

## UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-K**

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended **DECEMBER 31, 2008**

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934 For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-8339



**NORFOLK SOUTHERN CORPORATION**

(Exact name of registrant as specified in its charter)

Virginia

(State or other jurisdiction of incorporation)

**52-1188014**

(IRS Employer Identification No.)

**Three Commercial Place**

Norfolk, Virginia

**23510-2191**

(Address of principal executive offices)

Zip Code

Registrant's telephone number, including area code

**(757) 629-2680**

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of each Class</u>  | <u>Name of each exchange<br/>on which registered</u> |
|---|--|
| <b>Norfolk Southern Corporation<br/>Common Stock (Par Value \$1.00)</b> | <b>New York Stock Exchange</b>                       |

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes (X) No ( )

Indicate by check mark if the registrant is not required to file such reports pursuant to Section 13 or 15(d) of the Act. Yes ( ) No (X)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or Section 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes (X) No ( )

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ( )

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer or smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer (X) Accelerated filer ( ) Non-accelerated filer ( )  
Smaller reporting company ( )

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ( ) No (X)

The aggregate market value of the voting common equity held by non-affiliates as of June 30, 2008 was \$23,454,318,004 (based on the closing price as quoted on the New York Stock Exchange on that date).

The number of shares outstanding of each of the registrant's classes of common stock, as of January 31, 2009: 366,460,780 (excluding 20,579,088 shares held by the registrant's consolidated subsidiaries).

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the Registrant's definitive proxy statement to be filed electronically pursuant to Regulation 14A not later than 120 days after the end of the fiscal year, are incorporated by reference in Part III.

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## **PART I**

### **Norfolk Southern Corporation and Subsidiaries (NS)**

#### **Item 1. Business and Item 2. Properties**

**GENERAL** - Norfolk Southern Corporation (Norfolk Southern) is a Norfolk, Virginia based company that controls a major freight railroad, Norfolk Southern Railway Company. Norfolk Southern Railway Company is primarily engaged in the rail transportation of raw materials, intermediate products, and finished goods primarily in the Southeast, East, and Midwest and, via interchange with rail carriers, to and from the rest of the United States. Norfolk Southern also transports overseas freight through several Atlantic and Gulf Coast ports. Norfolk Southern provides comprehensive logistics services and offers the most extensive intermodal network in the eastern half of the United States. The common stock of Norfolk Southern is listed on the New York Stock Exchange (NYSE) under the symbol "NSC."

Norfolk Southern was incorporated on July 23, 1980, under the laws of the Commonwealth of Virginia. On June 1, 1982, Norfolk Southern acquired

control of two major operating railroads, Norfolk and Western Railway Company (NW) and Southern Railway Company (Southern) in accordance with an Agreement of Merger and Reorganization dated as of July 31, 1980, and with the approval of the transaction by the Interstate Commerce Commission (now the Surface Transportation Board [STB]). Effective December 31, 1990, Norfolk Southern transferred all the common stock of NW to Southern, and Southern's name was changed to Norfolk Southern Railway Company (Norfolk Southern Railway or NSR). Effective September 1, 1998, NW was merged with and into Norfolk Southern Railway. As of December 31, 2008, all the common stock of Norfolk Southern Railway was owned directly by Norfolk Southern.

Through a limited liability company, Norfolk Southern and CSX Corporation (CSX) jointly own Conrail Inc. (Conrail), whose primary subsidiary is Consolidated Rail Corporation (CRC). Norfolk Southern has a 58% economic and 50% voting interest in the jointly owned entity, and CSX has the remainder of the economic and voting interests. CRC owns and operates certain properties (the Shared Assets Areas) for the joint and exclusive benefit of NSR and CSX Transportation Inc. (CSXT) (see Note 4 to the Consolidated Financial Statements).

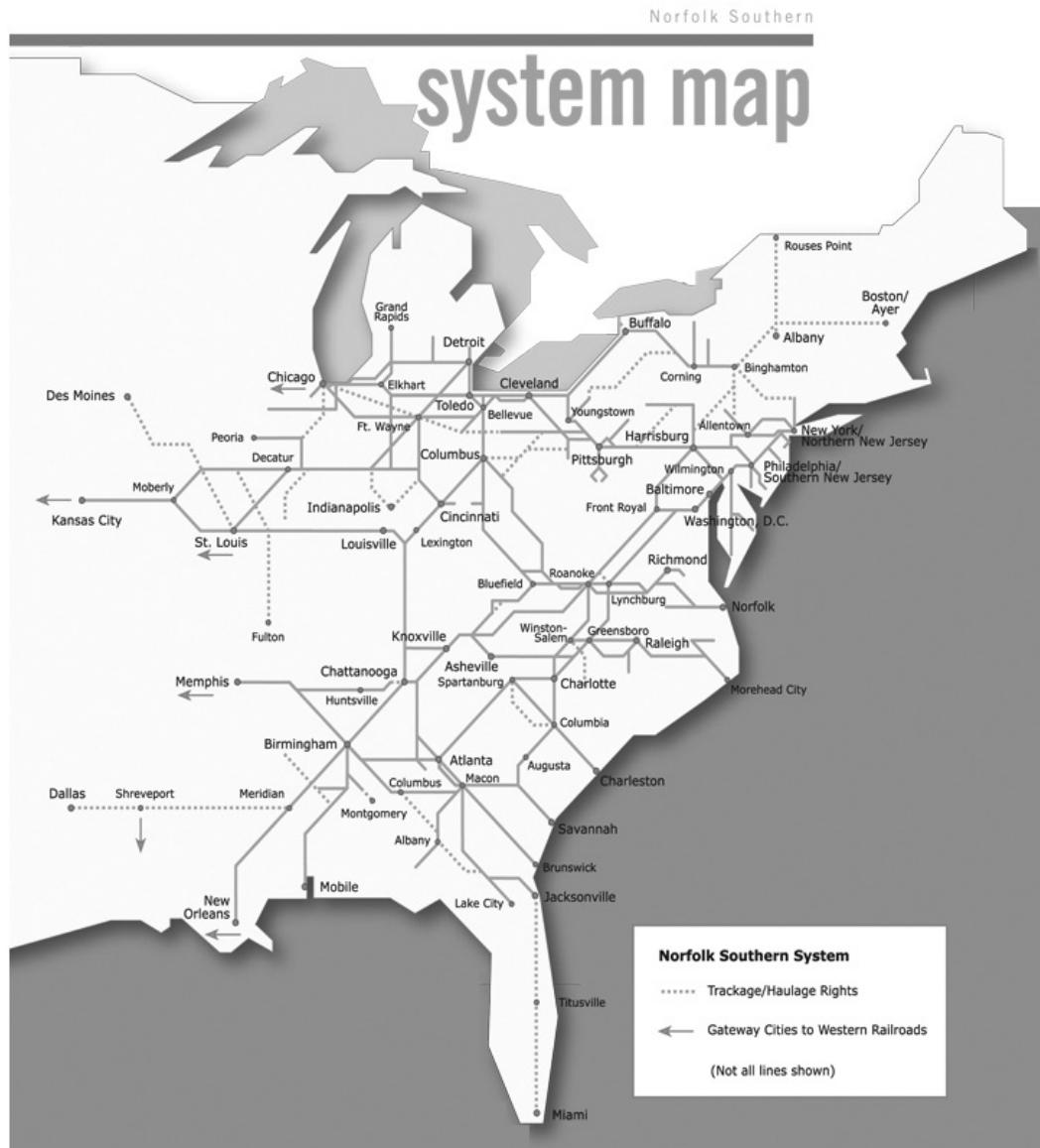
Norfolk Southern makes available free of charge through its website, [www.nscorp.com](http://www.nscorp.com), its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (SEC). In addition, the following documents are available on the company's website and in print to any shareholder who requests them:

- Corporate Governance Guidelines
- Charters of the Committees of the Board of Directors
- The Thoroughbred Code of Ethics
- Code of Ethical Conduct for Senior Financial Officers
- Categorical Independence Standards for Directors

Unless otherwise indicated, Norfolk Southern and its subsidiaries are referred to collectively as NS.

**RAILROAD OPERATIONS** – As of December 31, 2008, NS' railroads operated approximately 21,000 miles of road in 22 eastern states and the District of Columbia.

The system's lines reach many individual industries, electric generating facilities, mines (in western Virginia, eastern Kentucky, southern and northern West Virginia, and western Pennsylvania), distribution centers, transload facilities, and other businesses located in smaller communities in its service area.



Corridors with heaviest freight volume:

New York City area to Chicago (via Allentown and Pittsburgh)

Chicago to Macon (via Cincinnati, Chattanooga, and Atlanta)

Appalachian coal fields of Virginia, West Virginia, and Kentucky to Norfolk and Sandusky, OH

Cleveland to Kansas City

Birmingham to Meridian

Memphis to Chattanooga

The miles operated, which include major leased lines between Cincinnati, Ohio, and Chattanooga, Tennessee, and trackage rights over property owned by North Carolina Railway Company, were as follows:

#### Mileage Operated as of December 31, 2008

|  | <u>Miles<br/>of Road</u> | <u>Second and<br/>Other Main<br/>Track</u> | <u>Passing<br/>Track,<br/>Crossovers<br/>and<br/>Turnouts</u> | <u>Way and<br/>Yard<br/>Switching</u> | <u>Total</u>  |
|--|--------------------------|--|---|---------------------------------------|---------------|
| Owned  | 15,884                   | 2,808                                      | 2,001   | 8,426                                 | 29,119        |
| Operated under lease,<br>contract or trackage rights | <u>4,948</u>             | <u>1,977</u>                               | <u>415</u>  | <u>968</u>                            | <u>8,308</u>  |
| Total  | <u>20,832</u>            | <u>4,785</u>                               | <u>2,416</u>  | <u>9,394</u>                          | <u>37,427</u> |

**Triple Crown Operations** – Triple Crown Services Company (Triple Crown), NS' subsidiary, offers door-to-door intermodal service using RoadRailer® equipment and domestic containers. RoadRailer® units are enclosed vans that can be pulled over highways in tractor-trailer configuration and over the rails by locomotives. Triple Crown provides intermodal service in major traffic corridors, including those between the Midwest and the Northeast, the Midwest and the Southeast, and the Midwest and Texas.

The following table sets forth certain statistics relating to NS' railroads' operations for the past 5 years:

#### Rail Operating Statistics

|   | <u>Years Ended December 31,</u> |             |             |             |             |
|---|---------------------------------|-------------|-------------|-------------|-------------|
|   | <u>2008</u>                     | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
| Revenue ton miles (billions)  | 195                             | 196         | 204         | 203         | 198         |
| Freight train miles traveled (millions)   | 80.0                            | 81.9        | 84.2        | 81.2        | 77.7        |
| Revenue per ton mile  | \$0.0546                        | \$0.0481    | \$0.0462    | \$0.0421    | \$0.0369    |
| Revenue ton miles per<br>man-hour worked  | 3,075                           | 3,066       | 3,196       | 3,146       | 3,347       |
| Percentage ratio of railway operating<br>expenses to railway operating revenues | 71.1%                           | 72.6%       | 72.8%       | 75.2%       | 76.7%       |

**RAILWAY OPERATING REVENUES** – NS' total railway operating revenues were \$10.7 billion in 2008. See the financial information by traffic segment in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

**COAL TRAFFIC** – Coal, coke, and iron ore – most of which is bituminous coal – is NS' railroads' largest commodity group as measured by revenues. The railroads handled a total of 194.2 million tons in 2008, most of which originated on NS' lines in West Virginia, Virginia, Pennsylvania, and Kentucky. Revenues from coal, coke, and iron ore accounted for about 29% of NS' total railway operating revenues in 2008.

Total coal handled through all system ports in 2008 was 41.8 million tons. Of this total, 18.9 million tons (including coastwise traffic) moved through Norfolk, Virginia, 5.7 million tons moved through the Baltimore Terminal, 11.3 million tons moved to various docks on the Ohio River, and 5.9 million tons moved to various Lake Erie ports. Other than coal for export, virtually all coal handled by NS' railroads was terminated in states east of the Mississippi River.

See the discussion of coal traffic, by type of coal, in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

**GENERAL MERCHANDISE TRAFFIC** - General merchandise traffic is composed of five major commodity groupings: automotive; chemicals; metals and construction; agriculture, consumer products and government; and paper, clay and forest products. The automotive group includes finished

vehicles for BMW, Chrysler, Ford Motor Company, General Motors, Honda, Isuzu, Jaguar, Land Rover, Mazda, Mercedes-Benz, Mitsubishi, Nissan, Saab, Subaru, Suzuki, Toyota, and Volkswagen, and auto parts for Ford Motor Company, General Motors, Mercedes-Benz, and Toyota. The chemicals group includes sulfur and related chemicals, petroleum products, chlorine and bleaching compounds, plastics, rubber, industrial chemicals, chemical wastes, and municipal wastes. The metals and construction group includes steel, aluminum products, machinery, scrap metals, cement, aggregates, bricks, and minerals. The agriculture, consumer products, and government group includes soybeans, wheat, corn, fertilizer, animal and poultry feed, food oils, flour, beverages, canned goods, sweeteners, consumer products, ethanol, and items for the military. The paper, clay and forest products group includes lumber and wood products, pulp board and paper products, wood fibers, wood pulp, scrap paper, and clay.

In 2008, 135 million tons of general merchandise freight, or approximately 67% of total general merchandise tonnage handled by NS, originated online. The balance of general merchandise traffic was received from connecting carriers at interterritorial gateways. The principal interchange points for NS-received traffic included Chicago, Memphis, New Orleans, Cincinnati, Kansas City, Detroit, Hagerstown, St. Louis/East St. Louis, and Louisville. General merchandise carloads handled in 2008 were 2.6 million, the revenues from which accounted for 52% of NS' total railway operating revenues in 2008.

See the discussion of general merchandise rail traffic by commodity group in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

**INTERMODAL TRAFFIC** - The intermodal market consists of shipments moving in trailers, domestic and international containers, and Roadrailer® equipment. These shipments are handled on behalf of intermodal marketing companies, international steamship lines, truckers, and other shippers. Intermodal units handled in 2008 were 3 million, the revenues from which accounted for 19% of NS' total railway operating revenues for the year.

See the discussion of intermodal traffic in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

**FREIGHT RATES** - In 2008, NS' railroads continued their reliance on private contracts and exempt price quotes as their predominant pricing mechanisms. Thus, a major portion of NS' railroads' freight business is not currently economically regulated by the government. In general, market forces have been substituted for government regulation and now are the primary determinant of rail service prices.

In 2008, NS' railroads were found by the STB to be "revenue adequate" based on results for the year 2006. The STB has not made its revenue adequacy determination for the year 2007. A railroad is "revenue adequate" under the applicable law when its return on net investment exceeds the rail industry's composite cost of capital. This determination is made pursuant to a statutory requirement.

## PASSENGER OPERATIONS

- Regularly scheduled passenger trains are operated by Amtrak on NS' lines between the following locations:
  - Alexandria, Virginia, and New Orleans, Louisiana
  - Raleigh and Charlotte, North Carolina
  - Selma and Charlotte, North Carolina
  - Chicago, Illinois, and Porter, Indiana
  - Chicago, Illinois, and Battle Creek, Michigan
  - Chicago, Illinois, and Pittsburgh, Pennsylvania
  - Chicago, Illinois, and Detroit, Michigan
  - Pittsburgh and Harrisburg, Pennsylvania
- Commuter trains are operated on the NS line between Manassas and Alexandria in accordance with contracts with two transportation commissions of the Commonwealth of Virginia
- NS leases the Chicago to Manhattan, Illinois, line to the Commuter Rail Division of the Regional Transportation Authority of Northeast Illinois
- NS operates freight service over lines with significant ongoing Amtrak and commuter passenger operations, and is conducting freight operations over trackage owned by:
  - Amtrak
  - New Jersey Transit
  - Southeastern Pennsylvania Transportation Authority
  - Metro-North Commuter Railroad Company
  - Maryland Department of Transportation

Passenger operations are conducted either by Amtrak or by the commuter agencies over trackage owned by Conrail in the Shared Assets Areas.

**NONCARRIER OPERATIONS** - NS' noncarrier subsidiaries engage principally in the acquisition, leasing, and management of coal, oil, gas and minerals; the development of commercial real estate; telecommunications; and the leasing or sale of rail property and equipment. In 2008, no such noncarrier subsidiary or industry segment grouping of noncarrier subsidiaries met the requirements for a reportable business segment set forth in the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information."

## RAILWAY PROPERTY

The NS railroad system extends across 22 states and the District of Columbia. The railroad infrastructure makes the company capital intensive with total property of approximately \$22 billion.

**Capital Expenditures** - Capital expenditures for road, equipment, and other property for the past five years were as follows (including capitalized leases):

| Capital Expenditures |                  |    |             |    |             |    |             |    |             |
|----------------------|------------------|----|-------------|----|-------------|----|-------------|----|-------------|
|                      | <u>2008</u>      | -  | <u>2007</u> | -  | <u>2006</u> | -  | <u>2005</u> | -  | <u>2004</u> |
|                      | (\$ in millions) |    |             |    |             |    |             |    |             |
| Road and other       |                  |    |             |    |             |    |             |    |             |
| property             | \$ 1,070         | \$ | 894         | \$ | 756         | \$ | 741         | \$ | 612         |
| Equipment            | <u>488</u>       |    | <u>447</u>  |    | <u>422</u>  |    | <u>284</u>  |    | <u>429</u>  |
| Total                | \$ 1,558         | \$ | 1,341       | \$ | 1,178       | \$ | 1,025       | \$ | 1,041       |

Capital spending and maintenance programs are and have been designed to assure the ability to provide safe, efficient, and reliable rail transportation services. For 2009, NS has budgeted \$1.41 billion of capital expenditures. On May 1, 2006, NS and Kansas City Southern (KCS) formed a joint venture, Meridian Speedway LLC (MSLLC), pursuant to which NS intends to contribute \$300 million in cash, substantially all of which will be used for capital improvements over a period of approximately three years, in exchange for a 30% interest in the joint venture. Through December 31, 2008, NS has contributed \$274 million. See the discussion following "Cash used for investing activities," in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

**Equipment** - As of December 31, 2008, NS owned or leased the following units of equipment:

|                                 | <b>Number of Units</b> |                        | <b>Capacity</b>     |                            |
|---------------------------------|------------------------|------------------------|---------------------|----------------------------|
|                                 | <b><u>Owned*</u></b>   | <b><u>Leased**</u></b> | <b><u>Total</u></b> | <b><u>of Equipment</u></b> |
| Locomotives:                    |                        |                        |                     | (Horsepower)               |
| Multiple purpose                | 3,608                  | 132                    | 3,740               | 12,991,800                 |
| Switching                       | 148                    | --                     | 148                 | 216,100                    |
| Auxiliary units                 | 88                     | --                     | 88                  | --                         |
| Total locomotives               | <u>3,844</u>           | <u>132</u>             | <u>3,976</u>        | <u>13,207,900</u>          |
| Freight cars:                   |                        |                        |                     | (Tons)                     |
| Hopper                          | 18,343                 | 805                    | 19,148              | 2,081,957                  |
| Box                             | 15,164                 | 1,800                  | 16,964              | 1,373,553                  |
| Covered hopper                  | 8,593                  | 2,759                  | 11,352              | 1,248,050                  |
| Gondola                         | 31,338                 | 7,225                  | 38,563              | 4,164,281                  |
| Flat                            | 2,630                  | 1,334                  | 3,964               | 318,594                    |
| Caboose                         | 174                    | --                     | 174                 | --                         |
| Other                           | 4,476                  | 19                     | 4,495               | 223,952                    |
| Total freight cars              | <u>80,718</u>          | <u>13,942</u>          | <u>94,660</u>       | <u>9,410,387</u>           |
| Other:                          |                        |                        |                     |                            |
| Work equipment                  | 5,214                  | 3                      | 5,217               |                            |
| Vehicles                        | 4,073                  | --                     | 4,073               |                            |
| Highway trailers and containers | 59                     | 11,912                 | 11,971              |                            |
| RoadRailer®                     | 6,515                  | 33                     | 6,548               |                            |
| Miscellaneous                   | 1,277                  | 13,519                 | 14,796              |                            |
| Total other                     | <u>17,138</u>          | <u>25,467</u>          | <u>42,605</u>       |                            |

\* Includes equipment leased to outside parties and equipment subject to equipment trusts, conditional sale agreements, and capitalized leases.

\*\* Includes 4,651 freight cars leased from CRC.

The following table indicates the number and year built for locomotives and freight cars owned at December 31, 2008.

|               | Year Built  |             |             |             |             |                  |                  |                          | Total  |
|---------------|-------------|-------------|-------------|-------------|-------------|------------------|------------------|--------------------------|--------|
|               | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>1999-2003</u> | <u>1994-1998</u> | <u>1993 &amp; Before</u> |        |
| Locomotives:  |             |             |             |             |             |                  |                  |                          |        |
| No. of units  | 40          | 90          | 143         | 89          | 207         | 607              | 628              | 2,040                    | 3,844  |
| % of fleet    | 1%          | 2%          | 4%          | 2%          | 6%          | 16%              | 16%              | 53%                      | 100%   |
| Freight cars: |             |             |             |             |             |                  |                  |                          |        |
| No. of units  | 2,360       | 1,200       | 404         | 89          | --          | 1,546            | 6,944            | 68,175                   | 80,718 |
| % of fleet    | 3%          | 1%          | 1%          | --%         | --%         | 2%               | 9%               | 84%                      | 100%   |

The following table shows the average age of NS' locomotive and freight car fleets at December 31, 2008, and the number of retirements in 2008:

|                          | <u>Locomotives</u> | <u>Freight Cars</u> |
|--------------------------|--------------------|---------------------|
| Average age – in service | 18.9 years         | 29.9 years          |
| Retirements              | 14 units           | 2,839 units         |
| Average age – retired    | 34.4 years         | 39.6 years          |

Ongoing freight car and locomotive maintenance programs are intended to ensure the highest standards of safety, reliability, customer satisfaction, and equipment marketability. The locomotive bad order ratio includes units out of service for required inspections every 92 days and program work such as overhauls.

|              | Annual Average Bad Order Ratio |             |             |             |             |
|--------------|--------------------------------|-------------|-------------|-------------|-------------|
|              | <u>2008</u>                    | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
| Freight cars | 4.5%                           | 4.9%        | 6.4%        | 6.3%        | 7.4%        |
| Locomotives  | 5.8%                           | 5.7%        | 5.7%        | 6.2%        | 6.3%        |

**Encumbrances** - Certain railroad equipment is subject to the prior lien of equipment financing obligations amounting to approximately \$236 million as of December 31, 2008, and \$389 million as of December 31, 2007.

**Track Maintenance** - Of the approximately 37,500 total miles of track operated, NS had responsibility for maintaining about 30,000 miles of track, with the remainder being operated under trackage rights from another party responsible for maintenance.

Over 75% of the main line trackage (including first, second, third, and branch main tracks, all excluding rail operated pursuant to trackage rights) has rail ranging from 131 to 155 pounds per yard with the standard installation currently at 136 pounds per yard. Approximately 44% of NS lines, excluding rail operated pursuant to trackage rights, carried 20 million or more gross tons per track mile during 2008.

The following table summarizes several measurements regarding NS' track roadway additions and replacements during the past five years:

|                                    | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Track miles of rail installed      | 459         | 401         | 327         | 302         | 246         |
| Miles of track surfaced            | 5,209       | 5,014       | 4,871       | 4,663       | 5,055       |
| New crossties installed (millions) | 2.7         | 2.7         | 2.7         | 2.5         | 2.5         |

**Microwave System** - The NS microwave system, consisting of approximately 7,400 radio route miles, 426 core stations, 30 secondary stations, and 5 passive repeater stations, provides communications between most operating locations. The microwave system is used primarily for voice communications, VHF radio control circuits, data and facsimile transmissions, traffic control operations, and AEI data transmissions.

**Traffic Control** - Of the approximately 15,900 route miles owned by NS, about 11,000 miles are signalized, including 8,000 miles of centralized traffic control (CTC) and 3,000 miles of automatic block signals. Of the 8,000 miles of CTC, approximately 3,000 miles are controlled by data radio originating at 266 base station radio sites.

**Computers** - A computer network consisting of a centralized data center in Atlanta, Georgia, and various distributed computers throughout the company connects the yards, terminals, transportation offices, rolling stock repair points, sales offices, and other key system locations. Operating and traffic data are processed and stored to provide customers with information on their shipments throughout the system. Computer systems provide current information on the location of every train and each car on line, as well as related waybill and other train and car movement data. In addition, the computer systems are utilized to assist management in the performance of a variety of functions and services including payroll, car and revenue accounting, billing, material management activities and controls, and special studies.

**ENVIRONMENTAL MATTERS** - Compliance with federal, state, and local laws and regulations relating to the protection of the environment is a principal NS goal. To date, such compliance has not affected materially NS' capital additions, earnings, liquidity, or competitive position. See "Legal Proceedings," Part I, Item 3; "Personal Injury, Environmental, and Legal Liabilities" in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations;" and Note 17 to the Consolidated Financial Statements.

**EMPLOYEES** - The following table shows the average number of employees and the average cost per employee for wages and benefits:

|                                   | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|
| Average number of employees       | 30,709      | 30,806      | 30,541      | 30,294      | 28,475      |
| Average wage cost per employee    | \$66,000    | \$62,000    | \$62,000    | \$61,000    | \$59,000    |
| Average benefit cost per employee | \$31,000    | \$30,000    | \$32,000    | \$29,000    | \$28,000    |

Approximately 85% of NS' railroad employees are covered by collective bargaining agreements with various labor unions. See the discussion of "Labor Agreements" in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

**GOVERNMENT REGULATION** - In addition to environmental, safety, securities, and other regulations generally applicable to all businesses, NS' railroads are subject to regulation by the STB. The STB has jurisdiction over some rates, routes, fuel surcharges, conditions of service, and the extension or abandonment of rail lines. The STB also has jurisdiction over the consolidation, merger, or acquisition of control of and by rail common carriers. The Federal Railroad Administration regulates certain track and mechanical equipment standards.

The relaxation of economic regulation of railroads, begun over two decades ago under the Staggers Rail Act of 1980, includes exemptions of intermodal business (trailer-on-flat-car, container-on-flat-car), rail boxcar traffic, lumber, manufactured steel, automobiles, and certain bulk commodities such as sand, gravel, pulpwood, and wood chips for paper manufacturing. Transportation contracts on regulated shipments effectively remove those shipments from regulation as well for the duration of the contract. About 86% of NS' freight revenues come from either exempt traffic or traffic moving under transportation contracts.

Efforts were made in 2008 to re-subject the rail industry to increased federal economic regulation and such efforts are expected to continue in 2009. The Staggers Rail Act of 1980, which substantially balanced such regulation, encouraged and enabled rail carriers to innovate and to compete for

business, thereby contributing to the economic health of the nation and to the revitalization of the industry. Accordingly, NS will continue to oppose efforts to reimpose increased economic regulation.

**COMPETITION** – There is continuing strong competition among rail, water, and highway carriers. Price is usually only one factor of importance as shippers and receivers choose a transport mode and specific hauling company. Inventory carrying costs, service reliability, ease of handling, and the desire to avoid loss and damage during transit are also important considerations, especially for higher-valued finished goods, machinery, and consumer products. Even for raw materials, semifinished goods, and work-in-process, users are increasingly sensitive to transport arrangements that minimize problems at successive production stages.

NS' primary rail competitor is the CSX system; both operate throughout much of the same territory. Other railroads also operate in parts of the territory. NS also competes with motor carriers, water carriers, and with shippers who have the additional option of handling their own goods in private carriage.

Certain marketing strategies among railroads and between railroads and motor carriers enable carriers to compete more effectively in specific markets.

**SECURITY OF OPERATIONS** – NS has taken significant steps to provide enhanced security for the NS rail system. In particular, NS has developed and implemented a comprehensive security plan that is modeled on and was developed in conjunction with the security plan prepared by the Association of American Railroads (AAR) post September 11, 2001. The AAR Security Plan defines four Alert Levels and details the actions and countermeasures that are being applied across the railroad industry as the terrorist threat increases or decreases. The Alert Level actions include countermeasures that will be applied in three general areas: (1) operations (including transportation, engineering, and mechanical); (2) information technology and communications; and (3) railroad police. Although security concerns preclude public disclosure of its contents, the NS Departmental Security Plan outlines the protocol within NS for all concerned to be notified of AAR Alert Level changes. All NS Operations Division employees are advised by their supervisors or train dispatchers, as appropriate, of any change in Alert Level and any additional responsibilities they may incur due to such change.

The NS plan also effectively addresses and complies with Department of Transportation security regulations pertaining to training and security plans with respect to the transportation of hazardous materials. As part of the plan, security awareness training is given to all railroad employees who directly affect hazardous material transportation safety, and this training is integrated into recurring hazardous material training and re-certification programs. Toward that end, NS, working closely with the National Transit Institute at Rutgers University, has developed a four-module uniform national training program. NS also has worked with the Transportation Security Administration (TSA) in developing other industry training programs. More in-depth security training has been given to those select NS employees who have been given specific security responsibilities, and additional, location-specific security plans have been developed for certain metropolitan areas and each of six port facilities served by NS. With respect to the ports, each facility plan has been approved by the applicable Captain of the Port and subject to inspection by the U.S. Coast Guard.

Additionally, NS engages in close and regular coordination with numerous federal and state agencies, including the U.S. Department of Homeland Security (DHS), the TSA, the Federal Bureau of Investigation (FBI), the Federal Railroad Administration (FRA), the U.S. Coast Guard, U.S. Customs and Border Protection, and various state Homeland Security offices. As one notable example, an NS Police Special Agent, under the auspices of the AAR, has been assigned to the National Joint Terrorism Task Force (NJTTF) operating out of FBI Headquarters in Washington, D.C. to represent and serve as liaison to the North American rail industry. This arrangement improves logistical flow of vital security and law enforcement information with respect to the rail industry as a whole, while having the post filled by an NS Special Agent has served to foster a strong working relationship between NS and the FBI. NS also has become a member of the Customs-Trade Partnership Against Terrorism (C-TPAT) program sponsored by U.S. Customs. C-TPAT allows NS to work closely with U.S. Customs and its customers to develop measures that will help ensure the integrity of freight shipments moving on NS, particularly those moving to or from a foreign country. Based on participation in C-TPAT, NS has ensured that its plan meets all current applicable security recommendations made by U.S. Customs.

Similarly, NS is guided in its operations by various supplemental security action items issued by DHS and U.S. Department of Transportation (DOT), U.S. Coast Guard Maritime Security requirements, as well as voluntary security action items developed in 2006 in collaboration with TSA, DOT, and the freight railroads. Many of the action items are based on lessons learned from DHS and DOT security assessments of rail corridors in High Threat Urban Areas (HTUA) begun in 2004. Particular attention is paid to: (1) the establishment of secure storage areas for rail cars carrying toxic-by-inhalation (TIH) materials; (2) the expedited movement of trains transporting rail cars carrying TIH materials; (3) the minimization of unattended loaded tank cars carrying TIH materials; and (4) cooperation with federal, state, local and tribal governments to identify, through risk assessments, those locations where security risks are the highest. These action items and NS' compliance initiatives are outlined in the various departmental sections of the NS Departmental Security Plan. NS is also taking the appropriate actions to ensure compliance with the 2008 TSA Final Rule addressing Rail Security Sensitive Materials, and the 2008 Pipeline and Hazardous Materials Safety Administration (PHMSA) rail-routing regulations outlined in Docket HM-232E.

In 2008, through participation in the Transportation Community Awareness and Emergency Response (TRANSCAER) Program, NS provided rail accident response training to approximately 4,300 emergency responders, such as local police and fire personnel, representing over 25,000 man-hours of emergency response training. NS also conducted railroad operations classes for FBI agents and the railroad liaison agents from Joint Terrorism Task Forces. NS' other training efforts throughout 2008 included participation in 15 drills including 2 major full-scale exercises with various local, state, and federal agencies conducted in accordance with the DHS Exercise and Evaluation Program. NS also has ongoing programs to sponsor local emergency responders at tank car emergency response training programs conducted at the AAR Transportation Technology Center in Pueblo, Colorado.

Also, the NS annual TRANSCAER Whistle-Stop train makes stops in numerous cities, its special training cars serving as a resource to an audience of nearly 1,000 emergency responders annually.

Improvements in equipment design also are expected to play a role in enhancing rail security. The Pipeline and Hazardous Materials Safety Administration (PHMSA), in coordination with the FRA, is amending the Hazardous Materials Regulations to prescribe enhanced safety measures for rail transportation of TIH materials, including interim design standards for railroad tank cars. The rule mandates commodity-specific improvements in safety features and design standards for newly manufactured DOT specification tank cars and an improved top fittings performance standard. The

interim standards established in this rule will enhance the accident survivability of TIH tank cars.

#### **Item 1A. Risk Factors**

**NS is subject to significant governmental legislation and regulation over commercial, environmental, and operating matters.** Railroads are subject to the enactment of laws by Congress that could increase economic regulation of the industry. Railroads presently are subject to commercial regulation by the STB, which has jurisdiction over some routes, rates and fuel surcharges, conditions of service, and the extension or abandonment of rail lines. The STB also has jurisdiction over the consolidation, merger, or acquisition of control of and by rail common carriers. Additional economic regulation of the rail industry by Congress or the STB, whether under new or existing laws, could have a significant negative impact on NS' ability to determine prices for rail services and result in a material adverse effect in the future on NS' financial position, results of operations, or liquidity in a particular year or quarter. This potential material adverse effect could also result in reduced capital spending on NS' rail network.

Railroads are subject to safety and security regulation by the DOT and the DHS, which regulate most aspects of NS' operations. Compliance with the Rail Safety Improvement Act of 2008 will result in additional operating costs associated with the statutory mandate to implement positive train control by 2015. In addition, NS' failure to comply with applicable laws and regulations could have a material adverse effect on NS.

NS' operations are subject to extensive federal, state, and local environmental laws and regulations concerning, among other things, emissions to the air; discharges to waterways or ground water supplies; handling, storage, transportation, and disposal of waste and other materials; and the cleanup of hazardous material or petroleum releases. The risk of incurring environmental liability – for acts and omissions, past, present, and future – is inherent in the railroad business. Property owned by NS, whether currently or in the past, is and has been subject to a variety of uses, including NS railroad operations and other industrial activity by past owners or past and present tenants of NS. Environmental problems that are latent or undisclosed may exist on these properties, and NS could incur environmental liabilities or costs, the amount and materiality of which cannot be estimated reliably at this time, with respect to one or more of these properties. Moreover, lawsuits and claims involving other unidentified environmental sites and matters are likely to arise from time to time, and the resulting liabilities could have a significant effect on financial position, results of operations, or liquidity in a particular year or quarter.

**NS, as a common carrier by rail, must offer to transport hazardous materials, regardless of risk.** Transportation of certain hazardous materials could create catastrophic losses in terms of personal injury and property damage costs, and compromise critical parts of our rail network.

**NS may be affected by terrorism or war.** Any terrorist attack, or other similar event, any government response thereto, and war or risk of war could cause significant business interruption and may adversely affect NS' results of operations, financial position, and liquidity in a particular year or quarter. Because NS plays a critical role in the nation's transportation system, it could become the target of such an attack or have a significant role in the government's preemptive approach or response to an attack or war.

Although NS currently maintains insurance coverage for third-party liability arising out of war and acts of terrorism, it maintains only limited insurance coverage for first-party property damage and damage to property in NS' care, custody, or control caused by certain acts of terrorism. In addition, premiums for some or all of NS' current insurance programs covering these losses could increase dramatically, or insurance coverage for certain losses could be unavailable to NS in the future.

**NS may be affected by general economic conditions.** Prolonged negative changes in domestic and global economic conditions affecting the producers and consumers of the commodities NS carries may have an adverse effect on its operating results, financial position, and liquidity. Economic conditions resulting in bankruptcies of one or more large customers could have a significant impact on NS' financial position, results of operations, or liquidity in a particular year or quarter.

**NS may be affected by the impact of environmental regulation on its utility coal customers and/or the value of certain NS assets.** A number of evolving environmental issues could affect the U.S. utility coal market, including potential regional programs aimed at capping and reducing power plant CO<sub>2</sub> emissions and ongoing efforts at addressing climate change. Although certain utilities have begun adding or are planning to add emissions control technologies to their electric generating units, allowing them to utilize their existing coal-fired power plants, future regulatory developments in this area could have a negative effect on NS' utility coal customers and/or the value of coal reserves owned by NS and thus an adverse effect on NS' operating results, financial position, and liquidity.

**NS faces competition from other transportation providers.** NS is subject to competition from motor carriers, railroads, and to a lesser extent, ships, barges, and pipelines, on the basis of transit time, pricing, and the quality and reliability of service. While NS has used primarily internal resources to build or acquire and maintain its rail system, trucks and barges have been able to use public rights-of-way maintained by public entities. Any future improvements or expenditures materially increasing the quality or reducing the cost of alternative modes of transportation in the regions in which NS operates, or legislation granting materially greater latitude for motor carriers with respect to size or weight limitations, could have a material adverse effect on its financial position, results of operations, or liquidity in a particular year or quarter.

**The operations of carriers with which NS interchanges may adversely affect its operations.** NS' ability to provide rail service to customers in the U.S. and Canada depends in large part upon its ability to maintain cooperative relationships with connecting carriers with respect to, among other matters, freight rates, revenue divisions, car supply and locomotive availability, data exchange and communications, reciprocal switching, interchange, and trackage rights. Deterioration in the operations of, or service provided by connecting carriers, or in our relationship with those connecting carriers, could result in NS' inability to meet its customers' demands or require NS to use alternate train routes, which could result in significant additional costs and network inefficiencies.

**NS relies on technology and technology improvements in its business operations.** If NS experiences significant disruption or failure of one or more of its information technology systems, including computer hardware, software, and communications equipment, NS could experience a service interruption, security breach, or other operational difficulties, which could have a material adverse impact on its results of operations, financial condition, and liquidity in a particular year or quarter. Additionally, if NS does not have sufficient capital to acquire new technology or if it is unable to implement new technology, NS may suffer a competitive disadvantage within the rail industry and with companies providing other modes of transportation service, which could have a material adverse effect on its financial position, results of operations, or liquidity in a particular year or quarter.

**The vast majority of NS employees belong to labor unions, and labor agreements, strikes, or work stoppages could adversely affect its operations.** Approximately 26,000, or about 85%, of NS railroad employees are covered by collective bargaining agreements with various labor unions. If unionized workers were to engage in a strike, work stoppage, or other slowdown, NS could experience a significant disruption of its operations. Additionally, future national labor agreements, or renegotiation of labor agreements or provisions of labor agreements, could significantly increase NS' costs for healthcare, wages, and other benefits. Any of these factors could have a material adverse impact on NS' financial position, results of operations, or liquidity in a particular year or quarter.

**NS may be subject to various claims and lawsuits that could result in significant expenditures.** The nature of NS' business exposes it to the potential

for various claims and litigation related to labor and employment, personal injury, commercial disputes, freight loss and other property damage, and other matters. Job-related

personal injury and occupational claims are subject to the Federal Employers' Liability Act (FELA), which is applicable only to railroads. FELA's fault-based tort system produces results that are unpredictable and inconsistent as compared with a no-fault worker's compensation system. The variability inherent in this system could result in actual costs being very different from the liability recorded.

Any material changes to current litigation trends or a catastrophic rail accident involving any or all of freight loss or property damage, personal injury, and environmental liability could have a material adverse effect on NS' operating results, financial condition, and liquidity to the extent not covered by insurance. NS has obtained insurance for potential losses for third-party liability and first-party property damages. Specified levels of risk are retained on a self-insurance basis (currently up to \$25 million and above \$1 billion per occurrence for bodily injury and property damage to third parties and \$25 million and above \$175 million per occurrence for property owned by NS or in its care, custody, or control). Insurance is available from a limited number of insurers and may not continue to be available or, if available, may not be obtainable on terms acceptable to NS.

**Severe weather could result in significant business interruptions and expenditures.** Severe weather conditions and other natural phenomena, including hurricanes, floods, fires, and earthquakes, may cause significant business interruptions and result in increased costs, increased liabilities, and decreased revenues, which could have an adverse effect on NS' financial position, results of operations, or liquidity in a particular year or quarter.

**Unpredictability of demand for rail services resulting in the unavailability of qualified personnel could adversely affect NS' operational efficiency and ability to meet demand.** Workforce demographics, training requirements, and the availability of qualified personnel, particularly engineers and trainmen, could each have a negative impact on NS' ability to meet demand for rail service. Unpredictable increases in demand for rail services may exacerbate such risks, which could have a negative impact on NS' operational efficiency and otherwise have a material adverse effect on its financial position, results of operations, or liquidity in a particular year or quarter.

**NS may be affected by supply constraints resulting from disruptions in the fuel markets or the nature of some of its supplier markets.** NS consumes about 500 million gallons of diesel fuel each year. Fuel availability could be affected by any limitation in the fuel supply or by any imposition of mandatory allocation or rationing regulations. If a severe fuel supply shortage arose from production curtailments, increased demand in existing or emerging foreign markets, disruption of oil imports, disruption of domestic refinery production, damage to refinery or pipeline infrastructure, political unrest, war or other factors, NS' financial position, results of operations, or liquidity in a particular year or quarter could be materially adversely affected. Also, such an event would impact NS as well as its customers and other transportation companies.

Due to the capital intensive nature and industry-specific requirements of the rail industry, there are high barriers of entry for potential new suppliers of core railroad items, such as locomotives and rolling stock equipment. Additionally, NS competes with other industries for available capacity and raw materials used in the production of certain track materials, such as rail and ties. Changes in the competitive landscapes of these limited-supplier markets could result in increased prices or material shortages that could materially affect NS' financial position, results of operations, or liquidity in a particular year or quarter.

**The state of capital markets could adversely affect NS' liquidity.** NS from time-to-time relies on the capital markets to provide some of its capital requirements, including the issuance of long-term debt instruments and commercial paper, as well as the sale of certain receivables. Significant instability or disruptions of the capital markets, including the credit markets, or deterioration of NS' financial condition due to internal or external factors could restrict or eliminate NS' access to, and/or significantly increase the cost of, various financing sources, including bank credit facilities and issuance of corporate bonds. Instability or disruptions of the capital markets and deterioration of NS' financial condition, alone or in combination, could also result in a reduction in NS' credit rating to below investment grade, which could prohibit or restrict NS from accessing external sources of short- and long-term debt financing and/or significantly increase the associated costs.

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#### **Item 1B. Unresolved Staff Comments**

None.

#### **Item 3. Legal Proceedings**

The Ohio Environmental Protection Agency has notified Norfolk Southern that it intends to seek penalties and require Norfolk Southern to take remedial actions in connection with alleged violations of the Clean Air and Water Acts stemming from the operation of our coal dock in Ashtabula, Ohio. The Pennsylvania Department of Environmental Protection has submitted to NS a proposed Consent Assessment of Civil Penalty with respect to several alleged environmental releases from September 2007 to the present. Although NS will contest liability and the imposition of any penalties, because these governmental proceedings with respect to environmental laws and regulations involve potential fines, penalties or other monetary sanctions in excess of \$100,000, we describe them here consistent with SEC rules and requirements. NS does not believe that the outcome of these proceedings will have a material effect on its financial position, results of operations, or liquidity.

On November 6, 2007, various antitrust class actions filed against NS and other Class 1 railroads in various Federal district courts regarding fuel surcharges were consolidated in the District of Columbia by the Judicial Panel on Multidistrict Litigation. NS believes the allegations in the complaints are without merit and intends to vigorously defend the cases. NS does not believe that the outcome of these proceedings will have a material effect on its financial position, results of operations, or liquidity. A lawsuit containing similar allegations against NS and four other major railroads that was filed on March 25, 2008, in the U.S. District Court for the District of Minnesota was voluntarily dismissed by the plaintiff subject to a tolling agreement entered into in August 2008.

On April 24, 2008, the United States Department of Justice (DOJ) brought 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 January 6, 2005 derailment in Graniteville, SC, including claims for civil penalties as well as injunctive relief. On June 24, 2008, NS filed a motion to dismiss DOJ's claims, contending that insufficient facts have been alleged to support such 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.

#### **Item 4. Submission of Matters to a Vote of Security Holders**

There were no matters submitted to a vote of security holders during the fourth quarter of 2008.

#### **Executive Officers of the Registrant.**

Norfolk Southern's executive officers generally are elected and designated annually by the Board of Directors at its first meeting held after the annual meeting of stockholders, and they hold office until their successors are elected. Executive officers also may be elected and designated throughout the year as the Board of Directors considers appropriate. There are no family relationships among the officers, nor any arrangement or understanding between any officer and any other person pursuant to which the officer was selected. The following table sets forth certain information, as of February 1, 2009, relating to the executive officers.

| <b>Name, Age, Present Position</b>  | <b>Business Experience During Past Five Years</b>  |
|---|--|
| Charles W. Moorman, 56,<br>Chairman, President and<br>Chief Executive Officer                     | Present position since February 1, 2006.<br>Served as President and Chief Executive Officer from<br>November 1, 2005 to February 1, 2006; as President from<br>October 1, 2004 to November 1, 2005; as Senior Vice<br>President – Corporate Planning and Services from<br>December 1, 2003 to October 1, 2004; Senior Vice President<br>—<br>Corporate Services from February 1, 2003 to December 1,<br>2003<br>and prior thereto served as President – Thoroughbred<br>Technology<br>and Telecommunications, Inc. |
| Stephen C. Tobias, 64,<br>Vice Chairman and<br>Chief Operating Officer                            | Present position since August 1, 1998.   |
| Deborah H. Butler, 54,<br>Executive Vice President –<br>Planning and Chief<br>Information Officer | Present position since June 1, 2007.<br>Prior thereto served as Vice President – Customer Service.   |
| James A. Hixon, 55,<br>Executive Vice President –<br><br>Law and Corporate Relations              | Present position since October 1, 2005.<br>Served as Executive Vice President – Finance and Public<br>Affairs<br>From October 1, 2004, to October 1, 2005; Senior Vice<br>President –<br>Legal and Government Affairs from December 1, 2003 to<br>October 1, 2004 and prior thereto served as Senior Vice<br>President –<br>Administration.  |
| Mark D. Manion, 56,<br>Executive Vice President –<br><br>Operations                               | Present position since October 1, 2004.<br>Served as Senior Vice President – Transportation<br>Operations<br>from December 1, 2003 to October 1, 2004 and prior thereto<br>served<br>as Vice President – Transportation Services and Mechanical.   |
| John P. Rathbone, 56,<br>Executive Vice President –<br>Administration                             | Present position since October 1, 2004.<br>Served as Senior Vice President – Administration from<br>December 1, 2003 to October 1, 2004 and prior thereto  |

served as  
Senior Vice President and Controller.

Donald W. Seale, 56,  
Executive Vice President  
and Chief Marketing Officer

Present position since April 1, 2006.  
Served as Executive Vice President – Sales and Marketing from  
October 1, 2004 to April 1, 2006; as Senior Vice President –  
Marketing Services from December 1, 2003 to October 1,  
2004 and  
prior thereto was Senior Vice President – Merchandise  
Marketing.

James A. Squires, 47,  
Executive Vice President –  
Finance and Chief Financial  
Officer

Present position since July 1, 2007.  
Served as Executive Vice President – Finance from April  
1,  
2007 to July 1, 2007, Senior Vice President – Financial  
Planning  
from April 1, 2006 to April 1, 2007, Senior Vice President  
– Law  
from October 1, 2004 to April 1, 2006, as Vice President –  
Law  
from December 1, 2003 to October 1, 2004 and prior  
thereto was  
Senior General Counsel.

Daniel D. Smith, 56,  
Senior Vice President –  
Energy and Properties

Present position since December 1, 2003.  
Prior thereto served as President - NS Development.

Marta R. Stewart, 51,  
Vice President and Controller

Present position since December 1, 2003.  
Prior thereto was Assistant Vice President Corporate  
Accounting.

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## **PART II**

### **NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES (NS)**

#### **Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

#### **NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**

##### **STOCK PRICE AND DIVIDEND INFORMATION**

The Common Stock of Norfolk Southern Corporation, owned by 35,466 stockholders of record as of December 31, 2008, is traded on the New York Stock Exchange under the symbol NSC. The following table shows the high and low sales prices as reported by Bloomberg L.P. on its internet-based service and dividends per share, by quarter, for 2008 and 2007.

|              | Quarter |                       |    |                       |    |                       |    |                       |
|--------------|---------|-----------------------|----|-----------------------|----|-----------------------|----|-----------------------|
| 2008         | -       | <u>1<sup>st</sup></u> | -  | <u>2<sup>nd</sup></u> | -  | <u>3<sup>rd</sup></u> | -  | <u>4<sup>th</sup></u> |
| Market price |         |                       |    |                       |    |                       |    |                       |
| High         | \$      | 56.89                 | \$ | 67.38                 | \$ | 73.64                 | \$ | 65.04                 |

|                     |    |                       |    |                       |    |                       |    |                       |
|---------------------|----|-----------------------|----|-----------------------|----|-----------------------|----|-----------------------|
| Low                 |    | 44.15                 |    | 54.94                 |    | 57.82                 |    | 43.29                 |
| Dividends per share | \$ | 0.29                  | \$ | 0.29                  | \$ | 0.32                  | \$ | 0.32                  |
| <b>2007</b>         | -  | <u>1<sup>st</sup></u> | -  | <u>2<sup>nd</sup></u> | -  | <u>3<sup>rd</sup></u> | -  | <u>4<sup>th</sup></u> |
| Market price        |    |                       |    |                       |    |                       |    |                       |
| High                | \$ | 53.84                 | \$ | 59.19                 | \$ | 59.77                 | \$ | 54.58                 |
| Low                 |    | 45.38                 |    | 49.70                 |    | 46.42                 |    | 48.03                 |
| Dividends per share | \$ | 0.22                  | \$ | 0.22                  | \$ | 0.26                  | \$ | 0.26                  |

#### ISSUER PURCHASES OF EQUITY SECURITIES

| <u>Period</u>       | <u>(a) Total Number of Shares (or Units) Purchased <sup>(1)</sup></u> | <u>(b) Average Price Paid per Share (or Unit)</u> | <u>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup></u> | <u>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that may yet be Purchased Under the Plans or Programs <sup>(2)</sup></u> |
|---------------------|---|---|---|---|
| October 1-31, 2008  | 4,202,600   | 54.43   | 4,202,600   | 10,312,150  |
| November 1-30, 2008 | --  | --  | --  | 10,312,150  |
| December 1-31, 2008 | <u>2,125</u>  | 47.05   | =   | 10,312,150  |
| Total               | <u>4,204,725</u>  |   | <u>4,202,600</u>  |   |

(1) Of this amount 2,125 represent shares tendered by employees in connection with the exercise of stock options under the Long-Term Incentive Plan.

(2) On November 22, 2005, the Board of Directors authorized a share repurchase program, pursuant to which up to 50 million shares of Common Stock could be purchased through December 31, 2015. On March 27, 2007, the Board of Directors amended the program and increased the number of shares that may be repurchased to 75 million, and shortened the repurchase term by five years to December 31, 2010.

#### Item 6. Selected Financial Data

#### NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES

#### FIVE-YEAR FINANCIAL REVIEW

|                                | <u>2008</u>                                | <u>2007</u>  | <u>2006</u>  | <u>2005<sup>1</sup></u> | <u>2004<sup>2</sup></u> |
|--------------------------------|--|--------------|--------------|-------------------------|-------------------------|
|                                | (\$ in millions, except per share amounts) |              |              |                         |                         |
| <b>RESULTS OF OPERATIONS</b>   |  |              |              |                         |                         |
| Railway operating revenues     | \$ 10,661                                  | \$ 9,432     | \$ 9,407     | \$ 8,527                | \$ 7,312                |
| Railway operating expenses     | <u>7,577</u>                               | <u>6,847</u> | <u>6,850</u> | <u>6,410</u>            | <u>5,610</u>            |
| Income from railway operations | 3,084                                      | 2,585        | 2,557        | 2,117                   | 1,702                   |
| Other income – net             | 110  | 93           | 149          | 74                      | 76                      |
| Interest expense on debt       | <u>444</u>                                 | <u>441</u>   | <u>476</u>   | <u>494</u>              | <u>489</u>              |
| Income before income taxes     | 2,750                                      | 2,237        | 2,230        | 1,697                   | 1,289                   |

|                            |    |              |    |              |    |              |    |              |    |            |
|----------------------------|----|--------------|----|--------------|----|--------------|----|--------------|----|------------|
| Provision for income taxes |    | <u>1,034</u> |    | <u>773</u>   |    | <u>749</u>   |    | <u>416</u>   |    | <u>379</u> |
| Net income                 | \$ | <u>1,716</u> | \$ | <u>1,464</u> | \$ | <u>1,481</u> | \$ | <u>1,281</u> | \$ | <u>910</u> |

#### PER SHARE DATA

|                                  |    |       |    |       |    |       |    |       |    |       |
|----------------------------------|----|-------|----|-------|----|-------|----|-------|----|-------|
| Net income – basic               | \$ | 4.60  | \$ | 3.74  | \$ | 3.63  | \$ | 3.17  | \$ | 2.31  |
| – diluted                        | \$ | 4.52  | \$ | 3.68  | \$ | 3.57  | \$ | 3.11  | \$ | 2.28  |
| Dividends                        | \$ | 1.22  | \$ | 0.96  | \$ | 0.68  | \$ | 0.48  | \$ | 0.36  |
| Stockholders' equity at year end | \$ | 26.23 | \$ | 25.64 | \$ | 24.19 | \$ | 22.63 | \$ | 19.92 |

#### FINANCIAL POSITION

|                                 |    |        |    |        |    |        |    |        |    |        |
|---------------------------------|----|--------|----|--------|----|--------|----|--------|----|--------|
| Total assets                    | \$ | 26,297 | \$ | 26,144 | \$ | 26,028 | \$ | 25,859 | \$ | 24,748 |
| Total long-term debt, including |    |        |    |        |    |        |    |        |    |        |
| current maturities              | \$ | 6,667  | \$ | 6,368  | \$ | 6,600  | \$ | 6,930  | \$ | 7,525  |
| Stockholders' equity            | \$ | 9,607  | \$ | 9,727  | \$ | 9,615  | \$ | 9,276  | \$ | 7,977  |

#### OTHER

|                      |    |       |    |       |    |       |    |       |    |       |
|----------------------|----|-------|----|-------|----|-------|----|-------|----|-------|
| Capital expenditures | \$ | 1,558 | \$ | 1,341 | \$ | 1,178 | \$ | 1,025 | \$ | 1,041 |
|----------------------|----|-------|----|-------|----|-------|----|-------|----|-------|

#### Average number of shares

|                                    |               |               |               |               |               |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|
| outstanding (thousands)            | 372,276       | 389,626       | 405,988       | 404,170       | 394,201       |
| Number of stockholders at year end | 35,466        | 36,955        | 38,900        | 48,180        | 51,032        |
| Average number of employees:       |               |               |               |               |               |
| Rail                               | 30,241        | 30,336        | 30,079        | 29,851        | 28,057        |
| Nonrail                            | <u>468</u>    | <u>470</u>    | <u>462</u>    | <u>443</u>    | <u>418</u>    |
| Total                              | <u>30,709</u> | <u>30,806</u> | <u>30,541</u> | <u>30,294</u> | <u>28,475</u> |

2005 provision for income taxes includes a \$96 million benefit related to the reduction of NS' deferred income tax liabilities resulting from tax legislation enacted by Ohio. This benefit increased net income by \$96 million, or 23 cents per diluted share.

2004 other income – net includes a \$40 million net gain from the Conrail Corporate Reorganization. This gain increased net income by \$40 million or 10 cents per diluted share.

See accompanying Consolidated Financial Statements and notes thereto.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Norfolk Southern Corporation and Subsidiaries**

**Management's Discussion and Analysis of  
Financial Condition and Results of Operations**

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes and the Selected Financial Data.

**OVERVIEW**

NS' 2008 net income rose 17% largely on the strength of a 19% increase in income from railway operations. Operating results reflected higher average revenue per unit (including fuel surcharge revenue) that more than offset the effects of increased operating expenses and lower traffic volume. Operating revenues increased 13% and operating expenses rose 11% compared to 2007, resulting in a lower operating ratio (a measure of the amount of revenues consumed by expenses) of 71.1%, as compared with 72.6% in 2007.

Cash provided by operating activities was \$2.7 billion, exceeding \$2 billion for the fourth consecutive year. Coupled with net borrowings of \$280 million, this provided funding for increased capital expenditures, share repurchases, and higher dividends.

During 2008, NS purchased and retired 19.4 million shares of NS common stock at a total cost of \$1.1 billion under the share repurchase program which the Board of Directors approved in November 2005 and subsequently amended in March 2007 to authorize the repurchase of up to 75 million shares of NS common stock through December 31, 2010. In total, NS has purchased and retired 64.7 million shares under this program at a cost of \$3.3 billion.

Looking ahead, NS expects revenues to decline in 2009, reflecting lower traffic volume due to the weak economy and decreased fuel surcharge revenue resulting from lower fuel prices. NS plans to continue to improve service, maintain a market-based approach to pricing, and reduce volume-related costs.

**SUMMARIZED RESULTS OF OPERATIONS**

**2008 Compared with 2007**

Net income in 2008 was \$1.7 billion, up \$252 million, or 17%, compared with 2007. Diluted earnings per share were \$4.52, up 84¢, or 23%. The greater percentage increase in per share earnings was due to fewer shares outstanding as a result of NS' share repurchase program (see Note 13). The increase in net income was primarily due to higher income from railway operations that was offset in part by higher income taxes (see Note 3). Railway operating revenues increased \$1.2 billion, as higher average revenue per unit (including fuel surcharges) outweighed lower traffic volumes. Railway

operating expenses increased \$730 million, principally due to higher fuel costs and increased compensation and benefits expenses.

