NORFOLK SOUTHERN CORP
Form 10-K
February 17, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended **DECEMBER 31, 2009**

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from __________ to __________

Commission file number 1-8339

NORFOLK SOUTHERN CORPORATION

(Exact name of registrant as specified in its charter)

Virginia	**52-1188014**
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)
Three Commercial Place	
Norfolk, Virginia	**23510-2191**
(Address of principal executive offices)	Zip Code
Registrant's telephone number, including area code:	**(757) 629-2680**

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

Title of each Class	Name of each exchange
Norfolk Southern Corporation	on which registered
Common Stock (Par Value $1.00)	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes (X) No ( )

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ( ) No (X)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or Section 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes (X) No ( )

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T during the preceding 12 months. Yes (X) No ( )

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ( )

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

Large accelerated filer (X) Accelerated filer ( ) Non-accelerated filer ( ) Smaller reporting company ( )

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.
Yes (   )   No (X)

The aggregate market value of the voting common equity held by non-affiliates as of June 30, 2009, was $13,820,960,718 (based on the closing price as quoted on the New York Stock Exchange on that date.)

The number of shares outstanding of each of the registrant's classes of common stock, as of January 31, 2010: 369,655,129 (excluding 20,434,078 shares held by the registrant's consolidated subsidiaries)

DOCUMENTS INCORPORATED BY REFERENCE:

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

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NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES (NS)

PART I

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NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES (NS)

Item 1. Business and Item 2. Properties

GENERAL - Norfolk Southern Corporation (Norfolk Southern) is a Norfolk, Virginia based company 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 rail carriers, to and from the rest of the United States. Norfolk Southern also transports overseas freight through several Atlantic and Gulf Coast ports. Norfolk Southern provides comprehensive logistics services and offers the most extensive intermodal network in the eastern half of the United States. The common stock of Norfolk Southern is listed on the New York Stock Exchange (NYSE) under the symbol "NSC."

Norfolk Southern was incorporated on July 23, 1980, under the laws of the Commonwealth of Virginia. On June 1, 1982, Norfolk Southern acquired control of two major operating railroads, Norfolk and Western Railway Company (NW) and Southern Railway Company (Southern) in accordance with an Agreement of Merger and Reorganization dated as of July 31, 1980, and with the approval of the transaction by the Interstate Commerce Commission (now the Surface Transportation Board [STB]). Effective December 31, 1990, Norfolk Southern transferred all the common stock of NW to Southern and Southern's name was changed to Norfolk Southern Railway Company (Norfolk Southern Railway or NSR). Effective September 1, 1998, NW was merged with and into Norfolk Southern Railway. As of December 31, 2009, all the common stock of Norfolk Southern Railway was owned directly by Norfolk Southern.

Through a limited liability company, Norfolk Southern and CSX Corporation (CSX) jointly own Conrail Inc. (Conrail), whose primary subsidiary is Consolidated Rail Corporation (CRC). Norfolk Southern has 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 (the Shared Assets Areas) for the joint and exclusive benefit of NSR and CSX Transportation Inc. (CSXT) (see Note 5 to the Consolidated Financial Statements).

Norfolk Southern makes available free of charge through its website, www.nscorp.com, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (SEC). In addition, the following documents are available on the company's website and in print to any shareholder who requests them:

Corporate Governance Guidelines Charters of the Committees of the Board of Directors The Thoroughbred Code of Ethics Code of Ethical Conduct for Senior Financial Officers Categorical Independence Standards for Directors

Unless otherwise indicated, Norfolk Southern and its subsidiaries are referred to collectively as NS.

RAILROAD OPERATIONS - As of December 31, 2009, NS' railroads operated approximately 21,000 route miles in 22 states and the District of Columbia.

The system's 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 its service area.

Corridors with 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 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 December 31, 2009

	Miles of Road	**Second and Other Main Track**	**Passing Track, Crossovers and Turnouts**	**Way and Yard Switching**	**Total**
Owned	15,676	2,819	1,997	8,353	28,845
Operated under lease, contract or trackage rights	4,948	1,977	414	965	8,304
Total	20,624	4,796	2,411	9,318	37,149

Triple Crown Operations - Triple Crown Services Company (Triple Crown), an NS subsidiary, provides bimodal, truckload transportation service utilizing RoadRailer® trailers, a hybrid technology that facilitates both over-the-road and on-the-rail transportation utilizing enclosed trailers that are pulled over the highways in tractor-trailer configuration and over the rails by locomotives. Triple Crown provides service in the eastern two-thirds of the United States as well as Ontario and Quebec through a network of terminals strategically located in 13 cities.

The following table sets forth certain statistics relating to NS' railroads' operations for the past 5 years:

	Years Ended December 31,				
	2009	**2008**	**2007**	**2006**	**2005**
Revenue ton miles (billions)	159	195	196	204	203

Freight train miles traveled (millions)	67.5	80.0	81.9	84.2	81.2
Revenue per ton mile	$0.0503	$0.0546	$0.0481	$0.0462	$0.0421
Revenue ton miles per man-hour worked	2,900	3,075	3,066	3,196	3,146
Percentage ratio of railway operating expenses to railway operating revenues	75.4%	71.1%	72.6%	72.8%	75.2%

RAILWAY OPERATING REVENUES - NS' total railway operating revenues were $8.0 billion in 2009. See the financial information by traffic segment in Part II, Item 7, "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 NS' railroads' largest commodity group as measured by revenues. The railroads handled a total of 157.5 million tons in 2009, most of which originated on NS' lines in West Virginia, Virginia, Pennsylvania, and Kentucky. Revenues from coal, coke, and iron ore accounted for about 29% of NS' total railway operating revenues in 2009.

Total coal handled through all system ports in 2009 was 29.8 million tons. Of this total, 14.9 million tons (including coastwise traffic) moved through Norfolk, Virginia, 3.8 million tons (including coastwise traffic) moved through the Baltimore Terminal, 7.5 million tons moved to various docks on the Ohio River, and 3.6 million tons moved to various Lake Erie ports. Other than coal for export, virtually all coal handled by NS' railroads was terminated in states east of the Mississippi River.

See the discussion of coal traffic, by type of coal, in Part II, Item 7, "Management's Discussion and Analysis 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, Mazda, Mercedes-Benz, Mitsubishi, Nissan, Subaru, Suzuki, Toyota, and Volkswagen, and auto parts for Ford Motor Company, General Motors, and Chrysler. 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 2009, 105 million tons of general merchandise freight, or approximately 65% of total general merchandise tonnage handled by NS, originated online. The balance of general merchandise traffic was received from connecting carriers at interterritorial gateways. The principal interchange points for NS-received traffic included Chicago, Memphis, New Orleans, Cincinnati, Kansas City, Detroit, Hagerstown, St. Louis/East St. Louis, and Louisville. General merchandise carloads handled in 2009 were 2.0 million, the revenues from which accounted for 52% of NS' total railway operating revenues in 2009.

See the discussion of general merchandise rail traffic by commodity group in Part II, Item 7, "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 2009 were 2.5 million, the revenues from which accounted for 19% of NS' total railway operating revenues for the year.

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

FREIGHT RATES - In 2009, NS' railroads continued their reliance on private contracts and exempt price quotes as their predominant pricing mechanisms. Thus, a major portion of NS' 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 2009, NS' railroads were found by the STB to be "revenue adequate" based on results for the year 2008. The STB has not made its revenue adequacy determination for the year 2009. 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 NS' 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
- Pittsburgh and Harrisburg, Pennsylvania

Commuter trains are operated on the NS line between Manassas and Alexandria in accordance with contracts with two transportation commissions of the Commonwealth of Virginia NS leases the Chicago to Manhattan, Illinois, line to the Commuter Rail Division of the Regional Transportation Authority of Northeast Illinois NS operates freight service over lines with significant ongoing Amtrak and commuter passenger operations, and is conducting freight operations over trackage owned by:

- Amtrak
- New Jersey Transit
- Southeastern Pennsylvania Transportation Authority
- Metro-North Commuter Railroad Company
- 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 - NS' noncarrier subsidiaries engage principally in the acquisition, leasing, and management of coal, oil, gas and minerals; the development of commercial real estate; telecommunications; and the leasing or sale of rail property and equipment. In 2009, no such noncarrier subsidiary or industry segment grouping of noncarrier subsidiaries met the requirements for a reportable business segment, under relevant authoritative accounting guidance.

RAILWAY PROPERTY

The NS railroad system extends across 22 states and the District of Columbia. The railroad infrastructure makes the company capital intensive with net property of approximately $23 billion.

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

	Capital Expenditures				
	2009	2008	2007	2006	2005
	($ in millions)				
Road and other property	$ 1,128	$ 1,070	$ 894	$ 756	$ 741
Equipment	171	488	447	422	284
Total	$ 1,299	$ 1,558	$ 1,341	$ 1,178	$ 1,025

Capital spending and maintenance programs are and have been designed to assure the ability to provide safe, efficient, and reliable rail transportation services. For 2010, NS has budgeted $1.44 billion of capital expenditures. On May 1, 2006, NS and Kansas City Southern (KCS) formed a joint venture, Meridian Speedway LLC (MSLLC), pursuant to which NS intends 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 December 31, 2009, NS has contributed $283 million. See the discussion following "Cash used for investing activities," in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Equipment - As of December 31, 2009, NS owned or leased the following units of equipment:

	Owned*	Number of Units Leased**	Total	Capacity of Equipment
Locomotives:				(Horsepower)
Multiple purpose	3,584	132	3,716	12,916,050
Switching	146	--	146	214,650

Auxiliary units	103	--	103	--
Total locomotives	3,833	132	3,965	13,130,700
Freight cars:				(Tons)
Hopper	17,495	805	18,300	1,995,324
Box	13,656	1,450	15,106	1,240,384
Covered hopper	8,421	2,353	10,774	1,186,372
Gondola	31,511	5,647	37,158	4,008,658
Flat	2,618	1,330	3,948	315,545
Caboose	171	--	171	--
Other	4,461	19	4,480	222,661
Total freight cars	78,333	11,604	89,937	8,968,944
Other:				
Work equipment	5,035	243	5,278	
Vehicles	4,068	--	4,068	
Highway trailers				
and containers	59	10,681	10,740	
RoadRailer®	6,268	27	6,295	
Miscellaneous	1,246	13,108	14,354	
Total other	16,676	24,059	40,735	

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

** Includes 3,078 freight cars leased from CRC.

The following table indicates the number and year built for locomotives and freight cars owned at December 31, 2009.

	Year Built								
	2009	2008	2007	2006	2005	2000-2004	1995-1999	1994 & Before	Total
Locomotives:									
No. of units	--	40	90	143	89	667	713	2,091	3,833
% of fleet	--%	1%	2%	4%	2%	17%	19%	55%	100%
Freight cars:									
No. of units	514	2,359	1,200	404	89	586	6,403	66,778	78,333
% of fleet	1%	3%	2%	--%	--%	1%	8%	85%	100%

The following table shows the average age of NS' locomotive and freight car fleets at December 31, 2009, and the number of retirements in 2009:

	Locomotives	Freight Cars
Average age - in service	19.9 years	30.3 years
Retirements	13 units	3,446 units

Average age - retired	31.2 years	40.5 years

Ongoing locomotive and freight car 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

	2009	**2008**	**2007**	**2006**	**2005**
Locomotives	6.1%	5.8%	5.7%	5.7%	6.2%
Freight Cars	4.5%	4.5%	4.9%	6.4%	6.3%

Encumbrances - Certain railroad equipment is subject to the prior lien of equipment financing obligations amounting to approximately $150 million as of December 31, 2009, and $236 million as of December 31, 2008.

Track Maintenance - Of the approximately 37,100 total miles of track operated, NS had responsibility for maintaining about 29,600 miles of track, with the remainder being operated under trackage rights from another party responsible for maintenance.

Over 75% of the main line trackage (including first, second, third, and branch main tracks, all excluding rail operated pursuant to trackage rights) has rail ranging from 131 to 155 pounds per yard with the standard installation currently at 136 pounds per yard. Approximately 36% of NS lines, excluding rail operated pursuant to trackage rights, carried 20 million or more gross tons per track mile during 2009.

