

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 10-Q**

☒ (X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended **JUNE 30, 2013**

☐ ( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-8339



**NORFOLK SOUTHERN CORPORATION**  
(Exact name of registrant as specified in its charter)

**Virginia**  
(State or other jurisdiction of incorporation)  
**Three Commercial Place**  
**Norfolk, Virginia**  
(Address of principal executive offices)

**52-1188014**  
(IRS Employer Identification No.)  
**23510-2191**  
(Zip Code)

**(757) 629-2680**  
(Registrant's telephone number, including area code)

**No Change**  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

**Class**  
Common Stock (\$1.00 par value per share)

**Outstanding at June 30, 2013**  
311,952,780 (excluding 20,320,777 shares held by the registrant's consolidated subsidiaries)

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## PART 1. FINANCIAL INFORMATION

### Item 1. Financial Statements

#### Norfolk Southern Corporation and Subsidiaries Consolidated Statements of Income (Unaudited)

	Second Quarter		First Six Months	
	2013	2012	2013	2012
	<i>(\$ in millions, except per share amounts)</i>			
<b>Railway operating revenues</b>	\$ 2,802	\$ 2,874	\$ 5,540	\$ 5,663
<b>Railway operating expenses</b>				
Compensation and benefits	726	724	1,506	1,510
Purchased services and rents	410	392	803	783
Fuel	391	390	820	803
Depreciation	226	229	453	453
Materials and other	213	205	431	435
Total railway operating expenses	<u>1,966</u>	<u>1,940</u>	<u>4,013</u>	<u>3,984</u>
<b>Income from railway operations</b>	836	934	1,527	1,679
Other income – net	29	31	164	60
Interest expense on debt	<u>128</u>	<u>122</u>	<u>257</u>	<u>242</u>
Income before income taxes	737	843	1,434	1,497
Provision for income taxes	<u>272</u>	<u>319</u>	<u>519</u>	<u>563</u>
<b>Net income</b>	<u>\$ 465</u>	<u>\$ 524</u>	<u>\$ 915</u>	<u>\$ 934</u>
<b>Per share amounts</b>				
Net income:				
Basic	\$ 1.47	\$ 1.62	\$ 2.90	\$ 2.86
Diluted	1.46	1.60	2.87	2.82
Dividends	0.50	0.47	1.00	0.94

*See accompanying notes to consolidated financial statements.*

**Norfolk Southern Corporation and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**  
**(Unaudited)**

	<b>Second Quarter</b>		<b>First Six Months</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<i>(\$ in millions)</i>			
<b>Net income</b>	\$ 465	\$ 524	\$ 915	\$ 934
Other comprehensive income, before tax:				
Pension and other postretirement benefits	36	32	72	64
Other comprehensive income (loss) of equity investees	<u>1</u>	<u>-</u>	<u>2</u>	<u>(4)</u>
Other comprehensive income, before tax	37	32	74	60
Income tax expense related to items of other comprehensive income	<u>(14)</u>	<u>(13)</u>	<u>(28)</u>	<u>(25)</u>
Other comprehensive income, net of tax	<u>23</u>	<u>19</u>	<u>46</u>	<u>35</u>
<b>Total comprehensive income</b>	<u>\$ 488</u>	<u>\$ 543</u>	<u>\$ 961</u>	<u>\$ 969</u>

*See accompanying notes to consolidated financial statements.*

**Norfolk Southern Corporation and Subsidiaries**  
**Consolidated Balance Sheets**  
**(Unaudited)**

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
	<i>(\$ in millions)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 587	\$ 653
Short-term investments	-	15
Accounts receivable – net	1,072	1,109
Materials and supplies	228	216
Deferred income taxes	137	167
Other current assets	54	82
Total current assets	<u>2,078</u>	<u>2,242</u>
Investments	2,366	2,300
Properties less accumulated depreciation of \$10,152 and \$9,922, respectively	26,098	25,736
Other assets	63	64
<b>Total assets</b>	<u>\$ 30,605</u>	<u>\$ 30,342</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 1,180	\$ 1,362
Short-term debt	-	200
Income and other taxes	284	206
Other current liabilities	304	263
Current maturities of long-term debt	47	50
Total current liabilities	<u>1,815</u>	<u>2,081</u>
Long-term debt	8,430	8,432
Other liabilities	2,198	2,237
Deferred income taxes	7,974	7,832
<b>Total liabilities</b>	<u>20,417</u>	<u>20,582</u>
Stockholders' equity:		
Common stock \$1.00 per share par value, 1,350,000,000 shares authorized; outstanding 311,952,780 and 314,034,174 shares, respectively, net of treasury shares	313	315
Additional paid-in capital	1,984	1,911
Accumulated other comprehensive loss	(1,063)	(1,109)
Retained income	8,954	8,643
<b>Total stockholders' equity</b>	<u>10,188</u>	<u>9,760</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$ 30,605</u>	<u>\$ 30,342</u>

*See accompanying notes to consolidated financial statements.*

**Norfolk Southern Corporation and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**

	<b>First Six Months</b>	
	<b>2013</b>	<b>2012</b>
	<i>(\$ in millions)</i>	
<b>Cash flows from operating activities</b>		
Net income	\$ 915	\$ 934
Reconciliation of net income to net cash provided by operating activities:		
Depreciation	456	456
Deferred income taxes	143	138
Gains on properties	(99)	(2)
Changes in assets and liabilities affecting operations:		
Accounts receivable	37	(64)
Materials and supplies	(12)	(33)
Other current assets	28	23
Current liabilities other than debt	6	162
Other – net	32	49
Net cash provided by operating activities	<u>1,506</u>	<u>1,663</u>
<b>Cash flows from investing activities</b>		
Property additions	(884)	(968)
Property sales and other transactions	68	15
Investments, including short-term	(7)	(12)
Investment sales and other transactions	16	33
Net cash used in investing activities	<u>(807)</u>	<u>(932)</u>
<b>Cash flows from financing activities</b>		
Dividends	(315)	(308)
Common stock issued – net	80	47
Purchase and retirement of common stock	(314)	(850)
Proceeds from borrowings – net	-	696
Debt repayments	(216)	(236)
Net cash used in financing activities	<u>(765)</u>	<u>(651)</u>
Net increase (decrease) in cash and cash equivalents	(66)	80
<b>Cash and cash equivalents</b>		
At beginning of period	<u>653</u>	<u>276</u>
At end of period	<u>\$ 587</u>	<u>\$ 356</u>
<b>Supplemental disclosures of cash flow information</b>		
Cash paid during the period for:		
Interest (net of amounts capitalized)	\$ 244	\$ 232
Income taxes (net of refunds)	238	264

*See accompanying notes to consolidated financial statements.*

**Norfolk Southern Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

In the opinion of management, the accompanying unaudited interim consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly Norfolk Southern Corporation (Norfolk Southern) and subsidiaries' (collectively, NS, we, us, and our) financial condition at June 30, 2013, and December 31, 2012, our results of operations and comprehensive income for the second quarters and first six months of 2013 and 2012, and our cash flows for the first six months of 2013 and 2012 in conformity with U.S. generally accepted accounting principles (GAAP).

These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in our latest Annual Report on Form 10-K.

**1. Stock-Based Compensation**

During the first quarter of 2013, a committee of non-employee directors of our Board of Directors granted stock options, restricted stock units (RSUs) and performance share units (PSUs) pursuant to the Long-Term Incentive Plan (LTIP) and granted stock options pursuant to the Thoroughbred Stock Option Plan (TSOP) as discussed below. Stock-based compensation expense was \$6 million and \$7 million during the second quarters of 2013 and 2012, respectively. For the first six months of 2013 and 2012, stock-based compensation expense was \$43 million and \$41 million, respectively. The total tax effects recognized in income in relation to stock-based compensation were net benefits of \$2 million and \$3 million for the second quarters of 2013 and 2012, and net benefits of \$14 million for the first six months of both 2013 and 2012.

**Stock Options**

In the first quarter of 2013, 748,200 options were granted under LTIP and 268,500 options were granted under TSOP. In each case, the grant price was \$69.83, which was the greater of the average fair market value of Norfolk Southern common stock (Common Stock) or the closing price of Common Stock on the effective date of the grant, and the options have a term of ten years. The options granted under LTIP and TSOP in 2013 may not be exercised prior to the fourth and third anniversaries of the date of grant, respectively. Holders of the 2013 options granted under LTIP who remain actively employed receive cash dividend equivalent payments for four years in an amount equal to the regular quarterly dividends paid on Common Stock. Dividend equivalent payments are not made on TSOP options.

The fair value of each option award in 2013 was measured on the date of grant using a lattice-based option valuation model. Expected volatilities are based on implied volatilities from traded options on and historical volatility of Common Stock. Historical data is used to estimate option exercises and employee terminations within the valuation model. The average expected option life is derived from the output of the valuation model and represents the period of time that options granted are expected to be outstanding. The average risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. For options granted that include dividend equivalent payments, a dividend yield of zero was used. A dividend yield of 2.86% was used for LTIP options for periods where no dividend equivalent payments are made as well as for TSOP options, which do not receive dividend equivalents.

The assumptions for the 2013 LTIP and TSOP grants are shown in the following table:

Expected volatility range	24% - 30%
Average expected volatility	26%
Average risk-free interest rate	1.88%
Average expected option term LTIP	9.0 years
Per-share grant-date fair value LTIP	\$20.40
Average expected option term TSOP	8.9 years
Per-share grant-date fair value TSOP	\$15.84

For the second quarter of 2013, options relating to 546,886 shares were exercised, yielding \$18 million of cash proceeds and \$7 million of tax benefit recognized as additional paid-in capital. For the second quarter of 2012, options relating to 396,939 shares were exercised, yielding \$10 million of cash proceeds and \$6 million of tax benefit recognized as additional paid-in capital.

For the first six months of 2013, options relating to 1,571,500 shares were exercised, yielding \$53 million of cash proceeds and \$20 million of tax benefit recognized as additional paid-in capital. For the first six months of 2012, options relating to 773,296 shares were exercised, yielding \$21 million of cash proceeds and \$12 million of tax benefit recognized as additional paid-in capital.

### **Restricted Stock Units**

There were 162,000 RSUs granted in 2013, with an average grant-date fair value of \$69.83 and a five-year restriction period. The RSUs granted in 2013 will be settled through the issuance of shares of Common Stock.

No RSUs were earned or paid out in the second quarter of 2013. In the second quarter of 2012, 30,000 RSUs granted in 2007 vested, with 17,340 shares issued net of withholding taxes. During the first six months of 2013, 298,400 of the RSUs granted in 2008 vested, with 178,250 shares of Common Stock issued net of withholding taxes. For the first six months of 2012, 311,900 of the RSUs granted in 2007 vested, with 191,875 shares of Common Stock issued net of withholding taxes. The total related tax benefits recognized as additional paid-in capital were less than \$1 million for the second quarters of 2013 and 2012, and \$2 million and \$3 million for the first six months of 2013 and 2012, respectively.

### **Performance Share Units**

PSUs provide for awards based on achievement of certain predetermined corporate performance goals (total shareholder return, return on average invested capital, and operating ratio) at the end of a three-year cycle and are paid in the form of shares of Common Stock. During the first quarter of 2013, there were 550,800 PSUs granted with a grant-date fair value of \$69.83.

No PSUs were earned or paid out in the second quarters of 2013 and 2012. During the first six months of 2013, 577,585 of the PSUs granted in 2010 were earned, with 348,189 shares of Common Stock issued net of withholding taxes. For the first six months of 2012, 782,889 of the PSUs granted in 2009 were earned, with 488,957 shares of Common Stock issued net of withholding taxes. The total related tax benefits recognized as additional paid-in capital were \$5 million and \$11 million for the first six months of 2013 and 2012, respectively.



## 2. Income Taxes

There have been no material changes to the balance of unrecognized tax benefits reported at December 31, 2012. IRS examinations have been completed for all years prior to 2011. We expect the IRS could begin auditing our 2011 and 2012 consolidated income tax returns in early 2014.

## 3. Earnings Per Share

	Basic		Diluted	
	Second Quarter			
	2013	2012	2013	2012
	(\$ in millions except per share amounts, shares in millions)			
Net income	\$ 465	\$ 524	\$ 465	\$ 524
Dividend equivalent payments	(1)	(2)	(1)	-
Income available to common stockholders	464	522	464	524
Weighted-average shares outstanding	314.1	322.7	314.1	322.7
Dilutive effect of outstanding options and share-settled awards			3.7	4.8
Adjusted weighted-average shares outstanding			317.8	327.5
Earnings per share	\$ 1.47	\$ 1.62	\$ 1.46	\$ 1.60

	Basic		Diluted	
	First Six Months			
	2013	2012	2013	2012
	(\$ in millions except per share amounts, shares in millions)			
Net income	\$ 915	\$ 934	\$ 915	\$ 934
Dividend equivalent payments	(3)	(4)	(2)	(2)
Income available to common stockholders	912	930	913	932
Weighted-average shares outstanding	314.3	325.5	314.3	325.5
Dilutive effect of outstanding options and share-settled awards			3.6	4.7
Adjusted weighted-average shares outstanding			317.9	330.2
Earnings per share	\$ 2.90	\$ 2.86	\$ 2.87	\$ 2.82

During the second quarters and first six months of 2013 and 2012, dividend equivalent payments were made to holders of options and RSUs. For purposes of computing basic earnings per share, dividend equivalent payments made to holders of options and RSUs were deducted from net income to determine income available to common stockholders. For purposes of computing diluted earnings per share, we evaluate on a grant-by-grant basis those options and RSUs receiving dividend equivalent payments under the two-class and treasury stock methods to determine which method is the more dilutive for each grant. For those grants for which the two-class method was more dilutive, net income was reduced by dividend equivalent payments to determine income available to common stockholders. The diluted calculations exclude options having exercise prices exceeding the average market price of Common Stock as follows: zero and 0.8 million in 2013 and 2012, respectively.

#### 4. Stockholders' Equity

##### Common Stock

Common Stock is reported net of shares held by our consolidated subsidiaries (Treasury Shares). Treasury Shares at June 30, 2013 and December 31, 2012, amounted to 20,320,777 shares, with a cost of \$19 million at both dates.

##### Accumulated Other Comprehensive Loss

“Accumulated other comprehensive loss” reported in the Consolidated Balance Sheets consisted of the following:

	<b>Pensions and Other Postretirement Benefits</b>	<b>Accumulated Other Comprehensive Loss of Equity Investees</b>	<b>Accumulated Other Comprehensive Loss</b>
	<i>(\$ in millions)</i>		
<b>Second Quarter</b>			
<b>March 31, 2013</b>	\$ (977)	\$ (109)	\$ (1,086)
Other comprehensive income (loss):			
Amounts reclassified into net income	36 <sup>(1)</sup>	-	36
Net gain	-	1	1
Tax expense	(14)	-	(14)
Other comprehensive income	<u>22</u>	<u>1</u>	<u>23</u>
<b>June 30, 2013</b>	<u>\$ (955)</u>	<u>\$ (108)</u>	<u>\$ (1,063)</u>
<b>First Six Months</b>			
<b>December 31, 2012</b>	\$ (999)	\$ (110)	\$ (1,109)
Other comprehensive income (loss):			
Amounts reclassified into net income	72 <sup>(1)</sup>	-	72
Net gain	-	2	2
Tax expense	(28)	-	(28)
Other comprehensive income	<u>44</u>	<u>2</u>	<u>46</u>
<b>June 30, 2013</b>	<u>\$ (955)</u>	<u>\$ (108)</u>	<u>\$ (1,063)</u>

(1) These items are included in the computation of net periodic pension and postretirement benefit costs. See Note 8, “Pensions and Other Postretirement Benefits” for additional information.

## **5. Stock Repurchase Program**

We repurchased and retired 4.2 million and 12.3 million shares of Common Stock in the first six months of 2013 and 2012, respectively, at a cost of \$314 million and \$850 million. The timing and volume of purchases is guided by our assessment of market conditions and other pertinent factors. Any near-term share repurchases are expected to be made with internally generated cash, cash on hand, or proceeds from borrowings. Since the beginning of 2006, we have repurchased and retired 132.6 million shares at a total cost of \$7.8 billion.

## **6. Investment in Conrail**

Through a limited liability company, we and CSX Corporation (CSX) jointly own Conrail Inc. (Conrail), whose primary subsidiary is Consolidated Rail Corporation (CRC). We have a 58% economic and 50% voting interest in the jointly owned entity, and CSX has the remainder of the economic and voting interests. Our investment in Conrail was \$1.0 billion at June 30, 2013, and \$996 million at December 31, 2012.

CRC owns and operates certain properties (the Shared Assets Areas) for the joint and exclusive benefit of Norfolk Southern Railway Company (NSR) and CSX Transportation, Inc. (CSXT). The costs of operating the Shared Assets Areas are borne by NSR and CSXT based on usage. In addition, NSR and CSXT pay CRC a fee for access to the Shared Assets Areas. "Purchased services and rents" and "Fuel" include expenses for the use of the Shared Assets Areas totaling \$39 million and \$30 million for the second quarters of 2013 and 2012, respectively, and \$73 million and \$66 million for the first six months of 2013 and 2012, respectively. Our equity in the earnings of Conrail, net of amortization, included in "Other income – net" was \$9 million for the second quarters of both 2013 and 2012, and \$18 million and \$15 million for the first six months of 2013 and 2012, respectively.

