NORFOLK SOUTHERN CORP
Form 424B3
June 13, 2008

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Registration No. 333-151080

PROSPECTUS

Offer to Exchange
$600,000,000 aggregate principal amount of 5.75% Senior Notes due 2018
(CUSIP Nos. 655844 AY 4 and U65584 AA 9)
for
$600,000,000 aggregate principal amount of 5.75% Senior Notes due 2018
(CUSIP No. 655844 AZ 1)
that have been registered under the Securities Act of 1933, as amended
The exchange offer will expire at 5:00 p.m.,
New York City time, on July 12, 2008, unless extended.

We hereby offer, upon the terms and subject to the conditions set forth in this prospectus and the accompanying letter of transmittal (which together constitute the exchange offer), to exchange up to $600,000,000 aggregate principal amount of our 5.75% Senior Notes due 2018 that have been registered under the Securities Act of 1933, as amended (the

Securities Act), which we refer to as the exchange notes, for a like principal amount of our outstanding 5.75% Senior Notes due 2018, which we refer to as the original notes. The terms of the exchange offer are summarized below and are more fully described in this prospectus.

The terms of the exchange notes are substantially identical to the terms of the original notes in all material respects, except that the exchange notes are registered under the Securities Act and the transfer restrictions, registration rights and additional interest provisions applicable to the original notes do not apply to the exchange notes.

We will accept for exchange any and all original notes validly tendered and not withdrawn prior to 5:00 p.m., New York City time, on July 12, 2008, unless extended.

You may withdraw tenders of original notes at any time prior to the expiration of the exchange offer.

We will not receive any proceeds from the exchange offer.

The exchange of original notes for exchange notes generally will not be a taxable event for U.S. federal income tax purposes.

The notes will not be listed on any securities exchange, quotation system or PORTAL.

See Risk Factors beginning on page 8 to read about important factors you should consider before tendering your original notes.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is June 12, 2008.

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This prospectus contains summaries of the material terms of certain documents and refers you to certain documents that we have filed with the Securities and Exchange Commission (the SEC). See Where You Can Find More Information. Copies of these documents, except for certain exhibits and schedules, will be made available to you without charge upon written or oral request to:

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

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

No information in this prospectus constitutes legal, business or tax advice, and you should not consider it as such. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding the exchange offer.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that may be identified by the use of words like believe, expect, anticipate and project. Forward-looking statements reflect management s good-faith evaluation of information currently available. However, such statements are dependent on and, therefore, can be influenced by, a number of external variables over which management has little or no control, including: domestic and international economic conditions; interest rates; the business environment in industries that produce and consume rail freight; competition and consolidation within the transportation industry; the operations of carriers with which the company interchanges traffic; acts of terrorism or war; fluctuation in prices or availability of key materials, in particular diesel fuel; labor difficulties, including strikes and work stoppages; legislative and regulatory developments; results of litigation; changes in securities and capital markets; disruptions to the company s technology infrastructure, including computer systems; and natural events such as severe weather, hurricanes and floods. For a discussion of significant risk factors applicable to the company, see Risk Factors on page 8 of this prospectus. 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.

SUMMARY

The following is a summary of the more detailed information appearing elsewhere in this prospectus. It does not contain all of the information that may be important to you. You should read this prospectus in its entirety and the documents to which we have referred you, especially the risks of participating in the exchange offer discussed under Risk Factors, before participating in the exchange offer. Except as otherwise indicated or unless the context otherwise requires, Norfolk Southern Corporation, Norfolk Southern, NS, we, us, our and our company refer to Norfolk Southern Corporation and its subsidiaries. Unless otherwise indicated, information is presented as of March 31, 2008.

Our Company

We are a Norfolk, Virginia based corporation that controls a major freight railroad, Norfolk Southern Railway Company. Norfolk Southern Railway Company is primarily engaged in the rail transportation of raw materials, intermediate products and finished goods primarily in the Southeast, East and Midwest and, via interchange with other rail carriers, to and from the rest of the United States. We also transport overseas freight through several Atlantic and Gulf Coast ports. We provide comprehensive logistics services and offer the most extensive intermodal network in the eastern half of the United States. Our common stock is listed on the New York Stock Exchange, or NYSE, under the symbol NSC.

We were incorporated on July 23, 1980, under the laws of the Commonwealth of Virginia. On June l, 1982, we acquired control of two major operating railroads, Norfolk and Western Railway Company, or NW, and Southern Railway Company, or Southern, in accordance with an Agreement of Merger and Reorganization dated as of July 31, 1980, and with the approval of the transaction by the Interstate Commerce Commission (now the Surface Transportation Board, or STB). Effective December 31, 1990, we transferred all the common stock of NW to Southern, and Southern s name was changed to Norfolk Southern Railway Company, which we refer to in this prospectus as Norfolk Southern Railway or NSR. Effective September 1, 1998, NW was merged with and into Norfolk Southern Railway. As of March 31, 2008, all the common stock of Norfolk Southern Railway was owned directly by us.

Through a limited liability company, we, along with CSX Corporation, or CSX, jointly own Conrail Inc., or Conrail, whose primary subsidiary is Consolidated Rail Corporation, or 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. CRC owns and operates certain properties (which we refer to in this prospectus as the Shared Assets Areas) for the joint and exclusive benefit of NSR and CSX Transportation Inc. (see Note 4 to the Consolidated Financial Statements elsewhere in this prospectus).

Our executive offices are located at Three Commercial Place, Norfolk, Virginia 23510-2191, and our telephone number is (757) 629-2600.

Recent Developments

On May 15, 2008, we and Pan Am Railways, or PAR, entered into an agreement pursuant to which the parties intend to create a joint venture to which: (1) PAR will transfer its 155-mile main line track that runs between Mechanicville (Albany), N.Y., and Ayer, Mass., along with 281 miles of secondary and branch lines, including trackage rights, in Connecticut, Massachusetts, New Hampshire, New York, and Vermont, and (2) we will transfer cash and other property valued at $140 million, $87.5 million of which is expected to be invested within a three-year period in capital improvements on the rail system, such as terminal expansions, track and signal upgrades. The transaction is subject to the approval of the STB, which we and PAR will be seeking.

Summary of the Exchange Offer

On April 4, 2008, we completed the private placement of $600,000,000 aggregate principal amount of 5.75% senior notes due 2018. As part of that offering, we entered into a registration rights agreement with the initial purchasers of the original notes, dated as of April 4, 2008, in which we agreed, among other things, to deliver this prospectus to you and to use all commercially reasonable efforts to complete an exchange offer for the original notes. Below is a summary of the exchange offer.

Securities offered	Up to $600,000,000 aggregate principal amount of new 5.75% senior notes due 2018, that have been registered under the Securities Act. The form and terms of these exchange notes are identical in all material respects to those of the original notes except that the exchange notes are registered under the Securities Act and the transfer restrictions, registration rights and additional interest provisions applicable to the original notes do not apply to the exchange notes.
The exchange offer	We are offering to exchange up to $600,000,000 principal amount of our 5.75% senior notes due 2018 that have been registered under the Securities Act for a like principal amount of the original notes outstanding. You may tender original notes only in denominations of principal amount of $2,000 and any integral multiple of $1,000 in excess thereof. We will issue exchange notes as soon as practicable after the expiration of the exchange offer. In order to be exchanged, an original note must be properly tendered and accepted. All original notes that are validly tendered and not withdrawn will be exchanged. As of the date of this prospectus, there is $600,000,000 aggregate principal amount of original notes outstanding. The $600,000,000 aggregate principal amount of our original 5.75% senior notes due 2018 were offered under an indenture dated April 4, 2008.
Expiration date; Tenders	The exchange offer will expire at 5:00 p.m., New York City time, on July 12, 2008, unless we extend the exchange offer in our sole and absolute discretion. By tendering your original notes, you represent that:

you are neither our affiliate (as defined in Rule 405 under the Securities Act) nor a broker-dealer tendering notes acquired directly from us for our own account;

any exchange notes you receive in the exchange offer are being acquired by you in the ordinary course of business;

at the time of commencement of the exchange offer, neither you nor, to your knowledge, anyone receiving exchange notes from you has any arrangement or understanding with any person to participate in the distribution, as defined in the Securities Act, of the original notes or the exchange notes in violation of the Securities Act;

if you are not a participating broker-dealer, you are not engaged in, and do not intend to engage in, the distribution, as defined in the Securities Act, of the original notes or the exchange notes; and

- if you are a broker-dealer, you will receive the exchange notes for your own account in exchange for the original notes that you acquired as a result of your market-making or other trading activities and you will deliver a prospectus in connection with any resale of the exchange notes that you receive. For further information regarding resales of the exchange notes by participating broker-dealers, see the discussion under the caption Plan of Distribution.

Accrued interest on the exchange notes and original notes	The exchange notes will bear interest from the most recent date to which interest has been paid on the original notes or, if no such interest has been paid, from April 4, 2008. If your original notes are accepted for exchange, you will receive interest on the exchange notes and not on the original notes. Any original notes not tendered will remain outstanding and continue to accrue interest according to their terms.
Conditions to the exchange offer	The exchange offer is subject to customary conditions. We may assert or waive these conditions in our sole discretion. If we materially change the terms of the exchange offer, we will resolicit tenders of the original notes. See The Exchange Offer Conditions to the Exchange Offer for more information regarding conditions to the exchange offer.
Procedures for tendering original notes	Except as described in the section titled The Exchange Offer Guaranteed Delivery Procedures, a tendering holder must, on or prior to the expiration date: transmit a properly completed and duly executed letter of transmittal, including all other documents required by the letter of transmittal, to the exchange agent at the address listed in this prospectus; or if original notes are tendered in accordance with the book-entry procedures described in this prospectus, the tendering holder must transmit an agent s message to the exchange agent at the address listed in this prospectus. See The Exchange Offer Procedures for Tendering.
Special procedures for beneficial holders	If you are a beneficial holder of original notes that are registered in the name of your broker, dealer, commercial bank, trust company or other nominee, and you wish to tender in the exchange offer, you should promptly contact the person in whose name your original notes are registered and instruct that person to tender on your behalf. See The Exchange Offer Procedures for Tendering.

Guaranteed delivery procedures	If you wish to tender your original notes and you cannot deliver your original notes, the letter of transmittal or any other required documents to the exchange agent before the expiration date, you may tender your original notes by following the guaranteed delivery procedures under the heading The Exchange Offer Guaranteed Delivery Procedures.
Withdrawal rights	Tenders may be withdrawn at any time before 5:00 p.m., New York City time, on the expiration date.
Acceptance of original notes and delivery of exchange notes	Subject to the conditions stated in the section The Exchange Offer Conditions to the Exchange Offer of this prospectus, we will accept for exchange any and all original notes which are properly tendered in the exchange offer before 5:00 p.m., New York City time, on the expiration date. The exchange notes will be delivered as soon as practicable after the expiration date. See The Exchange Offer Terms of the Exchange Offer.
Material U.S. federal tax consequences	Your exchange of original notes for exchange notes pursuant to the exchange offer generally will not be a taxable event for U.S. federal income tax purposes.
Regulatory requirements	Following the effectiveness of the registration statement covering the exchange offer with the SEC, no other material federal regulatory requirement must be complied with in connection with this exchange offer.
Exchange agent	U.S. Bank Trust National Association is serving as exchange agent in connection with the exchange offer. The address and telephone number of the exchange agent are listed under the heading The Exchange Offer Exchange Agent.
Use of proceeds	We will not receive any proceeds from the issuance of exchange notes in the exchange offer. We have agreed to pay all expenses incidental to the exchange offer other than commissions and concessions of any broker or dealer and certain transfer taxes and will indemnify holders of the notes, including any broker- dealers, against certain liabilities, including liabilities under the Securities Act.
Resales	Based on interpretations by the staff of the SEC as detailed in a series of no-action letters issued to third parties, we believe that the exchange notes issued in the exchange offer may be offered for resale, resold or otherwise transferred by you without compliance with the registration and prospectus delivery requirements of the Securities Act as long as: you are acquiring the exchange notes in the ordinary course of your business; you are not participating, do not intend to participate and have no arrangement or understanding with any person to participate, in a distribution of the exchange notes; and

- you are neither an affiliate of ours nor a broker-dealer tendering notes acquired directly from us for your own account.

If you are an affiliate of ours, are engaged in or intend to engage in or have any arrangement or understanding with any person to participate in the distribution of the exchange notes:

- you cannot rely on the applicable interpretations of the staff of the SEC; and
- you must comply with the registration requirements of the Securities Act in connection with any resale transaction.

Each broker or dealer that receives exchange notes for its own account in exchange for original notes that were acquired as a result of market-making or other trading activities must acknowledge that it will comply with the registration and prospectus delivery requirements of the Securities Act in connection with any offer to resell, resale, or other transfer of the exchange notes issued in the exchange offer, including the delivery of a prospectus that contains information with respect to any selling holder required by the Securities Act in connection with any resale of the exchange notes. Furthermore, any broker-dealer that acquired any original notes directly from us:

- may not rely on the applicable interpretation of the staff of the SEC s position contained in *Exxon Capital Holdings Corp.*, SEC no-action letter (April 13, 1988), *Morgan, Stanley & Co. Inc.*, SEC no-action letter (June 5, 1991), and *Shearman & Sterling*, SEC no-action letter (July 2, 1993); and
- must also be named as a selling holder in connection with the registration and prospectus delivery requirements of the Securities Act relating to any resale transaction.

As a condition to participation in the exchange offer, each holder will be required to represent that it is not our affiliate or a broker-dealer that acquired the original notes directly from us.

Consequences of not exchanging original notes

If you do not exchange your original notes in the exchange offer, you will continue to be subject to the restrictions on transfer described in the legend on your original notes. In general, you may offer or sell your original notes only:

- if they are registered under the Securities Act and applicable state securities laws;
- if they are offered or sold under an exemption from registration under the Securities Act and applicable state securities laws; or
- if they are offered or sold in a transaction not subject to the Securities Act and applicable state securities laws.

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Although your original notes will continue to accrue interest, they will retain no rights under the registration rights agreement. We currently do not intend to register the original notes under the Securities Act. Under some circumstances, holders of the original notes, including holders who are not permitted to participate in the exchange offer or who may not freely sell exchange notes received in the exchange offer, however, may require us to file, and to cause to become effective, a shelf registration statement covering resales of the original notes by these holders. For more information regarding the consequences of not tendering your original notes and our obligations to file a shelf registration statement, see The Exchange Offer Consequences of Exchanging or Failing to Exchange the Original Notes and The Exchange Offer Registration Rights Agreement.

Risk factors	See Risk Factors and the other information in this prospectus for a discussion of factors you should consider carefully before deciding to participate in the exchange offer.

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Summary of the Terms of the Exchange Notes

The following is a summary of the terms of the exchange notes. The form and terms of the exchange notes are identical in all material respects to those of the original notes except that the exchange notes are registered under the Securities Act and the transfer restrictions, registration rights and additional interest provisions applicable to the original notes do not apply to the exchange notes. The exchange notes will evidence the same debt as the original notes and will be governed by the same indenture. When we refer to the terms of note or notes in this prospectus, we are referring to the original notes and the exchange notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. For a more detailed description of the terms and conditions of the exchange notes, see the section of this prospectus entitled Description of Notes.

Issuer	Norfolk Southern Corporation.
Securities offered	$600,000,000 aggregate principal amount of 5.75% senior notes due 2018.
Maturity	April 1, 2018.
Interest	Interest will accrue on the notes at the rate of 5.75% per annum, and will be payable in cash semi-annually in arrears on April 1 and October 1 of each year, commencing October 1, 2008. Interest on the notes will be computed on the basis of a 360-day year comprised of twelve 30-day months.
Ranking	The notes will be unsecured obligations of Norfolk Southern and will rank on parity with each other and with all of our other unsecured and unsubordinated indebtedness.
Optional Redemption	We may redeem some or all of the notes, in whole or in part, at any time, from time to time, at the redemption prices set forth in the indenture, as summarized in this prospectus. See Description of Notes Optional Redemption.
Change of Control Repurchase Event	Upon the occurrence of a Change of Control Repurchase Event (as defined herein), each holder of notes may require us to repurchase all or a portion of such holder s notes at a purchase price equal to 101% of the aggregate principal amount thereof, plus accrued interest to the repurchase date. See Description of Notes Change of Control Repurchase Event.
Certain covenants	The indenture governing the notes will contain covenants that, among other things, will limit our ability to consolidate, merge or transfer all or substantially all of our assets.

RISK FACTORS

You should carefully consider each of the following risk factors and all of the other information set forth in this prospectus before making any investment decision. The risk factors generally have been separated into three groups: (i) risks relating to our business; (ii) risks relating to the exchange notes; and (iii) risks relating to the exchange offer. Based on the information currently known to us, we believe that the following information identifies the most significant risk factors affecting our company and the exchange offer. However, the risks and uncertainties are not limited to those set forth in the risk factors described below. Additional risks and uncertainties not presently known to us or that we currently believe to be less significant than the following risk factors may also adversely affect our business. In addition, past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods.

Risks Relating to Our Business

We are subject to significant governmental regulation and legislation over commercial, environmental and operating matters.

Railroads are subject to commercial regulation by the Surface Transportation Board, or STB, which has jurisdiction over some routes, fuel surcharges, conditions of service and the extension or abandonment of rail lines. The STB also has jurisdiction over the consolidation, merger or acquisition of control of and by rail common carriers. In addition, Congress could enact re-regulation legislation. Economic re-regulation of the rail industry by Congress could have a significant negative impact on our ability to determine prices for rail services, reduce capital spending on our rail network, and result in a material adverse effect in the future on our financial position, results of operations or liquidity in a particular year or quarter.

Railroads are subject to safety and security regulation by the U.S. Department of Transportation, or DOT, and the U.S. Department of Homeland Security, or DHS, which regulate most aspects of our operations. Proposed amendments to federal rail safety statutes, if enacted, could add significantly to operating costs and increase the number of employees we and other railroads employ. In addition, our failure to comply with applicable laws and regulations could have a material adverse effect on us.

Our operations are subject to extensive federal, state, and local environmental laws and regulations concerning, among other things, emissions to the air; discharges to water ways or ground water supplies; handling, storage, transportation, and disposal of waste and other materials; and the cleanup of hazardous material or petroleum releases. The risk of incurring environmental liability for acts and omissions, past, present and future is inherent in the railroad business. Several of our subsidiaries own, or have owned, land used as operating property or held for sale, or which is leased or may have been leased and operated by others. Environmental problems that are latent or undisclosed may exist on these properties, and we could incur environmental liabilities or costs, the amount and materiality of which cannot be estimated reliably at this time, with respect to one or more of these properties. Moreover, lawsuits and claims involving other unidentified environmental sites and matters are likely to arise from time to time, and the resulting liabilities could have a significant effect on financial position, results of operations or liquidity in a particular year or quarter.

As a common carrier by rail, we must offer to transport hazardous materials, regardless of risk.

Transportation of certain hazardous materials could create catastrophic losses in terms of personal injury and property damage costs, and compromise critical parts of our rail network. Legislation introduced in Congress would give federal regulators increased authority to conduct investigations and levy substantial fines and penalties in connection with railroad accidents. Under provisions enacted in August 2007, federal regulators are required to prescribe new regulations governing railroads transportation of hazardous materials, including annual routing analyses, security risk assessments and employee security training. Regulations proposed in late 2006 by DHS

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mandating chain of custody and security measures will likely cause service degradation and higher costs for the transportation of toxic inhalation hazard materials. Further, certain local governments have sought to enact ordinances banning hazardous materials moving by rail within their borders. Some legislators have contemplated pre-notification requirements for hazardous materials shipments. If promulgated, such ordinances could require the re-routing of hazardous materials shipments, with the potential for significant additional costs and network inefficiencies.

We may be affected by terrorism or war.

Any terrorist attack, or other similar event, any government response thereto, and war or risk of war could cause significant business interruption and may adversely affect our results of operations, financial position or liquidity in a particular year or quarter. Because we play a critical role in the nation s transportation system, we could become the target of such an attack or have a significant role in the government s preemptive approach or response to an attack or war. Although we currently maintain insurance coverage for third-party liability arising out of war and acts of terrorism, we maintain only limited insurance coverage for first-party property damage and damage to property in our care, custody or control caused by certain acts of terrorism. In addition, premiums for some or all of our current insurance programs covering these losses could increase dramatically, or insurance coverage for certain losses may not be available to us in the future.

We may be affected by general economic conditions.

Prolonged negative changes in domestic and global economic conditions affecting the producers and consumers of the commodities we carry may have an adverse effect on our results of operations, financial position or liquidity. Economic conditions resulting in bankruptcies of one or more large customers could have a significant impact on our financial position, results of operations or liquidity in a particular year or quarter.

We face competition from other transportation providers.

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

The operations of carriers with which we interchange may adversely affect our operations.

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

We rely on technology and technology improvements in our business operations.

If we experience significant disruption or failure of one or more of our information technology systems, including computer hardware, software, and communications equipment, we could experience a service interruption, security breach, or other operational difficulties, which could have a material adverse impact on our results of operations, financial position or liquidity in a particular year or quarter. Additionally, if we do not have sufficient capital to acquire new technology or if we

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are unable to implement new technology, we may suffer a competitive disadvantage within the rail industry and with companies providing other modes of transportation service, which could have a material adverse effect on our results of operations, financial position or liquidity in a particular year or quarter.

The vast majority of our employees belong to labor unions, and labor agreements, strikes, or work stoppages could adversely affect our operations.

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

We may be subject to various claims and lawsuits that could result in significant expenditures.

The nature of our business exposes us to the potential for various claims and litigation related to labor and employment, personal injury, commercial disputes, freight loss and other property damage, and other matters. Job-related personal injury and occupational claims are subject to the Federal Employers Liability Act, or FELA, which is applicable only to railroads. FELA s fault-based tort system produces results that are unpredictable and inconsistent as compared with a no-fault worker s compensation system. The variability inherent in this system could result in actual costs being very different from the liability recorded.

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

Severe weather could result in significant business interruptions and expenditures.

