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C.W. Moorman
Chairman, President and
Chief Executive Officer

September 27, 2011

The Honorable Daniel R. Elliott, III
Chairman
Surface Transportation Board
395 E Street, S.W.
Washington, D.C. 20423-0001

Dear Chairman Elliott:

I write in response to the letter sent on September 6, 2011, regarding end-of-year business demands.

For the first two quarters of 2011, traffic levels were up 6% over the first half of the previous year. Despite the uncertain economic landscape, we continue to see volume increases in several of our business segments, including intermodal, coal, automotive, and metals and construction.

As our carloadings and train starts increased, our system average train speeds and our in terminal dwell have improved. Given the current momentum of the economy, Norfolk Southern is confident about meeting our customer's transportation demands for the remainder of the year.

I. Traffic Expectations for the Remainder of 2011

Based on our present understanding of various markets, Norfolk Southern outlines its views on business levels. Market conditions could change of course, which would render
our current views incorrect.

Looking first at coal, export shipments remain favorable due to continued global demand for steel production. Utility coal volume has also increased due to new business and the resumption of shipments to electrical generation units that had been idled since the first quarter of 2009. Domestic metallurgical coal volume is solid, though not as high as in 2010, due to increased domestic steel production and low stockpiles. Demand for industrial coal remains relatively flat.

In intermodal, overall traffic has been up in each of the first two quarters of this year. Domestic intermodal has increased in part from diversions of traffic from truck. Meanwhile, International intermodal has improved along with the world economy.
As for our merchandise business, our Metals and Construction and Automotive businesses continue to see volume growth, but volumes in our remaining commodity groups remain down slightly from last year. Our Metals and Construction volume has been driven by increased domestic steel production and stronger sand/tubular shipments to the natural gas exploration regions. Growth in our Automotive business has been driven by new business and improved auto production for the second half of the year.

Although volumes in our remaining merchandise segments have been lower than in the prior year, opportunities for improvement in the second half of the year exist. In Chemicals, we expect improving volumes through project growth in crude oil and waste products, and long-term improved feedstock prices. Additionally, demand for U.S. agricultural products is increasing which will benefit our Agriculture business. Finally, we hope to see growing Paper and Forest volumes due to an improving rental construction market and more favorable paper demand.

Although traffic growth is lower than what we experienced in 2010, we are hopeful that traffic will remain solid for the rest of 2011. At this point, however, we are still about 6% short of the traffic levels in 2008.

II. Operating and Capacity Efforts

Our marketing forecast drives our resource planning and allows us to adjust our operating plan to handle projected volumes. As a result of the hiring of T&E employees in 2010, the number of qualified T&E employees on our system has increased steadily as trainees progress through the training pipeline. Similarly, we expect to see a sequential net gain in qualified T&E employees during the remainder of 2011.

On the equipment side, we are adding 1,500 coal gondolas and hoppers and 2,100 super-jumbo covered hoppers to address demands in our coal and agriculture business segments. These cars will both replace older, leased equipment and add capacity for new business. In addition to 42 locomotives added in the fourth quarter of last year, NS took delivery of another 50 units earlier this year and expects to take delivery of additional locomotives in the last quarter of 2011. As more resources become available, NS is better able to optimize its operating plans to handle our customers' business.

In addition to adding resources and adjusting our operating plan to accommodate our volume outlook, NS is working with other rail carriers to address congestion points on its system. NS and other parent carriers of the Indiana Harbor Belt Railroad took action that resulted in the construction by the IHB of additional track to better handle multilevel traffic in Chicago. Additionally, through the Class I railroads' Chicago Planning Group and its Chicago Terminal Coordination Office, NS worked to coordinate the implementation of congestion mitigation procedures for the Chicago area. The CTCO is now fully staffed with representatives from all of the major Class I railroads operating in the Chicago area.

Finally, Norfolk Southern continues to make sizeable investments to maintain and expand its infrastructure for the demands of the business. Our capital budget for 2011 was originally $2.223 billion, which is a record level of investment for NS. This amount included lease replacements, Positive Train Control spending and baseline capital, of which approximately 17 percent is for growth and 83 percent is for maintaining the existing network. Norfolk Southern's 2011 capital budget included, among other things:

- Investing in capacity by making capital roadway improvements. Norfolk Southern plans to spend $763 million for rail, crosstie, ballast, and bridge programs.

- Making $367 million in capital investments on locomotives and railcars.