"Accounts payable" includes \$180 million at June 30, 2013, and \$178 million at December 31, 2012, due to Conrail for the operation of the Shared Assets Areas. In addition, "Other liabilities" includes \$133 million at both June 30, 2013 and December 31, 2012, for long-term advances from Conrail, maturing 2035, that bear interest at an average rate of 4.40%.

## **7. Debt**

In the first quarter of 2013, we repaid \$200 million under our accounts receivable securitization facility. At June 30, 2013 and December 31, 2012, the amounts outstanding under the facility were \$100 million (at an average variable interest rate of 1.24%) and \$300 million (at an average variable interest rate of 1.28%), respectively. In October 2012, we renewed our accounts receivable securitization facility with a 364-day term to run until October 2013.

During the first quarter of 2012, we issued \$600 million of 3.00% senior notes due 2022.

We have authority from our Board of Directors to issue an additional \$600 million of debt or equity securities through public or private sale.

## 8. Pensions and Other Postretirement Benefits

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

	Pension Benefits		Other Postretirement Benefits	
	Second Quarter			
	2013	2012	2013	2012
	(\$ in millions)			
Service cost	\$ 10	\$ 9	\$ 4	\$ 4
Interest cost	21	22	12	13
Expected return on plan assets	(36)	(35)	(4)	(3)
Amortization of net losses	22	19	14	13
Net cost	\$ 17	\$ 15	\$ 26	\$ 27

	Pension Benefits		Other Postretirement Benefits	
	First Six Months			
	2013	2012	2013	2012
	(\$ in millions)			
Service cost	\$ 20	\$ 17	\$ 8	\$ 8
Interest cost	41	44	25	27
Expected return on plan assets	(71)	(69)	(8)	(7)
Amortization of net losses	44	38	28	26
Net cost	\$ 34	\$ 30	\$ 53	\$ 54

## 9. Fair Value

### Fair Value Measurements

The Financial Accounting Standards Board (FASB) Accounting Standards Codifications (ASC) 820-10, “Fair Value Measurements,” established a framework for measuring fair value and a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels, as follows:

Level 1            Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that we have the ability to access.

Level 2            Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3            Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset’s or liability’s fair value measurement level is based on the lowest level of any input that is significant to the fair value measurement. Other than those assets and liabilities described below that approximate fair value, there were no assets or liabilities measured at fair value on a recurring basis at June 30, 2013 or December 31, 2012.

### Fair Values of Financial Instruments

We have evaluated the fair values of financial instruments and methods used to determine those fair values. The fair values of “Cash and cash equivalents,” “Short-term investments,” “Accounts receivable,” “Accounts payable,” and “Short-term debt” approximate carrying values because of the short maturity of these financial instruments. The carrying value of corporate-owned life insurance is recorded at cash surrender value and, accordingly, approximates fair value. The carrying amounts and estimated fair values for the remaining financial instruments, excluding investments accounted for under the equity method, consisted of the following:

	June 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(\$ in millions)			
Long-term investments	\$ 147	\$ 176	\$ 139	\$ 174
Long-term debt, including current maturities	(8,477)	(10,038)	(8,482)	(10,734)

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

The following table sets forth the fair value of long-term investment and long-term debt balances disclosed above by valuation technique level, within the fair value hierarchy (there were no level 3 valued assets or liabilities).

	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
	<i>(\$ in millions)</i>		
<b>June 30, 2013</b>			
Long-term investments	\$ 45	\$ 131	\$ 176
Long-term debt, including current maturities	(9,777)	(261)	(10,038)
<b>December 31, 2012</b>			
Long-term investments	\$ 41	\$ 133	\$ 174
Long-term debt, including current maturities	(10,450)	(284)	(10,734)

## 10. Commitments and Contingencies

### Lawsuits

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

One of our customers, DuPont, has a rate reasonableness complaint pending before the STB alleging that our tariff rates for transportation of regulated movements are unreasonable. We dispute this allegation. Since June 1, 2009, we have been billing and collecting from DuPont amounts based on the challenged tariff rates. We presently expect resolution of the DuPont case to occur in 2014 and believe the estimate of reasonably possible loss will not have a material effect on our financial position, results of operations, or liquidity. With regard to rate cases, we record adjustments to revenues in the periods, if and when, such adjustments are probable and estimable.

On November 6, 2007, various antitrust class actions filed against us and other Class I railroads in various Federal district courts regarding fuel surcharges were consolidated in the District of Columbia by the Judicial Panel on Multidistrict Litigation. On June 21, 2012, the court certified the case as a class action. The defendant railroads have appealed such certification, and a decision by the court to either reject the appeal outright or proceed with ruling on its merits is pending. We believe the allegations in the complaints are without merit and intend to vigorously defend the cases. We do not believe the outcome of these proceedings will have a material effect on our financial position, results of operations, or liquidity. A lawsuit containing similar allegations against us and four other major railroads that was filed on March 25, 2008, in the U.S. District Court for the District of Minnesota was voluntarily dismissed by the plaintiff subject to a tolling agreement entered into in August 2008.

## Casualty Claims

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

**Employee personal injury claims** – The largest component of casualties and other claims expense is employee personal injury costs. The independent actuarial firm engaged by us provides quarterly studies to aid in valuing our employee personal injury liability and estimating personal injury expense. The actuarial firm studies our historical patterns of reserving for claims and subsequent settlements, taking into account relevant outside influences. The actuarial firm uses the results of these analyses to estimate the ultimate amount of liability, which includes amounts for incurred but unasserted claims. We adjust the liability quarterly based upon our assessment and the results of the study. Our estimate of loss liabilities is subject to inherent limitation given the difficulty of predicting future events such as jury decisions, court interpretations, or legislative changes and as such the actual loss may vary from the estimated liability recorded.

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

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

## Environmental Matters

We are subject to various jurisdictions' environmental laws and regulations. We 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 we have incurred are reflected as receivables (when collection is probable) in the Consolidated Balance Sheets and are not netted against the associated liability. Environmental engineers regularly participate in ongoing evaluations of all known sites and in determining any necessary adjustments to liability estimates. We have an Environmental Policy Council, composed of senior managers, to oversee and interpret our environmental policy.

Our Consolidated Balance Sheets include liabilities for environmental exposures of \$ 53 million at June 30, 2013, and \$42 million at December 31, 2012 (of which \$12 million is classified as a current liability at the end of each period). At June 30, 2013, the liability represents our estimate of the probable cleanup, investigation, and remediation costs based on available information at 149 known locations and projects compared with 146 locations and projects at December 31, 2012. At June 30, 2013, ten sites accounted for \$29 million of the liability, and no individual site was considered to be material. We anticipate that much of this liability will be paid out over five years; however, some costs will be paid out over a longer period.

At 21 locations, one or more of our subsidiaries in conjunction with a number of other parties have been identified as potentially responsible parties under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 or comparable state statutes that impose joint and several liability for cleanup costs. We calculate our estimated liability for these sites based on facts and legal defenses applicable to each site and not solely on the basis of the potential for joint liability.

With respect to known environmental sites (whether identified by us or by the Environmental Protection Agency (EPA) or comparable state authorities), estimates of our 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, unpredictable contaminant recovery and reduction rates associated with available cleanup technologies, 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 our traffic mix, particularly those classified as hazardous materials, pose special risks that we work diligently to minimize. In addition, several of our subsidiaries own, or have owned, land used as operating property, or which is leased and operated by others, or held for sale. Because environmental problems that are latent or undisclosed may exist on these properties, there can be no assurance that we will not incur environmental liabilities or costs with respect to one or more of them, the amount and materiality of which cannot be estimated reliably at this time. Moreover, lawsuits and claims involving these and potentially other unidentified environmental sites and matters are likely to arise from time to time. The resulting liabilities could have a significant effect on our financial position, results of operations, or liquidity in a particular year or quarter.

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



## **Insurance**

We obtain on behalf of ourself and our subsidiaries insurance for potential losses for third-party liability and first-party property damages. We are currently self-insured up to \$50 million and above \$1.1 billion per occurrence for bodily injury and property damage to third parties and up to \$ 25 million and above \$175 million per occurrence for property owned by us or in our care, custody, or control.

## **Purchase Commitments**

At June 30, 2013, we had outstanding purchase commitments totaling approximately \$ 487 million for locomotives, track and yard expansion projects, track material, freight cars, and vehicle fleet additions, in connection with our capital programs through 2016.

## **11. New Accounting Pronouncement**

In the first quarter of 2013, we prospectively adopted Accounting Standards Update (ASU) No. 2013-02, “*Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*.” This update requires the disclosure of the effects of reclassifications out of Accumulated Other Comprehensive Loss on the respective line items in our Consolidated Statements of Income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required to be reclassified in their entirety to net income in the same reporting period, we are required to cross-reference other required GAAP disclosures to provide additional detail about those amounts. These disclosures can be made on the face of the financial statement that reports net income or in the notes, provided all the information is disclosed in a single location. However, an entity is prohibited from providing this information on the face of the statement that reports net income if it has items that are not reclassified in their entirety into net income. This update does not change the requirement to present the components of net income and other comprehensive income in either a single continuous statement or two separate consecutive statements, nor does it change the items currently reported in other comprehensive income .

## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
Norfolk Southern Corporation:

We have reviewed the accompanying consolidated balance sheet of Norfolk Southern Corporation and subsidiaries as of June 30, 2013, the related consolidated statements of income and comprehensive income for the three-month and six-month periods ended June 30, 2013 and 2012 and the related consolidated statements of cash flows for the six-month periods ended June 30, 2013 and 2012. These consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Norfolk Southern Corporation and subsidiaries as of December 31, 2012, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated February 15, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2012, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/KPMG LLP  
KPMG LLP  
Norfolk, Virginia  
July 24, 2013

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Norfolk Southern Corporation and Subsidiaries**

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

#### **OVERVIEW**

We are one of the nation's premier transportation companies. Our Norfolk Southern Railway Company subsidiary operates approximately 20,000 miles of road in 22 states and the District of Columbia, serves every major container port in the eastern United States, and provides efficient connections to other rail carriers. We operate the most extensive intermodal network in the East and are a major transporter of coal, automotive, and industrial products.

Our second quarter net income declined to \$465 million in 2013 from \$524 million in 2012 and earnings per share decreased to \$1.46 from \$1.60 in the prior year, as our financial results were negatively impacted by lower coal revenues.

Cash provided by operating activities for the first six months of 2013 totaled \$1.5 billion, which along with cash on hand allowed for property additions, dividends, share repurchases, and debt repayments. In the first six months of 2013, we repurchased approximately 4.2 million shares of Norfolk Southern common stock (Common Stock) at a total cost of \$314 million. Since inception of our stock repurchase program in 2006, we have repurchased and retired 132.6 million shares of Common Stock at a total cost of \$7.8 billion. At June 30, 2013, cash and cash equivalents totaled \$587 million.

#### **SUMMARIZED RESULTS OF OPERATIONS**

Second quarter 2013 net income was \$465 million, down \$59 million, or 11%, compared with the same period last year. The decrease resulted from a \$98 million decline in income from railway operations, offset in part by lower income taxes. The decrease in income from railway operations reflected a \$72 million, or 3%, decline in railway operating revenues as softness in our coal business outweighed general merchandise and intermodal revenue growth. The railway operating ratio (a measure of the amount of operating revenues consumed by operating expenses) rose to 70.2% for the second quarter of 2013, compared with 67.5% for the second quarter of 2012.

For the first six months of 2013, net income was \$915 million, down \$19 million, or 2%, compared with the same period last year, driven by lower income from railway operations, partially offset by increased nonoperating income items and decreased income tax expense. Results were favorably impacted by the recognition of the gain from the sale of certain assets to the Michigan Department of Transportation, benefiting net income by \$60 million and earnings per share by \$0.19.

Oil prices affect our results of operations in a variety of ways and can have an overall favorable or unfavorable impact in any particular period. In addition to the impact of oil prices on general economic conditions, volume, and supplier costs, oil prices directly affect our revenues through market-based fuel surcharges and contract escalators (see "Railway Operating Revenues") and also affect fuel costs (see "Railway Operating Expenses"). For the second quarter and first six months of 2013, excluding the impact of increased consumption, the decreases in fuel surcharge revenue exceeded the decreases in fuel expense. Future changes in oil prices may cause volatility in operating results that could be material to a particular year or quarter.

## DETAILED RESULTS OF OPERATIONS

### Railway Operating Revenues

Second quarter railway operating revenues were \$2.8 billion in 2013, down \$72 million, or 3%, compared with the second quarter of 2012. For the first six months of 2013, railway operating revenues were \$5.5 billion, down \$123 million, or 2%, compared with the same period last year. As shown in the following table, the decreases resulted from lower average revenue per unit (which includes the effects of fuel surcharges), partially offset by higher volume. Fuel surcharge revenue for the second quarters of 2013 and 2012 totaled \$306 million and \$365 million, respectively, and \$580 million and \$690 million for the first six months of 2013 and 2012, respectively.

	<b>Second Quarter</b> <b>2013 vs. 2012</b>	<b>First Six Months</b> <b>2013 vs. 2012</b>
	<b>Increase (Decrease)</b>	
	<i>(\$ in millions)</i>	
Revenue per unit	\$ (134)	\$ (270)
Volume (units)	<u>62</u>	<u>147</u>
Total	<u>\$ (72)</u>	<u>\$ (123)</u>

Many of our negotiated fuel surcharges for coal and general merchandise shipments are based on the monthly average price of West Texas Intermediate Crude Oil (WTI Average Price). These surcharges are reset the first day of each calendar month based on the WTI Average Price for the second preceding calendar month. This two-month lag in applying WTI Average Price decreased fuel surcharge revenue by approximately \$4 million for the quarter and \$27 million for the first six months of 2013. This two-month lag increased fuel surcharge revenue by approximately \$61 million for the second quarter of 2012 and \$35 million for the first six months of 2012.

One of our customers, DuPont, has a rate reasonableness complaint pending before the Surface Transportation Board (STB) alleging that our tariff rates for transportation of regulated movements are unreasonable. We dispute this allegation. Since June 1, 2009, we have been billing and collecting from DuPont amounts based on the challenged tariff rates. We presently expect resolution of the DuPont case to occur in 2014 and believe the estimate of reasonably possible loss will not have a material effect on our financial position, results of operations, or liquidity. With regard to rate cases, we record adjustments to revenues in the periods, if and when, such adjustments are probable and estimable.

Revenues, units, and average revenue per unit for our market groups were as follows:

	Second Quarter					
	Revenues		Units		Revenue per Unit	
	2013	2012	2013	2012	2013	2012
	(\$ in millions)		(in thousands)		(\$ per unit)	
<b>Coal</b>	\$ 626	\$ 755	341.4	354.8	\$ 1,833	\$ 2,126
General merchandise:						
Chemicals	415	379	114.0	98.5	3,642	3,844
Agriculture/consumer/gov't	366	370	147.9	150.1	2,475	2,464
Metals and construction	350	369	171.1	180.2	2,045	2,047
Automotive	261	239	106.4	98.4	2,456	2,431
Paper/clay/forest	196	199	76.4	76.9	2,570	2,593
<b>General merchandise</b>	<u>1,588</u>	<u>1,556</u>	<u>615.8</u>	<u>604.1</u>	<u>2,580</u>	<u>2,576</u>
<b>Intermodal</b>	<u>588</u>	<u>563</u>	<u>881.0</u>	<u>840.4</u>	<u>667</u>	<u>671</u>
<b>Total</b>	<u>\$ 2,802</u>	<u>\$ 2,874</u>	<u>1,838.2</u>	<u>1,799.3</u>	<u>1,524</u>	<u>1,597</u>

	First Six Months					
	Revenues		Units		Revenue per Unit	
	2013	2012	2013	2012	2013	2012
	(\$ in millions)		(in thousands)		(\$ per unit)	
<b>Coal</b>	\$ 1,261	\$ 1,521	684.6	713.8	\$ 1,841	\$ 2,130
General merchandise:						
Chemicals	809	741	220.0	194.5	3,679	3,808
Agriculture/consumer/gov't	727	740	295.8	302.4	2,458	2,446
Metals and construction	686	711	325.9	345.7	2,106	2,057
Automotive	505	465	205.1	194.7	2,461	2,388
Paper/clay/forest	391	395	153.0	153.6	2,554	2,573
<b>General merchandise</b>	<u>3,118</u>	<u>3,052</u>	<u>1,199.8</u>	<u>1,190.9</u>	<u>2,599</u>	<u>2,563</u>
<b>Intermodal</b>	<u>1,161</u>	<u>1,090</u>	<u>1,737.4</u>	<u>1,625.4</u>	<u>668</u>	<u>671</u>
<b>Total</b>	<u>\$ 5,540</u>	<u>\$ 5,663</u>	<u>3,621.8</u>	<u>3,530.1</u>	<u>1,530</u>	<u>1,604</u>

#### Coal

Coal revenues decreased \$129 million, or 17%, in the second quarter and \$260 million, or 17%, for the first six months, compared with the same periods last year. Both decreases resulted from declines in average revenue per unit (down 14% in both the second quarter and the first six months) and carload volume (down 4% in both the second quarter and the first six months).

