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The change-in-control agreements do not provide for the acceleration of any unvested restricted shares or restricted stock units held by Named Executive Officers at the time their employment with us is terminated or upon a change in control. Under the terms of LTIP, they will forfeit any

unvested restricted shares and restricted stock units if their employment is terminated for any reason other than retirement, disability or death. The Compensation Committee of our Board of Directors has the authority under LTIP to waive any restrictions on restricted shares and restricted stock units.

- (6) Amount does not include the aggregate balance of the Named Executive Officer's deferred compensation account as of December 31, 2007 in which he is currently vested. See column (f) of the Nonqualified Deferred Compensation Table for this amount.
- (7) Represents the amount by which the Named Executive Officer's pension benefit, as enhanced by the change-in-control agreement, exceeds the actuarial present

value of his accumulated pension benefits as of December 31, 2007. Amount does not include the actuarial present value of the Named Executive Officers accumulated pension benefits as of December 31, 2007. See the Pension Benefits Table for a description of the pension benefits to which the Named Executive Officers are entitled upon their retirement.

(8) The change-in-control agreements obligate us to provide fully-funded post-retirement life insurance policies. These amounts represent the remaining premiums required to be paid to fully fund each policy, together with an amount estimated to equal the Federal and state income taxes that would be imposed on those amounts.

(9) These amounts are payable as and when the tax is

imposed and paid.  
These amounts do  
not take into  
account potential  
mitigation of our  
excise tax  
gross-up  
obligations for  
those portions of  
the above  
compensation that  
may be  
determined to be  
reasonable  
compensation or  
are being paid in  
consideration of  
the  
non-competition  
covenants  
contained in the  
change-in-control  
agreements.

*Events Triggering Change in Control Payments*

If we terminate a Named Executive Officer's employment with us for cause, we will not be required to pay him the benefits provided under his change-in-control agreement. Cause is defined as any of the following and the result of the same is materially harmful to us:

an intentional  
act of fraud,  
embezzlement  
or theft in  
connection  
with the  
executive's  
duties or in the  
course of his  
employment  
with us;

intentional  
wrongful  
damage to our  
property;

intentional  
wrongful  
disclosure of  
secret

processes or of  
our  
confidential  
information; or

intentional  
violation of  
our Code of  
Ethics.

In addition, if a Named Executive Officer terminates his employment with us within two years of a change in control for any of the following good reasons, we are required to pay him the benefits provided under his change-in-control agreement:

he is not elected  
or reelected to the  
office he held  
immediately prior  
to the change in  
control, or if  
serving as a  
director he is  
removed as a  
director;

his salary or  
bonus opportunity  
is reduced below  
the amounts in  
effect prior to the  
change in control;

without his  
consent, we  
terminate or  
reduce the value  
or scope of the  
Named Executive  
Officer's  
perquisites,  
benefits and  
service credit for  
benefits provided  
under any  
employee  
retirement income  
or welfare benefit  
policies, plans,  
programs or  
arrangements in  
which he is

participating  
immediately prior  
to the change in  
control;

he determines in  
good faith that  
following the  
change in control,  
he has been  
rendered  
substantially  
unable to carry  
out or has  
suffered a  
substantial  
reduction in any  
of the substantial  
authorities,  
powers, functions,  
responsibilities or  
duties attached to  
the position he  
held immediately  
prior to the  
change in control,  
which situation is  
not remedied  
within ten days  
after receipt by us  
that the Named  
Executive Officer  
has made that  
determination;

the successor to  
the change in  
control does not  
assume all of our  
duties and  
obligations under  
the  
change-in-control  
agreement;

we require that the Named Executive Officer relocate his principal location of work in excess of 35 miles from his employment location immediately prior to the change in control, or that he travel away from his office significantly more than was required of him immediately prior to the change in control; or

any material breach of the change-in-control agreement by us or our successor.

*Requirement Not to Compete*

In exchange for the benefits provided under the change-in-control agreements and to help encourage management continuity, the Named Executive Officers agreed not to engage in competing employment for a period of three years from the date they executed the agreements and, if they accept benefits payable or provided under the agreements, they may not engage in competing employment for a period of one year from the date they are terminated following the change in control. Competing employment for this purpose is the provision of services of any type, kind or nature and in any capacity to any organization or person that is, that controls, that is controlled by, or one of whose significant customers or clients is (i) a Class I railroad operating in the United States, Canada or Mexico, (ii) an interstate trucking company operating in the United States, Canada or Mexico or (iii) a provider or arranger of intermodal services of any kind or nature, any portion of which services is provided or arranged in the United States.

***Retirement***

*Former Executive Officer*

As noted above under Retirement Benefits, Mr. Wolf retired in 2007. In addition to the deferred compensation and pension benefits disclosed in the Nonqualified Deferred Compensation and Pension Benefits Tables, Mr. Wolf is eligible for the following benefits:

<b>Name</b>	<b>Non-Equity Incentive</b>	<b>Performance Share</b>	<b>Restricted Stock and</b>	<b>Medical Benefits<sup>(4)</sup></b>	<b>Life Insurance<sup>(5)</sup></b>	<b>Total</b>
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	<b>Pay<sup>(1)</sup></b>	<b>Units<sup>(2)</sup></b>	<b>Restricted Stock Units<sup>(3)</sup></b>			
Henry C. Wolf	\$ 218,295	\$ 4,501,944	\$ 7,420,000	\$ 83,536	\$ 0	\$ 12,223,055

(1) Represents prorated cash bonus paid to Mr. Wolf under EMIP for the fiscal year ended December 31, 2007. This award is also included in the Summary Compensation Table. It is included here because, but for retirement provisions under EMIP, Mr. Wolf would have forfeited this award.

(2) Represents (i) the dollar value of performance share units actually earned out for the performance cycle ended December 31, 2007 based on the average of high and low of the market price of the underlying shares on the



earnout date,  
plus (ii) the  
estimated  
dollar value of  
performance  
share units to  
be earned  
during the  
performance  
cycles ending  
December 31,  
2008 and  
December 31,  
2009,  
assuming a  
77.6%  
earn-out,  
which was the  
actual earn-out  
for the  
performance  
cycle ended  
December 31,  
2007, in each  
case based on  
the \$50.44  
closing market  
price of our  
common stock  
on December  
31, 2007. The  
amounts for  
the  
performance  
cycles ending  
December 31,  
2008 and  
December 31,  
2009 are also  
included in the  
Outstanding  
Equity Awards  
at Fiscal  
Year-End  
Table.  
However,  
because Mr.  
Wolf would  
have forfeited  
these awards  
but for

retirement provisions under LTIP, we have included these amounts here as well.

- (3) Represents the dollar value of restricted shares and restricted stock units vested in 2007 using the average of the high and low of the market prices of the underlying shares on the vesting dates. As noted in the Option Exercises and Stock Vested Table, while the service requirements under all of these awards terminated upon Mr. Wolf's retirement, these awards will be forfeited if he engages in competing employment during the applicable restriction periods. These amounts are also included in the Outstanding Equity Awards at Fiscal

Year-End  
Table.  
However,  
because Mr.  
Wolf would  
have forfeited  
these awards  
but for  
provisions in  
LTIP and in  
his retirement  
agreement, we  
have included  
these amounts  
here as well.

- (4) Represents  
estimated  
retiree medical  
benefits for  
Mr. Wolf and  
his eligible  
dependents.

- (5) Represents the remaining cost of a retiree life insurance policy as of December 31, 2007, which policy for Mr. Wolf is in the amount of \$1,150,000.

In addition to the foregoing benefits, Mr. Wolf also received an additional 30,000 restricted stock units under his retirement agreement, the value of which is included above in the Summary Compensation Table and the Grants of Plan-Based Awards Table. For additional information regarding this grant, see above under Retirement Agreements.

Amounts above do not include the value of unexercised stock options held by Mr. Wolf. See the Outstanding Equity Awards at Fiscal Year-End Table for a complete list of these options. Under retirement provisions contained in the LTIP agreements, each option held by Mr. Wolf will expire at the end of the term for which the option was granted. But for these retirement provisions, all of his options would have expired at the close of business on his last day of employment with us.

#### *Current Executive Officers*

As of December 31, 2007, all current Named Executive Officers other than Mr. Squires were of retirement age under our retirement plans. See Termination for Any Other Reason below for a discussion of the benefits to which Mr. Squires would have been entitled had he retired as of December 31, 2007. Mr. Tobias was eligible to retire as of December 31, 2007 with unreduced pension benefits under our retirement plans. Messrs. Moorman, Manion and Seale were eligible to retire and choose to receive either (i) a temporary retirement benefit not to exceed \$500 per month until reaching age 60, and thereafter the full amount of the accrued pension benefits disclosed in the Pension Benefits Table, or (ii) a reduced amount of the pension benefits disclosed in the Pension Benefits Table. Assuming each of the current Named Executive Officers other than Mr. Squires retired as of December 31, 2007, in addition to these pension benefits and the deferred compensation amounts disclosed in the Nonqualified Deferred Compensation Table, each of them would have been eligible for the following benefits:

Name	Performance Share Units <sup>(1)</sup>	Restricted Stock and Restricted Stock Units <sup>(2)</sup>	Medical Benefits <sup>(3)</sup>	Life Insurance <sup>(4)</sup>	Total
Charles W. Moorman, IV	\$ 7,828,288	\$ 9,583,600	\$ 135,979	\$ 0	\$ 17,547,867
Stephen C. Tobias	\$ 3,131,315	\$ 5,548,400	\$ 100,650	\$ 18,427	\$ 8,798,792
Mark D. Manion	\$ 2,113,638	\$ 3,429,920	\$ 159,308	\$ 6,031	\$ 5,708,897

Donald W. Seale	\$ 2,113,638	\$ 3,429,920	\$ 174,772	\$ 0	\$ 5,718,330
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(1) Represents the estimated dollar value of performance share units to be earned during the performance cycles ending December 31, 2008 and December 31, 2009, assuming a 77.6% earn-out, which was the actual earn-out for the performance cycle ended December 31, 2007, and in each case based on the \$50.44 closing market price of our common stock on December 31, 2007. The amounts for the performance cycles ending December 31, 2008 and

December 31, 2009 are also included in the Outstanding Equity Awards at Fiscal Year-End Table. However, because the Named Executive Officers would forfeit these awards but for retirement provisions under LTIP, we have included these amounts here as well.

- (2) Represents the dollar value of restricted shares and restricted stock units based on the \$50.44 closing market price of our common stock on December 31, 2007. These amounts are also included in the Outstanding Equity Awards at Fiscal

Year-End Table. However, because the Named Executive Officers would forfeit these awards but for retirement provisions of LTIP and their LTIP award agreements, we have included these amounts here as well.

- (3) Represents estimated retiree medical benefits for the Named Executive Officers and their eligible dependents.
- (4) Represents the remaining cost of retiree life insurance policies as of December 31, 2007, which policy amounts are as follows:  
Mr. Moorman, \$570,000;  
Mr. Tobias, \$1,150,000;  
Mr. Manion,

\$460,000;  
and Mr.  
Seale,  
\$600,000.



Amounts above do not include the value of unexercised stock options held by the Named Executive Officers. See the Outstanding Equity Awards at Fiscal Year-End Table for a complete list of these options. Under retirement provisions contained in the LTIP agreements, each option held by the Named Executive Officers will expire at the end of the term for which the option was granted. But for these retirement provisions, all of their options would expire at the close of business on their last day of employment with us.

### ***Death or Disability***

#### ***Death***

If the current Named Executive Officers had died on December 31, 2007, in addition to the deferred compensation benefits disclosed in the Nonqualified Deferred Compensation Table and the pension benefits disclosed in the Pension Benefits Table—which pension benefits would be reduced as a result of the Named Executive Officer's death—each Named Executive Officer's spouse and/or designated beneficiaries would have been eligible for the following benefits:

<b>Name</b>	<b>Performance Share Units<sup>(1)</sup></b>	<b>Restricted Stock and Restricted Stock Units<sup>(2)</sup></b>	<b>Medical Benefits</b>	<b>Life Insurance Proceeds</b>	<b>Total</b>
Charles W. Moorman, IV	\$ 7,828,288	\$ 9,583,600	\$ 61,795	\$ 2,400,000	\$ 19,873,683
Stephen C. Tobias	\$ 3,131,315	\$ 5,548,400	\$ 54,169	\$ 1,800,000	\$ 7,405,700
Mark D. Manion	\$ 2,113,638	\$ 3,429,920	\$ 81,733	\$ 1,225,000	\$ 6,850,291
Donald W. Seale	\$ 2,113,638	\$ 3,429,920	\$ 97,197	\$ 1,225,000	\$ 6,865,755
James A. Squires	\$ 696,728	\$ 935,662	\$ 87,987	\$ 925,000	\$ 2,645,377

(1) Represents the estimated dollar value of performance share units to be earned during the performance cycles ending December 31, 2008 and December 31, 2009,

assuming a  
77.6%  
earn-out,  
which was  
the actual  
earn-out for  
the  
performance  
cycle ended  
December  
31, 2007,  
and in each  
case based  
on the  
\$50.44  
closing  
market price  
of our  
common  
stock on  
December  
31, 2007.  
The amounts  
for the  
performance  
cycles  
ending  
December  
31, 2008 and  
December  
31, 2009 are  
also included  
in the  
Outstanding  
Equity  
Awards at  
Fiscal  
Year-End  
Table.  
However,  
because the  
Named  
Executive  
Officers  
would forfeit  
these awards  
but for death  
benefit  
provisions  
under LTIP,  
we have

included  
these  
amounts here  
as well.

- (2) Represents the dollar value of restricted shares and restricted stock units based on the \$50.44 closing market price of our common stock on December 31, 2007. These amounts are also included in the Outstanding Equity Awards at Fiscal Year-End Table. However, because the Named Executive Officers would forfeit these awards but for death benefit provisions of LTIP and their LTIP award agreements, we have included these amounts here as well.

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Amounts above do not include the value of unexercised stock options held by the Named Executive Officers. See the Outstanding Equity Awards at Fiscal Year-End Table for a complete list of these options. Under death benefit provisions contained in the agreements, each option held by the Named Executive Officers will expire at the end of the term for which the option was granted. But for these death benefit provisions, all of their options would have expired at the close of business on their last day of employment with us.

### *Disability*

If the current Named Executive Officers had become disabled on December 31, 2007, each of them other than Mr. Squires could elect to retire and receive up to the benefits set forth above under Retirement Current Executive Officers. For Mr. Squires and any other Named Executive Officer electing not to retire, each would be entitled to disability benefits in an amount equal to one-half his base salary.

Under disability benefit provisions contained in LTIP and the LTIP agreements, each option held by the Named Executive Officers would expire at the end of the term for which the option was granted and the restrictions on each restricted share and restricted stock unit held by the Named

Executive Officers would lapse upon the expiration of the applicable restriction period; but for these disability benefit provisions, the Named Executive Officers would forfeit all unexercised options and unvested restricted shares and restricted stock units. See the Outstanding Equity Awards at Fiscal Year-End Table for a complete list of options, restricted shares and restricted stock units held by the Named Executive Officers.

***Termination for Any Other Reason***

As noted above, each of the Named Executive Officers other than Mr. Squires was eligible to retire as of December 31, 2007; accordingly, had their employment been terminated by us or by them as of that date, each would have been entitled to the benefits set forth above under Retirement Current Executive Officers. Because Mr. Squires had at least 10 years of service as of December 31, 2007, had his employment been terminated by us or by him as of that date, he would have been eligible for either (i) the full amount of his accrued pension benefits disclosed in the Pension Benefits Table beginning at age 60, or (ii) an actuarially reduced amount of the pension benefits disclosed in the Pension Benefits Table beginning at age 55.

In addition to these pension benefits, each current Named Executive Officer would have been entitled to receive the deferred compensation benefits fully disclosed in the Nonqualified Deferred Compensation Table.

We also have a Severance Pay Plan. Under the Severance Pay Plan, if the current Named Executive Officers employment had been terminated as of December 31, 2007 due to the executive's position being voluntarily eliminated or terminated in connection with downsizing or internal restructuring, or due to the executive's position being involuntarily eliminated as a result of a position abolishment or a downsizing or internal restructuring, the Named Executive Officers would have been entitled to the following benefits:

two weeks of  
the executive's  
annual base  
salary for each  
year of service  
up to a  
maximum of  
80 weeks (but  
not in excess  
of twice the  
annual amount  
of the  
executive's  
salary payable  
in the 12-  
month period  
preceding the  
executive's  
severance  
date);

continued  
health care  
benefits for the  
executive and  
the executive's

eligible  
dependents  
until the earlier  
of (a) 12  
months, or (b)  
until those  
health care  
benefits would  
otherwise  
terminate  
under the  
continuation of  
coverage  
provisions of  
the  
Consolidated  
Omnibus  
Budget  
Reconciliation  
Act of 1986, as  
amended  
(COBRA); and

outplacement  
assistance.

If the current Named Executive Officers' employment had been terminated by us for any reason other than as described above (excluding major misconduct which is defined under the Severance Pay Plan to include indictment for or conviction of a felony, theft, fraud or embezzlement, violation of company policy, or other conduct the plan administrator determines to be major misconduct ), then the Named Executive Officers would have been entitled to one week of the executive's annual base salary for each year of service up to a maximum of 26 weeks, with the amount capped at two times the executive's salary paid in the 12-month period preceding the executive's severance date. The Named Executive Officers would not have been entitled to Severance Pay Plan benefits if terminated for major misconduct.

***Directors' Charitable Award Program Benefit***

In addition to the benefits described above, Mr. Moorman continues to be entitled to nominate one or more tax-exempt institutions to receive up to \$500,000 from Norfolk Southern following his death. We continue to pay the life insurance premiums we use to fund this program. See Narrative to Non-Employee Director Compensation Table Directors' Charitable Award Program for more information regarding this program.

**Non-Competition**

In addition to restrictions imposed under our change-in-control agreements, certain awards under LTIP were beginning in 2006 made subject to forfeiture in the event the Named Executive Officer engages in competing employment for a period of time following termination. For these purposes, engages in competing employment means working for or providing services to any of our competitors in North American markets in which we compete.

**Future Severance Benefits Policy**

In 2002, our Board of Directors agreed to abide by a stockholder approved proposal that future severance agreements with senior executives that exceed 2.99 times the sum of the executive's base salary plus bonus require stockholder approval.

**Director Compensation****2007 Non-Employee Director Compensation Table<sup>(1)</sup>**

Name (a)	Fees Earned or Paid in Cash <sup>(2)</sup> (\$) (b)	Stock Awards <sup>(3)</sup> (\$) (c)	Option Awards (\$) (d)	Non-Equity Incentive Plan Compensation (\$) (e)	Change in Pension Value and Nonqualified Deferred Compensation Earnings <sup>(4)</sup> (\$) (f)	All Other Compensation <sup>(5)</sup> (\$) (g)	Total (\$) (h)
Gerald L. Baliles	90,000	156,889	0	0	0	15,892	262,781
Daniel A. Carp	90,000	151,798	0	0	0	6,543	248,341
Gene R. Carter	90,000	156,994	0	0	5,500	6,543	259,037
Alston D. Correll	90,000	155,040	0	0	1,394	6,543	252,977
Landon Hilliard	90,000	156,994	0	0	58,984	31,543	337,521
Burton M. Joyce	90,000	153,069	0	0	0	6,543	249,612
Steven F. Leer	90,000	155,927	0	0	4,694	18,618	269,239
Jane Margaret O'Brien	90,000	156,628	0	0	8,640	7,168	262,436
J. Paul Reason	90,000	154,375	0	0	0	6,543	250,918

- (1) Mr. Moorman received no compensation for Board or committee service in 2007 and will not receive compensation for Board or committee service in 2008. Therefore, neither this table nor the narrative which follows contain compensation information for Mr. Moorman.
- (2) Includes amounts elected to be received on a deferred basis pursuant to the Directors Deferred Fee Plan. For a discussion of this plan, as well as our other director compensation plans, see the narrative discussion below.
- (3) Of these amounts, \$151,320 represents the value as of December 31, 2007, of the 3,000 stock units granted to each director on



January 25, 2007 pursuant to our Outside Directors Deferred Stock Unit Program and which value is equal to the amounts we recognized for financial reporting purposes for such awards during 2007. The full grant date fair value of each such award was \$148,665. The remaining amounts for each director represent the dollar amounts recognized for financial statement reporting purposes in 2007 related to appreciation on awards of stock units made prior to 2007. As of December 31, 2007, the directors held stock units in the following amounts: Mr. Baliles, 39,941; Mr. Carp, 6,157; Mr. Carter, 40,638; Mr. Correll, 27,671; Mr. Hilliard, 40,638; Mr. Joyce, 14,590;

Mr. Leer,  
33,559; Ms.  
O'Brien,  
38,213; and Mr.  
Reason, 23,257.

In January  
2008, all of  
these stock  
units were  
terminated and  
replacement  
grants of an  
equivalent  
number of  
restricted stock  
units were  
made under  
LTIP. See

Narrative to  
Non-Employee  
Director  
Compensation  
Table Outside  
Directors  
Deferred Stock  
Unit Program  
for more  
information  
regarding these  
restricted stock  
units.

- (4) Represents the amounts by which 2007 interest accrued on fees deferred prior to 2001 by the non-employee directors under the Directors Deferred Fee Plan exceeded 120% of the applicable Federal long-term rate provided in Section 1274(d) of the Internal

Revenue Code.

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- (5) Includes (i) each director's proportional cost of NS-owned life insurance policies used to fund the Directors Charitable Award Program and (ii) the dollar amount, if any, we contributed to charitable organizations on behalf of directors pursuant to our matching gifts program.

***Narrative to Non-Employee Director Compensation Table***

*Retainer and Fees.* In 2007, each member of the Board of Directors received a quarterly retainer for services of \$12,500 and a quarterly fee of \$10,000 for serving on at least two committees, plus expenses incurred in connection with attendance at such meetings.

*Directors' Deferred Fee Plan.* A director may elect to defer receipt of all or a portion of the director's compensation. Amounts deferred are credited to a separate memorandum account maintained in the name of each participating director. Amounts deferred before January 1, 2001, earn a fixed rate of interest, which is credited to the account at the beginning of each quarter. In general, the fixed interest rate is determined on the basis of the director's age at the time of the deferral: under age 45, 7%; age 45-54, 10%; age 55-60, 11%; and over age 60, 12%. Amounts set forth in the table above represent the extent to which these rates exceed 120% of the applicable Federal long-term rate. The total amount so credited for amounts deferred before January 1, 2001 (including interest earned thereon) is distributed in ten annual installments beginning in the year following the year in which the participant ceases to be a director.

