

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

Three Months Ended
March 31,
2010 2009
(\$ in millions,
except earnings per share)

Railway operating revenues:			
Coal	\$	629	\$ 602
General merchandise		1,199	975
Intermodal		410	366
Total railway operating revenues		<u>2,238</u>	<u>1,943</u>
Railway operating expenses:			
Compensation and benefits		699	639
Purchased services and rents		335	355
Fuel		254	159
Depreciation		204	207
Materials and other		191	200
Total railway operating expenses		<u>1,683</u>	<u>1,560</u>
Income from railway operations		555	383
Other income – net		20	17
Interest expense on debt		119	117
Income before income taxes		456	283
Provision for income taxes:			
Current		159	90
Deferred (note 1)		40	16
Total income taxes		<u>199</u>	<u>106</u>
Net income	\$	<u>257</u>	\$ <u>177</u>
Earnings per share (note 2):			
Basic	\$	0.69	\$ 0.48
Diluted	\$	0.68	\$ 0.47
Weighted average shares outstanding (millions) (note 2):			
Basic		369.5	366.2
Diluted		374.9	371.1

See accompanying notes to consolidated financial statements.

Norfolk Southern Corporation and Subsidiaries
Consolidated Balance Sheets
(Unaudited)

	March 31, <u>2010</u>	December 31, <u>2009</u>
	<i>(\$ in millions)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,161	\$ 996
Short-term investments	225	90
Accounts receivable – net	867	766
Materials and supplies	180	164
Deferred income taxes	145	142
Other current assets	68	88
Total current assets	2,646	2,246
Investments	2,166	2,164
Properties less accumulated depreciation	22,697	22,643
Other assets	221	316
Total assets	\$ 27,730	\$ 27,369
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 987	\$ 974
Short-term debt	-	100
Income and other taxes	252	109
Other current liabilities	306	232
Current maturities of long-term debt	648	374
Total current liabilities	2,193	1,789
Long-term debt	6,379	6,679
Other liabilities	1,794	1,801
Deferred income taxes	6,800	6,747
Total liabilities	17,166	17,016
Stockholders' equity:		
Common stock \$1.00 per share par value, 1,350,000,000 shares authorized; outstanding 370,055,972 and 369,019,990 shares, respectively, net of treasury shares	371	370
Additional paid-in capital	1,871	1,809
Accumulated other comprehensive loss	(834)	(853)
Retained income	9,156	9,027
Total stockholders' equity	10,564	10,353
Total liabilities and stockholders' equity	\$ 27,730	\$ 27,369

See accompanying notes to consolidated financial statements.

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

	Three Months Ended	
	March 31,	
	<u>2010</u>	<u>2009</u>
	<i>(\$ in millions)</i>	
Cash flows from operating activities:		
Net income	\$ 257	\$ 177
Reconciliation of net income to net cash provided by operating activities:		
Depreciation	206	209
Deferred income taxes	40	16
Gains and losses on properties	(1)	(2)
Changes in assets and liabilities affecting operations:		
Accounts receivable	(101)	39
Materials and supplies	(16)	3
Other current assets	17	35
Current liabilities other than debt	209	(107)
Other – net	147	(16)
Net cash provided by operating activities	<u>758</u>	<u>354</u>
Cash flows from investing activities:		
Property additions	(256)	(243)
Property sales and other transactions	-	1
Investments, including short-term	(155)	-
Investment sales and other transactions	51	(2)
Net cash used in investing activities	<u>(360)</u>	<u>(244)</u>
Cash flows from financing activities:		
Dividends	(126)	(125)
Common stock issued – net	21	6
Proceeds from borrowings	-	500
Debt repayments	(128)	(225)
Net cash provided by (used in) financing activities	<u>(233)</u>	<u>156</u>
Net increase in cash and cash equivalents	165	266
Cash and cash equivalents:		
At beginning of year	<u>996</u>	<u>618</u>
At end of period	<u>\$ 1,161</u>	<u>\$ 884</u>
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest (net of amounts capitalized)	\$ 50	\$ 49
Income taxes (net of refunds)	\$ -	\$ 23

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS:

1. DEFERRED TAXES

During the first quarter of 2010, the Patient Protection and Affordable Care Act, and the Health Care and Education Reconciliation Act of 2010 were signed into law. Provisions of these Acts eliminate, after 2012, the tax deduction available for reimbursed prescription drug expenses under the Medicare Part D retiree drug subsidy program. As required by ASC 740, "Income Taxes," NS recorded a \$27 million charge to deferred tax expense.

2. EARNINGS PER SHARE

As required under the provisions of ASC 260-10, "Earnings Per Share," for basic earnings per share, income available to common stockholders for the first quarters of 2010 and 2009 reflects a \$2 million reduction from net income for the effect of dividend equivalent payments made to holders of stock options. In addition, for the first quarters of 2010 and 2009, diluted earnings per share were calculated under the more dilutive two-class method (as compared to the treasury stock method) and income available to common stockholders reflects a \$2 million reduction from net income, in both periods, for dividend equivalent payments.