

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K405

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1999

OR

() 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

52-1188014

(State or other jurisdiction of
incorporation or organization)

(I.R.S. 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:

Title of each Class -----	Name of each exchange on which registered -----
Norfolk Southern Corporation Common Stock (Par Value \$1.00)	New York Stock Exchange

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 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-K405 or any amendment to this Form 10-K405. (X)

The aggregate market value of the voting stock held by nonaffiliates as of January 31, 2000: \$6,507,265,729.

The number of shares outstanding of each of the registrant's classes of common stock, as of January 31, 2000: 382,780,337 (excluding 21,627,902 shares held by registrant's consolidated subsidiaries).

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's definitive proxy statement (to be dated March 31, 2000), 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) 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 (ICC) (now the Surface Transportation Board [STB]).

Effective Dec. 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). Effective Sept. 1, 1998, NW was merged with and into Norfolk Southern Railway. As of Dec. 31, 1999, all the common stock of Norfolk Southern Railway and 16.1 percent of its voting preferred stock (resulting in 94.8 percent voting control) was owned directly by Norfolk Southern.

Through a jointly owned entity, Norfolk Southern and CSX Corporation (CSX) own the stock of Conrail Inc., which owns the major railroad in the Northeast. Norfolk Southern has a 58% economic and 50% voting interest in the jointly owned entity. See also the discussion concerning operation of a portion of Conrail's rail assets, below.

On March 28, 1998, Norfolk Southern closed the sale of its motor carrier company, North American Van Lines, Inc. (NAVL) (see "Discontinued Operations" on Page 39 and Note 15 on Page 75). NAVL's results of operations, financial position and cash flows are presented as "Discontinued operations" in the accompanying financial statements.

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

OPERATION OF A PORTION OF THE CONRAIL RAIL ASSETS - On June 1, 1999, NS and CSX, through their respective railroad subsidiaries, began operating separate portions of Conrail's rail routes and assets. Substantially all such assets are owned by two wholly owned subsidiaries of Consolidated Rail Corporation (CRC); one of those subsidiaries, Pennsylvania Lines LLC (PRR), has entered into various operating and leasing arrangements, more particularly described in Note 2 on Page 58, with Norfolk Southern Railway. Certain rail assets (Shared Assets Areas) still are owned by CRC, which operates them for joint and exclusive use by Norfolk Southern Railway and the rail subsidiary of CSX.

Operation of the PRR routes and assets increased the size of the system over which Norfolk Southern Railway provides service by nearly 50% and afforded access to the New York metropolitan area, to much of the Northeast and to most of the major East Coast ports north of Norfolk, Va. Also, the leasing arrangements with PRR augmented Norfolk Southern Railway's locomotive, freight car and intermodal fleet.

CONTINUING OPERATIONS:

RAILROAD OPERATIONS - As of Dec. 31, 1999, NS' railroads operated approximately 21,800 miles of road in the states of Alabama, Delaware, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maryland, Michigan, Mississippi, Missouri, New Jersey, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia and West Virginia, and in the Province of Ontario, Canada. Of this total, about 12,000 miles are owned with the balance operated under lease or trackage rights; most of this total is main line track. In addition, its railroads operate almost 17,000 miles of passing, industrial, yard and side tracks.

In addition to the lines leased from Conrail previously discussed, NS' railroads have major leased lines between Cincinnati, Ohio, and Chattanooga, Tennessee, and operates over trackage owned by North Carolina Railway Company (NCRR).

The Cincinnati-Chattanooga lease, covering about 335 miles, expires in 2026, and is subject to an option to extend the lease for an additional 25 years, at terms to be agreed upon.

Operations over the approximately 330 miles of tracks of NCRR, previously under a 100-year lease which expired on Dec. 31, 1994, are now under a trackage rights agreement. The term of the agreement is 15 years with NS' railroads having the right to renew for two additional 15-year periods. The new arrangement resolved all outstanding litigation between NS' railroads and NCRR and settled a number of contested real property issues. The agreement also includes very broad dispute resolution provisions.

NS' railroads carry raw materials, intermediate products and finished goods primarily in the Southeast, East and Midwest, and to and from the rest of the United States and parts of Canada. They also transport overseas freight through several Atlantic and Gulf Coast ports. Atlantic ports served by NS include: Norfolk, Virginia; Morehead City, North Carolina; Charleston, South Carolina; Savannah and Brunswick, Georgia; Jacksonville, Florida; Baltimore, Maryland; Philadelphia, Pennsylvania/Camden, New Jersey; Wilmington, Delaware; and the Ports of New York/New Jersey. Gulf Coast ports served include Mobile, Alabama, and New Orleans, Louisiana.

The lines of NS' railroads reach most of the larger industrial and trading centers of the Southeast, East and Midwest, with the exception of those in central and southern Florida. Atlanta, Birmingham, New Orleans, Memphis, St. Louis, Kansas City (Missouri), Chicago, Detroit, Cincinnati, Buffalo, Norfolk, Charleston, Savannah, Jacksonville, Cleveland, Newark, Pittsburgh, Philadelphia and Baltimore are among the leading centers originating and terminating freight traffic on the system. In addition, a haulage arrangement

with Florida East Coast Railway Company allows NS' railroads to provide single-line service to and from south Florida, including the port cities

of Miami, West Palm Beach and Fort Lauderdale. The system's lines also reach many individual industries, mines (in western Virginia, eastern Kentucky, southern and northern West Virginia and western Pennsylvania) and businesses located in smaller communities in its service area. The traffic corridors carrying the heaviest volumes of freight include those from the Appalachian coal fields of Virginia, West Virginia and Kentucky, to Norfolk and Sandusky, Ohio; Buffalo to Chicago and Kansas City; Chicago to Jacksonville (via Cincinnati, Chattanooga and Atlanta); and Washington, D.C./Hagerstown, Maryland, to New Orleans (via Atlanta and Birmingham); and the New Jersey area to Chicago (via Allentown and Pittsburgh).

Buffalo, Chicago, Hagerstown, Jacksonville, Kansas City, Memphis, New Orleans and St. Louis are major gateways for interterritorial system traffic.

TRIPLE CROWN OPERATIONS - Until April 1993, NS' intermodal subsidiary, Triple Crown Services, Inc. (TCS), offered intermodal service using RoadRailer (Registered Trademark hereinafter abbreviated RT) equipment and domestic containers. RoadRailer(RT) units are enclosed vans which can be pulled over highways in tractor-trailer configuration and over the rails by locomotives. On April 1, 1993, the business, name and operations of TCS were transferred to Triple Crown Services Company (TCSC), a partnership in which subsidiaries of NS and Conrail are equal partners. RoadRailer(RT) equipment owned or leased by TCS (which was renamed TCS Leasing, Inc.) is operated by TCSC. Since April 1, 1993, the revenues of TCSC were not consolidated with the results of NS; however, effective June 1, 1999, NS gained control of TCSC and, therefore, now includes TCSC's results in its consolidated financial statements. TCSC offers door-to-door intermodal service using RoadRailer(RT) equipment and domestic containers in the corridors previously served by TCS, as well as service to the New York and New Jersey markets via Conrail. Major traffic corridors include those between New York and Chicago, Chicago and Atlanta, and Atlanta and New York.

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RAILWAY OPERATING REVENUES - NS' total railway operating revenues were \$5.2 billion in 1999. Revenue, shipments and revenue yield by principal railway operating revenue sources for the past five years are set forth in the following table:

Principal Sources of Railway Operating Revenues	Year Ended December 31,				
	1999	1998	1997	1996	1995
	----	----	----	----	----
(Revenues in millions, shipments in thousands, revenue yield in dollars per shipment)					
COAL					
Revenues	\$1,315	\$1,252	\$1,301	\$1,305	\$1,268
% of total revenues	25%	30%	31%	32%	32%
Shipments	1,519	1,310	1,324	1,310	1,267
% of total shipments	25%	27%	28%	29%	29%
Revenue Yield	\$ 866	\$ 956	\$ 983	\$ 996	\$1,001

AUTOMOTIVE

Revenues	\$ 740	\$ 566	\$ 492	\$ 489	\$ 449
% of total revenues	14%	13%	11%	12%	11%
Shipments	612	487	361	354	328
% of total shipments	10%	10%	8%	8%	7%
Revenue Yield	\$1,209	\$1,162	\$1,364	\$1,379	\$1,368
CHEMICALS					
Revenues	\$ 720	\$ 574	\$ 585	\$ 560	\$ 541
% of total revenues	14%	13%	14%	14%	14%
Shipments	475	401	405	385	374
% of total shipments	8%	8%	8%	8%	8%
Revenue Yield	\$1,516	\$1,431	\$1,446	\$1,456	\$1,447
PAPER/CLAY/FOREST					
Revenues	\$ 575	\$ 534	\$ 539	\$ 513	\$ 537
% of total revenues	11%	13%	13%	12%	13%
Shipments	465	445	457	438	459
% of total shipments	8%	9%	9%	10%	10%
Revenue Yield	\$1,237	\$1,200	\$1,178	\$1,171	\$1,170
METALS/CONSTRUCTION					
Revenues	\$ 562	\$ 373	\$ 368	\$ 354	\$ 349
% of total revenues	11%	9%	9%	9%	8%
Shipments	587	372	374	359	367
% of total shipments	10%	8%	8%	8%	8%
Revenue Yield	\$ 957	\$1,003	\$ 985	\$ 986	\$ 951
AGR./CONSUMER PRODUCTS/GOVT.					
Revenues	\$ 453	\$ 383	\$ 391	\$ 393	\$ 394
% of total revenues	9%	9%	9%	9%	10%
Shipments	407	355	366	376	391
% of total shipments	7%	8%	8%	8%	9%
Revenue Yield	\$1,113	\$1,079	\$1,065	\$1,045	\$1,007

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Year Ended December 31,

Principal Sources of -----

Railway Operating

Revenues	1999	1998	1997	1996	1995
-----	----	----	----	----	----

(Revenues in millions, shipments in thousands, revenue yield in dollars per shipment)

INTERMODAL

(Trailers, Containers
and RoadRailers)

Revenues	\$ 830	\$ 539	\$ 547	\$ 487	\$ 474
% of total revenues	16%	13%	13%	12%	12%
Shipments	1,896	1,443	1,472	1,331	1,263
% of total					

Shipments	32%	30%	31%	29%	29%
Revenue Yield	\$ 438	\$ 374	\$ 372	\$ 366	\$ 376
Total Railway Operating Revenues	\$5,195	\$4,221	\$4,223	\$4,101	\$4,012
Total Railway Shipments	5,961	4,813	4,759	4,553	4,449
Railway Revenue Yield	\$ 871	\$ 877	\$ 887	\$ 901	\$ 902

Note: Other railway revenues (principally switching and demurrage) have been allocated to revenues reported for each commodity group.

Shipments include general merchandise and coal rail carloads and intermodal rail and RoadRailer(RT) units.

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COAL TRAFFIC - Coal, coke and iron ore -- most of which is bituminous coal -- is NS' railroads' largest commodity group as measured by revenues. They originated 138 million tons of coal, coke and iron ore in 1999 and handled a total of 158 million tons. Originated tonnage and total tons handled increased due to the commencement of operations in the Northern Region. Revenues from coal, coke and iron ore account for about 25 percent of NS' total railway operating revenues.

The following table shows total coal, coke and iron ore tonnage originated on line, received from connections and handled for the past five years:

	Tons of Coal, Coke and Iron Ore (Millions)				
	1999	1998	1997	1996	1995
	----	----	----	----	----
Originated	138	119	119	117	114
Received	20	15	15	13	11
	---	---	---	---	---
Handled	158	134	134	130	125
	===	===	===	===	===

Of the 138 million tons of coal, coke and iron ore originated on lines operated by NS' railroads in 1999, the approximate breakdown by origin state was as follows:

Origin State	Millions of Tons
-----	-----
West Virginia	45
Virginia	31
Kentucky	24
Pennsylvania	15
Indiana	7

Ohio	6
Alabama	4
Illinois	3
Tennessee	1
Other	2

	138
	===

Of the 158 million tons handled, approximately 18 million moved for export, principally through NS' pier facilities at Norfolk (Lamberts Point), Virginia; 22 million moved to domestic and Canadian steel industries; 108 million of steam coal moved to electric utilities; and 10 million moved to other industrial and miscellaneous users.

NS' railroads moved 9 million tons of originated coal, coke and iron ore to various docks on the Ohio River, and 7 million tons to various Lake Erie ports. Other than coal for export, virtually all coal handled by NS' railroads was terminated in states situated east of the Mississippi River.

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Total coal handled through all system ports in 1999 was 38 million tons. Of this total, 53 percent, or 20 million tons (including coastwise traffic), moved through Lamberts Point, a 26 percent decrease compared with the 27 million tons handled in 1998.

The quantities of NS export coal handled through Lamberts Point for the past five years were as follows:

Export Coal through Lamberts Point
(Millions of tons)

1999	1998	1997	1996	1995
----	----	----	----	----
17	24	28	26	25

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

MERCHANDISE TRAFFIC - The merchandise traffic group consists of intermodal and general merchandise, which consists of five major commodity groupings: automotive; chemicals; paper, clay and forest products; metals and construction; and agriculture, consumer products and government. Total merchandise revenues in 1999 were \$3.9 billion, a 31 percent increase, compared with 1998. Merchandise carloads and intermodal units handled in 1999 were 4.44 million, compared with 3.50 million handled in 1998, an increase of 27 percent. The increases in revenues and carloads reflect the commencement of operations in the Northern Region.

In 1999, 136 million tons of merchandise freight, or approximately 67 percent of total merchandise tonnage handled by NS, originated online. The balance of merchandise traffic was received from connecting carriers, usually 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.

Revenues in all six market groups comprising merchandise traffic increased in 1999, due to the commencement of operations in the Northern Region.

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

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RAIL OPERATING STATISTICS - The following table sets forth certain statistics relating to NS' railroads' operations for the past five years, including operations in the Northern Region that commenced June 1, 1999:

	Year Ended December 31,				
	1999	1998	1997	1996	1995
Revenue ton miles (billions)	165	133	136	130	127
Freight train miles traveled (millions)	61.5	53.0	49.7	49.4	48.5
Revenue per ton mile	\$0.0314	\$0.0316	\$0.0311	\$0.0316	\$0.0317
Revenue tons per train	2,691	2,517	2,732	2,625	2,611
Revenue ton miles per man-hour worked	2,560	2,635	2,905	2,764	2,679
Percentage ratio of railway operating expenses to railway operating revenues	86.2%	75.1%	71.3%	71.6%	73.5%

FREIGHT RATES - In 1999, 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 1999, NS' railroads were found by the STB not to be "revenue adequate" based on results for the year 1998. A railroad is "revenue adequate" under the applicable law when its return on net investment exceeds the rail industry's composite cost of capital.

PASSENGER OPERATIONS - Regularly scheduled passenger operations on NS' lines consist of Amtrak trains operating between Alexandria and New Orleans, and between Charlotte and Selma, North Carolina. Commuter trains are operated on the NS line between Manassas and Alexandria under contract with two transportation commissions of the Commonwealth of Virginia. NS also leases the Chicago to Manhattan, Illinois, line to the Commuter Rail Division of the Regional Transportation Authority of Northeast Illinois. Since June 1, 1999, Norfolk Southern Railway has operated former Conrail lines on which Amtrak conducts regularly scheduled passenger operations between Chicago, Illinois, and Detroit, Michigan, and between Chicago and Harrisburg, Pennsylvania. All of these services are under contracts providing for reimbursement of related expenses incurred by NS.

Also since June 1, 1999, Norfolk Southern Railway has been providing freight service over former Conrail lines with significant ongoing Amtrak and commuter passenger operations, and is conducting freight operations over some trackage owned by Amtrak or by New Jersey Transit, the Southeastern Pennsylvania Transportation Authority, Metro-North Commuter Railway Company and Maryland DOT. Finally, passenger operations are conducted either by Amtrak or by the commuter agencies over trackage owned by Pennsylvania Lines LLC, or by Conrail in the Shared Assets Areas.

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In addition, through its operation of PRR's routes, Norfolk Southern Railway provides freight service over lines with significant ongoing Amtrak and commuter passenger operations, and conducts freight operations over some trackage owned by Amtrak or by commuter entities.

NONCARRIER OPERATIONS - NS' noncarrier subsidiaries engage principally in the acquisition and subsequent leasing of coal, oil, gas and timberlands, the development of commercial real estate and the leasing or sale of rail property and equipment. In 1999, no such noncarrier subsidiary or industry segment grouping of noncarrier subsidiaries met the requirements for a reportable business segment set forth in Statement of Financial Accounting Standards No. 131.

RAILWAY PROPERTY:

EQUIPMENT - As of Dec. 31, 1999, NS owned or leased the following units of equipment:

Type of Equipment	Number of Units			Capacity of Equipment
	Owned*	Leased**	Total	
	-----	-----	-----	-----
Locomotives:				(Horsepower)
Multiple purpose	2,232	949	3,181	10,315,300
Switching	110	113	223	325,800
Auxiliary units	59	18	77	--
	-----	-----	-----	-----
Total locomotives	2,401	1,080	3,481	10,641,100
	=====	=====	=====	=====
Freight Cars:				(Tons)
Hopper	20,605	5,796	26,401	2,773,704
Box	18,993	5,657	24,650	1,914,567
Covered Hopper	12,073	3,737	15,810	1,711,311
Gondola	28,592	12,534	41,126	4,380,406
Flat	4,181	1,035	5,216	392,663
Caboose	190	78	268	--
Other	3,956	--	3,956	218,540
	-----	-----	-----	-----
Total freight cars	88,590	28,837	117,427	11,391,191
	=====	=====	=====	=====
Other:				
Work equipment	6,005	2,151	8,156	
Vehicles	3,685	1,720	5,405	
Highway trailers				

and containers	1,871	5,319	7,190
RoadRailers (RT)	5,593	--	5,593
Miscellaneous	1,497	6,404	7,901
	-----	-----	-----
Total other	18,651	15,594	34,245
	=====	=====	=====

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

** Includes 1,020 locomotives, 20,351 freight cars and 3,880 units of other equipment leased from PRR.

In addition, NS has leased locomotives to meet immediate needs. As of Dec. 31, 1999, NS had 555 units under several short-term leases, most of which expire in the first quarter of 2000.

The following table indicates the number and year built for locomotives and freight cars owned at Dec. 31, 1999:

	Year Built								

	1999	1998	1997	1996	1995	1989- 1994	1983- 1988	1982 & Before	Total
	----	----	----	----	----	----	----	-----	-----
Locomotives:									
Number of									
units	147	119	120	119	125	289	327	1,155	2,401
Percent of									
fleet	6	5	5	5	6	12	13	48	100%
Freight cars:									
Number of									
units	439	1,567	1,076	987	1,036	8,128	1,835	73,522	88,590
Percent of									
fleet	1	2	1	1	1	9	2	83	100%

The average age of the freight car fleet at Dec. 31, 1999, was 23.8 years. During 1999, 423 freight cars were retired. As of Dec. 31, 1999, the average age of the locomotive fleet was 15.4 years. During 1999, 13 locomotives, the average age of which was 22.7 years, were retired. Since 1988, about 29,000 coal cars have been rebodied. As a result, the remaining serviceability of the freight car fleet is greater than may be inferred from the high percentage of freight cars built in earlier years.

Ongoing freight car and locomotive maintenance programs are intended to ensure the highest standards of safety, reliability, customer satisfaction and equipment marketability. In past years, the freight car bad order ratio reflected the storage of certain types of cars which were not in high demand. The ratio has declined more recently as a result of a disposition program for underutilized, unserviceable and overage revenue cars. In this connection, an orderly disposition of 17,000 freight cars, begun in October 1994, was completed in 1997. The locomotive bad order ratio rose in 1997, particularly in the early months of the year, as older units required

additional servicing and some new units were out-of-service related to warranty work. By year-end 1997, the locomotive bad order ratio had returned to a level nearer that of prior years. The increase in the locomotive bad order ratio in 1999 was primarily due to the maintenance requirements of units being rented to meet short-term needs and to weather-related failures.

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Annual Average Bad Order Ratio					

	1999	1998	1997	1996	1995
	----	----	----	----	----
Freight Cars (excluding cabooses):					
NS Rail	3.3%	4.1%	4.6%	4.8%	5.8%
Locomotives:					
NS Rail	5.3%	4.3%	5.0%	4.5%	4.7%

TRACKAGE - All NS trackage is standard gauge, and the rail in approximately 96 percent of the main line trackage (including first, second, third and branch main tracks, all excluding trackage rights) ranges from 100 to 140 pounds per yard. Of the approximately 31,900 miles of track maintained as of Dec. 31, 1999, about 21,800 were laid with welded rail.

The density of traffic on running tracks (main line trackage plus passing tracks) during 1999 was as follows:

Gross tons of freight carried per track mile (Millions)	Track miles of running tracks*	Percent of total
-----	-----	-----
0-4	9,070	39
5-19	6,561	29
20 and over	7,372	32
	-----	---
	23,003	100
	=====	===

* Excludes trackage rights and includes track in the Northern Region, where operations commenced June 1, 1999.

The following table summarizes certain information about NS' track roadway additions and replacements during the past five years:

1999	1998	1997	1996	1995
----	----	----	----	----

Track miles of rail

installed	403	429	451	401	403
Miles of track surfaced	5,087	4,715	4,703	4,686	4,668
New crossties installed (millions)	2.3	2.0	2.2	1.9	2.0

MICROWAVE SYSTEM - The NS microwave system, consisting of 8,140 radio path miles, 430 active stations and 4 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, AEI data transmissions and relay of intelligence from defective equipment detectors.

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TRAFFIC CONTROL - Of a total of 21,800 road miles operated by NS, excluding trackage rights over foreign lines, 8,370 road miles are governed by centralized traffic control systems (of which 1,000 miles are controlled by data radio from 78 microwave site locations and 460 miles are cab-signal only) and 3,070 road miles are equipped for automatic block system operation.

COMPUTERS - Data processing facilities connect the yards, terminals, transportation offices, rolling stock repair points, sales offices and other key system locations to the central computer complex in Atlanta, Georgia. Operating and traffic data are compiled and stored to provide customers with information on their shipments throughout the system. Data processing facilities are capable of providing 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. Additionally, these facilities afford substantial capacity for, and are utilized to assist management in the performance of, a wide variety of functions and services, including payroll, car and revenue accounting, billing, material management activities and controls, and special studies.

OTHER - The railroads have extensive facilities for support of operations, including freight depots, car construction shops, maintenance shops, office buildings, and signals and communications facilities.

ENCUMBRANCES - Certain railroad equipment is subject to the prior lien of equipment financing obligations amounting to approximately \$930 million as of Dec. 31, 1999, and \$728 million at Dec. 31, 1998.

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

	Capital Expenditures				
	1999	1998	1997	1996	1995
	----	----	----	----	----
	(In millions of dollars)				
Road	\$ 559	\$ 612	\$ 599	\$ 438	\$ 386
Equipment	349	442	306	326	338
Other property	4	6	24	25	33
	-----	-----	-----	-----	-----
Total	\$ 912	\$1,060	\$ 929	\$ 789	\$ 757

Capital spending and maintenance programs are and have been designed to assure the ability to provide safe, efficient and reliable transportation services. For 2000, NS has budgeted \$747 million of capital spending. In addition, NS plans to enter into a lease financing arrangement for 150 new locomotives, and NS expects to lease 475 articulated bilevels for automotive service.

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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 the discussion of "Environmental Matters" on Page 44 in Part II, Item 7, "Management's Discussion and Analysis," and in Note 16 to the Consolidated Financial Statements on Page 76.

EMPLOYEES - NS employed an average of 31,166 employees in 1999, compared with an average of 24,300 in 1998. The increase reflects the substantial number of Conrail employees that became NS employees on June 1, 1999. The approximate average cost per employee during 1999 was \$48,500 in wages and \$17,300 in employee benefits.

Approximately 85 percent of NS' railroad employees are represented by labor unions under collective bargaining agreements with 14 different labor organizations. See the discussion of "Labor Agreements" on Page 46 in Part II, Item 7, "Management's Discussion and Analysis."

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, which succeeded the ICC on Jan. 1, 1996. The STB has jurisdiction over some rates, routes, 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 Department of Transportation regulates certain track and mechanical equipment standards.

The relaxation of economic regulation of railroads, begun over a decade ago by the ICC under the Staggers Rail Act of 1980, has continued under the STB, and additional rail business could be exempted from regulation in the future. Significant exemptions are TOFC/COFC (i.e., "piggyback") business, 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. About 80 percent of NS' freight revenues come from either exempt traffic or traffic moving under transportation contracts.

Efforts may be made in 2000 to re-subject the rail industry to unwarranted federal economic regulation. The Staggers Rail Act of 1980, which substantially reduced 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 and other rail carriers vigorously will oppose these counterproductive efforts to reimpose or to authorize reimposing such 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 increasingly important considerations, especially for higher-valued finished goods, machinery and consumer products.

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Even for raw materials, semi-finished goods and work-in-process, users are increasingly sensitive to transport arrangements which 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 cooperative strategies between railroads and between railroads and motor carriers enable carriers to compete more effectively in specific markets.

Item 3. Legal Proceedings.

None.

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 1999.

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Executive Officers of the Registrant.

Norfolk Southern's executive officers 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. 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, 2000, relating to the officers.

Name, Age, Present Position	Business Experience During Past Five Years
-----	-----
David R. Goode, 59, Chairman, President and Chief Executive Officer	Present position since September 1992.
L. I. Prillaman, 56, Vice Chairman and Chief Marketing Officer	Present position since August 1998. Served as Executive Vice President-Marketing from October 1995 to August 1998, and prior thereto was Vice President-Properties.
Stephen C. Tobias, 55,	Present position since August 1998;

Vice Chairman and Chief Operating Officer	prior thereto was Executive Vice President-Operations.
Henry C. Wolf, 57, Vice Chairman and Chief Financial Officer	Present position since August 1998; prior thereto was Executive Vice President-Finance.
James C. Bishop, Jr., 63, Executive Vice President-Law	Present position since March 1996; prior thereto was Vice President- Law.
R. Alan Brogan, 59, President Norfolk Southern Intermodal	Present position since December 1, 1999. Served as Executive Vice President-Corporate from April 1998 to December 1, 1999, and prior thereto was Executive Vice President-Transportation Logistics.
John F. Corcoran, 59, Senior Vice President- Public Affairs	Present position since August 1997; prior thereto was Vice President- Public Affairs.
David A. Cox, 64, Senior Vice President- Properties and Development	Present position since October 1, 1999. Served as Vice President- Properties from December 1995 to October 1, 1999, and prior thereto was Assistant Vice President-Industrial Development.

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Name, Age, Present Position -----	Business Experience During Past Five Years -----
John W. Fox, Jr., 52, Senior Vice President- Coal Marketing	Present position since December 1, 1999. Served as Vice President- Coal Marketing from October 1995 to December 1, 1999, and prior thereto was Assistant Vice President-Coal Marketing.
James A. Hixon, 46, Senior Vice President- Employee Relations	Present position since November 1, 1999; prior thereto was Vice President-Taxation.
Jon L. Manetta, 61, Senior Vice President- Operations	Present position since August 1998. Served as Vice President- Transportation & Mechanical from December 1995 to August 1998, and prior thereto was Vice President- Transportation.
James W. McClellan, 60, Senior Vice President- Planning	Present position since August 1998; prior thereto was Vice President- Strategic Planning.
Phillip R. Ogden, 59, Senior Vice President- Engineering	Present position since August 1998; prior thereto was Vice President- Engineering.
Donald W. Seale, 47, Senior Vice President- Merchandise Marketing	Present position since December 1, 1999; prior thereto was Vice President-Merchandise Marketing.

Paul N. Austin, 56,
Vice President and Assistant
to Chairman, President
and Chief Executive

Present position since November 1,
1999. Served as Vice President-
Human Resources and Assistant to
Chairman from September 1998 to
November 1, 1999, Vice President-
Personnel and Assistant to
Chairman from September 1, 1998,
to September 21, 1998, and prior
thereto was Vice President-
Personnel.

John P. Rathbone, 48,
Vice President and Controller

Present position since December
1992.

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PART II

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES (NS)

Item 5. Market for Registrant's Common Stock and Related

Stockholder Matters.

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
STOCK PRICE AND DIVIDEND INFORMATION
(Unaudited)

The Common Stock of Norfolk Southern Corporation, owned by 51,123
stockholders of record as of Dec. 31, 1999, is traded on the New York
Stock Exchange with the symbol NSC. The following table shows the
high and low sales prices and dividends per share, by quarter, for
1999 and 1998.

1999	Quarter			
	1st	2nd	3rd	4th
----	---	---	---	---
Market price				
High	\$ 32-3/16	\$ 36-7/16	\$ 31-5/16	\$ 25-3/8
Low	26-1/4	25-1/2	24-1/8	19-5/8
Dividends per share	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20
1998	1st	2nd	3rd	4th
----	---	---	---	---
Market price				
High	\$ 41-3/4	\$ 39-1/16	\$ 31-1/2	\$ 34-15/16
Low	29-1/2	28-5/8	27-7/16	27-7/16
Dividends per share	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20

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Item 6. Selected Financial Data.

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
ELEVEN-YEAR FINANCIAL REVIEW
1996 - 1999
Page One

	1999(1)	1998	1997	1996
	----	----	----	----
	(\$ in millions, except per share amounts)			
RESULTS OF OPERATIONS				
Railway operating revenues	\$ 5,195	\$ 4,221	\$ 4,223	\$ 4,101
Railway operating expenses	4,477	3,169	3,010	2,936
	-----	-----	-----	-----
Income from railway operations	718	1,052	1,213	1,165
Other income - net	164	309	170	117
Interest expense on debt	531	516	385	116
	-----	-----	-----	-----
Income from continuing operations before income taxes	351	845	998	1,166
Provision for income taxes	112	215	299	413
	-----	-----	-----	-----
Income from continuing operations before accounting changes	239	630	699	753
Discontinued operations (2)	--	104	22	17
Cumulative effect of accounting changes	--	--	--	--
	-----	-----	-----	-----
Net income	\$ 239	\$ 734	\$ 721	\$ 770
	=====	=====	=====	=====
PER SHARE DATA				
Net income - basic	\$ 0.63	\$ 1.94	\$ 1.91	\$ 2.03
Net income - diluted	\$ 0.63	\$ 1.93	\$ 1.90	\$ 2.01
Dividends	\$ 0.80	\$ 0.80	\$ 0.80	\$0.74-2/3
Stockholders' equity at year end	\$ 15.50	\$ 15.61	\$ 14.44	\$ 13.26

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Item 6. Selected Financial Data. (continued)

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
ELEVEN-YEAR FINANCIAL REVIEW
1996 - 1999
Page Two

	1999(1)	1998	1997	1996
	----	----	----	----
	(\$ in millions, except per share amounts)			

FINANCIAL POSITION

Total assets	\$ 19,250	\$ 18,180	\$ 17,350	\$ 11,234
Total long-term debt, including current maturities	\$ 8,059	\$ 7,624	\$ 7,459	\$ 1,856
Stockholders' equity	\$ 5,932	\$ 5,921	\$ 5,445	\$ 4,977

OTHER

Capital expenditures	\$ 912	\$ 1,060	\$ 929	\$ 789
Average number of shares outstanding (thousands)	380,606	378,749	376,593	379,372
Number of stockholders at year end	51,123	51,727	50,938	50,748
Average number of employees:				
Rail	30,897	24,185	23,323	23,361
Nonrail (2)	269	115	2,494	2,469
	-----	-----	-----	-----
Total	31,166	24,300	25,817	25,830
	=====	=====	=====	=====

NOTES

- (1) On June 1, 1999, NS began operating a substantial portion of Conrail's properties. As a result, both its railroad route miles and the number of its railroad employees increased by approximately 50% on that date.
- (2) In 1998, NS sold all the common stock of its motor carrier subsidiary, North American Van Lines, Inc. (NAVL), for \$207 million and recorded a \$90 million pretax (\$105 million, or 28 cents per diluted share, after-tax) gain. Accordingly, NAVL's results of operations, financial position and cash flows are presented as "Discontinued operations."

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Item 6. Selected Financial Data. (continued)

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES

ELEVEN-YEAR FINANCIAL REVIEW

1992 - 1995

Page One

1995	1994	1993 (3)	1992
----	----	----	----

(\$ in millions, except per share amounts)

RESULTS OF OPERATIONS

Railway operating revenues	\$ 4,012	\$ 3,918	\$ 3,746	\$ 3,777
Railway operating expenses	2,950	2,875	2,831	2,851
	-----	-----	-----	-----

Income from

railway operations	1,062	1,043	915	926
Other income - net	140	86	135	97
Interest expense on debt	113	101	98	109
	-----	-----	-----	-----
Income from continuing operations before income taxes	1,089	1,028	952	914
Provision for income taxes	391	372	370	328
	-----	-----	-----	-----
Income from continuing operations before accounting changes	698	656	582	586
Discontinued operations (2)	15	12	(33)	(28)
Cumulative effect of accounting changes	--	--	223	--
	-----	-----	-----	-----
Net income	\$ 713	\$ 668	\$ 772	\$ 558
	=====	=====	=====	=====
PER SHARE DATA				
Net income - basic	\$ 1.81	\$ 1.63	\$ 1.85	\$ 1.31
Net income - diluted	\$ 1.80	\$ 1.62	\$ 1.83	\$ 1.30
Dividends	\$0.69-1/3	\$ 0.64	\$ 0.62	\$ 0.60
Stockholders' equity at year end	\$ 12.47	\$ 11.73	\$ 11.12	\$ 10.05

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Item 6. Selected Financial Data. (continued)

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
ELEVEN-YEAR FINANCIAL REVIEW
1992 - 1995
Page Two

1995	1994	1993 (3)	1992
----	----	----	----

(\$ in millions, except per share amounts)

FINANCIAL POSITION

Total assets	\$ 10,718	\$ 10,403	\$ 10,301	\$ 10,188
Total long-term debt, including current maturities	\$ 1,638	\$ 1,619	\$ 1,594	\$ 1,648
Stockholders' equity	\$ 4,829	\$ 4,685	\$ 4,621	\$ 4,233

OTHER

Capital expenditures	\$ 757	\$ 707	\$ 639	\$ 628
Average number of shares outstanding (thousands)	392,987	408,904	418,243	424,378
Number of stockholders at year end	53,401	52,442	51,884	51,200

Average number of employees:

Rail	24,488	24,710	25,531	25,650
Nonrail	2,456	2,458	3,773	4,485
	-----	-----	-----	-----
Total	26,944	27,168	29,304	30,135
	=====	=====	=====	=====

NOTES

- (3) 1993 results include an increase in the provision for income taxes reflecting a 1% increase in the federal income tax rate, which reduced net income by \$54 million, or 13 cents per diluted share. "Discontinued operations" includes a \$50 million pretax restructuring charge for the disposition of two NAVL businesses. Net income also reflects two accounting changes, the cumulative effect of which increased 1993 net income by \$223 million, or 53 cents per diluted share: a change in accounting for income taxes increased net income by \$467 million, with a corresponding reduction in deferred taxes, and changes in accounting for postretirement and postemployment benefits decreased net income by \$244 million.

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Item 6. Selected Financial Data. (continued)

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
ELEVEN-YEAR FINANCIAL REVIEW
1989 - 1991
Page One

1991 (4) 1990 1989
---- ---- ----
(\$ in millions, except per share amounts)

RESULTS OF OPERATIONS

Railway operating revenues	\$ 3,654	\$ 3,786	\$ 3,694
Railway operating expenses	3,345	2,969	2,864
	-----	-----	-----
Income from railway operations	309	817	830
Other income - net	131	142	155
Interest expense on debt	99	78	50
	-----	-----	-----
Income from continuing operations before income taxes	341	881	935
Provision for income taxes	112	316	323
	-----	-----	-----
Income from continuing operations before accounting changes	229	565	612
Discontinued operations (2 and 4)	(199)	(9)	(6)
Cumulative effect of accounting changes	--	--	--
	-----	-----	-----

Net income	\$ 30	\$ 556	\$ 606
	=====	=====	=====
PER SHARE DATA			
Net income - basic	\$ 0.07	\$ 1.14	\$ 1.16
Net income - diluted	\$ 0.07	\$ 1.14	\$ 1.15
Dividends	\$0.53-1/3	\$0.50-2/3	\$ 0.46
Stockholders' equity at year end	\$ 9.55	\$ 10.52	\$ 10.15

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Item 6. Selected Financial Data. (continued)

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
ELEVEN-YEAR FINANCIAL REVIEW
1989 - 1991
Page Two

1991 (4) 1990 1989

(\$ in millions, except per share amounts)

FINANCIAL POSITION

Total assets	\$ 9,959	\$ 10,326	\$ 10,049
Total long-term debt, including current maturities	\$ 1,387	\$ 1,122	\$ 838
Stockholders' equity	\$ 4,093	\$ 4,912	\$ 5,169

OTHER

Capital expenditures	\$ 688	\$ 605	\$ 620
Average number of shares outstanding (thousands)	443,276	486,284	523,109
Number of stockholders at year end	53,725	56,187	61,630
Average number of employees:			
Rail	27,366	28,697	29,667
Nonrail	4,586	4,584	4,645
	-----	-----	-----
Total	31,952	33,281	34,312
	=====	=====	=====

NOTES

- (4) 1991 operating expenses include a \$483 million special charge primarily for labor force reductions. "Discontinued operations" includes a \$197 million charge primarily for the write-down of the goodwill portion of NS' investment in NAVL. These charges reduced net income by \$498 million, or \$1.12 per diluted share.

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Item 6. Selected Financial Data. (continued)

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
Table of Graphs
Included with the Eleven-Year Financial Review

The following financial information appears as four (4) separate graphs with the Eleven-Year Financial Review in the 1999 Norfolk Southern Corporation Annual Report to Stockholders.

(millions)	1999	1998	1997	1996	1995*	1994
-----	----	----	----	----	----	----
NET INCOME	\$ 239	\$ 734	\$ 721	\$ 770	\$ 733	\$ 668
(dollars)	1999	1998	1997	1996	1995*	1994
-----	----	----	----	----	----	----
EARNINGS PER SHARE-DILUTED	\$0.63	\$1.93	\$1.90	\$2.01	\$1.86	\$1.62

* 1995 excludes an early retirement charge that reduced net income by \$20 million and diluted EPS by 6 cents.

1999's net income and diluted earnings per share were down 62% compared with income from continuing operations in 1998, reflecting the difficulties encountered in the commencement of operations in the Northern Region and a sharp decline in export coal.

(dollars)	1999	1998	1997	1996	1995	1994
-----	----	----	----	----	----	----
DIVIDENDS PER SHARE	\$0.80	\$0.80	\$0.80	\$0.74-2/3	\$0.69-1/3	\$0.64

Since 1983, NS' first full year after consolidation, the annual dividend has grown at a compound annual rate of 6.1%. Stockholders received a dividend yield of 3.9% in 1999, compared with an average of 1.1% for all S&P 500 stocks.

(millions)	1999	1998	1997	1996	1995	1994
-----	----	----	----	----	----	----
CAPITAL EXPENDITURES	\$912	\$1,060	\$929	\$789	\$757	\$ 707

NS had made more than \$5 billion of capital expenditures since 1994 -- demonstrating commitment to make the investments necessary to support safe, efficient operations and revenue growth.

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 beginning on Page 50 and the Eleven-Year Financial Review beginning on Page 21.

COMMENCEMENT OF OPERATIONS OVER CONRAIL'S LINES

On June 1, 1999 (the "Closing Date"), NS' railroad subsidiary (Norfolk Southern Railway Company [NSR]) began operating a substantial portion of Conrail's properties (NSR's new "Northern Region") under various agreements with Pennsylvania Lines LLC (PRR), a wholly owned subsidiary of Consolidated Rail Corporation (CRC) (see Note 2 on Page 58). As a result, both the railroad route miles operated by NSR and the number of its railroad employees increased by approximately 50% on that date. Results for 1999 reflect five months (January through May) of operating the former Norfolk Southern railroad system and seven months (June through December) of operations that include the Northern Region.

Difficulties encountered in the assimilation of the Northern Region into NSR's existing system resulted in system congestion, an increase in cars on line, increased terminal dwell time and reduced system velocity. These service issues and actions taken to address them increased operating expenses, primarily labor costs and equipment costs, including car hire and locomotive rentals. Moreover, revenues were lower than expected as some customers diverted traffic to other modes of transportation. Income from railway operations is expected to continue to be adversely affected until these revenue and expense issues have been resolved. A prolonged continuation of these operational difficulties could have a substantial adverse impact on NS' financial position, results of operations and liquidity.

SUMMARIZED RESULTS OF OPERATIONS

1999 Compared with 1998

Net income in 1999 was \$239 million, a decrease of 67%. Net income in 1998 included the \$105 million gain from the sale of NS' former motor carrier subsidiary (see Note 15 on Page 75). Income from continuing operations, which excludes both the motor carrier's results of operations prior to its sale and the gain from its sale, declined 62%. The decrease resulted from lower income from railway operations and from lower Conrail earnings before the Closing Date. The decline in income from railway operations reflected the difficulties in integrating the Northern Region and a sharp decline in export coal traffic.

Diluted earnings per share of 63 cents were down 67%. Diluted earnings per share from continuing operations were down 62%.

1998 Compared with 1997

Net income in 1998 was \$734 million, an increase of 2%, reflecting the \$105 million gain from the sale of the former motor carrier subsidiary. Income from continuing operations was \$630 million, a decrease of 10%. The decline was principally due to Conrail-related integration expenses and additional expenses related to the start-up of the Ford mixing centers.

Diluted earnings per share of \$1.93 were up 2%. Diluted earnings per share from continuing operations of \$1.65 were down 10%.

Item 7. Management's Discussion and Analysis of Financial

Condition and Results of Operations. (continued)

INCOME FROM RAILWAY OPERATIONS
(Shown as a graph in the Annual Report to Stockholders)
(millions)

1999	1998	1997	1996	1995*	1994
----	----	----	----	----	----
\$ 718	\$1,052	\$1,213	\$1,165	\$1,096	\$1,043

Income from railway operations decreased 32% in 1999, reflecting both service issues that arose after the Closing Date and a sharp decline in export coal revenues.

* 1995 excludes a \$34 million charge for an early retirement program.

DETAILED RESULTS OF OPERATIONS

Railway Operating Revenues

Railway operating revenues were \$5.2 billion in 1999 and were \$4.2 billion in both 1998 and 1997. Revenues in 1999 reflect the commencement of operations in the Northern Region on June 1. Revenues were lower than expected because of service issues associated with the expansion of the network and a sharp decline in export coal traffic. The following table presents a three-year comparison of revenues by market group.

RAILWAY OPERATING REVENUES BY MARKET GROUP

(\$ in millions)	1999	1998	1997
-----	----	----	----
Coal	\$1,315	\$1,252	\$1,301
General merchandise:			
Automotive	740	566	492
Chemicals	720	574	585
Paper/clay/forest	575	534	539
Metals/construction	562	373	368
Agriculture/consumer products/ government	453	383	391
	-----	-----	-----
General merchandise	3,050	2,430	2,375
Intermodal	830	539	547
	-----	-----	-----
Total	\$5,195	\$4,221	\$4,223
	=====	=====	=====

In 1999, revenues increased for all market groups as a result of

traffic handled in the Northern Region. Prior to the Closing Date, revenues for all commodity groups, except automotive, were below or even with those of the prior year. As shown in the following table, the full-year volume gains attributable to expanded operations produced the revenue increase. Revenue per unit improved principally due to the effects of the consolidation of Triple Crown Services Company's revenues and Northern Region traffic; however, the effects of changes in the mix of traffic, most notably the reduced export coal traffic, more than offset the effects of the revenue-per-unit improvements.

In 1998, revenue increases in the automotive and metals and construction groups were offset by revenue decreases in the other market groups. Volume gains were more than offset by lower revenue per unit. However, almost all of the volume increase and revenue per unit

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Item 7. Management's Discussion and Analysis of Financial

Condition and Results of Operations. (continued)

decrease were mixing-center related (see the discussion under the "Automotive" caption, below). Revenues for the remaining market groups declined \$76 million, \$60 million of which resulted from lower traffic volume and \$16 million of which resulted from lower revenue per unit that was mitigated by favorable effects from changes in traffic mix.

RAILWAY OPERATING REVENUE VARIANCE ANALYSIS
Increases (Decreases)

(\$ in millions) -----	1999 vs. 1998 -----	1998 vs. 1997 -----
Volume	\$ 1,007	\$ 48
Revenue per unit/mix	(33)	(50)
	-----	-----
Total	\$ 974	\$ (2)
	=====	=====

COAL tonnage increased 18% in 1999, but revenues increased by only 5%. The positive revenue effects of tonnage handled in the Northern Region were largely offset by significantly lower export coal tonnage. In addition, a larger proportion of the Northern Region traffic is shorter-haul (lower average revenue) traffic. Coal revenues represented 25% of total railway operating revenues in 1999, and 88% of coal shipments originated on lines operated by NS. In 1998, coal tonnage was unchanged compared with 1997, but revenues decreased 4%. An increase in utility tonnage, especially shorter-haul traffic, helped offset decreases in longer-haul (higher average revenue) export and domestic metallurgical traffic.

TOTAL COAL, COKE AND IRON ORE TONNAGE

(In millions of tons) -----	1999 ----	1998 ----	1997 ----
Utility	108	83	76
Export	18	25	29
Domestic metallurgical	22	18	21

Other	10	8	8
	---	---	---
Total	158	134	134
	===	===	===

Utility coal traffic increased 30% in 1999, due to the expansion of operations into the Northern Region.

In 1998, utility coal traffic increased 9%, due to rising electricity production, the return of some traffic to rail and increased business from several customers.

The near-term outlook for utility coal remains positive. U.S. demand for electricity continues to increase at a rate greater than generation capacity is being added, and coal-fired generation continues to be the cheapest marginal source of electricity. Many underutilized coal-fired power plants are making the transition from peak-only generation to full-time generation. NS also could benefit from access to several utility coal customers not now receiving coal by rail. However, competitive pressures on utilities to reduce costs could put price pressure on generation source fuels, including NS-delivered coal. NS continues to work with utility customers to reduce the delivered price of coal by developing more efficient coal handling facilities, which lead to more efficient train operations.

Many of the mines served by NS produce coals that satisfy the Phase II requirements of the Clean Air Act Amendments. In the Northern

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Item 7. Management's Discussion and Analysis of Financial

Condition and Results of Operations. (continued)

Region, NS now has access to high-quality, low-cost coal that can be blended with coal from the Powder River Basin to meet the Phase II requirements. In addition, substantial banks of sulfur dioxide allowances held by many NS-served utilities should continue to provide a market for other NS-served mines for nearly a decade. However, more stringent environmental rules have been promulgated and are scheduled to be implemented during the next decade, some as early as 2003. Most of these rules are being challenged in court; but, if they survive and are implemented, they could increase the cost of coal-fired generation. Also, the Kyoto Protocol, if ratified and implemented, could put additional cost pressures on some coal-fired generation.