Oil prices affect NS' results of operations in a variety of ways and can have an overall favorable or unfavorable impact in any particular quarter or year. In addition to the impact of oil prices on general economic conditions and traffic volume, oil prices directly affect NS' revenues through market-based fuel surcharges and contract escalators (see "Railway Operating Revenues") and also affect fuel costs (see "Railway Operating Expenses"). For 2008, oil prices had an overall favorable impact on income from railway operations. Future changes in oil prices may cause volatility in operating results that could be material to a particular quarter or year.

#### 2007 Compared with 2006

Net income in 2007 was \$1.5 billion, down \$17 million, or 1%, compared with 2006. Diluted earnings per share were \$3.68, up 11¢, or 3%, reflecting fewer shares outstanding as a result of NS' share repurchase program (see Note 13). The decrease in net income was primarily due to higher income taxes and lower non-operating items that offset higher income from railway operations. Railway operating revenues increased \$25 million, as higher average revenue per unit overshadowed lower traffic volumes. Railway operating expenses decreased \$3 million, principally due to lower volume-related expenses that offset higher fuel expense.

### DETAILED RESULTS OF OPERATIONS

#### Railway Operating Revenues

Railway operating revenues were \$10.7 billion in 2008 and \$9.4 billion in 2007 and 2006. The following table presents a three-year comparison of revenues, volume, and average revenue per unit by market group.

|                        | Revenues         |                 |                 | Units          |                |                | Revenue per Unit |             |             |
|------------------------|------------------|-----------------|-----------------|----------------|----------------|----------------|------------------|-------------|-------------|
|                        | <u>2008</u>      | <u>2007</u>     | <u>2006</u>     | <u>2008</u>    | <u>2007</u>    | <u>2006</u>    | <u>2008</u>      | <u>2007</u> | <u>2006</u> |
|                        | (\$ in millions) |                 |                 | (in thousands) |                |                | (\$ per unit)    |             |             |
| Coal                   | \$ 3,111         | \$ 2,315        | \$ 2,330        | 1,765.7        | 1,699.4        | 1,760.0        | \$ 1,762         | \$ 1,363    | \$ 1,324    |
| General merchandise:   |                  |                 |                 |                |                |                |                  |             |             |
| Agr./cons. prod./govt. | 1,282            | 1,047           | 994             | 612.4          | 601.5          | 594.1          | 2,093            | 1,740       | 1,673       |
| Metals/construction    | 1,251            | 1,149           | 1,168           | 742.4          | 783.6          | 835.3          | 1,686            | 1,467       | 1,398       |
| Chemicals              | 1,238            | 1,166           | 1,079           | 393.7          | 426.7          | 426.4          | 3,144            | 2,732       | 2,530       |
| Paper/clay/forest      | 898              | 860             | 891             | 394.1          | 428.1          | 466.7          | 2,280            | 2,010       | 1,909       |
| Automotive             | <u>823</u>       | <u>974</u>      | <u>974</u>      | <u>412.2</u>   | <u>533.0</u>   | <u>561.9</u>   | 1,997            | 1,827       | 1,734       |
| General merchandise    | 5,492            | 5,196           | 5,106           | 2,554.8        | 2,772.9        | 2,884.4        | 2,150            | 1,874       | 1,770       |
| Intermodal             | <u>2,058</u>     | <u>1,921</u>    | <u>1,971</u>    | <u>3,029.0</u> | <u>3,120.7</u> | <u>3,256.5</u> | 679              | 615         | 605         |
| Total                  | \$ <u>10,661</u> | \$ <u>9,432</u> | \$ <u>9,407</u> | <u>7,349.5</u> | <u>7,593.0</u> | <u>7,900.9</u> | \$ 1,451         | \$ 1,242    | \$ 1,191    |

Revenues increased \$1.2 billion in 2008 and \$25 million in 2007. As shown in the table below, both revenue improvements were the result of increased average revenue per unit, including fuel surcharge revenue, which more than offset decreased traffic volumes. Fuel surcharge revenue amounted to \$1.6 billion in 2008 (up \$830 million) compared to \$792 million in 2007 and \$1 billion in 2006. If fuel prices remain at or near year-end 2008 levels, fuel surcharge revenues in 2009 will be substantially lower, with a corresponding effect on revenue per unit.

Many of Norfolk Southern's negotiated fuel surcharges for coal and general merchandise traffic are based on the monthly average price of West Texas Intermediate Crude Oil (WTI Average Price). These surcharges are reset the first day of each calendar month based on the WTI Average Price for the second preceding calendar month. This two-month lag in computing WTI Average Price coupled with the sharp drop in fuel prices late in the year increased fuel surcharge revenue by approximately \$100 million for the year.

#### Revenue Variance Analysis

Increases (Decreases)

|                        | <u><b>2008 vs. 2007</b></u> | <u><b>2007 vs. 2006</b></u> |
|------------------------|-----------------------------|-----------------------------|
|                        | <i>(\$ in millions)</i>     |                             |
| Revenue per unit/mix   | \$ 1,531                    | \$ 392                      |
| Traffic volume (units) | <u>(302)</u>                | <u>(367)</u>                |
| Total                  | \$ <u>1,229</u>             | \$ <u>25</u>                |

Both comparisons reflect large increases in average revenue per unit, a result of higher rates and increased fuel surcharges. Traffic volumes in both years declined. For 2008, traffic volumes for all commodity groups except coal and agriculture/consumer products/government decreased. In 2007, traffic volumes for all commodity groups except agriculture/consumer products/government and chemicals decreased.

On January 26, 2007, the Surface Transportation Board (STB) issued a decision that the type of fuel surcharge imposed by NS and most other large railroads – a fuel surcharge based on a percentage of line haul revenue – would no longer be permitted for regulated traffic that moves under public (tariff) rates. The STB gave the railroads a 90-day transition period to adjust their fuel surcharge programs. During the second quarter of 2007, NS discontinued assessing fuel surcharges on its published (non-intermodal) public rates. Adjustments to public prices now reflect ongoing market conditions. The traffic moving under these tariffs and public quotes comprises about 10% of Norfolk Southern's total revenue base.

**COAL** revenues increased \$796 million, or 34%, compared with 2007, reflecting higher rates, including fuel surcharges, and a 4% increase in traffic volume. Coal average revenue per unit was up 29% compared with 2007, reflecting higher rates (which were comprised of pricing increases, contract escalators and the effect of increased longer-haul export coal traffic) and increased fuel surcharges. For 2009, average revenue per unit is expected to decline reflecting the effects of lower fuel surcharges and contract escalators.

Coal represented 29% of NS' revenues in 2008 and 79% of shipments handled originated on NS' lines. As shown in the following table, increased shipments of export, utility, and domestic metallurgical coal more than offset lower industrial shipments.

### Total Coal, Coke, and Iron Ore Tonnage

|                        | <u>2008</u>                | <u>2007</u>    | <u>2006</u>    |
|------------------------|----------------------------|----------------|----------------|
|                        | <i>(Tons in thousands)</i> |                |                |
| Utility                | 144,451                    | 142,734        | 148,078        |
| Export                 | 23,069                     | 15,564         | 12,409         |
| Domestic metallurgical | 18,155                     | 17,873         | 20,878         |
| Industrial             | <u>8,553</u>               | <u>9,794</u>   | <u>9,202</u>   |
| Total                  | <u>194,228</u>             | <u>185,965</u> | <u>190,567</u> |

Coal revenues in 2007 decreased \$15 million, or 1%, compared with 2006, as a 2% reduction in tonnage handled more than offset a 3% increase in average revenue per unit. Carloads declined 3%, a higher percentage than the change in tonnage handled because of increased average tonnage per car. Coal represented 25% of NS' revenues in 2007, and 78% of shipments handled originated on NS' lines.

NS is currently involved in litigation with Virginia Electric and Power Company/Old Dominion Electric Cooperative (Virginia Power) regarding rate adjustment provisions in a transportation contract between them. In 2007, the Virginia Supreme Court issued a decision that remanded the case to the trial court on the grounds that neither of its prior decisions constituted a final order. In April 2008, the trial court entered a final order granting NS monetary damages, including interest, and prescribing the methodology for determining future rates. Virginia Power filed a notice of appeal and the Virginia Supreme Court has agreed to hear the appeal. Future developments and the ultimate resolution of this matter could result in NS recognizing additional revenues related to this dispute, which could have a favorable impact on results of operations in a particular year or quarter.

**Utility coal** tonnage increased 1%, compared with 2007, a result of modest stockpile growth in the Northeast.

In 2007, utility coal tonnage decreased 4% compared with 2006, reflecting high stockpile levels (particularly in the Southeast) that led to reduced shipments, despite fairly strong electric generation (up 4%) in the NS service region. In addition, the temporary closure of a major coal mine as well as the loss of business to barge transportation contributed to the decline.

For 2009, utility coal tonnage is expected to weaken, with lower electric demand as a result of a weak economy.

**Export coal** tonnage increased 48% compared to 2007, reflecting increased global demand coupled with weather-related supply constraints in Australia, reduced export volume from China, and the weak U.S. dollar. Norfolk volume increased about 51,000 carloads, or 39%, and Baltimore volume was up about 28,000 carloads, or 102%.

Export coal tonnage in 2007 increased 25% compared to 2006, primarily due to increased demand reflecting a lower valued U.S. dollar as well as loading delays at Australian ports. Norfolk volume increased by approximately 26,000 cars, or 25%, and Baltimore volume was up approximately 4,500 cars, or 19%.

For 2009, export coal tonnage is expected to decrease, reflecting a significant reduction in worldwide steel production, increasing competition into Europe due to changes in ocean freight rates, and the strengthening of the U.S. dollar against other currencies.

**Domestic metallurgical** coal, coke, and iron ore tonnage increased 2% compared with 2007, reflecting the start up of a new coke plant.

In 2007, domestic metallurgical coal, coke, and iron ore tonnage decreased 14% compared with 2006. The decrease was primarily due to coke furnace outages, mine production outages, and reduced spot iron ore traffic.

For 2009, domestic metallurgical coal, coke, and iron ore tonnage is expected to be down due to lower domestic steel demand.

**Other coal** tonnage (principally steam coal shipped to industrial plants) decreased 13% in 2008 compared to 2007 principally due to coal supply constraints. In 2007, other coal tonnage increased 6% versus 2006, primarily due to new business and stronger demand.

For 2009, other coal tonnage is expected to be flat compared to 2008.

**GENERAL MERCHANDISE** revenues in 2008 increased \$296 million, or 6%, compared with 2007, as a 15% increase in average revenue per unit, reflecting continued market-based pricing and higher fuel surcharges, more than offset an 8% decline in traffic volume.

In 2007, general merchandise revenues increased \$90 million, or 2%, compared with 2006, as a 6% increase in average revenue per unit, more than offset a 4% decline in traffic volume. Revenue in 2007 included \$26 million related to a volume-related contract settlement with an automotive customer.

**Agriculture, consumer products, and government** revenue increased 22% in 2008 compared with 2007. The revenue improvement resulted from higher average revenue per unit, which reflected increased rates and higher fuel surcharge revenues. Traffic volume increased 2% as more ethanol, military, feed, soybeans, and food oils shipments offset declines in fertilizers, corn, beverages, and consumer products.

Agriculture, consumer products, and government revenue increased 5% in 2007 compared with 2006. The revenue improvement resulted from higher average revenue per unit, which reflected higher rates. Traffic volume rose modestly as more corn, fertilizer, and ethanol shipments were mitigated by less government and consumer product volume.

For 2009, agriculture revenue is expected to post modest growth, benefiting from increasing demand for biofuel products including ethanol, biodiesel, and feed ingredients from their production, and slightly higher average revenue per unit (including fuel surcharges). However, lower volumes in corn, soybeans, and fertilizer shipments due to softer demand along with declines in consumer products markets are expected to partially offset this growth.

**Metals and construction** revenue increased 9% in 2008 as a 15% increase in average revenue per unit that resulted from increased rates and higher fuel surcharge more than offset the effects of a 5% decrease in traffic volume. The decline in volume was due to reduced demand for construction materials and lower coil, iron, and steel shipments, reflecting the weak housing and automotive sectors.

Metals and construction revenue decreased 2% in 2007 as a 5% increase in average revenue per unit that resulted from higher rates was more than offset by the effects of a 6% decrease in traffic volume. The decline in volume was principally due to lower iron, steel, and coil shipments and reduced demand for construction materials, both reflecting the soft automotive and housing sectors.

For 2009, metals and construction revenues are expected to decline as a result of decreased traffic volumes due to lower steel production in North America coupled with continued weakness in the housing and automotive sectors and lower average revenue per unit (including fuel surcharges).

**Chemicals** revenue in 2008 increased 6%, compared with 2007, a result of increased rates and higher fuel surcharge revenue. Traffic volume declined 8%, reflecting continued weakness in both industrial intermediates and plastics (linked to housing construction declines) in addition to miscellaneous chemicals and petroleum-based products.

In 2007, chemicals revenue increased 8% compared with 2006, reflecting higher rates in all groups. Traffic volume rose modestly as more shipments of industrial intermediates offset fewer shipments in the petroleum, miscellaneous chemicals, and plastics markets, which continued to reflect weakness in housing-related demand.

For 2009, chemicals revenue is expected to decline as a result of reduced volumes, reflecting a weak economic outlook with fewer housing starts and construction-related weaknesses, and lower average revenue per unit (including fuel surcharges).

**Paper, clay, and forest products** revenue increased 4% in 2008 compared with 2007 due to a 13% increase in average revenue per unit which more than offset an 8% decrease in traffic volume. The volume decline reflected the continued housing slowdown and increased trucking capacity available to paper customers.

Paper, clay, and forest products revenue decreased 3% in 2007 compared with 2006 as the effects of higher average revenue per unit were more than offset by an 8% decrease in traffic volume reflecting the housing slowdown and decline in conventional paper markets.

For 2009, paper, clay, and forest products revenues are expected to decline due to economy-related volume declines, including the effects of increased trucking capacity, and lower average revenue per unit (including fuel surcharges).

**Automotive** revenues decreased 16% in 2008 compared to 2007 as lower traffic volumes offset higher average revenue per unit. Volumes decreased 23%, reflecting reduced North American sales and production. Automotive manufacturers, especially the domestic producers, continued to experience significant sales declines during the year. Three assembly plants closed during the year and six implemented shift reductions. In addition, one manufacturer temporarily closed an assembly plant to retool for a new product in 2010. As of year end, Ford, General Motors, and Chrysler combined operated 14 of 24 assembly plants served by NS. NS continues to monitor the state of the automotive industry and the collectability of the associated receivables.

Automotive revenues were flat in 2007 compared with 2006 as lower traffic volumes offset higher average revenue per unit. Revenue in 2007 included a \$26 million volume-related contract settlement. Volume decreased 5%, reflecting softness in demand for vehicles as well as parts, and the closure in June 2007 of an NS-served plant.

For 2009, automotive revenues are expected to decrease reflecting continued production cutbacks and lower average revenue per unit (including fuel surcharges).

**INTERMODAL** revenues increased \$137 million, or 7%, compared with 2007, as a 10% increase in average revenue per unit (including fuel surcharges) offset a 3% reduction in traffic volumes. Domestic volume (which includes truckload and intermodal marketing companies' [IMC] volumes) increased 8% compared with 2007, reflecting the relative fuel efficiency of intermodal versus over-the-road transportation and service improvements. International traffic volume declined 9%, primarily driven by the weak economy and less inland rail movement of West Coast port traffic that was partially offset by East Coast port volume growth. The Premium business, which includes parcel and less-than-truckload (LTL) carriers, decreased 6%, as reduced private empty movements and soft parcel business offset LTL conversions. Triple Crown Services Company (Triple Crown), a service with rail-to-highway trailers, experienced a 3% drop in volume primarily driven by reduced auto parts shipments.

Intermodal revenues in 2007 decreased \$50 million, or 3%, compared with 2006, as a 4% reduction in traffic volumes offset a 2% increase in average revenue per unit. Truckload volume decreased 10% compared with 2006 and domestic IMC volume declined 4%. Traffic volume for Triple Crown dropped 3%. The declines for truckload, IMC, and Triple Crown were primarily due to lower national demand for dry van shipments resulting from continued weakness in the housing and automotive markets and increased over-the-road competition. International traffic volume decreased 4% reflecting reduced shipments of empty containers and less inland rail transportation of West Coast port traffic, which offset volume growth from East Coast port traffic. Premium business was up 2% reflecting gains in parcel shipments that offset modest declines in LTL shipper traffic.

For 2009, intermodal revenue is expected to decrease from 2008 primarily due to weak economic conditions, pressures from the drayage market and lower average revenue per unit (including fuel surcharges).

#### **Railway Operating Expenses**

Railway operating expenses in 2008 were \$7.6 billion, up \$730 million, or 11%, compared to 2007. Expenses in 2007 were about even with expenses in 2006. The increase in 2008 was primarily due to higher fuel costs and increased compensation and benefits expenses. The 2007 comparison reflected volume-related decreases offset by higher fuel expense.

The railway operating ratio, which measures the percentage of operating revenues consumed by operating expenses, improved to 71.1% in 2008, compared with 72.6% in 2007 and 72.8% in 2006.

The following table shows the changes in railway operating expenses summarized by major classifications.

| <b>Operating Expense Variances</b> |                             |                             |
|------------------------------------|-----------------------------|-----------------------------|
| Increases (Decreases)              |                             |                             |
|                                    | <u><b>2008 vs. 2007</b></u> | <u><b>2007 vs. 2006</b></u> |
|                                    | (\$ in millions)            |                             |
| Compensation and benefits          | \$ 132                      | \$ (85)                     |
| Purchased services and rents       | 48                          | (27)                        |
| Fuel                               | 469                         | 74                          |
| Depreciation                       | 29                          | 37                          |
| Materials and other                | 52                          | (2)                         |
| Total                              | <u>\$ 730</u>               | <u>\$ (3)</u>               |

**Compensation and benefits**, which represents 35% of total railway operating expenses, increased \$132 million, or 5%, compared with 2007, primarily due to higher incentive compensation (up \$66 million); increased wage rates (up \$54 million); costs associated with lump-sum payments due under a new Brotherhood of Locomotive Engineers and Trainmen (BLET) agreement (\$31 million); higher payroll taxes (up \$15 million); and, the absence of the 2007 employment tax refund (\$9 million). These were partially offset by lower costs associated with trainees (down \$19 million), lower health and welfare benefits resulting from higher employee contributions (down \$19 million), and lower stock-based compensation (down \$7 million). In 2008, compensation and benefits expense benefited from a net pension credit of \$39 million; however, primarily due to the market decline in pension assets (see Note 10), NS does not expect a similar benefit in 2009.

In 2007, compensation and benefits decreased \$85 million, or 3%, compared with 2006, primarily due to lower incentive compensation (down \$48 million), lower volume-related payroll (down \$37 million), the absence of the prior year retirement and waiver agreements with former executives as well as the cost of the regular stock-based grant to the former Chief Executive Officer (\$24 million), lower stock-based compensation (down \$13 million), and lower payroll taxes (down \$12 million). These were partially offset by increased wage rates (up \$27 million) and higher medical costs (up \$27 million).

NS employment averaged 30,709 in 2008 compared with 30,806 in 2007 and 30,541 in 2006. The increase in 2007 in the number of employees was almost exclusively in operating department personnel to improve service needs, as well as to prepare for expected retirements. NS continues to monitor forecasted volumes in light of current economic conditions to ensure appropriate employment levels for service needs.

**Purchased services and rents** includes the costs of services purchased from outside contractors, including the net costs of operating joint (or leased) facilities with other railroads and the net cost of equipment rentals. This category of expenses increased \$48 million, or 3%, in 2008 compared to 2007, but decreased \$27 million, or 2%, in 2007 compared to 2006.

Purchased services costs were \$1,242 million in 2008, \$1,172 million in 2007 and \$1,165 million in 2006. The increase in 2008 reflected higher intermodal operations costs, transportation operating costs, and professional and legal services. In 2007, higher expenses for maintenance activities were largely offset by volume-related declines.

Equipment rents, which includes the cost to NS of using equipment (mostly freight cars) owned by other railroads or private owners less the rent paid to NS for the use of its equipment, amounted to \$357 million, \$379 million and \$413 million for 2008, 2007 and 2006, respectively. The decreases in 2008 and 2007 were principally due to lower shipment volumes and improved fleet utilization.

**Fuel** expense, which includes the cost of locomotive fuel as well as other fuel used in railway operations, increased \$469 million, or 40%, in 2008 compared with 2007, and increased \$74 million, or 7%, in 2007 compared with 2006. Fuel expense is recorded net of hedge benefits, although there have been no such benefits since May 2006 when the program wound down (see "Market Risks and Hedging Activities," below and Note 16). The increase in 2008 reflected a 45% increase in the price per gallon of locomotive fuel offset in part by a 3% decline in consumption. The increase in 2007 reflected a 9% increase in the price per gallon of locomotive fuel as well as the absence of hedge benefits offset in part by a 4% decline in consumption.

Legislation enacted in the first quarter of 2005 repealed the 4.3¢ per gallon excise tax on railroad diesel fuel for 2007, with the following phased reductions in 2005 and 2006: 1¢ per gallon from January 1, 2005 through June 30, 2005; 2¢ per gallon from July 1, 2005 through December 31, 2006; and by the full 4.3¢ thereafter. NS consumes about 500 million gallons of locomotive diesel fuel per year.

**Depreciation** expense increased \$29 million, or 4%, in 2008 compared to 2007, and \$37 million, or 5%, in 2007 compared to 2006. In both years, substantial capital investments and improvements resulted in higher depreciation expense.

**Materials and other** expenses (including the estimates of costs related to personal injury, property damage, and environmental matters) increased \$52 million, or 7%, in 2008 compared with 2007, but decreased \$2 million in 2007 compared with 2006, as shown in the following table.

|                             | <u>2008</u>   | <u>2007</u>      | <u>2006</u>   |
|-----------------------------|---------------|------------------|---------------|
|                             |               | (\$ in millions) |               |
| Materials                   | \$ 380        | \$ 359           | \$ 346        |
| Casualties and other claims | 180           | 171              | 220           |
| Other                       | <u>292</u>    | <u>270</u>       | <u>236</u>    |
|                             | \$ <u>852</u> | \$ <u>800</u>    | \$ <u>802</u> |

The increase in 2008 was primarily due to costs associated with the Avondale Mills settlement related to the Graniteville accident (see below), as well as higher loss and damage claims and increased material costs for equipment and roadway repairs. These increases were partially offset by favorable personal injury claims development.

In April 2008, NS settled the lawsuit brought by Avondale Mills for claims associated with the January 6, 2005, derailment in Graniteville, SC. A portion of the settlement will not be reimbursed by insurance and was included in 2008 expenses. The total liability related to the derailment 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. The Consolidated Balance Sheets reflect current and long-term receivables for estimated recoveries from NS' insurance carriers. NS is engaged in arbitration with one of its insurance carriers that failed to respond to an insurance claim submitted by NS. NS believes these expenses are covered by the insurance policy and that recovery of the contested amount is probable, in that NS expects the arbitrator will 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. Accordingly, NS has recorded the full recovery attributable to such carrier (\$100 million). In October 2008, another of NS' insurance carriers provided the preliminary findings of its review of NS' reimbursement request and reported that it may dispute a portion of that request. NS has initiated arbitration against the carrier and believes that all expenses contained in the reimbursement request are covered by the insurance policy and that recovery is probable.

The decline in materials and other expense in 2007 was primarily due to lower derailment and personal injury costs, offset in part by higher property and other taxes, and increased materials costs for maintenance activities.

The largest component of casualties and other claims expense is personal injury costs. Cases involving occupational injuries comprised about 52% of total employee injury cases resolved and about 29% of total payments made. With its long-established commitment to safety, NS continues to work actively to eliminate all employee injuries and to reduce the associated costs. With respect to occupational injuries, which are not caused by a specific accident or event but allegedly result from a claimed exposure over time, the benefits of any existing safety initiatives may not be realized immediately. These types of claims are being asserted by former or retired employees, some of whom have not been actively employed in the rail industry for decades. The rail industry remains uniquely susceptible to litigation involving job-related accidental injury and occupational claims because of the Federal Employers' Liability Act (FELA), which is applicable only to railroads. FELA's fault-based system, which covers employee claims for job-related injuries, produces results that are unpredictable and inconsistent as compared with a no-fault workers' compensation system.

NS maintains substantial amounts of insurance for potential third-party liability and property damage claims. It also retains reasonable levels of risk through self-insurance (see Note 17). NS expects insurance costs to be slightly higher in 2009.

#### **Other Income – Net**

Other income – net was \$110 million in 2008, \$93 million in 2007, and \$149 million in 2006 (see Note 2). The increase in 2008 reflected the absence of expenses related to synthetic fuel investments (see "Income Taxes" below), reduced other interest expense (\$27 million) largely due to adjustments to reflect the outcome of certain tax examinations and higher coal royalties (up \$12 million). These benefits were offset in part by lower returns and higher borrowing costs on corporate-owned life insurance (down \$38 million), lower interest income (down \$25 million), fewer gains on sales of property and investments (down \$22 million), and lower equity in the earnings of Conrail (down \$16 million), which reflects the absence of a tax audit settlement recorded by Conrail in 2007 (\$18 million).

The decrease in 2007 reflected lower interest income (\$31 million), higher expenses associated with synthetic fuel-related tax credit investments (\$15 million), and lower returns from corporate-owned life insurance (\$15 million) that combined to offset higher equity in earnings of Conrail (\$20 million).

NS has membership interests representing ownership in companies that owned and operated facilities that produced synthetic fuel from coal. In addition, NS purchased two facilities that produced synthetic fuel from coal in 2007. The production of synthetic fuel resulted in tax credits as well as expenses related to the investments. The expenses are recorded as a component of "Other income – net," and the tax credits, as well as tax benefits

related to the expenses, are reflected in "Provision for income taxes" (see further discussion below).

#### **Income Taxes**

Income tax expense in 2008 was \$1 billion, for an effective rate of 38%, compared with effective rates of 35% in 2007 and 34% in 2006. The increase in the rate for 2008 was primarily due to the absence of synthetic fuel-related tax credits that expired at the end of 2007. The increase in the rate for 2007 largely resulted from Illinois tax legislation which increased deferred taxes by \$19 million (see Note 3).

The tax credits generated by NS' synthetic fuel-related investments reduced the effective tax rate by 3% in 2007 and 2006. Net income in 2007 reflected \$5 million less in net benefits from these credits, as compared with the same period of 2006, as shown below:

|   | <u>2007</u>             | <u>2006</u> |
|---|-------------------------|-------------|
|   | <i>(\$ in millions)</i> |             |
| Effect in "Other income – net:"                               |                         |             |
| Expenses on synthetic fuel-related investments                | \$ 77                   | \$ 62       |
| Effect in "Provision for income taxes:"                       |                         |             |
| Tax credits   | 60                      | 56          |
| Tax benefit of expenses on synthetic-fuel related investments | 30                      | 24          |
| Total reduction of income tax expense                         | 90                      | 80          |
| Effect in "Net income:"                                       |                         |             |
| Net benefit from synthetic-fuel related investments           | \$ 13                   | \$ 18       |

During 2008, NS resolved both the Internal Revenue Service (IRS) examination of its 2004 and 2005 consolidated federal income tax returns and its appeal of the 2002 and 2003 IRS examination without a material effect in income tax expense. NS' consolidated federal income tax returns for 2006 and 2007 are being audited by the IRS.

#### FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

**Cash provided by operating activities**, NS' principal source of liquidity, was \$2.7 billion in 2008 compared with \$2.3 billion in 2007 and \$2.2 billion in 2006. The improvement in 2008 resulted from increased railway operating income and from bonus tax depreciation which reduced current tax payments. The improvement in 2007 resulted from favorable changes in working capital as well as a modest increase in income from railway operations. NS had working capital deficits of \$106 million at December 31, 2008, and \$273 million at December 31, 2007. The improvement was largely the result of increased cash and cash equivalents. NS expects that cash on hand combined with cash flow provided by operating activities will be sufficient to meet its ongoing obligations. NS' cash and cash equivalents balances totaled \$618 million and \$206 million at December 31, 2008 and 2007, respectively.

**Contractual obligations** at December 31, 2008, comprised of NS' long-term debt (including capital leases) (see Note 7), operating leases (see Note 8), agreements with CRC (see Note 4), unrecognized tax benefits (see Note 3), long-term advances from Conrail (see Note 4), and unconditional purchase obligations (see Note 17), were as follows:

| <b>Payments Due By Period</b>              |             |                       |                       |                                |              |        |
|--|-------------|-----------------------|-----------------------|--------------------------------|--------------|--------|
| <u>Total</u>                               | <u>2009</u> | <u>2010-<br/>2011</u> | <u>2012-<br/>2013</u> | <u>2014 and<br/>Subsequent</u> | <u>Other</u> |        |
| <i>(\$ in millions)</i>                    |             |                       |                       |                                |              |        |
| Long-term debt and capital lease principal | \$ 6,667    | \$ 484                | \$ 686                | \$ 79                          | \$ 5,418     | \$ --  |
| Operating leases                           | 873         | 142                   | 223                   | 149                            | 359          | --     |
| Agreements with CRC                        | 450         | 29                    | 58                    | 58                             | 305          | --     |
| Unrecognized tax benefits*                 | 169         | 24                    | --                    | --                             | --           | 145    |
| Long-term advances from Conrail            | 133         | --                    | --                    | --                             | 133          | --     |
| Unconditional purchase obligations         | 119         | 100                   | 19                    | --                             | --           | --     |
| Total                                      | \$ 8,411    | \$ 779                | \$ 986                | \$ 286                         | \$ 6,215     | \$ 145 |

\* When the amount and timing of liabilities for unrecognized tax benefits can be reasonably estimated, the amount is shown in the table under the appropriate period. When the year of settlement cannot be reasonably estimated, the amount is shown in the Other column.

**Off balance sheet arrangements** consist of obligations related to operating leases, which are included in the table of contractual obligations above and disclosed in Note 8.

**Cash used in investing activities** was \$1.2 billion in 2008, compared with \$1 billion in 2007 and \$684 million in 2006. The increase in 2008 primarily reflected increased property additions. The increase in 2007 primarily reflected lower net proceeds from short-term investment activities and increased property additions.

Property additions account for most of the recurring spending in this category. The following tables show capital spending (including capital leases) and track and equipment statistics for the past five years.

### Capital Expenditures

|                         | <u><b>2008</b></u> | <u><b>2007</b></u> | <u><b>2006</b></u> | <u><b>2005</b></u> | <u><b>2004</b></u> |
|-------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|                         |                    |                    | (\$ in millions)   |                    |                    |
| Road and other property | \$ 1,070           | \$ 894             | \$ 756             | \$ 741             | \$ 612             |
| Equipment               | <u>488</u>         | <u>447</u>         | <u>422</u>         | <u>284</u>         | <u>429</u>         |
| Total                   | <u>\$ 1,558</u>    | <u>\$ 1,341</u>    | <u>\$ 1,178</u>    | <u>\$ 1,025</u>    | <u>\$ 1,041</u>    |



### Track Structure Statistics (Capital and Maintenance)

|  | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|--|-------------|-------------|-------------|-------------|-------------|
| Track miles of rail installed          | 459         | 401         | 327         | 302         | 246         |
| Miles of track surfaced                | 5,209       | 5,014       | 4,871       | 4,663       | 5,055       |
| New cross ties installed<br>(millions) | 2.7         | 2.7         | 2.7         | 2.5         | 2.5         |

## Average Age of Owned Railway Equipment

|                     | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---------------------|-------------|-------------|-------------|-------------|-------------|
|                     |             |             | (years)     |             |             |
| Freight cars        | 29.9        | 30.1        | 30.0        | 29.4        | 28.6        |
| Locomotives         | 18.9        | 18.1        | 17.7        | 17.4        | 16.9        |
| Retired locomotives | 34.4        | 30.0        | 35.0        | 27.4        | 22.9        |

For 2009, NS has budgeted \$1.41 billion for capital expenditures. The anticipated spending includes \$698 million for roadway projects, including the normalized replacement of rail, ties and ballast and the improvement or replacement of bridges. Planned equipment spending of \$124 million provides for the acquisition of over 500 super jumbo covered hoppers and continued spending on improvements to the locomotive fleet, including the rebuild and upgrade of existing units. Planned investments in facilities and terminals total \$141 million, primarily for intermodal terminals and equipment to add capacity to the intermodal network and bulk transfer facilities to support the ethanol market. Infrastructure investments of \$170 million are planned for network improvements to increase mainline capacity as well as various public/private partnership investments such as the Heartland Corridor and the Chicago CREATE project. Norfolk Southern also expects to spend \$67 million related to computers, systems and information technology. All capital expenditures are expected to be made with internally generated funds.

The Heartland Corridor is a package of proposed clearance improvements and other facilities that will create a seamless high-capacity intermodal route across Virginia and West Virginia to Midwest markets. During 2006, NS and the states of Ohio, West Virginia and Virginia each entered into a Memorandum of Agreement with the Federal Highway Administration with respect to the tunnel clearance component of the Heartland Corridor that governs the release of up to \$95 million in authorized federal funding. In 2006, NS also entered into agreements with two states governing the use of up to \$11 million in state funding for the Heartland Corridor rail double-stack clearance project. NS began work on the Heartland Corridor tunnel clearances in October 2007 and the entire project is expected to be completed in 2010. NS expects to spend about \$100 million over 2009 and 2010 in connection with this project.

The Chicago Region Environmental and Transportation Efficiency (CREATE) project is a public-private partnership to reduce rail and highway congestion and add freight and passenger capacity in the metropolitan Chicago area. NS and other railroads have agreed to participate in CREATE. A portion of the public funding has been approved and the parties have developed a list of projects to be included in Phase I of the project. A total of \$100 million in public funding has been secured for Phase I and the railroads have contributed an additional \$100 million. The railroads expect to complete Phase I by the end of 2010. As currently planned, the total project is estimated to cost \$1.5 billion with city, state and federal support. If additional public funding is secured, the railroads are expected to contribute a total of \$232 million towards the entire project. NS expects to spend approximately \$15 million in 2009 related to CREATE projects.

The Meridian Speedway is a 320 mile rail line between Meridian, Mississippi and Shreveport, Louisiana. On May 1, 2006, NS and Kansas City Southern (KCS) formed a joint venture, Meridian Speedway LLC (MSLLC), pursuant to which NS would contribute \$300 million in cash, substantially all of which will be used for capital improvements over a period of approximately three years, in exchange for a 30% interest in the joint venture. To date, NS has contributed \$274 million. At the formation of MSLLC, KCS contributed the Meridian Speedway. NS is recognizing its pro rata share of the joint venture's earnings or loss as required under the equity method of accounting. NS' total investment in MSLLC is supported by the fair value of the rail line as well as intangible assets obtained through the transaction. The joint venture is expected to increase capacity and improve service over the Meridian Speedway into the Southeast.

Pan Am Southern LLC (PAS) will include the PAS Lines, which consist of a 155-mile main line track that runs between Mechanicville, New York and Ayer, Massachusetts, along with 281 miles of secondary and branch lines, including trackage rights in New York, Connecticut, Massachusetts, New Hampshire, and Vermont. PAS, when formed, will be a joint venture between NS and Pan Am Railways, Inc. (Pan Am) pursuant to which Pan Am expects to contribute the PAS Lines and NS expects to contribute cash and other property valued at \$140 million, a significant portion of which will be used for capital improvements to the PAS Lines and the related construction of new intermodal and automotive terminals in the Albany, New York area. The joint venture is subject to regulatory approvals and other customary closing conditions.

The Crescent Corridor is a multistate network of infrastructure improvements and other facilities geared toward creating a seamless, high-capacity intermodal route spanning 11 states from New Jersey to Louisiana and offering truck-competitive service along several major interstate highway corridors, including I-81 and I-85, as well as I-20, I-40, I-59, and I-75. Based on the public benefits that stand to be derived in the form of highway congestion relief, NS plans to implement the Crescent Corridor through a series of public-private partnerships. Although there is not yet a single, integrated plan for the Crescent Corridor, preliminary work has begun and is slated to continue in 2009, including continued infrastructure improvements and other design and engineering work along the Virginia portion of the Corridor consistent with our matching obligation with respect to funds provided by the Commonwealth of Virginia. NS expects to spend approximately \$30 million related to Crescent Corridor projects in 2009.

The MidAmerica Corridor is a proposed cooperative arrangement between NS and Canadian National Railway (CN) to effectively share track between Chicago, St. Louis, Kentucky, and Mississippi in order to establish more efficient routes for traffic moving between the mid-western and southeastern U.S., including potential coal traffic moving to NS-served southeastern utility plants from CN-served Illinois Basin coal producers. To implement the MidAmerica Corridor, NS, at its option, would expend funds during the next five years to upgrade the rail line operated by West Tennessee Railway between Fulton, Kentucky, and Corinth, Mississippi, a line over which NS would operate pursuant to recently obtained trackage rights. The MidAmerica Corridor arrangement is subject to negotiation of definitive agreements between NS and CN, regulatory approvals, and other customary closing conditions.

**Cash used in financing activities** was \$1.1 billion in 2008, compared with \$1.6 billion in 2007 and \$1.3 billion in 2006. The decrease in 2008 reflected

a net increase in debt, compared with a net decline in 2007, which was offset in part by higher dividend payments. The increase in 2007 reflected higher share repurchases as a part of NS' share repurchase program (see Note 13), as well as higher debt repayments and increased dividend payments.

Share repurchases totaled \$1.1 billion in 2008, \$1.2 billion in 2007, and \$964 million in 2006 for the purchase and retirement of 19.4 million, 23.6 million, and 21.7 million shares, respectively, of common stock as part of NS' share repurchase program. In March 2007, NS' Board of Directors amended NS' share repurchase program by increasing the authorized amount of share repurchases from 50 million to 75 million shares and shortening the authorized period from 2015 to 2010. To date, almost all of the purchases under the program have been made with internally generated cash. However, future funding sources could include proceeds from the issuance of debt, including the use of the receivable securitization program (see Note 7).

The timing and volume of purchases is guided by management's assessment of market conditions and other pertinent facts. Due to economic and market conditions, NS reduced its share repurchases during the fourth quarter of 2008, and the amount of future purchases is uncertain due to the economic climate.

Through a private offering, NS issued and sold \$600 million of unsecured notes in April 2008 (see Note 7), and subsequently exchanged substantially all of these unregistered securities with essentially identical securities registered under the Securities Act of 1933. In January 2009, through another private offering, NS issued \$500 million of unsecured notes at 5.75% due 2016 (see Note 7). The net proceeds from the offering were \$494 million after deducting the purchase discount and expenses. NS has agreed to exchange the unregistered securities with essentially identical securities registered under the Securities Act of 1933.

Subsequent to the January 2009 offering, NS has remaining authority from its board of directors to issue and sell up to \$500 million of additional debt or equity securities through public or private sale. The Form S-3 shelf registration statements previously filed with the Securities and Exchange Commission (SEC) are no longer effective under SEC's Rule 415(a)(5), which provides for a three-year term. NS expects to file a new Form S-3 registration statement during the first quarter of 2009.

NS has in place and available a \$1 billion, five-year credit agreement expiring in 2012, which provides for borrowings at prevailing rates and includes covenants. NS had no amounts outstanding under this facility at December 31, 2008, and NS is in compliance with all of the covenants. NS also has an accounts receivable securitization program which was renewed with a new 364-day term ending in October 2009. In addition, NS has the ability to directly access the debt markets.

Looking forward, NS' annual debt maturities are relatively modest and stable from year to year (see Note 7). NS expects to refinance maturing debt over the next several years and modestly increase current debt levels. Overall, NS' goal is to maintain a capital structure with appropriate leverage to support NS' business strategy and provide flexibility through business cycles.

## **APPLICATION OF CRITICAL ACCOUNTING 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. These estimates and assumptions may require significant judgment about matters that are inherently uncertain, and future events are likely to occur that may require management to make changes to these estimates and assumptions. Accordingly, management regularly reviews these estimates and assumptions based on historical experience, changes in the business environment, and other factors that management believes to be reasonable under the circumstances. Management regularly discusses the development, selection, and disclosures concerning critical accounting estimates with the Audit Committee of its Board of Directors.

### **Pensions and Other Postretirement Benefits**

Accounting for pensions and other postretirement benefit plans requires management to make several estimates and assumptions (see Note 10). These include the expected rate of return from investment of the plans' assets, projected increases in medical costs, and the expected retirement age of employees as well as their projected earnings and mortality. In addition, the amounts recorded are affected by changes in the interest rate environment because the associated liabilities are discounted to their present value. Management makes these estimates based on the company's historical experience and other information that it deems pertinent under the circumstances (for example, expectations of future stock market performance). Management utilizes an independent consulting actuarial firm's studies to assist it in selecting appropriate assumptions and valuing its related liabilities.

NS' net pension benefit, which is included in "Compensation and benefits" on its Consolidated Statements of Income, was \$39 million for the year ended December 31, 2008. In recording this amount, NS assumed a long-term investment rate of return of 9%, which was supported by the long-term total rate of return on plan assets since inception. Given the uncertain economic outlook and the recent volatility in corporate bond indices, management reduced its long-term investment rate of return to 8.75% for 2009. A one percentage point change to this rate of return assumption would result in an \$18 million change to the pension credit and, as a result, an equal change in "Compensation and benefits" expense. Changes that are reasonably likely to occur in assumptions concerning retirement age, projected earnings, and mortality would not be expected to have a material effect on NS' net pension benefit or net pension liability in the future. The net pension liability is recorded at its net present value using a discount rate that is based on the current interest rate environment in light of the timing of expected benefit payments. In 2008 and 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. In 2006, NS referred to Moody's seasoned Aa corporate bond yields and the changes in such yields in establishing the discount rate.

NS' net cost for other postretirement benefits, which is also included in "Compensation and benefits," was \$69 million for the year ended December 31, 2008. In recording this expense and valuing the net liability for other postretirement benefits, which is included in "Other postretirement benefits," management estimated future increases in health-care costs. These assumptions, along with the effect of a one percentage point change in them, are described in Note 10.

## **Properties and Depreciation**

Most of NS' total assets are long-lived railway properties (see Note 5). As disclosed in Note 1, NS' properties 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. 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 of such review are recorded at the lesser of carrying amount or fair value.

NS' depreciation expense is based on management's assumptions concerning service lives of its properties as well as the expected net salvage that will be received upon their retirement. In developing these assumptions, NS' management utilizes periodic depreciation studies that are performed by an outside firm of consulting engineers. These studies analyze NS' historical patterns of asset use and retirement and take into account any expected change in operation or maintenance practices. NS' recent experience with these studies has been that while they do result in changes in the rates used to depreciate its properties, these changes have not caused a significant effect to its annual depreciation expense. The studies may also indicate that the recorded amount of accumulated depreciation is deficient (or in excess) of the amount indicated by the study. Any such deficiency (or excess) is amortized as a component of depreciation expense over the remaining service lives of the affected class of property. NS' depreciation expense for the year ended December 31, 2008, amounted to \$804 million. NS' weighted-average depreciation rates for 2008 are disclosed in Note 5; a one-tenth percentage point increase (or decrease) in these rates would have resulted in a \$28 million increase (or decrease) to depreciation expense.

## **Personal Injury, Environmental, and Legal Liabilities**

NS' expense for casualties and other claims, included in "Materials and other," amounted to \$180 million for the year ended December 31, 2008. Most of this expense was NS' accrual related to personal injury liabilities. Job-related personal injury and occupational claims are subject to FELA, which is applicable only to railroads. FELA's fault-based tort system produces results that are unpredictable and inconsistent as compared with a no-fault worker's compensation system. The variability inherent in this system could result in actual costs being very different from the liability recorded. In all cases, NS records a liability when the expected loss for the claim is both probable and estimable.

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. For employee personal injury cases, the actuarial firm studies NS' historical patterns of reserving for claims and subsequent settlements, taking into account relevant outside influences. An estimate of the ultimate amount of the liability, which includes amounts for incurred but unasserted claims, is based on the results of this analysis. For occupational injury claims, the actuarial firm studies NS' history of claim filings, severity, payments and other relevant facts. Additionally, the estimate of the ultimate loss for occupational injuries includes a provision for those claims that have been incurred but not reported by projecting NS' experience into the future as far as can be reasonably determined. NS has recorded this actuarially determined liability. The liability is dependent upon many individual judgments made as to the specific case reserves as well as the judgments of the consulting actuary and management in the periodic studies. Accordingly, there could be significant changes in the liability, which NS would recognize when such a change became known. The most recent actuarial study, completed in the fourth quarter of 2008, resulted in a decrease to NS' personal injury liability during the fourth quarter. While the liability recorded is supported by the most recent study, it is reasonably possible that the ultimate liability could be higher or lower.

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 (see Note 17). Claims, if any, against third parties for recovery of cleanup costs incurred by NS, are reflected as receivables (when collection is probable) in the Consolidated Balance Sheets 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 established an Environmental Policy Council, composed of senior managers, to oversee and interpret its environmental policy.

Operating expenses for environmental matters totaled approximately \$18 million in 2008, \$16 million in 2007 and \$19 million in 2006, and capital expenditures for environmental matters totaled approximately \$7 million in both 2008 and 2007, and \$6 million in 2006. Capital expenditures for environmental matters in 2009 are expected to be about \$9 million.

NS' Consolidated Balance Sheets included liabilities for environmental exposures in the amount of \$42 million at December 31, 2008, and \$46 million at December 31, 2007 (of which \$12 million is classified as a current liability at the end of each period). At December 31, 2008, the liability represented NS' estimate of the probable cleanup and remediation costs based on available information at 148 known locations. As of that date, 13 sites accounted for \$22 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 30 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.

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. NS estimates its environmental remediation liability on a site-by-site basis, using assumptions and judgments that management deems appropriate for each site. As a result, it is not practical to quantitatively describe the effects of changes in these many assumptions and judgments. NS has consistently applied its methodology of estimating its environmental liabilities.

On April 24, 2008, the United States Department of Justice (DOJ) brought 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 January 6, 2005, derailment in Graniteville, SC, including claims for civil penalties as well as injunctive relief. On June 24, 2008, NS filed a motion to dismiss DOJ's claims, contending that insufficient facts have been alleged to support such claims. NS does not believe that the outcome of these proceedings will have a material effect on its financial position, results of operations, or liquidity.

Based on an assessment of known facts and circumstances, management believes that it is unlikely that any such known facts and circumstances, either individually or in the aggregate, will have a material adverse effect on NS' financial position, results of operations, or liquidity.

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 expenses. 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, if any, 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 recorded liabilities will be reflected in expenses in the periods in which such adjustments are known.

#### **Income Taxes**

NS' net long-term deferred tax liability totaled \$6.4 billion at December 31, 2008 (see Note 3). This liability is estimated based on the expected future tax consequences of items recognized in the financial statements. After application of the federal statutory tax rate to book income, judgment is required with respect to the timing and deductibility of expenses in the corporate income tax returns. For state income and other taxes, judgment is also required with respect to the apportionment among the various jurisdictions. A valuation allowance is recorded if management expects that it is more likely than not that its deferred tax assets will not be realized. NS had an \$11 million valuation allowance on \$991 million of deferred tax assets as of December 31, 2008, reflecting the expectation that most of these assets will be realized.

In addition, NS has a recorded liability for its estimate of uncertain tax positions taken or expected to be taken in a tax return. Judgment is required in evaluating the application of federal and state tax laws and assessing whether it is more likely than not that a tax position will be sustained on examination and, if so, judgment is also required as to the measurement of the amount of tax benefit that will be realized upon settlement with the taxing authority. Management believes this liability for uncertain tax positions to be adequate. Income tax expense is adjusted in the period in which new information about a tax position becomes available or the final outcome differs from the amounts recorded. For every one half percent change in the 2008 effective tax rate net income would have changed by \$14 million.

#### **OTHER MATTERS**

##### **Labor Agreements**

Approximately 26,000, or about 85%, of NS' railroad employees are covered by collective bargaining agreements with various labor unions. These agreements remain in effect until changed pursuant to the Railway Labor Act (RLA). NS largely bargains nationally, in concert with other major railroads. Moratorium provisions in the labor agreements govern when the railroads and the unions may propose changes.

The most recent national bargaining round began in late 2004. Since that time, the railroads have reached national agreements that extend through 2009 with all of the rail unions. Additionally, the current agreement with BLET extends through 2014. Because NS has reached separate agreements with the BLET and the American Train Dispatchers Association (ATDA), only the health and welfare provisions from the national agreements apply to NS' locomotive engineers and ATDA-represented dispatchers. A small number of longshoremen at Ashtabula (Ohio) Docks are represented by the International Longshoremen's Association (ILA) and do not participate in national bargaining. Negotiations are continuing with that organization.

##### **Market Risks and Hedging Activities**

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.

In 2001, NS began a program to hedge 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. No new hedges have been entered into since May 2004, and the last remaining contracts were settled in the second quarter of 2006, bringing an end to the benefits from the program. Locomotive diesel fuel costs represented 14% of NS' operating expenses for 2006.

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.

At December 31, 2008, NS' debt subject to interest rate fluctuations totaled \$317 million. A 1% point increase in interest rates would increase NS' total annual interest expense related to all its variable debt by approximately \$3 million. Management considers it unlikely that interest rate fluctuations applicable to these instruments will result in a material adverse effect on NS' financial position, results of operations, or liquidity.

Some of NS' capital leases, which carry an average fixed rate of 7%, were effectively converted to variable rate obligations using interest rate swap agreements. On December 31, 2008, the average pay rate under these agreements was 3%, and the average receive rate was 7%. During 2008 and 2007, the effect of the swaps was to reduce interest expense by approximately \$1 million in both periods. A portion of the lease obligations is payable in Japanese yen. NS eliminated the associated exchange rate risk at the inception of each lease with a yen deposit sufficient to fund the yen-denominated obligation. Most of these deposits are held by foreign banks, primarily Japanese. As a result, NS is exposed to financial market risk relative to Japan. Counterparties to the interest rate swaps and Japanese banks holding yen deposits are major financial institutions believed by management to be creditworthy.

### **New Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements." This statement, effective for interim or annual reporting periods beginning after November 15, 2007, establishes a framework for measuring fair value in U.S. generally accepted accounting principles and expands disclosures about fair value measurements. Effective January 1, 2008, NS adopted this standard related to financial instrument assets and liabilities with no effect on NS' consolidated financial statements. NS will adopt the provisions of this standard relative to nonfinancial assets and nonfinancial liabilities that are not remeasured at fair value on a recurring basis in the first quarter of 2009. NS does not expect that it will have an effect on NS' consolidated financial statements.

In June 2008, the FASB issued FASB Staff Position (FSP) Emerging Issues Task Force (EITF) 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities." This FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method as described in SFAS No. 128, "Earnings per Share." NS will adopt the FSP, which affects the calculation of earnings per share, in the first quarter of 2009. The provisions of the FSP are to be applied retrospectively. NS expects that it will not have a material effect on NS' consolidated financial statements.

FSP No. 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets," was issued on December 30, 2008. This statement, effective for fiscal years ending after December 15, 2009, clarifies an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. This statement prescribes expanded disclosures regarding investment allocation decisions, categories of plan assets, inputs, and valuation techniques used to measure fair value, the effect of Level 3 inputs on changes in plan assets and significant concentrations of risk. NS will adopt the FSP at the end of 2009 and expects it will not have a material effect on NS' consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160 (SFAS 160), "Noncontrolling Interests in Consolidated Financial Statements," which requires that noncontrolling (minority) interests be reported as a component of equity. NS will adopt the statement in the first quarter of 2009 and expects it will not have a material effect on NS' consolidated financial statements.

### **Inflation**

In preparing financial statements, U.S. generally accepted accounting principles require the use of historical cost that disregards the effects of inflation on the replacement cost of property. NS, a capital-intensive company, has most of its capital invested in such property. The replacement cost of these assets, as well as the related depreciation expense, would be substantially greater than the amounts reported on the basis of historical cost.

### **Proposed Legislation and Regulations on Safety and Transportation of Hazardous Materials**

Federal regulations were adopted in late 2008 on safety and transportation of hazardous materials. NS is in compliance with those regulations currently effective and expects to be in compliance with those regulations to become effective at a later date.

## FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that may be identified by the use of words like "believe," "expect," "anticipate" and "project." Forward-looking statements reflect management's good-faith evaluation of information currently available. However, such statements are dependent on and, therefore, can be influenced by, a number of external variables over which management has little or no control, including: domestic and international economic conditions; interest rates; the business environment in industries that produce and consume rail freight; competition and consolidation within the transportation industry; the operations of carriers with which NS interchanges; acts of terrorism or war; fluctuation in prices of key materials, in particular diesel fuel; labor difficulties, including strikes and work stoppages; legislative and regulatory developments; results of litigation; changes in securities and capital markets; disruptions to NS' technology infrastructure, including computer systems; and natural events such as severe weather, hurricanes, and floods. For a discussion of significant risk factors applicable to NS, see Part I, Item 1A "Risk Factors." Forward-looking statements are not, and should not be relied upon as, a guarantee of future performance or results, nor will they necessarily prove to be accurate indications of the times at or by which any such performance or results will be achieved. As a result, actual outcomes and results may differ materially from those expressed in forward-looking statements. NS undertakes no obligation to update or revise forward-looking statements.

### Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The information required by this item is included in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Market Risks and Hedging Activities."

### Item 8. Financial Statements and Supplementary Data

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Report of Management

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 December 31, 2008. 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 December 31, 2008.

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 December 31, 2008.

/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, 2008, 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, 2008, 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 and subsidiaries as of December 31, 2008 and 2007, 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, 2008, and our report dated February 18, 2009 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Norfolk, Virginia  
February 18, 2009

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, 2008 and 2007, 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, 2008. In connection with our audits of the consolidated financial statements, we also have audited 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, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, 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 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, 2008, 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 18, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting .

