

**FORM 10-K**

- (X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the fiscal year ended **DECEMBER 31, 2002**
- ( ) 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)

(IRS Employer Identification No.)

**Three Commercial Place**

Norfolk, Virginia

**23510-2191**

(Address of principal executive offices)

Zip Code

Registrant's telephone number, including area  
code

**(757) 629-2680**

No Change

(Former name, former address and former fiscal year, if changed since last report.)

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

Title of each Class  
**Norfolk Southern Corporation**  
**Common Stock (Par Value \$1.00)**

Name of each exchange  
on which registered  
**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 report 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-K  
or any amendment to this Form 10-K. (X)

The number of shares outstanding of each of the registrant's classes of common stock, as of  
January 31, 2003:

389,057,174 (excluding 21,169,125 shares held by registrant's consolidated subsidiaries).

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of

the Act). Yes (X) No ( )

The aggregate market value of the voting common equity held by nonaffiliates as of June 28, 2002 was \$9,079,736,767 (based on the closing price as quoted on the New York Stock Exchange on that date).

**DOCUMENTS INCORPORATED BY REFERENCE:**

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

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## PART I

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

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

**GENERAL** - Norfolk Southern Corporation (Norfolk Southern) 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, 2002, all the common stock of Norfolk Southern Railway and 22.5% of its voting preferred stock (resulting in 95.2% 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 freight 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" and Note 17). NAVL's results are presented as "Discontinued operations" in the accompanying financial information.

Norfolk Southern makes available free of charge through its website, [www.nscorp.com](http://www.nscorp.com), its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission.

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, Norfolk Southern 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, 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, Virginia. Also, leasing arrangements with PRR augmented Norfolk Southern Railway's locomotive, freight car and intermodal fleet.

**RAILROAD OPERATIONS** - As of Dec. 31, 2002, NS' railroads operated approximately 21,500 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, West Virginia, the District of Columbia and in the Province of Ontario, Canada. The miles operated were as follows:

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### Mileage Operated as of Dec. 31, 2002

	<u>Miles of Road</u>	<u>Second and Other Main Track</u>	<u>Passing Track, Crossovers and Turnouts</u>	<u>Way and Yard Switching</u>	<u>Total</u>
Owned	11,745	1,384	1,625	5,969	20,723
Operated under lease, contract or trackage rights	9,813	3,441	891	3,647	17,792
Total	<u>21,558</u>	<u>4,825</u>	<u>2,516</u>	<u>9,616</u>	<u>38,515</u>

In addition to the lines leased from Conrail previously discussed, NS' railroads have major leased lines between Cincinnati, Ohio, and Chattanooga, Tennessee, and operate over trackage owned by North Carolina Railway Company (NCRR). The Cincinnati-Chattanooga lease, covering about 335 miles of road, expires in 2026, and is subject to an option to extend the lease for an additional 25 years, at terms to be agreed upon. The trackage rights over NCRR cover approximately 315 miles of road under an agreement through 2014 with the right to renew for two additional 15-year periods.

NS' railroads carry raw materials, intermediate products and finished goods primarily in the Southeast, East and Midwest, and via interchange with other rail carriers, 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, Northeast, Mid-Atlantic region and Midwest. Chicago, Norfolk, Detroit, Atlanta, Metropolitan New York City, Jacksonville, Kansas City (Missouri), Baltimore, Buffalo, Charleston, Cleveland, Columbus, Philadelphia, Pittsburgh, Toledo, Greensboro, Charlotte and Savannah are among the leading centers originating and terminating freight traffic on the system. In addition, haulage arrangements with connecting carriers allow NS' railroads to provide single-line service to and from additional markets, including haulage provided by Florida East Coast Railway Company to serve southern and eastern Florida, including the port cities of Miami, West Palm Beach and Fort Lauderdale; and haulage provided by The Kansas City Southern Railway Company to provide transcontinental intermodal service via a connection with the Burlington Northern and Santa Fe Railway Company. Service is provided to New England, including the Port of Boston, via haulage, trackage rights and interline arrangements with Canadian Pacific Railway Company and Guilford Transportation Industries. The system's lines also reach many individual industries, electric generating facilities, mines (in western Virginia, eastern Kentucky, southern and northern West Virginia and western Pennsylvania), distribution centers, transload facilities and other businesses located in smaller communities in its service area. The traffic corridors carrying the heaviest volumes of freight include those from the New York City area to Chicago (via Allentown and Pittsburgh); Chicago to Jacksonville (via Cincinnati, Chattanooga and Atlanta); Appalachian coal fields of Virginia, West Virginia and Kentucky, to Norfolk and Sandusky, Ohio; Cleveland to Kansas City; and Knoxville to Chattanooga. Chicago, Memphis, Sidney/Salem, New Orleans, Kansas City, Buffalo, St. Louis and Meridian 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® equipment and domestic containers. RoadRailer® units are enclosed vans that can be pulled over highways in tractor-trailer configuration and over the rails by locomotives. 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. From April 1, 1993, to June 1, 1999, 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® equipment in major traffic corridors, including those between the Midwest and the Northeast, the Midwest and the Southeast and the Midwest and Texas/Mexico.

The following table sets forth certain statistics relating to NS railroads' operations for the past 5 years, including operations in the Northern Region that commenced June 1, 1999:

### Rail Operating Statistics

	Year Ended Dec. 31,				
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Revenue ton miles (billions)	179	182	197	167	135
Freight train miles traveled (millions)	72.6	70.0	74.4	61.5	53.0
Revenue per ton mile	\$0.0350	\$0.0339	\$0.0312	\$0.0315	\$0.0316
Revenue ton miles per man-hour worked	3,067	3,023	2,888	2,577	2,659
Percentage ratio of railway operating expenses to railway operating revenues	81.5%	83.7%	89.7%	86.3%	75.3%

**RAILWAY OPERATING REVENUES**- NS' total railway operating revenues were \$6.3 billion in 2002. 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 Dec. 31,				
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
<i>(Revenues in millions, shipments in thousands, revenue yield in dollars per shipment)</i>					
<b>COAL</b>					
Revenues	\$ 1,441	\$ 1,521	\$ 1,435	\$ 1,322	\$ 1,252
% of total revenues	23%	25%	23%	25%	29%
Shipments	1,610	1,695	1,687	1,519	1,310
% of total shipments	24%	26%	25%	25%	27%
Revenue Yield	\$ 895	\$ 897	\$ 850	\$ 870	\$ 955
<b>AUTOMOTIVE</b>					
Revenues	\$ 961	\$ 885	\$ 921	\$ 746	\$ 577
% of total revenues	15%	14%	15%	14%	13%
Shipments	662	622	692	611	487
% of total shipments	10%	9%	10%	10%	10%
Revenue Yield	\$ 1,450	\$ 1,423	\$ 1,331	\$ 1,220	\$ 1,186
<b>CHEMICALS</b>					
Revenues	\$ 769	\$ 752	\$ 756	\$ 641	\$ 492
% of total revenues	12%	12%	13%	12%	12%
Shipments	434	432	453	394	315
% of total shipments	6%	6%	6%	7%	7%
Revenue Yield	\$ 1,773	\$ 1,742	\$ 1,668	\$ 1,627	\$ 1,559







# Principal Sources of Railway Operating Revenues (continued)

Year Ended Dec. 31,

	<u>2002</u>		<u>2001</u>		<u>2000</u>		<u>1999</u>		<u>1998</u>	
<i>(Revenues in millions, shipments in thousands, revenue yield in dollars per shipment)</i>										
METALS/CONSTRUCTION										
Revenues	\$	692	\$	674	\$	689	\$	567	\$	375
% of total revenues		11%		11%		11%		11%		9%
Shipments		716		703		757		587		372
% of total shipments		11%		11%		11%		10%		8%
Revenue Yield	\$	966	\$	959	\$	911	\$	965	\$	1,008
AGR./CONSUMER PRODUCTS/GOVT.										
Revenues	\$	623	\$	603	\$	609	\$	539	\$	468
% of total revenues		10%		10%		10%		11%		11%
Shipments		507		509		525		489		441
% of total shipments		8%		8%		8%		8%		9%
Revenue Yield	\$	1,228	\$	1,185	\$	1,160	\$	1,103	\$	1,063
PAPER/CLAY/FOREST										
Revenues	\$	603	\$	612	\$	630	\$	578	\$	535
% of total revenues		10%		10%		10%		11%		13%
Shipments		438		450		491		465		445
% of total shipments		6%		7%		7%		8%		9%
Revenue Yield	\$	1,378	\$	1,357	\$	1,285	\$	1,243	\$	1,202
INTERMODAL										
Revenues	\$	1,181	\$	1,123	\$	1,119	\$	849	\$	555
% of total revenues		19%		18%		18%		16%		13%
Shipments		2,354		2,214		2,242		1,896		1,443
% of total shipments		35%		33%		33%		32%		30%
Revenue Yield	\$	502	\$	507	\$	499	\$	448	\$	385
TOTALS										
Railway Operating Revenues	\$	6,270	\$	6,170	\$	6,159	\$	5,242	\$	4,254
Railway Shipments		6,721		6,625		6,847		5,961		4,813
Railway Revenue Yield	\$	933	\$	931	\$	900	\$	879	\$	884

**COAL TRAFFIC** - Coal, coke and iron ore -- most of which is bituminous coal -- is NS' railroads' largest commodity group as measured by revenues. The railroads handled a total of 170.4 million tons in 2002, most of which originated on NS' lines in West Virginia, Virginia, Pennsylvania and Kentucky. Revenues from coal, coke and iron ore accounted for about 23% of NS' total railway operating revenues in 2002.

Coal, coke and iron ore tonnage by market for the past five years are set forth in the following table.

## Coal, Coke and Iron Ore Tonnage by Market

	<u>2002</u>	<u>2001</u>	<u>2000</u> (tons in thousands)	<u>1999</u>	<u>1998</u>
Utility	127,747	132,325	119,284	107,381	83,225
Export	11,342	13,872	19,845	18,373	24,453
Steel	21,578	20,457	25,003	21,399	18,236
Industrial	9,733	11,377	10,781	10,348	8,382
	<u>170,400</u>	<u>178,031</u>	<u>174,913</u>	<u>157,501</u>	<u>134,296</u>

Total coal handled through all system ports in 2002 was 32 million tons. Of this total, 10 million tons (including coastwise traffic) moved through Lamberts Point, Virginia, 3 million tons moved through the Baltimore Terminal, 11 million tons moved to various docks on the Ohio River, and 8 million tons moved to various Lake Erie ports. Other than coal for export, virtually all coal handled by NS' railroads was terminated in states east of the Mississippi River.

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

**GENERAL Merchandise Traffic** - General merchandise traffic is composed of five major commodity groupings: automotive; chemicals; metals and construction; agriculture, consumer products and government; and paper, clay and forest products. The automotive group includes finished vehicles for BMW, Daimler Chrysler, Ford Motor Company, General Motors, Honda, Isuzu, Jaguar, Land Rover, Mazda, Mercedes-Benz, Mitsubishi, Nissan, Saab, Subaru, Suzuki, Toyota and Volkswagen, and auto parts for Ford Motor Company, General Motors, Mercedes-Benz and Toyota. The chemicals group includes sulfur and related chemicals, petroleum products, chlorine and bleaching compounds, plastics, rubber, industrial chemicals, chemical wastes and municipal wastes. The metals and construction

group includes steel, aluminum products, machinery, scrap metals, cement, aggregates, bricks and minerals. The agriculture, consumer products and government group includes soybeans, wheat, corn, fertilizer, animal and poultry feed, food oils, flour, beverages, canned goods, sweeteners, consumer products and items for the military. The paper, clay and forest products group includes lumber and wood products, pulpboard and paper products, woodfibers, woodpulp, scrap paper and clay. General merchandise carloads handled in 2002 were 2.76 million, compared with 2.72 million handled in 2001, an increase of 2%.

In 2002, 134 million tons of general merchandise freight, or approximately 67% of total general merchandise tonnage handled by NS, originated online. The balance of general merchandise traffic was received from connecting carriers at interterritorial gateways. The principal interchange points for NS-received traffic included Chicago, Memphis, New Orleans, Cincinnati, Kansas City, Detroit, Hagerstown, St. Louis/East St. Louis and Louisville.

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

**INTERMODAL TRAFFIC** - The intermodal market consists of shipments moving in trailers, domestic and international containers, and Roadrailer® equipment. These shipments are handled on behalf

of intermodal marketing companies, international steamship lines, truckers and other shippers. Intermodal units handled in 2002 were 2.35 million, compared with 2.21 million handled in 2001,

an increase of 6%.

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

**FREIGHT RATES** - In 2002, 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. However, in 2002 there were significant coal movements moving under common carrier (tariff) rates which had previously moved under rates contained in transportation contracts. Beginning Jan. 1, 2002, coal moving to Duke Energy's (Duke) Belew's Creek, Allen, Buck and Dan River generating stations moved under common carrier rates and beginning April 1, 2002, coal moving to Carolina Power and Light's (CP&L) Hyco and Mayo plants moved under common carrier rates. Duke and CP&L have challenged the reasonableness of these common carrier rates in proceedings currently pending before the Surface Transportation Board.

In 2002, NS' railroads were found by the STB not to be "revenue adequate" based on results for the year 2001. A railroad is "revenue adequate" under the applicable law when its return on net investment exceeds the rail industry's composite cost of capital. This determination is made pursuant to statutory requirement and does not adversely impact NS' liquidity or capital resources.

**PASSENGER OPERATIONS** - Regularly scheduled passenger trains are operated by Amtrak on NS' lines between Alexandria and New Orleans, and between Greensboro and Selma, North Carolina. Commuter trains are operated on the NS line between Manassas and Alexandria in accordance with contracts with two transportation commissions of the Commonwealth of Virginia. NS 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.

Also since June 1, 1999, through its operation of PRR's routes, 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.

**NONCARRIER OPERATIONS** - NS' noncarrier subsidiaries engage principally in the acquisition, leasing and management of coal, oil, gas and minerals; the development of commercial real estate; telecommunications; and the leasing or sale of rail property and equipment. In 2002, 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

The NS railroad system extends across 22 states and portions of Canada. The railroad infrastructure makes the company very capital intensive with total property of approximately \$11 billion and investment in Conrail of approximately \$6 billion.

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

	<b>Capital Expenditures</b>					
	<b><u>2002</u></b>	<b><u>2001</u></b>	<b><u>2000</u></b>	<b><u>1999</u></b>	<b><u>1998</u></b>	
			(\$ in millions)			
Road	\$ 519	\$ 505	\$ 557	\$ 559	\$ 612	
Equipment	174	233	146	349	442	
Other property	2	8	28	4	6	
Total	\$ <u>695</u>	\$ <u>746</u>	\$ <u>731</u>	\$ <u>912</u>	\$ <u>1,060</u>	

Capital spending and maintenance programs are and have been designed to assure the ability to provide safe, efficient and reliable transportation services. For 2003, NS has budgeted \$798 million of capital spending. See the discussion following "Cash used for investing activities," in Part II, Item 7, "Management's Discussion and Analysis."

**Equipment** - As of Dec. 31, 2002, NS owned or leased the following units of equipment:

	<u>Owned*</u>	<u>Number of Units Leased**</u>	<u>Total</u>	<u>Capacity of Equipment</u>
Locomotives:				(Horsepower)
Multiple purpose	2,259	1,001	3,260	10,959,200
Switching	105	102	207	302,800
Auxiliary units	59	18	77	0
Total locomotives	<u>2,423</u>	<u>1,121</u>	<u>3,544</u>	<u>11,262,000</u>
Freight cars:				(Tons)
Hopper	18,568	5,036	23,604	2,486,500
Box	17,184	4,438	21,622	1,687,530
Covered hopper	9,956	3,097	13,053	1,423,216
Gondola	27,619	11,077	38,696	4,148,610
Flat	3,420	1,485	4,905	363,566
Caboose	169	57	226	0
Other	3,375	0	3,375	172,247
Total freight cars	<u>80,291</u>	<u>25,190</u>	<u>105,481</u>	<u>10,281,669</u>
Other:				
Work equipment	4,619	1,584	6,203	
Vehicles	3,529	1,063	4,592	
Highway trailers and containers	881	7,397	8,278	
RoadRailer®	5,570	--	5,570	
Miscellaneous	1,431	10,185	11,616	
Total other	<u>16,030</u>	<u>20,229</u>	<u>36,259</u>	

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

\*\* Includes locomotives, freight cars and units of other equipment leased from PRR.

The following table indicates the number and year built for locomotives and freight cars owned at Dec. 31, 2002.

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>Year Built</u> <u>1993-1997</u>	<u>1988-1992</u>	<u>1987 &amp; Before</u>	<u>Total</u>
Locomotives:									
No. of units	--	160	60	147	119	420	257	1,260	2,423
% of fleet	--%	7%	2%	6%	5%	17%	11%	52%	100%
Freight cars:									
No. of units	--	--	112	515	1,566	6,048	6,098	65,952	80,291
% of fleet	--%	--%	--%	1%	2%	7%	8%	82%	100%

As of Dec. 31, 2002, the average age of the locomotive fleet was 16.1 years. During 2002, 52 locomotives, the average age of which was 28.2 years, were retired. The average age of the freight car fleet at Dec. 31, 2002, was 25.9 years. During 2002, 3,013 freight cars 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.

	<u>2002</u>	<u>Annual Average Bad Order Ratio</u> <u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Freight cars (excluding cabooses):					
NS Rail	8.1%	6.9%	5.7%	3.7%	4.1%
Locomotives:					
NS Rail	6.3%	5.8%	5.5%	5.3%	4.3%

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 that were not in high demand. The ratio rose in 2000, 2001 and 2002 as a result of decreased maintenance activity. A review began in 2002 to address several hundred unserviceable, overage and commercially obsolete freight cars, which will likely result in their disposition in 2003. The locomotive bad order ratio includes units out of service for required inspections every 92 days and program work such as overhauls. 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. The ratio rose slightly in 2000 as maintenance activities were curtailed in response to a slowing economy. The elevated ratio through 2001 and 2002 reflected units out of service related to the resumption of maintenance and modification activities.

**Track Maintenance** - Of the approximately 38,500 total miles of track operated, NS had responsibility for maintaining about 31,000 miles of track with the remainder being operated under trackage rights. Over 75% of the main line trackage (including first, second, third and branch main tracks, all excluding trackage rights) has rail ranging from 131 to 155 pounds per yard with the standard installation currently at 141 pounds per yard. Approximately 40% of NS lines carried 20 million or more gross tons per track mile.

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

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Track miles of rail installed	235	254	390	403	429
Miles of track surfaced	5,270	3,836	3,687	5,087	4,715
New crossties installed (millions)	2.8	1.5	1.5	2.3	2.0

**Microwave System** - The NS microwave system, consisting of approximately 7,282 radio route miles, 442 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 and AEI data transmissions.

**Traffic Control** - Of a total of 21,500 route miles operated by NS, excluding trackage rights over foreign lines, 11,511 miles are signalized, including 8,546 miles of centralized traffic control (CTC) and 2,965 miles of automatic block signals. Of the 8,546 miles of CTC, 1,895 miles are controlled by data radio originating at 148 base station radio sites.

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

**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 \$864 million as of Dec. 31, 2002, and \$895 million at Dec. 31, 2001.

**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" in Part II, Item 7, "Management's Discussion and Analysis," and in Note 18 to the Consolidated Financial Statements.

**EMPLOYEES** - NS employed an average of 28,970 employees in 2002, compared with an average of 30,894 in 2001. The decrease reflects NS' continuous drive to operate more efficiently, accompanied by railroad retirement legislation late in 2001, which lowered the retirement age for rail employees. The approximate average cost per employee during 2002 was \$54,000 in wages and \$24,000 in employee benefits.

Approximately 85% of NS' railroad employees are covered by collective bargaining agreements with 15 different labor unions. See the discussion of "Labor Agreements" 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 two decades ago by the ICC under the Staggers Rail Act of 1980, has continued under the STB. 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% of NS' freight revenues come from either exempt traffic or traffic moving under transportation contracts.

Efforts may be made in 2003 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 will oppose efforts to reimpose unwarranted economic regulation.

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

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

Certain marketing strategies 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 2002.

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

Norfolk Southern's executive officers generally are elected and designated annually by the Board of Directors at its first meeting held after the annual meeting of stockholders, and they hold office until their successors are elected. Executive officers also may be elected and designated throughout the year as the Board of Directors considers appropriate. There are no family relationships among the officers, nor any arrangement or understanding between any officer and any other person pursuant to which the officer was selected. The following table sets forth certain information, as of February 1, 2003, relating to the executive officers.

<b>Name, Age, Present Position</b>	<b>Business Experience During Past Five Years</b>
David R. Goode, 62, Chairman, President and Chief Executive Officer	Present position since September 1992.
L. I. Prillaman, 59, Vice Chairman and Chief Marketing Officer	Present position since August 1998; prior thereto was Executive Vice President Marketing.
Stephen C. Tobias, 58, Vice Chairman and Chief Operating Officer	Present position since August 1998; prior thereto was Executive Vice President Operations.
Henry C. Wolf, 60, Vice Chairman and Chief Financial Officer	Present position since August 1998; prior thereto was Executive Vice President Finance.
John F. Corcoran, 62, Senior Vice President Public Affairs	Present position since August 1997; prior thereto was Vice President Public Affairs
John W. Fox, Jr., 55, Senior Vice President  Coal Services	Present position since April 2001. Served as Senior Vice President Coal Marketing from December 1999 to April 1, 2001, and prior thereto was Vice President Coal Marketing.
James A. Hixon, 49,  Senior Vice President Administration	Present position since February 2001. Served as Senior Vice President Employee Relations from November 1999 to February 2001, and prior thereto was Vice President Taxation.
Henry D. Light, 62, Senior Vice President Law	Present position since January 22, 2002. Served as Vice President Law from April 2000 to January 22, 2002, and prior thereto General Counsel Operations.
James W. McClellan, 63,  Senior Vice President Planning	Present position since August 1998; prior thereto was Vice President Strategic Planning
Kathryn B. McQuade, 46,  Senior Vice President Financial Planning	Present position since April 2000. Served as Vice President Financial Planning from August 1998 to April 2000, and prior thereto was Vice President Internal Audit.
Charles W. Moorman, 51, Senior Vice President Corporate Services	Present position since February 1, 2003. Also serves as President Thoroughbred Technology and Telecommunications, Inc. since October 1999, and prior thereto was Vice President Information Technology.
John P. Rathbone, 51, Senior Vice President and Controller	Present position since April 2000; prior thereto was Vice President and Controller
Stephen P. Renken, 59, Senior Vice President Chief Information Officer	Present position since February 2001. Served as Vice President Information Technology September 1999 to February 2001, Assistant Vice President Program Management from December 1997 to September 1999, and prior thereto was a consultant to NS.

John M. Samuels, 59, Senior Vice President Operations Planning and Support	Present position since April 2000; Served as Vice President Operations Planning and Budget from January 1998 to April 2000; and prior thereto was Vice President Operating Assets of Conrail.
Donald W. Seale, 50, Senior Vice President Merchandise Marketing	Present position since December 1999; prior thereto was Vice President Merchandise Marketing.

## **PART II**

### **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 51,418 stockholders of record as of Dec. 31, 2002, is traded on the New York Stock Exchange with the symbol NSC. The following table shows the high and low sales prices as reported by Bloomberg L.P. on its internet-based service and dividends per share, by quarter, for 2002 and 2001 (prices quoted in fractions have been rounded to the nearest cent).

<b>2002</b>		<b>Quarter</b>			
		<b>1<sup>st</sup></b>	<b>2<sup>nd</sup></b>	<b>3<sup>rd</sup></b>	<b>4<sup>th</sup></b>
Market price					
High	\$	26.98	\$ 24.45	\$ 23.90	\$ 22.54
Low		18.26	19.85	17.20	18.70
Dividends per share	\$	0.06	\$ 0.06	\$ 0.07	\$ 0.07
<b>2001</b>		<b>1<sup>st</sup></b>	<b>2<sup>nd</sup></b>	<b>3<sup>rd</sup></b>	<b>4<sup>th</sup></b>
Market price					
High	\$	18.90	\$ 24.11	\$ 22.60	\$ 19.88
Low		13.63	15.80	13.41	15.19
Dividends per share	\$	0.06	\$ 0.06	\$ 0.06	\$ 0.06

**Item 6. Selected Financial Data.**

**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**

**FIVE-YEAR FINANCIAL REVIEW**

**1998-2002**

	<b><u>2002</u></b>	<b><u>2001</u></b>	<b><u>2000(1)</u></b>	<b><u>1999(2)</u></b>	<b><u>1998</u></b>
	<i>(\$ in millions, except per share amounts)</i>				
<b>RESULTS OF OPERATIONS</b>					
Railway operating revenues	\$ 6,270	\$ 6,170	\$ 6,159	\$ 5,242	\$ 4,254
Railway operating expenses	5,112	5,163	5,526	4,524	3,202
Income from railway operations	<u>1,158</u>	<u>1,007</u>	<u>633</u>	<u>718</u>	<u>1,052</u>
Other income – net	66	99	168	164	309
Interest expense on debt	518	553	551	531	516
Income from continuing operations before income taxes	<u>706</u>	<u>553</u>	<u>250</u>	<u>351</u>	<u>845</u>
Provision for income taxes	246	191	78	112	215
Income from continuing operations	<u>460</u>	<u>362</u>	<u>172</u>	<u>239</u>	<u>630</u>
Discontinued operations (3)	--	13	--	--	104
Net income	<u>\$ 460</u>	<u>\$ 375</u>	<u>\$ 172</u>	<u>\$ 239</u>	<u>\$ 734</u>
<b>PER SHARE DATA</b>					
Net income – basic	\$ 1.18	\$ 0.97	\$ 0.45	\$ 0.63	\$ 1.94
Net income – diluted	\$ 1.18	\$ 0.97	\$ 0.45	\$ 0.63	\$ 1.93
Dividends	\$ 0.26	\$ 0.24	\$ 0.80	\$ 0.80	\$ 0.80
Stockholders' equity at year end	\$ 16.71	\$ 15.78	\$ 15.16	\$ 15.50	\$ 15.61
<b>FINANCIAL POSITION</b>					
Total assets	\$ 19,956	\$ 19,418	\$ 18,976	\$ 19,250	\$ 18,180
Total long-term debt, including current maturities	\$ 7,364	\$ 7,632	\$ 7,636	\$ 8,059	\$ 7,624
Stockholders' equity	\$ 6,500	\$ 6,090	\$ 5,824	\$ 5,932	\$ 5,921
<b>OTHER</b>					

Capital expenditures	\$	695	\$	746	\$	731	\$	912	\$	1,060
Average number of shares outstanding (thousands)		388,213		385,158		383,358		380,606		378,749
Number of stockholders at year end		51,418		53,042		53,194		51,123		51,727
Average number of employees:										
Rail		28,587		30,510		33,344		30,897		24,185
Nonrail		<u>383</u>		<u>384</u>		<u>394</u>		<u>269</u>		<u>115</u>
Total		<u>28,970</u>		<u>30,894</u>		<u>33,738</u>		<u>31,166</u>		<u>24,300</u>

- (1) 2000 operating expenses include \$165 million in work-force reduction costs for early retirement and separation programs. These costs reduced net income by \$101 million, or 26 cents per diluted share.
- (2) 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.
- (3) 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." Results in 2001 include an additional after-tax gain of \$13 million, or 3 cents per diluted share, that resulted from the expiration of certain indemnities contained in the sales agreement.

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

**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**

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

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes and the Five-Year Financial Review.

**SUMMARIZED RESULTS OF OPERATIONS**

**2002 Compared with 2001**

Net income was \$460 million in 2002, up \$85 million, or 23%. Results in 2001 included a \$13 million gain from discontinued operations related to the 1998 sale of NS' former motor carrier subsidiary (see Note 17). Excluding that gain from 2001's results, net income was up \$98 million, or 27%, in 2002. The improvement was primarily the result of a \$151 million, or 15%, increase in income from railway operations.

Diluted earnings per share were \$1.18, up 22%. Excluding the discontinued operations gain, diluted earnings per share increased 26%.

**2001 Compared with 2000**

Net income in 2001 was \$375 million, up 118%. Income from continuing operations, which excludes the \$13 million discontinued operations gain, was \$362 million, up 110%. Results in 2000 included \$165 million of costs related to actions taken to reduce the size of the work force, which reduced income from continuing operations by \$101 million, or 26 cents per diluted share. Excluding these costs, income from continuing operations increased \$89 million, or 33%, in 2001. The improvement resulted from higher income from railway operations, which was up \$209 million, or 26%, that more than offset lower nonoperating income, which was down \$69 million (see Note 3).

Diluted earnings per share were 97 cents, up 116%. Diluted earnings per share from continuing operations were 94 cents, up 109%. Excluding the work-force reduction costs in 2000, diluted earnings per share from continuing operations were up 32%.

**DETAILED RESULTS OF OPERATIONS**

**Railway Operating Revenues**

Railway operating revenues were \$6.3 billion in 2002, and \$6.2 billion in both 2001 and 2000. The following table presents a three-year comparison of revenues by market group.







### Revenues by Market Group

	<u>2002</u>	<u>2001</u> (\$ in millions)	<u>2000</u>
Coal	\$ 1,441	\$ 1,521	\$ 1,435
General merchandise:			
Automotive	961	885	921
Chemicals	769	752	756
Metals/construction	692	674	689
Agriculture/consumer products/ government	623	603	609
Paper/clay/forest	603	612	630
General merchandise	<u>3,648</u>	<u>3,526</u>	<u>3,605</u>
Intermodal	<u>1,181</u>	<u>1,123</u>	<u>1,119</u>
Total	\$ <u>6,270</u>	\$ <u>6,170</u>	\$ <u>6,159</u>

In 2002, revenues increased 2%, as a 3% rise in general merchandise revenues coupled with a 5% improvement in intermodal revenues offset a 5% decline in coal revenues. All but one of the general merchandise market groups (paper, clay and forest products) posted increases over 2001. As shown in the following table, most of the revenue improvement was the result of higher traffic volumes. The favorable revenue per unit/mix variance was driven by higher average revenue per unit, offset in part by the effects of unfavorable changes in the mix of traffic.

### Revenue Variance Analysis Increases (Decreases)

	<u>2002 vs. 2001</u>	<u>2001 vs. 2000</u>
	(\$ in millions)	
Volume	\$ 89	\$ (200)
Revenue per unit/mix	<u>11</u>	<u>211</u>
Total	\$ <u>100</u>	\$ <u>11</u>

In 2001, revenues fell for all the general merchandise market groups. However, a 6% increase in coal revenues offset the effects of the lower general merchandise revenues. Revenue per unit increased in all market groups, principally due to rate increases, use of higher-capacity equipment and favorable changes in the mix of traffic.

**COAL** tonnage decreased 4% in 2002 and revenues declined 5%. Revenue per unit declined slightly, reflecting unfavorable changes in the mix of traffic (more shorter-haul business) that offset the effects of rate increases and gains in tonnage per car. Coal, coke and iron ore represented 23% of total railway operating revenues in 2002, and 84% of NS' coal shipments originated on lines it operates.

In 2001, coal tonnage increased 2%, and revenues improved 6%. Revenue per unit increased 6%, a result of rate increases, including lower volume-related refunds on export coal shipments, gains in tonnage per car and favorable changes in the mix of traffic (less shorter-haul business).



### Total Coal, Coke and Iron Ore Tonnage

	<u>2002</u>	<u>2001</u> <i>(In millions of tons)</i>	<u>2000</u>
Utility	128	133	119
Export	11	14	20
Domestic metallurgical	21	20	25
Other	10	11	11
Total	<u>170</u>	<u>178</u>	<u>175</u>

**Utility coal** tonnage decreased 3% in 2002, a result of lower demand that reflected the weak economy, high coal stockpile levels entering the year, mild temperatures in the first quarter, reduced stockpile targets set by utility companies and increased generation from new natural gas-fired plants. Licensing requirements for these new plants resulted in additional generation that temporarily displaced coal-fired generation.

In 2001, utility coal traffic increased 11%, reflecting higher demand for coal-fired electricity and the effects of very high natural gas prices early in the year. High demand for coal, a volatile market for natural gas and production problems at a number of large mines in the East late in 2000 combined to increase demand somewhat early in 2001 with a resulting increase in coal prices. Utility coal traffic volume also benefited somewhat from the shifting of coal that traditionally would have been bound for export to the domestic market.

Two of NS' utility customers, Duke Energy (Duke) and Carolina Power and Light (CP&L), have filed rate reasonableness complaints at the Surface Transportation Board (STB) alleging that the NS tariff rates for the transportation of coal to their solely served power plants are unreasonable. NS is disputing these allegations. Since January 1, 2002, in the case of Duke and since April 1, 2002, in the case of CP&L, NS has been billing and collecting amounts from the customers based on the challenged tariff rates. Management expects that the resolution of these cases, which is anticipated to occur in 2003, will not have a material effect on NS' financial statements.

The near-term outlook for utility coal remains positive. Coal-fired generation remains the lowest cost marginal source of electricity. Coal plant generation should continue to track the U.S. economy, and management expects that utilities will use coal-fired plants to meet increased demand because of coal's low cost. As always, demand will be influenced by the weather. In addition, while the price of natural gas can affect demand for utility coal, its higher price and volatility may improve the long-term competitive position of coal-fired generation.

Phase II of Title IV of the Clean Air Act Amendments of 1990, which imposed more stringent limits on sulfur dioxide emissions, took effect on Jan. 1, 2000. Many of the mines served by NS produce coals that satisfy Phase II requirements. In addition, substantial banks of sulfur dioxide allowances held by many NS-served utilities, as well as implementation of sulfur dioxide emission control systems at many NS-served plants, should continue to provide a market for other NS-served mines.

While the Phase II impact on NS utility coal has been minimal, there are a number of other evolving environmental issues that have the potential to increase or ease cost pressures on the utility coal market, depending upon their outcome. These include a potential new national energy policy, proposed multi-pollutant legislation, a proposed new rule concerning "new source review," the impending mercury emissions standard and the fate of U.S. participation in the Kyoto Protocol.

Although impending developments with these environmental issues could potentially increase cost pressures on coal-fired generation, the outlook remains positive for maintaining coal's position in the power generation mix for regions served by NS. However, different developments with these issues could actually ease cost pressures on coal-fired generation, further strengthening coal's position.

The 1999 decision by a federal district court judge in West Virginia holding that some common mountaintop mining practices in the coal industry are illegal was overturned in April 2001 by the U.S. Fourth Circuit Court of Appeals. In January 2002, the U.S. Supreme Court refused to hear an appeal of the case. In May 2002, the same district court judge made a similar ruling in a different case in which NS had again intervened. In January 2003, this ruling also was overturned by the Fourth Circuit Court of Appeals.

**Export coal** tonnage declined 18% in 2002. Steam coal exports through Baltimore declined 4%, and export metallurgical coals through Norfolk declined 22%. During the first half of 2002, demand for U.S. coal was soft as international buyers focused their purchases toward other, lower-priced sources. Market uncertainty resulted in late contract settlements and delayed shipments. Late in 2002, demand for U.S. coking coals increased, reflecting a shift in the market as exports from China, Australia and Poland declined. As a result, shipments through Norfolk increased in the fourth quarter.

In 2001, export coal tonnage decreased 30%. The rapid rise of domestic utility coal prices early in the year enticed many foreign-market suppliers to place much of their 2001 production in the domestic utility markets. In addition, production difficulties at several large NS-served mines and flooding in West Virginia in July significantly reduced the supply of low volatility coal. The combination of these factors resulted in most of the decline in shipments of export coal. Steam coal exports through Baltimore declined 32%, and export metallurgical coals through Norfolk declined by 30%. Demand for steam coal to export strengthened in the last half of 2001; however, strong U.S. demand limited NS' participation in this market. Demand for coking coal to export continued to soften, as steel production moved from traditional NS markets in Europe to Asia, which in recent years has been supplied by Australian or Canadian coals.

It is expected that export coal tonnage will continue to be limited by supply and subject to the fluctuations of the world market. The increase in demand for U.S. coals seen in the fourth quarter of 2002 has continued into the first quarter of 2003, and early indications are that these market forces should remain in place as contracts are settled in the spring for the coming year. Should these market forces continue, U.S. coal export volumes could recover somewhat. However, the inherent volatility and uncertainties in this market make predictions especially vulnerable.

**Domestic metallurgical** coal, coke and iron ore tonnage increased 5% in 2002, reflecting higher U.S. steel production that was aided by the imported steel tariff program implemented in 2002. In addition, continued strong vehicle production resulted in demand for steel.

In 2001, domestic metallurgical coal, coke and iron ore tonnage decreased 18% due to a decline in the market for domestic steel. The softening economy and an increase in steel imports drastically cut blast furnace production, sharply reducing the demand for coking coal, iron ore and coke. The increase in imported steel also resulted in lower prices that put pressure on the U.S. steel industry and led to plant closures and bankruptcies that included some NS customers.

Domestic metallurgical coal, coke and iron ore traffic is expected to continue to experience modest gains during the two-year life of the import tariffs. However, long-term demand is expected to decline, reflecting advanced technologies that allow production of steel using less coke.

**Other coal** tonnage, principally steam coal shipped to manufacturing plants, decreased 14% in 2002, but increased 6% in 2001. The decline in 2002 was primarily the result of the weak economy. The gain in 2001 resulted from new and increased business from industrial customers.

**GENERAL MERCHANDISE** traffic volume (carloads) increased 2% in 2002, and revenues increased 3%, principally due to a 9% improvement in automotive revenues. In 2001, traffic volume decreased 7%, and revenues decreased 2%, reflecting the effects of a weak economy.

**Automotive** traffic volume increased 7%, and revenues increased 9% in 2002, principally due to a rise in vehicle production and new business. Revenue per unit increased 2%, reflecting some pricing improvements, extended length of haul, special ancillary services and the settlement of a disputed charge.

In 2001, automotive traffic volume decreased 10%, and revenues declined 4%, principally due to a 10% drop in vehicle production. Revenue per unit increased 7%, principally due to rate increases, efficiencies gained from the redesign of the mixing center network and use of higher capacity equipment.

Automotive revenues in 2003 are expected to be lower than those of 2002. Light vehicle production is predicted to be down slightly, and NS' largest automotive customer has announced a 5% decrease in first quarter 2003 production.

**Chemicals** traffic volume increased slightly, and revenues increased 2% in 2002. Higher traffic volume for plastics and a small increase for miscellaneous chemicals offset a decline for petroleum products. Demand for plastics was supported by increases in light vehicle production and housing starts. Traffic volume also benefited from increased shipments through NS' Thoroughbred Bulk Transfer (TBT) facilities that handle chemicals and bulk commodities for customers not located on NS-served lines. Revenue per unit increased as a result of a favorable change in the mix of traffic (more higher-rated business) and market-driven rate increases.

In 2001, chemicals traffic volume decreased 5%, and revenues decreased 1%. The weak economy depressed shipments of petroleum, plastics, industrial and miscellaneous chemicals. These declines were partially offset by new business through NS' TBT facilities. Revenue per unit increased due to higher rates and a favorable change in the mix of traffic (more longer-haul moves).

Chemicals revenues are expected to improve in 2003, supported by a recovering economy, new business and improved revenue per unit.

**Metals and construction** traffic volume increased 2%, and revenues improved 3% in 2002, reflecting improvement in the steel industry, which was aided by the two-year imported steel tariff program implemented in 2002. Metals volume benefited from resumption of production at some mills that closed in 2001 and increased volume from new mills. Construction traffic declined, primarily as a result of reductions in highway projects due to state government budget pressures.

In 2001, metals and construction traffic volume decreased 7%, and revenues declined 2%, reflecting weakness in the steel and construction industries. The steel industry recession, which began in 2000, resulted in excess capacity and the closing of numerous steel mills. Revenue per unit increased due to higher rates and favorable changes in the mix of traffic.

Metals and construction revenues are expected to continue to benefit from added production along NS' lines, although further consolidation in the steel industry is expected. Construction markets may benefit from new business from stone quarries and cement terminals in the Southeast.

**Agriculture, consumer products and government** traffic volume decreased slightly in 2002, but revenues increased 3%. Traffic volume increases for corn, food products and beverages largely offset declines for soybeans and feed. Corn volume benefited from increased shipments from the Midwest to

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drought-stricken areas in the East. The increase for food products was primarily the result of new business. Soybean and feed volumes were adversely affected by lower domestic and export demand. Revenue per unit increased because of higher rates, increased length of haul and favorable changes in the mix of traffic.

In 2001, agriculture, consumer products and government traffic volume decreased 3%, and revenues declined 1%, primarily due to reduced shipments of fertilizer. This decline was due to soft farm demand, record high natural gas prices early in the year (which curtailed production of certain fertilizers) and increased imports. This was mitigated by traffic volume increases for grain, flour and canned goods. The revenue per unit increase was primarily due to favorable changes in the mix of traffic.

Agriculture, consumer products and government revenues in 2003 are expected to continue to benefit from higher corn, fertilizer and food product volume. Fertilizer volumes may be favorably affected by the reopening of a large phosphate fertilizer plant.

**Paper, clay and forest products** traffic volume declined 3%, and revenues decreased 1%, in 2002, primarily due to continued weakness in the paper market, especially in the first half of the year. Traffic volume improved later in the year as the paper market strengthened. In addition, NS gained business from conversion of truck shipments to rail and from continued strength in housing starts. Revenue per unit benefited from rate increases and a decline in shorter-haul business.

In 2001, paper, clay and forest products traffic volume declined 8%, and revenues decreased 3%, primarily due to a weakened paper market. Paper shipments were adversely affected by reduced production at many NS-served paper mills, a result of sluggish newspaper advertising and soft demand for paper. Lumber traffic began the year weak, improved in late summer, but softened late in the year due to short-term weakness in housing starts. Revenue per unit increased principally due to higher rates.

Paper, clay and forest products revenues are expected to improve slightly in 2003 as a result of a recovering economy, service improvements and new business.

**INTERMODAL** traffic volume increased 6%, and revenues increased 5%, in 2002. Volume growth was principally the result of new and improved services that resulted in new business, including the conversion of truck business to rail. International traffic, which accounts for about half of intermodal volume, increased 10%, supported by growth in trade activity and new business, including the conversion of over-the-road traffic. Domestic shipments grew 6%, primarily because of new business gained from the conversion of truck shipments. Triple Crown Services Company (TCS) volume increased 4%. Revenue per unit declined as a result of an increase in shorter-haul business and the absence of fuel surcharges that were in place in 2001, which were partially offset by some rate increases.

In 2001, intermodal traffic volume decreased 1%, but revenues increased slightly. Domestic traffic volume was up in the first half of the year, but demand increasingly weakened as the year progressed, which eroded NS' base of traffic. New business supported by the opening of three new terminals and other initiatives mitigated the effects of the weakened economy. International traffic grew slightly as U.S. imports slowed with the economy. TCS traffic volume increased 1% despite economic conditions, as it continued to provide reliable, trucklike service. Intermodal revenue per unit dropped later in the year, reflecting the expiration of fuel surcharges that were implemented late in 2000 and the introduction of new shorter-haul business.

In 2003, intermodal revenues are expected to continue to benefit from new business supported by continued improvements in service and conversion of truck traffic to rail.

## Railway Operating Expenses

Railway operating expenses decreased 1% in 2002, while carloads increased 1%. In 2001, railway operating expenses declined 7%. However, expenses in 2000 included \$165 million of costs related to actions taken to reduce the size of the work force. Excluding these costs, railway operating expenses decreased 4% in 2001, while carloads dropped 3%.

The railway operating ratio, which measures the percentage of railway operating revenues consumed by railway operating expenses, was 81.5% in 2002, compared with 83.7% in 2001 and 87% in 2000 (excluding the work-force reduction costs, which increased the ratio 2.7 percentage points). Both declines primarily resulted from gains in efficiency, although 2002 also benefited from higher traffic volume, and 2001 benefited from increased revenue per unit. The efficiency gains in 2002 were principally the result of the implementation of a new operating plan that emphasizes adherence to a schedule and reductions in service variability. These improvements came despite a continuing change in the mix of traffic (more resource-intensive traffic, such as automotive and intermodal, coupled with the decrease in export coal traffic).

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

### Operating Expense Variances Increases (Decreases)

	<u>2002 vs. 2001</u>	<u>2001 vs. 2000</u>
	<i>(\$ in millions)</i>	
Compensation and benefits*	\$ 8	\$ (220)
Materials, services and rents	13	(1)
Conrail rents and services	(9)	(57)
Depreciation	1	11
Diesel fuel	(70)	(66)
Casualties and other claims	28	1
Other	(22)	(31)
Total	\$ <u>(51)</u>	\$ <u>(363)</u>

\* Includes \$165 million of work-force reduction costs in 2000.

**Compensation and benefits** represented 40% of total railway operating expenses and increased slightly in 2002. Higher wage rates, reduced pension income (see Note 11) and increased health and welfare benefits costs more than offset savings from reduced employment levels and lower payroll taxes (see the discussion of the Railroad Retirement and Survivors' Improvement Act, below). Medical costs are expected to continue to increase in 2003, a result of higher costs for active employees and an increase in the expected inflation related to postretirement benefits.

In 2001, compensation and benefits decreased 10%; however, this comparison reflects the \$165 million of work-force reduction costs in 2000. Excluding those costs, compensation and benefits decreased 3%, primarily a result of savings attributable to the reduced size of the work force, which were somewhat offset by higher wages and benefit costs for union employees, higher incentive compensation and reduced pension income.

The Railroad Retirement and Survivors' Improvement Act, which took effect on Jan. 1, 2002, provides for a phased reduction of the employers' portions of Tier II Railroad Retirement payroll taxes. The phase-in calls for a reduction from 15.6% in 2002 to 14.2% in 2003 and 13.1% in 2004. In addition, the supplemental annuity tax was eliminated. These changes resulted in an estimated \$21 million reduction in payroll taxes in 2002 and are expected to result in savings of \$20 million in 2003, compared with 2002. However, these





savings are expected to be offset by an increase in the railroad unemployment tax rate, higher payroll taxes on increased wages and a higher wage base. The new law allows for investment of Tier II assets in a diversified portfolio through the newly established National Railroad Retirement Investment Trust. The law also provides a mechanism for automatic adjustment of future Tier II payroll taxes should the trust assets fall below a four-year reserve or exceed a six-year reserve.

**Materials, services and rents** includes items used for the maintenance of the railroad's 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 1% in 2002 and decreased slightly in 2001.

The increase in 2002 was the result of higher volume-related expenses for automotive and intermodal traffic, increased material costs for locomotives, higher expenses for roadway and bridge repairs and increased derailment costs. These higher costs were largely offset by a significant reduction in equipment rents. In 2001, the effects of lower equipment rents were largely offset by higher costs for purchased services, including expenses for software, consulting and legal fees.

Equipment rents, which includes the cost to NS of using equipment (mostly freight cars) owned by other railroads or private owners, less the rent paid to NS for the use of its equipment, decreased 14% in 2002 and 11% in 2001. The decline in 2002 was principally the result of continued improvement in cycle times, reflecting efficiency gains and, for intermodal equipment, service design and process changes implemented during the year. The decrease in 2001 was primarily due to shorter car cycle times that resulted in fewer car days on line and fewer freight car and locomotive leases.

Locomotive repair costs increased in 2002 and 2001, principally due to renewed maintenance activity, which is expected to continue into 2003. Freight car maintenance costs, which were relatively flat in 2002, are also likely to increase in 2003, as it is expected that the economy will recover and more freight cars are due for maintenance.

**Conrail rents and services** decreased 2% in 2002 and 12% in 2001. This item includes amounts due to PRR and CRC for use of their operating properties and equipment and CRC's operation of the Shared Assets Areas. Also included is NS' equity in Conrail's net earnings, plus the additional amortization related to the difference between NS' investment in Conrail and its underlying equity (see Note 2). Both declines reflected higher Conrail earnings and lower expenses in the Shared Assets Areas (see "Conrail's Results of Operations, Financial Condition and Liquidity," below).

**Depreciation** expense was up slightly in 2002 and increased 2% in 2001. Substantial levels of capital spending affected both years; however, depreciation expense in 2002 benefited from lower rates implemented early in the year following completion of a periodic study (see Note 1, "Properties," for NS' depreciation policy).

**Diesel fuel** expenses decreased 17% in 2002 and 14% in 2001. The decline in 2002 reflected a 16% drop in the average price per gallon and slightly lower consumption. Expenses in 2002 included a \$10 million benefit from the hedging program initiated in the second quarter of 2001 (see "Market Risks and Hedging Activities," below and Note 16). The decrease in 2001 was the result of an 8% drop in consumption and a 7% decline in the average price per gallon. Expenses in 2001 included \$8 million of cost related to the hedging program. NS expects diesel fuel prices to be higher in 2003.

**Casualties and other claims** expenses (including the estimates of costs related to personal injury, property damage and environmental matters) increased 20% in 2002, but only slightly in 2001. The increase in 2002 reflected adverse personal injury claims development as indicated by an actuarial study and higher expenses for loss and damage to lading, as well as higher insurance and environmental remediation costs.

The largest component of casualties and other claims expense is personal injury costs. In 2002, cases involving occupational injuries comprised about 30% of the total employee injury cases settled and 24% of the total settlement payments made. Injuries of this type are not generally caused by a specific accident or event, but, rather, result from a claimed exposure over time. Many such claims are being asserted by former or retired employees, some of whom have not been actively employed in the rail industry for decades. NS continues to work actively to eliminate all employee injuries and to reduce the associated costs.

The rail industry remains uniquely susceptible to litigation involving job-related accidental injury and occupational claims because of the Federal Employers' Liability Act (FELA), which is applicable only to railroads. This law, which covers employee claims for job-related injuries, produces results that are unpredictable and inconsistent as compared with a no-fault workers' compensation system.

NS, like many other businesses in the U.S., has experienced difficulty obtaining property and casualty insurance at reasonable terms since the September 11 terrorist attacks. Thus far, NS has been successful in maintaining a substantial amount of commercial insurance for third-party personal injury, property damage and FELA claims that exceed the self-insured retention. However, both the cost of this commercial insurance and the amount of risk that NS retains through self-insurance has more than doubled since the attacks.

**Other expenses** decreased 10% in 2002 and 13% in 2001. The decline in 2002 reflected lower expenses for property and sales and use taxes. The decrease in 2001 was principally the result of lower bad debt costs, reduced franchise and property taxes, and lower travel and employee-relocation expenses.

#### **Other Income – Net**

Other income – net was \$66 million in 2002, \$99 million in 2001 and \$168 million in 2000 (see Note 3). The decline in 2002 was primarily the result of higher interest accruals on federal income tax liabilities, lower gains from the sale of properties and investments, and the absence of a \$13 million gain from a nonrecurring settlement that benefited 2001. These reductions were partially offset by reduced discount from the sales of receivables (due to a lower amount of receivables sold and a lower interest rate environment, which favorably affects the amount of discount). The reduction in 2001 resulted from the absence of \$101 million of gains that occurred in 2000 related to the sale of timber rights and gas and oil royalty and working interests. This was somewhat offset by lower interest accruals on federal income tax liabilities and the \$13 million nonrecurring settlement gain. Results in 2001 also included an \$18 million gain from a large property sale that closed in December.

#### **Income Taxes**

Income tax expense in 2002 was \$246 million for an effective rate of 35%, compared with effective rates of 35% in 2001 and 31% in 2000. Excluding the equity in Conrail's after-tax earnings, the effective rates were 38% in 2002 and 2001 and 34% in 2000.

The effective rates in 2002 and 2001 were higher than that of 2000, primarily due to dispositions of tax benefits related to coal-seam gas properties. The effective rates in all three years benefited from favorable adjustments upon filing the prior year tax returns and favorable adjustments to state tax liabilities. In addition, 2000 benefited from investments in coal-seam gas properties. The 2003 effective rate may benefit from the resolution of various tax audits.

In March 2002, the Job Creation and Worker Assistance Act of 2002 was signed into law and began providing immediate tax incentives for business. A 30% additional first-year depreciation allowance was a primary element of this legislation. This depreciation incentive continues for three years, and during these years the resulting acceleration of tax depreciation deductions will improve cash flow by reducing current tax expense and increasing deferred tax expense by significant amounts.

## Discontinued Operations

Income from discontinued operations in 2001 consisted of a \$13 million after-tax gain related to the sale of NS' motor carrier subsidiary (see Note 17).

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

**Cash provided by operating activities**, NS' principal source of liquidity, was \$803 million in 2002, compared with \$654 million in 2001 and \$1.3 billion in 2000. In 2002, the improvement was the result of higher income from railway operations and favorable changes in working capital, which were offset, in part, by fewer accounts receivable sold (see Note 5). Receivable sales declined \$270 million in 2002 and \$88 million in 2001. The significant decline in operating cash flow in 2001 reflects the commencement in 2000 of the accounts receivable sales program. Excluding the infusion of cash in 2000 from the start of this program, operating cash flow declined by \$300 million in 2001. The decrease primarily resulted from an \$88 million reduction in the amount of accounts receivable sold, higher tax payments including amounts applicable to prior years, an increase in telecommunication receivables, bonus payments in 2001 (no such payments in 2000) and the timing of payrolls.

A significant portion of payments made to PRR (which are included in "Conrail Rents and Services" and, therefore, are a use of cash in "Cash provided by operating activities") are borrowed back from a PRR subsidiary and, therefore, are a source of cash in "Proceeds from borrowings." NS' net cash flow from these borrowings amounted to \$212 million in 2002 and \$250 million in 2001.

NS' working capital deficit was \$554 million at Dec. 31, 2002, compared with \$1.3 billion at Dec. 31, 2001. The decline resulted principally from the change in the terms of the note under which NS borrows funds from a subsidiary of PRR (see Note 2) and a reduction in the amount of debt due within one year. Debt due in 2003 is expected to be paid using cash generated from operations (including sales of accounts receivable) and cash on hand.

NS currently has the capability to increase the amount of accounts receivable being sold under the revolving sale program to meet its more immediate working capital needs. During 2002, the amount of receivables NS could sell under this program ranged from \$368 million to \$421 million, and the amount of receivables NS sold ranged from \$30 million to \$400 million. Moreover, NS has the capability to issue up to \$1 billion of commercial paper (see Note 8); however, reductions in its credit ratings could limit NS' ability to access the commercial paper markets (see also the discussion of financing activities, below).

NS expects to generate sufficient cash flow from operations to meet its ongoing obligations. This expectation is based on a view that the economy will remain flat for the first half of 2003 and resume growth in the third and fourth quarters.