Amounts deferred on or after January 1, 2001, are credited with variable earnings and/or losses based on the performance of hypothetical investment options selected by the director. The hypothetical investment options include our stock units and various mutual funds as crediting indices. Our stock units are phantom units whose value is measured by the market value of shares of our common stock, but the units ultimately will be settled in cash, not in shares of our common stock. Amounts deferred on or after January 1, 2001, will be distributed in accordance with the director's elected distribution option in one lump sum or a stream of annual cash payments over 5, 10 or 15 years. Six directors elected in 2006 to defer compensation that would have been payable in 2007 into the Directors' Deferred Fee Plan.

Our commitment to accrue and pay interest and/or earnings on amounts deferred is facilitated by the purchase of corporate-owned life insurance with the directors as insureds under the policies. If the Board of Directors determines at any time that changes in the law affect our ability to recover the cost of providing the benefits payable under the

Directors' Deferred Fee Plan, the Board, in its discretion, may reduce the interest and/or earnings on deferrals to a rate not less than one half the rate otherwise provided for in the Directors' Deferred Fee Plan.

*Directors' Restricted Stock Plan.* Each non-employee director receives a grant of 3,000 shares of restricted stock upon election to the Board. Restricted stock is registered in the name of the director, who has all rights of ownership (including the right to vote the shares and receive dividends); however, restricted stock may not be sold, pledged or otherwise encumbered during a restriction period which (a) begins when the restricted stock is granted and (b) ends on the earlier of (i) the date the director dies or (ii) six months after the director becomes disabled or retires. In the event a non-employee director does not retire in accordance with the terms of the plan, these shares will be forfeited.

*Outside Directors' Deferred Stock Unit Program.* Each non-employee director was granted 3,000 stock units effective January 25, 2007. A stock unit represents the economic equivalent of one share of our common stock. On January 22, 2008, the Board of Directors approved amendments to the Outside Directors' Deferred Stock Unit Program that (i) require that all outstanding stock units issued under the Outside Directors' Deferred Stock Unit Program be terminated and that each non-employee director receive a replacement grant of an equivalent number of restricted stock units issued under LTIP and (ii) provide that all future awards under the Outside Directors' Deferred Stock Unit Program will be issued under LTIP.

Pursuant to these amendments to the Outside Directors' Deferred Stock Unit Program, on January 24, 2008, all stock units awarded to the non-employee directors under the Outside Directors' Deferred Stock Unit Program were terminated, and replacement grants of an equivalent number of

restricted stock units were made under LTIP. Each restricted stock unit represents the economic equivalent of one share of our common stock, but will be settled in shares of our common stock rather than cash. These restricted stock units are credited to a separate memorandum account maintained for each director and are administered in accordance with LTIP. Stock units in each director's memorandum account are credited with dividend equivalents as dividends are paid on our common stock, and the amount credited is converted into additional restricted stock units, including fractions thereof, based on the mean of the high and low trading prices of our common stock on the dividend payment date. We anticipate that, from time to time, non-employee directors will be granted additional restricted stock units in an amount sufficient to assure that their total annual compensation for services is competitive.

Upon leaving the Board, a director will receive the value of the restricted stock units in this memorandum account in shares of our common stock either in a lump sum distribution or in ten annual distributions, in accordance with an election made by each director. During the ten-year period over which distributions are made, restricted stock units in the memorandum account at any time that have not been distributed will be credited with dividend equivalents as dividends are paid on our common stock. Any fraction of a restricted stock unit remaining in the director's memorandum account following the lump sum distribution or the final distribution will be paid to the director in cash.

*Directors' Charitable Award Program.* Each director is entitled to nominate up to five tax-exempt institutions to receive, in the aggregate, up to \$500,000 from us following the director's death. Directors are entitled to designate up to \$100,000 per year of service until the \$500,000 cap is reached. Following the director's death, we will distribute the donations in five equal annual installments.

The Directors' Charitable Award Program supports, in part, our long-standing commitment to contribute to educational, cultural and other appropriate charitable institutions and to encourage others to do the same. We fund the charitable contributions made under the Program with proceeds from life insurance policies we have purchased on the Board members' lives. We are the owner and beneficiary of these policies, and the directors have no rights to any policy benefits. Upon Board members' deaths, we receive life insurance death benefits free of income tax, which provide a source from which we can be reimbursed for donations made under the Program. Our cost of the life insurance premiums under the Program is partially offset by tax deductions we take from making the charitable contributions. Each director's proportional share of the pre-tax cost of maintaining these policies during 2007 is included in the above table under "All Other Compensation."

Because we make the charitable contributions (and are entitled to the related deduction) and are the owner and the beneficiary of the life insurance policies, directors derive no direct financial benefit from this program. In the event the proceeds from any of these policies exceed the donations we are required to make under the Program, we contribute the excess proceeds to the Norfolk Southern Foundation. Amounts the Norfolk Southern Foundation receives under this program may reduce what we otherwise would contribute from general corporate resources to support the Foundation's activities.

*Directors' Physical Examinations.* Each non-employee director is entitled to reimbursement for a physical examination, up to \$10,000 per calendar year. Some of our directors were reimbursed for physical examinations during 2007, but because the cost of these physicals, together with other perquisites or other personal benefits, did not exceed \$10,000 for any non-employee director, these amounts do not appear in the 2007 Director Compensation Table. The CEO and certain other Executive Officers also are eligible for such reimbursement.

### **Compensation Committee Interlocks and Insider Participation**

The members of the Compensation Committee during 2007 were Mr. Carter, Chair, Mr. Carp, Mr. Correll, Mr. Joyce, and Ms. O'Brien. Ms. O'Brien's service as a member of the Compensation Committee ended May 10, 2007. None of the foregoing members has ever been employed by Norfolk Southern, and no such member had, during our last fiscal year, any relationship with us.



requiring disclosure under Item 404 of Regulation S-K or under the Compensation Committee Interlocks disclosure requirements of Item 407(e)(4) of Regulation S-K.

**Director Independence**

As required by the New York Stock Exchange, the Board of Directors has considered whether individual directors are independent. A director is considered independent if the Board determines that the director has no material relationship with us (directly or as a partner, stockholder or officer of an organization that has a relationship with us). The Board makes these determinations after full deliberation, considering all relevant facts and circumstances. To aid in its evaluation of director independence, the Board has adopted categorical independence standards. An individual director is independent, unless the Board determines otherwise, if, during the last three years, none of the following relationships has existed between us and the director:

the director is  
an employee,  
or an  
immediate  
family  
member of the  
director is an  
Executive  
Officer, of  
Norfolk  
Southern or  
any of our  
consolidated  
subsidiaries;

the director or  
an immediate  
family  
member of the  
director  
receives more  
than \$100,000  
in direct  
compensation  
from Norfolk  
Southern or  
any of our  
consolidated  
subsidiaries,  
other than  
director and  
committee  
fees and  
deferred  
compensation  
for prior  
service



(provided such deferred compensation is not contingent in any way on continued service);

the director is affiliated with or employed by, or an immediate family member of the director is affiliated with or employed in a professional capacity by, a present or former internal or external auditor of Norfolk Southern or any of our consolidated subsidiaries;

the director or an immediate family member is employed as an executive officer of another company where one of our Executive Officers serves as a director and sits on that company's compensation committee;

the director is an executive officer or employee, or an immediate family member of the director is an executive officer, of a company that makes payments to, or receives payments from, Norfolk Southern or any of our consolidated subsidiaries for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million or 2% of such other company s consolidated gross revenues; and

the director is an executive officer or compensated employee, or an immediate family member of the director is an executive officer, of a charitable organization that receives donations

from Norfolk Southern, any of our consolidated subsidiaries or the Norfolk Southern Foundation in an amount which, in any single fiscal year, exceeds the greater of \$1 million or 2% of such charitable organization's donations.

For purposes of these categorical standards, "immediate family member" has the definition set forth in the New York Stock Exchange's Listing Standards, as amended from time to time. These standards are available on our website at [www.nscorp.com](http://www.nscorp.com) in the "Investors" section under "Corporate Governance."

The Board has determined that all current directors (including nominees) other than Mr. Moorman satisfy the above categorical standards and qualify as independent directors. The Board also determined that Ms. O'Brien, who served on our Board until January 31, 2008, satisfied such standards and qualified as an independent director. Mr. Moorman serves as our Chairman, Chief Executive Officer and President and, therefore, is not an independent director. In making the foregoing independence determinations, our Board of Directors considered each of the following transactions, relationships and arrangements we had with members of our Board, none of which exceeded our categorical independence standards or were sufficiently material as to require disclosure under Item 404(a) of Regulation S-K:

We provided transportation services to, and received coal royalty and rental payments from, Arch Coal, Inc. in the ordinary course of business during fiscal 2007. Mr. Leer is Chairman of the Board and the Chief Executive

Officer of  
Arch Coal.

We paid banking fees to Brown Brothers Harriman & Co. in the ordinary course of business during fiscal 2007. Mr. Hilliard is a partner of Brown Brothers.

We have a matching gifts program under which we match any gift of up to \$35,000 made by any of our full-time employees and directors during a year. In 2007, we matched gifts made by certain directors and Executive Officers to charitable and educational institutions, one of which was St. Mary's College of

Maryland,  
which  
employed  
Ms. O'Brien,  
a former  
member of  
our Board  
of  
Directors.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

To our knowledge, no person beneficially owns more than 5% of our common stock.

The following table shows, as of March 31, 2008, the beneficial ownership of our common stock for:

- (1) each director and each nominee;
- (2) our Named Executive Officers; and
- (3) all directors and Executive Officers as a group.

Unless otherwise indicated by footnote to the data in the table, all such shares are held with sole voting and investment power, and no director or Executive Officer beneficially owns any of our equity securities other than our common stock. No one director or Executive Officer owns as much as 1% of the total outstanding shares of our common stock. All directors and Executive Officers as a group own approximately 0.82% of the total outstanding shares of our common stock.

Name	Shares of Common Stock	Name	Shares of Common Stock
Gerald L. Baliles	46,181 <sup>(1)</sup>	Charles W. Moorman, IV	491,833 <sup>(2)</sup>
Daniel A. Carp	12,305 <sup>(1)</sup>	J. Paul Reason	29,695 <sup>(1)</sup>
Gene R. Carter	47,032 <sup>(1)</sup>	Stephen C. Tobias	595,597 <sup>(3)</sup>
Alston D. Correll	38,843 <sup>(1)</sup>	Henry C. Wolf	471,963 <sup>(4)</sup>
Landon Hilliard	57,627 <sup>(1)</sup>	Mark D. Manion	238,303 <sup>(5)</sup>
Karen N. Horn	3,000 <sup>(1)</sup>	Donald W. Seale	310,395 <sup>(6)</sup>
Burton M. Joyce	22,688 <sup>(1)</sup>	James A. Squires	95,544 <sup>(7)</sup>
Steven F. Leer	40,964 <sup>(1)</sup>		
20 directors and Executive Officers as a group (including the persons named above)			3,229,479 <sup>(8)</sup>

- <sup>(1)</sup> Includes a one-time grant of 3,000 shares to each non-employee director on January 1, 1994, or when that director was first elected to our board of

directors thereafter. These grants were made pursuant to the Directors Restricted Stock Plan; the director may vote these shares, but has no investment power over them until they are distributed. The amounts reported include restricted stock units awarded to directors pursuant to LTIP as follows: Mr. Baliles, 43,181; Mr. Carp, 9,208, Mr. Carter, 43,882; Mr. Correll, 30,843; Mr. Hilliard, 43,882; Mr. Joyce, 17,688; Mr. Leer, 36,764; and Mr. Reason, 26,404. These restricted stock units will be settled in stock. While the directors have neither voting power nor investment power over the shares underlying these restricted stock units, the directors are entitled to



receive the shares immediately upon leaving our board of directors. See the discussion under Narrative to Non-Employee Director Compensation Table Outside Directors Deferred Stock Unit Program for more information regarding these restricted stock units. Also includes 5,000 shares over which Mr. Correll, 1,200 shares over which Mr. Leer, 100 shares over which Mr. Carter, and 100 shares over which Mr. Reason share voting and investment power with another individual. Includes 50 shares as to which Mr. Carter disclaims beneficial ownership.

- (2) Includes 2,277 shares credited to Mr. Moorman s

account in our Thrift and Investment Plan; 309,092 shares subject to stock options granted pursuant to our LTIP with respect to which Mr. Moorman has the right to acquire beneficial ownership within 60 days; 91,500 restricted shares awarded to Mr. Moorman pursuant to our LTIP over which Mr. Moorman possesses voting power but has no investment power until the restriction period lapses; and 80 shares over which Mr. Moorman shares voting and investment power.

- (3) Includes 18,915 shares credited to Mr. Tobias account in our Thrift and Investment Plan; 332,461 shares subject to stock options granted pursuant to our

LTIP with respect to which Mr. Tobias has the right to acquire beneficial ownership within 60 days; and 57,000 restricted shares awarded to Mr. Tobias pursuant to our LTIP over which Mr. Tobias possesses voting power but has no investment power until the restriction period lapses.

- (4) Includes 285,459 shares subject to stock options granted pursuant to our LTIP with respect to which Mr. Wolf has the right to acquire beneficial ownership within 60 days; and 36,700 restricted

shares  
awarded to  
Mr. Wolf  
pursuant to  
our LTIP  
over which  
Mr. Wolf  
possesses  
voting  
power but  
has no  
investment  
power until  
the  
restriction  
period  
lapses.

- (5) Includes  
5,296  
shares  
credited to  
Mr.  
Manion's  
account in  
our Thrift  
and  
Investment  
Plan;  
167,462  
shares  
subject to  
stock  
options  
granted  
pursuant to  
our LTIP  
with  
respect to  
which Mr.  
Manion has  
the right to  
acquire  
beneficial  
ownership  
within 60  
days; and  
34,600  
restricted  
shares  
awarded to

Mr.  
Manion  
pursuant to  
our LTIP  
over which  
Mr.  
Manion  
possesses  
voting  
power but  
has no  
investment  
power until  
the  
restriction  
period  
lapses.

- (6) Includes  
2,786  
shares  
credited to  
Mr. Seale's  
account in  
our Thrift  
and  
Investment  
Plan;  
192,462  
shares  
subject to  
stock  
options  
granted  
pursuant to  
our LTIP  
with  
respect to  
which Mr.  
Seale has  
the right to  
acquire  
beneficial  
ownership  
within 60  
days; and  
34,600  
restricted  
shares  
awarded to  
Mr. Seale

pursuant to our LTIP over which Mr. Seale possesses voting power but has no investment power until the restriction period lapses.

- (7) Includes 121 shares credited to Mr. Squires account in our Thrift and Investment Plan; 68,546 shares subject to stock options granted pursuant to our LTIP with respect to which Mr. Squires has the right to acquire beneficial ownership within 60 days; and 8,800 restricted shares awarded to Mr. Squires pursuant to our LTIP over which Mr. Squires

possesses  
voting  
power but  
has no  
investment  
power until  
the  
restriction  
period  
lapses.

- (8) Includes  
53,115  
shares  
credited to  
Executive  
Officers  
individual  
accounts  
under our  
Thrift and  
Investment  
Plan. Also  
includes:  
1,771,390  
shares  
subject to  
stock  
options  
granted to  
Executive  
Officers  
pursuant to  
our Long  
Term  
Incentive  
Plan with  
respect to  
which the  
optionee  
has the  
right to  
acquire  
beneficial  
ownership  
within 60  
days;  
351,660  
restricted  
shares  
awarded to

Executive Officers pursuant to our LTIP over which they possess voting power but no investment power until the restriction period lapses; and 230 shares over which Executive Officers share voting and investment power.

The following table shows, as of March 31, 2008, the number of our stock units credited to those non-employee directors who have made elections under the Directors' Deferred Fee Plan to defer all or a portion of compensation and have elected to invest such amounts in phantom units of our common stock, as well as the shares of common stock (and units to be settled in shares of common stock) beneficially owned. A more detailed discussion of director compensation can be found beginning on page 58. A stock unit represents the economic equivalent of a share of our common stock and serves to align the directors' individual financial interests with the interests of our stockholders because the value of the directors' holdings fluctuates with the price of our common stock. These stock units ultimately are settled in cash. In January 2008, all stock units awarded to the non-employee directors under the Outside Directors' Deferred Stock Unit Program were terminated, and replacement grants of an equivalent number of restricted stock units were made under LTIP. The awards made under the LTIP will be settled in stock and are included in the beneficial ownership table on page 91.

<b>Name</b>	<b>Number of NS Stock Units<sup>(1)</sup></b>	<b>Number of Shares Beneficially Owned<sup>(2)</sup></b>	<b>Total Number of NS Stock Units and Shares Beneficially Owned</b>
Gerald L. Baliles	4,036	46,181	50,217
Daniel A. Carp	4,040	12,305	16,345
Gene R. Carter	4,847	47,032	51,879
Alston D. Correll	19,650	38,843	58,493
Landon Hilliard	0	57,627	57,627
Karen N. Horn	0	3,000	3,000



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Burton M. Joyce	5,383	22,688	28,071
Steven F. Leer	17,843	40,964	58,807
J. Paul Reason	0	29,695	29,695

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- (1) Represents NS stock units credited to the accounts of non-employee directors who have elected under the Directors Deferred Fee Plan to defer all or a portion of compensation and have elected to invest such amounts in phantom units whose value is measured by the market value of shares of our common stock, but which ultimately will be settled in cash, not in shares of

common  
stock. NS  
stock units  
have been  
available  
under the  
Directors  
Deferred Fee  
Plan as a  
hypothetical  
investment  
option since  
January 1,  
2001.

- (2) Figures in  
this column  
are based on  
the  
beneficial  
ownership  
that appears  
on page 91.

#### **CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

We may occasionally participate in transactions with certain related persons. Related persons include our Executive Officers, directors, 5% or more beneficial owners of our common stock, immediate family members of these persons, and entities in which one of these persons has a direct or indirect material interest. We refer to transactions with these related persons as related person transactions. On November 21, 2006, we adopted a written policy to prohibit related person transactions unless they are determined to be in our best interests. Under this policy, the Audit Committee is responsible for the review and approval of each related person transaction exceeding \$120,000. In instances where it is not practicable or desirable to wait until the next meeting of the Audit Committee for review of a related person transaction, the Chair of the Audit Committee possesses delegated authority to act between Audit Committee meetings. The Audit Committee, or the Chair, considers all relevant factors when determining whether to approve a related person transaction including, without limitation, whether the proposed transaction is on terms and made under circumstances that are at least as favorable to Norfolk Southern as would be available in comparable transactions with or involving unaffiliated third parties. Among other relevant factors, they consider the following:

the size of the  
transaction  
and the  
amount of  
consideration  
payable to the  
related  
person(s);

the nature of  
the interest of  
the applicable

director,  
director  
nominee,  
Executive  
Officer, or  
5%  
stockholder,  
in the  
transaction;  
and

whether we  
have  
developed an  
appropriate  
plan to  
monitor or  
otherwise  
manage the  
potential for a  
conflict of  
interest.

The Chair must report any action taken pursuant to this delegated authority to the Audit Committee at its next meeting. In addition, at the Audit Committee's first meeting of each fiscal year, it reviews all previously approved related person transactions that remain ongoing and have a remaining term or remaining amounts payable to or receivable from us of more than \$120,000. Based on all relevant facts and circumstances, taking into consideration our contractual obligations, the Audit Committee determines whether it is in our and our stockholders' best interest to continue, modify or terminate the related person transaction.

We had no related person transactions during our fiscal years ended December 31, 2007, 2006 and 2005.

## DESCRIPTION OF MATERIAL INDEBTEDNESS

We have in place a five-year \$1 billion credit facility expiring in 2012. Any borrowings under the credit agreement are contingent on the continuing effectiveness of certain representations and warranties made at the inception of the agreement. We are subject to various financial covenants with respect to our debt and under our credit agreement, including a maximum leverage ratio restriction, certain restrictions on the issuance of further debt by us or one of our subsidiaries and the consolidation, merger or sale of substantially all of our assets. At March 31, 2008, we were in compliance with all financial covenants.

We have the ability to issue commercial paper supported by our \$1 billion credit agreement, and we issued \$400 million of commercial paper during the first quarter of 2008. At March 31, 2008, we have commercial paper outstanding of \$200 million at an average interest rate of 3.03%, due May 2008. At March 31, 2008, we have received \$275 million under our receivables securitization facility at an average variable interest rate of 4.23%. We intend to refinance these borrowings by issuing long-term debt, which is supported by our \$1 billion credit facility. Accordingly, the total amounts outstanding under these programs, \$475 million, are included in the line item Long-term debt in our March 31, 2008 Consolidated Balance Sheet.

As of March 31, 2008, we had \$5,740 million aggregate principal amount outstanding of unsecured senior indebtedness comprising \$1,200 million aggregate principal amount of notes due to 2011 with an average weighted interest rate of 6.91%, \$981 million aggregate principal amount of notes due 2014 and 2017 with a weighted average interest rate of 6.66%, \$764 million aggregate principal amount of notes due 2020 to 2025 with a weighted average interest rate of 8.23%, \$1,290 million aggregate principal amount of notes due 2027 to 2031 with a weighted average interest rate of 7.12%, \$855 million aggregate principal amount of notes due 2037 and 2043 with a weighted average interest rate of 7.21% and \$650 million aggregate principal amount of notes due 2097 and 2105 with a weighted average interest rate of 7.02%.

In November 2007, we entered into a \$500 million receivables securitization facility under which NSR sells substantially all of its eligible third-party receivables to one of our subsidiaries, which in turn may transfer beneficial interests in the receivables to various commercial paper vehicles. The facility has a 364-day term; however, we intend to refinance these borrowings by issuing long-term debt, which is supported by our \$1 billion credit agreement. In the first quarter of 2008, we received \$125 million under this securitization facility, at an average variable interest rate of 4.23% with a 364-day term. At March 31, 2008, and December 31, 2007, the amounts outstanding under the facility were \$275 million and \$250 million, respectively, and the amount of receivables serving as collateral for these borrowings was \$847 million and \$778 million, respectively.

## DESCRIPTION OF NOTES

The exchange notes will be issued under the indenture, dated as of April 4, 2008, between us and U.S. Bank Trust National Association, as trustee (the Trustee). The indenture contains provisions that define your rights under the exchange notes and governs our obligations under the exchange notes. The indenture provides for the issuance of the exchange notes and sets forth the duties of the Trustee. The following description is only a summary of certain provisions of the indenture and the exchange notes, and is qualified in its entirety by reference to the provisions of the indenture and the exchange notes, including the definitions therein of certain terms. The terms of the exchange notes will include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939, as amended. A copy of the indenture has been filed as an exhibit to the Current Report on Form 8-K we filed with the SEC on April 9, 2008 and is available from us upon request. See [Where You Can Find More Information](#). We urge you to read the indenture (including the form of the exchange note) because it, and not this description, defines your rights as a holder of exchange notes. Certain defined terms used in this description but not defined below have the meanings assigned to them in the indenture.