/s/ KPMG LLP

Norfolk, Virginia  
February 18, 2009

**Norfolk Southern Corporation and Subsidiaries**

**Consolidated Statements of Income**

|                                    | Years ended December 31,                    |             |             |
|------------------------------------|---|-------------|-------------|
|                                    | <u>2008</u>                                 | <u>2007</u> | <u>2006</u> |
|                                    | (\$ in millions, except earnings per share) |             |             |
| <b>Railway operating revenues</b>  | \$ 10,661                                   | \$ 9,432    | \$ 9,407    |
| <b>Railway operating expenses:</b> |   |             |             |
| Compensation and benefits          | 2,684                                       | 2,552       | 2,637       |
| Purchased services and rents       | 1,599                                       | 1,551       | 1,578       |
| Fuel                               | 1,638                                       | 1,169       | 1,095       |
| Depreciation                       | 804   | 775         | 738         |

|                                       |                 |                 |                 |
|---------------------------------------|-----------------|-----------------|-----------------|
| Materials and other                   | <u>852</u>      | <u>800</u>      | <u>802</u>      |
| Total railway operating expenses      | <u>7,577</u>    | <u>6,847</u>    | <u>6,850</u>    |
| <b>Income from railway operations</b> | 3,084           | 2,585           | 2,557           |
| Other income – net                    | 110             | 93              | 149             |
| Interest expense on debt              | <u>444</u>      | <u>441</u>      | <u>476</u>      |
| Income before income taxes            | 2,750           | 2,237           | 2,230           |
| Provision for income taxes            | <u>1,034</u>    | <u>773</u>      | <u>749</u>      |
| <b>Net income</b>                     | <u>\$ 1,716</u> | <u>\$ 1,464</u> | <u>\$ 1,481</u> |
| <b>Per share amounts:</b>             |                 |                 |                 |
| Net income                            |                 |                 |                 |
| Basic                                 | \$ 4.60         | \$ 3.74         | \$ 3.63         |
| Diluted                               | \$ 4.52         | \$ 3.68         | \$ 3.57         |

*See accompanying notes to consolidated financial statements.*

Norfolk Southern Corporation and Subsidiaries

**Consolidated Balance Sheets**

|                           | <b>As of December 31,</b> |                    |
|---------------------------|---------------------------|--------------------|
|                           | <b><u>2008</u></b>        | <b><u>2007</u></b> |
|                           | (\$ in millions)          |                    |
| <b>Assets</b>             |                           |                    |
| Current assets:           |                           |                    |
| Cash and cash equivalents | \$ 618                    | \$ 206             |
| Accounts receivable – net | 870                       | 942                |
| Materials and supplies    | 194                       | 176                |
| Deferred income taxes     | 149                       | 190                |
| Other current assets      | <u>168</u>                | <u>161</u>         |
| Total current assets      | 1,999                     | 1,675              |
| Investments               | 1,779                     | 1,974              |

|   |                         |                         |
|---|-------------------------|-------------------------|
| Properties less accumulated depreciation                      | 22,247                  | 21,583                  |
| Other assets  | <u>272</u>              | <u>912</u>              |
| <b>Total assets</b>   | <b>\$ <u>26,297</u></b> | <b>\$ <u>26,144</u></b> |
| <b>Liabilities and stockholders' equity</b>                   |                         |                         |
| Current liabilities:  |                         |                         |
| Accounts payable  | \$ 1,140                | \$ 1,139                |
| Income and other taxes  | 261                     | 203                     |
| Other current liabilities                                     | 220                     | 237                     |
| Current maturities of long-term debt                          | <u>484</u>              | <u>369</u>              |
| Total current liabilities                                     | 2,105                   | 1,948                   |
| Long-term debt  | 6,183                   | 5,999                   |
| Other liabilities   | 2,030                   | 2,039                   |
| Deferred income taxes   | <u>6,372</u>            | <u>6,431</u>            |
| <b>Total liabilities</b>                                      | <b>16,690</b>           | <b>16,417</b>           |
| Stockholders' equity:   |                         |                         |
| Common stock \$1.00 per share par value, 1,350,000,000 shares |                         |                         |
| authorized; outstanding 366,233,106 and 379,297,891 shares,   |                         |                         |
| respectively, net of treasury shares                          | 368                     | 380                     |
| Additional paid-in capital                                    | 1,680                   | 1,466                   |
| Accumulated other comprehensive loss                          | (942)                   | (399)                   |
| Retained income   | <u>8,501</u>            | <u>8,280</u>            |
| <b>Total stockholders' equity</b>                             | <b><u>9,607</u></b>     | <b><u>9,727</u></b>     |
| <b>Total liabilities and stockholders' equity</b>             | <b>\$ <u>26,297</u></b> | <b>\$ <u>26,144</u></b> |

*See accompanying notes to consolidated financial statements.*

Norfolk Southern Corporation and Subsidiaries

**Consolidated Statements of Cash Flows**

|  | <b>Years Ended December 31,</b> |                    |                    |
|--|---------------------------------|--------------------|--------------------|
|  | <b><u>2008</u></b>              | <b><u>2007</u></b> | <b><u>2006</u></b> |
|  | <i>(\$ in millions)</i>         |                    |                    |
| <b>Cash flows from operating activities</b>                                |                                 |                    |                    |
| Net income   | \$ 1,716                        | \$ 1,464           | \$ 1,481           |
| Reconciliation of net income to net cash provided by operating activities: |                                 |                    |                    |
| Depreciation   | 815                             | 786                | 750                |
| Deferred income taxes  | 290                             | 125                | (8)                |
| Gains and losses on properties and investments                             | (29)                            | (51)               | (54)               |
| Changes in assets and liabilities affecting operations:                    |                                 |                    |                    |

|   |                |                |                |
|---|----------------|----------------|----------------|
| Accounts receivable                                     | 269            | 30             | (60)           |
| Materials and supplies                                  | (18)           | (25)           | (19)           |
| Other current assets                                    | (8)            | (17)           | (11)           |
| Current liabilities other than debt                     | (262)          | 38             | 38             |
| Other – net   | <u>(58)</u>    | <u>(17)</u>    | <u>89</u>      |
| Net cash provided by operating activities               | 2,715          | 2,333          | 2,206          |
| <b>Cash flows from investing activities</b>             |                |                |                |
| Property additions                                      | (1,558)        | (1,341)        | (1,178)        |
| Property sales and other transactions                   | 109            | 124            | 119            |
| Investments, including short-term                       | (86)           | (635)          | (1,804)        |
| Investment sales and other transactions                 | <u>307</u>     | <u>827</u>     | <u>2,179</u>   |
| Net cash used in investing activities                   | (1,228)        | (1,025)        | (684)          |
| <b>Cash flows from financing activities</b>             |                |                |                |
| Dividends   | (456)          | (377)          | (278)          |
| Common stock issued – net                               | 229            | 183            | 297            |
| Purchase and retirement of common stock                 | (1,128)        | (1,196)        | (964)          |
| Proceeds from borrowings                                | 1,425          | 250            | –              |
| Debt repayments   | <u>(1,145)</u> | <u>(489)</u>   | <u>(339)</u>   |
| Net cash used in financing activities                   | <u>(1,075)</u> | <u>(1,629)</u> | <u>(1,284)</u> |
| Net increase (decrease) in cash and cash equivalents    | 412            | (321)          | 238            |
| <b>Cash and cash equivalents</b>                        |                |                |                |
| At beginning of year                                    | <u>206</u>     | <u>527</u>     | <u>289</u>     |
| At end of year  | \$ <u>618</u>  | \$ <u>206</u>  | \$ <u>527</u>  |
| <b>Supplemental disclosure of cash flow information</b> |                |                |                |
| Cash paid during the year for:                          |                |                |                |
| Interest (net of amounts capitalized)                   | \$ 421         | \$ 441         | \$ 473         |
| Income taxes (net of refunds)                           | \$ 615         | \$ 603         | \$ 692         |

See accompanying notes to consolidated financial statements.

Norfolk Southern Corporation and Subsidiaries

**Consolidated Statements of Changes in Stockholders' Equity**

| <u>Common<br/>Stock</u>                    | <u>Additional<br/>Paid-in<br/>Capital</u> | <u>Unearned<br/>Restricted<br/>Stock</u> | <u>Accum.<br/>Other<br/>Compre-<br/>hensive<br/>Loss</u> | <u>Retained<br/>Income</u> | <u>Total</u> |
|--|---|--|--|----------------------------|--------------|
| (\$ in millions, except per share amounts) |   |  |  |                            |              |

|   |    |                   |    |          |    |                   |    |                   |    |                   |    |              |
|---|----|-------------------|----|----------|----|-------------------|----|-------------------|----|-------------------|----|--------------|
| <b>Balance December 31, 2005</b>                        | \$ | 411               | \$ | 992      | \$ | (17)              | \$ | (77)              | \$ | 7,967             | \$ | 9,276        |
| Comprehensive income                                    |    |                   |    |          |    |                   |    |                   |    |                   |    |              |
| Net income  |    |                   |    |          |    |                   |    |                   |    | 1,481             |    | 1,481        |
| Other comprehensive income                              |    |                   |    |          |    |                   |    | 2                 |    |                   |    | <u>2</u>     |
| Total comprehensive income                              |    |                   |    |          |    |                   |    |                   |    |                   |    | 1,483        |
| Adoption of SFAS 158, net of tax                        |    |                   |    |          |    |                   |    | (294)             |    |                   |    | (294)        |
| 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   |    | <u>          </u> |    | <u>2</u> |    | <u>          </u> |    | <u>          </u> |    | <u>          </u> |    | <u>2</u>     |
| <b>Balance December 31, 2006</b>                        | \$ | 398               | \$ | 1,303    | \$ | –                 | \$ | (369)             | \$ | 8,283             | \$ | 9,615        |
| Comprehensive income                                    |    |                   |    |          |    |                   |    |                   |    |                   |    |              |
| Net income  |    |                   |    |          |    |                   |    |                   |    | 1,464             |    | 1,464        |
| Other comprehensive loss                                |    |                   |    |          |    |                   |    | (30)              |    |                   |    | <u>(30)</u>  |
| 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   |    | <u>          </u> |    | <u>6</u> |    | <u>          </u> |    | <u>          </u> |    | <u>          </u> |    | <u>6</u>     |
| <b>Balance December 31, 2007</b>                        | \$ | 380               | \$ | 1,466    | \$ | –                 | \$ | (399)             | \$ | 8,280             | \$ | 9,727        |
| Net income  |    |                   |    |          |    |                   |    |                   |    | 1,716             |    | 1,716        |
| Other comprehensive loss                                |    |                   |    |          |    |                   |    | (543)             |    |                   |    | <u>(543)</u> |
| Total comprehensive income                              |    |                   |    |          |    |                   |    |                   |    |                   |    | 1,173        |
| Dividends on Common                                     |    |                   |    |          |    |                   |    |                   |    |                   |    |              |
| Stock, \$1.22 per share                                 |    |                   |    |          |    |                   |    |                   |    | (456)             |    | (456)        |

|  |               |                 |                   |                   |                   |                 |
|--|---------------|-----------------|-------------------|-------------------|-------------------|-----------------|
| Share repurchases  | (19)          | (79)            |                   |                   | (1,030)           | (1,128)         |
| Stock-based<br>compensation,<br>including tax benefit<br>of \$76 | 6             | 287             |                   |                   | (9)               | 284             |
| Other  | <u>1</u>      | <u>6</u>        | <u>          </u> | <u>          </u> | <u>          </u> | <u>7</u>        |
| <b>Balance December<br/>31, 2008</b>                             | <b>\$ 368</b> | <b>\$ 1,680</b> | <b>\$ --</b>      | <b>\$ (942)</b>   | <b>\$ 8,501</b>   | <b>\$ 9,607</b> |

*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 2008): coal (29%); intermodal (19%); agriculture/consumer products/government (12%); metals/construction (12%); chemicals (12%); paper/clay/forest products (8%); and automotive (8%). 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 has used 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).

#### **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, 2008, and December 31, 2007. 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. Expenditures capitalized include those that are directly related to a capital project and may include materials, labor, and equipment, in addition to an allocable portion of indirect costs that clearly relate to a particular project. 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 of such review are recorded at the lower of carrying amount or fair value.

#### **Required Accounting Changes**

Effective January 1, 2008, NS adopted the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements," related to financial instrument assets and liabilities with no effect on NS' consolidated financial statements. This statement, effective for interim or annual reporting periods beginning after November 15, 2007, establishes a framework for measuring fair value in U.S. generally accepted accounting principles and expands disclosures about fair value measurements.

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 SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158) (see Note 10).

Effective January 1, 2006, NS adopted SFAS 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 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). 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.

In June 2008, the FASB issued FASB Staff Position (FSP) Emerging Issues Task Force (EITF) 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities." This FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method as described in SFAS No. 128, "Earnings per Share." NS will adopt the FSP, which affects the calculation of earnings per share, in the first quarter of 2009. The provisions of the FSP are to be applied retrospectively. NS expects that it will not have a material effect on NS' consolidated financial statements.

## 2. Other Income - Net

|  | <u>2008</u>      | <u>2007</u>  | <u>2006</u>   |
|--|------------------|--------------|---------------|
|  | (\$ in millions) |              |               |
| Income from natural resources:                           |                  |              |               |
| Royalties from coal                                      | \$ 64            | \$ 52        | \$ 55         |
| Nonoperating depletion and depreciation                  | <u>(11)</u>      | <u>(11)</u>  | <u>(12)</u>   |
| Subtotal   | 53               | 41           | 43            |
| Rental income  | 47               | 46           | 45            |
| Gains and losses from sale of properties and investments | 29               | 51           | 54            |
| Equity in earnings of Conrail (Note 4)                   | 29               | 45           | 25            |
| Interest income  | 20               | 45           | 76            |
| Other interest expense – net                             | 2                | (25)         | (15)          |
| Expenses related to synthetic fuel investments           | --               | (77)         | (62)          |
| Corporate-owned life insurance – net                     | (31)             | 7            | 22            |
| Taxes on nonoperating property                           | (10)             | (10)         | (9)           |
| Other  | <u>(29)</u>      | <u>(30)</u>  | <u>(30)</u>   |
| Total  | \$ <u>110</u>    | \$ <u>93</u> | \$ <u>149</u> |

"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 had 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. The tax credits related to the synthetic fuel investments expired at the end of 2007 and are no longer available.

## 3. Income Taxes

### Provision for Income Taxes

|                            | <u>2008</u>      | <u>2007</u>   | <u>2006</u>   |
|----------------------------|------------------|---------------|---------------|
|                            | (\$ in millions) |               |               |
| Current:                   |                  |               |               |
| Federal                    | \$ 657           | \$ 570        | \$ 666        |
| State                      | <u>87</u>        | <u>78</u>     | <u>91</u>     |
| Total current taxes        | 744              | 648           | 757           |
| Deferred:                  |                  |               |               |
| Federal                    | 257              | 77            | 3             |
| State                      | <u>33</u>        | <u>48</u>     | <u>(11)</u>   |
| Total deferred taxes       | <u>290</u>       | <u>125</u>    | <u>(8)</u>    |
| Provision for income taxes | \$ <u>1,034</u>  | \$ <u>773</u> | \$ <u>749</u> |

### 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:

|  | 2008             |           | 2007          |            | 2006          |           |
|--|------------------|-----------|---------------|------------|---------------|-----------|
|  | <u>Amount</u>    | <u>%</u>  | <u>Amount</u> | <u>%</u>   | <u>Amount</u> | <u>%</u>  |
|  | (\$ in millions) |           |               |            |               |           |
| Federal income tax at statutory rate               | \$ 963           | 35        | \$ 783        | 35         | \$ 780        | 35        |
| State income taxes, net of Federal tax effect      | 77               | 3         | 63            | 3          | 52            | 2         |
| Illinois tax law change, net of Federal tax effect | 1                | --        | 19            | 1          | --            | --        |
| Tax credits  | (2)              | --        | (65)          | (3)        | (62)          | (3)       |
| Other – net  | <u>(5)</u>       | <u>--</u> | <u>(27)</u>   | <u>(1)</u> | <u>(21)</u>   | <u>--</u> |
| Provision for income taxes                         | \$ <u>1,034</u>  | <u>38</u> | \$ <u>773</u> | <u>35</u>  | \$ <u>749</u> | <u>34</u> |

Illinois enacted tax legislation in August 2007, revised in January 2008, that modified the way 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 of 2007, as required by SFAS No. 109, "Accounting for Income Taxes," which increased deferred tax expense by \$1 million in 2008 and \$19 million in 2007.

#### 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:

|   | December 31,      |                   |
|---|-------------------|-------------------|
|   | <u>2008</u>       | <u>2007</u>       |
|   | (\$ in millions)  |                   |
| Deferred tax assets:                                |                   |                   |
| Compensation and benefits, including postretirement | \$ 728            | \$ 417            |
| Accruals, including casualty and other claims       | 218               | 219               |
| Other   | <u>45</u>         | <u>49</u>         |
| Total gross deferred tax assets                     | 991               | 685               |
| Less valuation allowance                            | <u>(11)</u>       | <u>(10)</u>       |
| Net deferred tax asset                              | <u>980</u>        | <u>675</u>        |
| Deferred tax liabilities:                           |                   |                   |
| Property  | (6,957)           | (6,683)           |
| Other   | <u>(246)</u>      | <u>(233)</u>      |
| Total gross deferred tax liabilities                | <u>(7,203)</u>    | <u>(6,916)</u>    |
| Net deferred tax liability                          | (6,223)           | (6,241)           |
| Net current deferred tax asset                      | <u>149</u>        | <u>190</u>        |
| Net long-term deferred tax liability                | \$ <u>(6,372)</u> | \$ <u>(6,431)</u> |

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 2008 and 2007, and decreased \$1 million in 2006.

#### Uncertain Tax Positions

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (\$ in millions):

|  | <b>December 31,</b> |                    |
|--|---------------------|--------------------|
|  | <b><u>2008</u></b>  | <b><u>2007</u></b> |
| Balance at beginning of year                                 | \$ 167              | \$ 179             |
| Additions based on tax positions related to the current year | 73                  | 65                 |
| Additions for tax positions of prior years                   | 4                   | 9                  |
| Reductions for tax positions of prior years                  | (63)                | (84)               |
| Settlements with taxing authorities                          | (9)                 | --                 |
| Lapse of statutes of limitations                             | - (3)               | (2)                |
| Balance at end of year                                       | \$ <u>169</u>       | \$ <u>167</u>      |

Included in the balance of unrecognized tax benefits at December 31, 2008, are potential benefits of \$60 million that would affect the effective tax rate if recognized. 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. 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, 2008, will decrease by approximately \$55 million in 2009 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 2009.

NS' consolidated federal income tax returns for 2006 and 2007 are being audited by the Internal Revenue Service (IRS). NS anticipates that the IRS will complete its examination of the 2006 and 2007 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 2006 and 2007 years, but an estimate of the change cannot be made. 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 2009 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 \$15 million of income in 2008, \$12 million of expense in 2007 and \$2 million of income in 2006. Penalties related to tax matters are included in "Provision for income taxes" and totaled zero in each of 2008, 2007, and 2006. NS has recorded a liability of \$20 million at December 31, 2008, and \$28 million at December 31, 2007, for the payment of interest on unrecognized tax benefits. NS has no liability recorded at December 31, 2008, and December 31, 2007, for the payment of penalties on unrecognized tax benefits.

#### 4. Investments

|  | <b>December 31,</b>     |                    |
|--|-------------------------|--------------------|
|  | <b><u>2008</u></b>      | <b><u>2007</u></b> |
|  | <i>(\$ in millions)</i> |                    |
| Long-term investments:                                   |                         |                    |
| Investment in Conrail Inc.                               | \$ 868                  | \$ 899             |
| Other equity method investments                          | 650                     | 594                |
| Company-owned life insurance at net cash surrender value | 74                      | 327                |
| Other investments  | <u>187</u>              | <u>154</u>         |
| Total long-term investments                              | \$ <u>1,779</u>         | \$ <u>1,974</u>    |

"Other equity method investments" above includes \$267 million at December 31, 2008, and \$240 million at December 31, 2007, 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 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 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, 2008, based on the funded status of Conrail's pension plans, recorded in accordance with SFAS 158, NS reduced its proportional investment in Conrail by \$60 million. This resulted in a \$55 million loss recorded to "other comprehensive income (loss)" and a combined federal and state deferred tax asset of \$5 million. At December 31, 2007, NS' year-end SFAS 158 adjustment increased its proportional investment in Conrail by \$6 million. This resulted in \$5 million of income recorded to "other comprehensive income (loss)" and a combined federal and state deferred tax liability of about \$1 million. At December 31, 2008, the difference between NS' investment in Conrail and its share of Conrail's underlying net equity was \$551 million. NS' equity in the earnings of Conrail, net of amortization, included in "Other income – net" was \$29 million, \$45 million, and \$25 million in 2008, 2007, and 2006, respectively.

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" and "Fuel" include expenses for amounts due to CRC for operation of the Shared Assets Areas totaling \$131 million in 2008 and \$126 million in both 2007 and 2006. Future minimum lease payments due to CRC under the Shared Assets Areas agreements are as follows: \$29 million in each of 2009 through 2013 and \$305 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 \$82 million at December 31, 2008, and \$78 million at December 31, 2007, due to Conrail for the operation of the Shared Assets Areas. In addition, "Other liabilities" includes \$133 million at December 31, 2008, and December 31, 2007, for long-term advances from Conrail, maturing 2035, that bear interest at an average rate of 4.4%.

## 5. Properties

|                               | <b>December 31,</b><br><b><u>2008</u>      <u>2007</u></b><br><i>(\$ in millions)</i> |                  | <b><u>Depreciation</u></b><br><b><u>Rate for 2008</u></b> |
|-------------------------------|---|------------------|---|
| Land                          | \$ 2,119  | \$ 2,085         |   |
| Railway property:             |   |                  |   |
| Road                          | 20,240  | 19,420           | 2.7%  |
| Equipment                     | 7,688   | 7,413            | 3.7%  |
| Other property                | <u>473</u>  | <u>471</u>       | 2.3%  |
|                               | 30,520  | 29,389           |   |
| Less accumulated depreciation | <u>(8,273)</u>  | <u>(7,806)</u>   |   |
| Net properties                | \$ <u>22,247</u>  | \$ <u>21,583</u> |   |

Railway property includes \$483 million at December 31, 2008, and \$504 million at December 31, 2007, of assets recorded pursuant to capital leases with accumulated amortization of \$189 million and \$175 million at December 31, 2008 and 2007, respectively. Other property includes the costs of obtaining rights to natural resources of \$336 million at December 31, 2008, and \$337 million at December 31, 2007, with accumulated depletion of \$179 million and \$172 million at December 31, 2008 and 2007, respectively.

## Capitalized Interest

Total interest cost incurred on debt in 2008, 2007 and 2006 was \$459 million, \$455 million, and \$489 million, respectively, of which \$15 million, \$14 million, and \$13 million was capitalized.

## 6. Current Liabilities

|  | <b>December 31,</b><br><b><u>2008</u>      <u>2007</u></b><br><i>(\$ in millions)</i> |  |
|--|---|--|
|--|---|--|

Accounts payable:

|                                     |                 |                 |
|-------------------------------------|-----------------|-----------------|
| Accounts and wages payable          | \$ 577          | \$ 568          |
| Casualty and other claims (Note 17) | 248             | 259             |
| Vacation liability                  | 125             | 123             |
| Equipment rents payable – net       | 84              | 87              |
| Due to Conrail (Note 4)             | 82              | 78              |
| Other                               | 24              | 24              |
| Total                               | <u>\$ 1,140</u> | <u>\$ 1,139</u> |

Other current liabilities:

|                                       |               |               |
|---------------------------------------|---------------|---------------|
| Interest payable                      | \$ 91         | \$ 90         |
| Retiree benefit obligations (Note 10) | 59            | 57            |
| Liabilities for forwarded traffic     | 44            | 53            |
| Other                                 | 26            | 37            |
| Total                                 | <u>\$ 220</u> | <u>\$ 237</u> |

## 7. Long-term Debt

Long-term debt as of December 31, 2008, with weighted average interest rates and maturities is presented below:

|  | <b>December 31,</b>     |                    |
|--|-------------------------|--------------------|
|  | <b><u>2008</u></b>      | <b><u>2007</u></b> |
|  | <i>(\$ in millions)</i> |                    |
| Notes and debentures:                          |                         |                    |
| 6.56%, maturing to 2014                        | \$ 1,431                | \$ 1,631           |
| 6.68%, maturing 2017 and 2018                  | 1,150                   | 550                |
| 8.21%, 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, 3.01%               | 300                     | 250                |
| Capitalized leases, 4.16%, maturing to 2024    | 139                     | 165                |
| Other debt, 7.50%, maturing to 2019            | 113                     | 113                |
| Equipment obligations, 6.45%, maturing to 2014 | 99                      | 226                |
| Discounts and premiums, net                    | (124)                   | (126)              |
| Total long-term debt                           | <u>6,667</u>            | <u>6,368</u>       |
| Less current maturities                        | <u>(484)</u>            | <u>(369)</u>       |
| Long-term debt excluding current maturities    | <u>\$ 6,183</u>         | <u>\$ 5,999</u>    |

Long-term debt maturities subsequent to 2009 are as follows:

|                           |                 |
|---------------------------|-----------------|
| 2010                      | \$ 344          |
| 2011                      | 342             |
| 2012                      | 33              |
| 2013                      | 46              |
| 2014 and subsequent years | <u>5,418</u>    |
| Total                     | <u>\$ 6,183</u> |

During the second quarter of 2008, \$200 million of commercial paper matured and was refinanced as part of a private offering under which NS issued and sold \$600 million of unsecured notes at 5.75% due 2018. NS subsequently exchanged substantially all of these unregistered securities with essentially identical securities registered under the Securities Act of 1933.

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. Under this facility, NS received \$425 million and repaid \$375 million in 2008. At December 31, 2008 and 2007, the amounts outstanding under the facility were \$300 million at an average variable interest rate of 3.01% and \$250 million at an average variable interest rate of 5.57%, respectively. The facility has a 364-day term which was renewed and amended in October 2008; 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 Sheets. At December 31, 2008, and December 31, 2007, the amounts of receivables included in "Accounts receivable – net" serving as collateral for these borrowings were \$719 million and \$778 million, 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" in the Consolidated Balance Sheets and totaled \$85 million at December 31, 2008, and \$80 million at December 31, 2007.

#### Issuance of Debt or Equity Securities

NS has authority from its board of directors for the issuance and public or private sale of up to \$1 billion of debt or equity securities. Under this authority, NS issued \$500 million of unsecured notes in January 2009 at 5.75% due in 2016 in a private offering. The net proceeds from the offering were approximately \$494 million after deducting the purchase discount and expenses. NS has agreed to exchange these unregistered securities with essentially identical securities registered under the Securities Act of 1933.

Subsequent to the January 2009 offering, NS has remaining authority from its board of directors to issue and sell up to \$500 million of additional debt or equity securities through public or private sale. The Form S-3 shelf registration statements previously filed with the Securities and Exchange Commission (SEC) are no longer effective under SEC's Rule 415(a)(5), which provides for a three-year term. NS expects to file a new Form S-3 registration statement during the first quarter of 2009.

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

NS has in place and available a \$1 billion, five-year credit agreement expiring in 2012, which provides for borrowings at prevailing rates and includes covenants. NS had no amounts outstanding under this facility at December 31, 2008, and NS is in compliance with all of the covenants.

NS has the ability to issue commercial paper supported by its \$1 billion credit agreement. At December 31, 2008 and 2007, NS had no outstanding commercial paper.

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

|  | Operating        | Capital       |
|--|------------------|---------------|
|  | <u>Leases</u>    | <u>Leases</u> |
|  | (\$ in millions) |               |
| 2009   | \$ 142           | \$ 66         |
| 2010   | 129              | 28            |
| 2011   | 94               | 26            |
| 2012   | 79               | 17            |
| 2013   | 70               | 3             |
| 2014 and subsequent years  | 359              | 5             |
| Total  | \$ 873           | \$ 145        |
| Less imputed interest on capital leases at an average rate of 5.3% |                  | (6)           |
| Present value of minimum lease payments included in debt           |                  | \$ 139        |

#### Operating Lease Expense

2008

2007

2006

(\$ in millions)

|                  |               |               |               |
|------------------|---------------|---------------|---------------|
| Minimum rents    | \$ 183        | \$ 191        | \$ 197        |
| Contingent rents | 80            | 79            | 79            |
| Total            | <u>\$ 263</u> | <u>\$ 270</u> | <u>\$ 276</u> |

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

#### 9. Other Liabilities

December 31,  
**2008**                      **2007**  
(\$ in millions)

|  |                 |                 |
|--|-----------------|-----------------|
| Retiree health and death benefit obligations (Note 10) | \$ 732          | \$ 635          |
| Net pension obligations (Note 10)                      | 329             | 150             |
| Casualty and other claims (Note 17)                    | 320             | 588             |
| Federal and state income taxes                         | 144             | 131             |
| Long-term advances from Conrail (Note 4)               | 133             | 133             |
| Deferred compensation                                  | 131             | 148             |
| Other  | 241             | 254             |
| Total  | <u>\$ 2,030</u> | <u>\$ 2,039</u> |

#### 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.

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

|  | Pension Benefits |              | Other Postretirement Benefits |             |
|--|------------------|--------------|-------------------------------|-------------|
|  | <u>2008</u>      | <u>2007</u>  | <u>2008</u>                   | <u>2007</u> |
|  | (\$ in millions) |              |                               |             |
| <b>Change in benefit obligations</b>           |                  |              |                               |             |
| Benefit obligation at beginning of year        | \$ 1,644         | \$ 1,650     | \$ 859                        | \$ 785      |
| Service cost                                   | 25               | 24           | 16                            | 21          |
| Interest cost                                  | 99               | 92           | 51                            | 46          |
| Actuarial (gains) losses                       | 4                | (12)         | 44                            | 53          |
| Plan amendments                                | 7                | --           | --                            | --          |
| Benefits paid                                  | <u>(109)</u>     | <u>(110)</u> | <u>(50)</u>                   | <u>(46)</u> |
| Benefit obligation at end of year              | <u>1,670</u>     | <u>1,644</u> | <u>920</u>                    | <u>859</u>  |
| <b>Change in plan assets</b>                   |                  |              |                               |             |
| Fair value of plan assets at beginning of year | 1,963            | 1,939        | 176                           | 119         |
| Actual return on plan assets                   | (531)            | 125          | (38)                          | 6           |
| Employer contribution                          | 10               | 9            | 50                            | 97          |
| Benefits paid                                  | <u>(109)</u>     | <u>(110)</u> | <u>(50)</u>                   | <u>(46)</u> |
| Fair value of plan assets at end of year       | <u>1,333</u>     | <u>1,963</u> | <u>138</u>                    | <u>176</u>  |

|                                     |    |              |    |            |    |              |    |              |
|-------------------------------------|----|--------------|----|------------|----|--------------|----|--------------|
| <b>Funded status at end of year</b> | \$ | <u>(337)</u> | \$ | <u>319</u> | \$ | <u>(782)</u> | \$ | <u>(683)</u> |
|-------------------------------------|----|--------------|----|------------|----|--------------|----|--------------|

Amounts recognized in the Consolidated

Balance Sheets consist of:

|                              |    |              |    |              |    |              |    |              |
|------------------------------|----|--------------|----|--------------|----|--------------|----|--------------|
| Noncurrent assets            | \$ | 1            | \$ | 478          | \$ | --           | \$ | --           |
| Current liabilities          |    | (9)          |    | (9)          |    | (50)         |    | (48)         |
| Noncurrent liabilities       |    | <u>(329)</u> |    | <u>(150)</u> |    | <u>(732)</u> |    | <u>(635)</u> |
| <b>Net amount recognized</b> | \$ | <u>(337)</u> | \$ | <u>319</u>   | \$ | <u>(782)</u> | \$ | <u>(683)</u> |

Amounts recognized in accumulated other

comprehensive loss (pretax) consist of:

|                              |    |     |    |     |    |     |    |      |
|------------------------------|----|-----|----|-----|----|-----|----|------|
| Net loss                     | \$ | 991 | \$ | 290 | \$ | 351 | \$ | 279  |
| Prior service cost (benefit) |    | 13  |    | 9   |    | (2) |    | (10) |

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 \$168 million at December 31, 2008, and \$159 million at December 31, 2007, and had accumulated benefit obligations of \$146 million at December 31, 2008, and \$137 million at December 31, 2007.

#### Pension and Other Postretirement Benefit Cost Components

|                                       | <u>2008</u>    | <u>2007</u>      | <u>2006</u>    |
|---------------------------------------|----------------|------------------|----------------|
|                                       |                | (\$ in millions) |                |
| <b>Pension benefits</b>               |                |                  |                |
| Service cost                          | \$ 25          | \$ 24            | \$ 27          |
| Interest cost                         | 99             | 92               | 88             |
| Expected return on plan assets        | (173)          | (167)            | (159)          |
| Amortization of prior service cost    | 3              | 2                | 2              |
| Amortization of net losses            | 7              | 9                | 13             |
| Net benefit                           | \$ <u>(39)</u> | \$ <u>(40)</u>   | \$ <u>(29)</u> |
| <b>Other postretirement benefits</b>  |                |                  |                |
| Service cost                          | \$ 16          | \$ 21            | \$ 19          |
| Interest cost                         | 51             | 46               | 42             |
| Expected return on plan assets        | (15)           | (11)             | (10)           |
| Amortization of prior service benefit | (8)            | (8)              | (8)            |
| Amortization of net losses            | 25             | 28               | 27             |
| Net cost                              | \$ <u>69</u>   | \$ <u>76</u>     | \$ <u>70</u>   |

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

|   | <u>2008</u>      | <u>Other</u>          |
|---|------------------|-----------------------|
|   | <u>Pension</u>   | <u>Postretirement</u> |
|   | <u>Benefits</u>  | <u>Benefits</u>       |
|   | (\$ in millions) |                       |
| Net loss arising during the year                | \$ 708           | \$ 97                 |
| Prior service cost arising during the year      | 7                | --                    |
| Amortization of prior service cost              | (3)              | 8                     |
| Amortization of net losses                      | <u>(7)</u>       | <u>(25)</u>           |
| Total recognized in other comprehensive loss    | \$ <u>705</u>    | \$ <u>80</u>          |
| Total recognized in net periodic (benefit) cost |                  |                       |

and other comprehensive loss

\$ 666 \$ 149

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 cost over the next year are \$25 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 \$34 million and \$2 million, respectively.

As of December 31, 2006, NS adopted 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 December 31, 2006, 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 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:

|  | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|--|-------------|-------------|-------------|
| <b><i>Funded status:</i></b>                     |             |             |             |
| Discount rate                                    | 6.25%       | 6.25%       | 5.75%       |
| Future salary increases                          | 4.5%        | 4.5%        | 4.5%        |
| <b><i>Pension cost:</i></b>                      |             |             |             |
| Discount rate                                    | 6.25%       | 5.75%       | 5.50%       |
| Return on assets in plans                        | 9%          | 9%          | 9%          |
| Future salary increases                          | 4.5%        | 4.5%        | 4.5%        |
| <b><i>Other postretirement benefit cost:</i></b> |             |             |             |
| Discount rate                                    | 6.25%       | 5.75%       | 5.50%       |
| Return on assets in plan                         | 8.5%        | 9%          | 9%          |

To determine the discount rate in 2008 and 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. In 2006, 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, 2008, increases in the per capita cost of covered health care benefits were assumed to be 8.5% for 2008 and 8.8% for 2009. It is assumed the rate will decrease gradually to an ultimate rate of 5% for 2014 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:

#### One percentage point

|  | <u>Increase</u>  | <u>Decrease</u> |
|--|------------------|-----------------|
|  | (\$ in millions) |                 |
| Increase (decrease) in:                    |                  |                 |
| Total service and interest cost components | \$ 9             | \$ (7)          |
| Postretirement benefit obligation          | \$ 113           | \$ (94)         |

## Asset Management

Eleven investment firms manage NS' 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, 2008 and 2007, by asset category, were as follows:

| <u>Asset Category</u>           | <b>Percentage of plan<br/>assets at December 31,</b> |                    |
|---------------------------------|--|--------------------|
|                                 | <b><u>2008</u></b>                                   | <b><u>2007</u></b> |
| Domestic equity securities      | 58%  | 65%                |
| International equity securities | 11%  | 10%                |
| Debt securities                 | 31%  | 25%                |
| Total                           | 100%   | 100%               |

The postretirement benefit plan assets consist primarily of trust-owned variable life insurance policies with an asset allocation at December 31, 2008, of 53% in equity securities and 47% in debt securities compared with 65% in equity securities and 35% in debt securities at December 31, 2007. 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. In 2008, 2007, and 2006 NS assumed a return on pension plan assets of 9%. For 2009, NS assumes an 8.75% return on pension plan assets. A one percentage point change to the rate of return assumption would result in an \$18 million change to the net pension (benefit) cost and, as a result, an equal change in "Compensation and benefits" expense.

## Contributions and Estimated Future Benefit Payments

In 2009, NS expects to contribute approximately \$9 million to its unfunded pension plans for payments to pensioners and \$50 million to its other postretirement benefit plans for retiree health benefits. NS does not expect to contribute to its funded pension plan in 2009.

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

|                 | <b><u>Pension<br/>Benefits</u></b> | <b><u>Other<br/>Postretirement<br/>Benefits</u></b> |
|-----------------|------------------------------------|---|
|                 | <i>(\$ in millions)</i>            |   |
| 2009            | \$ 111                             | \$ 50   |
| 2010            | 114                                | 54  |
| 2011            | 116                                | 57  |
| 2012            | 119                                | 59  |
| 2013            | 122                                | 62  |
| Years 2014-2018 | 646                                | 339   |

The other postretirement benefit payments include an estimated average 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 \$33 million in 2008, \$27 million in 2007, and \$26 million in 2006.

#### **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' matching contributions, recorded as an expense, under these plans were \$15 million in 2008 and \$14 million in both 2007 and 2006.

#### **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 committee) may grant stock options, stock appreciation rights (SARs), restricted stock units, restricted shares, 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 stock units, restricted 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 regular quarterly 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 2008, 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 stock units, restricted shares, 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 result in charges to net income while dividend equivalents, which are all related to equity classified awards, are charged to retained income. Related compensation costs were \$89 million in 2008, \$96 million in 2007 and \$129 million in 2006. The total tax effects recognized in income in relation to stock-based compensation were benefits of \$30 million in 2008, \$32 million in 2007 and \$44 million in 2006.

"Common stock issued – net" in the Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006 includes tax benefits generated from tax deductions in excess of compensation costs recognized (excess tax benefits) for share based awards of \$76 million, \$57 million and \$85 million, respectively.

#### **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 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 Common Stock on the date of grant. 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 who remain actively employed receive cash dividend equivalent payments for five years in an amount equal to the regular quarterly dividends paid on Common Stock.

In the first quarter of 2007, 1,203,300 options were granted under the LTIP and 251,000 options were granted under the TSOP, each with a grant price of \$49.55, but may not be exercised prior to the third anniversary of the date of grant. In the first quarter of 2006, 1,188,700 options were granted under the LTIP and 238,000 options were granted under the TSOP, each with a grant price of \$49.425, but may not be exercised prior to the first anniversary of the date of grant. For both 2007 and 2006, the grant price was the fair market value of Common Stock on the date of grant, and the options have a term of ten years.

The fair value of each option award in 2008, 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 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 the 2008 and 2007 TSOP grants a dividend yield of 2.29% and 1.5%, respectively, was used because no dividend equivalent payments are made on these options. The assumptions for the 2008, 2007 and 2006 LTIP and TSOP grants are shown in the following table:

|  | <u><b>2008</b></u> | <u><b>2007</b></u> | <u><b>2006</b></u> |
|--|--------------------|--------------------|--------------------|
| Expected volatility range              | 25% - 32%          | 26.1% - 33.3%      | 23.5% - 34.5%      |
| Average expected volatility            | 32%                | 33%                | 27%                |
| Average risk-free interest rate        | 3.68%              | 4.9%               | 4.5%               |
| Average expected option term – LTIP    | 5.9 years          | 5.6 years          | 3.7 years          |
| Per-share grant-date fair value – LTIP | \$19.32            | \$19.82            | \$13.47            |
| Average expected option term – TSOP    | 8.0 years          | 6.5 years          | 3.7 years          |
| Per-share grant-date fair value – TSOP | \$16.29            | \$17.88            | \$13.47            |
| Options granted (LTIP and TSOP)        | 1,412,600          | 1,454,300          | 1,427,400          |

A summary of options outstanding as of December 31, 2008, and changes during the twelve months then ended is presented below:

|                                  | <b><u>Option<br/>Shares</u></b> | <b><u>Weighted Avg.<br/>Exercise Price</u></b> |
|----------------------------------|---------------------------------|--|
| Outstanding at December 31, 2007 | 18,579,892                      | \$ 27.51                                       |
| Granted                          | 1,412,600                       | 50.74  |
| Exercised                        | (5,697,049)                     | 24.60  |
| Forfeited                        | <u>(10,720)</u>                 | 36.40  |
| Outstanding at December 31, 2008 | <u>14,284,723</u>               | \$ 30.95                                       |
| Exercisable at December 31, 2008 | 11,465,323                      | \$ 26.23                                       |

The aggregate intrinsic value of options outstanding at December 31, 2008, was \$242 million with a weighted-average remaining contractual term of 4.9 years. Of these options outstanding, 11,465,323 were exercisable and had an aggregate intrinsic value of \$242 million with a weighted average remaining contractual term of 4 years. The following table provides information related to options exercised as of December 31 for the respective years:

|  | <b><u>2008</u></b> | <b><u>2007</u></b>      | <b><u>2006</u></b> |
|--|--------------------|-------------------------|--------------------|
|  |                    | <i>(\$ in millions)</i> |                    |
| Options exercised                      | 5,697,049          | 5,110,334               | 8,677,254          |
| Total intrinsic value                  | \$ 208             | \$ 145                  | \$ 226             |
| Cash received upon exercise of options | \$ 137             | \$ 126                  | \$ 212             |
| Related excess tax benefits realized   | \$ 73              | \$ 52                   | \$ 79              |

At December 31, 2008, there was \$12 million of total unrecognized compensation related to stock options granted under the LTIP and TSOP, which is expected to be recognized over a weighted-average period of approximately 1.6 years.

#### **Restricted Stock Units and Restricted Shares**

Restricted stock unit and restricted share grants were 299,950 and zero, respectively, in 2008, with a grant-date fair value of \$50.47 and a five-year restriction period. In 2007, restricted stock unit and restricted share grants were 321,450 and zero, respectively, with a grant-date fair value of \$50.01 and a five-year restriction period. In 2006, restricted stock unit and restricted share grants were 332,150 and 332,150, respectively, with a grant-date fair value of \$49.60 and a three-year restriction period. Restricted stock units granted in 2008 and 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 regular quarterly dividends paid on Common Stock.

A summary of the status of restricted stock units and restricted shares as of December 31, 2008, and changes during the twelve months then ended is presented below:

|                                | <u>Units</u>     | <u>Shares</u>  | <b>Weighted - Average<br/>Grant-Date<br/>Fair Value</b> |
|--------------------------------|------------------|----------------|---|
| Nonvested at December 31, 2007 | 957,352          | 811,600        | \$ 42.53  |
| Granted                        | 299,950          | --             | 50.47   |
| Vested                         | (5,437)          | (8,156)        | 34.10   |
| Forfeited                      | --               | --             | --  |
| Nonvested at December 31, 2008 | <u>1,251,865</u> | <u>803,444</u> | \$ 43.72  |

At December 31, 2008, there was \$12 million of total unrecognized compensation related to restricted stock units and restricted shares granted under the LTIP, which is expected to be recognized over a weighted-average period of approximately 1.5 years. The total fair values of the restricted stock units paid in cash and restricted shares vested during the twelve months ended December 31, 2008, 2007 and 2006 were \$1 million, \$22 million, and \$40 million, respectively. The total related excess tax benefits realized were \$1 million in 2008, \$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 1,162,600 and \$50.465 in 2008; 1,203,300 and \$49.555 in 2007; and 1,163,600 and \$49.425 in 2006. 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, 2008, and changes during the twelve months then ended is presented below:

|                               | <u>Performance<br/>Share Units</u> | <b>Weighted - Average<br/>Grant-Date<br/>Fair Value</b> |
|-------------------------------|------------------------------------|---|
| Balance December 31, 2007     | 3,603,100                          | \$ 43.91  |
| Granted                       | 1,162,600                          | 50.47   |
| Earned – paid in Common Stock | (506,852)                          | 34.10   |
| Earned – paid in cash         | (507,147)                          | 34.10   |
| Unearned                      | (292,701)                          | 34.10   |
| Forfeited                     | --                                 | --  |
| Balance December 31, 2008     | <u>3,459,000</u>                   | \$ 49.82  |

As of December 31, 2008, there was \$18 million of total unrecognized compensation related to PSUs granted under the LTIP, which is expected to be recognized over a weighted-average period of approximately 1.1 years. The total fair values of PSUs earned and paid in cash during the twelve months ended December 31, 2008, 2007 and 2006 were \$26 million, \$18 million, and \$34 million, respectively. The total related excess tax benefits realized were \$2 million in 2008, \$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:

|                                | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|--------------------------------|-------------|-------------|-------------|
| Available for future grants:   |             |             |             |
| LTIP                           | 6,837,414   | 8,937,651   | 9,288,283   |
| TSOP                           | 2,042,420   | 2,290,700   | 2,538,700   |
| Shares of Common Stock issued: |             |             |             |
| LTIP                           | 5,569,683   | 5,199,060   | 8,517,911   |
| TSOP                           | 642,538     | 540,877     | 836,783     |

## 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, 2008, and 2007, amounted to 20,579,088 and 20,683,686 shares, respectively, with a cost of \$19 million in 2008 and \$20 million in 2007.

### Accumulated Other Comprehensive Loss

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

|  | Balance                 | Net             |                                 | Balance           |
|--|-------------------------|-----------------|---------------------------------|-------------------|
|  | at Beginning<br>of Year | Gain<br>(Loss)  | Reclassification<br>Adjustments | at End<br>of Year |
|  |                         |                 |                                 |                   |
|  |                         |                 | (\$ in millions)                |                   |
| December 31, 2008                            |                         |                 |                                 |                   |
| Pension and other postretirement liabilities | \$ (349)                | \$ (498)        | \$ 16                           | \$ (831)          |
| Other comprehensive loss of equity investees | (50)                    | (61)            | --                              | (111)             |
| Accumulated other comprehensive loss         | <u>\$ (399)</u>         | <u>\$ (559)</u> | <u>\$ 16</u>                    | <u>\$ (942)</u>   |
| December 31, 2007                            |                         |                 |                                 |                   |
| Pension and other postretirement liabilities | \$ (315)                | \$ (54)         | \$ 20                           | \$ (349)          |
| Other comprehensive loss of equity investees | (55)                    | 5               | --                              | (50)              |
| Unrealized gains on securities               | <u>1</u>                | <u>--</u>       | <u>(1)</u>                      | <u>--</u>         |
| Accumulated other comprehensive loss         | <u>\$ (369)</u>         | <u>\$ (49)</u>  | <u>\$ 19</u>                    | <u>\$ (399)</u>   |

### Other Comprehensive Income (Loss)

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

|   | Pretax<br>Amount | Tax<br>(Expense)<br>Benefit | Net-of-Tax<br>Amount |
|---|------------------|-----------------------------|----------------------|
|   |                  |                             |                      |
|   |                  | (\$ in millions)            |                      |
| <b>Year ended December 31, 2008</b>                           |                  |                             |                      |
| Net gain (loss) arising during the year:                      |                  |                             |                      |
| Pensions and other postretirement benefits                    | \$ (812)         | \$ 314                      | \$ (498)             |
| Reclassification adjustments for costs included in net income | <u>27</u>        | <u>(11)</u>                 | <u>16</u>            |
| Subtotal  | <u>(785)</u>     | <u>303</u>                  | <u>(482)</u>         |

|   |                 |               |                 |
|---|-----------------|---------------|-----------------|
| Other comprehensive income (loss) of equity investees | (65)            | 4             | (61)            |
| Other comprehensive income (loss)                     | \$ <u>(850)</u> | \$ <u>307</u> | \$ <u>(543)</u> |

**Year ended December 31, 2007**

Net gain (loss) arising during the year:

|   |                |              |                |
|---|----------------|--------------|----------------|
| Pensions and other postretirement benefits  | \$ (88)        | \$ 34        | \$ (54)        |
| Reclassification adjustments for costs included in net income                         | <u>31</u>      | <u>(11)</u>  | <u>20</u>      |
| Subtotal  | <u>(57)</u>    | <u>23</u>    | <u>(34)</u>    |
| Other comprehensive income of equity investees  | 5              | --           | 5              |
| Reclassification adjustment for unrealized gains on securities included in net income | <u>(2)</u>     | <u>1</u>     | <u>(1)</u>     |
| Other comprehensive income (loss)   | \$ <u>(54)</u> | \$ <u>24</u> | \$ <u>(30)</u> |

**Year ended December 31, 2006**

Net gain (loss) arising during the year:

|   |                |              |             |
|---|----------------|--------------|-------------|
| Cash flow hedges  | \$ (1)         | \$ 1         | \$ --       |
| Reclassification adjustments for gains included in net income | <u>(20)</u>    | <u>8</u>     | <u>(12)</u> |
| Subtotal  | <u>(21)</u>    | <u>9</u>     | <u>(12)</u> |
| Unrealized gains on securities                                | 1              | --           | 1           |
| Minimum pension liability                                     | (10)           | 4            | (6)         |
| Other comprehensive income of equity investees                | <u>15</u>      | <u>4</u>     | <u>19</u>   |
| Other comprehensive income (loss)                             | \$ <u>(15)</u> | \$ <u>17</u> | \$ <u>2</u> |

**13. Stock Repurchase Program**

In March 2007, NS' Board of Directors amended NS' 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 19.4 million shares, 23.6 million shares, and 21.7 million shares of its common stock under this program in 2008, 2007, and 2006, respectively, at a cost of \$1.1 billion, \$1.2 billion, and \$964 million, respectively. Since inception of this program in 2006, NS has repurchased and retired 64.7 million shares of Common Stock at a total cost of \$3.3 billion.

**14. Earnings Per Share**

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

|   | <u>2008</u>   | <u>2007</u>    | <u>2006</u>    |
|---|---|----------------|----------------|
|   | (\$ in millions except per share, shares in millions) |                |                |
| Basic earnings per share:               |   |                |                |
| Income available to common stockholders | \$ 1,711  | \$ 1,459       | \$ 1,475       |
| Weighted-average shares outstanding     | <u>372.3</u>  | <u>389.6</u>   | <u>406.0</u>   |
| Basic earnings per share                | \$ <u>4.60</u>  | \$ <u>3.74</u> | \$ <u>3.63</u> |

Income available to common stockholders for both 2008 and 2007 reflects a \$5 million reduction, and in 2006 a \$6 million reduction for the after-tax effect of dividend equivalent payments made to holders of vested stock options.

2008

2007

2006

(\$ in millions except per share, shares in millions)

|   |          |          |          |
|---|----------|----------|----------|
| Diluted earnings per share:   |          |          |          |
| Income available to common stockholders   | \$ 1,716 | \$ 1,464 | \$ 1,481 |
| Weighted-average shares outstanding per above   | 372.3    | 389.6    | 406.0    |
| Dilutive effect of outstanding options and share-settled awards (as determined by the application of the treasury stock method) | 7.7      | 8.2      | 8.7      |
| Adjusted weighted-average shares outstanding  | 380.0    | 397.8    | 414.7    |
| Diluted earnings per share  | \$ 4.52  | \$ 3.68  | \$ 3.57  |

The diluted calculations exclude options having exercise prices exceeding the average market price of Common Stock as follows: zero in 2008 and 2007 and 1 million in 2006.

## 15. Fair Values of Financial Instruments

The fair values of "Cash and cash equivalents," "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:

|                | 2008             |            | 2007            |            |
|----------------|------------------|------------|-----------------|------------|
|                | Carrying Amount  | Fair Value | Carrying Amount | Fair Value |
|                | (\$ in millions) |            |                 |            |
| Investments    | \$ 187           | \$ 202     | \$ 154          | \$ 173     |
| Long-term debt | \$ (6,667)       | \$ (6,885) | \$ (6,368)      | \$ (6,935) |

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, 2008 and 2007. Sales of "available-for-sale" securities were immaterial for the years ended December 31, 2008, 2007, and 2006; most short-term investments were redeemed at maturity during 2007.

## 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 heating oil 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% of NS' operating expenses for the year ended December 31, 2006. The last remaining contracts were settled in the second quarter of 2006, bringing an end to this program. NS' fuel hedging activity resulted in a decrease in diesel fuel expense of \$20 million in 2006. Ineffectiveness, or the extent to which changes in the fair value of the heating oil contracts did not offset changes in the fair values of the expected diesel fuel transactions, resulted in a \$1 million expense in 2006.

## 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 \$17 million, or less than 1%, and \$59 million, or about 1%, of its fixed rate debt portfolio hedged as of December 31, 2008, and December 31, 2007, 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 expense of approximately \$1 million for 2008, 2007, and 2006. 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, 2008, and December 31, 2007, 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 gross and net asset position of NS' outstanding derivative financial instruments was approximately \$1 million at December 31, 2008 and 2007.

## 17. 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 claim 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 January 6, 2005, derailment in Graniteville, SC. The total liability related to the derailment 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. The Consolidated Balance Sheets reflect current and long-term receivables for estimated recoveries from NS' insurance carriers. NS is engaged in arbitration with one of its insurance carriers that failed to respond to an insurance claim submitted by NS. NS believes these expenses are covered by the insurance policy and that recovery of any contested amount is probable, in that NS expects the arbitrator will 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. Accordingly, NS has recorded the full recovery attributable to such carrier (\$100 million). In October 2008, another of NS' insurance carriers provided the preliminary findings of its review of NS' reimbursement request and reported that it may dispute a portion of that request. NS has initiated arbitration against the carrier and believes that all expenses contained in the reimbursement request are covered by the insurance policy and that recovery is probable.

**Employee personal injury claims** – The largest component of casualties and other claims expense is employee personal injury costs. The independent 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 predicting future events such as jury decisions, court interpretations, or legislative changes and as such the actual loss may vary 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 allegedly 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 independent 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 independent 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 independent 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) in the Consolidated Balance Sheets 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 \$42 million at December 31, 2008, and \$46 million at December 31, 2007 (of which \$12 million is classified as a current liability at December 31, 2008 and 2007). At December 31, 2008, the liability represents NS' estimate of the probable cleanup and remediation costs based on available information at 148 known locations compared with 155 locations at December 31, 2007. As of December 31, 2008, 13 sites accounted for \$22 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 30 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 April 24, 2008, the United States Department of Justice (DOJ) brought 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 January 6, 2005, derailment in Graniteville, SC, including claims for civil penalties as well as injunctive relief. On June 24, 2008, NS filed a motion to dismiss DOJ's claims, contending that insufficient facts have been alleged to support such claims. NS does not believe that the outcome of these proceedings will have a material 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 December 31, 2008, NS had outstanding purchase commitments of approximately \$119 million primarily for freight cars, RoadRailer® trailers and track material in connection with its capital programs through 2010.

## 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, Norfolk Southern 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 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 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, 2008, certain Norfolk Southern subsidiaries are contingently liable as guarantors with respect to \$8 million of indebtedness, due in 2019, of an entity in which they have an ownership interest, the Terminal Railroad Association of St. Louis. Four other railroads are also jointly and severally liable as guarantors for this indebtedness. No liability has been recorded related to this guaranty.

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## NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES

### QUARTERLY FINANCIAL DATA

(Unaudited)

|                                | Three Months Ended                         |                |                     |                    |
|--------------------------------|--|----------------|---------------------|--------------------|
|                                | <u>March 31</u>                            | <u>June 30</u> | <u>September 30</u> | <u>December 31</u> |
|                                | (\$ in millions, except per share amounts) |                |                     |                    |
| <b><u>2008</u></b>             |  |                |                     |                    |
| Railway operating revenues     | \$ 2,500                                   | \$ 2,765       | \$ 2,894            | \$ 2,502           |
| Income from railway operations | 578  | 799            | 894                 | 813                |
| Net income                     | 291  | 453            | 520                 | 452                |
| Earnings per share:            |  |                |                     |                    |
| Basic                          | \$ 0.77                                    | \$ 1.20        | \$ 1.39             | \$ 1.23            |
| Diluted                        | \$ 0.76                                    | \$ 1.18        | \$ 1.37             | \$ 1.21            |
| <b><u>2007</u></b>             |  |                |                     |                    |
| Railway operating revenues     | \$ 2,247                                   | \$ 2,378       | \$ 2,353            | \$ 2,454           |
| Income from railway operations | 528  | 690            | 681                 | 686                |

|                     |    |      |    |      |    |      |    |      |
|---------------------|----|------|----|------|----|------|----|------|
| Net income          |    | 285  |    | 394  |    | 386  |    | 399  |
| Earnings per share: |    |      |    |      |    |      |    |      |
| Basic               | \$ | 0.72 | \$ | 1.00 | \$ | 0.99 | \$ | 1.04 |
| Diluted             | \$ | 0.71 | \$ | 0.98 | \$ | 0.97 | \$ | 1.02 |

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**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Norfolk Southern's Chief Executive Officer and Chief Financial Officer, with the assistance of management, evaluated the effectiveness of NS' disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of December 31, 2008. Based on such evaluation, such officers have concluded that, as of December 31, 2008, NS' disclosure controls and procedures were effective to ensure that information required to be disclosed in NS' reports under the Exchange Act is recorded, processed, summarized, and reported, within the time period specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

**Internal Control Over Financial Reporting**

The management of Norfolk Southern is responsible for establishing and maintaining adequate internal control over financial reporting. Norfolk Southern's internal control over financial reporting includes those policies and procedures that pertain to its ability to record, process, summarize, and report reliable financial data. Management recognizes that there are inherent limitations in the effectiveness of any internal control over financial reporting, including the possibility of human error and the circumvention or overriding of internal control. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.

In order to ensure that Norfolk Southern's internal control over financial reporting is effective, management regularly assesses such controls and did so most recently for its financial reporting as of December 31, 2008. This assessment was based on criteria for effective internal control over financial reporting set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Based on our assessment, management has concluded that Norfolk Southern maintained effective internal control over financial reporting as of December 31, 2008.

The Board of Directors, acting through its Audit Committee, is responsible for the oversight of Norfolk Southern's accounting policies, financial reporting and internal control. The Audit Committee of the Board of Directors is comprised entirely of outside directors who are independent of management. The independent registered public accounting firm and the internal auditors have full and unlimited access to the Audit Committee, with or without management, to discuss the adequacy of internal control over financial reporting, and any other matters which they believe should be brought to the attention of the Audit Committee.

Norfolk Southern's management has issued a report of its assessment of internal control over financial reporting, and Norfolk Southern's independent registered public accounting firm has issued an attestation report on Norfolk Southern's internal controls over financial reporting as of December 31, 2008. These reports appear in Part II, Item 8 of this report on Form 10-K.

During the fourth quarter of 2008, management has not identified any changes in internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, NS' internal control over financial reporting.

**Item 9B. Other Information**

None.

## PART III

### NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES (NS)

#### Item 10. Directors, Executive Officers and Corporate Governance

In accordance with General Instruction G(3), information called for by Item 10, Part III, is incorporated herein by reference from the information appearing under the caption "Election of Directors," under the caption "Section 16(a) Beneficial Ownership Reporting Compliance," under the caption "Corporate Governance," and under the caption "Committees" in Norfolk Southern's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 14, 2009, which definitive Proxy Statement will be filed electronically with the Securities and Exchange Commission (Commission) pursuant to Regulation 14A. The information regarding executive officers called for by Item 401 of Regulation S-K is included in Part I hereof beginning under "Executive Officers of the Registrant."

#### Item 11. Executive Compensation

In accordance with General Instruction G(3), information called for by Item 11, Part III, is incorporated herein by reference from the information:

- appearing under the subcaption "Compensation" under the caption "Board of Directors" for directors, including the "2008 Non-Employee Director Compensation Table" and the "Narrative to Non-Employee Director Compensation Table;"
- appearing under the caption "Executive Compensation" for executives, including the "Compensation Discussion and Analysis," the information appearing in the "Summary Compensation Table" and the "2008 Grants of Plan-Based Awards" table, including the narrative to such tables, the "Outstanding Equity Awards at Fiscal Year-End 2008" and "Option Exercises and Stock Vested in 2008" tables, and the tabular and narrative information appearing under the subcaptions "Retirement Benefits," "Deferred Compensation," and "Potential Payments Upon a Change in Control or Other Termination of Employment;" and
- appearing under the captions "Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report,"

in each case included in Norfolk Southern's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 14, 2009, which definitive Proxy Statement will be filed electronically with the Commission pursuant to Regulation 14A.

#### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

In accordance with General Instruction G(3), information on security ownership of certain beneficial owners and management called for by Item 12, Part III, Item 403 of Regulation S-K, is incorporated herein by reference from the information appearing under the caption "Beneficial Ownership of Stock" in Norfolk Southern's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 14, 2009, which definitive Proxy Statement will be filed electronically with the Commission pursuant to Regulation 14A.