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

	2009	2008	2007	2006	2005
Track miles of rail installed	434	459	401	327	302
Miles of track surfaced	5,568	5,209	5,014	4,871	4,663
New crossties installed (millions)	2.7	2.7	2.7	2.7	2.5

Microwave System - The NS microwave system, consisting of approximately 7,400 radio route miles, 429 core stations, 30 secondary stations, and 5 passive repeater stations, provides communications between most operating locations. The microwave system is used primarily for voice communications, VHF radio control circuits, data and facsimile transmissions, traffic control operations, and AEI data transmissions.

Traffic Control - Of the approximately 16,600 route miles dispatched by NS, about 11,100 miles are signalized, including 8,200 miles of centralized traffic control (CTC) and 2,900 miles of automatic block signals. Of the 8,200 miles of CTC, approximately 3,900 miles are controlled by data radio originating at 271 base station radio sites.

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

ENVIRONMENTAL MATTERS - Compliance with federal, state, and local laws and regulations relating to the protection of the environment is a principal NS goal. To date, such compliance has not affected materially NS' capital additions, earnings, liquidity, or competitive position. See "Legal Proceedings," Part I, Item 3; "Personal Injury, Environmental, and Legal Liabilities" in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Note 17 to the Consolidated Financial Statements.

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

	2009	2008	2007	2006	2005
Average number of employees	28,593	30,709	30,806	30,541	30,294

Average wage cost per employee	$63,000	$66,000	$62,000	$62,000	$61,000
Average benefit cost per employee	$32,000	$31,000	$30,000	$32,000	$29,000

More than 80% of NS' railroad employees are covered by collective bargaining agreements with various labor unions. See the discussion of "Labor Agreements" in Part II, Item 7, "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, NS' railroads are subject to regulation by the STB. The STB has jurisdiction over some rates, 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. The Federal Railroad Administration regulates certain track and mechanical equipment standards.

The relaxation of economic regulation of railroads, 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 these shipments and on regulated shipments effectively remove those shipments from regulation as well for the duration of the contract. About 88% of NS' freight revenues come from either exempt traffic or traffic moving under transportation contracts.

Efforts were made in 2009 to re-subject the rail industry to increased federal economic regulation and such efforts are expected to continue in 2010. The Staggers Rail Act of 1980, which substantially balanced such regulation, encouraged and enabled rail carriers to innovate and to compete for business, thereby contributing to the economic health of the nation and to the revitalization of the industry. Accordingly, NS will continue to oppose efforts to reimpose increased 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-progress, users are increasingly sensitive to transport arrangements that minimize problems at successive production stages.

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

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

SECURITY OF OPERATIONS - NS has taken significant steps to provide enhanced security for the NS rail system. In particular, NS has 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 (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, the NS Departmental Security Plan outlines the protocol within NS for all concerned to be notified of AAR Alert Level changes. All NS 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.

The NS plan also effectively addresses and complies with Department of Transportation security regulations pertaining to training and security plans with respect to the transportation of hazardous materials. As part 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, NS, working closely with the National Transit Institute at Rutgers University, has developed a four-module uniform national training program. NS also has worked with the Transportation Security Administration (TSA) in developing other industry training programs. More in-depth security training has been given to those select NS employees 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 NS. 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, NS engages in close and regular coordination with numerous federal and state agencies, including the U.S. Department of Homeland Security (DHS), the TSA, the Federal Bureau of Investigation (FBI), the Federal Railroad Administration (FRA), the U.S. Coast Guard, U.S. Customs and Border Protection, and various state Homeland Security offices. As one notable example, an NS Police Special Agent, under the auspices of the AAR, has been assigned to the National Joint Terrorism Task Force (NJTTF) operating out of FBI Headquarters in Washington, DC 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 an NS Special Agent has served to foster a strong working relationship between NS and the FBI. NS also has become a member of the Customs-Trade Partnership Against Terrorism (C-TPAT) program sponsored by U.S. Customs. C-TPAT allows NS to work closely with U.S. Customs and its customers to develop measures that will help ensure the integrity of freight shipments moving on NS, particularly those moving to or from a foreign country. Based on participation in C-TPAT, NS has ensured that its plan meets all current applicable security recommendations made by U.S. Customs.

Similarly, NS is guided in its operations by various supplemental security action items issued by DHS and U.S. Department of Transportation (DOT), U.S. Coast Guard Maritime Security requirements, as well as voluntary security action items developed in 2006 in collaboration with TSA, DOT, and the freight railroads. Many of the action items are based on lessons learned from DHS and DOT security assessments of rail corridors in High Threat Urban Areas (HTUA) begun in 2004. Particular attention is aimed at reducing risk in HTUA by: (1) the establishment of secure storage areas for rail cars carrying toxic-by-inhalation (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 NS' compliance initiatives are outlined in the various departmental sections of the NS Departmental Security Plan. NS has taken appropriate actions to be compliant with the 2008 TSA Final Security Rule addressing Rail Security Sensitive Materials (RSSM) to ensure these shipments are properly inspected and that positive chain-of-custody is maintained when required. NS has met the September 2009 deadline to be in compliance with the 2008 Pipeline and Hazardous Materials Safety Administration (PHMSA) rail-routing regulations outlined in Docket HM-232E.

In 2009, through participation in the Transportation Community Awareness and Emergency Response (TRANSCAER) Program, NS provided rail accident response training to approximately 4,500 emergency responders, such as local police and fire personnel, representing over 34,000 man-hours of emergency response training. NS also conducted railroad operations classes for FBI agents and the railroad liaison agents from Joint Terrorism Task Forces. NS' other training efforts throughout 2009 included participation in 10 drills for local, state, and federal agencies. NS also has ongoing programs to sponsor local emergency responders at the Security and Emergency Response Training Course (SERTC) conducted at the AAR Transportation Technology Center in Pueblo, Colorado. Also, the NS annual TRANSCAER Whistle-Stop train makes stops in numerous cities, its 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 Pipeline and Hazardous Materials Safety Administration (PHMSA), in coordination with the FRA, is amending the Hazardous Materials Regulations to prescribe enhanced safety measures for rail transportation of TIH materials, including interim design standards for railroad tank cars. The rule mandates commodity-specific improvements in safety features and design standards for newly manufactured DOT specification tank cars and an improved top fittings performance standard. The interim standards established in this rule will enhance the accident survivability of TIH tank cars.

Item 1A. Risk Factors

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NS is subject to significant governmental legislation and regulation over commercial, operating and environmental matters. Railroads are subject to the enactment of laws by Congress that could increase economic regulation of the industry. Railroads presently are subject to commercial regulation by the STB, which has jurisdiction over some routes, rates and 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. Additional economic regulation of the rail industry by Congress or the STB, whether under new or existing laws, could have a significant negative impact on NS' ability to determine prices for rail services and result in a material adverse effect in the future on NS' financial position, results of operations, or liquidity in a particular year or quarter. This potential material adverse effect could also result in reduced capital spending on NS' rail network or abandonment of lines.

Railroads are subject to safety and security regulation by the DOT and the DHS, which regulate most aspects of NS' operations. Compliance with the Rail Safety Improvement Act of 2008 will result in additional operating costs associated with the statutorily mandated implementation of positive train control by 2015. In addition to increased capital expenditures, implementation may result in reduced operational efficiency and service levels, as well as increased compensation and benefits expenses and increased claims and litigation costs.

NS' operations are subject to extensive federal and state environmental laws and regulations concerning, among other things, emissions to the air; discharges to waterways 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. This risk includes property owned by NS, whether currently or in the past, that is or has been subject to a variety of uses, including NS railroad operations and other industrial activity by past owners or past and present tenants of NS. Environmental problems that are latent or undisclosed may exist on these properties, and NS 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.

NS, as a common carrier by rail, 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.

NS 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 NS' results of operations, financial position, or liquidity in a particular year or quarter. Because NS plays a critical role in the nation's transportation system, it 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 NS currently maintains insurance coverage for third-party liability arising out of war and acts of terrorism, it maintains only limited insurance coverage for first-party property damage and damage to property in NS' care, custody, or control caused by certain acts of terrorism. In addition, premiums for some or all of NS' current insurance programs covering these losses could increase dramatically, or insurance coverage for certain losses could be unavailable to NS in the future.

NS may be affected by general economic conditions. Prolonged negative changes in domestic and global economic conditions affecting the producers and consumers of the commodities NS carries may have an adverse effect on its operating results, financial position, or liquidity. Economic conditions resulting in bankruptcies of one or more large customers could have a significant impact on NS' financial position, results of operations, or liquidity in a particular year or quarter.

NS may be affected by the impact of environmental regulation on its utility coal customers and/or the value of certain NS assets. A number of evolving environmental issues could affect the U.S. utility coal market, including potential regional programs aimed at capping and reducing power plant CO_2 emissions and ongoing efforts at addressing climate change. Although 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, future regulatory developments in this area could have a negative effect on NS' utility coal customers and/or the value of coal reserves owned by NS and than an adverse effect on NS' operating results, financial position, and liquidity.

NS faces competition from other transportation providers. NS is subject to competition from motor carriers, 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 NS has used primarily internal resources to build or acquire and maintain its 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 NS operates, or legislation granting materially greater latitude for motor carriers with respect to size or weight limitations, could have a material adverse effect on its financial position, results of operations, or liquidity in a particular year or quarter.

The operations of carriers with which NS interchanges may adversely affect its operations. NS' ability to provide rail service to customers in the U.S. and Canada depends in large part upon its ability to maintain cooperative relationships with connecting carriers with respect to, among other matters, freight rates, revenue division, 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 NS' inability to meet its customers' demands or require NS to use alternate train routes, which could result in significant additional costs and network inefficiencies.

NS relies on technology and technology improvements in its business operations. If NS experiences significant disruption or failure of one or more of its information technology systems, including computer hardware, software, and communications equipment, NS could experience a service interruption, security breach, or other operational difficulties, which could have a material adverse impact on its results of operations, financial condition, and liquidity in a particular year or quarter. Additionally, if NS does not have sufficient capital to acquire new technology or if it is unable to implement new technology, NS 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 its financial position, results of operations, or liquidity in a particular year or quarter.

The vast majority of NS employees belong to labor unions, and labor agreements, strikes, or work stoppages could adversely affect its operations. More than 80% of NS 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, NS could experience a significant disruption of its operations. Additionally, future national labor agreements, or renegotiation of labor agreements or provisions of labor agreements, could significantly increase NS' costs for healthcare, wages, and other benefits. Any of these factors could have a material adverse impact on NS' financial position, results of operations, or liquidity in a particular year or quarter.

NS may be subject to various claims and lawsuits that could result in significant expenditures. The nature of NS' business exposes it 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 (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 NS' operating results, financial condition, and liquidity to the extent not covered by insurance. NS has 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 NS or in its 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 NS.

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

Unpredictability of demand for rail services resulting in the unavailability of qualified personnel could adversely affect NS' 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 NS' 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 NS' operational efficiency and otherwise have a material adverse effect on its financial position, results of operations, or liquidity in a particular year or quarter.

NS may be affected by supply constraints resulting from disruptions in the fuel markets or the nature of some of its supplier markets. NS consumed about 400 million gallons of diesel fuel in 2009. 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, increased demand in existing or emerging foreign markets, disruption of oil imports, disruption of domestic refinery production, damage to refinery or pipeline infrastructure, political unrest, war or other factors, NS' financial position, results of operations, or liquidity in a particular year or quarter could be materially adversely affected. Also, such an event would impact NS as well as its 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, NS competes 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 NS' financial position, results of operations, or liquidity in a particular year or quarter.

The state of capital markets could adversely affect NS' liquidity. NS from time-to-time relies on the capital markets to provide some of its capital requirements, including the issuance of long-term debt instruments and commercial paper, as well as the sale of certain receivables. Significant instability or disruptions of the capital markets, including the credit markets, or deterioration of NS' financial condition due to internal or external factors could restrict or eliminate NS' access to, and/or significantly increase the cost of, various financing sources, including bank credit facilities and issuance of corporate bonds. Instability or disruptions of the capital markets and deterioration of NS' financial condition, alone or in combination, could also result in a reduction in NS' credit rating to below investment grade, which could prohibit or restrict NS from accessing external sources of short- and long-term debt financing and/or significantly increase the associated costs.

Item 1B. Unresolved Staff Comments

None.