Coal tonnage by market was as follows:

	<b>Second Quarter</b>		<b>First Six Months</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<i>(tons in thousands)</i>			
Utility	24,319	23,527	48,277	49,788
Export	7,380	8,530	15,799	15,254
Domestic metallurgical	4,608	5,019	8,650	9,591
Industrial	1,810	1,880	3,610	3,801
Total	<u>38,117</u>	<u>38,956</u>	<u>76,336</u>	<u>78,434</u>

Export coal tonnage decreased 13% in the second quarter, but increased 4% for the first six months as compared to the same periods of 2012. Despite increased Asian steel production, strong competition in a well-supplied global market led to weak metallurgical shipments for both periods. Notwithstanding strong global competition negatively impacting second quarter, the first six months reflected higher overall export thermal coal shipments. Domestic metallurgical coal tonnage was down 8% in the second quarter and 10% for the first six months due to the continued decline in domestic steel production and the closure of a steel plant in the second half of 2012. Industrial coal tonnage declined 4% in the second quarter and 5% for the first six months, as a result of weak demand. Utility coal tonnage improved 3% in the second quarter, but declined 3% for the first six months. Utility coal shipments in our northern region increased for both periods as higher coal burn necessitated stockpile replenishments. These increases were partially offset for the quarter and completely for the first six months by the effects of natural gas competition which reduced utility shipments in our southern region.

Coal revenues for the remainder of the year are expected to be lower compared to last year due to lower average revenue per unit and lower volumes.

#### **General Merchandise**

General merchandise revenues increased \$32 million, or 2%, in the second quarter, compared with the same period last year, driven by a 2% increase in carload volumes and a modest improvement in average revenue per unit. For the first six months, general merchandise revenues increased \$66 million, or 2%, reflecting a 1% rise in average revenue per unit and a 1% increase in carload volumes.

Chemicals volume increased 16% in the second quarter and 13% for the first six months, largely driven by higher shipments of crude oil originated from the Bakken and Canadian oil fields.

Automotive volume grew 8% in the second quarter and 5% for the first six months, primarily a result of increased North American light vehicle production at plants we serve and new business from existing customers (including both auto parts and finished vehicles).

Metals and construction volume decreased 5% in the second quarter and 6% for the first six months, reflecting fewer iron and steel carloads (due to a steel plant closure) and reduced scrap metal shipments (led by weakening demand).

Agriculture, consumer products, and government volume decreased 1% in the second quarter and 2% for the first six months, reflecting fewer revenue movements of empty equipment, in addition to reduced shipments of soybeans and related products as domestic bean supplies tightened. These declines were partially offset by higher shipments of fertilizer due to a strong farm economy and increased planting activity. Prior year drought conditions led to more shipments of corn into the Midwest gathering markets; however, closure of an ethanol

plant during the fourth quarter of 2012 and customer sourcing changes overshadowed this improvement during the first six months.

Paper, clay, and forest products decreased modestly in the second quarter and for the first six months, reflecting fewer shipments of graphic paper due to the decline in newsprint and white paper consumption in North America. This decline was partially offset by more carloads of lumber as the housing sector continues to recover.

General merchandise revenues for the remainder of the year are expected to be higher compared to last year due to higher volumes and improved average revenue per unit.

### **Intermodal**

Intermodal revenues increased \$25 million, or 4%, in the second quarter, compared with the same period last year, reflecting a 5% increase in volumes and a 1% decrease in average revenue per unit. For the first six months, intermodal revenues increased \$71 million, or 7%, reflecting a 7% increase in carload volumes and a slight decline in average revenue per unit.

Domestic volume (including truckload and intermodal marketing companies, Triple Crown Services, and Premium business) improved 6% in the second quarter and 7% for the first six months, the result of continued highway conversions and additional business associated with the opening of new intermodal terminals.

International volume grew 2% in the second quarter and 8% for the first six months, due to growth across existing customers as the economy continued to improve.

Intermodal revenues for the remainder of the year are expected to be higher compared to last year due to higher volumes and improved average revenue per unit.

### **Railway Operating Expenses**

Second quarter railway operating expenses were \$2.0 billion in 2013, up \$26 million, or 1%, compared to the same period last year. For the first six months, expenses were \$4.0 billion, up \$29 million, or 1%, compared to the same period last year. Both periods included higher purchased services and rents, whereas the first six months also included higher fuel expenses.

Purchased services and rents includes the costs of services provided by outside contractors, the net costs of operating joint (or leased) facilities with other railroads and the net cost of equipment rentals. This category of expenses rose \$18 million, or 5%, in the second quarter and \$20 million, or 3%, for the first six months, driven by higher Conrail rents and services and increased roadway repair costs.

The following table shows the components of purchased services and rents expenses:

	<b>Second Quarter</b>		<b>First Six Months</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<i>(\$ in millions)</i>			
Purchased services	\$ 343	\$ 320	\$ 664	\$ 638
Equipment rents	<u>67</u>	<u>72</u>	<u>139</u>	<u>145</u>
Total	<u>\$ 410</u>	<u>\$ 392</u>	<u>\$ 803</u>	<u>\$ 783</u>

Materials and other expenses (including the estimated costs related to personal injury, property damage, and environmental matters) increased \$8 million, or 4%, in the second quarter, but decreased \$4 million, or 1%, for the first six months. Both periods reflect increased material and supplies costs for equipment repairs and higher environmental expenses, which were offset in part for the quarter and entirely for the first six months by more favorable personal injury claims development and lower bad debt expense.

The following table shows the components of materials and other expenses:

	<b>Second Quarter</b>		<b>First Six Months</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<i>(\$ in millions)</i>			
Materials	\$ 116	\$ 95	\$ 217	\$ 207
Casualties and other claims	20	30	55	68
Other	<u>77</u>	<u>80</u>	<u>159</u>	<u>160</u>
Total	<u>\$ 213</u>	<u>\$ 205</u>	<u>\$ 431</u>	<u>\$ 435</u>

Compensation and benefits expense increased \$2 million in the second quarter, but decreased \$4 million for the first six months, reflecting changes in:

- pay rates (up \$16 million for the quarter and \$31 million for the first six months),
- employee activity levels (down \$7 million for the quarter and \$21 million for the first six months), and
- payroll taxes (down \$7 million for the quarter and \$14 million for the first six months).

Fuel expense, which includes the cost of locomotive fuel as well as other fuel used in railway operations, increased \$1 million for the second quarter and \$17 million, or 2%, for the first six months. The increases principally resulted from higher fuel consumption (locomotive fuel consumption was up 3% and 2% for the second quarter and first six months, respectively), which had impacts of \$11 million in the second quarter and \$20 million for the first six months, offset in part by lower fuel prices (locomotive fuel prices declined 4% and 1%, respectively), which had impacts of \$10 million and \$3 million, respectively.

Depreciation expense decreased \$3 million, or 1%, in the second quarter and was flat in the first six months. The favorable impact of the equipment depreciation study that was completed during the first quarter of 2013 was partially offset for the quarter and entirely for the first six months by the effects of an increased capital base.



## **Other Income – Net**

Other income – net decreased \$2 million in the second quarter, but increased \$104 million for the first six months of 2013. Both periods reflect changes in:

- coal royalties (down \$6 million for the quarter and \$9 million for the first six months),
- net returns from corporate-owned life insurance (down \$2 million for the quarter, but up \$5 million for the first six months), and
- miscellaneous items (up \$6 million for the quarter and \$11 million for the first six months).

The first six months also reflected a \$97 million land sale gain in Michigan.

## **Provision for Income Taxes**

The second quarter and year-to-date effective income tax rates were 36.9 % and 36.2% in 2013, respectively, compared with 37.8% and 37.6%, respectively, for the same periods last year. Both periods benefited from tax credits that became available in 2013 as a result of the American Taxpayer Relief Act of 2012 (Act), which was enacted January 2, 2013. The lower year-to-date effective rate also reflects \$9 million in benefits we recognized in the first quarter of 2013 for certain tax credits retroactively reinstated by the Act.

Fifty-percent bonus depreciation was allowed for federal income taxes in 2012. The American Taxpayer Relief Act of 2012 extended fifty-percent bonus depreciation for 2013. While bonus depreciation does not affect our total provision for income taxes or effective rate, we expect the absence of bonus depreciation to increase current income tax expense and the related cash outflows for the payment of income taxes beginning in 2014.

IRS examinations have been completed for all years prior to 2011. We expect the IRS could begin auditing our 2011 and 2012 consolidated income tax returns in early 2014.

## **FINANCIAL CONDITION AND LIQUIDITY**

Cash provided by operating activities, our principal source of liquidity, was \$1.5 billion for the first six months of 2013 compared with \$1.7 billion for the same period of 2012, primarily reflecting the reduction of accounts payable. We had working capital of \$263 million at June 30, 2013, compared with \$161 million at December 31, 2012, primarily reflecting lower short-term debt. Cash and cash equivalents totaled \$587 million at June 30, 2013, and were invested in accordance with our corporate investment policy as approved by our Board of Directors. The portfolio contains securities that are subject to market risk. There are no limits or restrictions on our access to the assets. We expect cash on hand combined with cash provided by operating activities will be sufficient to meet our ongoing obligations. There have been no material changes to the information on our future obligations contained in our Form 10-K for the year ended December 31, 2012.

Cash used in investing activities was \$807 million for the first six months of 2013, compared with \$932 million in the same period last year, primarily reflecting a decrease in property additions.

The Crescent Corridor consists of a program of projects for infrastructure and other facility improvements geared toward creating a seamless, high-capacity intermodal route spanning 11 states from New Jersey to Louisiana and offering truck-competitive service along several major interstate highway corridors, including I-81, I-85, I-20, I-40, I-59, I-78, and

I-75. Based on the public benefits that stand to be derived in the form of highway congestion relief, we will continue to implement certain elements of the Crescent Corridor through a series of public-private partnerships. Currently, the Crescent Corridor has received or expects to receive a total of \$305 million in public capital funding commitments from the Commonwealths of Pennsylvania and Virginia, the State of Tennessee, the federal TIGER Stimulus Program and other federal funding sources related to projects in Alabama, Pennsylvania,

Tennessee, and North Carolina. With respect to the private funding component, we currently anticipate spending up to \$332 million for the substantial completion of work on these projects, which is expected in 2015. This includes planned investments of approximately \$61 million for the remainder of 2013 and approximately \$57 million thereafter through 2015. If and when capacity warrants, additional improvements and expansions beyond these amounts may be made to the Crescent Corridor.

Cash used in financing activities was \$765 million in the first six months of 2013 compared with \$651 million in the same period last year. The change includes the absence of proceeds from borrowings, offset in part by lower share repurchases. We repurchased approximately 4.2 million shares, totaling \$314 million, in the first six months of 2013, compared to 12.3 million shares, totaling \$850 million, in the same period last year. The timing and volume of future share repurchases will be guided by our assessment of market conditions and other pertinent factors. Any near-term purchases under the program are expected to be made with internally generated cash, cash on hand, or proceeds from borrowings.

Our total debt-to-total capitalization ratio was 45.4% at June 30, 2013 and 47.1% at December 31, 2012.

We have authority from our Board of Directors to issue an additional \$600 million of debt or equity securities through public or private sale. We have on file with the Securities and Exchange Commission a Form S-3 automatic shelf registration statement for well-known seasoned issuers under which securities may be issued pursuant to this authority.

We also have in place and available a \$750 million, five-year credit agreement expiring in 2016, which provides for borrowings at prevailing rates and includes covenants. We had no amounts outstanding under this facility at June 30, 2013, and are in compliance with all of our covenants. In October 2012, we renewed our \$350 million accounts receivable securitization program with a 364-day term to run until October 2013. There was \$100 million and \$300 million outstanding under this program at June 30, 2013 and December 31, 2012, respectively.

## **APPLICATION OF CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in accordance with U.S. Generally Accepted Accounting Principles (GAAP) requires us 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 revenue 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 us to make changes to these estimates and assumptions. Accordingly, we regularly review these estimates and assumptions based on historical experience, changes in the business environment, and other factors we believe to be reasonable under the circumstances. We regularly discuss the development, selection, and disclosures concerning critical accounting estimates with the Audit Committee of our Board of Directors. There have been no significant changes to the application of critical accounting estimates disclosure contained in our Form 10-K at December 31, 2012.

## **OTHER MATTERS**

### **Labor Agreements**

More than 80% of our railroad employees are covered by collective bargaining agreements with various labor unions. These agreements remain in effect until changed pursuant to the Railway Labor Act. We largely bargain nationally in concert with other major railroads, represented by the National Carriers Conference Committee (NCCC). Moratorium provisions in the labor agreements govern when the railroads and the unions may propose changes.

We and the NCCC have concluded the round of bargaining that began in 2009 and reached agreements that extend through December 31, 2014 with all applicable labor unions. With regard to the Wheelersburg (Ohio) Terminal workers who are represented by the Brotherhood of Maintenance of Way Employees Division (BMWED), negotiations are underway and mediation under the auspices of the National Mediation Board is expected to begin in October 2013.

## **Market Risks**

We manage overall exposure to fluctuations in interest rates by issuing both fixed- and floating-rate debt instruments. At June 30, 2013, debt subject to interest rate fluctuations totaled \$100 million. A one-percentage point increase in interest rates would increase total annual interest expense related to all variable debt by \$1 million. We consider it unlikely that interest rate fluctuations applicable to these instruments will have a material adverse effect on our financial position, results of operations, or liquidity.

## **Environmental Matters**

We are subject to various jurisdictions' environmental laws and regulations. We 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 we have incurred, are reflected as receivables (when collection is probable) in the Consolidated Balance Sheets and are not netted against the associated liability. Environmental engineers regularly participate in ongoing evaluations of all known sites and in determining any necessary adjustments to liability estimates. We have an Environmental Policy Council, composed of senior managers, to oversee and interpret our environmental policy.

Our Consolidated Balance Sheets include liabilities for environmental exposures of \$53 million at June 30, 2013, and \$42 million at December 31, 2012 (of which \$12 million is classified as a current liability at the end of each period). At June 30, 2013, the liability represents our estimate of the probable cleanup, investigation, and remediation costs based on available information at 149 known locations and projects. At that date, ten sites accounted for \$29 million of the liability, and no individual site was considered to be material. We anticipate that much of this liability will be paid out over five years; however, some costs will be paid out over a longer period.

At 21 locations, one or more of our subsidiaries in conjunction with a number of other parties, have been identified as potentially responsible parties under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, or comparable state statutes that impose joint and several liability for cleanup costs. We calculate our estimated liability for these sites based on facts and legal defenses applicable to each site and not solely on the basis of the potential joint liability.

With respect to known environmental sites (whether identified by us or the EPA, or comparable state authorities), estimates of our 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, unpredictable contaminant recovery and reduction rates associated with available clean-up technologies, 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. We estimate our environmental remediation liability on a site-by-site basis, using assumptions and judgments we deem appropriate for each site. As a result, it is not practical to quantitatively describe the effects of changes in these many assumptions and judgments. We have consistently applied our methodology of estimating our environmental liabilities.

Based on the assessment of facts and circumstances now known, we believe we have recorded the probable and reasonably estimable costs for dealing with those environmental matters of which we are aware. Further, we

believe that it is unlikely that any known matters, either individually or in the aggregate, will have a material adverse effect on our financial position, results of operations, or liquidity.

### **Inflation**

In preparing financial statements, GAAP requires the use of historical cost that disregards the effects of inflation on the replacement cost of property. As a capital-intensive company, most of our capital is invested in long-lived 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.

### **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," "estimate," "plan," "consider," "project," and similar references to the future. Forward-looking statements reflect our 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 we have little or no control, including: significant governmental legislation and regulation over commercial, operating and environmental matters; transportation of hazardous materials as a common carrier by rail; acts of terrorism or war; general economic conditions including, but not limited to, fluctuation and competition within the industries of our customers; climate change legislative and regulatory developments; competition and consolidation within the transportation industry; the operations of carriers with which we interchange; disruptions to our technology infrastructure, including computer systems; labor difficulties, including strikes and work stoppages; results of litigation; natural events such as severe weather, hurricanes, and floods; unpredictable demand for rail services; fluctuation in supplies and prices of key materials, in particular diesel fuel; and changes in securities and capital markets. For a discussion of significant risk factors applicable to our business, see Part II, Item 1A "Risk Factors." Forward-looking statements are not, and should not be relied upon as, a guarantee of future performance or results, nor will they necessarily prove to be accurate indications of the times at or by which any such performance or results will be achieved. As a result, actual outcomes and results may differ materially from those expressed in forward-looking statements. We undertake no obligation to update or revise forward-looking statements.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The information required by this item is included in Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under the heading “Market Risks.”

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer, with the assistance of management, evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)) at June 30, 2013. Based on such evaluation, our officers have concluded that, at June 30, 2013, our disclosure controls and procedures are effective in alerting them on a timely basis to material information required to be included in our periodic filings under the Exchange Act.

