STB FD 33388 6-23-97 A 180274V7A 1/10

180274 CSX/NS-24

BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 33388

CSX CORPORATION AND CSX TRANSPORTATION, INC., NORFOLK SOUTHERN CORPORATION AND NORFOLK SOUTHERN RAILWAY COMPANY — CONTROL AND OPERATING LEASES/AGREEMENTS — CONRAIL INC. AND CONSOLIDATED RAIL CORPORATION

RAILROAD CONTROL APPLICATION

VOLUME 7A OF 8

FORM 10-Ks, FORM S-4s, FORM 14D-1s, ANNUAL REPORTS, AND CURRENT BALANCE SHEETS AND INCOME STATEMENTS (EXHIBITS 6, 7, 9, 20 AND 21)

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June 1997

VOLUME 7

SUMMARY: MASTER TABLE OF CONTENTS

VOLUME 7

MASTER TABLE OF CONTENTS

VOLUME 7A

VOLUME 7B

Page

VOLUME 7C

VOLUME 7D

VOLUME 7E

Page

VOLUME 7F

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FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 27, 1996

OR

( ) 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 1-8022

CSX CORPORATION
(Exact name of registrant as specified in its charter)

Virginia (State or other jurisdiction of incorporation or organization)	62-1051971 (I.R.S. Employer Identification No.)
901 East Cary Street, Richmond, VA. (Address of principal executive offices)	23219-4031 (Zip Code)

Registrant's telephone number, including area code: (804) 782-1400

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

Title of each class	Name of each exchange on which registered
Common Stock, $1 Par Value	New York Stock Exchange

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

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

On January 24, 1997, the aggregate market value of the Registrant's voting stock held by nonaffiliates (using the New York Stock Exchange closing price) was $10.3 billion.

On January 24, 1997, there were 216,898,817 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Proxy Statement for the annual meeting of security holders on April 17, 1997), is incorporated by reference for Part III.

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Item Captions and Index--Form 10-K Annual Report

b. Reports on Form 8-K
A report was filed on Oct. 17, 1996, reporting Item 5, Other Events -- Agreement and Plan of Merger with Conrail Inc., and Item 7, Financial Information and Exhibits -- Documents related to Agreement and Plan of Merger with Conrail Inc. filed as exhibits.

(a) Part III will be incorporated by reference from the registrant's 1997 Proxy Statement pursuant to instructions G(1) and G(3) of the General Instructions to Form 10-K.

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Financial Highlights

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(Millions of Dollars, Except Per Share Amounts)	1996	1995(b)	1994(c)	1993(d)	1992
<S> <C>					
Summary of Operations(a)					
Operating Revenue	$10,536	$10,304	$ 9,409	$ 8,766	$ 8,549
Operating Expense	9,014	8,921	8,227	7,792	7,636
Productivity/Restructuring Charge(e)	--	257	--	93	699
Total Operating Expense	9,014	9,178	8,227	7,885	8,335
Operating Income	$ 1,522	$ 1,126	$ 1,182	$ 881	$ 214
Net Earnings	$ 855	$ 618	$ 652	$ 359	$ 20
Per Common Share(f)					
Net Earnings	$ 4.00	$ 2.94	$ 3.12	$ 1.73	$ .10
Cash Dividends	$ 1.04	$ .92	$ .88	$ .79	$ .76
Market Price--High	$ 53.13	$ 46.13	$ 46.19	$ 44.07	$ 36.82
--Low	$ 42.25	$ 34.63	$ 31.57	$ 33.19	$ 27.25

Percentage Change from Prior Year(a)					
Operating Revenue	2.3 %	9.5%	7.3%	2.5 %	1.6 %
Operating Expense	(1.8)%	11.6%	4.3%	(5.4)%	(.7)%
Operating Expense, Excluding Productivity/Restructuring Charge	1.0 %	8.4%	5.6%	2.0 %	-- %
Cash Dividends Per Common Share	13.0 %	4.5%	11.4%	3.9 %	6.3 %
Summary of Financial Position					
Cash, Cash Equivalents and Short-Term Investments	$ 682	$ 660	$ 535	$ 499	$ 530
Working Capital (Deficit)	$ (685)	$(1,056)	$ (840)	$ (704)	$ (859)
Total Assets	$ 16,965	$14,282	$ 13,724	$ 13,420	$ 13,049
Long-Term Debt	$ 4,331	$ 2,222	$ 2,618	$ 3,133	$ 3,245
Shareholders' Equity	$ 4,995	$ 4,242	$ 3,731	$ 3,180	$ 2,975
Book Value Per Common Share(f)	$ 23.04	$ 20.15	$ 17.81	$ 15.27	$ 14.37
Employee Count(g)					
Rail	28,559	29,537	29,729	30,461	30,916
Other	18,755	18,428	17,974	17,847	16,681
Total	47,314	47,965	47,703	48,308	47,597

</Table>

See accompanying Notes to Consolidated Financial Statements.

(a) In 1996, the company changed its earnings presentation to exclude non-transportation activities from operating revenue and expense. These activities, principally real estate and resort operations, are now included in other income in the consolidated statement of earnings. Prior-year amounts have been restated to conform to the 1996 presentation.

(b) In 1995, the company recognized a net investment gain of $77 million, $51 million after tax, 24 cents per share, on the issuance of an equity interest in a Sea-Land terminal and related operations in Asia and the write-down of various investments.

(c) In 1994, the state of Florida elected to satisfy its remaining unfunded obligation issued in 1988 to consummate the purchase of 80 miles of track and right of way. The transaction resulted in an accelerated pretax gain of $69 million and increased net earnings by $42 million, 20 cents per share.

(d) The company revised its estimated annual effective tax rate in 1993 to reflect the change in the federal statutory income tax rate from 34 to 35 percent. The effect of this change was to increase income tax expense for 1993 by $56 million, 26 cents per share. Of this amount, $51 million, 24 cents per share, related to applying the newly enacted statutory income tax rate to deferred tax balances as of Jan. 1, 1993.