A recent decision by a federal district court judge in West Virginia holds that some common mountaintop mining practices in the coal industry are illegal. There are a small number of mountaintop mining operations on NS' lines; however, if sustained, the decision could have an adverse effect on these coal mining operations and on NS' coal traffic, revenues and royalties (see Note 3 on Page 61, "Royalties from coal").

Export coal tonnage decreased 28% in 1999, despite additional traffic handled in the Northern Region. The lower traffic resulted from reduced demand for U.S. coking coal (in part, the result of a strong U.S. dollar), productivity gains made by foreign producers, lower ocean transportation rates and lower foreign royalties. Steam coal exports continued to be noncompetitive on price, making domestic markets more attractive for U.S. producers.

In 1998, export coal tonnage decreased 14%, due to weak economies in Asia and a strong U.S. dollar. The dollar gained 20% or more compared with the currencies of other countries (such as Australia, South Africa and Indonesia) that provide the primary competition for U.S. export coal. A significant decline in Asian demand for coal created supplies that competed at deeply discounted prices with U.S. export coal in Europe and South America. Steam coal exports declined to 0.4 million tons in 1998, compared with 1.7 million tons in 1997.

U.S. low-sulfur coals were not price-competitive due to lower-cost foreign production and the strength of the dollar.

Export coal tonnage is expected to continue to suffer from the effects of strong global competition. Despite rising steel production, continued pricing pressure from foreign producers is expected to keep demand for U.S. coking coal weak. In addition, the Kyoto Protocol, if implemented, could increase pressure to reduce the use of carbon-based fuels.

Domestic metallurgical coal, coke and iron ore traffic increased 22% in 1999, as the addition of Northern Region traffic more than offset the effects of reduced U.S. steel production. Lower-priced steel imports led to reduced production levels at integrated steel manufacturers, especially through the first three quarters of 1999, thereby dampening demand for raw materials.

In 1998, domestic metallurgical coal, coke and iron ore traffic declined 14%, due to plant closures, reduced blast furnace operations and the continuation of aggressive producer pricing of high-volatile metallurgical coals not located on NS' lines.

Domestic metallurgical coal, coke and iron ore traffic is expected to benefit from recent strengthening of domestic and foreign steel markets. Several domestic blast furnaces are expected to resume production in 2000. However, long-term demand is expected to continue to decline, due to advanced technologies that allow production of steel using less coal.

Other coal traffic, primarily steam coal shipped to manufacturing plants, increased 25% in 1999, due to the expansion of operations in the Northern Region, and was flat in 1998.

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Item 7. Management's Discussion and Analysis of Financial

Condition and Results of Operations. (continued)

COAL
(Shown as a graph in the Annual Report to Stockholders)
(millions)

	1999	1998	1997	1996	1995	1994
	----	----	----	----	----	----
Export	\$ 204	\$ 314	\$ 380	\$ 374	\$ 353	\$ 340
Domestic	1,111	938	921	931	915	950
	-----	-----	-----	-----	-----	-----
	\$1,315	\$1,252	\$1,301	\$1,305	\$1,268	\$1,290
	=====	=====	=====	=====	=====	=====

Revenues increased \$63 million, or 5%, in 1999 as the effects of Northern Region traffic were largely offset by a sharp decline in export coal traffic. This group includes utility coal, export coal, domestic metallurgical coal and industrial coal, coke and iron ore.

GENERAL MERCHANDISE traffic volume (carloads) increased 24%, and revenues increased 26%, in 1999, due to the addition of Northern Region traffic. Service issues resulted in traffic diversions in all market groups. In 1998, traffic volume increased 5%, and revenues increased 2%, driven by higher automotive revenues.

Automotive traffic volume increased 26%, and revenues increased 31%, in 1999, largely reflecting the expansion of operations in the Northern Region and record vehicle production. The new NS-served Toyota plant in Princeton, Ind., and the new vehicle parts distribution center in Dayton, Ohio, also contributed to the increase. NS' mixing center network is not yet fully utilized due to network design and service issues and equipment shortages caused by extended cycle times. In addition, service issues after the Closing Date resulted in significant traffic diversions.

In 1998, automotive carloads increased 35%, and revenues increased 15%. Finished vehicles led the growth, as carloads increased 54% and revenues increased 19%, primarily due to new business through the Ford mixing centers. Full production volume at the Mercedes-Benz plant in Vance, Ala., and the Toyota minivan line at Georgetown, Ky., also contributed to the increases. Vehicle parts traffic volume and revenues remained steady despite the effects of the mid-year strike at General Motors.

A substantial portion of the 1998 increase in carloads resulted from the nature of the mixing centers. Previously, carloads of vehicles went from plant to distribution center, where vehicles were classified and loaded onto trucks for transport to dealers. Now, carloads of vehicles, mostly in unit-train service, go from plant to the mixing centers, where vehicles are sorted by destination and loaded onto other trains in a mix suitable for direct transport to dealers. As a result, carload counts have increased; each vehicle that is handled through the centers arrives on one carload and departs on another carload. This hub-and-spoke method of distribution is intended to improve Ford's delivery logistics and reduce its inventory costs and order-to-delivery times.

Light vehicle production in 2000 is expected to decline 3% from the record level of 1999. However, NS expects to recapture diverted traffic as its service improves and to benefit from increased shipments of finished vehicles from Ford's Norfolk, Va., assembly plant and from the introduction of new sport utility vehicles at BMW's Greer, S.C., assembly plant and at Toyota's second plant in Princeton, Ind., and increased parts business from General Motors.

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Condition and Results of Operations. (continued)

AUTOMOTIVE
(Shown as a graph in the Annual Report to Stockholders)
(millions)

1999	1998	1997	1996	1995	1994
----	----	----	----	----	----
\$ 740	\$ 566	\$ 492	\$ 489	\$ 449	\$ 429

Revenues increased \$174 million, or 31%, in 1999, due to the expansion of operations into the Northeast, new vehicles and parts business and record vehicle production. This group includes finished vehicles for BMW, DaimlerChrysler, 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.

Chemicals traffic volume increased 18%, and revenues increased 25%, in 1999, due to the addition of Northern Region traffic. Chemical production increased slightly during the year, but fertilizer production declined. In addition, significant production cutbacks at plants served by NS affected shipments of both sulfur and fertilizer. Shipments of chlorine, caustic soda and PVC plastics rebounded from 1998 levels, benefiting from an improved Asian economy. The location of new and expanded processing plants on lines NS serves improved shipments of plastic pellets. Chemicals shipments also increased through NS' Thoroughbred Bulk Transfer (TBT) facilities that handle chemicals and bulk commodities for customers not located on lines it serves.

In 1998, chemicals traffic volume decreased 1%, and revenues decreased 2%, the first decline since 1989. The weak economies in Asia and softness in certain domestic markets adversely affected shipments of products for the vinyl, polyester and pulp markets. In addition, nationwide rail service issues, particularly early in the year, caused some customers to divert traffic to truck and barge. However, several NS-served facilities with new and expanded plant capacity increased shipments of plastics and petroleum products, somewhat offsetting these reductions. NS also increased traffic through its TBT facilities.

Chemicals revenues in 2000 are expected to benefit from plant expansions, increases in U.S. chemical production and extended market reach through the TBT facilities.

CHEMICALS
(Shown as a graph in the Annual Report to Stockholders)
(millions)

1999	1998	1997	1996	1995	1994
----	----	----	----	----	----
\$ 720	\$ 574	\$ 585	\$ 560	\$ 541	\$ 538

Revenues increased \$146 million, or 25%, in 1999, reflecting the addition of Northern Region traffic. This group includes fertilizers, sulfur and related chemicals, petroleum products, chlorine and bleaching compounds, plastics, industrial chemicals, chemical wastes and municipal wastes.

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Paper, clay and forest products traffic volume increased 4%, and revenues increased 8%, in 1999, principally due to the expansion of operations into the Northern Region. The closure of four major paper mills and some chip mills late in 1998, coupled with the effects of continued consolidation and weak demand within the paper industry, had a negative impact on 1999 traffic volume.

In 1998, paper, clay and forest products traffic volume decreased 3%, and revenues declined 1%. Traffic volume increases in the first three quarters were offset by a sudden and pronounced weakness in the

paper industry in the fourth quarter, adversely affecting shipments of paper, wood fiber and kaolin clay. Decreased domestic and foreign demand resulted in both widespread paper mill downtime late in the year and indefinite closure of several NS-served paper mills. Record carloads and revenues from shipments of lumber and wood products to meet demand in the housing construction industry partially offset the effects of these declines.

The paper industry is expected to continue to experience weak demand during 2000.

PAPER, CLAY AND FOREST PRODUCTS
(Shown as a graph in the Annual Report to Stockholders)
(millions)

1999	1998	1997	1996	1995	1994
----	----	----	----	----	----
\$ 575	\$ 534	\$ 539	\$ 513	\$ 537	\$ 522

Revenues increased \$41 million, or 8%, in 1999, principally due to the expansion of operations into the Northern Region. This group includes lumber and wood products, pulpboard and paper products, wood fibers, woodpulp, scrap paper and clay. NS serves 83 paper mills, 94 paper distribution centers and more than 100 lumber reload centers.

Metals and construction traffic volume increased 57%, and revenues increased 51%, in 1999, due to the addition of Northern Region traffic. NS' expanded operations give it access to numerous steel mills, processors and distribution facilities. Continued growth from new mini-mills and steel processors locating in NS' service territory offset the effects of a weaker scrap market. Construction traffic benefited from continued strength in housing starts and highway construction in the Southeast. Agricultural limestone shipments were higher in the first half of the year, due to an early planting season as a result of the mild winter. In addition, new cement terminals on NS' lines generated additional traffic.

In 1998, metals and construction traffic volume was unchanged, and revenues increased 1%. The strong performance in the metals market during 1997 was repeated in the first half of 1998, due to improved efficiency at integrated mills and the continued growth of new mini-mills and steel processors in NS' service territory. However, the domestic metals market weakened in the second half of 1998, due to an increase in the supply of lower-priced, imported steel. Construction traffic and revenues increased, due to increased highway and housing construction activity in the Southeast.

Metals revenues are expected to show the benefits of continued strength in the steel and construction industries.

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METALS AND CONSTRUCTION
(Shown as a graph in the Annual Report to Stockholders)
(millions)

1999	1998	1997	1996	1995	1994
----	----	----	----	----	----
\$ 562	\$ 373	\$ 368	\$ 354	\$ 349	\$ 330

Revenues increased \$189 million, or 51%, in 1999, due to the addition of traffic in the Northern Region. This group includes steel, aluminum products, machinery, scrap metals, cement, aggregates, bricks and minerals.

Agriculture, consumer products and government traffic volume increased 15%, and revenues increased 18%, in 1999, reflecting new access to the large Northeast consumer markets. Service issues that arose early in the year due to harsh weather conditions and continued during efforts to integrate the Northern Region had an adverse effect on traffic volume. In addition, soybean traffic was negatively affected by low-priced imports from South America.

In 1998, agriculture, consumer products and government traffic volume decreased 3%, and revenues declined 2%. Weak export and soybean meal markets adversely affected shipments. Sweeteners volume and revenues declined, as a strong beet sugar crop negatively affected cane sugar shipments out of the South. Increased revenues from grain, soybeans and feed ingredients from the longer-haul Southeast feed and corn processing markets somewhat offset the effects of the declines.

Moderate growth is expected in 2000 as service levels improve and more benefits are realized from NS' expanded operations. Continued low prices and abundant supply are expected to increase consumption of corn for feed and processing. However, the export market for other grain products is expected to remain weak.

AGRICULTURE, CONSUMER PRODUCTS AND GOVERNMENT
(Shown as a graph in the Annual Report to Stockholders)
(millions)

1999	1998	1997	1996	1995	1994
----	----	----	----	----	----
\$ 453	\$ 383	\$ 391	\$ 393	\$ 394	\$ 380

Revenues increased \$70 million, or 18%, in 1999, reflecting the addition of Northern Region traffic. This group includes soybeans, wheat, corn, animal and poultry feed, food oils, flour, beverages, canned goods, sweeteners, consumer products and items for the military.

INTERMODAL traffic volume increased 31%, and revenues increased 54%, in 1999, due to the addition of Northern Region traffic and the consolidation of Triple Crown Services Company (TCS) revenues, beginning June 1 (see Note 2 on Page 58). More than half of the increase in revenue per unit resulted from the effects of consolidating TCS. Prior to June 1, NS' revenues included only the amounts for rail services it performed under contract to TCS, but NS' volume included most TCS units. NS was awarded the majority of Conrail's postal business, which it handles through a new subsidiary, Thoroughbred Direct Intermodal Services (TDIS), a logistics company headquartered in Plymouth Meeting, Pa. Intermodal traffic volume

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Condition and Results of Operations. (continued)

declined in the first five months of 1999, reflecting the network redesign implemented in August 1998 which pared a significant number of lanes and associated volumes. Service issues following the integration of the Northern Region also negatively affected volume and revenues.

In 1998, intermodal traffic volume decreased 2%, and revenues decreased 1%. The decline, the first in 12 years, was due to the service network redesign that was implemented in August. As a result, trailer traffic volume declined 16%, but this decrease was largely offset by increases in both container traffic volume and revenues (respectively, 2% and 5%) and TCS traffic volume and revenues (respectively, 5% and 9%).

Intermodal revenues are expected to continue to benefit from the expansion of operations in the Northeast, as well as terminal and line capacity expansions and equipment additions. However, APL, which generated 247,000 units of annualized volume on NS, moved almost all of this volume to CSX after their strategic alliance. Most of this traffic had been shifted by December 1999.

INTERMODAL
(Shown as a graph in the Annual Report to Stockholders)
(millions)

1999	1998	1997	1996	1995	1994
----	----	----	----	----	----
\$ 830	\$ 539	\$ 547	\$ 487	\$ 474	\$ 429

Revenues increased \$291 million, or 54%, in 1999, due to the addition of Northern Region traffic and the consolidation of Triple Crown Services Company's revenues. This group handles trailers, domestic and international containers, Triple Crown Services equipment and equipment for intermodal marketing companies, international steamship lines, truckers and other shippers.

Railway Operating Expenses

Railway operating expenses increased 41% in 1999, while carloadings increased 24%. The expense increase was attributable to the commencement of operations in the Northern Region, and includes significant costs arising from the service issues experienced after the Closing Date.

Railway operating expenses increased 5% in 1998, while carloadings increased 1%. The expense increase was mostly attributable to Conrail-related integration expenses, and additional expenses, including start-up costs, related to the Ford mixing centers.

As a result, the railway operating ratio, which measures the percentage of railway revenues consumed by railway expenses, was 86.2% in 1999, compared with 75.1% in 1998 and the record-low 71.3% in 1997.

Management estimates that the integration-related service issues in the Northern Region, including estimated traffic diversions, resulted in more than half of the increase in the railway operating ratio in 1999. The remaining increase was principally attributable to the change in traffic mix (more resource-intensive traffic, such as automotive and intermodal) and the new traffic in the Northern Region, coupled with the decrease in export coal traffic.

In 1998, the railway operating ratio was adversely affected by Conrail-related integration expenses and a change in traffic mix

related to the growth in automotive traffic coupled with the change in coal traffic mix. Automotive traffic includes some of NS' most time-sensitive and resource-intensive business, requiring more trains, increased handling costs and higher equipment rents.

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The railway operating ratio is not expected to return to pre-Closing Date levels in the near term, due to changes in NS' traffic mix and the higher cost structure of the Conrail properties now operated by NSR. However, the railway operating ratio is expected to show favorable year-to-year comparisons after the first quarter of 2000.

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

RAILWAY OPERATING EXPENSES
Increases (Decreases)

(\$ in millions) -----	1999 vs. 1998 -----	1998 vs. 1997 -----
Compensation and benefits	\$ 363	\$ 87
Materials, services and rents	421	121
Conrail rents and services	311	--
Depreciation	38	16
Diesel fuel	81	(53)
Casualties and other claims	43	(28)
Other	51	16
	-----	-----
Total	\$1,308	\$ 159
	=====	=====

Compensation and benefits, which represented 41% of total railway operating expenses in 1999, increased 24% in 1999 and 6% in 1998.

In 1999, the increase resulted largely from the almost 50% increase in the railroad work force following commencement of operations in the Northern Region. The service issues encountered after the expansion of operations also contributed to the increase, including \$49 million for the Special Work Incentive Program available to union employees during much of the third quarter. These increases were mitigated by reduced stock-based incentive compensation, the absence of bonus accruals and reduced pension and other postretirement benefits expenses. NS has substantial unrecognized gains relating to its over-funded pension plan; amortization of these gains will continue to be included in "Compensation and benefits" expenses (see Note 10 on Page 68).

In 1998, higher wages and salaries -- results of additional staffing in anticipation of the Closing Date and union wage increases, including the effect of an increase in the bonus fund for locomotive engineers -- were offset somewhat by lower expenses for pension benefits, due to favorable investment returns on pension plan assets. Also contributing to the increase were new FRA train inspection requirements and a higher Railroad Unemployment Tax rate.

In January 2000, NS announced a voluntary early retirement program that included enhancements to pension benefits for eligible

nonunion employees. Approximately 1,180 employees, or 20% of NS' nonunion work force, were eligible for the program; and 916 accepted and retired effective March 1. Benefits will be paid out of NS' over-funded pension plan. Actions also were taken in the first quarter of 2000 to reduce the size of the union work force. These work force reduction efforts were taken to resize employment levels and reduce operating expenses in response to changes in NS' business. The cost of these work force reductions will be reflected in expenses in the first quarter of 2000.

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Materials, services and rents includes items used for the maintenance of the railroads' lines, structures and equipment; 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 52% in 1999 and 18% in 1998.

The 1999 increase reflected the expanded operations in the Northern Region; additional costs attributable to the service issues, including costs for alternate transportation to meet the needs of customers; and the effects of consolidating TCS.

The 1998 increase was principally due to Conrail-related integration costs and higher-than-anticipated mixing center costs associated with the increase in automotive traffic. Higher equipment rents and locomotive repair expenses also contributed to the increase.

Equipment rents, which represent 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, increased 93% in 1999 and 18% in 1998. The 1999 increase principally was due to: (1) increased volume attributable to expanded operations, (2) higher rental costs for freight cars, as service issues increased car cycle times and (3) costs for short-term locomotive leases to improve system fluidity. In addition, Conrail historically rented a higher percentage of its freight cars than has NS, resulting in higher equipment rents in the Northern Region. The 1998 increase was due to: (1) rents for equipment needed to support the increase in automotive traffic, (2) reduced rents received from the leasing of owned locomotives and (3) increased lease expenses for equipment obtained to meet anticipated demand after the Closing Date. These 1998 increases were somewhat offset by higher receipts on NS-owned freight cars and auto racks.

Locomotive and car repair costs increased in 1999 due to the expansion of operations and to the higher repair costs associated with the leased locomotives. Locomotive repair costs increased in 1998 due to the higher traffic levels and an increase in the average number of locomotives in service, reflecting the retention of older units.

Conrail rents and services, a new category of expense arising from the expansion of operations on June 1, amounted to \$311 million in 1999. This item includes amounts due to PRR and CRC for: (1) use of their operating properties and equipment, (2) CRC's operation of the Shared Assets Areas and (3) CRC's operation of certain transition facilities. Also included is NS' equity in Conrail's net earnings since June 1, plus additional amortization related to the difference between NS' investment in Conrail and its underlying equity (see Note 2 on Page 58).

Depreciation expense (see Note 1, "Properties," on Page 57 for NS' depreciation policy) was up 9% in 1999 and 4% in 1998. Increases

in both years were due to property additions, reflecting substantial levels of capital spending.

Diesel fuel expenses increased 47% in 1999, but declined 23% in 1998. The increase in 1999 resulted from a 19% increase in the average price per gallon, due to a sharp rise in the last half of the year, and higher consumption, primarily the result of the additional Northern Region traffic. The 1998 decrease was due to a 26% drop in the average price per gallon, which was the lowest since 1988, somewhat offset by a 3% increase in consumption.

Casualties and other claims expenses (including the estimates of costs related to personal injury, property damage and environmental matters) increased 45% in 1999, but decreased 23% in 1998. The 1999 increase principally resulted from higher personal injury accruals related to the increased size of the work force as well as higher environmental expenses. The 1998 decrease was due to cost recoveries from third parties and lower accruals for environmental remediation costs and to reduced personal injury expenses.

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The largest component of casualties and other claims expense is personal injury costs. Costs related to so-called "occupational" injuries continued to increase. Within the past decade, there has been a dramatic increase in the number of these types of claims. In 1999, about two-thirds of the total employee injury cases settled and one-quarter of settlement payments made were related to occupational claims. These claims generally do not relate to a specific accident or event, but rather result from a claimed exposure over time to some condition of employment. As a result, many of these claims are asserted by former or retired employees. NS continues to work actively to eliminate all accidents and exposure risks and to control associated costs.

The rail industry remains uniquely susceptible to litigation involving job-related accidental injury and occupational claims because of an outmoded law, the Federal Employers' Liability Act (FELA), originally passed in 1908 and applicable only to railroads. This law, which covers employee claims for job-related injuries, promotes an adversarial claims environment and produces results that are unpredictable and inconsistent, at a far greater cost to the rail industry than the no-fault workers' compensation system to which nonrail competitors and other employers are universally subject. The railroads have been unsuccessful so far in efforts to persuade Congress to replace FELA with a no-fault workers' compensation system.

NS maintains substantial amounts of commercial insurance for potential third-party liability and property damage claims. It also retains reasonable levels of risk through self-insurance.

Other expenses increased 31% in 1999 and 11% in 1998. The 1999 increase resulted from the expansion of operations, including property and other taxes related to the Northern Region, and to costs arising from the service issues. The 1998 increase principally resulted from: (1) higher property and other taxes, due to the effects of favorable adjustments in prior years resulting from settlements with taxing authorities; and (2) increased travel expenses, mostly attributable to planning in advance of the Closing Date.

Income Taxes

Income tax expense in 1999 was \$112 million, for an effective rate of 32%, compared with an effective rate of 25% in 1998 and 30% in 1997. Excluding the equity in Conrail's after-tax earnings, the effective rate was 34% in 1999, 33% in 1998 and 34% in 1997.

The effective rates in all three years were below the statutory federal and state rates -- results of investments in coal-seam gas properties, favorable adjustments upon filing the prior year tax returns and favorable adjustments to state tax liabilities. In addition, 1998 and 1997 benefited from investments in corporate-owned life insurance, and 1998 benefited from favorable adjustments resulting from settlement of federal income tax years 1993 and 1994.

Discontinued Operations

Income from discontinued operations in 1998 included the \$105 million after-tax gain from the sale of NS' motor carrier subsidiary (see Note 15 on Page 75). Motor carrier operations in 1998 (through March 28) produced a \$1 million loss; these same operations produced income of \$22 million in 1997.

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FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities, NS' principal source of liquidity, decreased \$357 million, or 40%, in 1999, and \$260 million, or 23%, in 1998. Both declines reflected the reductions in income from operations, mitigated somewhat by lower income tax payments. In 1998, higher interest payments related to the debt issued in mid-1997 in connection with the Conrail transaction also contributed to the decline in operating cash flow. The large change in "Accounts receivable" and "Current liabilities other than debt" in the 1999 cash flow statement primarily resulted from the commencement of operations in the Northern Region. In addition, collection of accounts receivable has slowed.

NS' working capital deficit of \$553 million at Dec. 31, 1999, included \$400 million of notes due May 1, 2000. NS currently has the capability to issue commercial paper to meet its more immediate working capital needs (see the discussion of financing activities, below).

CASH PROVIDED BY OPERATIONS (Shown as a graph in the Annual Report to Stockholders) (millions)

1999	1998	1997	1996	1995	1994
----	----	----	----	----	----
\$ 533	\$ 890	\$1,150	\$1,198	\$1,234	\$1,144

Cash provided by operations declined significantly in 1999 and 1998, reflecting lower income from railway operations. Cash provided by operations is NS' principal source of liquidity.

Cash used for investing activities in 1999 decreased 11%,

compared with 1998. Investing activities in 1999 included approximately \$160 million more of borrowings against the net cash surrender value of company-owned life insurance, compared with 1998. In addition, 1999 included \$60 million in proceeds from the sale of certain licensing arrangements and the sale of NS' signboard business.

Investing activities in 1998 included the \$207 million of proceeds from the sale of NS' motor carrier subsidiary. Investing activities in 1997 included the costs of NS' acquisition of its interest in Conrail. Property additions account for most of the recurring spending in this category.

The following tables show capital spending, track and equipment statistics for the past five years. Capital expenditures include amounts relating to capital leases, which are excluded from the Consolidated Statements of Cash Flows (see Note 7, "Capital Lease Obligations," on Page 66).

CAPITAL EXPENDITURES

(\$ in millions) -----	1999 ----	1998 ----	1997 ----	1996 ----	1995 ----
Road	\$ 559	\$ 612	\$ 599	\$ 438	\$ 386
Equipment	349	442	306	326	338
Other property	4	6	24	25	33
	-----	-----	-----	-----	-----
Total	\$ 912	\$1,060	\$ 929	\$ 789	\$ 757
	=====	=====	=====	=====	=====

Capital expenditures decreased 14% in 1999, but increased 14% in 1998. Both variances were largely attributable to significant outlays in 1998 for roadway projects and equipment in anticipation of the Closing Date. In addition, 1997 and 1998 included significant expenditures for automotive-related projects.

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TRACK STRUCTURE STATISTICS (CAPITAL AND MAINTENANCE)

	1999 ----	1998 ----	1997 ----	1996 ----	1995 ----
Track miles of rail installed	403	429	451	401	403
Miles of track surfaced	5,087	4,715	4,703	4,686	4,668
New crossties installed (millions)	2.3	2.0	2.2	1.9	2.0

AVERAGE AGE OF OWNED RAILWAY EQUIPMENT

(Years)	1999	1998	1997	1996	1995
-----	----	----	----	----	----
Freight cars	23.8	23.6	23.0	22.3	22.0
Locomotives	15.4	15.4	15.3	15.4	15.7
Retired locomotives	22.7	20.6	23.3	24.4	22.6

In addition to NS-owned equipment, approximately 20% of the freight car fleet and 30% of the locomotive fleet is leased from PRR (see Note 2 on Page 58).

The 1998 decrease in the average age of retired locomotives resulted from a disproportionate share of early retirements due to casualties and service failures and retention of older units in anticipation of the Closing Date.

Since 1988, NS has rebodied about 29,000 coal cars, and plans to continue that program at least through the first half of 2000. This work, performed at NS' Roanoke Car Shop, converts hopper cars into high-capacity steel gondolas or hoppers. As a result, the remaining service life of the freight car fleet is greater than may be inferred from the increasing average age shown in the table, above.

For 2000, NS has budgeted \$747 million for capital expenditures. In addition, NS plans to enter into a lease financing arrangement for 150 new locomotives. The anticipated spending includes \$576 million for roadway projects, of which \$284 million is for track and bridge program work. Also included are projects to increase track and terminal capacity. Equipment spending includes the rebodilyng of coal and coke hoppers, the purchase of 255 multilevel automobile racks, the upgrading of existing locomotives and the modification of open coil steel cars. NS also plans to lease 475 articulated bilevels for automobile service.

Cash provided by financing activities was \$90 million in 1999 and included proceeds from the sale of notes, commercial paper and equipment trust certificates as well as \$149 million of borrowings from a PRR subsidiary (see Note 2 on Page 58). Proceeds from borrowings in 1998 included amounts received from the sale of commercial paper and equipment trust certificates, and in 1997 included debt issued to finance NS' share of the cost of acquiring Conrail stock. Debt repayments in all three years included repayment of some commercial paper. Financing activities in 1997 also included \$72 million of credit facility costs related to certain now-terminated commitments under credit agreements that were in place to support NS' tender offer for all shares of Conrail. NS' debt-to-total capitalization ratio was 58% at the end of 1999 and 56% at the end of 1998.

NS currently has in place a \$2.8 billion credit facility to support its commercial paper program. In addition, NS has issued only \$400 million of debt under its November 1998 \$1 billion shelf registration. NS expects to issue additional debt in 2000 to refinance the Senior Notes maturing in May.

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NS is subject to various financial covenants with respect to its debt and under its credit agreement, including a maximum leverage ratio restriction (see Note 7, "Debt Covenants," on Page 66). The maximum leverage ratio tightens in the first quarter of 2001.

CONRAIL'S RESULTS OF OPERATIONS, FINANCIAL CONDITION AND LIQUIDITY

Through May 31, 1999, Conrail's results of operations include freight line-haul revenues and related expenses. After the Closing Date, June 1, 1999, its results reflect its new structure and operations (see Note 2 on Page 58). Conrail's major sources of operating revenues are now from operating fees and rents from NSR and CSXT. The composition of Conrail's operating expenses also has changed.

Conrail's net income was \$26 million in 1999, compared with \$267 million in 1998 and \$7 million in 1997 (see Note 2 on Page 58).

Conrail's operating revenues were \$2.2 billion in 1999, \$3.9 billion in 1998 and \$3.8 billion in 1997. The decline in 1999 was attributable to the change in operations and a 2% decrease in freight revenues prior to the Closing Date. The increase in 1998 was due to a 4% increase in traffic volume, as all market groups except automotive posted gains for the year.

Conrail's operating expenses were \$2.0 billion in 1999, \$3.3 billion in 1998 and \$3.4 billion in 1997. Operating expenses in 1999 included \$180 million of expenses (\$121 million after taxes), principally to increase certain components of its casualty reserves based on an actuarial valuation, to adjust certain litigation and environmental reserves related to settlements and completion of site reviews, and a credit adjustment related to the assumption of a lease obligation by CSX. Operating expenses in 1998 included a \$170 million charge (\$105 million after taxes) for severance benefits covering nonunion employees and \$132 million (\$82 million after taxes) of other charges and reserves. Operating expenses in 1997 included a \$221 million charge in conjunction with the termination of the Conrail ESOP (which had no related income tax effect) and a \$173 million charge (\$142 million after taxes) for stock compensation and executive severance costs related to the change in ownership. In addition, Conrail's operating expenses reflect transition-related expenses of \$60 million in 1999 and \$149 million in 1998 (principally technology integration costs and employee stay bonuses) and \$114 million in 1997 (principally investment banking, legal and consulting fees and employee stay bonuses). Excluding the effects of the acquisition-related compensation and transition costs, operating expenses decreased 34% in 1999, but increased 3% in 1998. The 1999 decreases reflected the change in operations, somewhat offset by higher casualty and other claims expenses. The 1998 increase resulted from volume-related expense increases and higher casualty and other claims expenses, somewhat offset by lower diesel fuel costs.

Conrail's cash provided by operations decreased by \$331 million, or 46%, in 1999, and by \$157 million, or 18%, in 1998. The 1999 decrease was principally due to the change in operations. The decline in 1998 reflected higher incentive compensation payments and transition-related costs. Cash generated from operations is the principal source of liquidity and is primarily used for debt repayments and capital expenditures. Debt repayments totaled \$112 million in 1999 and \$119 million in 1998. Capital expenditures totaled \$176 million in 1999 and \$550 million in 1998; the decline reflected the change in operations.

Conrail had a working capital deficit of \$194 million at Dec. 31, 1999, compared with a deficit of \$202 million at Dec. 31, 1998. The deficit at Dec. 31, 1999, resulted from reclassifying as a current liability \$250 million of long-term debt due in June 2000.

Conrail is not an SEC registrant and, therefore, presently cannot issue any publicly traded securities. Conrail is expected to have sufficient cash flow to meet its ongoing obligations.

NS' equity in earnings of Conrail, net of amortization, was \$17 million in 1999, \$194 million in 1998 and \$117 million in 1997.

OTHER MATTERS

Proposed CN-BNSF Combination

On Dec. 20, 1999, Canadian National Railway Company and Burlington Northern Santa Fe Corporation announced plans to combine their companies under common control, thereby forming the largest railroad in North America. Norfolk Southern and other Class I railroads have expressed strong concerns about both the timing and the implications for the railroad industry of the proposed combination; moreover, the Surface Transportation Board (which would have to approve the combination) has indicated that the carriers will be expected to address the "cumulative impacts and crossover effects" of the transaction. Management will monitor developments and take appropriate actions to protect the interests of NS stockholders.

Market Risks and Hedging Activities

NS does not engage in the trading of derivatives. 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 a targeted mix within its debt portfolio.

Of NS' total debt outstanding (see Note 7 on Page 65), all is fixed-rate debt, except for commercial paper and most capital leases. As a result, NS' debt subject to interest rate exposure totaled \$2.0 billion on Dec. 31, 1999. A 1% increase in interest rates would increase NS' total annual interest expense related to all its variable debt by approximately \$20 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.

The average interest rate on commercial paper was 6.4% on Dec. 31, 1999, and 6.0% on Dec. 31, 1998. During 1999, interest rates on NS' commercial paper ranged from 5.1% to 6.5%.

The capital leases, which carry an average fixed rate of 7.1%, were effectively converted to variable rate obligations using interest rate swap agreements. On Dec. 31, 1999, the average pay rate under these agreements was 6.3%, and the average receive rate was 7.1%. During 1999, the effect of the swaps was to reduce interest expense by \$4 million. A portion of the lease obligations is payable in Japanese yen. NS hedged 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 Japanese banks. 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.

Accounting Changes and New Pronouncements

As discussed in Note 1 under "Required Accounting Changes" on Page 57, NS adopted AICPA Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" in 1999.

Item 7. Management's Discussion and Analysis of Financial

Condition and Results of Operations. (continued)

During 1999, the Financial Accounting Standards Board deferred the effective date of Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." NS expects to adopt SFAS No. 133 effective Jan. 1, 2001. This adoption is not expected to have a material effect on NS' consolidated financial statements.

Lawsuits

Norfolk Southern and certain subsidiaries are defendants in numerous lawsuits relating principally to railroad operations.

The Corporation is the defendant in a class action suit filed in federal district court in Birmingham, Ala., on behalf of African Americans currently employed or working since Dec. 16, 1989, who allege that the Corporation has discriminated against them in promotion to nonagreement positions because of their race. The nonjury trial on liability, which the Corporation vigorously defended, concluded in June 1997, and the matter is with the court for requesting briefs and decision. In the meantime, the parties are participating in mediation of the case.

On Sept. 8, 1997, a state court jury in New Orleans returned a verdict awarding \$175 million in punitive damages against The Alabama Great Southern Railroad Company (AGS), a subsidiary of NSR, all of the common stock of which is owned by NS. The verdict was returned in a class action suit involving some 8,000 individuals who claim to have been damaged as the result of an explosion and fire that occurred in New Orleans on Sept. 9, 1987, when a chemical called butadiene leaked from a tankcar.

The jury verdict awarded a total of nearly \$3.2 billion in punitive damages against four other defendants in the same case: two rail carriers, the owner of the car and the shipper. Previously, the jury had awarded nearly \$2 million in compensatory damages to 20 of the more than 8,000 individual plaintiffs. Prior to the trial court's ruling on the post trial motions, AGS and four other defendants agreed to settle their liability in this case for a total payment of approximately \$150 million, of which AGS' share was \$15 million. The settlement has been given preliminary approval by the trial court, and the money has been paid into an escrow account maintained by Bank One Trust Company in New Orleans. Final approval of the settlement and distribution of the settlement proceeds to qualified members of the class are subject to a fairness hearing scheduled for March 22, 2000.

While it is possible that the trial court will decline to give final approval to the settlement, or that the settlement may be overturned on appeal, Management believes that the settlement is a fair resolution of this controversy and that disapproval by the courts is unlikely.

While the final outcome of these matters and other lawsuits cannot be predicted with certainty, it is the opinion of Management, based on known facts and circumstances, that the amount of NS' ultimate liability is unlikely to have a material adverse effect on NS' financial position, results of operations or liquidity.

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 balance sheet and are not netted against the associated NS liability. Environmental engineers regularly participate in ongoing evaluations of all identified sites and in

determining any necessary adjustments to initial liability estimates. NS also has established an Environmental Policy Council, composed of senior managers, to oversee and interpret its environmental policy.

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Item 7. Management's Discussion and Analysis of Financial

Condition and Results of Operations. (continued)

Operating expenses for environmental matters totaled approximately \$12 million in 1999, \$4 million in 1998 and \$21 million in 1997, and capital expenditures totaled approximately \$8 million in 1999, \$7 million in 1998 and \$6 million in 1997. The increase in operating expenses in 1999 compared with 1998 was principally due to a combination of unfavorable development experience on identified sites during 1999, and higher recoveries in 1998 from third parties of amounts paid by NS in prior years for environmental cleanup and remediation. Capital expenditures in 2000 are expected to be comparable with 1999.

As of Dec. 31, 1999, NS' balance sheet included a reserve for environmental exposures in the amount of \$41 million (of which \$8 million is accounted for as a current liability), which is NS' estimate of the probable cleanup and remediation costs based on available information at 126 identified locations. On that date, 12 sites accounted for \$20 million of the reserve, 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 some of the 126 locations, certain 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.

The risk of incurring environmental liability -- for acts and omissions, past, present and future -- is inherent in the railroad business. Some of the commodities in NS' traffic mix, particularly those classified as hazardous materials, can pose special risks that NS and its subsidiaries work diligently to minimize. In addition, several NS subsidiaries own, or have owned, land used as operating property, or which is leased or may have been leased and operated by others, or held for sale.

Because environmental problems that are latent or undisclosed may exist on these properties, there can be no assurance that NS will not incur environmentally related 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 other now-unidentified environmental sites and matters are likely to arise from time to time. The resulting liabilities could have a significant effect on financial condition, results of operations or liquidity in a particular year or quarter.

However, based on its assessments of the facts and circumstances

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

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Item 7. Management's Discussion and Analysis of Financial

Condition and Results of Operations. (continued)

Labor Agreements

Approximately 85% of NS' railroad employees are represented by labor unions under collective bargaining agreements with 14 different labor organizations. Moratorium provisions of the agreements currently in force expired Dec. 31, 1999; however, the agreements remain in effect until amendments are agreed to or until the Railway Labor Act's procedures are exhausted. In late 1999, negotiations began at the national level on agreements with major labor organizations. The outcome of these negotiations is uncertain at this time. However, a tentative agreement was reached with the Brotherhood of Locomotive Engineers which represents approximately 5,000 of NS' locomotive engineers. The settlement requires ratification by the members before acceptance. Negotiations with the other unions are progressing.

Inflation

Generally accepted accounting principles require the use of historical cost in preparing financial statements. This approach disregards the effects of inflation on the replacement cost of property. NS, a capital-intensive company, has most of its capital invested in such assets. 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.

Trends

- Federal Economic Regulation -- Efforts may be made in 2000 to re-subject the rail industry to unwarranted federal economic regulation. The Staggers Rail Act of 1980, which substantially reduced 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 and other rail carriers vigorously will oppose these counterproductive efforts to reimpose or to authorize reimposing such economic regulation.

- Reduction of "Greenhouse" Gases -- In December 1997, international environmental officials meeting in Kyoto, Japan, agreed to reduce substantially the emission of so-called "greenhouse" gases by 2010. Agreement on such reductions was reached on the basis of questionable scientific evidence and in spite of the fact that the burden of the reduction regimen will be borne disproportionately by developed nations such as the United States. NS, the rail industry and a wide variety of other affected constituencies in the United States expect to assure that, prior to a Senate vote on the proposed treaty, the public and governmental authorities have available to them additional scientific information and data concerning other effects that are likely to result from implementation.

- Utility Deregulation -- Deregulation of the electrical

utility industry is expected to increase competition among electric power generators; deregulation over time would permit wholesalers and possibly retailers of electric power to sell or purchase increasing quantities of power to or from far-distant parties. The effects of deregulation on NS and on its customers cannot be predicted with certainty; however, NS serves a number of efficient power producers and is working diligently to assure that its customers remain competitive in this evolving environment.

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Item 7. Management's Discussion and Analysis of Financial

Condition and Results of Operations. (continued)

Forward-Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Annual Report contain forward-looking statements that are based on current expectations, estimates and projections. Such forward-looking statements reflect Management's good-faith evaluation of information currently available. However, because such statements are based upon and, therefore, can be influenced by, a number of external variables over which Management has no, or incomplete, control, they are not, and should not be read as being, guarantees of future performance or of actual future results; nor will they necessarily prove to be accurate indications of the times at or by which any such performance or result will be achieved. Accordingly, actual outcomes and results may differ materially from those expressed in such forward-looking statements. This caveat has particular importance in the context of all such statements that relate to the resolution of the service issues, the recapture of diverted business, the addition of new business and the ability to reduce expenses.

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" on Page 43 under the heading "Market Risks and Hedging Activities."

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Item 8. Financial Statements and Supplementary Data.

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
QUARTERLY FINANCIAL DATA
(Unaudited)

Three Months Ended			
March 31	June 30	Sept. 30	Dec. 31
-----	-----	-----	-----
(In millions of dollars, except per share amounts)			

1999

Railway operating revenues	\$ 1,030	\$ 1,194	\$ 1,500	\$ 1,471
Income from railway operations	237	198	146	137
Income from continuing operations	112	77	19	31
Net income	112	77	19	31
Earnings per share				
- Basic	\$ 0.30	\$ 0.20	\$ 0.05	\$ 0.08
- Diluted	\$ 0.30	\$ 0.20	\$ 0.05	\$ 0.08

1998

Railway operating revenues	\$ 1,066	\$ 1,079	\$ 1,048	\$ 1,028
Income from railway operations	251	293	258	250
Income from continuing operations	132	187	151	160
Net income	229	187	158	160
Earnings per share				
- Basic	\$ 0.61	\$ 0.49	\$ 0.42	\$ 0.42
- Diluted	\$ 0.61	\$ 0.48	\$ 0.42	\$ 0.42

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Item 8. Financial Statements and Supplementary Data. (continued)

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Consolidated Statements of Cash Flows Years ended December 31, 1999, 1998 and 1997	53
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The Index to Consolidated Financial Statement Schedule appears in Item 14 on Page 81.

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Item 8. Financial Statements and Supplementary Data. (continued)

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
Consolidated Statements of Income

Years ended December 31,
1999 1998 1997
---- ---- ----
(\$ in millions, except earnings per share)

RAILWAY OPERATING REVENUES	\$ 5,195	\$ 4,221	\$ 4,223
RAILWAY OPERATING EXPENSES			
Compensation and benefits	1,855	1,492	1,405
Materials, services and rents	1,227	806	685
Conrail rents and services (Note 2)	311	--	--
Depreciation	475	437	421
Diesel fuel	255	174	227
Casualties and other claims	138	95	123
Other	216	165	149
	-----	-----	-----
Total railway operating expenses	4,477	3,169	3,010
	-----	-----	-----
Income from railway operations	718	1,052	1,213
Equity in earnings of Conrail (Note 2)	49	194	117
Charge for credit facility costs	--	--	(77)
Other income - net (Note 3)	115	115	130
Interest expense on debt (Note 5)	(531)	(516)	(385)
	-----	-----	-----
Income from continuing operations before income taxes	351	845	998
Provision for income taxes (Note 4)	112	215	299
	-----	-----	-----
Income from continuing operations	239	630	699
Discontinued operations (Note 15):			
Income (loss) from motor carrier operations, net of taxes	--	(1)	22
Gain on sale of motor carrier, net of taxes	--	105	--
	-----	-----	-----
Income from discontinued operations	--	104	22
	-----	-----	-----
NET INCOME	\$ 239	\$ 734	\$ 721
	=====	=====	=====
EARNINGS PER SHARE (Note 13)			
Income from continuing operations			
-Basic	\$ 0.63	\$ 1.66	\$ 1.85
-Diluted	\$ 0.63	\$ 1.65	\$ 1.84
Net income			
-Basic	\$ 0.63	\$ 1.94	\$ 1.91
-Diluted	\$ 0.63	\$ 1.93	\$ 1.90

See accompanying Notes to Consolidated Financial Statements.

Item 8. Financial Statements and Supplementary Data. (continued)

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets

As of December 31,
1999 1998

(\$ in millions)

ASSETS

Current assets:

Cash and cash equivalents	\$ 37	\$ 5
Short-term investments	14	58
Accounts receivable, net of allowance for doubtful accounts of \$5 million and \$4 million, respectively	857	519
Due from Conrail (Note 2)	77	--
Materials and supplies	100	59
Deferred income taxes (Note 4)	134	141
Other current assets	152	131
	-----	-----
Total current assets	1,371	913
	-----	-----

Investment in Conrail (Note 2)	6,132	6,210
Properties less accumulated depreciation (Note 5)	10,956	10,477
Other assets	791	580
	-----	-----
TOTAL ASSETS	\$19,250	\$18,180
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable (Note 6)	\$ 818	\$ 600
Income and other taxes	163	151
Notes and accounts payable to Conrail (Note 2)	184	--

Other current liabilities (Note 6)	256	225
Current maturities of long-term debt (Note 7)	503	141
	-----	-----
Total current liabilities	1,924	1,117
	-----	-----

Long-term debt (Note 7)	7,556	7,483
Other liabilities (Note 9)	1,101	1,065
Minority interests	50	49
Deferred income taxes (Note 4)	2,687	2,545
	-----	-----
TOTAL LIABILITIES	13,318	12,259
	-----	-----

Item 8. Financial Statements and Supplementary Data. (continued)

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets (continued)

As of December 31,
1999 1998

(\$ in millions)

Stockholders' equity:

Common stock \$1.00 per share par value, 1,350,000,000 shares authorized; issued 404,309,672 shares and 401,031,994 shares, respectively	404	401
Additional paid-in capital	372	296
Accumulated other comprehensive income (Note 12)	(11)	(8)
Retained income	5,187	5,252
Less treasury stock at cost, 21,627,902 shares	(20)	(20)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	5,932	5,921
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$19,250	\$18,180
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

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Item 8. Financial Statements and Supplementary Data. (continued)

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows

Years ended December 31,
1999 1998 1997

(\$ in millions)

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$ 239	\$ 734	\$ 721
Reconciliation of net income to net cash provided by continuing operations:			
Depreciation	489	450	432
Deferred income taxes	85	114	75
Equity in earnings of Conrail	(17)	(194)	(117)
Charge for credit facility costs	--	--	77
Nonoperating gains and losses on properties and investments	(62)	(51)	(63)
Income from discontinued operations	--	(104)	(22)
Changes in assets and liabilities affecting continuing operations:			
Accounts receivable	(322)	33	(23)
Materials and supplies	(40)	(1)	3
Other current assets and due from Conrail	(50)	(16)	(8)
Current liabilities other than debt	259	(23)	115

Other - net	(48)	(50)	(44)
	-----	-----	-----
Net cash provided by continuing operations	533	892	1,146
Net cash provided by (used for) discontinued operations	--	(2)	4
	-----	-----	-----
Net cash provided by operating activities	533	890	1,150
CASH FLOWS FROM INVESTING ACTIVITIES			
Property additions	(912)	(956)	(875)
Property sales and other transactions	104	83	74
Investment in Conrail	(3)	(40)	(5,741)
Investments, including short-term	(123)	(116)	(185)
Investment sales and other transactions	343	155	217
Proceeds from sale of motor carrier	--	207	--
	-----	-----	-----
Net cash used for investing activities	(591)	(667)	(6,510)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends	(304)	(303)	(301)
Common stock issued - net	14	34	24
Credit facility costs paid	--	--	(72)
Proceeds from borrowings	1,110	196	5,781
Debt repayments	(730)	(179)	(245)
	-----	-----	-----
Net cash provided by (used for) financing activities	90	(252)	5,187
Net increase (decrease) in cash and cash equivalents	32	(29)	(173)

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Item 8. Financial Statements and Supplementary Data. (continued)

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (continued)

	Years ended December 31,		
	1999	1998	1997
	----	----	----
	(\$ in millions)		
CASH AND CASH EQUIVALENTS			
At beginning of year	5	34	207
	-----	-----	-----
At end of year	\$ 37	\$ 5	\$ 34
	=====	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest (net of amounts capitalized)	\$ 520	\$ 519	\$ 379
Income taxes	\$ 16	\$ 76	\$ 209

See accompanying Notes to Consolidated Financial Statements.