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

Unpredictability of demand for rail services resulting in the unavailability of qualified personnel could adversely affect our operational efficiency and ability to meet demand.

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

We may be affected by supply constraints resulting from disruptions in the fuel markets or the nature of some of our supplier markets.

We consume about 500 million gallons of diesel fuel each year. Fuel availability could be affected by any limitation in the fuel supply or by any imposition of mandatory allocation or rationing regulations. If a severe fuel supply shortage arose from production curtailments, disruption of oil imports, disruption of domestic refinery production, damage to refinery or pipeline infrastructure, political unrest, war or otherwise, our results of operations, financial position or liquidity in a particular year or quarter could be adversely affected. Also, such an event would impact us as well as our customers and other transportation companies.

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

Risks Relating to the Exchange Notes

There is no current public market for the exchange notes and a market may not develop.

The exchange notes are a new issue of securities for which there is currently no public trading market. We cannot guarantee:

- the liquidity of any market that may develop for the exchange notes;
- your ability to sell the exchange notes; or
- the price at which you might be able to sell the exchange notes.

Liquidity of any market for the exchange notes and future trading prices of the exchange notes will depend on many factors, including:

- prevailing interest rates;
- our operating results; and
- the market for similar securities.

The initial purchasers have advised us that they currently intend to make a market in the exchange notes, but they are not obligated to do so and may cease any market-making at any time without notice. We do not intend to apply for listing of any of the exchange notes on any securities exchange or for inclusion of any of the exchange notes in any automated quotation system. As a result, it may be difficult for you to find a buyer for the exchange notes at the time you want to sell them and, even if you find a buyer, you might not receive the price you want.

Risks Relating to the Exchange Offer

You may have difficulty selling the original notes that you do not exchange.

If you do not exchange your original notes for exchange notes pursuant to the exchange offer, the original notes you hold will continue to be subject to the existing transfer restrictions. The original notes may not be offered, sold or otherwise transferred, except in compliance with the registration requirements of the Securities Act, pursuant to an exemption from registration under the Securities Act or in a transaction not subject to the registration requirements of the Securities Act, and in compliance with applicable state securities laws. We do not anticipate that we will register the original notes under the Securities Act. After the exchange offer is consummated, the trading market for the remaining untendered original notes may be small and inactive. Consequently, you may find it difficult to sell any original notes you continue to hold because there will be fewer original notes of such series outstanding.

Some noteholders may be required to comply with the registration and prospectus delivery requirements of the Securities Act.

If you exchange your original notes in the exchange offer for the purpose of participating in a distribution of the exchange notes, you may be deemed to have received restricted securities and, if so, you will be required to comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction.

In addition, a broker-dealer that purchased original notes for its own account as part of market-making or trading activities must deliver a prospectus when it sells the exchange notes it received in the exchange offer. Our obligation to make this prospectus available to broker-dealers is limited. We cannot guarantee that a proper prospectus will be available to broker-dealers wishing to resell their exchange notes.

Late deliveries of original notes or any other failure to comply with the exchange offer procedures could prevent a holder from exchanging its original notes.

Noteholders are responsible for complying with all exchange offer procedures. The issuance of exchange notes in exchange for original notes will only occur upon proper completion of the procedures described in this prospectus under The Exchange Offer. Therefore, holders of original notes who wish to exchange them for exchange notes should allow sufficient time for timely completion of the exchange procedure. Neither we nor the exchange agent are obligated to extend the exchange offer or notify you of any failure to follow the proper procedure.

THE EXCHANGE OFFER

Purpose of the Exchange Offer

When we completed the sale of the original notes on April 4, 2008, we entered into a registration rights agreement with the initial purchasers of the original notes. Under the registration rights agreement, we agreed to file a registration statement with the SEC relating to the exchange offer within 180 days of the issue date of the original notes. We also agreed to use our reasonable best efforts to cause the registration statement to become effective with the SEC within 270 days of the issue date of the original notes and to consummate this exchange offer within 30 days after the registration statement is declared effective. The registration rights agreement provides that we will be required to pay additional interest to the holders of the original notes if we fail to comply with such filing effectiveness and offer consummation requirements. See Registration Rights Agreement below for more information on the additional interest we will owe if we do not complete the exchange offer within a specified timeline.

The exchange offer is not being made to holders of original notes in any jurisdiction where the exchange would not comply with the securities or blue sky laws of such jurisdiction. A copy of the registration rights agreement has been filed as an exhibit to the Current Report on Form 8-K we filed with the SEC on April 9, 2008 and is available from us upon request. See Where You Can Find More Information.

Terms of the Exchange Offer

Upon the terms and conditions described in this prospectus and in the accompanying letter of transmittal, which together constitute the exchange offer, we will accept for exchange original notes that are properly tendered on or before the expiration date and not withdrawn as permitted below. As used in this prospectus, the term expiration date means 5:00 p.m., New York City time, on July 12, 2008. However, if we, in our sole discretion, have extended the period of time for which the exchange offer is open, the term expiration date means the latest time and date to which we extend the exchange offer.

As of the date of this prospectus, $600,000,000 aggregate principal amount of the original notes is outstanding. The original notes were offered under an indenture dated April 4, 2008. This prospectus, together with the letter of transmittal, is first being sent on or about June 12, 2008 to all holders of original notes known to us. Our obligation to accept original notes for exchange in the exchange offer is subject to the conditions described below under Conditions to the Exchange Offer. We reserve the right to extend the period of time during which the exchange offer is open. In the event of any such extension, we would delay acceptance for exchange of any original notes by giving oral or written notice of the extension to the holders of original notes as described below. During any extension period, all original notes previously tendered will remain subject to the exchange offer and may be accepted for exchange by us. Any original notes not accepted for exchange will be returned to the tendering holder after the expiration or termination of the exchange offer.

Original notes tendered in the exchange offer must be in denominations of principal amount of $2,000 and any integral multiple of $1,000.

We reserve the right to amend or terminate the exchange offer, and not to accept for exchange any original notes not previously accepted for exchange, upon the occurrence of any of the conditions of the exchange offer specified below under Conditions to the Exchange Offer. We will give oral or written notice of any extension, amendment, non-acceptance or termination to the holders of the original notes as promptly as practicable. Such notice, in the case of any extension, will be issued by means of a press release or other public announcement no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date.

Our acceptance of the tender of original notes by a tendering holder will form a binding agreement upon the terms and subject to the conditions provided in this prospectus and the accompanying letter of transmittal.

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Procedures for Tendering

Except as described below, a tendering holder must, on or prior to the expiration date:

transmit a properly completed and duly executed letter of transmittal, including all other documents required by the letter of transmittal, to U.S. Bank Trust National Association, as the exchange agent, at the address listed below under the heading Exchange Agent; or

if original notes are tendered in accordance with the book-entry procedures listed below, the tendering holder must transmit an agent s message to the exchange agent at the address listed below under the heading

Exchange Agent.

In addition:

- the exchange agent must receive, on or before the expiration date, certificates for the original notes, if any;
- the exchange agent must receive a timely confirmation of book-entry transfer of the original notes into the exchange agent s account at The Depository Trust Company, or DTC, the book-entry transfer facility, along with the letter of transmittal or an agent s message; or
- the holder must comply with the guaranteed delivery procedures described below.

The term agent s message means a message, transmitted to DTC and received by the exchange agent and forming a part of a book-entry transfer, that states that DTC has received an express acknowledgment that the tendering holder agrees to be bound by the letter of transmittal and that we may enforce the letter of transmittal against this holder.

The method of delivery of original notes, letters of transmittal and all other required documents is at your election and risk. If the delivery is by mail, we recommend that you use registered mail, properly insured, with return receipt requested. In all cases, you should allow sufficient time to assure timely delivery. You should not send letters of transmittal or original notes to us.

If you are a beneficial owner whose original notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee, and wish to tender, you should promptly instruct the registered holder to tender on your behalf. Any registered holder that is a participant in DTC s book-entry transfer facility system may make book-entry delivery of the original notes by causing DTC to transfer the original notes into the exchange agent s account.

Signatures on a letter of transmittal or a notice of withdrawal must be guaranteed unless the original notes surrendered for exchange are tendered:

- by a registered holder of the original notes who has not completed the box entitled Special Issuance Instructions or Special Delivery Instructions on the letter of transmittal; or

- for the account of an eligible institution.

If signatures on a letter of transmittal or a notice of withdrawal are required to be guaranteed, the guarantees must be by an eligible institution. An eligible institution is a financial institution, including most banks, savings and loan associations and brokerage houses, that is a participant in the Securities Transfer Agents Medallion Program, the New York Stock Exchange Medallion Signature Program or the Stock Exchanges Medallion Program.

We will determine in our sole discretion all questions as to the validity, form and eligibility of original notes tendered for exchange. This discretion extends to the determination of all questions concerning the timing of receipts and acceptance of tenders. These determinations will be final and binding.

We reserve the right to reject any particular original note not properly tendered, or any acceptance that might, in our judgment or our counsel s judgment, be unlawful. We also reserve the right to waive any conditions of the exchange offer as applicable to all original notes prior to the expiration date. We also reserve the right to waive any defects or irregularities or conditions of the exchange offer as to any particular original note prior to the expiration date. Our interpretation of the terms and conditions of the exchange offer as to any particular original note either before or after the expiration date, including the letter of transmittal and the instructions to the letter of transmittal, shall be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of original notes must be cured within a reasonable period of time. Neither we, the exchange agent nor any other person will be under any duty to give notification of any defect or irregularity in any tender of original notes. Nor will we, the exchange agent or any other person incur any liability for failing to give notification of any defect or irregularity.

If the letter of transmittal is signed by a person other than the registered holder of original notes, the letter of transmittal must be accompanied by a written instrument of transfer or exchange in satisfactory form duly executed by the registered holder with the signature guaranteed by an eligible institution. The original notes must be endorsed or accompanied by appropriate powers of attorney. In either case, the original notes must be signed exactly as the name of any registered holder appears on the original notes.

If the letter of transmittal or any original notes or powers of attorney are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, these persons should so indicate when signing. Unless waived by us, proper evidence satisfactory to us of their authority to so act must be submitted.

By tendering, each holder will represent to us that, among other things:

- the holder is not an affiliate of ours (as defined in Rule 405 under the Securities Act) or a broker-dealer tendering notes acquired directly from us for its own account;

- the exchange notes are being acquired in the ordinary course of business of the person receiving the exchange notes, whether or not that person is the holder; and

- neither the holder nor the other person has any arrangement or understanding with any person to participate in the distribution (within the meaning of the Securities Act) of the exchange notes.

In the case of a holder that is not a broker-dealer, that holder, by tendering, will also represent to us that the holder is not engaged in, and does not intend to engage in, a distribution of the exchange notes.

However, any purchaser of original notes who is our affiliate (within the meaning of the Securities Act) who intends to participate in the exchange offer for the purpose of distributing the exchange notes or a broker-dealer (within the meaning of the Securities Act) that acquired original notes in a transaction other than as part of its trading or market-making activities and who has arranged or has an understanding with any person to participate in the distribution of the exchange notes: (1) will not be able to rely on the interpretation by the staff of the SEC set forth in the applicable no-action letters; (2) will not be able to tender its original notes in the exchange offer; and (3) must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any sale or transfer of the notes unless such sale or transfer is made pursuant to an exemption from such requirements.

Each broker or dealer that receives exchange notes for its own account in exchange for original notes, where the original notes were acquired by it as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus that meets the requirements of the Securities Act in connection with any resale of the exchange notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. However, a broker- dealer may be a statutory underwriter. See Plan of Distribution.

Acceptance of Original Notes for Exchange; Delivery of Exchange Notes

Upon satisfaction or waiver of all of the conditions to the exchange offer, we will accept, promptly after the expiration date, all original notes properly tendered, unless we terminate the exchange offer because of the non-satisfaction of conditions. We will issue the exchange notes as soon as practicable after acceptance of the original notes. See Conditions to the Exchange Offer below. For purposes of the exchange offer, we will be deemed to have accepted properly tendered original notes for exchange when, as and if we have given oral or written notice to the exchange agent, with prompt written confirmation of any oral notice.

For each original note accepted for exchange, the holder of the original note will receive an exchange note having a principal amount equal to that of the surrendered original note. The exchange notes will bear interest from the most recent date to which interest has been paid on the original notes. Accordingly, registered holders of exchange notes on the relevant record date for the first interest payment date following the completion of the exchange offer will receive interest accruing from the most recent date to which interest has been paid. Original notes accepted for exchange will cease to accrue interest from and after the date of completion of the exchange offer. Holders of original notes whose original notes are accepted for exchange will not receive any payment for accrued interest on the original notes otherwise payable on any interest payment date, the record date for which occurs on or after completion of the exchange offer and will be deemed to have waived their rights to receive the accrued interest on the original notes.

In all cases, issuance of exchange notes for original notes will be made only after timely receipt by the exchange agent of:

- certificates for the original notes, or a timely book-entry confirmation of the original notes into the exchange agent s account at the book-entry transfer facility;

- a properly completed and duly executed letter of transmittal; and

- all other required documents.

Unaccepted or non-exchanged original notes will be returned without expense to the tendering holder of the original notes. In the case of original notes tendered by book-entry transfer in accordance with the book-entry procedures described below, the non-exchanged original notes will be returned or recredited promptly.

Book-Entry Transfer

The exchange agent will make a request to establish an account for the original notes at DTC for purposes of the exchange offer within two business days after the date of this prospectus. Any financial institution that is a participant in DTC s systems must make book-entry delivery of original notes by causing DTC to transfer those original notes into the exchange agent s account at DTC in accordance with DTC s procedure for transfer. This participant should transmit its acceptance to DTC on or prior to the expiration date or comply with the guaranteed delivery procedures described below. DTC will verify this acceptance, execute a book-entry transfer of the tendered original notes into the exchange agent s account at DTC and then send to the exchange agent confirmation of this book-entry transfer. The confirmation of this book-entry transfer will include an agent s message confirming that DTC has received an express acknowledgment from this participant that this participant has received and agrees to be bound by the letter of transmittal and that we may enforce the letter of transmittal against this participant. Delivery of exchange notes issued in the exchange offer may be effected through book-entry transfer at DTC. However, the letter of transmittal or facsimile of it or an agent s message, with any required signature guarantees and any other required documents, must:

- be transmitted to and received by the exchange agent at the address listed below under Exchange Agent on or prior to the expiration date; or

- comply with the guaranteed delivery procedures described below.

Exchanging Book-Entry Notes

The exchange agent and the book-entry transfer facility have confirmed that any financial institution that is a participant in the book-entry transfer facility may utilize the book-entry transfer facility Automated Tender Offer Program, or ATOP, procedures to tender original notes. Any participant in the book-entry transfer facility may make book-entry delivery of original notes by causing the book-entry transfer facility to transfer such original notes into the exchange agent s account in accordance with the book-entry transfer facility s ATOP procedures for transfer. However, the exchange for the original notes so tendered will only be made after a book-entry confirmation of the book-entry transfer of original notes into the exchange agent s account, and timely receipt by the exchange agent of an agent s message and any other documents required by the letter of transmittal. The term agent s message means a message, transmitted by the book- entry transfer facility and received by the exchange agent and forming part of a book-entry confirmation, which states that the book-entry transfer facility has received an express acknowledgment from a participant tendering original notes that are the subject of such book-entry confirmation that such participant has received and agrees to be bound by the terms of the letter of transmittal, and that we may enforce such agreement against such participant.

Guaranteed Delivery Procedures

If a registered holder of original notes desires to tender the original notes, and the original notes are not immediately available, or time will not permit the holder s original notes or other required documents to reach the exchange agent before the expiration date, or the procedure for book-entry transfer described above cannot be completed on a timely basis, a tender may nonetheless be made if:

- the tender is made through an eligible institution;

- prior to the expiration date, the exchange agent received from an eligible institution a properly completed and duly executed letter of transmittal, or a facsimile of the letter of transmittal, and notice of guaranteed delivery, substantially in the form provided by us, by facsimile transmission, mail or hand delivery;

(1) stating the name and

address of the holder of original notes and the amount of original notes tendered;

(2) stating that the tender is being made; and

(3) guaranteeing that within three New York Stock Exchange trading days after the expiration date, the certificates for all physically tendered original notes, in proper form for transfer, or a book-entry confirmation, as the case may be, and any other documents required by the letter of transmittal will be deposited by the eligible institution with the exchange agent; and

the certificates for all physically

tendered original notes, in proper form for transfer, or a book-entry confirmation, as the case may be, and all other documents required by the letter of transmittal, are received by the exchange agent within three New York Stock Exchange trading days after the expiration date.

Withdrawal Rights

Tenders of original notes may be withdrawn at any time before 5:00 p.m., New York City time, on the expiration date.

For a withdrawal to be effective, the exchange agent must receive a written notice of withdrawal at the address or, in the case of eligible institutions, at the facsimile number, indicated below under Exchange Agent before 5:00 p.m., New York City time, on the expiration date. Any notice of withdrawal must:

- specify the name of the person, referred to as the depositor, having tendered the original notes to be withdrawn;
- identify the original notes to be withdrawn, including the

certificate number or numbers and principal amount of the original notes;

in the case of original notes tendered by book-entry transfer, specify the number of the account at the book-entry transfer facility from which the original notes were tendered and specify the name and number of the account at the book-entry transfer facility to be credited with the withdrawn original notes and otherwise comply with the procedures of such facility;

contain a statement that the holder is withdrawing his election to have the original notes exchanged;

be signed by the holder in the same manner as the original signature on the letter of transmittal by which the original notes were tendered, including any required signature guarantees, or be accompanied by documents of transfer to have the trustee with respect to the original notes register the transfer of the original notes in the name of the person withdrawing the tender; and

specify the name in which the original notes are registered, if different from that of the depositor.

If certificates for original notes have been delivered or otherwise identified to the exchange agent, then, prior to the release of these certificates, the withdrawing holder must also submit the serial numbers of the particular certificates to be withdrawn and signed notice of withdrawal with signatures guaranteed by an eligible institution unless this holder is an eligible institution. We will determine all questions as to the validity, form and eligibility, including time of receipt, of notices of withdrawal. Any original notes so withdrawn will be deemed not to have been validly tendered for exchange. No exchange notes will be issued unless the original notes so withdrawn are validly re-tendered. Any original notes that have been tendered for exchange, but which are not exchanged for any reason, will be returned to the tendering holder without cost to the holder. In the case of original notes tendered by book-entry transfer, the original notes will be credited to an account maintained with the book-entry transfer facility for the original notes. Properly withdrawn original notes may be re-tendered by following the procedures described under Procedures for Tendering above at any time on or before 5:00 p.m., New York City time, on the expiration date.

Conditions to the Exchange Offer

Notwithstanding any other provision of the exchange offer, we shall not be required to accept for exchange, or to issue exchange notes in exchange for, any original notes, and may terminate or amend the exchange offer, if at any time prior to the expiration date any of the following events occurs:

there is threatened, instituted or pending any action or proceeding before, or any injunction, order or decree issued by, any court or governmental agency or other governmental regulatory or administrative agency or commission that might materially impair our ability to proceed with the exchange offer;

a change in applicable law prohibits the consummation of such exchange offer; or

any change, or any development involving a prospective change, has occurred or been threatened in our business, financial condition, operations or prospects and those of our subsidiaries taken as a whole that is or may be adverse to us, or we have become aware of facts that have or may have an adverse impact on the value of the original notes or the exchange notes, which in our reasonable judgment in any case makes it inadvisable to proceed with the exchange offer and about which change or development we make a public announcement.

All conditions will be deemed satisfied or waived prior to the expiration date, unless we assert them prior to the expiration date. The foregoing conditions to the exchange offer are for our sole benefit and we may prior to the expiration date assert them regardless of the circumstances giving rise to any of these conditions, or we may prior to the expiration date waive them in whole or in part in our discretion. If we do so, the exchange offer will remain open for at least 5 business days following any waiver of the preceding conditions. Our failure at any time to exercise any of the foregoing rights will not be deemed a waiver of any right.

In addition, we will not accept for exchange any original notes tendered, and no exchange notes will be issued in exchange for any original notes, if any stop order is threatened or in effect relating to the registration statement of which this prospectus constitutes a part. We are required to make every reasonable effort to obtain the withdrawal of any order suspending the effectiveness of a registration statement at the earliest possible moment.

Exchange Agent

We have appointed U.S. Bank Trust National Association as the exchange agent for the exchange offer. You should direct all executed letters of transmittal to the exchange agent at the address indicated below. You should direct questions and requests for assistance, requests for additional copies of this prospectus or of the letter of transmittal and requests for notices of guaranteed delivery to the exchange agent addressed as follows:

Delivery To:

U.S. Bank Trust National Association

By Hand, Registered or Certified Mail, or Overnight Courier:

U.S. Bank National Association
Corporate Trust Services
EP-MN-WS-2N
60 Livingston Avenue
St. Paul, MN 55107
Attn: Specialized Finance

For Information Call:
(800) 934-6802

By Facsimile Transmission
(for eligible Institutions only):

Attn: Specialized Finance
(651) 495-8158

Confirm by Telephone:
(800) 934-6802

All other questions should be addressed to Norfolk Southern Corporation, Three Commercial Place, Norfolk, Virginia 23510-2191, Attention: Investor Relations. If you deliver the letter of transmittal to an address other than any address indicated above or transmit instructions via facsimile other than to any facsimile number indicated above, then your delivery or transmission will not constitute a valid delivery of the letter of transmittal.

Fees and Expenses

We will not make any payment to brokers, dealers or others soliciting acceptances of the exchange offer. We have agreed to pay all expenses incidental to the exchange offer other than commissions and concessions of any broker or dealer and will indemnify holders of the original notes, including any broker-dealers, against certain liabilities, including liabilities under the Securities Act. The cash expenses to be incurred in connection with the exchange offer, including out-of-pocket expenses for the exchange agent, will be paid by us. We estimate these expenses in the aggregate to be approximately $25,000.

Transfer Taxes

We will pay any transfer taxes in connection with the tender of original notes in the exchange offer unless you instruct us to register exchange notes in the name of, or request that original notes not tendered or not accepted in the exchange offer be returned to, a person other than the registered tendering holder. In those cases, you will be responsible for the payment of any applicable transfer taxes.