- Spending $244 million on intermodal terminals and equipment, bulk transfer facilities, and mechanical repair and service facilities.

- Investing $96 million in technology to enhance safety, service, improve operating efficiencies and equipment utilization.

- Spending $79 million on infrastructure for various public-private partnership investments and network improvements.

- Spending $194 million on other projects.

We may make further adjustments as necessary during the remainder of the year to our operations, capital budget, and employment levels so warranted.

III. Corridor Projects and Other Initiatives

We are moving forward with projects related to our Crescent Corridor initiative, a multi-state $2.5 billion initiative to establish an efficient, high-capacity intermodal freight rail route between the South and the Northeast. In April, we began construction on a 380 acre intermodal terminal near Memphis, Tennessee. Recently in June, NS broke ground on the new Birmingham Regional Intermodal Facility and a new terminal in Greencastle, Pennsylvania. All terminals are expected to be completed in late 2012.

Currently, the Crescent Corridor has received or expects to receive approximately $256 million in public capital funding commitments from the Commonwealths of Pennsylvania and Virginia, the states of Alabama and Tennessee, the federal TIGER Stimulus Program and other federal funding sources related to projects in Alabama, Pennsylvania, Tennessee, and North Carolina. We currently estimate spending up to $242 million for the substantial completion of work on these projects which is expected by the end of 2013, including planned 2011 capital expenditures as high as $48 million.

The MidAmerica Corridor is a cooperative arrangement between NS and Canadian National Railway to effectively share track between Chicago, St. Louis, Kentucky, and Mississippi in order to establish more efficient routes for traffic moving between the midwestern and southeastern United States. Implementation of the arrangement will begin with the start of a daily train between St. Louis and the Southeast. Projected capital improvements for 2011 are expected to be approximately $17 million.

NS is participating in the CREATE project, a public-private partnership to reduce rail and highway congestion and add freight and passenger capacity in the metropolitan Chicago area. Notably in June, NS and its CREATE partners reached a construction agreement regarding the Englewood flyover project, which resulted in federal, state and railroad funding being obligated for the project. The Englewood flyover is a critical project to Phase I of the CREATE program.

IV. Developments in Passenger Rail

We believe that there can be a tension between maintaining the best freight rail system in the world and accommodating the public sector's desire to expand passenger rail service over that freight rail system. In addition, we believe that major segments of our business – particularly the movement of truck trailers and containers – could grow significantly in the coming years as highways become more congested, and additional freight rail network capacity will be needed to accommodate that growth. Accordingly, NS's focus is on freight rail transportation as we compete more broadly in the freight transportation market.

Thus, NS carefully considers the current and future compatibility between freight and passenger rail service whenever a passenger rail project is proposed. Accordingly, NS has several key principles when looking at potential passenger rail projects, the primary principle, of course, is that goal one is safety – for everybody involved, including passengers, railroad employees, and the community in which the operations take place. Among the other key principles that guide our considerations are: (1) all projects must recognize the private ownership of the freight corridors, as well as the existing and potential capacity within that corridor; (2) after any capital improvements have been constructed, passenger operations should not delay or hinder current or future freight rail operations; (3) there must be adequate liability protection for NS; and (4) passenger trains operating in excess of 79 mph must operate on separate tracks from freight trains.

We continue to work with the states and the Federal government to progress passenger rail service projects and acknowledge that increased freight volume affects passenger rail service performance given the existing infrastructure. Our Amtrak on-time performance has been adversely affected in 2011 by slow-orders affecting eight daily Amtrak trains operating on Norfolk Southern's Michigan Line. NS and Michigan recently reached an agreement to fund interim rehabilitation of the line to significantly reduce these slow orders, and construction work is already partially complete. Norfolk Southern continues to work with Michigan to implement the ARRA grant awarded to the State for the improvement of the Michigan Line for higher-speed passenger service.

Earlier this year, NS, together with North Carolina Department of Transportation, the North Carolina Railroad and the Federal Railroad Administration, signed agreements to enable the further development of a significant main line corridor for enhanced passenger rail service. Additionally, the Englewood project discussed above will result in a substantial benefit to passenger rail. Finally, we have been working with other jurisdictions to advance passenger projects in their states.

V. CONCLUSION

Thank you for your inquiry. We look forward to continued growth through the remainder of 2011.

Sincerely,

Charles W. Moorman

cc: The Honorable Ann D. Begeman
The Honorable Francis P. Mulvey