop looking forward?

James A. Squires ***Norfolk Southern Corporation - Chairman, CEO and President***
Let me comment generally. With respect to our coal customers, as with all of our customers, our goal is to serve them. And that means having the resources available to serve them when the demand is there, when they need our service. So we are committed to that. We're committed to serving our coal customers as we all are our other customers as well. Alan, in terms of resource deployment and market opportunity, what are you seeing?

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***
Well, within coal, I was with several of our coal customers just last week, and there is optimism, particularly on the export side, for continued strength throughout the year. As you know, the benchmark moved from in the mid-140s to 175 just within a span of a couple of weeks, as the Chinese reported record steel production in June. I was also with some intermodal customers, and they're commenting about how they're starting to see tightness in the truck market. That's important for us, because as we've noted, truck is our primary form of competition. And so as you see spot rates move up double-digit within the last couple of months and maybe start to move above contract rates, that portends well for both volume and pricing opportunities for us into 2018.

Operator
Next question is from the line of Amit Mehrotra with Deutsche Bank.

Amit Singh Mehrotra ***Deutsche Bank AG, Research Division - Director and Senior Research Analyst***

First one is on the automotive business. You mentioned the headwind from auto production in the second half. But General Motors' production, specifically, I think is expected to be down as much as 20% in the third quarter. That's not necessarily organic. I guess it's due to the change over their electric platform. I think you guys have some disproportionate exposure there on the Fort Wayne line. If you could just talk about the impact there. I think it'll probably be onetime given the changeover effect, but any color on maybe what that could have in terms of revenue growth and then also fixed cost absorption of the automotive franchise, that would be helpful.

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***
Automotive production in the U.S. declined 6.5% in the second quarter. It's supposed to be down 9.3% in the third quarter. That's the largest year-over-year decline that is currently being projected. And so consequently, we see a decline within our automotive volumes, particularly in the third quarter.

Amit Singh Mehrotra ***Deutsche Bank AG, Research Division - Director and Senior Research Analyst***
Well, yes, I know that. But the question was really on the disproportionate exposure to General Motors and the fact that, that business is going to be down 20%, what type of impact that may have disproportionately to your exposure in the auto business?

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***
We're not going to discuss specific customer relationships. I think I've given you some good color as to what we see within our automotive market for the back half of the year.

Amit Singh Mehrotra ***Deutsche Bank AG, Research Division - Director and Senior Research Analyst***
Okay, that's fair. And then one follow up with me. Just piggybacking on the last question with respect to OR expansion in the back half. I mean, the contribution margins, the incremental margins in the first half has just been unbelievably strong. That -- those post-productivity initiatives have definitely dropped some bottom line and the business, obviously, really capital-intensive. But just a question on your ability to maintain the incremental margins that you did in the first half in the second half. Obviously mixes and volumes are not going to be a strong as you -- as they were in the first half, but then the productivity and the headcount will stay flat sequentially. So just the puts and takes in terms of your ability to maintain incremental margins, maybe in the neighborhood of where they were in the first half, that'll be helpful.

James A. Squires ***Norfolk Southern Corporation - Chairman, CEO and President***
The key is the plan's dynamism and flexibility. And that's what we have done for the last 1.5 years. We have responded to changing business conditions as necessary to continue driving results. And so when necessary, we'll lean into productivity, and for the long-term, it's all about a multidimensional approach, a combination of growth and productivity at any given time. Maybe it's a little bit more growth; maybe it's a little bit more productivity. So we'll be flexible.

Operator
Our next question comes from the line of Ravi Shanker with Morgan Stanley.

Ravi Shanker ***Morgan Stanley, Research Division - Executive Director***
Can you just comment on pricing in the second quarter and kind of the gap to inflation, kind of how you see that evolving to your -- because it does look like inflation was higher in the second quarter and it's probably going to accelerate into the second half of the year?

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***
Yes. Our rate of year-over-year pricing growth in the second quarter was consistent with what we saw in the first quarter. And the rate of year-over-year pricing growth was consistent with what we saw in 2016. So we're committed to focusing on price and recognizing the value of the service product that we provide and we're committed to pricing long-term above inflation.