Consequences of Exchanging or Failing to Exchange the Original Notes

Holders of original notes who do not exchange their original notes for exchange notes in the exchange offer will continue to be subject to the provisions in the indenture regarding transfer and exchange of the original notes and the restrictions on transfer of the original notes as described in the legend on the original notes as a consequence of the issuance of the original notes under exemptions from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws. In general, the original notes may not be offered or sold, unless registered under the Securities Act, except under an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. Original note holders that do not exchange original notes for exchange notes in the exchange offer will no longer have any registration rights with respect to such notes.

Under existing interpretations of the Securities Act by the SEC s staff contained in several no-action letters to third parties, and subject to the immediately following sentence, we believe that the exchange notes would generally be freely transferable by holders after the exchange offer without further registration under the Securities Act, subject to certain representations required to be made by each holder of exchange notes, as set forth below. However, any purchaser of exchange notes who is one of our affiliates (as defined in Rule 405 under the Securities Act) or who intends to participate in the exchange offer for the purpose of distributing the exchange notes:

- will not be able to rely on the interpretation of the SEC s staff;

- will not be able to tender its original notes in the exchange offer; and

- must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any sale or transfer of the notes unless such sale or transfer is made pursuant to an exemption from such requirements. See Plan of Distribution.

We do not intend to seek our own interpretation regarding the exchange offer and there can be no assurance that the SEC s staff would make a similar determination with respect to the exchange notes as it has in other interpretations to other parties, although we have no reason to believe otherwise.

Registration Rights Agreement

The following description is a summary of the material provisions of the registration rights agreement. It does not restate that agreement in its entirety. We urge you to read the registration rights agreement in its entirety because it, and not this description, defines your registration rights as holders of the original notes. A copy of the registration rights agreement has been filed as an exhibit to the Current Report on Form 8-K we filed with the SEC on April 9, 2008 and is available from us upon request. See Where You Can Find More Information.

On April 4, 2008, we and the initial purchasers of the original notes entered into the registration rights agreement. Pursuant to the registration rights agreement, we agreed to file with the SEC a registration statement, or Exchange Offer Registration Statement, with respect to the exchange notes. Upon the effectiveness of this Exchange Offer Registration Statement, we will offer to the holders of the original notes pursuant to the exchange offer who are able to make certain representations the opportunity to exchange their original notes for exchange notes.

If either: (1) we are not required to file this Exchange Offer Registration Statement or permitted to consummate the exchange offer because the exchange offer is not permitted by applicable law or SEC policy; or (2) any holder of original notes notifies us prior to the 20th business day following consummation of the exchange offer that: (i) it is prohibited by law or SEC policy from participating in the exchange offer, (ii) it may not resell the exchange notes acquired by it in the exchange offer to the public without delivering a prospectus and the prospectus contained in the Exchange Offer Registration Statement is not appropriate or available for such resales, or (iii) it is a broker-dealer and owns original notes acquired directly from us or an affiliate of ours; then we will file with the SEC a Shelf Registration Statement (as defined in the registration rights agreement) to cover resales of the original notes by the holders of the original notes who satisfy certain conditions relating to the provision of information in connection with the Shelf Registration Statement.

We agreed to file an Exchange Offer Registration Statement with the SEC within 180 days of the issue date of the original notes and use all commercially reasonable efforts to have the Exchange Offer Registration Statement declared effective by the SEC on or prior to 270 days after the issue date of the original notes. Unless the exchange offer would not be permitted by applicable law or

SEC policy, we will (a) commence the exchange offer, and (b) use all commercially reasonable efforts to issue on or prior to 30 days, or longer, if required by the federal securities laws, after the date on which the Exchange Offer Registration Statement is declared effective by the SEC, exchange notes in exchange for all original notes tendered prior thereto in the exchange offer. If obligated to file the Shelf Registration Statement, we will use all commercially reasonable efforts to file the Shelf Registration Statement with the SEC on or prior to 45 days after such filing obligation arises and to cause the Shelf Registration to be declared effective by the SEC on or prior to 90 days after such obligation arises.

We will pay additional interest to each holder of original notes if: (1) we fail to file any of the registration statements required by the registration rights agreement on or before the date specified for such filing; (2) any of such registration statements is not declared effective by the SEC on or prior to the date specified for such effectiveness (the Effectiveness Target Date); (3) we fail to consummate the exchange offer within 30 days of the Effectiveness Target Date with respect to the Exchange Offer Registration Statement; or (4) the Shelf Registration Statement or the Exchange Offer Registration Statement is declared effective but thereafter ceases to be effective or usable in connection with resales of original notes during the periods specified in the registration rights agreement (each such event referred to in clauses (1) through (4) above, a Registration Default).

With respect to the first 90-day period immediately following the occurrence of the first Registration Default, additional interest will be paid in an amount equal to 0.25% per annum of the principal amount of original notes. The amount of the additional interest will increase by an additional 0.25% per annum with respect to each subsequent 90-day period until all Registration Defaults have been cured, up to a maximum amount of additional interest for all Registration Defaults of 0.50% per annum of the principal amount of original notes.

All accrued additional interest will be paid by us on the next scheduled interest payment date to DTC or its nominee by wire transfer of immediately available funds or by federal funds check and to holders of Certificated Securities by wire transfer to the accounts specified by them or by mailing checks to their registered addresses if no such accounts have been specified. Following the cure of all Registration Defaults, the accrual of additional interest will cease.

Holders of the original notes will be required to make certain representations to us in order to participate in the Exchange Offer and will be required to deliver certain information to be used in connection with the Shelf Registration Statement and to provide comments on the Shelf Registration Statement within the time periods set forth in the registration rights agreement in order to have their original notes included in the Shelf Registration Statement and benefit from the provisions regarding additional interest set forth above. By acquiring original notes, a holder will be deemed to have agreed to indemnify us against certain losses arising out of information furnished by such holder in writing for inclusion in any Shelf Registration Statement. Holders of original notes will also be required to suspend their use of the prospectus included in the Shelf Registration Statement under certain circumstances upon receipt of written notice to that effect from us.

USE OF PROCEEDS

We will not receive any proceeds from the exchange offer. In consideration for issuing exchange notes, we will receive in exchange original notes of like principal amount. The original notes surrendered in exchange for exchange notes will be retired and canceled.

RATIO OF EARNINGS TO FIXED CHARGES

The table below sets forth our ratio of earnings to fixed charges on a consolidated basis for each of the time periods indicated. This ratio shows the extent to which our business generates enough earnings after the payment of all expenses other than interest to make required interest payments on our debt.

	Three Months Ended March 31,		Year Ended December 31,				
	2008	2007	2007	2006	2005	2004	2003
			($ in millions)				
Ratio of Earnings to Fixed Charges	4.63x	3.95x	5.07x	4.88x	3.90x	3.12x	2.01x

SELECTED HISTORICAL CONSOLIDATED FINANCIAL STATEMENTS

The following table presents our selected historical consolidated financial data. The consolidated statement of income data for each of the years in the three-year period ended December 31, 2007 and the consolidated balance sheet data as of December 31, 2007 and 2006 have been derived from our audited consolidated financial statements included herein. The consolidated statement of income data for the years ended December 31, 2004 and 2003 and the consolidated balance sheet data as of December 31, 2005, 2004 and 2003 have been derived from the audited consolidated financial statements not included elsewhere herein.

The selected historical consolidated financial data presented below should be read in conjunction with our audited consolidated financial statements and accompanying notes and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein. Our audited consolidated financial information may not be indicative of our future performance.

	As of or For the Three Months Ended March 31,		As of or For the Year Ended December 31,				
	2008	**2007**	**2007**	**2006**	**2005[(1)]**	**2004[(2)]**	**2003[(3)]**
	($ in millionsexcept share, per share, stockholder and employee amounts)						
Results of operations:							
Railway operating revenues	$ 2,500	$ 2,247	$ 9,432	$ 9,407	$ 8,527	$ 7,312	$ 6,468
Railway operating expenses	1,922	1,719	6,847	6,850	6,410	5,610	5,404
Income from railway operations	578	528	2,585	2,557	2,117	1,702	1,064
Other income net	7	7	93	149	74	76	19
Interest expense on debt	109	115	441	476	494	489	497
Income from continuing operations before income taxes and accounting changes	476	420	2,237	2,230	1,697	1,289	586
Provision for	185	135	773	749	416	379	175

income taxes														
Income from continuing operations before accounting changes		291		285		1,464		1,481		1,281		910		411
Discontinued operations[4]														10
Cumulative effect of changes in accounting principles, net of taxes[5]														114
Net income	$	291	$	285	$	1,464	$	1,481	$	1,281	$	910	$	535
Per share data:														
Income from continuing operations before accounting changes basic	$	0.77	$	0.72	$	3.74	$	3.63	$	3.17	$	2.31	$	1.05
diluted	$	0.76	$	0.71	$	3.68	$	3.57	$	3.11	$	2.28	$	1.05
Net income basic	$	0.77	$	0.72	$	3.74	$	3.63	$	3.17	$	2.31	$	1.37
diluted	$	0.76	$	0.71	$	3.68	$	3.57	$	3.11	$	2.28	$	1.37
Dividends	$	0.29	$	0.22	$	0.96	$	0.68	$	0.48	$	0.36	$	0.30
Stockholders equity at end of period	$	25.94	$	24.48	$	25.64	$	24.19	$	22.63	$	19.92	$	17.83

	As of or For the Three Months Ended March 31,		As of or For the Year Ended December 31,			
	2008	**2007**	**2007**	**2006**	**2005[1]**	**2004[2]**
		($ in millions, except share, per share, stockholder and employee amounts)				
Financial position:						
Total assets	$ 26,465	$ 26,030	$ 26,144	$ 26,028	$ 25,859	$ 24,748
Total long-term debt, including current maturities[6]	$ 6,493	$ 6,533	$ 6,368	$ 6,600	$ 6,930	$ 7,525
Stockholders equity	$ 9,748	$ 9,628	$ 9,727	$ 9,615	$ 9,276	$ 7,977
Other:						
Capital expenditures	$ 304	$ 236	$ 1,341	$ 1,178	$ 1,025	$ 1,041
Average number of shares outstanding (thousands)	375,675	394,208	389,626	405,988	404,170	394,201
Number of stockholders at end of period	36,602	38,457	36,955	38,900	48,180	51,032
Average number of employees:						
Rail	30,240	30,484	30,336	30,079	29,851	28,057
Nonrail	471	469	470	462	443	418
Total	30,711	30,953	30,806	30,541	30,294	28,475

(1) 2005 provision for income taxes includes a $96 million benefit related to the

reduction of our deferred income tax liabilities resulting from tax legislation enacted by Ohio. This benefit increased net income by $96 million, or 23 cents per diluted share.

(2) 2004 other income net includes a $40 million net gain from the Conrail Corporate Reorganization. This gain increased net income by $40 million or 10 cents per diluted share.

(3) 2003 operating expenses include a $107 million charge for a voluntary separation program. Other income net includes an $84 million charge to recognize the impaired value of certain telecommunications assets. These charges reduced net income by $119 million, or 30 cents per diluted share.

(4) 2003 discontinued operations relate to the 1998 sale of the common stock of motor carrier subsidiary, North American Van Lines, Inc. Results in 2003 include an additional after-tax gain of $10 million,

or $0.03 per diluted share, resulting from resolution of tax issues related to the transaction.

(5) 2003 net income reflects two accounting changes, the cumulative effect of which increased net income by $114 million, or $0.29 per diluted share: a change in accounting for the cost to remove railroad crossties, which increased net income by $110 million, and a change in accounting related to a special-purpose entity that leases certain locomotives to us, which increased net income by $4 million.

(6) 2003 long-term debt excludes notes payable to Conrail of $716 million.

Norfolk Southern Corporation and Subsidiaries
Quarterly Financial Data
(Unaudited)

	Three Months Ended			
	March 31	**June 30**	**Sept. 30**	**Dec. 31**
	($ in millions, except per share amounts)			
2007				
Railway operating revenues	$ 2,247	$ 2,378	$ 2,353	$ 2,454
Income from railway operations	528	690	681	686
Net income	285	394	386	399
Earnings per share:				
Basic	$ 0.72	$ 1.00	$ 0.99	$ 1.04
Diluted	$ 0.71	$ 0.98	$ 0.97	$ 1.02
2006				
Railway operating revenues	$ 2,303	$ 2,392	$ 2,393	$ 2,319
Income from railway operations	551	677	715	614
Net income	305	375	416	385
Earnings per share:				
Basic	$ 0.74	$ 0.91	$ 1.04	$ 0.97
Diluted	$ 0.72	$ 0.89	$ 1.02	$ 0.95

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion and analysis of financial condition and results of operations are based upon financial statements which have been prepared in accordance with United States generally accepted accounting principles, and should each be read together with the consolidated financial statements, the notes to those financial statements and the other financial information appearing elsewhere in this prospectus.

This discussion contains certain statements of a forward-looking nature that involve risks and uncertainties. As a result of many factors, including those set forth under the section entitled Risk Factors and those appearing elsewhere in this prospectus, actual results may differ materially from those anticipated by such forward-looking statements.

Overview

We are a Norfolk, Virginia based corporation that controls a major freight railroad, Norfolk Southern Railway Company. Norfolk Southern Railway Company is primarily engaged in the rail transportation of raw materials, intermediate products and finished goods primarily in the Southeast, East and Midwest and, via interchange with other rail carriers, to and from the rest of the United States. We also transport overseas freight through several Atlantic and Gulf Coast ports. We provide comprehensive logistics services and offer the most extensive intermodal network in the eastern half of the United States. Our common stock is listed on the NYSE under the symbol NSC.

We were incorporated on July 23, 1980, under the laws of the Commonwealth of Virginia. On June l, 1982, we acquired control of two major operating railroads, NW and Southern in accordance with an Agreement of Merger and Reorganization dated as of July 31, 1980, and with the approval of the transaction by the Interstate Commerce Commission (now the STB). Effective December 31, 1990, we transferred all the common stock of NW to Southern, and Southern s name was changed to Norfolk Southern Railway Company. Effective September 1, 1998, NW was merged with and into Norfolk Southern Railway. As of March 31, 2008, all the common stock of Norfolk Southern Railway was owned directly by us.

Through a limited liability company, we, along with CSX jointly own Conrail, whose primary subsidiary is 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. CRC owns and operates certain properties (which we refer to in this prospectus as the Shared Assets Areas) for the joint and exclusive benefit of NSR and CSX Transportation Inc. (see Note 4 to the Consolidated Financial Statements elsewhere in this prospectus).

Our 2007 results reflected softness in the overall economy that resulted in reduced traffic volumes. Despite this, railway operating revenues increased slightly as improved average revenue per unit offset the volume declines. Railway operating expenses were about even, resulting in a railway operating ratio (a measure of the amount of revenues consumed by operating expenses) of 72.6%, which improved modestly from 2006.

Our first-quarter 2008 net income was 2% higher than the prior year due to improved income from railway operations. Railway operating revenues increased 11% as higher average revenue per unit more than offset a 2% reduction in traffic volume. Railway operating expenses, driven by higher fuel costs, increased 12% as compared to the first quarter of 2007, and the railway operating ratio rose to 76.9% compared with 76.5% for the first quarter of 2007.

Cash provided by operating activities exceeded $2 billion for the third consecutive year and, along with a reduction in cash and short-term investment balances, provided funding for increased capital expenditures, significant share repurchases and higher dividends. Cash provided by operating activities for the first quarter of 2008 was $604 million and, along with proceeds from borrowings, provided funding for capital expenditures, debt maturities, share repurchases and dividends.

During 2007, we purchased and retired 23.6 million shares of our common stock at a total cost of $1.2 billion under the share repurchase program approved by our board of directors on November 22, 2005. Our board of directors amended the program in March 2007 and authorized the repurchase of up to 75 million shares of our common stock through December 31, 2010. As of December 31, 2007, we had purchased and retired 45.3 million shares under this program at a total cost of $2.2 billion. In the first quarter of 2008, 5.6 million shares of common stock were repurchased at a total cost of $276 million. At March 31, 2008, cash and short-term investment balances totaled $364 million.

Summarized Results of Operations

First Quarter 2008 Compared with First Quarter 2007

First-quarter 2008 net income was $291 million, up $6 million, or 2%, compared with the same period last year. The increase primarily resulted from a $50 million increase in income from railway operations and a $6 million reduction in interest expense. First-quarter net income was reduced by a $50 million increase in income taxes, reflecting both the absence of benefits associated with synthetic fuel tax credits that expired in 2007 and higher pretax income.

2007 Compared with 2006

Net income in 2007 was $1.5 billion, down $17 million, or 1%, compared with 2006. Diluted earnings per share were $3.68, up $0.11, or 3%, reflecting fewer shares outstanding as a result of our share repurchase program. The decrease in net income was primarily due to higher income taxes and lower non-operating items that offset higher income from railway operations. Railway operating revenues increased $25 million, as higher average revenue per unit overshadowed lower traffic volumes. Railway operating expenses decreased $3 million, principally due to lower volume-related expenses that offset higher fuel expense.

2006 Compared with 2005

Net income in 2006 was $1.5 billion, or $3.57 per diluted share, up $200 million, or 16%, compared with $1.3 billion, or $3.11 per diluted share, in 2005. The increase in net income was primarily due to higher income from railway operations, offset in part by the absence of the $96 million income tax benefit recorded in 2005 because of Ohio tax law changes. Railway operating revenues increased $880 million, reflecting higher rates, including fuel surcharges that accounted for about 40% of the increase, and modestly higher traffic volume. Railway operating expenses rose $440 million, or 7%, principally due to higher fuel prices and increased compensation and benefits costs.

Detailed Results of Operations

Railway Operating Revenues

First-quarter 2008 railway operating revenues were $2.5 billion, up $253 million, or 11%, compared with the first quarter of 2007. As shown in the following table, the increases were the result of higher average revenue per unit and increased fuel surcharges (up $144 million) that were offset in part by lower traffic volume.

	First Quarter 2008 vs. 2007 (Increase / (Decrease)) ($ in millions)	
Traffic volume (units)	$	(52)
Revenue per unit/mix		305

Total	$	253

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

	First Quarter					
	Revenues		Units		Revenue per Unit	
	2008	2007	2008	2007	2008	2007
	($ in millions)		(in thousands)		($ per unit)	
Coal	$ 662	$ 557	427.0	420.2	$ 1,551	$ 1,326
General merchandise:						
Chemicals	305	274	102.2	105.7	2,986	2,587
Metals/construction	305	275	186.5	185.6	1,636	1,480
Agr./consumer prod./govt.	299	241	152.1	146.7	1,968	1,644
Automotive	228	227	119.6	132.5	1,908	1,717
Paper/clay/forest	215	211	100.2	109.3	2,139	1,936
General merchandise	1,352	1,228	660.6	679.8	2,047	1,807
Intermodal	486	462	740.4	771.5	656	598
Total	$ 2,500	$ 2,247	1,828.0	1,871.5	$ 1,367	$ 1,201

Railway operating revenues were $9.4 billion in 2007 and 2006, and $8.5 billion in 2005. The following table presents a three-year comparison of revenues, volume and average revenue per unit by market group.

	Revenues			Units			
	2007	2006	2005	2007	2006	2005	2007
	($ in millions)			(in thousands)			
Coal	$ 2,315	$ 2,330	$ 2,115	1,699.4	1,760.0	1,735.4	$ 1,36
General merchandise:							
Chemicals	1,166	1,079	978	426.7	426.4	442.1	2,73
Metals/construction	1,149	1,168	978	783.6	835.3	794.2	1,46
Agr./cons. prod./govt.	1,047	994	832	601.5	594.1	571.8	1,74
Automotive	974	974	997	533.0	561.9	615.9	1,82
Paper/clay/forest	860	891	801	428.1	466.7	472.2	2,01
General merchandise	5,196	5,106	4,586	2,772.9	2,884.4	2,896.2	1,87
Intermodal	1,921	1,971	1,826	3,120.7	3,256.5	3,154.9	61

Total	$ 9,432	$ 9,407	$ 8,527	7,593.0	7,900.9	7,786.5	$	1,24

Revenues increased by $25 million in 2007 and by $880 million in 2006. Automotive revenue in 2007 included $26 million related to a contract volume settlement. As shown in the following table, the increase in 2007 was due to higher average revenue per unit that more than offset decreased traffic volumes, whereas the improvement in 2006 was the result of increased average revenue per unit and higher traffic volumes.

Revenue Variance Analysis
Increases (Decrease)

	2007 vs. 2006	2006 vs. 2005
	($ in millions)	
Revenue per unit/mix	$ 392	$ 755
Traffic volume (units)	(367)	125
Total	$ 25	$ 880

Both comparisons reflect large increases in average revenue per unit, a result of higher rates. In 2006 about 40% of the revenue increase was attributable to higher fuel surcharges. Traffic volume decreased in 2007, reflecting declines in all commodity groups except agriculture/consumer products/government, and chemicals. In 2006, traffic volume rose 1%, principally due to higher intermodal and metals/construction shipments.

On January 26, 2007, the STB issued a decision that the type of fuel surcharge imposed by us and most other large railroads a fuel surcharge based on a percentage of line haul revenue would no longer be permitted for regulated traffic that moves under public (tariff) rates. The STB gave the railroads a 90-day transition period to adjust their fuel surcharge programs. During the second quarter of 2007, we discontinued assessing fuel surcharges on our published (non-intermodal) public rates. Future adjustments to public prices will reflect ongoing market conditions. We do not expect that compliance with the new STB regulations will have a material effect on our financial condition, results of operations or liquidity. The traffic moving under these tariffs and public quotes comprised less than 10% of our total revenue base.