(e) In 1995, the company recorded a $257 million pretax charge to recognize the estimated costs of initiatives to revise, restructure and consolidate specific operations and administrative functions at its rail and container-shipping units. The restructuring charge reduced net earnings by $160 million, 76 cents per share. In 1993, the company recorded a $93 million pretax charge to recognize the estimated costs of restructuring certain operations and functions at its container-shipping unit. The restructuring charge reduced net earnings by $61 million, 30 cents per share. In 1992, the company recorded a charge to recognize the estimated costs of buying out certain trip-based compensation elements paid to train crews. The pretax charge amounted to $699 million and reduced net earnings for 1992 by $450 million, $2.19 per share.

(f) Amounts per common share for 1992 through 1995 have been restated to reflect the 2-for-1 common stock split distributed to shareholders in December 1995.

(g) Employee counts based on annual averages.

<PAGE>

Chairman's Message

1996 was a momentous year for CSX.
We achieved record financial performance.
We also took ground-breaking steps to
enhance the company's competitiveness,

satisfy customer requirements, develop long-term growth prospects, and provide superior shareholder value.

[Photo]

Before discussing the company's financial results and the performance of our respective transportation units, let me review the proposed CSX/Conrail merger - the event that made 1996 the most important year since the company's creation in 1980 from the merger of the Chessie and Seaboard rail systems. To better understand the rationale for our strategic merger agreement, it's important to consider the impact consolidation has had on the rail industry in recent years.

Over the last two decades, deregulation and consolidation of the nation's railroads into strong, efficient networks has nurtured a rail renaissance that has greatly benefited customers, shareholders and the broader public interest in efficient transportation. More recently, that process accelerated, with the 1995 merger of the Burlington Northern and Santa Fe railroads, and last year's merger of the Union Pacific and Southern Pacific systems. Thus, the number of major rail carriers serving the Western half of the country went from four to two in less than a year.

These mergers unavoidably set in motion efforts to consolidate the three major Eastern rail systems - CSX, Norfolk Southern and Conrail - into two networks. Naturally, each of the Eastern carriers was concerned it might be left without a partner should transcontinental mergers occur. Well aware that Norfolk Southern had attempted to acquire Conrail in its entirety on several occasions in recent years and was determined to do so again, CSX moved decisively to protect its vital interests. On Oct. 14, 1996, we entered into a strategic merger agreement with Conrail that called for CSX to acquire all outstanding shares of Conrail stock in a combined cash-stock transaction.

We knew that Norfolk Southern would fight the merger. We also recognized that concessions would have to be made because of Conrail's unique market position in the Northeast, a situation created by the government out of necessity more than 20 years ago. Nevertheless, the logic for joining forces with Conrail was compelling.

Conrail and CSX have complementary rail networks and business mixes. CSX routes, located mainly in the Southeast and Midwest, complement Conrail's routes in the Midwest and Northeast.

<PAGE>

Consolidating the two rail systems would create a more efficient rail network, enabling the combined company to improve service quality, reduce costs and attract new business. Expanded rail operations also would benefit other CSX business units that exchange traffic with the railroad, just as the broad scope of CSX's multimodal transportation services would strengthen our expanded rail operations and open up new markets to rail customers.

As expected, Norfolk Southern vigorously contested the merger agreement and initiated a hostile, competing bid for Conrail. Initial efforts to reach a compromise with Norfolk Southern were unsuccessful. By mid-January 1997, we were at a virtual stalemate - with CSX having acquired just under 20% of Conrail stock and Norfolk Southern purchasing just under 10% of the company. Further complicating matters, Conrail shareholders had rejected a proposal necessary to put the proposed merger with CSX into effect.

Search for Resolution

Then, in late-January, Surface Transportation Board (STB) Chairwoman Linda Morgan made public statements noting the regulatory board's preference for a negotiated and balanced settlement of competitive issues in rail mergers. On Jan. 31, CSX, Conrail and Norfolk Southern began discussions aimed at preserving and enhancing competition and best serving the public interest. Norfolk Southern then sent CSX and Conrail a proposal that would in essence equally divide Conrail between Norfolk Southern and CSX.

On March 7, CSX and Conrail amended their merger agreement to increase the price CSX will pay for each remaining share of Conrail to $115, payable in cash to Conrail shareholders by June 2, 1997. The amended agreement also allowed CSX to enter into negotiations with Norfolk Southern to craft a compromise. We expect those discussions will lead to an agreement between CSX and Norfolk Southern for a joint purchase of Conrail and a roughly even division of its routes and assets. This would enable CSX and Norfolk Southern to file a joint application before the STB, with the ultimate goal being two exceptional rail systems in the East.

This likely outcome is one we have long sought and is consistent with our own position since the mid-1980's when we successfully opposed the acquisition of Conrail by Norfolk Southern. It will result in a stronger, more comprehensive and competitive CSX rail system that will produce tremendous advantages for all of CSX's constituencies.

Our customers will benefit from faster, more reliable service, more direct single-line routings, an improved cost structure, and better equipment supply and utilization. Our employees will benefit from greater employment and advancement opportunities that flow from a stronger, growing enterprise. Our shareholders will benefit from ownership of an expanded international transportation company with a scale and efficiency to compete more effectively at home and abroad. The public and the communities we serve also will benefit from lower transportation costs, reduced reliance on truck-clogged local and interstate highways, and an overall improvement in the safety, efficiency and reliability of the U.S. transportation system. In addition, restoring competitive balance to the Northeast will help to ensure that the regulatory reforms that we all worked so dilligently to accomplish in the 1980s will be preserved.

As this process unfolds, I want to assure you that we remain committed to two absolute objectives. First, we will make every effort to protect your investment and generate superior returns over the long term. Second, we will continue to aggressively pursue our long-term strategy to maximize the performance of each of our business units, in terms of operating income, return on invested capital and free cash flow.