**Contractual obligations** at Dec. 31, 2002, related to NS' long-term debt (including capital leases), operating leases, agreements with CRC, unconditional purchase obligations and other long-term obligations are as follows:

	<u><b>Total</b></u>	<u><b>2003</b></u>	<u><b>2004- 2005</b></u> (\$ in millions)	<u><b>2006- 2007</b></u>	<u><b>2008 and Subsequent</b></u>
Long-term debt and capital leases	\$ 7,364	\$ 358	\$ 856	\$ 1,153	\$ 4,997
Operating leases	880	113	166	115	486
Agreements with CRC	748	30	65	68	585
Unconditional purchase obligations	164	164	--	--	--
Other long-term obligations	38	8	16	14	--
<b>Total</b>	<b>\$ 9,194</b>	<b>\$ 673</b>	<b>\$ 1,103</b>	<b>\$ 1,350</b>	<b>\$ 6,068</b>

NS also has contractual obligations to PRR as disclosed in Note 2. However, NS has the ability to borrow back funds from PRR to the extent they are not needed to fund contractual obligations at Conrail. As an indirect owner of Conrail, NS may need to make capital contributions, loans or advances to Conrail to fund its contractual obligations. The following table presents 58% of Conrail's contractual obligations for long-term debt (including capital leases) and operating leases. Conrail has no unconditional purchase or other long-term obligations.

	<u><b>Total</b></u>	<u><b>2003</b></u>	<u><b>2004- 2005</b></u> (\$ in millions)	<u><b>2006- 2007</b></u>	<u><b>2008 and Subsequent</b></u>
Long-term debt and capital leases	\$ 684	\$ 33	\$ 62	\$ 62	\$ 527
Operating leases	327	32	64	62	169
<b>Total</b>	<b>\$ 1,011</b>	<b>\$ 65</b>	<b>\$ 126</b>	<b>\$ 124</b>	<b>\$ 696</b>

NS also has two transactions not included in the balance sheets or in the previous table of its contractual obligations consisting of an accounts receivable sale program (see Note 5) and an operating lease covering 140 locomotives (see Note 9).

Under the accounts receivable sale program, NS sells without recourse undivided ownership interests in a pool of accounts receivable to two unrelated buyers. NS has no ownership interest in the buyers. The buyers issued debt to fund their initial purchase, and NS used the proceeds it received from the initial purchase primarily to pay down its outstanding debt. NS has no obligation related to the buyers' debt, and there is no existing obligation to repurchase sold receivables. Upon termination of the program, the buyers would cease purchasing new receivables and would retain collections related to the previously sold receivables (see Note 5).

The operating lease covering the 140 locomotives is renewable annually at NS' option and expires in 2008. The lessor is a special-purpose entity formed to enter into this transaction, but it is not related to NS and its owner has a substantive residual equity capital investment at risk in the entity. The lessor owns the locomotives and issued debt to finance their purchase. NS has no obligation related to the debt. NS has the option to purchase the locomotives, but also can return them to the lessor. The return provisions of the lease are not so onerous as to preclude this option. If NS does not purchase the locomotives at the end of the maximum lease term, it is liable for any shortfall in the then fair value of the locomotives and a specified residual value. NS does not expect to be required to make any payments

under this provision (see Note 9). As the primary beneficiary of the business of the lessor, effective

Jan. 1, 2003, NS consolidated the assets (locomotives) and liabilities (debt) of this special-purpose entity when it implemented Financial Accounting Standards Board Interpretation No. 46 (see "New Accounting Pronouncement" on page K34).

**Cash used for investing activities** increased 12% in 2002 and 3% in 2001. Property additions, which account for most of the recurring spending in this category, were down 8% in 2002, following a 2% increase in 2001. Property sales were significantly lower in 2002, which resulted in the net increase in cash used for investing activities despite the reduction in capital spending. The following tables show capital spending (including capital leases) and track and equipment statistics for the past five years.

### Capital Expenditures

	<u>2002</u>	<u>2001</u>	<u>2000</u> (\$ in millions)	<u>1999</u>	<u>1998</u>
Road	\$ 519	\$ 505	\$ 557	\$ 559	\$ 612
Equipment	174	233	146	349	442
Other property	2	8	28	4	6
Total	<u>\$ 695</u>	<u>\$ 746</u>	<u>\$ 731</u>	<u>\$ 912</u>	<u>\$ 1,060</u>

Capital expenditures (which in 2002 included \$6 million of capitalized leases) decreased 7% in 2002, but increased 2% in 2001. The decline in 2002 reflected lower spending for intermodal facilities, as NS completed in 2001 several significant projects that expanded the capacity of the intermodal network. Higher spending on track program work was offset by fewer locomotive purchases (50 in 2002 compared with 100 in 2001). Outlays in 2001 included amounts for locomotive purchases (no such purchases were made in 2000 as locomotives were leased) that were somewhat offset by lower expenditures for freight car purchases and roadway projects. In 2002, 2001 and 2000, spending for road included fiber-optic infrastructure (see "Telecommunications Subsidiary," below).

### Track Structure Statistics (Capital and Maintenance)

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Track miles of rail installed	235	254	390	403	429
Miles of track surfaced	5,270	3,836	3,687	5,087	4,715
New crossties installed (millions)	2.8	1.5	1.5	2.3	2.0

### Average Age of Owned Railway Equipment

	<u>2002</u>	<u>2001</u>	<u>2000</u> (years)	<u>1999</u>	<u>1998</u>
Freight cars	25.9	25.4	24.6	23.8	23.6
Locomotives	16.1	15.7	16.1	15.4	15.4
Retired locomotives	28.2	22.4	24.5	22.7	20.6

The table above excludes equipment leased from PRR (see Note 2), which comprises 17% of the freight car fleet and 25% of the locomotive fleet.

Through its coal car rebody program, which was suspended in 2000, NS converted about 29,000 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 2003, NS has budgeted \$798 million for capital expenditures. The anticipated spending includes \$499 million for roadway projects, of which \$383 million is for track and bridge program work. Also included are projects for communications, signal and electrical systems, as well as projects for environmental and public improvements such as grade crossing separations and signal upgrades. Other roadway projects include marketing and industrial development initiatives, including increasing track capacity and access to coal receivers and vehicle production and distribution facilities, and continuing investments in intermodal infrastructure. Equipment spending of \$246 million includes the purchase of 100 locomotives and upgrades to existing units, improvements to multilevel automobile racks, and projects related to computers and information technology, including additional security and backup systems.

**Cash used for financing activities** in 2002 was \$150 million. Financing activities provided cash of \$151 million in 2001 and used cash of \$798 million in 2000. The comparisons reflect a net reduction of debt in 2002, a net increase in 2001 and a net reduction in 2000. The comparison in 2001 also reflected the effects of the reduction to the dividend in January 2001. Financing activities include loan transactions with a subsidiary of PRR that resulted in net borrowings of \$212 million in 2002 and \$250 million in 2001 and net repayments of \$72 million in 2000 (see Note 2). Excluding these borrowings, debt was reduced \$303 million in 2002, \$20 million in 2001 and \$422 million in 2000. The net reduction of debt in 2000 was accomplished in part with the proceeds from the sale of accounts receivable. NS' debt-to-total capitalization ratio (excluding notes payable to the PRR subsidiary) at year end was 53.1% in 2002 and 55.6% in 2001.

NS currently has in place a \$1 billion, five-year credit agreement, which provides for borrowings at prevailing rates and includes financial covenants (see Note 8).

NS has outstanding \$717 million of its 7.05% notes due May 1, 2037. 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. NS will not know the amount of 2037 notes that it may be required to redeem until April 1, 2004. NS expects to be able to redeem any such notes using cash generated from operations (including sales of accounts receivable), cash on hand and proceeds from borrowings.

## **APPLICATION OF CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions may require significant judgment about matters that are inherently uncertain, and future events are likely to occur that may require management to change them. Accordingly, management regularly reviews these estimates and assumptions based on historical experience, changes in the business environment and other factors that management believes to be reasonable under the circumstances. Management discusses the development, selection and disclosures concerning critical accounting estimates with the Audit Committee of its Board of Directors.

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

Accounting for pensions and other postretirement benefit plans requires management to make several estimates and assumptions (see Note 11). These include the expected rate of return from investment of the plans' assets, projected increases in medical costs and the expected retirement age of employees as well as their projected earnings and mortality. In addition, the amounts recorded are affected by changes in the interest rate environment because the associated liabilities are discounted to their present value. Management makes these estimates based on the company's historical experience and other information that it deems pertinent under the circumstances (for example, expectations of future stock market performance). Management engages an independent consulting actuarial firm to aid it in selecting appropriate assumptions and valuing its related liabilities.



NS' net pension benefit, which is included in "Compensation and benefits" on its Consolidated Income Statement, was \$79 million for the year ended Dec. 31, 2002. In recording this amount, NS assumed a long-term investment rate of return of 9%, compared with the 10% rate used in the previous two years. Investment experience of the pension fund over the past 10-, 15- and 20-year periods has been in excess of 10%. A one percentage point change to this rate of return assumption would result in a \$20 million change to the pension credit and, as a result, an equal change in "Compensation and benefits" expense. Changes that are reasonably likely to occur in assumptions concerning retirement age, projected earnings and mortality would not be expected to have a material effect on NS' net pension benefit or net pension asset in the future. The net pension asset is recorded at its net present value using a discount rate that is based on the current interest rate environment; therefore, management has little discretion in this assumption.

NS' net cost for other postretirement benefits, which is also included in "Compensation and benefits," was \$34 million for the year ended Dec. 31, 2002. In recording this expense and valuing the net liability for other postretirement benefits, which is included in "Other benefits" as disclosed in Note 11, management estimated future increases in health-care costs. These assumptions, along with the effect of a one percentage point change in them, are described in Note 11.

## **Properties and Depreciation**

Most of NS' total assets are comprised of long-lived railway properties (see Note 6) and its investment in Conrail (see Note 2). Most of Conrail's assets are long-lived railway properties. As disclosed in Note 1, NS' properties are depreciated using group depreciation. Rail is depreciated primarily on the basis of use measured by gross-ton miles. Other properties are depreciated generally using the straight-line method over the lesser of estimated service or lease lives. NS reviews the carrying amount of properties whenever events or changes in circumstances indicate that such carrying amount may not be recoverable based on future undiscounted cash flows or estimated net realizable value. Assets that are deemed impaired as a result of such review are recorded at the lesser of carrying amount or fair value. NS is amortizing the excess of the purchase price paid for its investment in Conrail over its share of Conrail's net equity using the principles of purchase accounting, based primarily on the estimated remaining useful lives of Conrail's properties.

NS' depreciation expense is based on management's assumptions concerning service lives of its properties as well as the expected net salvage that will be received upon their retirement. These assumptions are the product of periodic depreciation studies that are performed by a firm of consulting engineers. These studies analyze NS' historical patterns of asset use and retirement and take into account any expected change in operation or maintenance practices. NS' recent experience with these studies has been that while they do result in changes in the rates used to depreciate its properties, these changes have not caused a significant effect to its annual depreciation expense. The studies may also indicate that the recorded amount of accumulated depreciation is deficient (or in excess) of the amount indicated by the study. Any such deficiency (or excess) is amortized as a component of depreciation expense over the remaining service lives of the affected class of property. NS' "Depreciation expense" for the year ended Dec. 31, 2002, amounted to \$515 million. NS' weighted-average depreciation rates for 2002 are disclosed in Note 6; a one-tenth percentage point increase (or decrease) in these rates would result in a \$17 million increase (or decrease) to NS' depreciation expense.

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

NS' expense for "Casualties and other claims" amounted to \$171 million for the year ended Dec. 31, 2002. Most of this expense was composed of NS' accrual related to personal injury liabilities (see discussion of FELA in the discussion captioned "Casualties and other claims" on page K23). NS engages an independent consulting actuarial firm to aid in valuing its personal injury liability and determining the amount to accrue during the year. The actuarial firm studies NS' historical patterns of reserving for claims and subsequent settlements. The actuary also takes into account outside influences considered pertinent. The study uses the results of these analyses to estimate the ultimate amount of the liability, which includes amounts for incurred but unasserted claims. NS has recorded this actuarially determined liability. The liability is dependent upon many individual judgments made as to the specific case reserves as well as the judgments of the consulting

actuary and management in the periodic studies. Accordingly, there could be significant changes in the liability, which NS would recognize when such a change became known. The most recent actuarial study was performed as of June 30, 2002, and resulted in an increase to NS' personal injury liability during the third quarter. While the liability recorded is supported by the most recent study, it is reasonably possible that the liability could be higher or lower.

NS is subject to various jurisdictions' environmental laws and regulations. It is NS' policy to record a liability where such liability or loss is probable and its amount can be estimated reasonably (see Note 18). Environmental engineers regularly participate in ongoing evaluations of all known sites and in determining any necessary adjustments to liability estimates. NS also has established an Environmental Policy Council, composed of senior managers, to oversee and interpret its environmental policy.

Operating expenses for environmental matters totaled approximately \$15 million in 2002, \$12 million in 2001, and \$11 million in 2000, and capital expenditures totaled approximately \$10 million in each of 2002, 2001 and 2000. Capital expenditures in 2003 are expected to be comparable to those in 2002.

NS' balance sheets included liabilities for environmental exposures in the amount of \$29 million at Dec. 31, 2002, and \$33 million at Dec. 31, 2001 (of which \$8 million was accounted for as a current liability in each year). At Dec. 31, 2002, the liability represented NS' estimate of the probable cleanup and remediation costs based on available information at 114 identified locations. On that date, 10 sites accounted for \$16 million of the liability, and no individual site was considered to be material. NS anticipates that much of this liability will be paid out over five years; however, some costs will be paid out over a longer period.

At some of the 114 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. NS estimates its environmental remediation liability on a site-by-site basis, using assumptions and judgments that management deems appropriate for each site. As a result, it is not practical to quantitatively discuss the effects of changes in these many assumptions and judgments. NS has consistently applied its methodology of estimating its environmental liabilities.

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



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

## **Income Taxes**

NS' net deferred tax liability totaled \$3,010 million at Dec. 31, 2002 (see Note 4). This liability is estimated based on the expected future tax consequences of items recognized in the financial statements. After application of the federal statutory tax rate to book income, judgment is required with respect to the timing and deductibility of expenses in the corporate income tax returns. For state income and other taxes, judgment is also required with respect to the apportionment among the various jurisdictions. A valuation allowance is recorded if management expects that it is more likely than not that its deferred tax assets will not be realized. NS has only a \$24 million valuation allowance on \$592 million of deferred tax assets as of Dec. 31, 2002, reflecting the expectation that most of these assets will be realized. For 2002, 2001 and 2000, the effective tax rates, excluding NS' equity in Conrail's earnings, were 38%, 38% and 34%, respectively. For every 1/2% change in the 2002 effective tax rate, net income would have changed by \$4 million.

## **CONRAIL'S RESULTS OF OPERATIONS, FINANCIAL CONDITION AND LIQUIDITY**

Conrail's net income was \$180 million in 2002, compared with \$174 million in 2001 and \$170 million in 2000 (see Note 2). The increase in 2002 was primarily the result of a favorable federal tax settlement. The improvement in 2001 reflected lower casualties and other claims expenses, a favorable adjustment to state income tax reserves and environmental and insurance settlements in Conrail's favor. These positive items were offset in part by the absence of significant gains from the sale of property.

Conrail's operating revenues were \$893 million in 2002, \$903 million in 2001 and \$985 million in 2000. Both decreases resulted from the expiration of certain equipment leases and lower operating fees, largely because of reduced operating costs in the Shared Assets Areas. The decline in 2001 also reflected lower revenues at Conrail's Indiana Harbor Belt subsidiary.

Conrail's operating expenses were \$623 million in 2002, \$639 million in 2001 and \$749 million in 2000. The decrease in 2002 reflected lower expenses for materials, services and rents and compensation and benefits, which were offset, in part, by higher costs for casualties and other claims. The decline in 2001 was primarily due to lower expenses for materials, services and rents; casualties and other claims; and compensation and benefits.

Conrail's cash provided by operations decreased \$79 million, or 16%, in 2002, and increased \$140 million, or 39%, in 2001. The decline in 2002 was primarily the result of the absence of two items that benefited 2001: a \$50 million cash payment for transferring to a third party certain rights to license, manage and market signboard advertising on Conrail's property for 25 years and proceeds from a favorable insurance settlement. This was offset, in part, by favorable changes in working capital. The increase in 2001 was largely the result of the two unusual items discussed above. Cash generated from operations is Conrail's principal source of liquidity and is primarily used for debt repayments and capital expenditures. Debt repayments totaled \$59 million in 2002 and \$61 million in 2001. Capital expenditures totaled \$23 million in 2002 and \$47 million in 2001.

Conrail had a working capital deficit of \$29 million at Dec. 31, 2002, compared with working capital of \$438 million at Dec. 31, 2001, which included \$687 million of amounts receivable from NS and CSX. 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 \$54 million in 2002, \$44 million in 2001 and \$21 million in 2000. NS' other comprehensive loss for 2002 and 2001, as shown in the Consolidated Statement of Changes in Stockholders' Equity, included \$34 million and \$41 million, respectively, for its portion of Conrail's other comprehensive loss (see Note 13).

## **OTHER MATTERS**

### **Telecommunications Subsidiary**

NS' subsidiary, Thoroughbred Technology and Telecommunications, Inc. (T-Cubed), has developed fiber optic infrastructure with members of the telecommunications industry. This industry has experienced a severe downturn. As a result of changes in the values of telecommunications assets, T-Cubed is monitoring its carrying amount of these assets, as required by SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." To date, based on known facts and circumstances, management believes that its ultimate investment in these assets will be recovered, and accordingly, no impairment has been recognized (see Note 6).

During 2001, one of T-Cubed's codevelopers, 360networks (USA),inc. ("360"), filed for protection under Chapter 11 of the U.S. Bankruptcy Code and foreign laws. 360 owes T-Cubed amounts for work performed on certain joint projects; and T-Cubed owes 360 amounts for work performed on other joint projects. The bankruptcy judge has approved set-off of these amounts, leaving about \$7 million due to T-Cubed from 360. T-Cubed has the right to collect this amount from any proceeds due 360 from the sale of joint assets. Management believes that it will collect this receivable.

T-Cubed is engaged in contract litigation with a second codeveloper, Williams Communications, LLC ("Williams Communications"), concerning the latter's obligation to purchase fiber optic infrastructure installed by T-Cubed between Cleveland, Ohio, and northern Virginia. On Jan. 29, 2003, the United States District Court for the Northern District of Georgia entered an order requiring Williams Communications to pay T-Cubed the remaining amount due for such infrastructure, approximately \$36 million, plus prejudgment interest at a rate of 9% per annum. Williams Communications may elect to appeal. The ability to collect and retain a judgment against Williams Communications may be limited due to its financial condition; however, the shortfall, if any, cannot now be determined. Its parent, Williams Communications Group, Inc., filed in April 2002 a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code, and emerged from bankruptcy in October 2002. Williams Communications was not included in the bankruptcy petition (see Note 18).

### **Labor Arbitration**

Several hundred claims have been filed with NSR on behalf of employees furloughed after June 1, 1999, for various periods of time, alleging that the furloughs were a result of the Conrail transaction and seeking "New York Dock" income protection benefits. Several labor organizations have initiated arbitration on behalf of individual employees. Other disputes are pending wherein similar benefits are sought under labor agreement provisions that, in management's judgment, do not apply to the involved circumstances.

Based on known facts, including the availability of legal defenses, management believes that NS will prevail in these disputes and that any potential liability for the involved claims should not have a material adverse effect on NS' financial position, results of operations or liquidity. Depending on the outcome of these arbitrations, additional claims may be filed or progressed to arbitration. Should all such claimants prevail, there could be a significant effect on results of operations in a particular quarter (see Note 18).

## Labor Agreements

Approximately 24,000 of NS' railroad employees are covered by collective bargaining agreements with 15 different labor unions. These agreements remain in effect until changed pursuant to the Railway Labor Act. Moratorium provisions in these agreements permitted NS and the unions to propose such changes in late 1999; negotiations at the national level commenced shortly thereafter. The outcome of these negotiations is uncertain at this time. However, agreements have been reached with the Brotherhood of Maintenance of Way Employees (BMWE), which represents about 4,200 NS employees; the Brotherhood of Locomotive Engineers (BLE), which represents about 4,500 NS employees; the United Transportation Union (UTU), which represents about 6,700 NS employees; the International Brotherhood of Boilermakers and Blacksmiths (IBB), which represents about 100 NS employees; and the Transportation Communications International Union (TCU), which represents about 4,400 NS employees. Health and welfare issues have been resolved with BMWE and TCU. The UTU agreement provides that, subsequent to a further period of negotiation, health and welfare issues may be submitted to arbitration. Health and welfare issues with the other organizations have not yet been resolved.

## Market Risks and Hedging Activities

NS uses derivative financial instruments to reduce the risk of volatility in its diesel fuel costs and to manage its overall exposure to fluctuations in interest rates.

In 2001, NS began a program to hedge a portion of its diesel fuel consumption. The intent of the program is to assist in the management of NS' aggregate risk exposure to fuel price fluctuations, which can significantly affect NS' operating margins and profitability, through the use of one or more types of derivative instruments.

Diesel fuel costs represented 7% of NS' operating expenses for 2002. The program provides that NS will not enter into any fuel hedges with a duration of more than 36 months, and that no more than 80% of NS' average monthly fuel consumption will be hedged for any month within any 36-month period.

As of Dec. 31, 2002, through swap transactions, NS has hedged approximately 62% of expected 2003 diesel fuel requirements. The effect of the hedges is to yield an average cost of 73 cents per hedged gallon, including federal taxes and transportation. A 10% decrease in diesel fuel prices would reduce NS' asset related to the swaps by approximately \$30 million as of Dec. 31, 2002.

NS manages its overall exposure to fluctuations in interest rates by issuing both fixed- and floating-rate debt instruments and by entering into interest-rate hedging transactions to achieve an appropriate mix within its debt portfolio.

At Dec. 31, 2002, NS' debt subject to interest rate fluctuations totaled \$784 million (excluding debt due to the PRR subsidiary). A 1% increase in interest rates would increase NS' total annual interest expense related to all its variable debt by approximately \$8 million. Management considers it unlikely that interest rate fluctuations applicable to these instruments will result in a material adverse effect on NS' financial position, results of operations or liquidity.

Some of NS' capital leases, which carry an average fixed rate of 7%, were effectively converted to variable rate obligations using interest rate swap agreements. On Dec. 31, 2002, the average pay rate under these agreements was 2.1%, and the average receive rate was 7%. During 2002, the effect of the swaps was to reduce interest expense by \$9 million. A portion of the lease obligations is payable in Japanese yen. NS eliminated the associated exchange rate risk at the inception of each lease with a yen deposit sufficient to fund the yen-denominated obligation. Most of these deposits are held by foreign banks, primarily Japanese. As a result, NS is exposed to financial market risk relative to Japan. Counterparties to the interest rate swaps and Japanese banks holding yen deposits are major financial institutions believed by management to be creditworthy.

## New Accounting Pronouncements

The Financial Accounting Standards Board (FASB) has issued Statement No. 143, "Accounting for Asset Retirement Obligations," (SFAS No. 143) which is effective Jan. 1, 2003, and addresses legal obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. In accordance with the Uniform System of Accounts for Railroad Companies (see Code of Federal Regulations, Title 49, Subtitle B, Chapter X, Part 1201), NS depreciates track structure (rail, other track material and ties) to its net salvage value (gross salvage less cost to remove). SFAS No. 143 prohibits the accrual of a liability for removal costs absent a legal obligation to remove the related asset. Management believes that there is no such legal obligation to remove track. The SEC staff has recently taken a position with a registrant in another industry that calls into question whether the use of net salvage that results in depreciating more than the cost basis of an asset (negative salvage) is appropriate once SFAS No. 143 becomes effective. NS is in the process of studying its track accounts to determine where current depreciation rates will result in negative salvage. To the extent that NS' accumulated depreciation includes such amounts, they will be removed. The cumulative effect of this catch-up adjustment will be recorded as a change in accounting principle in the first quarter of 2003. Going forward, this change will result in lower depreciation expense (because the depreciation rate will no longer reflect any negative salvage) and higher compensation and benefits expenses (for the labor cost to remove retired assets); NS does not expect that this will result in a material change to its total railway operating expenses.

The FASB has issued Interpretation No. 46, "Consolidation of Variable Interest Entities," (FIN No. 46), which addresses consolidation of certain variable interest entities (also commonly referred to as "special purpose entities"). NS adopted FIN No. 46, effective Jan 1, 2003. As a result, on that date NS consolidated a special-purpose entity that leases certain locomotives to NS (see Note 9). This entity has no other significant assets or liabilities other than the locomotives and the debt related to their purchase, which will be reflected on NS' Consolidated Balance Sheet in 2003. This change in reporting will also have the following effects to NS' Consolidated Income Statement beginning in 2003: operating lease expense will decline, and depreciation expense and interest expense on debt will increase. The net effect of these income statement changes is not significant. Adoption of FIN No. 46 did not have a significant effect on NS' financial position or liquidity.

## 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 2003 to reimpose unwarranted federal economic regulation on the rail industry. The Staggers Rail Act of 1980, which substantially reduced such regulation, encouraged and enabled rail carriers to innovate and to compete for business. NS and other rail carriers will oppose any efforts to reimpose unwarranted economic regulation.

**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 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 who are expected to remain competitive in this evolving environment.

**Carbon-Based Fuel --** There is growing concern in some quarters that emissions resulting from burning carbon-based fuel, including coal, are contributing to global warming and causing other environmental changes. To the extent that these concerns evolve into a consensus among policy-makers, the impact could be





either a reduction in the demand for coal or imposition of more stringent regulations on emissions, which might result in making coal a less economical source of power generation or make permitting of coal-fired facilities even more difficult. The revenues and net income of NSR and other railroads that move large quantities of coal could be affected adversely.

## **FORWARD-LOOKING STATEMENTS**

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that may be identified by the use of words like "believe," "expect," "anticipate" and "project." Forward-looking statements reflect management's good-faith evaluation of information currently available. However, such statements are dependent on and, therefore, can be influenced by, a number of external variables over which management has little or no control, including: domestic and international economic conditions; the business environment in industries that produce and consume rail freight; competition and consolidation within the transportation industry; fluctuation in prices of key materials, in particular diesel fuel; labor difficulties, including strikes and work stoppages; legislative and regulatory developments; changes in securities and capital markets; and natural events such as severe weather, floods and earthquakes. Forward-looking statements are not, and should not be relied upon as, a guaranty of future performance or results. Nor will they necessarily prove to be accurate indications of the times at or by which any such performance or results will be achieved. As a result, actual outcomes and results may differ materially from those expressed in forward-looking statements. The Company undertakes no obligation to update or revise forward-looking statements.

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

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

**Item 8. Financial Statements and Supplementary Data.**

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## Report of Management

January 28, 2003

To the Stockholders

Norfolk Southern Corporation

Management is responsible for the preparation and fair presentation of the financial statements included in this annual report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and reflect management's judgments and estimates concerning effects of events and transactions that are accounted for or disclosed.

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

In order to ensure that the Corporation's internal control over financial reporting is effective, management regularly assesses such controls and did so most recently for its financial reporting as of December 31, 2002. This assessment was based on criteria for effective internal control over financial reporting described in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes the Corporation maintained effective internal control over financial reporting as of December 31, 2002.

The Board of Directors, acting through its Audit Committee, is responsible for the oversight of the Corporation's accounting policies, financial reporting and internal control. The Audit Committee of the Board of Directors is comprised entirely of outside directors who are independent of management. The Audit Committee is responsible for the appointment and compensation of the independent auditor, and approves decisions regarding the appointment or removal of the Vice President-Internal Audit. It meets periodically with management, the independent auditors, and the internal auditors to ensure that they are carrying out their responsibilities. The Audit Committee is also responsible for performing an oversight role by reviewing and monitoring the financial, accounting and auditing procedures of the Corporation in addition to reviewing the Corporation's financial reports. The independent auditors and the internal auditors have full and unlimited access to the Audit Committee, with or without management, to discuss the adequacy of internal control over financial reporting, and any other matters which they believe should be brought to the attention of the Audit Committee.

KPMG LLP, independent auditors of the Corporation's financial statements, has reported on management's assertion with respect to the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2002.

/s/ David R. Goode  
David R. Goode  
Chairman, President and  
Chief Executive Officer

/s/ Henry C. Wolf  
Henry C. Wolf  
Vice Chairman and  
Chief Financial Officer

/s/ John P. Rathbone  
John P. Rathbone  
Senior Vice President and  
Controller

## Independent Auditors' Report

The Stockholders and Board of Directors

Norfolk Southern Corporation:

We have audited the accompanying consolidated balance sheets of Norfolk Southern Corporation and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2002. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule as listed in Item 15(A)2. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Norfolk, Virginia

January 28, 2003

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors

Norfolk Southern Corporation:

We have examined management's assertion, included in the accompanying Report of Management, that Norfolk Southern Corporation maintained effective internal control over financial reporting as of December 31, 2002 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Norfolk Southern Corporation's management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the internal control over financial reporting, testing, and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that Norfolk Southern Corporation maintained effective internal control over financial reporting as of December 31, 2002 is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ KPMG LLP

Norfolk, Virginia

January 28, 2003



**Norfolk Southern Corporation And Subsidiaries**

**Consolidated Statements of Income**

	<b>Years ended December 31,</b>		
	<b>2002</b>	<b>2001</b>	<b>2000</b>
	<i>(\$ in millions, except earnings per share)</i>		
<b>Railway operating revenues</b>	\$ 6,270	\$ 6,170	\$ 6,159
<b>Railway operating expenses</b>			
Compensation and benefits (Note 11)	2,022	2,014	2,234
Materials, services and rents	1,457	1,444	1,445
Conrail rents and services (Note 2)	412	421	478
Depreciation	515	514	503
Diesel fuel	342	412	478
Casualties and other claims	171	143	142
Other	<u>193</u>	<u>215</u>	<u>246</u>
Total railway operating expenses	<u>5,112</u>	<u>5,163</u>	<u>5,526</u>
<b>Income from railway operations</b>	1,158	1,007	633
Other income – net (Note 3)	66	99	168
Interest expense on debt (Note 6)	<u>(518)</u>	<u>(553)</u>	<u>(551)</u>
Income from continuing operations before income taxes	706	553	250
Provision for income taxes (Note 4)	<u>246</u>	<u>191</u>	<u>78</u>
Income from continuing operations	460	362	172
Discontinued operations – gain on sale of motor carrier, net of taxes (Note 17)	<u>--</u>	<u>13</u>	<u>--</u>
<b>Net income</b>	\$ <u>460</u>	\$ <u>375</u>	\$ <u>172</u>
Earnings per share (Note 14)			
Income from continuing operations – basic and diluted	\$ 1.18	\$ 0.94	\$ 0.45
Net income – basic and diluted	\$ 1.18	\$ 0.97	\$ 0.45

See accompanying notes to consolidated financial statements.

**Norfolk Southern Corporation And Subsidiaries**

**Consolidated Balance Sheets**

	<b>As of Dec. 31,</b>		<b>2001</b>
	<b>2002</b>		
	<i>(\$ in millions)</i>		
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 184	\$ 204	
Accounts receivable-net (Note 5)	683	475	
Due from Conrail (Note 2)	6	8	
Materials and supplies	97	90	
Deferred income taxes (Note 4)	187	162	
Other current assets	<u>142</u>	<u>108</u>	
Total current assets	1,299	1,047	
Investment in Conrail (Note 2)	6,178	6,161	
Properties less accumulated depreciation (Note 6)	11,370	11,208	
Other assets	<u>1,109</u>	<u>1,002</u>	
<b>Total assets</b>	\$ <u>19,956</u>	\$ <u>19,418</u>	
<b>Liabilities and stockholders' equity</b>			
Current liabilities:			
Accounts payable (Note 7)	\$ 908	\$ 848	
Income and other taxes	269	312	
Due to Conrail (Note 2)	86	373	
Other current liabilities (Note 7)	232	248	
Current maturities of long-term debt (Note 8)	<u>358</u>	<u>605</u>	
Total current liabilities	1,853	2,386	
Long-term debt (Note 8)	7,006	7,027	
Other liabilities (Note 10)	1,029	1,089	
Due to Conrail (Note 2)	513	--	
Minority interests	45	45	
Deferred income taxes (Note 4)	<u>3,010</u>	<u>2,781</u>	
<b>Total liabilities</b>	13,456	13,328	
Stockholders' equity:			
Common stock \$1.00 per share par value, 1,350,000,000 shares authorized; issued 410,154,465 and 407,000,871 shares, respectively	410	407	
Additional paid-in capital	481	423	
Accumulated other comprehensive loss (Note 13)	(65)	(55)	
Retained income	5,694	5,335	
Less treasury stock at cost, 21,169,125 shares	<u>(20)</u>	<u>(20)</u>	
<b>Total stockholders' equity</b>	<u>6,500</u>	<u>6,090</u>	
<b>Total liabilities and stockholders' equity</b>	\$ <u>19,956</u>	\$ <u>19,418</u>	

See accompanying notes to consolidated financial statements.

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**Norfolk Southern Corporation And Subsidiaries**

**Consolidated Statements of Cash Flows**

**Years Ended December 31,**  
**2002                      2001                      2000**

		(\$ in millions)	
<b>Cash flows from operating activities</b>			
Net income	\$ 460	\$ 375	\$ 172
Reconciliation of net income to net cash provided by operating activities:			
Depreciation	529	527	517
Deferred income taxes	178	44	2
Equity in earnings of Conrail	(54)	(44)	(21)
Gains and losses on properties and investments	(47)	(59)	(160)
Income from discontinued operations	--	(13)	--
Changes in assets and liabilities affecting operations:			
Accounts receivable (Note 5)	(208)	(74)	446
Materials and supplies	(7)	1	9
Other current assets and due from Conrail	1	46	60
Current liabilities other than debt	35	(27)	220
Other – net (Note 11)	(84)	(122)	97
Net cash provided by operating activities	803	654	1,342
<b>Cash flows from investing activities</b>			
Property additions	(689)	(746)	(731)
Property sales and other transactions	31	156	137
Investments, including short-term	(78)	(99)	(77)
Investment sales and other transactions	63	88	90
Net cash used for investing activities	(673)	(601)	(581)
<b>Cash flows from financing activities</b>			
Dividends	(101)	(93)	(306)
Common stock issued – net	42	14	2
Proceeds from borrowings	672	1,995	1,055
Debt repayments	(763)	(1,765)	(1,549)
Net cash provided by (used for) financing activities	(150)	151	(798)
Net increase (decrease) in cash and cash equivalents	(20)	204	(37)
<b>Cash and cash equivalents</b>			
At beginning of year	204	--	37
At end of year	\$ 184	\$ 204	\$ --
<b>Supplemental disclosure of cash flow information</b>			
Cash paid during the year for:			
Interest (net of amounts capitalized)	\$ 525	\$ 550	\$ 543
Income taxes	\$ 54	\$ 74	\$ 5

See accompanying notes to consolidated financial statements.



**Norfolk Southern Corporation And Subsidiaries**  
**Consolidated Statements of Changes in Stockholders' Equity**

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Accum. Other Compre- hensive Loss</u>	<u>Retained Income</u>	<u>Treasury Stock</u>	<u>Total</u>
	(\$ in millions, except per share amounts)					
<b>Balance Dec. 31, 1999</b>	\$ 404	\$ 372	\$ (11)	\$ 5,187	\$ (20)	\$ 5,932
Comprehensive income						
Net income				172		172
Other comprehensive income (Note 13)			5			5
Total comprehensive income						177
Dividends on Common Stock, \$0.80 per share				(306)		(306)
Other (Notes 11 and 12)	1	20				21
<b>Balance Dec. 31, 2000</b>	405	392	(6)	5,053	(20)	5,824
Comprehensive income						
Net income				375		375
Other comprehensive loss (Note 13)			(49)			(49)
Total comprehensive income						326
Dividends on Common Stock, \$0.24 per share				(93)		(93)
Other (Notes 11 and 12)	2	31				33
<b>Balance Dec. 31, 2001</b>	\$ 407	\$ 423	\$ (55)	\$ 5,335	\$ (20)	\$ 6,090
Comprehensive income						
Net income				460		460
Other comprehensive loss (Note 13)			(10)			(10)
Total comprehensive income						450
Dividends on Common Stock, \$0.26 per share				(101)		(101)
Other (Notes 11 and 12)	3	58				61
<b>Balance Dec. 31, 2002</b>	\$ 410	\$ 481	\$ (65)	\$ 5,694	\$ (20)	\$ 6,500

See accompanying notes to consolidated financial statements.

# NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

### 1. Summary of Significant Accounting Policies

#### Description of Business

Norfolk Southern Corporation is a Virginia-based holding company engaged principally in the rail transportation business, operating approximately 21,500 route miles primarily in the East and Midwest. These consolidated financial statements include Norfolk Southern Corporation (Norfolk Southern) and its majority-owned and controlled subsidiaries (collectively, NS). Norfolk Southern's major subsidiary is Norfolk Southern Railway Company (NSR). All significant intercompany balances and transactions have been eliminated in consolidation.

The railroad transports raw materials, intermediate products and finished goods classified in the following market groups (percent of total railway operating revenues in 2002): coal (23%); automotive (15%); chemicals (12%); metals/construction (11%); agriculture/consumer products/government (10%); paper/clay/forest products (10%); and intermodal (19%). Ultimate points of origination or destination for some of the freight (particularly coal bound for export and intermodal containers) are outside the United States. Approximately 85% of NS' railroad employees are covered by collective bargaining agreements with 15 different labor unions.

Through a jointly owned entity, Norfolk Southern and CSX Corporation own the stock of Conrail Inc., which owns the major Northeast freight railroad. 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 accordance 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. Management reviews its estimates, including those related to the recoverability and useful lives of assets, as well as liabilities for litigation, environmental remediation, casualty claims, income taxes, and pension and postretirement benefits. Changes in facts and circumstances may result in revised 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." Unrealized gains and losses for investments designated as "available-for-sale," net of taxes, are recognized in "Accumulated other comprehensive loss."

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

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## **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. Expenditures, including those on leased assets, that extend an asset's useful life or increase its utility 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 - net" (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. Refunds are recorded as a reduction to revenues based on management's best estimate of projected liability.

## **Derivatives**

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

## **Stock-based Compensation**

NS has stock-based employee compensation plans, which are more fully described in Note 12. NS applies the intrinsic value recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees" (APB Opinion No. 25), and related interpretations in accounting for these plans.

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

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	<u>2002</u> (\$ in millions)	<u>2001</u> except per share)	<u>2000</u>
Net income, as reported	\$ 460	\$ 375	\$ 172
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	14	12	3
Deduct: Stock-based employee compensation expense determined under fair value method, net of related tax effects	(45)	(29)	(26)
Pro forma net income	\$ <u>429</u>	\$ <u>358</u>	\$ <u>149</u>
Earnings per share:			
Basic and diluted - as reported	\$ 1.18	\$ 0.97	\$ 0.45
Basic and diluted - pro forma	\$ 1.10	\$ 0.93	\$ 0.39

## Required Accounting Changes

The adoption of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which was effective Jan. 1, 2002, did not have a material effect on NS' consolidated financial statements.

## 2. Investment in Conrail and Operations Over Its Lines

### Overview

Through a limited liability company, Norfolk Southern and CSX Corporation (CSX) jointly own Conrail Inc. (Conrail), whose primary subsidiary is Consolidated Rail Corporation (CRC), the major freight railroad in the Northeast. NS has a 58% economic and 50% voting interest in the jointly owned entity, and CSX has the remainder of the economic and voting interests. From time to time, Norfolk Southern and CSX, as the indirect owners of Conrail, may have to make capital contributions, loans or advances to Conrail under the terms of the Transaction Agreement among NS, CSX and Conrail.

### Operation of Conrail's Lines

Norfolk Southern's railroad subsidiary, Norfolk Southern Railway Company (NSR), operates as a part of its rail system the routes and assets of Pennsylvania Lines LLC (PRR), a wholly owned subsidiary of CRC, pursuant to operating and lease agreements. CSX Transportation, Inc. (CSXT) operates the routes and assets of another CRC subsidiary under comparable terms.

The Operating Agreement between NSR and PRR 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. NSR receives all freight revenues on the PRR lines.

NSR and CSXT also have entered into agreements with CRC governing other properties that continue to be owned and operated by CRC (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:

	<b>PRR Oper. Agmt.</b>	<b>PRR Lease Agmt. (\$ in millions)</b>	<b>SAA Agmts.</b>
2003	\$ 217	\$ 116	\$ 30
2004	238	94	32
2005	246	74	33
2006	246	60	34
2007	246	48	34
2008 and subsequent years	4,285	129	585
Total	<u>\$ 5,478</u>	<u>\$ 521</u>	<u>\$ 748</u>

Operating lease expense related to the agreements, which is included in "Conrail rents and services," amounted to \$468 million in 2002, \$467 million in 2001 and \$502 million in 2000.

### 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." 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 depreciable property and equipment, including the related deferred tax effect of the differences in tax and accounting bases for certain assets. At Dec. 31, 2002, the difference between NS' investment in Conrail and its share of Conrail's underlying net equity was \$3.7 billion.

NS' consolidated balance sheet at Dec. 31, 2002, includes \$60 million of liabilities related to the Conrail transaction, principally for contractual obligations to Conrail employees imposed by the Surface Transportation Board when it approved the transaction. Through Dec. 31, 2002, NS had paid \$143 million of such costs.

### Related-Party Transactions

NS provides certain general and administrative support functions to Conrail, the fees for which are billed in accordance with several service-provider arrangements and totaled \$7 million in 2002, \$6 million in 2001 and \$7 million in 2000.

"Conrail rents and services" includes: (1) expenses for amounts due to PRR and CRC for use by NSR of operating properties and equipment and operation of the Shared Assets Areas and (2) NS' equity in the earnings of Con rail, net of amortization.

A significant portion of payments made to PRR is borrowed back from a subsidiary of PRR. Previously, these loans were made under a demand note; however, in the first quarter of 2002, the subsidiary of PRR exchanged this demand note for a new note due in 2032. As a result, borrowings owed to the subsidiary of PRR now comprise the noncurrent balance "Due to Conrail." The interest rate for these loans is variable and was 1.82% at Dec. 31, 2002. The current balance "Due to Conrail" at Dec. 31, 2002, is composed of amounts related to expenses included in "Conrail rents and services," as discussed above. At Dec. 31, 2001, the current balance "Due to Conrail" included \$72 million of such amounts and \$301 million of advances owed under the previous demand note.

## Summary Financial Information - Conrail

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

### Summarized Consolidated Statements of Income - Conrail

	<u>2002</u>	<u>2001</u> (\$ in millions)	<u>2000</u>
Operating revenues	\$ 893	\$ 903	\$ 985
Operating expenses	<u>623</u>	<u>639</u>	<u>749</u>
Operating income	270	264	236
Other – net	<u>(10)</u>	<u>(6)</u>	<u>31</u>
Income before income taxes	260	258	267
Provision for income taxes	<u>80</u>	<u>84</u>	<u>97</u>
Net income	\$ <u>180</u>	\$ <u>174</u>	\$ <u>170</u>

Note: Conrail's results for 2000 included gains from the sale of property that had been written up to fair market value in the allocation of NS' investment in Conrail. Accordingly, the gains related to that fair-value write-up, totaling \$17 million after taxes, were excluded in determining NS' equity in Conrail's net income.

### Summarized Consolidated Balance Sheets - Conrail

	<u>2002</u>	<u>December 31, 2001</u> (\$ in millions)
Assets:		
Current assets	\$ 300	\$ 846
Noncurrent assets	<u>7,857</u>	<u>7,236</u>
Total assets	\$ <u>8,157</u>	\$ <u>8,082</u>
Liabilities and stockholders' equity:		
Current liabilities	\$ 329	\$ 408
Noncurrent liabilities	<u>3,602</u>	<u>3,569</u>
Stockholders' equity	<u>4,226</u>	<u>4,105</u>
Total liabilities and stockholders equity	\$ <u>8,157</u>	\$ <u>8,082</u>

Note: Current assets include amounts due from NS and CSX totaling \$158 million at Dec. 31, 2002, and \$687 million at Dec. 31, 2001. Noncurrent assets include amounts due from NS and CSX totaling \$892 million at Dec. 31, 2002, and zero at Dec. 31, 2001. Current liabilities include amounts payable to NS and CSX totaling \$9 million at Dec. 31, 2002, and \$12 million at Dec. 31, 2001.

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### 3. Other Income - Net

	<u>2002</u>	<u>2001</u> (\$ in millions)	<u>2000</u>
Income from natural resources:			
Royalties from coal	\$ 48	\$ 52	\$ 55



Gains from sale of timber, oil and gas rights and interests	--	--	101
Nonoperating depletion and depreciation	(14)	(13)	(13)
Subtotal	<u>34</u>	<u>39</u>	<u>143</u>
Gains from sale of properties and investments	47	59	59
Rental income	36	40	40
Interest income	12	15	11
Other interest expense	(31)	1	(39)
Taxes on nonoperating property	(7)	(11)	(9)
Discount on sales of accounts receivable (Note 5)	(4)	(17)	(23)
Corporate-owned life insurance – net	(1)	6	--
Equity in earnings (losses) of partnerships	(1)	(8)	3
Charitable contributions	--	(4)	(4)
Other	(19)	(21)	(13)
Total	<u>\$ 66</u>	<u>\$ 99</u>	<u>\$ 168</u>

"Other income - net" includes the income generated by the activities of NS' noncarrier subsidiaries as well as the costs incurred by those subsidiaries in their operations.

"Other current assets" in the Consolidated Balance Sheets includes prepaid interest of \$46 million at Dec. 31, 2002, and \$45 million at Dec. 31, 2001, arising from corporate-owned life insurance borrowings.

#### 4. Income Taxes

##### Provision for Income Taxes

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(\$ in millions)		
Current:			
Federal	\$ 61	\$ 125	\$ 65
State	7	22	11
Total current taxes	<u>68</u>	<u>147</u>	<u>76</u>
Deferred:			
Federal	145	35	1
State	33	9	1
Total deferred taxes	<u>178</u>	<u>44</u>	<u>2</u>
Provision for income taxes	<u>\$ 246</u>	<u>\$ 191</u>	<u>\$ 78</u>

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##### 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:

<u>2002</u>		<u>2001</u>		<u>2000</u>	
Amount	%	Amount	%	Amount	%



## 5. Accounts Receivable

In May 2000, a bankruptcy-remote special purpose subsidiary of NS began selling without recourse undivided ownership interests in a pool of accounts receivable. Upon commencement of this program, NS received cash proceeds of \$460 million. The buyers have a priority collection interest in the entire pool of receivables and, as a result, NS has retained credit risk to the extent the pool of receivables exceeds the amount sold. NS services and collects the receivables on behalf of the buyers; however, no servicing asset or liability has been recognized because the benefits of servicing are estimated to be just adequate to compensate NS for its responsibilities. Payments collected from sold receivables can be reinvested in new accounts receivable on behalf of the buyers. Should NS' credit rating drop below investment grade, the buyers have the right to discontinue this reinvestment.

Accounts receivable sold under this arrangement, and therefore not included in "Accounts receivable, net" on the Consolidated Balance Sheets, were \$30 million at Dec. 31, 2002, and \$300 million at Dec. 31, 2001. The fees associated with the sale, which are based on the buyers' financing costs, are included in "Other income – net" (see Note 3). NS' retained interest, which is included in "Accounts receivable, net," is recorded at fair value using estimates of dilution based on NS' historical experience. These estimates are adjusted regularly based on NS' actual experience with the pool, including defaults and credit deterioration. NS has historically experienced very low levels of default. If historical dilution percentages were to increase one percentage point, the value of NS' retained interest would be reduced by approximately \$5 million.

NS' allowance for doubtful accounts was \$5 million at Dec. 31, 2002, and Dec. 31, 2001.

## 6. Properties

	<b><u>December 31,</u></b> <b><u>2002</u></b>	<b><u>2001</u></b> <b><u>(\$ in millions)</u></b>	<b><u>Depreciation</u></b> <b><u>Rate for 2002</u></b>
Railway property:			
Road	\$ 10,859	\$ 10,452	2.9%
Equipment	5,573	5,559	3.9%
Other property	<u>655</u>	<u>632</u>	3.1%
	17,087	16,643	
Less accumulated depreciation	<u>(5,717)</u>	<u>(5,435)</u>	
Net properties	\$ <u>11,370</u>	\$ <u>11,208</u>	

Included in properties is approximately \$110 million of telecommunications assets consisting of fiber optic conduit. NS evaluated the recoverability of these assets at Dec. 31, 2002, and based on known facts and circumstances, management believes that its investment in these assets will be recovered.

Railway property includes \$480 million at Dec. 31, 2002 and \$474 million at Dec. 31, 2001, of assets recorded pursuant to capital leases. Other property includes the costs of obtaining rights to natural resources of \$341 million at Dec. 31, 2002 and 2001.

## Capitalized Interest

Total interest cost incurred on debt in 2002, 2001 and 2000 was \$529 million, \$570 million and \$569 million, respectively, of which \$11 million, \$17 million and \$18 million was capitalized.

## 7. Current Liabilities

	<b>December 31,</b>	
	<b>2002</b>	<b>2001</b>
	(\$ in millions)	
Accounts payable:		
Accounts and wages payable	\$ 446	\$ 385
Casualty and other claims	207	192
Equipment rents payable – net	116	130
Vacation liability	117	118
Other	22	23
Total	<u>\$ 908</u>	<u>\$ 848</u>
Other current liabilities:		
Interest payable	\$ 118	\$ 118
Accrued Conrail-related costs (Note 2)	34	35
Liabilities for forwarded traffic	34	35
Retiree health and death benefit obligations (Note 11)	31	24
Derivative instruments	--	17
Other	15	19
Total	<u>\$ 232</u>	<u>\$ 248</u>

## 8. Long-term Debt

	<b>December 31,</b>	
	<b>2002</b>	<b>2001</b>
	(\$ in millions)	
Notes at average rates and maturities as follows:		
6.64%, maturing 2003 to 2007	\$ 1,840	\$ 1,500
6.91%, maturing 2008 to 2011	1,200	1,750
8.10%, maturing 2017 to 2021	800	800
7.54%, maturing 2027 to 2031	1,500	1,500
7.05%, maturing 2037	717	750
7.90%, maturing 2097	350	350
Equipment obligations at an average rate of 4.7%, maturing to 2014	558	579
Capitalized leases at an average rate of 2.1%, maturing to 2015	306	316
Other debt at an average rate of 6.1%, maturing to 2019	122	119
Discounts and premiums, net	(29)	(32)
Total long-term debt	7,364	7,632
Less current maturities	(358)	(605)
Long-term debt excluding current maturities	<u>\$ 7,006</u>	<u>\$ 7,027</u>
Long-term debt maturities subsequent to 2003 are as follows:		
2004	\$ 356	
2005	500	
2006	295	
2007	858	
2008 and subsequent years	4,997	
Total	<u>\$ 7,006</u>	

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.

Certain lease obligations require the maintenance of yen-denominated deposits, which are pledged to the lessor to satisfy yen-denominated lease payments. These deposits are included in "Other assets" on the balance sheet and totaled \$86 million at Dec. 31, 2002, and \$78 million at Dec. 31, 2001.

## Shelf Registration

NS filed on Form S-3 a shelf registration statement with the Securities and Exchange Commission covering the issuance of up to \$1 billion of securities. As of Dec. 31, 2002, NS had issued a total of \$550 million of notes under this shelf registration.

## Commercial Paper and Credit Agreement

NS has the ability to issue commercial paper backed by a \$1 billion credit agreement that expires in 2006. At Dec. 31, 2002, and Dec. 31, 2001, NS had no commercial paper outstanding. Any borrowings under the credit agreement are contingent on the continuing effectiveness of the representations and warranties made at the inception of the agreement.

## 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, 2002, NS was in compliance with all debt covenants.

## 9. 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 and operating lease expense, other than to PRR and CRC, are as follows:

	<b>Operating Leases</b>	<b>Capital Leases</b>
	(\$ in millions)	
2003	\$ 113	\$ 47
2004	89	52
2005	77	47
2006	61	43
2007	54	40
2008 and subsequent years	486	123
Total	<u>\$ 880</u>	<u>\$ 352</u>
Less imputed interest on capital leases at an average rate of 7.0%		(46)
Present value of minimum lease payments included in debt		<u>\$ 306</u>

**Operating Lease Expense**

	<u><b>2002</b></u>	<u><b>2001</b></u> (\$ in millions)	<u><b>2000</b></u>
Minimum rents	\$ 140	\$ 149	\$ 167
Contingent rents	60	55	61
Total	<u>\$ 200</u>	<u>\$ 204</u>	<u>\$ 228</u>

During 2000, NS entered into an operating lease for 140 locomotives, which is renewable annually at NS' option, has a maximum term of eight years and includes purchase options. Because the fixed, noncancellable term of the lease is one year, future minimum lease payments in the table above do not include amounts related to this lease. However, operating lease expense in the table above does include amounts related to this lease as follows: \$13 million in 2002, \$18 million in 2001 and \$11 million in 2000. If NS does not renew the lease during the eight-year period or does not purchase the locomotives at the end of the maximum lease term, it is liable for any shortfall in the then fair value of the locomotives and a specified residual value. NS does not expect to be required to make any payments under this provision. As of Dec. 31, 2002, the maximum liability under this provision, assuming NS chose not to renew the lease in 2003 and the then fair value of the locomotives was zero, would be \$116 million. The lessor is a special-purpose entity whose activities are limited to those incident to this particular transaction. Upon adoption of Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities," which will occur in 2003, NS will consolidate this entity. As a result, the locomotives will be shown as assets, debt will increase, operating lease expense will decline, depreciation expense will increase and interest expense on debt will increase.

**10. Other Liabilities**

	<u><b>December 31,</b></u> <u><b>2002</b></u>	<u><b>2001</b></u> (\$ in millions)
Retiree health and death benefit obligations (Note 11)	\$ 286	\$ 291
Casualty and other claims	254	265
Deferred compensation	144	147
Net pension obligations (Note 11)	82	79
Accrued Conrail-related costs (Note 2)	26	46
Other	237	261
Total	<u>\$ 1,029</u>	<u>\$ 1,089</u>

**11. 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, copayments, Medicare payments and, in some cases, coverage provided under other group insurance policies.

## Pension and Other Postretirement Benefit Obligations and Plan Assets

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b><u>2002</u></b>	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>2001</u></b>
	(\$ in millions)			
<b>Change in benefit obligations</b>				
Benefit obligation at beginning of year	\$ 1,324	\$ 1,312	\$ 479	\$ 445
Service cost	17	15	13	14
Interest cost	91	94	33	33
Amendment	--	6	--	--
Legislative changes	--	(19)	--	--
Actuarial (gains) losses	54	36	98	21
Benefits paid	(116)	(120)	(31)	(34)
Benefit obligation at end of year	<u>1,370</u>	<u>1,324</u>	<u>592</u>	<u>479</u>
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	1,798	1,999	118	126
Actual return on plan assets	(201)	(74)	(12)	(8)
Employer contribution	6	7	31	34
401(h) account transfer	(18)	(14)	--	--
Benefits paid	(116)	(120)	(31)	(34)
Fair value of plan assets at end of year	<u>1,469</u>	<u>1,798</u>	<u>106</u>	<u>118</u>
<b>Funded status</b>	<u>99</u>	<u>474</u>	<u>(486)</u>	<u>(361)</u>
Unrecognized (gain) loss	305	(142)	169	46
Unrecognized prior service cost	26	30	--	--
Net amount recognized	<u>\$ 430</u>	<u>\$ 362</u>	<u>\$ (317)</u>	<u>\$ (315)</u>
Amounts recognized in the Consolidated				
Balance Sheets consist of:				
Prepaid benefit cost	\$ 497	\$ 426	\$ --	\$ --
Accrued benefit liability	(82)	(79)	(317)	(315)
Accumulated other comprehensive income	15	15	--	--
<b>Net amount recognized</b>	<u>\$ 430</u>	<u>\$ 362</u>	<u>\$ (317)</u>	<u>\$ (315)</u>

Of the pension plans included above, the unfunded pension plans were the only plans with an accumulated benefit obligation in excess of plan assets. These plans' accumulated benefit obligations were \$82 million at Dec. 31, 2002, and \$79 million at Dec. 31, 2001. These plans' projected benefit obligations were \$94 million at Dec. 31, 2002 and \$89 million at Dec. 31, 2001. Because of the nature of such plans, there are no plan assets.