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Item 8. Financial Statements and Supplementary Data. (continued)

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity

	Common Stock	Addi- tional Paid-In Capital	Accumu- lated Other Compre- hensive Income	Retained Income	Treasury Stock	Total
	-----	-----	-----	-----	-----	-----
	(\$ in millions, except per share amounts)					
BALANCE DECEMBER 31, 1996	\$ 132	\$ 462	\$ 3	\$4,401	\$ (21)	\$4,977
Comprehensive income - 1997						
Net income				721		721
Other comprehensive income (Note 12)			2			2

Total comprehensive income						723
Dividends on Common Stock, \$0.80 per share				(301)		(301)
3-for-1 stock split, effective Sept. 5	266	(266)		--		--
Other	1	45				46
	-----	-----	-----	-----	-----	-----
BALANCE DECEMBER 31, 1997	399	241	5	4,821	(21)	5,445
Comprehensive income - 1998						
Net income				734		734
Other comprehensive income (Note 12)			(13)			(13)

Total comprehensive income						721
Dividends on Common Stock, \$0.80 per share				(303)		(303)
Other	2	55			1	58
	-----	-----	-----	-----	-----	-----
BALANCE DECEMBER 31, 1998	401	296	(8)	5,252	(20)	5,921
Comprehensive income - 1999						
Net income				239		239
Other comprehensive income (Note 12)			(3)			(3)

Total comprehensive income						236

Dividends on Common Stock, \$0.80 per share				(304)		(304)
Other	3	76				79
	-----	-----	-----	-----	-----	-----
BALANCE DECEMBER 31, 1999	\$ 404	\$ 372	\$ (11)	\$5,187	\$ (20)	\$5,932
	=====	=====	=====	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements.

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Item 8. Financial Statements and Supplementary Data. (continued)

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 transportation of freight by rail, operating approximately 21,800 route miles primarily in the East and Midwest. These financial statements include Norfolk Southern Corporation (Norfolk Southern) and its majority-owned and controlled subsidiaries (collectively NS) on a consolidated basis. Norfolk Southern's major subsidiary is Norfolk Southern Railway Company (NSR). Financial results of a former motor carrier subsidiary, North American Van Lines, Inc. (NAVL), are reflected as "Discontinued Operations" (see Note 15). All significant intercompany balances and transactions have been eliminated in consolidation.

The railroad transports raw materials, intermediate products and finished goods classified in the following market groups: coal; automotive; chemicals; paper/clay/forest products; metals/construction; agriculture/consumer products/government; and intermodal. Except for coal, all groups are approximately equal in size based on revenues; coal accounts for about 25% of total railway operating revenues. Ultimate points of origination or destination for some of the freight (particularly coal bound for export and intermodal containers) are outside the United States.

Through a jointly owned entity, Norfolk Southern and CSX Corporation own the stock of Conrail Inc., which owns the major railroad in the Northeast. Norfolk Southern has a 58% economic and 50% voting interest in the jointly owned entity (see Note 2).

Use of Estimates

The preparation of financial statements in conformity with 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. Actual results could differ from those estimates.

Cash Equivalents

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

Investments

Marketable equity and debt securities are reported at amortized cost or fair value, depending upon their classification as securities "held-to-maturity," "trading" or "available-for-sale." On Dec. 31, 1999 and 1998, all "Short-term investments," consisting primarily of United States government and federal agency securities, were designated as "available-for-sale." Accordingly, unrealized gains and losses, net of taxes, are recognized in "Accumulated other comprehensive income."

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."

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Item 8. Financial Statements and Supplementary Data. (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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."

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. NS capitalizes interest on major capital projects during the period of their construction. Additions to properties, including those under lease, are capitalized. Maintenance expense is recognized when 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 rather than recognized through income. Gains and losses on disposal of land and nonrail assets are included in "Other Income" (see Note 3).

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 or estimated net realizable value. Assets that are deemed impaired as a result of such review are recorded at the lower of carrying amount or fair value.

Revenue Recognition

Revenue is recognized proportionally as a shipment moves from origin to destination.

Derivatives

NS does not engage in the trading of derivatives. NS has entered into a limited number of derivative agreements to hedge interest rate exposures on certain components of its debt portfolio. All of these derivative instruments are designated as hedges, have high correlation

with the underlying exposure and are highly effective in offsetting underlying price movements. Accordingly, payments made or received under interest rate swap agreements are recorded in the income statement with the corresponding interest expense. Payments made to hedge interest rate exposure related to the anticipated issuance of debt were deferred as a reduction of the debt proceeds and are being amortized to interest expense over the life of the underlying debt.

Required Accounting Changes

Effective Jan. 1, 1999, NS adopted AICPA Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Adoption of this pronouncement had no material effect on NS' consolidated financial statements.

Reclassifications

Certain amounts in the financial statements and notes thereto have been reclassified to conform to the 1999 presentation.

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Item 8. Financial Statements and Supplementary Data. (continued)

2. INVESTMENT IN CONRAIL AND OPERATIONS OVER ITS LINES

Overview

NS and CSX Corporation (CSX) jointly own Conrail Inc. (Conrail), whose primary subsidiary is Consolidated Rail Corporation (CRC), the major railroad in the Northeast. From May 23, 1997, the date NS and CSX completed their acquisition of Conrail stock, until June 1, 1999, Conrail's operations continued substantially unchanged while NS and CSX awaited regulatory approvals and prepared for the integration of the respective Conrail routes and assets to be leased to their railroad subsidiaries, NSR and CSX Transportation, Inc. (CSXT). From time to time, NS and CSX, as the indirect owners of Conrail, may need to make capital contributions, loans or advances to Conrail.

Commencement of Operations

On June 1, 1999 (the "Closing Date"), NSR and CSXT began operating as parts of their rail systems the separate Conrail routes and assets leased to them pursuant to operating and lease agreements.

The Operating Agreement between NSR and Pennsylvania Lines LLC (PRR), a wholly owned subsidiary of CRC, governs substantially all nonequipment assets to be operated by NSR and has an initial 25-year term, renewable at the option of NSR for two five-year terms. Payments under the Operating Agreement are subject to adjustment every six years to reflect changes in values. NSR also has leased or subleased for varying terms from PRR a number of equipment assets. Costs necessary to operate and maintain the PRR assets, including leasehold improvements, are borne by NSR. CSXT has entered into comparable arrangements, for the operation and use of certain other CRC routes and assets, with another wholly owned CRC subsidiary.

NSR and CSXT also have entered into agreements with CRC governing other Conrail properties that continue to be owned and operated by Conrail (the "Shared Assets Areas"). NSR and CSXT pay CRC a fee for joint and exclusive access to the Shared Assets Areas. In addition, NSR and CSXT pay, based on usage, the costs incurred by CRC to operate the Shared Assets Areas.

Future minimum lease payments due to PRR under the Operating

Agreement and lease agreements and to CRC under the Shared Assets Areas (SAA) agreements are as follows:

(\$ in millions)	PRR Oper. Agmt.	PRR Lease Agmts.	SAA Agmts.
-----	-----	-----	-----
2000	\$ 166	\$ 154	\$ 22
2001	178	129	24
2002	196	122	27
2003	217	110	30
2004	238	92	32
2005 and subsequent years	5,022	367	687
	-----	-----	-----
Total	\$6,017	\$ 974	\$ 822
	=====	=====	=====

Operating lease expense related to the agreements, which is included in "Conrail rents and services," amounted to \$273 million in 1999.

On the Closing Date, both NS' railroad route miles and its railroad employees increased by approximately 50 percent. NSR and CSXT now provide substantially all rail freight services on Conrail's route system, perform or are responsible for performing most services incident to customer freight contracts and employ the majority of Conrail's former work force. Consequently, NSR began to receive all freight revenues and incur all expenses on the PRR lines.

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Item 8. Financial Statements and Supplementary Data. (continued)

2. INVESTMENT IN CONRAIL AND OPERATIONS OVER ITS LINES (continued)

Since June 1, 1999, difficulties in integrating the PRR routes and assets have affected adversely both NSR's revenues and expenses. These higher expenses included the cost of a special incentive program available to unionized employees for much of the third quarter, higher labor costs and equipment rents and service alteration costs to meet the needs of shippers. A long-term failure by NSR to integrate successfully these PRR properties could have a substantial adverse impact on NS' financial position, results of operations and liquidity.

Investment in Conrail

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."

On the effective date of the STB decision approving the Conrail transaction, NS' 58% investment in Conrail exceeded Conrail's net equity by \$4.1 billion. This excess has been allocated to the fair values of Conrail's assets and liabilities, using the principles of purchase accounting, as follows:

(\$ in millions)

Property, equipment and investments in railroads \$ 6,708

Other assets, principally pension and other employee benefit plans and trusts	224
Debt revaluation and other liabilities	(209)
Deferred taxes	(2,585)

Total	\$ 4,138
	=====

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 remaining useful lives of Conrail's property and equipment, including the related deferred tax effect of the differences in tax and accounting bases for certain assets. At Dec. 31, 1999, the difference between NS' investment in Conrail and its share of Conrail's underlying net equity was \$3.9 billion.

NS' investment in Conrail includes \$187 million (\$115 million after taxes) of costs that will be paid by NSR. These costs consist principally of: (1) contractual obligations to Conrail employees imposed by the STB when it approved the transaction and (2) costs to relocate Conrail employees. Most of these costs are expected to be paid in the two years following the Closing Date; \$52 million is classified on NS' balance sheet as "Current liabilities." However, certain contractual obligations by their terms will be paid out over a longer period and are classified as "Other liabilities" on NS' balance sheet. Through Dec. 31, 1999, NS has paid \$33 million of these costs.

Had NS acquired its investment in Conrail on Jan. 1, 1997, NS' net income and diluted earnings per share for the year ended Dec. 31, 1997, would have been \$671 million and \$1.77, respectively. These pro forma results reflect only the application of the equity method of accounting and the specific financing costs of the transaction. They do not reflect revenues from or costs of operating PRR's assets nor do they include integration costs.

Effective June 1, 1999, NS' consolidated financial statements include the consolidated financial position and results of Triple Crown Services Company (TCS), a partnership in which subsidiaries of NS and PRR are partners. As a result, NS' total assets increased by approximately \$140 million (including \$121 million of properties, mostly RoadRailer (RT) equipment), and NS' total liabilities increased by approximately \$130 million (including \$109 million of long-term debt).

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Item 8. Financial Statements and Supplementary Data. (continued)

2. INVESTMENT IN CONRAIL AND OPERATIONS OVER ITS LINES (continued)

Related-Party Transactions

Until the Closing Date, NSR and CRC had transactions with each other in the customary course of handling interline traffic. As of Dec. 31, 1999, most of the amounts receivable or payable related to these transactions have been satisfied.

NS provides certain general and administrative support functions to Conrail, the fees for which are billed in accordance with several service-provider arrangements.

"Conrail rents and services," a new line on the income statements beginning June 1, 1999, includes: (1) expenses for amounts due to PRR and CRC for use by NSR of operating properties and equipment, operation of the Shared Assets Areas and continued operation of certain facilities during a transition period; and (2) NS' equity in the earnings (or loss) of Conrail, net of amortization.

"Due from Conrail" includes \$39 million for vacation liability

related to the portion of CRC's work force that became NS employees on the Closing Date. NS increased its vacation liability accordingly, and will pay these employees as they take vacation.

"Notes and accounts payable to Conrail" includes \$123 million of interest-bearing loans made to NS by a PRR subsidiary, payable on demand. The interest rate for these loans is variable and was 5.6% at Dec. 31, 1999. Also included is \$61 million due to PRR and CRC related to expenses included in "Conrail rents and services," as discussed above.

Summary Financial Information - Conrail

The following summary financial information should be read in conjunction with Conrail's audited financial statements, included as Exhibit 99 with this Annual Report on Form 10-K.

Conrail's results of operations include freight line-haul revenues and related expenses through May 31, 1999, but reflect its new structure and operations since June. Conrail's major sources of operating revenues are now from NSR and CSXT. The composition of Conrail's operating expenses also has changed.

Summarized Consolidated Statements of Income - Conrail

(\$ in millions)	1999	1998	1997
Operating revenues	\$2,174	\$3,863	\$3,765
Operating expenses	2,046	3,348	3,443
Operating income	128	515	322
Other - net	(83)	(81)	(87)
Income before income taxes	45	434	235
Provision for income taxes	19	167	228
Net income	\$ 26	\$ 267	\$ 7

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Item 8. Financial Statements and Supplementary Data. (continued)

2. INVESTMENT IN CONRAIL AND OPERATIONS OVER ITS LINES (continued)

Note: Conrail's results in 1999 included after-tax expenses of \$121 million, principally: (1) to increase certain components of its casualty reserves based on an actuarial valuation, (2) to adjust certain litigation and environmental reserves related to settlements and completion of site reviews and (3) to adjust a credit related to the assumption of a lease obligation by CSX. Conrail's results in 1998 included a \$187 million after-tax charge, primarily for estimated severance obligations to nonunion employees. Conrail's results in 1997 included a \$221 million (no related tax effect) charge in conjunction with the termination of the Conrail ESOP and a \$142 million after-tax charge for transaction-related stock compensation costs and change-in-control benefits. These items were considered in the allocation of NS' investment in Conrail to the fair values of Conrail's assets and liabilities and, accordingly, were excluded in determining NS' equity in Conrail's net income.

Summarized Consolidated Balance Sheets - Conrail

(\$ in millions)	December 31,	
	1999	1998
-----	----	----
Assets:		
Current assets	\$ 669	\$1,005
Noncurrent assets	7,714	8,039
	-----	-----
Total assets	\$8,383	\$9,044
	=====	=====
Liabilities and		
stockholders' equity:		
Current liabilities	\$ 863	\$1,207
Noncurrent liabilities	3,701	4,037
Stockholders' equity	3,819	3,800
	-----	-----
Total liabilities and		
stockholders' equity	\$8,383	\$9,044
	=====	=====

3. OTHER INCOME - NET

(\$ in millions)	1999		
	1999	1998	1997
-----	----	----	----
Gains from sale of properties			
and investments	\$ 62	\$ 51	\$ 56
Royalties from coal	59	57	58
Rental income	34	26	22
Interest income	8	12	30
Gain from partial redemption			
of partnership interest	--	--	7
Other interest expense	(30)	(21)	(27)
Nonoperating depletion			
and depreciation	(14)	(13)	(11)
Taxes on nonoperating property	(7)	(4)	(5)
Corporate-owned			
life insurance - net	(3)	11	7
Other - net	6	(4)	(7)
	-----	-----	-----
Total	\$ 115	\$ 115	\$ 130
	=====	=====	=====

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Item 8. Financial Statements and Supplementary Data. (continued)

4. INCOME TAXES

Provision for Income Taxes

(\$ in millions)	1999	1998	1997
-----	----	----	----
Current:			
Federal	\$ 18	\$ 89	\$ 197
State	9	12	27
	-----	-----	-----
Total current taxes	27	101	224
Deferred:			
Federal	78	100	78
State	7	14	(3)
	-----	-----	-----
Total deferred taxes	85	114	75
	-----	-----	-----
Provision for income taxes	\$ 112	\$ 215	\$ 299
	=====	=====	=====

Reconciliation of Statutory Rate to Effective Rate

Total income taxes as reflected in the Consolidated Statements of Income differ from the amounts computed by applying the statutory federal corporate tax rate as follows:

(\$ in millions)	1999		1998		1997	
-----	Amount	%	Amount	%	Amount	%
	-----	--	-----	--	-----	--
Federal income tax at statutory rate	\$ 123	35	\$ 296	35	\$ 349	35
State income taxes, net of federal tax benefit	10	3	17	2	16	2
Equity in earnings of Conrail	(6)	(2)	(68)	(8)	(41)	(4)
Corporate-owned life insurance	1	--	(11)	(1)	(10)	(1)
Other - net	(16)	(4)	(19)	(3)	(15)	(2)
	-----	---	-----	---	-----	---
Provision for income taxes	\$ 112	32	\$ 215	25	\$ 299	30
	=====	==	=====	==	=====	==

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Item 8. Financial Statements and Supplementary Data. (continued)

4. INCOME TAXES (continued)

Deferred Tax Assets and Liabilities

Certain items are reported in different periods for financial reporting and income tax purposes. Deferred tax assets and liabilities were 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:

(\$ in millions)	December 31,	
	1999	1998
-----	----	----
Deferred tax assets:		
Reserves, including casualty and other claims	\$ 168	\$ 157
Employee benefits	111	209
Retiree health and death benefit obligation	127	127
Taxes, including state and property	174	173
Other	42	41
	-----	-----
Total gross deferred tax assets	622	707
Less valuation allowance	(9)	(3)
	-----	-----
Net deferred tax assets	613	704
	-----	-----
Deferred tax liabilities:		
Property	(3,093)	(3,023)
Other	(73)	(85)
	-----	-----
Total gross deferred tax liabilities	(3,166)	(3,108)
	-----	-----
Net deferred tax liability	(2,553)	(2,404)
Net current deferred tax assets	134	141
	-----	-----
Net long-term deferred tax liability	\$ (2,687)	\$ (2,545)
	=====	=====

Except for amounts for which a valuation allowance has been provided, Management believes the other deferred tax assets will be realized. The total valuation allowance increased \$6 million in 1999 and \$1 million in 1998.

Internal Revenue Service (IRS) Reviews

Consolidated federal income tax returns have been examined and Revenue Agent Reports have been received for all years up to and including 1994. The consolidated federal income tax returns for 1995 and 1996 are being audited by the IRS. Management believes that adequate provision has been made for any additional taxes and interest thereon that might arise as a result of IRS examinations.

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Item 8. Financial Statements and Supplementary Data. (continued)

5. PROPERTIES

(\$ in millions)	December 31,		Depreciation Rate for 1999
	1999	1998	

-----	----	----	-----
Railway property:			
Road	\$ 9,681	\$ 9,267	2.8%
Equipment	5,577	5,157	4.2%
Other property	627	639	3.4%
	-----	-----	
	15,885	15,063	
Less: Accumulated depreciation	4,929	4,586	
	-----	-----	
Net properties	\$10,956	\$10,477	
	=====	=====	

Equipment includes \$593 million at Dec. 31, 1999 and 1998, of assets recorded pursuant to capital leases.

Capitalized Interest

Total interest cost incurred on debt in 1999, 1998 and 1997 was \$546 million, \$537 million and \$402 million, respectively, of which \$15 million, \$21 million and \$17 million was capitalized.

6. CURRENT LIABILITIES

(\$ in millions)	December 31,	
	1999	1998
-----	----	----
Accounts payable:		
Accounts and wages payable	\$ 354	\$ 283
Casualty and other claims	181	144
Equipment rents payable - net	135	72
Vacation liability	124	81
Other	24	20
	-----	-----
Total	\$ 818	\$ 600
	=====	=====
Other current liabilities:		
Interest payable	\$ 123	\$ 91
Accrued Conrail-related costs		
(Note 2)	56	67
Liabilities for forwarded traffic	37	27
Retiree health and death benefit obligation (Note 10)	24	24
Other	16	16
	-----	-----
Total	\$ 256	\$ 225
	=====	=====

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Item 8. Financial Statements and Supplementary Data. (continued)

7. DEBT

Shelf Registration

In November 1998, NS filed with the Securities and Exchange Commission a shelf registration statement on Form S-3 covering the

issuance of up to \$1 billion of securities. In April 1999, NS issued \$400 million of 6.2% 10-year term Senior Notes under this registration.

Long-Term Debt

(\$ in millions)	December 31,	
	1999	1998
-----	----	----
Commercial paper at an average rate of 6.4%	\$ 1,722	\$ 1,889
Notes at average rates and maturities as follows:		
6.85%, maturing 2000 to 2002	1,100	1,100
7.14%, maturing 2004 to 2009	1,600	1,200
8.10%, maturing 2017 to 2021	800	800
7.80%, maturing 2027	800	800
7.05%, maturing 2037	750	750
7.90%, maturing 2097	350	350
Railroad equipment obligations at an average rate of 6.8%, maturing to 2014	548	379
Capitalized leases at an average rate of 6.3%, maturing to 2015	382	349
Other debt at an average rate of 5.4%, maturing to 2015	35	35
Discounts and premiums, net	(28)	(28)
	-----	-----
Total long-term debt	8,059	7,624
Current maturities	(503)	(141)
	-----	-----
Long-term debt less current maturities	\$ 7,556	\$ 7,483
	=====	=====
Long-term debt matures as follows:		
2001	\$ 297	
2002	593	
2003	92	
2004	335	
2005 and subsequent years	6,239	

Total	\$ 7,556	
	=====	

Each holder of a 2037 note may require NS to redeem all or part of the note at face value, plus accrued and unpaid interest, on May 1, 2004.

The railroad equipment obligations and the capitalized leases are secured by liens on the underlying equipment.

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Item 8. Financial Statements and Supplementary Data. (continued)

7. DEBT (continued)

Commercial Paper

Commercial paper debt is due within one year, but has been classified as long-term because NS has the ability through a \$2.8 billion credit agreement to convert this obligation into longer-term debt. The credit agreement expires in 2002 and provides for interest on borrowings at prevailing rates. NS intends to refinance the commercial paper either by issuing additional commercial paper or by replacing commercial paper notes with long-term debt.

Capital Lease Obligations

During 1998 and 1997, NSR entered into capital leases covering new locomotives. The related capital lease obligations, totaling \$127 million in 1998 and \$64 million in 1997, were reflected in the Consolidated Balance Sheets as debt and, because they were noncash transactions, were excluded from the Consolidated Statements of Cash Flows.

These and certain other lease obligations carry an average stated interest rate of 7.1%, but were effectively converted to variable rate obligations using interest rate swap agreements. The interest rates on the swap obligations are based on the six-month London Interbank Offered Rate and are reset every six months with changes in interest rates accounted for as an adjustment of interest expense over the terms of the leases. As of Dec. 31, 1999, the notional amount of the swap agreements was \$281 million, and the average interest rate was 6.3%. As a result, NS is exposed to the market risk associated with fluctuations in interest rates. To date, the effects of the rate fluctuations have been favorable and not material. Counterparties to the interest rate swap agreements are major financial institutions believed by Management to be creditworthy.

Debt Covenants

NS is subject to various financial covenants with respect to its debt and under its credit agreement, including a minimum net worth requirement, a maximum leverage ratio restriction and certain restrictions on issuance of further debt. At Dec. 31, 1999, NS was in compliance with all debt covenants.

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 PRR under the Operating Agreement and lease agreements or to CRC under the SAA agreements (see Note 2). Future minimum lease payments other than to PRR and CRC are as follows:

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Item 8. Financial Statements and Supplementary Data. (continued)

8. LEASE COMMITMENTS (continued)

(\$ in millions)	Operating Leases	Capital Leases
-----	-----	-----
2000	\$ 97	\$ 47
2001	75	47
2002	62	47

2003	59	46
2004	50	46
2005 and subsequent years	555	245
	-----	-----
Total	\$ 898	478
	=====	

Less imputed interest on capital
leases at an average rate of 7.1% 96

Present value of minimum
lease payments included
in debt \$ 382
=====

Operating Lease Expense

(\$ in millions)	1999	1998	1997
-----	----	----	----
Minimum rents	\$ 118	\$ 75	\$ 68
Contingent rents	61	40	43
	-----	-----	-----
Total	\$ 179	\$ 115	\$ 111
	=====	=====	=====

9. OTHER LIABILITIES

	December 31,	
(\$ in millions)	1999	1998
-----	----	----
Casualty and other claims	\$ 275	\$ 271
Retiree health and death benefit obligation (Note 10)	261	268
Accrued Conrail-related costs (Note 2)	102	100
Net pension obligations (Note 10)	74	72
Other	389	354
	-----	-----
Total	\$ 1,101	\$ 1,065
	=====	=====

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Item 8. Financial Statements and Supplementary Data. (continued)

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.

(\$ in millions) -----	Pension Benefits		Other Benefits	
	1999 ----	1998 ----	1999 ----	1998 ----
CHANGE IN BENEFIT OBLIGATIONS				
Benefit obligation at beginning of year	\$ 1,063	\$ 956	\$ 362	\$ 360
Increase related to former Conrail employees	68	--	--	--
Service cost	17	13	11	10
Interest cost	73	67	23	24
Amendment	--	40	--	--
Actuarial (gains) losses	(92)	61	(33)	(9)
Benefits paid	(71)	(74)	(23)	(23)
	-----	-----	-----	-----
Benefit obligation at end of year	1,058	1,063	340	362
	-----	-----	-----	-----
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	1,544	1,360	139	111
Transfer of assets from Conrail plan	352	--	--	--
Actual return on plan assets	250	253	21	28
Employer contribution	4	5	15	23
401(h) account transfer	(7)	--	--	--
Benefits paid	(71)	(74)	(23)	(23)
	-----	-----	-----	-----
Fair value of plan assets at end of year	2,072	1,544	152	139
	-----	-----	-----	-----
Funded status	1,014	481	(188)	(223)
Unrecognized initial net asset				
	(10)	(16)	--	--
Unrecognized (gain) loss				
	(799)	(517)	(97)	(57)
Unrecognized prior service cost (benefit)				
	40	44	--	(12)
	-----	-----	-----	-----
Net amount recognized	\$ 245	\$ (8)	\$ (285)	\$ (292)
	=====	=====	=====	=====
Amounts recognized in the Consolidated Balance Sheets consist of:				
Prepaid benefit cost	\$ 298	\$ 41	\$ --	\$ --
Accrued benefit liability	(74)	(72)	(285)	(292)
Accumulated other comprehensive income	21	23	--	--
	-----	-----	-----	-----
Net amount recognized	\$ 245	\$ (8)	\$ (285)	\$ (292)
	=====	=====	=====	=====

Item 8. Financial Statements and Supplementary Data. (continued)

10. PENSIONS AND OTHER POSTRETIREMENT BENEFITS (continued)

Of the pension plans included above, the nonqualified pension plans were the only plans with an accumulated benefit obligation in excess of plan assets. These plans' accumulated benefit obligations were \$74 million at Dec. 31, 1999, and \$72 million at Dec. 31, 1998. These plans' projected benefit obligations were \$76 million at Dec. 31, 1999, and \$77 million at Dec. 31, 1998. Because of the nature of such plans, there are no plan assets.

During 1999, a Section 401(h) account transfer of \$7 million was made, transferring a portion of pension assets to fund 1999 medical payments for retirees.

As a result of the commencement of operations over Conrail's lines (see Note 2), NS hired a substantial portion of Conrail's former work force. In August 1999, NS assumed certain pension obligations related to those employees. These obligations, along with pension plan assets in excess of the obligations, were transferred to the NS plans in 1999. This transfer resulted in an increase to NS' pension plan asset and a corresponding decrease to NS' investment in Conrail.

NS has amended its qualified pension plan to conform certain provisions of its plan with the Conrail plan and to provide prior service credit to Conrail employees for benefits under the NS plan. The amendment, as it relates to NS employees, increased the pension benefit obligation at Dec. 31, 1998, by \$40 million.

In January 2000, NS announced a voluntary early retirement program that included enhancements to pension benefits for eligible nonunion employees. Approximately 1,180 employees, or 20% of NS' nonunion work force, were eligible for the program. Benefits will be paid out of NS' over-funded pension plan.

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. During 1999, NS received assets from the Conrail pension plan and assumed certain related liabilities. As a result, the measurement dates for determining pension costs were Jan. 1, 1999, and Aug. 31, 1999, and reflect discount rates of 6.75% and 7.75%, respectively, and other assumptions appropriate at those dates. A summary of the major assumptions follows:

	1999 ----	1998 ----	1997 ----
Funded status:			
Discount rate	7.75%	6.75%	7.25%
Future salary increases	5%	5%	5.25%
Pension cost:			
Discount rate	6.75%	7.25%	7.75%
Return on assets in plans	10%	9%	9%
Future salary increases	5%	5.25%	5.25%

10. PENSIONS AND OTHER POSTRETIREMENT BENEFITS (continued)

Pension and Other Postretirement Benefit Costs Components

(\$ in millions)	1999	1998	1997
-----	----	----	----
PENSION BENEFITS			
Service cost	\$ 17	\$ 13	\$ 11
Interest cost	73	67	66
Expected return on plan assets	(152)	(106)	(90)
Amortization of prior service cost	4	1	1
Amortization of initial net asset	(7)	(7)	(6)
Recognized net actuarial (gain) loss	(22)	(12)	(7)
	-----	-----	-----
Net cost (benefit)	\$ (87)	\$ (44)	\$ (25)
	=====	=====	=====
OTHER POSTRETIREMENT BENEFITS			
Service cost	\$ 11	\$ 10	\$ 9
Interest cost	23	24	25
Expected return on plan assets	(12)	(9)	(7)
Amortization of prior service cost	(12)	(12)	(12)
Recognized net actuarial (gain) loss	(2)	(2)	--
	-----	-----	-----
Net cost	\$ 8	\$ 11	\$ 15
	=====	=====	=====

For measurement purposes, increases in the per capita cost of covered health care benefits were assumed to be 7.5% for 2000 and 8.0% for 1999. The rate was assumed to decrease gradually to an ultimate rate of 5.0% for 2003 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 assumed health care cost trend would have the following effects:

(\$ in millions)	One percentage point	
-----	Increase	Decrease
	-----	-----
Increase (decrease) in:		
Total service and interest cost components	\$ 4	\$ (3)
Postretirement benefit obligation	\$ 28	\$ (24)

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 agreement employees. Premiums under this plan are expensed as incurred and amounted to \$5 million in 1999, \$5 million in 1998 and \$4 million in 1997.

Item 8. Financial Statements and Supplementary Data. (continued)

10. PENSIONS AND OTHER POSTRETIREMENT BENEFITS (continued)

401(k) Plans

Norfolk Southern and certain subsidiaries provide 401(k) savings plans for employees. Under the plans, NS matches a portion of employee contributions, subject to applicable limitations. In 1999, NS issued shares of Common Stock to fund its contributions. NS' expenses under these plans were \$12 million in 1999, \$10 million in 1998 and \$9 million in 1997.

In November 1999, NS issued and contributed to eligible participants' accounts approximately 2 million shares of Norfolk Southern common stock in connection with a temporary special work incentive program available to its unionized employees during much of the third quarter. The cost of the program, which was charged to compensation and benefits expenses, was \$49 million.

11. STOCK-BASED COMPENSATION

Under the stockholder-approved Long-Term Incentive Plan (LTIP), a committee of nonemployee directors of the Board may grant stock options, stock appreciation rights (SARs), restricted stock and performance share units (PSUs), up to a maximum 53,025,000 shares of Norfolk Southern common stock ("Common Stock"). 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. Options may be granted for a term not to exceed 10 years, but may not be exercised prior to the first anniversary of the date of grant. Options are exercisable at the fair market value of Common Stock on the date of grant.

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 or PSUs in an amount commensurate with dividends paid on Common Stock. Tax absorption payments also are authorized, in amounts estimated to equal the federal and state income taxes applicable to shares of Common Stock issued subject to a share retention agreement.

Accounting Method

NS applies APB Opinion 25 and related interpretations in accounting for awards made under the plans. Accordingly, PSUs, restricted stock, dividend equivalents, tax absorption payments and SARs result in charges to net income, while stock options have no effect on net income. Related compensation costs were \$2 million in 1999, \$25 million in 1998 and \$29 million in 1997. Had such compensation costs been determined in accordance with SFAS 123, net income would have been \$210 million in 1999, \$718 million in 1998 and \$714 million in 1997; basic earnings per share would have been \$0.55 in 1999, \$1.90 in 1998 and \$1.90 in 1997; and diluted earnings per share would have been \$0.55 in 1999, \$1.89 in 1998 and \$1.89 in 1997. These pro forma amounts include compensation costs as calculated using the Black-Scholes option-pricing model with average expected option lives of four years for 1999 grants and five years for grants made in 1998 and 1997; average risk-free interest rates of 5.2% in 1999, 5.5% in 1998 and 6.3% in 1997; average stock-price volatilities of 21% in 1999, 15% in 1998 and 16% in 1997; and dividend yields ranging from 0% to 3%.

Item 8. Financial Statements and Supplementary Data. (continued)

11. STOCK-BASED COMPENSATION (continued)

Stock Option Activity

	Option Shares	Weighted Average Exercise Price
	-----	-----
Balance 12/31/96	10,884,537	\$ 20.38
Granted	1,986,000	29.46
Exercised	(1,477,226)	17.62
Surrendered for SAR	(6,393)	7.42
Canceled	(13,500)	29.46

Balance 12/31/97	11,373,418	22.32
Granted	3,625,000	32.16
Exercised	(1,908,370)	19.22
Canceled	(31,000)	29.46

Balance 12/31/98	13,059,048	25.48
Granted	9,150,400	30.09
Exercised	(859,085)	17.10
Canceled	(234,000)	29.84

Balance 12/31/99	21,116,363	\$ 27.77
	=====	

Except for those granted during 1999, all outstanding options were exercisable on Dec. 31, 1999. The difference between the weighted average exercise prices for all outstanding options and those exercisable on Dec. 31, 1999, was not significant.

Stock Options Outstanding

Exercise Price		Number Outstanding at 12/31/99	Weighted Average Remaining Contractual Life
Range	Weighted Average		
-----	-----	-----	-----
\$12.56 to \$14.25	\$14.12	619,163	1.0 years
18.81 to 21.08	20.44	3,170,450	3.7 years
24.31 to 27.69	26.78	8,123,100	7.6 years
29.46 to 33.25	32.10	9,203,650	8.3 years

\$12.56 to \$33.25	\$27.77	21,116,363	7.1 years
		=====	

Performance Share Units

PSUs provide for awards based upon achievement of certain predetermined corporate performance goals at the end of a three-year cycle. PSU grants and average grant-date fair market values were 850,000 and \$27.72 in 1999; 565,500 and \$32.16 in 1998; and 529,500 and \$29.46 in 1997, respectively. PSUs may be paid in the form of

shares of Common Stock, cash or a combination. Shares earned and issued may be subject to share retention agreements and held by NS for up to five years.

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Item 8. Financial Statements and Supplementary Data. (continued)

11. STOCK-BASED COMPENSATION (continued)

Shares Available and Issued

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

	1999	1998	1997
	----	----	----
Available for future grants 12/31:			
LTIP	10,512,997	16,233,600	19,928,853
TSOP	2,349,600	--	--
Shares of Common Stock issued:			
LTIP	1,086,288	2,212,323	1,933,703
TSOP	--	--	--

12. STOCKHOLDERS' EQUITY

Accumulated Other Comprehensive Income

"Accumulated other comprehensive income" reported in "Stockholders' equity" included unrealized gains on securities, net of taxes, of \$2 million at Dec. 31, 1999, and \$6 million at Dec. 31, 1998, and minimum pension liability of \$13 million at Dec. 31, 1999, and \$14 million at Dec. 31, 1998. "Other comprehensive income" reported in the Consolidated Statements of Changes in Stockholders' Equity consisted of the following:

(\$ in millions)	1999	1998	1997
-----	----	----	----
Unrealized gains on securities	\$ (6)	\$ 1	\$ 4
Minimum pension liability	2	(23)	--
Income taxes	1	9	(2)
	-----	-----	-----
Other comprehensive income	\$ (3)	\$ (13)	\$ 2
	=====	=====	=====

"Unrealized gains on securities" included reclassification adjustments for gains realized in income from the sale of the securities of less than \$1 million in each year.

Undistributed Earnings of Equity Investees

"Retained income" includes undistributed earnings of equity

investees, principally attributable to NS' equity in the earnings of Conrail, of \$330 million at Dec. 31, 1999, \$314 million at Dec. 31, 1998, and \$120 million at Dec. 31, 1997.

Stock Split

On July 22, 1997, the Board of Directors approved an amendment of the Articles of Incorporation increasing the number of authorized shares of Common Stock from 450 million to 1,350 million in connection with a three-for-one split to stockholders of record on Sept. 5, 1997. This stock split, with no change in the par value of \$1 per share, resulted in the issuance of approximately 266 million additional shares of Common Stock. All share and per share amounts in this report have been restated to reflect the split.

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Item 8. Financial Statements and Supplementary Data. (continued)

13. EARNINGS PER SHARE

The following table sets forth the calculation of basic and diluted earnings per share:

(\$ in millions except per share, shares in millions)	1999	1998	1997
Basic earnings per share:			
Income available to common stockholders for basic and diluted computations	\$ 239	\$ 734	\$ 721
Weighted-average shares outstanding	381	379	377
Basic earnings per share	\$ 0.63	\$ 1.94	\$ 1.91
Diluted earnings per share:			
Weighted-average shares outstanding per above	381	379	377
Dilutive effect of outstanding options, PSUs and SARs (as determined by the application of the treasury stock method)	1	2	3
Adjusted weighted-average shares outstanding	382	381	380
Diluted earnings per share	\$ 0.63	\$ 1.93	\$ 1.90

These calculations exclude options the exercise price of which

exceeded the average market price of Common Stock as follows: in 1999, 17 million in the fourth quarter, 9 million in the third quarter, 7 million in the second quarter and 5 million in the first quarter; and in 1998, 4 million in the fourth and third quarters.

There are no adjustments to "Net income" or "Income from continuing operations" for the diluted earnings per share computations.

14. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of "Cash and cash equivalents," "Short-term investments," "Accounts receivable," "Short-term debt" 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 investments accounted for under the equity method in accordance with APB Opinion No. 18, consisted of the following at December 31:

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Item 8. Financial Statements and Supplementary Data. (continued)

14. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(\$ in millions)	1999		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments	\$ 49	\$ 54	\$ 100	\$ 105
Long-term debt	(8,058)	(7,980)	(7,624)	(8,182)
Interest rate swaps	--	4	--	20

Quoted market prices were used to determine the fair value of marketable securities; underlying net assets were used to estimate the fair value of other investments. 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. The fair value of interest rate swaps were estimated based on discounted cash flows, reflecting the difference between estimated future variable-rate payments and future fixed-rate receipts.

Carrying amounts of marketable securities reflect unrealized holding gains of \$3 million on Dec. 31, 1999, and \$9 million on Dec. 31, 1998. Sales of "available-for-sale" securities were immaterial for years ended Dec. 31, 1999 and 1998.

15. DISCONTINUED OPERATIONS - MOTOR CARRIER

On March 28, 1998, NS sold all the common stock of North American Van Lines, Inc. (NAVL), its motor carrier subsidiary. Total proceeds from the sale were \$207 million, resulting in a \$90 million pretax gain (\$105 million, or 28 cents per basic and diluted share, after taxes). The higher after-tax gain was the result of differences between book and tax bases and the realization of deferred tax

benefits.

NAVL's results of operations, financial position and cash flows are presented as "Discontinued operations" in the accompanying financial statements. A summary of NAVL's results of operations follows:

(\$ in millions) -----	1998 ----	1997 ----
Motor carrier revenues	\$ 207	\$ 942
Motor carrier expenses	208	907
Provision for income taxes	--	13
	-----	-----
Income (loss) from operations	(1)	22
Gain on sale, net of taxes	105	--
	-----	-----
Income from discontinued operations	\$ 104	\$ 22
	-----	-----
Earnings per share (basic and diluted) from discontinued operations	\$ 0.28 =====	\$ 0.06 =====

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Item 8. Financial Statements and Supplementary Data. (continued)

16. COMMITMENTS AND CONTINGENCIES

Lawsuits

Norfolk Southern and certain subsidiaries are defendants in numerous lawsuits relating principally to railroad operations. While the final outcome of these lawsuits cannot be predicted with certainty, it is the opinion of Management, based on known facts and circumstances, that the amount of NS' ultimate liability is unlikely to have a material adverse effect on NS' financial position, results of operations or liquidity.

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 in the balance sheet and are not netted against the associated NS liability. Environmental engineers regularly participate in ongoing evaluations of all identified sites and in determining any necessary adjustments to initial liability estimates. NS also has established an Environmental Policy Council, composed of senior managers, to oversee and interpret its environmental policy.

As of Dec. 31, 1999, NS' balance sheet included a reserve for environmental exposures in the amount of \$41 million (of which \$8 million is accounted for as a current liability), which is NS' estimate of the probable cleanup and remediation costs based on available information at 126 identified locations. On that date, 12 sites accounted for \$20 million of the reserve, 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 some of the 126 locations, certain 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.

The risk of incurring environmental liability -- for acts and omissions, past, present and future -- is inherent in the railroad business. Some of the commodities in NS' traffic mix, particularly those classified as hazardous materials, can pose special risks that NS and its subsidiaries work diligently to minimize. In addition, several NS subsidiaries own, or have owned, land used as operating property, or which is leased or may have been 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 environmentally related 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 other now-unidentified environmental sites and matters are likely to arise from time to time. The resulting liabilities could have a significant effect on financial condition, results of operations or liquidity in a particular year or quarter.

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Item 8. Financial Statements and Supplementary Data. (continued)

16. COMMITMENTS AND CONTINGENCIES (continued)

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

Tax Benefit Leases

In January 1995, the United States Tax Court issued a preliminary decision that disallowed some of the tax benefits a subsidiary of NS purchased from a third party pursuant to a safe harbor lease agreement in 1981. The Tax Court finalized this decision in February 1997, and all avenues of appeal have been exhausted. NS has requested payment and filed suit to collect from the third party in accordance with indemnification provisions of the lease agreement, and Management believes that this receivable will be collected.

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 the Corporation, 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.

Debt Guarantees

As of Dec. 31, 1999, certain Norfolk Southern subsidiaries are contingently liable as guarantors with respect to \$8 million of indebtedness of related entities.

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INDEPENDENT AUDITORS' REPORT

The Stockholders and Board of Directors
Norfolk Southern Corporation:

We have audited the consolidated financial statements of Norfolk Southern Corporation and subsidiaries as listed in the index in Item 8. In connection with our audits of the consolidated financial statements, we have also audited the consolidated financial statement schedule listed in Item 14(a)2. These consolidated financial statements and this consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and this consolidated financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles. Also in our opinion, the related consolidated 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.

/s/ KPMG LLP

Norfolk, Virginia
January 25, 2000

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Item 9. Changes in and Disagreements with Accountants on Accounting

and Financial Disclosure.

None.

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PART III

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES (NS)

Item 10. Directors and Executive Officers of the Registrant.

Item 11. Executive Compensation.

Item 12. Security Ownership of Certain Beneficial Owners and

Management.

and

Item 13. Certain Relationships and Related Transactions.

In accordance with General Instruction G(3), the information called for by Part III is incorporated herein by reference from Norfolk Southern's definitive Proxy Statement, to be dated March 31, 2000, for the Norfolk Southern Annual Meeting of Stockholders to be held on May 11, 2000, which definitive Proxy Statement will be filed electronically with the 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 on Page 18 under "Executive Officers of the Registrant."

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PART IV

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES (NS)

Item 14. Exhibits, Financial Statement Schedule and

Reports on Form 8-K.

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

1.	Index to Consolidated Financial Statements:	Page
	-----	----
	Consolidated Statements of Income	
	Years ended December 31, 1999, 1998 and 1997	50
	Consolidated Balance Sheets	
	As of December 31, 1999 and 1998	51

Consolidated Statements of Cash Flows	
Years ended December 31, 1999, 1998 and 1997	53
Consolidated Statements of Changes in	
Stockholders' Equity	
Years ended December 31, 1999, 1998 and 1997	55
Notes to Consolidated Financial Statements	56
Independent Auditors' Report	78

2. Financial Statement Schedule:

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

Index to Consolidated Financial Statement Schedule	Page
-----	----
Schedule II - Valuation and Qualifying Accounts	90

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.

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Item 14. Exhibits, Financial Statement Schedule and

Reports on Form 8-K. (continued)

3. Exhibits

Exhibit Number	Description
-----	-----
3	Articles of Incorporation and Bylaws -
3(i)	The Restated Articles of Incorporation of Norfolk Southern Corporation are filed herewith.
3(ii)	The Bylaws of Norfolk Southern Corporation, as amended May 13, 1999, are filed herewith.
4	Instruments Defining the Rights of Security Holders, Including Indentures -
	(a) Indentures related to the issuance of notes in the principal amount of \$4.3 billion are incorporated herein by reference from Exhibits 4.1 and 4.2 to Norfolk Southern Corporation's Amendment No. 3 to Form S-3, Registration No. 333-24051, filed on May 12, 1997.
	(b) Indentures related to the issuance of notes in the principal amount of \$400 million are incorporated herein by reference from Exhibits 4.1 and 4.2 to Norfolk Southern Corporation's Form S-3, Registration No. 333-67937, filed on November 25, 1998.

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, is incorporated herein by reference from Exhibit 10 to Norfolk Southern Corporation's Form 8-K filed electronically on June 30, 1997.

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Item 14. Exhibits, Financial Statement Schedule and

Reports on Form 8-K. (continued)

3. Exhibits (continued)

Exhibit
Number

Description

10 Material Contracts (continued) -

- (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 Report for the period ended June 30, 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 Report for the period ended June 30, 1999.
- (d) Operating Agreement, dated as of June 1, 1999, by and between Pennsylvania Lines LLC and Norfolk Southern Railway Company is incorporated herein by reference from Exhibit 10.3 to Norfolk Southern Corporation's Form 10-Q Report for the period ended June 30, 1999.
- (e) 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 Report for the period ended June 30, 1999.

- (f) 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 Report for the period ended June 30, 1999.

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Item 14. Exhibits, Financial Statement Schedule and

Reports on Form 8-K. (continued)

3. Exhibits (continued)

Exhibit
Number

Description

10 Material Contracts (continued) -

- (g) 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 Report for the period ended June 30, 1999.
- (h) 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 Report for the period ended June 30, 1999.
- (i) The Agreement, entered into as of July 27, 1999, between North Carolina Railroad Company and Norfolk Southern Railway Company, is filed herewith.
- (j) 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 (both the Lease and Supplementary Agreement, formerly incorporated by reference with Exhibit 10(b) to Southern's 1987 Annual Report on Form 10-K) - is incorporated herein by reference from Exhibit 10(a) to Norfolk Southern Corporation's 1994 Annual Report on Form 10-K.