Coal revenues increased $105 million, or 19%, in the first quarter of 2008 compared with the same period in 2007. The increase reflected a 17% increase in average revenue per unit and a 2% increase in carloads. For the first quarter, tonnage handled increased, reflecting improved export volume. Coal tonnage by market was as follows:

	First Quarter	
	2008	**2007**
	(in thousands)	
Utility	35,604	36,216
Export	5,773	3,526
Steel	3,517	3,630
Industrial	1,909	2,397
Total	46,803	45,769

Coal revenues decreased $15 million, or 1%, in 2007 compared with 2006, as a 2% reduction in tonnage handled more than offset a 3% increase in average revenue per unit. Carloads declined 3%, a higher percentage than the change in tonnage handled because of increased average tonnage per car. Coal represented 25% of our revenues in 2007, and 78% of shipments handled originated on our lines. As shown in the following table, decreased shipments of utility and domestic metallurgical coal more than offset higher export and industrial shipments.

Total Coal, Coke and Iron Ore Tonnage

	2007	**2006**	**2005**
		(Tons in thousands)	
Utility	142,734	148,078	142,522
Domestic metallurgical	17,873	20,878	20,076
Export	15,564	12,409	14,531
Industrial	9,794	9,202	9,524
Total	185,965	190,567	186,653

Coal revenues in 2006 increased $215 million, or 10%, compared with 2005, which reflected higher average revenue per unit and slightly higher traffic volume. Coal average revenue per unit was up 9% compared with 2005, reflecting increased fuel surcharges and higher rates, tempered by the absence of a $55 million benefit from coal rate settlements in the second quarter of 2005. Coal represented 25% of our revenues in 2006, and 79% of shipments handled originated on our lines. Traffic volumes rose 1%, primarily because of increased shipments of utility and domestic metallurgical coal that offset lower export and iron ore shipments.

We are currently involved in litigation with Virginia Electric and Power Company/Old Dominion Electric Cooperative, or Virginia Power, regarding rate adjustment provisions in a transportation contract between us. In 2007, the Virginia Supreme Court issued a decision that remanded the case to the trial court on the grounds that neither of its prior decisions constituted a final order. On April 17, 2008, the trial court entered a final order granting us monetary damages, including interest, and prescribing the methodology for determining future rates. Virginia Power is expected to appeal this order to the Virginia Supreme Court. Future developments and the ultimate resolution of this matter could result in our recognition of additional revenues related to this dispute, which could have a favorable impact on results of operations in a particular year or quarter.

Utility coal tonnage declined 2% in the first quarter of 2008 as higher export demand and the temporary closure of a major coal mine tightened coal availability for domestic customers. Utility coal tonnage decreased 4% in 2007, compared with 2006, reflecting high stockpile levels (particularly in the Southeast) that led to reduced shipments, despite fairly strong electric generation (up 4%) in our service region. In addition, the temporary closure of a major coal mine as well as the loss of business to barge transportation contributed to the decline.

In 2006, utility coal tonnage increased 4%, compared with 2005, reflecting the rebuilding of stockpiles by customers, more shipments from the Powder River Basin in the West and higher shipments of import coal through Charleston, South Carolina.

A number of evolving environmental issues could affect the utility coal market. These include potential regional programs aimed at capping and reducing power plant carbon dioxide emissions, and ongoing efforts at addressing climate change. In response to changes in environmental regulations, certain utilities have begun adding or are planning to add emissions control technologies to their electric generating units, allowing them to utilize their existing coal-fired power plants.

Domestic metallurgical coal, coke and iron ore tonnage declined 3% in the first quarter of 2008 due to constrained coal supply. Domestic metallurgical coal, coke and iron ore tonnage decreased 14% in 2007 compared with 2006. The decrease was primarily due to coke furnace outages, mine production outages and reduced spot iron ore traffic. Domestic metallurgical coal, coke and iron ore tonnage increased 4% in 2006 compared with 2005. The increase was driven by higher domestic metallurgical coal and coke shipments in the first half of the year in response to steel-making demand, which more than offset a decline in iron ore volume caused by the shutdown of a blast furnace at a major customer location.

Export coal tonnage increased 64% for the first quarter of 2008, reflecting increased global demand coupled with weather-related supply constraints in Australia and reduced export volume from China. Export coal tonnage in 2007 increased 25% compared to 2006, primarily due to increased demand reflecting a lower valued dollar as well as loading delays at Australian ports. Norfolk volume increased by approximately 26,000 cars, or 25%, and Baltimore volume was up approximately 4,500 cars, or 19%.

In 2006, export coal tonnage decreased 15% compared to 2005, reflecting weaker demand for U.S. coal as Europe and Asia continued to increase purchases from other countries. Baltimore volume was down approximately 13,500 cars, or 37%, and Norfolk volume declined by approximately 3,000 cars, or 3%.

Industrial coal tonnage decreased 20% for the first quarter of 2008 compared with 2007, principally due to a temporary mine shutdown and production problems that affected coal availability.

Other coal tonnage (principally steam coal shipped to industrial plants) increased 6% versus 2006, primarily due to new business and stronger demand. In 2006, other coal tonnage decreased 3% versus 2005, primarily due to plant closures and mine production problems.

General merchandise revenues increased $124 million, or 10%, in the first quarter of 2008, compared with the same period in the previous year, reflecting a 13% increase in average revenue per unit, which was partially offset by a 3% decline in traffic volume. The improvement in average revenue per unit reflected continued market-based pricing in all groups and higher fuel surcharges.

General merchandise revenues increased $90 million, or 2%, in 2007 compared with 2006, as a 6% increase in average revenue per unit, reflecting continued market-based pricing in all groups, more than offset a 4% decline in traffic volume. Revenue in 2007 included $26 million related to a volume-related contract settlement with an automotive customer.

In 2006, general merchandise revenues increased $520 million, or 11%, compared with 2005, as all market groups posted higher average revenue per unit driven by increased rates and fuel surcharges. Traffic volume declined slightly as improved metals and construction and agriculture volumes were offset by declines in the other business groups.

Chemicals traffic volume decreased 3% in the first quarter of 2008, reflecting continued weakness in plastics linked to housing construction declines. Chemicals revenue increased 8% in 2007, compared with 2006, reflecting higher rates in all groups. Traffic volume rose modestly as more shipments of industrial intermediates offset fewer shipments in the petroleum, miscellaneous chemicals and plastics markets, which continued to reflect weakness in housing-related demand.

In 2006, chemicals revenues increased 10%, despite a 4% drop in traffic volume, reflecting increased rates and fuel surcharges. Petroleum, industrial and plastics traffic volumes were down as a result of lower inventories arising from post-Katrina conditions, the closure of several plants on our lines and the weaker housing and automotive markets.

Metals and construction volume was up slightly in the first quarter of 2008 as increased carloads from metals, machinery and aggregate markets offset declines in housing-related markets. Metals and construction revenue decreased 2% in 2007, compared with 2006, as a 5% increase in average revenue per unit that resulted from higher rates was more than offset by the effects of a 6% decrease in traffic volume. The decline in volume was principally due to lower iron, steel and coil shipments and reduced demand for construction materials, both reflecting the soft automotive and housing sectors.

In 2006, metals and construction revenue increased 19% and traffic volume increased 5% compared with 2005 as declines in the fourth quarter were offset by higher volumes through the rest of the year. Revenue per unit rose 14% because of increased rates and fuel surcharges. The increase in traffic volume was driven primarily by higher import slab business to steel mills served by us, more scrap metal shipments and higher sand, gravel and cement traffic for commercial and highway construction projects.

Agriculture, consumer products and government volume increased 4% in the first quarter of 2008, reflecting increases in ethanol and feed shipments. Agriculture, consumer products and government revenue increased 5% in 2007 compared with 2006. The revenue improvement resulted from higher average revenue per unit, which reflected higher rates. Traffic volume rose modestly as more corn, fertilizer and ethanol shipments were mitigated by less government and consumer product volume.

In 2006, agriculture, consumer products and government revenue increased 19% and traffic volume increased 4% compared with 2005. Average revenue per unit rose 15%, a result of higher rates and fuel surcharges. Traffic volume growth resulted from increased ethanol, military and corn shipments. Military traffic growth was primarily due to the continued support of military operations in Iraq.

Automotive volumes decreased 10% for the first quarter of 2008, as Ford, General Motors and Chrysler reduced production. Ford, General Motors and Chrysler combined operate 17 of 27 assembly plants served by us. Automotive revenues were flat in 2007 compared with 2006 as lower traffic volumes offset higher average revenue per unit. Revenue in 2007 included a $26 million volume-related contract settlement. Volume decreased 5%, reflecting softness in demand for vehicles as well as parts, and the closure in June 2007 of a plant served by us.

In 2006, automotive revenues declined 2% compared with 2005 as lower volumes offset increased average revenue per unit, including fuel surcharges. Volume decreased 9% primarily due to substantial production cuts at Ford, General Motors and Daimler-Chrysler assembly plants, including two plant closures served by us at Ford and one at General Motors during 2006. Reduced production at Honda and BMW also contributed to the volume decrease.

Paper, clay and forest traffic volume was down 8% for the first quarter of 2008, reflecting lower volumes related to the housing slowdown and continued decline in conventional paper markets. Paper, clay and forest products revenue decreased 3% in 2007 compared with 2006 as the effects of higher average revenue per unit were more than offset by an 8% decrease in traffic volume reflecting the continued housing slowdown and decline in conventional paper markets.

In 2006, paper, clay and forest products revenue increased 11% compared with 2005 due to higher average revenue per unit, including fuel surcharges, despite a 1% decrease in traffic volume.

Higher solid waste and debris traffic, and growth in traffic from the import of printing paper, partially offset reduced pulp and pulp board shipments.

Intermodal revenues increased $24 million, or 5%, in the first quarter of 2008, compared with the same period last year, primarily due to higher average revenue per unit (up 10%). Intermodal volume was down 4% for the first quarter. Truckload volume decreased 13% reflecting the soft economy. International traffic volume declined 5%, primarily driven by a soft economy and less inland rail movement of West Coast port traffic that offset East Coast port volume growth. The Premium business, which includes parcel and less-than-truckload, or LTL, carriers, decreased 2%, as LTL conversions partially offset soft parcel business. Triple Crown Services Company, or Triple Crown, volume was up 2%. Intermodal marketing companies volumes grew 2%, reflecting the relative efficiency of intermodal versus over-the-road transportation in a high fuel cost environment.

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

In 2006, intermodal revenues increased $145 million, or 8%, compared with 2005, largely because of higher fuel surcharges, increased rates and improved traffic volume. Traffic volume for the year rose 3% notwithstanding a 3% decline in the fourth quarter. Truckload volume increased 8% reflecting continued expansion of business with traditional truckload companies. IMC volume declined 9%, a result of declines in the housing, construction and automotive markets. Triple Crown had flat volume compared with 2005 as higher consumer product shipments were offset by weaker automotive-related shipments. International traffic volume rose 9% reflecting growth in imported goods from Asia and exported goods through East Coast ports served by us, as well as West Coast ports. Premium business was down 3% as lower LTL shipper traffic offset modest gains in parcel shipments. Intermodal revenue per unit increased 4%, principally a result of higher fuel surcharges as well as increased rates and longer-haul international traffic, which was offset in part by the ongoing shift of shipments from higher revenue per unit, rail-provided assets (trailers and containers) to lower revenue per unit shipments in shipper-provided equipment.

Railway Operating Expenses

First-quarter railway operating expenses were $1.9 billion in 2008, up $203 million, or 12%, compared with the same period in 2007. Railway operating expenses in 2007 were $6.8 billion, about even with railway operating expenses in 2006, which were up $440 million compared to 2005. The 2007 comparison reflected volume-related decreases offset by higher fuel expense. The increase in 2006 was due to higher fuel prices and increased compensation and benefits.

The railway operating ratio, which measures the percentage of railway operating revenues consumed by railway operating expenses, improved to 72.6% in 2007, compared with 72.8% in 2006 and 75.2% in 2005.

The following table shows the changes in railway operating expenses summarized by major classifications (prior year amounts have been reclassified to conform to the current year presentation).

Operating Expense Variances
Increases (Decreases)

	First Quarter 2008 vs. 2007	2007 vs. 2006	2006 vs. 2005
		($ in millions)	
Compensation and benefits	$ 24	$ (85)	$ 144
Purchased services and rents	(9)	(27)	31
Fuel	156	74	274
Depreciation	6	37	(36)
Materials and other	26	(2)	27
Total	$ 203	$ (3)	$ 440

Compensation and benefits increased $24 million, or 4%, in first quarter 2008, compared with the same period in 2007. The increase was primarily the result of higher stock-based compensation (up $14 million) and increased wage rates (up $10 million). Compensation and benefits, which represented 37% of total railway operating expenses, decreased $85 million, or 3%, in 2007 compared with 2006, primarily due to lower incentive compensation (down $48 million), lower volume-related payroll (down $37 million), the absence of the prior year retirement and waiver agreements with our former executives as well as the cost of the regular stock-based grant to our former Chief Executive Officer ($24 million), lower stock-based compensation (down $13 million), and lower payroll taxes (down $12 million), that were partially offset by increased wage rates (up $27 million) and higher medical costs (up $27 million).

In 2006, compensation and benefits increased $144 million, or 6%, compared with 2005. Expenses in 2006 included the effect of the implementation of Statement of Accounting Standards No. 123(R) Share-Based Payment, which increased stock-based compensation expense by $27 million. Most of the increase was reflected in the first quarter which included the effect of accelerated recognition of costs related to grants to retirement-eligible employees. The remaining increase was attributable to increased salaries and wages (up $44 million), higher health and welfare benefit costs (up $29 million), retirement and waiver agreements entered into in the first quarter as well as the cost of the regular stock-based grant to the former chief executive officer who retired (up $24 million), and higher payroll taxes (up $17 million).

Our number of employees averaged 30,806 in 2007 compared with 30,541 in 2006 and 30,294 in 2005. The increased number of employees was almost exclusively in operating department personnel to meet service needs, as well as to prepare for expected retirements. We continue to hire and train additional workers in order to meet the requirements of forecasted volumes in light of the demographics of our work force.

Purchased services and rents includes the costs of services purchased from outside contractors, including the net costs of operating joint (or leased) facilities with other railroads and the net cost of equipment rentals. Purchased services and rents decreased $9 million, or 2%, in the first quarter of 2008, compared with the same period in 2007, reflecting lower equipment rents as a result of lower traffic volume (down $3 million) and fewer third-party freight car repairs (down $4 million). This category of expenses decreased $27 million, or 2%, in 2007 compared to 2006, but increased $31 million, or 2%, in 2006 compared to 2005. The decline in 2007 was principally due to lower equipment rents, while the 2006 increase reflected increased maintenance activities.

Purchased services costs were $1,172 million in 2007, $1,165 million in 2006 and $1,142 million in 2005. In 2007, higher expenses for maintenance activities were largely offset by volume-related declines. The increase in 2006 reflected higher intermodal volume-related expenses.

Equipment rents, which includes the cost to us of using equipment (mostly freight cars) owned by other railroads or private owners less the rent paid to us for the use of our equipment, amounted to $379 million, $413 million and $405 million for 2007, 2006 and 2005, respectively. The decrease in 2007 was principally due to lower shipment volumes. The increase in 2006 was primarily due to a reduction in rents received on automotive equipment as a result of decreased shipments.

Fuel expense, which includes the cost of locomotive fuel as well as other fuel used in railway operations, increased $156 million, or 63%, for the first quarter of 2008, compared with the same period in 2007. The increase reflected a 65% increase in the price per gallon of locomotive fuel and a 1% increase in consumption. Fuel expense increased $74 million, or 7%, in 2007 compared with 2006, and increased $274 million, or 33%, in 2006 compared with 2005. Fuel expense is recorded net of hedge benefits, although there have been no such benefits since May 2006 when the program wound down (see Other Matters Market Risks and Hedging Activities below). The increase in 2007 reflected a 9% increase in the price per gallon of locomotive fuel as well as the absence of hedge benefits offset in part by a 4% decline in consumption. Expense in 2006 included hedge benefits of $20 million compared with benefits of $148 million in 2005, and reflected a 13% rise in the average price per gallon with a 1% increase in consumption.

Legislation enacted in the first quarter of 2005 repealed the $0.043 per gallon excise tax on railroad diesel fuel for 2007, with the following phased reductions in 2005 and 2006: $0.01 per gallon from January 1, 2005 through June 30, 2005; $0.02 per gallon from July 1, 2005 through December 31, 2006; and by the full $0.043 per gallon thereafter. We consume about 500 million gallons of locomotive diesel fuel per year.

Depreciation expense increased $37 million, or 5%, in 2007 compared to 2006, but decreased $36 million, or 5%, in 2006 compared with 2005. In both years, substantial capital investments and improvements resulted in higher depreciation expense. The net decrease in 2006 reflected the results of an equipment depreciation study and an analysis of the assets received in the Conrail Corporation Reorganization completed in 2006.

Materials and other expenses (including the estimates of costs related to personal injury, property damage and environmental matters) increased $26 million, or 12%, in the first quarter of 2008, compared with the same period in 2007. The increase reflected the Avondale Mills settlement related to the Graniteville accident (see additional discussion below) as well as higher locomotive and freight car material costs. These increases were partially offset by lower personal injury and environmental claims development. Materials and other expenses decreased $2 million in 2007 compared with 2006, but increased $27 million, or 3%, in 2006 compared to 2005, as shown in the following table.

	First Quarter		Year Ended		
	2008	2007	2007	2006	2005
			($ in millions)		
Materials	$ 101	$ 89	$ 359	$ 346	$ 315
Casualties and other claims	65	52	171	220	224
Other	74	73	270	236	236
Total	$ 240	$ 214	$ 800	$ 802	$ 775

In April 2008, we settled a lawsuit brought by Avondale Mills, Inc. (Avondale Mills) for claims associated with the Graniteville derailment. A portion of the settlement will not be reimbursed by insurance and is recorded as an expense in the first quarter of 2008. This expense combined with other favorable claims-related adjustments increased our year-over-year operating expenses by $13 million and reduced first-quarter earnings by $0.02 per diluted share.

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

The increase in 2006 reflected increased locomotive and freight car repair costs due to more maintenance activity related to higher usage from increased traffic volumes coupled with the age of the fleet, as well as higher expenses arising from derailments and insurance costs. These increases were partially offset by the absence of $38 million of costs associated with the 2005 derailment in Graniteville, South Carolina, and an unfavorable jury verdict in an employee injury case.

In 2005, we recorded a liability related to the January 6, 2005 derailment in Graniteville, SC. The total liability related to the derailment, which includes a current and long-term portion, represents our best estimate based on current facts and circumstances. The estimate includes amounts related to business property damage and other economic losses, personal injury and individual property damage claims as well as third-party response costs. Our commercial insurance policies are expected to cover substantially all expenses related to this derailment above the unreimbursed portion and our self-insured retention, including our response costs and legal fees. Accordingly, the Consolidated Balance Sheets reflect a current and long-term receivable for estimated recoveries from our insurance carriers. One of our insurance carriers has made assertions indicating that it may contest all or part of its coverage obligations, as such all or part of the recorded recovery attributable to such carrier ($100 million) may be contested. We believe these expenses are covered by the insurance policy and that recovery of any contested amount is probable, in that if the carrier contests payment an arbitrator would determine the settlement amounts to be reasonable and that the insurer s refusal to consent to and to fund the settlement was a breach of contract.

The largest component of casualties and other claims expense is personal injury costs. Cases involving occupational injuries comprised about 60% of total employee injury cases resolved and about 40% of total payments made. With our long-established commitment to safety, we continue to work actively to eliminate all employee injuries and to reduce the associated costs. With respect to occupational injuries, which are not caused by a specific accident or event but result from a claimed exposure over time, the benefits of any existing safety initiatives may not be realized immediately. These types of claims are being asserted by former or retired employees, some of whom have not been actively employed in the rail industry for decades.

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

We maintain substantial amounts of insurance for potential third-party liability and property damage claims. We also retain reasonable levels of risk through self-insurance.

Other Income Net

Other income net was flat in the first quarter of 2008 compared with the same period in 2007 as lower returns from corporate-owned life insurance (down $21 million) were offset by decreased expenses associated with tax credit investments (down $20 million). Other income net was $93 million in 2007, $149 million in 2006 and $74 million in 2005. The decrease in 2007 reflected lower interest income ($31 million), higher expenses associated with synthetic fuel-related tax credit investments ($15 million) and lower returns from corporate-owned life insurance ($15 million) that combined to offset higher equity in earnings of Conrail ($20 million).

We have membership interests representing ownership in companies that owned and operated facilities that produced synthetic fuel from coal. In addition, we purchased two facilities that produced synthetic fuel from coal in 2007. The production of synthetic fuel resulted in tax credits as well as expenses related to the investments. The expenses are recorded as a component of Other income net, and the tax credits, as well as tax benefits related to the expenses, are reflected in Provision for income taxes (see discussion below).

Results in 2006 reflected lower expense associated with tax credit investments primarily due to synthetic fuel related investments, greater interest income, and higher returns from corporate-owned life insurance, that were partially offset by lower equity in Conrail earnings.

Income Taxes

The first-quarter 2008 effective income tax rate was 38.9%, compared with 32.1% in the same period in 2007. The increase for the quarter was largely due to the absence of synthetic fuel-related credits which expired at the end of 2007.

Income tax expense in 2007 was $773 million for an effective rate of 35%, compared with effective rates of 34% in 2006 and 25% in 2005. The increase in the rate for 2007 largely resulted from Illinois tax legislation which increased deferred taxes by $19 million. The increase in the rate for 2006 was primarily due to the absence of an Ohio tax law change that lowered the effective rate in 2005, as well as fewer tax credits from synthetic fuel-related investments. Synthetic fuel tax credits were available through the end of 2007.

Synthetic fuel credits are subject to reduction if the Reference Price of a barrel of oil for the year falls within an inflation-adjusted phase-out range specified by the tax code. The Reference Price for a year is the annual average wellhead price per barrel of unregulated domestic crude oil as determined by the Secretary of the Treasury by April 1 of the following year. In 2006, the phase-out range was $55.06 to $69.12, and the phase-out range is adjusted annually for inflation. While we cannot predict with certainty the Reference Price for the year, we estimated a 66% phase-out of synthetic fuel credits in 2007 based on actual oil prices during the year.