Record 1996 Results

All of CSX's major transportation units turned in strong performances in 1996, resulting in record consolidated results for operating revenue, operating income and net earnings. CSX earned $855 million, or $4.00 per share, in 1996, compared with $618 million, or $2.94 per share, last year. Excluding a restructuring charge and one-time gain recorded in 1995, earnings per share rose nearly 16% in 1996 from 1995's pro forma figure of $3.46. Uncertainty surrounding the CSX/Conrail merger agreement and the competing bid from Norfolk Southern took its toll on the performance of CSX stock in 1996. After reaching a new high of 53 1/8 in May, CSX stock closed the year at 42 1/4, down 7.4% from last year's close. While disappointed by the stock's performance in 1996, we are already seeing improvement as the Conrail situation is becoming clearer. We expect CSX stock, over time, will more accurately reflect the company's enhanced core earning power. We remain committed to our previously stated goal of doubling the market value of CSX stock over the five-year period that began in 1995.

Pro Forma Net Earnings

(Millions of Dollars, Except Per Share Amounts*)

Description (All After Tax)	1996 Amt.	1996 Per Share	1995 Amt.	1995 Per Share	1994 Amt.	1994 Per Share
Net Earnings as Reported	$855	$4.00	$618	$2.94	$652	$3.12
Net Gains From Investment Transactions	--	--	(51)	(.24)	(42)	(.20)
Restructuring Charge	--	--	160	.76	--	--
Pro Forma Net Earnings	$855	$4.00	$727	$3.46	$610	$2.92

* Per-share amounts for 1995 and 1994 reflect stock split in December 1995.

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Rail Results

Our rail unit, CSX Transportation Inc. (CSXT), turned in another excellent year, achieving record financial results and reducing its operating ratio by nearly a full point.

CSXT stepped up the pace of its campaign to boost service reliability by intensifying its efforts in three key areas: terminal improvements, industrial switching and network operations. Progress in all three areas is critical to the railroad's commitment to achieve operational excellence, which in turn will allow CSXT to aggressively pursue growth opportunities. The service reliability process produced remarkable results in

1996. For example, the terminal improvement plan initially called for upgrading the performance of one terminal in 1996, but the results were so impressive that the process was rolled out to 30 terminals by year-end.

Shippers are recognizing the railroad's service reliability improvements, and prospects for profitable growth are brighter today than ever. Without in any way diminishing its intensive focus on reducing costs, CSXT will continue to improve its operational performance and service levels in 1997, while seeking to maximize revenue growth and profitability. These efforts put CSXT on track for another record year in 1997.

I am pleased to report that CSXT and the other major U.S. freight railroads successfully negotiated five-year labor agreements in 1996. The landmark labor contracts were reached without work stoppage or government intervention, a departure from recent national bargaining rounds and an encouraging sign of improved labor-management relations throughout the rail industry.

Safety continues to be a top priority at the railroad. In 1996, CSXT continued to reduce its train accident rate, and the latest figures from the Federal Railroad Administration place CSXT as the safest Class I railroad in the nation in terms of train accidents. Despite dramatic improvements in safety over the past seven years, the railroad recognizes that much work remains to be done to further reduce accidents and employee injuries.

Container-shipping Results

Our container-shipping unit, Sea-Land Service Inc. (Sea-Land), produced record results despite rate weakness in key trade lanes and higher fuel costs. Sea-Land capitalized on strong demand for containerized cargo and increased its market share in every major trade lane while holding the line on expenses. As a result, the company increased operating income 34% to $318 million, excluding the 1995 restructuring charge.

During 1996, Sea-Land and Maersk Lines made considerable progress implementing their global alliance, which will be fully operational by the end of this year. The alliance optimizes the resources of two of the world's largest and most respected shipping lines, allowing both companies to reduce costs and improve service across their global network.

After years of debate, the U.S. Congress passed legislation that bolsters the U.S. merchant marine. The Maritime Security Act establishes a program to provide participating carriers operating assistance to partially offset the higher costs of operating under the U.S. flag. Sea-Land has enrolled 15 vessels in the program and will receive $2.1 million a year for each participating vessel.

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The outlook for the container-shipping industry is improving, with further consolidation and government deregulation providing encouraging signs that the business is responding more directly to rational market forces. We believe the over-capacity that eroded the industry's profitability during 1996 will peak in 1997, and we see the business fundamentals improving thereafter.

We are encouraged by Sea-Land's 1996 results, because they demonstrate the company's ability to increase earnings substantially, even in a difficult rate environment. Sea-Land came through this tough year with flying colors, showing the company stands at the pinnacle of its industry, as the low-cost carrier and leader in innovative technology and customer service. We are eager to show the kind of break-out results Sea-Land can produce in a more favorable environment.

Other Transportation Results

American Commercial Lines Inc. (ACL), CSX's barge unit, turned in another strong performance in 1996. The unit produced record operating income, up 6% from last year's excellent performance, reflecting the increased size of ACL's barge fleet and robust demand for export grain and other bulk commodities. Higher demand for steel products and expanded operations in South America also contributed to the strong performance.

CSX Intermodal Inc. (CSXI) responded aggressively to stiff truck competition that has exerted downward pressure on intermodal rates since 1995. The company consolidated its headquarters in Jacksonville, Fla., and reduced administrative and overhead costs significantly. CSXI also redesigned its service network, concentrating its efforts and resources in markets that produce the best returns and growth opportunities, while reducing or eliminating service in lower-margin freight lanes. These steps enabled CSXI to increase operating income 17% over last year's results and helped position the company to achieve significant service improvements and higher profits in 1997.

Customized Transportation Inc. (CTI), our fast-growing contract logistics management company, continued to diversify its customer base, both in the United States and abroad. Building upon its already strong reputation as a leading provider of supply-chain management for the automotive industry, CTI expanded its presence in non-automotive markets, including the electronics, retail and chemical industries. Operating revenues rose 32% and operating income rose 36%, both to record levels.