#### Equity Compensation Plan Information (as of December 31, 2008)

| Plan                | Number of securities to be issued upon exercise of outstanding options, warrants and | Weighted-average Exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance                   |
|---------------------|--|---|--|
|                     |  |   | under equity compensation plans (excluding securities reflected in column (a)) |
| <u>Category</u>     | <u>rights</u>  | <u>and rights</u>   | <u>in column (a))</u>  |
|                     | (a)  | (b)   | (c)  |
| Equity compensation |  |   |  |

|  |                                 |    |                      |                                 |
|--|---------------------------------|----|----------------------|---------------------------------|
| plans approved by<br>security holders <sup>(1)</sup>                               | 14,937,465 <sup>(3)</sup>       | \$ | 31.26 <sup>(5)</sup> | 6,837,414 <sup>(6)</sup>        |
| Equity compensation<br>plans not approved<br>by<br>security holders <sup>(2)</sup> | <u>1,946,100</u> <sup>(4)</sup> | \$ | 35.52                | <u>2,072,420</u> <sup>(7)</sup> |
| Total  | <u>16,883,565</u>               |    |                      | <u>8,909,834</u>                |

<sup>1</sup> The Long-Term Incentive Plan, excluding five million shares for broad-based issuance to non-officers.

<sup>2</sup> The Long-Term Incentive Plan's five million shares for broad-based issuance to non-officers, the Thoroughbred Stock Option Plan and the Directors' Restricted Stock Plan.

<sup>3</sup> Includes options, restricted stock units and performance share units granted under the Long-Term Incentive Plan that may be settled in shares of stock.

<sup>4</sup> Includes options granted under the Long-Term Incentive Plan on 428,168 shares for non-officers and options granted under the Thoroughbred Stock Option Plan.

<sup>5</sup> Calculated without regard to 2,598,842 outstanding restricted stock units and performance share units at December 31, 2008.

<sup>6</sup> Of the shares remaining available for grant under plans approved by stockholders, 5,582,679 are available for grant as restricted shares, performance shares or restricted stock unit shares under the Long-Term Incentive Plan.

<sup>7</sup> Of the shares remaining available for grant under plans not approved by stockholders, 30,000 are available for grant as restricted stock under the Directors' Restricted Stock Plan.

#### **Norfolk Southern Corporation Long-Term Incentive Plan ("LTIP")**

Established on June 28, 1983, and approved by stockholders at their Annual Meeting held on May 10, 1984, LTIP was adopted to promote the success of Norfolk Southern by providing an opportunity for non-employee directors, officers and other key employees to acquire a proprietary interest in the Corporation. On January 23, 2001, the Board of Directors further amended LTIP and approved the issuance of an additional 5,000,000 shares of authorized but unissued Common Stock under LTIP to participants who are not officers of Norfolk Southern. The issuance of these shares was broadly-based, and stockholder approval of these shares was not required. Accordingly, this portion of LTIP is included in the number of securities available for future issuance for plans not approved by stockholders. Also on January 23, 2001, the Board amended LTIP, which amendment was approved by shareholders on May 10, 2001, that included the reservation for issuance of an additional 30,000,000 shares of authorized but unissued Norfolk Southern Common Stock.

Pursuant to another amendment approved by stockholders on May 12, 2005, not more than 8,500,000 of the shares remaining available for issuance under LTIP may be awarded as restricted shares, performance shares or restricted stock unit shares. Cash payments of restricted stock units, stock appreciation rights, and performance share units will not be applied against the maximum number of shares issuable under LTIP. Any shares of Common Stock subject to options, performance share units, restricted shares or restricted stock units which are not issued as Common Stock will again be available for award under LTIP after the expiration or forfeiture of an award.

Non-employee directors, officers and other key employees residing in the United States or Canada are eligible for selection to receive LTIP awards. Under LTIP, the Compensation Committee (Committee) may grant incentive stock options, nonqualified stock options, stock appreciation rights, restricted shares, restricted stock units, and performance share units. In addition, dividend equivalents may be awarded for options, restricted stock units, and performance share units. The Committee may make awards under LTIP subject to forfeiture under certain circumstances and may establish such other terms and conditions for the awards as provided in LTIP.

For options, the option price per share will not be less than 100% of the fair market value of Norfolk Southern's Common Stock on the effective date the option is granted. All options are subject to a vesting period of at least one year, and the term of the option will not exceed ten years. LTIP specifically prohibits option repricing without stockholder approval, except for capital adjustments.

Performance share units entitle a recipient to receive performance-based compensation at the end of a three-year performance cycle based on Norfolk Southern's performance during that three-year period. For the 2008 performance share unit awards, corporate performance will be measured using three equally weighted standards established by the Committee: (1) three-year average return on average capital invested, (2) three-year average operating ratio, and (3) three-year total return to stockholders as compared with the average total return on all stocks comprising the S&P 500 composite stock price index. Performance share units may be payable in either shares of Norfolk Southern Common Stock or cash.

Restricted stock units are payable in cash or in shares of Norfolk Southern Common Stock at the end of a restriction period of not less than 36 months and not more than 60 months. During the restriction period, the holder of the restricted stock units has no beneficial ownership interest in the Norfolk Southern Common Stock represented by the restricted stock units and has no right to vote the shares represented by the units or to receive dividends (except for dividend equivalent rights that may be awarded with respect to the restricted stock units). The Committee at its discretion may waive the restriction period.

#### **Norfolk Southern Corporation Thoroughbred Stock Option Plan**

The Board adopted the Norfolk Southern Corporation Thoroughbred Stock Option Plan ("TSOP") on January 26, 1999, to promote the success of Norfolk Southern by providing an opportunity for nonagreement employees to acquire a proprietary interest in Norfolk Southern and thereby to provide an additional incentive to nonagreement employees to devote their maximum efforts and skills to the advancement, betterment, and prosperity of Norfolk Southern and its stockholders. Under the TSOP there were 6,000,000 shares of authorized but unissued Common Stock reserved for issuance. TSOP has not been and is not required to have been approved by stockholders.

Active full-time nonagreement employees residing in the United States or Canada are eligible for selection to receive TSOP awards. Under TSOP, the Committee may grant nonqualified stock options subject to such terms and conditions as provided in TSOP.

The option price will not be less than 100% of the fair market value of Norfolk Southern's Common Stock on the effective date the options are granted. All options are subject to a vesting period of at least one year, and the term of the option will not exceed ten years. Options awarded in 2008 are subject to a three-year vesting period. TSOP specifically prohibits option repricing without stockholder approval, except for capital adjustments.

#### **Norfolk Southern Corporation Directors' Restricted Stock Plan**

The Norfolk Southern Corporation Directors' Restricted Stock Plan ("Plan") was adopted on January 1, 1994, and is designed to increase ownership of Norfolk Southern Common Stock by its non-employee directors so as to further align their ownership interest in Norfolk Southern with that of stockholders. The Plan has not been and is not required to have been approved by stockholders. Currently, a maximum of 66,000 shares of Norfolk Southern Common Stock may be granted under the Plan. To make grants to eligible directors, Norfolk Southern purchases, through one or more subsidiary companies, the number of shares required in open-market transactions at prevailing market prices, or makes such grants from Norfolk Southern Common Stock already owned by one or more of Norfolk Southern's subsidiary companies.

Only non-employee directors who are not and never have been employees of Norfolk Southern are eligible to participate in the Plan. Upon becoming a director, each eligible director receives a one-time grant of 3,000 restricted shares of Norfolk Southern Common Stock. No individual member of the Board exercises discretion concerning the eligibility of any director or the number of shares granted.

The restriction period applicable to restricted shares granted under the Plan begins on the date of the grant and ends on the earlier of the recipient's death or six months after the recipient ceases to be a director by reason of disability or retirement. During the restriction period shares may not be sold, pledged, or otherwise encumbered. Directors will forfeit the restricted shares if they cease to serve as a director of Norfolk Southern for reasons other than their disability, retirement, or death.

#### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

In accordance with General Instruction G(3), information called for by Part III, Item 13, is incorporated herein by reference from the information appearing under the caption "Transactions with Related Persons" and under the caption "Director Independence" in Norfolk Southern's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 14, 2009, which definitive Proxy Statement will be filed electronically with the Commission pursuant to Regulation 14A.

#### **Item 14. Principal Accountant Fees and Services**

In accordance with General Instruction G(3), information called for by Part III, Item 14, is incorporated herein by reference from the information appearing under the caption "Ratification of Appointment of Independent Registered Public Accounting Firm" in Norfolk Southern's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 14, 2009, which definitive proxy statement will be filed electronically with the Commission pursuant to Regulation 14A.

### **PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

Page

(A) The following documents are filed as part of this report:

|    |  |     |
|----|--|-----|
| 1. | <u>Index to Consolidated Financial Statements</u>  | -   |
|    | Report of Management   | K42 |
|    | Reports of Independent Registered Public Accounting Firm   | K43 |
|    | Consolidated Statements of Income, Years ended December 31, 2008, 2007 and 2006                          | K45 |
|    | Consolidated Balance Sheets as of December 31, 2008 and 2007   | K46 |
|    | Consolidated Statements of Cash Flows, Years ended December 31, 2008, 2007 and 2006                      | K47 |
|    | Consolidated Statements of Changes in Stockholders' Equity, Years ended December 31, 2008, 2007 and 2006 | K48 |
|    | Notes to Consolidated Financial Statements   | K49 |

2. Financial Statement Schedule:

The following consolidated financial statement schedule should be read in connection with the consolidated financial statements:

|   |             |
|---|-------------|
| <u>Index to Consolidated Financial Statement Schedule</u> | <u>Page</u> |
| Schedule II - Valuation and Qualifying Accounts           | K95         |

Schedules other than the one listed above are omitted either because they are not required or are inapplicable, or because the information is included in the consolidated financial statements or related notes.

3. Exhibits

| <u>Exhibit Number</u> | <u>Description</u>  |
|-----------------------|---|
| 3                     | Articles of Incorporation and Bylaws -  |
| 3(i)                  | The Restated Articles of Incorporation of Norfolk Southern Corporation are incorporated by reference to Exhibit 3(i) to Norfolk Southern Corporation's 10-K filed on March 5, 2001.   |
| 3(ii)                 | The Bylaws of Norfolk Southern Corporation, as amended effective January 27, 2009, are incorporated by reference to Exhibit 3(ii) to Norfolk Southern Corporation's Form 8-K filed on January 30, 2009.   |
| 4                     | Instruments Defining the Rights of Security Holders, Including Indentures:  |
| (a)                   | Indenture, dated as of January 15, 1991, from Norfolk Southern Corporation to First Trust of New York, National Association, as Trustee, is incorporated by reference to Exhibit 4.1 to Norfolk Southern Corporation's Registration Statement on Form S-3 (No. 33-38595). |

- (b) First Supplemental Indenture, dated May 19, 1997, between Norfolk Southern Corporation and First Trust of New York, National Association, as Trustee, related to the issuance of notes in the principal amount of \$4.3 billion, is incorporated herein by reference to Exhibit 1.1(d) to Norfolk Southern Corporation's Form 8-K filed on May 21, 1997.
- (c) Second Supplemental Indenture, dated April 26, 1999, between Norfolk Southern Corporation and U.S. Bank Trust National Association, as Trustee, related to the issuance of notes in the principal amount of \$400 million, is incorporated herein by reference to Exhibit 1.1(c) to Norfolk Southern Corporation's Form 8-K filed on April 30, 1999.
- (d) Third Supplemental Indenture, dated May 23, 2000, between Norfolk Southern Corporation and U.S. Bank Trust National Association, as Trustee, related to the issuance of notes in the principal amount of \$600 million, is incorporated herein by reference to Exhibit 4.1 to Norfolk Southern Corporation's Form 8-K filed on May 25, 2000.
- (e) Fourth Supplemental Indenture, dated as of February 6, 2001, between Norfolk Southern Corporation and U.S. Bank Trust National Association, as Trustee, related to the issuance of notes in the principal amount of \$1 billion, is incorporated herein by reference to Exhibit 4.1 to Norfolk Southern Corporation's Form 8-K filed on February 7, 2001.
- (f) Sixth Supplemental Indenture, dated as of April 30, 2002, between Norfolk Southern Corporation and U.S. Bank Trust National Association, as Trustee, relating to the issuance of notes in the principal amount of \$200 million, is incorporated herein by reference to Exhibit 4.1 to Norfolk Southern Corporation's Form 8-K filed on May 1, 2002.
- (g) Eighth Supplemental Indenture, dated as of September 17, 2004, between Norfolk Southern Corporation and U.S. Bank Trust National Association, as Trustee, relating to the issuance of 5.257% Notes due 2014 ("Securities") in the aggregate principal amount of \$441.5 million in connection with Norfolk Southern Corporation's offer to exchange the Securities and cash for up to \$400 million of its outstanding 7.350% Notes due 2007, is incorporated herein by reference to Exhibit 4.1 to Norfolk Southern Corporation's Form 8-K filed on September 23, 2004.
- (h) Indenture, dated August 27, 2004, among PRR Newco, Inc., as Issuer, and Norfolk Southern Railway Company, as Guarantor, and The Bank of New York, as Trustee, is incorporated herein by reference to Exhibit 4(l) to Norfolk Southern Corporation's Form 10-Q filed on October 28, 2004.
- (i) First Supplemental Indenture, dated August 27, 2004, among PRR Newco, Inc., as Issuer, and Norfolk Southern Railway Company, as Guarantor, and The Bank of New York, as Trustee, related to the issuance of notes in the principal amount of approximately \$451.8 million, is incorporated herein by reference to Exhibit 4(m) to Norfolk Southern Corporation's Form 10-Q filed on October 28, 2004.
- (j) Ninth Supplemental Indenture, dated as of March 11, 2005, between Norfolk Southern Corporation and U.S. Bank Trust National Association, as Trustee, relating to the issuance of notes in the principal amount of \$300 million, is incorporated herein by reference to Exhibit 4.1 to Norfolk Southern Corporation's Form 8-K filed on March 15, 2005.
- (k) Tenth Supplemental Indenture, dated as of May 17, 2005, between Norfolk Southern Corporation and U.S. Bank Trust National Association, as Trustee, relating to the issuance of notes in the principal amount of \$366.6 million, is incorporated herein by reference to Exhibit 99.1 to Norfolk Southern Corporation's Form 8-K filed on May 18, 2005.



- (l) Eleventh Supplemental Indenture, dated as of May 17, 2005, between Norfolk Southern Corporation and U.S. Bank Trust National Association, as Trustee, relating to the issuance of notes in the principal amount of \$350 million, is incorporated herein by reference to Exhibit 99.2 to Norfolk Southern Corporation's Form 8-K filed on May 18, 2005.
- (m) Indenture, dated as of April 4, 2008, between Norfolk Southern Corporation and U.S. Bank Trust National Association, as Trustee, relating to the issuance of notes in the principal amount of \$600 million, is incorporated herein by reference to Exhibit 4.1 to Norfolk Southern Corporation's Form 8-K filed on April 9, 2008.
- (n) Indenture, dated as of January 15, 2009, between Norfolk Southern Corporation and U.S. Bank trust National Association, as Trustee, relating to the issuance of notes in the principal amount of \$500 million, is incorporated herein by reference to Exhibit 4.1 to Norfolk Southern Corporation's Form 8-K filed on January 20, 2009.
- (o) Registration Rights Agreement, dated as of January 15, 2009, among Norfolk Southern Corporation and Citigroup Global Markets Inc., J.P. Morgan Securities Inc and UBS Securities LLC, is incorporated herein by reference to Exhibit 4.2 to Norfolk Southern Corporation's Form 8-K filed on January 20, 2009.
- (p) In accordance with Item 601(b)(4)(iii) of Regulation S-K, copies of other instruments of Norfolk Southern Corporation and its subsidiaries with respect to the rights of holders of long-term debt are not filed herewith, or incorporated by reference, but will be furnished to the Commission upon request.

10 Material Contracts -

- (a) The Transaction Agreement, dated as of June 10, 1997, by and among CSX, CSX Transportation, Inc., Registrant, Norfolk Southern Railway Company, Conrail Inc., Consolidated Rail Corporation, and CRR Holdings LLC, with certain schedules thereto, previously filed, is incorporated herein by reference to Exhibit 10(a) to Norfolk Southern Corporation's Form 10-K filed on February 24, 2003.
- (b) Amendment No. 1, dated as of August 22, 1998, to the Transaction Agreement, dated as of June 10, 1997, by and among CSX Corporation, CSX Transportation, Inc., Norfolk Southern Corporation, Norfolk Southern Railway Company, Conrail Inc., Consolidated Rail Corporation, and CRR Holdings LLC, is incorporated herein by reference from Exhibit 10.1 to Norfolk Southern Corporation's Form 10-Q filed on August 11, 1999.
- (c) Amendment No. 2, dated as of June 1, 1999, to the Transaction Agreement, dated June 10, 1997, by and among CSX Corporation, CSX Transportation, Inc., Norfolk Southern Corporation, Norfolk Southern Railway Company, Conrail Inc., Consolidated Rail Corporation, and CRR Holdings LLC, is incorporated herein by reference from Exhibit 10.2 to Norfolk Southern Corporation's Form 10-Q filed on August 11, 1999.
- (d) Amendment No. 3, dated as of June 1, 1999, and executed in April 2004, to the Transaction Agreement, dated June 10, 1997, by and among CSX Corporation, CSX Transportation, Inc., Norfolk Southern Corporation, Norfolk Southern Railway Company, Conrail Inc., Consolidated Rail Corporation, and CRR Holdings LLC, is incorporated herein by reference to Exhibit 10(dd) to Norfolk Southern Corporation's Form 10-Q filed on July 30, 2004.

- (e) Amendment No. 5 to the Transaction Agreement, dated as of August 27, 2004, by and among CSX Corporation, CSX Transportation, Inc., Norfolk Southern Corporation, Norfolk Southern Railway Company, Conrail Inc., Consolidated Rail Corporation, and CRR Holdings LLC, is incorporated herein by reference to Exhibit 10.1 to Norfolk Southern Corporation's Form 8-K filed on September 2, 2004.
- (f) Amendment No. 6, dated as of April 1, 2007, to the Transaction Agreement dated June 10, 1997, by and among CSX Corporation, CSX Transportation, Inc., Norfolk Southern Railway Company, Conrail Inc., Consolidated Rail Corporation, and CRR Holdings LLC is incorporated herein by reference to Exhibit 10.5 to Norfolk Southern Corporation's Form 10-Q filed on July 27, 2007.
- (g) Shared Assets Area Operating Agreement for North Jersey, dated as of June 1, 1999, by and among Consolidated Rail Corporation, CSX Transportation, Inc., and Norfolk Southern Railway Company, with exhibit thereto, is incorporated herein by reference from Exhibit 10.4 to Norfolk Southern Corporation's Form 10-Q filed on August 11, 1999.
- (h) Shared Assets Area Operating Agreement for Detroit, dated as of June 1, 1999, by and among Consolidated Rail Corporation, CSX Transportation, Inc., and Norfolk Southern Railway Company, with exhibit thereto, is incorporated herein by reference from Exhibit 10.6 to Norfolk Southern Corporation's Form 10-Q filed on August 11, 1999.
- (i) Shared Assets Area Operating Agreement for South Jersey/Philadelphia, dated as of June 1, 1999, by and among Consolidated Rail Corporation, CSX Transportation Inc., and Norfolk Southern Railway Company, with exhibit thereto, is incorporated herein by reference from Exhibit 10.5 to Norfolk Southern Corporation's Form 10-Q filed on August 11, 1999.
- (j) Amendment No. 1, dated as of June 1, 2000, to the Shared Assets Areas Operating Agreement for North Jersey, South Jersey/Philadelphia, and Detroit, dated as of June 1, 1999, by and among Consolidated Rail Corporation, CSX Transportation, Inc., and Norfolk Southern Railway Company, with exhibit thereto, is incorporated herein by reference to Exhibit 10(h) to Norfolk Southern Corporation's 10-K filed on March 5, 2001.
- (k) Amendment No. 2, dated as January 1, 2001, to the Shared Assets Area Operating Agreements for North Jersey, South Jersey/Philadelphia, and Detroit, dated as of June 1, 1999, by and among Consolidated Rail Corporation, CSX Transportation, Inc., and Norfolk Southern Railway Company, with exhibit thereto, is incorporated herein by reference to Exhibit 10(j) to Norfolk Southern Corporation's Form 10-K filed on February 21, 2002.
- (l) Amendment No. 3, dated as of June 1, 2001, and executed in May of 2002, to the Shared Assets Area Operating Agreement for North Jersey, South Jersey/Philadelphia, and Detroit, dated as of June 1, 1999, by and among Consolidated Rail Corporation, CSX Transportation, Inc., and Norfolk Southern Railway Company, with exhibit thereto, is incorporated herein by reference to Exhibit 10(k) to Norfolk Southern Corporation's Form 10-K filed on February 24, 2003.
- (m) Amendment No. 4, dated as of June 1, 2005, and executed in late June 2005, to the Shared Assets Area Operating Agreement for North Jersey, South Jersey/Philadelphia, and Detroit, dated as of June 1, 1999, by and among Consolidated Rail Corporation, CSX Transportation, Inc., and Norfolk Southern Railway Company, with exhibits thereto, is incorporated herein by reference to Exhibit 99 to Norfolk Southern Corporation's Form 8-K filed on July 1, 2005.

- (n) Monongahela Usage Agreement, dated as of June 1, 1999, by and among CSX Transportation, Inc., Norfolk Southern Railway Company, Pennsylvania Lines LLC, and New York Central Lines LLC, with exhibit thereto, is incorporated herein by reference from Exhibit 10.7 to Norfolk Southern Corporation's Form 10-Q filed on August 11, 1999.
- (o) The Agreement, entered into as of July 27, 1999, between North Carolina Railroad Company and Norfolk Southern Railway Company, is incorporated herein by reference from Exhibit 10(i) to Norfolk Southern Corporation's Form 10-K filed on March 6, 2000.
- (p) First Amendment dated March 19, 2007, to the Master Agreement dated July 27, 1999, by and between North Carolina Railroad Company and Norfolk Southern Railway Company is incorporated herein by reference to Exhibit 10.3 to Norfolk Southern Corporation's Form 10-Q filed on July 27, 2007.
- (q) The Supplementary Agreement, entered into as of January 1, 1987, between the Trustees of the Cincinnati Southern Railway and The Cincinnati, New Orleans and Texas Pacific Railway Company (the latter a wholly owned subsidiary of Norfolk Southern Railway Company) – extending and amending a Lease, dated as of October 11, 1881 - is incorporated by reference to Exhibit 10(k) to Norfolk Southern Corporation's Form 10-K filed on March 5, 2001.
- (r)\* The Norfolk Southern Corporation Executive Management Incentive Plan, effective January 25, 2005, is incorporated by reference herein from Exhibit 99 to Norfolk Southern Corporation's Form 8-K filed on May 13, 2005.
- (s)\* The Norfolk Southern Corporation Officers' Deferred Compensation Plan, as amended effective September 26, 2000, is incorporated herein by reference to Exhibit 10(n) to Norfolk Southern Corporation's Form 10-K filed on March 5, 2001.
- (t)\* The Norfolk Southern Corporation Executives' Deferred Compensation Plan, as amended effective January 20, 2001, is incorporated herein by reference to Exhibit 10(o) to Norfolk Southern Corporation's Form 10-K filed on March 5, 2001.
- (u)\* The Directors' Deferred Fee Plan of Norfolk Southern Corporation, as amended effective January 23, 2001, is incorporated herein by reference to Exhibit 10(p) to Norfolk Southern Corporation's Form 10-K filed on March 5, 2001.
- (v)\* The Norfolk Southern Corporation Directors' Restricted Stock Plan, effective January 1, 1994, as restated November 24, 1998, is incorporated herein by reference from Exhibit 10(h) to Norfolk Southern Corporation's Form 10-K filed on March 24, 1999.
- (w)\* Form of Severance Agreement, dated as of June 1, 1996, between Norfolk Southern Corporation and certain executive officers (including those defined as "named executive officers" and identified in the Corporation's Proxy Statement for the 1997 through 2001 Annual Meetings of Stockholders), is incorporated herein by reference to Exhibit 10(t) to Norfolk Southern Corporation's Form 10-K filed on February 21, 2002.
- (x)\*, \*\* Supplemental Benefit Plan of Norfolk Southern Corporation and Participating Subsidiary Companies, as amended effective January 1, 2009.
- (y)\* The Norfolk Southern Corporation Directors' Charitable Award Program, as amended effective July 2007, is incorporated herein by reference to Exhibit 10.6 to Norfolk Southern Corporation's Form 10-Q filed on July 27, 2007.
- (z)\* The Norfolk Southern Corporation Outside Directors' Deferred Stock Unit Program, as amended effective January 22, 2008, is incorporated herein by reference to Exhibit 10.1 to Norfolk Southern Corporation's Form 8-K filed on January 25, 2008.

- (aa)\* Form of Agreement, dated as of October 1, 2001, providing enhanced pension benefits to three officers in exchange for their continued employment with Norfolk Southern Corporation for two years, is incorporated herein by reference to Exhibit 10(w) to Norfolk Southern Corporation's Form 10-Q filed on November 9, 2001. The agreement was entered into with L. Ike Prillaman, former Vice Chairman and Chief Marketing Officer; Stephen C. Tobias, Vice Chairman and Chief Operating Officer; and Henry C. Wolf, former Vice Chairman and Chief Financial Officer.
- (bb) The Norfolk Southern Corporation Thoroughbred Stock Option Plan, as amended effective January 28, 2003, is incorporated herein by reference to Exhibit 10(z) to Norfolk Southern Corporation's Form 10-K filed on February 24, 2003.
- (cc)\* The Norfolk Southern Corporation Restricted Stock Unit Plan, effective January 28, 2003, is incorporated herein by reference to Exhibit 10(bb) to Norfolk Southern Corporation's Form 10-K filed on February 24, 2003.
- (dd)\*, \*\* The Norfolk Southern Corporation Executive Life Insurance Plan, as amended and restated effective January 1, 2009.
- (ee) Distribution Agreement, dated as of July 26, 2004, by and among CSX Corporation, CSX Transportation, Inc., CSX Rail Holding Corporation, CSX Northeast Holdings Corporation, Norfolk Southern Corporation, Norfolk Southern Railway Company, CRR Holdings LLC, Green Acquisition Corp., Conrail Inc., Consolidated Rail Corporation, New York Central Lines LLC, Pennsylvania Lines LLC, NYC Newco, Inc., and PRR Newco, Inc., is incorporated herein by reference to Exhibit 2.1 to Norfolk Southern Corporation's Form 8-K filed on September 2, 2004.
- (ff) Tax Allocation Agreement, dated as of August 27, 2004, by and among Green Acquisition Corp., Conrail Inc., Consolidated Rail Corporation, New York Central Lines LLC, and Pennsylvania Lines LLC, is incorporated herein by reference to Exhibit 10.2 to Norfolk Southern Corporation's Form 8-K filed on September 2, 2004.
- (gg) Amended and Restated Credit Agreement dated as of June 26, 2007, with respect to the Registrant's \$1 billion unsecured revolving credit facility, is incorporated herein by reference to Exhibit 99 to Norfolk Southern Corporation's Form 8-K filed on June 27, 2007.
- (hh)\* The description of Norfolk Southern Corporation's executive physical reimbursement for non-employee directors and certain executives is incorporated herein by reference to Norfolk Southern Corporation's Form 8-K filed on July 28, 2005.
- (ii)\* Form of 2005 Incentive Stock Option and Non-Qualified Stock Option Agreement under the Norfolk Southern Long-Term Incentive Plan, is incorporated herein by reference to Exhibit 99 to Norfolk Southern Corporation's Form 8-K filed on January 7, 2005.
- (jj)\* Form of 2005 Restricted Share Agreement under the Norfolk Southern Long-Term Incentive Plan, is incorporated herein by reference to Exhibit 99 to Norfolk Southern Corporation's Form 8-K filed on January 7, 2005.

- (kk)\* Form of 2006 Incentive Stock Option and Non-Qualified Stock Option Agreement under the Norfolk Southern Long-Term Incentive Plan, is incorporated herein by reference to Exhibit 99 to Norfolk Southern Corporation's Form 8-K/A filed on December 7, 2005.
- (ll)\* Form of 2005 Restricted Stock Unit Agreement under the Norfolk Southern Long-Term Incentive Plan, is incorporated herein by reference to Exhibit 99 to Norfolk Southern Corporation's Form 8-K filed on January 7, 2005.
- (mm)\* Form of 2006 Restricted Share and Restricted Stock Unit Agreement under the Norfolk Southern Corporation Long-Term Incentive Plan, is incorporated herein by reference to Exhibit 99 to Norfolk Southern Corporation's Form 8-K/A filed on December 7, 2005.
- (nn)\* Form of 2006 Performance Share Unit Award under the Norfolk Southern Corporation Long-Term Incentive Plan, is incorporated herein by reference to Exhibit 99 to Norfolk Southern Corporation's Form 8-K/A filed on December 7, 2005.
- (oo) The Transaction Agreement, dated as of December 1, 2005, by and among Norfolk Southern Corporation, The Alabama Great Southern Railroad Company, Kansas City Southern, and The Kansas City Southern Railway Company is incorporated herein by reference to Exhibit 10.(ll) to Norfolk Southern Corporation's Form 10-K filed on February 23, 2006 (Exhibits, annexes and schedules omitted. The Registrant will furnish supplementary copies of such materials to the SEC upon request).
- (pp) Amendment No. 1, dated as of January 17, 2006, by and among Norfolk Southern Corporation, The Alabama Great Southern Railroad Company, Kansas City Southern, and the Kansas City Southern Railroad is incorporated herein by reference to Exhibit 10.(mm) to Norfolk Southern Corporation's Form 10-K filed on February 23, 2006.
- (qq) Amendment No. 2, dated as of May 1, 2006, to the Transaction Agreement, dated as of December 1, 2005, by and among Norfolk Southern Corporation, The Alabama Great Southern Railroad Company, Kansas City Southern, and The Kansas City Southern Railway Company is incorporated herein by reference to Exhibit 10.1 to Norfolk Southern Corporation's Form 8-K filed on May 4, 2006.
- (rr)\* The retirement agreement, dated January 27, 2006, between Norfolk Southern Corporation and David R. Goode, is incorporated herein by reference to Exhibit 10.1 to Norfolk Southern Corporation's Form 8-K filed on January 27, 2006.
- (ss)\* The waiver agreement, dated January 27, 2006, between Norfolk Southern Corporation and David R. Goode, providing for the waiver of forfeiture provisions otherwise applicable to certain restricted shares and restricted stock units upon retirement, is incorporated herein by reference to Exhibit 10.2 to Norfolk Southern Corporation's Form 8-K filed on January 27, 2006.
- (tt)\* Revised fees for outside directors are incorporated herein by reference to Norfolk Southern Corporation's Form 8-K filed on January 27, 2006.
- (uu)\* The retirement agreement, dated March 28, 2006, between Norfolk Southern Corporation and L. Ike Prillaman, is incorporated herein by reference to Exhibit 10.1 to Norfolk Southern Corporation's Form 8-K filed on March 31, 2006.

- (vv)\* The waiver agreement, dated March 28, 2006, between Norfolk Southern Corporation and L. Ike Prillaman, providing for the waiver of forfeiture provisions otherwise applicable to certain restricted shares and restricted stock units upon retirement, is incorporated herein by reference to Exhibit 10.2 to Norfolk Southern Corporation's Form 8-K filed on March 31, 2006.
- (ww) Limited Liability Company Agreement of Meridian Speedway, LLC, dated as of May 1, 2006, by and among The Alabama Great Southern Railroad Company and Kansas City Southern is incorporated herein by reference to Exhibit 10.2 to Norfolk Southern Corporation's Form 8-K filed on May 4, 2006.
- (xx)\* The Norfolk Southern Corporation Long-Term Incentive Plan, as amended effective July 25, 2006, is incorporated herein by reference to Exhibit 10.3 to Norfolk Southern Corporation's Form 10-Q filed on July 28, 2006.
- (yy)\* Form of Norfolk Southern Corporation Long-Term Incentive Plan, 2007 Award Agreement is incorporated herein by reference to Exhibit 10.1 to Norfolk Southern Corporation's Form 8-K filed on January 11, 2007.
- (zz)\*,\*\* Retirement Plan of Norfolk Southern Corporation and Participating Subsidiary Companies effective June 1, 1982, amended effective January 1, 2009.
- (aaa)\* The retirement agreement between Norfolk Southern Corporation and Henry C. Wolf is incorporated herein by reference to Exhibit 10.1 to Norfolk Southern Corporation's Form 8-K filed on May 11, 2007.
- (bbb)\* The waiver agreement between Norfolk Southern Corporation and Henry C. Wolf is incorporated herein by reference to Exhibit 10.2 to Norfolk Southern Corporation's Form 8-K filed on May 11, 2007.
- (ccc) Transfer and Administration Agreement dated as of November 8, 2007, with respect to the Registrant's \$500 million receivables securitization facility is incorporated herein by reference to Exhibit 99 to Norfolk Southern Corporation's Form 8-K filed on November 14, 2007.
- (ddd)\* Form of Norfolk Southern Corporation Long-Term Incentive Plan 2008 Award Agreement is incorporated herein by reference to Exhibit 99 to Norfolk Southern Corporation's Form 8-K filed on November 20, 2007.
- (eee) Dealer Agreement dated as of January 23, 2008, between the Registrant and J. P. Morgan Securities Inc. is incorporated herein by reference to Exhibit 10.1 to Norfolk Southern Corporation's Form 8-K filed on January 25, 2008.
- (fff) Dealer Agreement dated as of January 23, 2008, between the Registrant and Goldman, Sachs & Co. is incorporated herein by reference to Exhibit 10.2 to Norfolk Southern Corporation's Form 8-K filed on January 25, 2008.
- (ggg)\* 2008 Award Agreement between Norfolk Southern Corporation and Gerald L. Baliles, dated January 24, 2008, is incorporated herein by reference to Exhibit 10.2 to Norfolk Southern Corporation's Form 8-K filed on January 25, 2008.

- (hhh)\* 2008 Award Agreement between Norfolk Southern Corporation and Daniel A. Carp, dated January 24, 2008, is incorporated herein by reference to Exhibit 10.3 to Norfolk Southern Corporation's Form 8-K filed on January 25, 2008.
- (iii)\* 2008 Award Agreement between Norfolk Southern Corporation and Gene R. Carter, dated January 24, 2008, is incorporated herein by reference to Exhibit 10.4 to Norfolk Southern Corporation's Form 8-K filed on January 25, 2008.
- (jjj)\* 2008 Award Agreement between Norfolk Southern Corporation and Alston D. Correll, dated January 24, 2008, is incorporated herein by reference to Exhibit 10.5 to Norfolk Southern Corporation's Form 8-K filed on January 25, 2008.
- (kkk)\* 2008 Award Agreement between Norfolk Southern Corporation and Landon Hilliard, dated January 24, 2008, is incorporated herein by reference to Exhibit 10.6 to Norfolk Southern Corporation's Form 8-K filed on January 25, 2008.
- (lll)\* 2008 Award Agreement between Norfolk Southern Corporation and Burton M. Joyce, dated January 24, 2008, is incorporated herein by reference to Exhibit 10.7 to Norfolk Southern Corporation's Form 8-K filed on January 25, 2008.
- (mmm)\* 2008 Award Agreement between Norfolk Southern Corporation and Steven F. Leer, dated January 24, 2008, is incorporated herein by reference to Exhibit 10.8 to Norfolk Southern Corporation's Form 8-K filed on January 25, 2008.
- (nnn)\* 2008 Award Agreement between Norfolk Southern Corporation and Jane M. O'Brien, dated January 24, 2008, is incorporated herein by reference to Exhibit 10.9 to Norfolk Southern Corporation's Form 8-K filed on January 25, 2008.
- (ooo)\* 2008 Award Agreement between Norfolk Southern Corporation and J. Paul Reason, dated January 24, 2008, is incorporated herein by reference to Exhibit 10.10 to Norfolk Southern Corporation's Form 8-K filed on January 25, 2008.
- (ppp) Omnibus Amendment, dated as of March 18, 2008, to the Transfer and Administration Agreement dated as of November 8, 2007, is incorporated herein by reference to Exhibit 10.1 to Norfolk Southern Corporation's Form 10-Q filed on April 23, 2008.
- (qqq) Transaction Agreement (the "Pan Am Transaction Agreement"), dated May 15, 2008, by and among Norfolk Southern Railway Company, Pan Am Railways, Inc., Boston and Maine Corporation, and Springfield Terminal Railway Company, is incorporated herein by reference to Exhibit 10.1 to Norfolk Southern Corporation's Form 10-Q filed on July 24, 2008 (Exhibits, annexes and schedules omitted. The Registrant will furnish supplementary copies of such materials to the SEC upon request.)
- (rrr)\*\* Letter Agreement, dated October 21, 2008, by and among Norfolk Southern Railway Company, Pan Am Railways, Inc., Boston and Maine Corporation, and Springfield Terminal Railway Company amending certain terms of the Pan Am Transaction Agreement.
- (sss)\* Directors' Deferred Fee Plan of Norfolk Southern Corporation, as amended effective January 1, 2009, is incorporated herein by reference to Exhibit 10.01 to Norfolk Southern Corporation's Form 8-K filed on July 24, 2008.

|             |  |
|-------------|--|
| (ttt)*      | Norfolk Southern Corporation Executives' Deferred Compensation Plan, as amended effective January 1, 2009, is incorporated herein by reference to Exhibit 10.02 to Norfolk Southern Corporation's Form 8-K filed on July 24, 2008.   |
| (uuu)*      | Amendment to Norfolk Southern Corporation Officers' Deferred Compensation Plan, effective January 1, 2008, is incorporated herein by reference to Exhibit 10.03 to Norfolk Southern Corporation's Form 8-K filed on July 24, 2008.   |
| (vvv)*      | Norfolk Southern Corporation Long-Term Incentive Plan, as amended effective January 1, 2009, is incorporated herein by reference to Exhibit 10.04 to Norfolk Southern Corporation's Form 8-K filed on July 24, 2008.   |
| (www)*      | Norfolk Southern Corporation Restricted Stock Unit Plan, as amended effective January 1, 2009, is incorporated herein by reference to Exhibit 10.05 to Norfolk Southern Corporation's Form 8-K filed on July 24, 2008.   |
| (xxx)       | Amendment No. 1 to Transfer and Administration Agreement dated as of October 22, 2008, and effective as of October 23, 2008, with respect to the Registrant's \$500 million receivables securitization facility, is incorporated herein by reference to Exhibit 99 to Norfolk Southern Corporation's Form 8-K filed on October 23, 2008. |
| (yyy)*      | Stock Unit Plan of Norfolk Southern Corporation dated as of July 24, 2001, as amended on August 21, 2008, with an effective date of January 1, 2009, is incorporated herein by reference to Exhibit 10.1 to Norfolk Southern Corporation's Form 10-Q filed on October 24, 2008.  |
| (zzz)*      | Form of Norfolk Southern Corporation Long-Term Incentive Plan 2009 Award Agreement is incorporated herein by reference to Exhibit 99 to Norfolk Southern Corporation's Form 8-K/A filed on December 17, 2008.  |
| (aaaa)*, ** | Form of Amended and Restated Change in Control Agreement between Norfolk Southern Corporation and certain executive officers (including those defined as "named executive officers" and identified in the Corporation's Proxy Statement for the 2008 annual Meetings of Stockholders).   |
| (bbbb)*     | 2009 Award Agreement between Norfolk Southern Corporation and Gerald L. Baliles, dated January 29, 2009, is incorporated herein by reference to Exhibit 10.1 to Norfolk Southern Corporation's Form 8-K filed on January 30, 2009.   |
| (cccc)*     | 2009 Award Agreement between Norfolk Southern Corporation and Daniel A. Carp, dated January 29, 2009, is incorporated herein by reference to Exhibit 10.2 to Norfolk Southern Corporation's Form 8-K filed on January 30, 2009.  |
| (dddd)*     | 2009 Award Agreement between Norfolk Southern Corporation and Gene R. Carter, dated January 29, 2009, is incorporated herein by reference to Exhibit 10.3 to Norfolk Southern Corporation's Form 8-K filed on January 30, 2009.  |
| (eeee)*     | 2009 Award Agreement between Norfolk Southern Corporation and Alston D. Correll, dated January 29, 2009, is incorporated herein by reference to Exhibit 10.4 to Norfolk Southern Corporation's Form 8-K filed on January 30, 2009.   |
| (ffff)*     | 2009 Award Agreement between Norfolk Southern Corporation and Landon Hilliard, dated January 29, 2009, is incorporated herein by reference to Exhibit 10.5 to Norfolk Southern Corporation's Form 8-K filed on January 30, 2009.   |
| (gggg)*     | 2009 Award Agreement between Norfolk Southern Corporation and Karen N.   |

Horn, dated January 29, 2009, is incorporated herein by reference to Exhibit 10.6 to Norfolk Southern Corporation's Form 8-K filed on January 30, 2009.

- (hhhh)\* 2009 Award Agreement between Norfolk Southern Corporation and Burton M. Joyce, dated January 29, 2009, is incorporated herein by reference to Exhibit 10.7 to Norfolk Southern Corporation's Form 8-K filed on January 30, 2009.
- (iiii)\* 2009 Award Agreement between Norfolk Southern Corporation and Steven F. Leer, dated January 29, 2009, is incorporated herein by reference to Exhibit 10.8 to Norfolk Southern Corporation's Form 8-K filed on January 30, 2009.
- (jjjj)\* 2009 Award Agreement between Norfolk Southern Corporation and Michael D. Lockhart, dated January 29, 2009, is incorporated herein by reference to Exhibit 10.9 to Norfolk Southern Corporation's Form 8-K filed on January 30, 2009.
- (kkkk)\* 2009 Award Agreement between Norfolk Southern Corporation and J. Paul Reason, dated January 29, 2009, is incorporated herein by reference to Exhibit 10.10 to Norfolk Southern Corporation's Form 8-K filed on January 30, 2009.

- 12\*\* Statement re: Computation of Ratio of Earnings to Fixed Charges.
- 21\*\* Subsidiaries of the Registrant.
- 23\*\* Consent of Independent Registered Public Accounting Firm.
- 31\*\* Rule 13a-14(a)/15d-14(a) Certifications.
- 32\*\* Section 1350 Certifications.
- 99\*\* Annual CEO Certification pursuant to NYSE Rule 303A.12(a).

\* *Management contract or compensatory arrangement.*

\*\* *Filed herewith.*

- (B) Exhibits.

The Exhibits required by Item 601 of Regulation S-K as listed in Item 15(A)3 are filed herewith or incorporated herein by references.

- (C) Financial Statement Schedules.

Financial statement schedules and separate financial statements specified by this Item are included in Item 15(A)2 or are otherwise not required or are not applicable.

Exhibits 23, 31, 32 and 99 are included in copies assembled for public dissemination. All exhibits are included in the 2008 Form 10-K posted on our website at [www.nscorp.com](http://www.nscorp.com) under "Investors" and "SEC Filings" or you may request copies by writing to:

**Office of Corporate Secretary**

**Norfolk Southern Corporation**

**Three Commercial Place**

**Norfolk, Virginia 23510-9219**

**POWER OF ATTORNEY**

them, as attorneys-in-fact to sign on his or her behalf, individually and in each capacity stated below, and to file, any and all amendments to this report.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Norfolk Southern Corporation has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 18th day of February 2009.

### NORFOLK SOUTHERN CORPORATION

/s/ Charles W. Moorman

By: Charles W. Moorman

(Chairman, President and Chief Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on this 18th day of February 2009, by the following persons on behalf of Norfolk Southern Corporation and in the capacities indicated.

#### Signature

#### Title

/s/ Charles W. Moorman

(Charles W. Moorman)

Chairman, President and Chief Executive Officer and  
Director

(Principal Executive Officer)

/s/ James A. Squires

(James A. Squires)

Executive Vice President Finance and Chief Financial  
Officer

(Principal Financial Officer)

/s/ Marta R. Stewart

(Marta R. Stewart)

Vice President and Controller

(Principal Accounting Officer)

/s/ Gerald L. Baliles

(Gerald L. Baliles)

Director

/s/ Daniel A. Carp

(Daniel A. Carp)

Director

/s/ Gene R. Carter

(Gene R. Carter)

Director

/s/ Alston D. Correll Director  
(Alston D. Correll)

/s/ Landon Hilliard Director  
(Landon Hilliard)

/s/ Karen N. Horn Director  
(Karen N. Horn)

/s/ Burton M. Joyce Director  
(Burton M. Joyce)

/s/ Steven F. Leer Director  
(Steven F. Leer)

/s/ Michael D. Lockhart Director  
(Michael D. Lockhart)

/s/ J. Paul Reason Director  
(J. Paul Reason)





**Norfolk Southern Corporation and Subsidiaries**

**Valuation and Qualifying Accounts**

**Years Ended December 31, 2006, 2007 and 2008**

**(\$ in millions)**

|  | <b><u>Beginning</u></b> | <b><u>Additions charged to:</u></b> |                        |                          |  | <b><u>Ending</u></b>  |
|--|-------------------------|-------------------------------------|------------------------|--------------------------|--|-----------------------|
|  | <b><u>Balance</u></b>   | <b><u>Expenses</u></b>              | <b><u>Other</u></b>    | <b><u>Deductions</u></b> |  | <b><u>Balance</u></b> |
|  |                         |                                     | <b><u>Accounts</u></b> |                          |  |                       |
| <b><i>Year ended December 31, 2006</i></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><i>Year ended December 31, 2007</i></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                |
| <b><i>Year ended December 31, 2008</i></b> |                         |                                     |                        |                          |  |                       |
| Valuation allowance                        |                         |                                     |                        |                          |  |                       |
| (included                                  |                         |                                     |                        |                          |  |                       |
| net in deferred tax liability)             |                         |                                     |                        |                          |  |                       |
| for  |                         |                                     |                        |                          |  |                       |
| deferred tax assets                        | \$ 10                   | \$ 1                                | \$ --                  | \$ --                    |  | \$ 11                 |
| Casualty and other claims                  |                         |                                     |                        |                          |  |                       |
| included in other liabilities              | \$ 588                  | \$ 84                               | \$ 80 <sup>3,4</sup>   | \$ 432 <sup>3</sup>      |  | \$ 320                |
| Current portion of casualty                |                         |                                     |                        |                          |  |                       |
| and  |                         |                                     |                        |                          |  |                       |
| other claims included in                   |                         |                                     |                        |                          |  |                       |
| accounts payable                           | \$ 259                  | \$ 28                               | \$ 127 <sup>1</sup>    | \$ 166 <sup>4</sup>      |  | \$ 248                |

<sup>1</sup> Includes revenue refunds and overcharges provided through deductions from operating revenues and transfers from other accounts.

<sup>2</sup> Reclassifications to/from other assets.

<sup>3</sup> Payments and reclassifications to/from accounts payable.

<sup>4</sup> Payments and reclassifications to/from other liabilities.

SUPPLEMENTAL BENEFIT PLAN  
OF  
NORFOLK SOUTHERN CORPORATION  
AND  
PARTICIPATING SUBSIDIARY COMPANIES  
(As amended effective January 1, 2009)

ARTICLE I. INTRODUCTION

This Supplemental Benefit Plan ("Plan"), formerly the Excess Benefit Plan, was established by Norfolk Southern Corporation effective June 1, 1982, ("Effective Date") to provide retirement benefits to eligible employees in excess of those provided for by the Retirement Plan of Norfolk Southern Corporation and Participating Subsidiary Companies. This Plan is the successor to and supersedes, as of the Effective Date, the following plans:

- § Excess Benefit Plan of Norfolk and Western Railway Company
- § Southern Railway System Supplemental Retirement Plan
- § Norfolk and Western Railway Company Executives Contingent Compensation Plan Pension Resolution

The Plan, as hereby amended and restated, is effective with respect to supplemental benefits that were earned or vested (within the meaning of Section 409A of the Internal Revenue Code) on or after January 1, 2005. Supplemental benefits earned and vested (within the meaning of Section 409A of the Internal Revenue Code) before January 1, 2005, and any subsequent increase that is permitted to be included in such benefits under Section 409A (collectively, the "Grandfathered Amounts"), remain subject to the terms of the Plan as in effect on October 3, 2004. For recordkeeping purposes, NSC will account separately for the Grandfathered Amounts.

ARTICLE II. DEFINITIONS

-

|                            |  |
|----------------------------|--|
| Average Final Compensation | Compensation as defined in Article II of the Retirement Plan.  |
| Compensation Committee     | The Compensation Committee of the Board of Directors of NSC.   |
| Conrail Plan               | Supplemental Pension Plan of Consolidated Rail Corporation.  |
| Deferred Compensation      | Amounts the receipt of which a Participant elects to defer under the:<br><br>Deferred Compensation Plan of Norfolk and Western Railway Company |

Southern Railway System Executive, General or Middle Management Incentive Plan

Norfolk Southern Corporation Management Incentive Plan

Norfolk Southern Corporation Executive Management Incentive Plan

Norfolk Southern Corporation Officers' Deferred Compensation Plan

Norfolk Southern Corporation Executives' Deferred Compensation Plan

|                          |  |
|--------------------------|--|
| Member                   | A person entitled to participate in the Retirement Plan.   |
| NSC                      | Norfolk Southern Corporation, a Virginia corporation.  |
| NW Pension Resolutions   | Resolutions adopted by the Board of Directors of Norfolk and Western Railway Company at its meetings held on January 23, 1968, June 24, 1969, November 25, 1969, January 26, 1971, and April 23, 1974, authorizing the respective payments of additional pension benefits to five Members. |
| Participant              | A Member of the Retirement Plan who is eligible to participate under Article III.  |
| Participating Subsidiary | Each subsidiary or affiliated company of NSC which is a Participating Subsidiary in the Retirement Plan shall automatically participate in the Plan.   |
| Retirement Plan          | Retirement Plan of Norfolk Southern Corporation and Participating Subsidiary Companies   |
| Same Sex Partner         | Same Sex Partner as defined in Article II of the Retirement Plan.  |
| Separation from Service  | A Participant's "separation from service" within the meaning of Section 409A of the Internal Revenue Code and the regulations thereunder.  |
| Specified Employee       | An officer of NSC or of any company controlled by or under common control with NSC within the meaning of Section 414(b) or (c) of the  |

Code (including NSC, an "NSC Company") with annual compensation greater than \$130,000 indexed), a five percent (5%) owner of an NSC Company, or a one percent (1%) owner of an NSC Company with annual compensation greater than \$150,000 (not indexed), determined in each case in accordance with Section 409A of the Internal Revenue Code. If all NSC Companies have (in the aggregate) more than 50 officers whose annual compensation exceeds \$130,000 (indexed), only the 50 officers with the greatest annual compensation shall be considered "Specified Employees." If an individual meets the definition of "Specified Employee" at any time during a calendar year, the individual shall be a "Specified Employee" during the 12-month period beginning on the following April 1. For purposes of this definition, annual compensation shall be determined on the basis of Internal Revenue Service Form W-2, Wage and Tax Statement, excluding foreign compensation.

|                            |   |
|----------------------------|---|
| Surviving Same Sex Partner | Surviving Same Sex Partner as defined in Article II of the Retirement Plan. |
| Surviving Spouse           | Surviving Spouse as defined in Article II of the Retirement Plan.           |

### ARTICLE III. ELIGIBILITY AND PAYMENTS

1. The following Members of the Retirement Plan shall be eligible to participate in the Plan on or after the Effective Date:
  - (a) Any Member of the Retirement Plan whose benefit computed under Article VI of the Retirement Plan without regard to the maximum limitation on benefits imposed by Section 415 of the Internal Revenue Code exceeds such maximum limitation on benefits;
  - (b) Any Member of the Retirement Plan whose benefit computed under Article VI of the Retirement Plan disregards amounts of Deferred Compensation in the computation of his Average Final Compensation;
  - (c) Any Member of the Retirement Plan entitled to receive a pension benefit, in excess of the benefit computed under the provisions of the Retirement Plan, pursuant to an NW Pension Resolution;
  - (d) Any Member of the Retirement Plan entitled to receive a pension benefit, in excess of the benefit computed under the provisions of the Retirement Plan, pursuant to a resolution adopted by the Board of Directors of NSC;
  - (e) Any Member of the Retirement Plan whose Compensation exceeds the limitation contained in Section 401(a)(17) of the Internal Revenue Code;
  - (f) Any Member protected by the Pension Benefits Standard Act of Canada whose benefit computed under Article VI of the Retirement Plan exceeds \$60,000; or
  - (g) Any Member of the Retirement Plan entitled to receive a pension benefit in excess of the benefit computed under the

provisions of the Retirement Plan, pursuant to the provisions of any agreement between a Participant and NSC providing benefits upon "Termination" of a Participant's employment following a "Change in Control" (as the terms "Termination" and "Change in Control" are defined in any such agreement).

2. Any participant of the Excess Benefit Plan of Norfolk and Western Railway Company or the Southern Railway System Supplemental Retirement Plan or any individual covered by the Norfolk and Western Railway Company Executive Contingent Compensation Plan Pension Resolution, dated September 24, 1968, shall become a Participant on the Effective Date. Any participant in the Consolidated Rail Corporation Supplemental Employee Retirement Plan who transfers employment to NSC from Consolidated Rail Corporation on or before August 22, 2001 shall become a Participant on the effective date of his or her transfer.
3. Subject to Section 5 of this Article III, a Participant's benefit shall commence on the later of the last day of the month in which a Participant turns age 55 or the Participant's Separation from Service. Unless the Participant elects a different form of annuity under Section 4 of this Article III, the Participant's supplemental benefit shall be paid as a single life annuity if the Participant is single on the benefit commencement date, and shall be paid as a joint and 50% survivor annuity with the Participant's spouse or Same Sex Partner as the survivor annuitant if the Participant is married or has a Same Sex Partner on the benefit commencement date.
4. At any time before a Participant's benefit commencement date, the Participant may change the form of payment for the Participant's supplemental benefit from one life annuity to another actuarially-equivalent life annuity (within the meaning of Section 409A of the Internal Revenue Code) commencing at the same time, or may change the designated survivor annuitant, provided, however, that if the Participant's benefit under this Plan and the Retirement Plan are to commence at the same time (disregarding any six-month delay under Section V of this Article III), a Participant may not elect a form of payment or a designated survivor annuitant for the Participant's supplemental benefit that is a different form of payment or designated survivor annuitant than the Participant has elected under the Retirement Plan. Any change in the Participant's form of annuity or survivor annuitant shall be subject to any spousal consent requirement that would have applied if the election had been made under the Retirement Plan.
5. If a Participant is a Specified Employee on the date of his or her Separation from Service, the Participant's supplemental benefit shall not commence or be paid earlier than six months after the date of the Participant's Separation from Service. Any payments that otherwise would have been made during the six-month period shall be paid in a lump sum, without interest, on the last day of the first month that begins after the six-month period.

#### ARTICLE IV. SUPPLEMENTAL BENEFIT

1. A Participant shall, upon the Participant's benefit commencement date, be entitled to receive a monthly benefit equal to the excess of
  - (a) the monthly benefit under Article VI of the Retirement Plan if such benefit had been payable at the same time and in the same form as the Participant's supplemental benefit, and had been computed
    - (i) without regard to the limitation imposed by Section 415 of the Internal Revenue Code and provided for in Section 1 of Article VII of the Retirement Plan, in Section 7.4 of the Conrail Plan and in Section 7.4 of the Retirement Plan of Consolidated Rail Corporation;
    - (ii) without regard to the limitation of Compensation imposed by Section 401(a)(17) of the Internal Revenue Code;
    - (iii) without regard to the \$60,000 limitation on benefits payable to Members protected by the Pension Benefits Standard Act of Canada;

- (iv) without regard to the minimum benefit provided for in Section 13 of Article VI of the Retirement Plan provided, however, that this paragraph (iv) shall be effective only with respect to benefits accrued after April 30, 2005, and further provided that in no event shall the benefit payable under this plan be greater than the benefit that would have been payable if Section 13 of the Retirement Plan had continued to apply as in effect on April 30, 2005;
  - (v) by including in the calculation of Average Monthly Final Compensation amounts of Deferred Compensation, if any;
  - (vi) by including service credits and applying any offsets provided for under any NW Pension Resolution, if any;
  - (vii) by including the service credits and compensation to which a Participant is entitled pursuant to the provisions of any agreement providing the benefits described in Article III, Section 1(g), hereof; and
  - (viii) by excluding the Additional Retirement Benefit provided under Article VI of the Retirement Plan, as set forth in Schedule A of the Retirement Plan, over
- (b) the sum of
- (i) the monthly benefit that would actually have been payable under the Retirement Plan if the benefit had been paid at the same time and in the same form as the Participant's supplemental benefit; and
  - (ii) the monthly benefit (or actuarial equivalent thereof if payable in a lump sum) that would actually have been payable under the Consolidated Rail Corporation Supplemental Employee Retirement Plan or its successor plan if the benefit had been paid at the same time and in the same form as the Participant's supplemental benefit.
2. A Participant shall, upon the Participant's benefit commencement date, be entitled to receive a monthly benefit, in excess of the benefit that would otherwise be payable under the Retirement Plan if the benefit had been paid at the same time and in the same form as the Participant's supplemental benefit, and in addition to any amount payable pursuant to Section 1 of this Article IV, in an amount so provided by a resolution adopted by the Board of Directors of NSC, if any.
  3. If a Participant dies after the benefit commencement date for the supplemental benefit, any survivorship option which has been elected or is in force under Article III of the Plan at the time of a Participant's death shall determine the benefit paid to the Participant's Surviving Spouse, Surviving Same Sex Partner or other beneficiary. If a Participant dies before the benefit commencement date for the supplemental benefit, and if the participant is married or has a Same Sex Partner on his date of death, then the Participant's Surviving Spouse or Surviving Same Sex Partner shall receive an annuity for the life of the Surviving Spouse or Surviving Same Sex Partner, commencing on the later of the last day of the month in which the Participant would have reached age 55 or the last day of the month in which the Participant died, calculated using the method set forth in Section 1 of this Article IV, but substituting the corresponding survivor benefit under the Retirement Plan for the Participant's retirement benefit.
  4. A payment is treated as being made on the date when it is due under the Plan if the payment is made on the due date specified by the Plan, or on a later date that is either (i) in the same calendar year (for a payment whose specified due date is on or before September 30), or (ii) by the 15th day of the third calendar month following the date specified by the Plan (for a payment whose specified due date is on or after October 1). A payment also is treated as being made on the date when it is due under the Plan if the payment is made not more than 30 days before the due date specified by the Plan, provided that a payment under Section 5 of Article III shall not be made earlier than six months after a Specified Employee's Separation From Service. A Participant or beneficiary may not, directly or indirectly, designate the taxable year of a payment made in reliance on the administrative rules in this paragraph.