Management Compensation Plans

- (k) The Norfolk Southern Corporation Management Incentive Plan, as amended effective January 25, 2000, is filed herewith.

- (1) The Norfolk Southern Corporation Executive Management Incentive Plan, effective January 25, 2000, is filed herewith.

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Item 14. Exhibits, Financial Statement Schedule and

Reports on Form 8-K. (continued)

3. Exhibits (continued)

Exhibit Number	Description
-----	-----
10	Material Contracts (continued) - Management Compensation Plans (continued) -----
(m)	The Norfolk Southern Corporation Long-Term Incentive Plan, as amended effective January 25, 2000, is filed herewith.
(n)	The Norfolk Southern Corporation Officers' Deferred Compensation Plan, as amended effective May 13, 1999, is filed herewith.
(o)	The Directors' Deferred Fee Plan of Norfolk Southern Corporation, as amended effective May 9, 1996, is incorporated herein by reference from Exhibit 10(f) to Norfolk Southern Corporation's Form 10-Q Report for the quarter ended June 30, 1996.
(p)	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 1998 Annual Report on Form 10-K.
(q)	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 and 1998 Annual Meeting of Stockholders) is incorporated herein by reference from Exhibit 10 to Norfolk Southern Corporation's Form 10-Q Report for the quarter ended June 30, 1996.
(r)	Norfolk Southern Corporation Supplemental (formerly, Excess) Benefit Plan, effective as of August 22, 1999, is filed herewith.
(s)	The Norfolk Southern Corporation Directors' Charitable Award Program, effective February 1, 1996, is incorporated herein by reference from Exhibit 10(j) to Norfolk Southern Corporation's Form 10-Q Report for the quarter ended June 30, 1996.

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Item 14. Exhibits, Financial Statement Schedule and

Reports on Form 8-K. (continued)

3. Exhibits (continued)

Exhibit Number	Description
10	Material Contracts (continued) - Management Compensation Plans (continued) ----- (t) The Norfolk Southern Corporation Directors' Pension Plan, as amended effective June 1, 1996, is incorporated herein by reference from Exhibit 10(k) to Norfolk Southern Corporation's Form 10-Q Report for the quarter ended June 30, 1996. (u) The Norfolk Southern Corporation Outside Directors' Deferred Stock Unit Program, as amended on September 23, 1997, is incorporated herein by reference from Exhibit 10(m) to Norfolk Southern Corporation's 1997 Annual Report on Form 10-K. (v) The Excess Long-Term Disability Plan of Norfolk Southern Corporation and Participating Subsidiary Companies, effective October 1, 1995, is incorporated herein by reference from Exhibit 10(m) to Norfolk Southern Corporation's Form 10-Q Report for the quarter ended June 30, 1996. 12 Statement re: Computation of Ratio of Earnings to Fixed Charges. 21 Subsidiaries of the Registrant. 23 Consents of Experts and Counsel - (a) Consent of KPMG LLP. (b) Consent of KPMG LLP and Ernst & Young LLP. (c) Consent of PricewaterhouseCoopers LLP. 27 Financial Data Schedule. 99 Conrail Inc. 1999 Annual Report to Stockholders.

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Item 14. Exhibits, Financial Statement Schedule and

Reports on Form 8-K. (continued)

(B) Reports on Form 8-K.

The Registrant filed no reports on Form 8-K for the three
months ended December 31, 1999.

(C) Exhibits.

The Exhibits required by Item 601 of Regulation S-K as listed in Item 14(a)3 are filed herewith or incorporated herein by reference.

(D) Financial Statement Schedules.

Financial statement schedules and separate financial statements specified by this Item are included in Item 14(a)2 or are otherwise not required or are not applicable.

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POWER OF ATTORNEY

Each person whose signature appears below under "SIGNATURES" hereby authorizes Henry C. Wolf and J. Gary Lane, or either of them, to execute in the name of each such person, and to file, any amendment to this report and hereby appoints Henry C. Wolf and J. Gary Lane, or either of 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 6th day of March, 2000.

NORFOLK SOUTHERN CORPORATION

By /s/ David R. Goode

 (David R. Goode, 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 6th day of March, 2000, by the following persons on behalf of Norfolk Southern Corporation and in the capacities indicated.

Signature -----	Title -----
/s/ David R. Goode ----- (David R. Goode)	Chairman, President and Chief Executive Officer and Director (Principal Executive Officer)
/s/ Henry C. Wolf ----- (Henry C. Wolf)	Vice Chairman and Chief Financial Officer (Principal Financial Officer)

/s/ John P. Rathbone

----- (John P. Rathbone)	Vice President and Controller (Principal Accounting Officer)
-----------------------------	---

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Signature -----	Title -----
 /s/ Gerald L. Baliles ----- (Gerald L. Baliles)	 Director
 /s/ Carroll A. Campbell, Jr. ----- (Carroll A. Campbell, Jr.)	 Director
 /s/ Gene R. Carter ----- (Gene R. Carter)	 Director
 /s/ L. E. Coleman ----- (L. E. Coleman)	 Director
 /s/ Landon Hilliard ----- (Landon Hilliard)	 Director
 /s/ Steven F. Leer ----- (Steven F. Leer)	 Director
 /s/ Arnold B. McKinnon ----- (Arnold B. McKinnon)	 Director
 /s/ Jane Margaret O'Brien ----- (Jane Margaret O'Brien)	 Director
 /s/ Harold W. Pote ----- (Harold W. Pote)	 Director

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Valuation and Qualifying Accounts
Years Ended December 31, 1997, 1998 and 1999
(In millions of dollars)

	Beginning Balance	Additions charged to			Ending Balance
	-----	Expenses	Other Accounts	Deductions	-----
Year ended December 31, 1997					

Valuation allowance (included net in deferred tax liability) for deferred tax assets	\$ 2	\$ --	\$ --	\$ --	\$ 2
Casualty and other claims included in other liabilities	\$ 248	\$ 108	\$ 2 (1)	\$ 105 (2)	\$ 253
Current portion of casualty and other claims included in accounts payable	\$ 166	\$ 14	\$ 170 (1)	\$ 178 (3)	\$ 172
Year ended December 31, 1998					

Valuation allowance (included net in deferred tax liability) for deferred tax assets	\$ 2	\$ 1	\$ --	\$ --	\$ 3
Casualty and other claims included in other liabilities	\$ 253	\$ 86	\$ 22 (1)	\$ 90 (2)	\$ 271
Current portion of casualty and other claims included in accounts payable	\$ 172	\$ 11	\$ 149 (1)	\$ 188 (3)	\$ 144

(1) Includes revenue overcharges provided through charges to operating revenues and transfers from other accounts.

(2) Payments and reclassifications to/from accounts payable.

(3) Payments and reclassifications to/from other liabilities.

Note: Prior year amounts have been conformed with the current year presentation, which excludes valuation and qualifying accounts of discontinued operations.

(continued)

Valuation and Qualifying Accounts
Years Ended December 31, 1997, 1998 and 1999 (continued)
(In millions of dollars)

	Beginning Balance	Additions charged to ----- Expenses Other Deductions ----- Accounts -----			Ending Balance
	-----	-----	-----	-----	-----
Year ended December 31, 1999					

Valuation allowance (included net in deferred tax liability) for deferred tax assets	\$ 3	\$ 6	\$ --	\$ --	\$ 9
Casualty and other claims included in other liabilities	\$ 271	\$ 114	\$ 9 (1)	\$ 119 (2)	\$ 275
Current portion of casualty and other claims included in accounts payable	\$ 144	\$ 19	\$ 191 (1)	\$ 173 (3)	\$ 181

(1) Includes revenue overcharges provided through charges to operating revenues and transfers from other accounts.

(2) Payments and reclassifications to/from accounts payable.

(3) Payments and reclassifications to/from other liabilities.

Note: Prior year amounts have been conformed with the current year presentation, which excludes valuation and qualifying accounts of discontinued operations.

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EXHIBIT INDEX

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES (NS)

Electronic Submission Exhibit Number	Description	Page
-----	-----	-----
3 (i)	The Restated Articles of Incorporation of Norfolk Southern Corporation.	94
3 (ii)	The Bylaws of Norfolk Southern Corporation, as amended May 13, 1999.	103
10 (i)	The Agreement, entered into as of July 27, 1999, between North Carolina Railroad Company and Norfolk Southern Railway Company.	111
10 (k)	The Norfolk Southern Corporation Management Incentive Plan, as amended effective January 25, 2000.	155

10	(l)	The Norfolk Southern Corporation Executive Management Incentive Plan, effective January 25, 2000.	161
10	(m)	The Norfolk Southern Corporation Long-Term Incentive Plan, as amended effective January 25, 2000.	165
10	(n)	The Norfolk Southern Corporation Officers' Deferred Compensation Plan, as amended effective May 13, 1999.	180
10	(r)	Norfolk Southern Corporation Supplemental (formerly, Excess) Benefit Plan, effective as of August 22, 1999.	188
12		Statement re: Computation of Ratio of Earnings to Fixed Charges.	194
21		Subsidiaries of Norfolk Southern Corporation.	195
23		Consent of Experts and Counsel -	
	(a)	Consent of KPMG LLP.	197
	(b)	Consent of KPMG LLP and Ernst & Young LLP.	198
	(c)	Consent of PricewaterhouseCoopers LLP.	199

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EXHIBIT INDEX

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES (NS)

Electronic
Submission
Exhibit

Number	Description	Page
-----	-----	----
27	Financial Data Schedule. (This exhibit is required to be submitted electronically pursuant to the rules and regulations of the Securities and Exchange Commission and shall not be deemed filed for purposes of Section 11 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934.)	200
99	Conrail Inc. 1999 Annual Report to Stockholders.	201

Exhibits 3(i), 3(ii), 10(i), 10(k), 10(l), 10(m), 10(n), 10(r) and 27 are not included in copies assembled for public dissemination.

If you have a need for this type of information,
we will be pleased to send it to you.

Write to:
Office of Corporate Secretary
Norfolk Southern Corporation
Three Commercial Place
Norfolk, Virginia 23510-9219

NORFOLK SOUTHERN CORPORATION

ARTICLES OF RESTATEMENT

The following restatement of the Corporation's Articles of Incorporation, which contains as an amendment not requiring shareholder approval a new Article 111, was adopted by the Corporation's Board of Directors at a meeting held on July 22, 1997.

RESTATED ARTICLES OF INCORPORATION

OF

NORFOLK SOUTHERN CORPORATION

ARTICLE I

The name of the Corporation is NORFOLK SOUTHERN CORPORATION.

ARTICLE II

The purpose for which the Corporation is organized is to transact any lawful business not required to be specifically stated in the Articles of Incorporation.

ARTICLE III

The Corporation shall have authority to issue one billion, three hundred fifty million (1,350,000,000) shares of Common Stock, par value \$1 per share, and twenty-five million (25,000,000) shares of Serial Preferred Stock, without par value.

A. SERIAL PREFERRED STOCK

1. ISSUANCE IN SERIES. The Board of Directors is hereby empowered to cause the Serial Preferred Stock of the Corporation to be issued in series with such of the variations permitted by clauses (a)-(h), both inclusive, of this Section 1 as shall have been fixed and determined by the Board of Directors with respect to any series prior to the issue of any shares of such series.

The shares of the Serial Preferred Stock of different series may vary as to:

(a) the number of shares constituting such series and

the designation of such series, which shall be such as to distinguish the shares thereof from the shares of all other series and classes:

(b) the rate of dividend, the time of payment and, if cumulative, the dates from which dividends shall be cumulative, and the extent of participation rights, if any;

(c) any right to vote with holders of shares of any other series or class and any right to vote as a class, either generally or as a condition to specified corporate action;

(d) the price at and the terms and conditions on which shares may be redeemed;

(e) the amount payable upon shares in event of involuntary liquidation;

(f) the amount payable upon shares in event of voluntary liquidation;

(g) any sinking fund provisions for the redemption or purchase of shares; and

(h) the terms and conditions on which shares may be converted, if the shares of any series are issued with the privilege of conversion.

The shares of all series of Serial Preferred Stock shall be identical except as, within the limitations set forth above in this Section 1, shall have been fixed and determined by the Board of Directors prior to the issuance thereof.

2. DIVIDENDS. The holders of the Serial Preferred Stock of each series shall be entitled to receive, if and when declared payable by the Board of Directors, dividends in lawful money of the United States of America, at the dividend rate for such series, and not exceeding such rate except to the extent of any participation right. Such dividends shall be payable on such dates as shall be fixed for such series. Dividends, if cumulative and in arrears, shall not bear interest.

No dividends shall be declared or paid upon or set apart for the Common Stock or for stock of any other class hereafter created ranking junior to the Serial Preferred Stock in respect of dividends or assets (hereinafter called Junior Stock), and no shares of Serial Preferred Stock, Common Stock or Junior Stock shall be purchased, redeemed or otherwise reacquired for a consideration, nor shall any funds be set aside for or paid to any sinking fund therefor, unless and until (i) full dividends on the outstanding Serial Preferred Stock at the dividend rate or rates therefor, together with the full additional amount required by any participation right, shall have been paid or declared and set apart for payment with respect to all past dividend periods, to the extent that the holders of the Serial Preferred Stock

are entitled to dividends with respect to any past dividend period, and the current dividend period, and (ii) all mandatory sinking fund payments that shall have become due in respect of any series of the Serial Preferred Stock shall have been made. Unless full dividends with respect to all past dividend periods on the outstanding Serial Preferred Stock at the dividend rate or rates therefor, to the extent

that holders of the Serial Preferred Stock are entitled to dividends with respect to any particular past dividend period, together with the full additional amount required by any participation right, shall have been paid or declared and set apart for payment and all mandatory sinking fund payments that shall have become due in respect of any series of the Serial Preferred Stock shall have been made, no distributions shall be made to the holders of the Serial Preferred Stock of any series unless distributions are made to the holders of the Serial Preferred Stock of all series then outstanding in proportion to the aggregate amounts of the deficiencies in payments due to the respective series, and all payments shall be applied, first, to dividends accrued and in arrears, next, to any amount required by any participation right, and, finally, to mandatory sinking fund payments. The terms "current dividend period" and "past dividend period" mean, if two or more series of Serial Preferred Stock having different dividend periods are at the time outstanding, the current dividend period or any past dividend period, as the case may be, with respect to each such series.

3. PREFERENCE ON LIQUIDATION. In the event of any liquidation, dissolution or winding up of the Corporation, the holders of the Serial Preferred Stock of each series shall be entitled to receive, for each share thereof, the fixed liquidation price for such series, plus, in case such liquidation, dissolution or winding up shall have been voluntary, the fixed liquidation premium for such series, if any, together in all cases with a sum equal to all dividends accrued or in arrears thereon and the full additional amount required by any participation right, before any distribution of the assets shall be made to holders of the Common Stock or Junior Stock; but the holders of the Serial Preferred Stock shall be entitled to no further participation in such distribution. If, upon any such liquidation, dissolution or winding up, the assets distributable among the holders of the Serial Preferred Stock shall be insufficient to permit the payment of the full preferential amounts aforesaid, then such assets shall be distributed among the holders of the Serial Preferred Stock then outstanding ratably in proportion to the full preferential amounts to which they are respectively entitled. For the purposes of this Section 3, the expression "dividends accrued or in arrears" means, in respect of each share of the Serial Preferred Stock of any series at a particular time, an amount equal to the product of the rate of dividend per annum applicable to the shares of such series multiplied by the number of years and any fractional part of a year that shall have elapsed from the date when dividends on such shares became cumulative to the particular time in question less the total amount of dividends actually paid on the shares of such series or declared and set apart for payment thereon; provided, however, that, if the dividends on such shares shall not be fully cumulative, such expression shall mean the dividends, if any, cumulative in respect of such shares for the period stated in the articles of serial designation creating such shares less all dividends paid in or with respect to such period.

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B. COMMON STOCK

1. Subject to the provisions of law and the rights of holders of shares at the time outstanding of all classes of stock having prior rights as to dividends, the holders of Common Stock at the time outstanding shall be entitled to receive such dividends at such times and in such amounts as the Board of Directors may deem advisable.

2. In the event of any liquidation, dissolution or winding up (whether voluntary or involuntary) of the Corporation, after the payment or provision for payment in full of all debts and other

liabilities of the Corporation and all preferential amounts to which the holders of shares at the time outstanding of all classes of stock having prior rights thereto shall be entitled, the remaining net assets of the Corporation shall be distributed ratably among the holders of the shares at the time outstanding of Common Stock.

3. The holders of Common Stock shall be entitled to one vote per share on all matters.

ARTICLE IV

No holder of capital stock of the Corporation of any class shall have any preemptive right to subscribe to or purchase (i) any shares of capital stock of the Corporation, (ii) any securities convertible into such shares or (iii) any options, warrants or rights to purchase such shares or securities convertible into such shares.

ARTICLE V

The number of directors, unless otherwise fixed by the bylaws, shall be sixteen. The directors shall be divided into three classes, one of which shall be composed of six directors and two of which shall be composed of five directors. At each annual meeting of stockholders, the number of directors to be elected shall be equal to the number of directors whose terms of office then expire, except that, if the total number of directors shall have been increased or decreased, the number of directors then to be elected shall be as nearly as possible one third of the total number of directors, and each director shall hold office until the third succeeding annual meeting after his election; provided, however, that at no election shall a greater number of directors be elected than the number of vacancies then existing, and provided further that, upon any increase in the total number of directors, the additional vacancies shall be so assigned by the Board of Directors to classes that the number of directors of each class shall be as nearly equal as possible and the vacancies shall be filled for terms corresponding to the classes to which the vacancies are so assigned. Each director shall hold office until his successor shall have been elected, and the terms of office of directors elected by the Board of Directors to succeed former directors shall expire at the next stockholders' meeting at which directors are elected.

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ARTICLE VI

1. in this Article:

"expenses" includes, without limitation, counsel fees.

"liability" means the obligation to pay a judgment, settlement, penalty, fine (including any excise tax assessed with respect to an employee benefit plan), or reasonable expenses incurred with respect to a proceeding.

"party" includes, without limitation, an individual who was, is, or is threatened to be made a named defendant or respondent in a proceeding.

"proceeding" means any threatened, pending, or completed action, suit, or proceeding whether civil, criminal, administrative, or investigative and whether formal or informal.

2. To the full extent that the Virginia Stock Corporation Act, as it exists on the date hereof or as hereafter amended, permits the limitation or elimination of the liability of directors and officers, no director or officer of the Corporation made a party to any proceeding shall be liable to the Corporation or its stockholders for monetary damages arising out of any transaction, occurrence or course of conduct, whether occurring prior or subsequent to the effective date of this Article.

3. To the full extent permitted by the Virginia Stock Corporation Act, as it exists on the date hereof or as hereafter amended, the Corporation shall indemnify any person who was or is a party to any proceeding, including a proceeding brought by or in the right of the Corporation, by reason of the fact that he is or was a director or officer of the Corporation, or while serving as such director or officer, is or was serving at the request of the Corporation as a director, trustee, partner or officer of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against any liability incurred by him in connection with such proceeding. A person shall be considered to be serving an employee benefit plan at the Corporation's request if his duties to the Corporation also impose duties on, or otherwise involve services by, him to the plan or to participants in or beneficiaries of the plan. To the same extent, the Board of Directors is hereby empowered, by a majority vote of a quorum of disinterested directors, to enter into a contract to indemnify any director or officer against liability and/or to advance or reimburse his expenses in respect of any proceedings arising from any act of omission, whether occurring before or after the execution of such contract.

4. The provisions of this Article shall be applicable to all proceedings commenced after it becomes effective, arising from any act or omission, whether occurring before or after such effective date. No amendment or repeal of this Article shall impair or otherwise diminish the rights provided under this Article (including those created by

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contract) with respect to any act or omission occurring prior to such amendment or repeal. The Corporation shall promptly take all such actions and make all such determinations and authorizations as shall be necessary or appropriate to comply with its obligation to make any indemnity against liability, or to advance any expenses, under this Article and shall promptly pay or reimburse all reasonable expenses, including attorneys' fees, incurred by any such director or officer in connection with such actions and determinations or proceedings of any kind arising therefrom.

5. The termination of any proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not of itself create a presumption that the director or officer did not meet any standard of conduct that is a prerequisite to the limitation or elimination of liability provided in Section 2 or to his entitlement to indemnification under Section 3 of this Article.

6. Any indemnification under Section 3 of this Article (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification is proper in the circumstances because the proposed indemnitee has met any standard of conduct that is a prerequisite to his entitlement to indemnification under Section 3 of this Article.

The determination shall be made:

(a) By the Board of Directors by a majority vote of a quorum consisting of directors not at the time parties to the proceeding;

(b) If a quorum cannot be obtained under subsection (a) of this section, by majority vote of a committee duly designated by the Board of Directors (in which designation directors who are parties may participate), consisting solely of two or more directors not at the time parties to the proceeding;

(c) By special legal counsel:

(i) Selected by the Board of Directors or its committee in the manner prescribed in subsection (a) or (b) of this section; or

(ii) If a quorum of the Board of Directors cannot be obtained under subsection (a) or this section and a committee cannot be designated under subsection (b) of this section, selected by a majority vote of the full Board of Directors, in which selection directors who are parties may participate; or

(d) By the stockholders, but shares owned by or voted under the control of directors who are at the time parties to the proceeding may not be voted on the determination.

Authorization of indemnification and evaluation as to reasonableness of expenses shall be made in the same manner as the determination that indemnification is appropriate, except that if the

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determination is made by special legal counsel, such authorizations and evaluations shall be made by those entitled under subsection (c) of this section to select counsel.

Notwithstanding the foregoing, in the event there has been a change in the composition of a majority of the Board of Directors after the date of the alleged act or omission with respect to which indemnification, an advance or reimbursement is claimed, any determination as to such indemnification, advance or reimbursement shall be made by special legal counsel agreed upon by the Board of Directors and the proposed indemnitee. If the Board of Directors and the proposed indemnitee are unable to agree upon such special legal counsel, the Board of Directors and the proposed indemnitee each shall select a nominee, and the nominees shall select such special legal counsel.

7. (a) The Corporation shall pay for or reimburse the reasonable expenses incurred by a director or officer (and may do so for a person referred to in Section 8 of this Article) who is a party to a proceeding in advance of final disposition of the proceeding or the making of any determination under Section 3 if the director, officer or person furnishes the Corporation:

(i) a written statement, executed personally, of his good faith belief that he has met any standard of conduct that is a prerequisite to his entitlement to indemnification under Section 3 of this Article; and

(ii) a written undertaking, executed personally or on his behalf, to repay the advance if it is ultimately determined that

he did not meet such standard of conduct.

(b) The undertaking required by paragraph (ii) of subsection (a) of this section shall be an unlimited general obligation but need not be secured and may be accepted without reference to financial ability to make repayment.

(c) Authorizations of payments under this section shall be made by the persons specified in Section 6.

8. The Board of Directors is hereby empowered, by majority vote of a quorum consisting of disinterested directors, to cause the Corporation to indemnify or contract to indemnify any person not specified in Section 3 of this Article who was, is or may become a party to any proceeding, by reason of the fact that he is or was an employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, to the same or a lesser extent as if such person were specified as one to whom indemnification is granted in Section 3. The provisions of Sections 4 through 6 of this Article shall be applicable to any indemnification provided hereafter pursuant to this section.

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9. The Corporation may purchase and maintain insurance to indemnify it against the whole or any portion of the liability assumed by it in accordance with this Article and may also procure insurance, in such amounts as the Board of Directors may determine, on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against any liability asserted against or incurred by him in any such capacity or arising from his status as such, whether or not the Corporation would have power to indemnify him against such liability under the provisions of this Article.

10. Every reference herein to directors, officers, employees or agents shall include former directors, officers, employees and agents and their respective heirs, executors and administrators. The indemnification hereby provided and provided hereafter pursuant to the power hereby conferred by this Article on the Board of Directors shall not be exclusive of any other rights to which any person may be entitled, including any right under policies of insurance that may be purchased and maintained by the Corporation or others, with respect to claims, issues or matters in relation to which the Corporation would not have the power to indemnify such person under the provisions of this Article. Nothing herein shall prevent or restrict the power of the Corporation to make or provide for any further indemnity, or provisions for determining entitlement to indemnity, pursuant to one or more indemnification agreements, bylaws, or other, arrangements (including, without limitation, creation of trust funds or security interests funded by letters of credit or other means) approved by the Board of Directors (whether or not any of the directors of the Corporation shall be a party to or beneficiary of any such agreements, bylaws or arrangements); provided, however, that any provision of such agreements, bylaws or other arrangements shall not be effective if and to the extent that it is determined to be contrary to this Article or applicable laws of the Commonwealth of Virginia, but other provisions of any such agreements, bylaws or other arrangements shall not be affected by any such determination.

11. Each provision of this Article shall be severable, and an adverse determination as to any such provision shall in no way affect the validity of any other provision.

ARTICLE VII

The shareholder vote required, of each voting group entitled to vote thereon, to approve an amendment to the Corporation's Articles of Incorporation is a majority of all votes entitled to be cast by that voting group, unless the Board of Directors conditions approval of such an amendment upon a greater vote.

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Dated: September 5, 1997

NORFOLK SOUTHERN CORPORATION

By: /s/ David R. Goode

David R. Goode
Chairman of the Board, President
and Chief Executive Officer

[SEAL]

Attest: /s/ Sandra T. Pierce

Sandra T. Pierce
Assistant Corporate Secretary

B Y L A W S
OF
NORFOLK SOUTHERN CORPORATION
AS AMENDED
MAY 13, 1999

BYLAWS
OF
NORFOLK SOUTHERN CORPORATION

ARTICLE I
STOCKHOLDERS' MEETINGS

SECTION 1. ANNUAL MEETING. The annual meeting of the stockholders of the corporation shall be held on such date in March, April, May or June as the board of directors may designate. If the date of the annual meeting shall be a legal holiday, the meeting shall be held on the next succeeding day not a legal holiday.

SECTION 2. SPECIAL MEETINGS. Special meetings of the stockholders shall be held whenever called by the chief executive officer or by a majority of the directors.

SECTION 3. TIME AND PLACE. All meetings of the stockholders shall be held at the time and place stated in the notice of meeting.

SECTION 4. QUORUM. The holders of a majority of the outstanding shares of capital stock entitled to vote, represented in person or by proxy, shall constitute a quorum at any meeting of the stockholders. If less than a quorum is present at an annual or special meeting, then a majority in interest of the stockholders present in person or by proxy may from time to time adjourn the meeting to a fixed time and place, no further notice of any adjourned meeting being required. Each stockholder shall be entitled to one vote in person or by proxy for each share entitled to vote then outstanding in his name on the books of the corporation.

SECTION 5. RECORD DATE. The board of directors may fix in advance a date as the record date for a determination of stockholders for any purpose, such date to be not more than seventy days before the meeting or action requiring a determination of stockholders.

SECTION 6. CONDUCT OF MEETINGS. The chief executive officer, or any officer or director he may designate, shall preside over all meetings of the stockholders. The secretary of the corporation, or an assistant secretary, shall act as secretary of all the meetings, if present. If the secretary or an assistant secretary is not present, the chairman of the meeting shall appoint a secretary.

The board of directors, prior to the annual meeting of the stockholders each year, shall appoint one or more inspectors of election to act at such annual meeting and at all other meetings of stockholders held during the ensuing year. In the event of the failure of the board to make such appointment or if any inspector of election shall for any reason fail to attend and to act at such meeting, an inspector or

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inspectors of election, as the case may be, may be appointed by the chairman of the meeting. The inspectors of election shall determine the qualification of voters, the validity of proxies and the results of ballots.

SECTION 7. PROPOSALS BY STOCKHOLDERS. No business may be transacted at an annual or special meeting of stockholders other than business that is either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors, (b) otherwise properly brought before the meeting by or at the direction of the board of directors or (c) otherwise properly brought before the meeting by a stockholder (i) who is a stockholder on the date of the giving of the notice provided for in this Section 7 and on the record date for the determination of stockholders entitled to vote at such meeting and (ii) who gives to the corporation notice in writing of the proposal, provided that such written notice is received at the principal executive office of the corporation, addressed to the Corporate Secretary, (A) in the case of an annual meeting, not less than ninety (90) nor more than one hundred sixty (160) calendar days prior to the anniversary date of the immediately preceding annual meeting and, (B) in the case of a special meeting, not later than the tenth calendar day next following the date on which notice of the holding of the special meeting is mailed to stockholders or public disclosure of the date of the special meeting was made, whichever first occurs. The written notice given to the corporation shall include (i) the specific language on which stockholders will be asked to vote, (ii) the name and address of such stockholder, (iii) the class or series and number of shares of the capital stock of the corporation which are owned beneficially and/or of record by such stockholder, (iv) a representation as to the existence and nature of any agreement or understanding between the proposing stockholder and any other person or persons (including their identities) in connection with bringing the proposal, and (v) a representation as to any material interest of the proposing stockholder (and the other person or persons) in the subject matter of the proposal. The requirements of this Section 7 are in addition to any other applicable requirements.

SECTION 1. ELECTION, NUMBER AND TERM. The board of directors shall be chosen at the annual meeting of the stockholders. The number of directors shall be ten, and the directors shall be classified and shall hold office for terms as provided in the articles of incorporation. This number may be increased or decreased at any time by amendment of these bylaws, but shall always be a number of not less than three. Directors need not be stockholders. Directors shall hold office until their successors are elected.

SECTION 2. QUORUM. A majority of the number of directors fixed by these bylaws shall constitute a quorum. If less than a quorum is present at a meeting, then a majority of those present may adjourn the meeting to a fixed time and place, no further notice of any adjourned meeting being required.

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SECTION 3. VACANCIES. Any vacancy arising among the directors, including a vacancy resulting from an increase by not more than thirty percent in the number of directors last elected by the stockholders, may be filled by a majority vote of the remaining directors though less than a quorum unless sooner filled by the stockholders.

SECTION 4. MEETINGS. Meetings of the board of directors shall be held at times fixed by resolution of the board or upon the call of the chief executive officer or of one-third of the members of the board. Notice of any meeting not held at a time fixed by a resolution of the board shall be given to each director at least two days before the meeting at his residence or business address or by delivering such notice to him or by telephoning or telegraphing it to him at least one day before the meeting. Any such notice shall contain the time and place of the meeting. Meetings may be held without notice if all the directors are present or those not present waive notice before or after the meeting. The chief executive officer, or any director he may designate, shall preside over all meetings.

SECTION 5. COMMITTEES. The board of directors may by resolution designate an executive committee and one or more other committees, each of which shall consist of two or more directors. Any such committee, to the extent provided in the resolution of the board of directors and except as otherwise provided by law, shall have and may exercise the powers and authority of the board of directors in the management of the business and affairs of the corporation.

SECTION 6. NOMINATIONS OF DIRECTORS. Except as otherwise provided in the Articles of Incorporation, only persons who are nominated in accordance with the following procedures shall be eligible for election as directors. Nominations of persons for election to the board of directors may be made at any annual meeting of the stockholders (a) by or at the direction of the board of directors or (b) by any stockholder (i) who is a stockholder on the date of the giving of the notice provided for in this Section 6 and on the record date for the determination of stockholders entitled to vote at such meeting and (ii) who gives to the corporation notice in writing of the nomination, provided that such written notice is received at the principal executive office of the corporation, addressed to the Corporate Secretary, not less than ninety (90) nor more than one hundred sixty (160) calendar days prior to the anniversary date of the immediately preceding annual meeting. The written notice given to the corporation shall include all the information about the nominee that would be required by applicable rules and regulations of the Securities and Exchange Commission to be included for nominees listed in the proxy statement for such meeting and

shall include (i) the name and address of such stockholder and (ii) the class or series and number of shares of the capital stock of the corporation which are owned beneficially and/or of record by such stockholder. Such notice must be accompanied by a written consent of each proposed nominee to being named as a nominee and to serve as a director if elected.

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ARTICLE III OFFICERS

SECTION 1. ELECTION, NUMBER AND TERM. The board of directors, promptly after its election in each year, may elect a chairman of the board and shall elect a president (one of whom shall be designated chief executive officer), a secretary and a treasurer, and may elect one or more vice chairmen and vice presidents and may appoint such other officers as it may deem proper. Any officer may hold more than one office except that the same person shall not be president and secretary. Each officer shall hold office until his successor is elected or until his death or until he resigns or is removed in the manner hereinafter provided.

SECTION 2. REMOVAL. Any officer may be removed at any time by the vote of the board of directors and any officer or agent appointed otherwise than by the board of directors may be removed by any officer having authority to appoint that officer or agent.

SECTION 3. VACANCIES. Vacancies among the officers elected by the board of directors shall be filled by the directors.

SECTION 4. THE CHIEF EXECUTIVE OFFICER. The chief executive officer, subject to the control of the board of directors, shall in general supervise and control all of the business and affairs of the corporation. All officers and agents, other than officers or agents elected or appointed by the board of directors, shall be appointed by the chief executive officer or by the heads of departments, subject to the approval of the chief executive officer. Unless otherwise specifically provided in these bylaws or by direction of the board of directors, the chief executive officer or, at his direction, any officer, employee or agent of the corporation designated by him, may sign and execute all representations, securities, conveyances of real and personal property, leases, licenses, releases, contracts and other obligations and instruments in the name of the corporation.

SECTION 5. THE VICE CHAIRMEN AND VICE PRESIDENTS. The vice chairmen and the vice presidents shall perform such duties as from time to time may be assigned to them by the chief executive officer or by the board of directors. In the absence of the chief executive officer, or in the event of his death, inability or refusal to act, the officer designated by the chief executive officer or the board of directors shall perform the duties of the chief executive officer, and, when so acting, shall have all the powers of and be subject to all the restrictions upon the chief executive officer. Any vice chairman or vice president may sign, with the secretary or an assistant secretary, certificates for shares of the corporation.

SECTION 6. THE SECRETARY. The secretary shall: (a) keep the minutes of the meetings of the stockholders and the board of directors in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these bylaws or as required by law; (c) be custodian of the corporate records and of the seal of the corporation and see that the seal of the corporation is

affixed to all documents the execution of which on behalf of the corporation under its seal is duly authorized; (d) keep a register of the post office address of each stockholder which shall be furnished to the secretary by such stockholders; (e) sign with the chairman of the board, a vice chairman, the president, or a vice president, certificates for shares of the corporation, the issuance of which shall have been authorized by resolution of the board of directors; (f) have general charge of the stock transfer books of the corporation; and (g) in general perform all duties incident to the office of secretary and such other duties as from time to time may be assigned to him by the chief executive officer or by the board of directors.

SECTION 7. THE TREASURER. If required by the board of directors, the treasurer shall give a bond for the faithful discharge of his duties in such sum and with such surety or sureties as the board of directors shall determine. He shall: (a) have charge and custody of and be responsible for all funds and securities of the corporation; receive and give receipts for moneys due and payable to the corporation from any source whatsoever, and deposit all such moneys in the name of the corporation in such banks, trust companies or other depositories as shall be selected in accordance with the provisions of Article IV of these bylaws; (b) when duly authorized, disperse all moneys belonging or coming to the corporation; and (c) in general perform all the duties incident to the office of treasurer and such other duties as from time to time may be assigned to him by the chief executive officer or by the board of directors.

SECTION 8. ASSISTANT SECRETARIES AND ASSISTANT TREASURERS. The assistant secretaries, when authorized by the board of directors, may sign with the chairman of the board, a vice chairman, the president or a vice president certificates for shares of the corporation the issuance of which shall have been authorized by a resolution of the board of directors. The assistant treasurers shall respectively, if required by the board of directors, give bonds for the faithful discharge of their duties in such sums and with such sureties as the board of directors shall determine. The assistant secretaries and assistant treasurers, in general, shall perform such duties as shall be assigned to them by the secretary or the treasurer, respectively, or by the chief executive officer or the board of directors.

SECTION 9. SALARIES. The salaries of the officers elected by the board of directors shall be fixed by the board of directors. The salaries of all other officers shall be fixed by the chief executive officer or by the heads of departments, subject to the approval of the chief executive officer.

ARTICLE IV CHECKS AND DEPOSITS

SECTION 1. CHECKS AND DRAFTS. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the corporation, shall be signed by

such officer or officers, agent or agents of the corporation and in such manner as shall from time to time be determined by resolution of the board of directors.

SECTION 2. DEPOSITS. All funds of the corporation not otherwise employed shall be deposited from time to time to the credit of the corporation in such banks, trust companies or other depositories as may be selected in a manner authorized by the board of directors.

ARTICLE V CERTIFICATE OF STOCK

Each stockholder shall be entitled to a certificate or certificates of stock in such form as may be approved by the board of directors signed by the chairman of the board, a vice chairman, the president or a vice president and by the secretary or an assistant secretary or the treasurer or any assistant treasurer.

All transfers of stock of the corporation shall be made upon its books by surrender of the certificate for the shares transferred accompanied by an assignment in writing by the holder and may be accomplished either by the holder in person or by a duly authorized attorney in fact.

In case of the loss, mutilation or destruction of a certificate of stock, a duplicate certificate may be issued upon such terms not in conflict with law as the board of directors may prescribe.

The board of directors may also appoint one or more transfer agents and registrars and may require stock certificates to be countersigned by a transfer agent or registered by a registrar or may require stock certificates to be both countersigned by a transfer agent and registered by a registrar. If certificates of capital stock of the corporation are signed by a transfer agent or by a registrar (other than the corporation itself or one of its employees), the signature thereon of the officers of the corporation and the seal of the corporation thereon may be facsimiles, engraved or printed. In case any officer or officers who shall have signed, or whose facsimile signature or signatures shall have been used on, any such certificate or certificates shall cease to be such officer or officers of the corporation, whether because of death, resignation or otherwise, such certificate or certificates may nevertheless be issued and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures shall have been used thereon had not ceased to be such officer or officers of the corporation.

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ARTICLE VI SEAL

The seal of the corporation shall be a flat-faced circular die, of which there may be any number of counterparts, with the word "SEAL" and the name of the corporation and the state and year of incorporation engraved thereon.

ARTICLE VII FISCAL YEAR

The fiscal year of the corporation shall begin on the first day of January and end on the thirty-first day of December in each year.

ARTICLE VIII

VOTING OF STOCK HELD

Unless otherwise ordered by the board of directors, the chief executive officer, or his designee, shall have full power and authority in behalf of the corporation to attend and to act and to vote at any meetings of stockholders of any corporation in which the corporation may hold stock, and at any such meeting shall possess and may exercise any and all the rights and powers incident to the ownership of such stock, which, as the owner thereof, the corporation might have possessed and exercised if present, and may sign proxies on behalf of the corporation with respect to any such meeting or sign consents on behalf of the corporation with respect to corporate actions permitted without a meeting of stockholders. The board of directors, by resolution, from time to time, may confer like powers upon any other person or persons.

ARTICLE IX AMENDMENTS

These bylaws may be altered, amended or repealed and new bylaws may be adopted by the board of directors at any regular or special meeting of the board of directors.

AGREEMENT

THIS AGREEMENT (hereinafter "Agreement" or "Master Agreement") dated the 27th day of July, 1999, by and between NORTH CAROLINA RAILROAD COMPANY (hereinafter "NCRR"), a North Carolina corporation, and NORFOLK SOUTHERN RAILWAY COMPANY (hereinafter "NSR"), a Virginia corporation:

WHEREAS, NCRR and Southern Railway Company (hereinafter "Southern") entered into a lease dated August 16, 1895 ("the 1895 agreement");

WHEREAS, NCRR and Southern entered into certain supplements or amendments to the 1895 agreement;

WHEREAS, Atlantic and North Carolina Railroad Company (hereinafter "ANC"), as lessor, a North Carolina corporation, and Atlantic & East Carolina Railway Company ("A&EC"), now a wholly owned subsidiary of NSR, as lessee, entered into a Lease and Indenture dated August 30, 1939 ("the 1939 agreement");

WHEREAS, ANC and A&EC entered into certain supplements or amendments to the 1939 agreement, the last of which supplements provided A&EC the option to continue the 1939 agreement through the end of 1994, and that option was properly exercised;

WHEREAS, effective September 29, 1989, ANC was merged into NCRR;

WHEREAS, effective December 31, 1990, Southern changed its name to NSR;

WHEREAS, the 1895 agreement and the 1939 agreement (together, as supplemented and amended, referred to herein as the "Old Leases") were to expire on January 1, 1995 and December 31, 1994, respectively, and have not been and will not be renewed and NSR has continued to operate the property of NCRR under the provisions of federal and/or state law;

WHEREAS, while the parties had negotiated an agreement to extend the Old Leases (the Lease Extension Agreement or "LEA"), the LEA was declared to be invalid by the U.S. District Court for the Eastern District of North Carolina for want of a quorum at the NCRR shareholders meeting called for the purpose of approving the LEA on December 15, 1995 and the Court entered an order enjoining the LEA. Before the LEA had been enjoined, NSR made certain payments to NCRR under the terms of the LEA consisting of payments as consideration for a release of certain claims for return of personalty (the "Release Payment"), and payments of rental under the LEA (the "Rental Payments"), and NSR has made additional payments to NCRR pursuant to an order of the U.S. Surface Transportation Board (the "Interim Payments");

WHEREAS, NCRR and NSR desire by these terms to provide for NSR's continued use of the property of NCRR which was the subject of the Old Leases for the operation of freight rail services thereon;

NOW THEREFORE, in consideration of the commitments and undertakings recited below, the parties hereto do hereby covenant and agree as follows:

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GENERAL PRINCIPLES OF INTERPRETATION

The following general principles will apply throughout this Agreement unless specifically stated to the contrary:

- (a) Safety considerations will be paramount;
- (b) For any operating scenario, NCRR and NSR intend to jointly work to make changes in a manner that will: (1) minimize capital and operating costs, and (2) minimize disruption to existing service so as to maximize the value of both freight and passenger services;
- (c) Cross subsidization of costs will not occur between passenger and freight operations or between NSR freight and third-party freight operations, including but not limited to operating and maintenance expenses and capital expenditures;
- (d) All costs, including but not limited to operating and maintenance expenses and capital expenditures, will be borne by the party hereto who requests the expenditure or the addition to capacity; and
- (e) "Costs" or "expenses" will be defined by the PPC/Dispute Resolution provisions hereof.

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Section 2. RIGHTS GRANTED BY NCRR

- (a) Subject to any applicable regulatory approval, NCRR hereby grants to NSR, under the terms set forth in the attached Trackage Rights Agreement of even date herewith, exclusive freight trackage rights

over the lines and properties of NCRR owned by NCRR as of the date hereof, thereby extending to NSR the exclusive right to conduct freight operations over the NCRR lines and properties, including performance of local freight service on those lines and properties. NCRR hereby also grants to NSR such operating rights over the lines of NCRR as will permit continuation of the existing operations of National Railroad Passenger Corporation ("Amtrak") over the lines of NCRR pursuant to the "Basic Agreement" between Southern Railway Company and The Alabama Great Southern Railroad Company and National Railroad Passenger Corporation dated January 2, 1979, as amended (hereinafter referred to as the "Amtrak/NSR Direct Service Agreement" or the "Basic Agreement"), together with such additional operating rights over lines of NCRR operated by NSR as may from time to time during the term of this Agreement be required for the continuation or modification of Amtrak's intercity rail passenger service over the NCRR lines pursuant to the Basic Agreement and Amtrak's franchise under federal law. It is the intent of the parties, with respect to the operational facilities of NCRR operated by NSR, that Amtrak and NSR shall continue to enjoy and be able to fulfill their respective rights and obligations to each other under the Basic Agreement (including the duty to make and the right to receive payments thereunder) and under federal law for the term of this Agreement. NCRR shall be consulted in advance of any proposed extensions or modifications to the Basic Agreement that could have a material effect upon the dispatching or maintenance of the lines of NCRR operated by NSR or upon the facilities of NCRR operated by NSR.

- (b) NSR will fulfill freight common carrier duties of NCRR on the NCRR segments for which NSR holds the exclusive freight trackage rights from NCRR until such time as NSR's exclusive freight trackage rights over the line or any segment thereof are terminated, and until the federal Surface Transportation Board or any successor agency has granted any approval that may be required by law for any cessation of NSR's common carrier duties pursuant to Section 17 hereof.
- (c) The exclusive freight trackage rights shall continue unless and until there is initiation of service by a qualified third-party freight operator on segments over which NSR ceases operations pursuant to the terms and provisions set forth in Section 17 hereof.
- (d) That interest in the portion of the "R" Line in Charlotte, North Carolina which lies between the point of connection between said "R" Line and CSX Transportation, Inc. ("CSXT") near 12th Street and the easterly line of Second Street which remained a part of the Old Leases upon their expiration will not be operated by NSR. Either NSR or NCRR may seek discontinuance of its common carrier obligation imposed by federal and state laws regulating the

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operation of a railroad on such portion and each party will cooperate with the other in any such proceedings. Nothing in this Agreement shall be construed to affect the terms and obligations of the agreement dated December 31, 1968 between NCRR and Southern regarding certain property in Charlotte, North Carolina.

- (e) The rights granted to NSR do not eliminate, modify or diminish the rights of CSXT to operate and to serve customers between Fetner and Raleigh (Boylan) or NSR's and CSXT's reciprocal operating rights and obligations to each other relating thereto.

- (f) Except as provided in Section 2(a), NCRR does not grant to NSR the right to grant trackage or other rights to any carrier not at the time of grant affiliated with NSR over the lines or property of NCRR, and NCRR will not grant to others such rights on lines or property over which NSR maintains the status of exclusive freight operator without NSR's approval. Any grant of trackage or other rights by NSR to a carrier affiliated with NSR shall not be effective beyond the expiration of this Agreement, including extensions or renewals, or with respect to segments over which NSR ceases freight services hereunder the date of any cessation of NSR service pursuant to Section 17 hereof. NSR will provide NCRR with copies of any such proposed trackage or other rights documents not less than 15 days prior to execution by NSR and its affiliate.

Section 3. TERM

- (a) The term of the Agreement shall commence on the Effective Date and end on December 31, 2014.
- (b) NSR shall have the option to renew the Agreement for two additional fifteen-year terms, provided NSR notifies NCRR in writing of its intention to renew at least two years prior to the expiration of the Agreement or, with respect to the second renewal period, two years prior to the expiration of the first renewal period.