Looking to the Future

In 1997, each of CSX's transportation units expects to build upon its solid 1996 performance, and the result should be another record year for the corporation. We expect a continuation of the favorable economic environment we experienced last year--with modest economic growth and robust demand for transportation services.

As global commerce continues to evolve, we believe the increasingly complex distribution requirements of our customers will create significant opportunities for CSX. Our transportation units, while continuing to focus on improving the fundamentals of their business, are working together to identify segments of the transportation market where our collective capabilities can produce exceptional value for our customers and attractive returns for our shareholders. The results we achieved in 1996 by integrating services for certain global customers are encouraging. We will expand this integrated account approach in 1997, positioning CSX to meet the widest possible range of customers' global transportation service needs.

We are confident about the outlook for our business. We remain focused on controlling costs, maximizing returns on invested capital and generating strong free cash flow. At the same time, we will pursue creative strategies to enhance CSX's ability to meet customer requirements and achieve profitable growth. As always, our efforts are guided by our overriding commitment to produce superior shareholder value over the long term.

Sincerely,

/s/ John W. Snow

John W. Snow
Chairman and Chief Executive Officer

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Public Policy Statement

The need for business and government to become more efficient as we prepare for the 21st century was a key factor in public policy debates in 1996. While we expect these considerations to remain in 1997, we also anticipate renewed challenges to decisions favorable to business and economic opportunity.

In 1996 there were two events of major significance to the transportation enterprises of CSX. The Congress and the Administration agreed on a bipartisan basis to create a public-private partnership that will maintain and strengthen a fleet of merchant ships operating under U.S. flag with U.S. crews. To maintain strategic sealift capability, ships enrolled in the Maritime Security Program will receive an annual payment that will enable them to compete with foreign-flagged ships. Sea-Land has 15 ships signed up for the program and will receive annual payments of $31.5 million for making its highly efficient maritime logistics network available to the U.S. government in times of emergency.

The Surface Transportation Board, the successor to the Interstate Commerce Commission, handed down a landmark decision in the Union Pacific-Southern Pacific merger case, whose principles made it possible for CSX and Conrail to enter into agreement on a strategic, friendly merger. The Board's decision affirmed the goals of the Staggers Rail Act of 1980, which sought to free the railroads from the stranglehold of regulation and to operate as other businesses do. This matter is discussed more extensively in the Chairman's message.

The relation of government to the maritime industry will be a central transportation issue in the 105th Congress. In 1995, an important step toward less regulation of ocean shipping was taken when the Congress directed the Coast Guard to reduce regulations that today place American carriers at a competitive disadvantage to foreign carriers. With this new authority, the Coast Guard will be able to conform U.S.-vessel standards to the same international standards by which the vessels of other nations are evaluated.

CSX and Sea-Land have supported a staged reduction in the economic regulation of U.S. container-shipping lines and pressed for reform of the Shipping Act of 1984. While Congress is expected to take up these needed changes again, they have aroused strong opposition from some ports, foreign shipping lines and labor unions. At the same time, advocates for foreign carriers may use the goal of "deregulation" to further their efforts to gain access to America's domestic waterborne commerce by seeking repeal of the Jones Act. U.S.-flag carriers, which serve U.S. ports under the terms of the Jones Act, should not be forced to compete with foreign carriers that enjoy similar protection in their countries and do not have to comply with the basic wage, tax, safety and health laws of the United States.

A new attempt will be made in this Congress to enact legislation to carry out the provisions of an international agreement ending ship subsidies by foreign governments to their national shipyards. An important element of the agreement is the ending of the 50% duty U.S. ships must pay on repairs done in overseas shipyards. We support efforts to make U.S. shipyards competitive in the world marketplace and to eliminate unfair burdens on U.S. ships.

While the central rail issue for CSX in 1997 will obviously be resolving issues surrounding Conrail, other pressing issues will affect the entire rail industry. Mergers may well be used as an excuse by shipper groups and others to seek new regulation of railroads and to roll back the regulatory freedoms that have brought about the renaissance of railroads. This effort may include seeking to require railroads to allow other carriers to operate over their lines. To allow railroads access to the rail lines of their competitors would require a whole new set of regulatory actions to establish the terms and conditions and the rates for this use.

The safety of railroads, already tightly regulated by the federal government, may again become an issue when the Congress takes up the reauthorization of the Rail Safety Act. A series of highly publicized train accidents at the beginning of 1996 cast a shadow over the industry's excellent record of improving safety. CSX continues to believe that requiring railroads to meet performance standards for safety brings more positive results than the current command and control system. The most serious safety problem for the rail industry and the public remains rail-highway grade crossings. CSX will join with the rest of the industry in seeking the cooperation of federal, state and local governments to solve this persistent problem.

As an international transportation company, CSX will continue to support decisions by the Congress and the administration that will foster greater economic growth and greater freedom from regulation in the domestic and the world marketplace. We remain committed to fair and open trade, to a balanced federal budget, to a more equitable and simpler tax system and to the goal of a smaller, more efficient government.

6

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Financial Policy

A Message to Shareholders on CSX's Financial Principles

The management of CSX Corporation is dedicated to reporting the company's financial condition and results of operations in accurate, timely and conservative manner in order to give shareholders all the information they need to make decisions about investment in the company. CSX management also strives to present to shareholders a clear picture of the company's financial objectives and the principles that guide its employees in achieving those objectives.

In this section, financial information is presented to assist you in understanding the sources of earnings and financial resources of the company and the contributions of the major business units. In addition, certain information needed to meet the Securities and Exchange Commission's Form 10-K requirements has been included in the Notes to Consolidated Financial Statements.