Item 3. Legal Proceedings

The Ohio Environmental Protection Agency has notified Norfolk Southern that it intends to seek penalties and require Norfolk Southern to take remedial actions in connection with alleged violations of the Clean Air and Water Acts stemming from the operation of NS' coal dock in Ashtabula, Ohio. The Pennsylvania Department of Environmental Protection has submitted to NS a proposed Consent Assessment of Civil Penalty with respect to several alleged environmental releases from September 2007 to the present. Although NS will contest liability and the imposition of any penalties, because these governmental proceedings with respect to environmental laws and regulations involve potential fines, penalties or other monetary sanctions in excess of $100,000, they are described here consistent with SEC rules and requirements. NS does not believe that the outcome of these proceedings will have a material effect on its financial position, results of operations, or liquidity.

On November 6, 2007, various antitrust class actions filed against NS and other Class I railroads in various Federal district courts regarding fuel surcharges were consolidated in the District of Columbia by the Judicial Panel on Multidistrict Litigation. NS believes the allegations in the complaints are without merit and intends to vigorously defend the cases. NS does not believe that the outcome of these proceedings will have a material effect on its financial position, results of operations, or liquidity. A lawsuit containing similar allegations against NS and four other major railroads that was filed on March 25, 2008, in the U.S. District Court for the District of Minnesota was voluntarily dismissed by the plaintiff subject to a tolling agreement entered into in August 2008.

On April 24, 2008, the United States Department of Justice (DOJ) brought an action against NS for alleged violations of federal environmental laws resulting from the discharge of chlorine and oil that occurred as a result of the January 6, 2005 derailment in Graniteville, SC, including claims for civil penalties as well as injunctive relief. Although NS' June 24, 2008 motion to dismiss for failure to allege sufficient facts was granted, DOJ was given leave to, and did, amend its complaint. The litigation has been stayed by the district court as the parties work to conclude an agreed upon consent decree, which when finalized will include fines in excess of $100,000. NS does not believe that the resolution of these claims will have a material adverse effect on its financial position, results of operations, or liquidity.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of 2009.

Executive Officers of the Registrant.

Norfolk Southern's executive officers generally are elected and designated annually by the Board of Directors at its first meeting held after the annual meeting of stockholders, and they hold office until their successors are elected. Executive officers also may be elected and designated throughout the year as the Board of Directors considers appropriate. There are no family relationships among the officers, nor any arrangement or understanding between any officer and any other person pursuant to which the officer was selected. The following table sets forth certain information, as of February 1, 2010, relating to the executive officers.

Name, Age, Present Position	Business Experience During Past Five Years
Charles W. Moorman, 57, Chairman, President and Chief Executive Officer	Present position since February 1, 2006. Served as President and Chief Executive Officer from November 1, 2005 to February 1, 2006; and as President from October 1, 2004 to November 1, 2005.
Deborah H. Butler, 55, Executive Vice President - Planning and Chief Information Officer	Present position since June 1, 2007. Served as Vice President - Customer Service from July 1, 2004 to June 1, 2007.
James A. Hixon, 56, Executive Vice President - Law and Corporate Relations	Present position since October 1, 2005. Served as Executive Vice President - Finance and Public Affairs from October 1, 2004 to October 1, 2005.
Mark D. Manion, 57, Executive Vice President and Chief Operating Officer	Present position since April 1, 2009. Served as Executive Vice President - Operations from October 1, 2004 to April 1, 2009.

John P. Rathbone, 57, Executive Vice President - Administration	Present position since October 1, 2004.
Donald W. Seale, 57, Executive Vice President and Chief Marketing Officer	Present position since April 1, 2006. Served as Executive Vice President - Sales and Marketing from October 1, 2004 to April 1, 2006.
James A. Squires, 48, Executive Vice President - Finance and Chief Financial Officer	Present position since July 1, 2007. Served as Executive Vice President - Finance from April 1, 2007 to July 1, 2007; as Senior Vice President - Financial Planning from April 1, 2006 to April 1, 2007; and as Senior Vice President - Law from October 1, 2004 to April 1, 2006.
Daniel D. Smith, 57, Senior Vice President - Energy and Properties	Present position since December 1, 2003.
Clyde H. Allison, Jr., 46, Vice President and Controller	Present position since April 1, 2009. Served as Assistant Vice President Corporate Accounting from February 1, 2008 to April 1, 2009; as Assistant Vice President Accounting Operations from June 1, 2006 to February 1, 2008; and Assistant Vice President Strategic Sourcing from November 1, 2001 to June 1, 2006.

PART II

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NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES (NS)

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES

STOCK PRICE AND DIVIDEND INFORMATION

The Common Stock of Norfolk Southern Corporation, owned by 37,486 stockholders of record as of December 31, 2009, is traded on the New York Stock Exchange under the symbol "NSC." The following table shows the high and low sales prices as reported by Bloomberg L.P. on its internet-based service and dividends per share, by quarter, for 2009 and 2008.

	Quarter			
2009	**1st**	**2nd**	**3rd**	**4th**
Market Price				
High	$ 49.90	$ 41.23	$ 49.23	$ 54.24
Low	26.95	34.43	35.87	43.26
Dividends per share	$ 0.34	$ 0.34	$ 0.34	$ 0.34
2008	**1st**	**2nd**	**3rd**	**4th**
Market Price				
High	$ 56.89	$ 67.38	$ 73.64	$ 65.04
Low	44.15	54.94	57.82	43.29
Dividends per share	$ 0.29	$ 0.29	$ 0.32	$ 0.32

ISSUER PURCHASES OF EQUITY SECURITIES

Period	**(a) Total Number of Shares (or Units) Purchased [(1)]**	**(b) Average Price Paid per Share (or Unit)**	**(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs [(2)]**	**(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that may yet be Purchased Under the Plans or Programs[(2)]**
October 1-31, 2009	--	--	--	10,312,150
November 1-30, 2009	3,511	51.86	--	10,312,150
December 1-31, 2009	2,175	52.29	--	10,312,150
Total	5,686	-	--	-

(1) Represents shares tendered by employees in connection with the exercise of stock options under the Long-term Incentive Plan.

(2) On November 22, 2005, the Board of Directors authorized a share repurchase program, pursuant to which up to 50 million shares of Common Stock could be purchased through December 31, 2015. On March 27, 2007, the Board of Directors amended the program and increased the number of shares that may be repurchased to 75 million, and shortened the repurchase term by five years to December 31, 2010.

Item 6. Selected Financial Data

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NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES

FIVE-YEAR FINANCIAL REVIEW

	2009	2008	2007	2006	2005[1]
			($ in millions, except per share amounts)		
RESULTS OF OPERATIONS					
Railway operating revenues	$ 7,969	$ 10,661	$ 9,432	$ 9,407	$ 8,527
Railway operating expenses	6,007	7,577	6,847	6,850	6,410
Income from railway operations	1,962	3,084	2,585	2,557	2,117
Other income - net	127	110	93	149	74
Interest expense on debt	467	444	441	476	494
Income before income taxes	1,622	2,750	2,237	2,230	1,697
Provision for income taxes	588	1,034	773	749	416
Net income	$ 1,034	$ 1,716	$ 1,464	$ 1,481	$ 1,281
PER SHARE DATA					
Net income - basic[2]	$ 2.79	$ 4.58	$ 3.73	$ 3.62	$ 3.17
- diluted	$ 2.76	$ 4.52	$ 3.68	$ 3.57	$ 3.11
Dividends	$ 1.36	$ 1.22	$ 0.96	$ 0.68	$ 0.48
Stockholders' equity at year end	$ 28.06	$ 26.23	$ 25.64	$ 24.19	$ 22.63

FINANCIAL POSITION										
Total assets	$	27,369	$	26,297	$	26,144	$	26,028	$	25,859
Total debt	$	7,153	$	6,667	$	6,368	$	6,600	$	6,930
Stockholders' equity	$	10,353	$	9,607	$	9,727	$	9,615	$	9,276
OTHER										
Capital expenditures	$	1,299	$	1,558	$	1,341	$	1,178	$	1,025
Average number of shares										
outstanding (thousands)		367,077		372,276		389,626		405,988		404,170
Number of stockholders at year end		37,486		35,466		36,955		38,900		48,180
Average number of employees:										
Rail		28,173		30,241		30,336		30,079		29,851
Nonrail		420		468		470		462		443
Total		28,593		30,709		30,806		30,541		30,294

[1] 2005 provision for income taxes includes a $96 million benefit related to the reduction of NS' 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] Prior year periods reflect the retrospective application of Financial Accounting Standards Board Staff Position, Emerging Issues Task Force No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities" (Accounting Standards Codification (ASC) 260-10), which was adopted in 2009.

See accompanying Consolidated Financial Statements and notes thereto.

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

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Norfolk Southern Corporation and Subsidiaries

Management's Discussion and Analysis of

Financial Condition and Results of Operations

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

OVERVIEW

While NS' results in 2009 reflect the decline of the domestic and global economies, they also demonstrate NS' ability to focus on safety, service, asset management, and sustainability--all while controlling costs. Revenues decreased $2.7 billion, or 25%, in 2009, as manufacturers reduced production to meet sagging consumer demand and the decline in oil prices resulted in lower fuel surcharge revenues. Carloadings were down 1.4 million units, or 19%, reflecting declines across all commodity groups. NS partially offset this 25% decline in revenues with a $1.6 billion, or 21%, decrease in operating expenses. Notwithstanding these cost reductions, income from railway operations fell 36%, and the operating ratio, a measure of the amount of operating revenues consumed by operating expenses, rose to 75.4%.

Despite the decline in NS' net income for 2009, cash provided by operating activities was $1.9 billion, which exceeded cash used for capital expenditures and dividends. Net proceeds from borrowings minus debt repayments was $403 million resulting in an increase in cash, cash equivalents, and short-term investments, which at December 31, 2009 totaled $1.1 billion.

Looking forward to 2010, NS expects revenues to increase, reflecting improved average revenue per unit and higher traffic volume due to a gradual, yet steady economic recovery. NS plans to continue to improve service and maintain a market-based approach to pricing.

SUMMARIZED RESULTS OF OPERATIONS

2009 Compared with 2008

Net income in 2009 was $1.0 billion, or $2.76 per diluted share, down $682 million, or 40%, compared with $1.7 billion, or $4.52 per diluted share, in 2008. The decrease in net income was primarily due to lower income from railway operations that was offset in part by lower income taxes (see Note 3). Railway operating revenues decreased $2.7 billion, reflecting lower traffic volumes and lower average revenue per unit primarily a result of decreased fuel surcharges. Railway operating expenses decreased $1.6 billion, principally due to lower volume-related expenses and fuel prices.

Oil prices affect NS' results of operations in a variety of ways and can have an overall favorable or unfavorable impact in any particular period. In addition to the impact of oil prices on general economic conditions and traffic volume, oil prices directly affect NS' revenues through market-based fuel surcharges and contract escalators (see "Railway Operating Revenues") and also affect fuel costs (see "Railway Operating Expenses"). For 2009, excluding the impact of decreased consumption, the decline in fuel surcharge revenue was greater than the decline in fuel expense. Future changes in oil prices may cause volatility in operating results that could be material to a particular year or quarter.

2008 Compared with 2007

Net income in 2008 was $1.7 billion, up $252 million, or 17%, compared with 2007. Diluted earnings per share were $4.52, up 84¢, or 23%. The greater percentage increase in per share earnings was due to fewer shares outstanding as a result of NS' share repurchase program (see Note 14). The increase in net income was primarily due to higher income from railway operations that was offset in part by higher income taxes (see Note 3). Railway operating revenues increased $1.2 billion, as higher average revenue per unit outweighed lower traffic volumes. Railway operating expenses increased $730 million, principally due to higher fuel costs and increased compensation and benefits expenses.

DETAILED RESULTS OF OPERATIONS

Railway Operating Revenues

Railway operating revenues were $8.0 billion in 2009, $10.7 billion in 2008, and $9.4 billion in 2007. The following table presents a three-year comparison of revenues, volume, and average revenue per unit by market group.