Section 4. COMPENSATION

- (a) Beginning on January 1, 2000, and during the term of this Agreement and any renewal thereof, or during any Period of Continued Occupancy (as defined in this Section), NSR shall pay to NCRR an "Annual Trackage Rights Fee." For the period January 1, 2000, through December 31, 2000, the Annual Trackage Rights Fee payable to NCRR shall be ELEVEN MILLION DOLLARS (\$11,000,000).
- (b) For each calendar year thereafter the Agreement continues in effect and during any Period of Continued Occupancy, the Annual Trackage Rights Fee shall be adjusted in accordance with the following formula except that in no event will any increase or decrease in such Annual Trackage Rights Fee for any year exceed an amount equal

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to four-and-one-half percent (4-1/2%) of the Annual Trackage Rights Fee applicable to the previous year (hereinafter the "Cap"). The formula is:

For 2001 and subsequent calendar years the Annual Trackage Rights Fee shall be an amount calculated by multiplying the prior year's Annual Trackage Rights Fee by the "Factor" obtained by dividing the Implicit Price Deflator for Gross Domestic Product ("IPD-GDP") for the calendar year preceding the prior calendar year by the IPD-GDP for the calendar year preceding that calendar year. For any given calendar year, the denominator of the fraction used to calculate the Factor will be the same as the numerator of the fraction used to calculate the immediately prior year's Factor. The calculation of the Factor to be applied to the immediately prior year's Annual Trackage Rights Fee shall be carried out to five places to the right of the decimal and rounded. Presently, IPD-GDP is developed by the United States Department of Commerce, Bureau of Economic Analysis and is reported in the publication of ECONOMIC INDICATORS

prepared for the Joint Economic Committee by the Council of Economic Advisors. The denominator of the initial Factor will utilize the IPD-GDP for 1998, as published in the December 1999 issue of ECONOMIC INDICATORS. The numerator will be the IPD-GDP for 1999 as published in the December 2000 issue of ECONOMIC INDICATORS.

- (c) If during the term of this Agreement, including any renewal period, the IPD-GDP is no longer published, the parties will attempt in good faith to agree upon a replacement index, using the PPC/Dispute Resolution procedures herein if necessary.
- (d) The parties will renegotiate the Cap if over any seven consecutive year period the average rate of inflation as measured by the IPD-GDP exceeds four and one-half percent (4-1/2%) with the matter to be resolved through the PPC/Dispute Resolution procedures herein if the parties are unable to agree on a new cap.
- (e) In no event will the Annual Trackage Rights Fee, through deflationary adjusters, as applicable to the entirety of the NCRR, go below ELEVEN MILLION DOLLARS (\$11,000,000). In the event that the Annual Trackage Rights Fee is adjusted under the provisions of Section 17(d) of this Agreement, the \$11,000,000 minimum Annual Trackage Rights Fee set forth in the preceding sentence will be adjusted by the same percentage used to adjust the Annual Trackage Rights Fee pursuant to Section 17(d) hereof.
- (f) In the event NSR does not extend the Agreement or at the end of the extended terms, the payment provisions of the Agreement at that time will continue to apply and payments may not be withheld by NSR so long as NSR continues to operate over any portion of the NCRR lines (other than the line between Pomona and Elm described in Section 21(b) hereof) (referred to herein as a "Period of Continued Occupancy").

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- (g) The Annual Trackage Rights Fee will be paid by NSR to NCRR, without set-off or reduction, in monthly installments not later than the 15th day of each month. If any such payment is not paid within a grace period of seven (7) days after such due date, a late payment penalty charge shall be charged to NSR. The late payment penalty charge shall be in the amount of one and one-half percent (1-1/2%) per month (simple interest) for each month, or part thereof, after such grace period as the Annual Trackage Rights Fee shall remain unpaid. If owed, NSR will pay such late payment penalty charge together with the Annual Trackage Rights Fee due. Nothing in this Section 4 pertaining to or calling for the payment of the late payment penalty charge or for an overdue payment of the Annual Trackage Rights Fee shall be construed to be a waiver or acceptance by NCRR for such payment to be overdue, and NCRR retains all rights it has for payment of trackage rights fees.

Section 5. INTERIM COMPENSATION

Within three business days of the execution of this Agreement, NSR will pay to NCRR one-half of the remaining compensation to be paid to NCRR as back rental for the period ending December 31, 1999, pursuant to the Memorandum of Understanding dated April 27, 1999, and shall pay the remainder of such back rental not later than December 31, 1999.

Section 6. RELEASE

- (a) For and in consideration of the receipt and retention of the Release Payment by NCRR, NCRR hereby agrees that each and every obligation NSR or A&EC may have under the Old Leases with respect to or in any manner connected with the use, depreciation, maintenance, repair, renewal, replacement or return to NCRR of (i) locomotives and railroad cars and (ii) any other items of personal property which are not customarily located or used on property owned or determined to be owned by NCRR during any part of at least 10 months of any consecutive 12 month period during the 10 years preceding the termination of this Agreement and any renewal will be of no further force or effect, and NCRR hereby releases and discharges NSR from all such claims relating to such property.
- (b) For and in consideration of the receipt and retention of the Rental Payments, the Interim Payments and the payments by NSR set forth in this Agreement, NCRR hereby agrees that each and every obligation NSR or A&EC may have to pay rent or other forms of periodic compensation to NCRR for the use of NCRR's property under the Old Leases and from January 1, 1995 through December 31, 1999 has been fully satisfied and paid, and NCRR hereby releases and discharges NSR from all claims for the payment of rent or other forms of periodic compensation under the Old Leases.

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Section 7. DISPATCHING

- (a) NSR will dispatch all NCRR lines except for the segment between Boylan and Fetner presently dispatched by CSXT and any segments for which NCRR and NSR subsequently agree in writing that NSR will not dispatch. NSR will dispatch the NCRR lines with the same diligence and safety considerations as it dispatches lines of its ownership with similar train densities and operating characteristics.
- (b) NSR will exercise operational control over NCRR line segments which NSR dispatches, including controlling all access to the property within 25 feet of the tracks over which it has trackage rights. In accessing such property, NCRR and those accessing such property with permission from NCRR will be required by NCRR to comply with all NSR safety, access, and insurance processes and procedures. Except with respect to any access by NCRR in the ordinary course of the management of its property, NSR may charge reasonable costs to accommodate requests for such access.
- (c) NSR will not dispatch any NCRR line segment on which a third-party operator begins operations in accordance with the provisions of this Agreement.
- (d) NSR will not provide dispatching services on lines where passenger speeds exceed 90 mph.
- (e) NSR will give priority to scheduled passenger trains over freight trains, and will establish priority protocols to be applied between scheduled passenger trains as requested by NCRR.
- (f) Should any dispute arise over NSR's dispatching of passenger trains, or the priority they are given, NCRR will describe in writing the method by which it seeks to have the passenger trains, or freight trains affecting passenger trains, dispatched. If NSR does not agree with the proposed method requested by NCRR, any unresolved issues shall be resolved pursuant to PPC/Dispute

Resolution procedure herein.

- (g) NCRR reserves the right to terminate NSR's contract hereunder to perform dispatching for failure by NSR to abide by the PPC/Dispute Resolution procedures herein or any decision made pursuant to such procedures. NSR shall have 30 days from the date of any final decision or award made pursuant to the PPC/Dispute Resolution procedure to remedy such dispatching deficiencies and to document such remedy to NCRR in writing. If the time periods are not adequate for NSR to make the changes, such schedule shall be reviewed and addressed pursuant to the PPC/Dispute Resolution procedure herein.

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Section 8. MAINTENANCE

- (a) NSR will maintain the lines of NCRR over which it serves as the exclusive freight operator.
- (b) The standard of maintenance of any line segment shall be the FRA track classifications as of July 1, 1999, consistent with timetable and track profile speed restrictions and any other restrictions therein that affect the speed of operation. The effective timetables and track profiles are attached hereto as EXHIBIT A.
- (c) Any routine slow orders in effect on January 1, 2000 will be eliminated by October 1, 2000, and any routine slow orders subsequently imposed will be eliminated within 90 days of imposition. A list of show orders in effect will be provided on or about January 1, 2000.
- (d) In the event of slow orders necessitated by unusual events or requiring major construction or capital expenditure, the PPC/Dispute Resolution procedure will be employed to establish a reasonable time frame for NSR to make the necessary repairs.
- (e) NCRR will bear all initial and future costs for any upgrades it requests.
- (f) NSR will not maintain any NCRR line segment on which a third-party operator begins operations under the provisions of the Agreement.
- (g) NSR will not maintain any line on which passenger speeds exceed 90 mph.
- (h) NSR will submit to NCRR in writing not less than 30 days in advance a description of any changes it intends to make to the maintenance levels affecting the lines of NCRR; if NCRR objects to such changes the PPC/Dispute Resolution procedure described herein will be utilized to review such proposed changes wherein such changes may be approved as submitted by NSR or modified.
- (i) NCRR reserves the right to terminate NSR's contract hereunder to perform maintenance for failure by NSR to abide by the PPC/Dispute Resolution procedures herein or any decision made pursuant to such procedures. NSR shall have 270 days from the date of any final decision or award made pursuant to the PPC/Dispute Resolution procedure set forth herein to remedy such maintenance deficiencies and to document such remedy to NCRR in writing. If the time periods are not adequate for NSR to make the changes, such schedule shall be reviewed and addressed pursuant to the PPC/Dispute Resolution procedure herein.

Section 9. CAPITAL IMPROVEMENTS

(a) Capital Improvements at the Request of NSR:

- (i) NSR may, at its sole cost, make capital improvements to the property of NCRR to render the property more amenable to its freight railroad operations.
- (ii) Such improvements will not be made without the prior approval of NCRR, which approval will not be unreasonably withheld.
- (iii) NCRR shall own all capital improvements made by NSR to the property of NCRR hereunder upon expiration or termination of the Agreement, or with regard to improvements made to any segment which NSR ceases to operate, upon the cessation of service by NSR on such segment pursuant to Section 17 hereof.

(b) Capital Improvements at the Request of NCRR:

- (i) NCRR (or NCRR on behalf of passenger operators) may, at its sole cost, make capital improvements to the NCRR property.
- (ii) All such capital improvements on lines over which NSR operates or will operate shall be performed by NSR unless NSR has expressly agreed to the contrary. However, if a shortage of available manpower would delay implementation beyond a reasonable completion date, NSR and NCRR agree to cooperate to jointly seek concurrence from the appropriate labor organizations representing NSR's employees, if such concurrence is required, for such work to be done by qualified contractors selected in accordance with the PPC/Dispute Resolution procedure and to be engaged by NSR.
- (iii) Payments required of NCRR under the terms of this Agreement may be paid by NCDOT or by other passenger service operators.
- (iv) NSR will not be required to begin construction on any such project(s) until all necessary capital funds are set aside for the project, and mechanisms are in place to pay other costs or expenses associated with the project identified in the separate agreement required by the provisions of paragraph (f) below.

(c) Any track, signal, bridge, or structure constructed on the lines of NCRR, whether by NCRR (on its own behalf or on behalf of a passenger operator) or NSR, must be built, maintained and operated consistent with the following goals:

- (i) Such construction must not interfere with or disadvantage NSR freight operations or the utility or capacity of the line for freight operations;

- (ii) Such construction must not preclude eventual double-tracking of the line between Greensboro and Raleigh;
 - (iii) Such construction must not preclude capacity expansion to accommodate growth of intercity/regional passenger and freight traffic; and
 - (iv) Access by NSR to its present and future customers on both sides of the tracks on which NSR has or will have trackage rights will be maintained at no cost to NSR.
- (d) Should one party determine it has a need for additional capacity, the additional capacity shall be added in consultation with the other party utilizing the PPC/Dispute Resolution procedure, at the cost and expense of the party that needs the capacity.
- (e) Should NSR and NCRR mutually determine that each needs additional capacity, the parties shall jointly plan, through the PPC/Dispute Resolution procedure, for the necessary additional capacity to meet the needs. The costs of such additional joint capacity will be prorated on the relative additional capacity needs of the parties. Best efforts shall be made in the planning process to achieve economies of scale in the addition of such improvements, such that both parties receive maximum value for their capacity investments through capacity sharing.
- (f) If NCRR adds shared trackage under the provisions hereof, or if NCRR approves, makes or funds any other improvements which increase freight or passenger utility/capacity or passenger speeds, including but not limited to improvements to track, signals, structures or the adding of super-elevation under provisions hereof and including but not limited to the "Rail Impact" program described in Section 12 hereof, NCRR, NSR (and any other appropriate parties, including NCDOT) will enter into a separate written agreement prior to the commencement of any construction. NSR will dispatch and maintain the line segment as improved and NCRR will reimburse NSR for any and all additional dispatching and maintenance costs, including but not limited to costs of additional employees required to dispatch and maintain the line on account of such improvements, incurred by NSR, except as provided in Section 10 hereof. Any disputes over the causal relationship between such construction projects and such additional dispatching and maintenance costs billed to NCRR by NSR will be referred to the PPC/Dispute Resolution procedure.
- (g) NCRR and NSR will develop the design and phasing of double-tracking and other investments for the line between Greensboro and Charlotte, the cost of preparing such plans to be at NCRR expense, so that freight and passenger services can both be accommodated and so that any intermediate investments made will conform with a long-term infrastructure plan.

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- (h) In advance of installing double track or other investments made by NCRR, NCRR and NSR, at NCRR expense, will jointly conduct a study to determine the additional capacity provided by such investments. Should NCRR determine that additional passenger trains and/or increased train speeds are desirable and that the funds are available to make the necessary investments to increase passenger train speed or capacity, NCRR will plan for the additional capacity necessary to support more passenger service and/or greater speeds, in conjunction with NSR through the PPC/Dispute Resolution

procedure.

- (i) If NCRR adds dedicated separate infrastructure on the right-of-way for passenger operations above 90 mph as required by Section 13 hereof, NCRR shall have such dedicated separate facilities dispatched and maintained by a party other than NSR.
- (j) NCRR and NSR will each keep the other informed of matters involving present and prospective passenger and freight traffic on the line, the operation of the line, or any other matter relating to the NCRR lines with which they may be involved during the term of the Agreement. In all matters involving NCDOT or regulatory bodies where the parties' interests are in common, the parties shall work cooperatively to accomplish the purposes of this Agreement in a timely fashion.
- (k) Any capital expenses or other improvements will abide by and be subject to the principle of no cross subsidization between the services operated on the lines.

Section 10. EASTERN SEGMENT TRACK IMPROVEMENTS

In order to promote economic development along the NCRR corridor and greatly improve the current track condition of the line, the parties agree to implement a project to upgrade the Raleigh to Morehead City line segment in order to improve the condition of the segment closer to the condition of other segments of the NCRR line.

NSR (under contract to NCDOT utilizing NCRR dividend proceeds from NCRR interim compensation), agrees to perform work, such as a timber and surfacing project, of up to \$10 million on such segments of the NCRR line between Boylan (Raleigh) to the Port Terminal (at Morehead City, including the tracks maintained by NSR at the Port Terminal) as are determined by NCRR to be most effective. Notwithstanding the provisions of Section 9(f) hereof, to the extent that such work increases the FRA classification of the following NCRR track segments, NCRR shall not be responsible for reimbursing NSR for any additional dispatching or maintenance costs, including any costs of any additional employees required on account of such work:

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Milepost EC 1.5 to EC 9.0;
Milepost EC 71.0 to EC 94.0;
Milepost H 119.7 to H 120.0;
Milepost H 126.0 to H 126.8.

NSR will begin implementation of the project within 60 days of the finalization of the project scope and the availability of funding and will complete the project as expeditiously as possible, with a date certain for completion to be established by the PPC/Dispute Resolution provisions herein.

Section 11. PROCESS FOR REVIEWING ADDITIONAL PASSENGER CAPACITY ON NCRR LINES

- (a) The NCRR trackage will be operated on a shared-use basis with passenger operations for passenger or commuter trains with speeds of 90 mph or less. NSR will present to NCRR its analysis of the number of additional freight trains that could be operated on the line as of January 1, 2000, without adding capacity to the NCRR

line. If NCRR does not concur, the issue will be resolved pursuant to the PPC/Dispute Resolution procedure herein.

- (b) NSR will have use of the freight capacity as determined above.
- (c) NCRR will pay for any increased costs for operations, maintenance or capital expenditures necessary to accommodate increasing the number of passenger trains above that currently operated on NCRR tracks, or to permit increased passenger speeds above the present passenger train speeds, except for the additional passenger train set permitted pursuant to Section 12(e) hereof.
- (d) If any passenger service or any third-party passenger operations are added to the NCRR line, the passenger service operator or other third-party passenger operator will be required to make and pay for capital improvements on the line adequate to assure that none of NSR's capacity, either the capacity NSR is currently using or unused capacity that is available to NSR, determined as described above, is diminished or disadvantaged.
- (e) All FRA regulations must be complied with in advance of initiating any passenger operations in excess of 79 mph. The administrative costs of obtaining such regulatory approval, including but not limited to any expense of performing an environmental impact statement or environmental assessment, if required to comply with environmental regulations, shall be borne by NCRR.
- (f) NCRR and NSR agree to cooperate in the following long range planning studies, at NCRR's expense, to determine whether additional capacity would be required to handle additional passenger or commuter trains proposed on segments of NCRR:

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(i) Passenger Train Studies:

NCRR and NSR agree to several studies that are designed to allow NCRR to plan more effectively for the long-term utilization of the valuable asset NCRR has in the NCRR right-of-way:

(A) Passenger Train Transit Time Improvement:

These studies will include the following considerations in its analysis of potential passenger service related expenditures:

- (I) Reduced passenger train stops and reduced duration of stops;
- (II) Reduced highway grade crossings, whether equipped with active or passive warning devices;
- (III) Increased speeds through towns and localities with speed restriction ordinances;
- (IV) Improvements to increase speed at various restrictions, such as crossings with railroads at grade;
- (V) Improvements to reduce the required safety margins or clearing times for passenger/freight and passenger/passenger meets or passes;

- (VI) Revisions to passenger train and freight train schedules;
- (VII) Reductions in transit times by using FRA-approved tilt train equipment;
- (VIII) Improvements to dispatching systems;
- (IX) Improvements to signal systems; and
- (X) Track improvements such as adding double track, sidings, double power crossovers, turnouts and curve improvements including super elevation of curves.

NCRR will request NCDOT, not at NSR's expense, to jointly work with appropriate NSR operations and engineering staff to determine which investments yield the highest returns in terms of speed and capacity.

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(B) Passenger Train Operating Speed Study (79 to 90 mph):

The study will address the safety and other issues related to increasing maximum passenger speeds from 79 mph to 90 mph and the economic issues related to installing cab signals and operating trains in cab signal territory.

(C) High Speed Study (maximum speeds in excess of 90 mph):

The study will address what will be needed to safely and economically transition toward separate freight and passenger operations at the point when passenger train speeds exceed 90 mph; the study will address interim capital investments to assure that the investments are made in conjunction with a long-term transition plan and will continue to be useful in the ultimate plan; the study will address safety issues related to migrating from shared-use operations to separate operations for passenger services operated in excess of 90 mph.

The study will also investigate whether it is possible and desirable that incremental improvements may proceed in such a way that portions of the Raleigh - Charlotte route may achieve greater than 90 mph, with the required separate track structure, while other segments remain at less than 90 mph and continue as shared-use segments.

(ii) Alternative Routing Study:

NCRR and NSR will perform a joint study of the operational and economic considerations involved in operating through freight trains between Greensboro and Raleigh over other NSR routes rather than over the NCRR route. NCRR will study, at NCRR expense, the differences in the investment required, the maintenance expenses, and the operations if the NCRR line between Greensboro and Raleigh were operated with or without through freight trains. NSR will determine, at NSR expense, the capital investment required to upgrade any alternate route

to accommodate the through freight trains operated on the NCRR route between Greensboro and Raleigh. Any decision by NCRR or NCDOT to cooperate and/or participate in the cost of NSR's use of the alternative route would be based on producing the lowest net capital cost to the NCDOT and Triangle Transit Authority (TTA) run passenger trains while still affording to NSR existing levels of freight service capacity, and would take into account community impacts on both lines. It is understood that in the event that through freight trains are operated over an alternate route, NSR will need to be able to continue to serve present and future customers on the NCRR line, including those which might be accessible only by

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crossing TTA tracks. However, nothing in the Agreement will serve to cause any delay in TTA and NSR continuing to work together in making final plans and implementation of TTA facilities and service.

- (g) In connection with the studies referred to herein, NCRR and NSR will employ analytical techniques to: (1) determine the impact of passenger trains on the operations and capacity of NSR, and (2) to determine the capital improvements that would be necessary to avoid adverse impacts on NSR's freight operations or capacity. Any capital improvements or other costs or expenses will abide by and be subject to the principle of no cross subsidization between the services operated on the lines.
- (h) NCRR and NSR may engage consultants and outside experts to analyze construction, maintenance or dispatching issues. Consultants may be involved in data gathering, data analysis, and presentation of recommendations, but NSR agrees that senior level NSR officers will be involved in the decision-making process.
- (i) Intercity passenger operations may use equipment such as tilt-train equipment as long as the use of such equipment on NCRR commingled with NSR operations is approved by FRA or FRA grants a specific waiver or approval allowing operation of such equipment commingled with NSR operations on the NCRR.

Section 12. IMPLEMENTATION OF THE NCDOT'S UPDATED "RAIL IMPACT" PROGRAM

- (a) NSR agrees to implement the NCDOT's updated "Rail IMPACT" program.
- (b) NSR and NCRR will reevaluate with NCDOT the elements included in NCDOT's original Rail Impact program, to develop an updated program of rail improvements totaling \$20 million which will provide increased passenger speeds while at the same time not adversely impacting the freight operations of NSR.
- (c) When funds for the updated Rail Impact program are available to NCRR or NCDOT, NSR agrees to then implement as expeditiously as possible.
- (d) If a shortage of available manpower would delay implementation beyond a reasonable completion date, NSR and NCRR agree to cooperate to jointly seek concurrence from the appropriate labor organizations representing NSR's employees, if such concurrence is required, for such work to be done by qualified contractors selected in accordance with the PPC/Dispute Resolution procedure

and to be engaged by NSR.

- (e) NCDOT may add one daily passenger train set to operate at or below a maximum speed of 79 mph to the line between Raleigh and Charlotte subsequent to the completion of the construction of the updated Rail Impact program.

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Section 13. HIGH SPEED PASSENGER OPERATIONS

- (a) NCRR may grant operating authority within the NCRR corridor for intercity passenger trains to be operated in excess of 90 miles per hour ("high speed passenger trains") only if such trains or systems are operated on a dedicated separate new infrastructure.
- (b) After approval by FRA, high speed passenger trains may use the shared-use tracks for low speed access to and from stations and/or for operations at conventional passenger train speeds in areas in which adequate right-of-way for separate tracks is not available.

Section 14. OTHER PASSENGER OPERATIONS OVER NSR LINES

NSR will negotiate in good faith with NCDOT regarding passenger service to Asheville, N.C., it being understood that NSR will not be responsible for any capital and operating costs and/or expenses associated with or related to such operations, and the addition of passenger trains to the line will be accompanied by sufficient State investment to maintain NSR's current or future freight capacity/utility and service standards on the route, as determined by NSR.

Section 15. REGIONAL RAIL OPERATIONS WITHIN NCRR RIGHT OF WAY

- (a) NCRR reserves the right to allow rail service such as that proposed by the Triangle Transit Authority or other light rail operations on separately dedicated infrastructure within NCRR's right-of-way, consistent with the terms of this Agreement.
- (b) If any FRA approvals or plan reviews are necessary, the passenger operator would be responsible for obtaining such approvals or reviews.
- (c) NCRR will require the service provider to assure that reasonable and efficient access by NSR to its present and future customers on both sides of the track(s) over which NSR has trackage rights is maintained at no cost to NSR.
- (d) NCRR will require the service provider to have in place before beginning operations, and to maintain at all times while such operations are conducted, indemnity agreements and liability insurance as described in Section 23 hereof.
- (e) The proximity of light rail operations to NCRR tracks and the related maintenance and operation issues shall be addressed under the PPC/Dispute Resolution provisions herein and in conformity with all federal regulations.

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Section 16. TRAFFIC INFORMATION AND FORECASTS

Subject to the confidentiality provisions of Section 34 hereof, NSR and NCRR will jointly examine traffic information and develop and share near- and long-term traffic forecasts of freight and passenger traffic volumes to evaluate safety, capacity and speed issues relating to the use of the various segments for freight and passenger operations.

Section 17. CESSATION OF FREIGHT SERVICE ON ANY SEGMENT

- (a) At any time during the term of this Agreement or any renewal period, NSR may seek to abandon its operation over the segment between Charlotte and Greensboro, or the segment between Greensboro and Raleigh, or the segment between Raleigh and Morehead City, or any two of those segments, or all three of those segments.
- (b) No subdivision of the segments will be permitted, i.e., NSR may seek to abandon its operations on the entire segment between Charlotte and Greensboro or on the entire segment between Greensboro and Raleigh or the entire segment between Raleigh and Morehead City, or combinations of those segments, but it cannot abandon service on any sub-segments of those segments unless agreed to by NCRR, in NCRR's sole discretion.
- (c) In the event of such abandonment of service on such segment or segments, the following transition provisions shall apply to the segment or segments being abandoned by NSR:
 - (i) NSR will continue to operate, dispatch, and maintain the line until initiation of service by a qualified operator. A qualified operator is one with demonstrated successful experience in operation of railroad lines previously operated by Class I railroads.
 - (ii) NSR will assure that if operation of the line is handed over to a third-party operator, the line must retain for at least a six-month period its maintenance level to then-current FRA track classifications consistent with current timetable and current track profile speed restrictions and any other restrictions therein that affect the speed of operation, consistent with any FRA track classification increases and/or elimination of timetable or track profile speed restrictions or other restrictions that affect the speed of operation resulting from work performed pursuant to Section 10 hereof.
 - (iii) All conditions requiring routine slow orders will be corrected in advance of the line being handed over to a third-party operator. In the event of slow orders necessitated by unusual events or requiring major construction or capital expenditures which occur prior to the line being handed over

to a third-party operator, the PPC/Dispute Resolution process will be employed to establish a reasonable time frame for NSR to make the necessary repairs.

- (iv) NSR will not be responsible for correcting slow orders resulting from unusual events that occur subsequent to the

line being handed over to a third-party operator.

- (v) NSR will assist NCRR in securing a qualified third party operator. NSR's assistance to NCRR shall include but shall not be limited to the following: (1) identify qualified operators from previous experience with other operators, (2) assist in preparation and review of the Request for Proposal, and (3) assist in preparation of an operating agreement with the third party.
 - (vi) Any business package offered to potential third-party operators will be developed in consultation with significant customers on the line and significant customers not on the NCRR line which would be substantially affected (positively or negatively) by a change in operators.
 - (vii) The third party operator will provide all service on the line. NSR shall be entitled to negotiate haulage rights with such third party for all or portions of the line at standard eastern region haulage agreement rates and conditions applicable at the time of haulage.
 - (viii) NSR will assist in seeking shipper satisfaction for any transition to third party operation. NSR will provide railroad cars to customers of the third-party operator on the same basis it does for other third-party operators connected to its line.
 - (ix) Prior to initiation of service by a third-party operator, NSR will operate a rail flaw detector car over the line and will replace any rails or rail segments determined to have defects.
 - (ix) Each party shall cooperate with the other in obtaining any necessary regulatory approval to accomplish any termination of NSR trackage rights and initiation of trackage rights by a third party operator.
- (d) Should NSR cease operations over either the Charlotte/Greensboro segment or the Greensboro/Raleigh segment, the annual trackage rights fee will be subject to adjustment through the PPC/Dispute Resolution procedures. The adjustment will be based on the percentage of total car miles operated on each of the two segments.

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Section 18. RETURN OF REAL PROPERTY

- (a) Non-operating Property
 - (i) NCRR and NSR hereby agree that the term "Designated Returned Property" as used herein means those non-operating properties owned by NCRR and described on EXHIBIT B attached hereto and incorporated herein by reference.
 - (ii) The Designated Returned Property will be released by NSR and A&EC to NCRR as of January 1, 2000 or the date such property is accepted by NCRR, whichever date is later, or a date as otherwise agreed between the parties (the "Return Date"). NSR shall continue to have use of the Designated Returned Property until the Return Date.
 - (iii) For each such parcel the Return Date of which is within

9 months of the date NSR provides NCRR with the information described in Section 19 (e) hereof, NSR shall pay to NCRR within thirty business days of the Return Date one-half (1/2) of all rents received by NSR or A&EC for such parcel of Designated Returned Property from January 1, 1995, through the Return Date, subtracting any property taxes, assessments of any type and normal maintenance paid or to be paid by NSR, its parents or any affiliate and/or A&EC with respect to Designated Returned Property applicable to the period from January 1, 1995 to the Return Date.

- (iv) Any parcel of Designated Returned Property that is released by NSR or A&EC to NCRR shall be returned to NCRR free of any obligation of NCRR, NSR or A&EC to operate that parcel as a part of its or their line(s) of railroad unless otherwise agreed between the parties.

(b) Operating Property:

- (i) Operating property will be considered by the parties to have been released from the leasehold or other interest of NSR or A&EC to NCRR and to be subject to this Agreement and the Trackage Rights Agreement as of the Effective Date.
- (ii) From and after the Effective Date, NSR and A&EC will have no ownership or leasehold interest in the properties of NCRR or the right-of-way of NCRR, and will look solely to this Agreement and to its rights and obligations under federal and/or state law for its authority to operate upon or to enter or remain upon the properties of NCRR.
- (iii) On or before October 1, 2000, NCRR and NSR, through the ad hoc property committee described in Section 19 hereof, shall determine the properties (except the property discussed in Section 7(b) hereof) which are necessary for NSR, by itself

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or through an affiliate of NSR, to fulfill NSR's obligations as operator of exclusive freight trackage rights under this Agreement (the "Designated NSR Facility Property"). Upon such determination, NSR shall provide to NCRR drawings of Designated NSR Facility Property that depict the shape and dimensions in feet of each such parcel of Designated NSR Facility Property, and shall note, in feet, the distance of the parcel to the nearest railroad milepost and also to the center line of the main track. NCRR and NSR shall then enter into a non-assignable (except as provided in Section 31) license or other written agreement for the continued NSR possession of such property for so long as (a) NSR has exclusive freight trackage rights under this Agreement or any renewal thereof, and (b) such property continues to be needed by NSR for its identified purpose. Such license or other written agreement shall be entered into consistent with and subject to the terms and conditions of this Agreement and the Trackage Rights Agreement as consideration for this Agreement and without additional consideration to be paid to NCRR by NSR. NSR shall be responsible for the management and condition of such property and any ad valorem taxes, assessments, and any other costs related directly or indirectly to such property.

- (iv) The parties acknowledge that there may be parcels which are

subject to leases to third parties which are located within the limits of the right of way ("3PL Parcels"). The parties intend that 3PL Parcels be treated in a manner similar to the Designated Returned Properties with respect to the allocation of rentals, both those received between January 1, 1995 and the date such parcels are returned to NCRR and those received after such parcels are returned to NCRR, and with respect to the duties of the parties regarding the return of such parcels to the management of NCRR and the obligations to pay property taxes and assume environmental responsibility, except that the parties agree that the indemnity provisions of Section 24(c) will not apply to such parcels.

Section 19. AGREEMENTS WITH USERS, LICENSEES AND/OR THIRD PARTIES REGARDING THE RIGHT OF WAY

- (a) NSR and NCRR shall cooperate with each other in the transition of responsibility to NCRR, or shared responsibility between NCRR and NSR, as outlined herein and in EXHIBIT C, of the management, administration, and control of new and existing third party license, lease and other agreements that concern NCRR-owned property or right of way previously subject to the Old Leases.
- (b) NCRR and NSR shall appoint an ad hoc property committee (the "Committee" for purposes of this section) to address the orderly transition of the management of such agreements, with a target date of October 1, 2000 for completion of such transition.

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- (c) The Committee shall address the following types of existing NSR agreements and any other agreements the parties agree must be addressed:
 - (i) leases, licenses, wire line agreements, pipeline agreements, and other longitudinal or perpendicular encroachments;
 - (ii) private and public grade crossing agreements and agreements concerning public projects;
 - (iii) track lease agreements;
 - (iv) spur tracks owned by third parties;
 - (v) real property matters relating to trackage rights and other operating agreements with other railroad companies (other than with Amtrak and the agreement covering CSXT's operations between Fetner and Raleigh (Boylan)), including operations between Goldsboro and the CP&L lead;
 - (vi) agreements with Amtrak for stations, parking, or other passenger facilities and related properties (other than tracks, platforms, and signals).
- (d) Within nine (9) months of receipt of the information from NSR described in section (e) below, NCRR will request an assignment from NSR of management of any active third party agreement, terminate any such agreement, request NSR or A&EC to terminate such agreement, substitute new agreements for existing agreements, or request that NSR retain management responsibility for such agreement for the remaining term of such agreement. If NSR declines to accept such responsibility for a particular matter at a

particular time, the matter shall be addressed by the PPC/Dispute Resolution procedure herein. It is the intention of the parties that NCRR will assume responsibility for the management of all properties of NCRR not needed by NSR in its freight operations, but that the timing of such assumption will be subject to the agreement of the parties on a case by case basis.

It is understood that it may be that parties to certain agreements can no longer be readily located, and that such agreements may be terminated by NSR by mailing notice to the last known address, if any, of the party. The parties shall work cooperatively and in good faith in reviewing the existing agreements. Rentals from third party agreements other than rentals of Designated Returned Properties or 3PL Parcels received by NSR from January 1, 1995 shall be divided as agreed by the Committee or if the Committee fails to agree, the matter shall be resolved pursuant to the PPC/Dispute Resolution procedure herein. As a general rule, the parties agree that the party entitled to the rental of Designated Returned Properties or 3PL Parcels shall from the date of such entitlement be responsible for the management of such property, for

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payment of any ad valorem taxes (if taxed as non-system property or separately assessed as set forth in Section 26 hereof) and, as between the parties, for any environmental harm to such property not caused by the other party occurring after the Return Date and any environmental reporting, if any, for such property.

- (e) NSR shall be responsible for providing to NCRR file documents or copies of the following records, if any, relating to Designated Returned Property and 3PL parcels: (1) photocopies of all applicable leases, licenses, or agreements relating to such property, including supplements and assignments, correspondence, and indexes or lists relating thereto; (2) the status of the rental for any such property, including billing statements or rental notice records for such rent; (3) the status of property taxes and all other expenses for such property, (4) photocopies of non-privileged materials found in the paper files of NSR's Environmental Protection Department; and (5) photocopies of non-privileged materials found in the paper files of the NSR Real Estate and Contract Services Department for all such property. NSR shall be responsible for providing to NCRR file documents or copies of the above described records to the extent they are available for all other agreements under Section 19(c) above. NSR shall use its best efforts not to destroy such records of third party agreements and records relating to any agreements. Neither NCRR nor NSR, including their affiliates, shall be required to provide any proprietary or licensed application software, including without limitation any such software dealing with real estate.
- (f) With respect to properties used by Amtrak, NSR and NCRR will work together to seek Amtrak's acquiescence in any change of management and control. Amtrak passenger station platforms shall be included in Designated NSR Facility Property as set forth above unless otherwise agreed between NCRR and NSR.
- (g) Any dispute arising under this section if not resolved within 60 days of first being raised by either party shall be addressed pursuant to the PPC/Dispute Resolution provision of this Agreement.
- (h) If any agreement covers both NCRR property and properties owned by NSR and/or A&EC, and NCRR determines that the agreement is to be

assigned, terminated or substituted with respect to the NCRR portion of the property, the action taken by NCRR will only cover the portion of the property owned by NCRR and rents, taxes and other costs or services will be prorated appropriately.

- (i) NSR and NCRR in contacts with third parties will make referrals to the other party in a manner that is consistent with this Section 19 and in such a manner as to encourage timely and efficient handling.

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Section 20. VERTICAL AND LATERAL CLEARANCES AND SUPPORT

During the term of this Agreement and any extension or renewals, NCRR will not impair vertical and horizontal clearances and the structural support of the track structures and other railroad facilities and appurtenances thereto needed by NSR to conduct its freight operations, consistent with the then current system-wide practices of NSR. Any proposal by NCRR or those claiming rights through NCRR which will have the effect of reducing any clearances or support present on the date hereof will be submitted to the PPC/Dispute Resolution procedure for resolution.

Section 21. OTHER PROPERTY ISSUES

- (a) NCRR hereby releases all claims to Linwood Yard on the Effective Date hereof.
- (b) Upon termination of this Agreement, as an equal value exchange, NSR will be granted by NCRR a permanent exclusive easement over a continuous main track, satisfactory to both parties, with connections, between Pomona and Elm and NCRR will be granted by NSR a one-half interest, with connections, in Pomona Yard, the terms of which shall be addressed according to the PPC/Dispute Resolution provisions.
- (c) All other property issues shall be deferred until the expiration or termination of the Agreement. If a cessation of service by NSR occurs on a segment pursuant to Section 17 hereof, all property issues relating to such segment shall be resolved in connection with such cessation. Each party agrees that in advance of termination of the Agreement, or any proposed cessation of service on a segment pursuant to Section 17 hereof, the parties will negotiate in good faith regarding any interim access agreements necessary for efficient operation of each party's terminal, interchange, or yard facilities until the deferred property issues are finally resolved.

Section 22. INDUSTRIAL DEVELOPMENT

NSR and NCRR will work cooperatively with the North Carolina Departments of Commerce and Transportation and with regional economic development interests to enhance economic development in the areas served by NSR on the NCRR track segments. NSR will make special efforts on the eastern segment of the line and will cooperate with industrial development efforts to identify and secure long term railroad users to locate adjacent to such NCRR line.

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Section 23. LIABILITY

NCRR and NSR hereby establish or provide for future consideration of certain criteria for liability, indemnity and insurance provisions and other related financial considerations which will apply to the several types of passenger operations which are currently or may in the future be conducted on or near the tracks over which NSR has trackage rights, and to establish a mechanism for handling future negotiations pertaining to liability issues as contemplated herein, and for resolving any future disagreements between the parties concerning such provisions. The term "financial consideration" as used in this Section 23 relates to financial agreements with Amtrak relating only to liability and indemnity concerns. For example, the term "financial consideration" shall not be deemed to include incentive payments provided to NSR for performance of Amtrak passenger trains. The types of passenger operations contemplated by the parties, and the criteria applicable to each, are set forth below.

- (a) Current or expanded Amtrak intercity passenger operations at scheduled speeds at or below 90 mph.

Amtrak currently operates intercity passenger service on NCRR tracks over which NSR has trackage rights, and in connection therewith, Amtrak provides to NSR certain indemnities and financial considerations related to those indemnities under its Basic Agreement with NSR. (The "Basic Agreement" between Amtrak and NSR shall be defined as the Agreement between Southern Railway Company and The Alabama Great Southern Railroad Company and National Railroad Passenger Corporation, dated January 2, 1979, as revised effective June 1, 1999.) To the extent Amtrak operates intercity passenger service on such tracks at scheduled speeds of 90 mph or less, whether under a contract with NSR or a contract with NCRR, and whether at its current or at some expanded future level, NSR's rights and obligations pertaining to indemnity and related financial considerations shall be those provided by Amtrak to NSR under its Basic Agreement.

- (b) High speed passenger operations

Passenger operations of any type at scheduled speeds in excess of 90 mph ("high speed" operations) will not be undertaken by NCRR or any other operator on or in close proximity to the tracks on which NSR has trackage rights, unless an appropriate type and level of liability, indemnity and insurance protection covering such operations has been agreed upon and implemented. Upon notice by NCRR to NSR that NCRR proposes such high speed passenger operations, NCRR and NSR shall, for a period not longer than six months, attempt to agree on what constitutes "close proximity," and on appropriate liability, indemnity and insurance protections for the proposed high speed passenger operations. Upon failure to agree within that six month period upon what constitutes "close proximity" or upon types and levels of liability, indemnity and insurance protection, the unresolved issues shall then be resolved

pursuant to the PPC/Dispute Resolution provisions of this Agreement. NCRR and NSR agree that high speed passenger operations will require different types and levels of liability and indemnity protection,

and that the liability, indemnity and insurance provisions of the 1998 Amended and Restated Operating Access Agreement Between Norfolk Southern Railway Company and Northern Virginia Transportation Commission & Potomac and Rappahannock Transportation Commission (VRE Agreement) is one example of the types and levels of liability, indemnity and insurance protection appropriate for high speed operations.

(c) Additional passenger operations

No passenger operations other than those described in Sections 23 (a) and (b) above (for example, non-Amtrak intercity passenger operations, commuter or light rail passenger operations) shall be operated, whether by NCRR or any other party, on or in close proximity to the tracks on which NSR has trackage rights, unless an appropriate type and level of liability, indemnity and insurance protection covering such operations has been agreed upon by all parties. Upon notice by NCRR to NSR that such passenger operations are proposed, NCRR and NSR shall, for a period not longer than six months, attempt to agree, if necessary, on what constitutes "close proximity," and on appropriate liability, indemnity and insurance protection for the proposed passenger operations. Upon failure to agree within that six month period upon what constitutes "close proximity" or upon types and levels of liability, indemnity and insurance protection, the unresolved issues shall then be resolved pursuant to the PPC/Dispute Resolution provisions of this Agreement. The principles set forth in subparagraphs (i) through (iv) below shall be applied in determining liability, indemnity and insurance obligations for such passenger operations, and to the extent lawful under the laws of the State of North Carolina, shall be applied without regard to the fault or negligence of any party:

- (i) In case of an accident involving only the trains or equipment of the operator of such passenger service, the operator shall be solely responsible for all injuries to its employees and passengers, all damages to track, equipment, lading or other property, and for all liability to third parties.
- (ii) In the case of an accident involving only the trains or equipment of NSR, NSR shall be responsible for all injuries to its employees, all damages to track, equipment, lading or other property, and for all liability to third parties.
- (iii) In case of an accident involving the trains of both NSR and the operator of such passenger service:
 - 1. NSR and the operator shall be separately responsible for, and each shall separately bear, all liability for injuries

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to its own passengers and employees, and for damages to its own property, including property and lading in its possession.

- 2. NSR and the operator shall be jointly responsible for and shall equally bear all liability for injuries and damages not covered in subparagraph (iii) 1 above.
- (iv) Except as provided in Sections 23 (a) and (b) above, all passenger operators shall provide and maintain commercial liability insurance or equivalent protection sufficient to cover the risks to which they are subjected by the provisions

of this Section 23 (c).

(d) Passenger operator qualifications

No passenger service of any type shall be operated unless the proposed operator is fully qualified pursuant to federal law to operate such passenger service. Amtrak will not be permitted by NCRR to operate additional intercity passenger service trains on the trackage over which NSR has trackage rights hereunder unless NSR is first consulted regarding any such plans.

(e) Notice regarding matters in this section

Any notice given by NCRR to NSR with respect to new passenger operations shall be in writing and shall specify that such notice is being given pursuant to Section 23 of this Agreement.

(f) Cooperation in securing legislation

NCRR and NSR acknowledge and agree that the types and levels of liability, indemnification and insurance protection the parties may deem appropriate as they pertain to certain passenger operations may not be possible without legislation. The parties agree that should legislation be necessary to accomplish their goals, they shall cooperate in seeking such legislation.

Section 24. ENVIRONMENTAL PROVISIONS

(a) Environmental Definitions

- (i) "Environmental Occurrence" means (1) any violation of applicable federal, state or local environmental laws, regulations, administrative orders or judicial decrees, as they apply to any part of the Leased Properties; (2) any noise, vibration or the deposit, spill, discharge, or other release of a Contaminating Substance on or from any part of the Leased Properties; or (3) any failure to provide

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information, make all appropriate submissions, and fulfill all applicable legal obligations of the owner and/or operator of the Leased Properties.

- (ii) "Contaminating Substance" means oil, petroleum or any substance declared to be hazardous or toxic or treated as a pollutant or contaminant under any law or regulation now or hereafter enacted or promulgated by any governmental authority.
- (iii) "Designated Returned Property" means those parcels identified in EXHIBIT B.
- (iv) "Leased Properties" means the properties leased to NSR and/or A&EC that (1) were included within the leaseholds as of December 31, 1994, under the 1895 Lease or the 1939 Lease (including the Designated Returned Property and the Line of Road); or (2) which then or thereafter became additions to the properties leased under the 1895 Lease or the 1939 Lease before the Effective Date.

- (v) "Line of Road" means the property over which NSR is the exclusive freight operator under the Trackage Rights Agreement and this Agreement, as well as Designated NSR Facility Property as determined pursuant to Section 18 of this Agreement.
- (b) Responsibility for Environmental Occurrences on the Leased Properties During the Leasehold Period and Until the Effective Date.
 - (i) NSR agrees to indemnify, defend and hold harmless NCRR and its respective officers, directors, beneficiaries, shareholders, partners, agents, and employees from all fines, suits, procedures, claims, liabilities, damages (including without limitation diminution in property value and other economic loss) and actions of every kind, and all reasonable costs and expenses associated therewith (including attorneys' and consultants' fees) if NCRR is a named or charged party arising from any Environmental Occurrence that occurred on the Leased Properties during the leasehold period and until the Effective Date.
 - (ii) If NSR's responsibility with respect to a specific parcel is triggered by Section 24(b)(i), NSR reserves the right upon written notice to NCRR to undertake site investigation, cleanup and remediation itself in a reasonable and prompt manner.
 - (iii) NCRR will provide NSR with reasonable access to any properties of NCRR on which NSR takes action under Section 24(b)(ii) to investigate, clean up or remediate environmental harm, or on which NSR desires to undertake any other related action the performance of which is rendered more efficient or less costly when performed on such property, or which is needed by NSR to access any such properties.

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- (c) Responsibility for Environmental Occurrences on the Designated Returned Property On and After the Effective Date or Return Date
 - (i) NCRR agrees to indemnify, defend, and hold harmless NSR and its officers, directors, beneficiaries, shareholders, partners, agents, and employees from all fines, suits, procedures, claims, liabilities, damages and actions of every kind, and all reasonable costs and expenses associated therewith (including attorneys' and consultants' fees) if NSR is a named or charged party arising from any Environmental Occurrence, other than an Environmental Occurrence for which NSR is responsible under Section 24(d)(i) below, that occurs on any Designated Returned Property after the Effective Date or the Return Date, whichever comes later.
 - (ii) If an Environmental Occurrence for which NCRR is responsible under Section 24(c)(i) is related to any Environmental Occurrence for which NSR is responsible under Section 24(b)(i), NCRR will be responsible only to the extent that contamination that was present prior to the Effective Date or Return Date is exacerbated by the later Environmental Occurrence.
 - (iii) If NCRR's responsibility with respect to a specific parcel is triggered by Section 24(c)(i), NCRR reserves the right upon

written notice to NSR to undertake site investigation, cleanup and remediation itself in a reasonable and prompt manner.

- (iv) NSR will provide NCRR, at no charge to NCRR, with reasonable access to any property controlled by NSR on which NCRR takes action under Section 24(c)(i) to investigate, clean up or remediate environmental harm, or on which NCRR desires to undertake any other related action the performance of which is rendered more efficient or less costly when performed on such property, or which is needed by NCRR to access any such properties.