#### **Changes in Internal Control Over Financial Reporting**

During the second quarter of 2013, we have not identified any changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

On November 6, 2007, various antitrust class actions filed against us and other Class I railroads in various Federal district courts regarding fuel surcharges were consolidated in the District of Columbia by the Judicial Panel on Multidistrict Litigation. On June 21, 2012, the court certified the case as a class action. The defendant railroads have appealed such certification, and a decision by the court to either reject the appeal outright or proceed with ruling on its merits is pending. We believe the allegations in the complaints are without merit and intend to vigorously defend the cases. We do not believe the outcome of these proceedings will have a material effect on our financial position, results of operations, or liquidity. A lawsuit containing similar allegations against us and four other major railroads that was filed on March 25, 2008, in the U.S. District Court for the District of Minnesota was voluntarily dismissed by the plaintiff subject to a tolling agreement entered into in August 2008.

We received a Notice of Violation (NOV) issued by the Tennessee Department of Environmental Conservation concerning soil runoff in connection with construction of the Memphis Regional Intermodal Facility in Rossville, Tennessee. Although we will contest liability and the imposition of any penalties, this matter is described here consistent with SEC rules and requirements concerning governmental proceedings with respect to environmental laws and regulations. We do not believe that the outcome of this proceeding will have a material effect on our financial position, results of operations, or liquidity.

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

The risk factors included in our 2012 Form 10-K remain unchanged and are incorporated herein by reference.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

<b>Period</b>	<b>(a) Total Number of Shares (or Units) Purchased</b> <sup>(1)</sup>	<b>(b) Average Price Paid per Share (or Unit)</b>	<b>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</b> <sup>(2)</sup>	<b>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that may yet be purchased under the Plans or Programs</b> <sup>(2)</sup>
April 1-30, 2013	286,570	\$76.23	283,963	45,828,650
May 1-31, 2013	1,646,867	\$78.29	1,644,723	44,183,927
June 1-30, 2013	<u>1,749,048</u>	\$74.60	<u>1,749,048</u>	42,434,879
Total	<u>3,682,485</u>		<u>3,677,734</u>	

<sup>(1)</sup> Of this amount, 4,751 represents shares tendered by employees in connection with the exercise of options under the stockholder-approved Long-Term Incentive Plan.

<sup>(2)</sup> Our Board of Directors authorized a share repurchase program, pursuant to which up to 125 million shares of Common Stock could be purchased through December 31, 2014. On August 1, 2012, our Board of Directors authorized the repurchase of up to an additional 50 million shares of Common Stock through December 31, 2017.

**Item 6. Exhibits**

See Exhibit Index beginning on page 33 for a description of the exhibits filed as part of this report.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

### NORFOLK SOUTHERN CORPORATION

Registrant

Date: July 24, 2013

/s/C.H. Allison, Jr.

C. H. Allison, Jr.

Vice President and Controller

(Principal Accounting Officer) (Signature)

Date: July 24, 2013

/s/Howard D. McFadden

Howard D. McFadden

Corporate Secretary (Signature)



## EXHIBIT INDEX

10.1*	Norfolk Southern Corporation Executives' Deferred Compensation Plan, as amended effective June 26, 2013.
10.2*	Norfolk Southern Corporation Thoroughbred Stock Option Plan, as adopted effective January 26, 1999, and as amended effective July 22, 2013.
10.3*	Norfolk Southern Corporation Long-term Incentive Plan, as approved by shareholders May 13, 2010, and as amended July 23, 2013.
15*	Letter regarding unaudited interim financial information.
31-A*	Rule 13a-14(a)/15d-014(a) CEO Certifications.
31-B*	Rule 13a-14(a)/15d-014(a) CFO Certifications.
32*	Section 1350 Certifications.
101*	The following financial information from Norfolk Southern Corporation's Quarterly Report on Form 10-Q for the second quarter of 2013, formatted in Extensible Business Reporting Language (XBRL) includes (i) the Consolidated Statements of Income for the second quarters and first six months of 2013 and 2012 ; (ii) the Consolidated Statements of Comprehensive Income for the second quarters and first six months of 2013 and 2012; (iii) the Consolidated Balance Sheets at June 30, 2013, and December 31, 2012; (iv) the Consolidated Statements of Cash Flows for the first six months of 2013 and 2012; and (v) the Notes to Consolidated Financial Statements.

\* Filed herewith.

**NORFOLK SOUTHERN CORPORATION  
EXECUTIVES' DEFERRED COMPENSATION PLAN  
as amended effective June 26, 2013**

**ARTICLE I. NAME AND PURPOSE OF THE PLAN.**

The name of the plan is the Norfolk Southern Corporation Executives' Deferred Compensation Plan (the Plan), which for deferrals on or after January 1, 2001, is the successor to the Norfolk Southern Corporation Officers' Deferred Compensation Plan. The purpose of the Plan is to provide benefits to those officers of Norfolk Southern Corporation (the Corporation) or a Participating Subsidiary who elect to participate in the Plan.

**ARTICLE II. DEFINITIONS.**

Account. The total of the amount of Deferrals by a Participant together with Earnings as provided in Article V. The Account shall be utilized solely as a device for the measurement of amounts to be paid to the Participant under the Plan. The Account shall not constitute or be treated as an escrow, trust fund, or any other type of funded account for ERISA or Internal Revenue Code purposes and, moreover, contingent amounts credited thereto shall not be considered "plan assets" for ERISA purposes. The Account merely provides a record of the bookkeeping entries relating to the contingent benefits that the Corporation intends to provide to Participant and thus reflects a mere unsecured promise to pay such amounts in the future.

Agreement. The "Deferral Agreement" between each Participant and the Corporation.

Beneficiary. The person or persons designated as Beneficiary pursuant to Article XII.

Board of Directors. The Board of Directors of the Corporation.

Change in Control. A Change in Control occurs upon any of the following circumstances or events:

- (1) The Corporation consummates a merger or other similar control-type transaction or transactions (however denominated or effectuated) with another Corporation or other Person (including any "affiliate" or "associate" of any Person, all as defined in the Securities Exchange Act of 1934, as amended, or any rules and regulations promulgated thereunder) (Combination), and immediately thereafter less than eighty percent (80%) of the combined voting power of the then-outstanding securities of such corporation or Person is held in the aggregate by the holders of securities entitled, immediately prior to such Combination, to vote generally in the election of directors of the Corporation (Voting Stock);

- (2) The Corporation consummates any stockholder-approved consolidation or dissolution (however denominated or effectuated) pursuant to a recommendation of the Board of Directors;
- (3) At any time, Continuing Directors (as herein defined) shall not constitute a majority of the members of the Board of Directors ("Continuing Director" means (i) each individual who has been a director of the Corporation for at least twenty-four consecutive months before such time and (ii) each individual who was nominated or elected to be a director of the Corporation by at least two thirds of the Continuing Directors at the time of such nomination or election);
- (4) The Corporation sells all or substantially all of its assets to any other corporation or other Person, and less than eighty percent (80%) of the combined voting power of the then-outstanding securities of such corporation or Person immediately after such transaction is held in the aggregate by the holders of Voting Stock immediately prior to such sale;
- (5) A report is filed on Schedule 13D or Schedule 14D-1 (or any successor schedule, form or report), pursuant to the Securities Exchange Act of 1934, as amended, disclosing that any Person has become the Beneficial Owner (any Person who, under the Securities Exchange Act of 1934 or any rules or regulations promulgated thereunder, would be deemed beneficially to own Voting Stock) of twenty (20) or more percent of the voting power of Voting Stock; or
- (6) The Board of Directors determines by a majority vote that, because of the occurrence, or the threat of imminence of the occurrence, of another event or situation in import or effects similar to the foregoing, those who have accepted an agreement providing certain rights and benefits upon termination of employment following a Change in Control are entitled to its protections.

Notwithstanding the provisions of the foregoing, unless otherwise determined in a specific case by majority vote of the Board of Directors, a Change in Control for purposes of this Plan shall not be deemed to have occurred solely because (a) the Corporation, (b) an entity of which the Corporation is the direct or indirect Beneficial Owner of 50 or more percent of the voting securities or (c) any Corporation-sponsored employee stock ownership plan or any other employee benefit plan of the Corporation either files or becomes obligated to file a report or a proxy statement under or in response to Schedule 13D, Schedule 14D-1, Form 8-K, or Schedule 14A (or any successor schedule, form or report or item therein) under the Exchange Act, disclosing beneficial ownership by it of shares of Voting Stock, whether in excess of 20 percent or otherwise, or because the Corporation reports that a change in control of the Corporation has or may have occurred or will or may occur in the future by reason of such beneficial ownership.

Committee. The Compensation Committee of the Board of Directors.

Compensation. The fixed salary payable in the form of cash (including vacation pay) of the Participant before any reduction (1) for pre-tax contributions to the Thrift and Investment Plan of

Norfolk Southern Corporation and Participating Subsidiary Companies, (2) for contributions to the Pre-Tax Transportation Plan of Norfolk Southern Corporation and Participating Subsidiary Companies, (3) for pre-tax contributions to the Norfolk Southern Corporation Comprehensive Benefits Plan, and (4) for any deferrals under this Plan.

Deferral. A Deferred Bonus and/or deferred Compensation for each Plan Year which is “credited” to a Participant’s Account.

Deferred Bonus. That amount set forth in the Agreement which shall be deferred from a Participant’s MIP incentive award (and any other cash incentive award payable to participants in MIP) or EMIP incentive award (and any other cash incentive award approved by the Board of Directors and payable to participants in EMIP), or the bonus program of a Participating Subsidiary, if the deferral of such incentive award or bonus under the Plan is authorized by the Corporation.

Disability. A medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months and which

- (i) renders the Participant unable to engage in any substantial gainful activity; or
- (ii) enables the Participant to be eligible for a disability benefit under the Long-Term Disability Plan of Norfolk Southern Corporation and Participating Subsidiaries, as amended from time to time, or under any such similar plan of a Participating Subsidiary, provided that the Participant has received benefit payments under such plan for a period of not less than 3 months.

Election Deadline. A date specified by the Plan Administrator.

Eligible Employee. Any employee of the Corporation or a Participating Subsidiary who is not covered by a collective bargaining agreement and who is eligible to participate in the MIP, the EMIP, or any authorized bonus program of a Participating Subsidiary.

EMIP. Norfolk Southern Corporation Executive Management Incentive Plan or successor plan.

Hypothetical Investment Options. Investment funds or benchmarks as may be selected from time to time, and made available to Participants solely for purposes of valuing Deferrals. The Hypothetical Investment Options shall be selected by a Benefits Investment Committee comprised of the Corporation’s chief financial officer, chief legal officer and chief administrative officer.

MIP. Norfolk Southern Corporation Management Incentive Plan or successor plan.

Participant. Any Eligible Employee of the Corporation or a Participating Subsidiary who elects to make a Deferral under Article IV of the Plan.

Participating Subsidiary. Each subsidiary or affiliated company of the Corporation which adopts the Plan and is approved for participation in the Plan as provided in Article XVIII.

Plan Administrator. The Vice President - Human Resources of the Corporation, or the successor officer who performs substantially similar duties.

Plan Year. Any calendar year during which deferrals under this Plan are made.

Separation from Service. A Participant's "separation from service" within the meaning of Section 409A of the Internal Revenue Code and the regulations thereunder.

Trust. A grantor trust of the type commonly referred to as a "rabbi trust" created to assist the Corporation and the Participating Subsidiaries to accumulate assets that can be used to pay benefits under the Plan.

### **ARTICLE III. ADMINISTRATION.**

The Plan Administrator shall administer, construe, and interpret this Plan and, from time to time, adopt such rules and regulations and make such recommendations to the Committee concerning Plan changes as are deemed necessary to ensure effective implementation of this Plan. The administration, construction, and interpretation by the Plan Administrator may be appealed to the Committee, and the decision of the Committee shall be final and conclusive, except that any claim for benefits with respect to a Participant shall be subject to the claims procedure set forth in Section 503 of the Employee Retirement Income Security Act of 1974. The Plan Administrator may correct errors and, so far as practicable, may adjust any benefit or payment or credit accordingly. Neither the Plan Administrator nor any member of the Committee shall be liable for any act done or determination made in good faith.

### **ARTICLE IV. ELECTIONS.**

(a)Deferral Elections. Any Eligible Employee shall be eligible to participate in the Plan. A Participant may elect to defer up to 50% of his monthly Compensation. An Eligible Employee who elects to become a Participant in the Plan and defer a portion of his Compensation thereby consents to the reduction in his Compensation as specified in the Agreement. An Eligible Employee may elect to defer a minimum of 10% and a maximum of 100% in increments of one percent (1%), of any eligible incentive bonus which may be awarded to him pursuant to MIP, EMIP or any authorized bonus program of a Participating Subsidiary. A Participant who elects to defer any of his incentive bonus thereby consents to a reduction in his bonus by the Deferred Bonus as specified in the Agreement.

Any deferral election with respect to monthly Compensation must be made in the manner prescribed by the Plan Administrator and in no event later than the Election Deadline. Any deferral election with respect to a Deferred Bonus must be made in the manner prescribed by the Plan Administrator and at the time specified in the plan under which the incentive bonus is

awarded, but in no event later than the Election Deadline. If the Participant fails to make an election prior to the Election Deadline, then the Participant will not be eligible to defer his Compensation or any portion of his incentive bonus earned during the Plan Year.

(b)Automatic Cancellation of Deferral Election for 401(k) Hardship Withdrawal. If, pursuant to Section 401(k) of the Internal Revenue Code and the regulations thereunder, a Participant receives a hardship distribution from any 401(k) plan sponsored by the Corporation or by any other employer required to be aggregated with the Corporation under Section 414(b), (c), (m) or (o) of the Internal Revenue Code, the Participant's deferral election in effect at the time of the hardship withdrawal, if any, shall be cancelled prospectively so that no further deferrals of monthly Compensation or incentive bonus shall occur during the period that ends six (6) months after the receipt of the hardship distribution. A Participant whose deferral election is canceled pursuant to this Paragraph (b) may elect to defer his monthly Compensation or his incentive bonus in the amount and manner described in Paragraphs (a) and (d) of this Article IV. An election to defer monthly Compensation that is made pursuant to this Paragraph (b) shall be effective only with respect to Compensation that is earned after the expiration of the six-month period described in the first sentence of this Paragraph.

(c)Distribution Elections. No later than the Election Deadline, the Participant must elect among the following two distribution options in such proportions as determined by the Participant (in increments of one percent (1%) of the Deferral in each distribution option selected by the Participant, if the Participant selects to participate in both distribution options set forth below). The Participant must elect to have the benefit distributed (i) at the earlier of Separation from Service or Disability, or (ii) at the earliest of Separation from Service, Disability, or a specified date at least five (5) years after the Plan Year has ended (a "Specified Date"). For distribution elections made on or after October 1, 2011, a Participant's Specified Date election shall only be made by reference to a month and year of distribution and the Specified Date shall be deemed to be the first day of the specified month. Any benefit which the Participant elects to receive upon the earlier of Separation from Service or Disability, will be distributed in one lump sum payment or annual installment payments over a period of five (5), ten (10), or fifteen (15) years as elected by the Participant. For purposes of Section 409A of the Internal Revenue Code, a series of installment payments will be considered a single payment. Any benefit which a Participant elects to receive on the earliest of Separation from Service, Disability, or a Specified Date, and for which the Specified Date is the distribution event, will be distributed in one lump sum or in annual installment payments over a period of up to five (5) years, as elected by the Participant, or in one lump sum in the event of Separation from Service or Disability. However, for any benefit which the Participant elects to receive in annual installments on the earliest of Separation from Service, Disability, or a Specified Date, and for which the Specified Date is the earliest distribution event, annual installments will continue to be paid regardless of whether the Participant incurs a Separation from Service or Disability following the Specified Date. If the Participant fails to elect the time and form of distribution of his Deferral before the Election Deadline, the Participant's distribution will be made at the earlier of Separation from Service or Disability in one lump sum. If a distribution is being made due to Separation from Service, to the extent the distribution is attributable to Deferrals of amounts earned or vested after December 31, 2004, no distribution may be made before the date which is six months after the date of Separation from Service.

(d)Election Deadline. A Participant must file a deferral election and distribution election for each year's Deferral. The Participant must make each election by the Election Deadline. The Election Deadline must satisfy the following requirements:

(1)Performance-Based Compensation. To the extent that an incentive bonus qualifies as "performance-based compensation" as defined in Section 409A of the Internal Revenue Code, the Election Deadline shall not be later than the date that is six months before the end of the performance period, provided that no deferral election may be made with respect to any portion of the compensation that has become readily ascertainable.

(2)Other Compensation. For deferrals of Compensation or an incentive bonus that is not described in subparagraphs (1), above, the Election Deadline shall be no later than December 31 preceding the Plan Year in which begins the period of service for which the Compensation or incentive bonus is earned.