NS received Section 401(h) account transfers, from pension assets, of \$18 million in 2002 and \$14 million in 2001 as reimbursement for medical payments for retirees.

Legislative changes primarily resulting from the December 2001 amendment to the Railroad Retirement Act ("The Act") increased benefits payable to certain retirees covered by The Act. Since employees' pension benefits paid by NS are offset by a portion of benefits paid under The Act, the amendment served to reduce NS' obligation by approximately \$19 million at Dec. 31, 2001.

During 2001, NS amended its qualified and nonqualified pension plans to enhance benefits to certain NS employees. The amendments increased the pension benefit obligation by \$6 million at Dec. 31, 2001. During 2000, NS amended its qualified pension plan to allow for the payment of qualifying disability benefits.

## Pension and Other Postretirement Benefit Costs Components

	<u>2002</u>	<u>2001</u> (\$ in millions)	<u>2000</u>
<b>Pension benefits</b>			
Service cost	\$ 17	\$ 15	\$ 18
Interest cost	91	94	79
Cost of early retirement programs	--	--	119
Expected return on plan assets	(179)	(202)	(192)
Amortization of prior service cost	4	4	4
Amortization of initial net asset	--	(3)	(7)
Recognized net actuarial gain	(13)	(24)	(38)
Net benefit	\$ <u>(80)</u>	\$ <u>(116)</u>	\$ <u>(17)</u>
<b>Other postretirement benefits</b>			
Service cost	\$ 13	\$ 14	\$ 15
Interest cost	33	33	27
Cost of early retirement programs	--	--	14
Expected return on plan assets	(13)	(13)	(14)
Amortization of prior service cost	--	--	(4)
Net cost	\$ <u>33</u>	\$ <u>34</u>	\$ <u>38</u>

## Pension Assumptions

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

	<u>2002</u>	<u>2001</u>	<u>2000</u>
<b>Funded status:</b>			
Discount rate	6.75%	7.25%	7.50%
Future salary increases	4.5%	5%	5%
<b>Pension cost:</b>			
Discount rate	7.25%	7.50%	7.75%
Return on assets in plans	9%	10%	10%
Future salary increases	5%	5%	5%

## Health Care Cost Trend Assumptions

For measurement purposes, increases in the per capita cost of covered health care benefits were assumed to be 10% for 2003 and 9% for 2004. It is assumed the rate will decrease gradually to an ultimate rate of 5.0% for 2008 and remain at that level thereafter.

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

	<b>One percentage point</b>	
	<b>Increase</b>	<b>Decrease</b>
	(\$ in millions)	
Increase (decrease) in:		
Total service and interest cost	\$ 6	\$ (5)
components		
Postretirement benefit obligation	\$ 69	\$ (57)



## Other Postretirement Coverage

Under collective bargaining agreements, NS and certain subsidiaries participate in a multi-employer benefit plan, which provides certain postretirement health care and life insurance benefits to eligible union employees. Premiums under this plan are expensed as incurred and amounted to \$11 million in 2002, \$10 million in 2001 and \$7 million in 2000.

## 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. Since 1999, NS has contributed newly issued shares of Common Stock for its matching contributions. NS' expenses under these plans were \$12 million in 2002, \$11 million in 2001 and \$12 million in 2000.

## Early Retirement Programs in 2000

During 2000, NS offered two voluntary early retirement programs to its salaried employees. The principal incentives offered in these programs were enhanced pension benefits, the cost for most of which will be paid from NS' overfunded pension plan. A February program was accepted by 919 of 1,180 eligible employees, and a December program was accepted by 370 of 846 eligible employees. The total cost of these programs, which is included in "Compensation and benefits," was \$133 million. The resulting noncash reduction to NS' pension plan asset is included in "Other - net" in the Consolidated Statement of Cash Flows.

## 12. 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 88,025,000 shares of Norfolk Southern Common Stock (Common Stock). Of these shares, 5,000,000 were approved by the Board for issuance to non-officer participants; as a broadly based issuance, stockholder approval was not required. 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

As disclosed in Note 1, NS applies APB Opinion 25 and related interpretations in accounting for awards made under the plans. Accordingly, grants of PSUs, restricted stock, dividend equivalents, tax absorption payments and SARs result in charges to net income, while grants of stock options have no effect on net income. Related compensation costs were \$23 million in 2002, \$20 million in 2001 and \$5 million in 2000. NS recognized additional paid-in capital of \$6 million in 2002, \$1 million in 2001 and zero in 2000 related to the tax benefit generated by stock option exercises.

Note 1 includes a table that illustrates the effect on net income and earnings per share had NS applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation. The pro forma amounts include compensation costs calculated using the Black-Scholes option-pricing model, with average expected option lives of five years; average risk-free interest rates of 4.6% in 2002, 5.1% in 2001 and 6.8% in

2000; average stock-price volatilities of 32% in 2002, 39% in 2001 and 33% in 2000; and dividend yields of zero in 2002, 2% in 2001 and 3% in 2000. These assumptions produced per-share grant-date fair values of \$8.26 in 2002, \$5.48 in 2001, and \$5.22 in 2000.

### Stock Option Activity

	<u>Option Shares</u>	<u>Weighted Average Exercise Price</u>
Balance 12/31/99	21,116,363	\$ 27.77
Granted	7,705,800	16.94
Exercised	(273,813)	13.95
Expired	(427,400)	26.84
Balance 12/31/00	28,120,950	\$ 24.96
Granted	6,985,000	15.48
Exercised	(1,079,902)	16.58
Expired	(612,525)	26.51
Balance 12/31/01	33,413,523	\$ 23.21
Granted	7,384,000	22.49
Exercised	(2,851,538)	17.48
Expired	(287,341)	26.73
Balance 12/31/02	37,658,644	\$ 23.47

Of the total options outstanding at Dec. 31, 2002, 30 million were vested and have a weighted-average exercise price of \$23.71.

### Stock Options Outstanding

<u>Range</u>	<u>Exercise Price</u>	<u>Weighted Average</u>	<u>Number Outstanding at 12/31/02</u>	<u>Weighted Average Remaining Contractual Life</u>
\$15.48 to \$16.94	\$ 16.25		12,317,834	7.6 years
\$20.09 to \$22.49	22.20		9,001,960	7.7 years
\$24.31 to \$27.69	26.85		7,708,350	4.7 years
\$29.46 to \$33.25	32.10		8,630,500	5.5 years
\$15.48 to \$33.25	\$ 23.47		37,658,644	6.5 years

### Performance Share Units

PSUs provide for awards based on 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 815,000 and \$22.49 in 2002; 817,500 and \$15.48 in 2001; and 937,500 and \$16.94 in 2000. PSUs may be paid in the form of shares of Common Stock, cash or any combination thereof. Shares earned and issued may be subject to share retention agreements and held by NS for up to five years.

### 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:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Available for future grants 12/31:			
LTIP	23,645,146	30,816,365	2,554,584
TSOP	2,568,200	2,535,000	2,488,700
Shares of Common Stock issued:			
LTIP	2,917,898	1,146,346	395,626
TSOP	--	--	--

### 13. Stockholders' Equity

#### Accumulated Other Comprehensive Loss

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

	<u>Balance at Beginning of Year</u>	<u>Net Gain (Loss)</u>	<u>Reclassification Adjustments</u>	<u>Balance at End of Year</u>
	<i>(\$ in millions)</i>			
December 31, 2002				
Unrealized gains on securities	\$ 6	\$ --	\$ (5)	\$ 1
Cash flow hedges	(11)	35	(6)	18
Minimum pension liability	(50)	(34)	--	(84)
Accumulated other comprehensive loss	<u>\$ (55)</u>	<u>\$ 1</u>	<u>\$ (11)</u>	<u>\$ (65)</u>
December 31, 2001				
Unrealized gains on securities	\$ 7	\$ (1)	\$ --	\$ 6
Cash flow hedges	--	(16)	5	(11)
Minimum pension liability	(13)	(37)	--	(50)
Accumulated other comprehensive loss	<u>\$ (6)</u>	<u>\$ (54)</u>	<u>\$ 5</u>	<u>\$ (55)</u>

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

	<b><u>Pretax Amount</u></b>	<b><u>Tax (Expense) Benefit</u></b> (\$ in millions)	<b><u>Net-of-Tax Amount</u></b>
<b>Year ended Dec. 31, 2002</b>			
Net gain (loss) arising during the year:			
Cash flow hedges	\$ 58	\$ (23)	\$ 35
Reclassification adjustments for gains included in net income	<u>(10)</u>	<u>4</u>	<u>(6)</u>
Subtotal	48	(19)	29
Reclassification adjustments for realized gains on securities included in net income	(9)	4	(5)
Minimum pension liability	<u>(34)</u>	<u>--</u>	<u>(34)</u>
Other comprehensive income (loss)	\$ <u>5</u>	\$ <u>(15)</u>	\$ <u>(10)</u>
<b>Year ended Dec. 31, 2001</b>			
Net gain (loss) arising during the year:			
Cash flow hedges	\$ (27)	\$ 11	\$ (16)
Reclassification adjustments for gains included in net income	<u>8</u>	<u>(3)</u>	<u>5</u>
Subtotal	(19)	8	(11)
Unrealized gains (losses) on securities	(1)	--	(1)
Minimum pension liability	<u>(35)</u>	<u>(2)</u>	<u>(37)</u>
Other comprehensive income (loss)	\$ <u>(55)</u>	\$ <u>6</u>	\$ <u>(49)</u>
<b>Year ended Dec. 31, 2000</b>			
Net gain (loss) arising during the year:			
Unrealized gains (losses) on securities	\$ <u>7</u>	\$ <u>(2)</u>	\$ <u>5</u>
Other comprehensive income (loss)	\$ <u>7</u>	\$ <u>(2)</u>	\$ <u>5</u>

In 2002 and 2001, Conrail recorded a \$59 million and a \$70 million loss, respectively, in other comprehensive income related to an increase in its minimum pension liability. NS' "Other comprehensive loss" includes \$34 million for 2002 and \$41 million for 2001, arising from the Conrail adjustments.

#### Undistributed Earnings of Equity Investees

"Retained income" includes undistributed earnings of equity investees, principally attributable to NS' equity in the earnings of Conrail, of \$375 million at Dec. 31, 2002; \$355 million at Dec. 31, 2001; and \$351 million at Dec. 31, 2000.

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#### 14. Earnings Per Share

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

2002

2001

2000

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

Income available to common stockholders for basic and diluted computations	\$ 460	\$ 375	\$ 172
Basic earnings per share:			
Weighted-average shares outstanding	388	385	383
Basic earnings per share	\$ 1.18	\$ 0.97	\$ 0.45
Diluted earnings per share:			
Weighted-average shares outstanding per above	388	385	383
Dilutive effect of outstanding options, PSUs and SARs (as determined by the application of the treasury stock method)	2	1	--
Adjusted weighted-average shares outstanding	390	386	383
Diluted earnings per share	\$ 1.18	\$ 0.97	\$ 0.45

These calculations exclude options for which the exercise price exceeded the average market price of Common Stock as follows: 24 million in 2002, 21 million in 2001 and 26 million in 2000.

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

## 15. Fair Values of Financial Instruments

The fair values of "Cash and cash equivalents," "Short-term investments," "Accounts receivable" and "Accounts payable" approximate carrying values because of the short maturity of these financial instruments. The fair value of corporate-owned life insurance approximates carrying value. The carrying amounts and estimated fair values for the remaining financial instruments, excluding derivatives (see Note 16) and investments accounted for under the equity method in accordance with APB Opinion No. 18, consisted of the following at Dec. 31:

	2002		2001	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
		(\$ in millions)		
Investments	\$ 30	\$ 39	\$ 44	\$ 51
Notes receivable	93	104	93	98
Long-term debt	(7,364)	(8,412)	(7,632)	(8,067)

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 notes receivable are based on future discounted cash flows. The fair values of debt were estimated based on quoted market prices or discounted cash flows using current interest rates for debt with similar terms, company rating and remaining maturity.

Carrying amounts of marketable securities reflect unrealized holding gains of \$1 million on Dec. 31, 2002, and \$10 million on Dec. 31, 2001. Sales of "available-for-sale" securities were immaterial for the years ended Dec. 31, 2002, 2001 and 2000.

## 16. Derivative Financial Instruments

On Jan. 1, 2001, NS adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), as amended by Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" (SFAS 138). The Statements establish accounting and reporting standards for derivative instruments and hedging activities, requiring that all derivatives be recognized in the financial statements as either assets or liabilities and that they be measured at fair value. Changes in fair value are recorded as adjustments to the assets or liabilities being hedged in "Other comprehensive income," or in current earnings, depending on whether the derivative is designated and qualifies for hedge accounting, the type of hedge transaction represented and the effectiveness of the hedge.

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

### Diesel Fuel Hedging

In the second quarter of 2001, NS began a program to hedge a portion of its diesel fuel consumption. The intent of the program is to assist in the management of NS' aggregate risk exposure to fuel price fluctuations, which can significantly affect NS' operating margins and profitability. In order to minimize this risk, NS instituted a continuous hedging strategy for a portion of its estimated future fuel needs by entering into a series of swaps in order to lock in the purchase prices of some of its diesel fuel. Management has designated these derivative instruments as cash-flow hedges of the exposure to variability in expected future cash flows attributable to fluctuations in diesel fuel prices.

Following is a summary of NS' diesel fuel swaps:

	<u>2002</u>	<u>2001</u>
Number of swaps entered into during the year	288	222
Approximate number of gallons hedged (millions)	393	370
Approximate average price per gallon of Nymex No. 2 heating oil	\$0.66	\$0.68
	<u>2003</u>	<u>2004</u>
Percent of estimated future diesel fuel consumption covered as of Dec. 31, 2002	62%	22%
		--

Hedges are placed each month by competitive bid among selected counterparties. The goal of this hedging strategy is to average fuel costs over an extended period of time while minimizing the incremental cost of hedging. The program provides that NS will not enter into any fuel hedges with a duration of more than 36 months, and that no more than 80% of NS' average monthly fuel consumption will be hedged for each month within any 36-month period. Diesel fuel costs represented 7%, 8% and 9% of NS' operating expenses for the years ended Dec. 31, 2002, 2001 and 2000, respectively.





In 2001, NS also purchased eight monthly call options at a strike price of 84 cents per gallon of Nymex No. 2 heating oil. The cost of the monthly options, which expired serially through Dec. 31, 2001, was amortized as a component of diesel fuel expense. Because the price of diesel fuel did not reach the strike price at any time during the period the options were outstanding, NS did not record any benefit related to these transactions.

NS' fuel hedging activity resulted in a net decrease in 2002 diesel fuel expense of \$10 million and a net increase in 2001 diesel fuel expense of \$8 million. Ineffectiveness related to the use of diesel fuel hedges in 2002 and 2001 was less than \$1 million for each year.

### Interest Rate Hedging

NS manages its overall exposure to fluctuations in interest rates by issuing both fixed and floating-rate debt instruments, and by entering into interest rate hedging transactions. NS had \$220 million, or 3.2%, and \$251 million, or 3.5%, of its fixed rate debt portfolio hedged at Dec. 31, 2002, and Dec. 31, 2001, respectively, using interest rate swaps that qualify for and are designated as fair-value hedge transactions. These swaps have been effective in hedging the changes in fair value of the related debt arising from changes in interest rates and, accordingly, there has been no impact on earnings resulting from ineffectiveness associated with these derivative transactions.

### Fair Values

The fair values of NS' diesel fuel derivative instruments at Dec. 31, 2002 and 2001, were determined based upon current fair market values as quoted by third party dealers. Fair values of interest rate swaps were determined based upon the present value of expected future cash flows discounted at the appropriate implied spot rate from the spot rate yield curve. Fair value adjustments are noncash transactions and, accordingly, are excluded from the Consolidated Statement of Cash Flows. "Accumulated other comprehensive loss," a component of "Stockholders' equity," included \$29 million (pretax) at Dec. 31, 2002, relating to an increase, and \$15 million (pretax) at Dec. 31, 2001, relating to a decrease in the fair value of derivative fuel hedging transactions that will terminate within 12 months.

The asset and liability positions of NS' outstanding derivative financial instruments were as follows:

	<b>December 31,</b>	
	<b>2002</b>	<b>2001</b>
	<i>(\$ in millions)</i>	
<i>Interest rate hedges:</i>		
Gross fair market asset position	\$ 24	\$ 12
Gross fair market (liability) position	--	--
<i>Fuel hedges:</i>		
Gross fair market asset position	29	--
Gross fair market (liability) position	--	(19)
Total net asset (liability) position	\$ <u>53</u>	\$ <u>(7)</u>

### 17. 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. Results in 2001 include an additional after-tax gain of \$13 million, or 3 cents per share, that resulted from the expiration of certain indemnities contained in the sales agreement.

## **18. Commitments and Contingencies**

### **Lawsuits**

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

Presently, there are two matters, one involving labor arbitration and other claims for "New York Dock" and other income protection benefits and the other involving contractual obligations of a fiber optic codeveloper, Williams Communications, LLC ("Williams Communications"), where the aggregated range of loss could be from zero to \$75 million. Management believes that NS will prevail in both these matters. On January 29, 2003, the United States District Court for the Northern District of Georgia entered an order requiring Williams Communications to pay T-Cubed approximately \$36 million, plus prejudgment interest at a rate of 9% per annum, in connection with its contractual obligations to T-Cubed. Williams Communications may elect to appeal. The ability to collect and retain the \$36 million receivable due from Williams Communications may be limited because of its financial condition. The shortfall, if any, cannot now be determined. Its parent, Williams Communications Group, Inc., filed in April 2002 a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code, and emerged from bankruptcy in October 2002. Williams Communications was not included in the bankruptcy petition. Unfavorable outcomes in either of these matters could result in accruals that could be significant to results of operations in a particular year or quarter.

### **Casualty Claims**

NS is generally self-insured for casualty claims. Claims in excess of self-insurance levels are insured up to excess coverage limits. The casualty claims liability is determined actuarially, based upon claims filed and an estimate of claims incurred but not yet reported. While the ultimate amount of claims incurred is dependent on future developments, in management's opinion, the recorded liability is adequate to cover the future payments of claims. However, it is possible that the recorded liability may not be adequate to cover the future payment of claims. Adjustments to the recorded liability will be reflected in operating expenses in the periods in which such adjustments are known.

### **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.

NS' balance sheets included liabilities for environmental exposures in the amount of \$29 million at Dec. 31, 2002, and \$33 million at Dec. 31, 2001 (of which \$8 million was accounted for as a current liability in each year). At Dec. 31, 2002, the liability represented NS' estimate of the probable cleanup and remediation costs based on available information at 114 identified locations. On that date, 10 sites accounted for \$16 million of the liability, and no individual site was considered to be material. NS anticipates that much of this liability will be paid out over five years; however, some costs will be paid out over a longer period.

At some of the 114 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.

However, based on its assessment of the facts and circumstances now known, management believes that it has recorded the probable costs for dealing with those environmental matters of which 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.

### **Purchase Commitments**

NSR had outstanding purchase commitments of approximately \$164 million in connection with its 2003 capital program. In addition, Norfolk Southern has committed to purchase telecommunications services totaling \$38 million through 2006.

### **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.

### **Guarantees**

In a number of instances, NS and its subsidiaries have agreed to indemnify lenders for additional costs they may bear as a result of certain changes in laws or regulations applicable to their loans. Such changes may include impositions or modifications with respect to taxes, duties, reserves, liquidity, capital adequacy, special deposits, and similar requirements relating to extensions of credit by, deposits with, or the assets or liabilities of such lenders. Similar provisions exist in NS' accounts receivable sales program. The nature and timing of changes in laws or regulations applicable to NS' financings are inherently unpredictable, and therefore NS' exposure in connection with the foregoing indemnifications cannot be quantified. No liability has been recorded related to these indemnifications. In the case of one type of equipment financing, NSR's Japanese leveraged leases, NSR may terminate the leases and ancillary agreements if such a change-in-law indemnity is triggered. Such a termination would require NSR to make early termination payments that would not be expected to have a material adverse effect on NS' financial condition, results of operations or liquidity.



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

Norfolk Southern has indemnified the purchaser of North American Van Lines, Inc. (see Note 17) for tax liabilities related to tax years ended on or before the date of sale. The maximum exposure is not quantifiable; however, NS has recorded a reserve for its expected liability under this indemnification. It is unlikely that any additional payments would have a material adverse effect on NS' financial position, results of operations or liquidity.

NS has outstanding warranty liabilities primarily related to work performed at its locomotive facilities. NS has recorded a reserve of less than \$2 million as of Dec. 31, 2002 and 2001 for these warranties.

As of Dec. 31, 2002, certain Norfolk Southern subsidiaries are contingently liable as guarantors with respect to \$8 million of indebtedness of an entity in which it has an ownership interest, the Terminal Railroad Association of St. Louis, due in 2019. Six other railroads are also jointly and severally liable as guarantors for this indebtedness. No liability has been recorded related to this guaranty.

NS is liable for any shortfall in the then fair market value of certain leased locomotives and a specified residual value for the locomotives if the leases are not renewed, as discussed in Note 9.

## NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES

### QUARTERLY FINANCIAL DATA

(Unaudited)

	<u>March 31</u>	<u>Three Months Ended June 30</u>	<u>Sept. 30</u>	<u>Dec. 31</u>
	<i>(In millions of dollars, except per share amounts)</i>			
<b><u>2002</u></b>				
Railway operating revenues	\$ 1,498	\$ 1,593	\$ 1,598	\$ 1,581
Income from railway operations	237	322	311	288
Net income	86	119	126	129
Earnings per share - basic and diluted	\$ 0.22	\$ 0.31	\$ 0.32	\$ 0.33
<b><u>2001</u></b>				
Railway operating revenues	\$ 1,540	\$ 1,592	\$ 1,508	\$ 1,530
Income from railway operations	205	282	245	275
Net income	74*	107	79	115
Earnings per share - basic and diluted	\$ 0.19*	\$ 0.28	\$ 0.20	\$ 0.30

\* Includes a \$13 million, or 3 cents per share, after-tax gain related to the 1998 sale of NS' motor carrier subsidiary (see Note 17).

None.

### **PART III**

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

### **Item 10. Directors and Executive Officers of the Registrant .**

In accordance with General Instruction G(3), information called for by Part III is incorporated herein by reference from the information appearing under the caption "Election of Directors," including the subcaptions "Nominees for terms expiring in 2006," "Continuing Directors – those whose terms expire in 2004" and "Continuing Directors – those whose terms expire in 2005" in Norfolk Southern's definitive Proxy Statement, for the Norfolk Southern Annual Meeting of Stockholders to be held on May 8, 2003, 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 under "Executive Officers of the Registrant."

### **Item 11. Executive Compensation.**

In accordance with General Instruction G(3), information called for by Part III is incorporated herein by reference from the information appearing under the subcaption "Compensation" under the caption "Board of Directors" for directors and under the caption "Executive Compensation" for executives, including the information appearing in the "Summary Compensation Table" and under the subcaptions "Long-Term Incentive Plan" (including the three tables therein), "Pension Plans" (including the table therein), and "Change in Control Arrangements" in Norfolk Southern's definitive Proxy Statement, for the Norfolk Southern Annual Meeting of Stockholders to be held on May 8, 2003, which definitive Proxy Statement will be filed electronically with the Commission pursuant to Regulation 14A.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management .**

In accordance with General Instruction G(3), information called for by Part III is incorporated herein by reference from the information appearing under the caption "Beneficial Ownership of Stock" in Norfolk Southern's definitive Proxy Statement, for the Norfolk Southern Annual Meeting of Stockholders to be held on May 8, 2003, which definitive Proxy Statement will be filed electronically with the Commission pursuant to Regulation 14A.

### **Equity Compensation Plan Information**

<u>Plan category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights (b)</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)</u>
Equity compensation plans approved by security holders (1)	31,786,844	\$23.57 (4)	23,645,146 (6)
Equity compensation plans not approved by security holders (2)	<u>8,431,800 (3)</u>	\$23.12 (3) (5)	<u>3,113,200 (7)</u>
Total	<u>40,218,644</u>	\$23.47	<u>26,758,346</u>

(1) The Long-Term Incentive Plan, excluding five million shares for broad-based issuance to non-officers.

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

(3) Includes options and performance share units granted under the Long-Term Incentive Plan on five million shares for non-officers and options granted under the Thoroughbred Stock Option Plan.

(4) Calculated without regard to 2,315,000 outstanding performance share units.

(5) Calculated without regard to 245,000 outstanding performance share units.

(6) Of the shares remaining available for grant under plans approved by stockholders, 5,185,000 are available for grant as restricted shares or performance shares under the Long-Term Incentive Plan.

(7) Of the shares remaining available for grant under plans not approved by stockholders, 45,000 are available for grant as restricted stock under the Directors' Restricted Stock Plan and 500,000 are available for grant as stock under the Safety Incentive Plan.

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

Established on June 28, 1983, and approved by the stockholders at their Annual Meetings on May 10, 1984, on May 11, 1995, and most recently on May 10, 2001, LTIP was adopted to promote the success of Norfolk Southern by providing an opportunity for officers and other key employees to acquire a proprietary interest in the Corporation. On January 23, 2001, the Board of Directors approved the issuance of an additional 5,000,000 shares of authorized but unissued Common Stock under LTIP to participants who are not officers of Norfolk Southern. The issuance of these shares was broadly-based, and stockholder approval of these shares was not required. Accordingly, this portion of LTIP is included in the number of securities available for future issuance for plans not approved by stockholders. The Board also adopted an amended plan effective January 23, 2001, subject to stockholder approval, which included the reservation for issuance of an additional 30,000,000 shares of authorized but unissued Norfolk Southern Common Stock, with no more than 6 million of such additional shares to be awarded as restricted shares or performance shares (including performance share units earned as performance shares). This amended plan was approved by stockholders on May 10, 2001, resulting in an aggregate of 74,878,604 shares of Common Stock authorized for issuance under LTIP.

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





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

Performance share units are performance-based awards which are earned upon achievement of goals the Committee establishes at the time of the grant for three equally weighted performance criteria approved by the stockholders -- return on average invested capital, operating ratio, and total return to NS stockholders as compared with the total return on all stocks comprising the S&P 500 Composite Stock Price Index -- and the units may be payable as shares of Norfolk Southern Common Stock or in cash.

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

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

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

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

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

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

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

The restriction period begins on the date of the grant and ends on the earlier of six months after the eligible director ceases to be a director by reason of disability, retirement or death. Directors will forfeit the right to receive the restricted shares if they cease to serve as a director of Norfolk Southern for reasons other than their disability, retirement or death.

The Norfolk Southern Corporation Safety Incentive Plan ("SIP") is designed to provide an additional incentive for eligible agreement employees to work safely. Under the plan, eligible employees who work without injury during the year receive a safety award payable in shares of Norfolk Southern Common Stock. A SIP award is between five and eight shares of stock.

SIP is broadly-based and has not been approved by stockholders. Shares of Common Stock issued under its terms are not registered under the Securities Act of 1933, pursuant to a no-action letter issued by the Securities and Exchange Commission on November 20, 1992. Accordingly, SIP does not define a specific amount of authorized shares for issuance under the plan. The Board has approved using up to 500,000 authorized but unissued shares for awards under the plan, and the number of shares remaining under this authorization are included in the number of securities available for future issuance for plans not approved by shareholders.

### **Item 13. Certain Relationships and Related Transactions.**

In accordance with General Instruction G(3), information called for by Part III is incorporated herein by reference from the information appearing under the caption "Certain Relationships and Related Transactions" in Norfolk Southern's definitive Proxy Statement, for the Norfolk Southern Annual Meeting of Stockholders to be held on May 8, 2003, which definitive Proxy Statement will be filed electronically with the Commission pursuant to Regulation 14A.

### **Item 14. Controls and Procedures.**

#### **(a) Evaluation of Disclosure Controls and Procedures.**

NS' Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of NS' disclosure controls and procedures (as such term is defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, NS' disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to NS (including its consolidated subsidiaries) required to be included in NS' periodic filings under the Exchange Act.

#### **(b) Changes in Internal Controls.**

Since the Evaluation Date, there have not been any significant changes in NS' internal controls or in other factors that could significantly affect such controls.

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## **PART IV**

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

### **Item 15. Exhibits, Financial Statement Schedule and Reports on Form 8-K.**

		Page
(A)	The following documents are filed as part of this report:	
1.	<u>Index to Consolidated Financial Statements</u>	
	Independent Auditors' Report	K38
	Consolidated Statements of Income, Years ended Dec. 31, 2002, 2001 and 2000	K39
	Consolidated Balance Sheets As of Dec. 31, 2002 and 2001	K40
	Consolidated Statements of Cash Flows, Years ended Dec. 31, 2002, 2001 and 2000	K41
	Consolidated Statements of Changes in Stockholders' Equity, Years ended Dec. 31, 2002, 2001 and 2000	K42
	Notes to Consolidated Financial Statements	K43
2.	Financial Statement Schedule:	
	The following consolidated financial statement schedule should be read in connection with the consolidated financial statements:	
	<u>Index to Consolidated Financial Statement Schedule</u>	Page
	Schedule II - Valuation and Qualifying Accounts	K80
	Schedules other than the one listed above are omitted either because they are not required or are inapplicable, or because the information is included in the consolidated financial statements or related notes.	
3.	Exhibits	
<u>Exhibit Number</u>	Description	
3	Articles of Incorporation and Bylaws -	
3(i)	The Restated Articles of Incorporation of Norfolk Southern Corporation are incorporated by reference to Exhibit 3(i) to Norfolk Southern Corporation's 10-K filed on March 5, 2001.	
3(ii)	The Bylaws of Norfolk Southern Corporation, as amended December 1, 2002, are filed herewith.	

## Instruments Defining the Rights of Security Holders, Including Indentures:

- (a) Indenture, dated as of January 15, 1991, from Norfolk Southern Corporation to First Trust of New York, National Association, as Trustee, related to the issuance of notes in the principal amount of \$750 million, incorporated by reference to Exhibit 4.1 to Norfolk Southern Corporation's Registration Statement on Form S-3 (No. 33-38595).
- (b) First Supplemental Indenture, dated May 19, 1997, between Norfolk Southern Corporation and First Trust of New York, National Association, as Trustee, related to the issuance of notes in the principal amount of \$4.3 billion, is incorporated herein by reference to Exhibit 1.1(d) to Norfolk Southern Corporation's Form 8-K filed on May 21, 1997.
- (c) Second Supplemental Indenture, dated April 26, 1999, between Norfolk Southern Corporation and U.S. Bank Trust National Association, as Trustee, related to the issuance of notes in the principal amount of \$400 million, is incorporated herein by reference to Exhibit 1.1(c) to Norfolk Southern Corporation's Form 8-K filed on April 30, 1999.
- (d) Third Supplemental Indenture, dated May 23, 2000, between Norfolk Southern Corporation and U.S. Bank Trust National Association, as Trustee, related to the issuance of notes in the principal amount of \$600 million, is incorporated herein by reference to Exhibit 4.1 to Norfolk Southern Corporation's Form 8-K filed on May 25, 2000.
- (e) Fourth Supplemental Indenture, dated as of February 6, 2001, between Norfolk Southern Corporation and U.S. Bank Trust National Association, as Trustee, related to the issuance of notes in the principal amount of \$1 billion, is incorporated herein by reference to Exhibit 4.1 to Norfolk Southern Corporation's Form 8-K filed on February 7, 2001.
- (f) Fifth Supplemental Indenture, dated as of July 5, 2001, between Norfolk Southern Corporation and U.S. Bank Trust National Association, as Trustee, related to the issuance of notes in the principal amount of \$250 million, is incorporated herein by reference to Exhibit 4.1 to Norfolk Southern Corporation's Form 8-K filed on July 5, 2001.
- (g) Rights Agreement, dated as of September 26, 2000, between Norfolk Southern Corporation and The Bank of New York, with exhibits thereto, is incorporated herein  
  
by reference to Exhibit 4 to Norfolk Southern Corporation's Form 8-K filed on  
  
September 26, 2000.
- (h) Sixth Supplemental Indenture, dated as of April 30, 2002, between Norfolk Southern Corporation and U.S. Bank Trust National Association, as Trustee, relating to the issuance of notes in the principal amount of \$200 million, is incorporated herein by reference to Exhibit 4.1 to Norfolk Southern Corporation's Form 8-K filed on May 1, 2002.
- (i) Seventh Supplemental Indenture, dated as of April 30, 2002, between Norfolk Southern Corporation and U.S. Bank Trust National Association, as Trustee, relating to the issuance of notes in the principal amount of \$100 million, is incorporated herein by reference to Exhibit 4.1 to Norfolk Southern Corporation's Form 8-K filed on May 1, 2002.
- (j) Amendment to Rights Agreement, dated as of November 26, 2002, between Norfolk Southern Corporation and The Bank of New York, with exhibits thereto, is incorporated by reference to Exhibit 4 to Norfolk Southern Corporation's Form 8-K filed on November 26, 2002.

In accordance with Item 601(b)(4)(iii) of Regulation S-K, copies of other instruments of Norfolk Southern Corporation and its subsidiaries with respect to the rights of holders of long-term debt are not filed herewith, or incorporated by reference, but will be furnished to the Commission upon request.

10 Material Contracts -

- (a) The Transaction Agreement, dated as of June 10, 1997, by and among CSX, CSX Transportation, Inc., Registrant, Norfolk Southern Railway Company, Conrail Inc., Consolidated Rail Corporation and CRR Holdings LLC, with certain schedules thereto, previously filed, is refiled herewith pursuant to Item 10(d) of Regulation S-K.
- (b) Amendment No. 1, dated as of August 22, 1998, to the Transaction Agreement, dated as of June 10, 1997, by and among CSX Corporation, CSX Transportation, Inc., Norfolk Southern Corporation, Norfolk Southern Railway Company, Conrail Inc., Consolidated Rail Corporation and CRR Holdings LLC is incorporated herein by reference from Exhibit 10.1 to Norfolk Southern Corporation's Form 10-Q filed on August 11, 1999.
- (c) Amendment No. 2, dated as of June 1, 1999, to the Transaction Agreement, dated June 10, 1997, by and among CSX Corporation, CSX Transportation, Inc., Norfolk Southern Corporation, Norfolk Southern Railway Company, Conrail Inc., Consolidated Rail Corporation and CRR Holdings LLC is incorporated herein by reference from Exhibit 10.2 to Norfolk Southern Corporation's Form 10-Q filed on August 11, 1999.
- (d) 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 filed on August 11, 1999.
- (e) Amendment No. 1, dated as of September 29, 2001, to 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(e) to Norfolk Southern Corporation's Form 10-K filed on February 21, 2002.
- (f) Shared Assets Area Operating Agreement for North Jersey, dated as of June 1, 1999, by and among Consolidated Rail Corporation, CSX Transportation, Inc. and Norfolk Southern Railway Company, with exhibit thereto, is incorporated herein by reference from Exhibit 10.4 to Norfolk Southern Corporation's Form 10-Q filed on August 11, 1999.
- (g) Shared Assets Area Operating Agreement for South Jersey/ Philadelphia, dated as of June 1, 1999, by and among Consolidated Rail Corporation, CSX Transportation, Inc. and Norfolk Southern Railway Company, with exhibit thereto, is incorporated herein by reference from Exhibit 10.5 to Norfolk Southern Corporation's Form 10-Q filed on August 11, 1999.
- (h) Shared Assets Area Operating Agreement for Detroit, dated as of June 1, 1999, by and among Consolidated Rail Corporation, CSX Transportation, Inc. and Norfolk Southern Railway Company, with exhibit thereto, is incorporated herein by reference from Exhibit 10.6 to Norfolk Southern Corporation's Form 10-Q filed on August 11, 1999.
- (i) Amendment No. 1, dated as of June 1, 2000, to the Shared Assets Areas Operating Agreement for North Jersey, South Jersey/Philadelphia and Detroit, dated as of June 1, 1999, by and among Consolidated Rail Corporation, CSX Transportation, Inc. and Norfolk Southern Railway Company, with exhibit thereto, is incorporated herein by reference to Exhibit 10(h) to Norfolk Southern Corporation's 10-K filed on March 5, 2001.

- (j) Amendment No. 2, dated as January 1, 2001, to the Shared Assets Area Operating Agreements for North Jersey, South Jersey/Philadelphia and Detroit, dated as of June 1, 1999, by and among Consolidated Rail Corporation, CSX Transportation, Inc. and Norfolk Southern Railway Company, with exhibit thereto, is incorporated herein by reference to Exhibit 10(j) to Norfolk Southern Corporation's Form 10-K filed on February 21, 2002.
- (k) Amendment No. 3, dated as of June 1, 2001, and executed in May of 2002, to the Shared Assets Area Operating Agreement for North Jersey, South Jersey/Philadelphia and Detroit, dated as of June 1, 1999, by and among Consolidated Rail Corporation, CSX Transportation, Inc. and Norfolk Southern Railway Company, with exhibit thereto, is filed herewith.
- (l) Monongahela Usage Agreement, dated as of June 1, 1999, by and among CSX Transportation, Inc., Norfolk Southern Railway Company, Pennsylvania Lines LLC and New York Central Lines LLC, with exhibit thereto, is incorporated herein by reference from Exhibit 10.7 to Norfolk Southern Corporation's Form 10-Q filed on August 11, 1999.
- (m) The Agreement, entered into as of July 27, 1999, between North Carolina Railroad Company and Norfolk Southern Railway Company, is incorporated herein by reference from Exhibit 10(i) to Norfolk Southern Corporation's Form 10-K filed on March 6, 2000.
- (n) The Supplementary Agreement, entered into as of January 1, 1987, between the Trustees of the Cincinnati Southern Railway and The Cincinnati, New Orleans and Texas Pacific Railway Company (the latter a wholly owned subsidiary of Norfolk Southern Railway Company) - extending and amending a Lease, dated as of October 11, 1881 - is incorporated by reference to Exhibit 10(k) to Norfolk Southern Corporation's Form 10-K filed on March 5, 2001.
- (o) The Norfolk Southern Corporation Executive Management Incentive Plan, effective January 25, 2000, is incorporated by reference herein from Exhibit 10(1) to Norfolk Southern Corporation's Form 10-K filed on March 6, 2000.
- (p) The Norfolk Southern Corporation Long-Term Incentive Plan, as amended effective January 28, 2003, is filed herewith.
- (q) The Norfolk Southern Corporation Officers' Deferred Compensation Plan, as amended effective September 26, 2000, is incorporated herein by reference to Exhibit 10(n) to Norfolk Southern Corporation's Form 10-K filed on March 5, 2001.
- (r) The Norfolk Southern Corporation Executives' Deferred Compensation Plan, as amended effective January 20, 2001, is incorporated herein by reference to Exhibit 10(o) to Norfolk Southern Corporation's Form 10-K filed on March 5, 2001.
- (s) The Directors' Deferred Fee Plan of Norfolk Southern Corporation, as amended effective January 23, 2001, is incorporated herein by reference to Exhibit 10(p) to Norfolk Southern Corporation's Form 10-K filed on March 5, 2001.
- (t) The Norfolk Southern Corporation Directors' Restricted Stock Plan, effective January 1, 1994, as restated November 24, 1998, is incorporated herein by reference from Exhibit 10(h) to Norfolk Southern Corporation's Form 10-K filed on March 24, 1999.

- (u) Form of Severance Agreement, dated as of June 1, 1996, between Norfolk Southern Corporation and certain executive officers (including those defined as "named executive officers" and identified in the Corporation's Proxy Statement for the 1997 through 2001 Annual Meetings of Stockholders) is incorporated herein by reference from Exhibit 10(t) to Norfolk Southern Corporation's Form 10-K filed on February 21, 2002.
  - (v) Norfolk Southern Corporation Supplemental (formerly, Excess) Benefit Plan, effective as of August 22, 1999, is incorporated herein by reference from Exhibit 10(r) to Norfolk Southern Corporation's Form 10-K filed on March 6, 2000.
  - (w) The Norfolk Southern Corporation Directors' Charitable Award Program, effective February 1, 1996, is incorporated herein by reference from Exhibit 10(v) to Norfolk Southern Corporation's Form 10-K filed on February 21, 2002.
  - (x) The Norfolk Southern Corporation Outside Directors' Deferred Stock Unit Program, as amended effective January 28, 2003, is filed herewith.
  - (y) Agreement, dated as of October 1, 2001, providing enhanced pension benefits to three officers in exchange for their continued employment with Norfolk Southern Corporation for two years, is incorporated herein by reference to Exhibit 10(w) to Norfolk Southern Corporation's Form 10-Q filed on November 9, 2001. The agreement was entered into with L. Ike Prillaman, Vice Chairman and Chief Marketing Officer; Stephen C. Tobias, Vice Chairman and Chief Operating Officer; and Henry C. Wolf, Vice Chairman and Chief Financial Officer.
  - (z) The Norfolk Southern Corporation Thoroughbred Stock Option Plan, as amended effective January 28, 2003, is filed herewith.
  - (aa) The Norfolk Southern Safety Incentive Plan for Operating Agreement Employees and For Non-Operating Agreement Employees, as amended effective October 1, 2002, is filed herewith.
  - (bb) The Norfolk Southern Corporation Restricted Stock Unit Plan, effective January 28, 2003, is filed herewith.
- 12 Statement re: Computation of Ratio of Earnings to Fixed Charges.
- 21 Subsidiaries of the Registrant.
- 23 Consents of Experts -
- (a) Consent of KPMG LLP.
  - (b) Consent of KPMG LLP and Ernst & Young LLP.
- 99 (a) Certifications of the CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (b) Conrail Inc. 2002 Annual Report to Stockholders.
- (B) Reports on Form 8-K.
- A report on Form 8-K was filed November 26, 2002, advising of the amendment of the Rights Agreement to terminate it effective November 26, 2002, and attaching as an exhibit the related press release.

A report on Form 8-K was filed November 12, 2002, advising that the Corporation had decreased its expected long-term rate of return assumption on pension plan assets for purposes of pension accounting, and attaching as an exhibit the related press release.

(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 references.

(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 Henry D. Light, 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 Henry D. Light, 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 21st day of February, 2003.

#### **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 21st day of February, 2003, by the following persons on behalf of Norfolk Southern Corporation and in the capacities indicated.

**Signature**

**Title**

/s/ David R. Goode

Chairman, President and Chief Executive Officer and  
Director



(David R. Goode)

(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)

Senior Vice President and Controller  
(Principal Accounting Officer)

/s/ Gerald L. Baliles  
(Gerald L. Baliles)

Director

/s/ Gene R. Carter  
(Gene R. Carter)

Director

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

Director

/s/ Landon Hilliard  
(Landon Hilliard)

Director

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

Director

\_\_\_\_\_  
(Jane Margaret O'Brien)

Director

/s/ Harold W. Pote  
(Harold W. Pote)

Director

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

Director

I, David R. Goode, certify that:

1. I have reviewed this annual report on Form 10-K of Norfolk Southern Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 21, 2003

/s/ David R. Goode

David R. Goode

Chairman, President and Chief Executive Officer

I, Henry C. Wolf, certify that:

1. I have reviewed this annual report on Form 10-K of Norfolk Southern Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 21, 2003

/s/ Henry C. Wolf

Henry C. Wolf

Vice Chairman and Chief Financial Officer

**Norfolk Southern Corporation and Subsidiaries**  
**Valuation and Qualifying Accounts**  
**Years Ended December 31, 2000, 2001 and 2002**  
(In millions of dollars)

	<b><u>Beginning</u></b> <b><u>Balance</u></b>	<b>Additions charged to:</b>			<b><u>Deductions</u></b>	<b><u>Ending</u></b> <b><u>Balance</u></b>
		<b><u>Expenses</u></b>	<b><u>Other</u></b> <b><u>Accounts</u></b>			
<b><i>Year ended</i></b> <b><i>December 31,</i></b> <b><i>2000</i></b>						
Valuation allowance (included net in deferred tax liability) for deferred tax assets	\$ 9	\$ 3	\$ --	\$ --	\$	12
Casualty and other claims included in other liabilities	\$ 275	\$ 117	\$ 8 (1)	\$ 138 (2)	\$	262
Current portion of casualty and other claims included in accounts payable	\$ 181	\$ 19	\$ 221 (1)	\$ 198 (3)	\$	223
<b><i>Year ended</i></b> <b><i>December 31,</i></b> <b><i>2001</i></b>						
Valuation allowance (included net in deferred tax liability) for deferred tax assets	\$ 12	\$ 6	\$ --	\$ --	\$	18
Casualty and other claims included in other liabilities	\$ 262	\$ 110	\$ 20 (1)	\$ 127 (2)	\$	265
Current portion of casualty and other claims included in accounts payable	\$ 223	\$ 22	\$ 142 (1)	\$ 195 (3)	\$	192
<b><i>Year ended</i></b> <b><i>December 31,</i></b> <b><i>2002</i></b>						
Valuation allowance (included net in deferred tax liability) for deferred tax assets	\$ 18	\$ 6	\$ --	\$ --	\$	24
Casualty and other claims included in other liabilities	\$ 265	\$ 119	\$ 9 (1)	\$ 139 (2)	\$	254
Current portion of casualty and other claims included in accounts payable	\$ 192	\$ 32	\$ 124 (1)	\$ 141 (3)	\$	207

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

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

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



## EXHIBIT INDEX

### NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES (NS)

<b>Electronic Submission Exhibit Number</b>	<b>Description</b>
3(ii)	The Bylaws of Norfolk Southern Corporation, as amended December 1, 2002.
10(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.
10(k)	Amendment No. 3, dated as of June 1, 2001, and executed in May of 2002, to the Shared Assets Area Operating Agreement for North Jersey, South Jersey/Philadelphia and Detroit, dated as of June 1, 1999, by and among Consolidated Rail Corporation, CSX Transportation, Inc. and Norfolk Southern Railway Company, with exhibit thereto.
10(p)	The Norfolk Southern Corporation Long-Term Incentive Plan, as amended effective January 28, 2003.
10(x)	The Norfolk Southern Corporation Outside Directors' Deferred Stock Unit Program, as amended effective January 28, 2003.
10(z)	The Norfolk Southern Corporation Thoroughbred Stock Option Plan, as amended effective January 28, 2003.
10(aa)	The Norfolk Southern Safety Incentive Plan for Operating Agreement Employees and For Non-Operating Agreement Employees, as amended effective October 1, 2002.
10(bb)	The Norfolk Southern Corporation Restricted Stock Unit Plan, effective January 28, 2003.
12	Statement re: Computation of Ratio of Earnings to Fixed Charges.
21	Subsidiaries of Norfolk Southern Corporation.
23	Consents of Experts -  (a) Consent of KPMG LLP.  (b) Consent of KPMG LLP and Ernst & Young LLP.
99	(a) Certification of the CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted  pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (b) Conrail Inc. 2002 Annual Report to Stockholders.

Exhibits 23(a), 23(b) and 99(a) are included; remaining exhibits are not included in copies assembled for public dissemination. These exhibits are included in the 2002 Form 10-K posted on our website at [www.nscorp.com](http://www.nscorp.com) under "SEC documents" or you may request copies by writing to:

Office of Corporate Secretary

Norfolk Southern Corporation

**Three Commercial Place**  
**Norfolk, Virginia 23510-9219**

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NORFOLK SOUTHERN CORPORATION

Outside Directors' Deferred Stock Unit Program

- I.      Effective Date:    May 9, 1996 (effective at the Organization Meeting of the Board of Directors), amended to and including 1-28-03.
- II.     Purpose:            To align further each outside director's ownership interest in Norfolk Southern Corporation ("Corporation") with that of stockholders generally.
- III.    Eligibility:        Each outside director of the Corporation serving on the Effective Date and any such outside director whose term as director begins after the Effective Date ("Eligible Director"). For purposes of this Program, an "outside director" is a director who is not an officer of the Corporation or any of its subsidiaries.
- IV.     Benefits:         (1) Each Eligible Director shall be granted from time to time such deferred stock units (each such stock unit representing at the time of grant the value of one share of Norfolk Southern Corporation Common Stock) ("Stock Units"), as the Board of Directors may authorize. Each Eligible Director's Stock Units will be recorded in an individual memorandum account ("Account") maintained by the Corporate Secretary or designated agent. On each dividend payment date, an amount equivalent to the dividend paid on the Common Stock ("Dividend Equivalent") will be credited for each Stock Unit and each fraction thereof in the Account and converted into additional Stock Units and fractions thereof (rounded to four decimal places) based on the Fair Market Value of the Common Stock on the dividend payment date.

For purposes of this Program, "Fair Market Value" on a particular date is the mean of the high and low prices at which the Common Stock is traded on such date as reported in the Composite Transactions for such date by Bloomberg L.P., or its successor, on its internet-based service, or, if Common Stock was not traded on such date, on the next preceding day on which Common Stock was traded.

(2) Each outside director of the Corporation serving on June 1, 1996, also shall have credited to the Account the number of Stock Units, including fractions thereof to which such director is entitled under the Norfolk Southern Corporation Directors' Pension Plan. Such Stock Units will be accounted for separately from any

Stock Units credited under paragraph (1) above but will be treated the same in all other respects.

(3) Each Eligible Director may make an election at any time up to one year prior to leaving the Board of Directors to receive in cash any Stock Units in the Account either in a lump sum or in 10 annual installments upon leaving the Board of Directors for any reason. The most current election on file with the Corporate Secretary shall become irrevocable one year prior to the eligible Director leaving the Board of Directors. Failure to make a valid election will result in the Account being distributed in a lump sum. Separate elections will be made for Stock Units credited under paragraphs (1) and (2) above. A lump-sum payment will be valued based on the Fair Market Value of Common Stock on the last market day of the month following a director's termination of service and will be paid to an Eligible Director or beneficiary as soon as practicable thereafter. The first distribution under an election to receive installment payments will be made in January following the year in which the Eligible Director terminates service; Stock Units at any time remaining in the Account will be credited with Dividend Equivalents until the final installment has been paid. Each annual distribution will be valued based on the Fair Market Value of the Common Stock on the third business day after the date in January that the Corporation first makes publicly available its most recent regular annual financial statements. The first such installment will be an amount equal to one tenth of the total value of the Stock Units in the Account at that time; the second installment, one ninth of the remaining total value; the third installment, one eighth; and so forth, until the Account is depleted with payment of the tenth installment.

(4) The Board of Directors may make such adjustments in the number of Stock Units as may be required by any change in the corporate structure or shares of the Corporation, including but not limited to, recapitalization, stock splits, stock dividends, combination or exchange of shares, mergers, consolidations, rights offerings, separations, reorganizations and liquidations.

V. Miscellaneous:

(1) Each Eligible Director may designate in writing the person or persons ("Beneficiary") who shall acquire the rights of the Eligible Director to the Account in the event of the Eligible Director's death before final distribution. In order to be effective, an Eligible

Director's designation of a Beneficiary must be on file with the Corporate Secretary before the Eligible Director's death. Any such designation may be revoked and a new designation substituted therefor by the Eligible Director at any time before death.

If the named Beneficiary does not survive the Eligible Director, or if there is no named Beneficiary, then the rights with respect to an Eligible Director's Account shall be acquired by the person or persons who shall acquire the Eligible Director's rights to the Account by bequest or inheritance in accordance with the applicable laws of descent and distribution.

(2) This Program may be amended or terminated by the Board of Directors of the Corporation at any time; however, no such amendment or termination shall deprive an Eligible Director of any Stock Units previously credited to his or her Account.

SAFETY INCENTIVE PLAN

FOR NON-OPERATING AGREEMENT EMPLOYEES

- A. INTRODUCTION - The Norfolk Southern Safety Incentive Plan for Non-Operating Agreement Employees ("SIP") is designed to provide an additional incentive to work safely through Safety Incentive Awards ("Awards") to eligible agreement employees who work without injury during the contest year.
- B. ELIGIBILITY AND COVERED EMPLOYMENT - An "eligible employee is an employee of Norfolk Southern Corporation or one of its rail subsidiaries or affiliates (the "Company") who works in a department or unit in Appendix A during a calendar year a sufficient number of hours in "covered employment" equal to that required to earn vacation. "Covered employment" is employment in a position covered by a collective bargaining agreement. Partially excepted positions classified as 3A or 3B are not considered covered employment. To qualify for an Award for a given year, an eligible employee must work in covered employment for more than half of that year in a single contest group and must have payroll activity of at least 960 hours during that year in that single contest group. "Payroll activity" includes pay for straight time, overtime, vacation, holiday, sick leave and any other hourly compensation made through the payroll process. The eligible groups are listed in Appendix A. The definition and scope of the term "eligible employee" and other terms herein, without limitation, are subject to change at any time, at the sole discretion of the Company.
- C. SAFETY INCENTIVE AWARDS -
1. The Company will award 5 shares of Norfolk Southern Corporation common stock (as may be adjusted as appropriate by the Company in the event of any recapitalization, stock split or other change affecting the capital structure of the Company) to each eligible employee who (i) is a qualifying member of a contest team listed in Groups 1, 2, 3 or 4 of Appendix A in the annual Norfolk Southern Safety Performance Contest for Non-Operating Agreement Employees which has no reportable injuries for the contest year and (ii) works in covered employment without injury during the contest year.
  2. The Company will award 6 shares of Norfolk Southern Corporation common stock (as may be adjusted as appropriate by the Company in the event of any recapitalization, stock split or other change affecting the capital structure of the Company) to each eligible employee who is a member of a winning contest team listed in Group 5 of Appendix A in the annual Norfolk Southern Safety Performance Contest for Non-Operating Agreement Employees and who works in covered employment without injury during the contest year. A winning contest team in Group 5 of Appendix A shall be that contest team which achieves the lowest FRA Reportable Injury Ratio of all contest teams in its group during the contest year (if there is only one team listed in Group 5, then that team shall compete with the Group 2 Terminals listed in Appendix A to the Norfolk Southern Safety Incentive Plan for Operating Agreement Employees, for purposes of this Award and the additional Award described in the second sentence following). In case of ties, duplicate Awards will be provided. The Company will also award an additional 2 shares of Norfolk Southern Corporation common stock (as may be adjusted as appropriate by the Company in the event of any recapitalization, stock split or other change affecting the capital structure of the Company) to each eligible employee who works in covered

employment without injury during the contest year and is a member of a winning contest team listed in Group 5 of Appendix A in the annual Norfolk Southern Safety Performance Contest for Non-Operating Agreement Employees which achieves a FRA Reportable Injury Ratio of zero.