The key objective of CSX is to increase shareholder value by improving the return on capital invested in its businesses and maximizing free cash flow. The company defines "free cash flow" as the amount of cash available for debt service and other purposes generated by operating activities after deducting capital expenditures, present value of new leases and cash dividends. To achieve these goals, managers utilize the following guidelines in conducting the financial activities of the company:

Capital - CSX business units are expected to earn returns on capital in excess of the CSX cost of capital. Business units that do not earn above the CSX cost of capital and do not generate an adequate level of free cash flow over an appropriate period of time will be evaluated for sale or other disposition.

Taxes - CSX will pursue all available opportunities to pay the lowest federal, state and foreign taxes, consistent with applicable laws and regulations and the company's obligation to carry a fair share of the cost of government. CSX also works through the legislative process for lower tax rates.

Debt ratings - The company will strive to maintain its investment grade debt ratings, which allow cost-effective access to major financial markets worldwide. The company will work to manage its business operations in a manner consistent with meeting this objective, including monitoring its debt levels and the amount of fixed charges it incurs.

Financial instruments - From time to time the company may employ financial instruments as part of its risk management program. The objective would be to manage specific risks and exposures and not to trade financial instruments actively for profit or loss.

Dividends - The cash dividend is reviewed regularly in the context of inflation and competitive dividend yields. The dividend may be increased periodically if cash flow projections and reinvestment opportunities show the higher payout level will best benefit shareholders.

The company cannot always guarantee that its goals will be met, despite its best efforts. For example, revenue and operating expenses are affected by the state of the economy both in general and in the industries it serves, and changes in regulatory policy can drastically change the cost and feasibility of certain company operations. The impact of factors such as these, along with the uncertainty inherently involved in predicting future events, should be carefully borne in mind when reading company projections or other forward-looking statements in this report.

Management's Responsibility for Financial Reporting

The consolidated financial statements of CSX Corporation have been prepared by management, which is responsible for their content and accuracy. The statements present the results of operations, cash flows and financial position of the company in conformity with generally accepted accounting principles and, accordingly, include amounts based on management's judgments and estimates.

CSX and its subsidiaries maintain internal controls designed to provide reasonable assurance that assets are safeguarded and that transactions are properly authorized by management and recorded in conformity with generally accepted accounting principles. Controls include accounting tests, written policies and procedures and a code of corporate conduct routinely communicated to all employees. An internal audit staff monitors compliance with and the effectiveness of established policies and procedures.

The Audit Committee of the board of directors, which is composed solely of outside directors, meets periodically with management, internal auditors and the independent auditors to review audit findings, adherence to corporate policies and other financial matters. The firm of Ernst & Young LLP, independent auditors, has been engaged to audit and report on the company's consolidated financial statements. Its audit was conducted in accordance with generally accepted auditing standards and included a review of internal accounting controls to the extent deemed necessary for the purpose of its report, which appears on page 42.

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Analysis of Operations

CSX Corporation is a leader in providing multimodal freight transportation and contract logistics services around the world. The company's focus, advanced at each of its business units, is on providing customers with efficient, competitive transportation and related trade services and delivering superior value to CSX shareholders.

Average Return on Equity
(Percent)

[GRAPH]

'92	'93	'94	'95	'96
0.7	11.7	18.6	15.5	18.9

*Excluding after-tax productivity/restructuring charges and the impact of the 1993 tax-rate increase, return on equity in 1992, 1993 and 1995 would have been 13.3%, 14.0% and 19.1%, respectively.

CSX Transportation Inc.

CSXT is a major eastern railroad, providing rail freight transportation and distribution services over 18,504 route miles of track in 20 states in the East, Midwest and South; and in Ontario, Canada. CSXT accounted for 47% of CSX's operating revenue, 74% of operating income and 63% of invested capital in 1996.

Sea-Land Service Inc.

Sea-Land is a worldwide leader in container-shipping transportation and logistics services. The carrier operates a fleet of 99 container ships and approximately 208,000 containers in U.S. and foreign trade and serves 120 ports. In addition, Sea-Land operates 28 marine terminal facilities across its global network. Sea-Land accounted for 38% of CSX's operating revenue, 21% of operating income and 19% of invested capital in 1996.

American Commercial Lines Inc.

ACL is the nation's leader in barge transportation, operating 137 towboats and more than 3,700 barges on U.S. and South American waterways. ACL accounted for 6% of CSX's operating revenue, 7% of operating income and 4% of invested capital in 1996.

CSX Intermodal Inc.

CSXI provides transcontinental intermodal transportation services and operates a network of dedicated intermodal facilities across North America. CSXI contributed 6% of CSX's operating revenue and 2% of operating income in 1996.

Customized Transportation Inc.

CTI is a provider of contract logistics, distribution, warehousing, assembly and just-in-time delivery services. In 1996, CTI provided 3% of CSX's operating revenue and 1% of operating income.

Non-transportation

Resort holdings include the Mobil Five-Star and AAA Five-Diamond hotel, The Greenbrier in White Sulphur Springs, W.Va., and the Grand Teton Lodge Company in Moran, Wyo. CSX Real Property Inc. is responsible for sales, leasing and development of CSX-owned properties. CSX holds a majority interest in Yukon Pacific Corporation, which is promoting construction of the Trans-Alaska Gas System to transport Alaska's North Slope natural gas to Valdez for export to Asian markets.

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Analysis of Operations

Average Return on Assets
(Percent)

[GRAPH]

'92	'93	'94	'95	'96
0.2	2.7	4.8	4.4	5.9

*Excluding after-tax productivity/restructuring charges and the impact of the 1993 tax-rate increase, return on assets in 1992, 1993 and 1995 would have been 3.6%, 3.6% and 5.6%, respectively.

Cash Provided by Operations
(Millions of Dollars)

[GRAPH]

'92	'93	'94	'95	'96
$939	$962	$1,326	$1,567	$1,440

Fixed Charge Coverage

[GRAPH]

'92	'93	'94	'95	'96
1.0	2.3	3.1	3.2	4.0

*Excluding after-tax productivity/restructuring charges, fixed charge coverage in 1992, 1993 and 1995 would have been 2.5x, 2.5x and 3.7x, respectively.