	Revenues			**Units**			**Revenue per Unit**		
	2009	**2008**	**2007**	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
	($ in millions)			*(in thousands)*			*($ per unit)*		
Coal	$ 2,264	$ 3,111	$2,315	1,418.5	1,765.7	1,699.4	$1,596	$1,762	$ 1,363
General merchandise:									
Agr./consumer/gov't.	1,181	1,282	1,047	563.3	612.4	601.5	2,097	2,093	1,740
Chemicals	1,056	1,238	1,166	345.0	393.7	426.7	3,061	3,144	2,732
Metals/construction	745	1,251	1,149	504.2	742.4	783.6	1,478	1,686	1,467
Paper/clay/forest	666	898	860	306.4	394.1	428.1	2,172	2,280	2,010
Automotive	527	823	974	289.4	412.2	533.0	1,821	1,997	1,827
General merchandise	4,175	5,492	5,196	2,008.3	2,554.8	2,772.9	2,079	2,150	1,874
Intermodal	1,530	2,058	1,921	2,530.5	3,029.0	3,120.7	605	679	615
Total	$ 7,969	$ 10,661	$9,432	5,957.3	7,349.5	7,593.0	$1,338	$1,451	$ 1,242

Revenues decreased $2.7 billion in 2009, but increased $1.2 billion in 2008. As reflected in the table on the following page, the decrease in 2009 was due to decreased traffic volumes and lower average revenue per unit, as a result of lower fuel surcharges that more than offset rate increases. The improvement in 2008 was the result of increased average revenue per unit, including fuel surcharge revenue, which more than offset decreased traffic volumes. Fuel surcharge revenue amounted to $370 million in 2009, compared with $1.6 billion in 2008, and $792 million in 2007. If fuel prices remain at or near year-end 2009 levels, fuel surcharge revenues will increase in 2010.

Many of NS' negotiated fuel surcharges for coal and general merchandise traffic are based on the monthly average price of West Texas Intermediate Crude Oil (WTI Average Price). These surcharges are reset the first day of each calendar month based on the WTI Average Price for the second preceding calendar month. This two-month lag in applying WTI Average Price decreased fuel surcharge revenue by approximately $50 million in 2009 and increased fuel surcharge revenue by approximately $100 million in 2008.

Revenue Variance Analysis

Increases (Decreases)

	2009 vs. 2008		2008 vs. 2007	
	($ in millions)			
Traffic volume (units)	$	(2,020)	$	(302)
Revenue per unit/mix		(672)		1,531
Total	$	(2,692)	$	1,229

For 2009, the unfavorable volume variance accounted for 75% of the total variance, reflecting traffic volume declines for all commodity groups. Volumes declined by 1.4 million units, or 19%, reflecting the weakened economy. The unfavorable revenue per unit/mix variance was driven by decreased fuel surcharges, offset in part by higher rates.

In 2008, revenues increased $1.2 billion compared to 2007, reflecting large increases in average revenue per unit, a result of higher rates and increased fuel surcharges. Traffic volumes for all commodity groups except coal and agriculture/consumer products/government decreased compared to 2007.

On January 26, 2007, the Surface Transportation Board (STB) issued a decision that the type of fuel surcharge imposed by NS 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, NS discontinued assessing fuel surcharges on its published (non-intermodal) public rates. Adjustments to public prices now reflect ongoing market conditions. The traffic moving under these tariffs and public quotes comprises about 10% of NS' total revenue base.

COAL revenues decreased $847 million, or 27%, compared with 2008, reflecting a 20% decrease in traffic volume due to lower coal consumption in the utility and global raw steel sectors and lower average revenue per unit. Coal average revenue per unit was down 9% compared with 2008, reflecting decreased fuel surcharges and declining rate adjustment factors that more than offset rate increases. For 2010, average revenue per unit is expected to increase reflecting the effects of higher rates comprised of pricing increases, increasing contract escalators, higher fuel surcharges, and increased length of haul for export coal traffic.

Coal represented 29% of NS' revenues in 2009 and 80% of shipments handled originated on NS' lines. As shown in the following table, tonnage declined in all coal markets.

Total Coal, Coke, and Iron Ore Tonnage

	2009	2008	2007
		(Tons in thousands)	
Utility	120,278	144,451	142,734
Export	17,885	23,069	15,564
Domestic metallurgical	11,848	18,155	17,873
Industrial	7,509	8,553	9,794
Total	157,520	194,228	185,965

In 2008, coal revenues increased $796 million, or 34%, compared with 2007, reflecting higher rates, including fuel surcharges, and a 4% increase in traffic volume. Coal average revenue per unit was up 29% compared with 2007, reflecting higher rates (which were comprised of pricing increases, contract escalators and the effect of increased longer-haul export coal traffic) and increased fuel surcharges.

NS was recently involved in litigation with Virginia Electric and Power Company/Old Dominion Electric Cooperative (Virginia Power) regarding rate adjustment provisions in a transportation contract between them. NS was also recently involved in litigation with a coal customer to enforce provisions of a transportation contract related to reimbursement of certain infrastructure expenses incurred by NS and minimum tonnage commitments and related deficit charges. NS settled both of these matters during the fourth quarter of 2009. The settlements did not have a material impact on NS' financial condition, results of operations, or liquidity.

Utility coal tonnage decreased 17% compared with 2008, a result of lower demand for electricity induced by the downturn in the U.S. economy, natural gas competition, and utility coal stockpiles that were above target levels across NS' service area.

In 2008, utility coal tonnage increased 1% compared with 2007, as a result of modest stockpile growth in the Northeast.

For 2010, NS expects electricity demand and natural gas prices to increase, which should lead to higher coal-fired generation and demand. However, utility coal tonnage may lag this recovery due to high stockpile levels, at least through the first half of the year.

Export coal tonnage decreased 22% compared to 2008, reflecting the global recession, reduced demand for steel production and high inventory levels. Norfolk volume decreased about 34,000 carloads, or 20%, and Baltimore volume was down about 21,000 carloads, or 38%.

In 2008, export coal tonnage increased 48% compared to 2007, primarily due to increased global demand coupled with weather-related supply constraints in Australia, reduced export volume from China, and the weak U.S. dollar. Norfolk volume increased about 51,000 carloads, or 39%, and Baltimore volume was up about 28,000 carloads, or 102%.

For 2010, export coal tonnage is expected to increase, reflecting improved demand for raw steel production.

Domestic metallurgical coal, coke, and iron ore tonnage decreased 35% compared with 2008, reflecting reduced demand for raw steel caused by the downturn in the U.S. economy which led to blast furnace outages, reduced coke production schedules, and high inventory levels.

In 2008, domestic metallurgical coal, coke, and iron ore tonnage increased 2% compared with 2007, reflecting the start up of a new coke plant.

For 2010, domestic metallurgical coal, coke, and iron ore tonnage is expected to improve as the economy continues to recover, resulting in increased demand for raw steel production.

Other coal tonnage (principally steam coal shipped to industrial plants) decreased 12% compared to 2008, principally due to reduced production at NS-served plants caused by the downturn in the U.S. economy. In 2008, other coal tonnage decreased 13% compared to 2007, primarily due to coal supply constraints.

For 2010, other coal tonnage is expected to be down compared to 2009, reflecting reduced industrial coal consumption.

GENERAL MERCHANDISE revenues in 2009 decreased $1.3 billion, or 24%, compared with 2008, reflecting a 21% decline in traffic volume and a 3% decrease in average revenue per unit, as higher rates were overshadowed by decreased fuel surcharge revenues.

In 2008, general merchandise revenues increased $296 million, or 6%, compared with 2007, as a 15% increase in average revenue per unit, reflecting continued market-based pricing and higher fuel surcharges, more than offset an 8% decline in traffic.

Agriculture, consumer products, and government revenues decreased 8% in 2009, compared with 2008. The revenue decline resulted from an 8% decrease in traffic volumes as plant closures and production curtailments led to fewer shipments of fertilizer and corn.

In 2008, agriculture, consumer products, and government revenues increased 22%, compared with 2007. The revenue improvement resulted from higher average revenue per unit, which reflected increased rates and higher fuel surcharge revenues. Traffic volume increased 2% as more ethanol, military, feed, soybeans, and food oils shipments offset declines in fertilizers, corn, beverages, and consumer products.

For 2010, agriculture revenues are expected to increase as a result of increased volumes and higher average revenue per unit, reflecting expected growth in the agri-fuels market, including corn for ethanol production and finished ethanol as well as increased fertilizer shipments.

Chemicals revenues in 2009 decreased 15%, compared with 2008, due to a 12% decrease in traffic volume and a 3% decline in average revenue per unit, primarily a result of lower fuel surcharges. The decline in traffic volume was a result of continued weakness in housing construction which drove declines in industrial intermediates, plastics and miscellaneous chemicals. Volumes associated with petroleum-based products also declined as a result of reduced demand for asphalt and production curtailments.

In 2008, chemicals revenue increased 6%, compared with 2007, a result of increased rates and higher fuel surcharge revenue. Traffic volume declined 8%, reflecting continued weakness in both industrial intermediates and plastics (linked to housing construction declines) in addition to miscellaneous chemicals and petroleum-based products.

For 2010, chemicals revenues are expected to improve, principally due to higher average revenue per unit and modestly increased traffic volumes.

Metals and construction revenues decreased 40% in 2009, reflecting a 32% decrease in traffic volume and a 12% decline in average revenue per unit, primarily a result of lower fuel surcharges. The decline in traffic volume was principally due to lower coil, scrap metal, iron and steel shipments, in addition to reduced demand for construction materials as a result of continued weakness in the housing, infrastructure, and automotive sectors.

In 2008, metals and construction revenues increased 9% as a 15% increase in average revenue per unit that resulted from increased rates and higher fuel surcharge more than offset the effects of a 5% decrease in traffic volume. The decline in volume was due to reduced demand for construction materials and lower coil, iron, and steel shipments, reflecting the weak housing and automotive sectors.

For 2010, metals and construction revenues are expected to increase as a result of a rise in average revenue per unit, and higher construction-related traffic volumes due to growth driven by increased federal and state infrastructure projects and recovery in residential construction.

Paper, clay, and forest products revenues decreased 26% in 2009, compared with 2008, due to a 22% decrease in traffic volumes and a 5% decline in average revenue per unit, primarily a result of lower fuel surcharges. The volume decline reflected lower pulp board, lumber, kaolin, printing paper, and wood chip shipments due to reduced U. S. paper production and the slowdown in the housing market.

In 2008, paper, clay, and forest products revenues increased 4% compared with 2007 due to a 13% increase in average revenue per unit which more than offset an 8% decrease in traffic volume. The volume decline reflected the continued housing slowdown and increased trucking capacity available to paper customers.

For 2010, paper, clay, and forest products revenues are expected to be modestly higher as slight average revenue per unit increases will be offset in part by slightly lower volumes driven by expectations for a gradual economic recovery during the course of the year as the housing market rebounds from historical lows.

Automotive revenues decreased 36% in 2009, compared to 2008, reflecting lower traffic volumes and decreased average revenue per unit as fuel surcharges were lower. Volumes decreased 30%, primarily as a result of a 32% decrease in North American light vehicle production as manufacturers cut production in line with consumer demand.

In 2008, automotive revenues decreased 16% compared to 2007 as lower traffic volumes offset higher average revenue per unit. Volumes decreased 23%, reflecting reduced North American sales and production. Automotive manufacturers, especially the domestic producers, continued to experience significant sales declines during the year. Three assembly plants closed during the year and six implemented shift reductions. In addition, one manufacturer temporarily closed an assembly plant to retool for a new product in 2010.

For 2010, automotive revenues are expected to increase driven by higher average revenue per unit related to network changes and the renegotiation of several contracts. Automotive volumes are expected to remain relatively flat.

INTERMODAL revenues decreased $528 million, or 26%, compared with 2008, reflecting a 16% reduction in traffic volume and an 11% decrease in average revenue per unit. In 2009, all intermodal segments experienced depressed volumes, reflecting the weak economy and lower consumer demand. International traffic volume declined 30%; Premium business, which includes parcel and less-than-truckload (LTL) carriers, decreased 14%; Triple Crown Services (Triple Crown), a service with rail-to-highway trailers, experienced a 10% drop in volume; and Domestic volume (which includes truckload and intermodal marketing companies' volumes) decreased less than 1%.