Ravi Shanker ***Morgan Stanley, Research Division - Executive Director***
But can you -- do you feel like you're going to get there in the second half of this year as well?

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***
Yes.

Ravi Shanker ***Morgan Stanley, Research Division - Executive Director***
Got it. And as a follow up, in the intermodal market, are you confident that the rising tide of pricing in all of trucking will help intermodal pricing over time? I'm just wondering if there's enough overlap between the kind of mom and pop truckers who are most impacted by ELDs and the intermodal market as it stands right now?

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***
Yes. We are very confident that it's going to provide pricing opportunity for us, and it is going to provide volume opportunities for us. We've got great channel partners out there who are working to grow their business. And we've got a service product and schedules that support their growth. Now most of that growth from ELDs will come in 2018.

Operator
Our next question comes from the line of Ken Hoexter, Bank of America.

Kenneth Scott Hoexter ***BofA Merrill Lynch, Research Division - MD and Co-Head of the Industrials***
Also, congrats to Marta on her retirement. Great working with you over the years. Michael or Jim, can you talk about the experience on the hump yard in Chattanooga? You shut it down. Did you convert that to a flat yard? Did you shift the business elsewhere? Just want to understand, is that replicable as you think about your network or was this just from maybe shrinking business in that region and you didn't need it and you moved it elsewhere? Can you maybe walk through a little bit about that?

Michael Joseph Wheeler ***Norfolk Southern Corporation - COO and EVP***
Sure, I will. So we idled the hump but we are using that yard and it's in a great location for us because it has a lot of feeder lines from the -- from our network going into it to do block swapping. So while we idle

the hump, we now do a lot more block swapping. We do more blocking further into the network. So it is giving us good productivity because the cars are getting through there faster and providing even better service because less time on the network getting to the customers. So that's the piece to it, where it's a big yard in a great location to be able to do a large amount of block swapping.

Kenneth Scott Hoexter ***BofA Merrill Lynch, Research Division - MD and Co-Head of the Industrials***
And again, Michael, maybe your thoughts on, is that something that's replicable to other yards? I mean, you talked about the number of hump yards in the past. Is that something you plan on continuing, the conversions to other yards?

Michael Joseph Wheeler ***Norfolk Southern Corporation - COO and EVP***
We continue to look at it. It has to make sense. It has to end up getting traffic through the network faster and taking cost out or a balance between the 2. So we're only going to do it if it hits those criteria.

Kenneth Scott Hoexter ***BofA Merrill Lynch, Research Division - MD and Co-Head of the Industrials***
So is there -- when you look at this example, is it something that's accelerating and you look at it and say, "We're going to do more," or is this just a one-off? I just want to understand if this is something you can replicate to your other yards.

Michael Joseph Wheeler ***Norfolk Southern Corporation - COO and EVP***
Yes. And we can replicate it to other yards. It may be in yards that aren't necessarily hump yards and do more of the block swapping in locations where it makes sense, something we've been doing over the last couple of years. But we've done it more aggressively lately and this is one piece of it, and we're doing it more aggressively in other locations.

Kenneth Scott Hoexter ***BofA Merrill Lynch, Research Division - MD and Co-Head of the Industrials***
All right. Great. Marta, if I can have a follow-up with you on your employee levels. You talked about being flat going forward. Maybe talk about the cost per employee impact there. You talked about a couple of things that drove cost up in the quarter. Can you talk about a percent year-over-year on a cost per employee base? Is that something you look to continue in the back half of the year or is there something that can maybe slow down on the increased cost?

Marta R. Stewart ***Norfolk Southern Corporation - CFO and EVP of Finance***
Well, Ken, the cost per employee was up in the second quarter, as you noticed. It was up for 2 reasons. One of them is the one we've been talking about all year, and that's the 5% inflation, which is higher than normal inflation. And the other factor why in the second quarter the cost per employee was up was due to the incentive comp, and you should expect to see the increase in incentive comp continue in the third and fourth quarters.