- D. WORKING WITHOUT INJURY - In order to be considered as having worked in covered employment without injury during a contest year for purposes of SIP, an eligible employee must not be named as being injured in an FRA-reportable accident/injury report during that year. In the event that an eligible employee is named as being injured in any such report while employed in covered employment, he/she and, except as otherwise provided herein for winning contest teams in Group 5 of Appendix A, his/her contest team will not be eligible for an Award during the contest year. Failure by an eligible employee to make a proper report of an injury during covered employment will result in his/her being removed from consideration for an Award in the calendar year in which the unreported injury occurred, and, if it is a different year, in the year in which the Company learns of the failure to make a proper report.
- E. SIP ADMINISTRATION - The SIP will be administered by the Safety Department. Employee injury statistics for eligible employees will be maintained by the Safety Department.
- F. TERMINATION AND AMENDMENT - The Company has and reserves the right to terminate or amend SIP at any time and for any reason, in its sole discretion.

#### APPENDIX A

##### NORFOLK SOUTHERN SAFETY PERFORMANCE CONTEST GROUPS FOR NON-OPERATING AGREEMENT EMPLOYEES

Group 1 - IT, Law, Treasurer, Material Management and All Ancillary Groups

Group 2 - Accounting - Atlanta

Group 3 - Accounting - Roanoke

Group 4 - Marketing

Group 5 - East Carolina Business Unit

#### SAFETY INCENTIVE PLAN

##### FOR OPERATING AGREEMENT EMPLOYEES

- A. INTRODUCTION - The Norfolk Southern Safety Incentive Plan ("SIP") is designed to provide an additional incentive to work safely through Safety Incentive Awards ("Awards") to eligible agreement employees who work without injury during the contest period.
- B. ELIGIBILITY AND COVERED EMPLOYMENT - An "eligible employee" is an employee of Norfolk Southern Corporation or one of its rail

subsidiaries or affiliates (the "Company") who works in the Operations Division during a calendar year a sufficient number of hours in "covered employment" equal to that required to earn vacation. "Covered employment" is employment in a position covered by a collective bargaining agreement. To qualify for an Award for a given year, an eligible employee must work in covered employment for more than half of that year in a single contest group and must have payroll activity of at least 960 hours during that year in that single contest group.

"Payroll activity" includes pay for straighttime, overtime, vacation, holiday, sickleave and any other hourly compensation made through the payroll process. The eligible groups and competitive groupings are listed in the "Norfolk Southern Safety Performance Contest Groups," which is attached as Appendix A. The definition and scope of the term "eligible employee" and other terms herein, without limitation, are subject to change at any time, at the sole discretion of the Company.

- C. SAFETY INCENTIVE AWARDS - The Company will award 6 shares of Norfolk Southern Corporation common stock (as may be adjusted as appropriate by the Company in the event of any recapitalization, stock split or other change affecting the capital structure of the Company) to each eligible employee who is a member of a winning contest team in the annual Norfolk Southern Safety Performance Contest and who works in covered employment without injury during the contest year. A winning contest team shall be that contest team which achieves the lowest FRA Reportable Injury Ratio of all contest teams in its group during the contest year. In case of ties, duplicate Awards will be provided. The Company will also award an additional 2 shares of Norfolk Southern Corporation common stock to each eligible employee who works in covered employment without injury during the contest year and is a member of a winning contest team in the annual Norfolk Southern Safety Performance Contest which achieves a FRA Reportable Injury Ratio of zero.
- D. WORKING WITHOUT INJURY - In order to be considered as having worked in covered employment without injury during a contest year for purposes of SIP, an eligible employee must not be named as being injured in any FRA-reportable accident/injury report during that year. In the event that an eligible employee is named as being injured in any such report while employed in covered employment, he/she will not be eligible for an Award during the Contest year. Failure by an eligible employee to make a proper report of an injury during covered employment will result in his/her being removed from consideration for an Award in the calendar year in which the unreported injury occurred, and, if it is a different year, in the year in which the Company learns of the failure to make a proper report.
- E. EXCEPTIONS - If a Department Head, after consultation with the Law Department, determines that an injured employee in that Department was not at fault and could not have avoided the injury, the employee's injury-free status for SIP purposes will be restored. The determination made by the Department Head will be final and there will be no appeal.
- F. SIP ADMINISTRATION - The SIP will be administered by the Safety Department. Employee injury statistics for eligible employees will be maintained by the Safety Department.
- G. TERMINATION AND AMENDMENT - The Company has and reserves the right to terminate or amend SIP at any time and for any reason,

in its sole discretion.

APPENDIX A  
NORFOLK SOUTHERN SAFETY PERFORMANCE CONTEST GROUPS

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A. TRANSPORTATION DEPARTMENT CONTEST

GROUP 1 DIVISIONS

DEARBORN DIVISION  
PITTSBURGH DIVISION  
HARRISBURG DIVISION  
LAKE DIVISION  
ILLINOIS DIVISION  
VIRGINIA DIVISION

GROUP 2 DIVISIONS

PIEDMONT DIVISION  
POCAHONTAS DIVISION  
GEORGIA DIVISION  
CENTRAL DIVISION  
ALABAMA DIVISION

GROUP 1 TERMINALS

ATLANTA  
BELLEVUE  
COLUMBUS  
CHICAGO  
CONWAY  
DEBUTTS  
DECATUR  
ELKHART  
HARRISBURG  
KANSAS CITY  
NORFOLK  
NORRIS  
ROANOKE  
ST. LOUIS

GROUP 2 TERMINALS

ALLENTOWN  
BROSNAN  
CHARLOTTE  
CINCINNATI  
DETROIT  
FT. WAYNE  
LOUISVILLE  
NEW ORLEANS  
SAVANNAH  
SEVIER  
SHEFFIELD  
SPENCER  
TOLEDO

B. MECHANICAL DEPARTMENT CONTEST

TERRITORIES GROUP 1

DEARBORN  
VIRGINIA/POCAHONTAS  
PIEDMONT/GEORGIA  
CENTRAL  
HOLLIDAYSBURG SHOP

TERRITORIES GROUP 2

LAKE  
ALABAMA  
ILLINOIS  
PITTSBURGH  
HARRISBURG

MECHANICAL SHOPS GROUP 1      MECHANICAL SHOPS GROUP 2

CHATTANOOGA DIESEL  
ENOLA LD  
SHAFFERS SHOP LD  
JUNIATA LD

BELLEVUE SHOP  
CONWAY LOCO  
ROANOKE SHOP LD

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C. ENGINEERING DEPARTMENT CONTEST

DIV ENG TERRITORIES GROUP 1

HARRISBURG  
DEARBORN  
LAKE  
PITTSBURGH  
PIEDMONT

DIV ENG TERRITORIES GROUP 2

POCAHONTAS  
ALABAMA  
ILLINOIS  
GEORGIA  
CENTRAL

VIRGINIA

ENGINEERING MWS GANGS

ATLANTA-TW  
HARRISBURG  
PITTSBURGH  
ROANOKE  
SOMERSET

ENGINEERING SHOPS

CHARL ROADWAY  
PUMP REPAIR NORTH  
PUMP REPAIR SOUTH  
RDWAY MATL YD

C&S GROUP 1

GS-VIRGINIA  
GS-LAKE  
GS-PIEDMONT  
GS-PITTSBURGH  
GS-DEARBORN  
GS-HARRISBURG

C&S GROUP 2

GS-GEORGIA  
GS-POCAHONTAS  
GS-CENTRAL  
GS-ALABAMA  
GS-ILLINOIS

C&S CONSTRUCTION

EASTERN REGION  
WESTERN REGION  
LINES EAST - GANG  
LINES WEST - CGA  
NORTHERN REG-GRP1  
NORTHERN REG-GRP2

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D. SUPPORT SERVICES

ENGINEERING MISC  
CUSTOMER SERVICES  
TRANSPORTATION SERVICES  
MECHANICAL HQ



EXHIBIT 10 (bb)

NORFOLK SOUTHERN CORPORATION  
RESTRICTED STOCK UNIT PLAN

Effective January 28, 2003

Section 1. PURPOSE

The Restricted Stock Unit Plan is adopted January 28, 2003, to promote the success of Norfolk Southern Corporation (the "Corporation") by providing compensation to officers and other key employees of the Corporation and its Subsidiary Companies (as hereinafter defined) which is tied to the performance of the common stock of the Corporation, thereby providing an additional incentive to officers and other key employees to devote their maximum efforts and skills to the success of the Corporation and further aligning their interests with those of the shareholders. The Plan provides for the grant of restricted stock units whose value is measured by the fair market value of the Corporation's common stock and which will be payable in cash upon satisfaction of the applicable restrictions, 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 A grant of Restricted Stock Units.

Beneficiary The person or persons designated in writing by the Participant as his Beneficiary in respect to Awards under the Corporation's Long-Term Incentive Plan 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 to 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.

Board of The Board of Directors of the Corporation.  
Directors

Code The Internal Revenue Code of 1986, as amended from time to time.

Committee The Compensation and Nominating Committee, Performance-Based Compensation Committee or any other committee of the Board of Directors which is authorized to grant Awards under this Plan.

Common The Common Stock of the Corporation.  
Stock

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.

Fair Market The value of Common Stock on a particular date as measured  
Value 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 Bloomberg L.P., or its successor, on its internet-based service, or, if Common Stock was not traded on such date, on the next preceding day on which Common Stock was traded.

**Participant** Any officer or key employee of the Corporation or a Subsidiary Company selected by the Committee to participate in the Plan.

**Restricted Stock Units** Contingent rights to receive cash payment for the Fair Market Value of shares of Common Stock granted pursuant to Section 5 of the Plan and subject to the restrictions and other terms and conditions set forth therein. Each Restricted Stock Unit shall equal the Fair Market Value of one share of Common Stock.

**Restriction Period** A period of time not less than twelve (12) nor more than sixty (60) months, to be determined by the Committee in its sole discretion, commencing on the effective date as of which Restricted Stock Units are granted, during which the restrictions imposed by paragraph (b) of Section 5 of the Plan shall apply. The Committee shall determine the length of the Restriction Period at the time that the Restricted Stock Units 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.

**Subsidiary Company** A corporation of which more than fifty percent (50%) 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; in connection with the merger or consolidation of the Corporation, to give a Participant an election to surrender an Award in exchange for the grant of a new Award; 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 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 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 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.

#### Section 5. RESTRICTED STOCK UNITS

(a) Type of Award - The Committee, in its sole discretion, may from time to time authorize the grant of Restricted Stock Units to a Participant. Such Restricted Stock Units will be recorded in individual memorandum accounts maintained by the Committee or its agent. The Participant shall have no beneficial ownership interest in the Common Stock represented by the Restricted Stock Units and no right to receive a certificate representing such shares of Common Stock. Further, the Participant shall have no right to vote the Common Stock represented by the Restricted Stock Units or to receive dividends (except for any equivalent payments which may be awarded by the Committee in connection with such Restricted Stock Units) on the Common Stock represented by the Restricted Stock Units.

(b) Restrictions - Until the expiration of the Restriction Period or the lapse of restrictions in the manner provided in paragraphs (d) or (e) of this Section 5, Restricted Stock Units 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 cash payment for the Restricted Stock Units which the Participant may have a contingent right to receive in the future;

(ii) the Restricted Stock Units may not be sold, transferred, assigned, pledged, conveyed, hypothecated, or otherwise disposed of; and

(iii) the Restricted Stock Units may be forfeited immediately as provided in paragraph (d) of this Section 5.

(c) Distribution of Restricted Stock Units - If a Participant to whom Restricted Stock Units 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 Stock Units shall lapse, and the Restricted Stock Units shall be settled in cash, not in shares of Common Stock, based on Fair Market Value on the date all applicable restrictions lapse.

(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 Stock Units shall be forfeited immediately and all rights of the Participant to such units shall terminate immediately without further obligation on the part of the Corporation or any Subsidiary Company. If the employment of a Participant is terminated by

reason of Retirement, Disability or death of the Participant in service before expiration of the Restriction Period, the number of Restricted Stock Units 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 Stock Units shall lapse on the date the Participant's employment terminated; and the cash settlement representing the Restricted Stock Units 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 Stock Units.

#### Section 6. DIVIDEND EQUIVALENT PAYMENTS

The Committee may authorize the payment of dividend equivalents on some or all of the Restricted Stock Units representing shares of Common Stock, in an amount equal to, and commensurate with, dividends declared by the Board of Directors and paid on Common Stock. Dividend equivalents payable on Restricted Stock Units under this Section 6 shall be paid immediately in cash or converted to additional Restricted Stock Units based on the Fair Market Value of Common Stock on the date dividends are paid, as may be determined by the Committee. If the dividend equivalents are paid immediately in cash, the settlement thereof will be paid in cash. If the dividend equivalents are converted to additional Restricted Stock Units, the additional Restricted Stock Units shall be recorded in the Participant's individual memorandum account and subject to any remaining Restriction Period applicable to the Restricted Stock Units on which the dividend equivalents were paid. Upon cash settlement of the Restricted Stock Units on which the dividend equivalents were paid, the additional Restricted Stock Units representing dividend equivalents will be paid in cash. The Committee may authorize the payment of dividend equivalents under this Section 6 with respect to any Restricted Stock Unit for all or some portion of its term.

#### Section 7. 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 Restricted Stock Units representing shares of Common Stock, as it deems equitable, in its absolute discretion, to prevent dilution or enlargement of the rights of Participants.

#### Section 8. 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 resolution of its Board of Directors, provided that no change in any Award theretofore granted to any Participant may be made which would impair or diminish the rights of the Participant without the Participant's consent.

#### Section 9. MISCELLANEOUS

(a) 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.

(b) Stockholder Rights - No person shall have any rights of a stockholder by virtue of a Restricted Stock Unit.

(c) 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.

(d) 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 Restricted Stock Units, and neither the Corporation nor any Subsidiary Company shall be deemed to be a trustee of any amounts to be paid under a Restricted Stock Unit. Any liability of the Corporation to pay any Participant or Beneficiary with respect to a Restricted Stock 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.

(e) 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.

(f) 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  
THOROUGHBRED STOCK OPTION PLAN

Section 1. PURPOSE

## Section 2. DEFINITIONS

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
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time.

Effective Date      The effective date of the option, as determined by the Committee and specified in the Stock Option Notice.

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 Bloomberg L.P., or its successor, on its internet-based service, or, if Common Stock was not traded on such date, on the next preceding day on which Common Stock was traded.

Long-Term Disability Plan      The Long-Term Disability Plan of Norfolk Southern Corporation and Participating Subsidiary Companies.

Option              Any non-qualified option to purchase Common Stock granted pursuant to the provisions of Section 6 of the Plan.

Optionee            A Participant who is the holder of an Option.

Participant        Any nonagreement employee of the Corporation or a Subsidiary Company, excluding any officer or director of the Corporation, selected by the Committee to participate in the Plan.

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.

Retirement Plan      The Retirement Plan of Norfolk Southern Corporation and Participating Subsidiary Companies.

Subsidiary      A corporation of which at least eighty percent (80%) of the total Company combined voting power of all classes of stock entitled to vote is owned, directly or indirectly, by the Corporation.

### Section 3. ADMINISTRATION

The Committee shall have the full and complete authority and sole discretion to select the nonagreement employees who shall be granted Awards under the Plan; to determine the 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; and to give a Participant an election to surrender an Award in exchange for the grant of a new Award. The Committee may authorize the grant of 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 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 of the Plan or granting of awards thereunder.

The Plan shall be administered by the Vice President Human Resources of the Corporation, 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 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.

#### Section 4. ELIGIBILITY

To be eligible for selection by the Committee to participate in the Plan, an individual must be an active full-time nonagreement employee of the Corporation or of a Subsidiary Company, and must reside in the United States or Canada, on the Effective Date on which the Committee authorizes the grant to such individual of an Award. An officer or director of the Corporation shall not be eligible to participate in the Plan.

#### Section 5. SHARES AVAILABLE

Subject to the provisions of Section 7 of the Plan, no more than an aggregate of 6,000,000 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 and which were not issued prior to the expiration of the Award shall thereafter again be available for award under the Plan.

#### Section 6. NON-QUALIFIED STOCK OPTIONS

(a) General - The Committee may authorize the grant of Options subject to the terms and conditions set forth in this Section 6. The grant of an Option shall be evidenced by a written notice provided by the Corporation setting forth the number of shares of Common Stock subject to the Option evidenced thereby and the terms, conditions, and restrictions applicable thereto (Stock Option Notice).

Except for adjustments pursuant to Section 7 of the Plan, the Option Price for any outstanding Option granted under the Plan may not be decreased after the date the Option is granted, nor may an outstanding Option be modified or replaced if the effect would be to reduce the Option Price, unless such repricing, modification or replacement is approved by the vote 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.

(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 7 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 Effective 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 ten (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 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 later of:

(i) the first anniversary of the Effective Date on which the Option was granted; and

(ii) 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.

(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 thirtieth day after 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, if the Optionee's employment with the Corporation or a Subsidiary Company terminates at any time during or at the end of the leave of absence, at the close of business on the thirtieth day after the last day of employment with the Corporation or a Subsidiary Company, or

(iii) with the Optionee's consent, the grant of a new Award to replace the Option.

## Section 7. 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 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 8. REGULATORY APPROVALS

The exercise of each Option 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.

## Section 9. 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.

## Section 10. 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 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 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 and neither the

Corporation nor any Subsidiary Company shall be deemed to be a trustee of any amounts to be paid under an Option. Any liability of the Corporation or a Subsidiary Company to pay any Participant or Beneficiary with respect to an Option 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.

EXHIBIT 10(k)

AMENDMENT NO. 3

Dated as of June 1, 2001

OF THE

SHARED ASSETS AREA

OPERATING AGREEMENT

FOR

[NORTH JERSEY]  
[SOUTH JERSEY/PHILADELPHIA]  
[DETROIT]

Dated as of June 1, 1999

By and Among

CONSOLIDATED RAIL CORPORATION

CSX TRANSPORTATION, INC. and

NORFOLK SOUTHERN RAILWAY COMPANY

AMENDMENT NO. 3

OF THE

SHARED ASSETS AREA OPERING AGREEMENT

FOR

[NORTH JERSEY]  
[SOUTH JERSEY/PHILADELPHIA]  
[DETROIT]

This AMENDMENT No. 3 dated as of June 1, 2001 ("Amendment No. 3") of the SHARED ASSETS AREA OPERATING AGREEMENT for [North Jersey] [South Jersey/Philadelphia] [Detroit] (the "Agreement") dated as of June 1, 1999, is by and among Consolidated Rail Corporation ("CRC"), CSX Transportation, Inc. ("CSXT") and Norfolk Southern Railway Company ("NSR").

W I T N E S S E T H

WHEREAS, the parties have previously entered into the Agreement;

WHEREAS, the parties previously amended the Agreement by an Amendment No. 1, dated as of June 1, 2000 ("Amendment No. 1"), which provided for the allocation of responsibility for Damage with respect to certain incidents occurring prior to June 1, 2001;

WHEREAS, the parties now desire to extend the effectiveness of the provision described in Amendment No. 1 for an indefinite period, subject to reexamination in the future; and

WHEREAS, it is the intent of the parties that, except as expressly amended hereby and in Amendment No. 1, the Agreement shall remain unamended and in full force and effect.

NOW, THEREFORE, the parties hereby further amend the Agreement as follows:

Section 1. Definitions. Capitalized terms used in this Amendment No. 2 and not defined herein shall have the meanings assigned to such terms in the Agreement Section 2. Amendment of the Agreement. The Agreement is hereby amended pursuant to and in compliance with Section 17 as follows:

A. The heading and text of Section 11(b) are hereby deleted in their entirety and the following substituted therefore:

(b) Operators' Joint Responsibility.

(i) Damages Borne Equally. Except as otherwise provided in 1) Section 11(a) (Operators' Sole Responsibility), (2) Section 11(c) (1) (CRC Damages Generally), (3) Section 11(c)(ii)(B) (No Reallocation for Insurance), (4) Section 11(f) (Specified Level Damages), and (5) Section 11(g) (Substance Abuse Exceptions), and subject to Section 11(c)(ii)(A) (Net of Insurance), responsibility for all Damage shall be borne equally by the Operators, with each being liable for one-half (1/2) of the Damage.

(ii) Reexamination. Either Operator may give written notice to the other Operator and CRC (the "Proposed Change Notice") that it wishes to propose a new method for allocating Operators' Joint Responsibility (Section 11(b)(i) above) and such Proposed Change Notice shall set forth details of such new method, including the language of the proposed amendment of Section 11(b). The two Operators and CRC shall have ninety (90) days from the date of the Proposed Change Notice to agree upon a new method of allocating Operators' Joint Responsibility, which agreement shall be evidenced by an amendment ("Change Amendment") to this Agreement executed by both Operators and CRC. From and after the effective date specified in the Change Amendment, the new method of allocation of Operators' Joint Responsibility shall be effective. If both Operators and CRC are not able to so agree and execute an appropriate Change Amendment within ninety (90) days after the date of the Proposed Change Notice, then, at 12:01 a.m. on the Ninety-first (91st) day after the date of the Proposed Change Notice (the "Default Time"), the Default Provision allocating Operators' Joint Responsibility (Section 11(b)(iii) below) shall become effective. The method of allocating Damage in the case of Operators' Joint Responsibility under the Change Amendment or the Default Provision, as the case may be, shall apply only to incidents that occur on or after the effective date thereof, and not to Damage related to incidents that occurred before such effective date.

(iii) Default Provision. From and after the Default Time, except as otherwise provided in (1) Section 11(a) (Operators' Sole Responsibility), (2) Section 11(c)(i) (CRC Damages Generally), (3) Section 11(c)(ii)(B) (No Reallocation for Insurance), (4) Section 11(f) (Specified Level Damages), and (5) Section 11(g) (Substance Abuse Exceptions) and subject to Section 11(c)(ii)(A) (Net of Insurance), all Damage shall be apportioned between the Operators in proportion to their respective Total Train Usage Percentages in the Zone in which the incident giving rise to such Damage occurred for the 12 calendar month period immediately preceding the incident giving rise to such Damage.

B. The heading and text of Section 11(f)(i)(A.1) are hereby deleted in their entirety and the following substituted therefor:

(A.1) Tier One Damages Defined. In this Section 11(f), "Tier One Damages" for any incident occurring on or after June 1, 2001 shall, except as otherwise provided in Section 11(g) (Substance Abuse Exceptions), include the greater of:

1) \$25 million of Damages; or

2) the lowest amount of Damages which, when allocated among all parties, results in an allocation to either Operator of Damages in an amount equal to all insurance benefits available to that Operator (called the "Lesser Insured Operator") which has the lesser (as between the Operators) amount of insurance benefits available to it, including, without limitation, insurance to which CRC looks under Section 11(c) (CRC Responsibility, Allocation and Insurance). In determining insurance benefits available to the Lesser Insured Operator, both property and liability insurance shall be considered but (i) only to the extent benefits are actually available in connection with that incident; and (ii) they shall be calculated separately (i.e., property insurance benefits shall not be considered in any determination of available liability insurance benefits and vice versa)."

SECTION 3. Effectiveness. This Amendment No. 3 shall become effective as of June 1, 2001 (the "Amendment Date").

SECTION 4. Integration; Confirmation. On and after the Amendment Date, each reference in the Agreement to "this Agreement," "herein," "hereunder," or words of similar import, and each reference in any Note or other document delivered in connection with the Agreement shall be deemed to be a reference to the Agreement as amended by this Amendment, and the Agreement as so amended shall be read as a single integrated document. Except as specifically amended by this Amendment, all other terms and provisions of the Agreement shall continue in full force and effect and unchanged and are hereby confirmed in all respects.

SECTION 5. Confirmation of Agreement. In all respects not inconsistent with the terms and provisions of this Amendment No. 3, the Agreement is hereby ratified, adopted, approved and confirmed.

SECTION 6. Counterparts. This Amendment No. 3 may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

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

CSX TRANSPORTATION, INC.

By: /s/ Ellen M. Fitzsimmons  
Name: Ellen M. Fitzsimmons  
Title: Sr. V.P.-Law & General Counsel

NORFOLK SOUTHERN RAILWAY COMPANY

By: /s/ Kathryn B. McQuade  
Name: Kathryn B. McQuade  
Title: Sr. V.P. - Financial Planning

CONSOLIDATED RAIL CORPORATION

By: /s/ Gregory R. Weber  
Name: Gregory R. Weber  
Title: President and Chief Executive  
Officer



NORFOLK SOUTHERN CORPORATION  
LONG-TERM INCENTIVE PLAN

AS AMENDED EFFECTIVE JANUARY 28, 2003

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 The Board of Directors of the Corporation.  
Directors

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 The Common Stock of the Corporation.  
Stock

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 With respect to a Stock Appreciation Right, all of the shares**  
**Gain** of Common Stock received upon exercise of the Stock  
**Shares 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 Bloomberg L.P., or its successor, on its internet-based service, 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 and any non-employee director of the Corporation, subject to approval of the Plan, as hereby amended, 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.

**Performance Cycle** The period of time, designated by the Committee, over which Performance Shares may be earned.

**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** Shares of Common Stock granted pursuant to Section 9 of the 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 An agreement entered into pursuant to Section 11 of the Plan.  
Retention  
Agreement

Stock The right, granted pursuant to the provisions of Section  
Appreciation 8 of the Plan, to receive a payment equal to the excess  
Right 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 A corporation of which at least eighty percent (80%)  
Company 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; in connection with the merger or consolidation of the Corporation, to give a Participant an election to surrender an Award in exchange for the grant of a new Award; 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. Subject to approval of the Plan, as hereby amended, 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, a non-employee director shall be eligible to participate in the Plan if he or she is a director of the Corporation and is not a full-time salaried employee of the Corporation or a Subsidiary Company on the date on which the Committee authorizes the grant of an Award to non-employee directors.

#### 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. Effective January 23, 2001, an additional 5,000,000 shares of Common Stock (an aggregate of 44,878,604) may be issued to Participants who are not officers of the Corporation. Subject to approval of the Plan, as hereby amended, 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, an additional 30,000,000 shares of Common Stock (an aggregate of 74,878,604) may be issued pursuant to the Plan, and no more than 6,000,000 of such additional shares shall be awarded as Restricted Shares or Performance Shares. 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. Subject to approval of the Plan, as hereby amended, 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, 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 1,500,000 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.

#### 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 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.

Except for adjustments pursuant to Section 13 of the Plan, the Option Price for any outstanding Incentive Stock Option granted under the Plan may not be decreased after the date the Option is granted, nor may an outstanding Option be modified or replaced if the effect would be to reduce the Option Price, unless such repricing, modification or replacement is approved by the vote 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.

(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 ten (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; and

(ii) 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 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, if the Optionee's employment with the Corporation or a Subsidiary Company terminates at any time during or at the end of the leave of absence, at the close of business on the last day of employment with the Corporation or a Subsidiary Company, or

(iii) in connection with a merger or consolidation of the Corporation, 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.

#### 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 (a), (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

(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.

(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 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 not forfeit all rights with respect to any Performance Shares that were being earned during the Performance Cycle, unless the Participant's employment with the Corporation or a Subsidiary Company terminates at any time during or at the end of the leave of absence, at which time the Participant shall forfeit all rights with respect to any Performance Shares that were being earned during the Performance Cycle. 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) 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.

#### Section 15. TERM OF THE PLAN

(a) 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 resolution of its 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 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 anytime.

(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.

EXHIBIT 10 (a)

TRANSACTION AGREEMENT

by and among

CSX CORPORATION,

CSX TRANSPORTATION, INC.,

NORFOLK SOUTHERN CORPORATION,

NORFOLK SOUTHERN RAILWAY COMPANY,

CONRAIL INC.,

CONSOLIDATED RAIL CORPORATION

and

CRR HOLDINGS LLC

Dated as of June 10, 1997

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Exhibit B  
Form of LLC Agreements

Exhibit C  
Form of Trackage Rights Agreements  
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(Northeast Corridor)

Exhibit SS  
Agreement for Assignment of Chicago Rights

#### TRANSACTION AGREEMENT

TRANSACTION AGREEMENT, dated as of June 10, 1997 ("Agreement"), by and among CSX CORPORATION, a Virginia corporation ("CSX"), CSX TRANSPORTATION, INC., a Virginia corporation, for itself and on behalf of its controlled Subsidiaries (collectively, "CSXT"), NORFOLK SOUTHERN CORPORATION, a Virginia corporation ("NSC"), NORFOLK SOUTHERN RAILWAY COMPANY, a Virginia corporation, for itself and on behalf of its controlled Subsidiaries (collectively, "NSR"), CONRAIL INC., a Pennsylvania corporation, for itself and on behalf of its controlled Subsidiaries (collectively, "CRR"), CONSOLIDATED RAIL CORPORATION, a Pennsylvania corporation ("CRC"), and CRR HOLDINGS LLC, a Delaware limited liability company ("CRR Parent").

WHEREAS, CSX and NSC have entered into a letter agreement dated as of April 8, 1997 (the "April 8 Agreement").

WHEREAS, pursuant to the April 8 Agreement, CSX and NSC have jointly acquired all of the outstanding capital stock of CRR through CRR Parent, in which CSX and NSC each owns a 50% voting interest.

WHEREAS, CSX and NSC are seeking the approval of the STB to undertake the transactions contemplated by this Agreement and the April 8 Agreement.

WHEREAS, pursuant to the April 8 Agreement the parties wish to provide herein for the governance and operation of CRR and its Affiliates and for the basis pursuant to which CRR's assets and liabilities will be allocated to or shared by CSX and its Affiliates, on the one hand, and NSC and its Affiliates, on the other hand, after the Closing Date (as hereinafter defined).

NOW, THEREFORE, in consideration of the premises and the respective agreements hereinafter set forth, the parties hereto agree as follows:

#### ARTICLE I

##### DEFINITIONS

Section 1.1. Defined Terms. As used in this Agreement, the following terms have the meanings set forth below:

"AAC" means Atlantic Acquisition Corporation, a Pennsylvania corporation and a wholly owned Subsidiary of NSC.

"AAR" means the Association of American Railroads.

"AAR Car Service Rules" means the Code of Car Service Rules/Code of Car Hire Rules contained in AAR Circular OT-10 as promulgated in the Official Railway Equipment Register.

"AAR Depreciated Value" means depreciated value as determined in accordance with Rule 107 of the Office and Field Manuals of the AAR Interchange Rules adopted by the AAR Technical Services Division, Mechanical Section, Operations and Maintenance Department.

"Action" shall mean any action, claim, suit, arbitration, inquiry, subpoena, discovery request, proceeding or investigation by or before any Governmental Entity or forum or authority having jurisdiction over the matter involving or related to CRR, CRC or their respective Affiliates, the Assets, the Retained Liabilities or the Allocated Liabilities, but shall exclude FELA Claims.

"Affiliate" means, with respect to a specified Person, any Person that directly or indirectly controls, is controlled by or is under common control with, the specified Person or any trust for the benefit of such Person or any entities controlled by such Person; provided that, for the purposes of this Agreement, (a) NYC shall not be an Affiliate of CSX and its Subsidiaries or NSC and its Subsidiaries, (b) PRR shall not be an Affiliate of NSC and its Subsidiaries or CSX and its Subsidiaries and (c) CSX and NSC and their respective Subsidiaries shall not be Affiliates of CRR or CRR Parent and their respective Subsidiaries and vice versa.

"Allocated Assets" means the Assets to be transferred at the Closing to either NYC ("NYC Allocated Assets") or PRR ("PRR Allocated Assets").

"Allocated Liabilities" means the Liabilities of CRR, CRC or their respective Affiliates to be assumed at the Closing by either NYC ("NYC Allocated Liabilities") or PRR ("PRR Allocated Liabilities").

"Amended and Restated Voting Trust Agreement" means the Voting Trust Agreement among CSX, NSC, CRR Parent, Green and Deposit Guarantee National Bank, dated as of April 8, 1997.

"Ancillary Agreements" means the Equipment Agreements, the CSXT Operating Agreement, the NSR Operating Agreement, the NYC LLC Agreement, the PRR LLC Agreement, the CRR Holdings LLC Agreement, the Trackage Rights Agreements, the CSXT/NSR Haulage Agreements, the Tax Allocation Agreement, the Shared Assets Agreements and the Other Operating Agreements.

"April 8 Agreement" has the meaning set forth in the preamble to this Agreement.

"Assets" means any and all of CRR's, CRC's or their respective Affiliates' right, title and interest in and to all of the rights, properties, assets, claims, Contracts and businesses of every kind, character and description, whether real, personal or mixed, whether tangible or intangible, whether accrued, contingent or otherwise and wherever located, owned or used primarily by such party. On the Closing Date, all Assets will be either (i) NYC Allocated Assets, (ii) PRR Allocated Assets or (iii) Retained Assets.

"Base Inventory" has the meaning ascribed thereto in Section 2.7.

"Base Rent" has the meaning set forth in the CSXT Equipment Agreement and the NSR Equipment Agreement.

"Books and Records" means the books, files and records (including computerized databases and records) of CRR, CRC or their respective Affiliates and includes the NYC Books and Records and the PRR Books and Records.

"Capital Contribution, Assignment and Assumption Agreements" means the instruments (including quitclaim deeds or other instruments transferring title to real estate) pursuant to which

the Allocated Assets and the Allocated Liabilities will be transferred at the Closing to NYC or PRR, as the case may be, substantially in the form attached hereto as Exhibit E.

"Closing" has the meaning ascribed thereto in Section 3.1.

"Closing Date" has the meaning ascribed thereto in Section 3.1.

"Co-Chairmen" means the co-chairmen of the CRC Board after the Control Date, being the CSX Co-Chairman and the NSC Co-Chairman.

"Code" means the Internal Revenue Code of 1986, as amended from time to time or any successor United States federal tax statute. References to a specific section of the Code shall include a reference to the corresponding provisions of any such successor United States federal tax statute.

"Communications Team" has the meaning ascribed thereto in Section 2.2.

"Continuing CRC Management" means employees (regardless of craft, position or classification) of CRR, CRC or their respective Affiliates (other than NYC, PRR and their respective Subsidiaries) who are determined to be Continuing CRC Management pursuant to Section 6.1(c), which employees will consist of the following categories: (a) employees performing general and administrative functions for CRR, CRC or their respective Affiliates (other than NYC, PRR and their respective Subsidiaries), (b) employees performing interim general, administrative or technical functions for CRR, CRC or their respective Affiliates (other than NYC, PRR and their respective Subsidiaries) (including employees performing such functions at CRR's headquarters office building and information technology center in Philadelphia, PA) which functions CSX and NSC shall identify prior to the Closing Date and shall agree are necessary for an interim period after the Closing Date in accordance with Section 2.4, (c) employees operating, managing or performing work at the SSO Facilities, and (d) employees (other than those described in clauses (a), (b) and (c) above) operating, managing or performing work on Retained Assets that are to be operated pursuant to the Shared Assets Agreements.

"Contracts" means any contract, lease, loan agreement, deed, easement, license, reversion, mortgage, security agreement, trust indenture or other agreement or instrument to which any of CRR, CRC or their respective Affiliates is a party or by which any of them is bound or to which any of the Assets is subject.

"Contracts Team" has the meaning ascribed thereto in Section 2.2.

"Control Date" means the effective date on which CSX and NSC are authorized by the STB to exercise control over CRR.

"Corporate Level Liabilities" means the following Liabilities of CRR, CRC or their respective Affiliates: (a) Environmental Liabilities that are designated as Corporate Level Liabilities pursuant to Section 2.8(b)(iii); (b) all Liabilities (except as specified in Section 2.8(b)(i) or (ii), Section 2.8(c) or Section 2.9) associated with the handling and disposition of Actions arising prior to the Closing Date; (c) all Liabilities (except as specified in Section 2.8(b)(i) or (ii), Section 2.8(c) or Section 2.9) associated with the handling and disposition of Actions arising on or after the Closing Date and that do not relate predominantly to Allocated Assets; (d) all Liabilities

(except as specified in Section 2.8(b)(i) or (ii), Section 2.8(c) or Section 2.9) associated with the handling and disposition of Actions arising on or after the Closing Date designated as Corporate Level Liabilities pursuant to Section 2.8; (e) Employee Related Liabilities that are designated as Corporate Level Liabilities pursuant to Article VI; (f) all Taxes accruing for periods prior to the Closing Date, including in respect of tax leverage transactions; (g) Taxes, if any, associated with the designation, allocation and transfer of the Assets as contemplated in this Agreement; (h) Liabilities under leases (including without limitation lease termination costs) that arise prior to the Closing Date (other than the lease Liabilities in respect of the CRC headquarters office building in Philadelphia, PA, or the information technology center in Philadelphia, PA, or the Altoona, PA or Hollidaysburg, PA shops); (i) Indebtedness (other than intercorporate Indebtedness of direct or indirect Subsidiaries of CRR the capital stock, or similar interests, of which is included in the Allocated Assets, which will be treated as agreed to by the parties prior to the Closing); (j) all Liabilities associated with the handling and disposition of FELA Claims made prior to the Control Date and all Liabilities associated with the handling and disposition of FELA Claims made on or after the Control Date and designated as Corporate Level Liabilities pursuant to Section 2.8(c); (k) all employee costs not otherwise allocated under this Agreement; (l) all Liabilities arising prior to the Closing Date not otherwise allocated under this Agreement; (m) transition costs not the sole responsibility of CSX, CSXT, NYC, NSC, NSR or PRR and not otherwise allocated under this Agreement; and (n) all Liabilities incurred with respect to Continuing CRC Management, the SSO Facilities and the Retained Assets, except where this Agreement (including the Schedules and Exhibits hereto) or the Ancillary Agreements may expressly designate the Liability in some other manner.

"Corporate Memorabilia" means all corporate memorabilia, antiques, artifacts, charters and art owned by CRR, CRC or their respective Affiliates, wherever located.

"CRC" has the meaning set forth in the preamble to this Agreement.

"CRC Board" means the Board of Directors of CRC.

"CRR" has the meaning set forth in the preamble to this Agreement.

"CRR Holdings LLC Agreement" means the Limited Liability Company Agreement of CRR Holdings LLC, dated May 21, 1997, as amended from time to time.

"CRR Industries" means CRR Industries, Inc., a Pennsylvania corporation and a wholly owned Subsidiary of CRR.

"CRR Parent" has the meaning set forth in the preamble to this Agreement.

"CRR Shares" means the shares of Common Stock and Series A ESOP Convertible Junior Preferred Stock of CRR.

"CRR Stay Bonus Program" means either the Conrail Inc. Stay Bonus Program, Classes 8 And Below, or the Conrail Inc. Stay Bonus Program Classes 9-11, both to be entered into pursuant to Attachment A to the Third Amendment.

"CSX" has the meaning set forth in the preamble to this Agreement.

"CSX Co-Chairman" has the meaning ascribed thereto in

Section 4.2.

"CSX Directors" has the meaning ascribed thereto in Section 4.2.

"CSXT" has the meaning set forth in the preamble to this Agreement.

"CSXT Equipment" means the Equipment subject to the CSXT Equipment Agreement.

"CSXT Equipment Agreement" means the agreement to be entered into between NYC and CSXT in a form to be agreed by CSX and NSC, to provide CSXT with the right to use, operate and maintain certain of the Equipment which NYC has the right to use and operate pursuant to the NYC Equipment Agreement.

"CSXT/NSR Haulage Agreements" means the agreements pursuant to which CSXT and/or NSR will provide haulage services for the other, in substantially the form attached hereto as Exhibit D; each CSXT/NSR Haulage Agreement shall be in respect of a Route identified on Item 2 of Schedule 4 and shall incorporate the terms set forth therein.

"CSXT Operating Agreement" means the agreement to be entered into between CSXT and NYC, substantially in the form attached hereto as Exhibit A-1, to provide for the use, operation and maintenance by CSXT of certain of the NYC Allocated Assets after the Closing Date.

"Damages" means all assessments, losses, damages, liabilities, costs and expenses, including without limitation interest, penalties and attorneys' and consultants' fees.

"Distribution" means any dividend or other distribution with respect to any shares of capital stock or similar equity interests.

"Employee Related Liabilities" means Liabilities to be designated as NYC Allocated Liabilities, PRR Allocated Liabilities or Corporate Level Liabilities pursuant to Article VI.

"Environmental Laws" means any and all federal, state, local and foreign statutes, laws, judicial decisions, regulations, ordinances, rules, judgments, orders, decrees, codes, plans, injunctions, permits, concessions, grants, franchises, licenses, agreements and governmental restrictions, whether now or hereafter in effect, relating to human health, the environment or to emissions, discharges, or releases of pollutants, contaminants, hazardous or toxic materials or substances or wastes into the environment, including, without limitation, ambient air, surface water, ground water or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, hazardous or toxic materials or substances or wastes or the cleanup or other remediation thereof.

"Environmental Liabilities" means any and all Liabilities arising in connection with or in any way relating to any Asset (or formerly held Asset) and which arise under or relate to matters covered by any Environmental Laws.

"Equipment" means all freight car rolling stock, cabooses, trailers, containers, end of train devices, locomotives and Work Equipment of CRR, CRC or their respective Affiliates, whether owned or leased.

"Equipment Agreements" means the NYC Equipment Agreement, the PRR Equipment Agreement, the CSXT Equipment Agreement and the NSR Equipment Agreement.

"Fair Market Rental Value" has the meaning set forth in the CSXT Operating Agreement, the NSR Operating Agreement, the CSXT Equipment Agreement and the NSR Equipment Agreement.

"FELA Claim" means a claim made under the Federal Employers Liability Act, as amended from time to time. A FELA Claim shall be considered "made" upon the earliest to occur of the following: (i) the claimant's employer has received or prepared a written report (including, in the case of an alleged occupational injury, a questionnaire) of the claim or of the incident from which the claim arises; or (ii) the claimant's employer has received written notice of the claim from the claimant or the claimant's attorney; or (iii) an action, claim or suit asserting the claim has been filed and properly served on the claimant's employer. For the purposes of this definition (i) the term "written report" shall include reports which are electronically prepared or transmitted, and (ii) the term "employer" shall include the employer currently responsible under the Federal Employers Liability Act for the claim or cause of action being asserted and such employer's attorney.

"FF&E" means all furniture, fixtures, computers, office supplies and equipment (other than Equipment and system stock- piles of supplies and inventory) of CRR, CRC or their respective Affiliates.

"Governmental Entity" means any federal, state, local or foreign court, administrative agency or commission or other governmental or regulatory authority or commission or any arbitration tribunal.

"Green" means Green Acquisition Corp., a Pennsylvania corporation and a wholly owned Subsidiary of CRR Parent.

"Indebtedness" means, when used with reference to a specified Person, at any date, without duplication, (a) all obligations of such Person for borrowed money, including, without limitation, all principal, interest, premiums, fees, expenses, overdrafts and penalties with respect thereto, (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (c) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable, (d) all obligations of such Person to reimburse any bank or other Person in respect of amounts paid under a letter of credit or similar instrument, (e) all payment obligations under capitalized leases and (f) all indebtedness of any other Person of the type referred to in clauses (a) to (e) above directly or indirectly guaranteed by such Person.

"Indemnified Party" means a Person who requires or requests indemnification under Article X.

"Indemnifying Party" means a Person who is required or requested to indemnify another Person under Article X.

"Interest Rental" has the meaning set forth in the Shared Assets Agreements.

"Inventory Team" has the meaning ascribed thereto in Section 2.2.

"IRS Submission" has the meaning ascribed thereto in Section 8.9.



"Liabilities" means any and all debts, liabilities and obligations of any kind whatsoever, whether or not accrued, contingent or reflected on a balance sheet, known or unknown, absolute, determined, determinable or otherwise, including, without limitation, those arising under any law, rule, regulation, action, order or consent decree of any Governmental Entity or any judgment in any Action of any kind or award of any arbitrator of any kind and those arising under any Contract. At the Closing Date, all Liabilities of CRR, CRC or their respective Affiliates will be either (i) NYC Allocated Liabilities, (ii) PRR Allocated Liabilities or (iii) Retained Liabilities.

"Locomotive Team" has the meaning ascribed thereto in Section 2.6.

"Major Decisions" means any of the items identified on Schedule 2 hereto.

"Merger" means the merger of a subsidiary of Green with and into CRR pursuant to the Merger Agreement.

"Merger Agreement" means the Agreement and Plan of Merger by and among CRR, CSX and Green dated as of October 14, 1996 and as amended as of November 5, 1996, December 18, 1996, March 7, 1997 and April 8, 1997 and as may be further amended from time to time in accordance with its terms and the terms of this Agreement.

"NSC" has the meaning set forth in the preamble to this Agreement.

"NSC Co-Chairman" has the meaning ascribed thereto in Section 4.2.

"NSC Directors" has the meaning ascribed thereto in Section 4.2.

"NSR" has the meaning set forth in the preamble to this Agreement.

"NSR Equipment" means the Equipment subject to the NSR Equipment Agreement.

"NSR Equipment Agreement" means the agreement to be entered into between PRR and NSR, in a form to be agreed among CSX and NSC, to provide NSR with the right to use, operate and maintain certain of the Equipment which PRR has the right to use and operate pursuant to the PRR Equipment Agreement.

"NSR Operating Agreement" means the agreement to be entered into between NSR and PRR, substantially in the form attached hereto as Exhibit A-2, to provide for the use, operation and maintenance by NSR of certain of the PRR Allocated Assets after the Closing Date.

"NYC" means New York Central Lines LLC (or such other name as may be specified by CSX), which will be organized on or prior to the Closing pursuant to Section 3.2 as a Delaware limited liability company and a wholly owned Subsidiary of CRC.

"NYC Action" has the meaning ascribed thereto in Section 8.14.

"NYC Allocated Assets" means the Assets identified on Item 1 of Schedule 1 hereto and the Transportation Contracts allocated to NYC pursuant to Section 2.2(c) (unless CSX and NSC in their discretion agree that any such Assets shall not be NYC Allocated Assets) together with the Unallocated Assets designated

as NYC Allocated Assets prior to the Closing Date pursuant to Article II, including any cash benefit in lieu of such Assets pursuant to Section 8.7.

"NYC Allocated Liabilities" means the Liabilities designated as NYC Allocated Liabilities pursuant to Section 2.8 or Article VI, together with all Liabilities allocated to and the responsibility of NYC under any Ancillary Agreement.

"NYC Books and Records" shall mean the books, files and records (including computerized databases and records) of CRR, CRC or their respective Affiliates that relate principally to the NYC Allocated Assets or NYC Allocated Liabilities and are necessary or useful for the operation of the business in respect thereof.

"NYC Equipment Agreement" means the agreement to be entered into between CRC and NYC, in a form to be agreed among CSX and NSC, to provide NYC with the right to use, operate and maintain certain of the Equipment allocated to NYC pursuant to Section 2.6(e) (i).

"NYC LLC Agreement" means the Limited Liability Company Agreement of NYC, substantially in the form attached hereto as Exhibit B.

"NYC Restructuring" has the meaning ascribed thereto in Section 8.9.

"Operating Fee" has the meaning set forth in the CSXT Operating Agreement and the NSR Operating Agreement.

"Other Operating Agreements" means the agreements to be entered into between and among CRC, NYC, PRR, CSXT and/or NSR, substantially in the forms attached hereto as Exhibits J through RR, providing for various operating, access, construction and other matters. The Other Operating Agreements are listed in Item 4 of Schedule 4 hereto.

"PBCL" means the Pennsylvania Business Corporation Law of 1988, as amended from time to time.

"Pennsylvania Control Transaction Law" means Subchapter E of Chapter 25 of the PBCL, as amended from time to time.

"Percentage" means, in the case of CSX, 42% and, in the case of NSC, 58%.

"Person" includes any individual, corporation, association, partnership (general or limited), joint venture, trust, estate, limited liability company or other legal entity or organization.

"Pooled Assets" means all Unallocated Assets for which no allocation methodology is provided for in Section 2.2(a) through (i), including the Assets identified on Item 4 of Schedule 1.

"Privileged Information" has the meaning ascribed thereto in Section 8.14.

"Privileges" has the meaning ascribed thereto in Section 8.14.

"PRR" means Pennsylvania Lines LLC (or such other name as may be specified by NSC), which will be organized on or prior to Closing pursuant to Section 3.2 as a Delaware limited li-

ability company and a wholly owned Subsidiary of CRC.

"PRR Action" has the meaning ascribed thereto in Section 8.15.

"PRR Allocated Assets" means the Assets identified on Item 2 of Schedule 1 hereto and the Transportation Contracts allocated to PRR pursuant to Section 2.2(c) (unless CSX and NSC in their discretion agree that any such Assets shall not be PRR Allocated Assets), together with the Unallocated Assets designated as PRR Allocated Assets prior to the Closing Date pursuant to Article II, including any cash benefit in lieu of such Assets pursuant to Section 8.7.

"PRR Allocated Liabilities" means the Liabilities designated as PRR Allocated Liabilities pursuant to Section 2.8 or Article VI, together with all Liabilities allocated to and the responsibility of PRR under any Ancillary Agreement.

"PRR Books and Records" shall mean the books, files and records (including computerized databases and records) of CRR, CRC or their respective Affiliates that relate principally to the PRR Allocated Assets or PRR Allocated Liabilities and are necessary or useful for the operation of the business in respect thereof.

"PRR Equipment Agreement" means the agreement to be entered into between CRC and PRR, in a form to be agreed among CSX and NSC, to provide PRR with the right to use, operate and maintain certain of the Equipment allocated to PRR pursuant to Section 2.6(e) (i).

"PRR LLC Agreement" means the Limited Liability Company Agreement of PRR, substantially in the form attached hereto as Exhibit B.

"PRR Restructuring" has the meaning ascribed thereto in Section 8.9.

"Radio Licenses" has the meaning ascribed thereto in Section 2.2.

"Required Approvals" has the meaning ascribed thereto in Section 7.1.

"Restructuring" means either the NYC Restructuring or the PRR Restructuring, as the context requires.

"Retained Assets" means the Assets identified on Item 3 of Schedule 1 hereto (unless CSX and NSC in their discretion agree that any such Assets shall not be Retained Assets) together with the Unallocated Assets designated as Retained Assets prior to the Closing Date pursuant to Article II, including (a) Equipment that is not included in the Allocated Assets, (b) the SSO Facilities and (c) the Pooled Assets not designated as Allocated Assets pursuant to Section 2.2(j).

"Retained Liabilities" means the Liabilities designated as Retained Liabilities pursuant to Section 2.8 (including, without limitation, all Corporate Level Liabilities), together with all Liabilities allocated to and the responsibility of CRR, CRC or their respective Affiliates under any Ancillary Agreement.

"Rolling Stock Team" has the meaning ascribed thereto in Section 2.6.

"Route" means the rights and Assets used to provide

transportation service along a railroad line connecting two or more stations and consisting of one or more tracks (together with associated sidings, side tracks, signaling, land and other related facilities).

"Ruling" has the meaning ascribed thereto in Section 8.9.

"Separation Costs" means labor protection costs, including dismissal allowances, displacement allowances and the cost of administering, arbitrating and litigating such labor protection provisions, severance (including payments under severance agreements), personnel relocation expenses and all other dismissal expenses and stay bonuses, including any payment intended to reimburse for excess parachute excise tax imposed under Section 4999 of the Code with respect to such dismissal expenses or stay bonuses.

"Service" has the meaning ascribed thereto in Section 8.9.

"Shared Assets Agreements" means the agreements between and among CRC, NYC, PRR, CSXT and/or NSR, substantially in the forms attached hereto as Exhibits G through I, providing for the operation of certain Retained Assets for the benefit of CSXT and NSR. The Shared Assets Agreements are listed in Item 3 of Schedule 4 hereto.

"Shared Assets Areas" means (a) the North Jersey shared Asset facility to be covered by the Shared Assets Agreement substantially in the form attached hereto as Exhibit G, (b) the South Jersey/Philadelphia shared Asset facility to be covered by the Shared Assets Agreement substantially in the form attached hereto as Exhibit H and (c) the Detroit shared Asset facility to be covered by the Shared Assets Agreement substantially in the form attached hereto as Exhibit I.

"SSO Facilities" means the CRR or CRC system support operations facilities described in Item 3(B) of Schedule 1 (including equipment and other Assets associated with such facilities) used as of the date hereof by CRR and CRC or their respective Affiliates to provide support functions benefitting the CRC rail system as a whole, including: (a) the customer service center in Pittsburgh, PA; (b) the crew management facility in Dearborn, MI; (c) the system maintenance-of-way equipment center in Canton, OH; (d) the signal repair center in Columbus, OH; (e) the system freight claims facility in Buffalo, NY; (f) the system non-revenue billing facility at Bethlehem, PA; (g) the system rail welding plant at Lucknow (Harrisburg), PA; (h) the system road foreman/engineer training center at Philadelphia and Conway, PA; (i) the CRC police operations center at Mt. Laurel, NJ; and (j) such other facilities providing system-wide support functions as CSX and NSC shall identify and agree upon prior to the Closing Date.

"STB" means the Surface Transportation Board or, if there shall be no Surface Transportation Board, any federal agency which is charged with the function of approving combinations by rail carriers or persons controlling them, or of other arrangements between such rail carriers, and granting exemptions from other laws with respect thereto or regulating other specific functions with respect to the context in which such term is employed or any successor entity thereof.

"Subsidiary" means, when used with reference to a specified Person, any corporation or other organization, whether incorporated or unincorporated, of which at least a majority of the securities or other interests having by their terms ordinary

voting power to elect a majority of the Board of Directors or others performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by such Person or by any one or more of its Subsidiaries, or by such Person and one or more of its Subsidiaries; provided that CRR Parent and any Person in which CRR Parent owns, directly or indirectly an interest (it being assumed for the purposes of this Agreement that CRR Parent does not own, directly or indirectly, an interest in either CSX or NSC) shall not be a Subsidiary of either CSX or NSC.

"Surviving Corporation" means the surviving corporation of the Merger.

"Tax" or "Taxes" means taxes of any kind, levies or other similar assessments, customs, duties, imposts, charges or fees, including, without limitation, income taxes, gross receipts, ad valorem, excise, real or personal property, sales, use, payroll, withholding, unemployment, transfer and gains taxes or other governmental taxes imposed by or payable to the United States, or any state, local or foreign government or subdivision thereof, and in each instance such term shall include any interest, penalties or additions to tax attributable to such Tax or Taxes. The term "Tax" or "Taxes" shall not include any payment intended to reimburse the recipient for an excess parachute excise tax imposed under Section 4999 of the Code.

"Tax Allocation Agreement" means the agreement to be entered into among Green, CRR, CRC, CRR Industries, PRR and NYC, substantially in the form attached hereto as Exhibit F, pursuant to which the rights and obligations relating to Tax matters involving the operations of CRR, CRC, PRR and NYC shall be allocated.

"Tax Returns" means all returns, information returns, statements, certifications, reports or other documentation relating to Taxes.

"Third Amendment" means the third amendment, dated March 7, 1997, to the Merger Agreement.

"Third Party Claim" has the meaning ascribed thereto in Section 10.2.