In 2008, intermodal revenues increased $137 million, or 7%, compared with 2007, as a 10% increase in average revenue per unit (including fuel surcharges) offset a 3% reduction in traffic volumes. Domestic volume increased 8% compared with 2007, reflecting the relative fuel efficiency of intermodal versus over-the-road transportation and service improvements. International traffic volume declined 9%, primarily driven by the weak economy and less inland rail movement of West Coast port traffic that was partially offset by East Coast port volume growth. The Premium business, which includes parcel and LTL carriers, decreased 6%, as reduced private empty movements and soft parcel business offset LTL conversions. Triple Crown, a service with rail-to-highway trailers, experienced a 3% drop in volume primarily driven by reduced auto parts shipments.

For 2010, intermodal revenues are expected to experience a moderate increase due to higher average revenue per unit and volumes as a result of a slowly strengthening economy.

Railway Operating Expenses

Railway operating expenses in 2009 were $6 billion, down $1.6 billion, or 21%, compared to 2008. Expenses in 2008 were $7.6 billion, up $730 million, or 11%, compared to 2007. The decrease in 2009 was primarily due to lower volume-related expenses and lower fuel prices. The increase in 2008 was primarily due to higher fuel costs and increased compensation and benefits expenses. The railway operating ratio, which measures the percentage of operating revenues consumed by operating expenses, rose to 75.4% in 2009, compared with 71.1% in 2008 and 72.6% in 2007.

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

Operating Expense Variances

Increases (Decreases)

	2009 vs. 2008	2008 vs. 2007
	($ in millions)	
Compensation and benefits	$ (283)	$ 132
Purchased services and rents	(196)	48
Fuel	(913)	469
Depreciation	33	29
Materials and other	(211)	52
Total	$ (1,570)	$ 730

Compensation and benefits, which represents 40% of total operating expenses, decreased $283 million, or 11%, compared with 2008, primarily due to lower volume-related payroll (down $217 million); reduced incentive and stock-based compensation (down $117 million); the absence of the cost of lump-sum payments due under the 2008 Brotherhood of Locomotive Engineers and Trainmen (BLET) agreement ($31 million); and, lower payroll taxes (down $26 million). These decreases were partially offset by increased wage rates (up $53 million); increased pension costs (up $42 million); and higher medical benefits (up $25 million).

In 2008, compensation and benefits increased $132 million, or 5%, compared with 2007, primarily due to higher incentive compensation (up $66 million); increased wage rates (up $54 million); costs associated with lump-sum payments due under the BLET agreement; higher payroll taxes (up $15 million); and, the absence of the 2007 employment tax refund ($9 million). These were partially offset by lower costs associated with trainees (down $19 million); lower medical benefits resulting from higher employee contributions (down $19 million); and, lower stock-based compensation (down $7 million). In 2008, compensation and benefits expense also benefited from a net pension credit of $39 million.

NS employment averaged 28,593 in 2009 compared with 30,709 in 2008 and 30,806 in 2007. The 2009 decrease was a direct result of volume declines during the year. NS monitors forecasted volumes in light of current economic conditions to ensure appropriate employment levels for service needs. For 2010, NS expects agreement wages and premiums for medical benefits, combined, will increase by approximately $148 million compared to 2009.

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. This category of expenses decreased $196 million, or 12%, in 2009 compared to 2008, but increased $48 million, or 3%, in 2008 compared to 2007.

Purchased services costs were $1.087 billion in 2009, $1.242 billion in 2008, and $1.172 billion in 2007. The decrease in 2009 reflected lower volume-related expenses such as transportation operating costs (including automotive-related costs and crew transportation expenses), intermodal operations costs, and mechanical and engineering expenses (largely because of reduced maintenance activities). These declines were offset in part by increased professional and legal services. The increase in 2008 reflected higher intermodal operations costs, transportation operating costs, and professional and legal services.

Equipment rents, which includes the cost to NS of using equipment (mostly freight cars) owned by other railroads or private owners less the rent paid to NS for the use of its equipment, amounted to $316 million, $357 million, and $379 million for 2009, 2008, and 2007, respectively. The decrease in 2009 and 2008 was principally due to lower shipment volumes while 2008 also reflected improved fleet utilization.

Fuel expense, which includes the cost of locomotive fuel as well as other fuel used in railway operations, decreased $913 million, or 56%, in 2009 compared with 2008, but increased $469 million, or 40%, in 2008 compared with 2007. The decline in 2009 was principally the result of lower fuel prices which had an impact of $600 million and reduced fuel consumption which had an impact of $313 million. The increase in 2008 reflected higher fuel prices which had an impact of $511 million that was offset in part by a decline in consumption which had an impact of $42 million. Locomotive fuel prices declined 47% in 2009 compared with a 45% increase in 2008, and locomotive fuel consumption was down 19% in 2009 and 3% in 2008.

Depreciation expense increased $33 million, or 4%, in 2009 compared to 2008, and $29 million, or 4%, in 2008 compared to 2007, reflecting substantial capital investments and improvements as NS continues to invest in its infrastructure and equipment.

Materials and other expenses (including the estimates of costs related to personal injury, property damage, and environmental matters) decreased $211 million, or 25%, in 2009 compared with 2008, but increased $52 million, or 7%, in 2008 compared with 2007, as shown in the following table.

	2009	2008	2007
		($ in millions)	
Materials	$ 309	$ 380	$ 359

Casualties and other claims		102		180		171
Other		230		292		270
	$	641	$	852	$	800

The decrease in 2009 reflects lower locomotive, freight car, and roadway materials expenses, lower loss and damage claims, favorable personal injury claims development, reduced employee travel costs, a $21 million favorable adjustment related to settlement of a multi-year state tax dispute, and the absence of the 2008 Avondale Mills settlement (see additional discussion below).

The increase in 2008 was primarily due to costs associated with the Avondale Mills settlement, as well as higher loss and damage claims and increased material costs for equipment and roadway repairs. These increases were partially offset by favorable personal injury claims development.

In April 2008, NS settled the lawsuit brought by Avondale Mills for claims associated with the January 6, 2005 derailment in Graniteville, SC. A portion of the settlement was not reimbursed by insurance and was included in 2008 expenses. The total liability related to the derailment represents NS' best estimate based on current facts and circumstances. The estimate includes amounts related to property damage, personal injury and response costs. NS' commercial insurance policies are expected to cover substantially all expenses related to this derailment above the unreimbursed portion and NS' self-insured retention, including NS' response costs and legal fees. The Consolidated Balance Sheets reflect long-term receivables for estimated recoveries from NS' insurance carriers. NS is engaged in arbitration with two of its insurance carriers that failed to respond to insurance claims submitted by NS. NS believes these expenses are covered by the insurance policies and recoveries of the contested amounts are probable. Accordingly, NS has recorded the full recovery attributable to each carrier ($100 million and $43 million).

The largest component of casualties and other claims expense is personal injury costs. Cases involving occupational injuries comprised about 48% of total employee injury cases resolved and about 19% of total payments made. With its long-established commitment to safety, NS continues 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 allegedly 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 Federal Employers' Liability Act (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.

NS maintains substantial amounts of insurance for potential third-party liability and property damage claims. It also retains reasonable levels of risk through self-insurance (see Note 17). NS expects insurance costs to be slightly higher in 2010.

Other Income - Net

Other income - net was $127 million in 2009, $110 million in 2008, and $93 million in 2007 (see Note 2). The increase in 2009 reflected higher net returns from corporate-owned life insurance (up $32 million) offset in part by fewer gains on the sale of property (down $11 million).

The increase in 2008 reflected the absence of expenses related to synthetic fuel adjustments (see "Income Taxes" below), reduced other interest expense ($27 million) largely due to adjustments to reflect the outcome of certain tax examinations and higher coal royalties (up $12 million). These benefits were offset in part by lower returns and higher borrowing costs on corporate-owned life insurance (down $38 million), lower interest income (down $25 million), fewer gains on sales of property and investments (down $22 million), and lower equity in the earnings of Conrail (down $16 million), which reflects the absence of a tax audit settlement recorded by Conrail in 2007 ($18 million).

NS has membership interests representing ownership in companies that owned and operated facilities that produced synthetic fuel from coal. In addition, NS 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 further discussion below).

Income Taxes

Income tax expense in 2009 was $588 million, for an effective rate of 36%, compared with effective rates of 38% in 2008 and 35% in 2007. The decrease in the rate for 2009 was primarily due to improved net returns from corporate-owned life insurance and the favorable resolution of state tax issues. The increase in the rate for 2008 was primarily due to the absence of synthetic fuel-related tax credits that expired at the end of 2007.

The tax credits generated by NS' synthetic fuel-related investments reduced the effective tax rate by 3% in 2007. Net income in 2007 reflected $13 million in net benefits from these credits as shown below:

	2007
	($ in millions)

Effect in "Other income - net:"		
Expenses on synthetic fuel-related investments	$	77
Effect in "Provision for income taxes:"		
Tax credits		60
Tax benefit of expenses on synthetic-fuel related investments		30
Total reduction of income tax expense		90
Effect in "Net income:"		
Net benefit from synthetic-fuel related investments	$	13

Bonus depreciation was allowed for federal income taxes for 2008 and 2009 but expired at the end of 2009. As a result, current taxes have been lower in recent years than might be expected in future years.

During 2009, the Internal Revenue Service (IRS) concluded its examination of NS' 2006 and 2007 consolidated federal income tax returns without a material effect on income tax expense. NS' consolidated federal income tax return for 2008 is being audited by the IRS.

FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

Cash provided by operating activities, NS' principal source of liquidity, was $1.9 billion in 2009 compared with $2.7 billion in 2008 and $2.3 billion in 2007. The decline in 2009 reflects the $1.1 billion decrease in income from railway operations offset in part by lower income tax payments. The improvement in 2008 resulted from increased railway operating income and from bonus tax depreciation which reduced current tax payments. NS had working capital of $457 million at December 31, 2009, compared with a working capital deficit of $106 million at December 31, 2008. The improvement was largely due to higher cash, cash equivalents and short-term investment balances at year end, as well as the impact of lower income from railway operations that resulted in decreases in current income taxes and accounts payable, offset in part by decreases in accounts receivable and increases in short-term debt. NS expects that cash on hand combined with cash flow provided by operating activities will be sufficient to meet its ongoing obligations. NS' cash, cash equivalents, and short-term investment balances totaled $1.1 billion and $618 million at December 31, 2009 and 2008, respectively.

Contractual obligations at December 31, 2009, comprised of NS' long-term debt (including capital leases) (see Note 8), operating leases (see Note 9), agreements with CRC and long-term advances from Conrail (see Note 5), unconditional purchase obligations (see Note 17), and unrecognized tax benefits (see Note 3),were as follows:

Payments Due By Period

	Total	2010	2011-2012	2013-2014	2015 and Subsequent	Other
			($ in millions)			
Long-term debt and capital lease principal	$ 7,053	$ 374	$ 414	$ 492	$ 5,773	$ --
Operating leases	724	111	177	124	312	--
Agreements with CRC	424	29	58	58	279	--
Unconditional purchase obligations	228	105	44	23	56	--
Long-term advances from Conrail	133	--	--	--	133	--
Unrecognized tax benefits*	94	--	--	--	--	94
Total	$ 8,656	$ 619	$ 693	$ 697	$ 6,553	$ 94

* 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 and disclosed in Note 9.