Operator
Our next question is from the line of Chris Wetherbee with Citigroup.

Christian F. Wetherbee ***Citigroup Inc, Research Division - VP***
I wanted to talk of little bit about productivity and sort of the progress to the $100 million target that you talked about. Can you give us a sense of sort of how far along in that you are, so far, through the year? And maybe some of the potential variability, the drivers in the second half of the year, particularly in the slightly lower or potentially -- meaningfully lower volume growth environment?

James A. Squires ***Norfolk Southern Corporation - Chairman, CEO and President***
Well, we're making excellent progress in productivity. You saw Mike's data points there, record locomotive productivity, record fuel productivity, and across the board, significant cost-savings as a result. So we're going to continue to push. We're not done. We will continue to strive for ever better productivity performance in all of the areas where it matters most: employees, in locomotives, in fuel efficiency, in facilities and so on.

Christian F. Wetherbee ***Citigroup Inc, Research Division - VP***
Okay. That's helpful. I guess, I'm trying to get a sense if you think there's sort of upside potential to that $100 million. I don't know, sort of how you think about sort of the ability -- I know you've talked about it, being continually sort of adjustable, but just kind of curious about that.

James A. Squires ***Norfolk Southern Corporation - Chairman, CEO and President***
Yes. But we think we'll be able to do better than $100 million.

Christian F. Wetherbee ***Citigroup Inc, Research Division - VP***
Okay, that's helpful. I appreciate it. And then a quick follow up on coal, and specifically, thinking about sort of the export market. Alan, you mentioned sort of an increase in the seaborne prices. When you think about sort of the second half or maybe more specifically, about the third quarter, should we see yields in coal collectively kind of mirror what we saw in the second quarter? Just kind of get some sense around that. Because there's been some volatility with the mix of your business and sort of exports when they're moving and when they're not.

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***
Chris, very good question. So the seaborne price in the second quarter of the year was clustered, about $200 a metric ton. Now, it's closer to $175. And so within export, there will be pressure on pricing, although we still expect and are confident that it's going to be up year-over-year. The rest of it, the impact on RPU is going to just be highly dependent upon the mix within our utility franchise and whether we handle more U South or more U North. Last year, we were handling about 55% of our utility coal was U South, which tends to be longer haul and higher rated. This quarter, it was about 50-50. So that puts pressure on RPU also.

Christian F. Wetherbee ***Citigroup Inc, Research Division - VP***
And 50-50 is probably a good number to use going forward for this year?

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***

It's going to be dependent upon the weather, Chris.

Operator
Our next question is from the line of Justin Long with Stephens.

Justin Trennon Long ***Stephens Inc., Research Division - MD***
Maybe to follow up first on that last question. I wanted to ask about your expectation for consolidated RPU going forward. I know there are a lot of moving pieces, but when you think about export coal likely to moderate sequentially, intermodal looking like it will be the leader in terms of near-term volume growth, just from a promotional standpoint, do you think that RPU ex fuel can still be up year-over-year in the second half?

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***
I think we've given you a lot of inputs on it, Justin. If you look at our RPU for our 7 major commodity groups in the second quarter, it was up between 2% and 5%. And our total RPU was up 1%. So it's heavily influenced by mix. I've given you some guidance on our utility coal volumes, our export coal volumes, what we're seeing in intermodal, and what were seeing in merchandise. So we're very confident in our approach to pricing, and the level of year-over-year price increases we get, the overall RPU for the corporation that falls out, is going to be heavily dependent upon those mix factors.

Justin Trennon Long ***Stephens Inc., Research Division - MD***
Okay. And maybe to follow-up on some of the market share questions earlier. I was curious if there were any major contract wins or losses during the quarter that we should keep in mind for the back half of this year and 2018? And then, as a follow-up to that, looking out over the next 12 months, how much of your total book of business do you expect to reprice?