(d) Responsibility for Environmental Occurrences Resulting From NSR Operations On and After the Effective Date

- (i) NSR agrees to indemnify, defend, and hold harmless NCRR and its officers, directors, beneficiaries, shareholders, partners, agents, and employees from all fines, suits, procedures, claims, liabilities, damages (including without limitation diminution in property value and other economic loss) and actions of every kind, and all reasonable costs and expenses associated therewith (including attorneys' and consultants' fees) if NCRR is a named or charged party arising from any Environmental Occurrence that occurs on property owned by NCRR on or after the Effective Date, but only to the extent such Environmental Occurrence results from

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the operations of NSR, its agents or any party with a direct contractual relationship with NSR relating to NSR's operations, including Amtrak under an Amtrak/NSR Direct Service Agreement.

- (ii) NSR will be responsible for (1) overseeing its own environmental operations, (2) responding to notices, claims, lawsuits, or orders pertaining to environmental issues or incidents arising out of its freight operations or Amtrak/NSR Direct Services and occurring on or adjacent to the Line of Road or adjacent properties, and (3) complying with and performing all environmental obligations of the freight operator of the Line of Road during the term of the Trackage Rights Agreement and any renewals. NSR will not allow the release, discharge or disposal of any wastes of any kind, whether hazardous or not, on the properties of NCRR. For purposes of the preceding sentence only, the agreement of NSR not to allow the release, discharge or disposal of any wastes on the properties of NCRR will not apply to the temporary storage of wastes in tanks or containers or to the discharge of waste water or other effluent subject to a valid permit in accordance with all applicable environmental laws and regulations. Should NSR inadequately perform any action required under applicable environmental laws, rules, regulations, ordinances or judgments, NCRR or its representative shall have the right to take whatever reasonable corrective action NCRR deems necessary to perform the work, at the sole expense of NSR.
- (iii) NCRR will provide NSR with reasonable access to any properties of NCRR on which NSR is required by this Section 24(d) to take action to investigate or remediate environmental harm, or on which NSR is required hereunder to

take any other related action the performance of which is rendered more efficient or less costly when performed on such property, or which is needed by NSR to access any such properties.

- (iv) To the extent permitted by applicable laws and regulations, the following will be provided to NCRR or to NSR within 30 days of the receipt or submission thereof by NSR or by NCRR, as the case may be:
 - (A) Any administrative or judicial investigation, complaint, order or demand filed, served on or delivered to NCRR or NSR by any governmental agency at any time during the term of this Agreement because of or arising from the deposit, spill, discharge or other release of a Contaminating Substance which occurred on any part of the Leased Properties before the Effective Date, or the Line of Road, or any parcel in which the other party has an interest on and after the Effective Date;

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- (B) Notice of any claims, lawsuits or other actions against NCRR or NSR at any time during the term of this Agreement for injunctive relief or recovery of losses sustained because of or arising from the deposit, spill, discharge or other release of a Contaminating Substance which occurred on any part of the Leased Properties before the Effective Date, or the Line of Road, or any parcel in which the other party has an interest on and after the Effective Date;
 - (C) A copy of any analytical results, correspondence or report pertaining to underground storage tanks, above ground storage tanks, wetlands or any environmental investigation of any part of the Line of Road, which is submitted to NCRR or NSR by any third party (excluding NCRR's or NSR's contractors and consultants, but including governmental agencies) or submitted by NCRR or NSR to any governmental agency at any time during the term of this Agreement;
 - (D) A copy of the results of environmental tests performed by or on behalf of a governmental agency at any time during the term of this Agreement because of or related to any deposit, spill, discharge or other release of a Contaminating Substance occurring on any part of the Line of Road; and
 - (E) A copy of all environmental reports, notices and correspondence submitted by NCRR or NSR to any governmental agency after the effective date of this Agreement pursuant to any applicable federal, state, or local law, ordinance or regulation pertaining to the Line of Road at any time during the term of this Agreement.
- (v) If there is an Environmental Occurrence which NCRR has a reasonable good faith belief may constitute a risk of liability, expense or criminal exposure to NCRR, NCRR will be given full access to and opportunity to copy any relevant environmental reports, studies or data pertaining to such Environmental Occurrence in the possession of NSR (excepting privileged communications with counsel for NSR), upon 30 days

prior written notice to NSR.

(d) Remediation Standards

No cleanup or remediation will be required pursuant to this Agreement unless Contaminating Substances are present in amounts requiring reporting to state or federal environmental agencies and in amounts requiring cleanup or remediation under applicable environmental laws and regulations. If a cleanup or remediation work is required on any parcel of Leased Properties that is used for non-residential purposes as of July 1, 1999, the indemnifying party under Sections 24(b), (c) or (d) will not be required to meet more stringent standards due to existing or possible future

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development of the parcel for residential uses. The obligation to indemnify for cleanup and remediation expenses or the undertaking of such work shall not be increased based upon any development requiring excavation of the surface or subsurface of the given parcel for the construction of underground garages, basements, or subsurface occupation. The parties agree that the cleanup standard applicable to such parcel may be based upon a site specific risk assessment, if such approach complies with applicable environmental laws and regulations or is accepted by the environmental agency having jurisdiction over the parcel.

(e) Retention of Rights

In addition to the rights conveyed by this Section 24, NCRR and NSR each retains all statutory and common law rights and causes of action against the other, including but not limited to its rights under federal and state environmental laws, arising out of Environmental Occurrences.

(f) Termination of Indemnification Obligations

(i) The parties' indemnification and defense obligations under Sections 24(b), (c) and (d) of this Agreement arising out of an Environmental Occurrence will terminate seven (7) years after the party seeking indemnification has actual knowledge or receives proper notice from the other party or a third party of the Environmental Occurrence, and in any event such obligations will terminate seven (7) years after the termination of this Agreement and any extensions thereof. If the party seeking indemnification for an Environmental Occurrence submits a valid claim in writing to the other party within this time period, the indemnifying party's obligations under this Agreement will continue indefinitely with respect to that Environmental Occurrence until the matter is resolved. For purposes of this Section 24(f)(i), any notice or claim must meet the following additional requirements:

(1) In the case of a notice by either NSR or NCRR to each other, it must refer to this Section 24(f)(i) and must be delivered either by hand; by registered or certified mail, return receipt requested; by next-day delivery, with written evidence of receipt; or by fax, with confirmation by registered or certified mail, return receipt requested.

- (2) It must specifically describe the suspected Environmental Occurrence, the nature and scope of the contamination, the property affected, any claims that have been made and plans for investigation or remediation, to the extent such information is available.

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- (ii) Unless the parties' obligations have terminated under Section 24(f)(i), NCRR and NSR each agrees to waive and not to assert as a defense to its indemnification obligations under this Section 24 any statute of limitations, statute of repose, laches or other time related defense with respect to any Environmental Occurrence.

(g) Environmental Information for Designated Returned Property

With respect to the Designated Returned Properties, on or before October 1, 1999, NSR will identify any contamination of which it has knowledge and will provide to NCRR all information and reports pertaining thereto, and NCRR will have the right to inspect such properties before their return. Such right of inspection will include the right to perform an environmental site assessment.

(h) Dispute Resolution

Any dispute arising under this Section 24, if not resolved within 90 days of being raised by either party, shall be addressed pursuant to the PPC/Dispute Resolution provision of this Agreement.

Section 25. "REIT" COOPERATION

- (a) NSR will cooperate with NCRR in maintaining NCRR's status as a Real Estate Investment Trust ("REIT") for income tax purposes.
- (b) NCRR and NSR intend that, to the extent permitted by law, the payments by NSR for trackage rights be treated as rents from real property for purposes of NCRR's continued qualification as a REIT.

Section 26. PROPERTY TAXES

- (a) NSR shall continue to pay property (ad valorem) taxes assessed against NSR as a result of the allocation of a portion of its system value to the taxing jurisdiction in which NCRR owns property over which NSR serves as the exclusive freight operator pursuant to the Agreement.
- (b) NSR: (i) shall be responsible for property (ad valorem) taxes, if any, determined pursuant to the North Carolina General Statutes and related rules and regulations of the North Carolina Department of Revenue on Non-operating Property that is owned by NCRR and which NSR has the exclusive right to use under the Agreement and (ii) shall be responsible for any property taxes, assessments, or liens with respect to Designated Returned Property not paid by NSR or any of its subtenants/licensees for all periods prior to the Return Date. NCRR shall be responsible for property (ad valorem) taxes on all other Non-operating Property; provided, however, where NSR has the non-exclusive right to use Non-operating Property under

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the Agreement, then NSR shall be responsible for its pro rata share of the property taxes on such property based on NSR's usage of such property. For purposes of this Section 26, Non-operating Property shall mean property that is appraised as non-system property by the North Carolina Department of Revenue or separately assessed by the local assessor as non-public service company property.

- (c) NSR or NCRR will not be required to pay any tax it is obligated to pay under the provisions of this Section during the time it shall reasonably and in good faith and by appropriate legal or administrative proceedings contest the validity or the amount thereof.
- (d) NSR and NCRR and their respective assignees and designees shall have the right to control and defend at their expense any audit or examination by any taxing authority, or any judicial proceeding, relating to any taxes required to be paid by them respectively under this Section.
- (e) If during the term of the Agreement, including any renewal period, the manner in which property (ad valorem) taxes are assessed against railroads is changed, or if improvements are made by NCRR or any other party hereunder that are not used by NSR and that affect the amount of property taxes assessed against NSR, the parties will attempt in good faith to agree upon any changes which may be necessary to this Section 26, using the PPC/Dispute Resolution procedures herein if necessary; it being the parties' understanding that the amount of property taxes payable by NSR under this Section 26 shall not be increased by property taxes attributable: (i) to the portion of property owned by NCRR that is not used by NSR or (ii) to expenditures or additions to capacity that are not used by NSR.

Section 27. REGULATORY APPROVAL AND EFFECTIVE DATE

- (a) The grant of trackage rights hereunder and any renewals are subject to prior approval or exemption from prior approval by the Surface Transportation Board ("STB") or any successor agency of the undertakings of NSR herein, as may be required or appropriate under 49 U.S.C. Section 11323, or any successor federal legislation and such approval or exemption action becoming final.
- (b) After (i) all requisite governmental and corporate approvals for this grant of rights have become effective or have been satisfied; (ii) this Agreement and all associated documents have been fully executed and delivered; and (iii) any court orders enjoining the implementation of this Agreement have expired or are no longer in effect, this Agreement and the Trackage Rights Agreement shall be effective contemporaneously (the "Effective Date").

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Section 28. RESOLUTION OF LITIGATION

NCRR and NSR agree that the STB compensation and federal court proceedings will be voluntarily dismissed by the parties without prejudice within twenty days of execution of this Agreement and all

necessary approvals have been obtained.

- (a) NCRR and NSR agree that the STB compensation and federal court proceedings will be voluntarily dismissed by the parties without prejudice within twenty days of execution of this Agreement and all necessary approvals have been obtained.
- (b) Except with respect to (i) personal property claims released as set forth in Section 6, "Release" and (ii) property claims resolved as set forth in Section 21, "Other Property Issues," none of NCRR's claims for improvements, additions, betterments, improvements to real property, property rights, franchises or privileges under the Old Leases are waived or affected by virtue of the execution and delivery of this Agreement.
- (c) The terms of the Old Leases create potential claims that NSR and/or A&EC would owe and be obligated to deliver to NCRR additional properties (hereinafter "Claims for Additions"). The parties acknowledge that to the extent Claims for Additions exist, the circumstance that such additional properties and/or rights may have been acquired or now be held in the name of a company affiliated with NSR or A&EC will not, of itself, be determinative of the issue of whether the Claims for Additions are valid.
- (d) No claim or demand contemplated by the Old Leases for the return of real property and related railroad facilities otherwise to be determined at the expiration or termination thereof may be made until, and therefore each of them is postponed to, the termination of this Agreement or any renewal (or any cessation of service over a segment pursuant to Section 17 hereof with respect to such segment). NCRR and NSR agree that nothing in this Agreement shall abridge, estop, compromise, release or waive any such claims deferred under this Agreement and that no defense of waiver, laches, acquiescence, release, estoppel, or the like arising on or after December 31, 1994 with respect to any such claims existing on that date may be asserted by reason of NCRR's agreement not to assert such claims at this time.

Section 29. POLICY PLANNING COMMITTEE/DISPUTE RESOLUTION

NCRR and NSR will establish a joint senior-level Policy Planning Committee ("PPC" or "Committee").

The PPC will serve as a planning resource to the various issues which are properly before it, including but not limited to dispatching matters, maintenance levels and the implementation of third-party operations on NCRR lines.

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There will be three representatives from each of NSR and NCRR on the committee. Those appointed shall be empowered to act within the parameters of the committee's area of concern, subject to necessary management approvals of expenditures.

The PPC will meet not less than twice a year on a scheduled basis. If either party desires an additional meeting or meetings, it shall provide a proposed agenda and a thirty-day notice to the other party. The other party may either agree to the proposed meeting date or request a fifteen-day extension, at which time the meeting will take place. The parties will alternate sites of the scheduled meetings or may agree to meet at a site convenient to both parties. The party requesting the

special meeting will travel to the other party's headquarters location. Any special meeting may be held via telephone conference.

DISPUTE RESOLUTION - PPC

The PPC shall also address and attempt to resolve Disputes. As used in this section, a "Dispute" is any controversy, claim, issue, or other dispute between NCRR and NSR that arises out of, in connection with, or in relation to this Agreement or the Trackage Rights Agreement, whether it arises in contract, in tort, by statute, or otherwise. "Dispute" includes, but is not limited to: (a) any failure to agree on matters as to which this Agreement expressly or implicitly contemplates subsequent agreement by the parties (except for any matters left to the sole discretion of a party); (b) any question about the parties' relationship under this Agreement or the Trackage Rights Agreement; (c) any question about the interpretation, performance, breach, validity, scope, duration, enforceability or termination of the provisions in this Agreement or the Trackage Rights Agreement; and (d) any question of arbitrability that arises under this Agreement or the Trackage Rights Agreement.

If a Dispute between the parties cannot be resolved by the parties in the ordinary course of business, that Dispute shall be resolved as follows:

- (a) The Dispute shall be submitted to the PPC for resolution. Either party shall have the right to submit the Dispute to the PPC by providing the other party with written notice to that effect in the manner set forth later in this Agreement for the giving of notices. The notice (the "Notice") shall describe the Dispute and indicate that the party providing the Notice wishes to resolve the Dispute pursuant to the dispute resolution provisions in this section. The submitted Dispute shall be addressed at the next regularly scheduled meeting of the PPC unless the party providing the Notice declares that the Dispute is urgent and requests that a special meeting be held to address the submitted Dispute, provided that the party exercising that right has complied with the Notice requirements for meetings and agenda items described above.
- (b) If the PPC fails to resolve a Dispute properly submitted to it pursuant to the provisions set forth above at the meeting scheduled pursuant to the Notice (or if such meeting is not held, on or

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before the date such meeting is scheduled to be held), the Dispute shall then be submitted to NSR's Chief Operating Officer and NCRR's President for resolution.

- (c) If NSR's Chief Operating Officer and NCRR's President fail to resolve a Dispute properly submitted to them pursuant to the provisions set forth above within 90 days following the date the meeting scheduled pursuant to the Notice is held (or, if such meeting is not held, the date such meeting is scheduled to be held), the Dispute shall then be arbitrated as set forth below.

DISPUTE RESOLUTION - ARBITRATION

Notice of Arbitration. Either NCRR or NSR shall have the right to initiate arbitration of any Dispute not resolved as provided above by providing a notice of arbitration to the other party in the manner set forth later in this Agreement for the giving of notices. This notice shall clearly describe the Dispute to be arbitrated and indicate whether

the party initiating arbitration wishes to submit the dispute to one arbitrator or to three arbitrators.

Number of Arbitrators. If the party initiating the arbitration indicates a desire to submit the Dispute to only one arbitrator, and the party receiving the notice gives notice of its consent to the use of a single arbitrator within ten business days in the manner set forth later in this Agreement for the giving of notices, then one-arbitrator arbitration shall be used. Otherwise, three-arbitrator arbitration shall be used.

Arbitration Site. The arbitration hearing shall be conducted at a neutral location of the arbitrator's or arbitrators' choosing.

Arbitration Rules. The arbitration shall be conducted pursuant to the American Arbitration Association's Commercial Arbitration Rules (or their successor) (the "Arbitration Rules"). The use of the Commercial Arbitration Rules shall not require the actual submission of the Dispute to the American Arbitration Association. The Arbitration Rules shall apply except to the extent they are inconsistent with the requirements of this Agreement. Other arbitration rules or any arbitration forum may be used if agreed to by the parties.

Three-Arbitrator Arbitration. Under this procedure, the Dispute shall be resolved by a panel of three arbitrators. These arbitrators shall be knowledgeable about the subject matter of the Dispute. For example, with regard to railroad operational matters, arbitrators knowledgeable in Class I railroad operations and rail passenger operations shall be selected. These arbitrators shall comply with the Code of Ethics for Arbitrators in Commercial Disputes issued by the American Bar Association and the American Arbitration Association. These arbitrators shall not be current or previous employees of the parties, nor shall they within the past ten years have received regular remuneration from either party other than for arbitration services.

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The party who submits the Dispute to arbitration shall select and identify the first of these arbitrators in the notice of arbitration. The other party shall identify the second in a notice to be given not more than 45 days after it receives the notice of arbitration. Within 30 days of the second arbitrator's selection, the two arbitrators shall select a third, from nominations by the parties or otherwise, and notify the parties of the selection. If the two selected arbitrators cannot agree on a third within 90 days of the notice of arbitration, the parties shall submit the Dispute to the American Arbitration Association and the third arbitrator shall be chosen in accordance with the Arbitration Rules or, if those Rules provide no means to make the selection, pursuant to the Federal Arbitration Act, currently codified as 9 U.S.C. Sec. 1 et seq.

The decision of the majority of the arbitrators shall constitute their award. Their award shall be rendered in writing within 90 days of the selection of the third arbitrator unless otherwise agreed between the parties, and it shall contain a brief description of the rationale for the award. The award shall be final and binding on the parties.

One-Arbitrator Arbitration. Under this procedure, the Dispute shall be resolved by a single arbitrator. The arbitrator shall be knowledgeable about the subject matter of the Dispute. For example, with regard to railroad operational matters, an arbitrator knowledgeable in Class I railroad operations and rail passenger operations shall be selected. The arbitrator shall comply with the Code of Ethics for Arbitrators in

Commercial Disputes issued by the American Bar Association and the American Arbitration Association. The arbitrator shall not be a current or previous employee of the parties, nor shall he or she within the past ten (10) years have received regular remuneration from either party other than for arbitration services.

The parties will meet by telephone within ten days of receipt of the notice of arbitration and seek agreement on the identity of the arbitrator. If the parties are unable to reach agreement on the identity of the arbitrator within 30 days of the notice of arbitration, either (i) the parties shall submit the Dispute to the American Arbitration Association and the arbitrator shall be chosen in accordance with the Arbitration Rules or, if those rules provide no means to make the selection, pursuant to the Federal Arbitration Act, currently codified as 9 U.S.C. Sec. 1 et seq., or (ii) either party may initiate three-arbitrator arbitration to resolve the Dispute by resubmitting an appropriate notice of arbitration.

The award shall be rendered in writing within 45 days of the selection of the arbitrator unless otherwise agreed between the parties, and it shall contain a brief description of the rationale for the award. The award shall be final and binding on the parties.

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General Provisions.

The decision of the arbitrator(s) shall be final and binding. Judgment to enforce the decision or award of the arbitrator(s) may be entered in any court having jurisdiction, and the Parties shall not object to the jurisdiction of the North Carolina General Court of Justice for that purpose.

All proceedings relating to any such arbitration, and all testimony, written submissions and awards of the Arbitrator(s) therein, shall be private and confidential as among the parties and shall not be disclosed to any other person, except that NCRR or NSR may disclose them to third parties if (1) the information is publicly available; (2) disclosure is recommended or required under applicable laws, rules, or regulations, including, without limitation, securities laws; or (3) disclosure is reasonably necessary to prosecute or defend any judicial action to enforce, vacate, or modify such arbitration award.

The arbitrator(s) shall resolve all questions of state law by application of the substantive law of North Carolina. They shall not apply North Carolina's choice of law rules.

The arbitrator(s) shall not be authorized to award punitive damages, regardless of the otherwise applicable substantive law they apply to resolve the Dispute. The Arbitrator(s) shall have the power to require the performance of acts found to be required by this Agreement, and to require the cessation or non-performance of acts found to be prohibited by this Agreement.

In an appropriate case, either party (or both) may request a temporary restraining order, preliminary injunction, declaratory judgment or other interim measure from a court or administrative body of competent jurisdiction while arbitration proceedings are pending. Such a request shall not be deemed incompatible with an agreement to arbitrate or a waiver of the right to arbitrate.

Each party shall pay the compensation, costs, fees and expenses of its own witnesses, experts and counsel. The compensation and any costs and

expenses of the arbitrator(s) and all other costs of the arbitration shall be equally divided between the parties.

In any judicial proceeding to enforce this Agreement to arbitrate, the only issues to be determined shall be the existence (but not the scope) of an agreement to arbitrate or the failure of NCRR or NSR to comply with that agreement. All other issues shall be decided by the Arbitrator(s), whose decision thereon shall be final and binding. There may be no appeal of an order compelling arbitration except as part of an appeal concerning confirmation of the decision of the Arbitrator(s).

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No party to this Agreement shall initiate a lawsuit or any administrative proceeding (a "lawsuit") against another party to this Agreement if that lawsuit involves a Dispute that could otherwise be arbitrated under this section, except to the extent that the lawsuit seeks (i) to compel an arbitration permitted by this section; (ii) to confirm (and have judgment entered on) or to vacate an arbitration award made pursuant to this section; (iii) to stay the running of any statute of limitations; or (iv) to prevent any other occurrence (including, without limitation, the passing of time) that would give rise to a defense such as laches, estoppel, or waiver that initiating a lawsuit may be necessary to avoid. If a lawsuit is brought for the purposes described in (iii) or (iv), no party shall pursue such litigation beyond such action as is necessary to prevent prejudice to its cause of action pending ultimate resolution by arbitration under this section.

If a third party initiates a lawsuit against a party to this Agreement (the "Defendant"), and this gives rise to a Dispute, neither party to this Agreement shall pursue a claim in the lawsuit against the other without the other's consent except as provided in the preceding paragraph.

The parties acknowledge that this Agreement is a "contract evidencing a transaction involving commerce" as that phrase is used in the Federal Arbitration Act at 9 U.S.C. Sec. 2. The parties agree that the arbitrators shall be guided by the terms of the Agreement and the General Principles set forth herein.

Section 30. NOTICES

Any notices given hereunder shall be effective if sent by registered or certified mail (United States Mail) and addressed as follows:

If to NSR:
Senior Vice President-Operations
Norfolk Southern Corporation
Three Commercial Place
Norfolk, Virginia 23510

If to NCRR:
President
North Carolina Railroad Company
3200 Atlantic Avenue, Suite 110
Raleigh, North Carolina 27604

or to such other official and/or address as any of the parties hereto may specify in a written notice to the other parties hereto, sent as stated above.

Section 31. SUCCESSORS AND ASSIGNS

Neither party hereto shall transfer or assign this Agreement, or any of its rights, interests or obligations hereunder, to any person, firm, or corporation which is not affiliated with such party without obtaining the prior written consent of the other party to this Agreement; provided, however, that neither party shall be required to obtain the prior approval of the other party in connection with any assignment effected by a merger, consolidation or corporate reorganization or other transaction where substantially all of the rail assets and liabilities of such party are brought under common control with the assets of another party.

Section 32. MISCELLANEOUS

- (a) Except to the extent controlled by federal laws and regulations, this Agreement shall in all respects be governed by the laws of the State of North Carolina.
- (b) This Agreement, together with its attachments and exhibits, contains all the agreements of the parties hereto and supersedes any previous negotiations.
- (c) There have been no representations made by or on behalf of the NCCR or NSR or understandings made between or among the parties hereto other than those set forth in this Agreement. This Agreement may not be modified except by a written instrument signed by the parties hereto.
- (d) All obligations of the parties hereunder not fully performed as of the expiration or earlier termination of the term of this Agreement and any renewal shall survive such expiration or earlier termination of the term hereof and any renewal.
- (e) If any clause, phrase, provision or portion of this Agreement or the application thereof to any party or circumstance shall be invalid or unenforceable under applicable law, such event shall not affect, impair or render invalid or unenforceable the remainder of this Agreement or any other clause, phrase, provision or portion hereof, nor shall it affect the application of any other clause, phrase, provision or portion hereof to other parties or circumstances.
- (f) The section headings herein are for convenience of reference and shall in no way define, increase, limit, or describe the scope or intent of any provision of this Agreement.
- (g) Neither party shall be liable to the other in damages nor shall this Agreement be terminated nor a default be deemed to have occurred because of any failure to perform hereunder caused by a "Force Majeure." Each party will be excused from performance of any of its obligations hereunder, except obligations involving the payment hereunder of money to the other party or to a third party,

where such non-performance is occasioned by Force Majeure. Force Majeure shall mean fire not caused by NSR operations, earthquake, flood, explosion, a wreck not involving NSR trains, strike, riot, insurrection, civil disturbance, act of public enemy, embargo, war, act of God, inability to obtain labor, materials or supplies, any governmental regulation, restriction or prohibition, or any other similar cause beyond the party's reasonable control.

Section 33. INSPECTIONS AND RECORDS; AUDIT

- (a) Audit and reporting records (including but not limited to payment amounts, cost and payment calculations, real estate records, engineering data, freight and passenger traffic data, etc.) will be exchanged by the parties on a periodic basis.
- (b) NSR will maintain written records of the delays to passenger and, if any, commuter trains and NSR shall provide those records to NCRR on a monthly basis. These records will include the length and cause of delay, including those which are caused by circumstances which are beyond the NSR control. NSR shall provide any information in its possession on circumstances that cause delay outside of NSR control.
- (c) NSR will provide NCRR with the following annual reports, records or documents on or before June 1 of the following year:
 - (i) Rail, signal, and bridge program maintenance improvements reports showing improvements made on the NCRR lines during the previous calendar year, including, without limitation, the number of new ties installed, miles surfaced, and length of new or used rail installed, by line segment;
 - (ii) Updated track profiles;
 - (iii) Previous calendar year's car loads originated and terminated by station, and number of car miles by line segment (Raleigh-Morehead City, Raleigh-Greensboro, and Greensboro-Charlotte) as available in NSR's records or systems in use;
 - (iv) Scheduled program maintenance for the then-current calendar year.
 - (v) Copies of the previous calendar year's annual reports filed with the North Carolina Utilities Commission and the Surface Transportation Board ("STB") or its successor (currently designated as Form R1 for the STB);
- (d) By January 1, 2000, and not less than every three years thereafter, NSR will furnish to NCRR copies of the following records then in use by NSR: (i) changes to valuation or similar maps of NCRR

including intersection points with other lines, and (ii) a bridge inventory (including but not limited to date of construction, type, and condition on the NCRR lines operated and/or maintained by NSR).

- (e) Up to two NCRR designated inspectors may inspect NCRR trackage operated by NSR not less than every two years, traveling by high rail vehicle with NSR supervisors or other NSR-designated personnel during their regular inspection trips, and over the track sections routinely scheduled by NSR for inspection. It is the intention of

the parties that NCRR have the opportunity to inspect its lines in their entirety annually, subject however, to NSR's availability to schedule such inspection trips over a reasonable period of time in order to minimize disruption of NSR operations and use of NSR personnel.

- (f) If NSR incurs costs or expenses associated with providing the information required in this Section 33 other than for copies of records and reports ordinarily maintained by NSR in the course of its business, the allocation of such costs between the parties shall be addressed by the PPC/Dispute Resolution provision of this Agreement.

Section 34. CONFIDENTIALITY

- (a) Except as may be otherwise agreed between NCRR and NSR, any documents and records (the "information") shared between the parties pursuant to this Agreement shall not be disclosed to third parties without first obtaining the written consent of the party providing the information to the other party hereto.
- (b) NCRR or NSR may disclose the information to third parties if the information is publicly available or if disclosure is recommended or required under applicable laws, rules, or regulations, including, without limitation, securities laws.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

WITNESS

NORFOLK SOUTHERN RAILWAY COMPANY

/s/ Henry D. Light

By: /s/ R. A. Brogan

Title:

WITNESS

NORTH CAROLINA RAILROAD COMPANY

/s/ Najla J. Silek

By: /s/ Sam Hunt

Title:

Subject to necessary corporate and governmental approvals.

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EXHIBIT INDEX

Exhibit No.

Document

A	Timetable and Track Profiles as of July 1, 1999
B	Designated Returned Properties
C	Third Party Property/Agreement Request Chart

ATTACHMENT

Trackage Rights Agreement

NORFOLK SOUTHERN CORPORATION
MANAGEMENT INCENTIVE PLAN

AS AMENDED EFFECTIVE JANUARY 25, 2000

Section I. PURPOSE OF THE PLAN

It is the purpose of the Norfolk Southern Corporation Management Incentive Plan (Plan) to enhance increased profitability for Norfolk Southern Corporation by rewarding executive personnel of Norfolk Southern Corporation and its affiliates with a bonus for collectively striving to attain and surpass financial objectives.

Section II. ADMINISTRATION OF THE PLAN

The Compensation and Nominating Committee or any other committee of the Board of Directors of Norfolk Southern Corporation which is authorized to determine bonus awards under the Plan (Committee) shall administer and interpret this Plan and, from time to time, adopt such rules and regulations and make such recommendations to the Board of Directors concerning Plan changes as are deemed necessary to insure effective implementation of this Plan.

No executive may simultaneously participate in more than one Norfolk Southern Corporation Incentive Group. An executive must reside in the United States or Canada in order to participate in the Plan.

Section III. ESTABLISHMENT OF PERFORMANCE STANDARDS

The Committee shall establish:

- A. The Incentive Groups for the incentive year,
- B. The bonus level for each Incentive Group for the incentive year, and
- C. The performance standards for Pre-Tax Net Income and operating ratio with resultant Corporate Performance Factors (Corporate Performance Table).

Section IV. TYPE OF INCENTIVE BONUS

By December 22 of the year prior to the incentive year, each participant must elect to receive any incentive bonus which may be awarded to him or her for the incentive year either 100% cash or deferred in whole or in part. A participant shall be permitted to defer only 25%, 50%, 75% or 100% of the bonus for any incentive year. If the participant elects to receive 100% cash, the entire amount of the bonus for the incentive year shall be distributed to the participant, or his or her

beneficiary, as hereinafter defined on or before March 1 of the year following the incentive year. If deferred in whole or in part, the amount deferred shall be allocated to the participant's deferred savings account on or before March 1 of the year following the incentive year and the remainder, if any, shall be distributed in cash to the participant or his or her beneficiary on or before March 2 of the year following the incentive year. However, all amounts deferred under this Plan shall be allocated to the Norfolk Southern Corporation Officers' Deferred Compensation Plan and such deferrals will be governed by the provisions of that plan.

Failure on the part of the participant to elect a deferral by December 22 of the year prior to the incentive year, either in whole or in part for the incentive year, shall be deemed to constitute an election by such participant to receive the entire incentive bonus for the incentive year as a cash bonus.

The Board of Directors shall have the right to reject all deferral elections if, in its sole discretion, it shall determine prior to the close of an incentive year that deferral has become inadvisable, and, if such right shall be exercised, all incentive bonuses earned under the Plan for such year shall be payable in cash, as provided for in the third sentence of this Article IV.

Section V. BONUS AWARDS

At the end of the incentive year, the Committee shall determine the Corporate Performance Factor from the Corporate Performance Table based on the operating ratio and Pre-tax Net Income (Norfolk Southern's income before state and federal income taxes as reported in the annual consolidated financial statements for the incentive year). In computing Pre-tax Net Income and operating ratio, special charges and restructuring charges, and unusual or infrequent accounting adjustments which are significant, and restatements or reclassifications, all as determined in accordance with Generally Accepted Accounting Principles, which would have the effect of reducing Pre-tax Net Income or increasing the operating ratio, shall be excluded, unless the Committee shall determine otherwise.

A participant's bonus award shall be determined by multiplying the Corporate Performance Factor by the participant's bonus level, with the result multiplied by the participant's total salary paid during the incentive year. The Chief Executive Officer may review and adjust the bonus award of any Incentive Group participant between 0% and 125% based on the individual's performance. In no event, however, may the total bonus award to all Incentive Groups for an incentive year exceed the maximum bonus levels for all Incentive Groups as determined by the Committee.

If the employment of a participant who is employed by Norfolk Southern Corporation or its affiliates during the incentive year terminates prior to the end of such year by reason of (1) death, or (2) normal retirement, early retirement or total disability under applicable Norfolk Southern Corporation plans and policies, then the phrase "total

salary paid during the incentive year" means base salary paid to the participant during that portion of such year of employment prior to his or her termination and through the end of the calendar month or payroll

period in which employment terminates but excludes any cash paid with respect to such participant's unused vacation. No incentive bonus for any incentive year shall be awarded or paid to any participant whose employment with Norfolk Southern Corporation and all its affiliates terminates before the end of such incentive year for a reason other than one of those specifically stated in the preceding sentence.

If a participant becomes eligible for the Plan during the year or becomes eligible for a different Incentive Group, then the amount of the award shall be adjusted proportionally to reflect such changes.

Section VI. CALCULATION OF CREDITS TO BE ALLOCATED

The credit allocated to a participant's deferred savings account for any incentive year is calculated by dividing the actual dollar value of the deferred bonus for such year by the average of the closing prices for Norfolk Southern Corporation Common Stock on the New York Stock Exchange for all of the trading days in December of such year. Such credits were calculated to the nearest one hundredth of a credit.

However, solely at the discretion of the Committee, the calculation of all credits allocated to the deferred savings account of a participant in active service on January 1, 1987, may be changed from a credit based on the price of Norfolk Southern Corporation Common Stock to a cash credit. A one-time request for such a change in the method of calculating credits may be made by the participant by March 16, 1987, and, if approved by the Committee, the balance of the participant's deferred savings account as of February 28, 1987, including amounts deferred for incentive year 1986, shall be converted to a cash credit based on the New York Stock Exchange closing price for Norfolk Southern Corporation Common Stock on February 27, 1987, and shall thereafter accrue an amount equivalent to interest (Interest), compounded annually, at the rate of fifteen percent (15%).

All amounts deferred under this Plan are allocated to the Norfolk Southern Corporation Officers' Deferred Compensation Plan and are governed by the provisions thereof.

Section VII. NATURE OF DEFERRED SAVINGS ACCOUNT

The deferred savings account is merely a bookkeeping account maintained by Norfolk Southern Corporation for the express purpose of recording a participant's deferred bonus credits and determining the amounts payable by Norfolk Southern Corporation under this Plan. The deferred savings account for a participant shall not be deemed to constitute either in whole or in part a trust fund for the benefit of such participant.

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Section VIII. RESTRICTIONS ON DEFERRED SAVINGS ACCOUNT

The credits allocated to a participant's deferred savings account under this Plan are restricted in that they shall not be sold, assigned, transferred or pledged as collateral for a loan or as security for the performance of any other obligation or for any other purpose, or exchanged or otherwise disposed of.

Section IX. CHANGES IN CREDIT

Unless the Committee has changed the calculation of credit under Article VI to an amount equivalent to Interest, if at any time a cash dividend is paid, or if a stock dividend, a stock split, a combination or other change occurs with respect to Norfolk Southern Corporation Common Stock, the number of credits in a participant's deferred savings account shall be increased or decreased so as to give effect to such cash dividend, stock dividend, stock split, combination or other change. Any such change shall be reflected in each such account during the calendar year in which it occurs. Any new or changed credits resulting therefrom shall be calculated to the nearest one hundredth of a credit and shall be subject to the restrictions and provisions set forth herein applicable thereto.

Section X. DISTRIBUTION WITH RESPECT TO DEFERRED CREDITS

During the first 10 years following a participant's termination of employment, the credits in his or her deferred savings account shall be periodically converted into cash, as provided for below, and distributed to that participant, or to his or her beneficiary as hereinafter defined, pursuant to the following provisions. In any event, distribution of such cash to the participant shall be completed by the end of the 10-year period.

For the purpose of this Plan, a beneficiary shall be either (1) the named beneficiary or beneficiaries designated as hereinafter provided for by the participant, or (2) in the absence of any such designation, including absence by revocation of any previous designation, a legal representative of the participant, duly appointed in the case of incompetency or death of the participant. A participant may designate both primary and contingent named beneficiaries. A participant may revoke or change any designation. To be effective, the designation of a named beneficiary or beneficiaries, or any change in or revocation of any designation, must be on a form provided by Norfolk Southern Corporation signed by the participant and filed with the Senior Vice President Employee Relations, or an officer in a successor position, Norfolk Southern Corporation, prior to the death of such participant. Any such designation, change or revocation shall be ineffective to invalidate any cash payment made or other action taken by Norfolk Southern Corporation pursuant to this Plan prior to the receipt of same by Norfolk Southern Corporation. The determination by Norfolk Southern Corporation of a beneficiary or beneficiaries, or the identity thereof, or the rights of

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same, based on proof by affidavit or other written evidence satisfactory to Norfolk Southern Corporation shall be conclusive as to the liability of Norfolk Southern Corporation and any payment made in accordance therewith shall discharge Norfolk Southern Corporation of its obligation under this Plan for such payment.

Norfolk Southern Corporation shall make a payment each calendar month within the 10-year period to the participant or his or her beneficiary, computed as follows:

Upon termination of employment, the number of credits in the deferred savings account of such participant shall be ascertained. Thereafter, there shall be added to such account the number of additional credits, if any, due to be allocated thereto as a result of any incentive bonus awarded such participant for any incentive year, or portion of such year, preceding termination of employment. Any change in credits referred to in Article IX occurring between such participant's termination of employment and the end of the 10-year period will be

reflected in such account. Each monthly payment payable in any calendar year shall be an amount equal to the number of credits in such account as of January 1 that year, multiplied by the average of the closing prices for Norfolk Southern Corporation Common Stock on the New York Stock Exchange for all of the days in December of the previous calendar year for which there is a closing price, multiplied by a fraction the numerator of which is "1" and the denominator of which is the number of monthly payments remaining to be paid in the 10-year period as of January 1 of the calendar year. The number of credits in such account shall be reduced effective January 1 of each year during the 10-year period by the credit equivalent of the payments made during the previous year. However, in the event the calculation of the credit allocated to the deferred savings account of a participant is changed from a credit based on the price of Norfolk Southern Corporation Common Stock to a cash credit based on Interest, then the monthly payment shall be an amount sufficient to amortize the participant's deferred savings account together with Interest over the 10-year period. If the deferred savings account on January 1 of the year following termination contains a value as calculated above of less than \$10,000, the entire amount will be paid in full within 45 days in lieu of payment over a 10-year period as outlined in the preceding paragraph.

Section XI. DISTRIBUTION IN CASE OF TERMINATION

The Board of Directors, in its sole discretion, may authorize and direct Norfolk Southern Corporation to make payments after termination of employment of a participant to such participant or his or her beneficiary in a lump sum or over a period other than that provided for in Article X, and to charge such payments against the participant's deferred savings account. Such accelerated distribution may be made only (1) in the event of a financial emergency which is beyond the control of the participant if disallowance of the accelerated distribution would result in severe financial hardship to the participant or beneficiary, and only in an amount necessary to satisfy the financial emergency, or (2) if in the

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written opinion of counsel, payment in accordance with Article X could create a conflict of interest for the participant or beneficiary; provided, that all amounts due to the participant or beneficiary under this Plan shall in all events be paid to the participant or beneficiary by the end of the 10-year period referred to in Article X. No participant or beneficiary who is also a member of the Board of Directors shall participate in any decision of the Board to make accelerated payments under this Article XI.

Section XII. NO GUARANTEE OF CONTINUANCE OF EMPLOYMENT

Nothing contained in this Plan or in any designation of a participant hereunder shall constitute or be deemed to constitute any evidence of an agreement or obligation on the part of Norfolk Southern Corporation or its affiliates to continue to employ any such participant for any period whatsoever.

Section XIII. AMENDMENT TO AND TERMINATION OF PLAN

Norfolk Southern Corporation reserves the right at any time by a resolution duly adopted by its Board of Directors to amend this Plan in any manner or to terminate it at any time, except that no such amendment or termination shall deprive a participant or beneficiary of any rights

hereunder theretofore legally accrued, and no such termination shall be effective for the year in which such resolution is adopted.

Section XIV. RECALCULATION EVENTS

Norfolk Southern Corporation's commitment to accrue and pay Interest as provided in Article VI is facilitated by the purchase of corporate-owned life insurance. If the Committee, in its sole discretion, determines that any change whatsoever in Federal, State or local law, or in its application or interpretation, has materially affected, or will materially affect, the ability of Norfolk Southern Corporation to recover the cost of providing the benefits otherwise payable under the Plan, then if the Committee so elects, a Recalculation Event shall be deemed to have occurred. If a Recalculation Event occurs, then Interest shall be recalculated and restated using a lower rate of Interest determined by the Committee, but which shall be not less than seven and one-half percent (7-1/2%).

NORFOLK SOUTHERN CORPORATION
EXECUTIVE MANAGEMENT INCENTIVE PLAN

AS AMENDED EFFECTIVE JANUARY 25, 2000

Section I. PURPOSE OF THE PLAN

It is the purpose of the Norfolk Southern Corporation Executive Management Incentive Plan (Plan) to enhance increased profitability for Norfolk Southern Corporation by rewarding certain officers elected by the Board of Directors of Norfolk Southern Corporation and its affiliates with a bonus for collectively striving to attain and surpass financial objectives.

Section II. ADMINISTRATION OF THE PLAN

The Compensation and Nominating Committee or any other committee of the Board of Directors of Norfolk Southern Corporation which is authorized to determine bonus awards under the Plan (Committee) shall administer and interpret this Plan and, from time to time, adopt such rules and regulations and make such recommendations to the Board of Directors concerning Plan changes as are deemed necessary to insure effective implementation of this Plan.

No executive may simultaneously participate in more than one Norfolk Southern Corporation Incentive Group. An executive must reside in the United States or Canada in order to participate in the Plan.

Section III. ESTABLISHMENT OF PERFORMANCE STANDARDS

The Committee shall establish:

- A. The Incentive Groups for the incentive year, which Groups shall consist of Board-elected officers at the level of Vice President and above,
- B. The bonus level for each Incentive Group for the incentive year, and
- C. The performance standards for Pre-Tax Net Income and operating ratio with resultant Corporate Performance Factors (Corporate Performance Table).

Section IV. TYPE OF INCENTIVE BONUS

By December 22 of the year prior to the incentive year, each participant must elect to receive any incentive bonus which may be awarded to him or her for the incentive year either 100% cash or deferred in whole or in part. A participant shall be permitted to defer only 25%,

50%, 75% or 100% of the bonus for any incentive year. If the participant elects to receive 100% cash, the entire amount of the bonus for the incentive year shall be distributed to the participant, or his or her beneficiary, as hereinafter defined on or before March 1 of the year following the incentive year. If deferred in whole or in part, the amount deferred shall be allocated to the Norfolk Southern Corporation Officers' Deferred Compensation Plan (and such deferrals will be governed by the provisions of that plan) on or before March 1 of the year following the incentive year and the remainder, if any, shall be distributed in cash to the participant or his or her beneficiary on or before March 2 of the year following the incentive year.

Failure on the part of the participant to elect a deferral by December 22 of the year prior to the incentive year, either in whole or in part for the incentive year, shall be deemed to constitute an election by such participant to receive the entire incentive bonus for the incentive year as a cash bonus.

The Board of Directors shall have the right to reject all deferral elections if, in its sole discretion, it shall determine prior to the close of an incentive year that deferral has become inadvisable, and, if such right shall be exercised, all incentive bonuses earned under the Plan for such year shall be payable in cash, as provided for in the third sentence of this Article IV.

Section V. BONUS AWARDS

At the end of the incentive year, the Committee shall determine the Corporate Performance Factor from the Corporate Performance Table based on the operating ratio and Pre-tax Net Income (Norfolk Southern's income before state and federal income taxes as reported in the annual consolidated financial statements for the incentive year). In computing Pre-tax Net Income and operating ratio, special charges and restructuring charges, and unusual or infrequent accounting adjustments which are significant, and restatements or reclassifications, all as determined in accordance with Generally Accepted Accounting Principles, which would have the effect of reducing Pre-tax Net Income or increasing the operating ratio, shall be excluded, unless the Committee shall determine otherwise. A participant's bonus award shall be determined by multiplying the Corporate Performance Factor by the participant's bonus level, with the result multiplied by the participant's total salary paid during the incentive year. The Committee may review the performance of the Plan participants and may, at its discretion, reduce the bonus award of any such participant between 0% and 100%, based on the individual's performance.

If the employment of a participant who is employed by Norfolk Southern Corporation or its affiliates during the incentive year terminates prior to the end of such year by reason of (1) death, or (2) normal retirement, early retirement or total disability under applicable Norfolk Southern Corporation plans and policies, then the phrase "total salary paid during the incentive year" means base salary paid to the

participant during that portion of such year of employment prior to his or her termination and through the end of the calendar month or payroll period in which employment terminates but excludes any cash paid with respect to such participant's unused vacation. No incentive bonus for any incentive year shall be awarded or paid to any participant whose employment with Norfolk Southern Corporation and all its affiliates

terminates before the end of such incentive year for a reason other than one of those specifically stated in the preceding sentence.

If a participant becomes eligible for the Plan during the year or becomes eligible for a different Incentive Group, then the amount of the award shall be adjusted proportionally to reflect such changes.

Section VI. DESIGNATION OF BENEFICIARY

For the purpose of this Plan, a beneficiary shall be either (1) the named beneficiary or beneficiaries designated as hereinafter provided for by the participant, or (2) in the absence of any such designation, including absence by revocation of any previous designation, a legal representative of the participant, duly appointed in the case of incompetency or death of the participant. A participant may designate both primary and contingent named beneficiaries. A participant may revoke or change any designation. To be effective, the designation of a named beneficiary or beneficiaries, or any change in or revocation of any designation, must be on a form provided by Norfolk Southern Corporation signed by the participant and filed with the Senior Vice President Employee Relations, or an officer in a successor position, Norfolk Southern Corporation, prior to the death of such participant. Any such designation, change or revocation shall be ineffective to invalidate any cash payment made or other action taken by Norfolk Southern Corporation pursuant to this Plan prior to the receipt of same by Norfolk Southern Corporation. The determination by Norfolk Southern Corporation of a beneficiary or beneficiaries, or the identity thereof, or the rights of same, based on proof by affidavit or other written evidence satisfactory to Norfolk Southern Corporation shall be conclusive as to the liability of Norfolk Southern Corporation and any payment made in accordance therewith shall discharge Norfolk Southern Corporation of its obligation under this Plan for such payment.