The registered holder of an exchange note will be treated as the owner of it for all purposes. Only registered holders will have rights under the indenture.

### General

The exchange notes will initially be limited to \$600,000,000 aggregate principal amount unless we reopen the issue of the exchange notes by issuing additional exchange notes of the series. The exchange notes will bear interest at the applicable annual rates stated on the cover page of this prospectus. Interest will be payable semi-annually on April 1 and October 1 of each year, beginning October 1, 2008. Interest on the exchange notes will accrue from April 1, 2008, or from the most recent date to which interest has been paid or provided for, and will be computed on the basis of a 360-day year comprised of twelve 30-day months. Interest on the exchange notes will be paid to holders of record on the March 15 or September 15 immediately before the interest payment date. If any interest payment date, redemption date or a maturity date falls on a day that is not a Business Day, the required payment shall be made on the next Business Day as if it were made on the date such payment was due, and no interest shall accrue on the amount so payable for the period from and after such interest payment date or such maturity date, as the case may be. Business Day means any day, other than a Saturday, a Sunday or a legal holiday in the City of New York, on which banking institutions are authorized or required by law, regulation or executive order to close.

Interest and principal will be payable in U.S. dollars at the Trustee's New York corporate trust office, which is located at 100 Wall Street, Suite 1600, New York, New York 10005. The exchange notes will mature on April 1, 2018. The exchange notes will be issued only in minimum denominations of \$2,000 and integral multiples of \$1,000 in excess thereof. There will be no sinking fund payments for the exchange notes.

### Ranking

The exchange notes will be unsecured obligations of Norfolk Southern and will rank on a parity with each other and with all other unsecured and unsubordinated indebtedness of Norfolk Southern.

### Optional Redemption

The exchange notes will be redeemable as a whole or in part, at the option of the company at any time, at a redemption price equal to the greater of (i) 100% of the principal amount of such notes and (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 35 basis points, plus in each case accrued interest thereon to, but not including, the date of redemption.



*Treasury Rate* means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

*Comparable Treasury Issue* means the United States Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the exchange notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such exchange notes.

*Independent Investment Banker* means one of the Reference Treasury Dealers appointed by the Trustee after consultation with the company.

*Comparable Treasury Price* means, with respect to any redemption date, (A) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (B) if the Trustee obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

*Reference Treasury Dealer Quotations* means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 3:30 p.m. New York time on the third business day preceding such redemption date.

*Reference Treasury Dealer* means each of Barclays Capital Inc., Deutsche Bank Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated and one other broker-dealer appointed by the company or their affiliates which are primary U.S. Government securities dealers, and their respective successors; provided, however, that if any of the foregoing or their affiliates shall cease to be a primary U.S. Government securities dealer in The City of New York (a Primary Treasury Dealer), the company shall substitute therefor another Primary Treasury Dealer.

Notice of any redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each holder of exchange notes to be redeemed.

Unless the company defaults in payment of the redemption price, on and after the redemption date interest will cease to accrue on the exchange notes or portions thereof called for redemption.

### **Change of Control Repurchase Event**

If a Change of Control Repurchase Event occurs with respect to the exchange notes, unless the company has exercised its right to redeem the exchange notes as described above, the company will make an offer to each holder of the exchange notes to repurchase all or any part (in integral multiples of \$1,000) of that holder's exchange notes at a repurchase price (the repurchase price) in cash equal to 101% of the aggregate principal amount of such exchange notes repurchased plus any accrued and unpaid interest on the exchange notes repurchased to, but not including, the repurchase date. Within 30 days following a Change of Control Repurchase Event or, at the company's option, prior to a Change of Control, but after the public announcement of such Change of Control, the company will mail, or cause to be mailed, a notice to each holder of the exchange notes, with a copy to the Trustee, describing the transaction or transactions that constitute or may constitute the Change of Control Repurchase Event and offering to repurchase the exchange notes on the payment date specified in the notice (such offer the repurchase offer and such date the repurchase date), which repurchase date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed. The notice shall, if mailed prior to the date of consummation of the Change of Control, state that the repurchase offer is conditioned on a Change of Control Repurchase Event occurring on or prior to the repurchase date.

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The company will comply with the requirements of Rule 14e-1 under the Exchange Act, and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the exchange notes as a result of a Change of Control Repurchase Event. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control Repurchase Event provisions of



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the exchange notes, the company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control Repurchase Event provisions of the exchange notes by virtue of such conflict.

On the repurchase date following a Change of Control Repurchase Event, the company will, to the extent lawful:

- (1) accept for payment all exchange notes or portions of exchange notes properly tendered pursuant to the repurchase offer;
- (2) deposit with the Trustee or with such paying agent as the Trustee may designate an amount equal to the aggregate repurchase price for all exchange notes or portions of exchange notes properly tendered; and
- (3) deliver, or cause to be delivered, to the Trustee the exchange notes properly accepted, together with an Officers Certificate stating the aggregate principal amount of exchange notes being repurchased by the company pursuant to the repurchase offer and that all conditions precedent to the repurchase by the company of exchange notes pursuant to the repurchase offer have been complied with.

The Trustee will promptly mail, or cause the paying agent to promptly mail, to each holder of exchange notes, or portions of exchange notes, properly tendered the repurchase price for such exchange notes, or portions of exchange notes, and the Trustee will promptly authenticate and mail (or cause to be transferred by book-entry) to each holder a new note equal in principal amount to any unpurchased portion of any exchange notes surrendered, as applicable; provided that each new note will be in a principal amount of an integral multiple of \$1,000.

The company will not be required to make a repurchase offer upon a Change of Control Repurchase Event if a third party makes such an offer in the manner, at the times and otherwise in compliance with the requirements for such an offer made by the company and such third party purchases all exchange notes or portions of exchange notes properly tendered and not withdrawn under its offer.

For purposes of the foregoing discussion of a repurchase at the option of holders, the following definitions are applicable:

*Below investment grade ratings event* means, with respect to the exchange notes, on any day within the 60-day period (which period shall be extended so long as the rating of the exchange notes is under publicly announced consideration for a possible downgrade by any Rating agency) after the earlier of (1) the occurrence of a Change of Control; or (2) public notice of the occurrence of a Change of Control or the intention by the company to effect a Change of Control, the exchange notes are rated below investment grade by each and every Rating agency. Notwithstanding the foregoing, a below investment grade ratings event otherwise arising by virtue of a particular reduction in rating shall not be deemed to have occurred in respect of a particular Change of Control (and thus shall not be deemed a below investment grade ratings event for purposes of the definition of Change of Control Repurchase Event hereunder) if the rating agencies making the reduction in rating to which this definition would otherwise apply do not announce or publicly confirm or inform the Trustee in writing at the company's request that the reduction was the result, in whole or in part, of any event or circumstance comprised of or arising as a result of, or in respect of, the applicable Change of Control (whether or not the applicable Change of Control shall have occurred at the time of the below investment grade ratings event).

*Change of Control* means the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any person or group (as those terms are used in Section 13(d)(3) of the Exchange Act), other than the company or its subsidiaries, becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 50% of the combined voting power of the company's voting stock or other voting stock into which the company's voting stock is reclassified, consolidated, exchanged or changed measured by voting power rather than number of shares.

*Change of Control Repurchase Event* means the occurrence of both a Change of Control and a below investment grade ratings event with respect to the exchange notes.

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*Investment grade* means, with respect to Moody's, a rating of Baa3 or better (or its equivalent under any successor rating categories of Moody's); with respect to S&P, a rating of BBB- or better (or its equivalent under any successor rating categories of S&P); and, with respect to any additional Rating agency or Rating agencies selected by the company, the equivalent investment grade credit rating.

*Moody's* means Moody's Investors Service, Inc., a subsidiary of Moody's Corporation, and its successors.

*Rating agency* means (1) each of Moody's and S&P; and (2) if either of Moody's or S&P ceases to rate the exchange notes or fails to make a rating of the exchange notes publicly available for reasons outside of the company's control, a nationally recognized statistical rating organization within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act, selected by the company (as certified by a Board Resolution) as a replacement agency for Moody's or S&P, or both of them, as the case may be.

*S&P* means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors.

*Voting stock* of any specified person (as that term is used in Section 13(d)(3) of the Exchange Act) as of any date means the capital stock of such person that is at the time entitled to vote generally in the election of the board of directors of such person.

The Change of Control Repurchase Event provisions of the exchange notes may in certain circumstances make more difficult or discourage a sale or takeover of the company and, thus, the removal of incumbent management. We could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change of Control Repurchase Event under the exchange notes, but that could increase the amount of indebtedness outstanding at such time or otherwise affect our capital structure or credit ratings on the exchange notes.

If we experience a Change of Control Repurchase Event, the company may not have sufficient financial resources available to satisfy our obligations to repurchase all exchange notes or portions of exchange notes properly tendered. Furthermore, debt agreements to which we are a party at such time may contain restrictions and provisions limiting our ability to repurchase the exchange notes. Our failure to repurchase the exchange notes as required under the indenture governing the exchange notes would result in a default under the indenture, which could have material adverse consequences for us and the holders of the exchange notes.

### **Covenants**

The indenture will contain the covenants summarized below, which will be applicable (unless waived or amended) so long as any of the exchange notes offered hereby are outstanding.

*Limitation on Liens on Stock or Indebtedness of Principal Subsidiary.* The company will not, and will not permit any of its Subsidiaries to, create, assume, incur or suffer to exist any mortgage, pledge, lien, encumbrance, charge or security interest of any kind, other than a Purchase Money Lien, upon any stock or indebtedness, now owned or hereafter acquired, of any Principal Subsidiary, to secure any Obligation (other than the exchange notes) of the company, any Subsidiary or any other person, without in any such case making effective provision whereby all of the outstanding exchange notes are secured on an equal and ratable basis with the obligations so secured. This restriction does not apply to any mortgage, pledge, lien, encumbrance, charge or security interest on any stock or indebtedness of a corporation existing at the time such corporation becomes a Subsidiary. This provision does not restrict any other property of the company or its Subsidiaries. *Obligation* is defined as indebtedness for money borrowed or indebtedness evidenced by a bond, note, debenture or other evidence of indebtedness. *Purchase Money Lien* is defined as any mortgage, pledge, lien, encumbrance, charge or security interest of any kind upon any indebtedness of any Principal Subsidiary acquired after the date any notes are first issued if such Purchase Money Lien is for the purpose of financing, and does not exceed, the cost to the company or any Subsidiary of acquiring the indebtedness of such Principal Subsidiary and such financing is effected concurrently



with, or within 180 days after, the date of such acquisition. Principal Subsidiary is defined as NSR. Subsidiary is defined as an entity a majority of the outstanding voting stock of which is owned, directly or indirectly, by the company or one or more Subsidiaries. The indenture does not prohibit the sale by the company or any Subsidiary of any stock or indebtedness of any Subsidiary.

*Limitations on Funded Debt.* The indenture provides that the company will not permit any Restricted Subsidiary to incur, issue, guarantee or create any Funded Debt unless, after giving effect thereto, the sum of the aggregate amount of all outstanding Funded Debt of the Restricted Subsidiaries would not exceed an amount equal to 15% of Consolidated Net Tangible Assets.

The limitation on Funded Debt will not apply to, and there will be excluded from Funded Debt in any computation under such restriction, Funded Debt secured by:

1. Liens on real or physical property of any corporation existing at the time such corporation becomes a Subsidiary;
2. Liens on real or physical property existing at the time of acquisition thereof incurred within 180 days of the time of acquisition thereof (including, without limitation, acquisition through merger or consolidation) by the company or any Restricted Subsidiary;
3. Liens on real or physical property thereafter acquired (or constructed) by the company or any Restricted

Subsidiary and created prior to, at the time of, or within 270 days after such acquisition (including, without limitation, acquisition through merger or consolidation) (or the completion of such construction or commencement of commercial operation of such property, whichever is later) to secure or provide for the payment of all or any part of the purchase price (or the construction price) thereof;

4. Liens in favor of the company or any Restricted Subsidiary;
5. Liens in favor of the United States of America, any State thereof or the District of Columbia, or any agency, department or other instrumentality thereof, to secure partial, progress, advance or other payments pursuant to any contract or the

provisions of any statute;

6. Liens incurred or assumed in connection with the issuance of revenue bonds the interest on which is exempt from federal income taxation pursuant to Section 103(b) of the Internal Revenue Code of 1954, as amended;
7. Liens securing the performance of any contract or undertaking not directly or indirectly in connection with the borrowing of money, the obtaining of advances or credit or the securing of Funded Debt, if made and continuing in the ordinary course of business;
8. Liens incurred (no matter when created) in connection with the company or a Restricted Subsidiary engaging in a leveraged or single-investor lease transaction; provided, however, that the

instrument  
creating or  
evidencing any  
borrowings  
secured by such  
Lien will provide  
that such  
borrowings are  
payable solely  
out of the  
income and  
proceeds of the  
property subject  
to such Lien and  
are not a general  
obligation of the  
company or such  
Restricted  
Subsidiary;

9. Liens under  
workers  
compensation  
laws,  
unemployment  
insurance laws  
or similar  
legislation, or  
good faith  
deposits in  
connection with  
bids, tenders,  
contracts or  
deposits to  
secure public or  
statutory  
obligations of  
the company or  
any Restricted  
Subsidiary, or  
deposits of cash  
or obligations of  
the United States  
of America to  
secure surety,  
repletion and  
appeal bonds to  
which the  
company or any  
Restricted  
Subsidiary is a



party or in lieu  
of such bonds, or  
pledges or  
deposits for  
similar purposes  
in the ordinary  
course of  
business, or  
Liens imposed  
by law, such as  
laborers or other  
employees ,  
carriers ,  
warehousemen s,  
mechanics ,  
materialmen s  
and vendors  
Liens and Liens  
arising out of  
judgments or  
awards against  
the company or  
any Restricted  
Subsidiary with  
respect to which  
the company or  
such Restricted  
Subsidiary at the  
time shall be  
prosecuting an  
appeal or  
proceedings for  
review and with  
respect to which  
it shall have  
secured a stay of  
execution  
pending such  
appeal or  
proceedings for  
review, or Liens  
for taxes not yet  
subject to  
penalties for  
nonpayment or  
the amount or  
validity of which  
is being in good  
faith contested  
by



appropriate proceedings by the company or any Restricted Subsidiary, as the case may be, or minor survey exceptions, minor encumbrances, easement or reservations of, or rights of others for, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions or Liens on the use of real properties, which Liens, exceptions, encumbrances, easements, reservations, rights and restrictions do not, in the opinion of the company, in the aggregate materially detract from the value of said properties or materially impair their use in the operation of the business of the company and its Restricted Subsidiaries;

10. Liens incurred to finance construction, alteration or repair of any real

or physical  
property and  
improvements  
thereto prior to or  
within 270 days  
after completion  
of such  
construction,  
alteration or  
repair;

11. Liens incurred  
(no matter when  
created) in  
connection with a  
Securitization  
Transaction;
12. Liens on property  
(or any  
Receivable  
arising in  
connection with  
the lease thereof)  
acquired by the  
company or a  
Restricted  
Subsidiary  
through  
repossession,  
foreclosure or  
like proceeding  
and existing at  
the time of the  
repossession,  
foreclosure, or  
like proceeding;
13. Liens on deposits  
of the company  
or a Restricted  
Subsidiary with  
banks (in the  
aggregate, not  
exceeding \$50  
million), in  
accordance with  
customary  
banking practice,  
in connection  
with the

providing by the company or a Restricted Subsidiary of financial accommodations to any person in the ordinary course of business; or

14. any extension, renewal, refunding or replacement of the foregoing.

The definitions set forth below apply only to the foregoing limitations on Funded Debt.

*Consolidated Net Tangible Assets* means, at any date, the total assets appearing on the most recent consolidated balance sheet of the company and Restricted Subsidiaries as at the end of the fiscal quarter of the company ending not more than 135 days prior to such date, prepared in accordance with generally accepted accounting principles in the United States, less (1) all current liabilities (due within one year) as shown on such balance sheet, (2) applicable reserves, (3) investments in and advances to Securitization Subsidiaries and Subsidiaries of Securitization Subsidiaries that are consolidated on the consolidated balance sheet of the company and its Subsidiaries, and (4) Intangible Assets and liabilities relating thereto.

*Funded Debt* means (1) any indebtedness of a Restricted Subsidiary maturing more than 12 months after the time of computation thereof, (2) guarantees by a Restricted Subsidiary of Funded Debt or of dividends of others (except guarantees in connection with the sale or discount of accounts receivable, trade acceptances and other paper arising in the ordinary course of business), (3) all preferred stock of such Restricted Subsidiary and (4) all Capital Lease Obligations (as defined in the indenture) of a Restricted Subsidiary.

*Indebtedness* means, at any date, without duplication, (1) all obligations for borrowed money of a Restricted Subsidiary or any other indebtedness of a Restricted Subsidiary, evidenced by bonds, debentures, notes or other similar instruments and (2) Funded Debt, except such obligations and other indebtedness of a Restricted Subsidiary and Funded Debt, if any, incurred as part of a Securitization Transaction.

*Intangible Assets* means at any date, the value (net of any applicable reserves) as shown on or reflected in the most recent consolidated balance sheet of the company and the Restricted Subsidiaries as at the end of the fiscal quarter of the company ending not more than 135 days prior to such date, prepared in accordance with generally accepted accounting principles in the United States, of: (1) all trade names, trademarks, licenses, patents, copyrights, service marks, goodwill and other like intangibles; (2) organizational and development costs; (3) deferred charges (other than prepaid items, such as insurance, taxes, interest, commissions, rents, deferred interest waiver, compensation and similar items and tangible assets being amortized); and (4) unamortized debt discount and expense, less unamortized premium.

*Liens* means such pledges, mortgages, security interests and other liens, including purchase money liens, on property of the company or any Restricted Subsidiary which secure Funded Debt.

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*Receivables* mean any right of payment from or on behalf of any obligor, whether constituting an account, chattel paper, instrument, general intangible or otherwise, arising, either directly or indirectly, from the financing by the company or any Subsidiary of the company of property or services, monies due thereunder, security interests in the property and services financed thereby and any and all other related rights.

*Restricted Subsidiary* means each Subsidiary of the company other than Securitization Subsidiaries and Subsidiaries of Securitization Subsidiaries.

*Securitization Subsidiary* means a Subsidiary of the company (1) which is formed for the purpose of effecting one or more Securitization Transactions and engaging in other activities reasonably related thereto and (2) as to which no portion of the Indebtedness (as defined in the indenture) or any other obligations (a) is guaranteed by any Restricted Subsidiary, or (b) subjects any property or assets of any Restricted Subsidiary, directly or indirectly, contingently or otherwise, to any lien, other than pursuant to representations, warranties and covenants (including those related to servicing) entered into in the ordinary course of business in connection with a Securitization Transaction and inter-company notes and other forms of capital or credit support relating to the transfer or sale of Receivables or asset-backed securities to such Securitization Subsidiary and customarily necessary or desirable in connection with such transactions.

*Securitization Transaction* means any transaction or series of transactions that have been or may be entered into by the company or any of its Subsidiaries in connection with or reasonably related to a transaction or series of transactions in which the company or any of its Subsidiaries may sell, convey or otherwise transfer to (1) a Securitization Subsidiary or (2) any other Person, or may grant a security interest in, any Receivables or asset-backed securities or interest therein (whether such Receivables or securities are then existing or arising in the future) of the company or any of its Subsidiaries, and any assets related thereto, including, without limitation, all security interests in the property or services financed thereby, the proceeds of such Receivables or asset-backed securities and any other assets which are sold in respect of which security interests are granted in connection with securitization transactions involving such assets.

### Reports

Whether or not required by the rules and regulations of the SEC, so long as any exchange notes are outstanding, we will furnish to the holders of then outstanding exchange notes or cause the Trustee to furnish to the holders of then outstanding exchange notes, within 15 days of the time periods specified in the SEC's rules and regulations, all current, quarterly and annual reports that would be required to be filed with the SEC on Forms 8-K, 10-Q and 10-K if we were required to file such reports, provided that such reports shall be deemed to have been delivered to the holders on the date that such information has been posted on the company's website on the Internet at <http://www.nscorp.com> or is available on the website of the SEC at <http://www.sec.gov>.

All such reports will be prepared in all material respects in accordance with all of the rules and regulations applicable to such reports. Each annual report on Form 10-K will include a report on our consolidated financial statements by our certified independent accountants. In addition, we will file a copy of each of the reports referred to above with the SEC for public availability within the time periods specified in the rules and regulations applicable to such reports (unless the SEC will not accept such a filing).

If, at any time, we are no longer subject to the periodic reporting requirements of the Exchange Act for any reason, we will nevertheless continue filing the reports specified in the preceding paragraphs of this covenant with the SEC within the time periods specified above unless the SEC will not accept such a filing. We will not take any action for the purpose of causing the SEC not to accept any such filings.

In addition, for so long as any exchange notes remain outstanding, we agree to make available to all holders of such exchange notes and to securities analysts and prospective investors, upon their request, the information required to be

delivered pursuant to Rule 144A(d)(4) under the Securities Act.

## Events of Default

Under the indenture, an event of default includes the following:

failure to pay  
any principal or  
premium, if  
any, when due;

failure to pay  
any interest  
when due, and  
this failure  
continues for  
30 days and the  
time for  
payment has  
not been  
extended or  
deferred;

failure to  
perform any  
covenant in the  
indenture, and  
the failure  
continues for  
90 days;

acceleration of  
any of our  
indebtedness  
(or any  
significant  
subsidiary of  
Norfolk  
Southern, as  
defined in the  
federal  
securities laws)  
in an aggregate  
principal  
amount that  
exceeds  
\$100,000,000;  
and

certain events  
of bankruptcy,  
insolvency or



reorganization.

If an event of default occurs and is continuing, either the Indenture Trustee or the holders of at least 25%, in aggregate principal amount, of the outstanding debt securities affected by the default, may notify us (and the Indenture Trustee, if notice is given by the holders) and declare that the unpaid principal, premium, and accrued interest, if any, is due and payable immediately. However, under certain circumstances, the holders of a majority in aggregate principal amount of outstanding debt securities may be able to rescind and annul this declaration for accelerated payment. We will furnish the Indenture Trustee with an annual statement that describes how we have performed its obligations under the indenture, and that specifies any defaults that may have occurred.