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***
Justin, as I've talked about, any market share shift that we've seen so far in the early stages is pretty minimal. It's there, but it's minimal. So far for this year, we've got about 80% of our revenue is committed. Most of what is uncommitted so far for the remainder of this year is in export. And in any given year, we're going to renegotiate about 50% to 60% of our revenues.

Operator
The next question comes from the line of Walter Spracklin with RBC.

Walter Noel Spracklin ***RBC Capital Markets, LLC, Research Division - Analyst***
Just wanted to go back to coal for a moment. And I know it's difficult to forecast out but you've given us good color into the back half of the year. As you're situating and talking to your customers about 2018 and kind of assuming any -- no change in weather -- no significant changes in weather patterns, how are stockpile levels that -- among your customers, that would give you indication as to just directionally on both export and utility, domestic utility, do you expect it to be higher, lower or about the same compared to the 2017 levels?

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***

Walter, good question. So right now, the stockpile levels at utilities that we serve, and this is a publicly available number, are about 15 days below where they were last year. However, recognize they're still 22 days above target. So we've made a lot of improvement over the last 12 months in stockpile levels. June was very mild, and that significantly impacted coal burn to the negative. Last year, June stockpile has dropped by about 6 days. This year, they only dropped by about 1 day. So as I think about the outlook going forward, July has been hot; natural gas prices, while down versus June, are still up above where they were this time last year. And so it's going to be heavily dependent upon how the rest of the summer weighs out in terms of low demand and natural gas prices. And that's just a function of the fact of coal being a load follower.

Walter Noel Spracklin ***RBC Capital Markets, LLC, Research Division - Analyst***

Right. So too early to tell even directionally which way you see coal going in 2018?

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***

It's going to be heavily dependent upon how the summer plays out. We had a very, very hot summer last year, and that really benefited our volumes and our utility coal franchise in the second half of last year and through the first quarter of this year.

Walter Noel Spracklin ***RBC Capital Markets, LLC, Research Division - Analyst***

Okay, fair enough. Just housekeeping now for Marta. Other income run rate, I know it moves around a lot. Is there even an annual number? I know you kind of dipped down last year from $100 million down to $70 million and now maybe trending back up at around over $100 million. Is there a kind of a run rate, even on an annual level, we can plug in, in there? And also, tax rate going into 2018, are you seeing any major changes in the guidance you've given for this year going into 2018?

Marta R. Stewart ***Norfolk Southern Corporation - CFO and EVP of Finance***

Well, Walter, you have it about right. And looking at the longer above mid -- last few years, estimate of about $100 million. So that's probably -- as you know, there's a lot of different pieces in there. So estimating that for the annual is probably the best thing you could do, looking at the recent years' average. And then what was your second question?

Walter Noel Spracklin ***RBC Capital Markets, LLC, Research Division - Analyst***

And this tax rate you've been guiding us, the kind of around 36%, but longer-term, you talked a bit about 37%. So we're using 36% for the back half of the year, and 37%, 2018 and beyond. Is there any reason why we should change that?

Marta R. Stewart ***Norfolk Southern Corporation - CFO and EVP of Finance***

I'm glad you asked that question too, because you should be using a 37% for the full year, and one of -- it has been lower in the first half for the reasons we discussed in the first quarter. In the third quarter, we expect an increase above 37%, because there's a state tax law change which is increasing their income tax rate. And therefore, we expect to have about $13 million of additional because we have to adjust our deferred taxes. So when you work that into the mix for the full year, we expect the rate to be about 37%.

Walter Noel Spracklin ***RBC Capital Markets, LLC, Research Division - Analyst***
Okay, that's great. And 37% into 2018 as well?

Marta R. Stewart ***Norfolk Southern Corporation - CFO and EVP of Finance***
Yes, sir.

Operator
Our next question is from the line of Brandon Oglenski with Barclays.