## ARTICLE V. FUNDING

The benefits under the Plan shall be paid in cash from the general funds of NSC or its Participating Subsidiary, and no special or separate fund shall be established or other segregation of assets made to assure such payments. Nothing contained in the Plan shall create or be construed to create a trust of any kind. To the extent that any person acquires a right to receive payments under the terms of the Plan, such right shall be no greater than the right of an unsecured creditor of NSC or its Participating Subsidiary.

## ARTICLE VI. ADMINISTRATION

1. The Plan shall be administered by the Compensation Committee, which is composed of three or more NSC directors appointed by the NSC Board who are not eligible to participate in the Plan and who shall serve at the pleasure of the Board. Each member of the Compensation Committee, while serving as such, shall be considered to be acting in his capacity as a director of NSC.
2. The Compensation Committee shall from time to time adopt rules and regulations determined to be necessary to insure the effective implementation of the Plan.
3. The Compensation Committee shall have the power to interpret the Plan. Any disputed question arising under the Plan, including questions of construction and interpretation, shall be determined conclusively and finally by the Compensation Committee.

## ARTICLE VII. RIGHTS AND RESTRICTIONS

1. Participants in the Plan shall have only those rights in respect of the Plan specifically set forth herein.
2. This Plan shall not be deemed to constitute a contract between NSC or any Participating Company and any Participant or surviving spouse of a deceased Participant, nor shall it be construed to be consideration for or an inducement or condition of the employment of any Participant. Nothing contained herein shall be deemed to give any Participant the right to continued employment.
3. Benefits payable hereunder shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or charge, and any attempt to accomplish any of these mentioned acts shall be void. Benefits shall not be subjected to attachment or other legal process or debts of the retired Participant or surviving spouse.
4. The Plan is intended, and shall be construed, to comply with the requirements of Section 409A of the Internal Revenue Code. NSC does not warrant that the Plan will comply with Section 409A of the Internal Revenue Code with respect to any Participant or with respect to any payment, however. In no event shall NSC, its officers, directors, employees, parents, subsidiaries, or affiliates be liable for any additional tax, interest, or penalty incurred by a Participant or beneficiary as a result of the Plan's failure to satisfy the requirements of Section 409A of the Internal Revenue Code, or as a result of the Plan's failure to satisfy any other applicable requirements for the deferral of tax.

## ARTICLE VIII. AMENDMENTS AND TERMINATIONS

The Plan may be amended at any time, and retroactively, if deemed necessary or appropriate, by any proper officer of NSC to effect changes which are, in his or her sole discretion, ministerial, substantively administrative, or necessary to comply with statutory or other legally mandated requirements, and the implementation of which does not result in a material cost to NSC.

The Board or Directors of NSC, in its sole discretion, may at any time modify or amend any provisions of the Plan or may suspend or terminate the Plan, in whole or in part, but no such action shall retroactively impair or otherwise adversely affect the rights of any person to benefits under the Plan which have accrued prior to the date of such action, as determined by the Compensation Committee.

In no event shall a termination of the Plan accelerate the distribution of amounts accrued or vested under the Plan in calendar year 2005 and succeeding years, except to the extent permitted in regulations or other guidance under Section 409A of the Internal Revenue Code and expressly provided in the resolution terminating the Plan.

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**Norfolk Southern Corporation**

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**Executive Life Insurance Plan**

As amended and restated effective January 1, 2009

**I - Establishment of Plan, Purpose and Effective Date**

**Establishment of Plan**. Norfolk Southern Corporation ("Corporation") established the Executive Life Insurance Plan ("Plan" or "Program") effective January 1, 1989, for certain of its nonagreement employees and nonagreement employees of certain of the Corporation's subsidiary or affiliated companies becoming eligible for benefits under the Plan after January 1, 1989 and before January 1, 2003.

**Purpose**. The purpose of the Plan is to provide certain key employees of the Employer with contributions made on their behalf into a life insurance product which will be owned by the executives. The executives will apply or have applied for the life insurance, will have full ownership rights to the life insurance contract, and will be able to exercise all ownership rights without involvement by the Employer other than those rights specifically agreed to by the parties as described in this Program. This Plan is intended to provide benefits equal to those provided under the Norfolk Southern Corporation Executive Life Insurance Plan as in effect immediately prior to the effective date of this restatement.

**Type of Plan**. This Program is intended to provide a welfare benefit through current compensation. For certain individuals, the Program will provide for compensation to be paid after separation from service. For those individuals, that portion of the program will constitute a plan of deferred compensation, and to the extent applicable, this Program is intended to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended, and all applicable guidance.

**Effective Date**. This amended and restated Plan shall be effective as of January 1, 2009.

**II - Definitions**

For the purposes of this Plan, the following terms will have the meanings indicated unless the context clearly indicates otherwise:

**Administrator**. "Administrator" means the Vice President - Human Resources of the Corporation.

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**Adverse Benefit Determination**. "Adverse Benefit Determination" means a denial, reduction, or a failure to provide or make payment (in whole or in part) for the benefits provided under the Plan.

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**Beneficiary(ies)**. "Beneficiary" or "Beneficiaries" means the person, persons or entity as designated by the Participant, entitled to receive benefits payable from the Insurance Policy upon the Participant's death. If the Participant does not designate a Beneficiary prior to the Participant's death, then the Beneficiary or Beneficiaries shall be determined according to terms of the Insurance Policy.

**Code**. "Code" means the Internal Revenue Code of 1986, as may be amended from time to time. Any reference in this Plan to "applicable guidance", "further guidance" or other similar term shall include any proposed, temporary or final regulations, or any other guidance, promulgated by the U.S. Department of Treasury or the Internal Revenue Service.

**Compensation**. "Compensation" means the annualized base salary payable by the Employer to the Participant as compensation for services for that calendar year and, for purposes of this Agreement, "Compensation" shall include any amounts deferred by the Participant pursuant to any plan maintained by the Employer pursuant to Sections 401(a) and 401(k) of the Code, or deferred pursuant to any elective non-qualified plan maintained by the Employer .

**Disability**. "Disability" means a disability that enables a Participant to be eligible for and receive income replacement benefits for a period of not less than three (3) months under the Long Term Disability Plan of Norfolk Southern Corporation and Participating Subsidiary Companies by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months.

**Employer**. "Employer" means Norfolk Southern Corporation, a Virginia corporation, and its affiliated or subsidiary companies designated by the Administrator, or any successor to the business thereof.

**Insurance Carrier**. "Insurance Carrier" means one or more life insurance companies chosen by Employer to provide life insurance coverage through specific life insurance policies.

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**Life Insurance Product**. "Life Insurance Product" means the life insurance product issued by an Insurance Carrier on the life of a Participant, to which the Employer will make annual premium payments on behalf of the Participant. The Life Insurance Product will be owned by the Participant and the Employer will have no interest in the Life Insurance Product other than those rights specifically agreed to in the application for such Life Insurance Product.

**Participant**. "Participant" means any employee who is eligible, under Section III, below, to participate in this Plan, and who elects to participate by completion of the insurance application as well as any Participation Agreement(s) or required forms necessary to issue or, exchange Life Insurance Products as needed from time to time, and whose insurance application has been accepted by the Insurance Carrier with premium rates acceptable to Employer (at the sole discretion of the Administrator) and whose life insurance coverage from this Program is in force. Participant may also be referred to as the "Insured" when the context is appropriate.

**Participation Agreement**. "Participation Agreement" means the agreement filed by a Participant and approved by the Administrator pursuant to Section III, below.

**Retirement**. "Retirement" means the Participant's Separation from Service following the Participant's attainment of age 55 with 10 years of service with the Employer.\_

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**Separation from Service**. "Separation from Service", or any other similar such phrase means a Participant's "separation from service" with the Employer, for any reason, within the meaning of Section 409A of the Code, and Treas. Reg. §1.409A-1(h) and other applicable guidance.

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**Specified Employee**. "Specified Employee" means an officer of the Employer with annual compensation greater than \$130,000 (indexed), a five percent (5%) owner of the Employer, or a one percent (1%) owner of the Employer with annual compensation greater than \$150,000 (not indexed), determined in each case in accordance with Code section 409A. If the Employer has more than 50 officers whose annual compensation exceeds \$130,000 (indexed), only the 50 officers with the greatest annual compensation shall be considered "Specified Employees." If an individual meets the definition of "Specified Employee" on December 31, the individual shall be a "Specified Employee" during the 12-month period commencing on the following April 1. For purposes of this definition, annual compensation shall be determined on the basis of Internal Revenue Service Form W-2, Wage and Tax Statement, excluding foreign compensation.

**Targeted Death Benefit**. "Targeted Death Benefit" is an amount of death benefits to be provided under a Life Insurance Product described in the Participation Agreement, on which Employer Contributions under this Program are to be estimated. The Participation Agreement may provide for different Targeted Death Benefits prior to and after Retirement.

### III - **Participation**

**Eligibility**. A key employee is eligible to participate in this Plan only if the employee was eligible for benefits under the Plan as in effect prior to the effective date of this restatement. No employees became eligible to participate in the Plan after December 31, 2002.

**Participation**. An employee's participation in the Plan will be effective when the Life Insurance Product becomes effective and in force. Subject to the next two paragraphs, participation in the Plan will continue until the earliest of the date that the Participant separates from service with the Employer, until such time as Employer Contributions are no longer provided for by the terms of this Program, or as may otherwise be provided in the Program, including the Participant's Participation Agreement.

**Requirement of Cooperation**. As a condition for Participation in this Program, the Participant shall be required to comply with all normal and reasonable requests deemed necessary to apply for and obtain the Life Insurance Product, including but not limited to: providing such information as the Insurance Carrier may require for completion of the insurance application and related forms and documents; taking such physical examinations and supplying medical history as may be requested by the Insurance Carrier; signing the application for the Insurance Policy as the insured; and performing any other act to comply with the underwriting and policy issuance requirements which may reasonably be requested by the Insurance Carrier or the Employer. If, in the sole determination of the Administrator, the Participant has failed to adequately cooperate in the issuance of the Insurance Product, the Employer's obligations under this Plan shall cease immediately; if the Insurance Carrier is unable to issue a Life Insurance Product in the specified amount at standard rates or at a rate otherwise acceptable to the Employer, the Employer's obligations under this Plan shall cease immediately.

**Change in Employment Status**. Unless otherwise determined by the Administrator, in the Administrator's sole discretion, participation herein and eligibility to receive future contributions under this Plan will cease upon the termination of a Participant's eligibility to participate in the Corporation's Management Incentive Plan, the Executive Management Incentive Plan, or any successor plans thereto (other than by reason of death, Disability or Retirement).

### IV - **Targeted Death Benefit**

**Basic Formula**. The contribution, as set forth in Section V, below, will be based on the Targeted Death Benefit. The Targeted Death Benefit will be as follows:

§ **During Employment** - an amount equal to three (3) times Compensation reduced by \$50,000 plus the amounts set forth in the Participation Agreement.

§ **After Retirement** - the amount set forth in a Participant's Participation Agreement as the post-retirement benefit amount.

§ **During a period of Disability** - an amount equal to three (3) times Compensation reduced by \$50,000 plus the amounts set forth in the Participation Agreement, all as determined as of the date of Disability.

**Limitations**. The Targeted Death Benefit may be limited by factors other than those provided in the formula above and in such events shall be reduced as provided below:

§ Maximum Face Amount - The Targeted Death Benefit may be limited by the maximum face amount permitted by the Insurance Carrier without underwriting, as may be agreed upon by the Employer and the Insurance Carrier from time to time.

§ Underwriting Criteria - The Targeted Death Benefit may be reduced by the results of medical or other underwriting imposed by the Insurance Carrier and is limited to the amount of death benefit which can be provided by the Life Insurance Product, assuming preferred or standard rates.

## **V - Contributions**

**Employer Contributions**. Employer will make contribution(s) to the Life Insurance Product on behalf of the Participant; the amount of such contribution(s) will be as follows:

§ During Employment and Disability - an amount deemed necessary by the Employer, to provide the Targeted Death Benefit assuming level premium payments are made through age 64 (but no less than 10 years), and based on the reasonable financial assumptions determined as of the time of the Employer Contribution set forth in the attached Exhibit A. To the extent the Targeted Death Benefit is a function of Compensation, the Employer Contribution will be recalculated each year as of December 1, and based on the annualized Compensation as of December 1.

§ After Retirement - Upon Retirement, the Employer shall continue to make Employer Contributions in an amount deemed necessary by the Employer to provide the Targeted Death Benefit in the minimum number of level annual premiums allowable without causing the Life Insurance Product to violate IRC section 7702, the definition of life insurance, and based on the other reasonable financial assumptions set forth in the attached Exhibit A. Any Employer Contributions to be made after Separation from Service shall be fixed as of the date of separation. To the extent that the amounts so determined would exceed the maximum permissible premium and cause the Policy to violate IRC section 7702, the definition of life insurance, in any subsequent year, such excess amounts will be paid in cash to the Participant at the time of separation.

**Additional Employer Contributions**. Employer will make an additional annual payment to Participants in an amount equal to the tax due on: (i) the amount of the Employer Contribution provided in the first paragraph of this Article which is in excess of the value of the coverage provided as measured using the Insurance Carrier's alternative term rates in effect as of the effective date of this amendment and restatement; and (ii) the amount of the Additional Employer Contributions under this paragraph. In calculating the portion of such additional payments each year attributable to the taxes due, it shall be assumed that the Participant is subject to a combined marginal tax rate of 32.2%. Anything to the contrary notwithstanding, a Participant who at any time is designated by the Employer's Board of Directors as an Executive Officer of the Employer shall not be entitled to the Additional Employer Contributions described in this paragraph. The Administrator specifically reserves the right to alter or change the manner in which this additional bonus is to be calculated or paid, including but not limited to altering the applicable tax rate to be assumed under this paragraph.

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**Cessation of Employer Contributions**. Employer Contributions will cease upon the earliest of the following events:

§ Death

§ Participant's separation from service with the Employer prior to Retirement;

§ Participant partially or completely surrenders, attempts to take a loan from, or withdraws cash value from the Life Insurance Policy, or adjusts the face amount of the Life Insurance Policy other than as provided under the Target Death Benefit prior to Retirement;

§ Participant makes a contribution to the Life Insurance Product prior to Retirement, except as may be permitted herein; and

§ Participant has a Change in Employment Status as described above.

Nothing contained herein shall limit the Employer's ability to terminate Employer Contributions for any Participant prior to Retirement or Disability, or for all Participants upon the termination or amendment of this Plan in the sole discretion of the Employer.

**Timing of Employer Contributions**. Except as provided in Withholding; Payroll Taxes below, Employer Contributions to the Life Insurance Product will be made on an annual basis on January 15 of each year. A contribution is treated as being made on the date when it is due under the Plan if the payment is made on the due date specified by the Plan, or on a later date that is in the same calendar year. A payment also is treated as being made on the date when it is due under the Plan if the payment is made not more than 30 days before the due date specified by the Plan.

**Delay in Payment for Specified Employees**. Notwithstanding anything else to the contrary, contributions to be made by the Employer following a Separation from Service (other than by reason of death or Disability) of a Participant who is determined to meet the definition of Specified Employee at the time of Separation from Service shall be payable as otherwise provided, except that the initial payment shall be made no earlier than six (6) months following the date of the Separation from Service.

**Participant Contributions**. A Participant may not make additional contributions directly into the Life Insurance Product prior to Retirement. Employer will not have the responsibility to monitor or report such contributions.

**Withholding; Payroll Taxes**. The amount of the Employer Contributions and Additional Employer Contributions, if any, will be treated as current compensation, and as such, Employer shall withhold any taxes required to be withheld with respect to such amounts under local, state or federal law. Such withholding will be made to the greatest extent possible from other Compensation paid to the Participant, and to the extent other Compensation is insufficient to cover the required withholding, the Participant shall reimburse the Employer the amount necessary to meet its withholding obligation. If the Participant does not reimburse the Employer the amount necessary to meet its withholding obligation, then the Employer shall provide the Employer Contribution over the minimum period sufficient to permit the Employer to recover its withholding obligation from other compensation paid to the Participant, but in no event will the Employer Contribution be made later than two and one-half months after the close of the then current calendar year.

## **VI - Benefits**

**Employer Contributions**. The sole benefit to be provided by the Employer under this Program is the annual Employer Contributions described in Section V above, as determined by the Administrator based on the Targeted Death Benefit.

**Ownership Of Life Insurance Product**. Each Participant shall be named as the owner of the Life Insurance Product, and shall have all rights, privileges and duties of an owner as set forth in the Life Insurance Product. Such rights may include, without limitation, the right to name a Beneficiary to receive any death benefits due under the terms of the Life Insurance Policy, the right to request and make withdrawals from the product, including a complete surrender of the Life Insurance Product. All rights as owner of the Life Insurance Product will be exercisable without the consent or involvement of the Employer, except as may be limited in this Plan Document. Notwithstanding the foregoing, the Participant's exercise of the foregoing rights prior to Retirement may result in a termination of Employer Contributions as specified in Section V, above.

**Death Benefits**. This Program does not promise any particular level of death benefit, but only an annual contribution, as described herein, which may be based on the costs of providing certain levels of death benefit under a particular Life Insurance Product. The Employer does not guarantee any level of death benefits or that payment will be made by the Insurance Carrier. The Participant's rights to death benefits, if any, shall solely be as the owner of the Life Insurance Product described herein.

## **VII - Administration**

**Administrator; Duties**. The primary duty of the Employer with respect to this Plan will be to calculate and make Employer Contributions into the Life Insurance Product on behalf of the Participants. The Administrator will also coordinate with Insurance carrier(s) to effect changes in the death benefit needed to maintain targeted benefit levels subject to the acceptance of the additional risk by the insurance carrier(s). The Administrator will have the authority to make, amend, interpret, and enforce all appropriate rules and regulations for the administration of the Plan and decide or resolve any and all questions, including interpretations of the Plan, as may arise in such administration. The Employer will not have any responsibility regarding the operation of the Life Insurance Product or the exercise of any ownership rights of the Life Insurance Product, which are exercisable solely by the Participant without any involvement from the Employer, except as may be specifically agreed upon.

**Binding Effect of Decisions**. The decision or action of the Administrator with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan will be final, conclusive and binding upon all persons having any interest in the Plan.

## **VIII - Termination, Suspension or Amendment**

**Termination, Suspension or Amendment of Plan**. The Corporation expressly reserves the right, in its sole discretion, to cease or suspend Employer Contributions under the Plan at any time, in whole or in part. The Corporation expressly reserves the right, in its sole discretion, to amend or terminate the Plan at any time by an appropriate written instrument executed by its Vice President - Human Resources. Any amendment may provide different amounts of Employer Contributions from those herein set forth. However, no such termination, suspension or amendment will adversely affect either the amount of Employer Contributions which have been made on behalf of the Participant prior to the date of such amendment or termination of this Plan or Employer Contributions scheduled to be paid on behalf of any Participant whose Retirement or Disability occurred before the date of such amendment or termination of this Plan.

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## **IX - Claims Procedure**

**Claim**. Any person or entity claiming the benefit of annual Employer Contributions described in Section V above, requesting an interpretation or ruling under the Plan, or requesting information under the Plan (hereinafter referred to as "Claimant") shall present the request in writing to the Administrator. Benefit claim determinations will be made in accordance with the terms of the Plan and will be applied consistently with respect to similarly situated claimants.

**Denial of Claim**. The Administrator shall provide a written explanation of any Adverse Benefit Determination within 90 days, unless special circumstances require an extension of time for processing the claim, in which case the Administrator will provide the Participant recipient with written notice of the extension before expiration of the 90-day period. The notice of the extension will indicate the special circumstances requiring an extension of time and the date by which the Administrator expects to render a decision. The extension will not exceed 90 days from the end of the initial period.

If the Administrator issues an Adverse Benefit Determination, claim or request is denied, the written notice shall state:

- a) The reason for the Adverse Benefit Determination, with specific reference to the Plan provisions on which the determination is based;
- b) A description of any additional material or information required and an explanation of why it is necessary; and
- c) An explanation of the Plan's claims review procedure and the applicable time limits, including a statement of the right to bring a civil action following an Adverse Benefit Determination on review.

**Review of Claim**. Any Claimant who receives an Adverse Benefit Determination or who has not received a response within sixty (60)

days may request a review by notice given in writing to the Administrator. Such request must be made within sixty (60) days after receipt by the Claimant of the written notice of Adverse Benefit Determination, or in the event Claimant has not received a response sixty (60) days after receipt by the Administrator of Claimant's claim or request. The claim or request shall be reviewed by the Administrator which may, but shall not be required to, grant the Claimant a hearing. On review, the Claimant may have representation, examine pertinent documents, and submit issues and comments in writing relating to the claim for benefits.

**Final Decision**. The Administrator's review will take into account all comments, documents, records, and other information submitted, without regard to whether such information was submitted or considered in the initial benefit determination. The Administrator will render a decision within 60 days after receipt of written request for review, unless the Administrator determines that special circumstances require an extension of time for processing the claim, in which case the Administrator will provide the Participant with written notice of the extension before the expiration of the initial 60-day period. The notice will indicate the special circumstances requiring an extension of time and the date by which the Administrator expects to render a decision. The extension will not exceed 120 days from receipt of a request for review by the Administrator.

The Administrator will notify the Participant of its benefit determination on review. In the case of an Adverse Benefit Determination, the notice will include the specific reason or reasons for the Adverse Benefit Determination, reference to the specific Plan provisions on which the determination is based, and a statement that the Participant or alternate recipient is entitled to receive, upon request and free of charge, reasonable access to and copies of all documents, records and other information relevant to the claim. The notice will also include a statement that the Plan does not have any additional mandatory appeal procedures and that the Participant has the right to bring a civil action under Section 502(a) of the Employee Retirement Income Security Act (ERISA). All decisions on review shall be final and bind all parties concerned.

## **X - Miscellaneous**

**Code Section 409A**. To the extent applicable, the Plan is intended, and shall be construed, to comply with the requirements of Section 409A of the Code. The Corporation does not warrant that the Plan will comply with Section 409A of the Code with respect to any Participant or with respect to any payment, however. In no event shall the Corporation, its officers, directors, employees, parents, subsidiaries (including any Employer), or affiliates be liable for any additional tax, interest, or penalty incurred by a Participant or Beneficiary as a result of the Plan's failure to satisfy the requirements of Section 409A of the Code, or as a result of the Plan's failure to satisfy any other applicable requirements for the deferral of tax.

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**Not a Contract of Employment**. This Plan will not constitute a contract of employment between Employer and the Participant. Nothing in this Plan will give a Participant the right to be retained in the service of Employer or to interfere with the right of Employer to discipline or discharge a Participant at any time.

**Protective Provisions**. A Participant will cooperate with Employer by furnishing any and all information requested by Employer in order to facilitate the Employer Contributions as provided for in this Plan, and by taking such physical examinations as Employer may deem necessary and by taking such other action as may be requested by Employer.

**Governing Law**. The provisions of this Plan shall be construed and interpreted according to federal law and, to the extent not preempted by federal law, according to the laws of the Commonwealth of Virginia.

**Validity**. If any provision of this Plan will be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal and invalid provision had never been inserted herein.

**Notice.** Any notice or filing required or permitted under the Plan will be sufficient if in writing and hand delivered or sent by registered or certified mail. Such notice will be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification. Mailed notice to the Administrator will be directed to the Employer's address. Mailed notice to a Participant will be directed to the individual's last known address in Employer's records.

**Successors.** The provisions of this Plan shall bind and inure to the benefit of Employer and its successors and assigns. The term successors as used herein includes any corporate or other business entity which shall, whether by merger, consolidation, purchase or otherwise acquire all or substantially all of the business and assets of Employer, and successors of any such corporation or other business entity.

#### **Exhibit A**

##### **Norfolk Southern Corporation**

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|                           |   |
|---------------------------|---|
| Cash Value Target         | Level Premiums solved to provide enough cash value immediately after assumed termination of employment at age 65 to continue the Targeted Death Benefit and endow at age 95. If employment extends past age 65, termination is assumed to occur the following year. |
| Death Benefit:            | Targeted Death Benefit as provided by the Program.  |
| Salary Scale              | 5% during employment to age 65  |
| Premiums                  | During employment, payable annually through age 64 but no less than 10 years of premium payments; upon Retirement, payable for the minimum number of years permitted without violation of §7702 of the Code.  |
| Cost of Insurance Charges | Actual COI charges up to date of resolve; thereafter, insurance carrier's current COI rates for the product as of the date of resolve.  |
| Interest Crediting Rate:  | Actual policy crediting rates up to date of resolve; thereafter, insurance carrier's current general account crediting rate for the product as of the date of resolve.  |
| Premium Duration:         | As provided by the Program  |



RETIREMENT PLAN

OF

NORFOLK SOUTHERN CORPORATION

AND

PARTICIPATING SUBSIDIARY COMPANIES

Effective June 1, 1982

Amended to and Including January 1, 2009

# RETIREMENT PLAN

OF

NORFOLK SOUTHERN CORPORATION

AND PARTICIPATING SUBSIDIARY COMPANIES

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# ARTICLE I. INTRODUCTION.

Norfolk Southern Corporation has established this Retirement Plan ("Plan") effective June 1, 1982 ("Effective Date"), as amended effective January 1, 2009, for its employees and employees of each subsidiary and affiliated company which adopts the Plan and is approved for participation in the Plan as provided in Article XVII. This Plan is the successor to and supersedes, as of the Effective Date, the following retirement plans:

Retirement Plan of Norfolk and Western Railway

Company

Southern Railway System Retirement Plan

Retirement Plan of Chesapeake Western Railway

Kentucky & Indiana Terminal Railroad Company

Retirement Plan

Retirement Plan of Norfolk, Franklin and

Danville Railway Company

Pocahontas Land Corporation Plan for Supple -

mental Pensions

Virginia Holding Corporation Supplemental

Pension Plan

Retirement Plan of Lambert's Point Docks,

Incorporated

This Plan also is the successor to and supersedes the Norfolk and Western Railway Company Plan for Supplemental Pensions and the Des Moines Union Railway Defined Benefit Pension Plan and Trust, effective December 31, 1988, and February 28, 1989, respectively.

# ARTICLE II. DEFINITIONS.

AC&Y Plan

The Akron, Canton & Youngstown Railroad Company Pension and Insurance Plan.

AW&W Plan

Algers, Winslow & Western Railway Company Salaried Employees' Retirement Plan.

Accrued Benefit

As of any date for any Member the retirement benefit under Article

VI.

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|-------------------------------|---|
| Additional Retirement Benefit | The additional monthly retirement benefit provided under Article VI as set forth in Schedule A or Schedule B of the Plan.   |
| Agreement Service             | Service in a position for which the rates of pay are governed by the provisions of a collective bargaining agreement (other than those excepted under Section 4 of Supplemental Agreement "A" between NW and the Brotherhood of Railway, Airline and Steamship Clerks, Freight Handlers, Express and Station Employees, effective January 12, 1979).  |
| Agreement Trainee             | An Employee in training for a position that is not a Nonagreement position.   |
| Average Final Compensation    | Average monthly Compensation paid to a Member during any five Compensation Years out of the 120 months of Creditable Service ending with the last month in which the Member was employed in a Nonagreement Position (or, if less than 120, of the actual number of months of Creditable Service), which will produce the highest average monthly Compensation. In the case of a Member who has not served five Compensation Years during his last 120 (or less) months of Creditable Service, such average shall be computed by disregarding breaks in service for the purpose of determining Compensation Years. In the case of a Member retired with less than 60 months of Creditable Service, the average monthly Compensation during his total months of Creditable Service shall be used. |
| Board of Directors            | Board of Directors of NSC.  |
| Board of Managers             | Pursuant to Article XI, the Board that acts as trustee and is charged with administering the Plan.  |
| Bonus                         | A payment made pursuant to the Norfolk Southern Corporation Annual Bonus Program, Norfolk Southern Corporation Management Incentive Plan, Norfolk Southern Corporation Executive Management Incentive Plan or NS Stock Unit Plan.   |
| Closing Date                  | The Closing Date as defined in the Transaction Agreement by and among CSX Corporation, CSX Transportation, Inc., Norfolk Southern Corporation, Norfolk Southern Railway Company, Conrail Inc., Consolidated Rail Corporation and CRR Holding LLC, dated as of June 10, 1997.  |
| Code                          | The Internal Revenue Code of 1986, as amended.  |
| Compensation                  | Remuneration in the form of salary (increased by the amount of  |

the Member's salary that is not includible in the gross income of the Member because it is contributed by NSC or a Participating Subsidiary pursuant to the Member's salary reduction agreement and which is not includible in the gross income of the Member under (i) Section 402(e)(3) of the Code, as a Basic or Catch-Up Contribution to the Thrift and Investment Plan of Norfolk Southern Corporation and Participating Subsidiary Companies, (ii) Section 125 of the Code, to provide benefits under the Norfolk Southern Corporation Comprehensive Benefits Plan, or (iii) Section 132(f)(4) of the Code, to provide benefits under the Pre-Tax Transportation Plan of Norfolk Southern Corporation and Participating Subsidiary Companies), or vacation pay paid to an Employee or former Employee for service in a Nonagreement Position, or Bonus for nonagreement service which is paid to an Employee in a Nonagreement Position, as reported to the Internal Revenue Service for Federal income tax purposes. Severance payments made pursuant to individual change-in-control agreements between a Member and NSC shall be included within this definition. Any other severance payments and special award payments, such as payments made under recruitment, safety, quality and retention programs, shall not be included within this definition. Annual compensation in excess of the limit provided in Section 401(a)(17)(B) of the Code shall not be included within this definition, except as otherwise permitted by law. For purposes of determining benefit accruals in a Compensation Year beginning on or after January 1, 2002, compensation for any Compensation Year beginning before January 1, 2002 shall be limited to \$200,000.

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| Compensation Year               | Any twelve consecutive month period of monthly Compensation ending on the last day of the same month as the last month in which the Member was employed in a Nonagreement Position.  |
| Conrail                         | Consolidated Rail Corporation.   |
| Conrail Plan                    | Supplemental Pension Plan of Consolidated Rail Corporation.  |
| Creditable Service              | A Member's creditable service, as defined in Article IV, for purposes of the Plan.   |
| CW Plan                         | Retirement Plan of Chesapeake Western Railway.   |
| Disability Benefit              | The monthly disability benefit not to exceed the amount of the Normal Retirement Benefit the Member would receive if the Member separated from service at age 65 (taking into account any additional Creditable Service the Member would have earned if he had continued to work for Norfolk Southern Corporation or a Participating Subsidiary until age 65). |
| Disability Benefit Compensation | A Member's basic monthly salary (not to exceed the monthly equivalent of the annual compensation limit prescribed by Section 401(a)(17) of the Code).  |

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| DMU Plan                    | Des Moines Union Railway Defined Benefit Pension Plan and Trust.   |
| Eligible Child or Children  | A Member's natural or adopted children (unless such natural or adopted children have been legally adopted by other individuals), who at the date of the Member's death are unmarried and under the age of 21 or who are totally and permanently disabled. An Eligible Child shall cease to be such as of the earlier of the last day of the month in which the child marries or attains the age of 21, or, if later, the last day of the month in which the child ceases to be totally and permanently disabled.   |
| Eligible Parent or Parents  | A Member's natural mother or father or, if the Member was legally adopted, the adoptive parents in lieu of the natural parents.  |
| Employee                    | A person who is employed as an employee by NSC or a Participating Subsidiary on a full-time basis, or who is employed by NSC or a Participating Subsidiary on a regular part-time basis and is designated as an Employee by NSC or a Participating Subsidiary and, in each instance, who receives compensation directly from NSC or a Participating Subsidiary for services rendered as an employee in the United States or Canada. Notwithstanding the previous sentence, the term "Employee" shall not include (w) a person who is covered by a contract or agreement that specifies that such person is not eligible to participate in the Plan; (x) a person who has terminated from employment with NSC or a Participating Subsidiary, unless designated as an Employee by NSC or a Participating Subsidiary; (y) a person who is a "Leased Employee" within the meaning of Section 414(n) of the Code or whose basic compensation for services on behalf of NSC or a Participating Subsidiary is not paid directly by NSC or a Participating Subsidiary; or (z) a person who is classified as a special status employee or an independent contractor because his or her employment status is temporary, seasonal or otherwise inconsistent with regular employment. An employee that NSC or a Participating Subsidiary mistakenly but in good faith classifies as other than an Employee shall be deemed to be an Employee as of the date on which NSC or a Participating Subsidiary reclassifies him or her as an Employee. |
| Fund                        | The assets held from time to time under the Plan.  |
| Highly Compensated Employee | Any Employee who, (i) was at any time during the current year or preceding year a Five Percent Owner; or (ii) during the preceding year (A) received compensation from the Corporation or a Participating Subsidiary in excess of \$80,000 (as adjusted under Code Section 415(d)) and (B) in the case of an Employee of any Participating Subsidiary not treated as a single employer together with the Corporation under Sections 414(b), 414(c), 414(m), 414(n), or 414(o) of the Code. For purposes of this definition, the term "compensation" means compensation within the meaning of Section 415(c)(3). For plan years beginning on or after January 1,  |

2001, "compensation" shall include elective amounts that are not includible in the gross income of the employee by reason of Section 132(f)(4) of the Code. Highly compensated former employees (as defined in Code Section 414(q)(9)) shall be treated as Highly Compensated Employees for all relevant purposes. For purposes of this definition, Employees who are nonresident aliens and who receive no earned income from the Corporation or a Participating Subsidiary which constitutes income from sources within the United States shall not be treated as Employees. The determination of who is a Highly Compensated Employee, including the determinations of the number and identity of Employees in the top paid group, the number of Employees treated as officers and the compensation that is taken into account, shall be made in accordance with Code Section 414(q) and the regulations thereunder.

|                  |  |
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| Hour of Service  | Each hour for which an Employee is paid, or entitled to payment for the performance or nonperformance of duties, or each hour for which back pay, regardless of mitigation of damages, is either awarded or agreed to by the employer. An Hour of Service shall be computed and credited in accordance with DOL Regulation 2530.200b.  |
| K&IT Plan        | Kentucky & Indiana Terminal Railroad Company Retirement Plan.  |
| Leased Employee  | Any person (other than employee of NSC or a Participating Subsidiary) who pursuant to an agreement between the recipient and any other person ("leasing organization") has performed services for the recipient (or for the recipient and related persons determined in accordance with section 414(n)(6) of the Internal Revenue Code) on a substantially full-time basis for a period of at least one year, and such services are performed under primary direction or control of the recipient. |
| LPD Plan         | Retirement Plan of Lambert's Point Docks, Incorporated.  |
| LTD Plan         | The Long-Term Disability Plan of Norfolk Southern and Participating Subsidiary Companies or any successor plan   |
| Member           | A person entitled to participate in the Plan.  |
| Month of Service | Any calendar month in which an Employee is paid, or entitled to payment, for the performance or nonperformance of duties. A Month of Service shall be treated as the equivalent of 190 Hours of Service in accordance with DOL Regulation 2530.200b-3.   |
| NF&D Plan        | Retirement Plan of Norfolk, Franklin and Danville Railway Company.   |

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| Nonagreement Position               | A position for which the rates of pay are not governed by the provisions of a collective bargaining agreement (but including those employees excepted under Section 4 of Supplemental Agreement "A" between NW and the Brotherhood of Railway, Airline and Steamship Clerks, Freight Handlers, Express and Station Employees, effective January 12, 1979), excluding those employees who perform service on positions in job class M11 (relief yardmasters/supervisors). |
| Normal Retirement Age               | Age 65.  |
| Normal Retirement Benefit           | The greater of the early retirement benefit under the Plan or the benefit commencing under the Plan at Normal Retirement Date.   |
| Normal Retirement Date              | First day of the month next succeeding the month in which the Member attains Normal Retirement Age.  |
| NSC                                 | Norfolk Southern Corporation, a Virginia Corporation.  |
| NW                                  | Norfolk and Western Railway Company, a Virginia Corporation.   |
| NW Plan                             | Retirement Plan of Norfolk and Western Railway.  |
| NW Supplemental Plan                | Norfolk and Western Railway Company Plan for Supplemental Pensions.  |
| Participating Subsidiary            | Each subsidiary or affiliated company of NSC which adopts the Plan and is approved for participation in the Plan as provided for in Article XVII.  |
| Plan                                | Retirement Plan of Norfolk Southern Corporation and Participating Subsidiary Companies.  |
| Plan Year                           | Calendar Year.   |
| PLC Plan                            | Pocahontas Land Corporation Plan for Supplemental Pensions.  |
| Projected Normal Retirement Benefit | The Member's projected accrued benefit under the Plan at Normal Retirement Age assuming the Member's Average Final Compensation at Normal Retirement Age equals his Average Final Compensation as measured on the last day in which the Member was an Employee and taking into account any additional Creditable Service the Member would have earned if he had continued to   |

work at Norfolk Southern Corporation or a Participating Subsidiary until Normal Retirement Age.

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| Same Sex Partner           | The Member's same sex civil union partner or domestic partner, (i) if the Member resides in a state that provides legal recognition of the partnership through civil union or domestic partnership, then the Member and the Same Sex Partner have registered as domestic partners or entered into a civil union (provided, however, that if the Member resides in a state that provides legal recognition for same sex marriage, the Member must be married to a same sex spouse rather than obtain a civil union or domestic partnership), or (ii) if the Member does not reside in a state that provides legal recognition of the partnership, the Member completes an affidavit provided by the Plan administrator to evidence that the Member and the Same Sex Partner: (a) are in an exclusive, committed relationship and intend to continue that relationship indefinitely; (b) are not married to, nor in a civil union or domestic partnership with, any other person; (c) are not related by blood to a degree of closeness that would prohibit marriage under the laws of the Member's and Same Sex Partner's state of residence; (d) share a mutual obligation of support and responsibility for each other's welfare and form an economically interdependent unit; and (e) share a principal residence and intend to do so indefinitely. |
| Service Ratio              | A fraction (not exceeding 1) the numerator of which is the Member's number of Months of Service and the denominator of which is the number of Months of Service the Member would have if he served until Normal Retirement Age.   |
| Southern                   | Formerly, Southern Railway Company, a Virginia Corporation, name changed to Norfolk Southern Railway Company, effective December 31, 1990.  |
| Southern Plan              | Southern Railway System Retirement Plan.  |
| Surviving Same Sex Partner | An individual who was the deceased Member's Same Sex Partner on the date of retirement or date of death before retirement.  |
| Surviving Spouse           | A deceased Member's lawful surviving spouse who was married to the Member on the date of retirement or date of death before retirement.   |
| VHC Plan                   | Virginia Holding Corporation Supplemental Pension Plan.   |
| Year of Service            | Any twelve consecutive month period, as measured from the date of employment or anniversaries thereof, in which an Employee has not less than 1000 Hours of Service.  |

Wherever used in the Plan, words in the masculine form shall be deemed to refer to females as well as males, and words referring to the singular or plural shall include the plural or singular, as the case may be.

## **ARTICLE III. MEMBERSHIP**

1. Every person who is a member of the NW Plan, Southern Plan, CW Plan, K&IT Plan, NF&D Plan, PLC Plan or VHC Plan on the Effective Date shall become a Member on such date. Every person who is a member of the LPD Plan shall become a Member on January 1, 1984. Every person who is a member of the NW Supplemental Plan or the DMU Plan shall become a Member on December 31, 1988, and February 28, 1989, respectively. However, a Member who is a member of the NW Supplemental Plan on December 31, 1988, and does not perform service for Compensation in a Nonagreement Position on or after December 31, 1988, shall be governed solely by the provisions of Article XXII of the Plan.

2. Every other Employee shall become a Member on the first day he performs service for Compensation in a Nonagreement Position on or after the Effective Date. Effective February 1, 1999, however, any Employee who begins to perform service as an Agreement Trainee on or after that date and was not previously a Member of the Plan will not be a Member of the Plan unless and until the Employee subsequently performs service in a Nonagreement Position other than that of Agreement Trainee.

3. Unless a Member's rights in the Plan have vested under Article IX, or the Member dies in active service or during Disability Service and has made an effective election under Section 2 of Article VIII, his membership in the Plan shall terminate at the time he shall cease to be an Employee for any reason other than retirement or Disability Service. Except as otherwise provided in Article IX, such a person shall be entitled only to a refund of his contributions, if any, held by the Plan with interest at such rate as shall from time to time be set by the Board of Managers. A person whose membership has been so terminated shall again become a Member if subsequent to such termination he performs service for Compensation in a Nonagreement Position.

## **ARTICLE IV. CREDITABLE SERVICE**

1. Creditable Service shall consist of:

(a) Each Year of Service (or fraction thereof) with NSC or a Participating Subsidiary in a Nonagreement Position commencing on and measured from the later of the first day a Member performs service for Compensation or the Member's 1982 anniversary of his date of employment;

(b) Service creditable as a member under the NW Plan, Southern Plan, AC&Y Plan, CW Plan, K&IT Plan, NF&D Plan, PLC Plan, or VHC Plan measured to the 1982 anniversary of the Member's date of employment (or the Member's employment termination date, if earlier), without regard to whether such 1982 anniversary date was before or after the Effective Date;

(c) Service creditable as a member under the LPD Plan prior to January 1, 1984, as measured from the Member's date of employment;

(d) Service (other than service creditable under the Conrail Plan as a result of the terms or provisions of any change-in-control agreement, employment agreement, severance agreement or other similar agreement) creditable to a member under the Conrail Plan beginning on April 1, 1976;

(e) The following periods of Agreement Service not credited under subparagraph (a) or (b) above:

(i) Agreement Service, prior to the Effective Date, of a Member (on the Effective Date) hired prior to the Effective Date with NW, Norfolk, Franklin and Danville Railway Company, The Virginian Railway Company, The New York, Chicago and St. Louis Railroad Company, Wabash Railroad Company, New Jersey, Indiana & Illinois Railroad Company, The Pittsburgh & West Virginia Railway Company, and The Lake Erie and Fort Wayne Railroad Company;

(ii) Agreement Service, prior to the Effective Date, of a Member who was a member of the Southern Plan on or after July 22, 1980, with a "System Company" as defined in the Southern Plan, but only if such Member has been employed in a Nonagreement Position (not including Disability Service) for five or more years, whether or not consecutive; and

(iii) Agreement Service after the Effective Date of a Member with NSC or a Participating Subsidiary where followed by service in a Nonagreement Position, but only if such Member has been employed in a Nonagreement Position (not including Disability Service) for five or more years, whether or not consecutive; and

(iv) Agreement Service with Conrail on or after April 1, 1976, of a Member, but only if such Member has been employed by NSC in a Nonagreement Position (not including Disability Service) for five or more years, whether or not consecutive, after March 7, 1997; and

(f) Service creditable as a member under the DMU Plan prior to March 1, 1989, as measured from the Member's date of employment.

(g) Each Year of Service (or fraction thereof), as defined under this Plan, with Virginia Railway Association, for Members who are Employees on December 31, 2004 and who retire on or after January 1, 2005.

(h) Each Year of Service (or fraction thereof) in a non-agreement position, as defined under this Plan, with Illinois Terminal Railroad Company, for Members who are Employees on December 31, 2004, and who retire on or after January 1, 2005.

(i) Service by a Member in job class M11 for NSC or a Participating Subsidiary where followed by service in a Nonagreement Position, but only if such Member has been employed in a Nonagreement Position (not including Disability Service) for five or more years, whether or not consecutive.

2. Creditable Service shall also include:

(a) Periods of absence because of illness or injury;

(b) Periods of Disability Service except that a Member shall be credited with one Month of Service hereunder for each two months of any such Disability Service;

(c) Periods of service not in excess of the longer of a total of 60 months or the period of absence permitted for the purpose of establishing entitlement to reemployment rights under the Uniform Services Employment and Reemployment Rights Act of 1994 ("USERRA") in the uniformed services of the United States, as defined in USERRA, or the armed forces of Canada, if the Member was a Member of the Plan (or a predecessor plan) immediately prior to such service and returned to employment within 90 days after release from such armed forces or within the time fixed by law for retention of employment rights, whichever is greater, except that if the Member dies during such period of service, Creditable Service shall be determined as if the Member returned to employment on the day of the Member's

death in the uniformed services of the United States, as defined in USERRA, or the armed forces of Canada; and

(d) Periods of leave of absence, under rules of the Board of Managers uniformly applicable to all similarly situated Members, to accept, at the request of NSC or a Participating Subsidiary, employment by a subsidiary company, to attend educational institutions, to accept employment by a government or government agency, or to carry out other activities approved by the Board of Managers.

3. (a) During a period of absence for which Creditable Service is granted under Paragraphs 2(a), (b), and (d) or during a period of service in the armed forces of Canada for which Creditable Service is granted under Paragraph 2(c), the Member shall be deemed to have earned the greater of Compensation at the regular monthly or annual rate in effect immediately preceding such absence or at the regular monthly or normal rate payable to the Member for services rendered to his employer during such leave of absence.

(b) During a period of service in the uniformed service of the United States for which Creditable Service is granted under Paragraph 2(c) of Article IV, the Member's monthly Compensation for each month during each such period shall be deemed to be either (a) the monthly Compensation the Member would have earned during the period of military service if he or she had not been on leave for such service; or (b) if this amount is not reasonably certain, the average monthly Compensation for the 12 months preceding the beginning of each such period of military service.

4. If a Member has been employed in a Nonagreement Position for less than five years, then, for purposes of computing the benefit under section 1 of Article VI, Creditable Service shall be the sum of a Member's Creditable Service under Sections 1, 2 and 3 of this Article IV plus the sum of:

(i) Twenty percent (20%) multiplied by the number of years (or fraction thereof) that the Member has been employed in a Nonagreement Position (not including Disability Service) times Agreement Service, prior to the Effective Date, of a Member who was a member of the Southern Plan on or after July 22, 1980, with a "System Company" as defined in the Southern Plan; and

(ii) Twenty percent (20%) multiplied by the number of years (or fraction thereof) that the Member has been employed in a Nonagreement Position (not including Disability Service) multiplied by the sum of Agreement Service and service in job class M11 after the Effective Date of a Member with NSC or a Participating Subsidiary where followed by service in a Nonagreement Position; and

(iii) Twenty percent (20%) multiplied by the number of years (or fraction thereof) that the Member has been employed in a Nonagreement Position (not including Disability Service) after March 7, 1997, times Agreement Service of a Member with Conrail on or after April 1, 1976.

After the Member has been employed in a Nonagreement Position for five or more years, then Creditable Service for purposes of computing the benefit under Section 1 of Article VI shall be equal to the Member's Creditable Service under Sections 1, 2 and 3 of this Article IV, and this Section 4 shall no longer apply.

## ARTICLE V. RETIREMENT

1. A Member shall retire not later than the end of the month in which he attains Normal Retirement Age, effective Normal Retirement Date, except where:

(a) The provisions of the Age Discrimination in Employment Act of 1967, as amended, or of any other applicable law, prohibit the mandatory retirement of such Member; or

(b) The Board of Directors, in its sole discretion, requests a Member whose compensation is fixed by the Board of Directors to continue in service following the Member's Normal Retirement Date for such period of time as may be determined by the Board of Directors.

2. A Member may retire at the end of any month, effective the first day of the following month, between attainment of ages 62 and 65.

3. A Member may retire at the end of any month, effective the first day of the following month, between attainment of ages 60 and 62 if he is vested at the time of such retirement.

4. An otherwise eligible Member between attainment of ages 55 and 60 who is vested under Article IX and who is actively employed in a Nonagreement Position or on Disability Service can elect either of the following two benefits:

(a) A Member with not less than 10 Years of Service (including not less than 5 years of Creditable Service) may retire at the end of any month, effective the first day of the following month, with a temporary early retirement benefit, until the Member attains age 60, equal to the lesser of:

(i) the Tier I Railroad Retirement or Social Security benefit that would be paid at earliest eligibility age, or

(ii) \$500 per month.

Notwithstanding the above, if the Member is currently receiving any benefit under Railroad Retirement or Social Security the Member may retire under this provision but is not eligible for the temporary early retirement benefit.

(b) A Member with not less than 10 Years of Service (including not less than five years of Creditable Service) may retire at the end of any month effective the first day of the following month and receive the benefit provided by Section 2 of Article VI. A Member (other than a Member who was a member of the Conrail Plan on the Closing Date) may not retire under this Section of Article V until February 29, 2000, effective March 1, 2000.

5. A Member retiring under any Section of this Article V shall make a written application to retire under the Plan in the manner and on the form specified by the Board of Managers.

## ARTICLE VI. RETIREMENT BENEFITS

1. The retirement benefit of a Member who retires under Section 1 or 2 of Article V shall be, subject to the provisions of Article VIII, the sum of:

(a) A monthly benefit equal to his Average Final Compensation multiplied by 1.5% times the number of years of his Creditable Service (or fraction thereof), but not in excess of 60% of such Average Final Compensation, except as provided in Section 4 of this Article VI;

(b) A monthly benefit equal to 1/120th of the Member's accumulated and unrefunded contributions to the NW

Supplemental Plan (including interest to the date of retirement), if any;

(c) A monthly Additional Retirement Benefit, if any, applicable to the Member as contained in Schedule A of the Plan, effective January 1, 1996, provided that the Internal Revenue Service subsequently issues a favorable determination letter approving such Additional Retirement Benefit; and

(d) A monthly Additional Retirement Benefit, if any, applicable to the Member as contained in Schedule B of the Plan, beginning January 1, 2005;

Less the sum of:

(e) 70% of the monthly Railroad Retirement annuity or 66 2/3% of the monthly Social Security annuity (described in Section 3 of this Article VI), whichever is applicable, assuming that such annuity commenced at the earliest eligibility age following retirement;

(f) The amount of any regular monthly annuity attributable to contributions by The Virginian Railway Company payable to the Member by the Plan for Pension Payments under Group Annuity Contract GR -130 between The Virginian Railway Company and The Travelers Insurance Company;

(g) The amount of any monthly benefit payable to the Member under Article XXII if the Member's Agreement Service was used to calculate a benefit under this Article VI;

(h) The amount of any monthly benefit payable to the Member under the Merged Employees Pension Plan of Norfolk and Western Railway Company;

(i) The amount of any monthly benefit payable to the Member under the AC&Y Plan ;

(j) For Members who were participants in the Conrail Plan or the Retirement Plan of Consolidated Rail Corporation, and who first became Members after August 26, 1999, the amount of any monthly benefit payable to the Member under the Conrail Plan (excluding any benefit described in Article 14 of the Conrail Plan as in effect on or after August 1, 1998) under the Retirement Plan of Consolidated Rail Corporation, and under any qualified defined benefit pension plan maintained by any other entity whose service is credited under the Conrail Plan and/or under the Retirement Plan of Consolidated Rail Corporation, with such amounts determined as if the Member had retired under the Conrail Plan and/or the Retirement Plan of Consolidated Rail Corporation on the date of commencement of retirement benefits under this Plan; and

(k) The amount, if any, applicable to the Member as contained in Schedule C of the Plan, beginning January 1, 2005.

The offsets described in paragraphs (e) through (k) of this Section 1 shall begin as of the date the amounts described in such paragraph first become payable, or are assumed to have become payable, to the Member. If the Member's benefit under any other plan is paid in a form that does not provide monthly payments, the offsets described in paragraphs (e) through (k) shall be determined as if the Member's benefit under such other plan had been paid as a single life annuity.

2. The retirement benefit of a Member who retires under Section 3 or 4(b) of Article V shall be computed as follows:

(a) The retirement benefit of a Member who retires under Section 3 of Article V shall be the benefit calculated under Section 1 of this Article VI; provided, however, that, if his Creditable Service at the time of retirement is less than 10 years, the amounts determined under

paragraphs (a), (b) and (c) of said Section 1 shall be reduced by 1/180th for each calendar month which the Member is under age 62 at the time of his retirement, and this benefit will be further reduced by the amounts under paragraphs (e) through (k) of Section 1 when such amounts are payable to the Member; and provided further that a Member whose benefit is computed under this Section 2 of Article VI may elect in writing to defer receipt of his retirement benefit under the Plan to the first day of any month following his 60th birthday up to the first day of the month following attainment of age 62 and if the Member so elects, the 1/180th reduction shall only be made for each month, if any, by which the commencement of pay of the Member's retirement benefit precedes his attaining age 62. Notwithstanding the foregoing, the 1/180th reduction shall not apply if a Member has not less than five years of Creditable Service and not less than ten Years of Service.

(b) The retirement benefit of a member who retires under Section 4(b) of Article V shall be the benefit calculated under Section 1 of this Article VI; provided, however, that the sum of the amounts determined under paragraphs (a), (b) and (c) of said Section 1 shall be reduced by 1/360th for each calendar month which the Member is under age 60 at the time of his retirement, and this benefit will be further reduced by the amounts under paragraphs (e) through (k) of Section 1 when such amounts are payable to the Member.

3. For purposes of calculating the retirement benefit under this Article VI:

(a) The monthly Railroad Retirement annuity shall mean the monthly annuity payable under the Railroad Retirement Act computed on the basis of total railroad service multiplied by a fraction, the numerator of which is the total months of Creditable Service and the denominator of which is such total railroad service. (Such annuity shall exclude the supplemental annuity payable under Title I of Public Law 89-699 or any corresponding or successor legislation);

(b) The monthly Social Security annuity shall mean the Primary Insurance Annuity computed under the Social Security Act on the basis of creditable compensation under the Act applicable to Creditable Service under the Plan; and

(c) The monthly Railroad Retirement annuity or Social Security annuity shall be computed as of the actual retirement date, the commencement date of last Disability Service not followed by a return to active service, or the date of final termination of service prior to age 60, whichever is earliest. In the case of a Member of the Plan on August 1, 1997, who retires after the Member's Normal Retirement Date, the Member's benefit shall be no less than the Member's benefit computed under this Article VI as of August 1, 1997, but using the Normal Retirement Date to determine the monthly Railroad Retirement or Social Security annuity.

4. In computing the retirement benefit of a Member under this Article VI, who was a member of the NW Plan or PLC Plan and who has more than 40 years of Creditable Service as of the Effective Date, such Member shall for purposes of Section 1(a) of this Article VI have his Average Final Compensation multiplied by 1.5% times the number of years of his Creditable Service on the Effective Date, without limitation.

5. (a) The retirement benefit of a Member, who was a member of the NW Supplemental Plan, computed under this Article VI shall not be less than his benefit computed under Article XXII solely on the basis of service and compensation creditable through April 30, 1965, or the date on which the Member is first in a Nonagreement Position, whichever is later; and

(b) The retirement benefit of a Member, who was a member of the NW Supplemental Plan, computed under this Article VI shall not be less than a benefit equal to 1/120th of the Member's accumulated and unrefunded contributions (including interest to date of retirement), if any, to the NW Supplemental Plan, reduced in accordance with Section 2 of this Article VI, if such reduction is applicable.

6. The retirement benefit of a Member who was a member of the Southern Plan on July 21, 1980, shall be the greater of the amount computed under Section 1 of this Article VI or computed as follows:

(a) A monthly benefit equal to 45% of the Member's Average Final Compensation plus 1/4 of 1% of Average Final Compensation for each year that the Member's Creditable Service at the time of retirement exceeds 30 years, but in no event shall such additional benefit exceed 2 1/2% of Average Final Compensation, plus any applicable Additional Retirement Benefit, reduced by:

(i) 63% of the monthly Railroad Retirement annuity or 60% of the monthly Social Security annuity (described in Section 3 of this Article VI), whichever is applicable, assuming that such annuity commenced at the earliest eligibility age following retirement;

(ii) 1/180th for each month by which the Member's retirement precedes the attainment of age 65 if the Member has less than 20 years of Creditable Service; and

(iii) 1/180th for each month by which the Member's Creditable Service is less than 15 years.

(b) A Member whose retirement benefit is computed under paragraph (a) of this Section 6 may elect in writing to defer receipt of his retirement benefit under the Plan to the first day of any month following his 60th birthday up to Normal Retirement Date. If the Member so elects, the reduction to be made pursuant to paragraph 6(a)(ii) shall only be made for each month, if any, by which the commencement of payment of the Member's retirement benefit precedes his attaining age 65.

7. The retirement benefit of a Member who was a member of the DMU Plan on February 28, 1989, shall be the greater of the amount computed under Section 1 of Article VI or computed as follows:

(a) A monthly benefit commencing at Normal Retirement Age equal to 1.5% of Average Final Compensation multiplied by Years of Creditable Service, minus 7.8% of the Primary Insurance Amount (for Social Security purposes) for each year of Creditable Service, with a maximum offset of 78%, plus any applicable Additional Retirement Benefit, reduced by

(i) an amount which is actuarially equivalent to the amount of any benefit the Member is eligible to receive under any qualified pension or profit sharing plan of an owner company of the Des Moines Union Railway Company based on the same period of service, and

(ii) for a Member who terminates after completing 15 Years of Service and after attaining age 60, 1/180th for each full month by which his early retirement precedes his Normal Retirement Age.