Cash used in investing activities was $1.5 billion in 2009, compared with $1.2 billion in 2008 and $1 billion in 2007. The increase in 2009 primarily reflected lower proceeds from investment sales and higher investment purchases, offset in part by lower property additions. The increase in 2008 primarily reflected 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

	2009	2008	2007	2006	2005
			($ in millions)		
Road and other property	$ 1,128	$ 1,070	$ 894	$ 756	$ 741
Equipment	171	488	447	422	284
Total	$ 1,299	$ 1,558	$ 1,341	$ 1,178	$ 1,025

Track Structure Statistics (Capital and Maintenance)

	2009	2008	2007	2006	2005
Track miles of rail installed	434	459	401	327	302
Miles of track surfaced	5,568	5,209	5,014	4,871	4,663
New crossties installed (millions)	2.7	2.7	2.7	2.7	2.5

Average Age of Owned Railway Equipment

	2009	2008	2007	2006	2005
			(years)		
Freight cars	30.3	29.9	30.1	30.0	29.4
Locomotives	19.9	18.9	18.1	17.7	17.4
Retired locomotives	31.2	34.4	30.0	35.0	27.4

For 2010, NS has budgeted $1.44 billion for capital expenditures. The anticipated spending includes $706 million for roadway projects, including the normalized replacement of rail, ties and ballast, and the improvement or replacement of bridges. Planned investments in facilities and terminals of $184 million are primarily for intermodal terminals and equipment to add capacity to the intermodal network, including the Crescent Corridor initiative, and bulk transfer facilities and mechanical service shops. Technology investments of $140 million are planned for new or upgraded systems and computers. The majority of the anticipated spending on technology investments is attributable to

preliminary implementation of positive train control. Infrastructure investments of $110 million are planned for various public-private partnership investments such as the Heartland Corridor and the Chicago Regional Environmental and Transportation Efficiency (CREATE) project, and network improvements to increase mainline capacity and accommodate traffic growth. NS also expects to spend
$81 million on equipment, primarily continued improvements to the locomotive fleet, including the rebuild and upgrade of existing units. All capital expenditures are expected to be made with internally generated funds. NS expects implementation of positive train control to result in additional capital expenditures of at least $700 million in the years 2011 through 2015.

The Heartland Corridor is a package of proposed clearance improvements and other facilities that will create a seamless high-capacity intermodal route across Virginia and West Virginia to Midwest markets. During 2006, NS, the Federal Highway Administration (FHWA), and the states of Ohio, West Virginia and Virginia entered into a Memoranda of Agreement with respect to the tunnel clearance component of the Heartland Corridor that governs the release of up to $95 million in authorized federal funding. In 2006, NS 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. NS began work on the Heartland Corridor tunnel clearances in October 2007 and the entire project is expected to be completed in 2010. NS expects to spend about $23 million in 2010 in connection with this project.

The CREATE project is a public-private partnership to reduce rail and highway congestion and add freight and passenger capacity in the metropolitan Chicago area. NS and other railroads have agreed to participate in CREATE. A portion of 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 by the end of 2011. As currently planned, the total project is estimated to cost $3.1 billion with city, state, and federal support. If additional public funding is secured, the railroads are expected to contribute a total of $169 million towards the entire project. NS expects to spend approximately $11 million in 2010 related to the CREATE projects.

The Meridian Speedway is a 320-mile rail line between Meridian, Mississippi and Shreveport, Louisiana. On May 1, 2006, NS and Kansas City Southern (KCS) formed a joint venture, Meridian Speedway LLC (MSLLC), pursuant to which NS will contribute $300 million in cash, substantially all of which will be used for capital improvements in exchange for a 30% interest in the joint venture. To date, NS has contributed $283 million. At the formation of MSLLC, KCS contributed the Meridian Speedway. NS is recognizing its pro rata share of the joint venture's earnings or loss as required under the equity method of accounting. NS' 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 increases capacity and is designed to improve service over the Meridian Speedway into the Southeast.

During the second quarter of 2009, NS and Pan Am Railways, Inc. (Pan Am) formed a joint venture, Pan Am Southern LLC (PAS), a railroad company in which each has a 50% equity interest. Pan Am contributed to PAS a 155-mile main line track that runs between Mechanicville, New York and Ayer, Massachusetts, along with 281 miles of secondary and branch lines, including trackage rights in New York, Connecticut, Massachusetts, New Hampshire, and Vermont (collectively, the "PAS Lines"), and as of December 31, 2009, NS has contributed cash and other property with a combined value of approximately $69 million and committed to contribute an additional $71 million in cash over the next three years as evidenced by the Pan Am Notes (see Note 8). A significant portion of NS' contributions has and will continue to be used for capital improvements to the PAS Lines and the related construction of new intermodal and automotive terminals in Albany, New York and the Ayer, Massachusetts areas. PAS is jointly controlled by NS and Pan Am, accordingly, NS accounts for its interest in PAS using the equity method of accounting.

The Crescent Corridor consists of a program of improvements to infrastructure and other facilities geared toward creating a seamless, high-capacity intermodal route spanning 11 states from New Jersey to Louisiana and offering truck-competitive service along several major interstate highway corridors, including I-81, I-85, I-20, I-40, I-59, and I-75. Based on the public benefits that stand to be derived in the form of highway congestion relief, NS plans to implement certain elements of the Crescent Corridor program of projects through a series of public-private partnerships. Although there is not yet a single, integrated plan for the Crescent Corridor, preliminary work has begun and is slated to continue in 2010, including continued infrastructure improvements and other design and engineering work along the Virginia portion of the Corridor consistent with NS' matching obligation with respect to funds provided by the Commonwealth of Virginia. If requested public-private partnership agreements are funded in 2010, NS' capital expenditures in 2010 related to Crescent Corridor projects may be as high as $41 million.

The MidAmerica Corridor is a proposed cooperative arrangement between NS and Canadian National Railway (CN) to effectively share track between Chicago, St. Louis, Kentucky, and Mississippi in order to establish more efficient routes for traffic moving between the midwestern and southeastern U.S., including potential coal traffic moving to NS-served southeastern utility plants from CN-served Illinois Basin coal producers. To implement the MidAmerica Corridor, NS, at its option, would expend funds to upgrade the rail line operated by West Tennessee Railway between Fulton, Kentucky, and Corinth, Mississippi, a line over which NS would operate pursuant to recently obtained trackage rights. Full implementation of the MidAmerica Corridor arrangement is subject to regulatory approvals.

Cash used in financing activities was $31 million in 2009, compared with $1.1 billion in 2008, and $1.6 billion in 2007. The change in 2009 reflected the absence of share repurchase activity during the period and higher borrowings net of debt repayments that were offset in part by fewer exercises of employee stock options and increased dividends. Due to current economic and market conditions, the amount of future share repurchases is uncertain and the timing and volume of such repurchases will be guided by management's assessment of market conditions and other pertinent factors. The decrease in cash used in financing activities in 2008 reflected a net increase in debt, compared with a net decline in 2007, which was offset in part by higher dividend payments.

During the second quarter of 2009, NS issued $500 million of unsecured notes at 5.90% due 2019 pursuant to its automatic shelf registration statement described below (see Note 8). The net proceeds from the offering were $496 million after deducting the purchase discount and expenses. NS also issued a total of $75 million in non-interest bearing notes payable with maturity dates beginning in 2010 and ending in 2012 as part of its total investment in Pan Am Southern LLC.

During the first quarter of 2009, NS issued $500 million of unsecured notes at 5.75% due 2016 in a private offering. The net proceeds from the offering were $494 million after deducting the purchase discount and expenses. During the fourth quarter of 2009, NS exchanged the unregistered securities with essentially identical securities registered under the Securities Act of 1933.

NS has authority from its Board of Directors to issue an additional $500 million of debt or equity securities through public or private sale. During the first quarter of 2009, NS filed a Form S-3 automatic shelf registration statement for well-known seasoned issuers under which, as of December 31, 2009, up to $500 million could be issued under this authority.

NS also has in place and available a $1 billion, five-year credit agreement expiring in 2012, which provides for borrowings at prevailing rates and includes covenants. NS had no amounts outstanding under this facility at December 31, 2009, and NS is in compliance with all of its covenants. In October 2009, NS renewed and amended its accounts receivable securitization program with a 364-day term to run until October 2010. NS reduced the total amount that can be borrowed from $500 million to $350 million to more closely match its liquidity requirements and receivables profile. There was $200 million outstanding under this program at December 31, 2009 (see Note 8).

Looking forward, NS' annual debt maturities are relatively modest and stable from year to year (see Note 8). Overall, NS' goal is to maintain a capital structure with appropriate leverage to support NS' 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 revenue and expenses during the reporting period. These estimates and assumptions may require significant judgment about matters that are inherently uncertain, and future events are likely to occur that may require management to make changes to these estimates and assumptions. 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 its Board of Directors.

Pensions and Other Postretirement Benefits

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

NS' net pension expense, which is included in "Compensation and benefits" in its Consolidated Statements of Income, was $1 million for the year ended December 31, 2009. In recording this amount, NS assumed a long-term investment rate of return of 8.75%, which was supported by the long-term total rate of return on plan assets since inception. A one percentage point change to this rate of return assumption would result in a $16 million change to the pension expense, and, as a result, an equal change in "Compensation and benefits" expense. Changes that are reasonably likely to occur in assumptions concerning retirement age, projected earnings, and mortality would not be expected to have a material effect on NS' net pension expense or net pension liability in the future. The net pension liability 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. NS utilizes 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. NS used the results of the yield curve to select the discount rate that matches the payment stream of the benefits in these plans.

NS' net cost for other postretirement benefits, which is also included in "Compensation and benefits," was $91 million for the year ended December 31, 2009. 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. These assumptions, along with the effect of a one percentage point change in them, are described in Note 11.

Properties and Depreciation

Most of NS' total assets are long-lived railway properties (see Note 6). As disclosed in Note 1, NS' properties are depreciated using group depreciation. Rail is depreciated primarily on the basis of use measured by gross-ton miles. Other properties are depreciated generally using the straight-line method over the lesser of estimated service or lease lives. NS reviews the carrying amount of properties whenever events or changes in circumstances indicate that such carrying amount may not be recoverable based on future undiscounted cash flows. Assets that are deemed impaired as a result of such review are recorded at the lesser of carrying amount or fair value.

NS' depreciation expense is based on management's assumptions concerning service lives of its properties as well as the expected net salvage that will be received upon their retirement. In developing these assumptions, NS' management utilizes periodic depreciation studies that are performed by an outside firm of consulting engineers. These studies analyze NS' historical patterns of asset use and retirement and take into account any expected change in operation or maintenance practices. NS' recent experience with these studies has been that while they do result in changes in the rates used to depreciate its properties, these changes have not caused a significant effect to its annual depreciation expense. The studies may also indicate that the recorded amount of accumulated depreciation is deficient (or in excess) of the amount indicated by the study. Any such deficiency (or excess) is amortized as a component of depreciation expense over the remaining service lives of the affected class of property. NS' depreciation expense for the year ended December 31, 2009, amounted to $837 million. NS' weighted-average depreciation rates for 2009 are disclosed in Note 6; a one-tenth percentage point increase (or decrease) in these rates would have resulted in a $29 million increase (or decrease) to depreciation expense.

Personal Injury, Environmental, and Legal Liabilities

NS' expense for casualties and other claims, included in "Materials and other," amounted to $102 million for the year ended December 31, 2009. Most of this expense was NS' 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, NS records a liability when the expected loss for the claim is both probable and estimable.

To aid in valuing its personal injury liability and determining the amount to accrue during each period, NS' management utilizes studies prepared by an independent consulting actuarial firm. For employee personal injury cases, the actuarial firm studies NS' historical patterns of reserving for 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 NS' 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 NS' experience into the future as far as can be reasonably determined. NS has recorded this actuarially determined liability. The liability is dependent upon many individual judgments made as to the specific case reserves as well as the judgments of the consulting actuary and management in the periodic studies. Accordingly, there could be significant changes in the liability, which NS would recognize when such a change became known. Recent actuarial studies have reflected favorable claims development and, accordingly, those changes in estimates have reduced the annual cost related to personal injuries to $51 million in 2009 from $78 million in 2008. While the liability recorded is supported by the most recent study, it is reasonably possible that the ultimate liability could be higher or lower.

NS is subject to various jurisdictions' environmental laws and regulations. It is NS' policy to record a liability where such liability or loss is probable and its amount can be estimated reasonably (see Note 17). Claims, if any, against third parties for recovery of cleanup costs incurred by NS, are reflected as receivables (when collection is probable) in the Consolidated Balance Sheets and are not netted against the associated NS liability. Environmental engineers regularly participate in ongoing evaluations of all known sites and in determining any necessary adjustments to liability estimates. NS also has established an Environmental Policy Council, composed of senior managers, to oversee and interpret its environmental policy.

Operating expenses for environmental matters totaled approximately $20 million in 2009, $18 million in 2008, and $16 million in 2007, and capital expenditures for environmental matters totaled approximately $11 million in 2009 and $7 million in both 2008 and 2007. Capital expenditures for environmental matters in 2010 are expected to be about $9 million.