Brandon Robert Oglenski ***Barclays PLC, Research Division - VP and Senior Equity Analyst***
Congrats, Marta. So I want to come back to the first question that was called, Jim, or maybe even Marta, on the sequential outcome in OR. If I look back maybe the last 5 or 6 years, I think you guys are averaging a back half OR that's down maybe 100 to 200 basis points sequentially. But you guys did talk about sequential declines in metals. We've talked about the coal situation with exports most likely coming down, and headcount being flat from here. I mean, should we think that, that normal relationship holds this year or do those items potentially mean it's less or more?

James A. Squires ***Norfolk Southern Corporation - Chairman, CEO and President***
As I said, we do expect a lower second half operating ratio versus 2016. Now, quarter by quarter, things like real estate gains, the timing of real estate gains, which are difficult to predict, can tip the balance versus the prior year. And also bear in mind that in the third quarter of last year, we did have a significant real estate gain. Now long-term, it's all about growth and productivity. Those will be the drivers of improved operating ratio and earnings.

Brandon Robert Oglenski ***Barclays PLC, Research Division - VP and Senior Equity Analyst***
Okay, Jim. And I guess, following up from that, how important is volume growth in 2018 to maintain the trajectory on OR improvement? Let's just say that we have another dull year and can't get hotter growth in the network. Is that going to push plans back a bit, or what -- you've talked a lot about the dynamic plans. What can be dynamic about it next year if we don't see growth for the industry?

James A. Squires ***Norfolk Southern Corporation - Chairman, CEO and President***
Sure. Volume growth is certainly one piece of the puzzle. Pricing is another, and the top line, and then it's all about expense control and driving productivity. We demonstrated the ability to drive productivity to the benefit of a lower operating ratio and earnings growth in 2016 when we didn't see much volume growth. And that's what we'll do again if that's the way 2018 plays out.

Operator
Our next question is from the line of Bascome Majors with Susquehanna.

Bascome Majors ***Susquehanna Financial Group, LLLP, Research Division - Research Analyst***
I wanted to drill down a little bit more on the merchandise portfolio. I think it's pretty well understood the challenges you're seeing in auto, some of the challenges that you're seeing in other parts of that portfolio but also some of the growth you're seeing in the frac sand business. But if we could take a step back and maybe think about the industrial merchandise, the non-crude chemicals, the paper and forest products, that kind of core industrial business. What's the outlook for these non sort of specific issues you're focusing? Do you think we'll see growth in those parts of the portfolio in the second half of the year? And what are you hearing from customers?

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***
Bascome, what we're hearing from customers is optimism. Certainly, the plastics franchise will continue to be strong for us as polyethylene plants come online. Lumber is -- has been impacted by tariffs and kind of an inventory overhang. We think that will unwind itself in the third quarter but that will put pressure on third quarter volumes. Ag is going to be dependent upon crops. We participated in soy bean exports last year. Now while that's less than 0.3% of our overall revenue, we're probably not going to have as much of a soybean export program this year because South American production has been so strong. Generally though, if you look at things, industrial production has improved each of the last 5 months and manufacturing seems to have firmed. So longer-term, we're focused on growing this part of our franchise. That's why our industrial development department is so critical in what we do. You heard Jim talked about it. Our pipeline is very robust for new projects, probably more robust than it's been since the Great Recession. Now that won't necessarily drive volumes this year, but that's longer-term growth opportunities. To us, that indicates confidence on the part of our customers in the economy and confidence on the part of our customers in doing business with Norfolk Southern over the long term.

Bascome Majors ***Susquehanna Financial Group, LLLP, Research Division - Research Analyst***
I appreciate that comprehensive answer there. Just wanted to clarify, I think you said you expected merchandise volumes to be down low to mid-single digits year-over-year in the third quarter. If you can just confirm that?

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***
Bascome, that's what I said.

Bascome Majors ***Susquehanna Financial Group, LLLP, Research Division - Research Analyst***
If I look sequentially, that implies a little weaker quarter-over-quarter trend than you typically see in the book as a whole. Is that just a function of some of the auto pressures or something else going on there? Or maybe even some conservatism?

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***
Yes, Bascome, that is a function of the auto pressure. It's also, as I noted, second quarter steel volumes were benefited from a slight inventory rebuilding. And you've seen steel prices and capacity factors pull back in May and June. Now they've improved a little bit in July. So we'll see how that plays out. But it's also reflects a little bit of pressure on steel in the third quarter.

