

Norfolk Southern Corporation and Subsidiaries
Consolidated Statements of Income
(Unaudited)
(\$ millions except per share)

	Three Months Ended	
	December 31,	
	<u>2007</u>	<u>2006</u>
Railway operating revenues:		
Coal	\$ 601	\$ 592
General merchandise (note 1)	1,357	1,234
Intermodal	496	493
Total railway operating revenues	<u>2,454</u>	<u>2,319</u>
Railway operating expenses (note 2):		
Compensation and benefits	623	655
Purchased services and rents	396	401
Fuel	353	256
Depreciation	197	187
Materials and other	199	206
Total railway operating expenses	<u>1,768</u>	<u>1,705</u>
Income from railway operations	686	614
Other income – net	34	40
Interest expense on debt	108	115
Income before income taxes	612	539
Provision for income taxes:		
Current	107	120
Deferred	106	34
Total income taxes	<u>213</u>	<u>154</u>
Net income	<u>\$ 399</u>	<u>\$ 385</u>
Earnings per share:		
Basic	\$ 1.04	\$ 0.97
Diluted	\$ 1.02	\$ 0.95
Average shares outstanding (millions) (note 3):		
Basic	381.6	396.0
Diluted	389.9	404.3

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	Years Ended	
	December 31,	
	<u>2007</u>	<u>2006</u>
Railway operating revenues:		
Coal	\$ 2,315	\$ 2,330
General merchandise (note 1)	5,196	5,106
Intermodal	1,921	1,971
Total railway operating revenues	<u>9,432</u>	<u>9,407</u>
Railway operating expenses (note 2):		
Compensation and benefits	2,552	2,637
Purchased services and rents	1,551	1,578
Fuel	1,169	1,095
Depreciation	775	738
Materials and other	800	802
Total railway operating expenses	<u>6,847</u>	<u>6,850</u>
Income from railway operations	2,585	2,557
Other income – net	93	149
Interest expense on debt	441	476
Income before income taxes	2,237	2,230
Provision for income taxes:		
Current	648	757
Deferred	125	(8)
Total income taxes	<u>773</u>	<u>749</u>
Net income	<u>\$ 1,464</u>	<u>\$ 1,481</u>
Earnings per share:		
Basic	\$ 3.74	\$ 3.63
Diluted	\$ 3.68	\$ 3.57
Average shares outstanding (millions) (note 3):		
Basic	389.6	406.0
Diluted	397.8	414.7

Norfolk Southern Corporation and Subsidiaries
Consolidated Balance Sheets
(Unaudited)
(\$ millions)

	As of December 31,	
	<u>2007</u>	<u>2006</u>
Assets		
Current assets:		
Cash, cash equivalents and short-term investments	\$ 206	\$ 918
Accounts receivable – net	942	992
Materials and supplies	176	151
Deferred income taxes	190	186
Other current assets	161	153
Total current assets	1,675	2,400
Investments	1,974	1,755
Properties less accumulated depreciation	21,583	21,098
Other assets	912	775
Total assets	\$ 26,144	\$ 26,028
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 1,139	\$ 1,181
Income and other taxes	203	205
Other current liabilities	237	216
Current maturities of long-term debt	369	491
Total current liabilities	1,948	2,093
Long-term debt	5,999	6,109
Other liabilities	2,039	1,767
Deferred income taxes	6,431	6,444
Total liabilities	16,417	16,413
Stockholders' equity:		
Common stock \$1.00 per share par value	400	418
Additional paid-in capital	1,466	1,303
Accumulated other comprehensive loss	(399)	(369)
Retained income	8,280	8,283
	9,747	9,635
Less treasury stock at cost, 20,683,686 and 20,780,638 shares, respectively	(20)	(20)
Total stockholders' equity	9,727	9,615
Total liabilities and stockholders' equity	\$ 26,144	\$ 26,028

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

	Years Ended	
	December 31,	
	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Net income	\$ 1,464	\$ 1,481
Reconciliation of net income to net cash provided by operating activities:		
Depreciation	786	750
Deferred income taxes	125	(8)
Gains on properties and investments	(51)	(54)
Changes in assets and liabilities affecting operations:		
Accounts receivable	30	(60)
Materials and supplies	(25)	(19)
Other current assets	(17)	(11)
Current liabilities other than debt	38	38
Other – net	(17)	89
Net cash provided by operating activities	<u>2,333</u>	<u>2,206</u>
Cash flows from investing activities:		
Property additions	(1,341)	(1,178)
Property sales and other transactions	124	119
Investments, including short-term	(635)	(1,804)
Investment sales and other transactions	827	2,179
Net cash used for investing activities	<u>(1,025)</u>	<u>(684)</u>
Cash flows from financing activities:		
Dividends	(377)	(278)
Common stock issued – net	183	297
Purchase and retirement of common stock (note 3)	(1,196)	(964)
Proceeds from borrowings	250	--
Debt repayments	(489)	(339)
Net cash used for financing activities	<u>(1,629)</u>	<u>(1,284)</u>
Net increase (decrease) in cash and cash equivalents	(321)	238
Cash and cash equivalents:		
At beginning of year	<u>527</u>	<u>289</u>
At end of year	206	527
Short-term investments at end of year	<u>--</u>	<u>391</u>
Cash, cash equivalents and short-term investments at end of year	<u>\$ 206</u>	<u>\$ 918</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest (net of amounts capitalized)	\$ 441	\$ 473
Income taxes (net of refunds)	\$ 603	\$ 692

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS:

1. CONTRACT SETTLEMENT

Fourth quarter 2007 automotive revenue includes \$26 million related to a contract settlement.

2. RECLASSIFICATIONS

Prior year amounts have been reclassified to conform to current year presentation. Specifically, "Fuel" includes locomotive fuel and other fuel used in railway operations. Material, casualties and other claims, and other railway expenses have been combined into "Materials and other."

3. STOCK REPURCHASE PROGRAM

In March 2007, NS' Board of Directors amended the stock repurchase program that was authorized in November 2005 to increase the number of shares of NS common stock that may be repurchased from 50 million to 75 million. In addition, the authorization term was shortened from December 31, 2015 to December 31, 2010. During 2007, NS purchased and retired 23.6 million shares of common stock at a cost of \$1.2 billion. Since inception of this program, NS has purchased and retired 45.3 million shares at a total cost of \$2.2 billion.