"Trackage Rights Agreements" means the agreements pursuant to which CSXT and NSR will grant trackage rights to the other, in substantially the form attached hereto as Exhibit C; each Trackage Rights Agreement shall be in respect of a Route identified on Item 1 of Schedule 4 and shall incorporate the terms set forth therein.

"Transaction Expenses" means, with respect to a specified Person, all of such Person's fees and expenses, including, without limitation, filing fees and fees and expenses of legal counsel, depositaries, dealer managers, proxy solicitors, information agents, printers, investment bankers or advisors, financing sources, accountants, public relations advisors and other consultants and advisors incurred in connection with the acquisition of CRR Shares, the Merger, the April 8 Agreement, this Agreement, the Ancillary Agreements and the transactions contemplated herein and therein.

"Transportation Contracts" means Contracts between rail carrier(s) and a Person or Persons relating to the purchase of transportation services as specified in 49 U.S.C. Section 10102(9) (A) and (B); provided that, if a Transportation Contract covers service between more than one pair of points, the provisions governing service between each pair of points shall be

treated as a distinct Transportation Contract.

"Unallocated Assets" means Assets which are not as of the date of this Agreement identified on Schedule 1 hereto as Allocated Assets or Retained Assets.

"Valuation Date" has the meaning set forth in the CSXT Operating Agreement, the NSR Operating Agreement, the CSXT Equipment Agreement, the NSR Equipment Agreement and the Shared Assets Agreements.

"Voting Trust" means the voting trust for the shares of capital stock of CRR or CRC created under the Amended and Restated Voting Trust Agreement.

"Work Equipment" means track machinery, non-revenue rolling stock dedicated to track maintenance (such as ballast and tie cars), other mobile equipment (such as backhoes, bulldozers and the like), other engineering equipment and automobiles and trucks assigned to CRC system and staff functions (automobiles and trucks assigned to Allocated Asset locations shall be included in the Allocated Assets).

"Work Equipment Team" has the meaning ascribed thereto in Section 2.6.

Section 1.2. Other Definitive Provisions. When used in this Agreement in respect of a Liability or an Action, the terms "arise" or "arising" mean that the circumstances giving rise to the Liability or Action have transpired, whether or not such Action or Liability has been discovered, asserted or accrued. When used in this Agreement, the term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

## ARTICLE II DESIGNATION AND ALLOCATION OF ASSETS AND LIABILITIES

Section 2.1. Conveyance of Assets. On the Closing Date and upon the terms and subject to the conditions set forth in this Agreement, (i) CRC and its Affiliates shall contribute, assign, transfer, convey and deliver the NYC Allocated Assets to NYC and NYC shall accept from CRC and its Affiliates all of the right, title and interest of CRC and its Affiliates in all of the NYC Allocated Assets, and (ii) CRC and its Affiliates shall contribute, assign, transfer, convey and deliver the PRR Allocated Assets to PRR and PRR shall accept from CRC and its Affiliates all of the right, title and interest of CRC and its Affiliates in all of the PRR Allocated Assets. Except as expressly provided in this Agreement, CSX and its Affiliates, on the one hand, and NSC and its Affiliates, on the other hand, shall retain all their existing rights with respect to the Assets.

Section 2.2. Allocation of Certain Assets. As soon as practicable after the date hereof and in any event prior to the Closing Date, CSX and NSC shall use their best efforts to designate the Unallocated Assets as either NYC Allocated Assets, PRR Allocated Assets or Retained Assets. CSX and NSC shall continue to monitor such designation up to, and shall update such designation as of, the Closing Date. Such designation shall be as agreed between CSX and NSC in accordance with the following guidelines (which shall not, unless CSX and NSC otherwise agree, affect Assets already designated as Allocated Assets or Retained Assets pursuant to Schedule 1 hereto):

(a) Unallocated FF&E shall be designated as follows:  
(i) all FF&E located in or along Allocated Assets shall be designated in the same manner as such Allocated Assets, (ii) all FF&E located in or along Retained Assets shall be designated as Retained Assets and (iii) all FF&E not designated pursuant to clause (i) or (ii) above shall be designated as NYC Allocated Assets or PRR Allocated Assets by value in proportion to CSX's and NSC's respective Percentage.

(b) On or prior to the Closing Date, CSX, NSC and CRR shall take an inventory of all Corporate Memorabilia, and CSX and NSC shall value the principal items or categories, engaging an appraiser if they cannot agree on the value thereof. One half of the Corporate Memorabilia by value shall be designated as NYC Allocated Assets and the other half shall be designated as PRR Allocated Assets by the mutual agreement of CSX and NSC. If CSX and NSC have not agreed on the particular items or categories of Corporate Memorabilia to be designated as NYC Allocated Assets and PRR Allocated Assets, respectively, they will alternate selecting Corporate Memorabilia having a value of 5% (as near as may be) of the total value of all of the Corporate Memorabilia, with the party having first choice selected by lot.

(c) The parties recognize the importance of assuring that the acquisition of CRC does not create shipping disruptions for CRC customers and hence are hereby making arrangements to carry out CRC's Transportation Contracts in the manner hereinafter set forth.

(i) All CRC Transportation Contracts in effect as of the Closing Date ("Existing Transportation Contracts") shall remain in effect through their stated term and the obligations thereunder shall be carried out thereafter by CSXT utilizing NYC Allocated Assets and NSR utilizing PRR Allocated Assets, or pursuant to the Shared Assets Agreements, as the case may be.

(ii) CSXT and NSR shall allocate the responsibilities to serve customers under the Existing Transportation Contracts in a manner to achieve reliability and proper service to the customers, and the revenues and expenses associated with the Existing Transportation Contracts and related services shall be allocated and accounted for between CSXT and NSR in accordance with the Percentage Division to the extent that the performance of contracts allocated by Percentage Division departs from the Percentage Division.

(iii) The following decision rules shall be applied on an annual basis with tentative settlements to the extent required by subsection (c)(ii) on a quarterly basis 60 days after the end of the quarter and an annual true-up 90 days after the end of the year:

(A) For purposes of this Subsection (c), "Local" means a station that is not Dual and is served solely by CSXT or NSR, and "Dual" means a station with line-haul service by both, including service accessed by one or the other through trackage rights or haulage, in each case as of the date of this Agreement giving effect to the effectuation of the Closing. For purposes of the definition of "Dual", the term includes (a) as to commodities that are handled by rail before or after shipment by water, all stations at which such commodities are handled in Ocean, Gulf and Great Lakes port cities to which each of CSXT and NSR has line haul service to any such station, and (b) as to intermodal

service, all intermodal facilities in any city in which each of CSXT and NSR has line haul service to any intermodal facility. Further, references to "Off Line" stations in this Subsection (c) do not include a situation where such station is Local or Dual to NSR or CSXT or a third railroad whose sole connection is with CSXT or NSR.

(B) In addition, for purposes of this Subsection (c) only, the phrase "Percentage Division" shall mean 50% CSXT - 50% NSR.

(C) Revenues shall be allocated as follows:

(aa) Where the Existing Transportation Contract calls for transportation from an origin station located on the PRR Allocated Assets, the allocation shall be solely to NSR, except as follows:

(x) If the origin station is Local to NSR and the destination station is on the NYC Allocated Assets and Local to CSXT, then the allocation shall be on a joint line basis between NSR and CSXT with the interchange to be negotiated between NSR and CSXT and the revenues to be split 30% to NSR, 30% to CSXT, and the remainder to be based upon a mileage prorate; and

(y) If, notwithstanding its location on the PRR Allocated Assets, the origin station is Dual and the destination station is on the NYC Allocated Assets and Local to CSXT, then the allocation shall be solely to CSXT.

(bb) Where the Existing Transportation Contract calls for transportation from an origin station located on the NYC Allocated Assets, the allocation shall be solely to CSXT, except as follows:

(x) If the origin station is Local to CSXT and the destination station is on the PRR Allocated Assets and Local to NSR, then the allocation shall be on a joint line basis between CSXT and NSR with the interchange to be negotiated between CSXT and NSR and the revenues to be split 30% to CSXT, 30% to NSR, and the remainder to be based an a mileage prorate; and

(y) If, notwithstanding its location on the NYC Allocated Assets, the origin station is Dual and the destination station is on the PRR Allocated Assets and Local to NSR, then the allocation shall be solely to NSR.

(cc) Where the Existing Transportation Contract calls for transportation where at least one of the origin and destination stations is Dual or which is located in a Shared Assets Area or located on or accessed from the tracks of the former Monongahela Railway or Waynesburg Southern Railway ("MGA") (collectively, a "Specified Station"), the following shall apply as to such Existing Transportation Contract:



(x) If the other station is located on a PRR Allocated Asset and is Local to NSR, then the allocation shall be solely to NSR;

(y) If the other station is located on an NYC Allocated Asset and is Local to CSXT, then the allocation shall be solely to CSXT; and

(z) If the other station is a Specified Station, then CSXT and NSR shall divide the allocation on the Percentage Division (by revenue) annually.

(dd) Where the origin station is Off Line and the destination station is within the former CRC territory, the following shall apply as to the Existing Transportation Contract:

(x) If the destination station is located on an NYC Allocated Asset and is Local to CSXT, the allocation shall be solely to CSXT.

(y) If the destination station is located on a PRR Allocated Asset and is Local to NSR, the allocation shall be solely to NSR.

(z) If the destination Station is Dual or is located in a Shared Assets Area or in MGA, CSXT and NSR shall divide the allocation on the Percentage Division (by revenue) annually.

(ee) Where the origin station is within the former CRR territory and the destination station is Off Line, the following shall apply as to the Existing Transportation Contracts:

(x) If the origin station is located on an NYC Allocated Asset and is Local to CSXT, the allocation shall be solely to CSXT.

(y) If the origin station is located on a PRR Allocated Asset and is Local to NSR, the allocation shall be solely to NSR.

(z) If the origin station is Dual or is located in a Shared Asset Area or in MGA, CSXT and NSR shall divide the allocation on the Percentage Division (by revenue) annually.

(ff) Where the origin station and the destination station are both Off Line, CSXT and NSR shall divide the allocation on the Percentage Division.

(gg) As to any joint line Existing Transportation Contract which involves either CSXT and CRC and NSR and CRC, that Transportation Contract shall be treated, for the purposes of the above rules, as if it involved an NSR or CSXT Local origin or off-line destination (as the case may be) and only that portion of the transportation over former CRC Routes shall be governed by the foregoing.

(hh) Where, as of the Closing Date, CRC has a proportional rate Existing Transportation Contract which provides a through rate in combination with a separate proportional rate CSXT or NSR transportation contract, the separate CSXT or NSR transportation contract shall be unaffected and only the CRC portion of the transportation shall be governed by the foregoing.

(iv) There shall be a presumption that responsibility for the performance of contracts shall follow the allocations referred to above and that presumption, except in extraordinary cases, shall control in all cases except those provided for in Sections 2.2(c) (iii) (C) (cc) (z), 2.2(c) (iii) (C) (dd) (z), and 2.2(c) (iii) (C) (ee) (z). Exceptions in those cases just mentioned shall be made to promote the use of efficient routes, high-quality service and consistency of service to customers, and in that connection there shall be a presumption against dividing a contract between a single destination and a single origin between the two carriers.

(v) In the case of a single Existing Transportation Contract which covers multiple origin and destination pairs, allocation of revenue shall be on the basis of each pair but CSXT and NSR shall cooperate as necessary to assure that the shippers under such Existing Transportation Contracts receive the benefits (e.g., volume pricing, refunds, etc.) to which they are entitled thereunder, notwithstanding any division of responsibility in providing the transportation.

(vi) Nothing in this Section 2.2(c) shall limit any right of the parties to provide service to or enter into transportation contracts with shippers with Existing Transportation Contracts.

(d) All Contracts granting any unrelated Person the right to bury fiber optic cable longitudinally along Assets shall be designated as Retained Assets (if any Assets in respect of which such rights are given are Allocated Assets, NYC or PRR, as the case may be, will license or otherwise grant rights to CRC or its Affiliates to maintain the subject matter of the Contracts granting such rights), except where such rights relate only to either NYC Allocated Assets or PRR Allocated Assets, in which case such Contracts shall be designated in the same manner as such Allocated Assets; provided that NYC and PRR shall, to the extent permitted under such Contracts that are designated as Retained Assets, be given equal access to CRC's or its Affiliate's rights to use capacity on such fiber optic cable and shall participate equally in any other benefits of such Contracts.

(e) Promptly after the date hereof, CSXT and NSR each shall appoint up to five members of a committee (the "Contracts Team"). The Contracts Team shall meet and not later than January 1, 1998 shall negotiate an equitable designation of all Contracts (other than Transportation Contracts and Contracts otherwise allocated or designated under the terms hereof) based on the following guidelines:

(i) Contracts that relate predominantly to either NYC Allocated Assets, PRR Allocated Assets or Retained Assets will be designated in the same manner as such Assets.

(ii) Contracts (A) that benefit CRC as a whole (such as unfilled system purchase and supply Contracts), (B) that

relate predominantly to Retained Assets (such as certain intermodal terminal Contracts) or (C) that the Contract Team cannot designate for whatever reason, shall be Retained Assets and CRC shall, to the extent permitted under the relevant Contract, subcontract its duties, obligations and rights under such Contract to NYC or PRR by value in proportion to CSX's and NSC's respective Percentage in accordance with the procedure set forth in Section 8.5(b).

(f) Promptly after the date hereof, NSR and CSXT each shall appoint up to five members of a committee (the "Communications Team"). The Communications Team shall meet and not later than January 1, 1998 shall negotiate an equitable designation of all radio licenses held or owned by CRR, CRC or their respective Affiliates ("Radio Licenses") based on the following guidelines:

(i) In general, Radio Licenses will be designated as PRR Allocated Assets or NYC Allocated Assets depending on the designation of the Allocated Assets to which the Radio Licenses most relate. The designation of Radio Licenses will be made in such manner as to facilitate and permit continued operations on the PRR Allocated Assets and the NYC Allocated Assets substantially as conducted before the Closing Date.

(ii) Base Radio Licenses shall be designated and reissued on their present frequencies to PRR or NYC, depending on whether the Allocated Assets on or near which the base radio operates are NYC Allocated Assets or PRR Allocated Assets. If the base radio is used for train operations on a line that includes both PRR Allocated Assets and NYC Allocated Assets, the Radio License shall be allocated in the same manner as the Allocated Assets on which the base radio is located and the party allocated such Radio License shall grant to the other party the right to operate a base station and other needed radio equipment on that frequency.

(iii) Mobile Radio Licenses (such as those relating to engine radios and end-of-train-devices) will be designated as NYC Allocated Assets or PRR Allocated Assets giving effect to the relative operating needs and existing systems of each of NYC and/or CSXT, on the one hand, and PRR and/or NSR on the other hand.

(iv) Radio Licenses for which the Communications Team can not agree upon the designation as PRR Allocated Assets or NYC Allocated Assets prior to the Closing Date or that are required for CRC operations under the Shared Assets Agreements will be Retained Assets and held by CRR for the benefit of both NYC and PRR.

(g) In connection with its negotiations under Section 2.2(f), the Communications Team also shall not later than January 1, 1998 negotiate an equitable designation in accordance with CSX's and NSC's respective Percentage of all Unallocated Assets that are signal and communications equipment or facilities and leased communications services. This will include all signal and communications equipment and facilities and leased services that are (i) used by CRC system-wide, (ii) used in conjunction with the operation of both a Route included in NYC Allocated Assets and a Route included in PRR Allocated Assets (such as a microwave tower), or (iii) of a character that precludes such Assets from being logically segregated and designated by Route. In making its designation, the Communications Team shall consider, among other things, Asset value and each party's relative ability to maintain current operations and compatibility with existing

equipment. Items for which the Communications Team cannot agree upon the designation as PRR Allocated Assets or NYC Allocated Assets prior to the Closing Date or that are required for CRC operations under the Shared Assets Agreements will be Retained Assets and held for the benefit of both NYC and PRR, although it is the intention of the parties that such signal and communications equipment or facilities and leased communications equipment (other than items required for CRC operations under the Shared Assets Agreements) be designated to the extent possible as Allocated Assets.

(h) System stockpiles of inventory, material and supplies of CRR, CRC or their respective Affiliates, regardless of location (other than such Assets designated as PRR Allocated Assets pursuant to Section 2.7) are Pooled Assets that shall be Retained Assets at the Closing Date unless otherwise designated hereunder. Promptly after the date hereof, CSXT and NSR each shall appoint up to four members of a committee (the "Inventory Team"). In addition to its functions pursuant to Section 2.7, the Inventory Team shall not later than January 1, 1998 determine whether and to what extent system stockpiles of inventory, material and supplies of CRR, CRC or their respective Affiliates (i) shall be designated as NYC Allocated Assets or PRR Allocated Assets (such designation to be in proportion to CSX's and NSC's respective Percentage) or (ii) shall be Retained Assets as to which NYC and CSXT, on the one hand, and PRR and NSR, on the other hand, shall have access to in accordance with the procedure to be determined by the Inventory Team pursuant to this Section 2.2(h). In making its identification and designation, the Inventory Team shall specify that (i) inventory, materials and supplies acquired for the purpose of fulfilling third-party Contracts shall be designated in the same manner as and be applied to fulfill such Contracts and (ii) inventory, materials and supplies held for maintenance of facilities that are included in Allocated Assets shall be designated in the same manner as such Allocated Assets. System stockpiles or portions thereof that are not specifically designated by the Inventory Team shall be Retained Assets. The Inventory Team shall determine an appropriate procedure for NYC and CSXT, on the one hand, and PRR and NSR, on the other hand, to have access to all system stockpiles of inventory, material and supplies that are Retained Assets by value in proportion to CSX's and NSC's respective Percentage.

(i) Unless otherwise agreed upon by CSX and NSC prior to the Closing, all computer software and associated data and engineering CADD systems owned or used by CRR, CRC or their respective Affiliates which may be copied and used by both NYC and PRR without the permission of, or payment to, any Person shall be designated in the same manner as the hardware on which it is stored; provided that PRR shall have the right to copy and to receive a non-exclusive license of such computer software, rights, data, licenses and systems that are designated as NYC Allocated Assets and NYC shall have the right to copy and to receive a non-exclusive license of such computer software, rights, data, licenses and systems that are designated as PRR Allocated Assets. Unless otherwise agreed upon by CSX and NSC prior to the Closing, all computer software and associated data and engineering CADD systems owned or used by CRR, CRC or their respective Affiliates which may not be copied or used (or which may not be copied or used without the permission of or payment to any Person) by both NYC and PRR shall be Retained Assets, provided that CRR, CRC and their respective Affiliates shall use their reasonable commercial efforts to assign, license or otherwise make available on an equal basis to each of CSX, NSC or their designees, upon request, the nonexclusive use of all or any portion of such software, data, licenses and systems. Notwithstanding the foregoing, no party shall be required to maintain any item of software on computer equipment included in Allocated Assets, or be required

to make license or other payments for such software, for a period longer than 12 months.

(j) To the extent not otherwise agreed upon by CSX and NSC prior to the Closing Date, all Pooled Assets shall be Retained Assets available for the benefit of both CSXT and NYC, on the one hand, and NSR and PRR, on the other hand in accordance with CSX's and NSC's respective Percentage. If CSX and NSC agree prior to the Closing Date that specified Pooled Assets (or groups of Pooled Assets) should be allocated to NYC or PRR, such specified Pooled Assets shall, at the Closing, be designated as NYC Allocated Assets or PRR Allocated Assets, as the case may be.

#### Section 2.3. System Support Operations; Dispatching.

(a) The parties recognize that each SSO Facility has been used by CRR and CRC to provide a support function benefitting the CRC rail system as a whole (e.g., system-wide crew management or signal repair support functions). It is expected that each of CSXT and NYC, on the one hand, and NSR and PRR, on the other hand, may require the use or benefit of or access to the functions and support provided by the SSO Facilities for a period of time after the Closing Date. Accordingly, the SSO Facilities shall be included in Retained Assets and will continue to be owned by CRR, CRC or its Affiliates. Until a party terminates its use of an SSO Facility as provided below, (i) the costs of operating such SSO Facility shall be included in Corporate Level Liabilities and (ii) such SSO Facility shall be operated for the benefit of both CSXT and NYC, on the one hand, and NSR and PRR, on the other hand, based on their operating and administrative needs.

(b) Each of CSXT and NYC, on the one hand, and NSR and PRR, on the other hand, shall have the right, upon six months' prior written notice, to notify the other that it no longer needs the use of or access to all or any specified portion of the functions performed at a particular SSO Facility. If the party receiving such notice notifies the other party within thirty days of receipt of such notice that it no longer needs the use of or access to all or the same specified portion of the functions performed at a particular SSO Facility, then the effective date of the notice sent by the receiving party shall be deemed to be the same as that of the notice which it received from the notifying party. If the notice relates to less than the entire SSO Facility, it shall state with specificity the particular function(s) and/or Continuing CRC Management position(s) covered by the notice. Notices may be given at any time before or after the Closing Date and in each case shall specify an effective date which shall be a date on or after the Closing Date that is not less than six months after the date such notice is given. From and after the effective date of a notice, all costs associated and incurred after the effective date of such notice with the SSO Facility (or portion thereof) and Continuing CRC Management positions identified in the notice shall cease to be Corporate Level Liabilities and will be allocated entirely to and be the responsibility of the party continuing to use the functions performed at the SSO Facility or portion thereof. Costs associated with an SSO Facility (or portion thereof) or the Continuing CRC Management employees performing work at that SSO Facility which are not terminated by such notice but continue to be incurred for the benefit of both parties will continue to be Corporate Level Liabilities. Notwithstanding the foregoing, Separation Costs associated with Continuing CRC Management employees after the Control Date shall be allocated and paid as provided in Article VI.

(c) In the case of an SSO Facility as to which both CSXT and NYC, on the one hand, and NSR and PRR, on the other hand, have discontinued use of the entire SSO Facility by each

giving six-month termination notices that have become effective, CSX and NSC will cause CRC and its Affiliates to take such action as may be appropriate to discontinue the use of or provide for the disposition of such SSO Facility (which may include a disposition to NYC or PRR), and costs associated with such SSO Facility between the effective date of the second notice and such discontinuance or disposition shall be Corporate Level Liabilities and the cash proceeds, if any, of such discontinuance or disposition shall, subject to Section 4.4, be for the benefit of CRC.

(d) The full costs of maintaining and operating SSO Facilities shall include all direct and indirect costs (excluding return on investment and system overheads), compensation and benefits, purchased services, insurance, facility costs and computer processing costs. CSX and NSC shall establish appropriate accounting systems and controls designed to capture and track such costs.

(e) To facilitate the division of dispatching functions currently performed for the five CRC operating divisions, NSC and CSX agree that the territorial boundaries of the operating divisions will be changed and dispatching functions will be assigned and transferred as follows:

(i) Dearborn division: The Dearborn division office building will be included in PRR Allocated Assets. All dispatching functions at such facility will be assigned to PRR and NSR except (A) those for dispatching the Cleveland East, Cleveland terminal and other Dearborn division segments included in the NYC Allocated Assets, which functions will be assigned and transferred to NYC and CSXT, and (B) those for dispatching of the Detroit Shared Assets Area which functions will be assigned and transferred to CRC and will be relocated to a neutral site.

(ii) Indianapolis division: The Indianapolis division office building will be included in NYC Allocated Assets. All dispatching functions at such facility will be assigned to NYC and CSXT except those for dispatching the Marion branch, the Cincinnati line, the West Virginia secondary and other Indianapolis division segments included in the PRR Allocated Assets, which functions will be assigned and transferred to PRR and NSR.

(iii) Pittsburgh division: The Pittsburgh division office building will be included in PRR Allocated Assets. All dispatching functions at such facility will be assigned to PRR and NSR except those for dispatching Pittsburgh division segments included in the NYC Allocated Assets, which functions will be assigned and transferred to NYC and CSXT.

(iv) Philadelphia division (Mt. Laurel, NJ): The Philadelphia division office building will be included in the Retained Assets. All dispatching functions at such facility will be assigned to PRR and NSR except (A) those for dispatching the Trenton line, the River line, the Popes Creek secondary, the Herbert secondary, the Landover line and other Philadelphia division segments included in the NYC Allocated Assets, which functions will be assigned and transferred to NYC and CSXT, and (B) those for dispatching the North Jersey Shared Assets Area and the South Jersey/Philadelphia Shared Assets Area and segments included in the Retained Assets, which functions will be assigned to CRC.

(v) Albany division: The Albany division office

building will be included in the NYC Allocated Assets. All dispatching functions will be assigned to NYC and CSXT except those for dispatching the Southern tier, including the Corning secondary, the New Jersey transit line, the Buffalo line and other Albany division segments included in the PRR Allocated Assets, which functions will be assigned and transferred to PRR and NSR. The parties intend that the dispatching desks, equipment and similar property associated with a dispatching function will, to the extent practicable, follow the assignment of that function to the party designated pursuant to clauses (i) through (v) above, to enable such party to perform dispatching necessary in connection with the Assets allocated to or used by such party. In addition, the parties recognize that interim dispatching services may be required to be provided to each other for the above Routes during a brief interim period (which shall be no longer than reasonably necessary) and that the parties may charge reasonable fees for such services.

Section 2.4. Transition Period Accommodation. (a) To the extent that (i) the CRR headquarters office building in Philadelphia, PA or (ii) the CRR information technology center in Philadelphia, PA (both of which are NYC Allocated Assets) were used by CRR or CRC prior to the Closing Date for the benefit of the CRR and CRC system as a whole, CSX will (or will cause CSXT or NYC to) furnish and make available for the benefit of NSC or its Affiliates access to and use of such NYC Allocated Assets (including, without limitation, office and other space, equipment, computer systems, and data and other information) as are necessary or convenient in order to reasonably accommodate the needs of NSC, NSR and PRR for the services and functions performed at such facilities for a transition period not to exceed (A) twenty-four months following the Closing Date in respect of the CRR headquarters office building in Philadelphia, PA and (B) six months following the Closing Date (extendable for an additional six months at NSC's option) in respect of the CRR information technology center in Philadelphia, PA. CSX may accommodate such needs of NSC, NSR and PRR for such services and functions using premises in Philadelphia, PA other than the premises referred to in clauses (i) and (ii) of this Section 2.4(a); provided that NSC consents to such arrangement, such consent not to be unreasonably delayed or withheld. CSX, CSXT or NYC, as the case may be, shall furnish and make available to NSC, NSR or PRR such NYC Allocated Assets at those facilities as may be reasonably requested by NSC, NSR or PRR; provided that the nature and scope of the use of such NYC Allocated Assets shall not be greater than the nature and scope of the use of such NYC Allocated Assets for the benefit of the CRR and CRC system prior to the Closing Date. CSX may charge NSC, NSR or PRR, as the case may be, charges calculated at fair market value by CSX and NSC for such use of such NYC Allocated Assets.

(b) To the extent that (i) the CRC car shop at Hollidaysburg, PA or (ii) the CRC locomotive shop at Altoona, PA (both of which are PRR Allocated Assets) were used by CRR or CRC prior to the Closing Date for the benefit of the CRR and CRC system as a whole, NSC will (or will cause NSR or PRR to) reasonably accommodate the needs of CSX, CSXT or NYC for the services and functions performed at such facilities for a transition period not to exceed twenty-four months following the Closing Date. NSC may accommodate such needs of CSX, CSXT and NYC for such services and functions using premises other than the premises referred to in clauses (i) and (ii) of this Section 2.4(b); provided that CSX consents to such arrangement, such consent not to be unreasonably delayed or withheld. NSC, NSR or PRR, as the case may be, shall furnish and make available to CSX, CSXT or NYC such services and functions at those facilities as

may be reasonably requested by CSX, CSXT or NYC; provided that the nature and scope of such services and functions shall not be greater than those which were provided in respect of the NYC Allocated Assets by those facilities prior to the Closing Date. NSC may charge CSX, CSXT or NYC, as the case may be, charges calculated at fair market value by CSX and NSC for such services and functions.

(c) In complying with Section 2.4(a) and Section 2.4(b), (i) the accommodating party will provide or make available the Assets or the services, functions and systems of, and data and information from, the specified facilities to the extent it can reasonably do so and (ii) if the accommodating party so requests, the party accommodated will use its reasonable commercial efforts to discontinue its need for such Assets or services, functions, information, systems and data at the earliest time practicable following, but not later than twenty-four months after, the Closing Date (or earlier time as provided in Section 2.4(a) in respect of the information technology center in Philadelphia, PA). Nothing herein shall preclude a party from agreeing to make available the Assets or services, functions and systems of and information and data from, its facilities to the using party after such maximum periods provided for in Sections 2.4(a) and 2.4(b), but it shall not be required to do so.

(d) CSX will (or will cause CSXT or NYC to) make available to CRR, CRC and their respective Affiliates the CRR headquarters office building and the CRR information technology center in Philadelphia, PA (both of which are NYC Allocated Assets) for use by those employees identified in clause (b) of the definition of "Continuing CRC Management" in Section 1.1. Unless otherwise agreed to by CSX and NSC, CRR, CRC and their respective Affiliates shall have the right to use those facilities for such Continuing CRC Management employees to perform such general, administrative and technical services and functions for an interim period not to exceed (i) twenty-four months following the Closing Date in respect of the CRR headquarters office building in Philadelphia, PA and (B) six months following the Closing Date (extendable for an additional six months at NSC's option) in respect of the CRR information technology center in Philadelphia, PA. CSX may move such facilities to new premises or may move the Continuing CRC Management using the facilities to new premises; provided that NSC consents to such arrangement, such consent not to be unreasonably withheld and; provided further that CSX and NSC agree on the new fair market value of such facilities which will be Corporate Level Liabilities pursuant to this Section 2.4(d). Until a party terminates its use of the support functions and services of any such Continuing CRC Management employee as provided below, the costs of employing such employee and the fair market value of related facilities shall be Corporate Level Liabilities and such employee's services will be available for the benefit of both CSXT and NYC, on the one hand, and NSR and PRR, on the other hand, based on the operating and administrative needs of each.

(e) Each of CSX and NSC and their respective Affiliates shall have the right, upon six months' prior written notice, to notify the other party that the notifying party no longer needs the support functions and services provided by any one or more of the Continuing CRC Management employees referred to in Section 2.4(d). The notice shall state with specificity the particular Continuing CRC Management position(s) covered by the notice. If the party receiving such notice notifies the other party within thirty days of receipt of such notice that it no longer needs the support functions and services provided by the same (or more) continuing CRC Management employees as are



included in the first notice, then the effective date of such second notice shall be deemed to be the same as that of the first notice. Notices may be given at any time before or after the Closing Date and in each case shall specify an effective date on or after the Closing Date, but not less than six months after the date such notice is given. From and after the effective date of such a notice, all costs associated with the Continuing CRC Management positions identified in the notice shall cease to be Corporate Level Liabilities but shall be allocated entirely to and be the responsibility of the party continuing to use the functions and services provided by such Continuing CRC Management positions; provided that in the case of Continuing CRC Management positions as to which both parties have given termination notices that have become effective, all costs associated with such Continuing CRC Management positions after the date the second termination notice becomes effective shall be Corporate Level Liabilities. Notwithstanding the foregoing, Separation Costs associated with all Continuing CRC Management employees after the Closing Date shall be allocated and paid as otherwise provided in Article VI.

Section 2.5. Trackage, Haulage, Shared Asset and Other Operating Agreements. On the Closing Date and upon the terms and subject to the conditions set forth in this Agreement, each of CRC, CSXT and NSR shall execute and deliver, and the parties shall cause their respective Affiliates and NYC and PRR to execute and deliver, the following agreements to which it is a party:

(a) The Trackage Rights Agreements: A Trackage Rights Agreement covering each of the Routes listed in Item 1 of Schedule 4 and containing the terms and provisions applicable to such Route as set forth in Item 1 of Schedule 4 will be executed by the parties designated in such Item 1.

(b) The CSXT/NSR Haulage Agreements: A CSXT/NSR Haulage Agreement covering each of the Routes listed in Item 2 of Schedule 4 and containing the terms and provisions applicable to such Route as set forth in Item 2 of Schedule 4 will be executed by the parties designated in such Item 2.

(c) The Shared Assets Agreements.

(d) The Other Operating Agreements (in respect of Other Operating Agreements for which the relevant Exhibit hereto sets forth all or some of the terms of an agreement rather than the form of agreement, the parties shall use their best efforts to agree to the form of such Other Operating Agreements prior to the Closing Date).

Section 2.6. Equipment. The parties intend that all Equipment will be allocated between NYC and PRR (either as Allocated Assets or as Retained Assets which are subject to the NYC Equipment Agreement or the PRR Equipment Agreement) by series and condition such that NYC and PRR each receives Equipment by value in proportion to CSX's and NSC's respective Percentage. Disputes concerning such allocation shall be subject to binding arbitration under Section 11.12. After the Equipment has been allocated, the parties may agree in their sole discretion to changes in the allocation giving consideration to other factors. In furtherance of the foregoing sentence, the parties will appoint representatives to various teams to consider appropriate adjustments to allocations of Equipment as described below:

(a) Locomotive Equipment. Promptly after the date hereof, CSXT and NSR shall each appoint up to three members of a committee (the "Locomotive Team"). The Locomotive Team shall meet not later than January 1, 1998, to consider an adjustment to

the allocation of locomotive Equipment (including appurtenances and assigned or related equipment such as locomotive radios) to NYC and PRR, taking into consideration the following guidelines:

(i) The Locomotive Team shall agree upon parameters to be considered in any adjustment to the allocation of locomotive Equipment to NYC and PRR, including CRC's book value, actual numbers of locomotives, horsepower, tractive effort, powered axles, ownership and encumbrances, age and condition.

(ii) The CSXT appointees and the NSR appointees on the Locomotive Team shall separately develop and present to each other proposals for any adjustments to the allocation of locomotive Equipment to NYC and PRR.

(iii) In its negotiations, the Locomotive Team may consider CRC yard service, minimizing maintenance costs, enhancing reliability, and meeting service needs. The Locomotive Team may consider trades of CSXT and NSR locomotives to avoid the division of small groups of locomotive Equipment and to minimize the number of different models each would have as a result of the allocation.

(iv) If agreement is not reached prior to March 31, 1998, the Locomotive Team will submit a list of disputed issues for resolution to the chief operating officers of CSXT and NSR.

(b) Rolling Stock Equipment. Promptly after the date hereof, CSXT and NSR each shall appoint up to four members of a committee (the "Rolling Stock Team"). The Rolling Stock Team shall meet not later than January 1, 1998 to consider an adjustment to the allocation of rolling stock Equipment (including cabooses and non-revenue rolling stock but excluding Work Equipment) to NYC and PRR, taking into consideration the following guidelines:

(i) Consideration may be given to class and builder's lot, series within a given AAR car type and AAR Depreciated Value. Consideration may be given to splitting between NYC and PRR so as to minimize ongoing maintenance and repair cost, facilitate the assignment of car reporting marks, permit customary and efficient handling, movement and interchange of rolling stock in compliance with the AAR Car Service Rules and other applicable industry requirements.

(ii) All rolling stock Equipment that CSXT and NSR agree is either (A) obsolete or (B) damaged beyond economical repair necessary to return the same to service, may be grouped in a separate category and allocated between NYC and PRR in accordance with CSX's and NSC's respective Percentage (based on AAR Depreciated Value).

(iii) Consideration will be given to traffic and service requirements on the Routes comprising the Allocated Assets based on the most current traffic information (including current and anticipated traffic density, customer needs and transportation requirements).

(iv) Head-of-train-devices and end-of-train-devices may be allocated between NYC and PRR based on current transportation needs and train starts in respect of the NYC Allocated Assets and PRR Allocated Assets, as the case may be.

(v) If agreement is not reached prior to March 31, 1998, the Rolling Stock Team will submit a list of disputed

issues to the chief operating officers of CSXT and NSR.

(c) Work Equipment. Promptly after the date hereof, NSR and CSXT each shall appoint up to three members of a committee (the "Work Equipment Team"). The Work Equipment Team shall, not later than January 1, 1998, meet to consider an adjustment to the allocation of all Work Equipment that is part of the Unallocated Assets. The Work Equipment Team may allocate such Work Equipment to NYC and PRR by value in proportion to CSX's and NSC's respective Percentage based on category of equipment, then model, then age and then condition. If agreement is not reached prior to March 31, 1998, the Work Equipment Team will submit a list of disputed issues to the chief operating officers of CSXT and NSR.

(d) Assignment. CSXT and NSR recognize that it may be desirable to cause CRC to assign and transfer ownership of certain of the allocated Equipment to NYC and PRR as part of the NYC Allocated Assets or the PRR Allocated Assets, respectively, to the extent such transfer is consistent with existing leases and financing agreements relating to such Equipment. If CSXT and NSR agree, Indebtedness related to Equipment may also be assigned to and assumed by NYC and PRR as part of the NYC Allocated Liabilities and the PRR Allocated Liabilities, respectively.

(e) Lease of Equipment. Equipment that is allocated to NYC and PRR as provided in this Section 2.6 will be made available to NYC and PRR as follows: (i) Equipment that is included in the Retained Assets shall be leased by CRC or its Affiliates to NYC or PRR, as the case may be, pursuant to the NYC Equipment Agreement or the PRR Equipment Agreement and will thereupon be leased or otherwise made available by NYC to CSXT and by PRR to NSR pursuant to the CSXT Equipment Agreement or the NSR Equipment Agreement, respectively; and (ii) Equipment that CSXT and NSR agree shall be assigned and transferred by CRC or its Affiliates to NYC or PRR, as the case may be, will be included in the NYC Allocated Assets or the PRR Allocated Assets, respectively, and will be leased or otherwise made available by NYC to CSXT and PRR to NSR pursuant to the CSXT Equipment Agreement or the NSR Equipment Agreement, respectively. Liabilities arising from the ownership, operation and maintenance of Equipment shall be borne by the parties as provided for in the relevant Equipment Agreements. If the foregoing arrangements are impracticable in respect of any Equipment due to the requirements of any Contracts relating to such Equipment, the parties will negotiate other arrangements to achieve substantially the same effect.

(f) Equitable Adjustment. The parties recognize that the allocation of Equipment in general and the allocation of Equipment that is collateral with respect to Indebtedness may not reflect precisely CSX's and NSC's respective Percentage and that an equitable adjustment may be required with respect to Corporate Level Liabilities or otherwise to assure that each of NYC and PRR receives the benefits and bears the costs of Equipment as nearly as practicable in proportion to CSX's and NSC's respective Percentage. The Locomotive Team, the Rolling Stock Team and the Work Equipment Team, assisted as necessary by CSX and NSC accounting personnel, shall specify an appropriate adjustment mechanism which may include, but need not include or be limited to, trades between CSXT and NSR of locomotive Equipment, rolling stock Equipment and/or Work Equipment.

#### Section 2.7. Inventory at Altoona and Hollidaysburg.

(a) As soon as practicable before the Closing Date, the Inventory Team shall determine the Base Inventory. "Base Inventory" (i) will consist of and mean all rolling-stock-related and locomotive-related inventory and supplies (including

rolling-stock-related and locomotive-related system stockpiles) of CRR, CRC or their respective Affiliates located at the Altoona and Hollidaysburg shops as of a date at least thirty days prior to the anticipated Closing Date to be agreed by the Inventory Team, and (ii) will exclude (A) all obsolete or damaged material and supplies and (B) all inventory acquired for the purpose of fulfilling third-party Contracts which inventory will follow and be applied to fulfillment of such Contracts. The Inventory Team will code and group the items of inventory, materials and supplies included in the Base Inventory as "new," "reconditioned," "re-usable," and the like, and will value the groups based on CRC's material costs or other mutually agreeable methodology (excluding additives and overheads). The sum of the values of the groups will be the value of the Base Inventory.

(b) Rolling-stock-related and locomotive-related inventory and supplies (including rolling-stock-related and locomotive-related system stockpiles) of CRR, CRC and their respective Affiliates located at the Altoona and Hollidaysburg shops as of the Closing Date will be included in the PRR Allocated Assets. To the extent that, after the Closing Date, any work is performed at the request and for the account of CSXT or NYC at the Altoona shop or the Hollidaysburg shop pursuant to Section 2.4(b), CSXT and NYC will not be charged for inventory and supplies used in such work up to an amount of inventory and supplies equal to 42% of the total value of the Base Inventory, but only to the extent that such work requires material and supplies of the types included in the Base Inventory. Notwithstanding the foregoing, NSR or PRR will separately charge CSXT or NYC for the fair market value of work performed for the account of CSXT or NYC.

Section 2.8. Allocated and Retained Liabilities. The parties agree that on and as of the Closing Date (x) NYC shall assume and agree to pay, perform and discharge as and when due all of the NYC Allocated Liabilities, (y) PRR shall assume and agree to pay, perform and discharge as and when due all of the PRR Allocated Liabilities, and (z) CRC and its Affiliates shall retain and pay, perform and discharge as and when due all of the Retained Liabilities. In furtherance of the foregoing, the parties agree that, in addition to Employee Related Liabilities that are designated as Allocated Liabilities or Retained Liabilities under Article VI, the Allocated Liabilities and the Retained Liabilities shall consist of the following:

(a) All Liabilities of CRR, CRC or their Affiliates, other than Environmental Liabilities (which are expressly allocated pursuant to Section 2.8(b)), Corporate Level Liabilities (which are expressly allocated pursuant to Section 2.8(f)), Employee Related Liabilities (which are expressly allocated pursuant to Article VI), Liabilities referred to in Section 2.9 or Liabilities expressly allocated to any Person pursuant to any of the Ancillary Agreements, including Liabilities associated with the handling and disposition of Actions, that (i) arise on or after the Closing Date and relate predominantly to NYC Allocated Assets shall be NYC Allocated Liabilities, and (ii) arise on or after the Closing Date and that relate predominantly to PRR Allocated Assets shall be PRR Allocated Liabilities.

(b) Environmental Liabilities (other than Environmental Liabilities expressly allocated to any Person pursuant to any of the Ancillary Agreements) shall be designated as follows: (i) Environmental Liabilities that relate predominantly to NYC Allocated Assets shall be NYC Allocated Liabilities; (ii) Environmental Liabilities that relate predominantly to PRR Allocated Assets shall be PRR Allocated Liabilities; and (iii) Environmental Liabilities that do not

relate predominantly to Allocated Assets shall be Corporate Level Liabilities; provided that, in the case of Environmental Liabilities allocated to either NYC or PRR pursuant to clause (i) or (ii) above, NYC or PRR, as the case may be, will be reimbursed by CRC as amounts are expended by NYC or PRR, as the case may be, in respect of an Environmental Liability to the extent of the amount of the reserve existing in respect of such Environmental Liability as of April 8, 1997, reduced by any payments made and charged against such reserve prior to the Closing Date, except that NYC or PRR, as the case may be, will repay the amounts under this Section 2.8(b) to CRC to the extent that they receive the proceeds of any insurance recoveries in respect of an Allocated Liability which exceed such Allocated Liability net of such payments made.

(c) All Liabilities (other than Liabilities expressly allocated to any Person pursuant to any of the Ancillary Agreements) associated with the handling and disposition of FELA Claims made on or after the Control Date shall be NYC Allocated Liabilities, PRR Allocated Liabilities or Corporate Level Liabilities based upon the final allocation under this Article II of the Asset where the incident or incidents giving rise to the FELA Claim occurred, or, if the FELA Claim arises from an incident or incidents occurring at more than one location, based upon the final allocation under this Article II of the Asset most significantly involved.

(d) Except as provided in Section 2.8(a), Section 2.8(b) or Section 2.8(c), all Liabilities associated with the handling and disposition of Actions arising from incidents which occur in part prior to the Closing Date and in part on or after the Closing Date shall be allocated as follows:

(i) that portion of the Liability which is fairly attributable to incidents occurring prior to the Closing Date shall be Corporate Level Liabilities; and

(ii) that portion of the Liability which is fairly attributable to incidents occurring on or after to the Closing Date shall be NYC Allocated Liabilities, PRR Allocated Liabilities or Corporate Level Liabilities based upon the final allocation under this Article II of the Asset where the incident or incidents giving rise to the Action occurred, or, if the Action arises from an incident or incidents occurring at multiple locations, based upon the final allocation under this Article II of the Asset most significantly involved.

(e) Except as provided in Section 2.9(b) or Section 2.9(c), all Liabilities incurred after April 8, 1997 relating to the Merger Agreement, including without limitation Liabilities for CRR Shares, if any, that are put pursuant to the Pennsylvania Control Transaction Law, shall be Retained Liabilities.

(f) Except as provided in Sections 2.8(b) through (e), all Liabilities that arise prior to the Closing Date and all Corporate Level Liabilities shall be Retained Liabilities.

Section 2.9. Other Liabilities. (a) Each of CSX and NSC shall bear its own Transaction Expenses.

(b) CSX shall bear and pay all of CSX's, CRR's, the Surviving Corporation's and their respective Affiliates' Liabilities to current or former CRR shareholders with respect to the handling (which CSX shall control) and disposition (which CSX shall control) of claims pending on April 8, 1997 in shareholder Actions pending on April 8, 1997 (other than Actions brought by NSC or its Affiliates) together with all related litigation costs

(which shall not include CRR legal fees incurred prior to April 8, 1997).

(c) CSX's, Green's, CRR's and the Surviving Corporation's, on the one hand, and NSC's and AAC's on the other hand, Liability with respect to the handling (which shall be controlled by the liability bearing party) and disposition (which shall be controlled by the liability bearing party) of disclosure-based claims based on disclosures made prior to April 8, 1997 brought by current or former CRR shareholders in connection with the Merger Agreement, the Amended Second Offer (as defined in the April 8 Agreement) or the transactions contemplated thereby based on the accuracy or completeness of information supplied by such party, together with all related litigation costs (which shall not include CRR legal fees incurred prior to April 8, 1997), shall be borne solely by CSX or NSC, respectively.

#### Section 2.10. Interline Accounts and Allocation.

(a) The parties acknowledge that interline railroads often allocate certain assets and liabilities arising from interline activities between and among themselves on the basis of AAR or industry agreements and rules, including, without limitation, AAR rules for the allocation of freight revenues and freight loss and damage claims. If any Asset or Liability which is allocated under this Agreement to NYC or PRR would, in the usual course of business under applicable AAR or industry agreement, rule or practice, be allocated between or among participating interline railroads, then the subsequent allocation of that Asset or Liability between or among NYC, PRR and/or any railroad subsidiary of either CSX or NSC under that agreement, rule or practice shall not in any manner be affected by this Agreement and the parties shall accept and be governed by that subsequent reallocation under the applicable AAR or industry agreement, rule or practice, notwithstanding any provision of this Agreement which may be construed or interpreted to the contrary, including, without limitation, the provisions of Section 2.2 and Section 2.8. The parties shall also accept and be governed by any provision of any AAR or industry agreement, rule or practice applicable to processes and procedures for dealing with the circumstances underlying any such subsequent reallocation (including without limitation the investigation and processing of third party claims), notwithstanding any provision of this Agreement which may be construed or interpreted to the contrary, including, without limitation, the provisions of Section 8.14 and Section 10.2.

(b) If any dispute, controversy or claim arises with regard to the subsequent reallocation of any portion of any asset or liability allocated under Section 2.10(a), and the pertinent AAR or industry agreement, rule or practice provides for arbitration, then the arbitration provisions of that agreement, rule or practice shall, as to that subsequent reallocation, supersede any provisions of this Agreement which may be construed or interpreted to the contrary, including, without limitation, the arbitration provisions of Section 11.12.

Section 2.11. Insurance Proceeds. Except as otherwise provided in this Agreement, the proceeds of any insurance recoveries from insurance carried by CRR, CRC or their respective Affiliates on or prior to the Closing Date covering Assets, Retained Liabilities or Allocated Liabilities, which are received on or after the Closing Date, shall accrue to the benefit of and be held by or paid over to CRC, NYC or PRR in proportion to the obligation each bears under this Agreement for the particular Liabilities to which the insurance recoveries are applicable.

ARTICLE III  
CLOSING AND CLOSING DATE

Section 3.1. Closing. Subject to the terms and conditions of this Agreement, the closing of the transactions contemplated in Article II and Article VI (the "Closing") shall take place at a place to be mutually agreed by CSX and NSC on the third business day following the date on which all of the conditions set forth in Article IX shall have been satisfied or waived, or at such other time, date and place as the parties shall agree upon (the "Closing Date").

Section 3.2. Pre-Closing Actions. Prior to the Closing, CRR shall cause CRC to establish NYC and PRR as wholly owned Subsidiaries of CRC and shall cause CRC and NYC to enter into the NYC LLC Agreement and shall cause CRC and PRR to enter into the PRR LLC Agreement.

Section 3.3. Closing Deliveries. At the Closing:

(a) CSX and CSXT shall deliver or cause to be delivered to NSC the following documents:

(i) an executed counterpart of the CSXT Equipment Agreement;

(ii) an executed counterpart of the CSXT Operating Agreement;

(iii) an executed counterpart of each of the Trackage Rights Agreements to which CSXT or its Affiliates is to be a party;

(iv) an executed counterpart of each of the CSXT/NSR Haulage Agreements to which CSXT or its Affiliates is to be a party;

(v) an executed counterpart of each of the Shared Assets Agreements and Other Operating Agreements to which CSXT or its Affiliates is to be a party; and

(vi) such other and further certificates, assurances and documents otherwise necessary for the consummation of the transactions contemplated by this Agreement and the Ancillary Agreements.

(b) NSC and NSR shall deliver or cause to be delivered to CSX the following documents:

(i) an executed counterpart of the NSR Equipment Agreement;

(ii) an executed counterpart of the NSR Operating Agreement;

(iii) an executed counterpart of each of the Trackage Rights Agreements to which NSR or its Affiliates is to be a party;

(iv) an executed counterpart of each of the CSXT/NSR Haulage Agreements to which NSR or its Affiliates is to be a party;

(v) an executed counterpart of each of the Shared Assets Agreements and Other Operating Agreements to which NSR or its Affiliates is to be a party; and

(vi) such other and further certificates, assurances

and documents otherwise necessary for the consummation of the transactions contemplated by this Agreement and the Ancillary Agreements.

(c) CRR Parent, CRR and CRC (for itself and, if applicable, as CRR's successor entity) shall deliver or cause to be delivered to each of CSX and NSC:

(i) the NYC Equipment Agreement executed by CRC and NYC;

(ii) a counterpart of the CSXT Equipment Agreement executed by NYC;

(iii) the PRR Equipment Agreement executed by CRC and PRR;

(iv) a counterpart of the NSR Equipment Agreement executed by PRR;

(v) a counterpart of the CSXT Operating Agreement executed by NYC;

(vi) a counterpart of the NSR Operating Agreement executed by PRR;

(vii) an executed counterpart of each of the Trackage Rights Agreements, the CSXT/NSC Haulage Agreements, the Shared Assets Agreements and the Other Operating Agreements to which CRC or its Affiliates is a party;

(viii) the Tax Allocation Agreement executed by Green, CRR, CRC, CRR Industries, PRR and NYC;

(ix) the NYC LLC Agreement executed by CRC;

(x) the PRR LLC Agreement executed by CRC;

(xi) a Capital Contribution, Assignment and Assumption Agreement executed by CRC and NYC to effectuate the transfer of the NYC Allocated Assets and the NYC Allocated Liabilities to NYC;

(xii) a Capital Contribution, Assignment and Assumption Agreement executed by CRC and PRR to effectuate the transfer of the PRR Allocated Assets and the PRR Allocated Liabilities to PRR; and

(xiii) such other and further certificates, assurances and documents otherwise necessary for the consummation of the transactions contemplated by this Agreement and the Ancillary Agreements.

#### ARTICLE IV

##### CRR PARENT, CRR AND CRC GOVERNANCE AND FUNDING

Section 4.1. Pre-Control Date Matters. (a) Unless expressly permitted in another agreement between CSX and NSC, neither CSX nor NSC will, without the prior agreement of the other, agree to any modifications of the terms and conditions of, or give any consent or waiver under, the Merger Agreement, including without limitation under Section 4.1 of the Merger Agreement. Without limiting the foregoing, neither CSX nor NSC will, without the other's prior consent, agree to any determinations with respect to, direct CRR to take any action with respect to, or object to or prohibit any action with respect to CRR's employee stock ownership plan, pension plan, stock



employee compensation trust or any other CRR benefit plan, program, arrangement or other contract, or any trust or other funding arrangement that is intended to be used in whole or in part to provide or fund benefits under any CRR or CRC benefit plans, programs, arrangements or contracts. In addition, CSX will consult and agree with NSC prior to providing any notices to CRR under the Merger Agreement and shall promptly provide NSC with copies of all written notices provided by CSX to CRR or received by CSX from CRR under the Merger Agreement.

(b) Prior to the Control Date CRR shall be governed in accordance with the terms of the Amended and Restated Voting Trust Agreement.

Section 4.2. Post-Control Date CRC Governance. CRR Parent shall vote all of the shares in the capital stock of CRC and all of the parties shall take all other necessary or desirable action within their respective control to effectuate the following:

(a) Following the Control Date, the business and affairs of CRC shall be managed under the direction of the CRC Board consisting of six persons divided into two classes of three directors. Three directors shall be designated by CSX (the "CSX Directors") and three directors shall be designated by NSC (the "NSC Directors").

(b) Approval of the CRC Board shall be required for all Major Decisions of CRC. The power of the CRC Board to approve such actions and decisions shall be exclusive to the CRC Board, and no officer may take any such action or make any such decision without the approval of the CRC Board. Any action or decision of the CRC Board, whether at a meeting of the CRC Board or by written consent, may only be taken if approved by a majority of CSX Directors and a majority of NSC Directors.

(c) The CSX Directors may appoint by majority vote one Co-Chairman (the "CSX Co-Chairman") and the NSC Directors may appoint by majority vote one Co-Chairman (the "NSC Co-Chairman"). The Co-Chairmen shall preside at all meetings of the CRC Board and shall have and perform such other duties as may be assigned to them by the CRC Board.

(d) If the office of any CSX Director becomes vacant, the remaining CSX Directors by a majority vote may appoint any qualified individual to fill such vacancy, and such individual shall hold office for the unexpired term and until his or her successor shall be duly chosen. If the office of any CSX Director becomes vacant and there are no remaining CSX Directors, CSX may appoint any qualified individuals to fill the CSX Directors vacancies by a writing to such effect. If the office of any NSC Director becomes vacant, the remaining NSC Directors by a majority vote may appoint any qualified individual to fill such vacancy, and such individual shall hold office for the unexpired term and until his or her successor shall be duly chosen. If the office of any NSC Director becomes vacant and there are no remaining NSC Directors, NSC may appoint any qualified individuals to fill the NSC Directors vacancies by a writing to such effect.

(e) Any CSX Director may be removed either for or without cause at any time, but only by CSX in a writing to such effect. Any NSC Director may be removed either for or without cause at any time, but only by NSC in a writing to such effect.

(f) In addition to the two Co-Chairmen of the CRC Board, the officers of CRC may include a chief executive officer, one or more vice presidents, a treasurer and a secretary, all of

whom shall be elected by and shall serve at the direction of the CRC Board.