NS' Consolidated Balance Sheets included liabilities for environmental exposures in the amount of $32 million at December 31, 2009, and $42 million at December 31, 2008 (of which $12 million is classified as a current liability at the end of each period). At December 31, 2009, the liability represents NS' estimate of the probable cleanup and remediation costs based on available information at 144 known locations. As of that date, nine sites accounted for $15 million of the liability, and no individual site was considered to be material. NS anticipates that much of this liability will be paid out over five years; however, some costs will be paid out over a longer period.

At 30 locations, one or more NS subsidiaries, usually in conjunction with a number of other parties, have been identified as potentially responsible parties by the Environmental Protection Agency (EPA) or similar state authorities under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, or comparable state statutes, which often impose joint and several liability for cleanup costs.

With respect to known environmental sites (whether identified by NS or by the EPA or comparable state authorities), estimates of NS' ultimate potential financial exposure for a given site or in the aggregate for all such sites are necessarily imprecise because of the widely varying costs of currently available cleanup techniques, the likely development of new cleanup technologies, the difficulty of determining in advance the nature and full extent of contamination and each potential participant's share of any estimated loss (and that participant's ability to bear it), and evolving statutory and regulatory standards governing liability. NS estimates its environmental remediation liability on a site-by-site basis, using assumptions and judgments that management deems appropriate for each site. As a result, it is not practical to quantitatively describe the effects of changes in these many assumptions and judgments. NS has consistently applied its methodology of estimating its environmental liabilities.

On April 24, 2008, the United States Department of Justice (DOJ) brought an action against NS for alleged violations of federal environmental laws resulting from the discharge of chlorine and oil that occurred as a result of the January 6, 2005 derailment in Graniteville, SC, including claims for civil penalties as well as injunctive relief. Although NS' June 24, 2008 motion to dismiss for failure to allege sufficient facts was granted, DOJ was given leave to, and did, amend its complaint. The litigation has been stayed by the district court as the parties work to conclude an agreed upon consent decree. NS does not believe that the resolution of these claims will have a material adverse effect on its financial position, results of operations, or liquidity.

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

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

Income Taxes

NS' net long-term deferred tax liability totaled $6.7 billion at December 31, 2009 (see Note 3). This liability is estimated based on the expected future tax consequences of items recognized in the financial statements. After application of the federal statutory tax rate to book income, judgment is required with respect to the timing and deductibility of expenses in the corporate income tax returns. For state income and other taxes, judgment is also required with respect to the apportionment among the various jurisdictions. A valuation allowance is recorded if management expects that it is more likely than not that its deferred tax assets will not be realized. NS had a $14 million valuation allowance on $871 million of deferred tax assets as of December 31, 2009, reflecting the expectation that most of these assets will be realized.

In addition, NS has a recorded liability for its 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 be 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 2009 effective tax rate, net income would have changed by $8 million.

OTHER MATTERS

Labor Agreements

More than 80% of NS' railroad employees are covered by collective bargaining agreements with various labor unions. These agreements remain in effect until changed pursuant to the Railway Labor Act (RLA). NS largely bargains nationally in concert with other major railroads. Moratorium provisions in the labor agreements govern when the railroads and the unions may propose changes.

NS reached national agreements that extended through 2009 with all of the major rail unions. The current agreement with the BLET extends through 2014. Because NS has reached separate agreements with the BLET and the American Train Dispatchers Association (ATDA), only the health and welfare provisions from the national agreements apply to NS' locomotive engineers and ATDA-represented dispatchers. NS has also reached agreement with Longshoremen at Ashtabula (Ohio) Docks who are represented by the International Longshoremen's Association (ILA) and do not participate in national bargaining. On or after November 1, 2009, NS and the nation's other major carriers served new proposals to begin the next round of negotiations. The outcome of the negotiations cannot be determined at this point.

Market Risks and Hedging Activities

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

At December 31, 2009, NS' debt subject to interest rate fluctuations totaled $204 million. A 1% point increase in interest rates would increase NS' total annual interest expense related to all its variable debt by approximately $2 million. Management considers it unlikely that interest rate fluctuations applicable to these instruments will result in a material adverse effect on NS' financial position, results of operations, or liquidity.

Some of NS' capital leases, which carry an average fixed rate of 7%, were effectively converted to variable rate obligations using interest rate swap agreements. On December 31, 2009, the average pay rate under these agreements was 1%, and the average receive rate was 6%. During 2009 and 2008, the effect of the swaps was to reduce interest expense by less than $1 million in both periods. A portion of the lease obligations is payable in Japanese yen. NS eliminated the associated exchange rate risk at the inception of each lease with a yen deposit sufficient to fund the yen-denominated obligation. Most of these deposits are held by foreign banks, primarily Japanese. As a result, NS is exposed to financial market risk relative to Japan. Counterparties to the interest rate swaps and Japanese banks holding yen deposits are major financial institutions believed by management to be creditworthy.

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. NS, a capital-intensive company, has most of its capital invested in such property. 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

Federal regulations were adopted in late 2008 on safety and transportation of hazardous materials. NS is in compliance with those regulations currently effective and expects to be in compliance with those regulations to become effective at a later date.

FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that may be identified by the use of words like "believe," "expect," "anticipate," and "project." Forward-looking statements reflect management's good-faith evaluation of information currently available.

However, such statements are dependent on and, therefore, can be influenced by, a number of external variables over which management has little or no control, including: domestic and international economic conditions; 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 NS interchanges; acts of terrorism or war; fluctuation in prices 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 NS' technology infrastructure, including computer systems; and natural events such as severe weather, hurricanes, and floods. For a discussion of significant risk factors applicable to NS, see Part I, Item 1A "Risk Factors." Forward-looking statements are not, and should not be relied upon as, a guarantee of future performance or results, nor will they necessarily prove to be accurate indications of the times at or by which any such performance or results will be achieved. As a result, actual outcomes and results may differ materially from those expressed in forward-looking statements. NS undertakes no obligation to update or revise forward-looking statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

Item 8. Financial Statements and Supplementary Data

INDEX TO FINANCIAL STATEMENTS

Report of Management

February 17, 2010

To the Stockholders

Norfolk Southern Corporation

Management is responsible for establishing and maintaining adequate internal control over financial reporting. In order to ensure that the Corporation's internal control over financial reporting is effective, management regularly assesses such controls and did so most recently for its financial reporting as of December 31, 2009. This assessment was based on criteria for effective internal control over financial reporting described in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that the Corporation maintained effective internal control over financial reporting as of December 31, 2009.

KPMG LLP, independent registered public accounting firm, has audited the Corporation's financial statements and issued an attestation report on the Corporation's internal control over financial reporting as of December 31, 2009.

/s/ Charles W. Moorman	/s/ James A. Squires	/s/ Clyde H. Allison, Jr.
Charles W. Moorman	James A. Squires	Clyde H. Allison, Jr.
Chairman, President and	Executive Vice President Finance and	Vice President and
Chief Executive Officer	Chief Financial Officer	Controller

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Norfolk Southern Corporation:

We have audited Norfolk Southern Corporation's internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Norfolk Southern Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Norfolk Southern Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Norfolk Southern Corporation and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2009, and our report dated February 17, 2010, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

KPMG LLP

Norfolk, Virginia

February 17, 2010

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Norfolk Southern Corporation:

We have audited the accompanying consolidated balance sheets of Norfolk Southern Corporation and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2009. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in Item 15(A)2. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Norfolk Southern Corporation and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Norfolk Southern Corporation's internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework,* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 17, 2010 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

KPMG LLP

Norfolk, Virginia

February 17, 2010

Norfolk Southern Corporation and Subsidiaries

Consolidated Statements of Income

	Years ended December 31,		
	2009	**2008**	**2007**
	($ in millions, except earnings per share)		
Railway operating revenues	$ 7,969	$ 10,661	$ 9,432
Railway operating expenses:			
Compensation and benefits	2,401	2,684	2,552
Purchased services and rents	1,403	1,599	1,551
Fuel	725	1,638	1,169
Depreciation	837	804	775
Materials and other	641	852	800
Total railway operating expenses	6,007	7,577	6,847
Income from railway operations	1,962	3,084	2,585
Other income - net	127	110	93
Interest expense on debt	467	444	441
Income before income taxes	1,622	2,750	2,237
Provision for income taxes	588	1,034	773
Net income	$ 1,034	$ 1,716	$ 1,464
Per share amounts:			

Net income						
Basic	$	2.79	$	4.58	$	3.73
Diluted	$	2.76	$	4.52	$	3.68

See accompanying notes to consolidated financial statements.

Norfolk Southern Corporation and Subsidiaries

Consolidated Balance Sheets

	As of December 31,	
	2009	**2008**
	($ in millions)	
Assets		
Current assets:		
Cash and cash equivalents	$ 996	$ 618
Short-term investments	90	--
Accounts receivable - net	766	870
Materials and supplies	164	194
Deferred income taxes	142	149
Other current assets	88	168
Total current assets	2,246	1,999
Investments	2,164	1,779
Properties less accumulated depreciation	22,643	22,247
Other assets	316	272
Total assets	$ 27,369	$ 26,297
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 974	$ 1,140
Short-term debt	100	--
Income and other taxes	109	261
Other current liabilities	232	220
Current maturities of long-term debt	374	484
Total current liabilities	1,789	2,105

Long-term debt		6,679		6,183
Other liabilities		1,801		2,030
Deferred income taxes		6,747		6,372
Total liabilities		17,016		16,690
Stockholders' equity:				
Common stock $1.00 per share par value, 1,350,000,000 shares				
authorized; outstanding 369,019,990 and 366,233,106 shares,				
respectively, net of treasury shares		370		368
Additional paid-in capital		1,809		1,680
Accumulated other comprehensive loss		(853)		(942)
Retained income		9,027		8,501
Total stockholders' equity		10,353		9,607
Total liabilities and stockholders' equity	$	27,369	$	26,297

See accompanying notes to consolidated financial statements.

Norfolk Southern Corporation and Subsidiaries

Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2009	**2008**	**2007**
	($ in millions)		
Cash flows from operating activities			
Net income	$ 1,034	$ 1,716	$ 1,464
Reconciliation of net income to net cash provided by operating activities:			
Depreciation	845	815	786
Deferred income taxes	338	290	125
Gains and losses on properties and investments	(18)	(29)	(51)
Changes in assets and liabilities affecting operations:			
Accounts receivable	63	269	30
Materials and supplies	30	(18)	(25)
Other current assets	72	(8)	(17)
Current liabilities other than debt	(365)	(262)	38
Other - net	(139)	(58)	(17)
Net cash provided by operating activities	1,860	2,715	2,333
Cash flows from investing activities			
Property additions	(1,299)	(1,558)	(1,341)
Property sales and other transactions	84	109	124
Investments, including short-term	(266)	(86)	(635)
Investment sales and other transactions	30	307	827
	(1,451)	(1,228)	(1,025)

Net cash used in investing activities						
Cash flows from financing activities						
Dividends		(500)		(456)		(377)
Common stock issued - net		66		229		183
Purchase and retirement of common stock		--		(1,128)		(1,196)
Proceeds from borrowings - net		1,090		1,425		250
Debt repayments		(687)		(1,145)		(489)
Net cash used in financing activities		(31)		(1,075)		(1,629)
Net increase (decrease) in cash and cash equivalents		378		412		(321)
Cash and cash equivalents						
At beginning of year		618		206		527
At end of year	$	996	$	618	$	206
Supplemental disclosure of cash flow information						
Cash paid during the year for:						
Interest (net of amounts capitalized)	$	458	$	421	$	441
Income taxes (net of refunds)	$	381	$	615	$	603

See accompanying notes to consolidated financial statements.