A Participant may change or revoke the deferral election by filing a new election form with the Plan Administrator at any time before the Election Deadline. The Participant's deferral election and distribution election in effect on the Election Deadline shall be irrevocable. Until a valid deferral election is made by an Eligible Employee, the Eligible Employee shall be deemed to have elected to receive Compensation and any incentive bonus on the regular payment date, without deferral.

(e)Modifications Subsequent to Initial Election. A Participant may modify an election for Deferrals of Compensation earned and vested after December 31, 2004, and related earnings thereon by filing a modification election in the manner specified by the Plan Administrator. A modification election that does not meet the Plan Administrator's procedures, the requirements of the Plan or which fails to clearly identify the Deferral to which it applies is void. Modification elections are subject to the following rules:

(1) Initial Election Is Earlier of Separation from Service or Disability. A Participant who has elected to receive a distribution upon the earlier of Separation from Service or Disability may modify the payment election with respect to all such deferrals that have the same payment commencement date and the same form of distribution by (i) delaying the payment commencement date upon Separation from Service by five (5) years or (ii) by specifying one of the permissible payment schedules described in paragraph (c), above, and, in the case of a Separation from Service, delaying the payment commencement date by five (5) years. Modification elections may be revoked or modified up to 12 months prior to the Participant's payment commencement date following Separation from Service or Disability. Modifications filed less than 12 months prior to the Participant's payment commencement date following Separation from Service or Disability will be disregarded.

(2) Initial Election is Earliest of Separation from Service, Disability or Specified Date. A Participant who has elected to receive a Deferral upon the earliest of Separation from Service, Disability or a Specified Date may modify the Specified Date payment election with respect to all such deferrals that have the same payment commencement date and the same form of distribution by (i) selecting a new Specified Date that is not less than five (5) years after the current Specified Date or (ii) by selecting one of the permissible payment schedules described in paragraph (c), above, and selecting a new Specified Date not less than five (5) years after the current Specified Date. Subject to the requirements of this section IV(e), a modification election filed under this section (e)(2) must be filed not less than 12 months prior to the current Specified Date, is irrevocable upon receipt by the Plan Administrator and shall become effective 12 months after receipt. A Participant may file an unlimited number of modification elections with respect to a Deferral. In such a case, the minimum five year delay for each such election shall be determined with respect to the payment commencement date contained in the immediately preceding modification election.

## **ARTICLE V. EARNINGS EQUIVALENT**

(a) Adjustment of Participant Accounts. Unless otherwise stated herein or determined by the Board of Directors, an amount equivalent to earnings or losses ("Earnings") shall accrue on or be deducted from all Deferrals in accordance with the Participant's selection of Hypothetical Investment Options. For purposes of calculating the appropriate Earnings only, the Deferred Bonus is deemed to be invested in the Hypothetical Investment Options on the date on which the related incentive bonus is paid. Earnings shall be determined based upon the Hypothetical Investment Option(s) elected by the Participant. If a Participant does not elect Hypothetical Investment Options for the Deferrals, then Earnings shall be determined based on such Hypothetical Investment Options as may be designated by the Plan Administrator to apply in the absence of an election. Participants will be required to elect one or more Hypothetical Investment Options at the time each Deferral election is made. Participants will be permitted at any time prior to the complete pay out of their Account balances to elect to change their Hypothetical Investment Option(s) with respect to all or part of their Account balances effective as soon as practicable following such election. The procedure for electing to change a Hypothetical Investment Option(s) will be established by the Plan Administrator. An election to change a Hypothetical Investment Option for part of an Account balance must be made in increments of 1% of the Account balance or a specified dollar amount.

While a Participant's Account does not represent the Participant's ownership of, or any ownership interest in, any particular assets, the Participant's Account shall be adjusted in accordance with the Hypothetical Investment Options chosen by the Participant. Any Earnings generated under a Hypothetical Investment Option (such as interest and cash dividends and distributions) shall be deemed to be reinvested in that Hypothetical Investment Option. All notional acquisitions and dispositions of Hypothetical Investment Options which occur within a Participant's Account, pursuant to the terms of the Plan, shall be deemed to occur at such times as the Plan Administrator shall determine to be administratively feasible in its sole discretion and the Participant's Account shall be adjusted accordingly. In the event of a Change in Control, the practices and procedures for determining any Earnings credited to any Participants' Accounts



following a Change in Control shall be made in a manner no less favorable to Participants than the practices and procedures employed under the Plan, or otherwise in effect, as of the date of the Change in Control.

In lieu of an entitlement to receive payments under the terms of this Plan, in the event of a Change in Control, any deferred compensation equivalent payment made pursuant to a Change in Control Agreement that was entered into before such Change in Control shall be determined by projecting the Earnings a Participant would have received had the Participant worked until normal retirement age at age 65 or, if greater, had the Participant retired on his or her Termination Date (as defined in the applicable Change in Control Agreement). The rate of return for such projected Earnings shall be determined in accordance with the schedule below, based on the Participant's age immediately preceding the Termination Date, and shall be applied to the Participant's Account balance on the Termination Date (as defined in the applicable Change in Control Agreement):

<u>Age</u>	<u>Rate</u>
up to 45	7%
45-54	10%
55-60	11%
over 60	12%

(b) Vesting. The Participant shall at all times be one hundred percent (100%) vested in his or her Account, as well as in any appreciation (or depreciation) specifically attributable to such Account due to Earnings.

## **ARTICLE VI. BENEFITS**

(a) Distribution at the Earlier of Separation from Service or Disability: For each Deferral for which the Participant elected to have the benefit distributed in this manner, the Participant shall be paid the amount in his or her Account either in a lump sum or in installments as the Participant elected under Article IV.

For lump sum distributions, except as provided in the following sentence, the Participant shall be paid on the first day of the calendar year following Separation from Service or Disability, the portion of his or her Account which is attributable to Deferrals for which the Participant elected lump sum distribution at Separation from Service or Disability. If the Participant defers an incentive bonus and Separates from Service or becomes Disabled in the year before the year such incentive bonus would be paid in the absence of such deferral, then the lump sum distribution with respect to such bonus shall be paid on the first day of the second calendar year following the Separation from Service or Disability. Notwithstanding the foregoing, if a distribution is being made due to Separation from Service, to the extent the amount in a Participant's Account is attributable to Deferrals of amounts earned or vested after December 31, 2004, and related earnings thereon, the distribution shall be made on the later of the date which is six months after the date of Separation from Service or the applicable date

specified in the first two sentences of this paragraph. Distributions described in this paragraph shall be valued as of the day preceding the day on which the distribution is scheduled to occur.

For distributions other than lump sum distributions, except as provided in the following sentence, payments shall commence on the first day of the calendar year following such Separation from Service or Disability and shall be made in annual installments on January 1 of each year for each applicable Deferral over the elected pay out period for that Deferral. If the Participant defers an incentive bonus and Separates from Service or becomes Disabled in the year before the year such incentive bonus would be paid in the absence of such deferral, then the installment payments with respect to such bonus shall commence on the first day of the second calendar year following the Separation from Service or Disability, and shall be made in annual installments on January 1 of each year thereafter over the elected pay period for that Deferral. Notwithstanding the foregoing, if a distribution is being made due to Separation from Service, to the extent the amount in a Participant's Account is attributable to Deferrals of amounts earned or vested after December 31, 2004, and related earnings thereon, the initial distribution shall be made on the later of the date which is six months after the date of Separation from Service or the applicable date specified in the first two sentences of this paragraph. The annual installment payment for each applicable Deferral shall be an amount equal to the remaining balance in the Participant's Account for the Deferral, valued as of the day preceding the day on which such distribution is scheduled to occur, with the amount determined by dividing the remaining number of annual payments not yet distributed for that Deferral.

Deferrals subject to a valid modification election described in Article IV(e) shall be paid on the payment commencement date described in such election, with the payment commencement dates specified in this section VI(a) as a reference point for determining the five-year delay.

(b) Distribution at the Earliest of Separation from Service, Disability or a Specified Date: For each Deferral earned and vested prior to January 1, 2005 (and the related earnings thereon) for which the Participant elected to have the benefit distributed on the earliest of Separation from Service, Disability, or a Specified Date the Participant shall be paid the amount in his or her Account for that Deferral in a lump sum on the first business day after the earliest of the Specified Date, Separation from Service, or Disability.

For each Deferral earned and vested after December 31, 2004 (and the related earnings thereon) for which the Participant elected to have the benefit distributed on the earliest of Separation from Service, Disability, or a Specified Date the Participant shall be paid the amount in his or her Account for that Deferral as elected in the event of payment on a Specified Date and in a lump sum in the event of Separation from Service or Disability, with payment commencing on the first business day after the earliest of the Specified Date, Separation from Service, or Disability. If a distribution is being made due to Separation from Service, the distribution shall be made on the date which is six months after the date of Separation from Service. Notwithstanding anything in this Plan to the contrary, amounts being paid in installments to a Participant who subsequently Separates from Service or becomes Disabled shall continue to be paid in installments.

For all initial Deferral elections under this Plan, if the Participant defers an incentive bonus and elects to have the benefit distributed at the earliest of Separation from Service, Disability or a Specified Date, and the Participant Separates from Service or becomes Disabled in the year before the year such incentive bonus would be paid in the absence of such Deferral, then the distribution with respect to such initial Deferral election shall be made on the first day of the second calendar year following the Separation from Service or Disability.

Amounts payable under this Article VI(b) shall be valued as of the day preceding the day on which the distribution is scheduled to occur. Amounts payable under this Article VI(b) that are distributed in annual installments following the Specified Date shall be valued as of the day preceding the day on which such distribution is scheduled to occur, with the amount to be distributed determined as the remaining balance in the Participant's Account for the Deferral divided by the number of annual payments not yet distributed for that Deferral.

(c) Death: If a Participant dies either while in active service or after Separation from Service or Disability, the Corporation shall pay the amount of the Participant's Account to the Participant's Beneficiary in a single lump sum on the first day of the calendar month following the date of death. Amounts payable under this Article VI(c) shall be valued as of the day preceding the Participant's death.

(d) Lump Sum or Other Settlement: Notwithstanding the foregoing provisions of this Article VI, the Committee, in its sole discretion, may authorize and direct the Corporation to distribute the amount in a Participant's Account in a lump sum or over a period other than that provided for in this Article VI, and to charge such payments against the Participant's Account. Such accelerated distribution may be made only in the event of an unforeseeable financial emergency resulting from an illness or accident of the Participant, the Participant's spouse, the Participant's Beneficiary, or a dependent (as defined in Section 152 of the Internal Revenue Code, without regard to section 152(b)(1), (b)(2) or (d)(1)(B)) of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. Such an accelerated distribution shall be permitted only to the extent that the financial emergency is not and may not be relieved by reimbursement or compensation from insurance or otherwise, by liquidation of the Participant's assets (to the extent the liquidation would not cause severe financial hardship), or by the cessation of deferrals under the Plan, and only in an amount reasonably necessary to satisfy the financial emergency; provided, that all amounts due to a Participant or Beneficiary under this Plan shall in all events be paid to the Participant or Beneficiary by the end of the appropriate period referred to in this Article VI. No Participant or Beneficiary who is also a member of the Committee shall participate in any decision of the Committee to make accelerated payments under this Article VI.

(e) Administrative Adjustments in Payment Date. A payment is treated as being made on the date when it is due under the Plan if the payment is made on the due date specified by the Plan, or on a later date that is either (i) in the same calendar year (for a payment whose specified due date is on or before September 30), or (ii) by the 15<sup>th</sup> day of the third calendar month following the date specified by the Plan (for a payment whose specified due date is on or after

October 1). A payment is also treated as being made on the date when it is due under the Plan if the payment is made not more than 30 days before the due date specified by the Plan, provided that a payment that is delayed until six months after the Participant's Separation from Service shall not be made earlier than such date. A Participant or Beneficiary may not, directly or indirectly, designate the taxable year of a payment made in reliance on the administrative rules in this paragraph.

#### **ARTICLE VII. NATURE AND SOURCE OF PAYMENTS**

The obligation to pay benefits under Article VI with respect to each Participant shall constitute a liability of the Corporation to the Participant and, after the Participant's death, to any Beneficiaries in accordance with the terms of the Plan. The Corporation may establish one or more Trusts within the United States to which the Corporation may transfer such assets as the Corporation determines in its sole discretion to assist in meeting its obligations under the Plan. The provisions of the Plan and the Agreement shall govern the rights of a Participant to receive distributions pursuant to the Plan. While the Corporation generally reserves the right to establish or fund any Trust at any time, it shall not fund such Trust in connection with an adverse change in the financial health of the Corporation or a Participating Subsidiary to the extent that such funding would not comply with the requirements of Section 409A of the Internal Revenue Code. The provisions of the Trust shall govern the rights of the Corporation, Participants and the creditors of the Corporation to the assets transferred to the Trust. The Corporation's obligations under the Plan may be satisfied with Trust assets distributed pursuant to the terms of the Trust, and any such distribution shall reduce the Corporation's obligations under this Plan.

Participants and Beneficiaries shall stand in the position of unsecured creditors of the Corporation, the Plan constitutes a mere promise by the employer to make benefit payments in the future, and all rights hereunder and under any Trust are subject to the claims of creditors of the Corporation.

#### **ARTICLE VIII. EXPENSES OF ADMINISTRATION**

All expenses of administering the Plan shall be borne by the Corporation, and no part thereof shall be charged against the benefit of any Participant, except the costs of the Hypothetical Investment Options, which shall be charged against the value of Deferrals measured against those funds.

#### **ARTICLE IX. AMENDMENT TO AND TERMINATION OF PLAN**

The Corporation reserves the right at any time through written action of its chief executive officer or by a resolution duly adopted by its Board of Directors to amend this plan in any manner or to terminate it at any time, except that no such amendment or termination shall deprive a Participant or his Beneficiary of any rights hereunder theretofore legally accrued, and no such termination shall be effective for the year in which such resolution is adopted. In no

event shall a termination of the Plan accelerate the distribution of amounts deferred under the Plan in calendar year 2005 and succeeding years, except to the extent permitted in regulations or other guidance under Section 409A of the Internal Revenue Code and expressly provided in the resolution terminating the Plan.

#### **ARTICLE X. RECALCULATION EVENTS**

The Corporation's commitment to accrue and pay Earnings as provided in Article V may be facilitated by the purchase of corporate-owned life insurance on the lives of eligible Participants. If the Board of Directors, in its sole discretion, determines that any change whatsoever in Federal, State, or local law, or in its application or interpretation, has materially affected, or will materially affect, the ability of the Corporation to recover the cost of providing the benefits otherwise payable under the Plan, then, if the Board of Directors so elects, a Recalculation Event shall be deemed to have occurred. If a Recalculation Event occurs, then Earnings shall be recalculated and restated using a lower rate of Earnings determined by the Board of Directors, but which shall be not less than the lesser of one half (1/2) the rate of Earnings provided for in Article V or 7%.

#### **ARTICLE XI. GOVERNING LAW**

This Plan and the Agreements are subject to the laws of the Commonwealth of Virginia.

#### **ARTICLE XII. DESIGNATION OF BENEFICIARY**

For the purpose of this Plan, a Beneficiary shall be either (1) the named Beneficiary of the Participant in the Norfolk Southern Corporation Officers Deferred Compensation Plan or Beneficiaries subsequently designated as hereinafter provided for by the Participant, or (2) in the absence of any such designation, his or her estate. A Participant may designate both primary and contingent Beneficiaries. A Participant may revoke or change any designation. To be effective, the designation of a named Beneficiary or Beneficiaries, or any change in or revocation of any designation, must be on a form provided by the Plan Administrator, signed by the Participant and filed with the Plan Administrator prior to the death of such Participant. Any such designation, change or revocation shall not invalidate any cash payment made or other action taken by the Corporation pursuant to the Plan prior to its receipt by the Corporation.

The person or persons entitled to receive any and all payments arising from the Deferrals held for the Participant's Account at death shall be determined as of the date of the Participant's death as follows: If one or more persons designated as primary Beneficiaries survive the Participant, then such person or persons shall be entitled to receive any and all payments in the percentages designated by the Participant or, in the absence of such designation, in equal shares. If none of the persons designated as primary Beneficiaries survive the Participant, then those persons designated as contingent Beneficiaries who survive the Participant, if any, shall be entitled to receive any and all payments in the percentages designated by the Participant or, in the absence of such designation, in equal shares. If none of the persons named as primary

Beneficiaries or contingent Beneficiaries survive the Participant, then the payments from the Account shall be paid to the Participant's estate.

If any person entitled to a payment of benefits as a primary Beneficiary or contingent Beneficiary is a minor at the time of such payment, the Corporation may, in its sole discretion, make the payment to the minor, to the guardian of such minor, to any person who may be the statutory custodian for the benefit of such minor under the Uniform Gifts to Minors Act or similar legislation then in effect, or to any competent adult person with whom such minor may be residing, and in any event, the recipient's receipt shall be sufficient discharge of the Corporation.

The right of a Beneficiary to receive a payment hereunder, once fixed upon the Participant's death, shall continue irrespective of whether the person survives until the date such benefits are paid. If such person dies before all benefits have been paid, then the right to receive the remaining payments shall become an asset of such person's estate.