Section VII. NO GUARANTEE OF CONTINUANCE OF EMPLOYMENT

Nothing contained in this Plan or in any designation of a participant hereunder shall constitute or be deemed to constitute any evidence of an agreement or obligation on the part of Norfolk Southern Corporation or its affiliates to continue to employ any such participant for any period whatsoever.

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Section VIII. AMENDMENT TO AND TERMINATION OF PLAN

Norfolk Southern Corporation reserves the right at any time by a resolution duly adopted by its Board of Directors to amend this Plan in any manner or to terminate it at any time, except that no such amendment or termination shall deprive a participant or beneficiary of any rights hereunder theretofore legally accrued, and no such termination shall be effective for the year in which such resolution is adopted.

NORFOLK SOUTHERN CORPORATION
LONG-TERM INCENTIVE PLAN

AS AMENDED EFFECTIVE JANUARY 25, 2000

Section 1. PURPOSE

The purpose of the Long-Term Incentive Plan, as amended (the "Plan"), is to promote the success of Norfolk Southern Corporation (the "Corporation") and to provide an opportunity for officers and other key employees of the Corporation and its Subsidiary Companies (as hereinafter defined) to acquire or increase a proprietary interest in the Corporation and thereby to provide an additional incentive to officers and other key employees to devote their maximum efforts and skills to the advancement, betterment, and prosperity of the Corporation and its shareholders. The Plan provides for the grant of incentive stock options, non-qualified stock options, stock appreciation rights, performance share units, performance shares, and shares of the Corporation's common stock (restricted pursuant to the provisions of Section 9 of the Plan), in accordance with the terms and conditions set forth below.

Section 2. DEFINITIONS

The terms used herein shall have the following meanings unless otherwise specified or unless a different meaning is clearly required by the context:

Award	Any one or more of the following: Incentive Stock Option; Non-qualified Stock Option; Stock Appreciation Right; Restricted Shares; Performance Share Units; and Performance Shares.
Beneficiary	The person or persons designated in writing by the Participant as his Beneficiary in respect of Awards or, in the absence of such a designation or if the designated person or persons predecease the Participant, the person or persons who shall acquire the Participant's rights in respect of Awards by bequest or inheritance in accordance with the applicable laws of descent and distribution. In order to be effective, a Participant's designation of a Beneficiary must be on file with the Corporation before the Participant's death. Any such designation may be revoked and a new designation substituted therefor by the Participant at any time before his death without the consent of the previously designated Beneficiary.
Board of Directors	The Board of Directors of the Corporation.
Code	The Internal Revenue Code of 1986, as amended from time to time.

Committee	The Compensation and Nominating Committee or any other committee of the Board of Directors which is authorized to grant Awards under this Plan.
Common Stock	The Common Stock of the Corporation.
Disability	A disability that enables the Participant to be eligible for and receive a disability benefit under the Long-Term Disability Plan of the Corporation or a long-term disability plan of a Subsidiary Company (whichever is applicable), as amended from time to time.
Exercise Gain Shares	With respect to a Stock Appreciation Right, all of the shares of Common Stock received upon exercise of the Stock Appreciation Right. With respect to an Option, the portion of the shares of Common Stock received upon exercise of the Option equal to the excess of the Fair Market Value, as of the exercise date, over the Option price, multiplied by the number of shares purchased under the Option on the exercise date, divided by such Fair Market Value, and rounded down to the nearest whole number of shares.
Fair Market Value	The value of Common Stock on a particular date as measured by the mean of the high and low prices at which it is traded on such date as reported in the Composite Transactions for such date by The Wall Street Journal, or, if Common Stock was not traded on such date, on the next preceding day on which Common Stock was traded.
Incentive Stock Option	An Option that complies with the terms and conditions set forth in Section 422(b) of the Code and is designated by the Committee as an Incentive Stock Option.
Non-qualified Stock Option	An Option granted under the Plan other than an Incentive Stock Option.
Option	Any option to purchase Common Stock granted pursuant to the provisions of Section 6 or Section 7 of the Plan.
Optionee	A Participant who is the holder of an Option.
Participant	Any officer or key employee of the Corporation or a Subsidiary Company selected by the Committee to participate in the Plan.
Performance Cycle	The period of time, designated by the Committee, over which Performance Shares may be earned.

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Performance Shares	Shares of Common Stock granted pursuant to Section 10 of the Plan, which may be made subject to the restrictions and other terms and conditions prescribed in Section 11 of the Plan.
Performance Share Units	Contingent rights to receive Performance Shares pursuant to Section 10 of the Plan.
Restricted	Shares of Common Stock granted pursuant to Section 9 of the

Shares	Plan and subject to the restrictions and other terms and conditions set forth therein.
Restriction Period	A period of time not less than twenty-four (24) nor more than sixty (60) months, to be determined within those limits by the Committee in its sole discretion, commencing on the date as of which Restricted Shares are granted, during which the restrictions imposed by paragraph (b) of Section 9 of the Plan shall apply. The Committee shall determine the length of the Restriction Period at the time that the Restricted Shares are granted.
Retirement	Retirement from the Corporation or a Subsidiary Company pursuant to the provisions of the Retirement Plan of the Corporation or a retirement plan of a Subsidiary Company (whichever is applicable), as amended from time to time.
Share Retention Agreement	An agreement entered into pursuant to Section 11 of the Plan.
Stock Appreciation Right	The right, granted pursuant to the provisions of Section 8 of the Plan, to receive a payment equal to the excess of the Fair Market Value of Common Stock over the Option price of such Common Stock, as specified in Section 8 of the Plan.
Subsidiary Company	A corporation of which at least eighty percent (80%) of the total combined voting power of all classes of stock entitled to vote is owned, directly or indirectly, by the Corporation.

Section 3. ADMINISTRATION

The Plan shall be administered by the Committee, which, subject to the limitations set forth herein, shall have the full and complete authority and sole discretion from time to time to construe and interpret the Plan; to select the officers and other key employees who shall be granted Awards under the Plan; to determine the type, size, terms, and conditions of the Award or Awards to be granted to each such Participant; to authorize the grant of such Awards pursuant to the Plan; to give a Participant an election to surrender an Award in exchange for the grant of a new Award;

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to adopt, amend and rescind rules and regulations relating to the Plan; and to make all other determinations and take all other action it may deem necessary or advisable for the implementation and administration of the Plan. The Committee may authorize the grant of more than one type of Award, and Awards subject to differing terms and conditions, to any eligible employee. The Committee's decision to authorize the grant of an Award to an employee at any time shall not require the Committee to authorize the grant of an Award to that employee at any other time or to any other employee at any time; nor shall its determination with respect to the size, type, or terms and conditions of the Award to be granted to an employee at any time require it to authorize the grant of an Award of the same type or size or with the same terms and conditions to that employee at any other time or to any other employee at any time. The Committee shall not be precluded from authorizing the grant of an Award to any eligible employee solely because the employee previously may have been granted an Award of any kind under the Plan.

All determinations of the Committee shall be by a majority of its members and shall be final, conclusive and binding. Each member of the Committee, while serving as such, shall be considered to be acting in his capacity as a director of the Corporation, and no member of the Committee shall be liable for any action taken or decision made in good faith with respect to the implementation or administration of the Plan.

Section 4. ELIGIBILITY

To be eligible for selection by the Committee to participate in the Plan, an individual must be a full-time salaried officer or key employee of the Corporation, or of a Subsidiary Company, and must reside in the United States or Canada, on the date on which the Committee authorizes the grant to such individual of an Award. A director of the Corporation shall not be eligible to participate in the Plan unless he is a full-time salaried officer of the Corporation or a Subsidiary Company.

Section 5. SHARES AVAILABLE

Subject to the provisions of Section 13 of the Plan, no more than an aggregate of 39,878,604 shares of Common Stock may be issued pursuant to the Plan. Such shares shall be provided from shares of Common Stock authorized but not issued. Any shares of Common Stock which were subject to an Option, a Stock Appreciation Right, or a Performance Share Unit, and which were not issued prior to the expiration of the Award shall thereafter again be available for award under the Plan. Upon the forfeiture of any Restricted Shares, the forfeited shares of Common Stock shall thereafter be available for award under the Plan. Notwithstanding any other provision to the contrary, no Participant may be awarded a grant in any one year, which, when added to any other grant of Options, Restricted Shares, and Performance Share Units in the same year, shall exceed 750,000 shares of Common Stock. If an Option is canceled, the canceled Option continues to count against the maximum number of shares for which Options may be granted to a Participant in any year.

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Section 6. INCENTIVE STOCK OPTIONS

(a) General -- The Committee may authorize the grant of Incentive Stock Options subject to the terms and conditions set forth in this Section 6. The grant of an Incentive Stock Option shall be evidenced by a written Incentive Stock Option Agreement between the Corporation and the Optionee, setting forth the number of shares of Common Stock subject to the Incentive Stock Option evidenced thereby and the terms, conditions, and restrictions applicable thereto. The issuance of shares of Common Stock pursuant to an Incentive Stock Option also shall be subject to the provisions of any Share Retention Agreement that may be required by the Committee under Section 11 of the Plan.

(b) Option Price -- The Committee shall determine the Option price for each share of Common Stock purchased under an Option, but, subject to the provisions of Section 13 of the Plan, in no event shall the Option price be less than one hundred percent (100%) of the Fair Market Value of the Common Stock on the date the Option is granted.

(c) Duration of Options -- The Committee shall fix the term or duration of Options, provided that such term shall not exceed 10 years from the date the Option is granted, and that such term shall be subject to earlier termination pursuant to the provisions of paragraph (g) of

this Section 6 or paragraph (e) of Section 8 of the Plan.

(d) Non-transferability of Options -- Options are not transferable other than by will or the applicable laws of descent and distribution following the death of the Optionee. Options may be exercised during the lifetime of the Optionee only by him, and following his death only by his Beneficiary.

(e) Exercise of Options -- The Committee shall determine the time or times at which Options may be exercised; provided that such time or times shall not occur before the latest of:

(i) the first anniversary of the date on which the Option was granted;

(ii) approval of the Plan, as hereby amended, by the stockholders of the Corporation in the manner provided under Section 15(a) of the Plan; and

(iii) the effectiveness of any registration statement required to be filed under the Securities Act of 1933 for the registration of the Common Stock to be issued upon exercise of the Option.

(f) Payment of Option Price -- The purchase price of Common Stock upon exercise of an Option shall be paid in full to the Corporation at the time of the exercise of the Option in cash or, at the discretion of the Committee and subject to any limitations or requirements that the Committee may adopt, by the surrender to the Corporation of shares of previously acquired Common Stock, which have been held by the Optionee

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for at least twelve (12) months and which shall be valued at Fair Market Value on the date that the Option is exercised, or, at the discretion of the Committee, by a combination of cash and such Common Stock.

(g) Termination of Options -- No Option shall be exercisable after it expires. Each Option shall expire upon the earliest of:

(i) the expiration of the term for which the Option was granted;

(ii) (A) Except as otherwise provided by the Committee, in the case of an Optionee whose employment with the Corporation or a Subsidiary Company is terminated due to Retirement, Disability or death, the expiration of thirty-six (36) months after such termination of employment, or

(B) in the case of an Optionee whose employment with the Corporation or a Subsidiary Company is terminated for any reason other than Retirement, Disability, or death, at the close of business on the last day of active service by the Optionee with the Corporation or a Subsidiary Company, or

(C) in the case of an Optionee who is granted a leave of absence, at the close of business on the last day of active service by the Optionee with the Corporation or a Subsidiary Company, unless the Optionee has and remains eligible for a statutory right to reemployment; or

(iii) with the Optionee's consent, the grant of a new Award to replace the Option.

(h) Limitation on Exercisability -- The aggregate Fair Market Value (determined as of the time the Incentive Stock Option is granted) of the Common Stock with respect to which Incentive Stock Options (granted on or after January 1, 1987) are exercisable for the first time by the Optionee during any calendar year shall not exceed \$100,000.

(i) Order of Exercise -- An Incentive Stock Option granted prior to January 1, 1987, shall not be exercisable while there is outstanding any Incentive Stock Option which was granted to the Optionee before the grant of the first-mentioned Incentive Stock Option. For this purpose, an Incentive Stock Option shall be treated as outstanding until it is exercised in full or expires in accordance with paragraph (c) of this Section 6.

As used in paragraphs (h) and (i) of this Section 6, the term Incentive Stock Option shall mean an option to purchase stock which is granted pursuant to the provisions of this Plan or of any other plan of the Corporation or of a parent or subsidiary corporation (as defined by Section 424(f) of the Code) and which complies with the terms and conditions set forth in Section 422(b) of the Code.

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Section 7. NON-QUALIFIED STOCK OPTIONS

The Committee may authorize the grant of Non-qualified Stock Options subject to the terms and conditions specified in this Section 7. The grant of a Non-qualified Stock Option shall be evidenced by a written Non-qualified Stock Option Agreement between the Corporation and the Optionee, setting forth the number of shares of Common Stock subject to the Non-qualified Stock Option evidenced thereby and the terms, conditions, and restrictions applicable thereto. Non-qualified Stock Options granted pursuant to the provisions of this Section 7 shall be subject to the terms, conditions, and restrictions set forth in paragraphs (b) and (d) through (g) of Section 6 of the Plan. The limitations set forth in paragraphs (c), (h) and (i) of Section 6 of the Plan shall not apply to Non-qualified Stock Options. The issuance of shares of Common Stock pursuant to a Non-qualified Stock Option also shall be subject to the provisions of any Share Retention Agreement that may be required by the Committee under Section 11 of the Plan.

Section 8. STOCK APPRECIATION RIGHTS

(a) General -- The Committee may grant a Stock Appreciation Right to a Participant in connection with an Option, or portion thereof as determined by the Committee, subject to the terms and conditions set forth in this Section 8. The Stock Appreciation Right may be granted at the time of grant of the related Option and shall be subject to the same terms and conditions as the related Option, except as this Section 8 may otherwise provide. The grant of a Stock Appreciation Right shall be evidenced either by provisions in the Option agreement evidencing the related Option or by a written Stock Appreciation Right Agreement between the Corporation and the Optionee, identifying the related Option, specifying the number of shares of Common Stock subject thereto, and setting forth the terms and conditions applicable to the Stock Appreciation Right.

(b) Exercise -- A Stock Appreciation Right shall be exercisable only at such time or times, to such extent, and by such persons, as the Option to which it relates shall be exercisable; provided that:

(i) if the Committee determines that all or part of a payment in respect of a Stock Appreciation Right shall be made in cash, the Stock Appreciation Right shall not be exercised before the expiration of one (1) year from the date on which it was granted; provided, however, that this subparagraph (i) shall not apply if the death or Disability of the Optionee occurs within one (1) year after the grant of the Stock Appreciation Right;

(ii) if the Committee determines that all or part of a payment in respect of a Stock Appreciation Right shall be made in cash, such exercise may occur only on a day that is at least three (3) and no more than twelve (12) business days after the date on which the Corporation first made publicly available its most recent regular quarterly or annual financial statements; and

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(iii) a Stock Appreciation Right granted in connection with an Incentive Stock Option may not be exercised on any date on which the Fair Market Value of a share of Common Stock is less than or equal to the Option price per share under the related Incentive Stock Option.

A Stock Appreciation Right shall be exercised by surrendering the related Option, or the portion thereof pertaining to the shares with respect to which the Stock Appreciation Right is exercised, and providing the Corporation with a written notice in such form and containing such information (including the number of shares of Common Stock with respect to which the Stock Appreciation Right is being exercised) as the Committee may specify. The date on which the Corporation receives such notice shall be the date on which the related Option, or portion thereof, shall be deemed surrendered and the Stock Appreciation Right shall be deemed exercised.

(c) Payment -- Upon exercise of a Stock Appreciation Right in the manner provided in paragraph (b) of this Section 8, the Optionee shall be entitled to receive Exercise Gain Shares equal to the number of shares of Common Stock that have an aggregate Fair Market Value on the exercise date equal to the amount by which the Fair Market Value of a share of Common Stock on the exercise date exceeds the Option price per share of the related Option, multiplied by the number of shares covered by the related Option, or portion thereof, surrendered in connection with the exercise of the Stock Appreciation Right. The Exercise Gain Shares shall be subject to the provisions of any Share Retention Agreement that may be required by the Committee under Section 11 of the Plan. In the sole discretion of the Committee, all or part of the payment in respect of a Stock Appreciation Right may be made in cash in lieu of Exercise Gain Shares.

(d) Termination of Right -- A Stock Appreciation Right shall expire, unless previously exercised or canceled, upon the expiration of the Option to which it relates.

(e) Effect of Exercise -- A Stock Appreciation Right shall be canceled when, and to the extent that, the related Option is exercised, and an Option shall be canceled when, and to the extent that, the Option is surrendered to the Corporation upon the exercise of a related Stock Appreciation Right.

Section 9. RESTRICTED SHARES

(a) General -- The Committee, in its sole discretion, may from time to time authorize the grant of Restricted Shares to a Participant. A

certificate or certificates representing the number of Restricted Shares granted shall be registered in the name of the Participant. Until the expiration of the Restriction Period or the lapse of restrictions in the manner provided in paragraph (d) or paragraph (e) of this Section 9, the certificate or certificates shall be held by the Corporation for the account of the Participant, and the Participant shall have beneficial ownership of the Restricted Shares, including the right to receive dividends on, and the right to vote, the Restricted Shares.

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(b) Restrictions -- Until the expiration of the Restriction Period or the lapse of restrictions in the manner provided in paragraph (d) or paragraph (e) of this Section 9, Restricted Shares shall be subject to the following restrictions and any additional restrictions that the Committee, in its sole discretion, may from time to time deem desirable in furtherance of the objectives of the Plan:

(i) the Participant shall not be entitled to receive the certificate or certificates representing the Restricted Shares;

(ii) the Restricted Shares may not be sold, transferred, assigned, pledged, conveyed, hypothecated, or otherwise disposed of; and

(iii) the Restricted Shares may be forfeited immediately as provided in paragraph (d) of this Section 9.

(c) Distribution of Restricted Shares -- If a Participant to whom Restricted Shares have been granted remains in the continuous employment of the Corporation or a Subsidiary Company during the entire Restriction Period, upon the expiration of the Restriction Period all restrictions applicable to the Restricted Shares shall lapse, and the certificate or certificates representing the shares of Common Stock that were granted to the Participant in the form of Restricted Shares shall be delivered to the Participant.

(d) Termination of Employment -- If the employment of a Participant is terminated for any reason other than the Retirement, Disability, or death of the Participant in service before the expiration of the Restriction Period, the Restricted Shares shall be forfeited immediately and all rights of the Participant to such shares shall terminate immediately without further obligation on the part of the Corporation or any Subsidiary Company. If the Participant's employment is terminated by reason of the Retirement, Disability, or death of the Participant in service before the expiration of the Restriction Period, the number of Restricted Shares held by the Corporation for the Participant's account shall be reduced by the proportion of the Restriction Period remaining after the Participant's termination of employment; the restrictions on the balance of such Restricted Shares shall lapse on the date the Participant's employment terminated; and the certificate or certificates representing the shares of Common Stock upon which the restrictions have lapsed shall be delivered to the Participant (or, in the event of the Participant's death, to his Beneficiary).

(e) Waiver of Restrictions -- The Committee, in its sole discretion, may waive any or all restrictions with respect to Restricted Shares.

Section 10. PERFORMANCE SHARES

The Committee, in its sole discretion, may from time to time authorize the grant of Performance Share Units to a Participant. Performance Share

Units shall entitle the Participant to Performance Shares (or cash in lieu thereof) upon the achievement of such performance goals as may be

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established by the Committee at the time of grant for three equally weighted performance criteria: (a) the Corporation's total stockholder return as compared to the S&P 500 Index; (b) the Corporation's operating ratio; and (c) the Corporation's return on average capital invested. At such time as it is certified by the Committee that the performance goals established by the Committee have been attained or otherwise satisfied, the Committee shall authorize the payment of cash in lieu of Performance Shares or the issuance of Performance Shares registered in the name of the Participant, subject to the provisions of any Share Retention Agreement that may be required by the Committee under Section 11 of the Plan, or both.

If the Participant's employment with the Corporation or a Subsidiary Company is terminated before the end of a Performance Cycle for any reason other than Retirement, Disability, or death, the Participant shall forfeit all rights with respect to any Performance Shares that were being earned during the Performance Cycle. If the Participant is granted a leave of absence before the end of a Performance Cycle, the Participant shall forfeit all rights with respect to any Performance Shares that were being earned during the Performance Cycle, unless the Participant has and remains eligible for a statutory right to reemployment. The Committee, in its sole discretion, may establish guidelines providing that if a Participant's employment is terminated before the end of a Performance Cycle by reason of Disability, or death, the Participant shall be entitled to a prorated payment with respect to any Performance Shares that were being earned during the Performance Cycle. If the Participant's employment is terminated before the end of a Performance Cycle by reason of Retirement, the Participant's rights with respect to any Performance Shares being earned during the Performance Cycle shall, subject to the other provisions of this Section 10, continue as if the Participant's employment had continued through the end of the Performance Cycle.

Section 11. SHARE RETENTION AGREEMENTS

(a) General -- The Committee, in its sole discretion, may require as a condition of an Award of an Option, Stock Appreciation Right, or Performance Share Unit that the Participant and the Corporation enter into a Share Retention Agreement, which shall provide that the certificate or certificates representing any Exercise Gain Shares or Performance Shares, when issued, shall be held by the Secretary of the Corporation for the benefit of the Participant until such time as the retention period specified by the Share Retention Agreement has expired or has been waived by the Committee, whichever occurs first. Each Share Retention Agreement may include some or all of the terms, conditions and restrictions set forth in paragraphs (b) through (g) of this Section 11.

(b) Retention Period -- Exercise Gain Shares and Performance Shares that are subject to the Share Retention Agreement may not be sold, transferred, assigned, pledged, conveyed, hypothecated or otherwise disposed of within such period of time, of not less than twenty-four (24)

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months and not more than sixty (60) months following the date of exercise (in the case of Exercise Gain Shares) or the date of issuance (in the case of Performance Shares), as shall be prescribed by the Committee.

(c) Tax Absorption Payment -- The Corporation may make a cash payment, either directly to the Participant or on the Participant's behalf, in an amount that the Committee estimates to be equal (after taking into account any Federal and state taxes that the Committee estimates to be applicable to such cash payment) to any additional Federal and state income taxes that are imposed upon the Participant as a result of the issuance of the Exercise Gain Shares or Performance Shares that are subject to the Share Retention Agreement. In determining the amount to be paid pursuant to this paragraph (c), the Committee may adopt such methods and assumptions as it considers appropriate, and it shall not be required to examine the individual tax liability of each Participant who has entered into a Share Retention Agreement.

(d) Termination of Employment -- If a Participant's employment with the Corporation or a Subsidiary Company is terminated for any reason other than Retirement, Disability, or death, Exercise Gain Shares or Performance Shares subject to the Share Retention Agreement shall continue to be held, following the Participant's termination of employment, until the expiration of the retention period specified by the Share Retention Agreement. If the Participant's employment is terminated by reason of Retirement or Disability, Exercise Gain Shares and Performance Shares then held subject to the Share Retention Agreement shall continue to be held until the expiration of the applicable retention period following termination of employment, but any such retention period shall cease upon the earlier of the Participant's attainment of age 65 or the expiration of two (2) years after the Participant's Retirement or Disability, if either of those events occurs before the expiration of the applicable retention period. If the Participant dies while Exercise Gain Shares or Performance Shares are subject to a retention period under the Share Retention Agreement, such retention period shall expire immediately at the time of death.

(e) Change in Control -- Upon a Change in Control, the retention periods specified by all Share Retention Agreements shall immediately expire.

A Change in Control shall occur if:

(i) any person, other than the Corporation or a Subsidiary Company or any employee benefit plan sponsored by the Corporation or a Subsidiary Company, shall become the beneficial owner of, or obtain voting control over, 20% or more of the Corporation's outstanding Common Stock;

(ii) the stockholders of the Corporation shall approve (A) any consolidation or merger of the Corporation in which the Corporation is not the continuing or surviving corporation or pursuant to which shares of Common Stock would be converted into cash, securities, or other property, other than a merger of the Corporation in which holders of Common Stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after

the merger as immediately before, or (B) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of the Corporation; or

(iii) there shall have been a change in the composition of the Board of Directors such that within any period of two (2) consecutive years or less individuals who at the beginning of such period constituted such Board, together with any new directors whose election, or nomination for election by the Corporation's stockholders, was approved by a vote of at least two-thirds of the directors then in office who were directors at the beginning of such period, shall for any reason no longer constitute a majority of the directors of the Corporation.

If the expiration of a Share Retention Agreement pursuant to this paragraph (e) causes a Participant to be subject to an excise tax under Section 4999 of the Code, or any successor provision thereto (the "Excise Tax"), the Corporation shall make a cash payment, either directly to the Participant or on the Participant's behalf, in an amount that the Committee estimates to be equal (after taking into account any Federal and state taxes, including interest and penalties, that the Committee estimates to be applicable to the additional cash payment) to the additional Excise Tax imposed on the Participant as a result of the expiration of the Share Retention Agreement. In determining the amount to be paid pursuant to this subparagraph, the Committee may adopt such methods and assumptions as it considers appropriate, and it shall not be required to examine the individual tax liability of each Participant to whom this subparagraph applies.

(f) Waiver of Requirements -- The Committee, in its sole discretion, may waive any or all retention periods or other restrictions in the Share Retention Agreement.

(g) Distribution of Shares -- The Secretary of the Corporation shall promptly distribute the certificate or certificates representing the Exercise Gain Shares or Performance Shares subject to a Share Retention Agreement upon expiration of the retention period or other termination or waiver of the restrictions under this Section 11.

Section 12. DIVIDEND EQUIVALENT PAYMENTS

The Committee may authorize the immediate or deferred payment of dividend equivalents on some or all of the shares of Common Stock covered by Options or Performance Share Units granted after January 1, 1989, in an amount equal to, and commensurate with, dividends declared by the Board of Directors and paid on Common Stock. Dividend equivalents payable on Option shares or on Performance Share Units under this Section 12 may be paid in cash or in Common Stock at the discretion of the Committee. The Committee may authorize the immediate payment of dividend equivalents under this Section 12 with respect to any Option for all or some portion of its term by including a specific provision, authorizing such immediate payment, in the Incentive Stock Option Agreement required under Section 6(a) of the Plan or the Non-qualified Stock Option Agreement required

under Section 7 of the Plan. The Committee may authorize the immediate payment of dividend equivalents under this Section 12 with respect to any Performance Share Unit for all or some portion of its term as a term and condition of the Performance Share Unit grant. The Committee also may authorize the deferred payment of dividend equivalents under this Section 12 with respect to any Option for all or some portion of its term by including a specific provision authorizing such deferred payment (including the manner in which such payment will be credited to Optionees and subsequently paid) in the Incentive Stock Option Agreement required under Section 6(a) of the Plan or the Non-qualified Stock Option

Agreement required under Section 7 of the Plan. The Committee may authorize the deferred payment of dividend equivalents under this Section 12 with respect to any Performance Share Unit for all or some portion of its term by including a specific provision authorizing such deferred payment (including the manner in which such deferred payment will be credited to Optionees and subsequently paid) as a term and condition of the Performance Share Unit grant.

Section 13. CAPITAL ADJUSTMENTS

In the event of a recapitalization, stock split, stock dividend, exchange, combination, or reclassification of shares, merger, consolidation, reorganization, or other change in or affecting the capital structure or capital stock of the Corporation, the Board of Directors, upon the recommendation of the Committee, may make appropriate adjustments in the number of shares of Common Stock authorized for the Plan and in the annual limitation imposed by Section 5 of this Plan; and the Committee may make appropriate adjustments in the number of shares subject to outstanding Options, Stock Appreciation Rights, Restricted Stock, or Performance Share Unit grants, and in the Option price of any then outstanding Options, as it deems equitable, in its absolute discretion, to prevent dilution or enlargement of the rights of Participants.

Section 14. REGULATORY APPROVALS

The exercise of each Option and Stock Appreciation Right, and the grant or distribution of Restricted Shares and Performance Shares, shall be subject to the condition that if at any time the Corporation shall determine in its discretion that the satisfaction of withholding tax or other tax liabilities, or the listing, registration, or qualification of any shares of Common Stock upon any securities exchange or under any Federal or state law, or the consent or approval of any regulatory body, is necessary or desirable as a condition of, or in connection with, such exercise, grant, or distribution, then in any such event such exercise, grant, or distribution shall not be effective unless such liabilities have been satisfied or such listing, registration, qualification, consent, or approval shall have been effected or obtained free of any conditions not acceptable to the Corporation.

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Section 15. EFFECTIVE DATE AND TERM OF THE PLAN

(a) Effective Date -- The Plan, as hereby amended, shall be effective when approved by the Board of Directors, and Options, Stock Appreciation Rights, and Performance Share Units may be granted immediately thereafter; provided, that no Option or Stock Appreciation Right may be exercised and no Restricted Shares or Performance Shares may be granted under the Plan unless and until the Plan, as hereby amended, is approved by the vote of the holders of a majority of the shares of Common Stock present or represented and entitled to vote at a meeting of the stockholders of the Corporation, at which a quorum is present, held within twelve (12) months after the date of adoption of the Plan, as hereby amended, by the Board of Directors.

(b) Term of the Plan -- Awards may be granted from time to time under the terms and conditions of the Plan, but no Incentive Stock Option may be granted after the expiration of ten (10) years from the date of adoption of the Plan, as hereby amended, by the Board of Directors; provided, that any future amendment to the Plan that is approved by the

stockholders of the Corporation in the manner provided under paragraph (a) of this Section 15 shall be regarded as creating a new Plan, and an Incentive Stock Option may be granted under such new Plan until the expiration of ten (10) years from the earlier of the approval by the Board of Directors, or the approval by the stockholders of the Corporation, of such new Plan. Incentive Stock Options theretofore granted may extend beyond the expiration of that ten-year period, and the terms and conditions of the Plan shall continue to apply thereto and to shares of Common Stock acquired upon the subsequent exercise of an Incentive Stock Option or related Stock Appreciation Right.

Section 16. AMENDMENT OR TERMINATION OF THE PLAN

The Corporation may at any time and from time to time alter or amend, in whole or in part, any or all of the provisions of the Plan, or may at any time suspend or terminate the Plan, through written action of its chief executive officer or Board of Directors, provided that no change in any Awards theretofore granted to any Participant may be made which would impair or diminish the rights of the Participant without the Participant's consent, and provided further, that no alteration or amendment may be made without the approval of the holders of a majority of the Common Stock then outstanding and entitled to vote if such stockholder approval is necessary to comply with the requirements of any rules promulgated under Section 16 of the Securities Exchange Act of 1934 or such other Federal or state laws or regulations as may be applicable.

Section 17. MISCELLANEOUS

(a) Fractional Shares -- The Corporation shall not be required to issue or deliver any fractional share of Common Stock upon the exercise of an Option or Stock Appreciation Right, the award of Performance

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Shares, or the payment of a dividend equivalent in Common Stock pursuant to Section 12 of the Plan, but may pay, in lieu thereof, an amount in cash equal to the Fair Market Value of such fractional share.

(b) Withholding -- The Corporation and its Subsidiary Companies shall have the right, to the extent permitted by law, to deduct from any payment of any kind otherwise due to a Participant any Federal, state or local taxes of any kind required by law to be withheld with respect to Awards under the Plan, and to the extent any such withholding requirements are not satisfied, each Participant shall pay to the Corporation any Federal, state or local taxes of any kind required by law to be withheld with respect to Awards under the Plan.

(c) Stockholder Rights -- No person shall have any rights of a stockholder by virtue of an Option, Stock Appreciation Right, or Performance Share Unit except with respect to shares of Common Stock actually issued to him, and the issuance of shares of Common Stock shall confer no retroactive right to dividends.

(d) No Contract of Employment -- This Plan shall not be deemed to be an employment contract between the Corporation or any Subsidiary Company and any Participant or other employee. Nothing contained herein, or in any agreement, certificate or other document evidencing, providing for, or setting forth the terms and conditions applicable to any Awards shall be deemed to confer upon any Participant or other employee a right to continue in the employment of the Corporation or any Subsidiary Company, or to interfere with the right of the Corporation or any

Subsidiary Company to terminate the employment of such Participant or employee at any time.

(e) Unfunded Plan -- Except as may otherwise be provided in the Plan, the Plan shall be unfunded. Neither the Corporation nor any Subsidiary Company shall be required to segregate any assets that may be represented by Options, Stock Appreciation Rights, or Performance Share Units, and neither the Corporation nor any Subsidiary Company shall be deemed to be a trustee of any amounts to be paid under an Option, Stock Appreciation Right, or Performance Share Unit. Any liability of the Corporation to pay any Participant or Beneficiary with respect to an Option, Stock Appreciation Right, or Performance Share Unit shall be based solely upon any contractual obligations created pursuant to the provisions of the Plan; no such obligation shall be deemed to be secured by any pledge or encumbrance on any property of the Corporation or a Subsidiary Company.

(f) Applicable Law -- The Plan, its validity, interpretation, and administration, and the rights and obligations of all persons having an interest therein, shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia, except to the extent that such laws may be preempted by Federal law.

(g) Gender and Number -- Wherever used in the Plan, words in the masculine form shall be deemed to refer to females as well as to males, and words in the singular or plural shall be deemed to refer also to the plural or singular, respectively, as the context may require.

NORFOLK SOUTHERN CORPORATION
OFFICERS' DEFERRED COMPENSATION PLAN

ARTICLE I. NAME AND PURPOSE OF THE PLAN

The name of the plan is the Norfolk Southern Corporation Officers' Deferred Compensation Plan (the "Plan"). The purpose of the Plan is to provide retirement and death benefits to those officers of Norfolk Southern Corporation (the "Corporation") or a Participating Subsidiary who elect to participate in the Plan.

ARTICLE II. DEFINITIONS

Account. The total of the amount of Deferrals by a Participant together with Interest as provided in Article V.

Agreement. The "Deferral Agreement" between each Participant and the Corporation.

Beneficiary. The person or persons designated as Beneficiary pursuant to Article XII.

Board of Directors. The Board of Directors of the Corporation.

Committee. The Compensation and Nominating Committee of the Board of Directors.

Compensation. The fixed salary payable in the form of cash (including vacation pay) of the Participant before any reduction for contributions to the Thrift and Investment Plan of Norfolk Southern Corporation and Participating Subsidiary Companies, as amended from time to time, and before any deferrals under this Plan.

Deferral. A Deferred Bonus and/or a Monthly Deferred Amount.

Deferred Bonus. That amount set forth in the Agreement which shall be deferred from a Participant's MIP incentive award (and any other annual cash incentive award payable to participants in MIP) or EMIP incentive award (and any other annual cash incentive award approved by the Board of Directors and payable to participants in EMIP), or the bonus program of a Participating Subsidiary, if the deferral of such incentive award or bonus under the Plan is authorized by the Corporation.

Disability. A disability that enables the Participant to be

eligible for a disability benefit under the Long-Term Disability Plan of Norfolk Southern Corporation and Participating Subsidiaries, as amended from time to time, or under any such similar plan of a Participating Subsidiary.

EMIP. Norfolk Southern Corporation Executive Management Incentive Plan.

MIP. Norfolk Southern Corporation Management Incentive Plan.

Monthly Deferred Amount. That amount set forth in the Agreement which shall be deferred monthly from a Participant's salary pursuant to the Plan.

Participant. Any employee of the Corporation or a Participating Subsidiary eligible to participate under Article IV of the Plan.

Participating Subsidiary. Each subsidiary or affiliated company of the Corporation which adopts the Plan and is approved for participation in the Plan as provided in Article XVIII.

Plan Administrator. The Executive Vice President - Administration of the Corporation or the successor officer who performs substantially similar duties.

Plan Year. Any calendar year during which deferrals under this Plan are made.

Retirement. Retirement from the Corporation or a Participating Subsidiary pursuant to the provisions of the retirement plan of the Corporation or of a Participating Subsidiary (whichever is applicable), as amended from time to time.

ARTICLE III. ADMINISTRATION

The Plan Administrator shall administer, construe, and interpret this Plan and, from time to time, adopt such rules and regulations and make such recommendations to the Committee concerning Plan changes as are deemed necessary to ensure effective implementation of this Plan. The administration, construction, and interpretation by the Plan Administrator may be appealed to the Committee, and the decision of the Committee shall be final and conclusive, except that any claim for benefits with respect to a Participant shall be subject to the claims procedure set forth in Section 503 of the Employee Retirement Income

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Security Act of 1974. The Plan Administrator may correct errors and, so far as practicable, may adjust any benefit or payment or credit accordingly. Neither the Plan Administrator nor any member of the Committee shall be liable for any act done or determination made in good faith.

ARTICLE IV. ELIGIBILITY AND PARTICIPATION

Any nonagreement employee residing in the United States or Canada with at least 830 salary administration points assigned to his position shall be eligible to participate in the Plan. However, only those Participants with annual Compensation in excess of ninety thousand dollars (\$90,000) shall be eligible to defer Compensation under this Plan, and only 20% of monthly Compensation in excess of seven thousand five hundred dollars (\$7,500) shall qualify for deferral hereunder. A nonagreement employee who elects to become a Participant in the Plan and defer a portion of his monthly Compensation thereby consents to the reduction in his monthly Compensation by the Monthly Deferred Amount as specified in the Agreement. An election to participate in the Plan must be made annually by December 22 of the year prior to each Plan Year. Benefits payable hereunder shall be in addition to any other compensation or benefits to which a Participant may be entitled from the Corporation or a Participating Subsidiary.

A Participant may elect to defer a portion of any incentive bonus which may be awarded to him pursuant to MIP or EMIP or the authorized bonus program of a Participating Subsidiary. A Participant who elects to defer any of his incentive bonus thereby consents to a reduction in his bonus by the Deferred Bonus as specified in the Agreement, commencing with the incentive bonus award earned after December 31, 1986. By December 22 of the year prior to each Plan Year, a Participant may elect to defer any incentive bonus which may be earned by him during that Plan Year, either in whole or in part, in increments of twenty-five percent (25%).

ARTICLE V. INTEREST EQUIVALENT

Unless otherwise stated herein or determined by the Board of Directors, an amount equivalent to interest ("Interest") shall accrue and be compounded annually on all Deferrals. For purposes of calculating the appropriate Interest only, the Deferred Bonus is deemed to occur on the date on which the incentive bonus is paid. Interest shall accrue and be compounded annually at rates in accordance with the schedule below on the basis of the Participant's age attained during the Plan Year for which the Deferral is made:

Age	Rate
---	----
Up to 45	7%
45 - 54	10%
55 - 60	11%
Over 60	12%

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Interest on each Deferral shall continue to accrue at the rate determined by the Participant's age attained during the Plan Year for which the Deferral is made until all benefits payable hereunder have been distributed to, or with respect to, the Participant.

ARTICLE VI. BENEFITS

(a) Retirement: When a Participant ceases active service due to his Retirement, he shall be paid a monthly annuity commencing in January of the first calendar year following such Retirement for a period of

years in accordance with the schedule below:

Age at Time of Deferral -----	Distribution Period -----
Up to 50	5 Years
50 or Over	10 Years

The amount of the monthly annuity payable under this Article VI(a), shall be an amount sufficient to amortize the Participant's Account together with Interest over the applicable period.

(b) Disability: When a Participant ceases active service due to Disability, he shall be paid a monthly annuity commencing in January of the first calendar year following such Disability for a period of fifteen (15) years in an amount sufficient to amortize the Participant's Account together with Interest over that period.

(c) Death: If a Participant dies while in active service, the Corporation shall pay the amount of the Participant's Account to the Participant's Beneficiary in a single payment as soon as practicable after the date of death. If a Participant dies after Retirement or Disability but prior to receiving all benefits payable thereunder, the monthly payments shall be paid to the Participant's Beneficiary for the scheduled annuity period.

(d) Termination of Employment: If a Participant ceases active service other than by reason of leave of absence granted pursuant to the Family and Medical Leave Act, Retirement, Disability or Death, he shall be paid the balance of his Account as of the date of his separation from service as soon as practicable after such separation from service.

(e) Lump Sum or Other Settlement: Notwithstanding the foregoing provisions of this Article VI, the Committee, in its sole discretion, may authorize and direct the Corporation to make payments after termination of employment of a Participant to such Participant or his Beneficiary in a lump sum or over a period other than that provided for in this Article VI, and to charge such payments against the Participant's Account. Such accelerated distribution may be made only: (1) in the event of a financial emergency which is beyond the control of the Participant if disallowance of the accelerated distribution would result in severe financial hardship to the Participant or Beneficiary, and only

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in an amount necessary to satisfy the financial emergency, or (2) if in the written opinion of counsel, payment in accordance with this Article VI could create a conflict of interest for the Participant or Beneficiary; provided, that all amounts due to a Participant or Beneficiary under this Plan shall in all events be paid to the Participant or Beneficiary by the end of the appropriate period referred to in this Article VI. No Participant or Beneficiary who is also a member of the Committee shall participate in any decision of the Committee to make accelerated payments under this Article VI.

(f) Change in Mandatory Distribution Schedule: Notwithstanding the foregoing provisions of this Article VI, the Committee may, without the consent of any Participant or Beneficiary, direct that all benefits payable thereafter pursuant to paragraph (a), (b), or (c) above (including benefits that accrued prior to the issuance of the direction) shall be paid under a schedule that differs from that prescribed by paragraph (a), (b), or (c). Any such direction shall apply to all Participants, without differentiating among individual Participants, except to the extent otherwise provided by paragraph (e), above. No

Participant or Beneficiary who is also a member of the Committee shall participate in any decision of the Committee to make a change in the distribution schedule.

ARTICLE VII. NATURE AND SOURCE OF PAYMENTS

The obligation to pay benefits under Article VI with respect to each Participant shall constitute a liability of the Corporation to the Participant and any death Beneficiaries in accordance with the terms of the Plan. All benefits payable hereunder shall be made from the general funds of the Corporation, and nothing herein shall be deemed to create a trust of any kind or a fiduciary relationship between the Corporation and any Participant or other person. No special or separate fund need be established or other segregation of assets made to assure payments hereunder, and no Participant or Beneficiary shall have any interest in any particular asset of the Corporation by virtue of the existence of the Plan or an Agreement. Participants and Beneficiaries shall stand in the position of unsecured creditors of the Corporation, and all rights hereunder are subject to the claims of creditors of the Corporation.

ARTICLE VIII. EXPENSES OF ADMINISTRATION

All expenses of administering the Plan shall be borne by the Corporation, and no part thereof shall be charged against the benefit of any Participant.

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ARTICLE IX. AMENDMENT TO AND TERMINATION OF PLAN

The Corporation reserves the right at any time by a resolution duly adopted by its Board of Directors to amend this Plan in any manner or to terminate it at any time, except that no such amendment or termination shall deprive a Participant or his Beneficiary of any rights hereunder theretofore legally accrued, and no such termination shall be effective for the year in which such resolution is adopted.

ARTICLE X. RECALCULATION EVENTS

The Corporation's commitment to accrue and pay Interest as provided in Article V is facilitated by the purchase of corporate-owned life insurance purchased on the lives of eligible Participants. If the Board of Directors, in its sole discretion, determines that any change whatsoever in Federal, State or local law, or in its application or interpretation, has materially affected, or will materially affect, the ability of the Corporation to recover the cost of providing the benefits otherwise payable under the Plan, then, if the Board of Directors so elects, a Recalculation Event shall be deemed to have occurred. If a Recalculation Event occurs, then Interest shall be recalculated and restated using a lower rate of Interest determined by the Board of Directors, but which shall be not less than one-half (1/2) the rate of Interest provided for in Article V.

ARTICLE XI. GOVERNING LAW

This Plan and the Agreements are subject to the laws of the Commonwealth of Virginia.

ARTICLE XII. DESIGNATION OF BENEFICIARY

For the purpose of this Plan, a beneficiary shall be either (1) the named Beneficiary or Beneficiaries designated as hereinafter provided for by the Participant, or (2) in the absence of any such designation, his estate. A Participant may designate both primary and contingent Beneficiaries. A Participant may revoke or change any designation. To be effective, the designation of a named Beneficiary or Beneficiaries, or any change in or revocation of any designation, must be on a form provided by the Corporation, signed by the Participant and filed with the Office of the Plan Administrator prior to the death of such Participant. Any such designation, change or revocation shall not invalidate any cash payment made or other action taken by the Corporation pursuant to the Plan prior to its receipt by the Corporation. The determination by the Corporation of a Beneficiary or Beneficiaries, or the identity thereof, or evidence satisfactory to the Corporation shall be conclusive as to the

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liability of the Corporation and any payment made in accordance therewith shall discharge the Corporation of all its obligations under the Plan for such payment.

ARTICLE XIII. SUCCESSORS, MERGERS, CONSOLIDATIONS

The terms and conditions of this Plan and each Agreement shall inure to the benefit of and bind the Corporation, the Participants, their successors, assigns, and personal representatives. If substantially all the assets of the Corporation are acquired by another corporation or entity or if the Corporation is merged into, or consolidated with, another corporation or entity, then the obligations created hereunder and as a result of the Corporation's acceptance of Agreements shall be obligations of the successor corporation or entity.

ARTICLE XIV. WITHHOLDING FOR TAXES

The Participant agrees as a condition of participation hereunder that the Corporation may withhold applicable Federal, State, and local income taxes and Social Security or Railroad Retirement taxes from any distribution or benefit paid hereunder.

ARTICLE XV. NON-ALIENATION OF BENEFITS

No benefit under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any attempt at such shall be void; nor shall any such benefit be in any way subject to the debts, contracts, liabilities, engagements, or torts of the person who shall be entitled to such benefit; nor shall it be subject to attachment or legal process for or against such person.

ARTICLE XVI. FACILITY OF PAYMENT

If the Plan Administrator shall find that any individual to whom any amount is payable under the Plan is unable to care for his affairs because of illness or accident, or is a minor or other person under legal disability, any payment due such individual (unless a prior claim therefore shall have been made by a duly appointed guardian, committee, or other legal representative) may be paid to the spouse, a child, a parent, or a brother or sister of such individual or to any other person deemed by the Plan Administrator to have incurred expenses of such individual, in such manner and proportions as the Plan Administrator may determine. Any such payment shall be a complete discharge of the liabilities of the Corporation with respect thereto under the Plan or the Agreement.

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ARTICLE XVII. CONTINUED EMPLOYMENT

Nothing contained herein or in an Agreement shall be construed as conferring upon any Participant the right nor imposing upon him the obligation to continue in the employment of the Corporation or a Participating Subsidiary in any capacity.

ARTICLE XVIII. PARTICIPATION BY SUBSIDIARY COMPANIES

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

ARTICLE XIX. MISCELLANEOUS

Whenever used in the Plan, words in the masculine form shall be deemed to refer to females as well as to males, and words in the singular or plural shall be deemed to refer also to the plural or singular, respectively, as the context may require.

ARTICLE XX. EFFECTIVE DATE

The effective date of the Plan is January 1, 1987, as amended effective May 13, 1999.