### **Satisfaction and Discharge of Indenture**

We may terminate our obligations with respect to a series of debt securities under the indenture if:

all the  
outstanding  
debt  
securities  
have been  
delivered to  
the Indenture  
Trustee for  
cancellation;

we have paid  
all sums it is  
required to  
pay under the  
respective  
indenture; or

we deposit  
with the  
Indenture  
Trustee  
sufficient  
funds, or the  
equivalent  
thereof, to  
cover  
payments  
due under the  
indenture.

As a condition to defeasance, we must deliver to the Indenture Trustee an opinion of counsel to the effect that (i) the holders will not recognize gain or loss on such debt securities for federal income tax purposes solely as a result of our defeasance, and (ii) the holders will be subject to federal income tax in the same amounts and at the same times as would have been the case if our defeasance had not occurred. In the event of defeasance, holders of debt securities must look to the funds we have deposited with the Indenture Trustee to cover payments due under the indenture.

### **Modification and Waiver**

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We and the Indenture Trustee may modify or amend the indenture by obtaining the written consent of the individuals who hold at least a majority, in aggregate principal amount, of the outstanding debt securities of each series that is affected. However, certain changes can be made only with the consent of each holder of an outstanding series of debt securities. For example, each holder must consent to changes in:

the stated  
maturity  
date;

the  
principal,  
premium, or  
interest  
payments, if  
any;

the place or  
currency of  
any  
payment;

the rights of  
holders to  
enforce  
payment;

the  
percentage  
of  
outstanding  
debt  
securities of  
any series,  
if the  
consent of  
the holders  
of those  
debt  
securities is  
needed to  
modify,  
amend or  
waive  
certain  
provisions  
of the  
indenture;

the  
conversion

provisions  
of any  
convertible  
debt  
security; or

the  
subordination  
provisions.

The holders of a majority, in aggregate principal amount, of the outstanding debt securities of any series can consent, on behalf of the holders of the entire series, to waive certain provisions of the indenture. In addition, these holders also can consent to waive any past default under the indenture, except:

a default in  
any  
payments  
due; and

a default on  
an indenture  
provision  
that can be  
modified or  
amended  
only with  
the consent  
of each  
holder of an  
outstanding  
debt  
security.

**Consolidation, Merger and Sale of Assets**

We cannot merge with, or sell, transfer or lease substantially all of our assets to, another corporation, without the consent of the holders of a majority, in aggregate principal amount, of the outstanding debt securities under the indenture, unless:

the successor  
corporation is  
organized and  
existing  
under the  
laws of the  
United States  
and assumes  
our  
obligations  
under the  
respective  
indenture;

after giving  
effect to the  
transaction,

no event of default (and no event which, after notice or lapse of time, would become an event of default) will have occurred and be continuing; and

the successor corporation executes a supplemental indenture that assumes the obligations of the related indenture, satisfies the Indenture Trustees, and provides the necessary opinions and certificates.

Since we are a holding company, if one of our subsidiaries distributes its assets as a result of a liquidation or recapitalization of that subsidiary, our rights, the rights of our creditors and of the holders of debt securities to participate in such subsidiary's distribution of assets will be subject to the prior claims of such subsidiary's creditors, except to the extent that we may be a creditor with prior claims enforceable against such subsidiary.

### **Book-Entry System; Delivery and Form of Exchange Notes**

The exchange notes will only be issued in fully registered form, without interest coupons, in minimum denominations of \$2,000 and integral multiples of \$1,000 in excess thereof. No exchange notes will be issued in bearer form. The exchange notes sold in this offering will be issued only against payment in immediately available funds.

The exchange notes initially will be represented by a single global exchange note. Such global exchange note will be deposited upon issuance with, or on behalf of, DTC, and registered in the name of a nominee of DTC.

*The Global Exchange Note.* We expect that pursuant to procedures established by DTC:

upon the issuance of the global

exchange  
note, DTC or  
its custodian  
will credit, on  
its internal  
book-entry  
and  
registration  
and transfer  
system, the  
principal  
amount of  
notes of the  
individual  
beneficial  
interests  
represented  
by such  
global  
securities to  
the respective  
accounts of  
persons who  
have  
accounts with  
such  
depository;  
and

ownership of  
beneficial  
interests in  
the global  
exchange  
note will be  
shown on,  
and the  
transfer of  
such  
ownership  
will be  
effected only  
through,  
records  
maintained  
by DTC or its  
nominee  
(with respect  
to interests of  
participants)  
and the

records of  
participants  
(with respect  
to interests of  
persons other  
than  
participants).

Such accounts initially will be designated by or on behalf of the initial purchasers and ownership of beneficial interests in the global exchange note will be limited to persons who have accounts with DTC ( participants ) or persons who hold interests through participants.

So long as DTC, or its nominee, is the registered owner or holder of a global exchange note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the

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exchange notes represented by such global exchange note for all purposes under the indenture governing the exchange notes. Except as set forth below, owners of beneficial interests in a global exchange note will not be entitled to have exchange notes represented by such global exchange note registered in their names, will not receive or be entitled to receive physical delivery of such exchange notes in certificated form and will not be considered the registered owners or holders thereof under the indenture for any purpose. Accordingly, each person owning a beneficial interest in a global exchange note must rely on the procedures of DTC and, if such person is not a participant, on the procedures of the participant through which such person owns its interest, to exercise any rights of a holder under the indenture. We understand that under existing industry practices, if we request any action of holders or if an owner of a beneficial interest in a global exchange note desires to give or take any action that a holder is entitled to give or take under the indenture, DTC would authorize the participants holding the relevant beneficial interests to give or take such action, and such participants would authorize beneficial owners owning through such participants to give or to take such action or would otherwise act upon the instructions of beneficial owners holding through them. No beneficial owner of an interest in the global exchange note will be able to transfer that interest except in accordance with DTC's procedures, in addition to those provided for under the indenture with respect to the exchange notes.

Payments of the principal of, premium (if any) and interest on the global exchange note will be made to DTC or its nominee, as the case may be, as the registered owner thereof. None of us, the Trustee or any other agent of Norfolk Southern or agent of the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global exchange note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interest.

We expect that DTC or its nominee, upon receipt of any payment of principal, premium (if any) or interest in respect of the global exchange note, will immediately credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of the global exchange note as shown on the records of DTC or its nominee. We also expect that payments by participants to owners of beneficial interests in the global exchange note held through such participants will be governed by standing instructions and customary practice, as is now the case with securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of such participants.

Transfers between participants in DTC will be effected in the ordinary way in accordance with DTC rules and will be settled in clearinghouse funds.

DTC has advised us that it will take action permitted to be taken by a holder of exchange notes (including the presentation of exchange notes for exchange as described below) only at the direction of one or more participants to whose account the DTC interests in the global exchange note are credited and only in respect of such portion of the aggregate principal amount of exchange notes as to which such participant or participants has or have given such direction.

DTC is a limited purpose trust company organized under the banking law of the State of New York, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a Clearing Agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and to facilitate the clearance and settlement of transactions among its participants in such securities through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. DTC's participants include securities brokers and dealers (including the initial purchasers), banks, trust companies, clearing corporations and certain other organizations, some of which (and/or their representatives) own DTC. Access to the DTC book-entry system is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly (indirect participants).

Although DTC has agreed to the foregoing procedures in order to facilitate transfers of interests in the global exchange note among participants of DTC, it is under no obligation to perform such procedures, and such procedures



may be discontinued at any time. Neither we nor the

Trustee will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

*Certificated Securities.* If DTC is at any time unwilling or unable to continue as a depository for the global exchange note and we do not appoint a successor depository as a clearing agency under the Exchange Act within 90 days, we will issue exchange notes in definitive form in exchange for the global exchange note, which certificates will bear the legend referred to under Notice to Investors. Any exchange notes issued in definitive form in exchange for the global exchange note will be registered in such name or names, and will be issued in minimum denominations of \$2,000 and integral multiples of \$1,000 in excess thereof, as DTC shall instruct the Trustee. It is expected that such instructions will be based upon directions received by DTC from participants with respect to ownership of beneficial interests in the global exchange note.

### **Same-Day Settlement and Payment**

Initial settlement for the exchange notes will be made in immediately available funds. All payments of principal and interest in respect of the exchange notes will be made by us in immediately available funds.

The exchange notes will trade in DTC's Same-Day Funds Settlement System until maturity, and secondary market trading activity in the exchange notes will settle in immediately available funds. No assurance can be given as to the effect, if any, of settlement in immediately available funds on trading activity in the exchange notes.

### **Further Issues**

We may from time to time, without notice to or the consent of the registered holders of the exchange notes, create and issue further notes ranking pari passu with the exchange notes in all respects (or in all respects except for the payment of interest accruing prior to the issue date of such further notes or except for the first payment of interest following the issue date of such further notes) and so that such further exchange notes may be consolidated and form a single series with the exchange notes and have the same terms as to status, redemption or otherwise as the exchange notes.

### **Concerning the Trustee**

U.S. Bank Trust National Association will be the Indenture Trustee and will act as the security registrar and paying agent for the exchange notes.

The holders of a majority, in aggregate principal amount, of the exchange notes will have the right to direct the time, method and place to conduct any proceeding to exercise any remedy available to the Indenture Trustee, subject to certain exceptions. The indenture will provide that if an event of default occurs (and is not cured) with respect to the exchange notes, the Indenture Trustee will be required, in the exercise of its power, to use the same degree of care a prudent person would use in the conduct of that person's own affairs. Subject to this standard, the Indenture Trustee will not be obligated to exercise any of its powers under the indenture at the request of a exchange notes holder, unless the holder offers to indemnify the Indenture Trustee against any loss, liability or expense, and then only to the extent required by the terms of the indenture.

### **Governing Law**

The indenture and the exchange notes will be governed by and construed in accordance with the laws of the State of New York, except to the extent that the Trust Indenture Act shall be applicable.

**Additional Information**

Anyone who receives this prospectus may obtain a copy of the indenture (including the form of exchange note) and registration rights agreement without charge by writing to Norfolk Southern Corporation, Three Commercial Place, Norfolk, Virginia 23510-2191, Attention: Investor Relations.

**MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following is a summary of the material U.S. federal income tax considerations to a holder of original notes relating to the exchange of original notes for exchange notes pursuant to the exchange offer. This summary is based upon existing U.S. federal income tax law, which is subject to change, possibly with retroactive effect. This summary does not discuss all aspects of U.S. federal income taxation which may be important to particular investors in light of their individual investment circumstances, such as original notes held by investors subject to special tax rules (e.g., financial institutions, insurance companies, broker-dealers, tax-exempt organizations (including private foundations) and partnerships and their partners), or to persons that hold the original notes as part of a straddle, hedge, conversion, constructive sale, or other integrated security transaction for U.S. federal income tax purposes or that have a functional currency other than the U.S. dollar, all of whom may be subject to tax rules that differ significantly from those summarized below. In addition, this summary does not address any state, local, or non-U.S. tax considerations. Each prospective investor is urged to consult his tax advisor regarding the U.S. federal, state, local, and non-U.S. income and other tax considerations of the acquisition, ownership, and disposition of the exchange notes.

**Exchange of Original Notes for Exchange Notes**

An exchange of original notes for exchange notes pursuant to the exchange offer generally will not be a taxable event for U.S. federal income tax purposes. Consequently, a holder of original notes generally will not recognize gain or loss, for U.S. federal income tax purposes, as a result of exchanging original notes for exchange notes pursuant to the exchange offer. The holding period of the exchange notes generally will be the same as the holding period of the original notes and the tax basis in the exchange notes generally will be the same as the adjusted tax basis in the original notes as determined immediately before the exchange.

**PLAN OF DISTRIBUTION**

Each broker-dealer that receives exchange notes for its own account under the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of those notes. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer for resales of exchange notes received in exchange for original notes that had been acquired as a result of market-making or other trading activities. We have agreed that we will make available as promptly as practicable a copy of this prospectus, as it may be amended or supplemented, to any holder or any broker-dealer for use in connection with any such resale, together with an appropriate letter of transmittal and related documents. Any broker-dealers required to use this prospectus and any amendments or supplements to this prospectus for resales of the exchange notes must notify us of this fact by checking the box on the letter of transmittal requesting additional copies of these documents.

Notwithstanding the foregoing, we are entitled under the registration rights agreement to suspend the use of this prospectus by broker-dealers under specified circumstances. For example, we may suspend the use of this prospectus if:

the SEC or  
any state  
securities  
authority  
requests an  
amendment  
or  
supplement  
to this  
prospectus or  
the related  
registration  
statement or  
additional  
information;

the SEC or  
any state  
securities  
authority  
issues any  
stop order  
suspending  
the  
effectiveness  
of the  
registration  
statement or  
initiates  
proceedings  
for that  
purpose;

we receive  
notification  
of the  
suspension of  
the  
qualification  
of the new  
notes for sale  
in any  
jurisdiction  
or the  
initiation or  
threatening  
of any  
proceeding  
for that  
purpose;

the  
suspension is  
required by  
law; or

an event  
occurs which  
makes any  
statement in  
this  
prospectus  
untrue in any  
material  
respect or  
which  
constitutes an  
omission to  
state a  
material fact  
in this  
prospectus.

We will not receive any proceeds from any sale of exchange notes by broker-dealers. Exchange notes received by broker-dealers for their own account under the exchange offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on those notes or a combination of those methods, at market prices prevailing at the time of resale, at prices related to prevailing market prices or at negotiated prices. Any resales may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from the selling broker-dealer or the purchasers of the new notes. Any broker-dealer that resells exchange notes received by it for its own account under the exchange offer and any broker or dealer that participates in a distribution of the exchange notes may be deemed to be an underwriter within the meaning of the Securities Act and any profit on any resale of exchange notes and any commissions or concessions received by these persons may be deemed to be underwriting compensation under the Securities Act. The letter of transmittal states that, by acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities

Act.

We will not receive any proceeds from the issuance of exchange notes in the exchange offer. We have agreed to pay all expenses incidental to the exchange offer other than commissions and concessions of any broker or dealer and certain transfer taxes and will indemnify holders of the notes, including any broker-dealers, against certain liabilities, including liabilities under the Securities Act.

## LEGAL MATTERS

Certain legal matters with respect to the validity of the issuance of the exchange notes will be passed upon for us by William A. Galanko, Esq. (or other senior general counsel as may be designated by us). Mr. Galanko, in his capacity as Vice President Law, is a participant in various of our employee benefit and incentive plans, including stock option plans, offered to employees. As of March 31, 2008, Mr. Galanko beneficially owns 30,001 shares of our common stock and has current exercisable options to purchase 119,492 shares of our common stock. Certain legal matters with respect to the validity of the issuance of the exchange notes will be passed upon for us by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York. Skadden, Arps, Slate, Meagher & Flom LLP may rely as to certain matters of Virginia law on the opinion of William A. Galanko, Esq., Vice President Law for us (or such other senior corporate counsel as may be designated by us). Skadden, Arps, Slate, Meagher & Flom LLP has from time to time provided and may continue to provide legal advice and services to us.

## EXPERTS

The consolidated financial statements and schedule of Norfolk Southern as of December 31, 2007 and 2006, and for each of the years in the three-year period ended December 31, 2007, and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2007 have been included herein in reliance upon the reports of KPMG LLP, independent registered public accounting firm, appearing elsewhere herein and upon the authority of said firm as experts in accounting and auditing. The audit report covering the December 31, 2007 consolidated financial statements and schedule refers to the adoption of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes, effective January 1, 2007, Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, effective January 1, 2006, and Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, effective December 31, 2006.

## WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, prospectus and other information with the SEC. You may read and copy any document we file at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains our reports, proxy and other information regarding us at <http://www.sec.gov>. You may read and copy reports and other information we file at the office of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005. Information about our company is also available to the public from our website at <http://www.nscorp.com>.

This prospectus contains summaries of the material terms of certain documents and refers you to certain documents that we have filed with the SEC. Copies of these documents, except for certain exhibits and schedules, will be made available to you without charge upon written or oral request to:

Investor Relations  
Norfolk Southern Corporation  
Three Commercial Place  
Norfolk, Virginia 23510-2191  
(757) 629-2861

**In order to obtain timely delivery of such materials, you must request information from us no later than five business days prior to the expiration of the exchange offer.**



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**REPORT OF MANAGEMENT**

Feb. 15, 2008

To the Stockholders  
NORFOLK SOUTHERN CORPORATION

Management is responsible for establishing and maintaining adequate internal control over financial reporting. In order to ensure that the Corporation's internal control over financial reporting is effective, management regularly assesses such controls and did so most recently for its financial reporting as of Dec. 31, 2007. This assessment was based on criteria for effective internal control over financial reporting described in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that the Corporation maintained effective internal control over financial reporting as of Dec. 31, 2007.

KPMG LLP, independent registered public accounting firm, has audited the Corporation's financial statements and issued an attestation report on the Corporation's internal control over financial reporting as of Dec. 31, 2007.

/s/ Charles W. Moorman  
Charles W. Moorman  
Chairman, President and  
Chief Executive Officer

/s/ James A. Squires  
James A. Squires  
Executive Vice President Finance and Chief  
Financial Officer

/s/ Marta R. Stewart  
Marta R. Stewart  
Vice President and  
Controller

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders  
NORFOLK SOUTHERN CORPORATION:

We have audited Norfolk Southern Corporation's internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Norfolk Southern Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Norfolk Southern Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Norfolk Southern Corporation as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2007, and our report dated February 15, 2008 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP  
Norfolk, Virginia  
February 15, 2008



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders  
NORFOLK SOUTHERN CORPORATION:

We have audited the accompanying consolidated balance sheets of Norfolk Southern Corporation and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2007. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in Item 15(A)2. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Norfolk Southern Corporation and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in note 1 to the consolidated financial statements, Norfolk Southern Corporation adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, effective January 1, 2007, Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, effective January 1, 2006, and Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, effective December 31, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Norfolk Southern Corporation's internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 15, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP  
Norfolk, Virginia  
February 15, 2008

**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

	<b>Years ended Dec. 31</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>(\$ in millions, except earnings per share)</i>		
<b>Railway operating revenues</b>	\$ 9,432	\$ 9,407	\$ 8,527
<b>Railway operating expenses:</b>			
Compensation and benefits	2,552	2,637	2,493
Purchased services and rents	1,551	1,578	1,547
Fuel	1,169	1,095	821
Depreciation	775	738	774
Materials and other	800	802	775
 Total railway operating expenses	 6,847	 6,850	 6,410
 <b>Income from railway operations</b>	 2,585	 2,557	 2,117
Other income net	93	149	74
Interest expense on debt	441	476	494
 Income before income taxes	 2,237	 2,230	 1,697
Provision for income taxes	773	749	416
 <b>Net income</b>	 \$ 1,464	 \$ 1,481	 \$ 1,281
 <b>Per share amounts:</b>			
Net income			
Basic	\$ 3.74	\$ 3.63	\$ 3.17
Diluted	\$ 3.68	\$ 3.57	\$ 3.11

*See accompanying notes to consolidated financial statements.*

**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	<b>As of Dec. 31,</b>	
	<b>2007</b>	<b>2006</b>
	<i>(\$ in millions)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 206	\$ 527
Short-term investments		391
Accounts receivable - net	942	992
Materials and supplies	176	151
Deferred income taxes	190	186
Other current assets	161	153
<b>Total current assets</b>	<b>1,675</b>	<b>2,400</b>
Investments	1,974	1,755
Properties less accumulated depreciation	21,583	21,098
Other assets	912	775
<b>Total assets</b>	<b>\$ 26,144</b>	<b>\$ 26,028</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 1,139	1,181
Income and other taxes	203	205
Other current liabilities	237	216
Current maturities of long-term debt	369	491
<b>Total current liabilities</b>	<b>1,948</b>	<b>2,093</b>
Long-term debt	5,999	6,109
Other liabilities	2,039	1,767
Deferred income taxes	6,431	6,444
<b>Total liabilities</b>	<b>16,417</b>	<b>16,413</b>
Stockholders' equity:		
Common stock \$1.00 per share par value, 1,350,000,000 shares authorized; outstanding 379,297,891 and 397,419,601 shares, respectively, net of treasury shares	380	398
Additional paid-in capital	1,466	1,303
Accumulated other comprehensive loss	(399 )	(369 )

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Retained income	8,280	8,283
<b>Total stockholders equity</b>	9,727	9,615
<b>Total liabilities and stockholders equity</b>	<b>\$ 26,144</b>	<b>\$ 26,028</b>

*See accompanying notes to consolidated financial statements.*

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**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended Dec. 31,		
	2007	2006	2005
	(\$ in millions)		
<b>Cash flows from operating activities</b>			
Net income	\$ 1,464	\$ 1,481	\$ 1,281
Reconciliation of net income to net cash provided by operating activities:			
Depreciation	786	750	787
Deferred income taxes	125	(8)	80
Gains and losses on properties and investments	(51)	(54)	(51)
Changes in assets and liabilities affecting operations:			
Accounts receivable	30	(60)	(94)
Materials and supplies	(25)	(19)	(28)
Other current assets	(17)	(11)	20
Current liabilities other than debt	38	38	55
Other net	(17)	89	55
Net cash provided by operating activities	2,333	2,206	2,105
<b>Cash flows from investing activities</b>			
Property additions	(1,341)	(1,178)	(1,025)
Property sales and other transactions	124	119	110
Investments, including short-term	(635)	(1,804)	(1,822)
Investment sales and other transactions	827	2,179	910
Net cash used for investing activities	(1,025)	(684)	(1,827)
<b>Cash flows from financing activities</b>			
Dividends	(377)	(278)	(194)
Common stock issued net	183	297	194
Purchase and retirement of common stock	(1,196)	(964)	
Proceeds from borrowings	250		433
Debt repayments	(489)	(339)	(889)
Net cash used for financing activities	(1,629)	(1,284)	(456)
Net increase (decrease) in cash and cash equivalents	(321)	238	(178)
<b>Cash and cash equivalents</b>			
At beginning of year	527	289	467

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At end of year	\$	206	\$	527	\$	289
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**Supplemental disclosure of cash flow information**

Cash paid during the year for:

Interest (net of amounts capitalized)	\$	441	\$	473	\$	485
Income taxes (net of refunds)	\$	603	\$	692	\$	271

*See accompanying notes to consolidated financial statements.*

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**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

	Common Stock	Additional Paid-in Capital	Unearned Restricted Stock	Accum. Other Comprehensive Loss	Retained Income	Total
<i>(\$ in millions, except per share amounts)</i>						
<b>Balance Dec. 31, 2004</b>	\$ 401	\$ 728	\$ (8 )	\$ (24 )	\$ 6,880	\$ 7,977
Comprehensive income						
Net income					1,281	1,281
Other comprehensive loss				(53 )		(53 )
Total comprehensive income						1,228
Dividends on Common Stock, \$0.48 per share					(194 )	(194 )
Stock-based compensation, including tax benefit of \$47	10	260	(9 )			261
Other		4				4
<b>Balance Dec. 31, 2005</b>	411	992	(17 )	(77 )	7,967	9,276
Comprehensive income						
Net income					1,481	1,481
Other comprehensive income				2		2
Total comprehensive income						1,483
Adoption of SFAS 158, net of tax				(294 )		(294 )

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Dividends on Common Stock, \$0.68 per share				(278 )	(278 )
Share repurchases	(22 )	(63 )		(879 )	(964 )
Stock-based compensation, including tax benefit of \$85	9	372	17	(8 )	390
Other		2			2
<b>Balance Dec. 31, 2006</b>	398	1,303		(369 )	8,283
Comprehensive income					
Net income				1,464	1,464
Other comprehensive loss				(30 )	(30 )
Total comprehensive income					1,434
Adoption of FIN 48, net of tax				10	10
Dividends on Common Stock, \$0.96 per share				(377 )	(377 )
Share repurchases	(24 )	(81 )		(1,091 )	(1,196 )
Stock-based compensation, including tax benefit of \$57	6	238		(9 )	235
Other		6			6
<b>Balance Dec. 31, 2007</b>	\$ 380	\$ 1,466	\$	\$ (399 )	\$ 8,280
				\$	\$ 9,727

*See accompanying notes to consolidated financial statements.*

**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following Notes are an integral part of the Consolidated Financial Statements.