Any Beneficiary may disclaim all benefits under the Plan to which such Beneficiary would otherwise be entitled by filing a written disclaimer with the Plan Administrator before payment of such benefit is to be made. Such a disclaimer shall be made in a form satisfactory to the Plan Administrator and shall be irrevocable when filed. The benefit disclaimed shall be payable from the Plan in the same manner as if the Beneficiary who filed the disclaimer had predeceased the individual whose death caused the disclaimant to become a Beneficiary.

The determination by the Corporation of a Beneficiary or Beneficiaries, or the identity thereof, or evidence satisfactory to the Corporation shall be conclusive as to the liability of the Corporation and any payment made in accordance therewith shall discharge the Corporation of all its obligations under the Plan for such payment.

#### **ARTICLE XIII. SUCCESSORS, MERGERS, CONSOLIDATIONS**

The terms and conditions of this Plan and each Agreement shall inure to the benefit of and bind the Corporation, the Participants, their successors, assigns, and personal representatives. If substantially all the assets of the Corporation are acquired by another corporation or entity or if the Corporation is merged into, or consolidated with, another corporation or entity, then the obligations created hereunder and as a result of the Corporation's acceptance of Agreements shall be obligations of the successor corporation or entity.

#### **ARTICLE XIV. WITHHOLDING FOR TAXES**

The Participant agrees as a condition of participation hereunder that the Corporation may withhold applicable Federal, State, and local income taxes and Social Security, Medicare, or Railroad Retirement taxes from any distribution or benefit paid hereunder. In addition, the Participant agrees as a condition of participation hereunder that the Corporation may withhold from a Participant's nondeferred compensation any applicable payroll taxes that may be due at

the time any Deferral is made under the Plan.

#### **ARTICLE XV. NON-ALIENATION OF BENEFITS**

No benefit under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any attempt at such shall be void; nor shall any such benefit be in any way subject to the debts, contracts, liabilities, engagements, or torts of the person who shall be entitled to such benefit; nor shall it be subject to attachment or legal process for or against such person.

#### **ARTICLE XVI. FACILITY OF PAYMENT**

If the Plan Administrator shall find that any individual to whom any amount is payable under the Plan is unable to care for his affairs because of illness or accident, or is a minor or other person under legal disability, any payment due such individual (unless a prior claim therefore shall have been made by a duly appointed guardian, committee, or other legal representative) may be paid to the spouse, a child, a parent, or a brother or sister of such individual or to any other person deemed by the Plan Administrator to have incurred expenses of such individual, in such manner and proportions as the Plan Administrator may determine. Any such payment shall be a complete discharge of the liabilities of the Corporation with respect thereto under the Plan or the Agreement.

#### **ARTICLE XVII. CONTINUED EMPLOYMENT**

Nothing contained herein or in an Agreement shall be construed as conferring upon any Participant the right nor imposing upon him the obligation to continue in the employment of the Corporation or a Participating Subsidiary in any capacity.

#### **ARTICLE XVIII. PARTICIPATION BY SUBSIDIARY COMPANIES**

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

## **ARTICLE XIX. MISCELLANEOUS**

Whenever used in the Plan, words in the masculine form shall be deemed to refer to females as well as to males, and words in the singular or plural shall be deemed to refer also to the plural or singular, respectively, as the context may require.

## **ARTICLE XX. STATUS OF PLAN**

The Plan is intended to be a plan that is not qualified within the meaning of Section 401(a) of the Internal Revenue Code and that “is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees” within the meaning of ERISA. The Plan shall be administered and interpreted to the extent possible in a manner consistent with that intent. All Participant Accounts and all credits and other adjustments to such Participant Accounts shall be bookkeeping entries only and shall be utilized solely as a device for the measurement and determination of amounts to be paid under the Plan. No Participant Accounts, Earnings, credits or other adjustments under the Plan shall be interpreted as an indication that any benefits under the Plan are in any way funded.

## **ARTICLE XXI. EFFECTIVE DATE**

The effective date of the Plan is January 1, 2001. The Plan, as hereby amended and restated, is effective with respect to amounts that were not earned and vested (within the meaning of Section 409A of the Internal Revenue Code) before January 1, 2005, and any earnings on such amounts. Amounts earned and vested (within the meaning of Section 409A of the Internal Revenue Code) before January 1, 2005, and earnings on such amounts (collectively, “Grandfathered Amounts”), remain subject to the terms of the Plan as in effect on October 3, 2004. For recordkeeping purposes, the Corporation will account separately for Grandfathered Amounts.

## **ARTICLE XXII. INTERNAL REVENUE CODE SECTION 409A**

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



NORFOLK SOUTHERN CORPORATION  
Directors' Restricted Stock Plan

I. Effective Date: January 1, 1994, as amended November 24, 1998, and as amended and restated effective August 1, 2012.

II. Purpose: To increase the ownership of common stock of Norfolk Southern Corporation ("Corporation") by non-employee directors so as to align further their ownership interest in the Corporation with that of the stockholders.

III. Eligibility: Any non-employee director of the Corporation as of the Effective Date and any non-employee director of the Corporation who begins his or her term as director on or after the Effective Date ("Eligible Director"). A "non-employee director" is a director who is not an officer of the Corporation or any of its subsidiaries.

IV. Benefits: (1) An Eligible Director shall be granted three thousand (3,000) shares of Corporation common stock ("Restricted Shares") on the later of the Effective Date of the Registration Statement registering the grant of common stock under this Plan or the date a person becomes an Eligible Director.

(2) Restricted Shares shall be restricted as hereinafter provided for a period ("Restriction Period") commencing on the date of grant and ending on the date that is the earlier of the death of the Eligible Director or the day after the Eligible Director ceases to be a director by reason of disability or retirement. During the Restriction Period, the Eligible Director shall have the entire beneficial interest in and all rights and privileges of a stockholder as to the Restricted Shares, including the right to receive dividends and the right to vote such shares, subject to the following conditions: (a) the Eligible Director shall not be entitled to delivery of the stock certificate until expiration of the Restriction Period; (b) none of the Restricted Shares may be sold, transferred, assigned, pledged or otherwise encumbered or disposed of during the Restriction Period; and (c) all Restricted Shares shall be forfeited and all rights of the Eligible Director in and to such shares shall terminate unless the Eligible Director remains a director of the Corporation until death, disability or retirement.

(3) For purposes of this Plan, "retirement" of an Eligible Director means termination of service as a director of the Corporation, if (a) the Eligible Director at the time of termination was ineligible to continue serving as a director under the Corporation's Retirement Policy for Directors or (b) the Eligible Director had served as a director of the Corporation for at least two consecutive years, and such termination is (i) due to the Eligible Director's taking a position with or providing services to a governmental, charitable or educational institution whose policies prohibit continued service as a director of the Corporation, or (ii) due to the fact that continued service as a director would be a violation of law, or (iii) not due to the voluntary resignation or refusal to stand for reelection by the Eligible Director.

(4) The Board of Directors of the Corporation may make such adjustments in the number and kind of shares authorized by the Plan and the number and kind of shares or other securities or property covered by outstanding awards as are 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: A maximum of 66,000 shares of Corporation common stock may be granted under this Plan. This Plan may be amended or terminated by the Board of Directors of the Corporation.

**NORFOLK SOUTHERN CORPORATION**  
**THOROUGHbred STOCK OPTION PLAN**  
 AS ADOPTED EFFECTIVE JANUARY 26, 1999, AND AMENDED  
 AND RESTATED EFFECTIVE JULY 22, 2013

**Section 1. PURPOSE**

The purpose of the Thoroughbred Stock Option Plan (the “Plan”) is to promote the success of Norfolk Southern Corporation (the “Corporation”) and to provide an opportunity for nonagreement 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 nonagreement 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 non-qualified stock options, in accordance with the terms and conditions set forth below. The Plan was adopted effective January 26, 1999 and is amended and restated as set forth herein effective July 22, 2013.

**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	Non-qualified Stock Option granted under the terms of the Plan.
Beneficiary	The person or persons designated in writing by the Participant as his Beneficiary in respect of Awards or, in the absence of such a designation or if the designated person or persons predecease the Participant, the person or persons who shall acquire the Participant’s rights in respect of Awards by bequest or inheritance in accordance with the applicable laws of descent and distribution. In order to be effective, a Participant’s designation of a Beneficiary must be on file with the Corporation before the Participant’s death. Any such designation may be revoked and a new designation substituted therefor by the Participant at any time before his death without the consent of the previously designated Beneficiary.
Board of Directors	The Board of Directors of the Corporation.
Code	The Internal Revenue Code of 1986, as amended from time to time.
Committee	The Compensation Committee of the Board of Directors.
Common Stock	The Common Stock of the Corporation.

Disability	A disability that enables the Participant to be eligible for and receive a disability benefit under the Long-Term Disability Plan of the Corporation or a long-term disability plan of a Subsidiary Company (whichever is applicable), as amended from time to time.
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 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 in its sole discretion may delegate authority to the Corporation's chief executive officer to select the nonagreement 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; and to authorize the grant of such Awards pursuant to the Plan.

The Committee, or the Corporation's chief executive officer to the extent of any delegation as may be authorized by the Committee hereunder (hereinafter, the term "Committee" shall include reference to the chief executive officer to the extent of any such delegation), 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.





# NORFOLK SOUTHERN CORPORATION

## LONG-TERM INCENTIVE PLAN

AS APPROVED BY SHAREHOLDERS MAY 13, 2010  
AND AS AMENDED JULY 23, 2013

### Section 1. PURPOSE

The purpose of the Long-Term Incentive Plan ("Plan"), as amended, 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 stockholders. The Plan provides for the grant of incentive stock options, non-qualified stock options, stock appreciation rights, performance share units, performance shares, shares of the Corporation's common stock (restricted pursuant to the provisions of Section 9 of the Plan) and restricted stock units, in accordance with the terms and conditions set forth below. The Corporation intends that the Plan comply with the requirements of Internal Revenue Code Section 162(m) and applicable treasury regulations thereunder and intends that compensation paid under the Plan qualify as performance-based compensation under Code Section 162(m). Notwithstanding the preceding sentence, the Corporation reserves the right to pay compensation under the Plan that does not qualify as performance-based compensation under Code Section 162(m), as circumstances may warrant. The Plan, as amended, is intended, and shall be construed, to comply with the requirements of Code Section 409A.

### 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; Restricted Stock Units; 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 for the revoked designation by the Participant at any time before his death without the consent of the previously designated Beneficiary.
Board of Directors	The Board of Directors of the Corporation.

Cash-Settled Stock Appreciation Rights	Stock Appreciation Rights settled in cash.
Code	The Internal Revenue Code of 1986, as amended from time to time.
Committee	The Compensation Committee, the Performance-Based Compensation Committee or any other committee of the Board of Directors which is authorized to grant Awards under this Plan.
Common Stock	The Common Stock of the Corporation.
Disability	<p>A disability that has enabled the Participant to 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, for a period of at least three months.</p> <p>For a Participant who is a non-employee director, “Disability” means any medically determinable physical or mental impairment that is expected to result in death or to last for a continuous period of not less than 12 months and which prevents a Participant from continuing to serve as a non-employee director.</p>
Dividend Equivalent	An amount equal to the regular quarterly dividend paid in accordance with the Corporation’s normal dividend payment practice as may be determined by the Committee, in its sole discretion, and granted pursuant to Section 13 of the Plan.
Executive Officers	Officers designated by the Board of Directors as “Executive Officers” for purposes of Section 16 of the Securities Exchange Act of 1934.
Exercise Gain Shares	With respect to a Stock Appreciation Right, all of the shares of Common Stock received upon exercise of the Stock Appreciation Right. With respect to an Option, the portion of the shares of Common Stock received upon exercise of the Option equal to the excess of the Fair Market Value, as of the exercise date, over the Option price, multiplied by the number of shares purchased under the Option on the exercise date, divided by such Fair Market Value, and rounded down to the nearest whole number of shares.
Fair Market Value	The value of Common Stock on a particular date as measured by the mean of the high and low prices at which it is traded on such date as reported in the Composite Transactions for such date by 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.
Performance-Based Compensation Committee	A committee of the Board of Directors composed solely of two or more outside directors, as defined under Code Section 162(m) and applicable regulations thereunder.
Performance Cycle	The period of time, designated by the Committee but not less than one year, over which Performance Shares may be earned.
Performance Criteria	One or more, or any combination, of the following business criteria, selected by the Committee, which may be applied on a corporate, department or division level: earnings measures (including net income, earnings per share, income from continuing operations, income before income taxes, income from railway operations); return measures (including net income divided by total assets, return on shareholder equity, return on average invested capital); cash flow measures (including operating cash flow and free cash flow); productivity measures (including total operating expense per thousand gross ton miles or revenue ton miles, total operating revenue per employee, total operating expense per employee, gross ton miles or revenue ton miles per employee, carloads per employee, revenue ton miles per mile of road operated, total operating expense per carload, revenue ton miles per carload, gross ton miles or revenue ton miles per train hour, percent of loaded-to-total car miles); fair market value of shares of the Corporation's Common Stock; revenue measures; expense measures; operating ratio measures); customer satisfaction measures; working capital measures; cost control measures; total shareholder return measures; and safety measures.
Performance Criteria Weighting Percentage	The percentage weighting accorded to each Performance Criterion (or each combination thereof) selected by the Committee. The total of the Performance Criteria Weighting Percentages for any type of Award shall equal one hundred percent (100%).

Performance Goal	The specific target set by the Committee for each selected Performance Criterion (or each combination thereof). A Performance Goal may be set solely with respect to the Corporation's performance, or as compared to the performance of a published or special index deemed applicable by the Committee, including but not limited to the Standard & Poor's 500 Stock Index or an index based on a group of comparative companies.
Performance Shares	Shares of Common Stock granted pursuant to Section 11 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 11 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.
Restricted Stock Unit	Contingent rights, granted pursuant to Section 10 of the Plan, to receive Restricted Stock Unit Shares or cash payment for the Fair Market Value of shares of Common Stock, subject to the restrictions and other conditions set forth herein. Each Restricted Stock Unit shall equal the Fair Market Value of one share of Common Stock.
Restricted Stock Unit Shares	Shares of Common Stock issued as payment for Restricted Stock Units pursuant to Section 10 of the Plan, which may be made subject to the restrictions and other terms and conditions prescribed in Section 10 of the Plan.
Restriction Period	A period of time not less than thirty-six (36) 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 or Restricted Stock Units are granted, during which the restrictions imposed by paragraphs (b) and (c) of Section 9 or paragraphs (b) and (c) of Section 10 of the Plan shall apply. At the time that the Restricted Shares or Restricted Stock Units are granted, the Committee shall impose a Restriction Period and determine the length of the Restriction Period. Such Restriction Period, if any, shall be incorporated in the Award Agreement setting forth the grant. Under Sections 9 and 10 of this Plan, the Committee may, in its discretion, specify when the Award is granted that the Restriction Period shall expire upon the earlier achievement of Performance Goals.
Retention Agreement	An agreement entered into pursuant to Section 12 of the Plan.

Retirement	Retirement from the Corporation and all Subsidiary Companies 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.  For a Participant who is a non-employee director, "Retirement" means termination of service as a director of the Corporation, if (a) the director at the time of termination was ineligible to continue serving as a director under the Corporation's Retirement Policy for Directors or (b) the director had served as a director of the Corporation for at least two consecutive years.
Stock Appreciation Right	The right, granted pursuant to the provisions of Section 8 of the Plan, to receive Exercise Gain Shares or a cash payment equal to the excess, if any, of the Fair Market Value of Common Stock on the exercise date over the Fair Market Value of the Common Stock on the grant date, as specified in Section 8 of the Plan.
Stock-Settled Stock Appreciation Rights	Stock Appreciation Rights paid out in Exercise Gain Shares.
Subsidiary Company	A corporation of which at least 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, except as may be delegated to the Corporation's chief executive officer as provided herein, to construe and interpret the Plan; to select the officers, key employees and non-employee directors 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 (and subject to any applicable requirements of Code Section 409A), 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 actions it may deem necessary or advisable for the implementation and administration of the Plan.

The Committee in its sole discretion may delegate authority to the Corporation's chief executive officer to select the officers and key employees who shall be granted Awards under the Plan (provided, however, that only the Committee shall grant Awards to the chief executive officer and Executive Officers); to determine the type, size, terms, and conditions of the Award or Awards to be granted to each such Participant; and to authorize the grant of such Awards pursuant to the Plan.

The Committee, or the chief executive officer to the extent as may be delegated by the Committee (hereinafter, the term "Committee" shall include reference to the chief executive officer to the extent of any such delegation), may authorize the grant of more than one type of Award, and Awards subject to

differing terms and conditions, to any eligible Participant. The Committee's decision to authorize the grant of an Award to a Participant at any time shall not require the Committee to authorize the grant of an Award to that Participant at any other time or to any other Participant at any time; nor shall its determination with respect to the size, type, or terms and conditions of the Award to be granted to a Participant 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 Participant at any other time or to any other Participant at any time. The Committee shall not be precluded from authorizing the grant of an Award to any eligible Participant solely because the Participant previously may have been granted an Award of any kind under the Plan.