Operator
Our next question is from the line of Scott Group with Wolfe Research.

Scott H. Group ***Wolfe Research, LLC - MD & Senior Transportation Analyst***
So just wanted to just follow up there, just on this kind of auto steel discussion. Obviously, we can see that auto's 9% of your total revenue this quarter. But when you think about the derivatives that go into the auto sector, what percentage of your total business do you think is tied to auto? And as we think about autos and steel and maybe some of the other derivatives falling in the back half, should we think about those as having higher or lower than normal incremental margins?

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***
Scott, those -- there are some inputs into it. Certainly, carbon black or plastics or steel are the primary ones. Auto doesn't make up a material portion of our volumes in those groups. But the -- if there's a pullback in auto, that will have a little bit of pressure in those markets.

Scott H. Group ***Wolfe Research, LLC - MD & Senior Transportation Analyst***
But is there any way to say, like, so yes, autos are 9% -- direct autos are 9% of the business, but if we add up all the derivatives, it's -- total exposure to autos is 15% or 20%? I don't know. Is there any way that I could just -- try and help put that in perspective?

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***
It's not a material number.

Scott H. Group ***Wolfe Research, LLC - MD & Senior Transportation Analyst***
You're saying not materially above the 9% that we can see that's directly auto?

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***
Right. It does have an impact but it's -- you've noted a 9% to 15% or 20%, it's not in that range.

Scott H. Group ***Wolfe Research, LLC - MD & Senior Transportation Analyst***
Okay. Okay, good. And then just on the utility coal side, utility coal volumes were up 23% in the second quarter. It looks like the guidance for the third quarter is that utility coal's going to be down year-over-year. I'm surprised down just given that you still have the contract win from CSX. So did we hear that right? And given that dynamic and then what you talked about on the export side, do you think RPU in coal is positive or negative in aggregate in the third quarter?

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***
Scott, you did hear that right. That's exactly how I guided. If you recall, third quarter of last year, we saw a significant jump in our coal volumes sequentially from about 15 million tons, in the second quarter of last year, to over 18 million tons in the third quarter of this year. That benefited from a very hot start to the summer, including June. We haven't seen that this year. And so that puts pressure on our utility coal

volumes in the quarter.

Scott H. Group ***Wolfe Research, LLC - MD & Senior Transportation Analyst***
And then just so given that dynamic of utility coal down, export up, but export rates falling a little bit, in aggregate, do you think coal RPU is positive or negative year-over-year in the third? I know you said export's positive, I'm just trying to think in aggregate for coal.

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***
Yes. We won't guide to specific RPUs in specific markets on a quarterly basis, but you've got all the right thoughts there in terms of the moving parts.

Operator
The next question is from the line of Cherilyn Radbourne with TD Securities.

Cherilyn Radbourne ***TD Securities Equity Research - Analyst***
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Wanted to ask a question about your strategies integrating more closely with customers across the supply chain. Can you talk about how broadly you're approaching that? In other words, have you started with a few key customers or a few key business lines? Or is it more general than that?

James A. Squires ***Norfolk Southern Corporation - Chairman, CEO and President***
Well, we did begin by doing some focus groups with key customers across various parts of our business. And then we have taken that feedback, along with feedback we have received from a bigger group of customers, and some of that feedback has been informal as we've been out there meeting and talking with the customers. Some of it has been more formalized. We took all of that. We have been working on redesigning our customer interfaces, our equipment strategies, sitting down with the customers about service parameters, what do you consider to be service excellence. Well, that's we're going to try to deliver. And so it's been a very broad-based and comprehensive effort to take in our customer's feedback, to understand their service needs, and to redesign our network around what they want.

Cherilyn Radbourne ***TD Securities Equity Research - Analyst***
And just by way of a quick follow-up. As we go forward, how do you plan to internally measure success? Is it economy plus growth or some other metric?