**1. Summary of Significant Accounting Policies**

**Description of Business**

Norfolk Southern Corporation is a Virginia-based holding company engaged principally in the rail transportation business, operating approximately 21,000 route miles primarily in the East and Midwest. These consolidated financial statements include Norfolk Southern Corporation ( Norfolk Southern ) and its majority-owned and controlled subsidiaries (collectively, NS ). Norfolk Southern's major subsidiary is Norfolk Southern Railway Company ( NSR ). All significant intercompany balances and transactions have been eliminated in consolidation.

NSR and its railroad subsidiaries transport raw materials, intermediate products and finished goods classified in the following market groups (percent of total railway operating revenues in 2007): coal (25%); intermodal (20%); chemicals (13%); metals/construction (12%); agriculture/consumer products/government (11%); automotive (10%); and paper/clay/forest products (9%). Although most of NS' customers are domestic, ultimate points of origination or destination for some of the products transported (particularly coal bound for export and some intermodal containers) may be outside the United States. Approximately 85% of NS' railroad employees are covered by collective bargaining agreements with various labor unions.

**Use of Estimates**

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically reviews its estimates, including those related to the recoverability and useful lives of assets, as well as liabilities for litigation, environmental remediation, casualty claims, income taxes, and pension and other postretirement benefits. Changes in facts and circumstances may result in revised estimates.

**Revenue Recognition**

Transportation revenue is recognized proportionally as a shipment moves from origin to destination and related expenses are recognized as incurred. Refunds (which are primarily volume-based incentives) are recorded as a reduction to revenues on the basis of management's best estimate of projected liability, which is based on historical activity, current traffic counts and the expectation of future activity. NS regularly monitors its contract refund liability, and historically, the estimates have not differed significantly from the amounts ultimately refunded. Switching, demurrage and other incidental service revenues are recognized when the services are performed.

**Derivatives**

NS does not engage in the trading of derivatives. NS uses derivative financial instruments to reduce the risk of volatility in its diesel fuel costs and in the management of its mix of fixed and floating-rate debt. Management has determined that these derivative instruments qualify as either fair-value or cash-flow hedges, having values that highly correlate with the underlying hedged exposures, and has designated such instruments as hedging transactions. Income and expense related to the derivative financial instruments are recorded in the same category as generated by the underlying asset or liability. Credit risk related to the derivative financial instruments is considered to be minimal and is managed by requiring high credit standards for counterparties and periodic settlements (see Note 16).



**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Stock-Based Compensation**

NS has stock-based employee compensation plans, which are more fully described in Note 11. Through December 31, 2005, NS applied the intrinsic value recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees (APB Opinion 25), and related interpretations in accounting for these plans (See Required Accounting Changes, below).

The following table illustrates the effect on net income and earnings per share if NS had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123), to stock-based employee compensation:

	<b>2005</b> <i>(\$ in millions, except per share)</i>
Net income, as reported	\$ 1,281
Add: Stock-based employee compensation expense as reported	46
Deduct: Stock-based employee compensation expense determined under fair value method	(45 )
 Pro forma net income	 \$ 1,282
 Earnings per share:	
As reported	
Basic	\$ 3.17
Diluted	\$ 3.11
Pro forma	
Basic	\$ 3.17
Diluted	\$ 3.10

**Required Accounting Changes**

Effective January 1, 2007, NS adopted Financial Accounting Standards Board Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, which clarifies accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. Under the guidelines of FIN 48, an entity should recognize the financial statement benefit of a tax position if it determines that it is more likely than not that the position will be sustained on examination (see Note 3).

Effective December 31, 2006, NS adopted Statement of Financial Accounting Standards (SFAS) No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (see Note 10).

Effective January 1, 2006, NS adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, [SFAS 123(R)]. This statement applies to awards granted, modified, repurchased or cancelled after the effective date as well as awards that are unvested at the effective date and includes, among other things, the

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requirement to expense the fair value of stock options. The standard also requires that awards to be settled in cash be measured at fair value at each reporting date until ultimate settlement. NS adopted SFAS 123(R) using the modified prospective method, which requires application of the standard to all awards granted, modified, repurchased or cancelled on or after January 1, 2006, and to all awards for which the requisite service has not been rendered as of such date. In accordance with the modified prospective approach, prior period financial statements have not been restated to reflect the impact of SFAS 123(R). As compared to amounts that would have been recognized under APB Opinion 25, the adoption of SFAS 123(R) resulted in \$27 million of additional compensation expense for 2006, including the immediate

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**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

expensing of 2006 grants made to retirement-eligible employees, which reduced net income by \$20 million, or 5 cents per basic and diluted share. Under SFAS 123(R), all new awards granted to retirement eligible employees must be expensed immediately. Under APB Opinion No. 25 and related interpretations, such awards were amortized over the stated service period. Such awards were treated similarly under SFAS 123 in the pro forma amounts disclosed in the preceding table.

**Cash Equivalents**

Cash equivalents are highly liquid investments purchased three months or less from maturity.

**Allowance for Doubtful Accounts**

NS allowance for doubtful accounts was \$5 million at December 31, 2007 and 2006. To determine its allowance for doubtful accounts, NS evaluates historical loss experience (which has not been significant), the characteristics of current accounts, as well as general economic conditions and trends.

**Materials and Supplies**

Materials and supplies, consisting mainly of fuel oil and items for maintenance of property and equipment, are stated at the lower of average cost or market. The cost of materials and supplies expected to be used in capital additions or improvements is included in Properties.

**Investments**

Debt securities classified as held-to-maturity are reported at amortized cost and marketable equity and debt securities classified as trading or available-for-sale are recorded at fair value. Unrealized after-tax gains and losses for investments designated as available-for-sale, are recognized in Accumulated other comprehensive loss.

Investments where NS has the ability to exercise significant influence over but does not control the entity are accounted for using the equity method in accordance with APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock.

**Properties**

Properties are stated principally at cost and are depreciated using group depreciation. Rail is depreciated primarily on the basis of use measured by gross ton-miles. Other properties are depreciated generally using the straight-line method over the lesser of estimated service or lease lives. Depletion of natural resources (see Note 2) is based on units of production. Depreciation in the Consolidated Statements of Cash Flows includes depreciation and depletion. NS capitalizes interest on major capital projects during the period of their construction. Expenditures, including those on leased assets that extend an asset's useful life or increase its utility, are capitalized. Costs related to repairs and maintenance activities that do not extend an asset's useful life or increase its utility are expensed when such repairs are performed. When properties other than land and nonrail assets are sold or retired in the ordinary course of business, the cost of the assets, net of sale proceeds or salvage, is charged to accumulated depreciation, and no gain or loss is recognized through income. Gains and losses on disposal of land and nonrail assets are included in Other income net (see Note 2) since such income is not a product of NS railroad operations.

NS reviews the carrying amount of properties whenever events or changes in circumstances indicate that such carrying amount may not be recoverable based on future undiscounted cash flows. Assets that are deemed impaired as a result

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of such review are recorded at the lower of carrying amount or fair value.

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**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Reclassifications**

Certain comparative prior year amounts presented in Railway operating expenses have been reclassified to conform to the current year presentation. Amounts previously presented as Diesel fuel (used in locomotives) have been combined with other fuel and related costs and are now presented as Fuel. Additionally, certain other groupings of costs within Railway operating expenses have been changed.

**2. Other Income Net**

	2007	2006	2005
	<i>(\$ in millions)</i>		
Income from natural resources:			
Royalties from coal	\$ 52	\$ 55	\$ 54
Nonoperating depletion and depreciation	(11 )	(12 )	(13 )
Subtotal	41	43	41
Gains and losses from sale of properties and investments	51	54	49
Rental income	46	45	42
Equity in earnings of Conrail (Note 4)	45	25	37
Interest income	45	76	41
Corporate-owned life insurance net	9	24	4
Expenses related to synthetic fuel investments	(77 )	(62 )	(102 )
Other interest expense	(27 )	(17 )	(6 )
Taxes on nonoperating property	(10 )	(9 )	(9 )
Other	(30 )	(30 )	(23 )
Total	\$ 93	\$ 149	\$ 74

Other income net includes income and costs not part of rail operations and the income generated by the activities of NS noncarrier subsidiaries as well as the costs incurred by those subsidiaries in their operations. NS has a 40.5% interest in a limited liability company that owned and operated facilities that produced synthetic fuel from coal. In addition, in 2007 NS purchased two facilities that produced synthetic fuel from coal. The production of synthetic fuel resulted in tax credits as well as expenses related to the investments. The expenses are included in Expenses related to synthetic fuel investments above.

Other current assets in the Consolidated Balance Sheets includes prepaid interest of \$58 million at December 31, 2007, and \$50 million at December 31, 2006, arising from corporate-owned life insurance borrowings.

**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**3. Income Taxes****Provision for Income Taxes**

	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>(\$ in millions)</i>		
<b>Current:</b>			
Federal	\$ 570	\$ 666	\$ 283
State	78	91	53
<b>Total current taxes</b>	<b>648</b>	<b>757</b>	<b>336</b>
<b>Deferred:</b>			
Federal	77	3	220
State	48	(11 )	(140 )
<b>Total deferred taxes</b>	<b>125</b>	<b>(8 )</b>	<b>80</b>
<b>Provision for income taxes</b>	<b>\$ 773</b>	<b>\$ 749</b>	<b>\$ 416</b>

**Reconciliation of Statutory Rate to Effective Rate**

The Provision for income taxes in the Consolidated Statements of Income differs from the amounts computed by applying the statutory federal corporate tax rate as follows:

	<b>2007</b>		<b>2006</b>		<b>2005</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
	<i>(\$ in millions)</i>					
Federal income tax at statutory rate	\$ 783	35	\$ 780	35	\$ 594	35
State income taxes, net of Federal tax effect	63	3	52	2	40	2
Tax credits	(65 )	(3 )	(62 )	(3 )	(104 )	(6 )
Ohio rate change, net of Federal tax effect					(96 )	(6 )
Illinois tax law change, net of Federal tax effect	19	1				
Other net	(27 )	(1 )	(21 )		(18 )	
<b>Provision for income taxes</b>	<b>\$ 773</b>	<b>35</b>	<b>\$ 749</b>	<b>34</b>	<b>\$ 416</b>	<b>25</b>

In August 2007, Illinois enacted tax legislation that modifies the way in which transportation companies apportion their taxable income to the state. The change resulted in an increase in NS deferred income tax liability in the third quarter, as required by Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, which increased deferred tax expense by \$19 million.

In June 2005, Ohio enacted tax legislation that phases out its Corporate Franchise Tax, which was generally based on federal taxable income, and phases in a new gross receipts tax called the Commercial Activity Tax, which is based on current year sales and rentals. The phased elimination of the Corporate Franchise Tax resulted in a reduction in NS deferred income tax liability, as required by Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, which, as noted above, decreased deferred tax expense by \$96 million.

### **Deferred Tax Assets and Liabilities**

Certain items are reported in different periods for financial reporting and income tax purposes. Deferred tax assets and liabilities are recorded in recognition of these differences. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

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**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	<b>Dec. 31,</b>	
	<b>2007</b>	<b>2006</b>
	<i>(\$ in millions)</i>	
<b>Deferred tax assets:</b>		
Compensation and benefits, including post-retirement	\$ 417	\$ 382
Accruals, including casualty and other claims	219	211
Other	49	44
<b>Total gross deferred tax assets</b>	<b>685</b>	<b>637</b>
Less valuation allowance	(10 )	(9 )
<b>Net deferred tax asset</b>	<b>675</b>	<b>628</b>
<b>Deferred tax liabilities:</b>		
Property	(6,683 )	(6,659 )
Other	(233 )	(227 )
<b>Total gross deferred tax liabilities</b>	<b>(6,916 )</b>	<b>(6,886 )</b>
<b>Net deferred tax liability</b>	<b>(6,241 )</b>	<b>(6,258 )</b>
<b>Net current deferred tax asset</b>	<b>190</b>	<b>186</b>
<b>Net long-term deferred tax liability</b>	<b>\$ (6,431 )</b>	<b>\$ (6,444 )</b>

Except for amounts for which a valuation allowance has been provided, management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets. The valuation allowance at the end of each year relates to subsidiary state income tax net operating losses that may not be utilized prior to their expiration. The total valuation allowance increased \$1 million in 2007, and decreased \$1 million in 2006 and \$3 million in 2005.

### **Uncertain Tax Positions**

As a result of the implementation of FIN 48 on January 1, 2007 (see Note 1), NS recognized a \$10 million increase to stockholders' equity, \$2 million of which related to investments accounted for under the equity method of accounting. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (\$ in millions):

Balance at January 1, 2007	\$ 179
Additions based on tax positions related to the current year	65
Additions for tax positions of prior years	9

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Reductions for tax positions of prior years	(84 )
Settlements with taxing authorities	
Lapse of statutes of limitations	(2 )
Balance at December 31, 2007	\$ 167

Included in the balance of unrecognized tax benefits at December 31, 2007, are potential benefits of \$56 million that would affect the effective tax rate if recognized. Unrecognized tax benefits are adjusted in the period in which new information about a tax position becomes available or the final outcome differs from the amount recorded.

NS expects that the total amount of unrecognized tax benefits at December 31, 2007, will decrease by between \$30 million and \$35 million in 2008 due to tax positions for which there was an uncertainty about the timing of deductibility in earlier years but deductibility may become certain by the close of 2008. NS consolidated federal income tax returns for 2004 and 2005 are being audited by the Internal Revenue Service (IRS). NS anticipates that the IRS will complete its examination of the 2004 and 2005 years within the next twelve months. It is reasonably possible that the amount of unrecognized tax benefits will change due to the completion of the IRS examination of the 2004 and

**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

2005 years, but an estimate of the change cannot be made. The IRS completed its examination of the 2002 and 2003 consolidated federal income tax returns during the third quarter of 2006 and NS appealed certain adjustments proposed by the IRS. State income tax returns generally are subject to examination for a period of three to four years after filing of the return. In addition, NS is generally obligated to report changes in taxable income arising from federal income tax examinations to the states within a period of up to two years from the date the federal examination is final. NS has various state income tax returns either under examination, administrative appeals, or litigation. It is reasonably possible that the amount of unrecognized tax benefits will decrease in 2008 as a result of the lapse of state statutes of limitations, but the amount is not expected to be significant. NS does not expect that any of the above potential changes in unrecognized tax benefits will have a material effect on NS' financial position, results of operations or liquidity.

Interest related to unrecognized tax benefits, which is included in Other income net, amounted to \$12 million of expense in 2007 and income of \$2 million in 2006 and \$12 million in 2005. Penalties related to tax matters are included in Provision for income taxes and totaled zero in each of 2007, 2006 and 2005. NS has recorded a liability of \$28 million at December 31, 2007, and \$17 million at January 1, 2007, for the payment of interest on unrecognized tax benefits. NS has no liability recorded at December 31, 2007, and January 1, 2007, for the payment of penalties on unrecognized tax benefits.

#### 4. Investments

	<b>Dec. 31,</b>	
	<b>2007</b>	<b>2006</b>
	<i>(\$ in millions)</i>	
Short-term investments with average maturities:		
Federal government notes, 5 months	\$	\$ 124
Corporate notes, 4 months		117
Commercial paper, 2 months		74
Municipal debt, 1 month		22
Other short-term investments, less than one month		54
<b>Total short-term investments</b>	<b>\$</b>	<b>\$ 391</b>
Long-term investments:		
Investment in Conrail Inc.	\$ 899	\$ 849
Other equity method investments	594	451
Company-owned life insurance at net cash surrender value	327	310
Other investments	154	145
<b>Total long-term investments</b>	<b>\$ 1,974</b>	<b>\$ 1,755</b>

Other equity method investments includes \$240 million at December 31, 2007, and \$100 million at December 31, 2006, related to NS' investment in Meridian Speedway LLC, a joint venture formed with Kansas City Southern in



2006.

**Investment in Conrail**

Through a limited liability company, Norfolk Southern and CSX Corporation (CSX) jointly own Conrail Inc. (Conrail), whose primary subsidiary is Consolidated Rail Corporation (CRC). NS has a 58% economic and 50% voting interest in the jointly owned entity, and CSX has the remainder of the economic and voting interests. NS is applying the equity method of accounting to its remaining investment in Conrail in accordance with APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. NS is amortizing the excess of the purchase price over Conrail's net equity using the principles of purchase accounting, based primarily on the estimated useful lives of Conrail's depreciable property and equipment, including the related deferred tax effect of the

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**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

differences in tax accounting bases for such assets, as all of the purchase price at acquisition was allocable to Conrail's tangible assets and liabilities. At December 31, 2007, the difference between NS's investment in Conrail and its share of Conrail's underlying net equity was \$555 million.

CRC owns and operates certain properties (the Shared Assets Areas) for the joint and exclusive benefit of NSR and CSX Transportation, Inc. (CSXT). The costs of operating the Shared Assets Areas are borne by NSR and CSXT based on usage. In addition, NSR and CSXT pay CRC a fee for access to the Shared Assets Areas. Purchased services and rents includes expenses for amounts due to CRC for operation of the Shared Assets Areas of \$126 million in 2007 and 2006, and \$129 million in 2005. Future minimum lease payments due to CRC under the Shared Assets Areas agreements are as follows: \$28 million in each of 2008 through 2012 and \$317 million thereafter. NS provides certain general and administrative support functions to Conrail, the fees for which are billed in accordance with several service-provider arrangements and amount to approximately \$7 million annually.

Accounts payable includes \$78 million at December 31, 2007, and \$68 million at December 31, 2006, due to Conrail for the operation of the Shared Assets Areas. In addition, Other liabilities includes \$133 million at December 31, 2007 and 2006 for long-term advances from Conrail, maturing 2035, entered into in 2005 that bear interest at an average rate of 4.4%.

## 5. Properties

	Dec. 31,		Depreciation
	2007	2006	Rate for 2007
	(\$ in millions)		
Land	\$ 2,085	\$ 2,082	
Railway property:			
Road	19,420	18,725	2.7 %
Equipment	7,413	7,085	3.7 %
Other property	471	471	2.3 %
	29,389	28,363	
Less accumulated depreciation	(7,806 )	(7,265 )	
Net properties	\$ 21,583	\$ 21,098	

Railway property includes \$504 million at December 31, 2007, and \$602 million at December 31, 2006, of assets recorded pursuant to capital leases with accumulated amortization of \$175 million and \$192 million at December 31, 2007 and 2006, respectively. Other property includes the costs of obtaining rights to natural resources of \$337 million at December 31, 2007 and 2006, with accumulated depletion of \$172 million and \$165 million at December 31, 2007 and 2006, respectively.

## Capitalized Interest

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Total interest cost incurred on debt in 2007, 2006 and 2005 was \$455 million, \$489 million and \$505 million, respectively, of which \$14 million, \$13 million and \$11 million was capitalized.

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**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**6. Current Liabilities**

	<b>Dec. 31,</b>	
	<b>2007</b>	<b>2006</b>
	<i>(\$ in millions)</i>	
<b>Accounts payable:</b>		
Accounts and wages payable	\$ 568	\$ 569
Casualty and other claims (Note 17)	259	301
Vacation liability	123	120
Equipment rents payable net	87	96
Due to Conrail (Note 4)	78	68
Other	24	27
Total	\$ 1,139	\$ 1,181
<b>Other current liabilities:</b>		
Interest payable	\$ 90	\$ 88
Retiree benefit obligations (Note 10)	57	53
Liabilities for forwarded traffic	53	50
Other	37	25
Total	\$ 237	\$ 216

**7. Long-term Debt**

Long-term debt as of December 31, 2007, with weighted average interest rates and maturities is presented below:

	<b>Dec. 31,</b>	
	<b>2007</b>	<b>2006</b>
	<i>(\$ in millions)</i>	
<b>Notes and debentures:</b>		
6.91%, maturing to 2011	\$ 1,200	\$ 1,540
6.66%, maturing 2014 and 2017	981	981
8.23%, maturing 2020 to 2025	764	764
7.12%, maturing 2027 to 2031	1,290	1,290
7.21%, maturing 2037 and 2043	855	855
7.02%, maturing 2097 and 2105	650	650
Securitization borrowings, 5.57%	250	

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Equipment obligations, 6.13%, maturing to 2014	226	306
Capitalized leases, 4.84%, maturing to 2024	165	231
Other debt, 7.18%, maturing to 2019	113	113
Discounts and premiums, net	(126 )	(130 )
Total long-term debt	6,368	6,600
Less current maturities	(369 )	(491 )
Long-term debt excluding current maturities	\$ 5,999	\$ 6,109

Long-term debt maturities subsequent to 2008 are as follows:

2009	\$ 477
2010	340
2011	338
2012	31
2013 and subsequent years	4,813
Total	\$ 5,999

**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In November 2007, NS entered into a \$500 million receivables securitization facility under which NSR sells substantially all of its eligible third-party receivables to an NS subsidiary, which in turn may transfer beneficial interests in the receivables to various commercial paper vehicles. Amounts received under the facility are accounted for as borrowings. The facility has a 364-day term; however, NS intends to refinance these borrowings by issuing long-term debt, which is supported by its \$1 billion credit agreement (see below). Accordingly, amounts outstanding are included in the line item Long-term debt in the Consolidated Balance Sheet. At December 31, 2007, the amount of receivables included in Accounts receivable net serving as collateral for these borrowings was \$778 million.