All determinations of the Committee shall be by a majority of its members and shall be final, conclusive and binding. Each member of the Committee, while serving as such, shall be considered to be acting in his capacity as a director of the Corporation, and no member of the Committee shall be liable for any action taken or decision made in good faith with respect to the implementation or administration of the Plan .

#### **Section 4. ELIGIBILITY**

To be eligible for selection by the Committee to participate in the Plan, an individual must be a full-time salaried officer or key employee of the Corporation, or of a Subsidiary Company, and must reside in the United States or Canada, on the date on which the Committee authorizes the grant to such individual of an Award. A 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**

Since the Plan's establishment in 1983, up to a maximum of 88,025,000 shares of Common Stock have been authorized for issuance under the Plan. Subject to approval of the Plan, as hereby amended, by the separate 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 for the proposal is present, an additional 8,100,000 shares of Common Stock are approved for issuance pursuant to the Plan as of May 13, 2010. Awards that are made in a form other than Options or Stock-Settled Stock Appreciation Rights and that are granted under the Plan after May 13, 2010, shall be counted against the share limit set forth in the previous sentence as 1.61 shares for every one share issued in connection with such Award. Such shares shall be provided from shares of Common Stock authorized but not issued. Stock-Settled Stock Appreciation Rights shall be counted in full against the number of shares available for award under the Plan, regardless of the number of Exercise Gain Shares issued upon settlement of the Stock Appreciation Right.

If any shares of Common Stock subject to an Award are forfeited, cancelled, exchanged or surrendered or if an Award otherwise terminates or expires without a distribution of shares to the Participant (including by reason of such Award being settled in cash), the shares with respect to such Award shall, to the extent of any such forfeiture, cancellation, exchange, surrender, termination or expiration, again be available for Awards under the Plan; provided, however, in the case of a stock-based Award that is not an Option or Stock Appreciation Right and that was made after May 13, 2010, 1.61

shares for each share underlying such Award shall again be available for Awards under the Plan. Notwithstanding the foregoing, the following shares of Common Stock may not again be made available for award under the Plan: (i) shares of Common Stock not issued or delivered as a result of the net settlement of an outstanding Stock Appreciation Right or Option; (ii) shares of Common Stock used to pay the exercise price or withholding taxes related to an outstanding award, or (iii) shares of Common Stock repurchased on the open market with proceeds of an Option exercise.

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, Stock Appreciation Rights, Restricted Shares, Restricted Stock Units and Performance Share Units in the same year, shall exceed 1,000,000 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 Award 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 Retention Agreement that may be required by the Committee under Section 12 of the Plan.

Except for adjustments pursuant to Section 15 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, nor may an outstanding Option be cancelled in exchange for cash or another Award, 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 15 of the Plan, in no event shall the Option price be less than the greater of (i) one hundred percent (100%) of the Fair Market Value of the Common Stock on the date the Option is granted, or (ii) the price at which the Corporation's Common Stock was last sold in the principal United States market for such Common Stock on the Award Date.

(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.

(d) Non-Transferability of Options - Options may be exercised during the lifetime of the Optionee only by him, and following his death only by his Beneficiary. If a Beneficiary dies after the Optionee, but before the Option is exercised and before such rights expire, such rights shall become



assets of such Beneficiary's estate. Except as provided in this paragraph, Options may not be assigned or alienated, whether voluntarily or involuntarily.

(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 six (6) 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 Award Agreement, 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 the term for which the Option was granted, 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, as adjusted under Code Section 422(d)(1) and corresponding Treasury Regulations.

## **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 Award 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) through (g) of Section 6 of the Plan. The limitations set forth in paragraph (h) 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 Retention Agreement that may be required by the Committee under Section 12 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, or on a stand alone basis, as determined by the Committee, subject to the terms and conditions set forth in this Section 8. If granted in connection with an Option, 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. If granted in connection with an Option, the Stock Appreciation Right shall be evidenced by provisions in the Award Agreement evidencing or 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. If granted on a stand alone basis, the Stock Appreciation Right shall be evidenced by provisions of a written Award Agreement between the Corporation and the Participant. The Committee may grant Cash-Settled Stock Appreciation Rights or Stock-Settled Stock Appreciation Rights as shall be set forth in an Award Agreement.

Except for adjustments pursuant to Section 15 of the Plan, the terms of an outstanding Stock Appreciation Right may not be amended to reduce the exercise price of the Stock Appreciation Right, nor may an outstanding Stock Appreciation Right be modified or replaced if the effect would be to reduce the exercise price, nor may an outstanding Stock Appreciation Right be cancelled in exchange for cash or another Award, 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) Exercise Price and Duration - The Committee shall determine the exercise price for any Stock Appreciation Right granted on a stand alone basis but, subject to the provisions of Section 15 of the Plan, in no event shall the exercise price be less than one hundred percent (100%) of the Fair Market Value of the Common Stock on the date the Stock Appreciation Right is granted. The Committee shall fix the term or duration of Stock Appreciation Rights, provided that such term shall not exceed ten (10) years from the date the Stock Appreciation Right is granted, and that such term shall be subject to earlier termination pursuant to the provisions of paragraph (e) of this Section 8.

(c) Exercise - If granted in connection with an Option, 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. If granted on a stand alone basis, a Stock Appreciation Right shall be exercisable only at such time or times, to such extent, and by such persons, as shall be set forth in the Award Agreement.

Stock Appreciation Rights shall be subject to the following restrictions:

(i) the Stock Appreciation Right may 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; and,

(ii) 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 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. If the Stock Appreciation Right was granted in connection with an Option, the Participant must surrender the related Option, or the portion thereof pertaining to the shares with respect to which the Stock Appreciation Right is exercised, and 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.

(d) Payment - Upon the proper exercise of a Stock-Settled Stock Appreciation Right granted on a stand alone basis, a Participant 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 Fair Market Value of a share of Common Stock on the grant date, multiplied by the number of Stock-Settled Stock Appreciation Rights surrendered in connection with the exercise of the Stock Appreciation Right.

Upon the proper exercise of a Stock-Settled Stock Appreciation Right granted in connection with an Option, an 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 Retention Agreement that may be required by the Committee under Section 12 of the Plan.

Upon the proper exercise of a Cash-Settled Stock Appreciation Right granted on a stand alone basis, a Participant shall be entitled to receive cash equal to the value of 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 Fair Market Value on the grant date, multiplied by the number of Cash-Settled Stock Appreciation Rights surrendered for settlement.

Upon the proper exercise of a Cash-Settled Stock Appreciation Right granted in connection with an Option, an Optionee shall be entitled to receive cash equal to the value of 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.

(e) Termination of Right - A Stock Appreciation Right granted in connection with an Option shall expire, unless previously exercised or canceled, upon the expiration of an Option to which it relates, or upon such time as may be set forth in an Award Agreement. A Stock Appreciation Right granted on a stand alone basis shall be subject to the termination provisions set forth in paragraph (g) of Section 6 for Options and shall expire, unless previously exercised or cancelled, at such time as may be set forth in an Award Agreement.

(f) Effect of Exercise - A Stock Appreciation Right shall be canceled when, and to the extent that, it or a 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 pursuant to an Award Agreement. A certificate or certificates representing the number of Restricted Shares granted shall be registered in the name of the Participant or held in uncertificated form through a direct registration system or the number of Restricted Shares shall be delivered by electronic delivery to a brokerage account established for the Participant's benefit at a financial/brokerage firm selected by the Corporation. Until the expiration of the Restriction Period or the lapse of restrictions in the manner provided in paragraph (g) of this Section 9, any certificate or certificates shall be held by the Corporation for the account of the Participant, and any Restricted Shares held through direct registration or in a brokerage account shall be blocked from sale or transfer. Until the expiration of the Restriction Period or the lapse of restrictions in the manner provided in paragraph (g) of this Section 9, 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. Any dividends declared during the Restriction Period shall be paid in cash on the date declared by the Board of Directors.

(b) Performance Goal Requirement - The Committee may determine, in its sole discretion, that a Participant's entitlement to Restricted Shares shall be subject to achievement of a specified Performance Goal or Goals during the Restriction Period. If so, the Committee shall select the Performance Criterion or each combination thereof, the Performance Goal for each Performance Criterion or each combination thereof, and the Performance Criteria Weighting Percentage for each Performance Criterion or each combination thereof within ninety (90) days of the commencement of the Restriction Period. The Committee may also determine that the Restriction Period shall expire upon achievement of established Performance Goals prior to the established end of the Restriction Period. In determining whether Performance Goals have been achieved, special charges, restructuring charges and unusual or infrequent accounting adjustments which are significant, and restatements or reclassifications, all as determined in accordance with Generally Accepted Accounting Principles, which would have the effect of reducing the percentage of Performance Goals achieved shall be excluded, and which would have the effect of

increasing the percentage of Performance Goals achieved shall be included, unless the Committee, in its discretion, determines otherwise. At such time as the Committee certifies that the Performance Goals have been achieved, the Committee shall authorize delivery of Restricted Shares (or such percentage of the Restricted Shares as equal the Percentage of Performance Goals that have been achieved) for which the Restriction Period has expired. If the Restricted Shares are subject to the achievement of Performance Goals, such Restricted Shares shall be forfeited to the extent Performance Goals are not achieved before the established end of the Restriction Period.

For Restricted Shares subject to the achievement of Performance Goals, the Committee may review the individual performance of any of the Corporation's Executive Officers and may, at its discretion, reduce the number of Restricted Shares deliverable to any such Executive Officer by between 0% and 100%, based on the individual's performance. For Restricted Shares not subject to the achievement of Performance Goals, the Committee may review the individual performance of any of the Corporation's Executive Officers and may, at its discretion, adjust the number of Restricted Shares deliverable to any such Executive Officer by between 0% and 125%, based on the individual's performance. The Corporation's chief executive officer may review the individual performance of any Participant other than an Executive Officer and may, at his discretion, adjust the number of Restricted Shares deliverable to any such Participant by between 0% and 125%, based on the individual's performance.

(c) Restrictions – Until the expiration of the Restriction Period or the lapse of restrictions in the manner provided in paragraph (g) 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, or exercise any ownership over any Restricted Shares held through direct registration or in a brokerage account;
- (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 as provided in paragraphs (b) or (e) of this Section 9, subject to the provisions of paragraph (f) and (g) of this Section 9.

(d) 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, or, in the case of a Participant who is a non-employee director, who remains a non-employee director during the entire Restriction Period, upon the expiration of the Restriction Period all restrictions applicable to the Restricted Shares shall lapse. When the restrictions applicable to the Restricted Shares lapse, either:

- (i) the certificate or certificates representing the shares of Common Stock that were earned pursuant to paragraph (b) of this Section 9 shall be delivered to the Participant or,
- (ii) if the shares were delivered by electronic delivery to a brokerage account established for the Participant's benefit or by direct registration and held in uncertificated form, the restrictions on the sale or transfer of any shares that were earned pursuant to paragraph (b) of this Section 9 shall lapse.

(e) 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 with respect to such shares shall terminate immediately without further obligation on the part of the Corporation or any Subsidiary Company. If the Participant is granted a leave of absence before the expiration of the Restriction Period, the Participant shall not forfeit any rights with respect to any Restricted Shares subject to the Restriction Period, 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 for any reason other than Retirement, Disability, or death, at which time the shares shall be forfeited immediately and all rights of the Participant with respect to such shares shall terminate immediately without further obligation on the part of the Corporation or any Subsidiary Company.

(f) Retirement, Disability or Death - 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 and no Performance Goals have been imposed, the restrictions on the Restricted Shares shall lapse upon the expiration of the Restriction Period and delivery of the Restricted Shares shall be made to the Participant, or the Participant's Beneficiary in the event of the Participant's death, as described in paragraph (d) of this Section 9. 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 and Performance Goals have been imposed, the restrictions on the Restricted Shares shall lapse upon the expiration of the Restriction Period and to the extent that the Committee certifies that Performance Goals have been achieved and delivery of the Restricted Shares shall be made to the Participant, or the Participant's Beneficiary in the event of the Participant's death, in accordance with paragraphs (b) and (d) of this Section 9.

(g) Waiver of Restrictions - The Committee, in its sole discretion, may waive any or all restrictions with respect to Restricted Shares.

## **Section 10. RESTRICTED STOCK UNITS**

(a) General - The Committee, in its sole discretion, may from time to time authorize the grant of Restricted Stock Units ("Units") to a Participant pursuant to an Award Agreement. Such Units shall be recorded in individual memorandum accounts maintained by the Committee or its agent. The grant of Restricted Stock Units shall entitle the Participant to payment in Restricted Stock Unit Shares or cash, as provided for in the Award Agreement. The Participant shall have no beneficial ownership interest in the Common Stock represented by the Units prior to expiration of the Restriction Period and achievement of any Performance Goals. The Participant shall have no right to vote the Common Stock represented by the Units or to receive dividends (except for any Dividend Equivalents which may be awarded by the Committee in connection with such Units) on the Common Stock represented by the Units. The grant of Units shall be evidenced by an Award Agreement between the Corporation or Subsidiary Company and the Participant, identifying the number of Units awarded, and setting forth the terms and conditions applicable to the Units.

(b) Performance Goal Requirement - The Committee may determine, in its sole discretion, that a Participant's entitlement to payment in cash or Restricted Stock Unit Shares for Restricted Stock Units shall be subject to achievement of a specified Performance Goal or Goals over the duration of the

Restriction Period. If so, the Award shall specify when it is granted that the Participant's entitlement to payment is subject to the achievement of the Performance Goal or Goals, and the Committee shall select the Performance Criterion or each combination thereof, the Performance Goals for each Performance Criterion or each combination thereof, and the Performance Criteria Weighting Percentage for each Performance Criterion or each combination thereof within ninety (90) days after the commencement of the Restriction Period.

The Committee may specify, when the Award is granted, that the Restriction Period shall expire upon achievement of the established Performance Goals prior to the established end of the Restriction Period. In determining whether Performance Goals have been achieved, special charges, restructuring charges and unusual or infrequent accounting adjustments which are significant, and restatements or reclassifications, all as determined in accordance with Generally Accepted Accounting Principles, which would have the effect of reducing the percentage of Performance Goals achieved shall be excluded, and which would have the effect of increasing the percentage of Performance Goals achieved shall be included, unless the Committee, in its discretion, determines otherwise. The Committee shall certify in writing the extent to which the Performance Goals have been achieved, and shall authorize settlement of Units in cash or Restricted Stock Unit Shares. The Units shall be settled within two and one half months after the end of the year in which the Performance Goals are achieved. Such settlement shall be based on the Fair Market Value on the date all applicable restrictions lapse (or such percentage of the value of the Restricted Stock Units as equal the percentage of Performance Goals that have been achieved) for which the Restriction Period has expired. If the settlement of Restricted Stock Units is subject to the achievement of Performance Goals, such Restricted Stock Units shall be forfeited to the extent Performance Goals are not achieved before the established end of the Restriction Period.

For Restricted Stock Units subject to the achievement of Performance Goals, the Committee may review the individual performance of any of the Corporation's Executive Officers and may, at its discretion, reduce the cash settlement or number of Restricted Stock Unit Shares delivered for the Restricted Stock Units granted to any such Executive Officer by between 0% and 100%, based on the individual's performance. For Restricted Stock Units not subject to the achievement of Performance Goals, the Committee may review the individual performance of any of the Corporation's Executive Officers and may, at its discretion, adjust the cash settlement or number of Restricted Stock Unit Shares delivered for the Restricted Stock Units granted to any such Executive Officer by between 0% and 125%, based on the individual's performance. The Corporation's chief executive officer may review the individual performance of any Participant other than an Executive Officer and may, at his discretion, adjust the cash settlement or number of Restricted Stock Unit Shares delivered for the Restricted Stock Units granted to any such Participant by between 0% and 125%, based on the individual's performance.

(c) Restrictions - Until the expiration of the Restriction Period and the lapse of any Retention Agreement provided in Section 12, 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 grant of Units to a Participant shall not entitle a Participant to receive cash payment or Restricted Stock Unit Shares;
- (ii) the Units may not be sold, transferred, assigned, pledged, conveyed, hypothecated, or otherwise disposed of; and,

(iii) all or a portion of the Units may be forfeited immediately as provided in paragraph (b) or (c) of this Section 10, subject to the provisions of paragraphs (f) and (g) of this Section 10.

(d) Distribution of Restricted Stock Units - If a Participant to whom Units have been granted remains in the continuous employment of the Corporation or a Subsidiary Company during the entire Restriction Period or, in the case of a Participant who is a non-employee director, who remains a non-employee director during the entire Restriction Period, upon the expiration of the Restriction Period and the expiration of any Retention Agreement applicable to such Units, all restrictions applicable to the Units shall lapse, and the Units shall be settled in cash or in Restricted Stock Unit Shares, based on Fair Market Value on the later of the date all applicable restrictions lapse or any Retention Agreement lapses. Settlement in cash in a single sum or issuance of Restricted Stock Unit Shares shall be made within thirty (30) days following the later of the expiration of the Restriction Period or any Retention Agreement applicable to such Units. The Participant may not, directly or indirectly, designate the taxable year of the settlement.