SUPPLEMENTAL BENEFIT PLAN
OF
NORFOLK SOUTHERN CORPORATION
AND
PARTICIPATING SUBSIDIARY COMPANIES
(As last amended August 22, 1999)

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

ARTICLE II. DEFINITIONS

Conrail Plan Supplemental Pension Plan of Consolidated Rail Corporation.

NSC Norfolk Southern Corporation, a Virginia corporation.

Pension Committee The Pension Committee of the Board of Directors of NSC.

Retirement Plan Retirement Plan of Norfolk Southern Corporation and Participating Subsidiary Companies

Member A person entitled to participate in the Retirement Plan.

Participating Subsidiary Each subsidiary or affiliated company of NSC which is a Participating Subsidiary in the Retirement Plan shall automatically participate in the Plan.

Participant A Member of the Retirement Plan who is eligible to participate under Article III.

Deferred Compensation Amounts the receipt of which a Participant elects to defer under the:

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

NW Pension Resolutions adopted by the Board of Directors of
Resolutions 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.

Average Final Compensation as defined in Article II of the Retirement
Compensation Plan.

ARTICLE III. ELIGIBILITY

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; or
 - (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.

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- (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.

ARTICLE IV. SUPPLEMENTAL BENEFIT

1. A Participant shall, upon retirement under the Retirement Plan, 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 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) by including in the calculation of Average Monthly Final Compensation amounts of Deferred Compensation, if any;
 - (v) by including service credits and applying any offsets provided for under any NW Pension Resolution, if any; and
 - (vi) 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

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- (vii) 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 actually payable under the Retirement Plan; and
 - (ii) the monthly benefit (or actuarial equivalent thereof if payable in a lump sum) payable under the Consolidated Rail Corporation Supplemental Employee Retirement Plan or its successor plan.
2. A Participant shall, upon retirement under the Retirement Plan, be entitled to receive a monthly benefit, in excess of the benefit

otherwise payable under the Retirement Plan 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. Any survivorship option which has been elected or is in force under Article VIII of the Retirement Plan at the time of a Participant's death shall be deemed to have been elected or be in force under this Plan.
4. The payment of excess benefits under the Plan shall be made in a manner consistent with the provisions of the Retirement Plan, and shall continue for the same period of time.

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 Pension 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 Pension Committee, while serving as such, shall be considered to be acting in his capacity as a director of NSC.

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2. The Pension Committee shall from time to time adopt rules and regulations determined to be necessary to insure the effective implementation of the Plan.
3. The Pension 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 Pension 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.

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 Pension Committee.

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Approved as adopted:

/s/ J. A. Hixon

J. A. Hixon
Senior Vice President
Employee Relations

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Millions of Dollars)

	Year ended December 31				
	1999	1998	1997	1996	1995
EARNINGS					
Income from continuing operations before income taxes as reported	\$ 351	\$ 845	\$ 998	\$1,166	\$1,089
Add:					
Total interest expenses (as detailed below)	708	688	530	182	173
Amortization of capitalized interest	4	3	3	3	2
Income (loss) of partially owned entities (1)	47	165	113	1	--
Subsidiaries' preferred dividend requirement	2	2	2	2	3
	-----	-----	-----	-----	-----
Income before income taxes, as adjusted	\$1,112	\$1,703	\$1,646	\$1,354	\$1,267
	=====	=====	=====	=====	=====
FIXED CHARGES					
Interest expense on debt	\$ 531	\$ 516	\$ 385	\$ 116	\$ 113
Other interest expense	35	27	32	36	31
Calculated interest portion of rent expense	35	31	30	30	29
NS' share of Conrail interest	107	114	83	--	--
	-----	-----	-----	-----	-----
Total interest expenses	708	688	530	182	173
Capitalized interest	15	21	17	12	14
Subsidiaries' preferred dividend requirement on a pretax basis	4	4	4	4	4
	-----	-----	-----	-----	-----
Total fixed charges	\$ 727	\$ 713	\$ 551	\$ 198	\$ 191
	=====	=====	=====	=====	=====
RATIO OF EARNINGS TO FIXED CHARGES	1.53	2.39	2.99	6.84	6.63

- (1) Includes: (a) the distributed income of 20%-49% owned entities, net of equity recorded in undistributed income and the minority income of consolidated entities which have fixed charges; and (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.

NAME AND STATE OF INCORPORATION OF SUBSIDIARIES
OF NORFOLK SOUTHERN CORPORATION
AS OF MARCH 1, 2000

Agency Media Services, Inc., Indiana
Atlantic Acquisition Corporation, Pennsylvania
Atlantic Investment Company, Delaware
Norfolk Southern Properties, Inc., Virginia
Norfolk Southern Railway Company, Virginia
Northern Horizons Insurance Company, Vermont
Northmont Limited Partnership, Georgia
NS Crown Services, Inc., Virginia
NS Fiber Optics, Inc., Virginia
Pocahontas Development Corporation, Kentucky
Pocahontas Land Corporation, Virginia
TCS Leasing, Inc., Oklahoma
Thoroughbred Direct Intermodal Services, Inc. Pennsylvania
Thoroughbred Technology and Telecommunications, Inc., Virginia
Triple Crown Services Company

Norfolk Southern Railway Company subsidiaries:

Airforce Pipeline, Inc., North Carolina
Alabama Great Southern LLC, Virginia
Alabama Great Southern Railroad Company, The; Alabama
Atlantic and East Carolina Railway Company, North Carolina
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, The; Ohio
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
Lamberts Point Barge Company, Inc., Virginia
Memphis and Charleston Railway Company, Mississippi
Mobile and Birmingham Railroad Company, Alabama
Norfolk and Portsmouth Belt Line Railroad Company, Virginia
Norfolk Southern International, Inc., Virginia
North Carolina Midland Railroad Company, The; North Carolina
Rail Investment Company, Delaware
Shenandoah-Virginia 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 Coal Transport, Inc., Alabama
Southern Region Materials Supply, Inc., Georgia
Southern Region Motor Transport, Inc., Georgia
State University Railroad Company, North Carolina
Tennessee, Alabama & Georgia Railway Company, Delaware
Tennessee Railway Company, Tennessee
Virginia and Southwestern Railway Company, Virginia
Yadkin Railroad Company, North Carolina

Norfolk Southern Properties, Inc. subsidiaries:

Alexandria-Southern Properties, Inc., Virginia
Arrowood-Southern Company, North Carolina
Arrowood Southern Executive Park, Inc., North Carolina
Carlyle CA Corporation, Virginia
Carlyle Development Corporation, Virginia
Charlotte-Southern Corporation, North Carolina
Charlotte-Southern Hotel Corporation, North Carolina
Lambert's Point Docks, Incorporated, Virginia
Nickel Plate Improvement Company, Inc., The; Indiana
NKPI Management, Inc., Indiana
Norfolk Southern Industrial Development Corp., Virginia
Norfolk Southern Tower, LLC, Washington, D.C.
NS-Charlotte Tower Corporation, North Carolina
NS Gas Properties, Inc., Virginia
NS Gas Properties, II, Inc., Virginia
Sandusky Dock Corporation, Virginia
Southern Region Industrial Realty, Inc., Georgia
Virginia Holding Corporation, Virginia

NOTE: Of the above subsidiaries, each of which is more than 50% owned, only Norfolk Southern Railway Company meets the Commission's "significant subsidiary" test. This list does not include CRR Holdings, LLC, in which Norfolk Southern Corporation has 50% voting control; Conrail Inc. and Consolidated Rail Corporation are subsidiaries of CRR Holdings, LLC.

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
Norfolk Southern Corporation:

We consent to incorporation by reference in Registration Statement No. 333-67937 on Form S-3 and Registration Statements Nos. 33-61317, 33-52031, 333-40993, 333-78939 and 333-71321 on Form S-8 of Norfolk Southern Corporation of our report dated January 25, 2000, relating to the consolidated balance sheets of Norfolk Southern Corporation and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, changes in stockholders' equity and cash flows, and the related consolidated financial statement schedule for each of the years in the three-year period ended December 31, 1999, which report appears in the December 31, 1999, Annual Report on Form 10-K405 of Norfolk Southern Corporation.

/s/ KPMG LLP
KPMG LLP
Norfolk, Virginia

March 1, 2000

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to incorporation by reference in Registration Statement No. 333-67937 on Form S-3 and Registration Statements Nos. 33-61317, 33-52031, 333-40993, 333-78939 and 333-71321 on Form S-8 of Norfolk Southern Corporation of our report dated February 11, 2000, relating to the consolidated balance sheet of Conrail Inc. and subsidiaries as of December 31, 1999, and the related consolidated statements of income, stockholders' equity and cash flows, for the year ended December 31, 1999, which report appears in the December 31, 1999, Annual Report on Form 10-K405 of Norfolk Southern Corporation. The consolidated financial statements of Conrail Inc. and subsidiaries as of December 31, 1998, and the related consolidated statements of income, stockholders' equity and cash flows for the two years then ended were audited by other auditors whose report thereon dated January 19, 1999, expressed an unqualified opinion on those statements.

/s/ KPMG LLP
KPMG LLP
Norfolk, Virginia

March 1, 2000

/s/ Ernst & Young LLP
Ernst & Young LLP
Richmond, Virginia

March 1, 2000

CONSENT OF PRICEWATERHOUSECOOPERS LLP
INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-67937), and in the Registration Statements on Form S-8 (Nos. 33-52031, 33-61317, 333-40993, 333-71321 and 333-78939) of Norfolk Southern Corporation of our report dated January 19, 1999, on the consolidated financial statements of Conrail Inc. and subsidiaries for the year ended December 31, 1998, which appears in the Annual Report on Form 10-K of Norfolk Southern Corporation for the year ended December 31, 1999.

/s/ PricewaterhouseCoopers LLP
PRICEWATERHOUSECOOPERS LLP
Philadelphia, Pennsylvania

March 1, 2000

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CONRAIL INC.

1999 ANNUAL REPORT TO STOCKHOLDERS

REPORT OF MANAGEMENT

THE STOCKHOLDERS
CONRAIL INC.

Management is responsible for the preparation, integrity and objectivity of the Company's financial statements. The financial statements are prepared in conformity with generally accepted accounting principles and include amounts based on management's best estimates and judgment.

The Company's financial statements are audited by its independent accountants. Their audit is conducted in accordance with generally accepted auditing standards and includes a study and evaluation of the Company's system of internal accounting controls to determine the nature, timing and extent of the auditing procedures required for expressing an opinion on the Company's financial statements.

The Company's Board of Directors was reconstituted on August 22, 1998, the effective date of the Surface Transportation Board's written decision approving the acquisition of the Company by Norfolk Southern Corporation ("NSC") and CSX Corporation ("CSX"). The new Board of Directors, which is comprised of an equal number of directors from NSC and CSX, pursues its oversight responsibilities for the financial statements and corporate conduct through periodic meetings with and written reports from the Company's management.

/s/ Timothy T. O'Toole
Timothy T. O'Toole
President and Chief
Executive Officer

/s/ John A. McKelvey
John A. McKelvey
Senior Vice President-
Finance & Administration

February 11, 2000

THE STOCKHOLDERS AND BOARD OF DIRECTORS
CONRAIL INC.:

We have audited the accompanying consolidated balance sheet of Conrail Inc. and subsidiaries as of December 31, 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The accompanying consolidated financial statements of Conrail Inc. and subsidiaries as of December 31, 1998, and the related consolidated statements of income, stockholders' equity and cash flows for the two years then ended were audited by other auditors whose report thereon dated January 19, 1999, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. These 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 audit provides a reasonable basis for our opinion.

In our opinion, the 1999 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Conrail Inc. and subsidiaries as of December 31, 1999, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

/s/ KPMG LLP
KPMG LLP
Norfolk, Virginia

/s/ Ernst & Young LLP
Ernst & Young LLP
Richmond, Virginia

February 11, 2000

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REPORT OF INDEPENDENT ACCOUNTANTS

The Stockholders and Board of Directors
Conrail Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Conrail Inc. and subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 1998, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Thirty South Seventeenth Street
Philadelphia, Pennsylvania 19103

January 19, 1999

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CONRAIL INC.
CONSOLIDATED STATEMENTS OF INCOME

(\$ In Millions)	Years ended December 31,		
	1999	1998	1997
	----	----	----
Revenues - NSC/CSX (Note 2)	\$ 549	\$ -	\$ -
Revenues - Third Parties	1,625	3,863	3,765
	-----	-----	-----
Total operating revenues	2,174	3,863	3,765
	-----	-----	-----
Operating expenses (Note 3)			
Compensation and benefits	645	1,489	1,448
Fuel	63	163	198
Material, services and rents	590	909	952
Depreciation and amortization	328	310	293
Casualties and insurance	228	230	143
Other	192	247	188
ESOP termination charge			221
	-----	-----	-----
Total operating expenses	2,046	3,348	3,443
	-----	-----	-----
Income from operations	128	515	322
Interest expense	(150)	(153)	(170)
Other income, net (Note 10)	67	72	83
	-----	-----	-----
Income before income taxes	45	434	235
Income taxes (Note 7)	19	167	228
	-----	-----	-----
Net income	\$ 26	\$ 267	\$ 7
	=====	=====	=====

See accompanying notes to the consolidated financial statements.

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CONRAIL INC.
CONSOLIDATED BALANCE SHEETS

(\$ In Millions)	December 31,	
	1999	1998
	----	----
ASSETS		
Current assets		
Cash and cash equivalents	\$ 22	\$ 138
Accounts receivable	51	580
Due from NSC/CSX (Note 2)	196	-
Notes receivable from NSC/CSX (Note 2)	216	-
Material and supplies	29	92
Deferred tax assets (Note 7)	149	182
Other current assets	6	13
	-----	-----
Total current assets	669	1,005
	-----	-----
Property and equipment, net (Note 4)	7,143	7,151
Other assets	571	888
	-----	-----
Total assets	\$8,383	\$9,044
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current maturities of long-term debt (Note 6)	319	113
Accounts payable	59	130
Due to NSC/CSX (Note 2)	159	-
Wages and employee benefits	43	403
Casualty reserves	136	139
Accrued and other current liabilities (Note 5)	147	422
	-----	-----
Total current liabilities	863	1,207
Long-term debt (Note 6)	1,302	1,609
Casualty reserves	311	215
Deferred income taxes (Note 7)	1,817	1,787
Other liabilities	271	426
	-----	-----
Total liabilities	4,564	5,244
	-----	-----
Commitments and contingencies (Note 11)		
Stockholders' equity (Notes 2, 8, and 9)		
Common stock (\$1 par value; 100 shares authorized, issued and outstanding)	-	-
Additional paid-in capital	2,229	2,291
Unearned ESOP compensation	(20)	(75)
Retained earnings	1,610	1,584
	-----	-----
Total stockholders' equity	3,819	3,800
	-----	-----
Total liabilities and stockholders' equity	\$8,383	\$9,044
	=====	=====

See accompanying notes to the consolidated financial statements.

(\$ In Millions Except Per Share Data)	Series A Preferred Stock	Unearned ESOP Com- pensation	Common Stock	Additional Paid-in Capital	Employee Benefits Trust	Retained Earnings	Treasury Stock
BALANCE JANUARY 1, 1997	\$ 211	\$ (222)	\$ 88	\$2,404	\$ (384)	\$1,357	\$ (347)
Amortization		2					
Net income						7	
Common dividends, \$.475 per share (Note 9)						(40)	
Preferred dividends, \$.541 per share (Note 9)						(3)	
Employee benefits trust transactions, net				(3)	20		
Effects of Conrail acquisition, net (Notes 2)	(209)		(82)	594	90		(393)
Employee benefits trust reclassification (Note 9)					274		
Allocation of unearned ESOP		65					
Other	(2)			11		3	(2)
BALANCE DECEMBER 31, 1997	-	(155)	6	3,006	-	1,324	(742)
Net income						267	
Common dividends						(7)	
Common shares reclassified as unissued (Note 9)			(6)	(736)			742
Allocation of unearned ESOP compensation		80					
Other				21			
BALANCE DECEMBER 31, 1998	-	(75)	-	2,291	-	1,584	-
Net income						26	
Transfer of portion of prepaid pension assets to NSC and CSX (Note 8)				(54)			
Allocation of unearned ESOP compensation		55					
Other				(8)			
BALANCE DECEMBER 31, 1999	\$ -	\$ (20)	\$ -	\$2,229	\$ -	\$1,610	\$ -

See accompanying notes to the consolidated financial statements.

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CONRAIL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ In Millions)	Years ended December 31,		
	1999	1998	1997
	----	----	----
Cash flows from operating activities			
Net income	\$ 26	\$ 267	\$ 7
Adjustments to reconcile net income to net cash provided by operating activities:			
Transition and acquisition-related charges (Note 3)		368	159
ESOP termination charge			221
Depreciation and amortization	328	310	293
Deferred income taxes	48	(30)	89
Gains from sales of property	(6)	(21)	(23)
Pension credit	(45)	(63)	(61)
Changes in (net of effect of transition and acquisition-related items):			
Accounts receivable	529	33	7
Accounts and wages payable	(431)	(33)	42
Deferred tax assets	33	(67)	178
Due from NSC/CSX	(196)		

Due to NSC/CSX	159		
Other	(49)	(37)	(28)
	-----	-----	-----
Net cash provided by operating activities	396	727	884
	-----	-----	-----
Cash flows from investing activities			
Property and equipment acquisitions	(176)	(537)	(439)
Notes receivable from NSC/CSX	(216)		
Proceeds from disposals of properties	6	19	25
Other	(14)	(32)	(31)
	-----	-----	-----
Net cash used in investing activities	(400)	(550)	(445)
	-----	-----	-----
Cash flows from financing activities			
Payment of long-term debt	(112)	(119)	(238)
Payment of debt consent fees		(10)	
Net proceeds from (repayments of) short-term borrowings			(99)
Dividends on common stock and preferred stock		(7)	(43)
Proceeds from stock options and other			8
	-----	-----	-----
Net cash used in financing activities	(112)	(136)	(372)
	-----	-----	-----
Increase(decrease) in cash and cash equivalents	(116)	41	67
Cash and cash equivalents			
Beginning of year	138	97	30
	-----	-----	-----
End of year	\$ 22	\$ 138	\$ 97
	=====	=====	=====

See accompanying notes to the consolidated financial statements.

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CONRAIL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Description of Business

Conrail Inc. ("Conrail") is a holding company whose principal subsidiary is Consolidated Rail Corporation ("CRC"), the major freight railroad in the Northeast. Norfolk Southern Corporation ("NSC") and CSX Corporation ("CSX"), the major railroads in the Southeast, jointly control Conrail through their ownership interests in CRR Holdings LLC ("CRR"), whose primary subsidiary is Green Acquisition Corporation, which owns Conrail. NSC and CSX have equity interests in CRR of 58% and 42%, respectively, and voting interests of 50% each. From May 23, 1997, the date NSC and CSX completed their acquisition of Conrail stock, until June 1, 1999,

Conrail's operations continued substantially unchanged while NSC and CSX awaited regulatory approvals and prepared for the integration of their respective Conrail routes and assets to be leased to their railroad subsidiaries, Norfolk Southern Railway Company ("NSR") and CSX Transportation, Inc. ("CSXT"). The operations of CRC substantially changed beginning June 1, 1999, when NSC and CSX began operating a portion of the Conrail properties under operating agreements (the "Closing Date") (Note 2).

Beginning June 1, 1999, Conrail's major sources of operating revenues are operating fees and lease rentals from NSC and CSX. The composition of CRC's operating expenses also reflects this change in operations. As a result, Conrail's 1999 results reflect the freight railroad operations of CRC through May 31, 1999, and reflect Conrail's new structure and operations that commenced on the Closing Date (Note 2).

Principles of Consolidation

The consolidated financial statements include Conrail and majority-owned subsidiaries. Investments in 20% to 50% owned companies are accounted for by the equity method.

Cash Equivalents

Cash equivalents consist of commercial paper, certificates of deposit and other liquid securities purchased with a maturity of three months or less, and are stated at cost which approximates market value.

Material and Supplies

Material and supplies prior to June 1, 1999, (Note 2) consist mainly of fuel oil and items for maintenance of property and equipment, and were valued at the lower of cost, principally weighted average, or market. Material and supplies beginning June 1, 1999, consist of maintenance material valued at the lower of cost or market.

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CONRAIL INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Property and Equipment

Property and equipment are recorded at cost. Additions to properties, including those under lease, are capitalized. Maintenance expense is recognized when repairs are performed. Depreciation is provided using the composite straight-line method over estimated service lives. In 1999, the overall depreciation rate averaged 3.0% for roadway and 5.8% for equipment. The cost (net of salvage) of depreciable property retired or replaced in the ordinary course of business is charged to accumulated depreciation and no gain or loss is recognized.

Asset Impairment

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Expected future cash flows from the use and disposition of long-lived assets are compared to the current carrying amounts to determine the potential impairment loss.

Revenue Recognition

Revenue prior to June 1, 1999 was recognized proportionally as a shipment moved on the Conrail system from origin to destination. Beginning June 1, 1999, the Company's major sources of revenues are from NSC and CSX, primarily in the form of rental revenues and operating fees which are recognized when earned.

New Accounting Standards

There were no new accounting standards issued during 1999 which the Company believes will have a material impact on its consolidated financial position, results of operations or cash flows.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Actual results could differ from those estimates.

Reclassifications

Certain prior year data have been reclassified to conform to the 1999 presentation.

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CONRAIL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Related Parties Transactions

Background

On May 23, 1997, NSC and CSX completed their joint acquisition of Conrail stock. On June 17, 1997, NSC and CSX executed an agreement which generally outlines the methods of governing and operating Conrail and its subsidiaries ("Transaction Agreement"). On July 23, 1998, the Surface Transportation Board ("STB") issued a written opinion that permitted NSC and CSX to exercise operating control of Conrail beginning August 22, 1998. On June 1, 1999, NSC and CSX began to operate over certain Conrail lines.

Commencement of Operations by NSR and CSXT

On June 1, 1999, the majority of CRC's routes and assets were segregated into separate subsidiaries of CRC, Pennsylvania Lines LLC ("PRR") and New York Central Lines LLC ("NYC"). PRR and NYC entered into separate but identical operating and lease agreements with NSR and CSXT, respectively, (the "Operating Agreements") which govern substantially all nonequipment assets to be used by NSR and CSXT and have initial 25-year terms, renewable at the options of NSR and CSXT for two 5-year terms. Payments made under the Operating Agreements are based on appraised values that are subject to adjustment every six years to reflect changes in such values. NSR and CSXT have also leased or subleased certain equipment assets at rentals based on appraised values for varying term lengths from PRR and NYC, respectively, as well as from CRC.

NSC and CSX have also entered into agreements with CRC governing other Conrail properties that continue to be owned and operated by Conrail ("the Shared Assets Areas"). NSR and CSXT pay CRC a fee for joint and exclusive access to the Shared Assets Areas. In addition, NSR and CSXT pay, based on usage, the costs incurred by CRC to operate the Shared Assets Areas plus a profit factor.

Payments made by NSR and CSXT to Conrail under the Shared Assets agreements were \$45 million and \$43 million, respectively, of which \$7 million and \$5 million, were minimum rents.

Payments from NSR and CSXT under the Operating Agreements and lease agreements to PRR and NYC amounted to \$167 million and \$124 million, respectively. In addition, costs necessary to operate and maintain the related assets under these agreements, including leasehold improvements, will be borne by NSR and CSXT.

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CONRAIL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Future minimum lease payments to be received from NSR/CSXT are as follows:

\$ in Millions	NSR To PRR	NSR To CRC	CSX To NYC	CSX To CRC	Total
-----	-----	-----	-----	-----	-----
2000	\$ 320	\$ 22	\$ 231	\$ 16	\$ 589
2001	307	24	223	17	571
2002	318	27	229	19	593
2003	327	30	235	21	613
2004	330	32	238	23	623
2005 and Beyond	5,389	687	3,902	497	10,475
	-----	-----	-----	-----	-----
Total	\$6,991	\$ 822	\$5,058	\$ 593	\$13,464
	=====	=====	=====	=====	=====

Related Party Balances and Transactions

"Due from NSC/CSX" at December 31, 1999, is primarily comprised of amounts due for the above-described operating and rental activities. Also included in "Due from NSC/CSX" are amounts paid by Conrail for separation payments to CRC's agreement employees that will be reimbursed by NSC and CSX as required by the Transaction Agreement. As of December 31, 1999, the accrued balances due from NSC and CSX were \$91 million and \$105 million, respectively.

PRR and NYC have interest-bearing notes receivable, payable on demand from NSC and CSX of \$123 million and \$93 million, respectively, at December 31, 1999 included in the "Notes receivable from NSC/CSX" line item on the balance sheet. The interest rates on the notes receivable from NSC and CSX are variable and both 5.6% at December 31, 1999.

CRC has entered into service provider agreements with both NSC and CSX, for such services as accounting and administrative processing, personal injury and environmental case handling and other miscellaneous services ("Service Provider Agreements"). Payments made to NSC under these Service Provider Agreements were \$5 million and are included within the various line items of operating expenses for 1999. In addition, CRC paid a subsidiary of CSX \$5 million during 1999, for rental of various facilities which it occupied subsequent to May 31, 1999.

"Due to NSC/CSX" includes \$64 million and \$29 million, to NSC and CSX, respectively, for the services described above for 1999.

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CONRAIL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

"Due to NSC/CSX" also includes \$42 million and \$24 million payable to NSC and CSX, respectively, for CRC's vacation liability related to the portion of its work force that became NSC and CSX employees subsequent to May 31, 1999.

From time to time, NSC and CSX, as the indirect owners of Conrail, may need to provide some of Conrail's cash requirements through capital contributions, loans, or advances, none of which took place as of December 31, 1999.

Prior to the Closing Date, the Company interchanged freight with both NSC and CSX for transport to destinations both within and outside of Conrail's service region. The Company shares ownership interests with either one or both railroads in various transportation-related entities, all of which are immaterial to the Company's operating results and financial position.

3. Transition, Acquisition-Related and Other Items

During 1999, the Company recorded net expenses of \$138 million (\$85 million after taxes) for adjustments to certain litigation and environmental reserves related to settlements and completion of site reviews, and in accordance with the Transaction Agreement, for the method of settlement of certain casualty liabilities based on an actuarial study and for the assumption of a lease obligation by a subsidiary of CSX. The effects of these adjustments are reflected in the "Casualties and insurance" and "Other" operating expense line items of the income statement for 1999.

During the third quarter of 1998, the Company recorded charges totaling \$302 million (\$187 million after income taxes), primarily for severance benefits of \$170 million covering certain non-union employees, and \$132 million of other costs, such as the effect of changing to an actuarial method of valuing certain components of the Company's casualty reserves, primarily included in the "Compensation and benefits" and "Casualties and insurance" operating expense line items of the 1998 income statement, respectively.

The charge for non-union separation benefits represents termination payments made to approximately 1,300 non-union employees whose non-executive positions were eliminated as a result of the joint acquisition of Conrail. Most of these termination payments have been made in the form of supplemental retirement benefits from the Company's overfunded pension plan. During 1999 and 1998, termination payments of \$77 million and \$9 million were made, respectively.

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CONRAIL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During 1998 and 1997, the Company recorded charges totaling \$66 million (\$41 million after income taxes) and \$49 million (\$31 million after income taxes), respectively, representing amounts paid to certain non-union employees as incentive to continue their employment with the Company through August 22, 1998, the effective date of the STB approval of the joint acquisition of Conrail, and the subsequent transition period.

During 1997, the Company recorded a charge of \$221 million (no related income tax effect) for the termination of its Non-union Employee Stock Ownership Plan ("ESOP") as a result of the repayment of the ESOP note payable of \$291 million and related accrued interest to the Company. The Company recorded a long-term liability of \$221 million related to the ESOP termination charge, which has not required use of the Company's cash for settlement. Such liability, the balance of which is \$20 million at December 31, 1999, is being reduced as the cash proceeds, held by the ESOP as a result of selling its ESOP preferred stock in the joint tender offer, are allocated to eligible ESOP participants.

During 1997, the Company recorded a charge of \$110 million (\$103 million after income taxes) in connection with employment "change in control" agreements with certain executives, which became operative as a result of the joint acquisition of Conrail. A portion of the benefits under these agreements, \$68 million, has been paid in 1998 from the Employee Benefits Trust ("EBT"). These costs are included in the "Compensation and benefits" line item of the income statement for 1997.

Also, as a result of the joint acquisition of Conrail, all outstanding performance shares and all outstanding unvested stock options, restricted shares and phantom shares vested during 1997. The Company paid all of the amounts due employees under these arrangements and recorded a \$63 million charge (\$39 million after income taxes). These costs are included in the "Compensation and benefits" line item of the income statement for 1997.

CONRAIL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Property and Equipment

	December 31, -----	
	1999	1998
	----	----
	(In Millions)	
Roadway	\$7,410	\$7,255
Equipment	1,573	1,593
Less: Accumulated depreciation	(2,154)	(2,029)
	-----	-----
	6,829	6,819
	-----	-----
Capital leases (primarily equipment)	696	793
Accumulated amortization	(382)	(461)
	-----	-----
	314	332
	-----	-----
	\$7,143	\$7,151
	=====	=====

Substantially all assets are leased to NSR or CSXT (Note 2).
Conrail acquired equipment and incurred related long-term debt under
various capital leases of \$79 million in 1997.

5. Accrued and Other Current Liabilities

	December 31, -----	
	1999	1998
	----	----
	(In Millions)	
Freight settlements due others	\$ 3	\$ 42
Equipment rents (primarily car hire)	6	78
Unearned freight revenue	-	59
Property and corporate taxes	97	33
Other	41	210
	-----	-----
	\$ 147	\$ 422
	=====	=====

CONRAIL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Long-Term Debt and Leases

Long-term debt outstanding, including the weighted average interest rates at December 31, 1999, is composed of the following:

	December 31, -----	
	1999	1998
	----	----
	(In Millions)	
Capital leases	\$ 331	\$ 391
Medium-term notes payable, 6.27%		
due 1999	-	30
Notes payable, 9.75%, due 2000	250	250
Debentures payable, 7.88%, due 2043	250	250
Debentures payable, 9.75%, due 2020	550	544
Equipment and other obligations, 6.87%	240	257
	-----	-----
	1,621	1,722
Less current portion	(319)	(113)
	-----	-----
	\$1,302	\$1,609
	=====	=====

Interest payments were \$149 million in 1999, \$153 million in 1998 and \$163 million in 1997.

Leases

The Company's noncancelable long-term leases generally include options to purchase at fair value and to extend the terms. Capital leases have been discounted at rates ranging from 3.09% to 14.26% and are collateralized by assets with a net book value of \$285 million at December 31, 1999.

Minimum commitments, exclusive of executory costs borne by the Company, are:

	Capital Leases -----	Operating Leases -----
	(In Millions)	
2000	\$ 74	\$ 72
2001	68	61
2002	56	55
2003	51	51
2004	56	53
2005 - 2018	139	474
	-----	-----
Total	444	\$ 766
		=====
Less interest portion	(113)	

Present value	\$ 331	

CONRAIL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Equipment and other obligations mature in 2000 through 2043 and are collateralized by assets with a net book value of \$229 million at December 31, 1999. Maturities of long-term debt other than capital leases are \$268 million in 2000, \$19 million in 2001, \$18 million in 2002, \$19 million in 2003, \$19 million in 2004 and \$947 million in total from 2005 through 2043.

Operating lease rent expense was \$120 million in 1999, \$121 million in 1998 and \$122 million in 1997.

7. Income Taxes

The provisions for income taxes are composed of the following:

	1999 ----	1998 ----	1997 ----
	(In Millions)		
Current			
Federal	\$ (30)	\$ 173	\$ 122
State	1	24	17
	-----	-----	-----
	(29)	197	139
	-----	-----	-----
Deferred			
Federal	52	(27)	61
State	(4)	(3)	28
	-----	-----	-----
	48	(30)	89
	-----	-----	-----
	\$ 19	\$ 167	\$ 228
	=====	=====	=====

The nondeductibility of the ESOP termination charge and certain transition and acquisition-related compensation costs for federal and state income tax purposes, has resulted in a significant difference between the Company's statutory and effective tax rates for 1997 (Note 4).

A tax law was enacted during the third quarter of 1997 by a state in which CRC operates which changed the Company's method of computing taxes and resulted in a tax rate increase. Income tax expense for 1997 was increased by \$22 million representing the effects of adjusting deferred income taxes for the rate increase as required by SFAS 109, "Accounting for Income Taxes" ("SFAS 109").

CONRAIL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reconciliations of the U.S. statutory tax rates with the effective tax rates are as follows:

	1999 ----	1998 ----	1997 ----
Statutory tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	4.2	3.2	3.2
ESOP termination charge			36.3
Nondeductible transition and acquisition-related costs	23.9		14.9
Effect of state tax increase on deferred taxes			9.3
Other	(20.9)	.3	(1.7)
	----	----	----
Effective tax rate	42.2%	38.5%	97.0%
	=====	=====	=====

The Company has reached final settlements with the Internal Revenue Service ("IRS") related to all of the audits of the Company's consolidated federal income tax returns through fiscal year 1992. The Company's consolidated federal income tax returns for fiscal years 1993 through 1995 are currently being examined by the IRS. Federal and state income tax payments were \$38 million in 1999, \$196 million in 1998 and \$120 million in 1997.

Significant components of the Company's deferred income tax liabilities (assets) are as follows:

	December 31, -----	
	1999	1998
	----	----
	(In Millions)	
Current assets	\$ (8)	\$ (22)
Current liabilities	(133)	(152)
Miscellaneous	(8)	(8)
	-----	-----
Current deferred tax asset, net	\$ (149)	\$ (182)
	=====	=====
Noncurrent liabilities:		
Property and equipment	1,977	1,897
Other long-term assets		
(primarily prepaid pension asset)	89	106
Other (mostly equipment obligations)	88	91
	-----	-----
	2,154	2,094
	-----	-----
Noncurrent assets:		
Nondeductible reserves and other		

liabilities	(221)	(239)
Tax benefit transfer receivable	(36)	(36)
Other (mostly equity investments)	(80)	(32)
	-----	-----
	(337)	(307)
	-----	-----
Deferred income tax liabilities, net	\$1,817	\$1,787
	=====	=====

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CONRAIL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Pension and Postretirement Benefits

The Company and its subsidiaries sponsor several qualified and nonqualified pension plans and other postretirement benefit plans for its employees.

During 1999, the Company transferred approximately \$350 million and \$260 million of pension assets to NSC and CSX, respectively. NSC and CSX also assumed certain pension obligations related to former Conrail employees. The net effect on Conrail's financial statements as detailed in the table below, was to reduce pension assets by \$89 million. This transfer resulted in a \$35 million reduction of deferred tax liabilities and is reflected as a capital distribution of \$54 million.

The Company's pension plan was amended during 1998 to include certain enhanced benefits for qualifying Conrail employees. The effect of the amendment was to increase the Conrail plan's projected benefit obligation by \$59 million. The Company's pension plan was also amended during 1998 to allow for payment of non-union supplemental retirement benefits to the extent consistent with applicable Internal Revenue Service Tax Code provisions. Both of these liabilities are accrued as offsets to the prepaid pension asset which is included in "Other assets" in the balance sheet (Note 3).

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CONRAIL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the two-year period ending December 31, 1999, and a statement of the funded status as of December 31 of both years:

	Pension Benefits		Other Postretire- ment Benefits	
	-----		-----	
(In Millions)	1999	1998	1999	1998

	----	----	----	----
Change in benefit obligation				
Net benefit obligation				
at beginning of year	\$ 834	\$ 707	\$ 56	\$ 57
Pension obligation				
transferred to NSC and CSX	(89)	-	-	-
Service cost	10	13	-	-
Interest cost	50	53	3	4
Plan amendments	-	59	-	-
Curtailment (gains) losses	(15)	-	(4)	-
Actuarial (gains) losses	(97)	68	(7)	1
Incorporation of special pension benefit reserves	176	-	-	-
Gross benefits paid	(130)	(66)	(4)	(6)
	-----	-----	-----	-----
Net benefit obligation				
at end of year	\$ 739	\$ 834	\$ 44	\$ 56
Change in plan assets				
Fair value of plan assets				
at beginning of year	\$1,441	\$1,308	\$ 9	\$ 10
Pension assets				
transferred to NSC and CSX	(610)	-	-	-
Actual return on plan assets	88	211	-	-
Gross benefit payments	(128)	(78)	(1)	(1)
	-----	-----	-----	-----
Fair value of plan assets				
at end of year	\$ 791	\$1,441	\$ 8	\$ 9
Funded status at end of year	\$ 52	\$ 607	\$ (36)	\$ (47)
Unrecognized transition asset	(3)	(54)	-	-
Unrecognized prior service cost	10	88	-	-
Unrecognized actuarial (gains) losses	(26)	(371)	(8)	-
	-----	-----	-----	-----
Net amount recognized				
at year end	\$ 33	\$ 270	\$ (44)	\$ (47)
	=====	=====	=====	=====

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CONRAIL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following amounts have been recognized in the balance sheets as of December 31:

	Pension Benefits		Other Postretirement Benefits	
	-----	-----	-----	-----
(In Millions)	1999	1998	1999	1998
	----	----	----	----
Prepaid pension cost	\$ 74	\$ 278	-	-

Accrued benefit cost	(41)	(8)	\$(44)	\$(47)
----------------------	------	-----	--------	--------

All of the Company's plans for postretirement benefits other than pensions have no plan assets except for the retiree life insurance plan which has \$8 million and \$9 million of assets in 1999 and 1998, respectively. The aggregate benefit obligation for the postretirement plans other than pensions is \$44 million and \$56 million at December 31, 1999 and 1998, respectively.

The projected benefit obligations and accumulated benefit obligations for pension plans with accumulated benefit obligations in excess of plan assets were \$54 million and \$38 million, respectively, in 1999; and \$10 million and \$9 million, respectively, in 1998. The plans had no assets in either 1999 or 1998.

The assumptions used in the measurement of the Company's benefit obligation are as follows:

(In Millions)	Pension Benefits		Other Postretire- ment Benefits	
	1999	1998	1999	1998
	----	----	----	----
Discount rate	7.75%	6.50%	7.75%	6.50%
Expected return on plan assets	9.00%	9.00%	9.00%	8.00%
Rate of compensation increase	5.00%	5.00%	5.00%	5.00%

A 7% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2000, gradually decreasing to 6% by the year 2007.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The effect of a one percentage point increase and (decrease) in the assumed health care cost trend rate on accumulated postretirement benefit obligation is \$1 million and \$(1) million, respectively, and would have an immaterial effect on the net periodic postretirement benefit cost for 1999.

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The components of the Company's net periodic benefit cost for the plans are as follows:

(In Millions)	Pension Benefits			Other Postretirement Benefits		
	1999	1998	1997	1999	1998	1997
	----	----	----	----	----	----
Service cost	\$ 10	\$ 13	\$ 8	\$ -	\$ -	\$ -
Interest cost	53	53	50	4	4	4
Expected return on assets	(94)	(109)	(98)	(1)	(1)	(1)

Curtailment (gain) loss	19	-	-	(4)	-	-
Amortization of:						
Transition asset	(11)	(18)	(18)	-	-	-
Prior service cost	4	4	3	-	-	-
Actuarial gain	(8)	(5)	(6)	-	(1)	(1)
	-----	-----	-----	-----	-----	-----
	\$ (27)	\$ (62)	\$ (61)	\$ (1)	\$ 2	\$ 2
	=====	=====	=====	=====	=====	=====

Savings Plans

The Company and certain subsidiaries provide 401(k) savings plans for union and non-union employees. Under the Company's current non-union savings plan, 50% of employee contributions are matched for the first 6% of a participating employee's base pay and 25% of employee contributions are matched in excess of 10% of a participating employee's base pay. Savings plan expense related to the current non-union savings plan was \$1 million in 1999. There is no Company match provision under the union employee plan except for certain unions which negotiated a Company match as part of their contract provisions.

In connection with the close of the NSC-CSX joint tender offer for Conrail, the Company's Non-union ESOP was terminated with the repayment of the ESOP note payable of \$291 million and related accrued interest during 1997, resulting in a charge of \$221 million (no related income tax effect) (Notes 2 and 3). Under the Non-union ESOP, 100% of employee contributions were matched in the form of ESOP preferred stock for the first 6% of a participating employee's base pay. Savings plan expense related to the ESOP plan was \$1 million in 1997. The Company had no non-union savings plan in 1998.

In connection with the formation of the Non-union ESOP in 1990, the Company issued 9,979,562 of the authorized 10 million shares of its ESOP stock to the Non-union ESOP in exchange for a 20 year promissory note from the Non-union ESOP in the principal amount of approximately \$290 million. In addition, unearned ESOP compensation in the same amount was recognized as a charge to stockholders' equity coincident with the Non-union ESOP's issuance of its promissory note to the

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Company. The debt of the Non-union ESOP was recorded by the Company and offset against the promissory note from the Non-union ESOP. The Company received debt service payments from the Non-union ESOP of \$11 million in 1997.

Prior to the close of the joint tender offer (Notes 2 and 3), unearned ESOP compensation was charged to expense as shares of ESOP stock were allocated to participants. An amount equivalent to the preferred dividends declared on the ESOP stock had partially offset compensation and interest expense related to the Non-union ESOP through the close of the joint tender offer.

Interest expense incurred by the Non-union ESOP on its debt to the Company was \$9 million in 1997. Compensation expense related to the Non-union ESOP was \$2 million in 1997.

Prior to its acquisition, the Company made dividend payments at a rate of 7.51% on the ESOP stock and additional contributions in an aggregate amount sufficient to enable the Non-union ESOP to make the required interest and principal payments on its note to the Company. Preferred

dividends declared and paid were \$3 million in 1997.

9. Stockholders' equity

Common Stock

On May 23, 1997, the NSC-CSX joint tender offer for the remaining outstanding shares of Conrail's common and preferred stock was concluded, and on June 2, 1997, Conrail became the surviving corporation in a merger with Green Merger Corp. and remained the only subsidiary of Green Acquisition Corp., an entity jointly-owned by NSC and CSX. As a result, the remaining outstanding capital stock of Conrail was acquired by NSC and CSX and Green Acquisition was issued 100 shares of Conrail's common stock. Any per share data included in this report is based on Conrail's outstanding common stock before the effects of the joint acquisition of the Company.

Employee Benefits Trust

In 1995, the Company established the Conrail Employee Benefits Trust (the "Trust"). The Trust was intended to fund certain employee benefits and other forms of compensation. As a result of the joint tender offer (See Note 2) for the Company's common stock, the Trust received cash proceeds for the common stock it held at that time. Due to the Trust holding cash instead of the Company's common stock, the balance of the Trust at December 31, 1997, was reclassified from the stockholders' equity section of the Company's balance sheet to the "Other assets" line item.

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Treasury Stock

As a result of the acquisition of Conrail, the Company's common stock repurchase program was terminated in the fourth quarter of 1996. The activity for 1997 is related to the repurchase of common stock in connection with the repayment of \$90 million of the Trust promissory loan described above. The remaining shares of treasury stock at December 31, 1997, were recorded as canceled and retired during 1998.

The activity and status of treasury stock follow:

	1998 ----	1997 ----
Shares, beginning of year	6,320,249	5,523,455
Acquired		
Effects of Conrail acquisition	(6,320,249)	796,794
	-----	-----
Shares, end of year	-	6,320,249
	=====	=====

Stock Plans

The Company has applied APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for the Conrail plans. Accordingly, no compensation cost was recognized for the Conrail fixed stock option plans prior to Conrail's acquisition. However, in connection with the acquisition of Conrail, all outstanding performance shares and all outstanding unvested stock options, restricted shares and phantom shares vested during 1997 (Note 3).

Undistributed Earnings of Equity Investees

"Retained earnings" includes undistributed earnings of equity investees of \$188 million, \$173 million and \$151 million at December 31, 1999, 1998 and 1997, respectively.

10. Other Income, Net

	1999	1998	1997
	----	----	----
	(In Millions)		
Interest income	\$ 19	\$ 7	\$ 13
Rental income	37	42	41
Property sales	6	21	23
Other, net	5	2	6
	-----	-----	-----
	\$ 67	\$ 72	\$ 83
	=====	=====	=====

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11. Commitments and Contingencies

Environmental

The Company is subject to various federal, state and local laws and regulations regarding environmental matters. CRC is a party to various proceedings brought by both regulatory agencies and private parties under federal, state and local laws, including Superfund laws, and has also received inquiries from governmental agencies with respect to other potential environmental issues. At December 31, 1999, CRC has received, together with other companies, notices of its involvement as a potentially responsible party or requests for information under the Superfund laws with respect to cleanup and/or removal costs due to its status as an alleged transporter, generator or property owner at 28 locations. However, based on currently available information, the Company believes CRC may have some potential responsibility at only 25 of these sites. Due to the number of parties involved at many of these sites, the wide range of costs of possible remediation alternatives, the changing technology and the length of time over which these matters develop, it is often not possible to estimate CRC's liability for the costs associated with the assessment and remediation of contaminated sites.

Although the Company's operating results and liquidity could be significantly affected in any quarterly or annual reporting period if CRC were held principally liable in certain of these actions, at December 31, 1999, the Company had accrued \$94 million, an amount it believes is sufficient to cover the probable liability and remediation costs that will be incurred at Superfund sites and other sites based on known information and using various estimating techniques. The Company anticipates that much of this liability will be paid out over five years; however some costs will be paid out over a longer period. The Company believes the ultimate liability for these matters will not materially affect its consolidated financial condition.

The Company spent \$9 million in 1999, \$10 million in 1998 and \$9 million in 1997 for environmental remediation and related costs. In addition, the Company's capital expenditures for environmental control and abatement projects were approximately \$1 million in 1999, \$8 million in 1998 and \$7 million in 1997.

Other

The Company is involved in various legal actions, principally relating to occupational health claims, personal injuries, casualties, property damage and damage to lading. The Company has recorded liabilities in amounts it believes are sufficient to cover the expected payments for such actions.

CRC had 2,315 employees at December 31, 1999, approximately 78% of whom are represented by 16 different labor organizations and are covered by

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16 separate collective bargaining agreements. The Company was not engaged in any collective bargaining at December 31, 1999.

CRC currently guarantees the principal and interest payments in the amount of \$39 million on Equipment Trust Certificates for Locomotive Management Services, a general partnership of which CRC holds a fifty percent interest.

12. Fair Values of Financial Instruments -----

The fair values of "Cash and cash equivalents," "Accounts receivable," "Notes receivable from NSC/CSX" and "Accounts payable" approximate carrying values because of the short maturity of these financial instruments.

Using current market prices when available, or a valuation based on the yield to maturity of comparable debt instruments having similar characteristics, credit rating and maturity, the total fair value of the Company's long-term debt, including the current portion, but excluding capital leases, is \$1,367 million and \$1,637 million at December 31, 1999 and 1998, respectively, compared with carrying values of \$1,290 million and \$1,331 million at December 31, 1999 and 1998, respectively.