Net income in 2007 reflects $5 million less in net benefits from these credits, as compared with the same period of 2006, as shown below:

	2007	2006	2005
		($ in millions)	
Effect in Other income net:			
Expenses on synthetic fuel related investments	$ 77	$ 62	$ 102
Effect in Provision for income taxes:			
Tax credits	60	56	98
Tax benefit of expenses on synthetic fuel related investments	30	24	40
Total reduction of income tax expense	90	80	138
Effect in Net income:			
Net benefit from synthetic fuel related investments	$ 13	$ 18	$ 36

The tax credits generated by our synthetic fuel related investments, which reduced the effective tax rate by 3% in 2007 and 2006, expired at the end of 2007 and, accordingly, the effective tax rate is expected to increase in 2008.

Our consolidated federal income tax returns for 2004 and 2005 are being audited by the Internal Revenue Service, or IRS, and those audits are expected to be completed within the next six months. The IRS completed its examination of our 2002 and 2003 consolidated federal income tax returns during the third quarter of 2006 and we have appealed certain adjustments proposed by the IRS. The results of the examination had a negligible effect on the effective tax rate.

Financial Condition, Liquidity and Capital Resources

Cash provided by operating activities, our principal source of liquidity, was $604 million in the first three months of 2008, compared with $586 million in the first three months of 2007 reflecting higher income from railway operations. We had a working capital deficit of $191 million at March 31, 2008, compared with a working capital deficit of $273 million at December 31, 2007; the change was largely the result of increased proceeds from borrowings that were partially used to repurchase shares of NS common stock. Our cash, cash equivalents and short-term investment balances totaled $364 million at March 31, 2008. We expect that cash on hand combined with cash flows from operations will be sufficient to meet our ongoing obligations.

Cash provided by operating activities was $2.3 billion in 2007, compared with $2.2 billion in 2006 and $2.1 billion in 2005. The improvement in 2007 resulted from favorable changes in working capital as well as the modest improvement in income from railway operations. In 2006, higher income from railway operations was partially offset by higher income tax payments. We had a working capital deficit of $273 million at December 31, 2007, compared with working capital of $307 million at December 31, 2006. The change was largely the result of reduced cash and short-term investments that were used to repurchase stock. Our cash, cash equivalents and short-term investment balances totaled $206 million and $918 million at December 31, 2007 and 2006, respectively.

Contractual obligations at December 31, 2007, comprised of our long-term debt (including capital leases), operating leases, agreements with CRC, unconditional purchase obligations, long-term advances from Conrail and unrecognized tax benefits were as follows:

	Payments Due By Period					
	Total	2008	2009-2010	2011-2012	2013 and Subsequent	Other
	($ in millions)					
Long-term debt and capital lease principal	$ 6,368	$ 369	$ 817	$ 369	$ 4,813	$
Operating leases	937	138	243	151	405	
Agreements with CRC	457	28	56	56	317	
Unconditional purchase obligations	298	201	97			
Unrecognized tax benefits*	167	36				131
Long-term advances from Conrail	133				133	
Total	$ 8,360	$ 772	$ 1,213	$ 576	$ 5,668	$ 131

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

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

Cash used for investing activities was $247 million in the first quarter of 2008, compared with $256 million in the same period in 2007, reflecting lower investment sales net of purchases and higher property additions. In March 2008, our board of directors approved the addition of $64 million to our 2008 capital expenditures budget to accelerate the purchase of approximately 750 new coal cars.

In 2007, cash used for investing activities was $1 billion, compared with $684 million in 2006 and $1.8 billion in 2005. The increase in 2007 primarily reflected lower net proceeds from short-term investment sales and purchases and increased property additions. The decrease in 2006 reflected higher proceeds from short-term investment sales, principally to fund share repurchases reflected in financing activities, offset in part by the $100 million investment in Meridian Speedway LLC, or MSLLC, (see discussion below) and increased property additions.

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

Capital Expenditures

	2007	2006	2005	2004	2003
			($ in millions)		
Road and other property	$ 894	$ 756	$ 741	$ 612	$ 502
Equipment	447	422	284	429	218
Total	$ 1,341	$ 1,178	$ 1,025	$ 1,041	$ 720

Track Structure Statistics (Capital and Maintenance)

	2007	2006	2005	2004	2003
Track miles of rail installed	401	327	302	246	233
Miles of track surfaced	5,014	4,871	4,663	5,055	5,105
New crossties installed (millions)	2.7	2.7	2.5	2.5	2.8

Average Age of Owned Railway Equipment

	2007	2006	2005	2004	2003
			(years)		
Freight cars	30.1	30.0	29.4	28.6	27.8
Locomotives	18.1	17.7	17.4	16.9	15.3
Retired locomotives	30.0	35.0	27.4	22.9	28.7

For 2008, we have budgeted $1.49 billion for capital expenditures. The anticipated spending includes $613 million for rail, crosstie, ballast and bridge programs, and $339 million is provided for infrastructure and expansion investments, including increased mainline capacity, track upgrades and expansions to accommodate new customers or traffic and large network public/private partnership investments such as the Heartland Corridor and Chicago CREATE programs (see discussion below). We expect to spend approximately $143 million on intermodal terminals and equipment to add capacity to the intermodal network, increased access and capacity for coal and merchandise traffic, and bulk transfer facilities. Planned equipment spending of $264 million provides $119 million for locomotives, including the purchase of 15 new units and continued spending on improvements to the locomotive fleet. Approximately $209 million will be spent on freight cars, including the acquisition of 2,080 new higher capacity coal cars as part of a multi-year program to replace the existing coal car fleet, the purchase of 321 freight cars upon their lease expiration, 163 multi-level automobile racks and improvements to multi-level racks. We also expect to spend $66 million related to computers, systems and information technology. We expect to make all of our capital expenditures with internally generated funds.

The Meridian Speedway is a 320-mile rail line between Meridian, Mississippi and Shreveport, Louisiana. On May 1, 2006, we and Kansas City Southern, or KCS, formed a joint venture (MSLLC) pursuant to which we expect to contribute $300 million in cash, substantially all of which will be used for capital improvements to the Meridian Speedway over a period of approximately three years, in exchange for a 30% interest in the joint venture. Through March 31, 2008, we had contributed $240 million. At the formation of MSLLC, KCS contributed the Meridian Speedway. We are recognizing our pro rata share of MSLLC s earnings or loss as required under the equity method of accounting. Our total investment in MSLLC is supported by the fair value of the rail line as well as intangible assets obtained through the transaction. The joint venture is expected to increase capacity and improve service over the Meridian Speedway into the Southeast.

The Heartland Corridor is a package of proposed clearance improvements and other facilities that is designed to create a seamless, high-capacity intermodal route across Virginia and West Virginia to Midwest markets. During 2006, with respect to the tunnel clearance component of the Heartland Corridor, we, along with the states of Ohio, West Virginia and Virginia, entered into a Memorandum of Agreement with the Federal Highway Administration that governs the release of up to $95 million in authorized federal funding. In 2006, we also entered into agreements with two states governing the use of up to $11 million in state funding for the Heartland Corridor rail double-stack clearance project. We expect to spend about $60 million in connection with this project. We began work on the Heartland Corridor tunnel clearances in October 2007, and the entire project is expected to be completed by the end of 2010.

The Chicago Region Environmental and Transportation Efficiency, or CREATE, project is a public-private partnership to reduce rail and highway congestion and add freight and passenger capacity in the metropolitan Chicago area. We and other public and private parties, including six other railroads, have agreed to participate in CREATE. A portion of the public funding has been approved, and the parties have developed a list of projects to be included in Phase I of the project. A total of $100 million in public funding has been secured for Phase I and the railroads have contributed an additional $100 million. The railroads expect to complete Phase I over the next three years. As currently planned, the total project is estimated to cost $1.5 billion with city, state and federal support. If additional public funding is secured, the railroads are expected to contribute a total of $232 million towards the entire project with our share slated to be $34 million.

Cash used for financing activities was $199 million in the first quarter of 2008, compared with $387 million in the first quarter of 2007. The change reflected higher debt repayments and increased dividend payments, which were more than offset by more proceeds from borrowings and higher exercises of employee stock options. Our debt-to-total capitalization ratio was 40.0% at March 31, 2008, compared with 39.6% at December 31, 2007.

In 2007, cash used for financing activities was $1.6 billion, compared with $1.3 billion in 2006 and $456 million in 2005. The increases reflected higher share repurchases as a part of our ongoing share repurchase program, as well as higher debt repayments and increased dividend payments.

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Financing activities in 2007 include $250 million of proceeds from our receivable securitization facility.

Share repurchases totaled $1.2 billion in 2007 and $964 million in 2006 for the purchase and retirement of 23.6 million shares and 21.7 million shares, respectively, of common stock as part of our ongoing share repurchase program. In the first quarter of 2008, 5.6 million shares of NS common stock were repurchased at a total cost of $276 million. In March 2007, our board of directors amended our share repurchase program by increasing the authorized amount of share repurchases from 50 million to 75 million shares and shortening the authorized period from 2015 to 2010. The timing and volume of purchases is guided by management s assessment of market conditions and other pertinent facts. To date, almost all of the purchases under the program have been made with internally generated cash. However, future funding sources are expected to include proceeds from the issuance of debt, including the use of our receivable securitization program. Dependent on economic and market conditions, we expect to purchase and retire a similar amount of shares in 2008.

We have in place and available a $1 billion, five-year credit agreement expiring in 2012 that provides for borrowings at prevailing rates and includes financial covenants. There were no amounts outstanding under this facility at March 31, 2008, and we are in compliance with all of the financial covenants. Through February 2009, we are ineligible to utilize our March 2001 and September 2004 Form S-3 registration statements due to a late filing of a Form 8-K which was unrelated to our financial condition or results of operations. However, this is not expected to have an impact on financial liquidity.

Looking forward, we expect to refinance maturing debt over the next several years and modestly increase current debt levels. Overall, our goal is to maintain a capital structure with appropriate leverage to support our business strategy and provide flexibility through business cycles.

Application of Critical Accounting Estimates

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

Pensions and Other Postretirement Benefits

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

Our net pension benefit, which is included in Compensation and benefits on our Consolidated Statements of Income, was $40 million for the year ended December 31, 2007. In recording this amount, we assumed a long-term investment rate of return of 9%. Investment experience of the pension fund over the past 10-, 15- and 20-year periods has been a rate of return in excess of 10%

and supports the current rate of return assumption. A one percentage point change to this rate of return assumption would result in a $19 million change to the pension credit for 2007 and, as a result, an equal change in Compensation and benefits expense. Changes that are reasonably likely to occur in assumptions concerning retirement age, projected earnings and mortality would not be expected to have a material effect on our net pension benefit or net pension asset in the future. The net pension asset is recorded at its net present value using a discount rate that is based on the current interest rate environment in light of the timing of expected benefit payments. In 2007, we utilized an analysis in which the projected annual cash flows from the pension and postretirement benefit plans were matched with a yield curve based on an appropriate universe of high-quality corporate bonds. We used the results of the yield curve to select the discount rate that matches the payment stream of the benefits in these plans. Previously, we referred to Moody s seasoned Aa corporate bond yields and the changes in such yields in establishing the discount rate.

Our net cost for other postretirement benefits, which is also included in Compensation and benefits, was $76 million for the year ended December 31, 2007. In recording this expense and valuing the net liability for other postretirement benefits, which is included in Other postretirement benefits, management estimated future increases in health-care costs.

Properties and Depreciation

Most of our total assets are comprised of long-lived railway properties. Our properties are depreciated using group depreciation. Rail is depreciated primarily on the basis of use measured by gross-ton miles. Other properties are depreciated generally using the straight-line method over the lesser of estimated service or lease lives. We review the carrying amount of properties whenever events or changes in circumstances indicate that such carrying amount may not be recoverable based on future undiscounted cash flows. Assets that are deemed impaired as a result of such review are recorded at the lesser of carrying amount or fair value.

Our depreciation expense is based on management s assumptions concerning service lives of our properties as well as the expected net salvage that will be received upon their retirement. In developing these assumptions, our management utilizes periodic depreciation studies that are performed by an outside firm of consulting engineers. These studies analyze our historical patterns of asset use and retirement and take into account any expected change in operation or maintenance practices. Our recent experience with these studies has been that while they do result in changes in the rates used to depreciate our properties, these changes have not caused a significant effect to our annual depreciation expense. The studies may also indicate that the recorded amount of accumulated depreciation is deficient (or in excess) of the amount indicated by the study. Any such deficiency (or excess) is amortized as a component of depreciation expense over the remaining service lives of the affected class of property. Our depreciation expense for the year ended December 31, 2007, amounted to $775 million. Our weighted-average depreciation rates for 2007 were 2.7% for road, 3.7% for equipment and 2.3% for other property; a one-tenth percentage point increase (or decrease) in these rates would have resulted in a $27 million increase (or decrease) to our depreciation expense for 2007.

Personal Injury, Environmental and Legal Liabilities

Our expense for casualties and other claims, included in Materials and other, amounted to $171 million for the year ended December 31, 2007. Most of this expense was composed of our accrual related to personal injury liabilities. Job-related personal injury and occupational claims are subject to FELA, which is applicable only to railroads. FELA s fault-based tort system produces results that are unpredictable and inconsistent as compared with a no-fault worker s compensation system. The variability inherent in this system could result in actual costs being very different from the liability recorded. In all cases, we record a liability when the expected loss for the claim is both probable and estimable.

To aid in valuing our personal injury liability and determining the amount to accrue during the year, our management utilizes studies prepared by an independent consulting actuarial firm. For employee personal injury cases, the actuarial firm studies our historical patterns of reserving for

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

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

Operating expenses for environmental matters totaled approximately $16 million in 2007, $19 million in 2006 and $16 million in 2005, and capital expenditures totaled approximately $7 million in 2007, $6 million in 2006 and $9 million in 2005.

Our Consolidated Balance Sheets include liabilities for environmental exposures in the amount of $43 million at March 31, 2008, and $46 million at December 31, 2007 (of which $12 million is classified as a current liability at the end of each period). At March 31, 2008, the liability represents our estimate of the probable cleanup and remediation costs based on available information at 154 known locations. As of that date, 11 sites account for $24 million of the liability, and no individual site was considered to be material. 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 31 locations, one or more of our subsidiaries, usually in conjunction with a number of other parties, have been identified as potentially responsible parties by the Environmental Protection Agency, or EPA, or similar state authorities under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, or comparable state statutes, which often impose joint and several liability for cleanup costs.

With respect to known environmental sites (whether identified by us or by 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, 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 that management deems appropriate for each site. As a result, it is not practical to quantitatively describe the effects of changes in these many assumptions and judgments. We have consistently applied our methodology of estimating our environmental liabilities.

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

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

Income Taxes

Our net long-term deferred tax liability totaled $6.4 billion at December 31, 2007. This liability is estimated based on the expected future tax consequences of items recognized in the financial statements. After application of the federal statutory tax rate to book income, judgment is required with respect to the timing and deductibility of expenses in our corporate income tax returns. For state income and other taxes, judgment is also required with respect to the apportionment among the various jurisdictions. A valuation allowance is recorded if management expects that it is more likely than not that our deferred tax assets will not be realized. We had a $10 million valuation allowance on $685 million of deferred tax assets as of December 31, 2007, reflecting the expectation that most of these assets will be realized.

In addition, we have a recorded liability for our estimate of uncertain tax positions taken or expected to be taken in a tax return. Judgment is required in evaluating the application of federal and state tax laws and assessing whether it is more likely than not that a tax position will be sustained on examination and, if so, judgment is also required as to the measurement of the amount of tax benefit that will realized upon settlement with the taxing authority. Management believes this liability for uncertain tax positions to be adequate. Income tax expense is adjusted in the period in which new information about a tax position becomes available or the final outcome differs from the amounts recorded. For every one half percent change in the 2007 effective rate net income would have changed by $11 million.

Other Matters

Labor Agreements

Approximately 26,000, or about 85%, of our railroad employees are covered by labor agreements with various labor unions. These agreements remain in effect until changed pursuant to the Railway Labor Act, or RLA. We largely bargain in concert with other major railroads. Moratorium provisions in the labor agreements govern when the railroads and the unions may propose changes. The most recent bargaining round began in late 2004. Since that time, the railroads have finalized agreements that extend through 2009 with all of the major rail unions except the United Transportation Union, or UTU, and the International Association of Machinists, or IAM. The unions with which the railroads have reached agreement represent about two-thirds of our unionized employees. A tentative agreement with UTU is currently subject to ratification by the employees; a tentative agreement with IAM failed ratification and the parties remain in mediation.

Because we previously reached separate agreements with the Brotherhood of Locomotive Engineers and Trainmen, or BLET, and the American Train Dispatchers Association, or ATDA, only the health and welfare provisions from the national agreements will apply to our locomotive engineers and ATDA-represented dispatchers. We also recently reached a tentative agreement that would have extended our contract with BLET through 2014; however, the tentative agreement failed ratification by the employees.

Negotiations with the unions that have not settled are being mediated by the National Mediation Board, or NMB, a federal agency. The status quo is preserved during mediation (that is, the union may not strike and management may not change the labor agreements) while the NMB assists the parties in their efforts to reach agreement. If the NMB were to terminate mediation, it would, at that time, propose that the parties arbitrate their differences. A strike could occur 30 days thereafter if the parties did not accept arbitration. However, the President of the United States of

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America could then appoint an Emergency Board which would delay any strike for a further 60 days while the Board made recommendations and the parties engaged in further negotiations. The outcome of the negotiations cannot be determined at this time.

Market Risks and Hedging Activities

We have used derivative financial instruments in the past to reduce the risk of volatility in our diesel fuel costs, and we continue to use such instruments to manage our overall exposure to fluctuations in interest rates. We manage our overall exposure to fluctuations in interest rates by issuing both fixed- and floating-rate debt instruments, and by entering into interest-rate hedging transactions to achieve an appropriate mix within our debt portfolio.

At March 31, 2008, our debt subject to interest rate fluctuations totaled $532 million. A 1% increase in interest rates would increase our total annual interest expense related to all our variable debt by approximately $5 million. Management considers it unlikely that interest rate fluctuations applicable to these instruments will result in a material adverse effect on our results of operations, financial position or liquidity.

In 2001, we began a program to hedge a portion of our diesel fuel consumption. The intent of the program was to assist in the management of our aggregate risk exposure to fuel price fluctuations, which can significantly affect our operating margins and profitability, through the use of one or more types of derivative instruments. No new hedges have been entered into since May of 2004, and the last remaining contracts were settled in the second quarter of 2006, bringing an end to the benefits from the program. Locomotive diesel fuel costs represented 14% of our operating expenses for 2006 and 11% for 2005.

Some of our capital leases, which carry an average fixed rate of 7%, were effectively converted to variable rate obligations using interest rate swap agreements. On March 31, 2008, the average pay rate under these agreements was 5%, and the average receive rate was 7%. During the first quarter of 2008, the effect of the swaps was to reduce interest expense by less than $1 million. A portion of the lease obligations is payable in Japanese yen. We eliminated the associated exchange rate risk at the inception of each lease with a yen deposit sufficient to fund the yen-denominated obligation. Most of these deposits are held by foreign banks, primarily Japanese. As a result, we are exposed to financial market risk relative to Japan. Counterparties to the interest rate swaps and Japanese banks holding yen deposits are major financial institutions believed by management to be creditworthy.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements. This statement, effective for interim or annual reporting periods beginning after November 15, 2007, establishes a framework for measuring fair value in U.S. generally accepted accounting principles and expands disclosures about fair value measurements. We adopted the statement January 1, 2008, related to financial instrument assets and liabilities with no material effect on our consolidated financial statements.

FASB Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes, issued in June 2006, clarifies accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. Under the guidelines of FIN 48, an entity should recognize the financial statement benefit of a tax position if it determines that it is more likely than not that the position will be sustained on examination. We adopted this Interpretation in the first quarter of 2007.

Inflation

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

Proposed Legislation and Regulations on Safety and Transportation of Hazardous Materials

Regulations proposed by the Department of Homeland Security in late 2006 would mandate that railroads adopt chain of custody and security measures related to the transportation of toxic inhalation hazard, or TIH, materials. If enacted, such regulations could cause service degradation and higher costs for the transportation of TIH materials. In addition, certain local governments have sought to enact ordinances banning hazardous materials moving by rail within their borders. Some legislators have contemplated pre-notification requirements for hazardous material shipments. If promulgated, such ordinances could require the re-routing of hazardous materials shipments, with the potential for significant additional costs and network inefficiencies. Accordingly, we will oppose efforts to impose unwarranted regulation in this area.

BUSINESS

Overview

We are a Norfolk, Virginia based corporation that controls a major freight railroad, Norfolk Southern Railway Company. Norfolk Southern Railway Company is primarily engaged in the rail transportation of raw materials, intermediate products and finished goods primarily in the Southeast, East and Midwest and, via interchange with other rail carriers, to and from the rest of the United States. We also transport overseas freight through several Atlantic and Gulf Coast ports. We provide comprehensive logistics services and offer the most extensive intermodal network in the eastern half of the United States. Our common stock is listed on the NYSE, under the symbol NSC.

We were incorporated on July 23, 1980, under the laws of the Commonwealth of Virginia. On June l, 1982, we acquired control of two major operating railroads, NW and Southern in accordance with an Agreement of Merger and Reorganization dated as of July 31, 1980, and with the approval of the transaction by the Interstate Commerce Commission (now the Surface Transportation Board). Effective December 31, 1990, we transferred all the common stock of NW to Southern, and Southern s name was changed to Norfolk Southern Railway Company. Effective September 1, 1998, NW was merged with and into Norfolk Southern Railway. As of March 31, 2008, all the common stock of Norfolk Southern Railway was owned directly by us.

Through a limited liability company, we, along with CSX, jointly own Conrail Inc., whose primary subsidiary is 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. CRC owns and operates the Shared Assets Areas for the joint and exclusive benefit of NSR and CSX Transportation Inc. (see Note 4 to the Consolidated Financial Statements elsewhere in this prospectus).

Railroad Operations

As of March 31, 2008, we operated approximately 21,000 miles of railroad in 22 eastern states and the District of Columbia.