In May 2005, NS issued \$717 million of unsecured notes (\$350 million at 5.64% due 2029 and \$367 million at 5.59% due 2025) and paid \$218 million of premium in exchange for \$717 million of its previously issued unsecured notes (\$350 million at 7.8% due 2027, \$200 million at 7.25% due 2031, and \$167 million at 9.0% due 2021). The \$218 million cash premium payment is reflected as a reduction of debt in the Consolidated Balance Sheet and Statement of Cash Flows and is included in Discounts and premiums, net. The premium is being amortized as additional interest expense over the terms of the new debt, resulting in effective interest rates of 8.7% for the 2029 notes and 9.0% for the 2025 notes.

Discounts and premiums, net at December 31, 2007 and 2006, includes \$126 million and \$130 million, respectively, related to \$314 million face amount of 9.75% notes due in 2020 and \$138 million face amount of 7.875% notes due 2043, which is being amortized as a reduction of interest expense over the terms of the notes, resulting in effective interest rates of 6.0% and 6.2%, respectively.

The railroad equipment obligations and the capitalized leases are secured by liens on the underlying equipment. Certain lease obligations require the maintenance of yen-denominated deposits, which are pledged to the lessor to satisfy yen-denominated lease payments. These deposits are included in Other assets on the balance sheet and totaled \$80 million at December 31, 2007, and \$85 million at December 31, 2006.

### **Shelf Registration**

NS has on file with the Securities and Exchange Commission two Form S-3 shelf registration statements, under which up to \$700 million of additional debt or equity securities could be issued.

### **Credit Agreement, Debt Covenants and Commercial Paper**

NS has in place a five-year \$1 billion credit facility expiring in 2012. Any borrowings under the credit agreement are contingent on the continuing effectiveness of certain representations and warranties made at the inception of the agreement. NS is subject to various financial covenants with respect to its debt and under its credit agreement, including a maximum leverage ratio restriction, certain restrictions on the issuance of further debt by NS or its subsidiaries and the consolidation, merger or sale of substantially all of NS assets. At December 31, 2007, NS was in compliance with all financial covenants.

NS has the ability to issue commercial paper supported by its \$1 billion credit agreement. At December 31, 2007, and December 31, 2006, NS had no outstanding commercial paper or borrowings under the credit agreement.

### **8. Lease Commitments**

NS is committed under long-term lease agreements, which expire on various dates through 2067, for equipment, lines of road and other property. The following amounts do not include payments to



**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

CRC under the Shared Assets Areas agreements (see Note 4). Future minimum lease payments and operating lease expense are as follows:

	<b>Operating Leases</b>	<b>Capital Leases</b>
	<i>(\$ in millions)</i>	
2008	\$ 138	\$ 46
2009	130	60
2010	113	25
2011	81	22
2012	70	15
2013 and subsequent years	405	8
<b>Total</b>	<b>\$ 937</b>	<b>\$ 176</b>
Less imputed interest on capital leases at an average rate of 5.4%		(11 )
Present value of minimum lease payments included in debt		<b>\$ 165</b>

**Operating Lease Expense**

	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>(\$ in millions)</i>		
Minimum rents	\$ 191	\$ 197	\$ 190
Contingent rents	79	79	75
<b>Total</b>	<b>\$ 270</b>	<b>\$ 276</b>	<b>\$ 265</b>

Contingent rents is primarily comprised of usage-based rent paid to other railroads for joint facility operations.

**9. Other Liabilities**

	<b>Dec. 31,</b>	
	<b>2007</b>	<b>2006</b>
	<i>(\$ in millions)</i>	
Retiree health and death benefit obligations (Note 10)	\$ 635	\$ 621
Casualty and other claims (Note 17)	588	471



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Net pension obligations (Note 10)	150	144
Deferred compensation	148	149
Long-term advances from Conrail (Note 4)	133	133
Federal and state income taxes	131	
Other	254	249
Total	\$ 2,039	\$ 1,767

**10. Pensions and Other Postretirement Benefits**

Norfolk Southern and certain subsidiaries have both funded and unfunded defined benefit pension plans covering principally salaried employees. Norfolk Southern and certain subsidiaries also provide specified health care and death benefits to eligible retired employees and their dependents. Under the present plans, which may be amended or terminated at NS option, a defined percentage of health care expenses is covered, reduced by any deductibles, co-payments, Medicare payments and, in some cases, coverage provided under other group insurance policies.

**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Required Accounting Change**

As of December 31, 2006, NS adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158). This statement requires an employer to recognize in its statement of financial position the overfunded or underfunded status of defined benefit pension and postretirement plans measured as the difference between the fair value of plan assets and the benefit obligation. Employers must also recognize as a component of other comprehensive income, net of tax, the actuarial gains and losses and the prior service costs, credits and transition costs that arise during the period. As a result of adopting this standard, NS reduced its pension asset by \$217 million and increased its pension and postretirement liabilities by \$258 million in its Consolidated Balance Sheet, with a corresponding reduction to stockholders' equity of \$292 million (net of tax) reflected as an increase to accumulated other comprehensive loss. In addition, NS recognized a \$2 million reduction to stockholders' equity related to its proportionate share of Conrail's adoption of SFAS 158. The adoption of SFAS 158 has no impact on years prior to 2006 and has no effect on the calculation of expenses for pensions and post-retirement benefits.

**Pension and Other Postretirement Benefit Obligations and Plan Assets**

	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<i>(\$ in millions)</i>			
<b><i>Change in benefit obligations</i></b>				
Benefit obligation at beginning of year	\$ 1,650	\$ 1,642	\$ 785	\$ 754
Service cost	24	27	21	19
Interest cost	92	88	46	42
Actuarial (gains) losses	(12 )	6	53	14
Benefits paid	(110 )	(113 )	(46 )	(44 )
Benefit obligation at end of year	1,644	1,650	859	785
<b><i>Change in plan assets</i></b>				
Fair value of plan assets at beginning of year	1,939	1,824	119	108
Actual return on plan assets	125	220	6	11
Employer contribution	9	8	97	44
Benefits paid	(110 )	(113 )	(46 )	(44 )
Fair value of plan assets at end of year	1,963	1,939	176	119
<b>Funded status at end of year</b>	<b>\$ 319</b>	<b>\$ 289</b>	<b>\$ (683 )</b>	<b>\$ (666 )</b>

Amounts recognized in the Consolidated  
Balance Sheets consist of:

Noncurrent assets	\$ 478	\$ 441	\$	\$
Current liabilities	(9)	(8)	(48)	(45)
Noncurrent liabilities	(150)	(144)	(635)	(621)
<b>Net amount recognized</b>	<b>\$ 319</b>	<b>\$ 289</b>	<b>\$ (683)</b>	<b>\$ (666)</b>

Amounts recognized in accumulated other  
comprehensive loss (pretax) consist of:

Net loss	\$ 290	\$	\$ 279	\$
Prior service cost (benefit)	9		(10)	
Impact of implementation of SFAS 158		244		231

NS unfunded pension plans, included above, which in all cases have no assets and therefore have an accumulated benefit obligation in excess of plan assets, had projected benefit obligations of \$159 million at December 31, 2007, and \$152 million at December 31, 2006, and had accumulated benefit obligations of \$137 million at December 31, 2007, and \$125 million at December 31, 2006.

**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Pension and Other Postretirement Benefit Cost Components**

	2007	2006	2005
	(\$ in millions)		
<b><i>Pension benefits</i></b>			
Service cost	\$ 24	\$ 27	\$ 23
Interest cost	92	88	87
Expected return on plan assets	(167)	(159)	(149)
Amortization of prior service cost	2	2	2
Amortization of net losses	9	13	14
Net benefit	\$ (40)	\$ (29)	\$ (23)
<b><i>Other postretirement benefits</i></b>			
Service cost	\$ 21	\$ 19	\$ 17
Interest cost	46	42	40
Expected return on plan assets	(11)	(10)	(9)
Amortization of prior service benefit	(8)	(8)	(8)
Amortization of net losses	28	27	22
Net cost	\$ 76	\$ 70	\$ 62

**Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Loss**

	2007	
	Pension Benefits	Other Postretirement Benefits
	(\$ in millions)	
Net loss arising during the year	\$ 30	\$ 58
Amortization of prior service cost	(2)	8
Amortization of net loss	(9)	(28)
Total recognized in other comprehensive loss	\$ 19	\$ 38
Total recognized in net periodic (benefit) cost and other comprehensive loss	\$ (21)	\$ 114

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year are \$7 million and \$3 million, respectively. The estimated net loss and prior service benefit for the other defined benefit postretirement plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year are \$30 million and \$8 million, respectively.

**Pension Assumptions**

Pension and other postretirement benefit costs are determined based on actuarial valuations that reflect appropriate assumptions as of the measurement date, ordinarily the beginning of each year. The funded status of the plans is determined using appropriate assumptions as of each year end. A summary of the major assumptions follows:

**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	2007	2006	2005
<b>Funded status:</b>			
Discount rate	6.25 %	5.75 %	5.50 %
Future salary increases	4.5 %	4.5 %	4.5 %
<b>Pension cost:</b>			
Discount rate	5.75 %	5.50 %	5.75 %
Return on assets in plans	9 %	9 %	9 %
Future salary increases	4.5 %	4.5 %	4.5 %

To determine the discount rate in 2007, NS utilized an analysis in which the projected annual cash flows from the pension and postretirement benefit plans were matched with a yield curve based on an appropriate universe of high-quality corporate bonds. NS used the results of the yield curve to select the discount rate that matches the payment stream of the benefits in these plans. Previously, NS referred to Moody's seasoned Aa corporate bond yields and the changes in such yields in establishing the discount rate.

#### Health Care Cost Trend Assumptions

For measurement purposes at December 31, 2007, increases in the per capita cost of covered health care benefits were assumed to be 9% for 2007 and 8.5% for 2008. It is assumed the rate will decrease gradually to an ultimate rate of 5% for 2012 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported in the financial statements. To illustrate, a one-percentage-point change in the assumed health care cost trend would have the following effects:

	<b>One percentage point</b>	
	<b>Increase</b>	<b>Decrease</b>
	<i>(\$ in millions)</i>	
Increase (decrease) in:		
Total service and interest cost components	\$ 9	\$ (7)
Postretirement benefit obligation	\$ 100	\$ (84)

#### Asset Management

Eleven investment firms manage NS's defined benefit pension plan's assets under investment guidelines approved by the Board of Directors. Investments are restricted to domestic fixed income securities, international fixed income securities, domestic and international equity investments and unleveraged exchange-traded options and financial futures. Limitations restrict investment concentration and use of certain derivative instruments. The target asset allocation for equity is 75% of the pension plan's assets. Fixed income investments must have an average rating of AA or better and all fixed income securities must be rated A or better except bond index funds. Equity investments must be in liquid securities listed on national exchanges. No investment is permitted in the securities of Norfolk Southern Corporation or its subsidiaries (except through commingled pension trust funds). Investment managers' returns are expected to meet or exceed selected market indices by prescribed margins.

NS pension plan weighted-average asset allocations at December 31, 2007 and 2006, by asset category, were as follows:

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**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Asset Category	Percentage of plan assets at Dec. 31,	
	2007	2006
Equity securities	75 %	77 %
Debt securities	25 %	23 %
<b>Total</b>	<b>100 %</b>	<b>100 %</b>

International equity securities included in equity securities above 10 % 10 %

The postretirement benefit plan assets consist primarily of trust-owned variable life insurance policies with an asset allocation at December 31, 2007, of 65% in equity securities and 35% in debt securities compared with 67% in equity securities and 33% in debt securities at December 31, 2006. The target asset allocation for equity is between 50% and 75% of the plan's assets.

The plans' assumed future returns are based principally on the asset allocation and on the historic returns for the plans' asset classes determined from both actual plan returns and, over longer time periods, market returns for those asset classes.

#### Contributions and Estimated Future Benefit Payments

In 2008, NS expects to contribute approximately \$9 million to its unfunded pension plans for payments to pensioners and \$48 million to its other postretirement benefit plans for retiree health benefits.

Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	Pension Benefits	Other Postretirement Benefits
	(\$ in millions)	
2008	\$ 111	\$ 48
2009	112	51
2010	114	54
2011	117	57
2012	120	59
Years 2013-2017	636	322

The other postretirement benefit payments include an estimated annual reduction due to the Medicare Part D Subsidy of about \$6 million.

#### Other Postretirement Coverage

Under collective bargaining agreements, NS and certain subsidiaries participate in a multi-employer benefit plan, which provides certain postretirement health care and life insurance benefits to eligible union employees. Premiums



under this plan are expensed as incurred and amounted to \$27 million in 2007 and \$26 million in 2006 and 2005.

**Section 401(k) Plans**

Norfolk Southern and certain subsidiaries provide Section 401(k) savings plans for employees. Under the plans, NS matches a portion of employee contributions, subject to applicable limitations. NS expenses under these plans were \$14 million in 2007 and 2006, and \$13 million in 2005.

**11. Stock-Based Compensation**

Under the stockholder-approved Long-Term Incentive Plan (LTIP), a committee of nonemployee directors of the Board or the chief executive officer (if delegated such authority by the

**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
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committee) may grant stock options, stock appreciation rights (SARs), restricted shares, restricted stock units, performance shares and performance share units (PSUs), up to a maximum of 88,025,000 shares of Norfolk Southern Common Stock (Common Stock). Of these shares, 5,000,000 were approved by the Board for issuance to non-officer participants; as a broad-based issuance, stockholder approval was not required. In May 2005, the stockholders approved an amended LTIP which provided that 8,500,000 shares of stock previously approved for issuance under LTIP could be granted as restricted shares, restricted stock unit shares or performance shares. Under the Board-approved Thoroughbred Stock Option Plan (TSOP), the committee may grant stock options up to a maximum of 6,000,000 shares of Common Stock; as a broad-based stock option plan, stockholder approval of TSOP was not required. NS uses newly issued shares to satisfy any exercises and awards under LTIP and TSOP.

The LTIP also permits the payment on a current or a deferred basis and in cash or in stock of dividend equivalents on shares of Common Stock covered by options, PSUs or restricted stock units in an amount commensurate with dividends paid on Common Stock. Tax absorption payments also are authorized for any awards under LTIP in amounts estimated to equal the federal and state income taxes applicable to shares of Common Stock issued subject to a share retention agreement.

During the first quarter of 2007, a committee of nonemployee directors of NS Board granted stock options, restricted stock units and PSUs pursuant to the LTIP and granted stock options pursuant to the TSOP. Receipt of an award under LTIP was made contingent upon the awardee's execution of a non-compete agreement, and all awards under LTIP were made subject to forfeiture in the event the awardee engages in competing employment for a period of time following retirement.

**Accounting Method**

As disclosed in Note 1, prior to the adoption of SFAS 123(R), NS applied APB Opinion 25 and related interpretations in accounting for awards made under the plans. Accordingly, grants of PSUs, restricted shares, restricted share units, dividend equivalents, tax absorption payments and SARs resulted in charges to net income, while grants of stock options had no effect on net income. Under SFAS 123(R), all awards will result in charges to net income while dividend equivalents are charged to retained earnings. Related compensation costs were \$96 million in 2007, \$129 million in 2006 and \$75 million in 2005. The total tax effect recognized in income in relation to stock-based compensation was a benefit of \$32 million in 2007, \$44 million in 2006 and \$27 million in 2005.

**Stock Options**

Options may be granted for a term not to exceed 10 years and are subject to a vesting period of at least one year. Option exercise prices are at not less than the fair market value of Common Stock on the effective date of the grant. In the first quarter of 2007, 1,203,300 options were granted under the LTIP and 251,000 options were granted under the TSOP. In each case, the grant price was \$49.555, which was the fair market value of Common Stock on the date of grant, and the options have a term of ten years but may not be exercised prior to the third anniversary of the date of grant. Holders of the options granted under LTIP who remain employed by NS receive cash dividend equivalent payments for five years commensurate with dividends paid on Common Stock.

In the first quarter of 2006, 1,188,700 options were granted under the LTIP and 238,000 options were granted under the TSOP. In each case, the grant price was \$49.425, which was the fair market value of Common Stock on the date of grant, and the options have a term of ten years but may not be exercised prior to the first anniversary of the date of grant.

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The fair value of each option award in 2007 and 2006 was measured on the date of grant using a lattice-based option valuation model. Expected volatilities are based on implied volatilities from traded options on Common Stock and historical volatility of Common Stock. NS uses historical data

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**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

to estimate option exercises and employee terminations within the valuation model. The average expected option life is derived from the output of the valuation model and represents the period of time that options granted are expected to be outstanding. The average risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. For options granted that include dividend equivalent payments, a dividend yield of zero was used. For purposes of pro forma information required under SFAS 123, the fair value of the option awards in 2005 was determined using the Black-Scholes option-pricing model. The assumptions for 2007, 2006 and 2005 are shown in the following table:

	2007		2006		2005
Expected volatility range	26.1%	33.3%	23.5%	34.5%	n/a
Average expected volatility	33%		27%		33%
Average expected option term	5.6 years		3.7 years		5 years
Average risk-free interest rate	4.9%		4.5%		3.7%
Per-share grant-date fair value	\$19.82		\$13.47		\$12.19
Options granted (LTIP and TSOP)	1,454,300		1,427,400		1,353,600

The grant date fair value of the 2007 TSOP grant was \$17.88 using the same assumptions as the 2007 LTIP grant, except a dividend yield of 1.5% was used because no dividend equivalents are paid on these options and the average expected option term was 6.5 years.

A summary of options outstanding as of December 31, 2007, and changes during the twelve months then ended is presented below:

	Option Shares	Weighted Avg. Exercise Price
Outstanding at Dec. 31, 2006	22,276,526	\$ 25.68
Granted	1,454,300	49.56
Exercised	(5,110,334 )	25.65
Forfeited	(40,600 )	49.55
Outstanding at Dec. 31, 2007	18,579,892	27.51
Exercisable at Dec. 31, 2007	17,165,692	25.69

The aggregate intrinsic value of options outstanding at December 31, 2007, was \$426 million and had a weighted-average remaining contractual term of 4.7 years. Of these options outstanding, 17,165,692 were exercisable and had an aggregate intrinsic value of \$425 million with a weighted average remaining contractual term of 4.4 years.

The following table provides information related to options exercised as of December 31 for the respective years:

2007	2006	2005
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(\$ in millions)

Total intrinsic value	\$ 145	\$ 226	\$ 139
Cash received upon exercise of options	\$ 126	\$ 212	\$ 194
Related tax benefit realized	\$ 52	\$ 79	\$ 47

Prior to the adoption of SFAS 123(R), NS presented tax benefits generated from tax deductions in excess of compensation costs recognized for share-based awards (excess tax benefits) as operating cash flows in the Consolidated Statements of Cash Flows. Beginning in 2006, SFAS 123(R) requires excess tax benefits to be classified as financing cash flows. Accordingly, Common stock issued net in the Consolidated Statements of Cash Flows for the years ended December 31, 2007 and 2006, included \$57 million and \$85 million of such tax benefits, respectively.

In November of 2005, the Board of Directors of NS changed the vesting periods on options granted in January 2005 from three years to one year in order to reduce future compensation

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**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

expense. At the time, each of these options had an intrinsic value of approximately \$9 and the modification resulted in less than \$1 million of compensation expense.

**Restricted Shares and Restricted Stock Units**

Restricted share and restricted stock unit grants were zero and 321,450, respectively, in 2007, with a grant-date fair value of \$50.01 and a 5-year restriction period, and were 332,150 and 332,150, respectively, in 2006, with a grant-date fair value of \$49.60 and a three-year restriction period, and were 576,240 and 384,160, respectively, in 2005, with a grant-date fair value of \$34.10 and a five-year restriction period. Restricted stock units granted in 2007 will be settled through issuance of shares of Common Stock. The restricted stock unit grants include cash dividend equivalent payments during the restriction period commensurate with dividends paid on Common Stock.

A summary of the status of restricted shares and restricted stock units as of December 31, 2007, and changes during the twelve months then ended is presented below:

	Shares	Units	Weighted- Average Grant Date Fair Value
Nonvested at Dec. 31, 2006	1,118,682	851,956	\$ 36.78
Granted		321,450	50.01
Vested	(272,482 )	(181,654 )	23.18
Forfeited	(34,600 )	(34,400 )	35.96
Nonvested at Dec. 31, 2007	811,600	957,352	\$ 42.53

At December 31, 2007, there was \$16 million of total unrecognized compensation related to restricted shares and restricted stock units. That cost is expected to be recognized over a weighted-average period of approximately 2.1 years. The total fair value of the restricted shares vested and restricted stock units paid in cash during the twelve months ended December 31, 2007, 2006 and 2005 was \$22 million, \$40 million and \$2 million, respectively. The total related tax benefit realized was \$3 million in 2007 and \$6 million in 2006.

**Performance Share Units**

PSUs provide for awards based on achievement of certain predetermined corporate performance goals (total shareholder return, return on average invested capital and operating ratio) at the end of a three-year cycle. PSU grants and average grant-date fair values were 1,203,300 and \$49.555 in 2007; 1,163,600 and \$49.425 in 2006; and 1,344,400 and \$34.10 in 2005. One-half of any PSUs earned will be paid in the form of shares of Common Stock with the other half to be paid in cash.

A summary of the status of PSUs as of December 31, 2007, and changes during the twelve months then ended is presented below:

	<b>Performance Share Units</b>	<b>Weighted-Average Grant Date Fair Value</b>
Balance Dec. 31, 2006	3,301,800	\$ 36.46
Granted	1,203,300	49.56
Earned	(358,764 )	22.02
Paid in cash	(358,790 )	22.02
Unearned	(103,446 )	22.02
Forfeited	(81,000 )	45.89
Balance Dec. 31, 2007	3,603,100	\$ 43.91

As of December 31, 2007, there was \$19 million of total unrecognized compensation related to PSUs granted under the LTIP which is expected to be recognized over a weighted-average period of

**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

1.0 year. The total fair value of PSUs earned and paid in cash during the twelve months ended December 31, 2007, 2006 and 2005 was \$18 million, \$34 million and \$18 million, respectively. The total related tax benefit realized was \$2 million in 2007 and zero in 2006.