CSX had excellent results in 1996. The company posted another record year while overcoming several challenges, including: severe winter conditions, which affected first-quarter rail operations; rate pressures in several of Sea-Land's major trade lanes; and higher-than-expected fuel prices experienced by all units. Modest revenue gains, combined with continued cost-control efforts, contributed to a 10% increase in operating income, excluding the 1995 restructuring charge. The railroad controlled costs while benefiting from strength in several commodities and selective price increases. Sea-Land achieved record results by offsetting rate pressures with cost-cutting measures and market-share gains.

Discussion of Earnings

Net earnings in 1996 totaled $855 million, $4.00 per share, compared with $618 million, $2.94 per share, in 1995, and $652 million, $3.12 per share, in 1994.

The 1995 net earnings included the effect of a second-quarter restructuring charge to recognize CSXT's write-down of obsolete telecommunications assets and related employee-separation costs. The charge also included the cost of reflagging five Sea-Land vessels and the consolidation of its corporate and divisional headquarters in Charlotte, N.C. The 1995 results included a gain from the issuance of an equity interest in a Sea-Land terminal and related operations in Asia. Earnings for 1994 included the accelerated recognition of the remaining gain on a 1988 sale of track in south Florida.

Consolidated operating revenue increased $232 million, 2% above 1995. CSXT contributed $90 million of the additional revenue, largely resulting from strong performances by its coal and auto business units. Sea-Land generated $43 million of the revenue increase, due to higher volumes in major trade lanes. ACL produced $68 million in additional revenue, primarily due to continued strong demand for export grain and the acquisition of Conti-Carriers & Terminals Inc.

In 1995, operating revenue increased $895 million, or 10%, over 1994's results. Sea-Land contributed $516 million of the additional revenue, resulting from higher volumes in its major trade lanes and moderate rate increases. CSXT generated $194 million of the revenue increase, due to improved pricing and merchandise traffic mix. ACL produced $105 million in additional revenue, capitalizing on strong international demand for U.S. grain.

All 1995 and 1994 per-share amounts in the text have been adjusted to reflect the 2-for-1 stock split that occured in the fourth quarter of 1995.

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Analysis of Operations

In 1996, all CSX units continued their efforts to control costs through performance improvement initiatives. Consolidated operating expense in 1996 decreased $164 million from 1995, which included the $257 million pretax restructuring charge incurred by CSXT and Sea-Land. Operating expense in 1995 was $951 million higher than the 1994 level, primarily due to the restructuring charge and higher volumes.

Consolidated operating income for 1996 was $1.5 billion, compared with $1.1 billion in 1995 and $1.2 billion in 1994. Absent the restructuring charge, 1995 operating income would have been $1.4 billion.

Other income totaled $43 million, compared with $118 million in 1995 and $105 million in 1994. In 1995, other income included a $77 million pretax net investment gain, primarily from the issuance of an equity interest in a Sea-Land terminal facility and related operations in Asia. In 1994, other income included the $69 million accelerated pretax gain on the sale of track in south Florida.

Discussion of Cash Flows

Cash provided by operating activities totaled $1.4 billion in 1996, compared with $1.6 billion in 1995 and $1.3 billion in 1994. Cash provided by operating activities was adequate to fund net property investments and cash dividends in 1996, 1995 and 1994. In addition, CSX funded scheduled long-term debt payments of $486 million, $343 million and $447 million in 1996, 1995 and 1994, respectively.

Payments related to the 1991/92 productivity charge covering labor agreements providing for two-member train crews and payments provided for in the 1995 restructuring charge affected cash provided by operations. The company has paid $940 million related to these productivity and restructuring charges to date, $88 million of which was in 1996.

CSX continues to emphasize asset utilization and capital productivity. Capital investments were $1.2 billion in 1996 and 1995, and $875 million in 1994.

<Table>
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Operating Results
(Millions of Dollars)

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1996	Total	Rail	Container Shipping	Inter-modal	Barge	Contract Logistics	Elim./ Other
Operating Revenue	$10,536	$4,909	$4,051	$674	$622	$316	$ (36)
Operating Expense							
Labor and Fringe Benefits	3,161	1,881	900	63	138	124	55
Materials, Supplies and Other(a)	2,530	867	1,126	92	242	49	154
Building and Equipment Rent	1,143	365	630	73	35	40	--
Inland Transportation	995	--	750	395	--	64	(214)
Depreciation	611	394	135	15	36	9	22
Fuel	574	275	192	1	59	13	34
Restructuring Charge	--	--	--	--	--	--	--
Total Expense	9,014	3,782	3,733	639	510	299	51
Operating Income (Loss)	$ 1,522	$1,127	$ 318	$ 35	$112	$ 17	$(87)
Pro Forma Operating Income (Loss)(b)	$ 1,522	$1,127	$ 318	$ 35	$112	$ 17	$(87)
Operating Ratio(b)		77.0%	92.1%	94.8%	82.0%	94.5%	
Average Employment		28,559	8,982	1,090	3,418	2,120	
Property Additions		$ 764	$ 307	$ 24	$ 91	$ 15	

1995	Total	Rail	Container Shipping	Inter-modal(c)	Barge	Contract Logistics	Elim./ Other
Operating Revenue	$10,304	$4,819	$4,008	$707	$554	$240	$(24)
Operating Expense							
Labor and Fringe Benefits	3,133	1,847	934	85	122	92	53
Materials, Supplies and Other(a)	2,622	941	1,166	94	232	46	143
Building and Equipment Rent	1,134	373	636	72	20	33	--
Inland Transportation	970	--	730	411	--	41	(212)
Depreciation	588	367	139	14	32	6	30
Fuel	474	227	165	1	42	10	29
Restructuring Charge	257	196	61	--	--	--	--
Total Expense	9,178	3,951	3,831	677	448	228	43
Operating Income (Loss)	$ 1,126	$ 868	$ 177	$ 30	$ 106	$ 12	$ (67)
Pro Forma Operating Income (Loss)(b)	$ 1,383	$ 1,064	$ 238	$ 30	$ 106	$ 12	$ (67)
Operating Ratio(b)		77.9%	94.1%	95.8%	80.9%	94.7%	
Average Employment		29,537	9,168	1,434	2,914	1,853	
Property Additions		$ 765	$ 269	$ 57	$ 33	$ 8	