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

The following corridors have the heaviest freight volume:

- New York City area to Chicago (via Allentown and Pittsburgh);
- Chicago to Macon (via Cincinnati, Chattanooga and Atlanta);
- Appalachian coal fields of Virginia, West Virginia and Kentucky to Norfolk and Sandusky, Ohio;
- Cleveland to Kansas City;
- Birmingham to Meridian;
- Memphis to Chattanooga.

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

	Mileage Operated as of March 31, 2008				
	Miles of Road	**Second and Other Main Track**	**Passing Track, Crossovers and Turnouts**	**Way and Yard Switching**	**Total**
Owned	15,943	2,808	2,045	8,492	29,288
Operated under lease, contract or trackage rights	4,948	1,977	417	970	8,312
Total	20,891	4,785	2,462	9,462	37,600

Triple Crown Operations

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

The following table sets forth certain statistics relating to our railroads operations for the past 5 years and for the first quarter of 2008:

	Rail Operating Statistics					
	For the Three Months Ended March 31, 2008	**Years Ended Dec. 31,**				
		2007	**2006**	**2005**	**2004**	**2**
Revenue ton miles (billions)	49	196	204	203	198	
Freight train miles traveled (millions)	20.3	81.9	84.2	81.2	77.7	
Revenue per ton mile	$ 0.0515	$ 0.0481	$ 0.0462	$ 0.0421	$ 0.0369	$ 0
Revenue ton miles per man-hour worked	3,013	3,066	3,196	3,146	3,347	

Percentage ratio of railway operating expenses to railway operating revenues	76.9 %	72.6 %	72.8 %	75.2 %	76.7 %

(1) Includes $107 million of costs for a voluntary separation program, which added 1.6 percentage points to the ratio.

Railway Operating Revenues

Our total railway operating revenues were $9.4 billion in 2007. For a discussion of railway operating revenues in the first quarter of 2008, see the financial information by traffic segment in Management s Discussion and Analysis of Financial Condition and Results of Operations.

Coal Traffic

Coal, coke and iron ore most of which is bituminous coal is our railroads largest commodity group as measured by revenues. The railroads handled a total of 186.0 million tons in 2007, most of which originated on our lines in West Virginia, Virginia, Pennsylvania and Kentucky. Revenues from coal, coke and iron ore accounted for about 25% of our total railway operating revenues in 2007.

Total coal handled through all system ports in 2007 was 34.1 million tons. Of this total, 13.4 million tons (including coastwise traffic) moved through Norfolk, Virginia, 2.9 million tons moved through the Baltimore Terminal, 10.9 million tons moved to various docks on the Ohio River, and

6.9 million tons moved to various Lake Erie ports. Other than coal for export, virtually all coal handled by our railroads was terminated in states east of the Mississippi River.

For a discussion of coal traffic by type of coal, see Management s Discussion and Analysis of Financial Condition and Results of Operations.

General Merchandise Traffic

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

In 2007, 142 million tons of general merchandise freight, or approximately 67% of total general merchandise tonnage handled by us, originated online. The balance of general merchandise traffic was received from connecting carriers at interterritorial gateways. The principal interchange points for traffic that we received included Chicago, Memphis, New Orleans, Cincinnati, Kansas City, Detroit, Hagerstown, St. Louis/East St. Louis and Louisville. General merchandise carloads handled in 2007 were 2.8 million, the revenue from which accounted for 55% of our total railway operating revenues in 2007.

For a discussion of general merchandise traffic by commodity group, see Management s Discussion and Analysis of Financial Condition and Results of Operations.

Intermodal Traffic

The intermodal market consists of shipments moving in trailers, domestic and international containers and Roadrailer® equipment. These shipments are handled on behalf of intermodal marketing companies, international steamship lines, truckers and other shippers. Intermodal units handled in 2007 were 3.1 million, the revenues from which accounted for 20% of our total railway operating revenues for the year.

For a discussion of intermodal traffic, see Management s Discussion and Analysis of Financial Condition and Results of Operations.

Freight Rates

In 2007 and in the first quarter of 2008, our railroads continued their reliance on private contracts and exempt price quotes as their predominant pricing mechanisms. Thus, a major portion of our railroads freight business is not currently economically regulated by the government. In general, market forces have been substituted for government regulation and now are the primary determinant of rail service prices.

In May 2008, our railroads were found by the STB to be revenue adequate for the year 2006. Similarly, our railroads were found by the STB in 2006 to be revenue adequate for the year 2005. The STB has not made its revenue adequacy determination for the year 2007. A railroad is revenue adequate under the applicable law when its return on net investment exceeds the rail industry s composite cost of capital. This determination is made pursuant to a statutory requirement.

Passenger Operations

Regularly scheduled passenger trains are operated by Amtrak on our lines between the following locations: Alexandria, Virginia, and New Orleans, Louisiana; Raleigh and Charlotte, North Carolina; Selma and Charlotte, North Carolina; Chicago, Illinois, and Porter, Indiana; Chicago, Illinois, and Battle Creek, Michigan; Chicago, Illinois, and Pittsburgh, Pennsylvania; Chicago, Illinois, and Detroit, Michigan; and Pittsburgh and Harrisburg, Pennsylvania. Commuter trains are operated on our line between Manassas and Alexandria in accordance with contracts with two transportation commissions of the Commonwealth of Virginia. We lease the Chicago to Manhattan, Illinois, line to the Commuter Rail Division of the Regional Transportation Authority of Northeast Illinois. We operate freight service over lines with significant ongoing Amtrak and commuter passenger operations, and are conducting freight operations over trackage owned by: Amtrak; New Jersey Transit; Southeastern Pennsylvania Transportation Authority; Metro-North Commuter Railroad Company; and Maryland Department of Transportation. Passenger operations are conducted either by Amtrak or by the commuter agencies over trackage owned by Conrail in the Shared Assets Areas.

Noncarrier Operations

Our noncarrier subsidiaries engage principally in the acquisition, leasing and management of coal, oil, gas and minerals; the development of commercial real estate; telecommunications; and the leasing or sale of rail property and equipment. In 2007, no such noncarrier subsidiary or industry segment grouping of noncarrier subsidiaries met the requirements for a reportable business segment set forth in Statement of Financial Accounting Standards No. 131.

Railway Property

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

Capital Expenditures

Capital expenditures for road, equipment and other property for the past five years and for the first quarter of 2008 were as follows (including capitalized leases):

	Capital Expenditures					
	For the Three Months Ended March 31, 2008	2007	2006	2005	2004	2003
	($ in millions)					
Road and other property	$ 206	$ 894	$ 756	$ 741	$ 612	$ 502
Equipment	98	447	422	284	429	218
Total	$ 304	$ 1,341	$ 1,178	$ 1,025	$ 1,041	$ 720

Capital spending and maintenance programs are and have been designed to assure the ability to provide safe, efficient and reliable transportation services. For 2008, we have budgeted $1.49 billion of capital expenditures. On May 1, 2006, we and KCS formed a joint venture, MSLLC, pursuant to which we intend to contribute $300 million in cash, substantially all of which will be used for capital improvements over a period of approximately three years, in exchange for a 30% interest in the joint venture. Through March 31, 2008, we contributed $240 million to MSLLC. For further information concerning MSLLC, see the discussion following Cash used for investing activities, in Management s Discussion and Analysis of Financial Condition and Results of Operations.

Equipment

As of December 31, 2007, we owned or leased the following units of equipment:

	Owned*	Leased**	Total	Capacity Of Equipment (Horsepower)
Locomotives:				
Multiple purpose	3,593	132	3,725	12,888,500
Switching	149		149	216,700
Auxiliary units	74		74	
Total locomotives	3,816	132	3,948	13,105,200
Freight cars:				**(Tons)**
Hopper	17,153	808	17,961	1,916,374
Box	16,145	2,078	18,223	1,465,342
Covered hopper	8,830	2,805	11,635	1,274,667
Gondola	31,335	7,959	39,294	4,231,932
Flat	2,656	1,335	3,991	313,570
Caboose	177		177	
Other	4,236	20	4,256	212,311
Total freight cars	80,532	15,005	95,537	9,414,196
Other:				
Work equipment	5,274	3	5,277	
Vehicles	4,164		4,164	
Highway trailers and Containers	171	11,413	11,584	
RoadRailer®	7,035	193	7,228	
Miscellaneous	1,314	15,826	17,140	
Total other	17,958	27,435	45,393	

* Includes equipment leased to outside parties and

equipment subject to equipment trusts, conditional sale agreements and capitalized leases.

** Includes 60 locomotives and 5,776 freight cars leased from CRC.

The following table indicates the number and year built for the locomotives and freight cars we owned at December 31, 2007.

	Year Built						
	2007	**2006**	**2005**	**2004**	**2003**	**1996-2002**	**1991-1995**
Locomotives:							
No. of units	90	143	89	207	100	906	487
% of fleet	2 %	4 %	2 %	5 %	3 %	24 %	13 %
Freight cars:							
No. of units	1,200	404	89			5,620	5,008
% of fleet	1 %	1 %	%	%	%	7 %	6 %

The following table shows the average age of our locomotive and freight car fleets at December 31, 2007, and the number of retirements in 2007:

	Locomotives	**Freight Cars**
Average age in service	18.1 years	30.1 years
Retirements	64 units	3,598 units
Average age retired	30.0 years	38.9 years

Between 1988 and 2000, about 29,000 of our coal cars were rebodied. As a result, the remaining serviceability of our freight car fleet is greater than may be inferred from the high percentage of freight cars built in earlier years.

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

Annual Average Bad Order Ratio

	For the Three Months Ended March 31, 2008	2007	2006	2005	2004	2003
Freight cars	6.6 %	4.9 %	6.4 %	6.3 %	7.4 %	7.4 %
Locomotives	4.6 %	5.7 %	5.7 %	6.2 %	6.3 %	6.2 %

Encumbrances

Certain of our railroad equipment is subject to the prior lien of equipment financing obligations amounting to approximately $287 million as of March 31, 2008, $389 million as of December 31, 2007, and $534 million as of December 31, 2006.

Track Maintenance

Of the approximately 38,000 total miles of track we operate, we have responsibility for maintaining about 29,300 miles with the remainder being operated under trackage rights.

Over 75% of our main line trackage (including first, second, third and branch main tracks, all excluding trackage rights) has rail ranging from 131 to 155 pounds per yard with the standard installation currently at 136 pounds per yard. Approximately 45% of our lines carried 20 million or more gross tons per track mile during 2007.

The following table summarizes several measurements regarding our track roadway additions and replacements during the past five years and for the first quarter of 2008:

	For the Three Months Ended March 31, 2008	2007	2006	2005	2004	2003
Track miles of rail installed	120	401	327	302	246	233
Miles of track surfaced	1,091	5,014	4,871	4,663	5,055	5,105
New crossties installed (millions)	0.5	2.7	2.7	2.5	2.5	2.8

Microwave System

Our microwave system, consisting of approximately 7,400 radio route miles, 424 core stations, 14 secondary stations and five passive repeater stations, provides communications between most of our operating locations. The microwave system is used primarily for voice communications, VHF radio control circuits, data and facsimile transmissions, traffic control operations and AEI data transmissions.

Traffic Control

Of the approximately 15,900 route miles we own, about 11,000 miles are signalized, including 8,000 miles of centralized traffic control, or CTC, and 3,000 miles of automatic block signals. Of the 8,000 miles of CTC, approximately 3,000 miles are controlled by data radio originating at 258 base station radio sites.

Computers

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

Environmental Matters

Compliance with federal, state and local laws and regulations relating to the protection of the environment is a principal goal of ours. To date, such compliance has not affected materially our capital additions, earnings, liquidity or competitive position. See Legal Proceedings and Management s Discussion and Analysis of Financial Condition and Results of Operations Personal Injury, Environmental and Legal Liabilities.

Employees

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

	For the Three Months Ended March 31, 2008	2007	2006	2005	2004	2003
Average number of employees	30,711	30,806	30,541	30,294	28,475	28,753
Average wage cost per employee	$ 16,000	$ 62,000	$ 62,000	$ 61,000	$ 59,000	$ 58,000
Average benefit cost per employee	$ 9,000	$ 30,000	$ 32,000	$ 29,000	$ 28,000	$ 28,000

Approximately 85% of our railroad employees are covered by collective bargaining agreements with various labor unions. See the discussion of Labor Agreements in Management s Discussion and Analysis of Financial Condition and Results of Operations.

Government Regulation

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

The relaxation of economic regulation of railroads, begun over two decades ago under the Staggers Rail Act of 1980, includes exemptions of intermodal business (trailer-on-flat-car, container-on- flat-car), rail boxcar traffic, lumber, manufactured steel, automobiles and certain bulk commodities such as sand, gravel, pulpwood and wood chips for paper manufacturing. Transportation contracts on regulated shipments effectively remove those shipments from regulation as well for the duration of the contract. About 87% of our freight revenues come from either exempt traffic or traffic moving under transportation contracts.

Efforts were made in 2007 to re-subject the rail industry to federal economic regulation and such efforts are expected to continue in 2008. The Staggers Rail Act of 1980, which substantially reduced such regulation, encouraged and enabled rail carriers to innovate and to compete for business, thereby contributing to the economic health of the nation and to the revitalization of the industry. Accordingly, we will continue to oppose efforts to reimpose unwarranted economic regulation.

Competition

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

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

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

Security of Operations

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

Our plan also effectively addresses and complies with U.S. Department of Transportation, or DOT, security regulations pertaining to training and security plans with respect to the transportation of hazardous materials. Among more focused elements of the plan, security awareness training is given to all railroad employees who directly affect hazardous material transportation safety, and this training is integrated into recurring hazardous material training and re-certification programs. Toward that end, our company, working closely with the National Transit Institute at Rutgers University, developed a four-module uniform national training program. More in-depth security training has been given to those select employees of ours who have been given specific security responsibilities, and additional, location-specific security plans have been developed for certain metropolitan areas and each of six port facilities served by us. With respect to the ports, each facility plan has been approved by the applicable Captain of the Port and subject to inspection by the U.S. Coast Guard.

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

Similarly, we are guided in our operations by various supplemental security action items issued by DHS and DOT, U.S. Coast Guard Maritime Security requirements, as well as voluntary security action items developed in collaboration with TSA, DOT, and the freight railroads in 2006. Many of the action items are based on lessons learned from DHS and DOT security assessments of rail corridors in High Threat Urban Areas, or HTUA, begun in 2004. Particular attention is paid to: (1) the establishment of secure storage areas for rail cars carrying toxic-by-inhalation, or

TIH, materials;

(2) the expedited movement of trains transporting rail cars carrying TIH materials; (3) the minimization of unattended loaded tank cars carrying TIH materials; and (4) cooperation with federal, state, local and tribal governments to identify, through risk assessments, those locations where security risks are the highest. These action items and our compliance initiatives are outlined in the various departmental sections of our Departmental Security Plan.

In 2007, through participation in the Transportation Community Awareness and Emergency Response, or TRANSCAER, Program, we provided rail accident response training to approximately 5,000 emergency responders, such as local police and fire personnel, representing over 22,000 man-hours of emergency response training. Our other training efforts throughout 2007 included participation in a major security drill with Amtrak and the State of Delaware in New Castle County, as well as coordinating table-top exercises involving the staged release of TIH shipments with various local, state, and federal agencies. We also have ongoing programs to sponsor local emergency responders at tank car emergency response training programs conducted at the AAR Transportation Technology Center in Pueblo, Colorado, and our annual TRANSCAER Whistle-Stop train makes stops in numerous cities, our special training cars serving as a resource to an audience of nearly 1,000 emergency responders annually.

Improvements in equipment design also are expected to play a role in enhancing rail security. The AAR has developed new specifications for tank cars carrying chlorine and anhydrous ammonia which became effective on April 1, 2008. In the near future, the FRA is also expected to issue a proposed regulation addressing the redesign of pressurized tank cars used for the transportation of TIH gases and liquids. A consortium of chemical companies is also studying improvements in tank car head, shell, fittings, and thermal protection in order to improve the survivability of current tank cars.

Legal Proceedings

With respect to antitrust class actions consolidated on November 6, 2007, in the U.S. District Court for the District of Columbia by the Judicial Panel on Multidistrict Litigation, consolidated amended class action complaints were filed against NS and three other railroads on April 15, 2008. The complaints allege violations of Federal antitrust laws and other laws with regard to the railroads fuel surcharge programs. On March 25, 2008, a lawsuit containing similar allegations against NS and four other major railroads was filed in the U.S. District Court for the District of Minnesota by a customer on behalf of itself, although NS has not yet received service of process. We believe the allegations in the complaints are without merit and intend to vigorously defend these actions. In addition, NS received a subpoena from a state grand jury on July 13, 2007, requesting documents and materials relating to the setting of fuel surcharges. NS is cooperating with the state in its investigation. We do not believe that the outcome of these proceedings will have a material effect on our financial position, results of operations, or liquidity.

In April 2008, we settled a lawsuit brought by Avondale Mills for claims associated with the January 6, 2005, derailment in Graniteville, SC. See the discussion of materials and other expenses in Management s Discussion and Analysis of Financial Condition and Results of Operations. In addition, on April 24, 2008, the United States Department of Justice brought an action against us for alleged violations of federal environmental laws resulting from the discharge of chlorine and oil that occurred as a result of the derailment, including claims for civil penalties as well as injunctive relief. We intend to vigorously defend this action and do not believe that the resolution of these claims will have a material adverse effect on our financial position, results of operations or liquidity.

MANAGEMENT

Executive Officers

Our executive officers generally are elected and designated annually by our board of directors at its first meeting held after the annual meeting of stockholders, and they hold office until their successors are elected. Executive officers also may be elected and designated throughout the year as our board of directors considers appropriate. There are no family relationships among the officers, nor any arrangement or understanding between any officer and any other person pursuant to which the officer was selected. The following table sets forth certain information, as of March 31, 2008, relating to our executive officers (the Executive Officers).

Name	Age	Position(s)
Charles W. Moorman, IV	56	Chairman, President and Chief Executive Officer
Stephen C. Tobias	63	Vice Chairman and Chief Operating Officer
Deborah H. Butler	53	Executive Vice President Planning and Chief Information Officer
James A. Hixon	54	Executive Vice President Law and Corporate Relations
Mark D. Manion	55	Executive Vice President Operations
John P. Rathbone	55	Executive Vice President Administration
Donald W. Seale	55	Executive Vice President and Chief Marketing Officer
James A. Squires	46	Executive Vice President Finance and Chief Financial Officer
Daniel D. Smith	55	Senior Vice President Energy and Properties
Marta R. Stewart	50	Vice President and Controller

Charles W. Moorman, IV has been our Chief Executive Officer since November 1, 2005 and President since October 2004. Prior thereto he served as Senior Vice President Corporate Planning and Services from December 2003 to October 2004, Senior Vice President Corporate Services from February 2003 to December 2003 and President Thoroughbred Technology and Telecommunications, Inc. from 1999 to November 2004. Mr. Moorman has been a director since 2005 and has been chairman of the board of directors since February 2006.

Stephen C. Tobias has been in his present position since August 1, 1998.

Deborah H. Butler has been in her present position since June 1, 2007. Prior thereto she served as Vice President Customer Service.

James A. Hixon has been in his present position since October 1, 2005. Prior thereto he served as Executive Vice President Finance and Public Affairs from October 1, 2004 to October 1, 2005, Senior Vice President Legal and Government Affairs from December 1, 2003 to October 1, 2004 and prior thereto served as Senior Vice President Administration.

Mark D. Manion has been in his present position since October 1, 2004. Prior thereto he served as Senior Vice President Transportation Operations from December 1, 2003 to October 1, 2004 and prior thereto served as Vice President Transportation Services and Mechanical.

John P. Rathbone has been in his present position since October 1, 2004. Prior thereto he served as Senior Vice President Administration from December 1, 2003 to October 1, 2004 and prior thereto served as Senior Vice President and Controller.

Donald W. Seale has been in his present position since April 1, 2006. Prior thereto he served as Executive Vice President Sales and Marketing from October 1, 2004 to April 1, 2006, Senior Vice President Marketing Services from December 1, 2003 to October 1, 2004 and prior thereto served as Senior Vice President Merchandise Marketing.

James A. Squires has been in his present position since July 1, 2007. Prior thereto he served as Executive Vice President Finance from April 1, 2007 to July 1, 2007, Senior Vice President Financial

Planning from April 1, 2006 to April 1, 2007, Senior Vice President Law from October 1, 2004 to April 1, 2006, Vice President Law from December 1, 2003 to October 1, 2004 and prior thereto was Senior General Counsel.

Daniel D. Smith has been in his present position since December 1, 2003. Prior thereto he served as President NS Development.

Marta R. Stewart has been in her present position since December 1, 2003. Prior thereto she served as Assistant Vice President Corporate Accounting.

Board of Directors

The following sets forth, as of March 31, 2008, information with respect to those persons who serve on our Board of Directors.

Name	Age	Position(s)
Charles W. Moorman, IV	56	Chairman of the Board of Directors
Gerald L. Baliles	67	Director
Daniel A. Carp	59	Director
Gene R. Carter	68	Director
Alston D. Correll	66	Director
Landon Hilliard	68	Director
Karen N. Horn	64	Director
Burton M. Joyce	66	Director
Steven F. Leer	55	Director
Admiral J. Paul Reason	67	Director

Gerald L. Baliles has been a director since 1990. He has been Director of the Miller Center of Public Affairs at the University of Virginia since April 2006. Mr. Baliles was a partner in the law firm of Hunton & Williams, a business law firm with offices in several major U. S. cities and international offices, from 1990 until his retirement in March 2006. He is former Governor and Attorney General of Virginia.

Daniel A. Carp has been a director since 2006. He formerly served as Chairman of the Board and Chief Executive Officer of Eastman Kodak Company from 2000 to 2005, having previously served as President and Chief Operating Officer and as a director of Eastman Kodak. He retired from Kodak at the end of 2005. He is non-executive Chairman of Delta Air Lines, Inc. and is also a director of Texas Instruments Incorporated and Liz Claiborne, Inc.