James A. Squires ***Norfolk Southern Corporation - Chairman, CEO and President***
Well, a couple of dimensions there. Certainly one measure of success would be how we are doing from a service standpoint relative to the shared KPIs we have developed with our customers. And then we will recognize success in both top line growth and margin expansion -- margin expansion and bottom line growth. I mean, that's the key, obviously, is to garner revenue growth that translates to better margins and a better bottom line.

Operator
Our next question comes from the line of Brian Ossenbeck with JPMorgan.

Brian Patrick Ossenbeck ***JP Morgan Chase & Co, Research Division - Senior Equity Analyst***
I just had a quick one on PTC, positive train control. If you can just give us a sense of where you are this year in terms of OpEx and D&A, what's in the 2017 numbers? And when you look forward to 2020, obviously, there's still a lot of moving parts as the system's being developed and tested, but I imagine you have some idea what's baked into your 2020 guidance. So if you can just kind of give us a starting point where you're at now and where you expect that to settle in 2020 when the system comes online?

James A. Squires ***Norfolk Southern Corporation - Chairman, CEO and President***
Let me comment on the state of implementation and then I'll turn it over to Marta to address the expense components. So we're making excellent progress on PTC. We do expect to meet the deadlines and have the system fully installed next year. And then we will begin then to turn it on across the board. So everything's going very well in terms of the implementation. Longer term, we're seeing an opportunity to utilize PTC in various ways. So that's all a good thing. Now Marta, why don't you talk about the expense components of PTC going forward?

Marta R. Stewart ***Norfolk Southern Corporation - CFO and EVP of Finance***
Certainly. Well, the first thing to note is that the PTC-related costs are included in our long range guidance. And so the -- Mike's folks have estimated what they think the cost will be associated with that and included it in all of our plans. So now, with regard particularly to this year, we expect that we'll have -- we have included depreciation, probably about $60 million. Going forward, upon total completion, it will probably be about $100 million, but again, it's in our expectations. With regard to the maintenance costs, the way his team is approaching that is to include the PTC maintenance for the years going forward as part of our overall maintenance budget. So we don't have a specific number for that because they are integrating the work in with their other work. Mike, do you have anything to add to that?

Michael Joseph Wheeler ***Norfolk Southern Corporation - COO and EVP***
No. But from a dollar standpoint, it's not a material increase in those costs. But again...

Marta R. Stewart ***Norfolk Southern Corporation - CFO and EVP of Finance***
Because you're incorporating it into.

Michael Joseph Wheeler ***Norfolk Southern Corporation - COO and EVP***
Yes, incorporating it into and it's already in our 2020 plan.

Brian Patrick Ossenbeck ***JP Morgan Chase & Co, Research Division - Senior Equity Analyst***
Okay. So it sounds like the biggest increase should then come from just depreciating the assets that you're putting into place, and do you feel like part of the maintenance you can kind of leverage with what you're already doing on the network?

Marta R. Stewart ***Norfolk Southern Corporation - CFO and EVP of Finance***
Yes. I mean, it certainly has additional extra work with it, but they're going to incorporate it with it, and going forward, of course, for reporting purposes, in R1 and so forth, we will break out the portion that's PTC. But again, the important point that Mike and I are both making is that it is integrated with our plan.

Brian Patrick Ossenbeck ***JP Morgan Chase & Co, Research Division - Senior Equity Analyst***
Okay, thanks. And then just quick follow-up for Alan. If you can just -- you talked about the trucking market getting tighter in 2018, and you posted record intermodal volumes this quarter. So if you can just talk a little bit more about the international side, some of the foreign activity picking up on the East Coast, investments being made or just being raised, that sort of thing, how those partnerships are progressing and when you might expect to see some of that activity?

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***
Brian, good question. We've got some great relationships with our steamship lines and our port partners. And we've benefited from the shift of volume from the West Coast to East Coast. Our exports through the -- to the imports to the East Coast are up 13% in the quarter. And so we have seen already the benefit of that growth in volume, and expect to continue to do so.