(e) 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 Units shall be forfeited immediately and all rights of the Participant with respect to such Units shall terminate immediately without further obligation on the part of the Corporation or any Subsidiary Company. If the Participant is granted a leave of absence before the expiration of the Restriction Period, the Participant shall not forfeit all rights with respect to any Units subject to the Restriction Period, 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 for any reason other than Retirement, Disability, or death, at which time all rights of the Participant with respect to such Units shall terminate immediately without further obligation on the part of the Corporation or any Subsidiary Company.

(f) Retirement, Disability or Death - 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 and no Performance Goals have been imposed, the restrictions on the Restricted Stock Units shall lapse upon the expiration of the Restriction Period and settlement of Restricted Stock Units shall be made at the end of the Restriction Period to the Participant, or his Beneficiary in the event of the Participant's death, as described in paragraph (d) of this Section 10. Settlement of the Restricted Stock Units shall be made within thirty (30) days following the expiration of the Restriction Period. The Participant or Beneficiary may not, directly or indirectly, designate the taxable year of the settlement.

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 and Performance Goals have been imposed, the restrictions on the Restricted Stock Units shall lapse if the Committee certifies that Performance Goals have been achieved, and settlement of the Restricted Stock Units shall be made to the Participant, or the Participant's Beneficiary in the event of the Participant's death, in accordance with paragraphs (b) and (d) of this Section 10.

(g) Waiver of Restrictions - The Committee, in its sole discretion, may waive any or all restrictions with respect to Units. If no Performance Goals have been imposed, settlement of the Units shall be made on the same settlement date that would have applied absent the waiver of restrictions. If



Performance Goals have been imposed, settlement of the Units shall be made within two and one half months after the end of the year in which all restrictions are either waived or satisfied.

## **Section 11. PERFORMANCE SHARES**

(a) General - The Committee, in its sole discretion, may from time to time authorize the grant of Performance Share Units to a Participant pursuant to an Award Agreement. Performance Share Units shall entitle the Participant to Performance Shares (or cash in lieu thereof) upon the achievement of Performance Goals. The Committee shall select the Performance Criteria, set the Performance Goals and assign Performance Criteria Weighting Percentages to each Performance Criterion or each combination thereof within ninety (90) days of the commencement of the Performance Cycle. Performance Share Units may not be sold, transferred, assigned, pledged, conveyed, or hypothecated.

After the end of the Performance Cycle, the Committee shall certify in writing to what extent the Performance Goals have been achieved. In determining whether Performance Goals have been achieved, special charges, restructuring charges and unusual or infrequent accounting adjustments which are significant, and restatements or reclassifications, all as determined in accordance with Generally Accepted Accounting Principles, which would have the effect of reducing the percentage of Performance Goals achieved shall be excluded, and which would have the effect of increasing the percentage of Performance Goals achieved shall be included, unless the Committee, in its discretion, determines otherwise. The Committee shall thereafter authorize the payment to the Participant, or the Participant's Beneficiary in the event of the Participant's death after the end of the Performance Cycle, of (i) cash in lieu of Performance Shares (or such percentage of the value of the Performance Shares as equal the percentage of Performance Goals that have been achieved), or (ii) either (1) the issuance of Performance Shares registered in the name of the Participant or (2) the electronic delivery of Performance Shares to a brokerage account established for the Participant's benefit at a financial/brokerage firm selected by the Corporation (in either case equal to such percentage of the value of the Performance Shares as equal the percentage of Performance Goals that have been achieved), subject to the provisions of any Retention Agreement that may be required by the Committee under Section 12 of the Plan, or (iii) both. Settlement in cash or issuance of Performance Shares shall be made within two and one half months after the end of the year in which the Performance Goals are achieved.

(b) Individual Performance Reviews - In addition, the Committee may review the individual performance of any of the Corporation's Executive Officers and may, at its discretion, reduce the cash settlement or number of Performance Shares deliverable to any such Executive Officer by between 0% and 100%, based on the individual's performance. The Corporation's chief executive officer may review the individual performance of any Participant other than an Executive Officer and may, at his discretion, adjust the cash settlement or number of Performance Shares deliverable to any such Participant by between 0% and 125%, based on the individual's performance.

(c) Distribution or Forfeiture of Performance Shares - 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. If the Participant's employment is terminated before the end of a Performance Cycle by reason of Retirement, Disability, or death, 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 11, continue as if the Participant's employment had continued through the end of the Performance Cycle.

## **Section 12. RETENTION AGREEMENTS**

(a) General - The Committee, in its sole discretion, may require as a condition of a grant, exercise, settlement or payment with respect to any Award under the Plan that the Participant and the Corporation enter into a Retention Agreement, which shall provide, (1) with respect to an Award of Restricted Stock Units, that the settlement of the Restricted Stock Units in Restricted Stock Unit Shares or cash shall not occur until the event specified in the Retention Agreement that is part of the Award, or (2) with respect to any portion of any Exercise Gain Shares, Restricted Shares, Restricted Stock Unit Shares, or Performance Shares, that (i) the certificate or certificates representing any such Awards, 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 Retention Agreement has expired or has been waived by the Committee, whichever occurs first, or (ii) that any such Award, when delivered by electronic delivery to a brokerage account established for the Participant's benefit at a financial/brokerage firm selected by the Corporation or by direct registration and held in uncertificated form, shall not be permitted to be transferred or sold until such time as the retention period specified by the Retention Agreement has expired or has been waived by the Committee, whichever occurs first.

Any dividends payable on shares subject to a Retention Agreement shall be paid to the Participant in cash on the date declared by the Board of Directors. Each Retention Agreement may include some or all of the terms, conditions and restrictions set forth in paragraphs (b) through (e) of this Section 12.

(b) Retention Period - Shares that are subject to the 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 following the exercise date (in the case of Exercise Gain Shares) or the date of issuance (in the case of Restricted Shares, Restricted Stock Unit Shares, or Performance Shares), as shall be prescribed by the Committee.

(c) 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, shares subject to the Retention Agreement shall continue to be held, following the Participant's termination of employment, until the expiration of the retention period specified by the Retention Agreement. If the Participant's employment is terminated by reason of Retirement or Disability, shares then held subject to the 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 shares are subject to a retention period under the Retention Agreement, such retention period shall expire immediately at the time of death.

(d) Leave of Absence - If a Participant is granted a leave of absence, shares subject to the Retention Agreement shall continue to be held during the leave of absence, until the expiration of the retention period specified by the Retention Agreement.

(e) Change in Control - Upon a Change in Control, the retention periods specified by all Retention Agreements shall immediately expire; provided, however, that any such waiver shall not accelerate the settlement of any Restricted Stock Units in a manner that would violate the requirements of Code Section 409A.

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) (A) any consolidation or merger of the Corporation occurs 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 occurs; 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 Retention Agreement pursuant to this paragraph (f) 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 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.

(g) Waiver of Requirements - The Committee, in its sole discretion, may waive any or all retention periods or other restrictions in the Share Retention Agreement, provided that the waiver of restrictions does not accelerate the payment of any Restricted Stock Units in a manner that would violate the requirements of Code Section 409A.

(f) Distribution of Shares and Restricted Stock Units - The Corporation shall cause the shares subject to a Retention Agreement to be distributed to the Participant, or the Participant's Beneficiary in the event of the Participant's death, upon expiration of the retention period or other termination or waiver of the restrictions under this Section 12. The Corporation shall cause the Restricted Stock Units subject to a Retention Agreement to be distributed to the Participant upon the expiration of the retention period or to the Participant's Beneficiary in the event of the Participant's death.

### **Section 13. DIVIDEND EQUIVALENT PAYMENTS**

The Committee may authorize the immediate payment, in cash or in Common Stock, of Dividend Equivalents on some or all of the shares of Common Stock covered by Options or Stock Appreciation Rights, as specified in the Award Agreement required under Section 6(a), Section 7 or Section 8(a) of the Plan. Dividend Equivalents payable on options may be paid in cash or Common Stock, at the discretion of the Committee.

The Committee may authorize the immediate or deferred payment of Dividend Equivalents on some or all of the shares of Common Stock covered by Restricted Stock Units that are not subject to Performance Goals, as specified in the Award Agreement required under Section 10 of the Plan. Dividend Equivalents payable on Restricted Stock Units may be paid in cash or converted to additional Restricted Stock Units, at the discretion of the Committee and as specified in the Award Agreement.

The Committee may authorize the deferred payment of Dividend Equivalents on some or all of the shares of Common Stock covered by Restricted Stock Units that are subject to Performance Goals, or by Performance Share Units, as specified in the Award Agreement described in Sections 10 or 11 of the Plan. Deferred Dividend Equivalents shall be paid only to the extent Performance Goals are achieved with respect to such Performance Share Units or Restricted Stock Units, and shall be distributed at the same time as the underlying Performance Shares, Restricted Stock Unit Shares, or cash equivalents thereto. Deferred Dividend Equivalents payable on Performance Share Units or on Restricted Stock Units that are subject to a Performance Goal may be paid in cash, or converted to additional Performance Shares or Restricted Stock Unit Shares (as applicable), at the discretion of the Committee and as specified in the Award Agreement.

Notwithstanding the above, Dividend Equivalents shall not be made or accumulated during a Participant's leave of absence. If Dividend Equivalents provided under this section are to be paid immediately, the Dividend Equivalents shall be paid in cash on the date declared by the Board of Directors for the payment of dividends on Common Stock. If Dividend Equivalents provided under this section are to be deferred, the deferred Dividend Equivalents shall be paid or forfeited when the underlying Award is paid or forfeited.

### **Section 14. NON-COMPETE COVENANT**

The Committee, in its sole discretion, may require as a condition of a grant of any Award under the Plan that the Participant execute a non-compete, non-solicitation and confidentiality agreement, which agreement shall require that such individual (i) not Engage in Competing Employment (as defined in this

Section 14 of the Plan) nor solicit any employee of the Corporation or a Subsidiary Company to Engage in Competing Employment for a specified term following termination of employment (including Retirement), (ii) not solicit customers of the Corporation or a Subsidiary Company for a specified term following termination of employment (including Retirement), and (iii) maintain the Corporation's and each Subsidiary Company's confidential information in strict confidence, in accordance with the provisions of the agreement. The Committee, in its sole discretion, may further require as a condition of a grant, exercise, settlement or payment with respect to any Award under the Plan that the Award shall be subject to immediate forfeiture, and all rights of the Participant to such Award shall terminate immediately without further obligation on the part of the Corporation or any Subsidiary Company, if the Participant Engages in Competing Employment for a specified period of time following termination of employment. The terms of such a non-compete covenant shall be as set forth in the agreement or grant providing the terms of an Award and are incorporated herein by reference. A non-compete covenant shall not apply to the settlement or payment of any Option (although it may apply to the grant or exercise of an Option). Settlement or payment of any other Award that is subject to a non-compete covenant shall occur upon the expiration of the Restriction Period, Performance Cycle, Retention Agreement, or other date upon which the Award would be settled and paid if the Participant had not terminated employment.

For purposes of the provision, "Engages in Competing Employment" shall mean to work for or provide services for any Competitor, on the Participant's own behalf or in the service of or on behalf of others, including, but not limited to, as a consultant, independent contractor, owner, officer, partner, joint venturer, or employee, at any time during the specified period commencing on the date of his or her termination of employment (including Retirement). "Competitor" shall mean any entity in the same line of business as the Corporation in North American markets in which the Corporation competes, including, but not limited to, any North American Class I rail carrier, any other rail carrier competing with the Corporation (including without limitation a holding or other company that controls or operates or is otherwise affiliated with any rail carrier competing with the Corporation), and any other provider of transportation services competing with Corporation, including motor and water carriers.

## **Section 15. 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 Shares, Restricted Stock Units, 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 16. REGULATORY APPROVALS**

The exercise of each Option and Stock Appreciation Right, and the grant or distribution of Restricted Shares, Restricted Stock Units 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 17. 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 amended on May 13, 2010, 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 Section 18 of this Plan 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 18. 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 (a) 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, (b) the amendment materially increases the benefits accruing to Participants under the Plan, (c) materially increases the number of securities that may be issued under the Plan, or (d) materially modifies the requirements for participation in the Plan.

## **Section 19. FORFEITURE AND RECOUPMENT EVENTS**

The Committee may specify in an Award Agreement that the Participant's rights, payments, and benefits with respect to an Award shall be subject to reduction, forfeiture, or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award.

Any Award to a Participant under this Plan is subject to reduction, forfeiture, or recoupment to the extent provided under Section 304 of the Sarbanes-Oxley Act of 2002 or as may be provided under any other applicable law.

## Section 20.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, the payment of a dividend equivalent in Common Stock pursuant to Section 13 of the Plan or the withholding of shares of Common Stock for payment of taxes required to be withheld, 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. The Corporation shall have the right to withhold shares of Common Stock, including fractional shares, from payment as necessary to satisfy any withholding obligations, but may only withhold the minimum number of shares necessary to do so. If fractional shares are withheld, any remaining fractional shares shall be paid in cash to the Participant as provided under paragraph (a) of this Section 20. The Participant or Beneficiary shall remain responsible at all times for paying any Federal, state or local taxes of any kind with respect to Awards under the Plan. In no event shall the Corporation or the Committee be liable for any interest or penalty that a Participant or Beneficiary incurs by failing to make timely payments of tax.

(c) Acceleration of Payments to Avoid Conflicts of Interest. To the extent permitted by Code Section 409A and not prohibited by Section 6(a) of the Plan, the Committee may, in its sole discretion and with the consent of a Participant or Beneficiary, accelerate the time or schedule of a payment under the Plan, or make a substitute cash payment upon cancellation of a Participant's Award, in either case to the extent reasonably necessary for a Participant or Beneficiary to avoid the violation of an applicable Federal, state, local or foreign ethics law or conflicts of interest law (including where such payment is reasonably necessary to permit the Participant or Beneficiary to participate in activities in the normal course of his or her position in which the Participant or Beneficiary would otherwise not be able to participate under an applicable rule). The Corporation's chief executive officer may exercise the authority granted to the Committee in this paragraph with respect to any Participant or Beneficiary who is neither a current or former director of the Corporation nor a current Executive Officer of the Corporation.

(d) 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. A Participant's right to receive Dividend Equivalents shall not, by itself, confer upon the Participant the rights or privileges of a stockholder.

(e) 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.

(f) 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, Performance Share Units, or 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 an Option, Stock Appreciation Right, Performance Share Unit, or Restricted Stock Unit. Any liability of the Corporation to pay any Participant or Beneficiary with respect to an Option, Stock Appreciation Right, Performance Share Unit, or 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.

(g) 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.

(h) 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.

(i) Code Section 409A - The Plan is intended, and shall be construed, to comply with the requirements of Code Section 409A. The Corporation does not warrant that the Plan will comply with Code Section 409A with respect to any Participant or with respect to any payment, however. In no event shall the Corporation or the Committee be liable for any additional tax, interest, or penalty incurred by a Participant or Beneficiary as a result of the Plan's failure to satisfy the requirements of Code Section 409A, or as a result of the Plan's failure to satisfy any other applicable requirements for the deferral of tax.



The Board of Directors  
Norfolk Southern Corporation:

Re: Registration Statement Nos. 33-52031, 333-71321, 333-60722, 333-100936,  
333-109069 and 333-168414 on Form S-8 and 333-179569 on Form S-3.

With respect to the subject registration statements, we acknowledge our awareness of the use therein of our report dated July 24, 2013 related to our review of interim financial information.

Pursuant to Rule 436(c) under the Securities Act of 1933 (the Act), such report is not considered part of a registration statement prepared or certified by an independent registered public accounting firm, or a report prepared or certified by an independent registered public accounting firm within the meaning of Sections 7 and 11 of the Act.

/s/KPMG LLP  
KPMG LLP  
Norfolk, Virginia  
July 24, 2013

## CERTIFICATIONS

I, Charles W. Moorman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Norfolk Southern Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: July 24, 2013

/s/ Charles W. Moorman

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Charles W. Moorman  
Chairman and Chief Executive Officer

## CERTIFICATIONS

I, John P. Rathbone, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Norfolk Southern Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: July 24, 2013

/s/ John P. Rathbone

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John P. Rathbone

Executive Vice President Finance and Chief Financial Officer

CERTIFICATIONS OF CEO AND CFO REQUIRED BY RULE 13a-14(b) OR RULE  
15d-14(b) AND SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE U.S. CODE

I certify, to the best of my knowledge, that the Quarterly Report on Form 10-Q for the period ended June 30, 2013, 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-Q fairly presents, in all material respects, the financial condition and results of operations of Norfolk Southern Corporation.

Signed: /s/ Charles W. Moorman  
Charles W. Moorman  
Chairman and Chief Executive Officer  
Norfolk Southern Corporation

Dated: July 24, 2013

I certify, to the best of my knowledge, that the Quarterly Report on Form 10-Q for the period ended June 30, 2013, 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-Q fairly presents, in all material respects, the financial condition and results of operations of Norfolk Southern Corporation.

Signed: /s/ John P. Rathbone  
John P. Rathbone  
Executive Vice President Finance and Chief Financial  
Officer  
Norfolk Southern Corporation

Dated: July 24, 2013