(g) The parties agree to take all necessary action such that each of CSX and NSC shall have rights identical to those set forth in paragraphs (a) through (f) above with respect to the Boards of Directors and management of CRR and each of its Affiliates in addition to CRC other than NYC and PRR.

Section 4.3. Post-Closing Date CRC Funding. (a) From and after the Closing Date, CSX and NSC shall ensure that CRR, CRC and their Affiliates have sufficient cash to satisfy the Retained Liabilities as they become due and any operating and other expenses incurred by CRR, CRC and their Affiliates in the conduct of their business consistent with this Agreement and the Ancillary Agreements after giving effect to any Distributions received or to be received from NYC and PRR. In furtherance of the foregoing sentence, following receipt by CRR Parent of written notice from CRC of a CRC Board decision that CRC requires such cash, CRR Parent shall provide such cash to CRC by capital contribution, loan or advance to be made on the next business day following the expiration of 30 days after receipt of such notice, unless a later date is determined by the CRC Board or another date is agreed in writing by CRC and CRR Parent.

(b) It is the intent of the parties that the economic burden of the Corporate Level Liabilities will be borne, directly or indirectly, by CSX or NSC in accordance with their respective Percentage.

Section 4.4. Post-Control Date CRC and Other Distributions. Following the Control Date, subject to any legal and contractual restrictions, the CRC Board shall cause CRC to make a Distribution to CRR Parent as soon as is practical and in any event within 45 days after each fiscal quarter of all cash received by CRC from operations and any dividends, interest or other cash Distributions from any Person in which CRC has an interest which is in excess of 120% of the amount of cash reasonably contemplated by the CRC Board as being necessary for the cash payment of CRC's operating expenses (net of receipts), debt service, contingencies, budgeted capital expenditures and working capital requirements (all of which shall take into account cash on hand and future expected cash surpluses and cash requirements). Notwithstanding the foregoing, no Distribution shall be made which would render CRC insolvent or which is prohibited by the terms of any Indebtedness of CRC or its Affiliates.

Section 4.5. Operating Fees, Interest Rentals and Base Rent. The parties anticipate that as of the Closing Date, the sum of the following amounts will total seven hundred and fifty million dollars: (i) Interest Rentals payable under the Shared Assets Agreements, (ii) Operating Fees payable under the CSXT Operating Agreement and the NSR Operating Agreement and (iii) Base Rent payable under the CSXT Equipment Agreement and the NSR Equipment Agreement. The parties acknowledge that as of a Valuation Date, (i) the Interest Rentals, Operating Fees and Base Rent shall be determined as set forth in the CSXT Operating Agreement, the NSR Operating Agreement, the CSXT Equipment Agreement, the NSR Equipment Agreement and the Shared Assets Agreements and (ii) the allocation between CSXT and NSR of the Operating Fees and Base Rent payable under the CSXT Operating Agreement, the NSR Operating Agreement, the CSXT Equipment Agreement and the NSR Equipment Agreement shall reflect the then relative Fair Market Rental Values of the NYC Allocated Assets, the PRR Allocated Assets, the CSXT Equipment and the NSR Equipment as of the most recent Valuation Date (which allocation, in the case of a Valuation Date that is also the Closing Date,

shall be a 58% allocation to NSR and a 42% allocation to CSXT).

ARTICLE V  
NYC and PRR GOVERNANCE AND CONDUCT

Section 5.1. NYC Governance. From and after the Control Date, CSX shall have exclusive authority to direct the appointment of the officers and directors of NYC who shall in their discretion, but subject to the provisions of this Agreement, direct the operation of NYC. Without limiting the foregoing but subject to Section 5.3, CRC, in its capacity as the sole member of NYC, shall follow CSX's directions with respect to the management and operation of NYC to the extent that such directions are not inconsistent with the terms of this Agreement, the NYC LLC Agreement or any applicable laws and do not involve the transfer, sale, conveyance, distribution, pledge, hypothecation, encumbrance or assignment of such membership interest (other than in connection with a Restructuring).

Section 5.2. PRR Governance. From and after the Control Date, NSC shall have exclusive authority to direct the appointment of the officers and directors of PRR, who shall in their discretion, but subject to the provisions of this Agreement, direct the operation of PRR. Without limiting the foregoing but subject to Section 5.3, CRC, in its capacity as the sole member of PRR, shall follow NSC's directions with respect to the management and operation of PRR to the extent that such directions are not inconsistent with the terms of this Agreement, the PRR LLC Agreement or any applicable laws and do not involve the transfer, sale, conveyance, distribution, pledge, hypothecation, encumbrance or assignment of such membership interest (other than in connection with a Restructuring).

Section 5.3. NYC and PRR Actions. Notwithstanding anything to the contrary contained in Section 5.1 or Section 5.2, unless it receives the prior written consent of CSX and NSC to the contrary, CRC, as the sole member of each of NYC and PRR, shall cause NYC and PRR respectively to enforce, to the fullest extent permitted by law or Contract, their rights under the Ancillary Agreements, including any right to receive payments or any indemnities thereunder.

Section 5.4. NYC and PRR Distributions. The parties agree that, from and after the Control Date, other than Distributions made by NYC and PRR contemporaneously and in proportion to the respective Percentage of CSX and NSC, NYC and PRR shall not be required, without the consent of CSX or NSC, respectively, to make any Distributions to CRC or its Affiliates.

Section 5.5. Actions. CRC shall exercise its ownership interest in NYC and PRR, respectively, and all of the parties shall take all other necessary or desirable action within their respective control, in order to effectuate the provisions of this Article V.

ARTICLE VI  
EMPLOYEE MATTERS

Section 6.1. Employees of CRR and CRC. (a) On the Closing Date, or as soon thereafter as any applicable labor agreements, statutes, regulations and STB conditions, and implementing agreements thereunder, may permit or require, each of CSX, NSC, NYC or PRR or their respective Affiliates shall make employment available to CRR and CRC agreement employees pursuant to the requirements and procedures under the said applicable

labor agreements, statutes, regulations, conditions and implementing agreements.

(b) Prior to the Closing Date, each of CSX and NSC and their respective Affiliates shall comply with the Staffing Process Guidelines dated June 1, 1997 as adopted by CSX and NSC.

(c) Not later than thirty days prior to the Closing Date, CSX and NSC jointly shall determine the location, functions to be performed by, resources and positions required by, and methodology for cost determination for Continuing CRC Management. Each function shall be defined in terms of a description of the function, the number of positions required to perform the function and general descriptions of the nature of each function, including whether it is intended to be performed on an interim or on-going basis. CSX and NSC jointly may enter into one or more agency agreements by which CSX or NSC or their respective Affiliates may perform any Continuing CRC Management functions.

(d) To the extent implementing agreements are required by STB-imposed conditions in order to effect the transactions contemplated by Article II and Article VI, each party agrees to use its commercially reasonable efforts to obtain implementing agreements reasonably determined by the parties to be necessary to effect such transactions. Where necessary to effect the transactions contemplated by Article II and Article VI, the parties will jointly negotiate (and if no agreement is reached will jointly arbitrate to reach an agreement) an implementing agreement to which they will be parties with the employee representative(s) of the appropriate craft or class of employees of each carrier. Notwithstanding the foregoing, no party shall be required by this Section 6.1(d) to agree to implementing agreements which it, in its reasonable judgment, determines to be contrary to its business interests.

Section 6.2. Employee Related Liabilities. Employee Related Liabilities shall be designated as follows:

(a) Separation Costs subsequent to the Control Date associated with agreement employees at CRC's or its Affiliates' shops in Altoona and Hollidaysburg shall be the responsibility of NSR. Separation Costs subsequent to the Control Date associated with agreement employees at CRC's or its Affiliates' headquarters in Philadelphia, technology center in Philadelphia, and customer service center in Pittsburgh (notwithstanding its joint use as a SSO Facility) will be the responsibility of CSXT.

(b) The on-going employee expenses related to Continuing CRC Management after the Control Date shall be Corporate Level Liabilities; provided that (i) each of CSX and NSC shall have the right pursuant to Section 2.3 to discontinue use of a Continuing CRC Management function or a position related to a SSO Facility and (ii) each of CSX and NSC shall have the right pursuant to Section 2.4 to discontinue use of a function performed by, or a position occupied by, an employee identified pursuant to clause (b) of the definition of Continuing CRC Management. Notwithstanding the foregoing, Separation Costs associated with Continuing CRC Management employees after the Closing Date shall be allocated as otherwise provided in this Agreement.

(c) In each instance subsequent to the Control Date and subject to the provisions of Section 6.2(a) above, (i) Separation Costs associated with CRC agreement employees working jobs at or in respect of NYC Allocated Assets will be the sole responsibility of CSXT, (ii) Separation Costs associated with CRC agreement employees working jobs at or in respect of PRR Allocated Assets will be the sole responsibility of NSR, (iii) for each CRC agreement employee working a job at or in respect of

Retained Assets, Separation Costs will be a Corporate Level Liability, and (iv) Separation Costs associated with CRC or CRR agreement employees working jobs at or in respect of two or more such properties (i.e., NYC Allocated Assets, PRR Allocated Assets and Retained Assets) will be treated as the responsibility of CSXT, NSR, or as a Corporate Level Liability, depending upon the Asset at or in respect of which the employee predominantly works.

(d) Subject to Sections 6.2(a) and (e), if an employee of CRR, CRC or their respective Affiliates on the Control Date who is subject to any protective conditions imposed by the STB pursuant to the transactions contemplated by this Agreement or the Ancillary Agreements cannot obtain employment with CRC, PRR, NYC, CSX, NSC or their respective Affiliates after the Control Date, then the Separation Costs in respect of such employee shall be included among Corporate Level Liabilities, NYC Allocated Liabilities or PRR Allocated Liabilities on the basis of whether the employee performed the preponderance of his or her service in the six months preceding the first day of the month in which the Control Date occurred at or in respect of a Retained Asset, an NYC Allocated Asset or a PRR Allocated Asset. The Separation Costs of employees as to whom no reasonable determination can be made shall be Corporate Level Liabilities, but shall be assigned on an alternating basis to NYC and PRR for the purpose of administering the claims.

(e) If an employee of CRC, CSX, NSC, PRR, NYC or their respective Affiliates who is subject to any protective conditions imposed by the STB pursuant to the transactions contemplated by this Agreement or the Ancillary Agreements moves his or her employment from one of such parties to another of such parties on or after the Control Date (including any employee in respect of whom the Separation Costs have already been allocated to one of CRC, PRR, NYC, CSX, NSC or their respective Affiliates), responsibility for such employee's Separation Costs arising thereafter shall be assumed by the new employer; provided that any relocation costs shall be the responsibility of the first employer.

(f) Separation Costs associated with employees who were employed by CSX or NSC or their Affiliates on the day preceding the Control Date will be the sole responsibility of such employer.

(g) Separation Costs associated with employees who are, as of the Control Date, non-agreement employees of CRR or CRC (including payments to be made by CSX, CRR or the Surviving Corporation under the Merger Agreement) shall be Corporate Level Liabilities. Compensation and other expenses after the Control Date associated with those non-agreement CRC employees who are not designated as Continuing CRC Management and who are not employed by either CSX or NSC, or their respective Affiliates, shall be Corporate Level Liabilities until such time as such employees are no longer employed by CRC.

(h) Compensation and other expenses (excluding Separation Costs) for agreement employees (other than Continuing CRC Management) working jobs at or in respect of NYC Allocated Assets shall be the sole responsibility of CSXT. Compensation and other expenses (excluding Separation Costs) for agreement employees (other than Continuing CRC Management) working jobs at or in respect of PRR Allocated Assets shall be the sole responsibility of NSR.

(i) Notwithstanding anything in this Section 6.2 to the contrary, Separation Costs (other than payments made pursuant to the CRR Stay Bonus Program) under CRR or CRC plans and agreements (including the Third Amendment) for a CRC

non-agreement employee who becomes employed after the Control Date by CSX or its Affiliates or NSC or its Affiliates, which Separation Costs arise subsequent to the date of such employment, will be borne by the employing party.

Section 6.3. Non-Agreement Employee Benefit Plans.

(a) The employee benefit plans, programs and policies which currently are provided to the non-agreement employees of CRR, CRC or their respective Affiliates will continue to be provided to the non-agreement employees of CRC and its Affiliates and to non-agreement Continuing CRC Management on and after the Control Date, unless it is determined jointly by CSX and NSC that such benefits shall be changed; provided that CSX and NSC shall not make any changes in such plans, programs or policies that contravene Attachment A to the CRR Disclosure Schedule delivered in connection with the Third Amendment. The costs associated with such plans, programs and policies shall be Corporate Level Liabilities, except that Separation Costs shall be allocated and paid as otherwise provided herein. CSX and NSC jointly may enter into one or more agency agreements with CRR, CRC or their respective Affiliates for CSX or NSC to provide any of such benefits, programs or policies.

(b) Any employee benefit plans, programs and policies for the employees of NYC and its Subsidiaries shall be the sole responsibility of NYC and included in the NYC Allocated Liabilities. Any employee benefit plans, programs and policies for the employees of PRR and its Subsidiaries shall be the sole responsibility of PRR and included in the PRR Allocated Liabilities. However, notwithstanding the foregoing, NYC, PRR and CRC shall provide to each other any information that is necessary to determine whether any benefit plan is or continues to be tax qualified, and in the event that NYC, PRR or CRC reasonably determines that the benefit plans of NYC, PRR and CRC, when considered together, may cause one or more benefit plans to lose or fail to obtain their tax qualification, NYC, PRR and CRC shall agree to appropriate changes to prevent such loss of tax qualification.

(c) CSX, NSC and CRC agree to take any actions permitted by law that are necessary or appropriate to determine the amount of excess assets in CRC benefit plans and to allow allocation to CSX and NSC or their respective Affiliates in proportion to their respective Percentage; provided that no such transfer shall reduce the assets remaining in any CRC defined benefit plans to a level that is less than 100% of the Liabilities for benefits on a termination basis as reasonably calculated by Price Waterhouse employing usual and customary methodology and assumptions and; provided further that no such transfer shall reduce the assets remaining in any other CRC benefit plan to a level that is less than 100% of the Liabilities for those other CRC benefit plans as reasonably calculated by Price Waterhouse. CSX, NSC and CRC shall reach an agreement as to the transfer of accrued benefits and related assets with respect to employees that are transferred.

(d) Any Liabilities incurred prior to the Closing Date by CRR, CRC or any of their respective Affiliates with respect to any employee benefit plan, program, policy or arrangement, other than to the extent a Liability is funded under a CRC benefit plan, shall be Corporate Level Liabilities.

Section 6.4 Residual Liability. The allocation of liabilities associated with the employees of CRR, CRC or any of their respective Affiliates hereunder is intended merely to assign primary responsibility for such liabilities among the parties. Nothing in the Agreement shall be interpreted or construed as a restriction or limitation of the duties and

responsibilities of CRR, CRC, their respective Affiliates and CSX with respect to employee-related liabilities as set forth in the Merger Agreement and Attachment A to the CRR Disclosure Schedule delivered in connection with the Third Amendment.

## ARTICLE VII REPRESENTATIONS AND WARRANTIES

Section 7.1. CSX. CSX represents and warrants to NSC, CRR and CRR Parent as of the date hereof and as of the Closing Date as follows:

(a) Organization and Good Standing. CSX is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Virginia.

(b) Authority. CSX has full corporate power and authority to execute and deliver this Agreement and the Ancillary Agreements and to consummate the transactions contemplated hereby and thereby. All corporate acts and other corporate proceedings required to be taken by or on the part of CSX to authorize CSX to execute, deliver and authorize the performance of this Agreement and the Ancillary Agreements and the transactions contemplated hereby and thereby have been duly and properly taken.

(c) Enforceability. This Agreement has been and each of the Ancillary Agreements will be duly executed and delivered by CSX and, when duly executed and delivered by NSC and (to the extent such agreement is not being entered into as of the date hereof) CSX, will constitute the legal, valid and binding obligation of CSX enforceable in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization and other laws of general application relating to or affecting enforcement of creditors' rights and except that the availability of equitable remedies, including specific performance, is subject to the discretion of the court before which any proceeding therefor may be brought.

(d) No Violation. The execution and delivery by CSX of this Agreement and the Ancillary Agreements will not violate in any material respect any law, or in any material respect conflict with, result in any breach of, constitute a default (or any event which with notice or lapse of time or both would become a default) under the Articles of Incorporation or Bylaws of CSX or any material Contract to which CSX is a party or by which it or its property or assets is bound.

(e) No Approvals. Except for required approvals by the STB and filings required under the Securities Exchange Act of 1934, as amended (the "Required Approvals"), no declaration, filing or registration with, or notice to, or authorization, consent or approval of, any Governmental Entity is necessary for the consummation by CSX of the transactions contemplated hereby or by the Ancillary Agreements, other than such filings, registrations, authorizations, consents or approvals which, if not obtained or made, will not, in the aggregate, materially adversely affect the ability of CSX to consummate the transactions contemplated hereby or by the Ancillary Agreements.

Section 7.2. NSC. NSC represents and warrants to CSX, CRR and CRR Parent as of the date hereof and as of the Closing Date as follows:

(a) Organization and Good Standing. NSC is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Virginia.

(b) Authority. NSC has full corporate power and authority to execute and deliver this Agreement and the Ancillary Agreements and to consummate the transactions contemplated hereby and thereby. All corporate acts and other corporate proceedings required to be taken by or on the part of NSC to authorize NSC to execute, deliver and authorize the performance of this Agreement and the Ancillary Agreements and the transactions contemplated hereby and thereby have been duly and properly taken.

(c) Enforceability. This Agreement has been and each of the Ancillary Agreements will be duly executed and delivered by NSC and, when duly executed and delivered by CSX and (to the extent such agreement is not being entered into as of the date hereof) NSC, will constitute the legal, valid and binding obligation of NSC enforceable in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization and other laws of general application relating to or affecting the enforcement of creditors' rights and except that the availability of equitable remedies, including specific performance, is subject to the discretion of the court before which any proceeding therefor may be brought.

(d) No Violation. The execution and delivery by NSC of this Agreement and the Ancillary Agreements will not violate in any material respect any law, or in any material respect conflict with, result in any breach of, constitute a default (or any event which with notice or lapse of time or both would become a default) under the Articles of Incorporation or Bylaws of NSC or any material Contract to which NSC is a party or by which it or its property or assets is bound.

(e) No Approvals. Except for the Required Approvals, no declaration, filing or registration with, or notice to, or authorization, consent or approval of, any Governmental Entity is necessary for the consummation by NSC of the transactions contemplated hereby or by the Ancillary Agreements, other than such filings, registrations, authorizations, consents or approvals which, if not obtained or made, will not, in the aggregate, materially adversely affect the ability of NSC to consummate the transactions contemplated hereby or the Ancillary Agreements.

#### ARTICLE VIII COVENANTS

Section 8.1. Conduct of Business. Except as provided for in this Agreement or as otherwise consented to by CSX and NSC in writing, between the Control Date and the Closing Date, the parties will use reasonable commercial efforts to cause the Assets to be operated by CRR, CRC and their respective Affiliates in the ordinary course consistent with past practice and in compliance in all material respects with all applicable laws and regulations and will use their reasonable commercial efforts to preserve intact the Assets, use reasonable efforts to keep available the services of CRR's, CRC's and their respective Affiliates' current officers and other key employees as a group and preserve CRR's, CRC's and their respective Affiliates' relationships with those Persons having business dealings with CRR, CRC and their respective Affiliates to the end that their goodwill and ongoing businesses shall be unimpaired at the Closing Date. Without limiting the foregoing, between the Control Date and the Closing Date, the parties will use reasonable commercial efforts to ensure that CRR, CRC and their respective Affiliates continue their maintenance and improvement of Assets in the ordinary course in accordance with past practice without discriminating between Assets on the basis of whether



they are or will be NYC Allocated Assets, PRR Allocated Assets or Retained Assets.

Section 8.2. Best Efforts. Subject to the terms and conditions of this Agreement, each party agrees to use best efforts to take, or cause to be taken, all action, and to do, or cause to be done, all things reasonably necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated by this Agreement and the Ancillary Agreements. No party shall knowingly take any action in contravention of, or which is inconsistent with, the transactions contemplated by this Agreement.

Section 8.3. Further Assurances; Consents. (a) From time to time after the Closing Date, each of the parties will execute and deliver such further instruments and will take such other actions as CSX, on the one hand, or NSC, on the other hand, may reasonably request in order to effectuate the purposes of this Agreement and the Ancillary Agreements and to carry out the terms hereof and thereof. To the extent that any consent or concurrence is required under this Agreement by any party or its Affiliates, such consent or concurrence shall not be unreasonably withheld.

(b) If any of the Allocated Assets cannot be transferred as contemplated by this Agreement (other than Contracts which are dealt with in Section 8.5), the parties will cooperate to make the Allocated Asset available through whatever alternative arrangements will best carry out the purpose and accomplish the intent of this Agreement, except that this requirement shall not apply to Allocated Assets which cannot be transferred because of regulatory constraints.

Section 8.4. STB Approval. (a) The parties will as expeditiously as possible seek STB approval necessary for the consummation of the transactions contemplated by this Agreement and the Ancillary Agreements. The parties will use their reasonable best efforts to obtain such approvals, and no party will take any position (at the STB or with any other Governmental Entity or elsewhere) inconsistent with this Agreement and the Ancillary Agreements.

(b) Each of CSX and NSC shall (i) coordinate and cooperate with one another to prepare and present to the STB, as soon as practicable, all applications, petitions, notices, filings and other presentations in connection with seeking all STB approvals, exemptions or other authorizations necessary to consummate the transactions contemplated by this Agreement and by the Ancillary Agreements, using, to the extent practicable, joint legal counsel and expert witnesses, (ii) prosecute such applications, petitions, notices, filings and other presentations with diligence, (iii) diligently oppose any objections to, appeals from or petitions to reconsider or reopen any such STB approval, (iv) take all such further action as in their judgment may facilitate obtaining a final order or orders of the STB approving the transactions contemplated by this Agreement and the Ancillary Agreements and (v) bear the burden, without adjustment in the Percentage or other consideration, of any STB imposed condition it accepts.

(c) Each of CSX and NSC shall coordinate and consult with one another with respect to all settlements involving the STB approval process. The parties further agree that, (i) any settlement or agreement pertaining to the Shared Assets Areas and the Shared Assets Agreements will require the joint approval of CSX and NSC; (ii) none of CRR, CRC nor CSX shall make any settlement or agreement with respect to any PRR Allocated Asset without NSC's prior written consent; (iii) none of CRR, CRC nor

NSC shall make any settlement or agreement with respect to any NYC Allocated Asset without CSX's prior written consent and (iv) nothing contained herein shall require joint action for either CSX or NSC to enter into any settlement or Transportation Contract with any shipper or receiver of freight. CSX and NSC may act in their sole discretion in respect of the matters set forth in this Section 8.4(c).

(d) If the STB, as a condition to its approval of the transactions contemplated by this Agreement and the Ancillary Agreements, imposes a non-standard condition which would materially reduce the benefits to either CSX or NSC from the transactions contemplated by this Agreement and the Ancillary Agreements, then the materially affected party may in its sole discretion (i) accept such condition and proceed with the transactions contemplated by this Agreement and the Ancillary Agreements, or (ii) appeal such condition to the courts and postpone the Closing Date for up to thirty months (and its election under this Section 8.4(d)) until final action on its appeal, and (iii) if such appeal is unsuccessful, reject the condition and proceed in accordance with the terms of the Amended and Restated Voting Trust Agreement.

Section 8.5. Other Approvals. (a) The parties shall as expeditiously as possible use their reasonable best efforts to obtain any consent, authorization, order or approval of, or any exemption by, any Governmental Entity (other than the STB which is covered by Section 8.4) or private Person required to be obtained or made by the parties or their respective Affiliates to effectuate the purposes of this Agreement or the Ancillary Agreements and the transactions contemplated herein and therein, which actions shall include, without limitation, furnishing all information required under or in connection with approvals of or filings with any such Governmental Entity or private Person. Each party shall reasonably cooperate with each other in connection with the foregoing. CRC will use reasonable commercial efforts to transfer and assign to NYC and PRR all Contracts which are to be transferred pursuant to Article II, it being understood that CRC shall not seek any consents of any third party unless requested to do so by NYC, in the case of a Contract that is a NYC Allocated Asset, or PRR, in the case of a Contract that is a PRR Allocated Asset, and in no event shall CRC be obligated to make payments to third parties in order to obtain such consents.

(b) All Contracts and rights which are Allocated Assets and are not transferred pursuant to Section 8.5(a) shall be handled in accordance with the following procedure: (i) CRC or its Affiliates shall continue to be bound thereby and to hold the rights thereunder and (ii) NYC, in the case of a Contract that is a NYC Allocated Asset, and PRR, in the case of a Contract that is a PRR Allocated Asset, shall pay, perform and discharge fully all of the obligations of CRC or its Affiliates thereunder from and after the Closing Date. CRC or its Affiliates shall, without further consideration therefor, pay, assign and remit promptly to NYC or PRR, as appropriate, all monies, rights and other consideration received in respect of such performance. CRC or its Affiliates shall exercise or exploit the rights and options under all such Contracts only as reasonably directed by NYC, in the case of a Contract that is a NYC Allocated Asset, and PRR, in the case of a Contract that is a PRR Allocated Asset, and at NYC's or PRR's expense.

Section 8.6. [Intentionally Omitted.]

Section 8.7. Risk of Loss; Forced Disposal. (a) In the event of any loss or damage to or destruction of, prior to the Closing, any or all of the Allocated Assets by fire or other

casualty, the title to and other rights associated with such Allocated Assets shall nevertheless pass to NYC or PRR as provided for herein without any liability or obligation on the part of any of the parties or their respective Affiliates as a result of such loss, damage or destruction and without any adjustment of the Percentage; provided, however, that at the Closing, CRC shall transfer to NYC or PRR, as the case may be, CRC's or its Affiliates' rights to any proceeds of any casualty insurance policies covering such damage or destruction plus the net proceeds, if any, actually collected by CRC or its Affiliates under the provisions of the casualty insurance policies, if any, covering such loss, damage or destruction.

(b) If any of the Allocated Assets are disposed of by CRR, CRC or their respective Affiliates because of conditions imposed by the STB prior to the Closing, in lieu of the transfer of such Allocated Assets, CRR, CRC or their respective Affiliates shall deliver to NYC or PRR, as the case may be, the benefit of any net after-tax consideration attributable to any such Allocated Assets received by CRR, CRC or their respective Affiliates pursuant to such disposition.

Section 8.8. Public Statements; Public Filings. Any written news releases prior to the Closing and any other disclosure required to be filed prior to the Closing with any Governmental Entity (other than routine information and filings with the Securities and Exchange Commission) pertaining to this Agreement, the Ancillary Agreements or the transactions contemplated hereby or thereby will be subject to prior review by both CSX and NSC prior to release.

Section 8.9. Restructuring of CRC. (a) It is the parties' intent that, at some time after the Closing Date, CRC will transfer PRR or the assets and liabilities of PRR to NSC, transfer NYC or the assets and liabilities of NYC to CSX or otherwise separate PRR (for the benefit of NSC) and NYC (for the benefit of CSX) from CRC in the most efficient manner for U.S. federal income tax purposes (the transaction separating PRR from CRC for the benefit of NSC hereinafter referred to as the "PRR Restructuring", and the transaction separating NYC from CRC for the benefit of CSX hereinafter referred to as the "NYC Restructuring"). A Restructuring shall not be consummated unless (i) CRC obtains a private letter ruling from the Internal Revenue Service (the "Service") substantially to the effect that such Restructuring qualifies as a tax-free transaction (except with respect to gain or income required to be recognized with respect to intercompany items or excess loss accounts pursuant to regulations under Section 1502 of the Code or with respect to gain or income recognized in the Restructuring under Section 356 or Section 361 of the Code as the result of the receipt of "other property or money" within the meaning of such sections, provided that the amount of such gain or income recognized by CRR or its Affiliates is not substantial) under the Code (the "Ruling"), or the parties otherwise agree to proceed with such Restructuring on the basis of an opinion of tax counsel generally to the same effect, (ii) any required approval of the STB is obtained, (iii) Tax indemnities mutually satisfactory to CSX and NSC have been agreed to and (iv) the conveyance of the CRR Parent interests is structured in a way to ensure to the mutual satisfaction of CSX and NSC that after a Restructuring, NSC (in the case of the PRR Restructuring) and CSX (in the case of the NYC Restructuring) continue to hold their respective Percentage of the equity and 50 percent of the vote with respect to the Retained Assets and the Retained Liabilities and NSC (in the case of the PRR Restructuring) has no continuing interest whatsoever in NYC and CSX (in the case of the NYC Restructuring) has no continuing interest whatsoever in PRR. In addition, a PRR Restructuring shall not be consummated if, based upon the written opinion of

outside tax counsel to CSX, such Restructuring would more likely than not impair the ability to consummate a subsequent NYC Restructuring, and a NYC Restructuring shall not be consummated if, based upon the written opinion of outside tax counsel to NSC, such Restructuring would more likely than not impair the ability to consummate a subsequent PRR Restructuring. The parties agree that the application referred to in Section 8.4(b) shall not seek the authority to effect any transaction referred to in this Section 8.5.

(b) CRC shall seek a Ruling at the request of either CSX or NSC or both of them. If CRC seeks a Ruling at the request of either CSX or NSC or both of them, after consultation with the party or parties requesting the Ruling, CRC shall prepare the Ruling request and any supplements or materials relating thereto that are required to be submitted to the Service in connection with the Ruling request (each, an "IRS Submission"). Each IRS Submission shall be true and correct in all material respects, and all material facts relating to the requested Ruling shall be disclosed to the Service. CRC shall provide CSX and NSC with a reasonable opportunity to review and comment on each IRS Submission prior to the filing of such IRS Submission with the Service, and no IRS Submission shall be filed with the Service unless the party or parties requesting the Ruling have agreed in writing as to the contents of such IRS Submission prior to such filing. CRC shall provide CSX and NSC with copies of each IRS Submission as filed with the Service. Neither CRC nor its Affiliates or representatives shall conduct any communications with the Service concerning the Ruling request, including meetings or conferences with personnel from the Service, whether in person, telephonically or otherwise, without notifying CSX and NSC and giving CSX and NSC the opportunity to participate. CRC shall provide CSX and NSC with copies of any correspondence between CRC and the Service with respect to the Ruling request.

(c) If the requirements of clauses (i), (ii), (iii) and (iv) of the second sentence of Section 8.9(a) are satisfied and no opinion meeting the requirements of the third sentence of Section 8.9(a) is delivered with respect to a Restructuring, NSC (in the case of the PRR Restructuring) and CSX (in the case of the NYC Restructuring) shall have the right, consistent with the Ruling (or opinion of counsel, if applicable), to exchange some or all of its interests in CRR Parent for PRR (in the case of the PRR Restructuring) and NYC (in the case of the NYC Restructuring). At the request of PRR (in the case of a PRR Restructuring) or NYC (in the case of a NYC Restructuring) CRR Parent, CRR, CRC and their respective Affiliates shall take all action necessary or convenient in the reasonable opinion of PRR (in the case of a PRR Restructuring) or NYC (in the case of a NYC Restructuring) to effect a Restructuring that is permitted under Section 8.9(a).

Section 8.10. Provision of Corporate Records. As soon as practicable after the Closing Date CRC shall (a) deliver to or to the order of NYC all NYC Books and Records in the possession of CRC or its Affiliates and (b) deliver to or to the order of PRR all PRR Books and Records in the possession of CRC or its Affiliates; provided that Books and Records that relate to and are necessary for the operation of both the NYC Allocated Assets and the PRR Allocated Assets will be duplicated and included in both the NYC Books and Records and the PRR Books and Records; and provided further that copies of Books and Records necessary or useful to the operation of Shared Assets Areas, Continuing CRC Management, SSO Facilities and other Retained Assets shall be maintained at CRC. Such NYC Books and Records and PRR Books and Records shall be the property of NYC and PRR, respectively, but shall be retained and made available readily to CRC for review and duplication, subject to the limitations set forth in Section

8.11, until the earlier of notice from CRC that such records are no longer needed by CRC and the seventh anniversary of the Closing Date, but in all events until the tax year to which the Books and Records pertain is closed or settled with the Service and/or state tax authorities, unless a longer retention period is otherwise required by law.

Section 8.11. Access to Information. From and after the Closing Date, the parties shall afford (and CSX and NSC shall cause NYC and PRR to afford) each other and each other's authorized accountants, counsel and other designated representatives reasonable access and duplicating rights (with copying costs to be borne by the requesting party) during normal business hours and at such other times as may be agreed upon to all books and records and documents, communications, items and matters, including computer programs and data within each other's knowledge, possession or control relating to the Assets, the Allocated Liabilities, the Retained Liabilities or the conduct of CRC's and its Affiliates' businesses, insofar as such access is reasonably required by a party or NYC or PRR and is consistent with applicable law (and shall use reasonable efforts to cause persons or firms possessing relevant items or information to give similar access). Items or information may be requested under this Section 8.11 only for the following purposes: audit, accounting, legal proceedings, litigation, tax preparation, transition planning and implementation planning purposes, as well as for purposes of fulfilling disclosure and reporting obligations. Information shall be provided pursuant to this Section 8.11 in accordance with reasonable procedures established by the parties in order to ensure compliance with the provisions of Section 8.13 and 8.14.

Section 8.12. Production of Witnesses and Individuals. From and after the Closing Date, CRR Parent, CRC, NYC, PRR, CSX and NSC shall use reasonable efforts to make available to each other, upon written request, their respective officers, directors, employees and agents for fact finding, consultation and interviews and as witnesses to the extent that any such person may reasonably be required in connection with any Action in which the requesting party may from time to time be involved relating to the transactions contemplated by this Agreement and the Ancillary Agreements, the Assets, the Allocated Liabilities, the Retained Liabilities or the conduct of CRC's and its Affiliates' business. Except as otherwise agreed between the parties, the parties agree to reimburse each other for reasonable documented out-of-pocket expenses (but not labor charges, salary payments or overheads) incurred by the other in connection with providing individuals and witnesses pursuant to this Section 8.12.

Section 8.13. Confidentiality. The parties shall hold (and CSX and NSC shall cause NYC and PRR to hold), and shall cause their respective officers, employees, agents, consultants and advisors to hold, in strict confidence, unless compelled to disclose by judicial or administrative process or, in the opinion of its independent legal counsel, by other requirements of law, all information furnished it by another party, NYC or PRR or their respective representatives pursuant to this Agreement or the Ancillary Agreements (except to the extent that such information can be shown to have been (i) available to such Person on a non-confidential basis prior to its disclosure by the other Person, (ii) in the public domain through no fault of such Person or (iii) later lawfully acquired from other sources by the Person to which it was furnished), and no Person shall release or disclose such information to any other person, except its auditors, attorneys, financial advisors, bankers and other consultants and advisors who shall be bound by the provisions of this Section 8.13. In the event that a subpoena, discovery or

other request that arguably calls for production or disclosure of such confidential information is received, the Person receiving such request must promptly notify in writing the Person whose information has been requested. The Person receiving such request shall provide the Person whose confidential information has been requested, a reasonable opportunity to review such information and to assert any rights it may have with respect to the potential disclosure of such confidential information. Each party shall be deemed to have satisfied its obligation to hold confidential information concerning or supplied by the other parties, NYC or PRR if it exercises the same care as it takes to preserve confidentiality for its own similar information.

Section 8.14. Privileged Matters. (a) The parties agree that from and after the Control Date CRC and its Affiliates will maintain, preserve and assert all privileges, including, without limitation, privileges arising under or relating to the attorney-client relationship (which shall include, without limitation, the attorney-client and work product privileges) that relate directly or indirectly to the Assets, the Allocated Liabilities or the Retained Liabilities or CRC's and its Affiliates' business for any period prior to the Closing Date ("Privileges"). CRC shall not waive any Privilege that could be asserted under applicable law without the prior written consent of CSX and NSC. The rights and obligations created by this Section 8.14 shall apply to all information as to which, but for the transactions contemplated by this Agreement and the Ancillary Agreements, CRC would have been entitled to assert or did assert the protection of a Privilege ("Privileged Information"), including but not limited to (i) any and all information generated prior to the Closing Date but which, after the Closing, is in the possession of CSX, NSC, NYC or PRR (ii) all communications subject to a Privilege occurring prior to the Closing Date between counsel for CRC and any person who, at the time of the communication, was an employee of CRC, regardless of whether such employee is or becomes an employee of CSX, NSC, NYC or PRR and (iii) all information generated, received or arising after the Closing that refers or relates to Privileged Information generated, received or arising prior to the Closing.

(b) From and after the Control Date, upon receipt by CRC or any of its Affiliates of any subpoena, discovery or other request that arguably calls for the production or disclosure of Privileged Information or if CRC or any of its Affiliates obtains knowledge that any current or former employee of CRC or any of its Affiliates has received any subpoena, discovery or other request which arguably calls for the production or disclosure of Privileged Information, CRC shall promptly notify in writing CSX, NSC, NYC and PRR of the existence of the request and shall provide CSX and NSC a reasonable opportunity to review the information and to assert any rights it may have under this Section 8.14 or otherwise to prevent the production or disclosure of Privileged Information. CRC will not produce or disclose any information arguably covered by a Privilege under this Section 8.13 unless (i) CSX and NSC have both provided their written consent to such production or disclosure or (ii) a court of competent jurisdiction has entered a final, nonappealable order finding that the information is not entitled to protection under any applicable privilege.

(c) If there is a reasonable likelihood that the waiver by CRC of any Privilege could expose CSX, NSC, NYC or PRR to Liability or could prejudice the other party's position in pending or threatened litigation, otherwise adversely affect CSX, NSC, NYC or PRR, CRC will promptly notify in writing CSX and NSC prior to such waiver, and, at CSX's and NSC's request, CRC will assert or preserve the Privilege, as applicable, if CRC's interests will not be adversely affected by its assertion or

preservation of the Privilege.

Section 8.15. Administration of Actions. After the Closing Date, (a) NYC shall have exclusive authority and control over the investigation, prosecution, defense and appeal of all Actions relating primarily to NYC, the NYC Allocated Assets, the NYC Allocated Liabilities or a Retained Liability (except for Retained Liabilities for which the monetary claim is more than \$500,000 or injunctive relief is sought) which arose at the location of a NYC Allocated Asset, or with which a NYC Allocated Asset is most significantly involved (each, an "NYC Action"), and may settle or compromise, or consent to the entry of any judgment with respect to, any such NYC Action without the consent of CRC, NSC or PRR and (b) PRR shall have exclusive authority and control over the investigation, prosecution, defense and appeal of all Actions relating primarily to PRR, the PRR Allocated Assets, the PRR Allocated Liabilities, or a Retained Liability (except for Retained Liabilities for which the monetary claim is more than \$500,000 or injunctive relief is sought), which arose at the location of a PRR Allocated Asset or with which a PRR Allocated Asset is most significantly involved (each a "PRR Action"), and may settle or compromise, or consent to the entry of any judgment with respect to, any such PRR Action without the consent of CRC, CSX or NYC; provided that neither NYC or PRR may settle or compromise, or consent to the entry of any judgment with respect to, any such Action without the prior written consent of the other if such settlement, compromise or consent to such judgment (i) includes any form of injunctive relief binding upon such other party or CRC or (ii) does not include as an unconditional term thereof the giving by the claimant or plaintiff to such other party or CRC and any Affiliates of CRC subject to such Action of a full and final release from all liability in respect to such claim or litigation. After the Closing Date with respect to an Action not covered under clauses (a) or (b) of the foregoing sentence (including Actions relating to Corporate Level Liabilities), the handling, administration and disposition of such Actions shall be the joint responsibility of CSX and NSC and the costs thereof shall be Corporate Level Liabilities. In assigning joint responsibility for the administration, handling and disposition of Actions to CSX and NSC, hereunder it is not the parties' intent that CSX and NSC will actually administer, handle and dispose of such Actions jointly, but rather that CSX and NSC will agree on the most practical and efficient arrangements with the objective of eliminating unnecessary duplication of effort and minimizing overall costs. The costs and expenses of the administration and handling of such Actions shall be Corporate Level Liabilities; provided that the salaries of, expenses incurred by and overheads associated with full-time employees of CSX or NSC while engaged in investigating or handling such Actions shall be the responsibility of the employing party and shall not be Corporate Level Liabilities.

Section 8.16. Administration of FELA Claims. (a) The administration, handling and disposition of FELA Claims (whenever made) that are Corporate Level Liabilities shall be (i) the responsibility of the party controlling the Allocated Asset where the incident or incidents giving rise to the FELA Claim occurred, or (ii) the responsibility of the party controlling the Allocated Asset most significantly involved if the FELA Claim arises from an incident or incidents occurring at multiple locations on Allocated Assets, or (iii) the joint responsibility of CSX and NSC if the FELA Claim arises from an incident or incidents occurring at unknown locations or a location not otherwise covered by clauses (i) or (ii) of this sentence. In assigning joint responsibility for the administration, handling and disposition of FELA Claims to CSX and NSC under the foregoing clause (iii), it is not the parties' intent that CSX and NSC will actually administer, handle and dispose of such actions jointly,

but rather that CSX and NSR will agree on the most practical and efficient arrangements with the objective of eliminating unnecessary duplication of effort and minimizing overall costs. The costs and expenses of the administration, handling and disposition of (A) FELA Claims made prior to the Closing Date and (B) all other FELA Claims that are Corporate Level Liabilities, shall be Corporate Level Liabilities and shall be borne by CSX and NSC in proportion to their respective Percentages; provided that the salaries of, expenses incurred by and overheads associated with full-time employees of CSX or NSC while engaged in investigating or handling such FELA Claims shall be the responsibility of the employing party and shall not be Corporate Level Liabilities; provided, further that the party responsible for the administration of FELA Claims which are Retained Liabilities shall, before agreeing to any single settlement of a FELA Claim or group of related FELA Claims, involving a payment of more than \$1 million, obtain the written consent of the other party. Failure of either party to respond to such a request for consent within fourteen days of receipt of such request shall be deemed to constitute consent.

(b) The administration, handling and disposition of FELA Claims (and the costs and expenses thereof) that are made on or after the Control Date and that are NYC Allocated Liabilities pursuant to Section 2.8(c) hereof shall be the responsibility of CSX. The administration, handling and disposition of FELA Claims (and the costs and expenses thereof) that are made on or after the Control Date and that are PRR Allocated Liabilities pursuant to Section 2.8(c) hereof shall be the responsibility of NSC.

Section 8.17. Tax Matters. (a) From the date hereof until the Closing Date, CRR and Green (i) shall timely and duly file, or cause to be timely and duly filed, all Tax Returns of CRR, CRC and their respective Affiliates required to be filed on or prior to the Closing Date and (ii) other than Taxes being contested in good faith, shall timely pay, or cause to be timely paid, all Taxes required to be paid by CRR, CRC or their respective Affiliates. From the Control Date until the Closing Date, CRR and Green, with respect to each of CRR, CRC and their respective Affiliates, shall not settle or compromise any Tax Liability, agree to any adjustment to any Tax attribute, change any method of accounting or make any election with respect to Taxes without first obtaining the prior written consent of CSX and NSC. CRR and its Subsidiaries agree to be included in a consolidated federal income tax return of Green.

(b) From and after the Closing Date, the Tax Allocation Agreement shall govern the rights and obligations of Green, CRR, CRC, CRR Industries, PRR and NYC with respect to Tax matters involving the operations of CRC, PRR and NYC.

Section 8.18. Committees. Within 90 days following the execution of this Agreement, two committees shall be established by CSX and NSC: the "Buffalo Committee" and the "Vickers Committee". Both committees shall consist of representatives appointed by CSX and representatives appointed by NSC. The Buffalo Committee will examine the CP-Draw drawbridge and interlocking in Buffalo, New York and will investigate ways of minimizing or eliminating conflict between CSX and NSC traffic flows through the area after the Closing Date. The Vickers Committee will examine the Vickers crossing in Toledo, Ohio and will investigate ways of minimizing or eliminating conflict between CSX and NSC traffic flows through the area after the Closing Date. Within 90 days of appointment, each such committee will prepare a report detailing options for solving the traffic conflict problems, along with cost estimates for each such option.



Section 8.19. Chicago Gateway Access. CSXT and NSR will preserve and enhance the independent competitive capability of each to move traffic to and through the Chicago Gateway (as defined in Schedule 3) by adhering to the requirements of Schedule 3.

Section 8.20. Car Hire and Car Service. The parties recognize that industry rules, including the AAR Car Service Rules, may pose problems with respect to the payment and collection of car hire in connection with Equipment that is included in Retained Assets and that is used or operated with the Allocated Assets and with the Shared Assets Areas. The parties shall use their reasonable best efforts and take all actions, including seeking changes in industry rules, as may be necessary or appropriate to allow each party, in the most favorable manner possible, to collect car hire on the Equipment allocated to it pursuant to Section 2.6 hereof and to pay the car hire due for cars used or operated with Allocated Assets and with the Shared Assets Areas.

#### ARTICLE IX CONDITIONS PRECEDENT TO THE CLOSING

Section 9.1. Conditions Precedent to Obligations. The respective obligations of CSX, NSC, CRR Parent, CRR and CRC to effect the transactions contemplated by Article II shall be subject to the fulfillment or mutual waiver at or prior to the Closing Date of the following conditions:

(a) No preliminary or permanent injunction or other order or decree issued by a court of competent jurisdiction or any other legal restraint or prohibition which prevents the consummation of the transactions contemplated by this Agreement or the Ancillary Agreements shall be in effect and no statute, rule or regulation shall have been enacted by any Governmental Entity prohibiting the consummation of the transactions contemplated by this Agreement or the Ancillary Agreements.

(b) The STB shall have issued a decision (which decision shall not have been stayed or enjoined) that constitutes a final order approving, exempting or otherwise authorizing, as of such date, consummation of the transactions contemplated by this Agreement and the Ancillary Agreements as may require such authorization and neither party shall have exercised a right to postpone pursuant to Section 8.4(c).

(c) Each of CSX and NSC shall have reasonably determined that it has obtained sufficient labor implementing agreements so as to be authorized by law to effect the transactions contemplated by Article II and Article VI.

#### ARTICLE X INDEMNIFICATION

Section 10.1. Indemnification. (a) Subject to the provisions of this Article X, CRR Parent and CRR jointly and severally shall indemnify, defend and hold harmless the other parties and any director, officer, employee or agent of any of them from and against any and all Damages asserted against, relating to, imposed upon or incurred by any such Person, directly or indirectly, by reason of or resulting from:

(i) the breach or nonperformance of any agreement of CRR Parent, CRR, CRC or any of their respective Affiliates (other than NYC and PRR) contained in or made pursuant to this Agreement or any of the Ancillary Agreements; and

(ii) any Retained Liability.

(b) Subject to the provisions of this Article X, CSX and CSXT jointly and severally shall indemnify, defend and hold harmless the other parties and any director, officer, employee or agent of any of them from and against any and all Damages asserted against, relating to, imposed upon or incurred by any such Person, directly or indirectly, by reason of or resulting from:

(i) the untruth or inaccuracy of any representation or warranty of CSX, CSXT or their respective Affiliates contained in or made pursuant to this Agreement or any of the Ancillary Agreements; and

(ii) the breach or non-performance of any agreement of CSX, CSXT or their respective Affiliates contained in or made pursuant to this Agreement or any of the Ancillary Agreements.

(c) Subject to the provisions of this Article X, NSC and NSR jointly and severally shall indemnify, defend and hold harmless the other parties and any director, officer, employee or agent of any of them from and against any and all Damages asserted against, relating to, imposed upon or incurred by any such Person, directly or indirectly, by reason of or resulting from:

(i) the untruth or inaccuracy of any representation or warranty of NSC, NSR or their respective Affiliates contained in or made pursuant to this Agreement or any of the Ancillary Agreements; and

(ii) the breach or non-performance of any agreement of NSC, NSR or their respective Affiliates contained in or made pursuant to this Agreement or any of the Ancillary Agreements.

Section 10.2. Indemnification Procedures. (a) If any Action shall be threatened or instituted or any claim or demand shall be asserted against any Indemnified Party in respect of which indemnification may be sought under the provisions of this Agreement, the Indemnified Party shall promptly cause written notice of the assertion of any such claim, demand or Action of which it has knowledge to be forwarded to the Indemnifying Party. Such notice shall contain a reference to the provisions hereof or of such other agreement, instrument or certificate delivered pursuant hereto, in respect of which such claim is being made. The Indemnified Party's failure to give the Indemnifying Party prompt notice shall not preclude the Indemnified Party from obtaining indemnification from the Indemnifying Party under this Article X unless the Indemnified Party's failure has materially prejudiced the Indemnifying Party's ability to defend the claim, demand or Action.

(b) If the Indemnified Party seeks indemnification from the Indemnifying Party as a result of a claim or demand being made by a third party (a "Third Party Claim"), the Indemnifying Party shall have the right to promptly assume the control of the defense of any Action with respect to such Third Party Claim, including, at its own expense, employment by it of counsel reasonably satisfactory to the Indemnified Party. The Indemnified Party may, in its sole discretion and at its own expense, employ counsel to represent it in the defense of the Third Party Claim, and in such event counsel for the Indemnifying Party shall cooperate with counsel for the Indemnified Party in such defense, provided that the Indemnifying Party shall direct

and control the defense of such Third Party Claim or proceeding. The Indemnifying Party shall not consent to the entry of any judgment, except with the written consent of the Indemnified Party, and shall not enter into any settlement of such Third Party Claim without the written consent of the Indemnified Party which does not include as an unconditional term thereof the release of the Indemnified Party from all Liability in respect of such Third Party Claim.

Section 10.3. Remedies. (a) Each party acknowledges and agrees that the other parties would be irreparably damaged in the event any of the provisions of this Agreement were not performed by it in accordance with their specific terms or were otherwise breached. It is accordingly agreed that each party shall be entitled to an injunction or injunctions to prevent breaches of such provisions and to specifically enforce such provisions, in addition to any other remedy to which such party may be entitled, at law or in equity.

(b) In no event shall any party be liable to the other parties for any consequential, indirect, incidental, punitive or other similar damages including but not limited to lost profits for any breach or default, or any act or omission arising out of or in any way relating to, this Agreement, the Assets, the Retained Liabilities, the Allocated Liabilities, the Ancillary Agreements, the transactions contemplated herein or therein or any matter or theory concerning or relating to any of the foregoing, under any form or theory of action whatsoever whether in contract, tort or otherwise.

#### ARTICLE XI MISCELLANEOUS

Section 11.1. Amendment. This Agreement may be amended by the parties at any time by an instrument in writing signed on behalf of each party.

Section 11.2. Extension; Waiver. At any time prior to the Closing Date the parties may (a) extend the time for the performance of any of the obligations or other acts of the other parties, (b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto and (c) waive compliance with any of the agreements or conditions contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid if set forth in an instrument in writing signed on behalf of such party.

Section 11.3. Notices. All notices and other communications hereunder shall be in writing and shall be deemed given on the date delivered if delivered personally (including by reputable overnight courier), on the date transmitted if sent by telecopy (which is confirmed) or on the date received if mailed by registered or certified mail (return receipt requested) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

- (a) If to CSX, CSXT or CRR Parent, to:  
CSX Corporation  
One James Center  
901 East Cary Street  
Richmond, Virginia 23219  
Telecopy number: 804-783-1380  
Attention: Mark G. Aron, Esq.  
and Peter J. Shudtz, Esq.

CSX Transportation

500 Water Street  
Jacksonville, Florida 32202  
Telecopy number: 904-366-5436  
Attention: P. Michael Giftos, Esq.

with a copy to:

Wachtell, Lipton, Rosen & Katz  
51 West 52nd Street  
New York, New York 10019  
Telecopy number: 212-403-2000  
Attention: Pamela S. Seymon, Esq.

(b) If to NSC, NSR or CRR Parent, to:

Norfolk Southern Corporation  
Three Commercial Place  
Norfolk, Virginia 23510  
Telecopy number: 757-629-2750  
Attention: James C. Bishop, Jr., Esq.

with a copy to:

Skadden, Arps, Slate, Meagher & Flom LLP  
919 Third Avenue  
New York, New York 10022  
Telecopy number: 212-735-2000  
Attention: Randall H. Doud, Esq.

(c) If to CRR or CRC, to:

Conrail Inc.  
2001 Market Street  
Philadelphia, PA 19103  
Telecopy number: 215-209-4068  
Attention: General Counsel

All notices regarding matters requiring handling within thirty days will be given by overnight mail or confirmed telecopy.

Section 11.4. Interpretation. When a reference is made in this Agreement to Sections, such reference shall be to a Section of this Agreement unless otherwise indicated. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

Section 11.5. Entire Agreement. This Agreement (including the Exhibits and Schedules hereto and the Ancillary Agreements and other documents and instruments referred to herein) and the Merger Agreement, collectively, constitute the entire agreement and supersede all other prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof, except the April 8 Agreement to the extent the April 8 Agreement covers matters not addressed or amended hereby and the CRR Holdings LLC Agreement; provided that it is the intent of the parties hereto that this Agreement shall be an effectuation of the April 8 Agreement consistent with the terms of the April 8 Agreement and that the provisions of this Agreement should be interpreted to give effect to the April 8 Agreement; and provided further that in the event of any inconsistency between the terms of this Agreement and the April 8 Agreement this Agreement shall prevail; and provided further that CSX and NSC agree that the fourth paragraph of Item III of Exhibit A to the April 8 Agreement (at page two thereof) in respect of Lake Erie coal dock capacity is rescinded and no longer in effect.

Section 11.6. Parties in Interest. This Agreement shall be binding upon and inure solely to the benefit of each party and their respective successors and assigns and is not intended to confer upon any other Person any rights or remedies, except for the rights of an Indemnified Party as contemplated by Article X.

Section 11.7. Governing Law. This Agreement shall be governed and construed in accordance with the laws of the State of New York, regardless of the laws that might otherwise govern under applicable principles of conflicts of law thereof; provided, however, that the laws of the respective jurisdictions of incorporation of each of the parties shall govern the relative rights, obligations, powers, duties and other internal affairs of such party and its board of directors.

Section 11.8. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same agreement.

Section 11.9. Assignment. (a) Except as provided in Section 11.9(b), neither this Agreement (including the documents and instruments referred to herein) nor any of the rights, interests or obligations hereunder, shall be assigned by any party, including by operation of law, without the prior written consent of the other parties which may be withheld at the sole discretion of the relevant party.

(b) Any party without the consent of the other parties may assign all or any part of its rights and obligations under this Agreement to (i) any of its controlled Subsidiaries or (ii) any successor in the event of a merger, consolidation, sale of all or substantially all its assets, liquidation or dissolution, if such assignee executes and delivers to the other parties hereto an agreement reasonably satisfactory in form and substance to such other party under which such assignee, which is reasonably satisfactory to the other party, assumes and agrees to perform and discharge all the obligations and liabilities of the assigning party; provided that any such assignment shall not relieve the assigning party from the performance and discharge of such obligations and liabilities.

(c) This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective permitted assignees.