Operator
Our next question is from the line of John Larkin with Stifel.

John Griffith Larkin ***Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Head of Transportation Capital Markets Research***
Just wanted to ask a bit of brain teaser on the RPU math. I think, Alan, you'd mentioned that of the top 7 commodity groups, the RPU there has risen, year-over-year, somewhere between 2% and 4% depending upon the commodity group, yet the overall RPU growth is up 1%. Could you explain what I'm missing there in terms of that translation from a bunch of groups growing 2% to 4% yet the overall is growing at only 1%?

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***
Yes, John, it's a mix impact. So it's -- RPU is up between 2% and 5% for each of our 7 commodity groups year-over-year in the second quarter. However, if most of your volume or a large percentage of your volume growth is a lower rated intermodal, while intermodal RPU can be up 4%, it'll have a drag on the overall RPU for the company. So that's an important fact to remember; as we look at RPU, it isn't always reflective of price or of value to the corporation.

John Griffith Larkin ***Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Head of Transportation Capital Markets Research***
Okay. That is very helpful. And then just maybe a follow-on regarding the PTC line of questioning a couple of questioners ago. As you look out, it's pretty clear that you've planned out through 2020 and maybe beyond, as that PTC CapEx begins to fall off and you have gotten the network into great shape and made a lot of the operational changes that you're going through now, where do you see the sort of

long run CapEx settling out as a percentage of revenue? There is one railroad you're aware of, I'm sure, that has targeted sort of a 15% number. Is that a sustainable number and reasonable to apply to Norfolk Southern, or do you have a different dynamic at work?

James A. Squires ***Norfolk Southern Corporation - Chairman, CEO and President***
John, post-PTC, we do see CapEx coming down somewhat as a share of revenue, for example. Exactly where that lands, I think we'll have to see. It's really, -- there's no fixed ideology there. Our goal is to invest as much as we possibly can and generate shareholder value and appropriate return on capital. So that's the goal, but -- as much but not more than we can while generating excellent return. So I think we'll see. It's likely to come down post-PTC, but again, it's really all about paying close attention to the return on capital, make sure we're generating an appropriate return and investing just enough to do that.

Operator
Our final question comes from the line of David Vernon with Bernstein Research.

David Scott Vernon ***Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst***
Alan, maybe when you talk about the tightening of the truck market, as you think about how that's going to impact core price and maybe even volume a little bit, when should we start to expect that to come in if we see this sort of sustained tightening of the truck market that some of the truckers are talking about right now? When should it show up in the Norfolk P&L or core pricing metrics?

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***
David, I believe that'll start to show up in 2018. It'll have to be reflected through trucking bid season later in the year, and then so we'll start to see it in our contract negotiations later in the year and into next year. Now potentially, we could start to see it in volume later in the year, but you'll see it in pricing in 2018.

David Scott Vernon ***Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst***
Okay. And then maybe just a quick follow-up. I think in talking to some guys around the coal field, there is a little bit of speculation that the recent uptick in the met coal settlement is a result of U.S. miners maybe not having the capacity to spool up more production from met. Are you hearing anything about the supply constraints kind of restricting availability of U.S. met coal exports or is that something that you feel your customers are going to be able to respond to as demand stays strong?

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***
I think a lot of what we've heard is it's a result of the increase in Chinese steel production. And the Australians have taken some production off-line. They've guided to that. We're going to continue to watch production. And David, to your point, production is going to limit, probably, our export volume in the second half of the year.

David Scott Vernon ***Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst***

And that -- so -- but that should still give you an ability to kind of benefit from the price of that volume though, right?

Alan H. Shaw ***Norfolk Southern Corporation - CMO and EVP***
Yes. It will.

Operator
Thank you. At this time, I will turn the floor back to Jim Squires for closing comments.

James A. Squires ***Norfolk Southern Corporation - Chairman, CEO and President***
Well, thank you everyone for your questions today. We look forward to speaking with you again in October.

Operator
Thank you. This concludes today's teleconference. You may disconnect your lines at this time, and we thank you for your participation.