Gene R. Carter has been a director since 1992. He has been Executive Director and Chief Executive Officer of the Association for Supervision and Curriculum Development, one of the world s largest international education associations, since March 2000, and previously was Executive Director of that organization.

Alston D. Correll has been a director since 2000. He has been Chairman of Atlanta Equity Investors, LLC since September 2007. He retired as Chairman and Chief Executive Officer of Georgia-Pacific Corporation, a manufacturer and distributor of tissue, pulp, paper, packaging, building products and related chemicals, in January 2006, a position he had held since 1993. He is also a director of SunTrust Banks, Inc., SunTrust Bank, SunTrust Banks of Georgia, Inc. and Mirant Corporation.

Landon Hilliard has been a director since 1992. He has been a partner of Brown Brothers Harriman & Co., a private bank in New York City, since 1979. He is also a director of Owens Corning, Western World Insurance Group Inc. and

Russell Reynolds Associates, Inc.

Karen N. Horn has been a director since February 22, 2008. Ms. Horn has been a partner with Brock Capital Group since 2003. Ms. Horn served as president of Private Client Services and managing director of Marsh, Inc., a subsidiary of MMC, from 1999 until her retirement in 2003. Prior to joining Marsh, she was senior managing director and head of international private banking, Bankers Trust Company; chair and chief executive officer of Bank One, Cleveland, N.A.; president of the Federal Reserve Bank of Cleveland; treasurer of Bell Telephone Company of Pennsylvania; and vice president of First National Bank of Boston. Ms. Horn serves as director of T. Rowe Price Mutual Funds; The U. S. Russia Investment Fund, a presidential appointment; Simon Property Group, Inc.; Eli Lilly and Company; and Fannie Mae.

Burton M. Joyce has been a director since 2003. He joined the Board of Directors of IPSCO Inc., a leading steel producer, in 1992, and served as Chairman from 2000 to 2007. Mr. Joyce previously served as Vice Chairman, President and Chief Executive Officer of Terra Industries, Inc. He is also a director of Hercules Incorporated.

Admiral J. Paul Reason has been a director since 2002. He was Vice Chairman and Director beginning in 2005, and Chief Operating Officer beginning in 2000, of Metro Machine Corporation, an employee-owned ship repair company, until his retirement in September 2006. He is a retired four-star Admiral and former Commander-in-Chief of the U.S. Atlantic Fleet, having served more than 34 years on active duty in the U.S. Navy. He is a member of the Naval Studies Board at the National Academy of Sciences, Vice Chair of the Board of Directors for the Oak Ridge Associated Universities Foundation, Chairman of the Board of Directors for the United States Navy Memorial Foundation, and member of the National War Powers Commission. He is also a director of Amgen Inc. and Todd Shipyards Corporation.

Steven F. Leer has been a director since 1999. He has been Chief Executive Officer and a director of Arch Coal, Inc., a company engaged in coal mining and related businesses, since 1992, and became Chairman of the Board in December 2006. He is also a director of USG Corporation.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Objectives of Compensation Program

Our primary objective with respect to executive compensation is to design compensation programs which will align executives compensation with our overall business strategies, attract and retain highly qualified executives and provide incentives that drive stockholder value. The Compensation Committee of our Board of Directors (which we will refer to as the Committee) is responsible for developing and maintaining appropriate compensation programs for our Executive Officers, including our principal executive officer, each individual serving as our principal financial officer during 2007, and each of the other three most highly compensated Executive Officers, based on total compensation for 2007 (collectively, the Named Executive Officers).

In order to enhance the Committee s ability to carry out these responsibilities effectively, as well as ensure that we maintain strong links between executive pay and performance, the Committee:

- Reviews management recommendations to the Committee with respect to compensation decisions.

- Reviews the Chief Executive Officer s individual performance evaluations for executive officers and discusses such performance assessments with the Chief Executive Officer on an annual basis and recommends any adjustments to the Board of Directors for approval.

- Has retained Towers Perrin as an outside compensation consultant.

Management Recommendations

The Chief Executive Officer and the Executive Vice President-Administration provide recommendations to the Committee on any adjustments to compensation for the Executive Officers, other than the Chief Executive Officer, and other officers elected by the Board of Directors based on each individual s performance, level of responsibility and time in position. In addition, the Chief Executive Officer and Executive Vice President-Administration provide recommendations to the Committee on adjustments to compensation to address retention needs, performance goals and internal pay equity. The Executive Vice President-Administration makes recommendations to the Committee on any adjustments to compensation for the Chief Executive Officer, and the Chief Executive Officer is not present when the Committee makes decisions on his compensation package.

Use of Compensation Consultant

Towers Perrin provides requested reports and information to the Committee and attends Committee meetings at the Committee s request. For 2007, the Committee engaged Towers Perrin to (1) conduct a market pay assessment of our compensation levels relative to both the competitive market and our compensation philosophy, including identifying and reviewing market benchmark positions and compensation comparison data, (2) assist us with the development of long-term incentive grant guidelines for the officer and management groups, based on Towers Perrin s competitive pay assessment and long-term incentive competitive market data, (3) conduct an assessment of our non-employee directors compensation package relative to competitive market practices, and (4) review emerging trends and issues in executive compensation with the Committee and discuss the implications for us. In conducting the market pay assessment, Towers Perrin reviews with the Committee parameters for the selection of peer group companies (i.e., companies within a specified revenue range) and compiles compensation data for the peer group. The Committee uses this information as a starting point for its compensation decisions.

Towers Perrin provides additional work for us, and the Chair of the Compensation Committee must approve Towers Perrin s performance of any such additional work. For 2007, these additional services performed for us included our portion of an annual rail industry salary survey and quarterly actuarial studies to aid us in valuing our employee personal injury liability. Total fees paid for all additional work was in aggregate approximately equal to fees paid for compensation consulting.

Compensation Policies

In setting compensation for the Executive Officers, the Committee:

Considers comparative market data, gathered by its compensation consultant, from peer group companies of comparable size in revenues and other U.S. Class I railroads as a guideline. In aggregate, the Committee targets approximately the 65th percentile for Executive Officers total direct compensation (i.e., total cash compensation plus the expected value of long-term incentive awards), the 50th percentile for Executive Officers base salaries and between the 50th and 75th percentile when performance merits for total cash compensation (i.e., salary and annual bonus) compared to peer group companies in the industry.

Considers prior salary levels, targeted bonus opportunities and the value of long-term incentive awards at the time the awards were made.

Does not consider amounts realized from prior performance-based or stock-based compensation awards, regardless of whether such amounts realized may have resulted in a higher payout than targeted or a lower payout than targeted. Since the nature and purpose of performance-based and stock-based compensation is to tie executives compensation to future performance, the Committee believes that considering amounts realized from prior compensation awards in making current compensation decisions is inconsistent with such purpose.

The Committee monitors the continuing appropriateness of the peer group. Peer group companies are selected to provide an indication of compensation levels for the industry and for comparable sized companies on the basis of revenue. For 2007, the peer group included a Rail Industry Peer Group consisting of the other North American Class I railroads and a General Industry Peer Group consisting of companies having $6 to $10 billion in revenues (which the Committee considered to be companies of comparable size in revenues). In making comparisons to these peer group companies, a comparison is made to the Rail Industry Peer Group and a separate comparison is made to the General Industry Peer Group. These two comparisons are averaged together to approximate a comparison to both groups, and this process is referred to as a comparison to the Peer Group Companies. These peer group companies are listed in the Appendix to this prospectus. Due to our continuing growth, the Committee expanded the General Industry Peer Group of companies having comparable size in revenues to companies having from $6 to $15 billion in revenues for 2008.

The Committee applies its executive compensation policies consistently to all Named Executive Officers, and the application of these policies produces differing amounts of compensation for executives at different management levels within the company. In setting the Chief Executive Officer s compensation, the Committee applies the policies described above and, in particular, strives to balance comparative market data for chief executive officers of peer group companies and other U.S. Class I railroads with its goal to provide meaningful incentive opportunities earned on the basis of performance which contributes to delivering stockholder returns. In considering comparative market data for the Chief Executive Officer, the Committee also considers time in position and targets a lower percentile to reflect the fact that Mr. Moorman has served as Chief Executive Officer for a relatively short period of time. In addition, the Committee looks at executives at the vice chairman and executive vice president levels and considers the appropriate compensation differential between these levels. Because the Chief Executive Officer s job carries the highest level of responsibility and has the greatest ability to drive shareholder value, his total compensation contains a higher variable or at-risk component than that of other executives.

Compensation Components

Overview

Our executive compensation programs are designed so that, at target levels of performance, total direct compensation for Executive Officers is in approximately the 65th percentile in aggregate as compared to the Peer Group Companies. Total direct compensation consists of salary, annual bonus and long-term incentives. In establishing compensation for the different executive levels, the Committee strives to provide internal pay equity across each level so that executives occupying positions at a similar level and having a similar level of responsibility, such as Executive Vice Presidents, receive similar total direct compensation. While the Committee may adjust compensation for an individual executive based on individual performance, the Committee determined in 2007 that the performance of all Named Executive Officers met or exceeded its expectations and therefore did not make any adjustments to compensation on the basis of individual performance.

The Committee considers what proportion of total direct compensation should be paid annually as base salary, as total cash compensation (salary plus bonus) and as long-term compensation. The Committee targets approximately the 50th percentile as compared to the Peer Group Companies as a guideline in establishing base salaries (see the discussion under Salaries) and targets between the 50th and 75th percentile when performance merits compared to the Peer Group Companies for the portion paid annually as total cash compensation. In 2007, the average portion of total direct compensation awarded as cash compensation was approximately 30% for Executive Officers.

For 2007, Mr. Moorman s base salary fell at the 28th percentile as compared to the aggregate for Peer Group Companies because his time in position is relatively short and his total direct compensation consists of a higher proportion of compensation which is at risk (i.e., bonus, options and performance shares). Base salary for Mr. Tobias and Mr. Henry C. Wolf, our former Vice Chairman and Chief Financial Officer, fell at the 63rd percentile as compared to the aggregate for Peer Group Companies to acknowledge their higher level of responsibility in assisting the Chairman in his duties. Base salaries for Mr. Manion and Mr. Seale fell at the 47th percentile as compared to the aggregate for Peer Group Companies. Mr. Squires base salary (at the time of his promotion to Chief Financial Officer) fell at the 25th percentile as compared to the aggregate for Peer Group Companies because his time in position is relatively short in light of his promotion to Chief Financial Officer during the year. For Mr. Moorman, total cash compensation fell at the 25th percentile as compared to the aggregate for Peer Group Companies because his time in position is relatively short. Total cash compensation for Mr. Tobias and Mr. Wolf fell at the 53rd percentile as compared to the aggregate for Peer Group Companies. Total cash compensation for Mr. Manion and Mr. Seale fell at the 46th percentile as compared to the aggregate for Peer Group Companies, and Mr. Squires total cash compensation fell at the 25th percentile because his time in position is relatively short. For Mr. Tobias, Mr. Wolf, Mr. Manion and Mr. Seale, the Committee considered total cash compensation to be within a reasonable range of the targeted 50th to 75th parameter.

The Committee also considers where total direct compensation valued at the time of the award falls within the targeted 65th parameter. This comparison is based on salary for the upcoming year, an estimated 50% earn-out for the bonus and performance share units awarded for the upcoming year, a binomial model valuation for options and an estimated fair market value for restricted stock units. For Mr. Moorman, his total direct compensation awarded for the upcoming year fell at the 48th percentile as compared to the aggregate for Peer Group Companies, which was below the targeted percentile for total direct compensation because his time in the position is relatively short. For Mr. Tobias and Mr. Wolf, their total direct compensation awarded for the upcoming year fell at the 62nd percentile as compared to the aggregate for Peer Group Companies. Mr. Manion s and Mr. Seale s total direct compensation fell at the 71st and Mr. Squires fell at the 25th percentile, all as compared to the aggregate for Peer Group Companies. Mr. Squires total direct compensation was below the targeted parameter because his time in position is relatively short and he was not serving as Chief Financial Officer at the time the long-term incentive award was made for 2007. For Mr. Tobias, Mr. Wolf, Mr. Manion and Mr. Seale, the Committee considered their compensation to be within a reasonable range of the targeted 65th parameter.

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The greater the level of an executive s responsibility, the higher the proportion of his or her compensation which is at risk. For the at-risk portion of total direct compensation, the Committee awarded Executive Officers 15-25% as an annual incentive in the form of an annual bonus and 75-85% as long-term incentive compensation (options and performance shares). Each of these components is described below. The establishment of short-term at-risk compensation (i.e., bonus) is based in part on the total cash compensation target, and the establishment of long-term at-risk compensation is based in part on the total direct compensation target; this allocation is not directly based on a target against comparative market data for the amount of short-term compensation and long-term compensation which is at risk. In addition, the Committee considers market practices, internal pay equity and our objective to attract and retain highly qualified executives in establishing short-term at-risk and long-term at-risk compensation. This allocation is re-evaluated annually.

The Committee further considers the portion of total direct compensation which is to be awarded as long-term compensation (including both the fixed and the at-risk portions) and how the long- term piece of compensation should be allocated between options, performance shares, restricted shares and restricted stock units. This allocation is based on general market practices, compensation trends, governance practices and business issues facing us. In making this determination, the Committee takes into account the potential dilutive effect of stock-based awards and the burn rate of such awards, including guidance on these measures from proxy advisory services, and further considers the purpose behind each element of long-term compensation and how the allocation among these elements will contribute to its overall compensation policies. The Committee does not target comparative market data in making this allocation decision. For 2007, the Committee increased the percentage of long-term compensation awarded as performance shares and options and decreased the percentage awarded as restricted shares and restricted stock units to increase the focus on performance.

Salaries

We target approximately the 50th percentile as compared to Peer Group Companies as a guideline in establishing Executive Officers base salaries. However, we may provide for base salaries above the median if, in the Committee s view, a particular executive s performance exceeded expectations; if an executive takes on additional responsibilities; or under other special circumstances. Base salaries are reviewed annually, and adjusted from time to time to realign salaries with market levels after taking into account individual performance and experience.

Annual Bonus

Each of our Executive Officers participates in our Executive Management Incentive Plan, or EMIP, which is designed to compensate executives based on achievement of annual corporate performance goals. We target between the 50th and 75th percentile when performance merits as compared to the Peer Group Companies for Executive Officers base salaries plus bonuses.

Under EMIP, each participant has an opportunity to earn a bonus amount that is contingent upon achieving the relevant performance goals. The performance goals for 2007 were based on pre- tax net income and operating ratio because we believe that use of such metrics promotes operating efficiency and thereby enhances stockholder value. The Committee raised the performance goals for 2007 to further drive performance.

For 2007, the Committee set the following threshold, target and maximum payouts:

threshold payout of 30% at $1.9 billion

pre-tax net income and an operating ratio equal to or above 74%;

a targeted payout of 66% for pre-tax net income of $2.401 billion and operating ratio of 71.6%; and

a maximum payout of 100% if we achieved either:

- Ø a pre-tax net income equal to or in excess of $2.4 billion with an operating ratio of 70.3% or lower; or

- an operating ratio equal to or lower than 71.1% with pre-tax net income at or in excess of $2.5 billion for the year.

If our performance for 2007 had equaled our performance for 2006, the bonus payout for 2007 would have been at 52.6%. In 2007, our performance resulted in a 53.9% bonus payout.

Long-Term Incentive Awards

We believe that the most effective means to encourage long-term performance by our Executive Officers is to create an ownership culture. This philosophy is implemented through the granting of equity-based awards that vest based on continued employment and other long-term awards which vest on achievement of pre-determined performance goals. For long-term incentive awards in 2007, the Committee provided approximately 40% of the total award value as options, 15% as restricted stock units and 45% as performance shares (assuming a 50% earn-out of performance share units granted). This allocation was changed from the allocation for awards for 2006 (approximately 25% of the total award value as options, 50% as restricted shares and 25% as performance shares) to increase the focus on performance and lessen the focus on retention. In addition, we required executives to enter into an agreement not to engage in competing employment as a condition to receiving the 2007 award.

Stock Options. We believe that use of options provides us with the ability to retain key employees and at the same time increase stockholder value since the value of the options is only realized if our stock price increases from the date on which the options are granted. For 2007, the Committee increased the option vesting period from one year to three years to further encourage retention of key employees. With the exception of employees hired in connection with the Conrail transaction in 1999, since 1989, we have granted stock options annually at the regularly-scheduled January meeting of the Committee. The Committee approves all options grants and sets the option price based on a long-standing pricing practice. Under this long-standing practice, the Board of Directors approves year-end financial results at its January meeting, and we typically release such results the following day. Also at the January meeting, the Committee sets the exercise price for the options as the fair market value of our common stock on the first day of the upcoming window period during which executives are permitted to trade in our securities and following the release of our financial results (the effective date), thereby establishing a prospective effective date to price the options. Until 2007, options were priced at the fair market value of our common stock on the effective date of the grant, based on the average of the high and low price. For the 2007 award, options were priced on the effective date of the grant at the higher of (i) the closing price or (ii) the average of the high and low price on the effective date of the grant.

Performance Shares. We use performance shares to reward the achievement of performance goals over a three-year period. For performance shares, vesting of 1/3 of the shares is based on Return on Average Invested Capital, which we believe is an indicator important to stockholders of a capital-intensive company such as ours. Vesting of an additional one-third of the shares is based on total stockholder return as compared to the S&P 500 and the remaining 1/3 is based on operating ratio, all over a three-year performance period. Each 1/3 of performance shares granted vests independently of the other 2/3 and their respective performance metrics. We believe that the use of the three metrics described above promotes the enhancement of stockholder value and efficient utilization of corporate assets.

In setting the performance targets for the 2007-2009 cycle, the Committee considered the performance targets for the 2006-2008 and the 2005-2007 cycles and the earn-out percentages for prior years performance share awards. The Committee raised the performance targets for Operating Ratio and Return on Average Invested Capital for the 2007-2009 cycle to motivate executives to seek improvements in these areas and retained the same performance targets for Total Shareholder Return because they continue to provide appropriate goals for this metric.

For the 2007-2009 performance cycle, the performance criteria and resulting earn-out percentages are as follows:

2007-2009 Cycle Total Stockholder Return (TSR) vs. S&P 500		**2007-2009 Cycle Return on Average Invested Capital (ROAIC)**	
Three-Year Average TSR vs. S&P 500	**Percentage of Performance Share Units Earned Out**	**Three-Year Average ROAIC**	**Percentage of Performance Share Units Earned Out**
90th percentile and above	100%	20% and above	100%
80th	90%	19%	90%
70th	85%	18%	80%
60th	80%	17%	70%
50th	75%	16%	60%
40th	50%	15%	50%
30th	30%	14%	40%
25th and below	0%	13%	20%
		Below 13%	0%

2007-2009 Cycle Operating Ratio (OpR)	
Three-Year NS Average OpR	**Percentage of Performance Share Units Earned Out**
68% or below	100%
73%	75%
78%	50%
83%	25%
Above 83%	0%

For the 2006-2008 performance cycle, the performance criteria and resulting earn-out percentages are as follows:

2006-2008 Cycle Total Stockholder Return (TSR) vs. S&P 500		**2006-2008 Cycle Return on Average Invested Capital (ROAIC)**	
Three-Year Average TSR vs. S&P 500	**Percentage of Performance Share Units Earned Out**	**Three-Year Average ROAIC**	**Percentage of Performance Share Units Earned Out**
90th percentile and above	100%	19% and above	100%
80th	90%	18%	90%
70th	85%	17%	80%
60th	80%	16%	70%
50th	75%	15%	60%
40th	50%	14%	50%
30th	30%	13%	40%
25th and below	0%	12%	30%

	11%	20%
	10%	10%
	Below 10%	0%

2006-2008 Cycle
Operating Ratio (OpR)

Three-Year NS Average OpR	Percentage of Performance Share Units Earned Out
70% or below	100%
75%	75%
80%	50%
85%	25%
Above 85%	0%

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For the 2005-2007 performance cycle, the performance criteria and resulting earn-out percentages are as follows:

2005-2007 Cycle Total Stockholder Return (TSR) vs. S&P 500		2005-2007 Cycle Return on Average Invested Capital (ROAIC)	
Three-Year Average TSR vs. S&P 500	**Percentage of Performance Share Units Earned**	**Three-Year Average ROAIC**	**Percentage of Performance Share Units Earned**
90th percentile and above	100%	19% and above	100%
80th	90%	18%	90%
70th	85%	17%	80%
60th	80%	16%	70%
50th	75%	15%	60%
40th	50%	14%	50%
30th	30%	13%	40%
25th and below	0%	12%	30%
		11%	20%
		10%	10%
		Below 10%	0%

2005-2007 Cycle Operating Ratio (OpR)	
Three-Year NS Average OpR	**Percentage of Performance Share Units Earned**
70% or below	100%
75%	75%
80%	50%
85%	25%
Above 85%	0%

For the 2007-2009 performance shares, we used a 50% earn-out assumption to value the award for market comparison purposes. Over the past ten years, the earn-out has averaged 56%, ranging from 87% to 14% based on performance for the applicable performance cycle.

Restricted shares. We believe that the use of time-based restricted shares serves as a key retention tool for keeping valued members of management. For 2007, we granted restricted stock units which vest on the fifth anniversary of the date of grant, and the units are not forfeited upon retirement, disability or death.

Retirement Plans and Programs

We believe that our Retirement Plan and Supplemental Benefit Plan provide us with the ability to retain key employees over a longer period. We sponsor a qualified defined benefit pension plan that provides a benefit based on age, service and a percentage of final average compensation. We also sponsor a non-qualified supplemental benefit plan that provides a retirement benefit for salary that is deferred, restores the retirement benefit for amounts in excess of the Internal Revenue Code limitations for tax-qualified retirement plans and provides enhanced retirement benefits for certain executives. In addition to supporting the goal to retain key employees, we believe that the Supplemental Benefit Plan also recognizes, rewards and encourages contributions by our key employees and maintains internal equity by ensuring that benefit levels are based on compensation levels that reflect the relative value of each participant.