Norfolk Southern Corporation and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

	Common Stock	Additional Paid-in Capital	Accum. Other Compre-hensive Loss	Retained Income	Total
	($ in millions, except per share amounts)				
Balance December 31, 2006	$ 398	$ 1,303	$ (369)	$ 8,283	$ 9,615
Comprehensive income					
Net income				1,464	1,464
Other comprehensive loss			(30)		(30)
Total comprehensive income					1,434
Adoption of FIN 48, net of tax				10	10
Dividends on Common Stock,					
$0.96 per share				(377)	(377)
Share repurchases	(24)	(81)		(1,091)	(1,196)
Stock-based compensation,					
including tax benefit of $57	6	238		(9)	235
Other		6			6
Balance December 31, 2007	$ 380	$ 1,466	$ (399)	$ 8,280	$ 9,727

Comprehensive income					
Net income				1,716	1,716
Other comprehensive loss			(543)		(543)
Total comprehensive income					1,173
Dividends on Common Stock,					
$1.22 per share				(456)	(456)
Share repurchases	(19)	(79)		(1,030)	(1,128)
Stock-based compensation,					
including tax benefit of $76	6	287		(9)	284
Other	1	6			7
Balance December 31, 2008	$ 368	$ 1,680	$ (942)	$ 8,501	$ 9,607
Comprehensive income					
Net income				1,034	1,034
Other comprehensive income			89		89
Total comprehensive income					1,123
Dividends on Common Stock,					
$1.36 per share				(500)	(500)
Stock-based compensation,					
including tax benefit of $15	2	123		(8)	117

Other		6			6
Balance December 31, 2009	$ 370	$ 1,809	$ (853)	$ 9,027	$ 10,353

See accompanying notes to consolidated financial statements.

Norfolk Southern Corporation and Subsidiaries

Notes to Consolidated Financial Statements

The following Notes are an integral part of the Consolidated Financial Statements. Management has evaluated subsequent events through February 17, 2010, which is the date these consolidated financial statements were issued.

1. Summary of Significant Accounting Policies

Description of Business

Norfolk Southern Corporation is a Virginia-based holding company engaged principally in the rail transportation business, operating approximately 21,000 route miles primarily in the East and Midwest. These consolidated financial statements include Norfolk Southern Corporation (Norfolk Southern) and its majority-owned and controlled subsidiaries (collectively, NS). Norfolk Southern's major subsidiary is Norfolk Southern Railway Company (NSR). All significant intercompany balances and transactions have been eliminated in consolidation.

NSR and its railroad subsidiaries transport raw materials, intermediate products and finished goods classified in the following market groups (percent of total railway operating revenues in 2009): coal (29%); intermodal (19%); agriculture/consumer products/government (15%); chemicals (13%); metals/construction (9%); paper/clay/forest products (8%); and, automotive (7%). Although most of NS' customers are domestic, ultimate points of origination or destination for some of the products transported (particularly coal bound for export and some intermodal containers) may be outside the U.S. More than 80% of NS' railroad employees are covered by collective bargaining agreements with various labor unions.

Use of 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. Management periodically reviews its estimates, including those related to the recoverability and useful lives of assets, as well as liabilities for litigation, environmental remediation, casualty claims, income taxes and pension and other postretirement benefits. Changes in facts and circumstances may result in revised estimates.

Revenue Recognition

Transportation revenue is recognized proportionally as a shipment moves from origin to destination and related expenses are recognized as incurred. Refunds (which are primarily volume-based incentives) are recorded as a reduction to revenues on the basis of management's best estimate of projected liability, which is based on historical activity, current traffic counts and the expectation of future activity. NS regularly monitors its contract refund liability, and historically, the estimates have not differed significantly from the amounts ultimately refunded. Switching, demurrage and other incidental service revenues are recognized when the services are performed.

Derivatives

NS does not engage in the trading of derivatives. NS uses derivative financial instruments in the management of its mix of fixed- and floating-rate debt. Management has determined that these derivative instruments qualify as fair-value hedges, having values that highly correlate with the underlying hedged exposures, and has designated such instruments as hedging transactions. Income and expense related to the derivative financial instruments are recorded in the same category as generated by the underlying asset or liability. Credit risk related to the derivative financial instruments is considered to be minimal and is managed by requiring high credit standards for counterparties and periodic settlements (see Note 16).

Cash Equivalents

"Cash equivalents" are highly liquid investments purchased three months or less from maturity.

Allowance for Doubtful Accounts

NS' allowance for doubtful accounts was $5 million at December 31, 2009 and 2008. To determine its allowance for doubtful accounts, NS evaluates historical loss experience (which has not been significant), the characteristics of current accounts, and general economic conditions and trends.

Materials and Supplies

"Materials and supplies," consisting mainly of fuel oil and items for maintenance of property and equipment, are stated at the lower of average cost or market. The cost of materials and supplies expected to be used in capital additions or improvements is included in "Properties."

Investments

Debt securities classified as "held-to-maturity" are reported at amortized cost and marketable equity and debt securities classified as "trading" or "available-for-sale" are recorded at fair value. Unrealized after-tax gains and losses for investments designated as "available-for-sale" are recognized in "Accumulated other comprehensive loss."

Investments where NS has the ability to exercise significant influence over but does not control the entity are accounted for using the equity method, whereby the investment is carried at the cost of the acquisition plus NS' equity in undistributed earnings or losses since acquisition.

Properties

"Properties" are stated principally at cost and are depreciated using group depreciation. Rail is depreciated primarily on the basis of use measured by gross ton-miles. Other properties are depreciated generally using the straight-line method over the lesser of estimated service or lease lives. Depletion of natural resources (see Note 2) is based on units of production. Depreciation in the Consolidated Statements of Cash Flows includes depreciation and depletion. NS capitalizes interest on major capital projects during the period of their construction. Expenditures, including those on leased assets that extend an asset's useful life or increase its utility, are capitalized. Expenditures capitalized include those that are directly related to a capital project and may include materials, labor and equipment, in addition to an allocable portion of indirect costs that clearly relate to a particular project. Costs related to repairs and maintenance activities that do not extend an asset's useful life or increase its utility are expensed when such repairs are performed. When properties other than land and nonrail assets are sold or retired in the ordinary course of business, the cost of the assets, net of sale proceeds or salvage, is charged to accumulated depreciation, and no gain or loss is recognized through income. Gains and losses on disposal of land and nonrail assets are included in "Other income - net" (see Note 2) since such income is not a product of NS' railroad operations.

NS reviews the carrying amount of properties whenever events or changes in circumstances indicate that such carrying amount may not be recoverable based on future undiscounted cash flows. Assets that are deemed impaired as a result of such review are recorded at the lower of carrying amount or fair value.

Required Accounting Changes

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162" (Accounting Standards Update (ASU) 2009-01). This statement, effective for interim and annual periods ending after September 15, 2009, established the FASB Accounting Standards Codification (Codification or ASC) as the single source of authoritative Generally Accepted Accounting Principles (GAAP). SFAS 168 is recognized by the FASB to be applied by nongovernmental entities and stated that all guidance contained in the Codification has an equal level of authority. The authoritative accounting guidance recognized that rules and interpretive releases of the Securities and Exchange Commission (SEC) under federal securities laws are also sources of authoritative GAAP for SEC registrants. NS adopted the provisions of the authoritative accounting guidance for the interim reporting period ending September 30, 2009, the adoption of which did not have a material effect on NS' consolidated financial statements.

FASB Staff Position (FSP) No. 132 (R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets" (ASC 715-20-65-2), was issued on December 30, 2008. The FSP, effective for fiscal years ending after December 15, 2009, clarifies an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The FSP prescribes expanded disclosures regarding investment allocation decisions, categories of plan assets, inputs, and valuation techniques used to measure fair value, the effect of Level 3 inputs on changes in plan assets and significant concentrations of risk. NS adopted the FSP at the end of 2009 and it did not have a material effect on NS' consolidated financial statements.

Effective January 1, 2008, NS adopted SFAS No. 157, "Fair Value Measurements" (ASC 820), related to financial instrument assets and liabilities. NS adopted the provisions of this standard relative to nonfinancial assets and nonfinancial liabilities that are not remeasured at fair value on a recurring basis in the first quarter of 2009. 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. Adoption did not have a material effect on NS' consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160 (SFAS 160), "Noncontrolling Interests in Consolidated Financial Statements" (ASC 810-10), which requires that noncontrolling (minority) interests be reported as a component of equity. NS adopted the statement in the first quarter of 2009 with no material effect on NS' consolidated financial statements.

In June 2008, the FASB issued FSP Emerging Issues Task Force (EITF) 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities" (ASC 260-10). This FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method as described in SFAS No. 128, "Earnings per Share" (ASC 260-10). NS adopted the FSP, which affects the calculation of earnings per share, in the first quarter of 2009. The provisions of the FSP were applied retrospectively, but did not have a material effect on NS' consolidated financial statements.

Effective January 1, 2007, NS adopted FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes" (ASC 740-10), which clarifies accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes" (ASC 740-10). 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 (see Note 3).

2. Other Income - Net

	2009	2008	2007
		($ in millions)	
Income from natural resources:			
Royalties from coal	$ 67	$ 64	$ 52
Nonoperating depletion and depreciation	(8)	(11)	(11)
Subtotal	59	53	41
Rental income	47	47	46
Equity in earnings of Conrail (Note 5)	32	29	45
Gains and losses from sale of properties and investments	18	29	51
Interest income	13	20	45
Corporate-owned life insurance - net	1	(31)	7
Expenses related to synthetic fuel investments	--	--	(77)
Taxes on nonoperating property	(10)	(10)	(10)
Other interest expense - net	(5)	2	(25)
Other	(28)	(29)	(30)
Total	$ 127	$ 110	$ 93

"Other income - net" includes income and costs not part of rail operations and the income generated by the activities of NS' noncarrier subsidiaries as well as the costs incurred by those subsidiaries in their operations. NS had a 40.5% interest in a limited liability company that owned and operated facilities that produced synthetic fuel from coal. In addition, in 2007 NS purchased two facilities that produced synthetic fuel from coal. The production of synthetic fuel resulted in tax credits as well as expenses related to the investments. The expenses are included in "Expenses related to synthetic fuel investments" above. The tax credits related to the synthetic fuel investments expired at the end of 2007 and are no longer available.

3. Income Taxes

Provision for Income Taxes

	2009	2008	2007
		($ in millions)	
Current:			
Federal	$ 239	$ 657	$ 570
State	11	87	78
Total current taxes	250	744	648
Deferred:			
Federal	289	257	77
State	49	33	48
Total deferred taxes	338	290	125
Provision for income taxes	$ 588	$ 1,034	$ 773

Reconciliation of Statutory Rate to Effective Rate

The "Provision for income taxes" in the Consolidated Statements of Income differs from the amounts computed by applying the statutory federal corporate tax rate as follows:

	2009		2008		2007	
	Amount	%	Amount	%	Amount	%
			($ in millions)			
Federal income tax at statutory rate	$ 568	35	$ 963	35	$ 783	35
State income taxes, net of Federal tax effect	39	2	77	3	63	3
Illinois tax law change, net of Federal tax effect	--	--	1	--	19	1
Tax credits	(4)	--	(2)	--	(65)	(3)
Other - net	(15)	(1)	(5)	--	(27)	(1)
Provision for income taxes	$ 588	36	$ 1,034	38	$ 773	35

Illinois enacted tax legislation in August 2007, revised in January 2008, which modified the way transportation companies apportion their taxable income to the state. The change resulted in an increase in NS' income tax liability as shown above.

Deferred Tax Assets and Liabilities

Certain items are reported in different periods for financial reporting and income tax purposes. Deferred tax assets and liabilities are recorded in recognition of these differences. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

December 31,

	2009	2008
	($ in millions)	
Deferred tax assets:		
Compensation and benefits, including postretirement	$ 661	$ 728
Accruals, including casualty and other claims	164	218
Other	46	45
Total gross deferred tax assets	871	991
Less valuation allowance	(14)	(11)
Net deferred tax asset	857	980
Deferred tax liabilities:		
Property	(7,195)	(6,957)
Other	(267)	(246)
Total gross deferred tax liabilities	(7,462)	(7,203)
Net deferred tax liability	(6,605)	(6,223)
Net current deferred tax asset	142	149
Net long-term deferred tax liability	$ (6,747)	$ (6,372)

Except for amounts for which a valuation allowance has been provided, management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets. The valuation allowance at the end of each year relates to subsidiary state income tax net operating losses that may not be utilized prior to their expiration. The total valuation allowance increased $3 million in 2009, and $1 million in 2008 and 2007, respectively.

Uncertain Tax Positions

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows ($ in millions):

	December 31,	
	2009	2008

Balance at beginning of year	$	169	$	167
Additions based on tax positions related to the current year		25		73
Additions for tax positions of prior years		24		4
Reductions for tax positions of prior years		(85)		(63)
Settlements with taxing authorities				