8. If an individual became a Member on or before August 26, 1999, and the Member was previously a participant in the Conrail Plan or the Retirement Plan of Consolidated Rail Corporation and accrued a benefit that was transferred to the Plan, the Member's retirement benefit shall be the greater of (i) the amount computed under this Article VI, or (ii) the Member's benefit he accrued under the Conrail Plan (excluding any benefit described in Article 14 of the Conrail Plan as in effect on or after August 1, 1998) or the Retirement Plan of Consolidated Rail Corporation.

9. Except as provided in the following sentence, in Section 6(b) of this Article VI, or in Section 9 or 10 of Article VIII, every retirement benefit shall be payable in monthly installments for life commencing with the calendar month immediately following the month in which the Member retires and ending with the month immediately prior to the month in which the Member or, if a survivorship election is in effect, his survivor dies or ceases to be eligible for survivor benefits. If the present value (determined, for this purpose only, (a) in the case of employees retiring before June 1, 1999, using the interest rate in effect on January 1 of the Plan Year which would be used by the Pension Benefit Guaranty Corporation for purposes of determining the present value of a lump sum distribution on plan termination or (b) in the case of employees retiring on or after June 1, 1999, using the average annual yield on 30-year Treasury securities at constant maturity effective for November of the year preceding the Plan Year and the "applicable mortality table," as defined in Section 417(e)(3)(A)(ii)(I) of the Code) of either a retirement benefit or a survivorship benefit payable pursuant to Article VIII does not exceed \$5,000, such benefit will be paid as soon as administratively feasible in a lump sum distribution, either (i) to a vested Member upon the earlier of retirement or termination of his employment with NSC or a Participating Subsidiary, (ii) to the Surviving Spouse or Surviving Same Sex Partner of such vested Member, (iii) to an "alternate payee", as defined in Section 414(p)(8) of the Code, or (iv) if the Member, Surviving Spouse, Surviving Same Sex Partner or alternate payee, as the case may be, so elects in writing, to the trustee of an "eligible retirement plan", as defined in Section 402(c)(8)(B) of the Code. No distribution may be made under the preceding sentence after the annuity starting date unless the Member and his Spouse, or if the Member has died his Surviving Spouse, consent in writing to such payment. Effective with respect to any mandatory distribution that is payable on or after March 28, 2005, that is greater than \$1,000 but that does not exceed \$5,000, if the Member does not elect to have such distribution paid directly to an eligible retirement plan specified by the Member in a direct rollover or to receive the distribution directly in a lump sum distribution, then the Plan administrator will pay the distribution in a direct rollover to an individual retirement plan designated by the Plan administrator. If a Member who has received a lump sum distribution of the present value of his retirement benefit is subsequently rehired by the Corporation, he shall again participate in the Plan as of his date of re-employment and his

prior period of service shall be restored for purposes of Article IX, except that his prior period of Creditable Service shall not be counted for purposes of determining his Accrued Benefit on his subsequent retirement or other termination of employment.

10. Except as otherwise provided herein, no benefit shall be payable to a Member under the Plan until retirement, or to his Surviving Spouse or Surviving Same Sex Partner until death of the Member, except such benefit as may be payable in accordance with the applicable requirements of a qualified domestic relations order as that term is defined in Section 414(p) of the Code. The Board of Managers shall establish reasonable procedures to determine the qualified status of domestic relations orders and to administer distributions under such qualified orders. No benefit shall be payable to a Member during any period in which he engages in active service as an Employee, except as provided in Article VIII, Section 8.

11. Notwithstanding anything herein to the contrary, a Member's Accrued Benefit under the Plan shall not be less than the Member's accrued benefit under the NW Plan, Southern Plan, CW Plan, K&IT Plan, NF&D Plan, PLC Plan or VHC Plan on the Effective Date, the LPD Plan on December 31, 1983, or the DMU Plan on February 28, 1989, and in no event shall his retirement benefit under this Article VI be less than such Accrued Benefit.

12. (a) A member who retired under the NW Plan and was paid a retirement benefit for the month of December 1985 and who is entitled to a retirement benefit for the month of January 1987, or the Surviving Spouse of a deceased Member who retired prior to January 1, 1986, who is entitled to a retirement benefit for the month of January 1987 pursuant to a survivorship election by such Member, as the case may be, shall receive an increase in such retirement benefit beginning with the retirement benefit payable for the month of January 1987, such increase in retirement benefit to be  $\frac{1}{4}$  of 1% for each month of the Member's retirement from January 1, 1980, to January 1, 1986, plus an additional 3% for a Member who retired prior to January 1, 1980, with a maximum increase of 21%.

(b) A Member who retired under the Southern Plan and was paid a retirement benefit for the month of December 1985 and who is entitled to a retirement benefit for the month of January 1987, or the Surviving Spouse of a deceased Member who retired prior to January 1, 1986, who is entitled to a retirement benefit for the month of January 1987 pursuant to a survivorship election by such Member, as the case may be, shall receive an increase in such retirement benefit beginning with the retirement benefit payable for the month of January 1987, such increase in retirement benefit to be  $\frac{1}{4}$  of 1% for each month of the Member's retirement from January 1, 1979, to January 1, 1986, plus an additional 3% for a Member who retired prior to January 1, 1980, with a maximum increase of 24%.

(c) A Member who retired under the Plan and was paid a retirement benefit for the month of December 1985 and who is entitled to a retirement benefit for the month of January 1987, or the Surviving Spouse of a deceased Member who retired prior to January 1, 1986, who is entitled to a retirement benefit for the month of January 1987 pursuant to a survivorship election by such Member, as the case may be, shall receive an increase in such retirement benefit beginning with the retirement benefit payable for the month of January 1987, such increase in retirement benefit to be  $\frac{1}{4}$  of 1% for each month of the Member's retirement from June 1, 1982, to January 1, 1986, with a maximum increase of 10 $\frac{3}{4}$ %.

13. Anything in this Article VI to the contrary notwithstanding, the monthly retirement benefit of a Member shall not be less than the greatest of:

- (a) \$8.34, but only if the Member had accrued an Hour of Service on or before December 31, 2007;
- (b) The Member's Projected Normal Retirement Benefit times the Member's Service Ratio;
- (c) The Member's accrued retirement benefit under this Article VI as measured on April 30, 2005; or
- (d) The Member's Average Final Compensation that is not in excess of \$4,167, multiplied by 1.25% times the number of years of his Creditable Service (or fraction thereof) that is not in excess of five years. Notwithstanding any provision to the contrary, the retirement benefit described in this Section 13(d) shall be actuarially reduced, based on mortality for employees as shown in Exhibit A and interest at the rate of 7.5% per year compounded annually if the Member's benefit commences before Normal Retirement Date.

14. The AW&W Plan was merged into the Plan effective as of December 31, 2007. As of that date, the liabilities of the AW&W Plan became liabilities of the Plan and the AW&W Plan ceased to exist. Notwithstanding anything in this Plan to the contrary, benefits shall be paid in accordance with the provisions of Schedule D. In the event of a spinoff or termination of the Plan within five years following the merger of the AW&W Plan into the Plan, assets will be allocated first for the benefit of the AW&W Plan participants to the extent of their benefits on a termination basis just prior to the merger.

## ARTICLE VII. LIMITATION ON BENEFITS

1. Notwithstanding any provision in the Plan to the contrary, the maximum benefit any Member may receive shall not exceed such amount as may be authorized under Section 415 of the Code, determined on a calendar year basis, and such rules are hereby incorporated by reference.

2. Any adjustments to the benefit amounts authorized under Section 415 by the Commissioner shall be effective from January 1 of the year for which the adjustment is made and shall apply to all Members regardless of whether the Member retired prior to such adjustment.

3. In the case of a Member retiring before January 1, 2000, who is also a participant in a defined contribution plan of the Corporation or a Participating Subsidiary, the maximum benefits under the Plan shall be reduced to the extent necessary to comply with Section 415(e) of the Code.

4. For limitation years beginning on or after January 1, 2001, for the purpose of applying the limitations described in Paragraph 1 of this Article VII, the compensation paid or made available during such limitation years shall include elective amounts that are not includible in the gross income of the employee by reason of Section 132(f)(4) of the Code. For plan years beginning on or after January 1, 2001, the definition of compensation for determining who is a highly compensated employee under Section 414(q) of the Code shall include elective amounts that are not includible in the gross income of the employee by reason of Section 132(f)(4) of the Code.

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## ARTICLE VIII. SURVIVORSHIP BENEFITS AND OPTIONS

1. (a) In the case of a Member who is married or who has a Same Sex Partner and retires under Article V or Article IX, unless he elects otherwise under Section 3 or Section 4 of this Article VIII, the Member shall receive his retirement benefit computed under Article VI in the form of a joint and survivor annuity payable to him during life and after his death to his Surviving Spouse or Surviving Same Sex Partner during life in an amount equal to 50% of the retirement benefit payable to the Member.

(b) In the case of a Member who is unmarried and who does not have a Same Sex Partner and retires under Article V or Article IX, unless he elects otherwise under Section 4 of this Article VIII, the Member shall receive his retirement benefit computed under Article VI in the form of a joint and survivor annuity payable to him during life and after his death to his Eligible Surviving Child or Children, for as long as the Eligible Surviving Child or Children remain eligible, in an amount equal to 50% of the retirement benefit payable to the Member. Each payment shall be divided equally among the Eligible Surviving Children at the time of each payment. The benefit payable to the Eligible Surviving Children shall commence on the first day of the calendar month in which the death of the retired Member occurs unless the Member elected a temporary early retirement benefit under Section 4(a) of Article V and dies prior to attaining age 60, in which case the survivor benefit payable under this section will be an amount equal to one-half of the temporary early retirement benefit paid to the Member, not to exceed \$250 per month, payable until the Member would have attained age 60, and thereafter, an amount equal to 50% of the retirement benefit payable to the Member.

(c) If an individual became a Member on or before August 26, 1999, and the Member was previously a participant in the Conrail

Plan or the Retirement Plan of Consolidated Rail Corporation and accrued a benefit that was transferred to the Plan and the Member is unmarried and does not have a Same Sex Partner, has no Eligible Surviving Child or Children, and retires under Article V or Article IX, unless he elects otherwise under Section 4 of this Article VIII, the Member shall receive the benefit he accrued under the Conrail Plan (excluding any benefit described in Article 14 of the Conrail Plan as in effect on or after August 1, 1998) or the Retirement Plan of Consolidated Rail Corporation in the form of a joint and survivor annuity payable to him during life and after his death to his Eligible Surviving Parent or Parents for life in an amount equal to 50% of the Conrail Plan benefit payable to the Member. This survivor's benefit is not available for the portion of the Member's retirement benefit computed under Article VI in excess of the benefit he accrued under the Conrail Plan. The survivor's benefit shall be payable jointly to the Eligible Surviving Parent or Parents for as long as either or both parents shall live. In lieu of the Eligible Surviving Parent or Parents benefit described in the preceding sentence, a Member may elect to provide a designated Eligible Surviving Parent with the full amount of the survivor's benefit for the parent's life, with the full amount of the survivor's benefit continued thereafter for the life of the other Eligible Surviving Parent. The benefit payable to the Eligible Surviving Parents shall commence on the first day of the calendar month in which the death of the retired Member occurs unless the Member elected a temporary early retirement benefit under Section 4(a) of Article V and dies prior to attaining age 60, in which case the survivor benefit payable under this section will not commence until the first calendar month in which the Member would have attained age 60.

(d) In the case of a Member who is married or has a Same Sex Partner and dies prior to retirement after attaining age 60, his Surviving Spouse or Surviving Same Sex Partner shall be entitled to a survivor annuity equal to 50% of the retirement benefit that would have been payable to such Member assuming he had retired on the last day of the month in which he dies, without the 1/180th reduction in the benefit for each calendar month which the Member is under age 62 at the time of his death as provided under Section 2 of Article VI.

2. (a) A Member who is vested under Article IX and who dies prior to age 60, shall have a benefit payable to his Surviving Spouse or Surviving Same Sex Partner in the form of a preretirement survivor annuity. The benefit payable to such Surviving Spouse or Surviving Same Sex Partner shall be an amount payable monthly for life equal to 50% of the benefit the deceased Member would have been eligible to receive assuming he had separated from service on the earlier of his date of death or his termination of service, survived to age 60, retired and died on the day after attaining age 60. The benefit payable shall not be reduced by 1/180th for any calendar month which the Member is under age 62 at the time of his death, as provided under Section 2 of Article VI; however, this benefit will be reduced by the amounts under paragraphs (e) through (k) of Section 1 of Article VI, when such amounts would have been payable to the Member.

A Surviving Spouse or Surviving Same Sex Partner of a Member who is vested under Article IX and who dies prior to attaining age 60 may elect to commence the preretirement survivor annuity at an earlier date provided the Member could have retired and commenced his benefit on the earlier date. The benefit payable to such Surviving Spouse or Surviving Same Sex Partner shall be an amount payable monthly for life equal to 50% of the benefit the deceased Member would have been eligible to receive had he separated from service on the earlier of his actual separation date or his date of death, retired on the early retirement date and died on the day after early retirement.

The provisions of this Section 2(a) shall be applicable in the case of any Member who has at least one Hour of Service under the Plan on or after August 23, 1984.

(b) A Member who is vested under Article IX may elect in writing, at any time, to have a benefit payable to his Surviving Spouse or Surviving Same Sex Partner if he dies in active service, or during a period of Disability Service, after attaining age 35 and prior to attaining age 60. The benefit payable to such Surviving Spouse or Surviving Same Sex Partner shall be equal to 50% of the benefit the deceased Member would have been eligible to receive assuming he had retired on the last day of the month in which he dies and without the 1/180th reduction in benefit for each calendar month which the Member is under age 62 at the time of his death as provided under Section 2 of Article VI. The benefit at the Member's death shall be an amount payable monthly to the Surviving Spouse or Surviving Same Sex Partner for life following the Member's death. This option shall not become effective until six months after the election is made or upon furnishing proof of health satisfactory to the Board of Managers. If the Member's spouse dies or is divorced from the Member, or if the Member's Same Sex Partner dies or ceases to be the Member's Same Sex Partner, or if the Member's service is terminated for any reason prior to his death, or when the Member attains age 60, his election shall be automatically terminated. A Member may revoke in writing, at any time, an election made under this Section 2(b). A Member electing this option shall have his retirement benefit reduced by an amount equal to 1/144th of 1% per month for each month that the election is in effect from and including age 35 through age 49 and 1/72nd of 1% per month for each month that the election is in effect from and including age 50 through age 59, computed as of the time that the election terminates or is revoked, in order to reflect the actuarial cost of the protection.

(i) If a Member who has elected a benefit under this Section 2(b) and who retires under Section 4(a) of Article V dies prior to attaining age 60, his Surviving Spouse or Surviving Same Sex Partner shall be entitled to receive a monthly survivor benefit equal to the greater of one-half of the temporary monthly early retirement benefit paid to the Member or the benefit otherwise payable under this Section 2(b), to include the actuarial reduction provided for in this Section 2(b) for the period from the Member's retirement to his death.

(c) Any Member who separated from service prior to August 23, 1984, but subsequent to December 31, 1975, with a vested benefit shall be entitled to the preretirement survivor annuity benefit provided by Section 2(a) of this Article VIII, if:

- (i) The Member had at least one Hour of Service on or after January 1, 1976,
- (ii) The provisions of Section 2(a) of this Article VIII would not (but for this paragraph) have applied to such Member,
- (iii) Such Member was alive and had not attained age 60 on or before August 23, 1984.

(d) If a Member who is married and retires under Section 4(a) of Article V dies prior to attaining age 60, his Surviving Spouse or Surviving Same Sex Partner shall be entitled to a survivor benefit equal to one-half of the temporary early retirement benefit paid to the Member, not to exceed \$250 per month payable until the Member would have attained age 60. Thereafter, the Surviving Spouse or Surviving Same Partner is entitled to a survivor annuity equal to 50% of the retirement benefit payable to the Member in accordance with Section 1(a) of this Article VIII, reduced for any benefit payable under Section 4 of this Article VIII.

3. A Member may elect in writing not more than 90 days before retirement to receive his retirement benefit computed under Article VI in the form of a joint and survivor annuity payable as a reduced retirement benefit to him during life and after his death to his Surviving Spouse or Surviving Same Sex Partner during life at the option of the Member, in an amount

(a) equal to, or

(b) 75% of

the reduced retirement benefit payable to the Member. Such election shall become inoperative if the Member's spouse dies before the Member's retirement, or if the Member's marriage is dissolved before the Member's retirement, or if the Member's Same Sex Partner dies or ceases to be the Member's Same Sex Partner before the Member's retirement, or if the Member revokes his election within the 90-day period before the Member's retirement. A Member whose election becomes inoperative for any of such reasons may make a new election. A Member electing an option under this Section 3 shall have his retirement benefit reduced by a percentage computed on the basis of actuarial values to reflect the actuarial cost of this protection in excess of the standard survivor annuity provided in Section 1(a) of this Article VIII. For this purpose, the actuarial values shall be based on mortality as shown in Exhibit C and interest at the rate of 6.0% per year compounded annually.

A Member shall have only one opportunity while the Member is in active service or during Disability Service to elect a joint and survivor annuity that provides a joint and 100% survivor annuity or a joint and 75% survivor annuity pursuant to the preceding paragraph. If such joint and survivor annuity does not commence as of the Member's retirement, either because the Member revokes his election or because the Member does not retire, the Member may not elect a similar joint and survivor annuity option until after the Member's termination of employment.

A Member whose employment has terminated shall have only one opportunity to revoke his election of a particular retirement date. The second time a Member elects a retirement date after his termination of employment, the Member's benefit shall be required to commence as of the retirement date the Member has elected, although the Member may revoke his election of a particular form of payment during the 90-day period preceding the Member's retirement, as provided above.

4. If an individual became a Member on or before August 26, 1999, and the Member was previously a participant in the Conrail Plan or the Retirement Plan of Consolidated Rail Corporation and accrued a benefit that was transferred to the Plan, and has not retired, then the Member may elect with spousal consent (or without spousal consent if there is no spouse) in writing not more than 90 days before the Member's retirement to receive the benefit he accrued under the Conrail Plan (excluding any benefit described in Article 14 of the Conrail Plan as in effect on or after August 1, 1998) or the Retirement Plan of Consolidated Rail Corporation in the form of a joint and survivor annuity payable as a reduced retirement benefit to him during life and after his death to his designated beneficiary or beneficiaries during life, in an amount

- (a) equal to,
- (b) 75% of,
- (c) 50% of, or
- (d) 1% of

the reduced Conrail Plan benefit payable to the Member. The portion of the Member's retirement benefit computed under Article VI in excess of the benefit he accrued under the Conrail Plan will be payable in the form of an annuity for life.

Such election shall become inoperative if the Member revokes his election within the 90-day period before the Member's retirement. The benefit payable to the designated beneficiary shall commence on the first day of the calendar month in which the death of the retired Member occurs unless the Member elected a temporary early retirement benefit under Section 4(a) of Article V and dies prior to attaining age 60, in which case the survivor benefit payable under this Section 4 will not commence until the first calendar month in which the Member would have attained age 60. A Member electing an option under this Section 4 shall have his retirement benefit reduced by a percentage computed on the basis of actuarial values to reflect the actuarial cost of this protection. For this purpose, the actuarial values shall be based on mortality as shown in Exhibit C and interest at the rate of 6.0% per year compounded annually.

A Member shall have only one opportunity while the Member is in active service or during Disability Service to elect a joint and survivor annuity that provides a joint and 100% survivor annuity or a joint and 75% survivor annuity pursuant to the preceding paragraph. If such joint and survivor annuity does not commence as of the Member's retirement either because the Member revokes his election or because the Member does not retire, the Member may not elect a similar joint and survivor annuity option until after the Member's termination of employment.

A Member whose employment has terminated shall have only one opportunity to revoke his election of a particular retirement date. The second time a Member elects a retirement date after his termination of employment, the Member's benefit shall be required to commence as of the retirement date the Member has elected, although the Member may revoke his election of a particular form of payment during the 90-day period preceding the Member's retirement, as provided above.

5. A Member may cause any of the options provided in Sections 2, 3, and 4 of this Article VIII to be applicable to him (with spousal consent, where required), and his retirement benefit shall be actuarially reduced to reflect the protections of such options.

6. Elections made by a Member prior to the Effective Date under any plan merged into or now forming a part of this Plan or the plan of a Participating Subsidiary shall be effective for the Plan.

7. The benefit payable to a Surviving Spouse, Surviving Same Sex Partner or Eligible Child of a retired Member shall commence on the first day of the calendar month in which the death of the retired Member occurs. The benefit payable to a Surviving Spouse or Surviving Same Sex Partner under the provisions of Sections 1(d) or 2(b) of this Article VIII shall commence on the first day of the calendar month following the month in which the death of the Member occurs. The benefit payable to a Surviving Spouse or Surviving Same Sex Partner under the provisions of Section 2(a) of this Article VIII shall commence with the first calendar month in which the Member would have attained age 60, unless the Surviving Spouse or Surviving Same Sex Partner elects otherwise under Section 2(a) of this Article VIII.

8. Any distribution under the Plan to a Member shall commence not later than the "required beginning date" as defined in Section 401(a)(9) of the Code, and shall satisfy the incidental benefit requirement in Section 401(a)(9)(G) of the Code and Proposed Treasury Regulation § 1.401(a)(9)-2. Effective February 1, 1999, for a Member who is not a 5% owner and who attains age 70½ on or after February 1, 1999, the term "required beginning date" shall mean April 1 of the calendar year following the later of (a) the calendar year the Member

attains age 70½ or (b) the calendar year in which the Member retires. If a Member retires under the Plan after the calendar year in which the member attains age 70½, the Member's benefit computed under Article VII of this plan shall be actuarially increased to take into account the period after age 70½ in which the Member was not receiving any benefits under the Plan.

9. Except as provided in Section 9 of Article VI, if the present value of the retirement benefit payable under this Article VIII is equal to \$9,000 or less, the Member may elect distribution of his benefit upon retirement or termination of the Member's employment with NSC or a Participating Subsidiary in (a) lump sum, (b) an immediate annuity, (c) a combination of partial lump sum and a partial immediate annuity or (d) a combination of partial lump sum or partial immediate annuity and a partial deferred benefit to be paid in the form permitted under this Article VIII. For purposes of this section only, the present value of the benefit shall be calculated based on (a) mortality as shown in Exhibit C and interest at the rate of 6.0% per year compounded annually, or (b) the "applicable mortality table," as defined in Section 417(e)(3)(A)(ii)(I) of the Code, and on 30-year Treasury securities at constant maturity effective for November of the year preceding the Plan Year, whichever will provide the greater lump sum to the Member. The lump sum distribution will be paid as soon as administratively feasible to the Member or, if the Member so elects in writing, to the trustee of an "eligible retirement plan", as defined in Section 402(c)(8)(B) of the Code. If a Member who has received a lump sum distribution of the present value of his retirement benefit is subsequently rehired by the Corporation, he shall again participate in the Plan as of his date of re-employment and his prior period of service shall be restored for purposes of Article IX, except that his prior period of Creditable Service shall not be counted for purposes of determining his Accrued Benefit on his subsequent retirement or other termination of employment.

10. Except as provided in Section 9 of Article VI, if the present value of the benefit that becomes payable on account of a Member's death prior to commencement of benefits is equal to \$9,000 or less, the Surviving Spouse or Surviving Same Sex Partner may elect distribution of the benefit be made in a lump sum. For purposes of this section only, the present value of the benefit shall be calculated based on (a) mortality as shown in Exhibit C and interest at the rate of 6.0% per year compounded annually, or (b) the "applicable mortality table," as defined in Section 417(e)(3)(A)(ii)(I) of the Code, and on 30-year Treasury securities at constant maturity effective for November of the year preceding the Plan Year, whichever will provide the greater lump sum to the Surviving Spouse or Surviving Same Sex Partner. The lump sum distribution will be paid as soon as administratively feasible to the Surviving Spouse or Surviving Same Sex Partner or, if the Surviving Spouse so elects in writing, to the trustee of an "eligible retirement plan", as defined in Section 402(c)(8)(B) of the Code.

## **ARTICLE IX. VESTING AND TERMINATION OF EMPLOYMENT**

1. A Member who has completed 5 Years of Service as defined in Section 6 of this Article IX, attained age 62, or is otherwise vested shall have a nonforfeitable right to 100% of his accrued retirement benefit under the Plan; provided, however, that any Member who has completed 60 Months of Service as defined in Section 6 of Article IX shall, in any event, have a nonforfeitable right to 100% of his accrued retirement benefit under the Plan.

2. A Member whose service terminates after 10 Years of Creditable Service, and before attainment of age 60, shall be eligible to receive his accrued retirement benefit beginning on the last day of the calendar month following the calendar month in which he attains age 60 calculated pursuant to Section 1 of Article VI. The retirement benefit shall be calculated on the basis of the Member's Average Final Compensation, Creditable Service and the retirement benefit provisions of the Plan in effect on the date of the Member's termination of service. A Member whose service terminates after 10 Years of Creditable Service, may elect to receive his Normal Retirement Benefit, actuarially reduced based on mortality for employees as shown in Exhibit A and interest at the rate of 7.5% per year compounded annually, beginning on the last day of the calendar month following the calendar month in which he attains age 55. The Normal Retirement Benefit shall be calculated on the basis of the Member's Average Final Compensation, Creditable Service and the retirement benefit provisions of the Plan in effect on the date of the Member's termination of service.

3. A Member who has completed 5 Years of Service, or is otherwise vested, and whose service terminates prior to 10 Years of Creditable Service and before attainment of age 60, shall be eligible to receive his accrued retirement benefit beginning on the last day of the calendar month following the calendar month in which he attains age 62; provided, however, that the Member may elect to receive his accrued retirement benefit beginning on the last day of the calendar month following any calendar month between the Member's attainment of age 60 and 62, in which case the Member's retirement benefit shall be reduced in accordance with the provisions of Section 2(a) of Article VI. The retirement benefit shall be calculated on the basis of the Member's Average Final Compensation, Creditable Service and the retirement benefit provisions of the Plan in effect on the date of the Member's termination of service.

4. A Member with not less than 20 years of Creditable Service who is employed in a Nonagreement Position at age 50, may separate from service on or after attaining age 55, and prior to attaining age 55, and subsequently be eligible to receive his accrued retirement benefit between attainment of ages 55 and 60. A Member (other than a member who was a member of the Conrail Plan on the Closing Date) may not receive a benefit under this Section until March 1, 2000. The retirement benefit shall be calculated as if the Member retired under Section 4(b) of Article V and shall be calculated on the basis of the Member's Average Final Compensation, Creditable Service and the retirement benefit provisions of the Plan in effect on the date of the Member's termination of service.

5. If an individual became a Member on or before August 26, 1999, and the Member was previously a participant in the Conrail Plan or the Retirement Plan of Consolidated Rail Corporation and accrued a benefit that was transferred to the Plan, the Member's retirement benefit shall be determined in accordance with this Section 5.

(a) If the Member had a least 3 years of vesting service (as determined under the Conrail Plan) on his transfer date, but less than 5 Years of Service, the vested percentage of the Member's benefit shall be the greater of the percentage determined under the vesting provisions of the Conrail Plan (taking into account the Member's service both before and after the transfer) and the percentage determined under the vesting provisions in Section 1 of this Article IX. If the Member receives a lump-sum distribution at a time when he is less than fully vested and the Member is subsequently re-employed, the Member's prior period of Creditable Service shall be counted for purposes of determining his Accrued Benefit if the Member repays the full amount distributed to him, plus interest thereon, computed from the date of distribution to the date of repayment at the rate prescribed by Section 411(c)(2)(C) of the Code. Such repayment must be made by the earlier of (i) five years after the Member's re-employment or (ii) the end of a period of five consecutive one-year breaks in service following the date of distribution.

(b) The Member's retirement benefit shall be the greater of (i) the amount computed under Sections 1 through 4 of this Article IX, and (ii) the Member's vested benefit under the Conrail Plan (excluding any benefit described in Article 14 of the Conrail Plan as in effect on or after August 1, 1998) or the Retirement Plan of Consolidated Rail Corporation. The benefit may commence on any date when the Member would have been eligible to receive the benefit under the Conrail Plan or the Retirement Plan of Consolidated Rail Corporation; provided, however, that the benefit computed under clause (i) shall be the actuarial equivalent of the single-life annuity commencing at age 65, based on mortality for employees as shown in Exhibit A and mortality for beneficiaries as shown in Exhibit B, and interest at the rate of 7.5% per year compounded annually.

6. Year of Service for the purpose of Section 1 of this Article IX shall consist of employment (including Disability Service, "qualified military service," as defined by section 414(u) of the Code, and leave provided under the Family and Medical Leave Act) by NSC, any Participating Subsidiary, any predecessor or constituent company of NSC or a Participating Subsidiary, any corporation which is merged into NSC or a Participating Subsidiary, any railroad corporation substantially all of the assets of which are leased by NSC or a Participating Subsidiary, Consolidated Rail Corporation (after April 1, 1976), or of any corporation 80% or more of the stock of which is owned by NSC or a Participating Subsidiary either directly or through subsidiaries.

7. Each Member and each Surviving Spouse of a Member under the Plan shall have a nonforfeitable right to 100% of his accrued retirement benefit under the Plan as of the date of a Qualified Transfer (as defined in Section 1(j) of Article XXIII) in the same manner that would be required under Section 1 of Article XIII if the Plan were terminated immediately prior to the Qualified Transfer. Each former Member who separated from service during the one-year period ending on the date of a Qualified Transfer shall have a nonforfeitable right to 100% of his accrued retirement benefit under the Plan as of the date of his separation from service in the same manner that would be required under Section 1 of Article XIII if the Plan were terminated immediately prior to his separation from service.

8. A Member receiving an accrued retirement benefit under any Section of this Article IX shall make a written application for benefits under the Plan in the manner and on the form specified by the Board of Managers. Effective January 1, 1998, if a member applies for benefits under this Article IX after the earliest date the Member would have been eligible to receive an unreduced benefit, the Plan shall pay to such Member, as soon as administratively feasible, all monthly benefit payments the Member would have received if his or her benefits had commenced on such date.

## ARTICLE X. FUNDING

1. The benefits under the Plan shall be financed by contributions made to the Fund by NSC or the Participating Subsidiaries and those assets which have been accumulated in the Fund. No contributions shall be required of Members. NSC and the Participating Subsidiaries intend to make contributions in such amounts and at such times as may be required to maintain the Plan in a sound actuarial condition consistent with the minimum funding standards of the Employee Retirement Income Security Act of 1974. Accordingly, a "funding standard account" shall be established and maintained for the Plan in accordance with the provisions of Section 412 of the Code.

2. Any forfeitures shall be used to reduce the contributions of NSC or the Participating Subsidiaries and shall not be applied to increase the benefits any Member would otherwise receive under the Plan.

3. The Fund shall be held in trust and shall be used to pay the benefits provided by the Plan and expenses not paid directly by NSC or the Participating Subsidiaries. No part of the corpus or income of the Fund shall be used for, or diverted to, purposes other than for the exclusive benefit of participants in or beneficiaries of the Plan prior to the satisfaction of all liabilities under the Plan with respect thereto, and no person shall have any interest or right in the Fund except as expressly provided in the Plan. Notwithstanding the foregoing, "Excess Pension Assets" (as defined in Section 1(e) of Article XXIII) of the Fund may be allocated to the "Medical Benefits Account" (as defined in Section 1(f) of Article XXIII) under the Plan pursuant to the provisions of Section 10 of Article XXIII and Sec. 420 of the Code.

## **ARTICLE XI. ADMINISTRATION OF PLAN AND TRUST PROVISIONS**

1. The general administration of the Plan and the responsibility for carrying out its provisions shall be in a Board of Managers of not less than three persons appointed from time to time by the Chief Executive Officer to serve at the pleasure of the Chief Executive Officer. The Board of Managers shall be the named fiduciary.

2. Any person appointed a member of the Board of Managers shall signify his acceptance by filing written acceptance with the Secretary of NSC. Any member of the Board of Managers may resign by delivering his written resignation to the Secretary of NSC.

3. The members of the Board of Managers shall appoint a Chairman, a Comptroller and a Secretary. The Comptroller, who shall not be a member of the Board of Managers, shall have access to all books, records, securities and accounts of the Fund and shall make such examinations thereof as he deems necessary. The Secretary, who may be but need not be a member of the Board of Managers, shall keep minutes of all meetings of the Board of Managers and all data, records and documents for the administration of the Plan. The Board of Managers may appoint from its members such committees with such powers as it shall determine, may authorize one or more of its members or any agent to execute or deliver any instrument or make any payment in its behalf, and may employ and suitably compensate counsel, agents and persons performing such clerical, accounting and actuarial services as it may require in administering the Plan.

4. The Board of Managers shall hold meetings upon such notice, at such place or places, and at such time or times as it may from time to time determine.

5. Any act authorized or required to be performed by the Board of Managers may be done by a majority of its members. The action of such majority expressed from time to time by a vote at a meeting or in writing without a meeting shall constitute the action of the Board of Managers and shall have the same effect for all purposes as if assented to by all members of the Board of Managers.

6. Subject to the limitations of the Plan, the Board of Managers from time to time shall establish rules for the administration of the Plan and the transaction of its business. The determination of the Board of Managers as to any disputed question shall be conclusive.

7. The Board of Managers from time to time shall adopt service and mortality tables for use in all actuarial calculations required in

connection with the Plan, shall establish the rates of contribution, and shall establish the rate of regular interest which shall be used in all actuarial calculations required in connection with the Plan. As an aid to the Board of Managers in adopting tables and in fixing the rates of contribution under the Plan, the actuary designated by the Board of Managers shall make annual actuarial valuations of the assets and liabilities of the Plan, and shall certify to the Board of Managers the tables and rates which he recommends for use by the Board of Managers.

The Board of Managers shall be entitled to rely upon all tables, valuations, certificates and reports furnished by such actuary and upon all opinions given by counsel (who may be counsel for NSC) selected by the Board of Managers, and the Board of Managers shall be fully protected in respect of any action taken by it in good faith in reliance upon any such material or opinions.

8. The Board of Managers shall maintain records showing the fiscal transactions of the Plan and shall keep in convenient form such data as may be necessary for actuarial valuations of the Plan. The Board of Managers shall prepare annually a report showing in reasonable detail the assets and liabilities of the Plan and giving a brief account of its operation for the past year. In preparing such report, the Board of Managers shall be entitled to rely on any statement of assets submitted to it by a trustee or custodian of the Fund and shall be under no obligation to check or verify any such statement. Such report shall be submitted to the Board of Directors and a copy thereof shall be filed in the office of the Secretary of the Board of Managers, where it shall be open to inspection of any Member.

9. The Board of Managers has the authority to determine the amount and timing of any benefit paid under the Plan. The Board of Managers delegates to the staff of the Human Resources Department the authority to conduct the day-to-day operations of the Plan, including but not limited to making an initial determination regarding: the eligibility of a person to participate in the Plan; whether a Member, Surviving Spouse, Surviving Same Sex Partner or alternate payee is entitled to benefits under the Plan; and the amount of any benefit payment. If a Member, Surviving Spouse, Surviving Same Sex Partner or alternate payee receives a benefit overpayment, including an overpayment as a result of a benefit commencing earlier or in a larger amount than provided for under the terms of the Plan, then future benefit payments may be offset, in a nondiscriminatory manner, to recoup the overpayment.

10. The Board of Managers shall have the exclusive right in its discretion to interpret the Plan (excluding Article XXV, for which the LTD Plan's Board of Managers has this exclusive right, as provided in Section 3 of that Article) and to decide all matters arising hereunder, including the right to remedy possible ambiguities, inconsistencies, or omissions.

In the event of a claim by a claimant with respect to benefits or denial of benefits hereunder, such claimant shall, not later than ninety (90) days after the occurrence of the events giving rise to such claim, present the reason for his or her claim in writing to the Secretary of the Board of Managers. The Secretary of the Board of Managers shall, within ninety (90) days after receipt of such written claim, send a written notification to the claimant as to the disposition of the claim or, if the claim concerns the right of a person to a Disability Benefit under Article XXV, refer the claim to the Secretary of the Board of Managers of the LTD Plan for resolution pursuant to this section. In the event the claim is wholly or partially denied, such written notification shall (a) state the specific reason or reasons for the denial, (b) make specific reference to pertinent Plan provisions on which the denial is based, (c) provide a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary, and (d) set forth the procedure by which the claimant may appeal the denial of his or her claim, including a statement of the claimant's right to bring a civil action under Section 502(a) of the Employee Retirement Income Security Act of 1974 following a denial on review.

In the event a claimant wishes to appeal the denial of his or her claim, he or she may request a review of such denial by making application in writing to the Board of Managers within sixty (60) days after receipt of such denial. Such claimant (or his or her duly authorized legal representative) may, upon written request to the Secretary of the Board of Managers (or, with respect to a claim for a Disability Benefit, upon written request to the Secretary of the Board of Managers for the LTD Plan), review without charge any documents, records, or other information pertinent to his or her claim, and submit in writing issues and comments in support of his or her position. The Board of Managers' review shall take into account all information submitted by the Employee relating to the claim, without regard to whether the information was submitted or considered in the initial benefit determination. Within sixty (60) days after receipt of a written appeal (unless special circumstances, such as the need to hold a hearing, require an extension of time, but in no event more than one hundred twenty (120) days after such receipt), the Board of Managers shall notify the claimant of the final decision. If an extension of time is required, the Secretary of the Board of Managers shall provide the claimant with a written notice within the initial 60-day period explaining the circumstances that require the extension and the date by which the Board of Managers expects to reach a final decision. The final decision shall be in writing. If the decision is adverse, it shall include the specific reasons for the decision, written in a manner calculated to be understood by the claimant; specific references to the pertinent Plan provisions on which the decision is based; a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all information relevant to the claim; and a statement of the claimant's right to bring a civil action under Section 502(a) of the Employee Retirement Income Security Act of 1974.

Notwithstanding any provision in this section to the contrary, a claim for a Disability Benefit under Article XXV shall be made to the Secretary of the Board of Managers of the LTD Plan, and any appeal concerning such Disability Benefit shall be made to, and decided by, the LTD Plan's Board of Managers, in accordance with the time frames and procedures for claims and appeals under the LTD Plan.

All determinations of the Board of Managers with respect to any matter under this Plan shall be conclusive and binding on all persons, except that all determinations of the LTD Plan's Board of Managers shall be conclusive and binding as to the right of any person to a Disability Benefit under Article XXV. Unless and until a claimant has exhausted the administrative review procedure set forth in this section, a claimant may not file in any court:

- (a) a claim or action to recover benefits allegedly due under the provisions of the Plan or by reason of any law, nor
- (b) a claim or action to enforce rights under the Plan, nor
- (c) a claim or action to clarify rights to future benefits under the Plan, nor
- (d) any other claim or action that (i) relates to the Plan and (ii) seeks a remedy, ruling, or judgment of any kind against the Plan, the Plan Administrator, a Plan fiduciary, or a party in interest with respect to the Plan.

11. The Board of Managers shall have authority to incur such expenses and liabilities and to have the same discharged out of the Fund as in its judgment may be in the interest of the Plan.

12. NSC shall indemnify and save harmless each member of the Board of Managers, to the extent permitted under the Employee Retirement Income Security Act of 1974, against all expenses and liabilities arising out of membership on the Board of Managers excepting only expenses and liabilities arising out of his own willful misconduct.

13. The Board of Managers shall exercise such authority and responsibility as it deems appropriate in order to comply with the Employee Retirement Income Security Act of 1974 and governmental regulations issued thereunder relating to records of Members' service; accrued benefits and the percentage of such benefits which are nonforfeitable under the Plan; notifications to Members; annual reports to the Internal Revenue Service; annual reports to the Department of Labor; and reports to the Pension Benefit Guaranty Corporation.

14. A trust ("Trust") is hereby created hereunder for the purpose of holding and administering the assets constituting the Fund. The Fund shall be held and administered by the Board of Managers as trustee, in accordance with the terms of the Plan and related Trust. By execution of this Agreement, or by separate written acknowledgment, each member of the Board of Managers hereby accepts the Trust created hereunder, and agrees to perform all duties specified herein.

The Board of Managers, with the approval of the Board of Directors, may enter into one or more trusts or custodial arrangements with responsible trust companies or other financial institutions to serve as trustees or custodians of the Fund.

## **ARTICLE XII. MANAGEMENT OF FUND**

1. The Finance Committee of the Board of Directors, with approval of the Board of Directors, shall establish such policies for the investment of the Fund as it shall from time to time deem advisable. Such policies need not limit investment of the Fund to assets which are customarily denominated legal investments. The Chairman of the Board of Managers, subject to such investment policies and reporting requirements as may from time to time be established by the Finance Committee of the Board of Directors, shall be authorized to make such investments, exchanges or sales, whether of stocks, bonds, notes or other forms of securities, as he may deem in the interest of the Plan.

2. The Board of Managers, with approval of the Board of Directors, may enter into such contracts, trust agreements or other arrangements as it deems desirable with investment managers, banks or financial institutions to invest or manage the investment of the Fund. Any expense incurred for services in connection with the foregoing shall be a proper charge against the Fund.

3. For convenience in effecting transfers of securities, the Board of Managers may authorize one or more of its members to execute powers of assignment or other necessary papers or may hold such securities in the name of a nominee, provided that the books and records of the Fund at all times reflect actual ownership. Shares of stock may be voted by general proxy executed by a member of the Board of Managers or by a general proxy executed by a nominee in accordance with instructions given by the Board of Managers or a member thereof who has been duly authorized to give such instructions by a general resolution of the Board of Managers.

## **ARTICLE XIII. CERTAIN RIGHTS AND OBLIGATIONS OF NSC AND THE PARTICIPATING SUBSIDIARIES**

1. The Board of Directors may terminate the Plan or reduce, discontinue or suspend contributions thereto at any time for any reason. In the event of termination or partial termination of the Plan or discontinuance or suspension of contributions to the Plan, the rights of all affected Members to benefits accrued to the date of such termination, discontinuance or suspension shall be nonforfeitable.

2. In the event of termination of the Plan, the assets of the Fund shall be used for the exclusive benefit of Members, retired Members, and their survivors receiving benefits under the Plan, except that any such assets not required to satisfy all liabilities of the Plan for benefits because of erroneous actuarial calculations shall be returned to NSC and the Participating Subsidiaries.

3. In the event the Plan is terminated, the Board of Managers shall allocate the assets of the Fund among the Members, retired Members and their survivors entitled to benefits under the Plan in the following order:

(a) First, among Members, retired Members or their survivors entitled to benefits under the Plan having unrefunded contributions together with interest at such rate as the Board of Managers may determine (not in excess of the aggregate increment actually earned thereon).

(b) Second, among Members, retired Members or their survivors entitled to benefits under the Plan who:

(i) were receiving benefits three years prior to termination, but limited to the lesser of the lowest benefit level in that period or the lowest benefit level that would have been paid under the provisions of the Plan as in effect during the five years prior to termination; or

(ii) were eligible to retire and receive benefits three years prior to termination, but limited to the lowest benefit level that would have been paid under the provisions of the Plan as in effect during the five years prior to termination.

(c) Third, among Members, retired Members or their survivors entitled to benefits under the Plan whose benefits are guaranteed under Title IV of the Employee Retirement Income Security Act of 1974.

(d) Fourth, among Members, retired Members or their survivors entitled to benefits under the Plan having other vested benefits under the Plan.

- (e) Fifth, among Members having other benefits under the Plan.

If the assets of the Fund applicable to any of the above categories are insufficient to satisfy in full the described benefits for all individuals in such group, the assets shall be allocated pro rata among such individuals on the basis of the present value (as of the termination date) of their respective benefits.

4. The Board of Managers shall determine on the basis of actuarial valuation the share of the assets allocable to each retired or deceased Member and each of Member's survivors entitled to benefits under the Plan and to each active Member in the order specified in Section 3 of this Article XIII. The Board of Managers may, subject to Title IV of the Employee Retirement Income Security Act of 1974, distribute such shares in cash or may apply shares to the purpose of immediate or deferred annuities or other periodic payments, as it shall in its sole discretion determine.

5. The establishment and existence of the Plan shall not be construed as conferring any legal rights upon any Employee to a continuation of employment, nor shall it interfere with the right of NSC or any Participating Subsidiary to discharge any Employee and to treat him without regard to the effect which such treatment might have upon him as a Member of the Plan. No Member, and no Surviving Spouse or Surviving Same Sex Partner of any Member, even after payment of any benefit under the Plan shall have been approved, shall be entitled to have any part of the capital or income or other property of the Fund set aside for his or her benefit. All sums of money distributable as benefits shall be paid only from the Fund.

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## ARTICLE XIV. NONALIENATION OF BENEFITS

To the extent permitted by applicable law, no benefit under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any attempt so to do shall be void, except as specifically provided in the Plan; nor shall any such benefit be in any manner liable for or subject to the debts, contracts, liabilities, engagements or torts of the person entitled to such benefit.

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## ARTICLE XV. REFUND OF EMPLOYEE CONTRIBUTIONS

Members' unrefunded contributions, with interest at such rate as the Board of Managers may determine (not in excess of the aggregate increment actually earned thereon), shall be refunded, provided that the Member's Agreement Service constituted Creditable Service under Article IV:

1. To the Member upon his request.

2. To the Member upon his resignation or dismissal from service, except that if the Member has met the conditions of Article IX the refund shall be made only upon his request.

3. Upon a Member's death before retirement, to a person designated by a writing filed with the Secretary prior to the death of such Member, or, in the absence of such designation or in the event of the death or disability of the person designated, in accordance with law.

4. Upon a Member's death after retirement (unless a spouse's pension is payable under Article VIII), any part of the amount which has been contributed by such Member and which has not been disbursed to him and his spouse as a retirement benefit under paragraph (b)

of Section 1 of Article VI, to a person designated in writing filed with the Secretary.

5. Upon retirement under the Railroad Retirement Act on account of disability without relinquishment of rights to return to the service of NSC or a Participating Subsidiary, to the Member but the refund shall be made only upon his request.

## **ARTICLE XVI. AMENDMENTS**

NSC reserves the right at any time and from time to time to modify or amend in whole or in part, and retroactively if deemed necessary or appropriate, any or all of the provisions of the Plan in any manner; provided that no such modification or amendment, may be made (unless required in order to preserve the qualified status of the Plan under Section 401(a) or any comparable section of the code, or as may be required by the Employee Retirement Income Security Act of 1974) which would deprive any retired Member or the Surviving Spouse or Surviving Same Sex Partner of a retired or deceased Member, without the consent of such person, of any benefits under the Plan to which he would otherwise be entitled; and in no event shall any modification or amendment make it possible for any part of the assets of the Fund to be used for, or diverted to, purposes other than for the exclusive benefit of participants in and beneficiaries of the Plan prior to the satisfaction of all liabilities under the Plan with respect thereto. The Plan may be amended by any proper officer of the Corporation to effect changes which are, in his or her sole judgment and discretion, ministerial, substantively administrative, or necessary to comply with statutory or other legally mandated requirements, and the implementation of which does not result in a material cost to the Corporation or to the Plan. All other amendments to the Plan shall be made by resolution adopted by the Board of Directors.

## **ARTICLE XVII. PARTICIPATION BY SUBSIDIARY COMPANIES - JOINT ADMINISTRATION OF OTHER PLANS**

Conditional upon prior approval by NSC, any company which is a subsidiary of or affiliated with NSC may adopt and participate in this Plan as a Participating Subsidiary. Each Participating Subsidiary shall make, execute and deliver such instruments as NSC and/or the Board of Managers shall deem necessary or desirable, and shall constitute NSC and/or the Board of Managers as its agents to act for it in all transactions in which NSC and/or the Board of Managers believe such agency will facilitate the administration of this Plan.

Any company which is a subsidiary of or affiliated with NSC and which adopts a plan for the benefit of its employees may, with the approval of the Board of Directors, enter into an agreement with the Board of Managers to administer such plan.

## **ARTICLE XVIII. MERGER OR CONSOLIDATION**

The Plan may not be merged or consolidated with, or its assets

may not be transferred to any other plan, unless each participant in the Plan would (if the Plan then terminated) receive a benefit immediately after the merger, consolidation or transfer of assets which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation or transfer of assets (if the Plan had then terminated).

## ARTICLE XIX. CONSTRUCTION

The Plan and the rights and obligations of all persons having an interest therein shall be construed in accordance with the laws of the Commonwealth of Virginia.

## ARTICLE XX. CANADIAN MEMBERS

Anything in the Plan to the contrary notwithstanding, effective January 1, 1987, the Plan shall comply with the requirements of the Pension Benefits Standards Act, 1985, of Canada (hereinafter called the Pension Act) and applicable regulations thereunder, and shall be administered by NSC, but only with respect to Members or Former Members protected thereby. A Former Member is any person who has ceased membership in the Plan or has retired from the Plan. The following sections of this Article XX are included in compliance with requirements of the Pension Act for certain explicit provisions or statements in the Plan and shall apply with respect to Members or Former Members protected by the Pension Act notwithstanding anything to the contrary or inconsistent therewith in the Plan. An employee protected by the Pension Act can choose not to be a Member of this Plan because of his religious beliefs. Whenever used herein, words in the masculine form shall be deemed to refer to females as well as males. The gender of a Member or Former Member or spouse does not determine the amount of any benefit to which the Member, Former Member or spouse may be entitled under the Plan.

1. For Members who become a Member of the Plan on or after April 1, 2000, the retirement benefit of a Member protected by the Pension Act shall be calculated and payable in Canadian dollars, and such benefit shall be reduced by 66-2/3% of any pension payable under the Canada Pension Plan or a provincial pension plan as defined in section 3 of the Canada Pension Plan on the basis of service under the Canada Pension Plan applicable to Creditable Service under the Plan, assuming that such pension commenced at the earliest eligibility age following retirement. This reduction shall be in addition to any applicable offset described in paragraphs (e) through (k) of section 1 of Article VI.

2. Notwithstanding any provisions to the contrary, a Member or Former Member protected by the Pension Act may retire ten years prior to the ages specified in Sections 1 through 3 of Article V; provided, however, that the Creditable Service requirements in Article VI are met; and provided further that the Member's or Former Member's retirement benefit shall be the actuarial present value of the retirement benefit which would have been payable to the Member or Former Member pursuant to Article VI calculated on the basis of actual Creditable Service and Average Final Compensation at the time of retirement.

3. The provisions of Article IX shall apply with respect to Members protected by the Pension Act; provided, however, any Member who has completed 2 Years of Service as defined in Section 6 of Article IX shall have a nonforfeitable right to 100% of his accrued retirement benefit under the Plan. A Member or Former Member who has vested under this Section 2 and has terminated service shall be entitled to all applicable benefits under the Plan.

4. (a) Notwithstanding any provisions of Article VIII to the contrary, a Member or Former Member protected by the Pension Act who has a spouse at the time his retirement benefit commences shall receive such retirement benefit in the form of a joint and survivor annuity payable to him during life and after his death to his spouse during life in an amount equal to 60% of the amount payable to the Member or Former Member. The initial amount of the retirement benefit shall be reduced 3% unless there is no spouse entitled to receive a benefit upon the Member's or Former Member's death. For purposes of this Section 3 of Article XX, the term "spouse" means: (1) if there is no person described in clause (2), a person who is married to the Member or Former Member or who is a party to a void marriage with the Member or Former Member or (2) a person of the opposite sex who is cohabitating with the Member or Former Member in a conjugal relationship at the relevant time, having so cohabitated for at least one year.

(b) Where a Member (or Former Member with an accrued vested benefit remaining in the Plan) dies prior to becoming eligible for an early retirement benefit pursuant to Section 1 of this Article XX, the surviving spouse, if any, is entitled to receive, when the surviving spouse attains the requisite age specified in Section 1 of this Article XX, that portion of the Member's or Former Member's accrued vested benefit, to which the Member would have been entitled on his date of death if the Member had terminated employment on that day and had not died.

(c) A Member or Former Member who is vested under Section 2 of this Article XX may elect in writing to have a retirement benefit immediately payable to his spouse pursuant to the provisions of Section 2(b) of Article VIII; provided, however, such benefit shall be equal to 60% of the benefit the deceased Member or Former Member would have been eligible to receive assuming he had retired on the last day of the month in which he dies.

(d) A Member who dies after becoming eligible for an early retirement benefit pursuant to Section 1 of this Article XX, but prior to the commencement of such benefit, shall be deemed to have retired on the date of his death for purposes of the survivor benefit provided in subsection (a) hereof.

5. Except as otherwise provided in the next paragraph, no benefit under the Plan of any Member or Former Member protected by the Pension Act is capable of being assigned, charged, anticipated or given as security or confers on a Member or Former Member, that person's personal representative or dependent or other person, any right or interest therein that is capable of being assigned, charged, anticipated or given as security. Once vested, no benefit is capable of being surrendered or commuted during the lifetime of the Member or Former Member or that person's spouse or confers on a Member or Former Member, that person's personal representative or dependent or other person, any right or interest therein that is capable of being surrendered or commuted during the lifetime of the Member or Former Member or that person's spouse. The provisions of this paragraph notwithstanding, where the annual pension benefit payable under the Plan is less than 2% of the "Year's Maximum Pensionable Earnings" (as that term is defined in the Pension Act) for the calendar year in which a Member ceases to be a member of the Plan or dies, the Member's accrued vested benefit may be paid to the Member or surviving spouse. No benefit under the Plan of any Member or Former Member protected by the Pension Act shall be subject in any manner to surrender or commutation during the lifetime of such Member or Former Member; provided, however, that pursuant to an agreement between the spouses or a court order, a Member or Former Member may assign all or part of his accrued vested benefit to his spouse, effective as of divorce, annulment or separation, subject to applicable provincial property law. In the event of such an assignment, the spouse shall, in respect of the assigned portion of the pension benefit, be deemed to be a Former Member of the Plan as of the effective date of such assignment, provided, however, that a subsequent spouse of the assigned spouse is not entitled to any benefits under the Plan in respect of the assigned pension benefit.

6. When the employment of a Member protected by the Pension Act is terminated for any reason (including death) prior to the Member's eligibility to retire pursuant to Section 1 of this Article XX, the actuarial present value of the Member's accrued vested benefit shall be computed in accordance with the Act or applicable regulations. The Member, or the surviving spouse (defined in Section 3 of this Article XX), as the case may be, is entitled, within 90 days, to transfer such actuarial present value to another pension plan, if that other plan permits, or to a life income fund or a locked-in registered retirement savings plan or to use such actuarial present value to purchase an immediate or deferred life annuity.

7. To the extent and so long as required by the Pension Act or applicable regulations thereunder, NSC or the Participating Subsidiaries shall make contributions currently in amounts sufficient to pay current service costs of the Plan with respect to Members protected by the Pension Act and liquidate any unfunded liabilities or experience deficiencies with respect to such Members over the period of time set forth in such Pension Act or applicable regulations.

8. Any portion of the Fund which is earmarked with respect to Members protected by the Pension Act shall be invested only as prescribed by the Pension Act or applicable regulations thereunder.

9. Each Member of the Plan and each employee who is eligible to join the Plan and that person's spouse will be given a written explanation of the provisions of the Plan and any applicable amendments thereto within 6 months after the establishment of the Plan or after any amendment thereto. Each Member and the Member's spouse will be given, within 6 months after the end of each Plan year, a written statement showing the pension benefits to which the Member is entitled under the Plan at the end of that year, the funded ratio of the Plan, where applicable, and such other information as is prescribed. Each Member and the Member's spouse may, once in each year of operation of the Plan, either in person or by an agent authorized in writing for that purpose, examine documents filed with the Superintendent at such place as is agreed to by the Plan administrator and the person requesting the documents and order, in writing, a photocopy of any such documents. Where a Member retires from the Plan, ceases to be a Member or dies or where the whole or part of the Plan is terminated, the Plan administrator shall give to that Member (or, in the case of termination, each Member) and to the Member's spouse (and, in the case of the Member's death, the Member's legal representative) a written statement, in prescribed form, of the Member's pension benefits and other benefits payable under the Plan, within 30 days after the date of the retirement, cessation of membership, death or termination.

# ARTICLE XXI. TOP HEAVY PROVISIONS

1. In the event that the Plan is determined to be Top Heavy (as defined in Section 2 of this Article XXI), the following provisions shall apply to the Plan for any Plan Year for which the Plan is deemed to be Top Heavy:

(a) Notwithstanding the provisions of Section 1 of Article IX, a Member who has completed 3 years of service (as defined in Section 6 of Article IX), or who has attained Normal Retirement Age, shall have a nonforfeitable right to 100% of his Accrued Benefit under the Plan;

(b) Notwithstanding the provisions of Section 1 of Article VI, the Accrued Benefit of any Member who is not a key employee, when expressed as an annual retirement benefit payable in the form of a single life annuity at Normal Retirement Age, shall not be less than the product of the average annual compensation of such Member for the period of five years during which such Member had the highest aggregate compensation multiplied by:

(i) 2% for each year of service; or

(ii) 20%,

whichever is less; provided however that in determining average annual compensation and years of service, years of service which begin in a Plan Year after the last Plan Year in which the Plan was Top Heavy, years of service which end in a Plan Year before January 1, 1984, and years of service when the Plan benefits (within the meaning of section 410(b) of the Code) no key employee or former key employee, shall be disregarded.