1994	Total	Rail	Container Shipping	Inter-modal(c)	Barge	Contract Logistics	Elim./ Other
Operating Revenue	$9,409	$4,625	$3,492	$684	$449	$182	$ (23)

Operating Expense							
Labor and Fringe Benefits	3,005	1,828	859	89	104	71	54
Materials, Supplies and Other(a)	2,311	918	919	83	191	44	156
Building and Equipment Rent	1,087	374	600	67	19	27	--
Inland Transportation	839	--	676	372	--	14	(223)
Depreciation	564	352	132	11	32	6	31
Fuel	421	224	119	1	40	10	27
Restructuring Charge	--	--	--	--	--	--	--
Total Expense	8,227	3,696	3,305	623	386	172	45
Operating Income (Loss)	$1,182	$ 929	$ 187	$ 61	$ 63	$ 10	$ (68)
Pro Forma Operating Income (Loss)(b)	$1,182	$ 929	$ 187	$ 61	$ 63	$ 10	$ (68)
Operating Ratio(b)		79.9%	94.6%	91.1%	86.0%	94.5%	
Average Employment		29,729	9,437	1,626	2,644	1,475	
Property Additions		$ 641	$ 133	$ 50	$ 12	$ 7	

</Table>

(a) A portion of intercompany interest income received from the CSX parent company has been classified as a reduction of Materials, Supplies & Other by the container-shipping unit. This amount was $64 million, $65 million and $64 million in 1996, 1995 and 1994, respectively, and the corresponding charge is included in Eliminations/Other.

(b) Excludes restructuring charge.

(c) Intermodal results for 1995 and 1994 were restated to conform to the 1996 presentation. Beginning in 1996, the container-shipping unit assumed primary responsibility for direct purchase of transportation from non-affiliated rail carriers. Prior to 1996, the intermodal unit purchased these services for the container-shipping unit.

10

<PAGE>

Analysis of Operations

Cash dividends per common share were $1.04, compared with 92 cents in 1995 and 88 cents in 1994.

In 1997, the company expects its operations to continue generating significant cash flow to fund working capital requirements, capital expenditures, debt repayment and dividends. Cash flow for 1997 also will be affected by the proposed Conrail Acquisition (see right column).

Discussion of Financial Position

Cash, cash equivalents and short-term investments totaled $682 million at Dec. 27, 1996, vs. $660 million at Dec. 29, 1995.

The working capital deficit decreased $371 million during 1996, primarily due to lower current maturities of long-term debt. The company had a year-end working capital deficit of $685 million in 1996, compared with $1.06 billion in 1995.

A working capital deficit is not unusual for CSX and does not indicate a lack of liquidity. CSX maintains adequate resources to satisfy current liabilities when they are due and has sufficient financial capacity to manage its day-to-day cash requirements.

Long-term debt increased $2.1 billion from 1995 to $4.3 billion at Dec. 27, 1996, primarily due to borrowings to finance the company's acquisition of approximately 19.9% of Conrail's outstanding shares in November. (See "Conrail Acquisition," right column.)

The 1996 ratio of debt-to-total capitalization increased to 46% from 34% in 1995.

Conrail Acquisition

CSX is negotiating the final details of a transaction to combine key components of the current Conrail Inc. operations into the CSX system. Discussions with Norfolk Southern Corporation are expected to lead to a roughly equal division of the Conrail system between the two remaining major rail carriers in the East. The broad increase in geographic scope the acquisition will bring will be a significant advantage to CSX, creating the ability to enhance revenues through improved service and efficiency following operational integration.

The final terms of the acquisition will remain subject to a number of conditions and approvals, including approval by the Surface Transportation Board (STB), which has the authority to modify contract terms and impose additional conditions. As a result, the assumptions made in this analysis of operations concerning key items such as the definitive form of the transaction, its likely timing, and the future operations of the combined system all involve forecasts and estimates about future events. These forecasts and estimates are subject not only to the usual uncertainty involved in predicting the effects of future economic conditions, but also the outcome of the current negotiations and extensive regulatory proceedings.

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Prior to the current negotiations, CSX and Conrail had agreed on Oct. 14, 1996, to a strategic merger in which a good deal of Conrail assets would have been retained in the combined CSX/Conrail entity, although CSX believed concessions would have to be made. This combination, not unexpectedly, was challenged by customers and others, including Norfolk Southern, which announced a conditional all-cash offer for Conrail shares at a price that eventually rose to $115 per share.

As a first step toward completion of that proposed merger, CSX consummated a tender offer for 19.9% of the outstanding Conrail stock on Nov. 20, 1996, for $110 in cash per share, or about $2 billion.

On Dec. 6, 1996, CSX commenced a second offer, also at $110 cash per share, which would have brought its total holdings to 40% of the outstanding Conrail shares. This second offer was conditioned on a vote by Conrail shareholders to allow Conrail to opt out of a Pennsylvania statute that would otherwise preclude CSX from holding 20% or more of its outstanding shares.

On Jan. 17, 1997, Conrail's shareholders voted against the opt-out, preventing CSX from acquiring the additional shares. This event, along with public comments on competition and the preference for a negotiated settlement of competitive issues from the Chairwoman of the STB, prompted CSX, Conrail and Norfolk Southern to commence discussions aimed at resolving those issues. Those discussions led to the current proposed structure, in which all of the outstanding shares of Conrail will be acquired for cash at $115 per share, with roughly half of the system to be shared with Norfolk Southern. This will result in both CSX and Norfolk Southern having vital access to markets in the Northeast, and will achieve the goal of maintaining a balanced competitive rail market in the East.