**Shares Available and Issued**

Shares of stock available for future grants and issued in connection with all features of the LTIP and TSOP as of December 31, were as follows:

	2007	2006	2005
Available for future grants:			
LTIP	8,937,651	9,288,283	11,321,573
TSOP	2,290,700	2,538,700	2,771,400
Shares of Common Stock issued:			
LTIP	5,199,060	8,517,911	9,078,717
TSOP	540,877	836,783	410,750

**12. Stockholders Equity**

**Common Stock**

Common stock is reported net of shares held by consolidated subsidiaries (Treasury Shares) of Norfolk Southern. Treasury Shares at December 31, 2007 and 2006, amounted to 20,683,686 and 20,780,638 shares, respectively, with a cost of \$20 million in both years.

**Accumulated Other Comprehensive Loss**

Accumulated other comprehensive loss reported in the Consolidated Statements of Changes in Stockholders Equity consisted of the following:

	Balance at Beginning of Year	Net Gain (Loss)	Reclassification Adjustments	Balance at End of Year
	<i>(\$ in millions)</i>			
Dec. 31, 2007				
Pension and other postretirement liabilities	\$ (315 )	\$ (54 )	\$ 20	\$ (349 )
Other comprehensive loss of equity investees	(55 )	5		(50 )
Unrealized gains on securities	1		(1 )	
Accumulated other comprehensive loss	\$ (369 )	\$ (49 )	\$ 19	\$ (399 )



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Dec. 31, 2006

Pension and other postretirement liabilities	\$		\$ (315 )	\$		\$ (315 )
Other comprehensive loss of equity investees		(72 )	17			(55 )
Unrealized gains on securities			1			1
Cash flow hedges		12			(12 )	
Minimum pension liability		(17 )	17			
Accumulated other comprehensive loss	\$	(77 )	\$ (280 )	\$	(12 )	\$ (369 )

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**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Other Comprehensive Income (Loss)**

Other comprehensive income (loss) reported in the Consolidated Statements of Changes in Stockholders' Equity consisted of the following:

	<b>Pretax Amount</b>	<b>Tax (Expense) Benefit</b>	<b>Net-of-Tax Amount</b>
	<i>(\$ in millions)</i>		
<b><i>Year ended Dec. 31, 2007</i></b>			
Net gain (loss) arising during the year:			
Pensions and other postretirement benefits	\$ (88 )	\$ 34	\$ (54 )
Reclassification adjustments for costs included in net income	31	(11 )	20
Subtotal	(57 )	23	(34 )
Other comprehensive income of equity investees	5		5
Reclassification adjustment for unrealized gains on securities included in net income	(2 )	1	(1 )
Other comprehensive income (loss)	\$ (54 )	\$ 24	\$ (30 )
<b><i>Year ended Dec. 31, 2006</i></b>			
Net gain (loss) arising during the year:			
Cash flow hedges	\$ (1 )	\$ 1	\$
Reclassification adjustments for gains included in net income	(20 )	8	(12 )
Subtotal	(21 )	9	(12 )
Unrealized gains on securities	1		1
Minimum pension liability	(10 )	4	(6 )
Other comprehensive income of equity investees	15	4	19
Other comprehensive income (loss)	\$ (15 )	\$ 17	\$ 2
<b><i>Year ended Dec. 31, 2005</i></b>			
Net gain (loss) arising during the year:			
Cash flow hedges	\$ 92	\$ (37 )	\$ 55
Reclassification adjustments for gains included in net income	(148 )	58	(90 )
Subtotal	(56 )	21	(35 )

Unrealized losses on securities	(1 )		(1 )
Minimum pension liability	(6 )	2	(4 )
Other comprehensive loss of equity investees	(13 )		(13 )
Other comprehensive income (loss)	\$ (76 )	\$ 23	\$ (53 )

### 13. Stock Purchase Program

In March 2007, NS Board of Directors amended NS share repurchase program and increased the authorized amount of share repurchases from 50 million to 75 million shares and shortened the authorized period from 2015 to 2010. The timing and volume of purchases is guided by management's assessment of market conditions and other pertinent facts. Near-term purchases under the program are expected to be made with internally generated cash; however, future funding sources could include proceeds from the sale of commercial paper notes or the increase of long-term debt. NS purchased and retired 23.6 million shares and 21.7 million shares of its common stock under this program in 2007 and 2006, respectively, at a cost of \$1.2 billion and \$964 million, respectively.

**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14. Earnings Per Share**

The following tables set forth the calculation of basic and diluted earnings per share:

	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>(\$ in millions except per share, shares in millions)</i>		
<b>Basic earnings per share:</b>			
Income available to common stockholders	\$ 1,459	\$ 1,475	\$ 1,281
Weighted-average shares outstanding	389.6	406.0	404.2
Basic earnings per share	\$ 3.74	\$ 3.63	\$ 3.17

Income available to common stockholders for 2007 and 2006 reflects a \$5 million and \$6 million reduction, respectively, for the after-tax effect of dividend equivalent payments made to holders of vested stock options.

	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>(\$ in millions except per share, shares in millions)</i>		
<b>Diluted earnings per share:</b>			
Income available to common stockholders	\$ 1,464	\$ 1,481	\$ 1,281
Weighted-average shares outstanding per above	389.6	406.0	404.2
Dilutive effect of outstanding options and share-settled awards (as determined by the application of the treasury stock method)	8.2	8.7	8.1
Adjusted weighted-average shares outstanding	397.8	414.7	412.3
Diluted earnings per share	\$ 3.68	\$ 3.57	\$ 3.11

The diluted calculations exclude options whose exercise price exceeded the average market price of Common Stock as follows: zero in 2007, 1 million in 2006 and 1 million in 2005.

**15. Fair Values of Financial Instruments**

The fair values of Cash and cash equivalents, Short-term investments, Accounts receivable and Accounts payable approximate carrying values because of the short maturity of these financial instruments. The fair value of corporate-owned life insurance approximates carrying value. The carrying amounts and estimated fair values for the remaining financial instruments, excluding derivatives and investments accounted for under the equity method in accordance with APB Opinion No. 18, consisted of the following at December 31:

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	<i>(\$ in millions)</i>			
Investments	\$ 154	\$ 173	\$ 145	\$ 166
Long-term debt	\$ (6,368 )	\$ (6,935 )	\$ (6,600 )	\$ (7,370 )

Underlying net assets were used to estimate the fair value of investments. The fair values of notes receivable are based on future discounted cash flows. The fair values of debt were estimated based on quoted market prices or discounted cash flows using current interest rates for debt with similar terms, company rating and remaining maturity.

Carrying amounts of marketable securities reflect unrealized holding gains of zero on December 31, 2007, and \$1 million on December 31, 2006. Sales of available-for-sale securities were immaterial for the years ended December 31, 2007, 2006 and 2005; most short-term investments were redeemed at maturity.

**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**16. Derivative Financial Instruments**

All derivatives are recognized in the financial statements as either assets or liabilities and are measured at fair value. Changes in fair value are recorded as adjustments to the assets or liabilities being hedged in Other comprehensive loss, or in current earnings, depending on whether the derivative is designated and qualifies for hedge accounting, the type of hedge transaction represented and the effectiveness of the hedge.

NS has used derivative financial instruments to reduce the risk of volatility in its diesel fuel costs and to manage its overall exposure to fluctuations in interest rates. NS does not engage in the trading of derivatives. Management has determined that its derivative financial instruments qualify as either fair-value or cash-flow hedges, having values that highly correlate with the underlying hedged exposures, and has designated such instruments as hedging transactions. Credit risk related to the derivative financial instruments is considered to be minimal and is managed by requiring high credit standards for counterparties and periodic settlements.

**Diesel Fuel Hedging**

From 2001 until May 2004, NS entered into contracts that hedged a portion of its diesel fuel consumption. The intent of the program was to assist in the management of NS aggregate risk exposure to fuel price fluctuations, which can significantly affect NS operating margins and profitability, through the use of one or more types of derivative instruments. The goal of this hedging strategy was to reduce the variability of fuel costs over an extended period of time while minimizing the incremental cost of hedging. The program provided that NS would not enter into any fuel hedges with a duration of more than 36 months, and that no more than 80% of NS average monthly fuel consumption would be hedged for any month within any 36-month period. After taking into account the effect of the hedging, diesel fuel costs represented 14% and 11% of NS operating expenses for the years ended December 31, 2006 and 2005, respectively. The last remaining contracts were settled in the second quarter of 2006, bringing an end to this program. NS fuel hedging activity resulted in decreases in diesel fuel expenses of \$20 million in 2006 and \$148 million in 2005. Ineffectiveness, or the extent to which changes in the fair value of the heating oil contracts do not offset changes in the fair values of the expected diesel fuel transactions, was a \$1 million expense in 2006 and a \$5 million expense in 2005.

**Interest Rate Hedging**

NS manages its overall exposure to fluctuations in interest rates by issuing both fixed and floating-rate debt instruments, and by entering into interest rate hedging transactions to achieve an appropriate mix within its debt portfolio. NS had \$59 million and \$83 million, or about 1%, of its fixed rate debt portfolio hedged as of December 31, 2007, and December 31, 2006, respectively, using interest rate swaps that qualify for and are designated as fair-value hedge transactions. NS interest rate hedging activity resulted in decreases in interest expenses of \$1 million for 2007 and 2006, and \$2 million for 2005. These swaps have been effective in hedging the changes in fair value of the related debt arising from changes in interest rates and there has been no impact on earnings resulting from ineffectiveness associated with these derivative transactions.

**Fair Values**

Fair values of interest rate swaps at December 31, 2007, and December 31, 2006, were determined based upon the present value of expected future cash flows discounted at the appropriate implied spot rate from the spot rate yield curve. Fair value adjustments are noncash transactions and, accordingly, are excluded from the Consolidated Statements of Cash Flows. The total net asset position of NS outstanding derivative financial instruments was comprised of a gross fair value asset position of \$1 million at both December 31, 2007, and December 31, 2006.



**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

## **17. Commitments and Contingencies**

### **Lawsuits**

Norfolk Southern and certain subsidiaries are defendants in numerous lawsuits and other claims relating principally to railroad operations. When management concludes that it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, it is accrued through a charge to earnings. While the ultimate amount of liability incurred in any of these lawsuits and claims is dependent on future developments, in management's opinion, the recorded liability is adequate to cover the future payment of such liability and claims. However, the final outcome of any of these lawsuits and claims cannot be predicted with certainty, and unfavorable or unexpected outcomes could result in additional accruals that could be significant to results of operations in a particular year or quarter. Any adjustments to the recorded liability will be reflected in earnings in the periods in which such adjustments are known.

### **Casualty Claims**

Casualty claims include employee personal injury and occupational claims as well as third-party claims, all exclusive of legal costs. To aid in valuing its personal injury liability and determining the amount to accrue during the year, NS management utilizes studies prepared by an independent consulting actuarial firm. Job-related accidental injury and occupational claims are subject to the Federal Employers' Liability Act (FELA), which is applicable only to railroads. FELA's fault-based system produces results that are unpredictable and inconsistent as compared with a no-fault workers' compensation system. The variability inherent in this system could result in actual costs being very different from the liability recorded. While the ultimate amount of claims incurred is dependent on future developments, in management's opinion, the recorded liability is adequate to cover the future payments of claims and is supported by the most recent actuarial study. In all cases, NS records a liability when the expected loss for the claim is both probable and estimable.

In 2005, NS recorded a liability related to the January 6, 2005 derailment in Graniteville, SC. The liability, which includes a current and long-term portion, represents NS' best estimate based on current facts and circumstances. The estimate includes amounts related to business property damage and other economic losses, personal injury and individual property damage claims as well as third-party response costs. NS' commercial insurance policies are expected to cover substantially all expenses related to this derailment above NS' self-insured retention, including NS response costs and legal fees. Accordingly, the Consolidated Balance Sheets reflect a current and long-term receivable for estimated recoveries from NS' insurance carriers. While it is reasonable to expect that the liability for covered losses could differ from the amount recorded, such a change would be offset by a corresponding change in the insurance receivable. As a result, NS does not believe that it is reasonably likely that its net loss (the difference between the liability and future recoveries) will be materially different than the loss recorded in 2005. NS expects at this time that insurance coverage is adequate to cover potential claims and settlements above its self-insurance retention. Expenses in 2005 included \$41 million related to this incident, representing NS' retention under its insurance policies and other uninsured costs.

**Employee personal injury claims** The largest component of casualties and other claims expense is employee personal injury costs. The actuarial firm engaged by NS provides quarterly studies to aid in valuing its employee personal injury liability and estimating its employee personal injury expense. The actuarial firm studies NS' historical patterns of reserving for claims and subsequent settlements, taking into account relevant outside influences. The actuary uses the results of these analyses to estimate the ultimate amount of the liability, which includes amounts for incurred but unasserted claims. NS adjusts its liability quarterly based upon management's assessment and the results of the study. The estimate of loss liabilities is subject to inherent limitation given the difficulty of





**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

predicting future events such as jury decisions, court interpretations or legislative changes and as such the actual loss may vary from the amount recorded.

**Occupational claims** Occupational claims (including asbestosis and other respiratory diseases, as well as repetitive motion) are often not caused by a specific accident or event but rather result from a claimed exposure over time. Many such claims are being asserted by former or retired employees, some of whom have not been employed in the rail industry for decades. The actuarial firm provides an estimate of the occupational claims liability based upon NS history of claim filings, severity, payments and other pertinent facts. The liability is dependent upon management's judgments made as to the specific case reserves as well as judgments of the consulting actuarial firm in the periodic studies. The actuarial firm's estimate of ultimate loss includes a provision for those claims that have been incurred but not reported. This provision is derived by analyzing industry data and projecting NS experience into the future as far as can be reasonably determined. NS adjusts its liability quarterly based upon management's assessment and the results of the study. However, it is possible that the recorded liability may not be adequate to cover the future payment of claims. Adjustments to the recorded liability are reflected in operating expenses in the periods in which such adjustments become known.

**Third-party claims** NS records a liability for third-party claims including those for highway crossing accidents, trespasser and other injuries, automobile liability, property damage and lading damage. The actuarial firm assists with the calculation of potential liability for third-party claims, except lading damage, based upon NS experience including number and timing of incidents, amount of payments, settlement rates, number of open claims and legal defenses. The actuarial estimate includes a provision for claims that have been incurred but have not yet been reported. Each quarter NS adjusts its liability based upon management's assessment and the results of the study. Given the inherent uncertainty in regard to the ultimate outcome of third-party claims, it is possible that future settlement costs may differ from the estimated liability recorded.

**Environmental Matters**

NS is subject to various jurisdictions' environmental laws and regulations. It is NS' policy to record a liability where such liability or loss is probable and its amount can be estimated reasonably. Claims, if any, against third parties for recovery of cleanup costs incurred by NS are reflected as receivables (when collection is probable) on the balance sheet and are not netted against the associated NS liability. Environmental engineers regularly participate in ongoing evaluations of all known sites and in determining any necessary adjustments to liability estimates. NS also has an Environmental Policy Council, composed of senior managers, to oversee and interpret its environmental policy.

NS' Consolidated Balance Sheets included liabilities for environmental exposures in the amount of \$46 million at December 31, 2007, and \$54 million at December 31, 2006 (of which \$12 million was accounted for as a current liability at December 31, 2007 and 2006). At December 31, 2007, the liability represented NS' estimate of the probable cleanup and remediation costs based on available information at 155 known locations compared with 172 locations at December 31, 2006. On that date, 13 sites accounted for \$25 million of the liability, and no individual site was considered to be material. NS anticipates that much of this liability will be paid out over five years; however, some costs will be paid out over a longer period.

At 32 locations, one or more NS subsidiaries, usually in conjunction with a number of other parties, have been identified as potentially responsible parties by the Environmental Protection Agency (EPA) or similar state authorities under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, or comparable state statutes, which often impose joint and several liability for cleanup costs.



**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

With respect to known environmental sites (whether identified by NS or by the EPA or comparable state authorities), estimates of NS' ultimate potential financial exposure for a given site or in the aggregate for all such sites are necessarily imprecise because of the widely varying costs of currently available cleanup techniques, the likely development of new cleanup technologies, the difficulty of determining in advance the nature and full extent of contamination and each potential participant's share of any estimated loss (and that participant's ability to bear it), and evolving statutory and regulatory standards governing liability.

The risk of incurring environmental liability for acts and omissions, past, present and future - is inherent in the railroad business. Some of the commodities in NS' traffic mix, particularly those classified as hazardous materials, can pose special risks that NS and its subsidiaries work diligently to minimize. In addition, several NS subsidiaries own, or have owned, land used as operating property, or which is leased and operated by others, or held for sale. Because environmental problems may exist on these properties that are latent or undisclosed, there can be no assurance that NS will not incur environmental liabilities or costs with respect to one or more of them, the amount and materiality of which cannot be estimated reliably at this time. Moreover, lawsuits and claims involving these and potentially other unidentified environmental sites and matters are likely to arise from time to time. The resulting liabilities could have a significant effect on financial position, results of operations or liquidity in a particular year or quarter.

However, based on its assessment of the facts and circumstances now known, management believes that it has recorded the probable costs for dealing with those environmental matters of which NS is aware. Further, management believes that it is unlikely that any known matters, either individually or in the aggregate, will have a material adverse effect on NS' financial position, results of operations or liquidity.

**Insurance**

NS obtains on behalf of itself and its subsidiaries insurance for potential losses for third-party liability and first-party property damages. NS is currently self-insured up to \$25 million and above \$1 billion per occurrence for bodily injury and property damage to third parties and up to \$25 million and above \$175 million per occurrence for property owned by NS or in NS' care, custody or control.

**Purchase Commitments**

At December 31, 2007, NSR had outstanding purchase commitments of approximately \$298 million primarily for coal hoppers, locomotives, RoadRailer trailers, and track material in connection with its capital programs through 2009.

**Change-In-Control Arrangements**

Norfolk Southern has compensation agreements with officers and certain key employees that become operative only upon a change in control of Norfolk Southern, as defined in those agreements. The agreements provide generally for payments based on compensation at the time of a covered individual's involuntary or other specified termination and for certain other benefits.

**Guarantees**

In a number of instances, NS and its subsidiaries have agreed to indemnify lenders for additional costs they may bear as a result of certain changes in laws or regulations applicable to their loans. Such changes may include impositions or modifications with respect to taxes, duties, reserves, liquidity, capital adequacy, special deposits, and similar requirements relating to extensions of credit by, deposits with, or the assets or liabilities of such lenders. The nature and timing of changes in laws or regulations applicable to NS' financings are inherently unpredictable, and



**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

therefore NS' exposure in connection with the foregoing indemnifications cannot be quantified. No liability has been recorded related to these indemnifications. In the case of one type of equipment financing, NSR's Japanese leveraged leases, NSR may terminate the leases and ancillary agreements if such a change-in-law indemnity is triggered. Such a termination would require NSR to make early termination payments that would not be expected to have a material adverse effect on NS' financial position, results of operations or liquidity.

NS has indemnified parties in a number of transactions for U.S. income tax withholding imposed as a result of changes in U.S. tax law. In all cases, NS has the right to unwind the related transaction if the withholding cannot be avoided in the future. Because these indemnities would be triggered and are dependent upon a change in the tax law, the maximum exposure is not quantifiable. Management does not believe that it is likely that it will be required to make any payments under these indemnities.

As of December 31, 2007, certain Norfolk Southern subsidiaries are contingently liable as guarantors with respect to \$8 million of indebtedness of an entity in which they have an ownership interest, the Terminal Railroad Association of St. Louis, due in 2019. Four other railroads are also jointly and severally liable as guarantors for this indebtedness. No liability has been recorded related to this guaranty.

**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**VALUATION AND QUALIFYING ACCOUNTS**

**Years Ended December 31, 2005, 2006 and 2007**

	Beginning Balance	Additions charged to:			Ending Balance
		Expenses	Other Accounts	Deductions	
<i>(\$ in millions)</i>					
<b>Year ended December 31, 2005</b>					
Valuation allowance (included net in deferred tax liability) for deferred tax assets	\$ 13	\$	\$	\$ 3 <sup>(2)</sup>	\$ 10
Casualty and other claims included in other liabilities	\$ 315	\$ 311	\$	\$ 205 <sup>(3)</sup>	\$ 421
Current portion of casualty and other claims included in accounts payable	\$ 222	\$ 92	\$ 114 <sup>(1)</sup>	\$ 137 <sup>(4)</sup>	\$ 291
<b>Year ended December 31, 2006</b>					
Valuation allowance (included net in deferred tax liability) for deferred tax assets	\$ 10	\$	\$	\$ 1 <sup>(2)</sup>	\$ 9
Casualty and other claims included in other liabilities	\$ 421	\$ 217	\$	\$ 167 <sup>(3)</sup>	\$ 471
Current portion of casualty and other claims included in accounts payable	\$ 291	\$ 40	\$ 124 <sup>(1)</sup>	\$ 154 <sup>(4)</sup>	\$ 301
<b>Year ended December 31, 2007</b>					
Valuation allowance (included net in deferred tax liability) for deferred tax assets	\$ 9	\$ 1	\$	\$	\$ 10
Casualty and other claims included in other liabilities	\$ 471	\$ 113	\$ 162 <sup>(3)(4)</sup>	\$ 158 <sup>(3)</sup>	\$ 588
Current portion of casualty and other claims included in accounts payable	\$ 301	\$ 17	\$ 122 <sup>(1)</sup>	\$ 181 <sup>(4)</sup>	\$ 259

(1) Includes revenue refunds and overcharges provided through

deductions from  
operating  
revenues and  
transfers from  
other accounts.

- (2) Reclassifications  
to/from other  
assets.
- (3) Payments and  
reclassifications  
to/from accounts  
payable.
- (4) Payments and  
reclassifications  
to/from other  
liabilities.