2. The Plan will be deemed to be Top Heavy if as of the last day of the preceding Plan Year:

(a) The present value of cumulative accrued benefits under the Plan for key employees exceeds 60% of the present value of the cumulative accrued benefits under the Plan for all Members; or

(b) The Plan is part of a Required Aggregation Group (within the meaning of Sec. 416(g) of the Code) and the Required Aggregation Group is one in which the sum of:

(i) the present value of the cumulative accrued benefits for key employees under all defined benefit plans included in the Aggregate Group; and

(ii) the aggregate of the accounts of key employees under all defined contribution plans included in such Aggregate Group, exceeds 60% of a similar sum for all employees, provided however, that the Plan shall not be deemed to be Top Heavy for any Plan Year in which the Plan is part of a Required Aggregation Group or permissive Aggregation Group (within the meaning of Sec. 416(g) of the Code) which is not Top Heavy. The present value of accrued benefits will be computed using the published UP -1984 Table, with interest at 6% compounded annually.

(c) The present value of an employee's cumulative accrued benefit or account shall be increased by the distributions made to the employee under the Plan and any plan in the Aggregate Group during the one-year period prior to the determination date. In the case of a distribution made for reason other than separation from service, death or disability, this provision shall be applied by substituting a five-year period for one-year period.

(d) The accrued benefits and accounts of any individual who has not performed services for the employer during the one-year period ending on the determination date shall not be taken into account.

3. Any employee, or former employee, and the beneficiary of such employee shall be deemed to be a key employee for purposes of this Article XXI if at any time during the Plan Year such Member is:

(a) An officer of NSC or a Participating Subsidiary who receives compensation (within the meaning of Section 414(q)(4) of the Code) from NSC or a Participating Subsidiary of more than one hundred thirty thousand dollars (\$130,000) per year (as adjusted under section 416(i)(1) of the Code for Plan Years after December 31, 2002), provided that no more than fifty (50) Members (or, if lesser, the greater of three (3) or 10 percent (10%) of all employees of the Corporation and Participating Subsidiaries) shall be considered as officers for purposes of this subsection 3(a) of Article XXI;

(b) An owner of 5% of the stock of NSC or a Participating Subsidiary; or

(c) An owner of 1% of the stock of NSC or a Participating Subsidiary who receives compensation (within the meaning of Section 414(q)(4) of the Code) from NSC or a Participating Subsidiary of more than one hundred fifty thousand dollars (\$150,000) per year.

4. Required Aggregation Group as used in Section 2 of this Article XXI shall mean the Plan along with all other plans of the Corporation or any Participating Subsidiary in which a key employee participates or any other plan which enables the Plan to meet the requirements of Section 401(a) or Section 410 of the Code for the purpose of determining whether the Plan is Top Heavy.

5. For plan years beginning on or after January 1, 2001, the definition of compensation in Paragraphs 1(b), 3(a), and 3(c) of this Article XXI shall include elective amounts that are not includible in the gross income of the employee by reason of Section 132(f)(4) of the Code.

## ARTICLE XXII. NW PLAN FOR SUPPLEMENTAL PENSIONS

Anything in the Plan to the contrary notwithstanding, effective December 31, 1988, a Member who was a member of the NW Supplemental Plan on December 31, 1988, shall receive or be eligible to receive only those retirement benefits to which he would otherwise have been entitled under the terms of the NW Supplemental Plan.

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## ARTICLE XXIII. RETIREE MEDICAL BENEFITS

1. Definitions. For purposes of this Article XXIII, the following definitions shall apply:

(a) Benefit Maintenance Period. The term Benefit Maintenance Period shall mean the period of 5 taxable years beginning with the taxable year in which a Qualified Transfer occurs.

(b) Eligible Dependent. The term "Eligible Dependent" shall mean a person who, by reason of his relationship to an Eligible Retiree and pursuant to the terms of the Medical Benefits Plan, is or may become entitled to Qualified Benefits under the Medical

Benefits Plan, provided that such person is a "dependent" within the meaning of Sec. 152 of the Code.

(c) Eligible Individual. The term "Eligible Individual" shall mean an Eligible Retiree or an Eligible Dependent.

(d) Eligible Retiree. The term "Eligible Retiree" shall mean any Member or Former Member:

(i) who (A) is entitled to retirement benefits under the Plan or (B) has received a lump sum distribution of his benefit under the Plan pursuant to Section 8 of Article VI;

(ii) who is or may become entitled to receive Qualified Benefits under the Medical Benefits Plan; and

(iii) who is not a Key Employee (as defined in Sec. 416(l)(1) of the Code) at any time during the Plan Year and has not been a Key Employee at any time during any previous Plan Year for which contributions were made for such individual's benefit to the Medical Benefits Account.

(e) Establishment Date. The term "Establishment Date" shall mean January 1, 1991, the date as of which the Medical Benefits Account shall be effective.

(f) Excess Pension Assets. The term "Excess Pension Assets" shall mean the excess, if any, of the following (determined as of the most recent valuation date of the Plan preceding the date of the Qualified Transfer):

(i) the lesser of (A) the fair market value of the Plan's assets or (B) the value of the Plan's assets as determined in accordance with Sec. 412(c)(2) of the Code, over

(ii) the greater of:

(A) the lesser of (I) the applicable percentage as determined under Sec. 412(c)(7)(f) of the Code of current liability (including the expected increase in current liability due to benefits accruing during the Plan Year) or (II) the accrued liability (including normal cost) under the Plan (determined under the entry age normal funding method if such accrued liability cannot be directly calculated under the funding method used for the Plan), or

(B) 125% of the Plan's current liability (as defined in Sec. 412(c)(7)(B) of the Code).

(g) Medical Benefits Account or Account. The term "Medical Benefits Account" or "Account" shall mean the separate record keeping account established pursuant to this Article XXIII to account for contributions (and any Excess Pension Assets allocated thereto) to fund benefits payable under this Article XXIII.

(h) Medical Benefits Plan. The term "Medical Benefits Plan" shall mean the Norfolk Southern Corporation Comprehensive Benefits Plan as in effect on the Establishment Date and as amended from time to time thereafter, or any successor plan.

(i) Qualified Benefits. The term "Qualified Benefits" shall mean the benefits that are provided pursuant to Paragraphs A(1), A(2), A(3), and A(4) of Article IV and Appendices H, I, J, and K of the Medical Benefits Plan pursuant to the terms of such provisions as

in effect on the Establishment Date and as amended from time to time thereafter.

(j) Qualified Current Retiree Health Liabilities. The term "Qualified Current Retiree Health Liabilities" shall have the meaning provided by Sec. 420(e)(i) of the Code

(k) Qualified Transfer. The term "Qualified Transfer" shall mean an allocation of Excess Pension Assets to the Medical Benefits Account pursuant to Section 9 of this Article XXIII.

(l) Service Provider or Service Providers. The term "Service Provider" or "Service Providers" shall mean one or more persons or organizations that the plan administrator may employ in connection with the administration of the Medical Benefits Plan and the Medical Benefits Account, including, but not limited to, an actuary, consultant, accountant, attorney, specialist, or adviser (including an investment adviser).

2. Establishment of Separate Account. A Medical Benefits Account shall be maintained with respect to contributions from NSC or the Participating Subsidiaries and any Excess Pension Assets that are allocated to fund the benefits payable under this Article XXIII. The assets allocated to the Medical Benefits Account shall be accounted for separately from all other assets of the Plan. The assets allocated to the Medical Benefits Account may be invested together with the other assets of the Plan without identification of which assets of the Plan are allocable to the Medical Benefits Account and which are allocable to the remainder of the Plan. However, where assets are not so identified, the earnings on such assets shall be allocated in a reasonable manner between the Medical Benefits Account and the remainder of the Plan.

3. No Diversion Prior to Satisfaction of All Liabilities. Except as provided in Subsection 9(c)(ii) of this Article XXIII, prior to the satisfaction of all liabilities under this Article XXIII to provide for the payment of Qualified Benefits, no part of the corpus or income of the Medical Benefits Account may be (within the taxable year or thereafter) used for, or diverted to, any purpose other than the providing of such benefits or the payment of any necessary or appropriate expenses attributable to the administration of the Medical Benefits Account.

4. Reversion Upon Satisfaction of All Liabilities. Notwithstanding the provisions of Section 3 of this Article XXIII and except as provided in Subsection 9(c)(ii) of this Article XXIII, any amounts that remain in the Medical Benefits Account upon the satisfaction of all liabilities funded pursuant to this Article XXIII shall be returned to NSC and the Participating Subsidiaries.

5. Forfeitures. If an Eligible Individual's interest in the Medical Benefits Account is forfeited prior to termination of the Plan, an amount equal to the amount of the forfeiture shall be applied as soon as possible to reduce any contributions of NSC and the Participating Subsidiaries to fund the Qualified Benefits.

6. Benefits Payable Out of the Medical Benefits Account.

(a) For each month after the Establishment Date or such other period as determined by the Board of Managers, there shall be paid out of the Medical Benefits Account, in the manner specified in Section 7 of this Article XXIII, the following amounts:

(i) the aggregate amount of Qualified Benefits that are payable, directly or indirectly, during that period by NSC and the Participating Subsidiaries to Eligible Individuals, including the amount of any premiums that may be payable to an insurance company pursuant to any contract that may provide some or all of the Qualified Benefits to Eligible Individuals; and

(ii) any necessary and appropriate administrative expenses attributable to the payment of Qualified Benefits from the Medical Benefits Plan and Medical Benefits Account, including any amount that may be payable to an insurance company or other person or organization pursuant to any contract for the provision of administrative services with respect to the payment of Qualified Benefits from the Medical Benefits Plan and the Medical Benefits Account and the amount of fees and expenses that may be owing to any Service Provider.

(b) The Qualified Benefits and the administrative expenses related thereto that are payable pursuant to Section 6(a) of this Article XXIII shall be payable first out of the Medical Benefits Account to the extent of the amount in the Account, and if any such benefits remain unpaid thereafter, may be payable out of any welfare benefit fund (as defined in Sec. 419(e)(1) of the Code) that NSC and/or the Participating Subsidiaries may have established to provide such benefits or as otherwise provided by the terms of the Medical Benefits Plan.

7. Payment of Benefits. (a) Payments from the Medical Benefits Account shall not exceed the amount in the Medical Benefits Account and may be made as follows:

(i) to an insurance company or other person or organization with respect to any amounts that are payable pursuant to a contract for the provision of Qualified Benefits to Eligible Individuals or pursuant to a contract for the provision of administrative services with respect to the payment of Qualified Benefits from the Medical Benefits Plan and the Medical Benefits Account;

(ii) to any Service Providers with respect to any fees and administrative expenses incurred by the Service Providers in connection with the payment of Qualified Benefits to Eligible Individuals from the Medical Benefits Plan and the Medical Benefits Account;

(iii) to NSC and/or the Participating Subsidiaries with respect to any Qualified Benefits that NSC and/or the Participating Subsidiaries paid, directly or indirectly, to an Eligible Individual;

(iv) to NSC and/or the Participating Subsidiaries with respect to any amounts that NSC and/or the Participating Subsidiaries paid to an insurance company or other person or organization pursuant to a contract for the provision of Qualified Benefits to an Eligible Individual or pursuant to a contract for the provision of administrative services, or with respect to any fees and expenses that NSC and/or the Participating Subsidiaries paid to any Service Providers; or

(v) to an Eligible Individual to whom the Qualified Benefits are payable, or if such Eligible Individual is an Eligible Dependent of an Eligible Retiree, to such Eligible Retiree.

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(b) In no event shall payments to NSC and/or the Participating Subsidiaries in respect of an Eligible Individual or in respect of any amounts paid to an insurance company or a Service Provider exceed the amount paid to the Eligible Individual, the insurance company, or the Service Provider, or precede the payment by NSC and/or the Participating Subsidiaries to the Eligible Individual, the insurance company, or the Service Provider, and in no event shall the Plan provide any security to NSC and/or the Participating Subsidiaries in respect of such payments.

8. Employer Contributions to the Medical Benefits Account. NSC and the Participating Subsidiaries shall have the sole discretion to determine the amount of any contributions to the Medical Benefits Account with respect to any Plan Year, subject to Subsection 9(f) of this Article XXIII. However, the amount of any such contribution, as determined by the Plan's actuary, shall be reasonable, and shall be reduced (but not below zero) as required so that the aggregate contributions actually made after the Establishment Date to the Medical Benefits Account and to provide any life insurance benefits provided under the Medical Benefits Plan shall not exceed 25% of the total aggregate contributions (other than contributions to fund past service credits) actually made to the Plan after the Establishment Date (including contributions to the Medical Benefits Account). At the time NSC and/or the Participating Subsidiaries make a contribution to the Plan, they shall designate the portion, if any, that is allocable to the Medical Benefits Account.

9. Qualified Transfers of Excess Pension Benefits. For each taxable year of NSC and the Participating Subsidiaries beginning after December 30, 1990, and before January 1, 2001, Excess Pension Assets under the Plan, if any, may be allocated to the Medical Benefits Account, in accordance with the following requirements:

(a) Excess Pension Assets shall be allocated to the Medical Benefits Account only once during each taxable year.

(b) The amount of Excess Pension Assets allocated to the Medical Benefits Account with respect to a taxable year shall not

exceed the amount that is reasonably estimated to be the amount that NSC and the Participating Subsidiaries will pay (directly or through reimbursement) out of the Medical Benefits Account during the taxable year of the Qualified Transfer for Qualified Current Retiree Health Liabilities.

(c) (i) Any Excess Pension Assets allocated to the Medical Benefits Account pursuant to Section 9 of this Article XXIII (and any income allocable thereto) shall be used only to pay Qualified Current Retiree Health Liabilities for the taxable year of the allocation.

(ii) Any Excess Pension Assets in the Medical Benefits Account (and any income allocable thereto) that are not used as provided in Subsection 9(c)(i) of this Article XXIII shall, at the end of the taxable year of the allocation, be reallocated from the Medical Benefits Account to the remainder of the Plan.

(d) Any amount paid out of the Medical Benefits Account for the taxable year of a Qualified Transfer shall be treated as paid first out of any Excess Pension Assets allocated to the Medical Benefits Account for such taxable year and any income allocated thereon.

(e) The accrued retirement benefits of the Members, their Surviving Spouses, and certain former Members under the Plan shall become nonforfeitable pursuant to Section 7 of Article IX.

(f) NSC and the Participating Subsidiaries shall not contribute any amounts to the Medical Benefits Account or to a welfare benefit fund (as defined in Sec. 419(e)(1) of the Code) with respect to Qualified Current Retiree Health Liabilities that, pursuant to Subsection 9(c)(i) of this Article XXIII, must be provided by the Excess Pension Assets that have been allocated to the Medical Benefits Account.

(g) As required by Sec. 420(c)(3) of the Code, Qualified Benefits provided under the Medical Benefits Plan during the Benefit Maintenance Period to each Eligible Retiree who has retired prior to a Qualified Transfer of Excess Pension Assets shall be substantially the same as the highest level of Qualified Benefits available to such Eligible Retiree during the taxable year immediately preceding the taxable year of the Qualified Transfer. If an Eligible Retiree retires prior to a Qualified Transfer of Excess Pension Assets but is not eligible to receive Qualified Benefits during the taxable year immediately preceding the taxable year of the Qualified Transfer, Qualified Benefits provided under the Medical Benefits Plan during the Benefits Maintenance Period shall be substantially the same as the Qualified Benefits provided under the Medical Benefits Plan at the time the Eligible Retiree retires. No allocation of Excess Pension Assets to the Medical Benefits Account will be permitted unless the Medical Benefits Plan contains language implementing this provision.

10. Documentation of Eligible Individual Status. Before making any payments to any individual pursuant to this Article XXIII, the Board of Managers may require such documentation as the Board of Managers, consistent with the other provisions of the Plan, reasonably deems necessary to demonstrate that such individual qualifies as an Eligible Individual.

11. Limitation on Rights to Benefits. This Article XXIII and the establishment of the Medical Benefits Account shall not be construed as giving any Member or former Member the right to any payment of a benefit from the Medical Benefits Plan. The terms of the Medical Benefits Plan alone shall govern a Member's or former Member's entitlement to benefits thereunder. The Plan, this Article XXIII, and the Medical Benefits Account shall not be construed as granting or implying a promise to provide, currently or in the future, any health benefits (including Qualified Benefits) or a stated level of health benefits to any Member or former Member or their dependents, nor shall they be construed as in any way limiting or otherwise affecting the rights of NSC and the Participating Subsidiaries to alter, amend, change, or terminate the Medical Benefits Plan or this Article XXIII.

## ARTICLE XXIV. MILITARY SERVICE

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Notwithstanding any provision of this Plan to the contrary, contributions, benefits and service credit with respect to qualified military service will be provided in accordance with Section 414(u) of the Internal Revenue Code.

# ARTICLE XXV. DISABILITY BENEFIT

1. A Member who is eligible to receive a benefit under the Long-Term Disability Plan of Norfolk Southern Corporation and Participating Subsidiary Companies or any successor plan shall be eligible to receive a Disability Benefit under this Article until the earlier of (i) the date when the Member ceases to be entitled to benefits under the LTD Plan, or (ii) the date when the Member reaches age 65. Except as otherwise provided in this Article, the monthly Disability Benefit payable hereunder shall be an amount equal to 50% of the Member's monthly Disability Benefit Compensation. The Disability Benefit shall be reduced by the following amounts:

(a) any amount paid or payable to the Member on account of his or her disability under any Workers' Compensation or Occupational or Non-Occupational Disease or Disability Act or Law, the Federal Employers' Liability Act, Railroad Unemployment Insurance Act, Railroad Retirement Act, or the Federal Social Security program;

(b) any retirement benefit which becomes payable under this Plan or any benefit which becomes payable under any pension plan of NSC or a subsidiary of NSC or Consolidated Rail Corporation or of any other entity whose service is credited under any pension plan of Consolidated Rail Corporation, at the earliest eligibility age without reduction for early retirement;

(c) any amount paid or payable under the Railroad Retirement or Federal Social Security Acts to the spouse or dependents of the Member, but only if the total benefit from all sources exceeds 75% of the Member's basic monthly salary; and

(d) any income which the Member receives for personal services or for any business or occupation in which the Member engages during the period for which benefits are payable, unless the Member is engaged in rehabilitative employment under a program of rehabilitation (as determined by the LTD Plan's Board of Managers under Section 2 of this Article).

If the reduction under paragraph (a), (b), or (c) of this Section 1 is determined after the Disability Benefit commences, the reduction shall be applied retroactively to the date the Disability Benefit commenced (or, if later, to the beginning of the period for which the benefit described in paragraph (a), (b), or (c) is paid). If a lump sum payment or periodic payments are made on account of such disability under any such Act, Law, or Plan, the monthly Disability Benefit shall be reduced by the actuarial equivalent of such lump sum settlement or periodic payments, stated as a monthly benefit paid over the same period the Disability Benefit is expected to be paid, as computed by an independent actuary.

2. The Disability Benefit payable under this Article is an ancillary benefit that does not cause any reduction in the Normal Retirement Benefit or early retirement benefit otherwise payable to the Member. No election of a form of payment shall be permitted until the Member ceases to receive a Disability Benefit. If the Member dies while he is receiving a Disability Benefit, the benefit (if any) payable to his Surviving Spouse or Surviving Same Sex Partner shall be determined under the preretirement survivor annuity provisions in Article VIII.

3. The LTD Plan's Board of Managers shall have the exclusive right in its discretion to interpret this Article and to decide all matters arising hereunder, including the right to remedy possible ambiguities, inconsistencies, or omissions. All determinations of the LTD Plan's Board of Managers with respect to any matter under this Article shall be conclusive and binding on all persons.

The LTD Plan's Board of Managers shall make all determinations as to the right of any person to the Disability Benefit under this Article. Any denial by the LTD Plan's Board of Managers of a claim for benefits under this Article by an Employee or Member shall be stated in writing by the LTD Plan's Board of Managers and delivered or mailed to the Employee or Member, and such notice shall set forth the specific reasons for the denial, written in a manner that may be understood by the Employee or Member. In addition, the LTD Plan's Board of Managers shall afford a reasonable opportunity to any Employee or Member whose claim for Disability Benefits has been denied for a review of the decision denying the claim.

## ARTICLE XXVI. MISCELLANEOUS

1. This Plan shall not be deemed to be an employment contract between the Corporation or any Participating Subsidiary and any Member or other employee.

2. Any person eligible to receive benefits hereunder shall furnish to the Managers any information or proof requested by the Managers and reasonably required for the proper administration of the Plan. Failure on the part of any person to comply with any such request within a reasonable period of time shall be sufficient grounds for delay in the payment of any benefits that may be due under the Plan until such information or proof is received by the Managers.

3. Each Member and each Beneficiary entitled to receive a benefit under the Plan shall keep the Managers advised of his or her current address. If the Managers are unable to locate a Member or Beneficiary to whom a benefit is payable under the Plan for a period of twelve (12) months, or if the Member or Beneficiary to whom a benefit is payable under the Plan receives a check for payment of the benefit but does not present the check for payment within twelve (12) months, in either case commencing with the day on which such benefit first becomes payable, the total amount payable to such Member or Beneficiary shall be forfeited and shall be used to reduce future contributions by NSC and the Participating Subsidiaries as provided in Article X; provided, that if such Member or Beneficiary to whom a benefit is payable makes a claim in writing for such benefit after the expiration of such twelve (12) month period, the benefit shall be reinstated.

4. The Corporation or any Participating Subsidiary shall have the right, to the extent permitted by law, to deduct from any payment or distribution to a Member or Beneficiary any Federal, state or local taxes of any kind required by law to be withheld.

EMPLOYEE MORTALITY ASSUMPTION  
USED IN DEVELOPMENT OF ACTUARIAL EQUIVALENCE FACTORS

| -          |                     |            |                     |            |                     |
|------------|---------------------|------------|---------------------|------------|---------------------|
| Employee   | Annual Rate         | Employee   | Annual Rate         | Employee   | Annual Rate         |
| <u>Age</u> | <u>of Mortality</u> | <u>Age</u> | <u>of Mortality</u> | <u>Age</u> | <u>of Mortality</u> |
| 20         | 0.000411            | 50         | 0.004259            | 80         | 0.079994            |
| 21         | 0.000427            | 51         | 0.004721            | 81         | 0.088980            |
| 22         | 0.000445            | 52         | 0.005210            | 82         | 0.098503            |
| 23         | 0.000463            | 53         | 0.005727            | 83         | 0.108513            |
| 24         | 0.000485            | 54         | 0.006272            | 84         | 0.119079            |
| 25         | 0.000508            | 55         | 0.006844            | 85         | 0.130175            |
| 26         | 0.000534            | 56         | 0.007444            | 86         | 0.141882            |
| 27         | 0.000562            | 57         | 0.008076            | 87         | 0.154275            |
| 28         | 0.000594            | 58         | 0.008747            | 88         | 0.167531            |
| 29         | 0.000628            | 59         | 0.009471            | 89         | 0.181694            |
| 30         | 0.000666            | 60         | 0.010265            | 90         | 0.196968            |
| 31         | 0.000708            | 61         | 0.011150            | 91         | 0.209014            |
| 32         | 0.000754            | 62         | 0.012152            | 92         | 0.221755            |
| 33         | 0.000805            | 63         | 0.013305            | 93         | 0.235306            |
| 34         | 0.000860            | 64         | 0.014641            | 94         | 0.249791            |
| 35         | 0.000923            | 65         | 0.016203            | 95         | 0.265356            |
| 36         | 0.000991            | 66         | 0.018034            | 96         | 0.282155            |
| 37         | 0.001066            | 67         | 0.019960            | 97         | 0.300359            |
| 38         | 0.001149            | 68         | 0.021877            | 98         | 0.320159            |
| 39         | 0.001242            | 69         | 0.023874            | 99         | 0.341754            |
| 40         | 0.001343            | 70         | 0.026165            | 100        | 0.365359            |
| 41         | 0.001470            | 71         | 0.029253            | 101        | 0.391194            |
| 42         | 0.001639            | 72         | 0.032731            | 102        | 0.419496            |

|    |          |     |          |     |          |
|----|----------|-----|----------|-----|----------|
| 43 | 0.001848 | 73  | 0.036536 | 103 | 0.452379 |
| 44 | 0.002094 | 74  | 0.040725 | 104 | 0.492096 |
| 45 | 0.002376 | 75  | 0.045963 | 105 | 0.540899 |
| 46 | 0.002691 | 76  | 0.050642 | 106 | 0.601038 |
| 47 | 0.003038 | 77  | 0.056811 | 107 | 0.674766 |
| 48 | 0.003416 | 78  | 0.063794 | 108 | 0.764335 |
| 49 | 0.003824 | 79  | 0.071557 | 109 | 0.871996 |
|    |          | 110 | 1.000000 |     |          |

BENEFICIARY MORTALITY ASSUMPTION  
USED IN DEVELOPMENT OF ACTUARIAL EQUIVALENCE FACTORS

| Employee   | Annual Rate         | Employee   | Annual Rate         | Employee   | Annual Rate         |
|------------|---------------------|------------|---------------------|------------|---------------------|
| <u>Age</u> | <u>of Mortality</u> | <u>Age</u> | <u>of Mortality</u> | <u>Age</u> | <u>of Mortality</u> |
| 20         | 0.000275            | 50         | 0.002367            | 80         | 0.063124            |
| 21         | 0.000290            | 51         | 0.002753            | 81         | 0.070445            |
| 22         | 0.000306            | 52         | 0.002798            | 82         | 0.078282            |
| 23         | 0.000323            | 53         | 0.003049            | 83         | 0.086449            |
| 24         | 0.000342            | 54         | 0.003324            | 84         | 0.095459            |
|            |                     |            |                     |            |                     |
| 25         | 0.000362            | 55         | 0.003630            | 85         | 0.105185            |
| 26         | 0.000383            | 56         | 0.003976            | 86         | 0.115744            |
| 27         | 0.000406            | 57         | 0.004376            | 87         | 0.126922            |
| 28         | 0.000430            | 58         | 0.004839            | 88         | 0.139471            |
| 29         | 0.000457            | 59         | 0.005371            | 89         | 0.152845            |
|            |                     |            |                     |            |                     |
| 30         | 0.000487            | 60         | 0.005978            | 90         | 0.167597            |
| 31         | 0.000518            | 61         | 0.006663            | 91         | 0.180685            |
| 32         | 0.000553            | 62         | 0.007428            | 92         | 0.194505            |
| 33         | 0.000591            | 63         | 0.008273            | 93         | 0.209559            |
| 34         | 0.000632            | 64         | 0.009196            | 94         | 0.226003            |
|            |                     |            |                     |            |                     |
| 35         | 0.000677            | 65         | 0.010191            | 95         | 0.244005            |
| 36         | 0.000725            | 66         | 0.011255            | 96         | 0.263751            |
| 37         | 0.000780            | 67         | 0.012374            | 97         | 0.285445            |
| 38         | 0.000839            | 68         | 0.013662            | 98         | 0.309309            |
| 39         | 0.000903            | 69         | 0.015214            | 99         | 0.335583            |
|            |                     |            |                     |            |                     |
| 40         | 0.000975            | 70         | 0.017162            | 100        | 0.364532            |
| 41         | 0.001056            | 71         | 0.019865            | 101        | 0.396444            |
| 42         | 0.001147            | 72         | 0.023001            | 102        | 0.431633            |
| 43         | 0.001251            | 73         | 0.026492            | 103        | 0.470647            |

|    |          |     |          |     |          |
|----|----------|-----|----------|-----|----------|
| 44 | 0.001366 | 74  | 0.030321 | 104 | 0.515260 |
|    |          |     |          |     |          |
| 45 | 0.001494 | 75  | 0.034536 | 105 | 0.567251 |
| 46 | 0.001638 | 76  | 0.039190 | 106 | 0.628394 |
| 47 | 0.001795 | 77  | 0.044335 | 107 | 0.700464 |
| 48 | 0.001968 | 78  | 0.050109 | 108 | 0.785238 |
| 49 | 0.002158 | 79  | 0.056293 | 109 | 0.884492 |
|    |          |     |          |     |          |
|    |          | 110 | 1.000000 |     |          |

EXHIBIT C

MORTALITY ASSUMPTIONS  
USED IN DEVELOPMENT OF OPTION FACTORS

| Age | Annual Rate<br>of Mortality | Age | Annual Rate<br>of Mortality | Age | Annual Rate<br>of Mortality | Age | Annual Rate<br>of Mortality |
|-----|-----------------------------|-----|-----------------------------|-----|-----------------------------|-----|-----------------------------|
| 15  | 0.000143                    | 42  | 0.000775                    | 69  | 0.014742                    | 96  | 0.236930                    |
| 16  | 0.000151                    | 43  | 0.000826                    | 70  | 0.016160                    | 97  | 0.251111                    |
| 17  | 0.000161                    | 44  | 0.000885                    | 71  | 0.017803                    | 98  | 0.265340                    |
| 18  | 0.000167                    | 45  | 0.000940                    | 72  | 0.019833                    | 99  | 0.276338                    |
| 19  | 0.000171                    | 46  | 0.000994                    | 73  | 0.021968                    | 100 | 0.286390                    |
| 20  | 0.000174                    | 47  | 0.001054                    | 74  | 0.024500                    | 101 | 0.301731                    |
| 21  | 0.000179                    | 48  | 0.001130                    | 75  | 0.027315                    | 102 | 0.313092                    |
| 22  | 0.000186                    | 49  | 0.001215                    | 76  | 0.030348                    | 103 | 0.324542                    |
| 23  | 0.000197                    | 50  | 0.001323                    | 77  | 0.034204                    | 104 | 0.335529                    |
| 24  | 0.000208                    | 51  | 0.001423                    | 78  | 0.038256                    | 105 | 0.345501                    |
| 25  | 0.000222                    | 52  | 0.001570                    | 79  | 0.042806                    | 106 | 0.353906                    |
| 26  | 0.000244                    | 53  | 0.001764                    | 80  | 0.047905                    | 107 | 0.361363                    |
| 27  | 0.000253                    | 54  | 0.001990                    | 81  | 0.053861                    | 108 | 0.368721                    |
| 28  | 0.000262                    | 55  | 0.002346                    | 82  | 0.060545                    | 109 | 0.375772                    |
| 29  | 0.000276                    | 56  | 0.002818                    | 83  | 0.067380                    | 110 | 0.382309                    |
| 30  | 0.000301                    | 57  | 0.003243                    | 84  | 0.075650                    | 111 | 0.388123                    |
| 31  | 0.000348                    | 58  | 0.003706                    | 85  | 0.084660                    | 112 | 0.393008                    |
| 32  | 0.000394                    | 59  | 0.004206                    | 86  | 0.094731                    | 113 | 0.396754                    |
| 33  | 0.000438                    | 60  | 0.004803                    | 87  | 0.106954                    | 114 | 0.399154                    |
| 34  | 0.000482                    | 61  | 0.005576                    | 88  | 0.119811                    | 115 | 0.400000                    |
| 35  | 0.000525                    | 62  | 0.006405                    | 89  | 0.133578                    | 116 | 0.400000                    |
| 36  | 0.000566                    | 63  | 0.007444                    | 90  | 0.148759                    | 117 | 0.400000                    |

|    |          |    |          |    |          |     |          |
|----|----------|----|----------|----|----------|-----|----------|
| 37 | 0.000604 | 64 | 0.008410 | 91 | 0.162589 | 118 | 0.400000 |
| 38 | 0.000630 | 65 | 0.009508 | 92 | 0.178330 | 119 | 0.400000 |
| 39 | 0.000657 | 66 | 0.010866 | 93 | 0.193878 | 120 | 1.000000 |
| 40 | 0.000691 | 67 | 0.012108 | 94 | 0.207982 |     |          |
| 41 | 0.000729 | 68 | 0.013316 | 95 | 0.223718 |     |          |

**Retirement Plan of Norfolk Southern Corporation  
and Participating Subsidiary Companies**

## Schedule A. Additional Retirement Benefits

The following Members, listed by confidential identification numbers maintained by the Plan Administrator, will receive the indicated monthly Additional Retirement Benefit, in accordance with Article VI of the Plan:

Schedule A

| Additional     |            |          |
|----------------|------------|----------|
| Identification | Retirement |          |
| Number         | Benefit    |          |
|                | 1          | \$26.88  |
|                | 2          | 381.72   |
|                | 3          | 276.40   |
|                | 4          | 4,555.13 |
|                | 5          | 315.53   |
|                | 6          | 328.30   |
|                | 7          | 964.32   |
|                | 8          | 58.67    |
|                | 9          | 83.33    |
|                | 10         | 1,577.71 |
|                | 11         | 70.30    |
|                | 12         | 197.63   |
|                | 13         | 821.87   |
|                | 14         | 815.08   |
|                | 15         | 370.82   |
|                | 16         | 731.48   |

|    |          |
|----|----------|
| 17 | 121.25   |
| 18 | 1,304.57 |
| 19 | 7,731.59 |
| 20 | 40.95    |
| 21 | 482.36   |
| 22 | 68.45    |
| 23 | 116.21   |
| 24 | 83.98    |
| 25 | 499.96   |
| 26 | 44.99    |
| 27 | 200.79   |
| 28 | 783.26   |

**Schedule A continued**

| <b>Additional</b>     |                   |           |
|-----------------------|-------------------|-----------|
| <b>Identification</b> | <b>Retirement</b> |           |
| <b>Number</b>         | <b>Benefit</b>    |           |
|                       | 29                | 33.59     |
|                       | 30                | 67.84     |
|                       | 31                | 21,388.96 |
|                       | 32                | 1,371.51  |
|                       | 33                | 147.65    |
|                       | 34                | 487.99    |
|                       | 35                | 127.44    |
|                       | 36                | 769.73    |
|                       | 37                | 188.72    |
|                       | 38                | 1,548.04  |
|                       | 39                | 1,194.37  |
|                       | 40                | 158.08    |
|                       | 41                | 3,411.23  |
|                       | 42                | 833.34    |
|                       | 43                | 5,556.86  |
|                       | 44                | 183.18    |

|    |          |
|----|----------|
| 45 | 671.52   |
| 46 | 615.62   |
| 47 | 1,104.12 |
| 48 | 327.24   |
| 49 | 41.75    |
| 50 | 942.45   |
| 51 | 935.30   |
| 52 | 387.31   |
| 53 | 3,322.86 |
| 54 | 791.16   |
| 55 | 744.92   |
| 56 | 182.28   |
| 57 | 5.95     |
| 58 | 8.25     |
| 59 | 1,023.05 |
| 60 | 1,087.63 |
| 61 | 5,407.87 |
| 62 | 69.21    |
| 63 | 1,155.57 |
| 64 | 108.99   |
| 65 | 4,558.49 |
| 66 | 146.78   |
| 67 | 504.39   |
| 68 | 94.28    |

**Schedule A continued**

**Additional**  
**Identification      Retirement**  
**Number              Benefit**

|    |          |
|----|----------|
| 69 | 84.35    |
| 70 | 54.44    |
| 71 | 802.10   |
| 72 | 219.41   |
| 73 | 275.25   |
| 74 | 1,574.82 |
| 75 | 118.26   |
| 76 | 424.57   |
| 77 | 348.56   |
| 78 | 19.96    |
| 79 | 608.65   |
| 80 | 327.15   |
| 81 | 837.55   |
| 82 | 184.38   |
| 83 | 4.09     |
| 84 | 951.01   |
| 85 | 488.58   |
| 86 | 2,518.63 |
| 87 | 3,292.37 |
| 88 | 1,335.68 |
| 89 | 2,240.10 |
| 90 | 36.38    |
| 91 | 69.12    |
| 92 | 494.79   |
| 93 | 174.17   |
| 94 | 446.33   |
| 95 | 146.10   |
| 96 | 40.11    |
| 97 | 526.49   |

|     |        |
|-----|--------|
| 98  | 833.06 |
| 99  | 6.08   |
| 100 | 423.71 |
| 101 | 307.33 |
| 102 | 152.40 |
| 103 | 700.33 |
| 104 | 204.18 |
| 105 | 223.78 |
| 106 | 404.78 |
| 107 | 93.75  |

**Schedule A continued**

| <b>Additional</b>     |                   |
|-----------------------|-------------------|
| <b>Identification</b> | <b>Retirement</b> |
| <b>Number</b>         | <b>Benefit</b>    |
| 108                   | 6.33              |
| 109                   | 675.25            |
| 110                   | 542.69            |
| 111                   | 328.30            |
| 112                   | 274.99            |
| 113                   | 295.00            |
| 114                   | 1,859.62          |
| 115                   | 381.74            |
| 116                   | 301.07            |
| 117                   | 365.04            |
| 118                   | 168.74            |
| 119                   | 603.48            |
| 120                   | 616.62            |
| 121                   | 97.56             |
| 122                   | 356.81            |
| 123                   | 502.83            |
| 124                   | 1,411.62          |
| 125                   | 907.19            |

|     |          |
|-----|----------|
| 126 | 571.81   |
| 127 | 17.65    |
| 128 | 131.68   |
| 129 | 45.88    |
| 130 | 40.14    |
| 131 | 96.65    |
| 132 | 2,489.98 |
| 133 | 1,706.36 |
| 134 | 59.66    |
| 135 | 24.14    |
| 136 | 1,033.44 |
| 137 | 184.46   |
| 138 | 414.57   |
| 139 | 25.72    |
| 140 | 33.74    |
| 141 | 132.75   |
| 142 | 55.67    |
| 143 | 210.00   |
| 144 | 124.95   |
| 145 | 482.39   |
| 146 | 682.86   |
| 147 | 184.46   |

**Schedule A continued**

| <b>Additional</b>     |                   |           |
|-----------------------|-------------------|-----------|
| <b>Identification</b> | <b>Retirement</b> |           |
| <b>Number</b>         | <b>Benefit</b>    |           |
|                       | 148               | 141.74    |
|                       | 149               | 150.98    |
|                       | 150               | 547.65    |
|                       | 151               | 1,075.72  |
|                       | 152               | 385.38    |
|                       | 153               | 2,317.54  |
|                       | 154               | 345.11    |
|                       | 155               | 516.83    |
|                       | 156               | 555.43    |
|                       | 157               | 18,307.91 |
|                       | 158               | 1,759.62  |
|                       | 159               | 94.26     |
|                       | 160               | 83.45     |
|                       | 161               | 9.27      |
|                       | 162               | 910.85    |
|                       | 163               | 190.44    |
|                       | 164               | 191.98    |
|                       | 165               | 543.21    |
|                       | 166               | 1,486.76  |
|                       | 167               | 917.88    |
|                       | 168               | 382.97    |
|                       | 169               | 41.89     |
|                       | 170               | 49.51     |
|                       | 171               | 1,255.99  |
|                       | 172               | 1,446.97  |
|                       | 173               | 469.50    |
|                       | 174               | 1,309.05  |
|                       | 175               | 2,677.79  |
|                       | 176               | 1,486.51  |

|     |          |
|-----|----------|
| 177 | 112.85   |
| 178 | 624.48   |
| 179 | 3,369.39 |
| 180 | 562.19   |
| 181 | 971.15   |
| 182 | 1,130.67 |

**Retirement Plan of Norfolk Southern Corporation  
and Participating Subsidiary Companies**

## Schedule B. Additional Retirement Benefits

The following Members, listed by confidential identification numbers maintained by the Plan Administrator, will receive the indicated monthly Additional Retirement Benefit, in accordance with Section 1.(d) of Article VI of the Plan, effective as of January 1, 2005:

-

| Identification<br><br><u>Number</u> | <b><u>Additional Retirement<br/>Benefit Before Offset<br/>Described in Section 1(e)<br/>of Article VI Is Applicable</u></b> | <b><u>Additional Retirement<br/>Benefit After Offset<br/>Described in Section 1(e)<br/>of Article VI is Applicable</u></b> |
|-------------------------------------|---|--|
| 1                                   | \$182.08  | \$2.61   |
| 2                                   |   | 95.38  |
| 3                                   |   | 175.27   |
| 4                                   | 1,352.10  | 726.15   |
| 5                                   |   | 101.82   |
| 6                                   |   | 84.18  |
| 7                                   |   | 216.58   |
| 8                                   |   | 81.42  |
| 9                                   | 217.66  |  |
| 10                                  | 388.16  |  |
| 11                                  | 378.31  |  |
| 12                                  |   | 152.21   |

**Retirement Plan of Norfolk Southern Corporation  
and Participating Subsidiary Companies**

## **Schedule C. Reduction in Retirement Benefits**

The retirement benefits otherwise payable to the following Members, listed by confidential identification numbers maintained by the Plan Administrator, will be reduced by the indicated monthly amount, in accordance with Section 1.(k) of Article VI of the Plan, effective as of January 1, 2005:

| <u>Identification Number</u> | <u>Reduction in Benefit</u> |
|------------------------------|-----------------------------|
| 1                            | \$34.18                     |
| 2                            | 25.00                       |
| 3                            | 25.00                       |
| 4                            | 25.00                       |
| 5                            | 25.00                       |
| 6                            | 25.00                       |
| 7                            | 25.00                       |
| 8                            | 25.00                       |
| 9                            | 25.00                       |
| 10                           | 25.00                       |
| 11                           | 25.00                       |

**Retirement Plan of Norfolk Southern Corporation  
and Participating Subsidiary Companies**

## **Schedule D**

**Retirement Benefits for Retirees, Beneficiaries and Deferred Vested Participants under the AW&W Plan**

The Algiers, Winslow and Western Railway Company ("AW&W") established the AW&W Plan effective December 31, 1959. Effective March 23, 2007, Norfolk Southern Corporation acquired 100% of the stock in AW&W, and subsequently merged AW&W into Norfolk Southern Railway Company as of April 20, 2007. Due to the merger, Norfolk Southern Railway assumed the AW&W Plan and the obligations thereunder.

NSC and Norfolk Southern Railway merged the AW&W Plan into the Plan effective December 31, 2007.

Individuals who were participants in the AW&W Plan immediately before the AW&W Plan was merged into the Plan will receive the benefits they were entitled to under the AW&W Plan immediately before the merger under the Plan. As such, the provisions of the AW&W Plan are incorporated by reference into the Plan.

The following individuals, listed by confidential identification numbers maintained by the Plan Administrator, will be entitled to benefits under the Plan because of the merger. The individuals listed under identification numbers 1 through 6 are as of December 31, 2007 receiving the monthly benefit payments corresponding to their identification number in the form of payment corresponding to their identification number. The individuals listed under identification numbers 7 and 8 are deferred vested participants who are entitled to receive monthly benefit payments corresponding to their identification number in the form of a life annuity with 120 payments certain beginning on their normal retirement date under the AW&W Plan. These deferred vested participants may also be entitled to elect other forms of payment or other annuity starting dates in accordance with the provisions of the AW&W Plan as it existed immediately before the merger, or their beneficiaries may be entitled to pre-retirement survivor benefits in accordance with the provisions of the AW&W Plan as it existed immediately before the merger.

**Identification**  
**Number**

**AW&W Retirement**  
**Benefit**

|   |   |
|---|---|
| 1 | \$ 363.95 life annuity                          |
| 2 | 412.08 life annuity payable to surviving spouse |
| 3 | 713.70 life annuity                             |
| 4 | 108.05 life annuity                             |
| 5 | 782.39 50% joint & survivor annuity             |
| 6 | 1,936.19 100% joint & survivor annuity          |
| 7 | 927.04 life annuity with 120 payments certain   |
| 8 | 648.38 life annuity with 120 payments certain   |

[Letterhead of Norfolk Southern Railway Company]

October 21, 2008

David A. Fink  
President  
Pan Am Railways, Inc.  
Iron Horse Park  
North Billerica, MA 01862-1692

Dear David,

Pursuant to that certain Settlement Agreement by and among the Executive Office of Transportation and Public Works for the Commonwealth of Massachusetts ("EOTPW"), the Massachusetts Bay Transportation Authority ("MBTA"), Norfolk Southern Railway Company ("NSR"), and Pan Am Railways, Inc., NSR has agreed to pay \$500,000 to EOT on behalf of B&M (the "Settlement Payment") in order to assist in inducing EOT and MBTA to consent to various matters required to effectuate the transaction contemplated by that certain Transaction Agreement made and entered into as of May 15, 2008, by and among NSR, Pan Am Railways, Inc., B&M and Springfield Terminal Railway Company (the "Transaction Agreement"). Capitalized terms used and not otherwise defined herein shall be given the meaning ascribed thereto in the Transaction Agreement. Section 2.2(a) of the Transaction Agreement calls for NSR to contribute to the Company an Option Agreement and, within 30 days of the Closing Date, \$60,000,000 in cash (the "NSR Contribution"). Schedule 3 of the Transaction Agreement calls for the Company to pay \$37,500,000 to B&M on the Exercise Date as part of the Purchase Price (the "Company Payment"). By means of this letter, NSR and B&M hereby agree that the Settlement Payment shall be treated as an additional Option Payment (as defined in the Option Agreement). As such, the Settlement Payment shall reduce the NSR Contribution by \$500,000 in cash and reduce the Company Payment by \$500,000 in cash.

Please sign and return to my attention a fully executed copy of this letter to acknowledge your agreement to the foregoing.

**NORFOLK SOUTHERN RAILWAY COMPANY**

By: /s/ Deborah H. Butler

Name: Deborah H. Butler

Title: Executive Vice President Planning and

Chief Information Officer

ACKNOWLEDGED AND AGREED:

**BOSTON AND MAINE CORPORATION      PAN AM RAILWAYS, INC.**

By: /s/ David A. Fink

Name: David A. Fink

Title: President

By: /s/ David A. Fink

Name: David A. Fink

Title: President

**SPRINGFIELD TERMINAL RAILWAY  
COMPANY**

By: /s/ David A. Fink

Name: David A. Fink

Title: President

### **AMENDED AND RESTATED CHANGE IN CONTROL AGREEMENT**

*Whereas* , Norfolk Southern Corporation (Corporation) and «Full\_Name» , Employee ID No. «EMP\_ID» , originally executed on «Date» an agreement (Original Agreement) to memorial-ize your entitle-ment to cer-tain rights and benefits that would mature upon, and only upon, your termination following a change in control and your commitment not to engage in competing employment for certain periods;

*Whereas* , as part of the consideration for the Original Agreement, you agreed that you would not engage in competing employment, as set forth in the Original Agreement, for the three-year period that began on the date of the Original Agreement;

*Whereas* , the Corporation and you wish to amend and restate the Original Agreement effective as of December 31, 2008 (Effective Date) to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended.

*Now, Therefore*, the Corporation and you amend and restate the Original Agreement as set forth herein. This amended and restated agreement (Agreement) (1) memorial-izes your entitle-ment to cer-tain rights and benefits hereinafter detailed that mature upon, and only upon, your Termination (this and other terms not defined in the text are defined in Attachment A hereto) following a Change in Control and your commitment not to engage in Competing Employment for certain periods; (2) absent such Termination, is not intended to affect, and shall not be construed as affecting, the compensation and benefits you are entitled to receive, except as otherwise provided in Article III, subparagraph (x)(d) of the Agreement; and (3) is not under any circumstances a contract or guarantee of employ-ment with the Corporation. More-over, upon the happening of such conditions, your rights under any and all employee retirement income or wel-fare bene-fit policies, plans, programs or arrangements of the Cor-poration in which you participate shall be governed by the terms thereof and, except as herein expressly provided, shall not be enlarged hereunder or otherwise affected hereby.

The Agreement's terms and protect-ions reflect the Corporation's beliefs that, in the event of a potential Change in Control, (1) the best inter-ests of its stock-holders require management focus and continuity; and (2) such focus and continuity will be enhanced by providing economic pro-tection to officers and other key employees whose employment is most likely to be affected adversely by such a change. At the recommendation of its Compensation Committee (Commit-tee), which is composed entire-ly of non-employee direc-tors, the Board of Directors of the Corporation (Board) has di-rected the Corpora-tion to offer this Agreement to you.

As consideration for the Corporation's offer of this Agreement, and by your acceptance of it, you hereby covenant and agree as follows:

- (i) in the event you (a) are Terminated following a Change in Control and (b) accept any benefits provided for in Article III or Article IV of this Agreement, you will engage in no Competing Employment for the one-year period that begins on your Termination Date;
- (ii) you waive, forego and otherwise renounce, on your behalf and that of any individual or organization that does or may claim through you, any and all benefits (including without limitation any prior notice of agreement termination therein provided) to which you may or would be entitled under and by virtue of any other agreement, including amendments and supplements thereto, as in effect on the date hereof between you and the Corporation affording you benefits in the event of your Termination, with the result that all and any such agreements, from and after the date hereof, shall have no force and effect; and
- (iii) if, prior to a Change in Control, a modification in the nature of your responsibilities with the Corporation (Reassignment) results in a change in the maximum percentage of your salary that may be earned as incentive compensation (Participation Level), upon the effective date of your Reassignment (Reassignment Date), you will become and be eligible to receive only those benefits following a Change in Control as are other individuals at the Participation Level applicable to your new position; the Corporation hereby undertakes to furnish you a new agreement or to furnish an amendment or supplement to this Agreement, to reflect your changed benefits, but its failure or omission to do so shall not affect the benefits to which, under this subparagraph (iii), you are entitled upon and after such Reassignment Date.

## I. Effective Date and Term

This Agreement, which amends and restates the Original Agreement, is effective and its term (Term) begins on the Effective Date; its Term ends on the earliest of:

- (i) the date, prior to a Change in Control, you cease to be an employee of the Corporation;
- (ii) the date, prior to a Change in Control, you cease to be eligible to participate in the Corporation's Executive Management Incentive Plan or Management Incentive Plan, or any successor plan[s] or program[s]; and
- (iii) the date, prior to a Change in Control, that is twenty-four (24) months after you or the Corporation gives notice to the other of the termination of this Agreement, *provided, however*, that if a Change in Control occurs during the Term hereof, this Agreement shall terminate after a period of twenty-four (24) months, beginning on the first day of the month next following the month in which the Change in Control occurs (such period, plus the portion of the month following the Change in Control in which the Change in Control occurs, constituting the "Change in Control Period").

## II. Binding on Successors

The Corporation shall require any successor (whether direct or indirect, by purchase, merger, consolidation, reorganization, share exchange or otherwise) to all or substantially all of the business and/or assets of the Corporation (Successor; and such result, Succession) by agreement, in form and substance satisfactory to the Corporation's chief legal officer or his designee(s), serving immediately prior to the Change in Control, expressly to assume and agree to perform this Agreement in the same manner and to the same extent the Corporation would have been required to perform it had no such Succession occurred. This Agreement shall be binding upon and inure to the benefit of the Corporation and any Successor (and, from and after any such Succession, that Successor shall be deemed the "Corporation" for purposes of this Agreement), but otherwise the Corporation shall not assign or transfer any of its rights, or delegate any of its duties or obligations, hereunder.

## III. Protection Afforded by the Agreement During the Change in Control Period

Except as limited by subparagraph (ix) concerning retirement and subparagraph (x) concerning deferred compensation, in the event of your Termination during the Change in Control Period, the Corporation shall (1) pay you within ten (10) business days after your Termination Date the amounts indicated in subparagraphs (i), (ii), (iii), (iv) and (vii); (2) continue to provide the Additional Benefits detailed in subparagraph (v); (3) timely pay, afford or deliver the other amounts, credits or instruments called for in subparagraphs (vi) and (viii); and (4) pay and provide the Tax Assistance Payments and other benefits defined and called for herein:

- (i) Severance Pay. In lieu of, and in full satisfaction of any and all claims you have or may have thereafter to receive severance pay or benefits under the Norfolk Southern Corporation Severance Pay Plan (or any successor severance pay plan), or to earn any base salary or incentive awards that you had not earned as of your Termination Date, you shall receive a lump-sum payment (Severance Pay) equal to three (3) times the sum of:
  - (a) an amount equal to your Base Pay (determined in accordance with Item (D)(ii) in Attachment A); and
  - (b) an amount equal to your Incentive Pay (determined in accordance with Item (M) in Attachment A).

- (ii) Long-Term Compensation

- (a) Performance Share Unit Equivalent. In lieu of your having any entitlement, which entitlement, upon your receipt of the benefit herein provided, hereby is waived in full, to receive unearned Performance Share Units (as that term is defined in the Norfolk Southern Corporation Long-Term Incentive Plan, or successor plan[s] or program[s]) that you have been awarded and as to which a performance cycle has not been completed on your Termination Date, you shall receive for each incomplete cycle a cash payment equal to the Performance Share Unit Equivalent (determined in accordance with Item (O) in Attachment A).
- (b) Option Equivalent. Except in the case of persons at the time subject to Section 16 of the Securities Exchange Act of 1934 (Officers), for each option granted to you by the Corporation which on your Termination Date is exercisable but remains unexercised (and by its terms no longer can be exercised after your Termination Date), you shall receive a cash payment equal to the Option Equivalent (determined in accordance with Item (N) in Attachment A). To protect and assure to the full extent practicable the intended value of options exercisable at the time by Officers, effective on the date Notice of Termination (for reasons other than Cause) is given, any requirement contained in any agreement(s) between such Officer and the Corporation that such Officer exercise an option only during a specified period (other than any provision concerning the date on which the option first is or becomes exercisable) hereby is waived.
- (c) Accelerated Dividend Equivalent. As to each option, performance share unit or other instrument you hold on the date Notice of Termination (for reasons other than Cause) is given as to which the right to receive dividend equivalents then exists, you shall receive an amount equal to the Accelerated Dividend Equivalent (determined in accordance with Item (A) in Attachment A), *provided, however*, that the Corporation's obligation to make the payment herein provided for shall mature on your Termination Date.
- (iii) Deferred Compensation Equivalent. In lieu of your having any entitlement to receive payments under the terms of the Officers' Deferred Compensation Plan, the Executives' Deferred Compensation Plan, or any successor plan[s] or program[s], which entitlement, upon your receipt of the benefit herein provided, hereby is waived in full, you shall receive an amount equal to the Deferred Compensation Equivalent (determined in accordance with Item (J) in Attachment A).
- (iv) Vacation Equivalent. In lieu of your having any entitlement to receive payments or other compensation for vacation to which you would have been or might have become entitled in and following the year that includes your Termination Date, which entitlement, upon your receipt of the benefit herein provided, hereby is waived in full, you shall receive an amount equal to the Vacation Equivalent (determined in accordance with Item (V) in Attachment A).
- (v) Additional Benefits. For the thirty-six (36) months next following your Termination Date, the Corporation shall arrange to provide you with Additional Benefits substantially similar to those you were entitled to receive immediately prior to your Termination Date (and if and to the extent that such benefits shall not or cannot be paid or provided under any policy, plan, program or arrangements of the Corporation for whatever reason, the Corporation shall itself pay or provide for the payment of such Additional Benefits to you, your dependents and your beneficiaries). Without otherwise limiting the purposes or effects of the provisions under the caption "No Mitigation Obligation," *infra*, Additional Benefits to which you are entitled pursuant to the first sentence of this subparagraph (v) shall terminate if you receive substantially similar Additional Benefits from another employer during such period following your Termination Date, and you shall report to the Corporation any such benefits actually received.
- (vi) Post-Retirement Life Insurance Benefit. If you have a Termination during the Change in Control Period, the Corporation will pay the premiums required to maintain your policy and benefit under the Corporation's Executive Life Insurance Plan as if you had terminated due to retirement under that plan. The premiums to be paid after your Termination shall be fixed as of the date of Termination.
- (vii) Prorata Incentive Pay. In lieu of your having any entitlement, which entitlement, upon your receipt of the benefit herein provided, hereby is waived in full, to receive payments or other compensation under the terms of the Executive Management Incentive Plan or the Management Incentive Plan (or successor plan[s] or program[s]) in respect of your employment during the year that includes your Termination Date, you shall receive an amount equal to Prorata Incentive Pay (determined in accordance with Item (Q) in Attachment A).

(viii) (a) Creditable Service for Retirement. For purposes of determining your creditable service under the Corporation's various retirement plans, including without limitation any agreement(s) with you providing retirement income, you shall receive additional creditable service, based on your age on your Termination Date, as follows:

- (1) Age 50 - 54: **as if you had been employed until you were 60;**
- (2) Age 55 - 59: **as if you had been employed until you were 62;** and
- (3) All others: **three (3) additional years,**

*provided, however,* that such creditable service shall not be greater than the number that is equal to the number of months (calculated in accordance with the terms of the applicable plan) between (i) your Termination Date and (ii) the date on which you would attain the mandatory retirement age in effect at the time of the Change in Control. Your rights under such programs and plans shall be governed by the terms thereof and, except as herein expressly provided, shall not be enlarged hereunder or otherwise affected hereby.

(b) Final Average Compensation for Retirement. For purposes of determining your final average compensation under the Corporation's various plans (including without limitation any agreement(s) with you) providing retirement income, the amount of Severance Pay provided for in subparagraph (i) of this Article III shall be included, and the payments made pursuant to subparagraph (i) shall be deemed to have been made over the number of annual periods equal to the multiple used to determine the gross amount of your Severance Pay, *provided, however,* that your final average compensation shall not include amounts paid or payable pursuant to subparagraph (iv) (to the extent they are an Additional Vacation Equivalent) and subparagraph (vii) of this Article III.

(ix) Special Proviso for Those Eligible to Retire. If on your Termination Date you are eligible to retire under the provisions of any of the Corporation's retirement plans (excluding any special, temporary early retirement amendment[s]), as in effect either on the day immediately preceding the Change in Control or on your Termination Date, you may elect to retire on your Termination Date by giving the Corporation written notice as provided in this subparagraph (ix). Not later than two (2) business days following, but not including, the date on which Notice of Termination is given (whether by you or by the Corporation), the Corporation shall advise you in writing of your right herein provided to elect to retire. If you wish to exercise that right, you must so advise the Corporation prior to your Termination Date on an election form it provides and in the manner prescribed under Article X.