Section 11.10. Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void, unenforceable or against its regulatory policy, such provision is to be intended to be ineffective only to the most limited extent possible in such context and the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

Section 11.11. Lack of Control; Effect on CRR and its Controlled Subsidiaries. (a) None of CSX, CSXT, NSC or NSR shall be liable for failing to take any action which they are required to take under this Agreement if the time when CSX, CSXT, NSC or NSR is required to take such action occurs prior to the Control Date and such action requires the assistance or cooperation of CRR or its Board of Directors, which assistance is requested but not provided; provided, however, that CSX and NSC shall use their best efforts to obtain such assistance or cooperation and, after the Control Date, will be required to take such action if, as and when required by this Agreement.

(b) Notwithstanding anything to the contrary contained in this Agreement (which term for purposes of this Section 11.11(b) shall include the Exhibits and Schedules hereto and the Ancillary Agreements and other documents and instruments referred to herein), except as expressly set forth in Section 3.2, neither CRR nor any of its controlled Subsidiaries shall be bound by the terms of this Agreement (other than Section 8.17) or subject to any Liabilities or obligations hereunder (other than under Section 8.17) at any time prior to the Control Date. CRR and CSX shall continue to be bound by those terms of the Merger Agreement that by their terms survive beyond June 2, 1997, including, without limitation, Attachment A to the CRR Disclosure Schedule delivered in connection with the Third Amendment; provided that in the event of any inconsistency between the terms of this Agreement and the terms of such Attachment A, the terms of such Attachment A shall prevail.

Section 11.12. Dispute Resolution. Any dispute, controversy or claim (or any failure by the parties to agree on a matter as to which this Agreement expressly or implicitly contemplates subsequent agreement by the parties, except for matters left to the sole discretion of a party) arising out of or relating to this Agreement, or the breach, termination or validity hereof, shall be finally settled through binding arbitration by a sole, disinterested arbitrator in accordance with the Commercial Arbitration Rules of the American Arbitration Association. The arbitrator shall be jointly selected by the parties but, if the parties do not agree on an arbitrator within thirty days after demand for arbitration is made by a party, they shall request that the arbitrator be designated by the American Arbitration Association. The award of the arbitrator shall be final and conclusive upon the parties. Each party to the arbitration 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 shall be borne equally by the parties. The arbitrator shall have the power to require the performance of acts found to be required by this Agreement and to require the cessation or nonperformance of acts found to be prohibited by this Agreement. The arbitrator shall not have the power to award consequential or punitive damages. The arbitrator's award shall be binding and conclusive upon the parties to the fullest extent permitted by law. Judgement upon the award rendered may be entered in any court having jurisdiction thereof, which court may order appropriate relief at law or equity. All proceedings relating to any such arbitration, and all testimony, written submissions and award of the arbitrator therein, shall be private and confidential as among the parties, and shall not be disclosed to any other Person, except as required by law and except as reasonably necessary to prosecute or defend any judicial action to enforce, vacate or modify such arbitration award.

Section 11.13. CRC Status. The parties intend that after the Closing Date CRC and its Affiliates shall be a rail carrier that performs transportation services for the account of CSXT or NSR, as the case may be, or as agent or subcontractor of CSXT or NSR, as the case may be.

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

CSX CORPORATION

By: /s/ John W. Snow  
Name:  
Title:

CSX TRANSPORTATION, INC. (for  
itself and on behalf of its  
controlled Subsidiaries)

By: \_\_\_\_\_  
Name:  
Title:

NORFOLK SOUTHERN CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

NORFOLK SOUTHERN RAILWAY COMPANY  
(for itself and on behalf of its  
controlled Subsidiaries)

By: \_\_\_\_\_  
Name:  
Title:

CONRAIL INC. (for itself and on  
behalf of its controlled  
Subsidiaries)

By: \_\_\_\_\_  
Name:  
Title:

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

CSX CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

CSX TRANSPORTATION, INC. (for  
itself and on behalf of its  
controlled Subsidiaries)

By: /s/ A. R. Carpenter  
Name: A. R. Carpenter  
Title: President and CEO

NORFOLK SOUTHERN CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

NORFOLK SOUTHERN RAILWAY COMPANY

(for itself and on behalf of its  
controlled Subsidiaries)

By: \_\_\_\_\_  
Name:  
Title:

CONRAIL INC. (for itself and on  
behalf of its controlled  
Subsidiaries)

By: \_\_\_\_\_  
Name:  
Title:

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

CSX CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

CSX TRANSPORTATION, INC. (for  
itself and on behalf of its  
controlled Subsidiaries)

By: \_\_\_\_\_  
Name:  
Title:

NORFOLK SOUTHERN CORPORATION

By: /s/ David R. Goode  
Name:  
Title:

NORFOLK SOUTHERN RAILWAY COMPANY  
(for itself and on behalf of its  
controlled Subsidiaries)

By: /s/ David R. Goode  
Name:  
Title:

CONRAIL INC. (for itself and on  
behalf of its controlled  
Subsidiaries)

By: \_\_\_\_\_  
Name:  
Title:

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



CSX CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

CSX TRANSPORTATION, INC. (for  
itself and on behalf of its  
controlled Subsidiaries)

By: \_\_\_\_\_  
Name:  
Title:

NORFOLK SOUTHERN CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

NORFOLK SOUTHERN RAILWAY COMPANY  
(for itself and on behalf of its  
controlled Subsidiaries)

By: \_\_\_\_\_  
Name:  
Title:

CONRAIL INC. (for itself and on  
behalf of its controlled  
Subsidiaries)

By: /s/ Timothy O'Toole  
Name:  
Title:

CONSOLIDATED RAIL CORPORATION

By: /s/ Timothy O'Toole  
Name:  
Title:

CRR HOLDINGS LLC

By: \_\_\_\_\_  
Name:  
Title:

CONSOLIDATED RAIL CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

CRR HOLDINGS LLC

By: /s/ John W. Snow  
Name:  
Title:

SCHEDULE 1

ASSETS

Attached to and incorporated in this Schedule 1 are the following attachments:

(i) Attachment I, which is the line segment allocation list identifying each Route owned, operated or used by CRC and its Affiliates and indicating as to each Route whether it is included in the NYC Allocated Assets, the PRR Allocated Assets or the Retained Assets; and

(ii) Attachment II, which is a system map showing all Routes comprising the CRC rail system and indicating by color coding the Routes which are to be NYC Allocated Assets, PRR Allocated Assets and Retained Assets, respectively; Attachment II is intended to show graphically the Routes described in Attachment I.

ITEM 1 - NYC ALLOCATED ASSETS

The "NYC Allocated Assets" shall include all of CRR's, CRC's and their respective Affiliates' right, title and interest in and to the following Assets:

(A) Routes and Assets Related to Routes. All Routes identified as NYC Allocated Assets in Attachment I and Attachment II (i.e., those lines colored in red and/or orange on Attachment II, except for those lines already owned by CSXT or its Affiliates), together with the following Assets that are related to such Routes (except as otherwise expressly provided in this Schedule 1 or the Ancillary Agreements):

- (1) the track structure (rails, ties, other track material, grading, bridges, tunnels, culverts, etc.);
- (2) the underlying right-of-way, operating and non-operating, regardless of its width, and associated structures and fixtures;
- (3) except in the areas where the parties' respective Routes are approximately equidistant from the Asset in question (where in each case other arrangements are made pursuant to one or more Ancillary Agreements), appurtenant yards, sidings, switch tracks and repair or other maintenance facilities;
- (4) real estate (whether or not used for operating purposes) adjacent or in proximity to the Routes included in the NYC Allocated Assets, or underlying, adjacent or in proximity to those structures or facilities described in the preceding clauses (2) and (3) and the following clause (5);
- (5) signal, communications and computer facilities and

equipment on the right-of-way and (to the extent used to operate the Routes included in the NYC Allocated Assets) off the right-of-way;

- (6) tools and supplies located on and along, and automobiles, hi-rail cars and trucks assigned to, the Routes included in the NYC Allocated Assets, including repair materials and local repair equipment, except system stockpiles of inventory, material and supplies and Work Equipment;
- (7) Contracts (other than Transportation Contracts) relating to a Route included in NYC Allocated Assets, including without limitation trackage and other operating rights, public and private grade crossing agreements, side track and industrial track agreements, pipeline and wireline agreements, building and yard maintenance agreements, leases, licenses, reversions, longitudinal easements and other occupancy agreements, and the rents, security deposits and profits arising therefrom or in connection therewith;
- (8) muniments of title, all original valuation maps, land schedules, track charts, surveys, bridge and other drawings, bridge inspection reports, environmental reports, permits, signal and communications plans, other engineering documentation, deeds (including such originals of acquisition or out-conveyances as may be in CRC's possession), current billing records (including billing addresses and, if in a computer format, the data and the programs), real estate work files, property tax records (and any computer database for such records), and all other Books and Records relating to a Route included in NYC Allocated Assets;
- (9) mineral rights or easements of any sort held by CRR, CRC or their respective Affiliates located on, over, across and/or in the real estate or property heretofore described in this paragraph (A); and
- (10) royalties or other payments in respect of real estate or other Assets heretofore described in this paragraph (A).

(B) Philadelphia Offices. The CRC headquarters office building located at Philadelphia, PA, and the CRC information technology center building located at Philadelphia, PA and all FF&E located at such facilities.

(C) Yards and Yard Access. The following CRC yards, land and yard access tracks:

- (1) Seneca Yard (Buffalo, NY) (subject to access and use by NSR pursuant to Ancillary Agreement);
- (2) 59th Street ("Panhandle") Yard site (Chicago, IL);
- (3) Collinwood Yard (Cleveland, OH);
- (4) Former "local yard" and intermodal terminal at Buckeye (Columbus, OH);
- (5) Buckeye Yard Lead track from the north limit of

"CP Buckeye" to "CP Darby" (Columbus, OH);

- (6) West track between "CP 138" and "CP 136" (Columbus, OH);
- (7) Portion of Piqua Yard (Fort Wayne, IN) to be agreed upon between NSR and CSXT;
- (8) Hawthorne Yard (Indianapolis, IN) (subject to access and use by NSR pursuant to Ancillary Agreement);
- (9) North Bergen intermodal terminal (New Jersey);
- (10) South Kearny intermodal terminal including APL leased areas; however, NSR to have access to the APL leased terminal and NSR to have the right to serve APL and any successor lessee to APL using such leased premises;
- (11) Greenwich Yard (Philadelphia), but excluding yard tracks and areas used to support the movement of local freight (including port traffic, but excluding intermodal) and to support the movement of rail traffic to and from the ore pier, which tracks and areas will be included in Retained Assets;
- (12) Track from CP Field to Pier 122 (Greenwich Yard area, Philadelphia);
- (13) Stanley Yard (Toledo, OH);
- (14) Elizabeth Yard (Trumbull Street Yard), but subject to use of and access to two tracks by NSR to support E-Rail Intermodal Facility as provided in Ancillary Agreements; and
- (15) Manville Yard (subject to use by CRC, CSX and NSR pursuant to Ancillary Agreements).

(D) Miscellaneous Property. The following Assets:

- (1) Developable property west of CRC's Chemical Coast Secondary in northern New Jersey in the vicinity of the current CRC Elizabethport Yard (Trumbull St. Yard);
- (2) Indianapolis Division headquarters building, offices and land; and
- (3) Albany Division headquarters building, offices and land.

(E) Stock Ownership and Other Interests. The following interests:

- (1) 50% of the issued and outstanding capital stock in Lakefront Dock & Railroad Terminal Company;
- (2) 100% of the issued and outstanding capital stock in St. Lawrence & Adirondack Railway;
- (3) 50% of the issued and outstanding capital stock in Albany Port Railroad Corp.; and
- (4) 10.125% of the issued and outstanding capital stock in TTX Company.

## ITEM 2 - PRR ALLOCATED ASSETS

The "PRR Allocated Assets" shall include all of CRR's, CRC's and their respective Affiliates' right, title and interest in and to the following Assets:

(A) Routes and Assets Related to Routes. All Routes identified as PRR Allocated Assets in Attachment I and Attachment II (i.e., those lines colored in green and/or yellow on Attachment II, except for those lines already owned by NSR or its Affiliates), together with the following Assets that are related to such Routes (except as otherwise expressly provided in this Schedule 1 or the Ancillary Agreements):

- (1) the track structure (rails, ties, other track material, grading, bridges, tunnels, culverts, etc.);
- (2) the underlying right-of-way, operating and non-operating, regardless of its width, and associated structures and fixtures;
- (3) except in the areas where the parties' respective Routes are approximately equidistant from the Asset in question (where in each case other arrangements are made pursuant to one or more Ancillary Agreements), appurtenant yards, sidings, switch tracks and repair or other maintenance facilities;
- (4) real estate (whether or not used for operating purposes) adjacent or in proximity to the Routes included in the PRR Allocated Assets, or underlying, adjacent or in proximity to those structures or facilities described in the preceding clauses (2) and (3) and the following clause (5);
- (5) signal, communications and computer facilities and equipment on the right-of-way and (to the extent used to operate the Routes included in the PRR Allocated Assets) off the right-of-way;
- (6) tools and supplies located on and along, and automobiles, hi-rail cars and trucks assigned to, the Routes included in the PRR Allocated Assets, including repair materials and local repair equipment, except system stockpiles of inventory, material and supplies and Work Equipment;
- (7) Contracts (other than Transportation Contracts) relating to a Route included in PRR Allocated Assets, including without limitation trackage and other operating rights, public and private grade crossing agreements, side track and industrial track agreements, pipeline and wireline agreements, building and yard maintenance agreements, leases, licenses, reversions, longitudinal easements and other occupancy agreements, and the rents, security deposits and profits arising therefrom or in connection therewith;
- (8) muniments of title, all original valuation maps, land schedules, track charts, surveys, bridge and other drawings, bridge inspection reports,

environmental reports, permits, signal and communications plans, other engineering documentation, deeds (including such originals of acquisition or out-conveyances as may be in CRC's possession), current billing records (including billing addresses and, if in a computer format, the data and the programs), real estate work files, property tax records (and any computer database for such records), and all other Books and Records relating to a Route included in PRR Allocated Assets;

- (9) mineral rights or easements of any sort held by CRR, CRC or their respective Affiliates located on, over, across and/or in the real estate or property heretofore described in this paragraph (A); and
- (10) royalties or other payments in respect of real estate or other Assets heretofore described in this paragraph (A).

(B) Altoona and Hollidaysburg Shops. The CRC car and locomotive repair shops located at Altoona, PA and Hollidaysburg, PA and all rolling-stock-related and locomotive-related inventory and supplies (including rolling-stock-related and locomotive-related system stockpiles) located at such facilities (subject to provisions of Section 2.7 of the Agreement) and all FF&E located on or at such facilities.

(C) Yards and Yard Access. The following CRC yards, land and yard access tracks:

- (1) Ashtabula Harbor facilities (subject to access and use by CSX pursuant to Ancillary Agreements);
- (2) Rockport Yard (Cleveland, OH);
- (3) Buckeye Hump Yard (Columbus, OH);
- (4) East track between "CP 138" and "CP 136" (Columbus, OH);
- (5) the right of way east of and parallel to the single track portion of the Columbus Line immediately north of "CP 136" (the current end of double track), and the Clintonville Siding east of the single track portion;
- (6) portion of Piqua Yard (Fort Wayne, IN) used by or for Triple Crown Services Company, together with portion of Piqua Yard to be agreed upon between NSR and CSXT;
- (7) Croxton Yard (New Jersey);
- (8) E-Rail intermodal facility (New Jersey);
- (9) Morrisville intermodal facility;
- (10) Airline Jct. Yard (Toledo, OH); and
- (11) Stanley E Yard (Toledo, OH).

(D) Miscellaneous Property. The following CRC assets and properties:

- (1) Developable property east of CRC's Chemical Coast

Secondary in the vicinity of the E-Rail intermodal facility (northern New Jersey);

- (2) real estate comprising a portion of the right-of-way (east of the current single track) between PRR's Clintonville Siding and the north end of the double track at CP 136 on which NSR may construct new track;
- (3) real estate comprising a portion of the right-of-way on which the Buckeye Yard lead track is located to enable NSR to construct a parallel track to the Buckeye Yard lead track (Buckeye Yard, Columbus, OH) (constructions to be governed by an Ancillary Agreement);
- (4) Pittsburgh Division headquarters building, offices and land;
- (5) Dearborn Division headquarters building, offices and land; and
- (6) All undeveloped property that is part of, adjacent to or in the vicinity of Lincoln Yard (Detroit, MI).
- (7) All real estate, trackage, track material and other Assets comprising CRC's abandoned Danville Secondary, together with all other Assets lying on, adjacent to or in the vicinity of the CRC right-of-way between Schneider and Danville, IL, including without limitation all Assets comprising such Danville Secondary thereon or adjacent thereto necessary for construction of connections at Schneider and Danville (excluding any NYC Allocated Assets). (If NSR elects to restore the line between Schneider and Danville, CSXT shall have the option to share in the costs of the line restoration on a reasonable basis that is mutually agreeable and, if CSXT elects so to share in such restoration costs, CSXT shall be granted overhead trackage rights on such line on a fair basis taking into consideration the cost paid by CSXT for such restoration.)

(E) Stock Ownership and Other Interests. The following interests:

- (1) 16.67% of the issued and outstanding capital stock in The Belt Railway Company of Chicago;
- (2) 25.64% of the issued and outstanding capital stock in Peoria and Pekin Union Railway Company;
- (3) 100% of the issued and outstanding capital stock in TCV, Inc. (which owns a 50% partnership interest in Triple Crown Services Company); and
- (4) 11.682% of the issued and outstanding capital stock in TTX Company.

### ITEM 3 - RETAINED ASSETS

The "Retained Assets" shall include all of CRR's, CRC's and their respective Affiliates' right, title and interest in and to the following Assets:

(A) Routes and Assets Related to Routes. Routes within the Shared Asset Areas identified as Retained Assets in Attachment I and Attachment II (i.e., those lines colored in blue on Attachment II), together with the following Assets within the Shared Asset Areas that are related to such Routes (except as otherwise expressly provided in this Schedule 1 or the Ancillary Agreements):

- (1) the track structure (rails, ties, other track material, grading, bridges, tunnels, culverts, etc.);
- (2) the underlying right-of-way, operating and non-operating, regardless of its width, and associated structures and fixtures;
- (3) appurtenant yards, sidings, switch tracks and repair or other maintenance facilities (including but not limited to Oak Island Yard, auto terminals at Doremus Avenue, Greenville and Ridgefield Heights);
- (4) real estate (whether or not used for operating purposes) adjacent or in proximity to the Routes included in the Retained Assets, or underlying, adjacent or in proximity to those structures or facilities described in the preceding clauses (2) and (3) and the following clause (5);
- (5) signal, communications and computer facilities and equipment on the right-of-way and (to the extent used to operate the Routes included in Retained Assets) off the right-of-way;
- (6) tools and supplies located on and along, and automobiles, hi-rail cars and trucks assigned to, the Routes included in the Retained Assets, including repair materials and local repair equipment, except system stockpiles of inventory, material and supplies and Work Equipment;
- (7) Contracts (other than Transportation Contracts) relating to a Route included in Retained Assets, including without limitation trackage and other operating rights, public and private grade crossing agreements, side track and industrial track agreements, pipeline and wireline agreements, building and yard maintenance agreements, leases, licenses, reversions, longitudinal easements and other occupancy agreements, and the rents, security deposits and profits arising therefrom or in connection therewith;
- (8) muniments of title, all original valuation maps, land schedules, track charts, surveys, bridge and other drawings, bridge inspection reports, environmental reports, permits, signal and communications plans, other engineering documentation, deeds (including such originals of acquisition or out-conveyances as may be in CRC's possession), current billing records (including billing addresses and, if in a computer format, the data and the programs), real estate work files, property tax records (and any computer database for such records), and all other Books and Records relating to a Route included in Retained Assets;



- (9) mineral rights or easements of any sort held by CRR, CRC or any of their respective Affiliates located on, over, across and/or in the real estate or property heretofore described in this paragraph (A); and
- (10) royalties or other payments in respect of real estate or other Assets heretofore described in this paragraph (A).

(B) The "Retained Assets" shall include the SSO Facilities which shall be as follows:

- (1) the building and offices, together with underlying land, of the Philadelphia Division headquarters located at Mt. Laurel, NJ within the Philadelphia/South Jersey Shared Assets Area;
- (2) the Customer Service Center building and offices, together with underlying land, located at Pittsburgh, PA;
- (3) use of the office space in the Dearborn Division headquarters building (the building and land are included in the PRR Allocated Assets) currently used for the crew management facility until the crew management facility is discontinued;
- (4) the system maintenance-of-way equipment center building located adjacent to Canton Yard in Canton, OH on land included in the PRR Allocated Assets;
- (5) the signal repair center building located within Buckeye Yard at Columbus, OH on land included in the PRR Allocated Assets;
- (6) the offices of the system freight claims facility located at Buffalo, NY on land included in the NYC Allocated Assets;
- (7) the offices of the system non-revenue billing facility and land located at Bethlehem, PA;
- (8) the system rail welding plant building located at Lucknow (Harrisburg, PA) on land at Harrisburg Yard that is included in the PRR Allocated Assets;
- (9) use of the offices located at Conway Yard, Pittsburgh, PA (the building and land are included in the PRR Allocated Assets), for the system road foreman/engineer training center until such center is discontinued; and
- (10) the police operations center offices and land at Mt. Laurel, NJ.

(C) 51% of the issued and outstanding capital stock in Indiana Harbor Belt Railroad Co. (subject to provisions of Ancillary Agreement referred to in Schedule 4, Item 4(E)(1)).

#### ITEM 4 - POOLED ASSETS

The "Pooled Assets" shall include the following Assets of CRR, CRC and their respective Affiliates:

(A) Non-Operating property and improvements not in proximity to an Allocated Asset or a Retained Asset.

(B) Employee benefit plans and Assets of such plans.

(C) System stockpiles of inventory, materials and supplies regardless of location (other than those at Hollidaysburg and Altoona shops which shall be subject to Section 2.7 of the Agreement).

(D) The following interests:

- (1) 100% of the issued and outstanding capital stock in Merchants Despatch Trans. Corp.;
- (2) 100% of the issued and outstanding capital stock in CRC Properties, Inc.; and
- (3) 100% of the issued and outstanding capital stock in CRR Investments, Inc.

However, if any of the Assets of the entities identified in clauses (D)(1) through (3) above are part of the Routes included in the NYC Allocated Assets (Item 1(A) above) or the PRR Allocated Assets (Item 2(A) above), then the Assets of such entity will be designated as and included in the NYC Allocated Assets or the PRR Allocated Assets, as the case may be; provided that if such assets are valued at greater than \$1 million, then there shall be an equitable adjustment by way of a cash payment from NYC or PRR, as the case may be, to the other equal to the CSX's or NSC's respective Percentage, as the case may be, applied against the value of such Assets or failing such payment, by way of including CRC cash equal to the value of such Assets in the NYC Allocated Assets or the PRR Allocated Assets as the case may be.

(E) The following interests:

- (1) 100% of the issued and outstanding capital stock in CRR Industries, Inc.;
- (2) 100% of the issued and outstanding capital stock in Conrail Direct, Inc.;
- (3) 100% of the issued and outstanding capital stock in CG Projects, Inc.;
- (4) 100% of the issued and outstanding capital stock in PennCentral Comm. Co.;
- (5) 100% of the issued and outstanding capital stock in General American Ins. Co.; and
- (6) 19.136% of the issued and outstanding capital stock in Amtech Logistics Corp.

(F) CRC's rights and interests in and with respect to the following:

- (1) Locomotive Management Services Partnership (a partnership with General Electric relating to use of locomotives); and
- (2) EMP (bilateral agreements relating to use of containers by CRC, NSR and UP).

The parties intend that CRC's rights and interests with respect to LMS and EMP will be shared based on their respective

Percentage, that both CSXT and NSR will participate therein and that, in the case of EMP, CSX will participate as a partner.

NOTE: Notwithstanding any provision of this Schedule, to the extent an item herein describes an Ancillary Agreement between the parties the form of which is set forth as an Exhibit to this Agreement, such description shall be for purposes of identification only, and the terms of such Ancillary Agreement shall control.

## Conrail Line Allocation

### Attachment I

All CRC lines are not listed herein. Lines listed include main line routes, primary branch lines and other lines which may need clarification. Lines pertain to allocated CRC ownership or where identified (TR) to assumed present CRC freight rights. Customer access is attributed to the acquiror of the line on which the customer is located, unless otherwise identified in the Transaction Agreement. Lines not specifically listed are to be acquired by the owner/acquiror of the CRC route/line to which they connect. In the case that a line not listed connects to a line allocated to PRR and to a line allocated to NYC, allocation will be determined at a later date.

#### NYC ALLOCATED ASSETS

Primary Route And  
Extension Acquisitions

#### NY/NJ to Cleveland - Water Level Route & Extensions

Segmt	From	To
1	South End N. Bergen Yd NJ	Selkirk/Albany Term. NY
1	Poughkeepsie NY	New York City NY TR
1	Poughkeepsie NY	New York City NY
1	New York City NY	White Plains NY TR
1	Selkirk/Albany Term. NY	
1	Selkirk NY	Poughkeepsie NY
2	Selkirk/Albany Term. NY	Syracuse NY
3	Syracuse NY	Buffalo NY
3	Lyons Yard NY	
4	Buffalo NY	Ashtabula OH
5	Ashtabula OH	Cleveland Terminal OH
5	Portion of Kinsman Conn. OH	
5	Portion of 44 I.T OH	
5	All of 45 I.T.(including Dock 22, 24, & 26 Lds) OH	
5	Old Line	
	Lead(Cleveland) OH	
40	Boston MA	Selkirk/Albany Term. NY
41	Syracuse NY	Adirondack Jct. PQ
41	Adirondack Jct. PQ	Montreal (St. Luc) PQ TR
41	Woodard NY	Oswego NY
41	Syracuse NY	Hawk NY
41	Hawk NY	Port of Oswego NY TR
43	Frontier Yard NY	
43	Belt Line Branch NY	
42	Buffalo Terminal NY	Niagra Falls/LockportNY
42	Lockport NY	West Somerset NY TR
94	Syracuse NY	NYSW/FL Connections NY
165	Boston Terminal MA	

165	Selkirk/Boston Line	MA	MA Branch Lines	MA	
165	Selkirk/Boston Line	MA	MA Branch Lines	MA	TR
1	West 30th St. I.T.	NY			
1	Fremont Secondary NY				
166	New York City	NY	Connecticut Branch Lines		TR
166	Connecticut Branch Lines				
166	Connecticut Branch Lines (including Amtrak)				TR
3	Churchville	NY	Wayneport	NY	
3	Mortimer	NY	Avon	NY	
3	Rochester Branch	NY			

#### Crestline to Chicago-Pennsylvania Route & Extensions

17	Crestline	OH	Dunkirk	OH	
17	Bucyrus Yard Track and Connector	OH			
18	Dunkirk	OH	Fort Wayne	IN	
18	Decatur Sec. & Hunt I.T.	IN			
From NS via CR					
19	Fort Wayne	IN	Warsaw	IN	
From NS via CR					
20	Warsaw	IN	Chicago Terminal (Clarke Jct.)	IN	
18	Adams	IN	Decatur	IN	

#### Berea to E. St. Louis Route & Extensions

21	Cleveland Terminal	OH	Crestline	OH	
122	Crestline	OH	Galion	OH	
22	Galion	OH	Ridgeway	OH	
23	Ridgeway	OH	Indianapolis	IN	
24	Indianapolis	IN	Terre Haute	IN	
25	Terre Haute	IN	Effingham	IL	
26	Effingham	IL	St. Elmo	IL	
27	St. Elmo	IL	E. St. Louis	IL	
27	Anderson	IN	Emporia	IN	
55	Columbus (CP138)	OH	Galion	OH	
55	Columbus (Hocking)	OH	Columbus (CP138)	OH	
55	Neil I.T.	OH			
83	Terre Haute	IN	Danville	IL	
151	Danville	IL	Olin	IN	
80	Pekin R.T.	IL			
100	Indianapolis Terminal	IN			
99	Indianapolis	IN	Rock Island	IN	
100	Indianapolis	IN	Crawfordsville/Brighthurst st	IN	
154	Indianapolis	IN	Shelbyville	IN	
105	HN Cabin	IL	Valley Jct.	IL	
106	St. Elmo	IL	Salem	IL	TR
98	Terre Haute	IN	Beehunter	IN	TR
28	Muncie (Walnut Street)	IN	New Castle R.T.	IN	TR
28	New Castle RT	IN			
28	Muncie I.T.	IN			

#### Columbus to Toledo Route & Extensions

53	Mounds Connector	OH
53	Western Branch	OH
53	Buckeye Yard Lead	OH

53	Columbus	OH	Ridgeway	OH
52	Ridgeway	OH	Blanchard	OH
51	Blanchard	OH	Toledo Terminal	OH
51	Toledo Terminal (Caruthers Sec. and I.T.)	OH	Woodville	OH
51	Toledo Terminal	OH	Stonyridge	OH
51	Main Freight Tk. & Wye	OH		
51	Stanley Yard and Interlocking	OH		
51	Eastern R.T.	OH		
51	Lakefront Docks Lead Tracks	OH		

Bowie to Woodzell, MD

90	Bowie	MD	Morgantown	MD
90	Brandywine	MD	Chalk Point	MD

NY/NJ to Philadelphia (West Trenton Line)

182	Manville Yard & Lead	NJ		
182	Drill Track Lead	NJ		
182	Philadelphia/Greenwich Yd.	PA	North NJ Terminal	NJ
182	Park Jct.	PA	Belmont	PA
182	Phil	PA	CP-Field/CP-Gray	PA
182	Eastwick	PA	Vicinity of CP- Field/CP-Gray	PA

Washington, DC to Landover, MD

33	Washington Terminal	DC		TR
33	Washington (RO)	DC	Landover	MD

Quakertown Branch

130	Philadelphia Terminal	PA	Quakertown	PA TR
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Chicago Area

192	Porter	IN	Ivanhoe	IN
190	Panhandle Stub	IN	South of 49th Street	IL
190	Ivanhoe	IN	Westernmost point of CR Ownership	IN

Monongahela

113	Monongahela RR	PA/ WV		Subject to joint use agreement
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PRR ALLOCATED ASSETS

Primary Route And  
Extension Acquisitions

Segmt	From	To
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NJ Terminal to Crestline - Pennsylvania Route & Extensions

10	North NJ Terminal	NJ	Somerville	NJ	
10	Somerville	NJ	Allentown	PA	
10	Little Falls	NJ	Dover	NJ	TR
10	Orange	NJ	Denville	NJ	TR
10	Dover	NJ	Rockport	NJ	TR
10	Rockport	NJ	Phillipsburg	NJ	
10	Phillipsburg	PA	E. Stroudsburg	PA	
10	Allentown Terminal	PA			
186	Orange	NJ	North Jersey Terminal	NJ	TR
170	North Jersey Terminal	NJ	Little Falls	NJ	TR
182	Bound Brook	NJ	Ludlow	NJ	TR
11	Allentown	PA	Reading	PA	
12	Reading	PA	Harrisburg	PA	
12	Harrisburg Terminal	PA			
13	Harrisburg	PA	Pittsburgh	PA	
13	Creekside	PA	Homer City	PA	TR
13	Conemaugh Line		via Saltsburg	PA	
13	Pittsburgh	PA	W. Brownsville	PA	
113	Monongahela RR	PA/ WV			
13	Central City	PA	South Fork	PA	
13	Pittsburgh Terminal	PA			
13	Monongahela	PA	Marianna	PA	
14	Pittsburgh Terminal	PA			
14	Pittsburgh	PA	Salem	OH	
14	Salem	OH	Alliance	OH	
14	Beaver Falls	PA	Wampum	PA	
15	Alliance	OH	Cleveland Terminal	OH	
120	Mantua	OH	Cleveland Terminal	OH	
120	Portion of Kinsman Conn.	OH			
120	Portion of 44 I.T. (including Dock 20 Ld.)	OH			
16	Alliance	OH	Crestline	OH	
114	Alliance	OH	Omal	OH	
114	Rochester	PA	Yellow Creek	OH	
114	E. Steubenville	WV	Weirton	WV	
114	Steubenville Branches Bridge	OH			
114	Pittsburgh Branches	PA			
45	Ashtabula	OH	Youngstown	OH	
162	Ashtabula Harbor	OH	Ashtabula	OH	
46	Niles	OH	Latimer	OH	
46	Alliance	OH	Youngstown	OH	
46	Gem I.T. - Lordstown	OH			
48	Youngstown	OH	Rochester	PA	
87	Allentown	PA	Hazelton	PA	
	CP Harris	PA	Cloe	PA	TR
	Cloe	PA	Shelocta	PA	
	Tyrone	PA	Lock Haven	PA	TR

Cleveland to Chicago - Water Level Route

6	Cleveland Terminal	OH	Toledo Terminal	OH
6	Elyria	OH	Lorain	OH
159	Toledo Terminal	OH	Sylvania	OH
7	Toledo Terminal	OH	Goshen	IN
107	Elkhart	IN	Goshen	IN
8	Elkhart	IN	Porter	IN

Philadelphia to Washington (NEC) Route & Extensions

31	Philadelphia Terminal	PA	Perryville	MD	TR
31	Wilmington Terminal	DE			

32	Perryville	MD	Baltimore	MD	TR
32	Baltimore Terminal	MD			
32	Claremont R.T.	MD			
32	Loneys Lane Lead	MD			
32	Grays Yard	MD			TR
33	Balt. BayView	MD	Landover	MD	TR
33	Baltimore Terminal	MD			
33	Baltimore	MD	Cockeysville	MD	
33	Landover	MD	Union Station	DC	TR
34	Pocomoke	MD	New Castle Jct	DE	TR
34	Harrington	DE	Frankford/ Indian River	DE	
131	Newark	DE	Porter	DE	TR

Michigan Operations (Excluding Joint Detroit Area)

50	Toledo Terminal	OH	Detroit Terminal	MI	
60	Detroit Terminal	MI	Jackson	MI	
61	Jackson	MI	Kalamazoo	MI	
62	Kalamazoo	MI	Elkhart	IN	
70	Jackson	MI	Lansing	MI	
71	Kalamazoo	MI	Grand Rapids	MI	
71	Kalamazoo I.T.	MI			
71	Comstock I.T.	MI			
156	Kalamazoo	MI	Porter	IN	TR

Eastern PA Lines & Extensions

37	Philadelphia Terminal	PA	Reading	PA	
37	Reading Terminal				
37	Thorndale	PA	Woodbourne	PA	
37	Portion of Stoney Creek Branch	PA			
37	West Falls Yard	PA			
37	Venice I.T.	PA			
136	Leola/Chesterbrook Lines	PA			
137	Philadelphia Terminal	PA	Lancaster	PA	TR
111	Lancaster	PA	Royalton	PA	TR
112	Lancaster	PA	Lititz/Columbia	PA	

Indiana Lines & Extensions

84	Anderson	IN	Warsaw	IN	
85	Warsaw	IN	Goshen	IN	
163	Marion	IN	Red Key	IN	
101	Layfayette I.T.	IN	Lancaster		

Buffalo to NY/NJ Terminal Route & Extensions

44	NJ/NY Jct.	NJ	Suffern	NY	TR
44	Suffern	NY	Port Jervis	NY	
44	Port Jervis	NY	Binghamton	NY	
44	Binghamton	NY	Waverly	NY	
44	NJ/NY Jct.	NJ	Spring Valley	NY	TR
44	Paterson Jct.	NJ	Ridgewood	NJ	TR
38	Waverly	NY	Buffalo	NY	
88	Waverly	NY	Mehoopany	PA	
89	Sayre	PA	Ludlowville	NY	
93	Lyons	NY	Himrods Jct	NY	
95	Corning	NY	Himrods Jct	NY	
171	North Jersey Terminal	NJ	Paterson Jct	NJ	TR
171	Paterson Jct.	NJ	North Newark	NJ	

171	NJ/NY Jct.	NJ	North Jersey Terminal	NJ	TR
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Buffalo to Harrisburg and South

35	Perryville	MD	Harrisburg	PA	
35	Carlisle	PA	Harrisburg	PA	
35	Wago	PA	York (area)	PA	
35	Harrisburg	PA	Shocks	PA	
36	Williamsport	MD	Harrisburg	PA	
39	Harrisburg	PA	Buffalo	NY	
39	Watsonstown	PA	Strawberry Ridge	PA	
4	Ebenezer Jct.	NY	Lackawanna	NY	
91	Hornell	NY	Corry	PA	
91	Corry	PA	Erie	PA	TR
91	Youngstown	OH	Oil City	PA	

Cincinnati, OH to Columbus, OH to Charleston, WV

54	Columbus	OH	Cincinnati	OH	
54	Cincinnati Terminal	OH			
56	Columbus Terminal	OH	Truro	OH	
57	Truro	OH	Charleston	WV	
150	Charleston	WV	Cornelia	WV	
150	Charleston	WV	Morris Fork	WV	

Chicago South/Illinois Operations

193	Osborne	IN	Hartsdale	IN	
193	Hartsdale	IN	Chicago Heights	IL	
82	Hartsdale	IN	Schneider	IN	
81	Schneider	IN	Hennepin	IL	
97	Keensburg	IL	Carol	IL	
152	Schneider	IN	Wheatfield	IN	

Chicago Market

194	Western Ave Operations/Loop		Cicero/Elsdon	IL	
194	Western Ave. I.T.	IL			
194	Old Western Ave. I.T.	IL			
194	North Joint Tracks	IL			
194	Elevator Lead & Tri- River Dock	IL			
195	Chicago	IL	Porter	IN	
196	Clarke Jct.	IN	CP501	IN	
196	CP 509	IL	Calumet Park	IL	
194	CR&I Branch	IL			
194	49th Street I.T.	IL			
194	75th Street	IL	51st Street	IL	TR
197	Port of Indiana	IN			
196	Bernice I.T.	IL			
190	CP502	IN	Osborne	IN	

CRC RETAINED ASSETS - DETROIT SHARED ASSETS AREA

Segmt	From	To		
Detroit Line	Gibraltar(MP20)	MI CP West Detroit	MI	
Michigan Line	CP Townline	MI CP 15th Street	MI	
			Part	TR
North Yard Branch	CP Bay City Jct	MI North Yard	MI	
Sterling Secondary	North Yard	MI Sterling Yard	MI	



Junction Yard				
Secondary	CP Townline	MI River Rouge Yard	MI	
Marsh Industrial	River Rouge	MI Tecumseh Yard	MI	
Track	Yard			
Lincoln Industrial	Ecorse Jct.	MI Carleton	MI	
Track				
Term. East Ind.	Mack Yard	MI North Yard	MI	
Track				
Term. West Ind.	North Yard	MI Fullerton	MI	
Track				
Highland Park Ind.	Fullerton	MI West Belt Jct.	MI	
Track				
Utica Industrial	Sterling Yard	MI Ford Utica Plant	MI	
Track				
Forman Wye Track	Fort St -	MI NS Drawbridge	MI	
Rougemere				
Overhead Rights	West Belt Jct.	MI Delray	MI	TR
on CSXT				
Local Rights on	Oak	MI End of Track - W.	MI	TR
CSXT		Detroit		
Rights on Delray Connecting RR				

CRC RETAINED ASSETS - SOUTH JERSEY/PHILADELPHIA SHARED ASSETS  
AREA

Segmt	From	To		
NEC (Amtrak)	Zoo	PA Trenton	NJ	TR
Harrisburg Line	Zoo	PA Overbrook	PA	TR
(Amtrak)				
Delair Branch	CP Park	PA Pavonia Yard	NJ	
West Chester Line	Arsenal	PA Media	PA	TR
(SEPTA)				
Chestnut Hill W.	N. Philadelphia	PA Midvale	PA	TR
Line (SEPTA)				
Midvale Yard/		PA		
Midvale I.T.				
Main Line (SEPTA)	Market East	PA Newtown Jct.	PA	TR
Chester Secondary	Eastwick	PA Essington	PA	
Chester Industrial	Essington	PA Marcus Hook	PA	
Track				
Bordertown	Pavonia	NJ Trenton	NJ	
Secondary				
Beasley's Pt.	CP Brown	NJ Palermo	NJ	
Secondary			Part	TR
Vineland Secondary	CP Brown	NJ Landis	NJ	
Millville	Landis	NJ Manumiskin	NJ	
Industrial Track				
Manumuskin Ind.	Manumuskin	NJ WW RR Connection	NJ	
Track				
Penns Grove	Woodbury	NJ Deepwater	NJ	
Secondary				
Salem Running	Woodbury	NJ Swedesboro	NJ	
Track				
Pemberton Ind.	CP Jersey	NJ Mt. Holly	NJ	
Track			Part	TR
Grenloch	CP Brown	NJ Bellmawr	NJ	
Industrial Track				
Shell Industrial	Shell	NJ End of Track	NJ	
Track				
Bustleton Ind.	Holmes	PA Bustleton	PA	
Track				
Morrisville Line	CP "MA"	PA Morris	PA	
Fairless Spur	Morrisville Yd.	PA Fairless Works	PA	
Richmond Ind.	Nice	PA Pt. Richmond	PA	
Track				
60th Street Ind.	Essington	PA End of Track	PA	

Track			
Camden Running	CP Brown	NJ Pavonia	NJ
Track			Part TR
Philadelphia Belt		PA	TR
Line			
Swanson St. IT	South	PA	
	Philadelphia		
Port of Philadelphia		PA	
Pier I22		PA	
Blue Line	Wayne Jct.	PA Nice	PA
Connecting Track			

CRC RETAINED ASSETS - NORTH JERSEY/NEW YORK SHARED ASSETS AREA

Segmt	From	To	
NEC (Amtrak)	Trenton	NJ Penn Station NY	NY TR
Raritan Valley	Aldene	NJ Bound Brook	NJ TR
Line (NJT)			
North Coast Line	Rahway(Union)	NJ Neptune Yard	NJ TR
(NJT)			
Bayonne Line (NJT)	Bayonne	NJ Greenville	NJ TR
Southern Secondary	Red Bank	NJ Glidden	NJ TR
(NJT)			
Freehold Secondary	Freehold	NJ Farmingdale	NJ TR
(NJT)			
Lehigh Line	CP Port Reading	NJ Oak Island Yard	NJ
Jct.			
River Line	CP Waldo	NJ North Bergen	NJ
Port Reading	Bound Brook	NJ PD Port Reading	NJ
Secondary			
Chemical Coast	"PN" Oak Island	NJ Perth Amboy	NJ
Secondary			
P&H Branch	Lane	NJ Hack	NJ
Nave - Croxton	Nave	NJ CP-Croxton	NJ
Running Tk.			
Northern Running	CP-Croxton	NJ North Bergen	NJ
Track			
Marion Running	Hack	NJ CP-Croxton	NJ
Track			
National Docks	Oak Island	NJ Nave	NJ
Secondary			
Amboy Secondary	South Amboy	NJ Monmouth Jct.	NJ
		(Midway)	
Bonhamton/Raritan	Metuchen	NJ Perth Amboy	NJ
Ind. Tks.			
Linden Industrial	Carteret	NJ Linden	NJ
Track			
Perth Amboy		Center	NJ
GSA Lead	NS Lehigh Line	NJ CSX Trenton Line	NJ
	Conn.		
Reformatory Ind.	Carteret	NJ Chrome Yard	NJ
Track			
Elizabeth Ind.	Aldene	NJ Elizabeth	NJ
Track			
Hightstown Ind.	Jamesburg	NJ Hightstown	NJ
Track			
Toms River Ind.	Lakehurst	NJ Ciba	NJ
Track			
Meadows #1 Track		NJ	NJ
Port Newark/Port		NJ	NJ
Elizabeth Access			
Auto Terminal Lead	Ridgefield	NJ	NJ
	Heights		
Greenville Yard	Greenville	NJ	NJ
and Lead			

## ATTACHMENT II

[Attachment II - not provided in this filing - is a detailed map of the entire Consolidated Rail Corporation (CRC) rail system, indicating by color coding the Routes which are to be NYC Allocated Assets, PRR Allocated Assets and Retained Assets, respectively; Attachment II is intended to show graphically the Routes described in Attachment I.]

## SCHEDULE 2

### MAJOR DECISIONS

1. From and after the Control Date, except by resolution of the CRC Board, none of CRR, CRC or any of their respective Affiliates (other than NYC and PRR) shall (other than as is necessary or convenient in connection with a Restructuring or is expressly set forth in this Agreement or the Ancillary Agreements), in any single transaction or series of transactions, take or commit to take any of the following actions:

(a) any action which would require or cause NYC or PRR to declare, make or pay any Distributions;

(b) conduct any business other than, or engage in any transaction not substantially related to and in the ordinary course of, the business of CRC and its Affiliates (other than NYC and PRR) as contemplated under this Agreement and the Ancillary Agreements (the "Continuing CRC Business");

(c) make any loans, advances or capital contributions to, or investments in, any other Person except CRC's wholly owned Subsidiaries;

(d) acquire any business or assets, other than assets acquired in the ordinary course of the Continuing CRC Business;

(e) consolidate with or merge into any Person or otherwise engage in any business combination;

(f) issue, sell, adjust, split, combine, subdivide, reclassify, transfer, pledge, redeem or otherwise acquire any shares of its capital stock;

(g) sell, transfer, lease, sublease, license or otherwise dispose of any assets (including leasehold interests and intangible assets) not in the ordinary course of the Continuing CRC Business or in excess of \$100,000 in aggregate value in any 12 month period;

(h) commit to or make any capital expenditure other than in compliance in all material respects with the capital expenditure budget adopted by the CRC Board from time to time;

(i) commence or settle any litigation for equitable relief or for an amount in excess of \$100,000 in any such commencement or settlement or series of related commencements or settlements;

(j) form or participate in a joint venture or partnership outside the ordinary course of the Continuing CRC Business or involving over \$100,000 in assets or over \$100,000 in revenues;

(k) enter into or amend Contracts outside the ordinary course of the Continuing CRC Business or with a notional value in excess of \$100,000 or for a period in excess of 12 months; provided that in respect of Contracts that are Allocated Assets, CRC shall follow NYC's (in the case of Contracts that are NYC Allocated Assets) or PRR's (in the case of Contracts that are PRR Allocated Assets) reasonable instructions in respect of such Contracts and no CRC Board approval shall be necessary for CRC to take such actions;

(l) create liens on or encumbrances of assets outside the ordinary course of the Continuing CRC Business or with an aggregate net book value in excess of \$50,000;

(m) incur, assume, pre-pay, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for any indebtedness for borrowed money except in the ordinary course of the Continuing CRC Business;

(n) declare, make or pay any Distributions, other than Distributions to CRC by its wholly owned Subsidiaries (other than NYC and PRR);

(o) appoint or terminate any executive management;

(p) enter into or amend any written employment agreement or contract or employee benefit plan or employee policy;

(q) appoint or replace the independent auditors of CRR, CRC and their respective Affiliates;

(r) unless required by law or a change in generally accepted accounting principles in the United States, make any material change in the accounting methods of CRR, CRC and their respective Affiliates;

(s) dissolve, liquidate or wind up CRR, CRC or their respective Affiliates or commence a voluntary proceeding seeking reorganization or similar relief;

(t) approve, enter into or perform any transactions with any director, officer or employee of CRR, CRC or their respective Affiliates, or with an Affiliate of CSX or NSC, respectively, or with any partner, family member or other person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with any such director, officer or employee;

(u) transfer, pledge, create a security interest, or otherwise part with ownership or possession, in whole or part, of its membership interest in NYC or PRR; or

(v) any other action that could be reasonably expected to have a material impact on the performance, financial condition or prospects of CRR, CRC or their respective Affiliates.

2. Except by resolution of the CRC Board, CRC shall not (other than as is necessary or convenient in connection with a Restructuring) in its capacity as the sole member of NYC and PRR, respectively, amend or restate the NYC LLC Agreement or the PRR LLC Agreement, or suffer or permit NYC or PRR, as the case may be, to take or commit to any of the following actions:

(a) declare, make or pay any Distributions;

(b) conduct any business other than, or engage in any

transaction not substantially related to and in the ordinary course of, the business of NYC or PRR, as the case may be, as contemplated under the Transaction Agreement and the Ancillary Agreements or the freight transportation business generally;

(c) consolidate with or merge into any Person or otherwise engage in any business combination;

(d) issue, sell, adjust, split, combine, subdivide, reclassify, transfer, pledge, redeem or otherwise acquire any interest in NYC or PRR, as the case may be;

(e) sell, transfer, lease, sublease, license, exchange or otherwise dispose of all or substantially all of their Assets, respectively (including leasehold interests and intangible Assets);

(f) dissolve, liquidate or wind up or commence a voluntary proceeding seeking reorganization or similar relief;

(g) enter into any agreement or arrangement with respect to, or engage in, any transaction (i) between NYC or PRR, as the case may be, on the one hand, and CRC or its Affiliates, on the other hand, and (ii) between the NYC or PRR, as the case may be, on the one hand, and CSX or NSC and their respective Affiliates, on the other hand, other than such a transaction which is on arm's length terms;

(h) transfer, provide trackage or operating rights or otherwise grant the right to use any railroad line (regardless of whether the grantor's rights depend on ownership or trackage rights or a combination thereof) which is part of any Main Line within the States of New Jersey or New York, or the area within twenty-five miles of the city of Philadelphia, PA (or consent to any such action by the "Operator" under the CSXT Operating Agreement or the NSR Operating Agreement). As used in the preceding sentence, "Main Line" means a line of railroad that has daily rail service, but does not include any branch line connecting to a Main Line and does not include the Main Line that lies east of the Hudson River and south of Selkirk, NY; or

(i) amend any material provision of the CSXT Operating Agreement, the CSXT Equipment Lease, the NSR Operating Agreement or the NSR Equipment Lease.

### SCHEDULE 3

#### PRESERVATION OF FAIR ACCESS TO CHICAGO GATEWAY

(a) For purposes of this Schedule 3, the following terms shall have the following meanings:

(i) "Chicago Area" means the geographic area in the States of Illinois and Indiana located within a 100-mile radius of the office building presently located at One First National Plaza in Chicago, Illinois;

(ii) "Chicago Area Terminal Railroad" means any railroad, whether currently in existence or later created, whose primary business is the provision of terminal or switching services within the Chicago Area including, without limitation, the Indiana Harbor Belt Line Railroad Company, the Belt Railway Company of Chicago, the Baltimore and Ohio Chicago Terminal Railroad Company and the Elgin, Joliet and Eastern Railroad Company; and

(iii) "Chicago Gateway" means railroad lines

and interchange, dispatching and other related facilities necessary to the function of carrying by railroad freight moving through the Chicago Area generally in the direction from east to west or west to east, whether by interchange between carriers in the Chicago Area or by single-line service between points east of the Chicago Area and points west of the Chicago Area and passing through the Chicago Area.

(b) If CSXT or NSR shall after the Control Date acquire, directly or indirectly, ownership, or rights to exercise effective voting control, of any voting stock in any Chicago Area Terminal Railroad (the "Interests"), the party acquiring such Interests (the "Acquiror") shall, at the request of the other party, sell or transfer to the other party, on terms and conditions substantially the same on a pro rata per Interest basis as those governing the Acquiror's acquisition of Interests, one-half of such newly acquired Interests, provided, however, that if the Interests would give the Acquiror control, not theretofore held, of a Chicago Area Terminal Railroad, the Acquiror's obligation to sell or transfer shall attach to the lesser of (A) one-half of all the Interests (not solely newly acquired Interests) it holds in that Chicago Area Terminal Railroad, or (B) such portion of all the Interests (not solely newly acquired Interests) it holds in that Chicago Area Terminal Railroad as necessary to equalize the Interests of each party. The sale or transfer price for each such Interest shall be the per Interest price paid by the Acquiror for the newly acquired Interests.

(c) Neither CSXT nor NSR shall, following the Control Date, enter into any arrangement with any Chicago Area Terminal Railroad, or any other railroad operating in the Chicago Area related to the Chicago Gateway, under which, in connection with the grant by such Chicago Area Terminal Railroad or such other railroad of trackage rights or similar operating rights to either CSXT or NSR, such Chicago Area Terminal Railroad or other railroad shall agree not to grant trackage rights or similar operating rights to the other of CSXT or NSR, with respect to such Chicago Area Terminal Railroad or the lines of such other railroad related to the Chicago Gateway.

(d) Should CSX or CSXT enter into a transaction in which either one shall be acquired by Burlington Northern Santa Fe Corporation ("BNSF"), or in which CSX or CSXT acquires BNSF, or in which substantially all of the rail operations of CSXT and BNSF shall be otherwise combined and put under common control or be merged together in any manner, at the request of CSX and any successor thereto made no later than one year following the consummation of such transaction, NSR shall sell and transfer to CSXT or its successor, at fair value, the Streator Line from Osborne, IN to Streator, IL (being the rail line located between Osborne, IN, and Schneider, IN, and Wheatfield, IN, and Moronts, IL), including all dispatching control with respect to said line. As used in this subsection, the term "fair value" shall mean the fair market value as determined by the parties by agreement or, failing agreement, as determined by binding arbitration. Any such sale and transfer shall be subject to all requisite governmental and regulatory approvals.

(e) Any dispute concerning the interpretation or application of this Schedule 3 shall be finally settled by binding arbitration pursuant to Section 11.12 of the Transaction Agreement. In any such arbitration, the arbitrator(s) shall have the authority to direct, subject to any required governmental or regulatory approvals and in accordance with any contractual limitations on transfer or assignment contained in any agreement with third parties (except one made in contravention of this Schedule 3), CSXT, NSR or both to transfer to each other ownership or control of voting stock in any Chicago Area Terminal

Railroad, or to direct the release by a party violating subsection (c) of any obligation of exclusivity made in such violation, as are necessary to carry out the purposes of this Schedule 3.

#### SCHEDULE 4

##### SCHEDULE OF TRACKAGE RIGHTS, HAULAGE, SHARED ASSET AND OTHER OPERATING AGREEMENTS

###### ITEM 1 - TRACKAGE RIGHTS AGREEMENTS

All Trackage Rights Agreements referred to in Items 1.A and 1.B below will be substantially in the form of the Trackage Rights Agreement attached hereto as Exhibit C-1 (in the case of those referred to in Item 1.A.) or C-2 (in the case of those referred to in Item 1.B.) and will be between the operator of the involved rail line, the owner, and the tenant road. Forms of addenda and/or assignments relating to the trackage rights referred to in Item 1.A. are included with Exhibit C-1 and forms of addenda and/or assignments relating to the trackage rights referred to in Item 1.B. are included with Exhibit C-2. Unless otherwise provided herein, a trackage rights tenant shall only have the right to enter on and exit from the trackage rights lines at points other than the endpoints where the tenant may make a connection with its existing railroad line and joint CSXT/NSR lines ("Point of Permitted Entry or Exit"). If, in the opinion of the tenant, a new or upgraded connection is required at a Point of Permitted Entry or Exit other than the endpoints, or, if in the opinion of the tenant, other upgrading, including but not limited to switches, power switches, signals, communications, etc., is required for operational efficiency, the landlord will, subject to its own operational needs, cooperate and the tenant will be responsible for funding that construction/upgrading at actual cost or a cost mutually agreed to by CSXT and NSR. Where a tenant has access to 2-to-1 points via trackage rights, the tenant may at its option access the points via haulage.