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**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**(Unaudited)**

**Three Months Ended**  
**March 31,**

**2008                      2007**

(\$ in millions, except earnings  
per share)

<b>Railway operating revenues:</b>		
Coal	\$ 662	\$ 557
General merchandise	1,352	1,228
Intermodal	486	462
Total railway operating revenues	2,500	2,247
<b>Railway operating expenses:</b>		
Compensation and benefits	705	681
Purchased services and rents	375	384
Fuel	404	248
Depreciation	198	192
Materials and other	240	214
Total railway operating expenses	1,922	1,719
<b>Income from railway operations</b>	578	528
Other income net	7	7
Interest expense on debt	109	115
Income before income taxes	476	420
Provision for income taxes	185	135
<b>Net income</b>	\$ 291	\$ 285
<b>Per share amounts:</b>		
Net income		
Basic	\$ 0.77	\$ 0.72
Diluted	\$ 0.76	\$ 0.71
Dividends	\$ 0.29	\$ 0.22

*See accompanying notes to consolidated financial statements.*



**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

	March 31, 2008	Dec. 31, 2007
	<i>(\$ in millions)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 364	\$ 206
Accounts receivable - net	1,125	942
Materials and supplies	194	176
Deferred income taxes	230	190
Other current assets	123	161
<b>Total current assets</b>	<b>2,036</b>	<b>1,675</b>
Investments	1,937	1,974
Properties less accumulated depreciation	21,697	21,583
Other assets	795	912
<b>Total assets</b>	<b>\$ 26,465</b>	<b>\$ 26,144</b>
<b>Liabilities and stockholders equity</b>		
Current liabilities:		
Accounts payable	\$ 1,337	\$ 1,139
Income and other taxes	323	203
Other current liabilities	291	237
Current maturities of long-term debt	276	369
<b>Total current liabilities</b>	<b>2,227</b>	<b>1,948</b>
Long-term debt	6,217	5,999
Other liabilities	1,774	2,039
Deferred income taxes	6,499	6,431
<b>Total liabilities</b>	<b>16,717</b>	<b>16,417</b>
Stockholders equity:		
Common stock \$1.00 per share par value, 1,350,000,000 shares authorized; outstanding 375,755,263 and 379,297,891 shares, respectively, net of treasury shares	376	380
Additional paid-in capital	1,557	1,466

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Accumulated other comprehensive loss	(395 )	(399 )
Retained income	8,210	8,280
<b>Total stockholders equity</b>	<b>9,748</b>	<b>9,727</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 26,465</b>	<b>\$ 26,144</b>

*See accompanying notes to consolidated financial statements.*

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**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
	<i>(\$ in millions)</i>	
<b>Cash flows from operating activities</b>		
Net income	\$ 291	\$ 285
Reconciliation of net income to net cash provided by operating activities:		
Depreciation	200	194
Deferred income taxes	25	(3 )
Gains and losses on properties and investments	(5 )	(6 )
Changes in assets and liabilities affecting operations:		
Accounts receivable	(37 )	1
Materials and supplies	(18 )	(10 )
Other current assets	30	31
Current liabilities other than debt	75	49
Other net	43	45
Net cash provided by operating activities	604	586
<b>Cash flows from investing activities</b>		
Property additions	(304 )	(236 )
Property sales and other transactions	3	36
Investments, including short-term		(289 )
Investment sales and other transactions	54	233
Net cash used in investing activities	(247 )	(256 )
<b>Cash flows from financing activities</b>		
Dividends	(109 )	(88 )
Common stock issued net	71	41
Purchase and retirement of common stock	(276 )	(276 )
Proceeds from borrowings	525	
Debt repayments	(410 )	(64 )
Net cash used in financing activities	(199 )	(387 )
Net increase (decrease) in cash and cash equivalents	158	(57 )
<b>Cash and cash equivalents</b>		
At beginning of year	206	527

At end of period	\$	364	\$	470
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**Supplemental disclosure of cash flow information**

Cash paid during the period for:

Interest (net of amounts capitalized)	\$	54	\$	63
Income taxes (net of refunds)	\$	7	\$	8

*See accompanying notes to consolidated financial statements.*

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**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

In the opinion of management, the accompanying unaudited interim financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly Norfolk Southern Corporation ( Norfolk Southern ) and subsidiaries (collectively, NS ) financial condition as of March 31, 2008, and its results of operations and cash flows for the three months ended March 31, 2008 and 2007, in conformity with U.S. generally accepted accounting principles.

These Consolidated Financial Statements should be read in conjunction with the financial statements and notes included in NS latest Annual Report on Form 10 K.

### **1. Stock-Based Compensation**

In the first quarter of 2008, a committee of non-employee directors of Norfolk Southern s Board of Directors granted stock options, restricted stock units and performance share units ( PSUs ) pursuant to the Long-Term Incentive Plan ( LTIP ) and granted stock options pursuant to the Thoroughbred Stock Option Plan ( TSOP ) as discussed below. Stock-based compensation expense was \$65 million during the first quarter of 2008, and \$51 million during the same period of 2007. The total tax effect recognized in income in relation to stock-based compensation was a benefit of \$22 million and \$17 million for the quarters ended March 31, 2008 and 2007, respectively.

#### **Stock Options**

In the first quarter of 2008, 1,162,600 options were granted under the LTIP and 250,000 options were granted under the TSOP. In each case, the grant price was \$50.74, which was the fair market value of Norfolk Southern Corporation common stock ( Common Stock ) on the date of grant, and the options have a term of ten years but may not be exercised prior to the third anniversary of the date of grant. Holders of the options granted under the LTIP receive cash dividend equivalent payments for five years commensurate with dividends paid on Common Stock.

The fair value of each option award in 2008 was measured on the date of grant using a lattice-based option valuation model. Expected volatilities are based on implied volatilities from traded options on Common Stock and historical volatility of Common Stock. NS uses historical data to estimate option exercises and employee terminations within the valuation model. The average expected option life is derived from the output of the valuation model and represents the period of time that options granted are expected to be outstanding. The average risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. For options granted that include dividend equivalent payments, a dividend yield of zero was used. The assumptions for the 2008 LTIP grant are shown in the following table:

	<b>2008</b>	
Expected volatility range	25%	32%
Average expected volatility	32%	
Average expected option life	5.9 years	
Average risk-free interest rate	3.68%	
Per-share grant-date fair value	\$19.32	

The grant-date fair value of the 2008 TSOP grant was \$16.29 using the same assumptions as the 2008 LTIP grant, except a dividend yield of 2.29% was used because no dividend equivalents are paid on these options and the average expected option life was 8.0 years.

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For the first three months of 2008, options relating to 1,557,854 shares were exercised, yielding \$40 million of cash proceeds and \$15 million of tax benefits recognized as additional paid-in capital. For the first three months of 2007, option exercises resulted in \$26 million of cash proceeds and \$15 million of tax benefits.

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**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

### Restricted Stock Units and Restricted Shares

There were 299,950 restricted stock units granted in 2008, with an average grant-date fair value of \$50.47 and a five-year restriction period. The restricted stock units granted in 2008 will be settled through the issuance of shares of Common Stock. There were no restricted shares granted in 2008.

### Performance Share Units

PSUs provide for awards based on achievement of certain predetermined corporate performance goals at the end of a three-year cycle. During the first quarter of 2008, there were 1,162,600 PSUs granted with a grant-date fair value of \$50.47. One-half of any PSUs earned will be paid in the form of shares of Common Stock, with the other half to be paid in cash.

During the first quarter of 2008, 1,013,999 PSUs were earned and paid out, one-half in shares of Common Stock, and one-half in cash. These PSUs had a grant-date fair value of \$34.10 per unit and a fair value at pay out of \$50.47 per unit. The total related tax benefit was \$2 million in the first quarter of 2008.

## 2. Income Taxes

There have been no material changes to the balance of unrecognized tax benefits reported at December 31, 2007. NS anticipates that within the next six months the IRS will complete its examination of NS 2004 and 2005 federal income tax returns, in addition to NS appeal of certain adjustments proposed by the IRS with respect to the 2002 and 2003 tax years. NS does not expect that the resolution of either the examination or the appeal will have a material effect on NS financial position, results of operations or liquidity.

## 3. Earnings Per Share

The following tables set forth the calculation of basic and diluted earnings per share:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
	<i>(\$ in millions except per share, shares in millions)</i>	
<b>Basic earnings per share:</b>		
Income available to common stockholders	\$ 290	\$ 284
Weighted-average shares outstanding	375.7	394.2
Basic earnings per share	\$ 0.77	\$ 0.72

Income available to holders of Common Stock reflects a reduction for the after-tax effect of dividend equivalent payments made to holders of vested stock options as follows: \$1 million in the first quarters of 2008 and 2007, respectively.



**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
	<i>(\$ in millions except per share, shares in millions)</i>	
<b>Diluted earnings per share:</b>		
Income available to common shareholders	\$ 291	\$ 285
Weighted-average shares outstanding per above	375.7	394.2
Dilutive effect of outstanding options, PSUs and restricted shares (as determined by the application of the treasury stock method)	8.2	8.1
<b>Adjusted weighted-average shares outstanding</b>	<b>383.9</b>	<b>402.3</b>
Diluted earnings per share	\$ 0.76	\$ 0.71

The diluted calculations exclude options having exercise prices exceeding the average market price of Common Stock as follows: none in the first quarters of 2008 and 2007, respectively.

#### **4. Stockholders Equity**

Common stock is reported net of shares held by consolidated subsidiaries (treasury shares) of Norfolk Southern. Treasury shares at March 31, 2008, and Dec. 31, 2007, amounted to 20,654,120 and 20,683,686 shares, respectively, with a cost of \$20 million for both periods.

#### **5. Share Repurchase Program**

In March 2007, Norfolk Southern's Board of Directors amended NS's share repurchase program, increasing the authorized amount of share repurchases from 50 million to 75 million shares and shortening the term of the program from 2015 to 2010. The timing and volume of purchases is guided by management's assessment of market conditions and other pertinent facts. Near-term purchases under the program are expected to be made with internally generated cash or proceeds from borrowings. NS repurchased and retired 5.6 million shares of its Common Stock under this program in the first three months of both 2008 and 2007, respectively, at a cost of \$276 million for each of those quarters.

#### **6. Investment in Conrail**

Through a limited liability company, Norfolk Southern and CSX Corporation (CSX) jointly own Conrail Inc. (Conrail), whose primary subsidiary is Consolidated Rail Corporation (CRC). NS has a 58% economic and 50% voting interest in the jointly owned entity, and CSX has the remainder of the economic and voting interests. NS investment in Conrail was \$907 million at March 31, 2008, and \$899 million at Dec. 31, 2007.

CRC owns and operates certain properties (the Shared Assets Areas) for the joint and exclusive benefit of Norfolk Southern Railway Company (NSR) and CSX Transportation, Inc. (CSXT). The costs of operating the Shared Assets

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Areas are borne by NSR and CSXT based on usage. In addition, NSR and CSXT pay CRC a fee for access to the Shared Assets Areas. Purchased services and rents includes expenses for amounts due to CRC for operation of the Shared Assets Areas of \$31 million in the first quarter of 2008 and \$32 million in the first quarter of 2007. NS equity in the earnings of Conrail, net of amortization, included in Other income net was \$8 million and \$5 million in the first quarters of 2008 and 2007, respectively.

Accounts payable includes \$70 million at March 31, 2008, and \$78 million at Dec. 31, 2007, due to Conrail for the operation of the Shared Assets Areas. In addition, Other liabilities includes

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**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

\$133 million at both March 31, 2008, and Dec. 31, 2007, in long-term advances from Conrail, maturing 2035, that bear interest at an average rate of 4.4%.

### 7. Long-term Debt

In the first quarter of 2008, NS received \$125 million under its accounts receivable securitization facility, at an average variable interest rate of 4.23% with a 364-day term. At March 31, 2008, and Dec. 31, 2007, the amounts outstanding under the facility were \$275 million and \$250 million, respectively, and the amount of receivables included in Accounts receivable net serving as collateral for these borrowings was \$847 million and \$778 million, respectively. NS also issued \$400 million of commercial paper during the first quarter of 2008. At March 31, 2008, NS had commercial paper outstanding of \$200 million at an average rate of 3.03%, due May 2008. Norfolk Southern intends to refinance these borrowings by issuing long-term debt, which is supported by its \$1 billion credit facility. Accordingly, total amounts outstanding under these programs of \$475 million are included in the line item Long-term debt in the March 31, 2008, Consolidated Balance Sheet.

In April 2008, through a private offering, NS issued and sold \$600 million in debt securities at 5.75% due 2018.

### 8. Pensions and Other Postretirement Benefits

Norfolk Southern and certain subsidiaries have both funded and unfunded defined benefit pension plans covering principally salaried employees. Norfolk Southern and certain subsidiaries also provide specified health care and death benefits to eligible retired employees and their dependents. Under the present plans, which may be amended or terminated at NS option, a defined percentage of health care expenses is covered, reduced by any deductibles, co-payments, Medicare payments and, in some cases, coverage provided under other group insurance policies.

#### Pension and Other Postretirement Benefit Cost Components

	Three Months Ended March 31,			
	2008	2007	2008	2007
	Pension Benefits		Other Postretirement Benefits	
	<i>(\$ in millions)</i>			
Service cost	\$ 6	\$ 6	\$ 6	\$ 5
Interest cost	25	23	12	12
Expected return on plan assets	(43 )	(42 )	(2 )	(3 )
Amortization of prior service cost (benefit)		1	(2 )	(2 )
Amortization of net losses	2	2	7	7
Net (benefit) cost	\$ (10 )	\$ (10 )	\$ 21	\$ 19

### 9. Comprehensive Income

NS total comprehensive income was as follows:

**Three Months Ended  
March 31,  
2008          2007**

*(\$ in millions)*

Net income	\$ 291	\$ 285
Other comprehensive income	4	5
<b>Total comprehensive income</b>	<b>\$ 295</b>	<b>\$ 290</b>

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**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

Other comprehensive income in 2008 and 2007 reflects primarily, net of tax, the amortization of the actuarial net losses and prior service costs for the pension and other postretirement benefit plans and for 2007, unrealized gains and losses on available-for-sale securities.

## **10. Commitments and Contingencies**

### **Lawsuits**

Norfolk Southern and/or certain subsidiaries are defendants in numerous lawsuits and other claims relating principally to railroad operations. When management concludes that it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, it is accrued through a charge to earnings. While the ultimate amount of liability incurred in any of these lawsuits and claims is dependent on future developments, in management's opinion, the recorded liability is adequate to cover the future payment of such liability and claims. However, the final outcome of any of these lawsuits and claims cannot be predicted with certainty, and unfavorable or unexpected outcomes could result in additional accruals that could be significant to results of operations in a particular year or quarter. Any adjustments to the recorded liability will be reflected in earnings in the periods in which such adjustments are known.

### **Casualty Claims**

Casualty claims include employee personal injury and occupational claims as well as third-party claims, all exclusive of legal costs. To aid in valuing its personal injury liability and determining the amount to accrue with respect to such claims during the year, NS management utilizes studies prepared by an independent consulting actuarial firm. Job-related accidental injury and occupational claims are subject to the Federal Employers' Liability Act ( FELA ), which is applicable only to railroads. FELA's fault-based system produces results that are unpredictable and inconsistent as compared with a no-fault workers' compensation system. The variability inherent in this system could result in actual costs being different from the liability recorded. While the ultimate amount of claims incurred is dependent on future developments, in management's opinion, the recorded liability is adequate to cover the future payments of claims and is supported by the most recent actuarial study. In all cases, NS records a liability when the expected loss for the claim is both probable and estimable.

In April 2008, NS settled the lawsuit brought by Avondale Mills for claims associated with the Jan. 6, 2005, derailment in Graniteville, SC. A portion of the settlement will not be reimbursed by insurance and is included as an expense in the first quarter. The total liability related to the derailment, which includes a current and long-term portion, represents NS' best estimate based on current facts and circumstances. The estimate includes amounts related to business property damage and other economic losses, personal injury and individual property damage claims as well as third-party response costs. NS' commercial insurance policies are expected to cover substantially all expenses related to this derailment above the unreimbursed portion and NS' self-insured retention, including NS' response costs and legal fees. Accordingly, the Consolidated Balance Sheets reflect a current and long-term receivable for estimated recoveries from NS' insurance carriers. One of NS' insurance carriers has made assertions indicating that it may contest all or part of its coverage obligations, as such all or part of the recorded recovery attributable to such carrier (\$100 million) may be contested. NS believes these expenses are covered by the insurance policy and that recovery of any contested amount is probable, in that if the carrier contests payment an arbitrator would determine the settlement amounts to be reasonable and that the insurer's refusal to consent to and to fund the settlement was a breach of contract.

**Employee personal injury claims** The largest component of casualties and other claims expense is employee personal injury costs. The actuarial firm engaged by NS provides quarterly studies to aid



**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

in valuing its employee personal injury liability and estimating its employee personal injury expense. The actuarial firm studies NS' historical patterns of reserving for claims and subsequent settlements, taking into account relevant outside influences. The actuary uses the results of these analyses to estimate the ultimate amount of the liability, which includes amounts for incurred but unasserted claims. NS adjusts its liability quarterly based upon management's assessment and the results of the study. The estimate of loss liabilities is subject to inherent limitation given the difficulty of predicting future events such as jury decisions, court interpretations or legislative changes and as such the actual loss may differ from the estimated liability recorded.

**Occupational claims** Occupational claims (including asbestosis and other respiratory diseases, as well as conditions allegedly related to repetitive motion) are often not caused by a specific accident or event but rather result from a claimed exposure over time. Many such claims are being asserted by former or retired employees, some of whom have not been employed in the rail industry for decades. The actuarial firm provides an estimate of the occupational claims liability based upon NS' history of claim filings, severity, payments and other pertinent facts. The liability is dependent upon management's judgments made as to the specific case reserves as well as judgments of the consulting actuarial firm in the periodic studies. The actuarial firm's estimate of ultimate loss includes a provision for those claims that have been incurred but not reported. This provision is derived by analyzing industry data and projecting NS' experience into the future as far as can be reasonably determined. NS adjusts its liability quarterly based upon management's assessment and the results of the study. However, it is possible that the recorded liability may not be adequate to cover the future payment of claims. Adjustments to the recorded liability are reflected in operating expenses in the periods in which such adjustments become known.

**Third-party claims** NS records a liability for third-party claims including those for highway crossing accidents, trespasser and other injuries, automobile liability, property damage and lading damage. The actuarial firm assists with the calculation of potential liability for third-party claims, except lading damage, based upon NS' experience including number and timing of incidents, amount of payments, settlement rates, number of open claims and legal defenses. The actuarial estimate includes a provision for claims that have been incurred but have not yet been reported. Each quarter NS adjusts its liability based upon management's assessment and the results of the study. Given the inherent uncertainty in regard to the ultimate outcome of third-party claims, it is possible that the actual loss may differ from the estimated liability recorded.

**Environmental Matters**

NS is subject to various jurisdictions' environmental laws and regulations. It is NS' policy to record a liability where such liability or loss is probable and its amount can be estimated reasonably. Claims, if any, against third parties for recovery of cleanup costs incurred by NS are reflected as receivables (when collection is probable) on the balance sheet and are not netted against the associated NS liability. Environmental engineers regularly participate in ongoing evaluations of all known sites and in determining any necessary adjustments to liability estimates. NS also has an Environmental Policy Council, composed of senior managers, to oversee and interpret its environmental policy.

NS' Consolidated Balance Sheets include liabilities for environmental exposures in the amount of \$43 million at March 31, 2008, and \$46 million at Dec. 31, 2007 (of which \$12 million is classified as a current liability at the end of each period). At March 31, 2008, the liability represents NS' estimate of the probable cleanup and remediation costs based on available information at 154 known locations. As of that date, 11 sites account for \$24 million of the liability, and no individual site was considered to be material. NS anticipates that much of this liability will be paid out over five years; however, some costs will be paid out over a longer period.



**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

At 31 locations, one or more Norfolk Southern subsidiaries, usually in conjunction with a number of other parties, have been identified as potentially responsible parties by the Environmental Protection Agency (EPA) or similar state authorities under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, or comparable state statutes, which often impose joint and several liability for cleanup costs.

With respect to known environmental sites (whether identified by NS or by the EPA or comparable state authorities), estimates of NS' ultimate potential financial exposure for a given site or in the aggregate for all such sites are necessarily imprecise because of the widely varying costs of currently available cleanup techniques, the likely development of new cleanup technologies, the difficulty of determining in advance the nature and full extent of contamination and each potential participant's share of any estimated loss (and that participant's ability to bear it), and evolving statutory and regulatory standards governing liability.

The risk of incurring environmental liability for acts and omissions, past, present and future is inherent in the railroad business. Some of the commodities in NS' traffic mix, particularly those classified as hazardous materials, pose special risks that NS and its subsidiaries work diligently to minimize. In addition, several NS subsidiaries own, or have owned, land used as operating property, or which is leased and operated by others, or held for sale. Because environmental problems may exist on these properties that are latent or undisclosed, there can be no assurance that NS will not incur environmental liabilities or costs with respect to one or more of them, the amount and materiality of which cannot be estimated reliably at this time. Moreover, lawsuits and claims involving these and potentially other unidentified environmental sites and matters are likely to arise from time to time. The resulting liabilities could have a significant effect on financial position, results of operations or liquidity in a particular year or quarter.

On Nov. 30, 2007, NS received notice from the United States Department of Justice (DOJ) that the DOJ is prepared to bring an action against NS for alleged violations of federal environmental laws resulting from the discharge of chlorine and oil that occurred as a result of the Jan. 6, 2005 derailment in Graniteville, SC, including claims for civil penalties as well as injunctive relief. The notice further indicates that the State of South Carolina may also join in any action against NS. NS is in discussions with the DOJ in an effort to settle the DOJ's claims. NS does not believe that the resolution of these claims will have a material adverse effect on its financial position, results of operations or liquidity.

Based on its assessment of the facts and circumstances now known, management believes that it has recorded the probable costs for dealing with those environmental matters of which NS is aware. Further, management believes that it is unlikely that any known matters, either individually or in the aggregate, will have a material adverse effect on NS financial position, results of operations or liquidity.

### **Insurance**

Norfolk Southern obtains on behalf of itself and its subsidiaries insurance for potential losses for third-party liability and first-party property damages. NS is currently self-insured up to \$25 million and above \$1 billion per occurrence for bodily injury and property damage to third parties and up to \$25 million and above \$175 million per occurrence for property owned by NS or in NS' care, custody or control.

### **Purchase Commitments**

At March 31, 2008, NSR had outstanding purchase commitments of approximately \$229 million primarily for coal hoppers, RoadRailer® trailers, and track material in connection with its capital programs through 2009. Included in this amount is \$64 million added during the first quarter of 2008 to accelerate the purchase of approximately 750 new

coal cars.

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**NORFOLK SOUTHERN CORPORATION**

**Offer to Exchange**

**\$600,000,000 aggregate principal amount of 5.75% Senior Notes due 2018  
(CUSIP Nos. 655844 AY 4 and U65584 AA 9)**

**for**

**\$600,000,000 aggregate principal amount of 5.75% Senior Notes due 2018  
(CUSIP No. 655844 AZ 1)**

**that have been registered under the Securities Act of 1933, as amended**

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**PROSPECTUS**

**June 12, 2008**

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