If and only if you make this election, your retirement will be deemed to have occurred simultaneously with your Termination Date (*provided, however,* that the "effective date" of such retirement for purposes of such retirement plans shall be as provided under such plans), and, instead of your having the rights provided in this Article III, your rights shall be governed by the retiree (or any specific change in control) provisions of the respective, applicable plans (as to each, on the terms most favorable to you under such plan [excluding any special, temporary early retirement amendment(s)] as in effect either immediately preceding the Change in Control or on your Termination Date), *provided, however,* that if you make the election herein afforded, (1) you shall still receive the payments called for in subparagraphs (i) and (ii)(a), (ii)(c) and (iii), and the benefits described in subparagraph (viii), and (2) any deferred compensation that you are eligible to receive under this subparagraph (ix) shall be paid in accordance with clause (b) or clause (c) of subparagraph (x), as applicable, as if your retirement had been a Termination.

(x) Special Provisions for Deferred Compensation. To the extent that any amount payable under this Article III constitutes "deferred compensation" within the meaning of Section 409A of the Internal Revenue Code, the amount shall be subject to the rules set forth below in this subparagraph (x).

(a) No Revocation of Deferral Election. If you have elected to defer all or any portion of your base pay or incentive pay under the terms of the Executives' Deferred Compensation Plan (or any successor plan[s] or program[s]), and your deferral election has become irrevocable on or before your Termination Date, a corresponding portion of the Base Pay or Incentive Pay provided under subparagraph (i)(a) or (i)(b), above, shall not be paid in a lump sum within 10 days after your Termination Date, but instead shall be deferred and paid out solely under the terms of the Executives' Deferred Compensation Plan (or any successor plan[s] or program[s]), as modified (if applicable) by this subparagraph (x). The special provision in this clause (a) is intended, and shall be applied, solely to prevent your deferral election or an automatic deferral provision from being revocable or from providing an accelerated payment to the extent such revocation or accelerated payment would violate Section 409A of the Internal Revenue Code.

- (b) Payment Following A Section 409A Change in Control. If the Change in Control is a Section 409A Change in Control, as defined in Item (R) in Attachment A, and your Termination Date occurs within 24 months after the Section 409A Change in Control, your entire benefit shall be paid as provided in this Agreement, including clause (a) and clause (e) of this subparagraph (x).
- (c) Payment Following Any Other Change in Control. If the Change in Control is not a Section 409A Change in Control, or if your Termination Date occurs within the Change in Control Period but more than 24 months after the Change in Control, your deferred compensation shall be paid as follows:
- (1) Your Grandfathered Benefit shall be paid in a lump sum as provided in this Agreement.
  - (2) Your Severance Pay, Performance Share Unit Equivalent, Accelerated Dividend Equivalent, Vacation Equivalent, and Prorata Incentive Pay shall be paid as provided in this Agreement, including clause (a) and clause (e) of this subparagraph (x).
  - (3) Any portion of your deferred compensation benefit that is not a Grandfathered Benefit under the Officers' Deferred Compensation Plan, the Executives' Deferred Compensation Plan, or any successor plan[s] or program[s] shall be paid at the time and in the form provided under the applicable terms of the plan in which you earned the benefit, without any acceleration or other alteration in the time and form of payment as a result of the Change in Control. If all or a portion of your benefit would be paid as a Deferred Compensation Equivalent were it not for the restriction in the preceding sentence, that portion of your benefit shall be credited with interest and discounted to present value as provided in Item J in Attachment A, provided however that any benefit that is distributed pursuant to the preceding sentence in other than a lump-sum distribution shall be credited at an annual rate of 4.5% during the distribution period.
- (d) Voluntary Termination Following A Section 409A Change in Control. If your employment terminates voluntarily (without good reason) within 24 months following a Section 409A Change in Control, so that your termination is a "separation from service" within the meaning of Section 409A of the Internal Revenue Code but is not a "Termination" within the meaning of Item (T) in Attachment A, any portion of your deferred compensation that is a Grandfathered Benefit shall be paid in a lump sum within ten (10) business days after your termination (or shall be paid six months after your termination, if you are a Specified Employee on your termination date), and any portion of your deferred compensation that is not a Grandfathered Benefit shall be paid at the time and in the form provided under the applicable terms of the plan in which you earned the benefit. No portion of your benefit shall be credited with a special rate of interest or otherwise enhanced as provided in Item (J) in Attachment A.
- (e) Six-Month Delay for Specified Employees. If, on your Termination Date, you are a "Specified Employee" within the meaning of Item (S) in Attachment A, any portion of your deferred compensation that is not a Grandfathered Benefit shall be paid no earlier than six months after your Termination Date. During any period in which a payment to which you are otherwise entitled under this Agreement is delayed solely as a result of this clause (e), the payment shall be credited with interest during the period from your Termination Date until the benefit is distributed at 120% of the short term Applicable Federal Rate determined under Section 1274(d) of the Internal Revenue Code that is in effect on your Termination Date.

There shall be no right of setoff or counterclaim in respect of any claim, debt or obligation against any payment to, or benefit for, you provided for in this Agreement, except as expressly provided in subsection (v).

Without limiting your rights to arbitration, at law or in equity, if the Corporation fails on a timely basis to make any payment required to be made pursuant to provisions under this Article III, the Corporation shall pay interest on the amount thereof at an annualized rate of interest equal to three percent (3%) above the then-applicable Prime Rate ("Prime Rate" means the rate of interest publicly announced by JP Morgan Chase Bank in New York City, or its successor, from time to time as its prime rate), unless the payment is subject to a bona fide dispute between the parties that is being pursued in good faith and that has not been finally resolved.

#### IV. Certain Tax Payments by the Corporation

Notwithstanding anything in the Agreement to the contrary, in the event of (a) your Termination during the Change in Control Period and (b) the determination (as herein-after provided) that any required payment by the Corporation to or for your benefit, whether paid or payable pursuant to the terms of the Agreement or otherwise pursuant to or by reason of any other agreement, policy, plan, program or arrangement, including without limitation any stock option, stock appreciation right, or similar right, or the lapse or termination of any restriction on the vesting or exercisability of any of the foregoing including without limitation acceleration of the termination of Share Retention Agreements under the Corporation's Long-Term Incentive Plan (individually and collectively, Payment), would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (Code) or any successor provision thereto by reason of the Payment's being considered "contingent on a change in ownership or control" of the Corporation within the meaning of Section 280G of the Code (or any successor provision thereto), or any interest or penalties with respect to such excise tax (collectively, Excise Tax), then you shall be entitled to receive an additional payment or payments (individually or collectively, Tax Assistance Payment), which shall include an amount such that, after you pay (1) all taxes (including any interest or penalties imposed with respect to such taxes) and (2) any Excise Tax imposed upon the Tax Assistance Payment, you retain so much of the Tax Assistance Payment as is equal to the Excise Tax imposed on the Payment.

Subject to the provisions hereinafter concerning your providing notice of a claim by the Internal Revenue Service, all determinations required to be made under these provisions, including whether an Excise Tax is payable by you, the amount of such Excise Tax and whether the Corporation is required to pay you a Tax Assistance Payment and the amount of such Tax Assistance Payment, if any, shall be made by a nationally recognized accounting firm that you select and that is approved by the Corporation (which approval shall not be unreasonably withheld) (Accounting Firm). You shall direct the Accounting Firm to submit its determination and detailed supporting calculations to both you and the Corporation within thirty (30) days after the Termination Date, if applicable, and any such other time or times as you or the Corporation may request. If the Accounting Firm determines that any Excise Tax is payable by you, the Corporation shall pay the required Tax Assistance Payment to you within ten (10) business days after the Corporation receives such determination and calculations with respect to any Payment to you, unless you are a Specified Employee on your Termination Date. If you are a Specified Employee on your Termination Date, the Corporation shall pay the required Tax Assistance Payment to you six (6) months after your Termination Date, with interest payable on such amount at 120% of the short term Applicable Federal Rate determined under Section 1274(d) of the Internal Revenue Code that is in effect on your Termination Date.

Any federal tax returns you file shall be prepared and filed on a basis consistent with the determination of the Accounting Firm with respect to the Excise Tax payable by you. If the Accounting Firm determines that you are required to pay no Excise Tax, it shall (at the same time it makes such determination) furnish you and the Corporation an opinion that you have substantial authority not to report any Excise Tax on your federal income tax return. However, in view of uncertainty concerning application of Section 4999 of the Code (or any successor provision thereto) at the time of any determination made hereunder by the Accounting Firm, it is possible that a Tax Assistance Payment that should have been made by the Corporation will not have been made (Underpayment), consistent with the calculations required to be made hereunder. In the event the Corporation exhausts or fails to pursue its remedies pursuant to the provisions concerning notice of a claim by the Internal Revenue Service, and you thereafter are required to make a payment of any Excise Tax, you shall direct the Accounting Firm to determine the amount of the Underpayment and to submit its determination and detailed supporting calculations as promptly as possible both to you and to the Corporation, which shall pay the amount of such Underpayment to you or for your benefit within ten (10) business days following the Corporation's receipt of such determination and calculations, and in no event earlier than the Tax Assistance Payment would have been made or later than the end of your taxable year following the taxable year in which you pay the Excise Tax.

Each of you and the Corporation shall provide the Accounting Firm access to and copies of any books, records and documents in your or its possession, as the case may be, reasonably requested by the Accounting Firm, and shall otherwise cooperate with the Accounting Firm in connection with the preparation and issuance of the determination and calculations required or contemplated hereunder.

The Corporation shall hire the Accounting Firm, and bear the fees and expenses of the Accounting Firm for services hereunder.

You shall notify the Corporation in writing of any claim by the Internal Revenue Service that, if successful, would require the Corporation to pay a Tax Assistance Payment. You shall give such notification as promptly as practicable, but in no event later than the tenth (10th) business day next following your receipt of such claim, and you further shall apprise the Corporation of the nature of such claim and the date on which it is required to be paid (in each case, to the extent known to you). You shall not pay or otherwise satisfy such claim prior to the earlier of (a) the expiration of the thirty (30)-calendar-day period next following the date on which you give notice to the Corporation or (b) the date any payment of the amount with respect to such claim is due. If the Corporation notifies you in writing prior to the expiration of such period that it desires to contest such claim, you shall:

- (1) provide the Corporation any written records or documents in your possession relating to such claim and reasonably requested by the Corporation;
- (2) take such action in connection with contesting such claim as the Corporation reasonably shall request in writing from time to time, including without limitation accepting legal representation with respect to such claim by an attorney competent in respect of the subject matter and reasonably selected by the Corporation;
- (3) cooperate with the Corporation in good faith in order effectively to contest such claim; and

(4) permit the Corporation to participate in any proceedings relating to such claim, *provided, however*, that the Corporation directly shall bear and pay all costs and expenses (including without limitation, interest and penalties) incurred in connection with such contest and shall indemnify you and hold you harmless, on an after-tax basis, from and against any and all Excise Tax or income tax (including without limitation, interest and penalties with respect thereto), imposed as a result of such representation and payment of costs and expenses. Without limiting the foregoing, the Corporation shall control all proceedings taken in connection with the contest of any claim contemplated by these provisions and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim (*provided, however*, that you may participate therein at your own cost and expense) and may, at its option, either direct you to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and you agree to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Corporation shall determine; *provided, however*, that if the Corporation directs you to pay the tax claimed and to sue for a refund, the Corporation shall advance the amount of such payment to you, and pay on a current basis all costs of litigation, including without limitation attorneys' fees, on an interest-free basis and shall agree to and shall indemnify you and hold you harmless, on an after-tax basis, from any Excise Tax or income tax, including without limitation, interest and penalties with respect thereto, imposed with respect to such advance; *and provided further, however*, that any extension of the statute of limitations relating to payment of taxes for your taxable year with respect to which the contested amount is claimed to be due is limited solely to such contested amount. Further-more, the Corporation's control of any such contested claim shall be limited to issues with respect to which a Tax Assistance Payment would be payable hereunder, and you shall be entitled to settle or to contest, as the case may be, any other issue(s) raised by the Internal Revenue Service or any other taxing authority.

If, after you receive an amount advanced by the Corporation pursuant to provisions of the last full paragraph, you receive any refund with respect to such claim, you shall (subject to the Corporation's complying with any applicable provisions of the same paragraph) promptly pay to the Corporation the amount of such refund (together with any interest paid or credited thereon after any taxes applicable thereto). If, after you receive such an amount advanced by the Corporation, a determination is made that you shall not be entitled to any refund with respect to such claim and the Corporation does not notify you in writing of its intent to contest such denial or refund prior to expiration of thirty (30) calendar days after such determination, then such advance shall be forgiven and shall not be required to be repaid, and the amount of such advance shall off-set, to the extent thereof, the amount of the Tax Assistance Payment the Corporation is required to pay you hereunder.

#### V. No Mitigation Obligation

You and the Corporation agree that payments made by the Corporation pursuant to this Agreement will be liquidated damages (and in lieu of any claim for any breach whatsoever of this Agreement by the Corporation) and that you will not be required to mitigate the amount of any such payment by seeking other employment or otherwise, nor shall any profits, income, earnings or other benefits from any source whatsoever, other than from Competing Employment, create any mitigation, offset reduction or other obligation on your part hereunder or otherwise, except as expressly provided in the materials, *supra*, concerning Additional Benefits.

#### VI. Arbitration

Except as otherwise expressly provided under the caption "Certain Tax Payments by the Corporation," any controversy or claim between you and the Corporation arising out of or relating to the existence, enforceability, terms or application of this Agreement or any breach or alleged breach thereof, shall be settled by three (3) arbitrators, one of whom shall be appointed by the Corporation, one by you and the third of whom shall be appointed by the first two arbitrators. If the first two arbitrators cannot agree on the third arbitrator required to be appointed hereunder, then such arbitrator shall be appointed by the Chief Judge of the United States District Court for the district having jurisdiction of the city or other municipality in which the arbitration is to be held. The arbitration shall be conducted in accordance with the rules of the American Arbitration Association, except with respect to the selection of arbitrators, which shall be as hereinbefore provided. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. The arbitrators shall have no authority to award punitive, incidental or consequential damages, and they shall apply the substantive law of the Commonwealth of Virginia in reaching a decision.

If you determine in good faith to retain legal counsel and/or to incur other reasonable costs or expenses in connection with any such arbitration or to enforce any or all of your rights under this Agreement or under any arbitration award, the Corporation shall pay all such attorneys' fees, costs and expenses you incur during your lifetime or in the five-year period following your death in connection with non-frivolous applications to interpret or enforce your rights, including enforcement of any arbitration award in court, regardless of the final outcome. Taxable reimbursements shall be provided under this Article VI subject to the following requirements: (A) all reimbursements shall be provided pursuant to a written policy that provides an objectively determinable nondiscretionary description of the reimbursements provided; (B) all reimbursements shall be paid no later than the end of the calendar year following the year in which the expense was incurred; (C) no reimbursement shall be subject to liquidation or exchange for another benefit; and (D) the amount of reimbursable expense incurred in one year shall not affect the amount of reimbursement available in another year. In addition, during the pendency of such arbitration, the Corporation will continue to pay you, with the customary frequency, the greater of your Base Pay as in effect immediately prior to the Change in Control or immediately prior to your Termination and to provide Benefits until the controversy or claim finally is resolved in accordance herewith. These payments and the provision of Benefits hereunder shall be in addition to, and not in derogation or mitigation of any other payment or benefit due you under this Agreement. If you are a Specified Employee on your Termination Date, the payments described in this paragraph shall be subject to the six-month delay as provided in the following paragraph.

If you are a Specified Employee on your Termination Date, the only taxable payments or reimbursements provided under this Article VI during the first six months following your Termination Date shall be reimbursements that you could otherwise deduct as business expenses under Sections 162 or 167 of the Code (disregarding limitations based on adjusted gross income). After the end of the sixth month following your Termination Date, taxable reimbursements, Base Pay, and taxable Additional Benefits shall be provided as described in the preceding paragraph of this Article VI. Any taxable reimbursements, Base Pay, and taxable Additional Benefits that otherwise would have been paid during the first six months following your Termination Date if you had not been a Specified Employee shall be paid or reimbursed in a lump

sum, on the first regular payroll date after the end of the sixth month following your Termination Date, with interest payable on such amount at 120% of the short term Applicable Federal Rate determined under Section 1274(d) of the Internal Revenue Code that is in effect on your Termination Date.

Notwithstanding any other provision hereof, the parties' respective rights and obligations under this Article VI will survive a termination or expiration of this Agreement or the termination of your employment for any reason whatsoever.

#### VII. Employment Rights

Nothing expressed or implied in this Agreement shall create any right or duty on your part or that of the Corporation to have you remain in the employment of the Corporation prior to or following any Change in Control.

#### VIII. Withholding of Taxes and Liability for Taxes

The Corporation may withhold from any amounts payable under this Agreement all federal, state, city, local or other taxes as shall be required pursuant to any law or governmental regulation or ruling.

#### IX. Personal Nature of Agreement

This Agreement is personal in nature, and neither you nor the Corporation (except as provided under the caption "Binding on Successors"), without the prior written consent of the other, shall assign or transfer any of its rights, or delegate any of its duties or obligations, except as expressly provided under this caption. Without limiting the generality and effect of the foregoing, your right to receive payments hereunder shall not be assignable or transferable, whether by pledge, creation of a security interest or otherwise, other than by a transfer by will or by the laws of descent and distribution; in no event shall the Corporation have any obligation or liability to recognize or honor any attempted assignment or transfer that is contrary hereto.

#### X. Notice

For all purposes of this Agreement, except as otherwise expressly provided in subparagraph (ix) of Article III, all communications, including without limitation, notices, consents, requests and approvals, provided for herein shall be in writing and shall be deemed to have been duly given when (1) actually delivered or (2) if mailed, five (5) business days after having been mailed by United States registered or certified mail, return receipt requested, postage prepaid,

(i) **if to the Corporation**, to the attention of its Corporate Secretary at its principal executive office at the time, and

(ii) **if to you**, at the address at the time on file with the Corporation as your principal residence address, or

(iii) **in either case**, to such other address as either the Corporation or you shall have furnished the other in writing and in accordance herewith, *provided, however*, that notices of change of address hereunder shall be effective only upon actual receipt.

#### XI. Governing Law

The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the Commonwealth of Virginia, without giving effect to the Commonwealth's principles of conflicts of law, save those permitting the parties to an agreement to stipulate the substantive law applicable to the agreement and the procedural law applicable to suits, actions or proceedings relating to it.

XII. Validity/Severability

If any provision of this Agreement or the application of any provision hereof to any person (including a Person) or circumstance is held invalid, illegal or unenforceable, the remainder of this Agreement and the application of such provision to any other person (including a Person) shall not be affected, and the provision(s) so held to be invalid, illegal or unenforceable shall be reformed or excised in good faith by the Corporation, without the necessity of your agreeing thereto, to the extent (and only to the extent) necessary to make it or them valid, legal or enforceable.

XIII. Miscellaneous

No provision of this Agreement may be amended, modified, waived or discharged unless such amendment, modification, waiver or discharge is agreed to in a writing signed by you and the Corporation. No waiver by either party hereto at any time of any breach or of compliance with any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement.

XIV. Counterparts

This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, and all of which together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the Board of Directors of the Corporation has directed that this Agreement be executed and delivered on its behalf by one or more officers of the Corporation thereunto duly authorized, and you have indicated your acceptance of and intent to be bound by this Agreement in the space provided below.

**NORFOLK SOUTHERN CORPORATION**

By: \_\_\_\_\_

Name: John P. Rathbone

Title: Executive Vice President Administration

**Accepted:**

By: \_\_\_\_\_

Being the same individual named  
in the preamble hereto and referred  
to as "You" in the text.

Date: \_\_\_\_\_

## Attachment A

### CERTAIN DEFINITIONS

For purposes of this Agreement:

(A) **Accelerated Dividend Equivalent** means the lump-sum cash payment equal to the sum of

- (i) the total of all dividend equivalents that, but for your Termination, you would have received (whether in cash or on a deferred basis) after your Termination Date on grants outstanding on your Termination Date; and
- (ii) the fair market value of all units, including fractions thereof, credited or creditable on your Termination Date to your memorandum account in respect of dividend equivalents you were not entitled to receive in cash. For this purpose, "fair market value" shall be determined in accordance with the methodology identified in Item (O)(i) of this Attachment A, so that you will receive in exchange for such units a cash amount calculated with respect to the mean of the high and low trading prices of the security from which the unit (on any date required to be used under Item (O)(i)) derives its value.

In return for this payment, you will be deemed to have waived any and all rights you otherwise might have to receive payments, in any form (post-Termination dividend equivalents that would have been converted to units, will be paid in cash instead) in respect of such dividend equivalents or such units.

For purposes of (A)(i), the dividend rate per share shall be the greater of the rate established pursuant to the authority of the Board of Directors:

- (a) on the most recent dividend declaration date preceding your Termination Date; or
- (b) on the dividend declaration date that immediately precedes the date of the Change in Control.

**Example:** On your Termination Date, you hold options to acquire a total of 6,000 shares of the Corporation's common stock. Dividend equivalents were awarded with each option grant, payable (whether in cash or on a deferred basis) during the first five (5) years next following the date of grant, on options unexercised on the dividend record date. The dividend declared immediately prior to the Change in Control was \$0.56 per share; the most recent dividend declared is \$0.60 per share.

Also, on your Termination Date, 116.916 units have been credited to your memorandum account, and the Fair Market Value of the Corporation's common stock is determined to be \$85.00.

Accordingly, you will receive a lump-sum cash payment on all outstanding options - as to each such option, for the entire remaining period during which you would have been entitled to receive dividend equivalents on that option - at the rate per share (option) of \$0.60, plus the fair market value of your units.

For instance, if 4,000 of your options called for payment of dividend equivalents (whether in cash or to be converted into units) for the six (6) quarters next following your Termination Date, and the other 2,000 called for

such payments (whether in cash or to be converted into units) over the next ten (10) quarters, you would receive in a lump sum:

4,000, times \$0.60, times 6 dividend dates = \$ 14,400.00

2,000, times \$0.60, times 10 dividend dates = 12,000.00

\$ 26,400.00

AND

116.916 units @ \$85.00 per share (unit)

=

9,937.86

TOTAL

\$ 36,337.86

- (B) **Actual Incentive Pay Percentage** means, in any given year, the percentage actually earned, as determined pursuant to the authority of the Board of Directors, of the maximum potential bonus amount potentially payable to participants in the Corporation's Executive Management Incentive Plan and its Management Incentive Plan, or any successor plan[s] or program[s] to either or both (respectively, **EMIP** and **MIP**).
- (C) **Additional Benefits** refers to, as to each plan listed herein, the **greater** of all those benefits associated with or accruing as a result of your continued participation in the following plans, or portions of plans, of the Corporation in which you are participating or are eligible to participate (whether funded by actual insurance or self-insured by the Corporation) immediately prior to (a) the Change in Control or (b) your Termination:

**1. Norfolk Southern Corporation Comprehensive Benefits Plan**

[Only medical, dental and life insurance benefits], and

**2. Norfolk Southern Corporation Executive Accident Plan .**

The term "Additional Benefits" shall not include benefits of any type under any other plans, policies or programs.

(D) **Base Pay** means

- (i) *in determining whether a Termination has occurred*, the gross amount of your annual salary in effect on the date of a Change in Control (the gross amount you actually were paid in the pay period coinciding with or immediately preceding the date of the Change in Control, multiplied by the number of pay periods in the year or otherwise determined and expressed as an annual amount).

- (ii) *in calculating the amount of Severance Pay*, the **larger** of

(a) the amount calculated under Item (D)(i); or

(b) the amount calculated as provided in Item (D)(i), but substituting "Termination Date" for "date of a Change in Control"

wherever the latter term appears.

- (E) **Beneficial Owner** means any Person who, under Rule 13d-3 (or successor rules or regulations thereto) promulgated under the Securities Exchange Act of 1934, would be deemed beneficially to own Voting Stock.
- (F) **Benefits** means any of the perquisites, benefits and service credit for benefits provided under any and all employee retirement income or welfare benefit policies, plans, programs or arrangements in which you participate immediately prior to the Change in Control, including without limitation any stock option, stock purchase, stock appreciation, savings, pension, supplemental executive retirement or other retirement income or welfare benefit, deferred compensation, incentive compensation, group and/or executive life, health, medical/ hospital or other insurance (whether funded by actual insurance or self-insured by the Corporation), disability, salary continuance, severance pay plan, expense or tuition reimbursement or other employee benefit policies, plans, programs or arrangements that now exist, or any equivalent successor policies, plans, programs or arrangements that may be adopted hereafter by the Corporation providing perquisites, benefits and service credit for benefits at least as great as are payable thereunder prior to a Change in Control, *provided, however*, that your rights under such policies, plans, programs or arrangements shall be governed by the terms thereof and shall not be enlarged hereunder or otherwise affected hereby.
- (G) **Cause** refers to your having engaged in any of the following if the result of the same is materially harmful to the Corporation:
- (i) an intentional act of fraud, embezzlement or theft in connection with your duties or in the course of your employment with the Corporation;
  - (ii) intentional wrongful damage to property of the Corporation;
  - (iii) intentional wrongful disclosure of secret processes or of confidential information of the Corporation; or
  - (iv) intentional violation of the Corporation's Code of Conduct/Ethics (or any successor[s]) as in effect immediately prior to a Change in Control.

For these purposes, an act or failure to act on your part shall be deemed "intentional" only if you acted or omitted to act otherwise than in accordance with your good faith business judgment of the best interests of the Corporation; in determining whether this standard has been satisfied, you shall be afforded all the presumptions and be entitled to all the protections available to directors under Section 13.1-690 of the Virginia Stock Corporation Act.

- (H) A **Change in Control** occurs upon any of the following circumstances or events:
- (i) The Corporation consummates a merger or other similar control-type transaction or transactions (however denominated or effectuated) with another corporation or other Person (Combination), and immediately thereafter less than eighty percent (80%) of the combined voting power of the then-outstanding securities of such corporation or Person is held in the aggregate by the holders of securities entitled, immediately prior to such Combination, to vote generally in the election of directors of the Corporation (Voting Stock);
  - (ii) The Corporation consummates any stockholder-approved consolidation or dissolution (however denominated or effectuated) pursuant to a recommendation of the Board;
  - (iii) At any time, Continuing Directors (as herein defined) shall not constitute a majority of the members of the Board ("Continuing Director" means (i) each individual who has been a director of the Corporation for at least twenty-four (24) consecutive months before such time and (ii) each individual who was nominated or elected to be a director of the Corporation by at least two thirds of the Continuing Directors at the time of such nomination or election);

- (iv) The Corporation sells all or substantially all of its assets to any other corporation or other Person, and less than eighty percent (80%) of the combined voting power of the then-outstanding securities of such corporation or Person immediately after such transaction is held in the aggregate by the holders of Voting Stock immediately prior to such sale;
- (v) A report is filed on Schedule 13D or Schedule 14D-1 (or any successor schedule, form or report), pursuant to the Securities Exchange Act of 1934, as amended (Exchange Act), disclosing that any Person has become the Beneficial Owner of twenty (20) or more percent of the voting power of Voting Stock; or
- (vi) The Board determines by a majority vote that, because of the occurrence, or the threat or imminence of the occurrence, of another event or situation with import or effects similar to the foregoing, those who have accepted an agreement of this type are entitled to its protections.

Notwithstanding the provisions of the foregoing subparagraph (v), unless otherwise determined in a specific case by majority vote of the Board, a Change in Control for purposes of this Agreement shall not be deemed to have occurred solely because (a) the Corporation, (b) an entity of which the Corporation is the direct or indirect Beneficial Owner of 50 or more percent of the voting securities or (c) any Corporation-sponsored employee stock ownership plan or any other employee benefit plan of the Corporation either files or becomes obligated to file a report or a proxy statement under or in response to Schedule 13D, Schedule 14D-1, Form 8-K, or Schedule 14A (or any successor schedule, form or report or item therein) under the Exchange Act, disclosing beneficial ownership by it of shares of Voting Stock, whether in excess of 20 percent or otherwise, or because the Corporation reports that a change in control of the Corporation has or may have occurred or will or may occur in the future by reason of such beneficial ownership.

(I) **Competing Employment** means the provision of services of any type, kind or nature and in any capacity (whether as a director, partner, officer, employee, independent contractor, consultant or otherwise), whether or not for compensation or other remuneration of any type, kind or nature (current or deferred and whether or not paid or payable to you, or at your direction), to any organization or person

(i) that is, or

(ii) that controls, or

(iii) that is controlled by, or

(iv) one of whose customers or clients which accounted for 5% or more of the organization's or person's gross revenues in the immediately preceding fiscal year or is likely to account for 5% or more of such gross revenues in the current or next succeeding fiscal year is:

(a) a Class I railroad operating in the United States, Canada or Mexico; or

(b) an interstate trucking company operating in the United States, Canada or Mexico; or

(c) a provider or arranger (as to either - one incorporated under the laws of the United States or of any state or political subdivision of either or both) of intermodal services of any kind or nature, any portion of which services is provided or arranged in the United States,

*provided however*, that the provision of services otherwise prohibited by the foregoing may be permitted if, in the sole judgment of the Corporation's chief legal officer at the time, in providing such services, you do not draw or rely extensively on, or use for a purpose contrary to the Corporation's business interests, the experience and expertise you acquired during and as a result of your employment with, or that you used or employed for the benefit of, the Corporation.

(J) **Deferred Compensation Equivalent** means, in respect of some or all of the amounts you have deferred or elected to defer as of your

Termination Date under the terms of the Officers' Deferred Compensation Plan (ODCP), the Executives' Deferred Compensation Plan (EDCP), or successor plan(s) or program(s) (collectively, DCP), as in effect on the day immediately preceding the Change in Control, subject to Article III subparagraph (x) of the Agreement, a lump-sum cash payment equal to the present value on your Termination Date, using a discount rate of 4.5%, of (a) the stream of annual installment payments that you would have received under the ODCP, and (b) the benefit you would have received under the EDCP assuming that your deferrals were credited with the projected earnings as described in the change in control provisions in Article V of the EDCP, in all cases assuming that you worked until normal retirement at age 65, or, if greater, that you retired on your Termination Date.

**Example:** You have deferred \$70,000 - portions of several bonuses. It is determined, on the actuarial basis noted above, that the present value of the stream of annual installment payments you would have received on \$70,000 of deferrals (at the interest rate in effect for each such deferral immediately preceding the date of the Change in Control), had you worked to normal retirement at age 65, is \$175,000.

**Accordingly, you would receive immediately and in cash a Deferred Compensation Equivalent of \$175,000.**

The actual amount any ODCP participant receives under this provision will depend on that participant's age on the Termination Date and the interest rate applicable to each pre-Termination deferral the participant has made. In all cases, however, that amount will exceed your ODCP account balance (the sum of all your deferrals, plus interest credited to the Termination Date).

**In return for this payment, you will have, and will be deemed to have, waived any and all rights you otherwise might have to receive payments in respect of such deferrals under the terms of the DCP.**

(K) **Grandfathered Benefit** means a payment or benefit that constitutes "deferred compensation" within the meaning of Section 409A of the Internal Revenue Code, but that is not subject to the requirements of Section 409A. In order to be a Grandfathered Benefit, your benefit must have been earned and vested before 2005 under provisions (including the provisions of this Agreement) that were in effect on October 3, 2004, and that have not been materially modified thereafter.

(L) **Incentive Opportunity** means the percentage of your salary or other fixed compensation that, in accordance with all applicable provisions of the **EMIP** and **MIP** - including, without limitation, earnings and return targets - in effect immediately prior to the Change in Control, could be earned as incentive pay.

(M) **Incentive Pay** means the product of (i) and (ii), where:

(i) is 100% of the **larger** of your Incentive Opportunity

(a) on your Termination Date; or

(b) immediately preceding the date of the Change in Control; and

(ii) is your Base Pay.

**Example:** On your Termination Date, your Incentive Opportunity is 30% of your base salary; immediately prior to the date of the Change in Control, your Incentive Opportunity was 45% of your base salary.

**Accordingly, your Incentive Pay will be calculated on the basis of a 45% Incentive Opportunity - and that percentage will be applied to your Base Pay. The resulting dollar amount is the Incentive Pay that will be used in the calculation of your Severance Pay.**

**For instance, if your Base Pay is \$100,000 and your Incentive Opportunity is 45%, your Incentive Pay is \$45,000. The sum (\$145,000) of your Base Pay and Incentive Pay will be multiplied by the factor indicated in the Severance Pay section of your Agreement to determine the amount of your Severance Pay.**

(N) **Option Equivalent** means that positive number that is the product of (i) and (ii) where

- (i) is the total number of shares of the type of Norfolk Southern or successor security ( **Security**) that the option entitles you to acquire; and
- (ii) is the number that is equal to the difference between
  - (a) the Fair Market Value (as limited by the last sentence of this Item (N)) of the type of **Security** (the mean of the high and low prices at which shares of that **Security** trade on the Applicable Date (as hereinafter defined) as reported in the Composite Transactions for such date by *The Wall Street Journal*) for which the option is exercisable on your Termination Date, less
  - (b) the option exercise or strike price on your Termination Date.

"Applicable Date" means the later of (i) your Termination Date, if at least 100,000 shares of the **Security** trade on that date on the New York Stock Exchange (Exchange) or (ii) the immediately preceding day on which at least 100,000 shares trade on the Exchange, *provided, however*, that if, at the time of the Change in Control or during the Change in Control Period, the Norfolk Southern security for which the option could be exercised ceases to be listed on the Exchange (Cessation Date) and the option is not exercisable for the number of shares of a successor security into which the Norfolk Southern security could have been converted, for which it could have been exchanged or to which it otherwise is equal, then "Applicable Date" shall be defined (and Fair Market Value determined) with reference to the Cessation Date rather than "your Termination Date." In no event, however, shall the Fair Market Value of the Security on the Applicable Date be greater than the fair market value of the Security, determined in accordance with regulations and other guidance under Section 409A of the Internal Revenue Code, on your Termination Date.

(O) **Performance Share Unit Equivalent** means the number that is equal to the product of (i) and (ii) where:

- (i) is **Fair Market Value** which means,
  - (a) if on your Termination Date the security that could be earned out as Performance Shares ( **Performance Security**) is listed on the Exchange, the Fair Market Value of each such unearned Performance Share Unit shall be the **larger** of the value of a share of such **Performance Security** (x) on the date of the Change in Control or (y) on your Termination Date; if fewer than 100,000 shares of such **Performance Security** were traded on the Exchange on your Termination Date, then on the next succeeding day on which at least 100,000 shares trade on the Exchange. On any date, "Value" is the mean of the high and low prices at which shares of the **Performance Security** trade on such date as reported in the Composite Transactions for such date by *The Wall Street Journal*; or
  - (b) if at the time of the Change in Control or during the Change in Control Period, the **Performance Security** ceases to be listed on the Exchange (Cessation Date), Fair Market Value shall be computed as provided under (i)(a) hereof, but substituting Cessation Date for Termination Date; and
- (ii) is the number of your **Equivalent Shares** which means the total number of Performance Share Units granted to you for which the full performance cycle has not been completed (In-Cycle Units), multiplied by the mean of the overall earnout percentages for the two most recently completed performance cycles.

**In return for this payment, you will have, and will be deemed to have, waived any and all rights you otherwise might have to receive payments, in any form, in respect of such Performance Share Units.**

**Example :** On your Termination Date, you have 7,500 In-Cycle Units (2,500 granted in each of the prior three years); in the two most recently completed cycles preceding your Termination Date, the overall earnout percentages were 88.30% and 75.80%, respectively - equal to a mean overall earnout of 82.05%.

To determine the number of Equivalent Shares used to compute your Performance Share Unit Equivalent, 7,500 In-Cycle Units are multiplied by 82.05%, giving a deemed earnout of 6,153.75 (Equivalent Shares).

The 6,153.75 Equivalent Shares are multiplied by the Fair Market Value of the common stock to determine the amount of your lump-sum cash payment.

**Accordingly, if the Fair Market Value of the common stock is \$85 per share, your Performance Share Unit Equivalent would be \$523,068.75 (6,153.75 shares, multiplied by \$85).**

(P) **Person** means any "person" as that term is used in the Exchange Act or any rules and regulations promulgated thereunder, including any "affiliate" or "associate" of any person, as those terms are used in the Exchange Act or any rules and regulations promulgated thereunder.

(Q) **Prorata Incentive Pay** means the amount of pay which, had you been employed on December 31 of the year that includes your Termination Date, you would have been entitled to receive under the terms of the EMIP or the MIP, or the successor plan(s) or program(s) as in effect for that year, calculated as the product of (i) and (ii), where

(i) is the maximum amount of bonus or incentive pay you would have been entitled to receive for the full year, using the **larger** of (a) your Incentive Opportunity or (b) the percentage of your base salary that could be earned as bonus or incentive pay during the year that includes your Termination Date, and

(ii) is the percentage (carried to three decimal places) that results from multiplying (a) and (b), where

(a) is the number of calendar days in that year which immediately precedes, but includes, your Termination Date, divided by 365; and

(b) is the mean of the last two Actual Incentive Pay Percentages.

**Example: A Change in Control occurs in 1997, and you are Terminated effective the 183rd day of 1998. Your base salary for 1998 is \$100,000, and the percentage of your base salary that could be earned as 1998 bonus or incentive pay is 30%; the percentage of your base salary that could have been earned as bonus or incentive pay in 1997 was 45%. Consequently, for purposes of this calculation, the 45% opportunity is used.**

**In January 1997, the Actual Incentive Pay Percentage (attributable to 1996 performance) was determined to be 100%; in January 1998, that percentage (attributable to 1997 performance) was determined to be 90%. Thus, the mean of the last two Actual Incentive Pay Percentages is 95%.**

**the amount calculated under (i) is \$45,000 (45% of \$100,000).**

**the percentage calculated under (ii) is 47.630% (183/365, multiplied by 95% - the portion of the full year for which you worked, times the mean of the last two Actual Incentive Pay Percentages).**

**Accordingly, your Prorata Incentive Pay would be \$21,433.50 (\$45,000, times 47.630%)**

**Under the terms of the Agreement, this amount will not be used to calculate your final average compensation for pension benefit purposes.**

(R) **Section 409A Change in Control** means any event that qualifies as a "Change in Control" (as defined in Item (H), above), and that also constitutes a "change in ownership," "change in effective control," or "change in the ownership of a substantial portion of the Corporation's assets" with respect to you, as defined in regulations or other guidance under Section 409A of the Internal Revenue Code.

(S) **Specified Employee** means an officer of the Corporation or of any company controlled by or under common control with the Corporation within the meaning of Section 414(b) or (c) of the Internal Revenue Code (including the Corporation, an "NSC Company") with annual compensation greater than \$130,000 indexed), a five percent (5%) owner of an NSC Company, or a one percent (1%) owner of an NSC Company with annual compensation greater than \$150,000 (not indexed), determined in each case in accordance with Section 409A of the Internal Revenue Code. If all NSC Companies have (in the aggregate) more than 50 officers whose annual compensation exceeds \$130,000 (indexed), only the 50 officers with the greatest annual compensation shall be considered "Specified Employees." For purposes of this definition, "annual compensation" shall be determined on the basis of Internal Revenue Service Form W-2, Wage and Tax Statement, excluding foreign compensation.

If an individual meets the definition of "Specified Employee" at any time during a calendar year, the individual shall be a "Specified Employee" during the 12-month period beginning on the following April 1.

(T) **Termination** means your "separation from service" within the meaning of Section 409A of the Internal Revenue Code and the regulations thereunder in the circumstances described in (i) or (ii) below.

(i) If a condition listed in any one or more of (a) through (h), below, occurs without your prior written consent during the Change in Control Period and results in a material negative change in your relationship with the Corporation, your "separation from service" within the meaning of Section 409A of the Internal Revenue Code, excluding a separation from service on account of disability or death, within two years after the initial existence of the condition:

- (a) You are not elected or reelected to the office of the Corporation you held immediately prior to the Change in Control, or - if you were serving as a director of the Corporation immediately prior to the Change in Control - you are removed as a director;
- (b) Your Base Pay is, or when annualized will be, materially less than the amount determined in accordance with (D)(i) herein;
- (c) Your Incentive Opportunity is materially less than that provided for under Item (L) herein;
- (d) The Corporation, except to meet the requirements of applicable federal or state law, (i) terminates, or (ii) materially reduces the value or scope of your rights to any Benefits to which you are entitled, and which (before the reduction or termination) have substantial value;
- (e) You determine in good faith that following a Change in Control, you have been rendered substantially unable to carry out or have suffered a substantial reduction in any of the substantial authorities, powers, functions, responsibilities or duties attached to the position you held immediately prior to the Change in Control;
- (f) The liquidation, dissolution, merger, consolidation or reorganization of the Corporation or the transfer of all or a significant portion of its business and/or assets, unless the successor or successors (by liquidation, merger, consolidation, reorganization or otherwise) to which all or a significant portion of its business and/or assets have been transferred (directly or by operation of law) shall have assumed all the duties and obligations of the Corporation under this Agreement either by operation of law or pursuant to the provisions under the Agreement caption "Binding on Successors";
- (g) The Corporation requires you to relocate your principal location of work outside a circle having (i) as its center your principal location of work immediately prior to the Change in Control and (ii) a radius of fifty (50) miles, or requires you to travel away from your office in the course of discharging your responsibilities or duties hereunder significantly more (in terms either of consecutive days or of aggregate days in any calendar year) than was required of you immediately prior to the Change in Control; or
- (h) Without limiting the generality or the effect of the foregoing, any material breach of this Agreement by the Corporation or any successor thereto.

If a condition listed in (a) through (h) occurs, you must provide the Corporation with written notice of the condition within 90 calendar days after the initial existence of the condition, and you must allow the Corporation at least 30 calendar days in which to remedy the condition. If the Corporation remedies the condition within the 30-day period, the condition shall not provide a reason for your Termination.

**OR**

(ii) The termination of your employment by the Corporation, during the twenty-four months next succeeding a Change in Control, for any reason except:

- (a) Your death;

- (b) Your Total Disability, as defined in the Long Term Disability Plan of Norfolk Southern Corporation and Participating Subsidiary Companies (or any plan that is successor or in addition thereto), as then in effect, and you begin to receive disability benefits pursuant to that plan;
- (c) Your retirement pursuant to any Board-approved policy or plan, on the terms in effect immediately prior to the Change in Control, providing for mandatory retirement of certain personnel; or
- (d) Cause.

(U) **Termination Date** means the date on which your Termination becomes effective, as specified in the Notice of Termination (hereinafter defined) or as otherwise occurring.

For these purposes, any purported termination of your employment by the Corporation or by you shall be communicated by written **Notice of Termination** to the other party hereto, delivered in accordance with the caption concerning "Notice" in the Agreement. The Notice of Termination shall

- (i) indicate the specific Termination provision relied upon;
- (ii) set forth in reasonable detail the facts and circumstances claimed to provide a basis for Termination under the provision(s) so indicated; and
- (iii) shall specify the Termination Date, which:
  - (a) if the Termination is for Cause, shall be a date not less than thirty (30) days from the date the Notice of Termination is given; and
  - (b) if the Termination is not for Cause, shall be a date not less than fifteen (15) nor more than sixty (60) days after such Notice of Termination is given.

(V) **Vacation Equivalent** is intended to compensate you for your unused vacation in the year of Termination and for one year of additional vacation; for these purposes, the term means the cash value attributable to the sum of

- (i) Your Current Vacation Equivalent - the number of full days of vacation for which you are eligible in the year that includes your Termination Date, determined using the more generous of the vacation policy as in effect (a) on your Termination Date or (b) on the day immediately preceding the date of the Change in Control, the number of such full days to be reduced by the number of full days of vacation you have taken prior to your Termination Date in the year that includes your Termination Date, multiplied by your Base Pay expressed as a daily rate on the basis of 261 business days per year; and
- (ii) Your Additional Vacation Equivalent - the **larger** of the number of weeks, determined as of your Termination Date or as of January 1 of the year next following the year that includes your Termination Date (or, if greater, for which you would have been eligible on either date had the Corporation's vacation policy, as in effect on the day immediately preceding the date of the Change in Control, been in effect on either date) multiplied by your Base Pay expressed as a weekly rate.

**In return for this payment, you will have, and will be deemed to have, waived any and all rights you otherwise might have to receive payments in respect of vacation to which you would or may have been entitled in any years or years including or following that which includes your Termination Date.**

**Example:**

**Current Vacation Equivalent - In the year of your Termination, you are eligible for three (3) weeks' vacation; had the Corporation's vacation policy as in effect on the day prior to the Change in Control been continued, in the year that includes your Termination Date, you would have been eligible for five (5) weeks' vacation.**

**For purposes of determining the Current Vacation Equivalent, you are deemed to be eligible for five week's (25 business days') vacation.**

**If your Base Pay (the amount used to compute your Severance Pay) is \$100,000, it would be equivalent to \$383.14 per business day (\$100,000, divided by 261 business days).**

If you have 17 business days of vacation remaining in the year that includes your Termination Date, your Current Vacation Equivalent would be \$6,513.38, in return for which you will be deemed to have waived any and all rights you otherwise might have to receive payments in respect of unused vacation to which you were entitled in the year that includes your Termination Date.

**Additional Vacation Equivalent** - Under the vacation policy in effect in the year of your Termination, you are eligible for three (3) weeks' vacation, and you would be eligible for four (4) weeks' vacation had you been employed on the following January 1; had the Corporation's vacation policy as in effect on the day prior to the Change in Control been continued, in the year that includes your Termination Date, you would have been eligible for five (5) weeks' vacation, and you would be eligible for five (5) weeks' vacation had you been employed on the following January 1.

For purposes of determining the Additional Vacation Equivalent, you are deemed to be eligible for five weeks' vacation.

If your Base Pay (the amount used to compute your Severance Pay) is \$104,000, it would be equivalent to \$2,000.00 per week (\$100,000, divided by 52).

Accordingly, your Additional Vacation Equivalent would be \$10,000.00 (\$2,000.00, multiplied by five (5) weeks), in return for which you will be deemed to have waived any and all rights you otherwise might have to receive payments in respect of vacation to which you would have been entitled.

In this example, your Vacation Equivalent would be \$16,513.38 (the sum of your Current Vacation Equivalent and your Additional Vacation Equivalent).

Under the terms of the Agreement, only the portion of this payment that represents the value of your Current Vacation Equivalent will be used to calculate your final average compensation for pension benefit purposes.

# Exhibit 12, Page 1 of 1

## NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES

### Computation of Ratio of Earnings to Fixed Charges

(\$ in millions)

|   | Year ended December 31, |                 |                 |                 |                 |
|---|-------------------------|-----------------|-----------------|-----------------|-----------------|
|   | <u>2008</u>             | <u>2007</u>     | <u>2006</u>     | <u>2005</u>     | <u>2004</u>     |
| <b>EARNINGS</b>   |                         |                 |                 |                 |                 |
| Income from continuing operations before income taxes as reported | \$ 2,750                | \$ 2,237        | \$ 2,230        | \$ 1,697        | \$ 1,289        |
| Add (subtract):   |                         |                 |                 |                 |                 |
| Total interest expenses (as detailed below)                       | 491                     | 520             | 548             | 552             | 567             |
| Amortization of capitalized interest                              | 6                       | 6               | 5               | 5               | 5               |
| Income of partially owned entities (1)                            | (40)                    | (57)            | (48)            | (61)            | (58)            |
| Total earnings  | \$ <u>3,207</u>         | \$ <u>2,706</u> | \$ <u>2,735</u> | \$ <u>2,193</u> | \$ <u>1,803</u> |
| <b>FIXED CHARGES</b>  |                         |                 |                 |                 |                 |
| Interest expense on debt  | \$ 444                  | \$ 441          | \$ 476          | \$ 494          | \$ 489          |
| Interest expense on unrecognized tax benefit                      | (15)                    | 12              | --              | --              | --              |
| Other interest expense  | 17                      | 15              | 17              | 6               | 18              |
| Calculated interest portion of rent expense                       | 45                      | 52              | 55              | 52              | 45              |
| NS' share of Conrail interest                                     | --                      | --              | --              | --              | 15              |
| Total interest expenses   | 491                     | 520             | 548             | 552             | 567             |
| Capitalized interest  | <u>15</u>               | <u>14</u>       | <u>13</u>       | <u>11</u>       | <u>10</u>       |
| Total fixed charges   | \$ <u>506</u>           | \$ <u>534</u>   | \$ <u>561</u>   | \$ <u>563</u>   | \$ <u>577</u>   |
| <b>RATIO OF EARNINGS TO FIXED CHARGES</b>                         | 6.34                    | 5.07            | 4.88            | 3.90            | 3.12            |

(1) Includes: (a) the distributed income of equity investees, net of equity earnings included in income from continuing operations before income taxes as reported and the minority income of consolidated entities which have fixed charges; and, for the periods before the Conrail Corporate Reorganization, (b) NS' share of Conrail's income before income taxes, net of equity in earnings of Conrail included in NS'

income from continuing operations before taxes as reported.

The computations do not include \$0.3 million of interest expense related to \$7.8 million of debt guaranteed for a less than 50% owned entity.

## APPENDIX A

Page 1 of 2

CONSOLIDATED (MORE THAN 50% OWNED AND CONTROLLED) SUBSIDIARIES  
OF NORFOLK SOUTHERN CORPORATION AND STATES OF INCORPORATION

AS OF JANUARY 30, 2008

|   | STATE OR COUNTRY<br><u>OF INCORPORATION</u> |
|---|---|
| Atlantic Acquisition Corporation                    | Pennsylvania                                |
| Atlantic Investment Company                         | Delaware                                    |
| General American Insurance Company                  | Vermont                                     |
| General Security Insurance Company, Ltd.            | Bermuda                                     |
| Norfolk Southern Properties, Inc.                   | Virginia                                    |
| Norfolk Southern Railway Company                    | Virginia                                    |
| NS Fiber Optics, Inc.                               | Virginia                                    |
| PDC Timber LLC                                      | Delaware                                    |
| Pennsylvania Investment Company, Inc.               | Delaware                                    |
| PLC Timber LLC                                      | Delaware                                    |
| Pocahontas Development Corporation                  | Kentucky                                    |
| Pocahontas Land Corporation                         | Virginia                                    |
| T-Cubed of North America, LLC                       | Delaware                                    |
| Thoroughbred Funding, Inc.                          | Virginia                                    |
| Thoroughbred Technology and Telecommunications, LLC | Virginia                                    |

Norfolk Southern Railway Company Subsidiaries

|   |                |
|---|----------------|
| Airforce Pipeline, Inc.                                       | North Carolina |
| Alabama Great Southern LLC                                    | Virginia       |
| Alabama Great Southern Railroad Company, The                  | Alabama        |
| Camp Lejeune Railroad Company                                 | North Carolina |
| Central of Georgia LLC  | Virginia       |
| Central of Georgia Railroad Company                           | Georgia        |
| Chesapeake Western Railway                                    | Virginia       |
| Cincinnati, New Orleans and Texas Pacific Railway Company     | Ohio           |
| The   |                |
| Citico Realty Company   | Virginia       |
| Georgia Southern and Florida Railway Company                  | Georgia        |
| High Point, Randleman, Asheboro and Southern Railroad Company | North Carolina |
| Interstate Railroad Company                                   | Virginia       |
| KPF Holdings LLC  | Delaware       |
| KPF Bluegrass LLC   | Delaware       |
| KPF Mountaineer LLC   | Delaware       |
| Lamberts Point Barge Company, Inc.                            | Virginia       |

|  |                     |
|--|---------------------|
| Mobile and Birmingham Railroad Company               | Alabama             |
| Norfolk and Portsmouth Belt Line Railroad Company    | Virginia            |
| Norfolk Southern International, Inc.                 | Virginia            |
| <br>   |                     |
| Norfolk Southern - Mexico, LLC                       | Virginia            |
| <br>   |                     |
| NorfolkSouthernMexicana, S. de R.L. de C.V.          | Mexico              |
| North Carolina Midland Railroad Company, The         | North Carolina      |
| PLS Investment, LLC                                  | Virginia            |
| Rail Investment Company                              | Delaware            |
| Reading Company, LLC [Delaware]                      | Delaware            |
| Reading Company, LLC [Virginia]                      | Virginia            |
| S-VA Corporation                                     | Virginia            |
| South Western Rail Road Company, The                 | Georgia             |
| Southern Rail Terminals, Inc.                        | Georgia             |
| Southern Rail Terminals of North Carolina, Inc.      | North Carolina      |
| Southern Region Materials Supply, Inc.               | Georgia             |
| <br>   |                     |
| State University Railroad Company                    | North Carolina      |
| TCS Leasing, Inc.                                    | Oklahoma            |
| TCV, Inc.  | Delaware            |
| Tennessee, Alabama & Georgia Railway Company         | Delaware            |
| Tennessee Railway Company                            | Tennessee           |
| <b>Thoroughbred Direct Intermodal Services, Inc.</b> | <b>Pennsylvania</b> |
| <br>   |                     |
| Transworks Company                                   | Indiana             |
| Transworks Inc.                                      | Virginia            |
| Transworks of Indiana, Inc.                          | Indiana             |

## STATE OR COUNTRY

Norfolk Southern Railway Company Subsidiaries (continued)OF INCORPORATION

|   |                |
|---|----------------|
| Triple Crown Services Company             | -- N/A as      |
| Virginia and Southwestern Railway Company | Virginia       |
| Wheelersburg Terminal LLC                 | Virginia       |
| Yadkin Railroad Company                   | North Carolina |

Norfolk Southern Properties, Inc. Subsidiaries

|   |                |
|---|----------------|
| Alexandria-Southern Properties, Inc.        | Virginia       |
| Arrowood-Southern Company                   | North Carolina |
| Charlotte-Southern Hotel Corporation        | North Carolina |
| Lambert's Point Docks, Incorporated         | Virginia       |
| Nickel Plate Improvement Company, Inc., The | Indiana        |
| NS-Charlotte Tower Corporation              | North Carolina |
| NS Transportation Brokerage Corporation     | Virginia       |
| Sandusky Dock Corporation                   | Virginia       |
| Southern Region Industrial Realty, Inc.     | Georgia        |
| SRIR Timber LLC                             | Delaware       |
| Virginia Holding Corporation                | Virginia       |
| Westlake Land Management, Inc.              | Florida        |

In addition, NS owns direct or indirect equity interest in:

Conrail Inc.

Consolidated Rail Corporation and its consolidated subsidiaries

CRR Holdings LLC

Delaware Otsego Corporation

DOCP Acquisition, LLC

Green Acquisition Corp.

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors

Norfolk Southern Corporation:

We consent to the incorporation by reference in registration statement numbers 33-52031, 333-71321, 333-60722, 333-100936 and 333-109069 on Form S-8 of Norfolk Southern Corporation of our reports dated February 18, 2009, with respect to the consolidated balance sheets of Norfolk Southern Corporation as of December 31, 2008 and 2007, 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, 2008, and the related financial statement schedule, and the effectiveness of internal control over financial reporting as of December 31, 2008, which reports appear in the December 31, 2008, annual report on Form 10-K of Norfolk Southern Corporation. Our report on the consolidated financial statements and related financial statement schedule refers to the adoption by Norfolk Southern Corporation of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, effective January 1, 2007, and Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, effective December 31, 2006.

/s/ KPMG LLP

Norfolk, Virginia

February 18, 2009

CERTIFICATIONS OF CEO AND CFO PURSUANT TO  
EXCHANGE ACT RULE 13a-14(a) OR RULE 15d-14(a)

I, Charles W. Moorman, certify that:

1. I have reviewed this Annual Report on Form 10-K of Norfolk Southern Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: Feb. 18, 2009

/s/ Charles W. Moorman

Charles W. Moorman

Chairman, President and Chief Executive Officer



I, James A. Squires, certify that:

1. I have reviewed this Annual Report on Form 10-K of Norfolk Southern Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: Feb. 18, 2009

/s/ James A. Squires

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James A. Squires



CERTIFICATIONS OF CEO AND CFO REQUIRED BY RULE 13a-14(b) OR RULE 15d-14(b) AND SECTION 1350 OF CHAPTER 63 OF  
TITLE 18 OF THE U. S. CODE

I certify, to the best of my knowledge, that the Annual Report on Form 10-K for the year ended Dec. 31, 2008, of Norfolk Southern Corporation fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Norfolk Southern Corporation.

Signed: /s/ Charles W. Moorman  
Charles W. Moorman  
Chairman, President and Chief Executive Officer  
Norfolk Southern Corporation

Dated: Feb. 18, 2009

I certify, to the best of my knowledge, that the Annual Report on Form 10-K for the year ended Dec. 31, 2008, of Norfolk Southern Corporation fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Norfolk Southern Corporation.

Signed: /s/ James A. Squires  
James A. Squires  
EVP Finance and Chief Financial Officer  
Norfolk Southern Corporation

Dated: Feb. 18, 2009

Form Last Updated by the NYSE on April 28, 2006

NYSE Regulation

Domestic Company  
Section 303A  
Annual CEO Certification

As the Chief Executive Officer of Norfolk Southern Corporation (NSC) and as required by Section 303A.12( a) of the New York Stock Exchange Listed Company Manual, I hereby certify that as of the date hereof I am not aware of any violation by the Company of NYSE's corporate governance listing standards, other than has been notified to the Exchange pursuant to Section 303A.12(b) and disclosed on Exhibit H to the Company's Domestic Company Section 303A Annual Written Affirmation.

This certification is:

☒ Without qualification  
or  
☐ With qualification

By: /s / Charles W. Moorman

Print Name: Charles W. Moorman  
Title: Chairman, President and CEO  
Date: Jun 04, 2008

Note: THE NYSE WILL NOT ACCEPT IF RETYPED, MODIFIED OR IF ANY TEXT IS DELETED. If you have any questions regarding applicability to your Company's circumstances, please call the Corporate Governance department prior to submission.