During 2007, we entered into a retirement agreement with Mr. Wolf in recognition of his outstanding contributions as our Chief Financial Officer. The retirement agreement provides one additional year of creditable service and an additional equity award of 30,000 restricted stock units. In exchange for these retirement benefits, Mr. Wolf agreed not to engage in competing employment. In addition, we waived certain restrictions on restricted shares and restricted stock units granted to Mr. Wolf in 2005 to accelerate the vesting of these equity awards.

Other Benefits and Perquisites

We provide the Executive Officers with certain health and welfare benefits as well as certain other perquisites which we believe are necessary to retain Executive Officers and to enhance their productivity. The value of perquisites is considered as part of the total compensation package when other elements are evaluated.

Our Board of Directors has directed and requires each of the Chairman, President and Chief Executive Officer, his family and guests when appropriate, to use our aircraft whenever reasonably possible for air travel. We believe that such use of the corporate aircraft promotes our best interests by ensuring the immediate availability of this officer and by providing a prompt, efficient means of travel and in view of the need for security in such travel. For the same reasons, our Board of Directors has determined that the Chairman, President and Chief Executive Officer may authorize employees and their guests to use the corporate aircraft for purposes which further our business interests and when the aircraft is not otherwise needed for business use. Such use by other employees and their guests is infrequent. Other perquisites include company cars, executive physicals, club memberships and dues, personal use of company facilities and tax preparation services. In addition, tax gross-up payments are provided on company cars and personal use of corporate aircraft if the aircraft is moving for business purposes; if the aircraft is not otherwise moving for business purposes, tax gross-up payments are not provided. Beginning in 2008, we discontinued the provision of company cars and club dues (except for the Chief Marketing Officer, who is reimbursed for club dues on memberships which further our business interests) as perquisites for the Chairman, President and Chief Executive Officer, the Vice Chairman and the Executive Vice Presidents and provided a compensation adjustment in lieu of these perquisites.

We believe that the benefits and perquisites described above are appropriate to remain competitive compared to other companies and to promote retention of these officers.

Impact of the Tax Treatment of Awards on Our Compensation Policies

Our executive compensation program has been carefully considered in light of the applicable tax rules. Accordingly, we amended the Long-Term Incentive Plan, or LTIP, in 2005 with stockholder approval to permit the grant of performance-based compensation that meets the requirements of Section 162(m) and amended the EMIP to permit the continued grant of Section 162(m) qualifying performance-based compensation under that Plan. However, we believe that tax-deductibility is but one factor to be considered in fashioning an appropriate compensation package for executives. We reserve and will continue to exercise discretion in this area so as to serve our best interests and those of our stockholders.

Change-in-Control Agreements

We entered into change-in-control agreements during 1996 at a time of consolidation in the rail industry. The agreements were intended to provide certain economic protections to executives in the event of a termination of employment following a change-in-control of our company and to keep management intact and focused on our best interests during uncertain times. Benefits will not be paid under the agreements unless both a change in control occurs and the executive s employment is terminated or constructively terminated following the change in control. We believe this double trigger maximizes stockholder value because this structure would prevent an unintended windfall to management in the event of a change in control that does not result in the termination (or constructive termination) of employment of management. In 2002, the Board of Directors agreed to abide by a stockholder approved proposal that future severance agreements with senior executives that exceed 2.99 times the sum of the executive s base salary plus bonus require stockholder approval. During 2006, with assistance from outside compensation consultants, we evaluated the existing change-in-control agreements. Based on the review conducted by the consultant, we determined that the agreements were comparable in value to change-in-control agreements provided by similarly-sized companies.

Share Ownership Guidelines

Our Board of Directors amended our Corporate Governance Guidelines in November 2007 to increase the ownership guidelines for shares of our stock. Under the revised guidelines, the Chairman, President and Chief Executive Officer is expected to hold at least five times the value of his annual salary in stock. The Vice Chairman and Executive Vice Presidents are expected to hold at least three times the value of their annual salary in stock, and Senior Vice Presidents and Vice Presidents are expected to hold at least one times their annual salary in stock. Our common stock and stock equivalents held in our 401(k) plan, dividend reinvestment plan and through share retention agreements are counted toward this requirement, but unexercised stock options or unvested equity awards do not count. Officers may acquire such holdings over a five-year period.

Pledging; Hedging

All of our Executive Officers are required to clear any transaction involving our common stock with our Corporate Secretary prior to engaging in the transaction. Certain Executive Officers maintain securities accounts at brokerage firms, and the positions held in such accounts, which may from time to time include shares of our common stock, may be pledged as collateral security for the repayment of any debit balances in the accounts. None of our Executive Officers have otherwise pledged or hedged our securities.

Policies and Decisions Regarding the Adjustment or Recovery of Awards

While we do not anticipate there would ever be circumstances where a restatement of earnings upon which incentive plan award decisions were based would occur, should such an unlikely event take place, we, in evaluating such circumstances, would have discretion to take all actions necessary to protect the interests of stockholders up to and including actions to recover such incentive awards.

Compensation Tables

Summary Compensation Table

The following table shows the total compensation awarded to, earned by or paid to each Named Executive Officer during 2006 and 2007 for service in all capacities to us and our subsidiaries for the fiscal years ended December 31, 2006 and December 31, 2007.

Name and Principal Position (a)	Year (b)	Salary[1] ($) (c)	Bonus ($) (d)	Stock Awards[2] ($) (e)	Option Awards[2] ($) (f)	Non-Equity Incentive Plan Compensation[1] ($) (g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings[3] ($) (h)
Charles W. Moorman, IV	2007	800,000	0	8,260,466	2,560,818	862,400	1,931,544
Chairman, President and Chief Executive Officer	2006	750,000	0	7,579,458	926,932	1,312,500	1,392,064
S. C. Tobias	2007	600,000	0	3,336,849	991,000	436,590	513,297
Vice Chairman and Chief Operating Officer	2006	600,000	0	5,089,640	404,100	810,000	979,440
H. C. Wolf	2007	300,000	0	4,408,808	991,000	218,295	927,722
Former Vice Chairman and Chief Financial Officer	2006	600,000	0	5,089,640	404,100	810,000	1,145,743
M.D. Manion	2007	425,000	0	3,083,835	696,098	286,344	651,882
Executive Vice President-Operations	2006	400,000	0	1,776,913	247,182	460,000	539,396
D. W. Seale	2007	425,000	0	2,953,325	696,098	286,344	543,247
Executive Vice President and Chief Marketing Officer	2006	400,000	0	1,971,683	247,182	460,000	288,140
	2007	315,000	0	531,880	74,171	202,630	106,261

J. A. Squires
Executive Vice President-Finance and
Chief Financial Officer[5]

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(1) Represents salary and non-equity incentive plan compensation earned during 2006 and 2007 received on a current or deferred basis.

(2) Represents the dollar amounts recognized for financial statement reporting purposes for the applicable year in accordance with Financial Accounting Standard No. 123 (FAS 123R) for: (i) awards made during the applicable year and (ii) awards made in prior years but for which we recognized compensation cost during the applicable year. For discussions of the relevant

assumptions made in calculating these amounts, see note 11 to our consolidated financial statements included in this prospectus for the fiscal year ended December 31, 2007 and note 11 to our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006. For the grant date fair value of only those awards granted to the Named Executive Officers in 2007, see 2007 Grants of Plan-Based Awards.

(3) Of these amounts for 2007, the following represent the aggregate change in the actuarial present value of the Named Executive Officer s accumulated

benefits under our Retirement Plan and Supplemental Benefit Plan during 2007: Mr. Moorman, $1,924,360, Mr. Tobias, $297,421, Mr. Wolf, $680,872, Mr. Manion, $627,154, Mr. Seale, $508,034 and Mr. Squires $106,261. The remainder of the amounts shown in this column for 2007 represent the amounts by which 2007 interest accrued on salary and bonuses deferred by them under the Officers Deferred Compensation Plan exceeded 120% of the applicable Federal long-term rate provided in Section 1274(d) of the Internal Revenue Code.

Of these amounts for 2006, the following represent the aggregate change in the actuarial present value of the Named Executive Officer s accumulated benefits under our Retirement Plan and Supplemental Benefit Plan during 2006: Mr. Moorman, $1,385,533, Mr. Tobias, $789,257, Mr. Wolf, $928,703, Mr. Manion, $517,271 and Mr. Seale, $256,305. The remainder of the amounts shown in this column for 2006 represent the amounts by which 2006 interest accrued on salary and bonuses deferred by them under the Officers Deferred Compensation Plan exceeded 120% of the applicable Federal long-term rate provided in Section 1274(d) of the Internal Revenue Code.

(4) For each Named Executive Officer, the amount for 2007 includes (i) perquisites as set forth in the table below, (ii) amounts reimbursed for the payment of taxes on personal benefits as follows: for Mr. Moorman, $41,199, Mr. Tobias, $23,266, Mr. Wolf, $24,920, Mr. Manion, $17,196, Mr. Seale, $31,786, and Mr. Squires $13,192, (iii) contributions to our Thrift and Investment Plan, and (iv) premiums paid

on individually owned executive life insurance policies as follows: for Mr. Moorman, $17,335, Mr. Tobias, $15,269, Mr. Wolf $11,168, Mr. Manion, $9,779, Mr. Seale, $6,608 and Mr. Squires, $7,198. For the following Named Executive Officers, also includes amounts we contributed to charitable organizations on their behalf pursuant to our matching gifts program as follows: for Mr. Moorman, $31,700, Mr. Tobias, $70,000, Mr. Wolf, $38,082, Mr. Seale, $21,498, and Mr. Squires $18,500. For Mr. Moorman, also includes his proportional cost of life insurance policies owned by us used to fund the Directors Charitable

Award Program. For Mr. Wolf, also includes the FAS 123R grant date fair value of 30,000 restricted stock units granted to him upon his retirement.

Perquisites for our Named Executive Officers during 2007 consisted of the following:

	Use of Corporate Aircraft ($)	Tax Preparation and Financial Planning ($)	Use of Corporate Auto ($)	Use of Corporate Facilities ($)	Annual Physicals ($)	Club Dues and Membership ($)	Retirement Gifts and Memorabilia ($)	Total ($)
C. W. Moorman	23,300	10,552	11,392	0	4,800	0	0	50,044
S. C. Tobias	61,523	0	11,912	585	0	0	0	74,020
H. C. Wolf	6,021	1,900	7,489	0	0	61,933 *	8,000	85,343
M. D. Manion	2,356	2,000	9,865	983	4,800	15,047	0	35,051
D. W. Seale	0	2,000	12,574	0	4,800	14,424	0	33,798
J. A. Squires	0	0	8,698	0	4,800	0	0	13,498

All perquisites are valued on the basis of aggregate incremental cost to us. With regard to personal use of company aircraft, aggregate incremental cost is calculated as the weighted-average cost of fuel, crew hotels and meals, aircraft maintenance and other variable costs. Use of corporate aircraft includes use by the Named Executive Officers and their spouses and other family members, as permitted by resolution of the Board of Directors.

* For Mr. Wolf, includes golf club memberships of $61,000 retained upon retirement, which represents the current cost to join the golf clubs; however, the memberships were obtained many years ago for business purposes and no additional cost was incurred for Mr. Wolf to retain them upon retirement.

(5) Mr. Squires became our principal financial officer effective July 1, 2007.

2007 Grants of Plan-Based Awards

Name (a)	Grant Date (b)	Committee Action Date[1]	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards[2] Threshold ($) (c)	Target ($) (d)	Maximum ($) (e)	Estimated Future Pay Equity Incentive Plan Threshold (#) (f)	Target (#) (g)
C. W. Moorman	01/23/07	01/23/07	480,000	1,056,000	1,600,000		
	01/25/07	01/23/07				19,250	62,500
	01/25/07	01/23/07					
	01/25/07	01/23/07					
S. C. Tobias	01/23/07	01/23/07	243,000	534,000	810,000		
	01/25/07	01/23/07				7,700	25,000
	01/25/07	01/23/07					
	01/25/07	01/23/07					
H. C. Wolf	01/23/07	01/23/07	121,500	267,300	405,000		
	01/25/07	01/23/07				7,700	25,000
	01/25/07	01/23/07					
	01/25/07	01/23/07					
	06/29/07	05/10/07					
M. D. Manion	01/23/07	01/23/07	159,375	350,625	531,250		
	01/25/07	01/23/07				5,236	17,000
	01/25/07	01/23/07					
	01/25/07	01/23/07					
D. W. Seale	01/23/07	01/23/07	159,375	350,625	531,250		
	01/25/07	01/23/07				5,236	17,000
	01/25/07	01/23/07					
	01/25/07	01/23/07					
J. A. Squires	01/23/07	01/23/07	112,781	248,119	375,938		
	01/25/07	01/23/07				1,694	5,500
	01/25/07	01/23/07					
	01/25/07	01/23/07					

(1) Consistent with past practice, our Committee made all equity awards to directors and executive officers effective on the first day following the release of our fiscal year financial results. Because the meeting at which these awards were made occurred prior to the effective date of the awards, we have provided both dates in accordance with SEC rules. The additional award to Mr. Wolf was made at the time of his retirement in June 2007. See page 58 of our Compensation Discussion and Analysis for further discussion of our equity award grant practices.

(2) These awards were made pursuant to our EMIP and were earned upon the achievement of certain performance goals established by the Compensation Committee for the fiscal year ended December 31, 2007. For a discussion of these performance goals, see page 58 of our Compensation Discussion and Analysis included in this prospectus. Our Committee targeted a payout of 66% in 2007 in setting the annual performance goals for EMIP incentive awards. Consequently, the target amounts in this column assume that the Named Executive Officers earned 66% of the maximum

potential EMIP awards that they could have earned. The threshold amounts assume that the Named Executive Officers earned the minimum EMIP awards based on performance required to trigger any level of payment; if company performance fell below performance goals required to earn the threshold amount, they would not have been entitled to any EMIP awards. Our Named Executive Officers actually earned 53.9% of their maximum potential EMIP awards based on our performance during 2007, which amounts are included under Non-Equity Incentive Compensation in the Summary Compensation

Table. For Mr.
Wolf, this

amount represents the threshold, target, and maximum amount he could have earned based on the fractional portions of the year he served as an executive officer.

(3) These amounts represent grants of performance share units made pursuant to our LTIP. These performance share units will be earned over the performance cycle ending December 31, 2009. For a discussion of the other material terms of these awards, see the narrative discussion which follows this table. LTIP does not provide a performance target for earning performance share units under this feature of the plan; however, the Committee

targets a payout of 50% in setting the performance goals for performance share unit awards. Consequently, the target amounts assume that the Named Executive Officers will earn 50% of the maximum potential number of performance share units that can be earned under the awards. The threshold amounts assume that the Named Executive Officers will earn the minimum number of performance share units based on performance required to trigger any level of payment; if company performance fell below performance goals required to earn the threshold amount, they would not receive any performance share units. Our Named Executive Officers actually earned 77.6% of their maximum potential performance share unit awards for the performance cycle ended December 31, 2007 based on our performance during the three-year period ended December 31, 2007.

(4) These amounts represent grants of restricted stock units made under LTIP. For a discussion of the material terms of these awards, see the narrative discussion which follows this table.

(5) These options (of which the first 2,017 granted to each Named Executive Officer are incentive stock options and the remainder are non-qualified

stock options) were granted as of January 25, 2007 and are exercisable as of January 25, 2010. Dividend equivalents are paid in cash on unexercised options for five years in an amount equal to, and commensurate with, dividends paid on our common stock.

(6) Our Committee granted these options at an exercise price equal to the higher of the closing market price or the average of the high and low prices of our common stock on the date of grant. The average price was higher than the closing price on the date of grant, so the exercise price shown is the average of the high and low prices on the date of grant. The exercise price may be paid in cash or in shares of

our common stock (previously owned by the optionee for at least one year preceding the date of exercise) valued on the date of exercise.

(7) Amounts represent the full grant date fair value of each equity award computed in accordance with FAS 123R. Because these awards entitle the Named Executive Officers to dividends or dividend equivalents, those amounts are included in the FAS 123R grant date fair values. Amounts shown for performance share unit awards assume that the Named Executive Officers will earn the maximum number of performance share units for the performance

cycle ending December 31, 2009; if our performance falls short of the performance goals established for these awards, they will earn fewer performance share units.

Narrative to Summary Compensation Table and Grants of Plan-Based Awards Table

Awards

Our LTIP, as last approved by stockholders in 2005, provides for the award of incentive stock options, non-qualified stock options, stock appreciation rights, restricted shares, restricted stock units and performance share units to directors, officers and other key employees. The Committee administers the plan and has sole discretion (except as the Committee may have delegated to the Chief Executive Officer) to:

- interpret the plan;
- select plan participants;
- determine the type, size, terms and conditions of awards under the plan;
- authorize the grant of such awards; and
- adopt, amend and rescind rules relating to the plan.

Except for capital adjustments such as stock splits, the exercise price of a stock option granted under the plan may not be decreased after the option is granted, nor may any outstanding option be modified or replaced through cancellation if the effect would be to reduce the price of the option, unless the repricing, modification or replacement is approved by our stockholders. Receipt of an award under LTIP in 2007 was made contingent upon the participant s execution of a non-competition agreement, and all awards are subject to forfeiture in the event the participant engages in competing employment for a period of time following retirement.

The first 2,017 stock options granted to each Named Executive Officer during fiscal 2007 are incentive stock options and the remainder are non-qualified stock options. The Compensation Committee met to approve these options grants on January 23, 2007. In order to permit thorough dissemination of our financial results for the fiscal year ended December 31, 2006, the Committee made these grants effective January 25, 2007. See page 58 of our Compensation Discussion and Analysis for further discussion of our equity award grant practices. These options become exercisable as of January 25, 2010. Dividend equivalents are paid in cash on unexercised options for five years in an amount equal to, and commensurate with, dividends paid on our common stock. The exercise price may be paid in cash or in shares of our common stock valued at fair market value on the date of exercise.

The restricted stock units awarded in 2007 are subject to a five-year restriction period and will be settled in shares of our common stock. Dividend equivalents are paid in cash on restricted stock units in an amount equal to, and commensurate with, dividends paid on our common stock. During the restriction period, the holder of restricted stock units has no voting or investment power over the underlying common stock.

Performance share units entitle a recipient to receive performance-based compensation at the end of a three-year performance cycle based on our performance during that three-year period. For awards made in 2007, the award cycle began on January 1, 2007 and ends December 31, 2009. Under the 2007 performance share unit awards, corporate performance will be measured using three predetermined and equally weighted standards; that is, *each* of the following performance areas will serve as the basis for earning up to *one-third* of the total number of performance share units granted (with each one-third portion vesting independent of the other portions): (1) three-year average return on average invested capital, (2) three-year average operating ratio and (3) three-year total return to stockholders. A more detailed discussion of these performance criteria can be found on page 58 of our Compensation Discussion and Analysis included in this prospectus. Performance share units that are earned will be paid one-half in cash and one-half in shares of our common stock.

For 2007, awards to our Named Executive Officers under the EMIP were paid based on our performance relative to two pre-determined criteria: operating ratio and pre-tax net income. The performance standards relative to these two criteria were established by the Compensation Committee in January 2007. A more detailed discussion of these performance criteria can be found beginning on page 58 of our Compensation Discussion and Analysis included in this prospectus.

The Compensation Committee set Mr. Moorman s target 2007 incentive opportunity at 200% of his 2007 base salary, Mr. Tobias s and Mr. Wolf s at 135% of their 2007 base salaries, and Mr. Manion s and Mr. Seale s at 125% of their 2007 base salaries. For Mr. Squires, his target 2007 incentive opportunity was 100% of his 2007 base salary for the first six months, and increased to 125% of his 2007 base salary for the last six months upon his promotion to chief financial officer. For 2007, all Named Executive Officers earned 53.9% of their individual target incentive opportunity EMIP awards. These amounts are reported as Non-Equity Incentive Plan Compensation in the Summary Compensation Table.

For further discussion of our plans and how these LTIP and EMIP awards fit into our executive compensation program, see the Compensation Discussion and Analysis beginning on page 58 included of this prospectus.

Retirement Agreement

On May 10, 2007, our Board of Directors approved a Retirement Agreement between us and H. C. Wolf. In the Retirement Agreement, Mr. Wolf agreed not to compete with or solicit employees or customers away from the company for five years. In return, the Retirement Agreement provided him with certain retirement benefits and an award of 30,000 restricted stock units, which units are subject to a five-year restriction period.

For additional information regarding the terms of Mr. Wolf s Retirement Agreement, see the narrative discussion accompanying the Pension Benefits Table.

Outstanding Equity Awards at Fiscal Year-End 2007

	Option Awards					Stock A	
Name (a)	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options(#)(1) Unexercisable (c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) (d)	Option Exercise Price ($) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (#)(2) (g)	Market Value of Shares or Units of Stock That Have Not Vested ($)(3) (h)
C. W. Moorman	53,538			15.4750	01/28/11	190,000	9,583,600
	80,000			22.4900	01/27/12		
	30,000			19.6250	02/02/13		
	30,000			22.0200	01/29/14		
	45,000			34.1000	01/27/15		
	75,000			49.4250	01/26/16		
		125,000		49.5550	01/24/17		
S.C. Tobias	5,904			16.9375	01/30/10	110,00	5,548,400
	6,462			15.4750	01/28/11		
	200,000			22.4900	01/27/12		
	5,095			19.6250	02/02/13		
	50,000			22.0200	01/29/14		
	35,000			34.1000	01/27/15		
	30,000			49.4250	01/26/16		
		50,000		49.5550	01/24/17		
H.C. Wolf	125,000			22.4900	01/27/12	0	0
	50,000			19.6250	02/02/13		
	45,459			22.0200	01/29/14		
	35,000			34.1000	01/27/15		
	30,000			49.4250	01/26/16		
		50,000		49.5550	01/24/17		

M.D. Manion	20,000		15.4750	01/28/11	68,000	3,429,920
	80,000		22.4900	01/27/12		
	30,000		19.6250	02/02/13		
	25,000		22.0200	01/29/14		
	16,000		34.1000	01/27/15		
	20,000		49.4250	01/26/16		
		34,000	49.5550	01/24/17		