- A. NSR on CSXT: CSXT will grant to NSR trackage rights on the following rail lines which will be owned or operated by CSXT after the Closing Date:
1. Junction - Hadley (Fort Wayne, IN): NSR rights to operate over and share with CSXT the former CRC line between Junction and Hadley (the crossing of the former Pennsylvania RR and NYC&SL west of Fort Wayne).
  2. Lafayette, IN - Crawfordsville (area): assignment of overhead trackage rights on CSXT's Lafayette - Crawfordsville, IN line to serve 2-to-1 shippers at Crawfordsville, IN, and to move overhead between Lafayette and Indianapolis.
  3. Crawfordsville, IN - Indianapolis (area): overhead trackage rights on CRC's Crawfordsville - Indianapolis line to serve 2-to-1 shippers, the GM metal fabrication plant and the INRD via Hawthorne Yard.
  4. Indianapolis: overhead trackage rights on CRC's Crawfordsville Branch from Woods to Washington Street in Indianapolis to serve 2-to-1 shippers, the GM metal fabrication plant and the INRD via Hawthorne Yard.

5. Indianapolis: overhead trackage rights on CSXT between Washington Street and Pine in Indianapolis to serve 2-to-1 shippers, the GM metal fabrication plant and the INRD via Hawthorne Yard.
6. Buffalo (CP 437) - Niagara Falls (Suspension Bridge): overhead trackage rights on CRC s Belt Line Branch and Niagara Branch to connect with, or with trackage of Canadian carriers at Suspension Bridge.
7. Philadelphia(Park Jct.) - Anacostia Jct., MD: NSR is assigned CRC s overhead trackage rights on CSXT.
8. Landover - RO (Alexandria, VA): overhead trackage rights on CRC s Landover Line.
9. Cleveland, OH: overhead trackage rights on CRC s Short Line from Quaker to Berea, OH.
10. Cleveland, OH: overhead trackage rights on CRC s Chicago Line (allocated to CSXT) from CP 181 to Collinwood Yard for purposes of interchange with CSXT.
11. Crestline, OH - Fort Wayne (Mike), IN: overhead trackage rights on CRC s Fort Wayne Line (which is to be allocated to CSXT), with train limits as follows:
  - 8 total trains/day between Crestline and Bucyrus
  - 6 total trains/day between Bucyrus and Fort Wayne including rights to serve 2-1 customers at Upper Sandusky.NSR trains over the above limits are subject to negotiations between CSXT and NSR for NSR contribution to CSXT investment needed for additional capacity. NS will supervise the dispatching of the Ft. Wayne to Crestline line until CSXT haulage over CRC Chicago Line between Berea and Chicago is terminated. NS will control the Bucyrus interlocking permanently.
12. Fort Wayne(Mike), IN - Chicago(Clarke Jct., IN): overhead trackage rights on former CRC Fort Wayne Line (Ft. Wayne - Chicago, now NSR), with ten total trains/day limit (limit does not apply in Fort Wayne terminal). NSR trains over the above limits are subject to negotiations between CSXT and NSR for NSR contribution to CSXT investment needed for additional capacity. NSR will dispatch the line until CSXT haulage over CRC Chicago Line between Berea and Chicago is terminated.
13. Porter - Gibson Interlocking, IN: overhead trackage rights on CRC s Porter Branch.
14. CP Hocking - CP 138 (Columbus, OH): overhead trackage rights on CRC Buckeye Line from "CP Hocking" to "CP 138".
15. Scioto - CP Mounds (Columbus, OH): overhead trackage rights on CRC Western Branch from Scioto to "CP Mounds," including the Mounds Connection.
16. CP Buckeye - CP Darby (Columbus, OH): overhead trackage rights on Buckeye Yard Lead from "CP Buckeye" to "CP Darby".
17. CP 138 - MP 133.5 (Columbus, OH): overhead trackage rights on the CSXT - assigned west track of the CRC Columbus Line from CP 138" to the vicinity of Milepost



133.5 (point of new NS connection).

18. Parsons Yard - Scioto (Columbus, OH): overhead trackage rights on CSXT between the south end of Parsons Yard (connection with Watkins - Parsons transfer track) and Scioto.
  19. Lima, OH - Sidney, OH: overhead trackage rights on CSXT's Toledo Subdivision to serve 2-to-1 customers at Sidney.
  20. Bound Brook, NJ - Woodbourne, PA: overhead trackage rights for twelve total trains/day limit on CRC s Trenton Line for dimensional trains until Pattenburg Tunnel on CRC s Lehigh line is cleared of dimensional restrictions, not to exceed three years.
  21. Piqua Yard - Mike Interlocking (Fort Wayne, IN): NSR overhead rights to operate trains for Triple Crown Services Company between Piqua Yard and Mike interlocking (Fort Wayne).
  22. Muncie, IN - Indianapolis (area): overhead trackage rights on CRC s Indianapolis Line, South Anderson Cutoff and part of Dow Secondary to serve 2-to-1 ship-pers the GM metal fabrication plant and the INRD via Hawthorne Yard.
  23. Toledo Terminal: overhead rights on CSXT-controlled portion of former Toledo Terminal Railroad.
  24. Erie, PA: overhead trackage rights on CRC between Downing Avenue and Wallace Street in Erie, PA, subject to restriction against NSR use of CRC Chicago line main tracks.
  25. CP Short - Parma, OH: overhead trackage rights on CRC Short Line from CP Short to Parma to serve but not directly switch Parma auto plant.
  26. McCook - Franklin Park, IL: overhead trackage rights granted by B&OCT.
  27. Pine Junction, IN - McCook, IL: overhead trackage rights on B&OCT.
- B. CSXT on NSR: NSR will grant to CSXT trackage rights on the following rail lines which will be owned or operated by NSR after the Closing Date:
1. CP River (West Falls), PA - Abrams, PA: overhead trackage rights on CRC s Harrisburg Line for dimensional traffic.
  2. CP King (Norristown), PA - Woodbourne (CP Wood), PA: overhead trackage rights on CRC s Morrisville Line for dimensional traffic plus incidental rights on short portion of SEPTA s Norristown Line.
  3. Berea, OH - CP 181 (Cleveland, OH): overhead trackage rights on CRC s existing Chicago Line.
  4. CP Short - CP 190 (Cleveland, OH) and Berea, OH - Lorain and Fairlane, OH: overhead trackage rights on CRC's line allocated to NSR and rights to serve 2-to-1 Ford Motor plants at Avon Lake and Fairlane.
  5. CP Hocking - Buckeye Yard: overhead trackage rights on

CRC Buckeye Line from "CP Hocking" to Buckeye Yard.

6. Bannan - Scioto, OH: overhead trackage rights on CRC Western Branch from Bannan to Scioto.
7. CP 139 - Buckeye Yard: overhead trackage rights on CRC Cincinnati Line from CP 139" to Buckeye Yard, via the Miami Lead.
8. CP 138 - MP 133.5 (Columbus, OH): overhead trackage rights on the NSR-assigned east track of the CRC Columbus Line from CP 138 to the vicinity of MP 133.5 (point of new NSR connection).
9. CP Camp - CP 139 (Columbus): overhead trackage rights on CRC Auburn Connection from "CP Camp" to "CP 139".
10. Bannan - Watkins Yard: overhead trackage rights on NSR from Bannan to the south (RR east) end of NSR Watkins Yard (connection with Watkins - Parsons transfer track).
11. Youngstown (Center St.) - Ashtabula Harbor, OH: overhead trackage rights on CRC Youngstown Line to access Ashtabula Harbor facilities and the Water Level Route.
12. Osborne, IN - Streator, IL: overhead trackage rights on CRC Kankakee Line, Kankakee Secondary and Streator Secondary for up to 8 total trains/day to connect with, or with trackage of other intersecting railroads. CSXT trains over the above limits are subject to negotiations between CSXT and NSR for CSXT contribution to investment needed for additional capacity.
13. Clarke Jct., IN - CP 501: overhead trackage rights on CRC's Fort Wayne Line between Clarke Junction, IN and CP 501.
14. Pine, IN - Rock Island Jct. (Chicago, IL): CSXT overhead trackage rights on CRC's Chicago Line (allocated to NSR).
15. CP Short - CP Belt, OH: CSXT overhead trackage rights to allow CSXT to serve but not directly switch 2-to-1 Ford Motor Company plant at CP Belt, OH.
16. Ecorse Junction - Delray (Detroit, MI): overhead trackage rights on existing NSR tracks in the Detroit area from Ecorse Junction to Delray, MI.
17. Bucyrus - Sandusky: overhead trackage rights on NSR between Bucyrus and Sandusky to serve a 2-to-1 shipper at Sandusky, OH.
18. Brighton Park - Ash Street (Chicago IL): overhead trackage rights on CRC's Western Avenue Industrial Track from crossover connection with B&OCT at Brighton Park to Ash Street (Chicago, IL).
19. CP 509 - 63rd Street (Chicago, IL): overhead trackage rights on CRC's Chicago line limited, in combination with NSR haulage of CSXT trains, to a total of 6 trains/day in each direction between the above points for trains entering or leaving NSR trackage at Clarke Junction up to a maximum of three years.

C. CRC ASSIGNMENTS TO NSR/CSXT: CRC will assign to NSR and

CSXT existing CRC rights with respect to the Northeast Corridor as follows (see Ancillary Agreement governing assignment of CRC rights as to Northeast Corridor):

#### NEC RIGHTS/OPERATING DEFINITION

1. Zoo Tower - Penn Station trackage: Rights shall be shared equally by NSR and CSXT and, in the event of an operating conflict, trains will be scheduled alternately.
2. Baltimore - Zoo Tower Trackage: CSXT shall be limited to 4 trains a day.
3. Landover - Baltimore: Rights will be shared equally by NSR and CSXT and, in the event of an operating conflict, trains will be scheduled alternately.
4. Washington Union Station - Landover, MD: Rights shall be shared equally by NSR and CSXT and, in the event of an operating conflict, trains will be scheduled alternately.

#### NEC RIGHTS/COMMERCIAL DEFINITION

1. Philadelphia (Zoo) - New York (Penn Station): Will be part of the North Jersey Shared Assets Area and the South Jersey/Philadelphia Shared Assets Area where NSR and CSXT will have equal customer access.
2. Washington, D.C. - Philadelphia (Zoo): Will be exclusive to NSR.
3. North of New York (Penn Station): Will be exclusive to CSXT.

#### ITEM 2 - CSX/NSC HAULAGE AGREEMENTS

The Haulage Agreement referred to in Item 2.A.1 will be substantially in the form of the Haulage Agreement included with Exhibit D and will be between the operator of the involved rail line (and with the owner, if appropriate) and the tenant road. The assignment of the Haulage Agreement referred to in Item 2.A.2 will be in the form included with Exhibit D.

##### A. NSR Haulage for CSXT on NSR Lines:

1. Berea, OH - Chicago (63rd St.): Overhead haulage for CSXT by NSR on CRC's Chicago Line for maximum of six merchandise and/or intermodal trains/day each way to the Park Manor Yard at 63rd St. in Chicago, until CRC's Ft. Wayne Line (Ft. Wayne - Chicago now NS) is upgraded, up to a maximum of 3 years.
2. Normal, IL - Lafayette, IN: Assignment to CSXT of CRC's Haulage Agreement with NSR for 2-to-1 automotive traffic only.

#### ITEM 3 - SHARED ASSETS AGREEMENTS

1. North Jersey Shared Assets Agreement among CRC, CSXT and NSR (attached as Exhibit G), covering the following matters:

- (1) North Jersey Shared Assets Area

(2) North Jersey CSXT/NSR Trackage

2. Philadelphia\Southern Jersey Shared Assets Agreement among CRC, CSXT and NSR (attached as Exhibit H), covering the following matters:
  - (1) Philadelphia/South Jersey Shared Assets Area
  - (2) Philadelphia/South Jersey NS/CSXT Trackage
3. Detroit Area Shared Assets Agreement among CRC, CSXT and NSR (attached as Exhibit I), covering the following matters:
  - (1) Detroit Shared Assets Area
  - (2) Detroit Dispatching
  - (3) NSR/CSXT trackage Rights - Detroit

ITEM 4 - OTHER OPERATING AGREEMENTS

- A. INTERLOCKING AGREEMENTS (CSXT-Controlled) between CSXT and NSR as to which the interlocking will be controlled by CSXT:
  1. Ashtabula Interlocking (crossing of the existing CRC Youngstown Line and Chicago Line at Ashtabula, OH)
  2. CP-Mounds Interlocking (Columbus, OH)
  3. Warsaw Interlocking (Warsaw, IN)
  4. Crestline Interlocking (Crestline, OH)
- B. INTERLOCKING AGREEMENTS (NSR-Controlled) between NSR and CSXT as to which the interlocking will be controlled by NSR:
  1. Buckeye Interlocking (Columbus, OH)
  2. Mike Interlocking (Fort Wayne, IN)
  3. Bucyrus Interlocking (Bucyrus, OH)
- C. INTERLOCKING SEPARATION AGREEMENTS between NSR and CSXT as to which the interlocking will be "separated" (i.e., divided so that each operator is not subject to the control of the other when making moves on the operator's own lines through a point) prior to or as soon as possible after the Closing Date:
  1. CP 138 Interlocking (Columbus, OH)
  2. Short Interlocking (Cleveland, OH)
  3. Berea Interlocking (Berea, OH)
- D. SWITCHING AND/OR YARD ACCESS AGREEMENTS between CSXT and NSR:
  1. Ashtabula - Agreement between NSR and CSXT providing for CSXT use of and access to Ashtabula Harbor facilities owned by CRC, up to a proportion of the total ground storage, throughput and tonnage capacity of the facilities equal to the Percentage
  2. Yard Access Agreement - Agreement between CSXT and NSR

providing for access by NSR to yard tracks in Seneca Yard at Buffalo, NY (yard to be assigned to CSXT) sufficient for the origination and termination of trains, at the end of the existing CRC Buffalo Line to be assigned to NSR, for purposes of improved interchange with the South Buffalo RR.

3. Ford (Rockport) - Agreement between NSR and CSXT providing for NSR switching for CSXT at the Ford engine plant in Cleveland (located on NSR portion of CRC lines in Cleveland).
4. GM Parma - Agreement between CSXT and NSR providing for CSXT switching for NSR at Parma auto plant located on the CSXT Portion of CRC in Cleveland.
5. Indianapolis Switching - Agreement between CSXT and NSR relating to NSR's use of Hawthorne Yard providing that NSR will have sufficient tracks and space for the arrival, departure and make-up of trains and will have reasonable access to and from the designated tracks; also providing for CSXT switching for NSR at 2-to-1 shippers in Indianapolis, the GM metal fabrication plant, and the INRD.
6. GM Lordstown - Agreement between CSXT and NSR for switching at GM assembly plant at Lordstown, OH.
7. Lorain Switching: Agreement between CSXT and NSR providing for NSR switching for CSXT at Lorain/Avon Lake auto plant located in Lorain, OH.
8. Fairlane Switching: Agreement between CSXT and NSR providing for NSR switching for CSXT at Fairlane auto plant located in Fairlane, OH.
9. Crawfordsville Switching: Agreement between CSXT and NSR providing for CSXT switching for NSR at 2-to-1 customers located in Crawfordsville, IN.
10. Sidney Switching: Agreement between CSXT and NSR providing for CSXT switching for NSR at 2-to-1 customers located in Sidney, OH.
11. Sandusky Switching: Agreement between CSXT and NSR providing for NSR switching for CSXT at a 2-to-1 customer at Sandusky, OH.
12. Upper Sandusky Switching: Agreement between CSXT and NSR providing for CSXT switching for NSR at 2-to-1 customers at Upper Sandusky, OH.

E. MISCELLANEOUS AGREEMENTS between NSR and CSXT:

1. IHB Agreement: Agreement among CRC, CSXT and NSR covering matters relating to Indiana Harbor Belt.
2. Monongahela Agreement - Agreement among NSR and CSXT providing for shared access to and joint use by CSXT of NSR assigned, controlled, operated and maintained lines serving the Monongahela coal fields' current and future facilities.
3. Temporary Lease Agreement between NSR or its designee and CSXT providing interim use by CSXT of the Park Manor (63rd St., Chicago, IL) intermodal facility during the period of CSXT's interim haulage between Chicago and Berea.

4. Letter Agreement providing for NSR and CSXT construction projects:
  - (a) NSR construction of connection in eastern Cleveland, OH (granting to NSR rights to construct a connection in eastern Cleveland to make direct moves between NSR's Cleveland-Buffalo Line and the CRC's existing Chicago Line, using NSR rights over existing CRC Cleveland Short Line to be assigned to CSXT)
  - (b) North of the current end of double track at CP 136 (Columbus, OH), NSR will be assigned the right of way east of the single remaining track and the Clintonville Siding (which is also east of the single remaining track), with the right to connect these two segments of track, at NSR's expense, at CP 136 and the Clintonville Siding into a continuous track east of and parallel to the single remaining track. Another new connection will be constructed, at NSR expense, between the Clintonville Siding and the existing NSR Bellevue - Portsmouth main line in the vicinity of Milepost 133.5, where both the NSR and CRC rights of way are parallel and level. CSXT shall, at its option and expense, have the right to construct a connection from its assigned track (i.e., the west located track of the right of way) to the new NSR Clintonville Siding, so that both tracks can be utilized for operational flexibility between the vicinity of Milepost 133.5 to CP 138, under the control of the respective assignee of each track.
  - (c) Construction of Junction - Hadley trackage (a line relocation project underway in Fort Wayne will force NSR and CSXT to share the former CRC line between Junction and Hadley (the crossing of the former Pennsylvania RR and NYC&SL west of Fort Wayne); if NSR and CSXT decide that capacity needs mandate an additional track, NSR and CSXT will equally share the cost of constructing a new track between Junction and Hadley on the north side of the existing track, and ownership of the south track will revert to NSR and ownership of the north track will revert to CSXT).
5. Construction at Buckeye Yard - Letter Agreement providing for NSR to have the right to construct a parallel track to the Buckeye Yard lead track (at Buckeye Yard, Columbus, OH) in order to provide for the proper functioning of Buckeye Yard.
6. Construction from Field - Belmont - Letter Agreement giving NSR the right to reconstruct, own and control an additional track where practical between Belmont and CP Field.
7. Deed of Easement between CSXT and NSR providing for conveyance by CSXT to NSR of a free easement (for NSR relocation of mainline in Erie, PA area) along existing CRC right of way through Erie, PA (assigned to CSXT) to replace NSR right of way through streets in downtown Erie at its expense. NSR will have trackage rights in Erie to connect its route from Corry to its existing Buffalo - Cleveland line if such connection can be

achieved without using the CR Buffalo - Cleveland line.

8. Letter agreement between NSR and CSXT providing that  
(i) NSR's existing Fort Wayne - to - Chicago (former CRC line) line will be transferred to CSXT as part of a like kind exchange transaction for the Streator line and (ii) if CSXT were to merge with BNSF and if CSXT requests, then NSR would transfer the Streator Line from Osborne, IN including the dispatching control, for fair value.
9. Piqua Yard (Fort Wayne) - Letter Agreement between NSR and CSXT providing for division of space in Piqua Yard and determine most efficient means of utilizing the physical plant in Fort Wayne; Triple Crown Services Company will retain its current space in Piqua Yard and the right to have NSR operate its trains between Piqua Yard and Mike interlocking.
10. E-Rail Support Tracks - Letter Agreement between CSXT and NSR providing for access by NSR to use up to two tracks located on NYC allocated property of Elizabethport Yard (Trumbell St. Yard) for support of PRR's E-Rail intermodal facility.
11. Agreement between CSXT and NSR providing for assignment of CRC rights over CSXT lines to NSR (except as otherwise provided in the Transaction Agreement) and for assignment of CRC rights over NSR lines to CSXT (except as otherwise provided in the Transaction Agreement).
12. Letter Agreement between NSR and CSXT providing CSXT the right to construct an Eastwick connection to provide a contiguous route through Philadelphia, via CP Field and portions of CR's Harrisburg and Trenton Lines to CP River and points north.
13. Letter Agreement among CRC, NSR and CSXT providing for assignment by CRC of rights relating to the Northeast Corridor.
14. Letter Agreement between NSR and CSXT providing for  
(i) assignment to both NSR and CSXT of CRC's trackage rights over BNSF to access BNSF's Willow Springs Yard (Chicago), subject to approval of BNSF, and (ii) if such trackage rights are assigned, CSXT's right to construct a connection in the vicinity of Ash Street (Chicago) to enable CSXT to use these rights, if necessary.

NOTE: Notwithstanding any provision of this Schedule, to the extent an item herein describes an Ancillary Agreement between the parties the form of which is set forth as an Exhibit to this Agreement, such description shall be for purposes of identification only, and the terms of such Ancillary Agreement shall control.

CSXT and NSR will cooperate with one another for the construction of various connections and improvements of the involved carriers referred to in their respective Operating Plans.

**Exhibit 12****NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES****Computation of Ratio of Earnings to Fixed Charges***(Millions of Dollars)*

	Year ended December 31,				
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
<b>EARNINGS</b>					
Income from continuing operations before income taxes as reported \$	706\$	553\$	250\$	351\$	845
Add:					
Total interest expenses (as detailed below)	663	674	721	708	688
Amortization of capitalized interest	6	5	5	4	3
Income (loss) of partially owned entities (1)	36	39	60	47	165
Subsidiaries' preferred dividend requirements	2	2	2	2	2
Income before income taxes, as adjusted	\$ 1,413\$	\$ 1,273\$	\$ 1,038\$	\$ 1,112\$	\$ 1,703
<b>FIXED CHARGES</b>					
Interest expense on debt	\$ 518\$	\$ 553\$	\$ 551\$	\$ 531\$	\$ 516
Other interest expense	32	2	42	35	27
Calculated interest portion of rent expense	40	41	40	35	31
NS' share of Conrail interest	73	78	88	107	114
Total interest expenses	663	674	721	708	688
Capitalized interest	11	17	18	15	21
Subsidiaries' preferred dividend requirement on a pretax basis	4	4	4	4	4
Total fixed charges	\$ 678\$	\$ 695\$	\$ 743\$	\$ 727\$	\$ 713
<b>RATIO OF EARNINGS TO FIXED CHARGES</b>	2.08	1.83	1.40	1.53	2.39

&lt;TABLE&gt;

&lt;CAPTION&gt;

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&lt;/TABLE&gt;

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.



## CONSOLIDATED (MORE THAN 50% OWNED) SUBSIDIARIES

### OF NORFOLK SOUTHERN CORPORATION AND STATES OF INCORPORATION

AS OF FEBRUARY 1, 2003

## State or Country

### of Incorporation

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
NS Fiber Optics, Inc.	Virginia
NS Transportation Brokerage Information	Virginia
PDC Timber LLC	Delaware
PLC Timber LLC	Delaware
Pocahontas Development Corporation	Kentucky
Pocahontas Land Corporation	Virginia
Scioto Fuels, LLC	Virginia
TCS Leasing, Inc.	Oklahoma
T-Cubed of North America, Inc.	Delaware
T-Cubed of South Carolina, Inc.	South Carolina
T-Cubed of Virginia, Inc.	Virginia
Thoroughbred Direct Intermodal Services, Inc.	Pennsylvania
Thoroughbred Funding, Inc.	Virginia
Thoroughbred Technology and Telecommunications, Inc.	Virginia
Transworks Company	Indiana
Transworks Inc.	Virginia
Transworks of Indiana, Inc.	Indiana
Triple Crown Services Company	
<b>Norfolk Southern Railway Company Subsidiaries</b>	

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
Mobile and Birmingham Railroad Company	Alabama
Norfolk and Portsmouth Belt Line Railroad Company	Virginia
Norfolk Southern International, Inc.	Virginia
Norfolk Southern – Mexico, LLC	Virginia
North Carolina Midland Railroad Company, The	North Carolina
NorfolkSouthernMexicana, S. de R.L. de C.V.	Mexico
Rail Investment Company	Delaware
Rail Technologies, Inc.	Georgia
Shenandoah-Virginia Corporation	Virginia
South Western Rail Road Company, The	Georgia
Southern Rail Terminals, Inc.	Georgia

Southern Rail Terminals of North Carolina, Inc.  
Southern Region Coal Transport, Inc.  
Southern Region Materials Supply, Inc.  
State University Railroad Company  
Tennessee, Alabama & Georgia Railway Company  
Tennessee Railway Company  
Virginia and Southwestern Railway Company  
Wheelersburg Terminal LLC  
Yadkin Railroad Company

North Carolina  
Alabama  
Georgia  
North Carolina  
Delaware  
Tennessee  
Virginia  
Virginia  
North Carolina

**Norfolk Southern Properties, Inc. Subsidiaries:**

Alexandria-Southern Properties, Inc.  
Arrowood-Southern Company  
Arrowood Southern Executive Park, Inc.  
Carlyle CA Corporation  
Carlyle Development Corporation  
Charlotte-Southern Corporation  
Charlotte-Southern Hotel Corporation  
Lambert's Point Docks, Incorporated  
Nickel Plate Improvement Company, Inc., The  
NKPI Management, Inc.  
Norfolk Southern Industrial Development Corp.  
Norfolk Southern Tower, L.L.C.  
Northmont Limited Partnership  
NS-Charlotte Tower Corporation  
NS Gas Properties, Inc.  
NS Gas Properties, II, Inc.  
Sandusky Dock Corporation  
Southern Region Industrial Realty, Inc.  
SRIR Timber, L.L.C.  
Virginia Holding Corporation

Virginia  
North Carolina  
North Carolina  
Virginia  
Virginia  
North Carolina  
North Carolina  
Virginia  
Indiana  
Indiana  
Virginia  
Virginia  
Georgia  
North Carolina  
Virginia  
Virginia  
Virginia  
Georgia  
Delaware  
Virginia

In addition, NS owns direct or indirect equity interest in:

**Conrail Inc.**

**Consolidated Rail Corporation and its consolidated subsidiaries including New York Central Lines LLC and**

**Pennsylvania Lines LLC and their subsidiaries.**

**CRR Holdings LLC**

**Delaware Otsego Corporation**

**DOCP Acquisition, LLC**

**Green Acquisition Corp.**

**CONSENT OF INDEPENDENT AUDITORS**

The Board of Directors

Norfolk Southern Corporation:

We consent to the incorporation by reference in Registration Statements Nos. 33-52031, 333-40993, 333-60722, 333-71321 and 333-100936 on Form S-8 and Registration Statements Nos. 333-57872 and 333-57872-01 on Form S-3 of Norfolk Southern Corporation of our report dated January 28, 2003, with respect to the consolidated balance sheets of Norfolk Southern Corporation and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in stockholders' equity and cash flows, and the related financial statement schedule for each of the years in the three-year period ended December 31, 2002, which report appears in the December 31, 2002 Annual Report on Form 10-K of Norfolk Southern Corporation.

/s/ KPMG LLP

Norfolk, Virginia

February 20, 2003

**CONSENT OF INDEPENDENT AUDITORS**

The Board of Directors

Norfolk Southern Corporation:

We consent to the incorporation by reference in Registration Statements Nos. 33-52031, 333-40993, 333-60722, 333-71321 and 333-100936 on Form S-8 and Registration Statements Nos. 333-57872 and 333-57872-01 on Form S-3 of Norfolk Southern Corporation of our report dated January 28, 2003, with respect to the consolidated balance sheets of Conrail Inc. and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, stockholders' equity and cash flows, for each of the years in the three-year period ended December 31, 2002, which report appears in the December 31, 2002 Annual Report on Form 10-K of Norfolk Southern Corporation.

/s/ KPMG LLP

/s/ Ernst & Young LLP

KPMG LLP

Ernst & Young LLP

Norfolk, Virginia

Jacksonville, Florida

February 20, 2003

February 20, 2003

B Y L A W S

OF

NORFOLK SOUTHERN CORPORATION

AS AMENDED

December 1, 2002

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 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.

## ARTICLE II

### Board of Directors

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 nine, 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.

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 of all classes 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.

### 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.

#### 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.

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**CERTIFICATION OF CEO AND CFO PURSUANT TO 18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I certify, to the best of my knowledge, that the Annual Report on Form 10-K for the year ended December 31, 2002 of Norfolk Southern Corporation fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Form

10-K fairly presents, in all material respects, the financial condition and results of operations of Norfolk Southern Corporation.

Signed:

/s/ David R. Goode

David R. Goode

Chairman, President and Chief Executive Officer

Norfolk Southern Corporation

Dated: February 21, 2003

I certify, to the best of my knowledge, that the Annual Report on Form 10-K for the year ended December 31, 2002 of Norfolk Southern Corporation fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Form

10-K fairly presents, in all material respects, the financial condition and results of operations of Norfolk Southern Corporation.

Signed:

/s/ Henry C. Wolf

Henry C. Wolf

Vice Chairman and Chief Financial Officer

Norfolk Southern Corporation

Dated: February 21, 2003

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REPORT OF MANAGEMENT

The Stockholders  
Conrail Inc.

Management is responsible for the preparation, integrity and objectivity of the Company's consolidated financial statements. The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based on management's best estimates and judgment.

The Company maintains a system of internal accounting controls and procedures, which is continually reviewed and supported by written policies and guidelines and supplemented by internal audit services. The system provides reasonable assurance that assets are safeguarded against loss from unauthorized use and that the books and records reflect the transactions of the Company and are reliable for the preparation of financial statements. The concept of reasonable assurance recognizes that the cost of a system of internal accounting controls should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

The Company's consolidated financial statements are audited by its independent accountants. Their audit is conducted in accordance with auditing standards generally accepted in the United States of America 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, which is comprised of an equal number of directors from Norfolk Southern Corporation ("NSC") and CSX Corporation ("CSX"), pursues its oversight responsibilities for the consolidated financial statements and corporate conduct through periodic meetings with and written reports from the Company's management.

/s/ Gregory R. Weber  
Gregory R. Weber  
President and Chief  
Executive Officer

/s/ Patrick F. Rogers  
Patrick F. Rogers  
Assistant Vice President-  
Accounting and Tax

January 28, 2003

INDEPENDENT AUDITORS' REPORT

The Stockholders and Board of Directors  
Conrail Inc.:

We have audited the accompanying consolidated balance sheets of Conrail Inc. and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2002. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 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 Conrail Inc. and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP  
KPMG LLP  
Norfolk, Virginia

/s/ Ernst & Young LLP  
Ernst & Young LLP  
Jacksonville, Florida

January 28, 2003

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CONRAIL INC.  
CONSOLIDATED STATEMENTS OF INCOME

	Years ended December 31,		
(\$ In Millions)	2002	2001	2000
	----	----	----
Revenues - NSC/CSX (Note 2)	\$ 813	\$ 823	\$ 886
Revenues - Third parties	80	80	99
	----	----	----
Total operating revenues	893	903	985
	----	----	----
Operating expenses (Note 3)			
Compensation and benefits	151	158	195
Fuel	6	7	10
Material, services and rents	125	143	162
Depreciation and amortization	322	325	331
Casualties and insurance	2	(13)	33
Other	17	19	18
	----	----	----
Total operating expenses	623	639	749
	----	----	----

Income from operations	270	264	236
Interest expense	(104)	(109)	(124)
Other income, net (Note 10)	94	103	155
	----	----	----
Income before income taxes	260	258	267
Income taxes (Note 7)	80	84	97
	----	----	----
Net income	\$ 180	\$ 174	\$ 170
	=====	=====	=====

See accompanying notes to the consolidated financial statements.

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CONRAIL INC.  
CONSOLIDATED BALANCE SHEETS

	December 31,	
(\$ In Millions)	2002	2001
	-----	-----
ASSETS		
Current assets		
Cash and cash equivalents	\$ 23	\$ 34
Accounts receivable, net	35	32
Due from NSR/CSXT (Note 2)	158	172
Notes receivable from NSC/CSX (Note 2)	-	515
Material and supplies	8	9
Deferred tax assets (Note 7)	65	76
Other current assets	11	8
	-----	-----
Total current assets	300	846
Property and equipment, net (Note 4)	6,382	6,688
Notes receivable from NSC/CSX (Note 2)	892	-
Other assets	583	548
	-----	-----
Total assets	\$ 8,157	\$ 8,082
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current maturities of long-term debt (Note 6)	57	60
Accounts payable	33	41
Due to NSC/CSX (Note 2)	9	12
Wages and employee benefits	31	37
Casualty reserves	69	101
Accrued and other current liabilities (Note 5)	130	157
	-----	-----
Total current liabilities	329	408
Long-term debt (Note 6)	1,123	1,156
Casualty reserves	119	134
Deferred income taxes (Note 7)	1,822	1,833
Other liabilities	538	446
	-----	-----

Total liabilities	3,931	3,977
	-----	-----
Commitments and contingencies (Note 11)		
Stockholders' equity (Notes 3 and 9)		
Common stock (\$1 par value; 100 shares authorized, issued and outstanding)	-	-
Additional paid-in capital	2,221	2,221
Retained earnings	2,134	1,954
Accumulated other comprehensive loss	(129)	(70)
	-----	-----
Total stockholders' equity	4,226	4,105
	-----	-----
Total liabilities and stockholders' equity	\$ 8,157	\$ 8,082
	=====	=====

See accompanying notes to the consolidated financial statements.

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CONRAIL INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(\$ in Millions)	Additional Paid-In Capital	Unearned ESOP Compensation	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	-----	-----	-----	-----	-----
Balance, January 1, 2000	\$ 2,229	\$ (20)	\$ 1,610	\$ -	\$ 3,819
Net Income	-	-	170	-	170
Other	(7)	-	-	-	(7)
	-----	---	-----	----	-----
Balance December 31, 2000	2,222	(20)	1,780	-	3,982
Comprehensive income - 2001					
Net Income	-	-	174	-	174
Minimum pension liability, net of \$45 million income taxes (Note 8)	-	-	-	(70)	(70)
					-----
Total comprehensive income					104
					-----
Allocation of unearned ESOP compensation	(1)	20	-	-	19
	-----	-----	-----	-----	-----
Balance, December 31, 2001	2,221	-	1,954	(70)	4,105
Comprehensive income - 2002					
Net Income	-	-	180	-	180
Minimum pension liability, net of \$39 million income taxes (Note 8)	-	-	-	(59)	(59)
					-----
Total comprehensive income					121
					-----
	-----	-----	-----	-----	-----
Balance, December 31, 2002	\$ 2,221	\$ -	\$ 2,134	\$ (129)	\$ 4,226
	=====	=====	=====	=====	=====

See accompanying notes to the consolidated financial statements.

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CONRAIL INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,		
(\$ In Millions)	2002	2001	2000
	----	----	----
Cash flows from operating activities			
Net income	\$ 180	\$ 174	\$ 170
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	322	325	331
Deferred income taxes	(9)	(18)	101
Gains from sales of property	(3)	(2)	(70)
Pension credit	(17)	(19)	(12)
Dividends from affiliated companies	-	-	55
Changes in:			
Accounts receivable	(3)	1	18
Accounts and wages payable	(14)	(32)	8
Due from NSR/CSXT	14	60	(36)
Due to NSC/CSX	(3)	(19)	(128)
Other	(44)	32	(75)
	----	----	----
Net cash provided by operating activities	423	502	362
	----	----	----
Cash flows from investing activities			
Property and equipment acquisitions	(23)	(47)	(220)
Notes receivable from NSC/CSX	(377)	(424)	125
Proceeds from disposal of property and equipment	14	14	86
Other	11	-	(7)
	----	----	----
Net cash used in investing activities	(375)	(457)	(16)
	----	----	----
Cash flows from financing activities			
Payment of long-term debt	(59)	(61)	(318)
	----	----	----
Net cash used in financing activities	(59)	(61)	(318)
	----	----	----
Increase (decrease) in cash and cash equivalents	(11)	(16)	28
Cash and cash equivalents			
Beginning of year	34	50	22
	----	----	----
End of year	\$ 23	\$ 34	\$ 50
	=====	=====	=====

See accompanying notes to the consolidated financial statements.

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 ("Green Acquisition"), which owns Conrail. NSC and CSX have equity interests in CRR of 58% and 42%, respectively, and voting interests of 50% each. Under operating and lease agreements, NSC and CSX operate a substantial portion of the Conrail properties through their railroad subsidiaries, Norfolk Southern Railway Company ("NSR") and CSX Transportation, Inc. ("CSXT") (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 consist of maintenance material valued at the lower of cost or market.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided using the composite straight-line method over estimated service lives. Expenditures, including those on leased assets that extend an asset's useful life or increase its utility, are capitalized. Maintenance expense is recognized when repairs are performed. 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. In 2002, the overall depreciation rate averaged 3.6% for all roadway and equipment.

The Company is finalizing a study to update the estimated useful lives of its roadway and equipment property and the associated accumulated depreciation reserves. Based on this review, the Company anticipates a pretax increase in overall depreciation expense in the range of \$20-\$25 million in 2003.

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In August 2001, The Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations." This standard which is effective for the Corporation's fiscal year beginning January 1, 2003, addresses the accounting and reporting of legal obligations associated with the retirement of tangible long-lived assets. The Company is currently evaluating the impact the new rules may have on its consolidated financial statements.

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.

The adoption of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which was effective January 1, 2002, did not have a material effect on the Company's consolidated financial statements.

#### Revenue Recognition

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 (Note 2). Conrail also has third party revenues, which are recognized when earned, related to the operations of Indiana Harbor Belt Railroad Company, a 51% owned terminal railroad subsidiary.

#### 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. Management reviews its estimates, including those related to the recoverability and useful lives of assets as well as liabilities for litigation, environmental remediation, casualty claims, income taxes and pension and postretirement benefits. Changes in facts and circumstances may result in revised estimates.

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## 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 that 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.

#### Operations by NSR and CSXT

The majority of CRC's routes and assets are segregated into separate subsidiaries of CRC, Pennsylvania Lines LLC ("PRR") and New York Central Lines LLC ("NYC"). PRR and NYC have 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. 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 also have 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 to Conrail under the Shared Assets agreements were \$115 million and \$168 million during 2002 and 2001, respectively, of which \$23 million and \$27 million, were minimum rents. Payments made by CSXT to Conrail under the Shared Assets agreements were \$92 million and \$140 million during 2002 and 2001, respectively, of which \$17 million and \$19 million, were minimum rents.

Payments from NSR under the Operating Agreements to PRR amounted to \$339 million and \$331 million during 2002 and 2001, respectively. Payments from CSXT under the Operating Agreements to NYC amounted to \$248 million and \$241 million during 2002 and 2001, respectively. In addition, costs necessary to operate and maintain the related assets under these agreements, including leasehold improvements, are borne by NSR and CSXT.

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Future minimum lease payments to be received from NSR/CSXT are as follows:

\$ in Millions

	NSR To PRR -----	NSR To CRC ---	CSXT To NYC -----	CSXT To CRC ---	Total -----
2003	\$ 333	\$ 30	\$ 230	\$ 21	\$ 614
2004	332	32	230	23	617
2005	320	33	221	24	598
2006	306	34	210	24	574
2007	294	34	203	24	555
2008 and Beyond	4,414	585	2,909	402	8,310
	-----	---	-----	---	-----
Total	\$ 5,999 =====	\$ 748 ===	\$ 4,003 =====	\$ 518 ===	\$ 11,268 =====

#### Related Party Balances and Transactions

"Due from NSR/CSXT" at December 31, 2002 and 2001, is primarily comprised of amounts due for the above-described operating and rental activities.

PRR and NYC have interest-bearing notes receivable due from NSC and CSX. Previously, these notes were payable on demand and classified as current. However during the first quarter of 2002, they were exchanged for new longer-term notes. As of December 31, 2002, the notes receivable due from NSC and CSX included in noncurrent assets were \$513 million and \$379 million, respectively. At December 31, 2001, the notes receivable balances from NSC and CSX under the previous demand note totaled \$301 million and \$214 million, respectively. The interest rates on the notes receivable from NSC and CSX are variable and were both 1.82% at December 31, 2002. Interest income related to the PRR and NYC notes receivable was \$18 million in 2002, \$13 million in 2001 and \$10 million in 2000.

"Due to NSC/CSX" includes amounts payable for property and equipment rentals, as well as amounts related to service provider agreements with both NSC and CSX to provide certain general and administrative support to CRC.

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A summary of the "Due to NSC and CSX" activity for the services described above follows:

\$ in Millions

	Payments to NSC		Payments to CSX	
	2002	2001	2002	2001
Service Provider Agreements	\$ 5	\$ 6	\$ -	\$ -
Material purchases	20	31	-	-
Rental of locomotives, equipment and facilities	5	8	4	6
Capital Project activities	-	17	-	3
	----	----	----	----
Total payments	\$ 30	\$ 62	\$ 4	\$ 9
	=====	=====	=====	=====
	2002	2001	2002	2001
	----	----	----	----
Due to "NSC and CSX" at December 31	\$ 7	\$ 9	\$ 2	\$ 3

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. Through December 31, 2002 there have been no transactions under these arrangements.

### 3. Transition, Acquisition-Related and Other Items

During the first quarter of 2002 and the fourth quarter of 2001, the Company received cash proceeds totaling \$4 million and \$42 million respectively, from several London-based insurance carriers as settlement for current and future exposures related to personal injury, occupational, environmental and other claims. The Company recognized pretax gains of \$4 million and \$14 million, respectively, which is included in the "Casualties and insurance" line item of the income statement for 2002 and 2001.

During 2002, accrued termination payments totaling \$1 million were made to 6 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 pension plan. During 2001 and 2000 accrued termination payments of \$15 million and \$50 million respectively, were made. The remaining amount of this liability is less than \$1 million and is expected to be paid out within the next year.

During the second quarter of 2001, the Company received a \$50 million cash payment for transferring to a third party certain of its rights to license, manage and market signboard advertising on the Company's property for

25 years. The payment is being recognized into other income on a straight-line basis over the 25 year contract period.

Also during 2001, the Company made final settlement of a long-term liability related to the non-union Employee Stock Ownership (ESOP) termination, which did not require use of the Company's cash for settlement. The liability, the balance of which was \$20 million at December 31, 2000, was settled as the remaining cash proceeds held by the ESOP as a result of selling its ESOP preferred stock in conjunction with the joint acquisition, were allocated to eligible participants.

During the first quarter of 2000, the Company completed a significant property sale and recognized a gain of \$61 million on the sale (\$37 million after income taxes), which is included in "Other income, net" (Note 10).

The Company has a long-term liability in connection with employment "change in control" agreements with certain current and former executives, which became operative as a result of the joint acquisition of Conrail. In 2002 and 2001, payments of \$1 million and \$9 million respectively, were made primarily from the Company's pension plan. The remaining amount, \$24 million at December 31, 2002, will be paid out at the discretion of the participants in the program.

#### 4. Property and Equipment

	December 31, 2002	2001
	-----	-----
	(In Millions)	
Roadway	\$ 7,476	\$ 7,496
Equipment	1,511	1,519
Less: Accumulated depreciation	(2,828)	(2,570)
	-----	-----
	6,159	6,445
	-----	-----
Capital leases (primarily equipment)	496	616
Accumulated amortization	(273)	(373)
	-----	-----
	223	243
	-----	-----
	\$ 6,382	\$ 6,688
	=====	=====

Substantially all assets are leased to NSR or CSXT (Note 2).

#### 5. Accrued and Other Current Liabilities

December 31, 2002	2001
----	----

(In Millions)

Operating leases	\$ 47	\$ 45
Property and corporate taxes	43	37
Income taxes payable	4	27
Other	36	48
	---	---
	\$ 130	\$ 157
	===	===

## 6. Long-Term Debt and Leases

### Long-term debt

Long-term debt outstanding, including the weighted average interest rates at December 31, 2002, is composed of the following:

	December 31,	
	2002	2001
	-----	-----
	(In Millions)	
Capital leases	\$ 192	\$ 208
Debentures payable, 7.88%, due 2043	250	250
Debentures payable, 9.75%, due 2020	550	550
Equipment and other obligations, 6.95%	188	208
	-----	-----
	1,180	1,216
Less current portion	(57)	(60)
	-----	-----
	\$ 1,123	\$ 1,156
	=====	=====

Interest payments were \$105 million in 2002, \$113 million in 2001 and \$121 million in 2000.

Equipment and other obligations mature in 2003 through 2043 and are collateralized by assets with a net book value of \$222 million at December 31, 2002. Maturities of long-term debt other than capital leases are \$20 million in 2003, \$21 million in 2004, \$20 million in 2005, \$21 million in 2006, \$43 million in 2007 and \$863 million in total from 2008 through 2043.

### Leases

The Company's noncancelable long-term leases generally include options to purchase at fair value and to extend the terms. Certain lease obligations are payable in Japanese yen, which require the maintenance of yen-denominated deposits sufficient to satisfy the yen-denominated obligation. These deposits are included in the "Other assets" line item of the balance

sheet and totaled \$45 million and \$35 million at December 31, 2002 and December 31, 2001, respectively. 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 \$223 million at December 31, 2002.

Minimum commitments, exclusive of executory costs borne by the Company, are:

	Capital Leases -----	Operating Leases -----
	(In Millions)	
2003	\$ 51	\$ 56
2004	53	56
2005	38	55
2006	24	54
2007	28	53
2008 - 2025	52	289
	---	---
Total	246	\$ 563
		===
Less interest portion	(54)	
	---	
Present value	\$ 192	
	===	

Operating lease rent expense was \$62 million in 2002, \$70 million in 2001 and \$75 million in 2000.

#### 7. Income Taxes

The provisions for income taxes are composed of the following:

	2002 ----	2001 ----	2000 ----
	(In Millions)		
Current			
Federal	\$ 81	\$ 77	\$ (5)
State	8	25	1
	----	----	----
	89	102	(4)
	----	----	----
Deferred			
Federal	(20)	(22)	81
State	11	4	20
	----	----	----
	(9)	(18)	101
	----	----	----
	\$ 80	\$ 84	\$ 97
	=====	=====	=====

Reconciliation of the U.S. statutory tax rates with the effective tax rates is as follows:



	2002	2001	2000
	----	----	----
Statutory tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	4.2	4.2	4.2
Settlement of IRS audit	(5.6)	-	-
Settlement of state tax issues	-	(3.5)	-
Other	(2.8)	(3.1)	(2.9)
	----	----	----
Effective tax rate	30.8%	32.6%	36.3%
	=====	=====	=====

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 the fiscal year May 23, 1997. As a result of the settlement Conrail received tax refunds of \$24 million and reduced tax expense by \$14 million during 2002. Federal and state income tax payments were \$113 million in 2002, \$86 million in 2001 and \$3 million in 2000.

Significant components of the Company's deferred income tax liabilities (assets) are as follows:

	December 31,	
	2002	2001
	----	----
	(In Millions)	
Current assets	\$ (5)	\$ 57
Current liabilities	(60)	(125)
Miscellaneous	-	(8)
	-----	-----
Current deferred tax asset, net	\$ (65)	\$ (76)
	=====	=====
Noncurrent liabilities:		
Property and equipment	2,000	2,008
Other	112	191
	-----	-----
	2,112	2,199
	-----	-----
Noncurrent assets:		
Nondeductible reserves and other liabilities	(290)	(366)
	-----	-----
Deferred income tax liabilities, net	\$ 1,822	\$ 1,833
	=====	=====

The Company has reviewed its deferred income tax assets and believes a valuation allowance is not necessary.

#### 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.

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, 2002, and a statement of the funded status as of December 31 of both years:

	Pension Benefits		Other Postretirement Benefits	
	-----	-----	-----	-----
(In Millions)	2002	2001	2002	2001
	----	----	----	----
Change in benefit obligation				
Net benefit obligation				
at beginning of year	\$ 662	\$ 687	\$ 36	\$ 37
Service cost	1	2	-	-
Interest cost	44	45	3	3
Plan participant's contributions	-	-	6	5
Actuarial losses	5	16	2	-
Benefits paid	(66)	(88)	(10)	(9)
	----	----	---	---
Net benefit obligation				
at end of year	\$ 646	\$ 662	\$ 37	\$ 36
Change in plan assets				
Fair value of plan assets				
at beginning of year	\$ 613	\$ 720	\$ 8	\$ 8
Actual return on plan assets	(28)	(20)	1	1
Employer contributions	3	1	2	3
Plan participant's contributions	-	-	6	5
Benefits paid	(66)	(88)	(10)	(9)
	----	----	---	---
Fair value of plan assets				
at end of year	\$ 522	\$ 613	\$ 7	\$ 8
Funded status at end of year	\$ (124)	\$ (49)	\$ (30)	\$ (28)
Unrecognized prior service cost	8	8	(1)	(1)
Unrecognized actuarial (gains) losses	206	111	(9)	(11)
	----	----	---	---
Net amount recognized at year end	\$ 90	\$ 70	\$ (40)	\$ (40)
	====	====	===	===

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The following amounts have been recognized in the balance sheets as of December 31:

	Pension Benefits	Other Postretirement Benefits
	-----	-----

(In Millions)	2002 ----	2001 ----	2002 ----	2001 ----
Prepaid pension cost	\$ 126	\$ 110	-	-
Accrued benefit cost	(257)	(163)	\$ (40)	\$ (40)
Intangible asset	8	8	-	-
Accumulated other comprehensive loss	213	115	-	-
	---	---	---	---
	\$ 90	\$ 70	\$ (40)	\$ (40)
	===	===	===	===

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 \$7 million and \$8 million of assets in 2002 and 2001, respectively. The aggregate benefit obligation for the postretirement plans other than pensions was \$37 million and \$36 million at December 31, 2002 and 2001, respectively.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were \$639 million, \$635 million and \$514 million, respectively, as of December 31, 2002 and \$656 million, \$655 million and \$605 million, respectively as of December 31, 2001. As required by Statement of Financial Accounting Standard No. 87 "Employers' Accounting for Pensions", the Company has recorded an additional minimum liability of \$220 million and \$123 million at December 31, 2002 and December 31, 2001, respectively. The additional liability was partially offset by an intangible asset to the extent of previously unrecognized prior service costs of \$7 million and \$8 million at December 31, 2002 and December 31, 2001, respectively. The remaining amounts are recorded as a component of stockholders' equity, net of related tax benefits as "Accumulated Other Comprehensive Loss".

The assumptions used in the measurement of the Company's benefit obligation are as follows:

	Pension Benefits -----		Other Postretirement Benefits -----	
	2002 ----	2001 ----	2002 ----	2001 ----
Discount rate	6.75%	7.25%	6.75%	7.25%
Expected return on plan assets	9.00%	9.00%	8.00%	8.00%
Rate of compensation increase	5.00%	5.00%	5.00%	5.00%

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A 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2003, gradually decreasing to 5% by the year 2007.

Assumed health care cost trend rates affect 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 the accumulated postretirement benefit obligation is \$1 million and \$(1) million, respectively.

The components of the Company's net periodic benefit cost for the plans are as follows:

	Pension Benefits			Other Postretirement Benefits		
	-----			-----		
(In Millions)	2002	2001	2000	2002	2001	2000
-----	-----	-----	-----	-----	-----	-----
Service cost	\$ 1	\$ 2	\$ 4	\$ -	\$ -	\$ -
Interest cost	44	45	51	3	3	3
Expected return on assets	(62)	(66)	(70)	(1)	(1)	(1)
Amortization of:						
Transition asset	-	(1)	(1)	-	-	-
Prior service cost	1	1	1	-	-	-
Actuarial (gain)loss	(1)	(1)	1	-	(1)	(1)
-----	-----	-----	-----	-----	-----	-----
	\$ (17)	\$ (20)	\$ (14)	\$ 2	\$ 1	\$ 1
	====	====	====	====	====	====

#### 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 each of the years 2002, 2001 and 2000. 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.

#### Incentive Compensation Plans

The Company has an incentive compensation plan for all non-union employees in which employees receive targeted cash awards upon attainment of certain performance criteria established by the Company's Board of Directors. Compensation expense under this plan was \$3 million in 2002, \$2 million in 2001 and \$5 million in 2000.

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The Company also has a long-term incentive plan under which phantom stock options are granted to officers and other key non-union employees. The option price for the phantom shares is equal to the blended fair market value of NSC and CSX common stock at the date of grant. Options will vest one year after grant date and the option term may not exceed ten years. Upon exercise, eligible participants will receive cash payments equal to the appreciation on the composite NSC and CSX common stock fair values. Compensation expense for this plan was less than \$1 million in 2002 and 2000 and \$2 million in 2001.

#### 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, 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.

#### Undistributed Earnings of Equity Investees

"Retained earnings" includes undistributed earnings of equity investees of \$199 million, \$180 million and \$157 million at December 31, 2002, 2001 and 2000, respectively.

#### 10. Other Income, Net

	2002	2001	2000
	----	----	----
	(In Millions)		
Interest income	\$ 23	\$ 21	\$ 21
Rental income	45	47	45
Property sales	3	2	70
Equity in earnings of affiliates	20	24	24
Other, net	3	9	(5)
	----	----	----
	\$ 94	\$ 103	\$ 155
	=====	=====	=====

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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, 2002, 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 35 locations. 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, 2002, the Company had accrued \$66 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 \$6 million in 2002, \$10 million in 2001 and \$9 million in 2000 for environmental remediation and related costs. In addition, the Company's capital expenditures for environmental control and abatement projects were less than \$1 million in both 2002 and 2001 and approximately \$1 million in 2000.

#### Casualty

The Company is involved in various legal actions, principally relating to occupational health claims, personal injuries, casualties and property damage. The casualty claim liability is determined actuarially, based upon claims filed and an estimate of claims incurred but not yet reported. The Company is generally self-insured for casualty claims. Claims in excess of self-insurance levels are insured up to excess coverage limits. While the ultimate amounts of claims incurred are dependent upon future developments, in management's opinion, the recorded liability is adequate to cover expected probable payments.

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During both 2002 and 2001, the Company, based on favorable claims development, recognized actuarial determined gains of approximately \$16 million and \$12 million respectively, which is included in the "Casualties and insurance" line item of the income statement.

#### Labor

CRC had 1,415 employees at December 31, 2002; approximately 89% of whom are represented by 11 different labor organizations and are covered by 16 separate collective bargaining agreements. The Company was engaged in collective bargaining at December 31, 2002 with labor organizations representing approximately 54% of its labor force.

#### Guarantees

CRC currently guarantees the principal and interest payments in the amount of \$30 million on Equipment Trust Certificates for Locomotive Management Services, a general partnership of which CRC holds a fifty percent non-controlling interest. In addition, CRC is also contingently liable as guarantor with respect to \$7 million of indebtedness for an affiliate company, Triple Crown Services. No liability has been recorded related to these guarantees.

Also the Company may be contingently liable under indemnification provisions related to the sale of tax benefits. This liability is recorded in the "Other liability" line item of the balance sheet and totaled \$13 million at both December 31, 2002, and December 31, 2001.

#### 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 the carrying values of these financial instruments at December 31, 2002 and 2001.

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 \$1,254 million and \$1,204 million at December 31, 2002 and 2001, respectively, compared with carrying values of \$988 million and \$1,008 million at December 31, 2002 and 2001.