The exercise of actual control over Conrail or any of its rail operations by either CSX or Norfolk Southern is not legally permitted until an order is issued by the STB. In the meantime, the shares of Conrail will be held in a voting trust.

CSX arranged a five-year, $4.8 billion bank credit facility in November 1996 to finance the Conrail transaction and meet general working capital needs. This credit facility is expected to be modified once the final form of the Conrail acquisition is determined. A significant portion of the related commercial paper and other borrowings used to purchase Conrail shares in 1996 is intended to be replaced with long-term debt once the acquisition is completed.

At the end of 1996, CSX held 19.9% of Conrail stock purchased through the first tender offer. Under applicable accounting rules, this minority interest was accounted for under the cost method as an investment in an unconsolidated subsidiary. The method of accounting applicable to CSX holdings of Conrail stock for future periods may differ, based on the timing and final structure of the related transactions.

Management believes that approval and completion of the combination will result in growth of the rail revenue base through expansion of single-line service, and the company's ability to compete more effectively on certain routes along which large quantities of goods are now transported by truck. Single-line service is preferred by shippers over joint-line service because of lower transaction costs, reduced delays, less damage from interchange operations and single-carrier accountability.

The addition of Conrail lines to the CSX network also will improve operational efficiency through better asset utilization. Optimization of train sizes, increased length of haul, shorter routes to many destinations and reduced empty movements all could be expected to drive cost reductions for the combined rail networks.

Because of the time needed to obtain needed regulatory and other approvals, the company does not expect integrated operations of the two companies to have an effect on fiscal periods before 1998. The primary impact of the proposed transaction prior to the integration of operations is likely to be the after-tax effect on both earnings and cash flows of interest on debt used to acquire and hold Conrail shares, partially offset by Conrail dividends. The average interest rate on this debt in 1996 was approximately 6%. The degree of negative impact during 1997 will depend on the specific timing of related transactions.

<PAGE>

ANALYSIS OF OPERATIONS

Other Matters

Environmental management is an important part of CSX's business planning. CSX focuses on finding the most efficient, cost-effective solutions for dealing responsibly with waste materials generated from past and present business operations. The solutions range from simple recycling to sophisticated remediation.

The company is a party to numerous regulatory proceedings and private actions. These arise from laws governing the remediation of contaminated property, such as the federal Superfund statute, hazardous waste and underground storage tank laws, and similar state and local statutes.

The rail unit has been identified, together with other parties, as a potentially responsible party in a number of governmental investigations and actions relating to environmentally impaired sites. Such sites frequently involve other waste generators and disposal companies that may pay some or all of such costs associated with site investigation and cleanup or from whom such costs may be recovered.

The wide range of costs of possible remediation alternatives, changing cleanup technology, the length of time over which these matters develop and evolving governmental standards make it impossible to estimate precisely the company's potential liability for the costs associated with the assessment and remediation of contaminated sites.

The rail unit has identified and maintains reserves for approximately 270 sites at which the company is or may be liable for remediation costs. The company reviews its environmental reserves at least quarterly to determine whether additional provisions are necessary. Based on current information, the company believes its reserves are adequate to meet remedial actions and to comply with present laws and regulations. Although CSX's financial results could be significantly affected in any quarterly reporting period in which the company incurred substantial remedial expenses at a number of these and other sites, CSX believes the ultimate liability for these matters will not materially affect its overall results of operations and financial condition.

Total expenditures associated with protecting the environment and remedial environmental cleanup and monitoring efforts amounted to $44 million in 1996. This compares with $43 million in 1995 and $39 million in 1994. During 1997, the company expects to incur remedial environmental expenditures in the range of $40 to $50 million.

The company and its subsidiaries are subject to a number of legal proceedings and potential actions in addition to those related to environmental issues. Based upon information currently available, these actions are not expected to have a materially adverse impact on results of operations or financial condition of the company.

CSX employs risk management strategies to address business and financial market risks, but there are no significant hedging or derivative financial instruments used in its risk management program. The company may alter this position in response to evolving business and market conditions.

Financial management periodically assesses the interest rate sensitivity of its portfolio of investments and borrowings, and may use financial instruments to manage the net interest exposure.

Management monitors fuel oil prices for volatility. It also monitors fluctuations in the value of the U.S. dollar in foreign exchange markets. While the company is not currently hedging these risks with financial instruments, on occasion it may do so. CSX's objective in employing such strategies would be to manage operating risks and exposures, not to trade financial instruments actively.

Rail Results

CSX Transportation Inc. (CSXT) posted record operating income in 1996, up 6% from 1995 and 21% from 1994, excluding the charge in 1995. The results are primarily due to strong performances by the coal and auto business units, continued selective rate increases and ongoing cost-control efforts.

Improved pricing and volume strength combined to produce operating revenue of $4.9 billion, a 2% increase over 1995 and a 6% increase over 1994.

Shipments of coal, CSXT's major commodity, remained strong in 1996, with total coal volume increasing to 163.6 million tons vs. 158.5 million tons in 1995 and 153.7 million tons in 1994.

RAIL OPERATING REVENUE
(Millions of Dollars)

[GRAPH]

'92	'93	'94	'95	'96
$4,434	$4,380	$4,625	$4,819	$4,909

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ANALYSIS OF OPERATIONS

Total merchandise traffic of 2.9 million carloads remained level with 1995 and increased 4% over 1994.

Chemical traffic remained strong, due to steady demand for plastic production. Traffic remained steady with 1995's level and increased 6% over 1994.

Driven by strong demand for trucks and sport utility vehicles, the automotive market experienced a 3% increase in carloads and a like increase in revenues in 1996.

A late harvest caused grain shipments to be less robust than in the prior year. This resulted in a 9% decrease in carloads and a 4% decrease in revenues for agricultural products. Compared with 1994, carloads in 1996 decreased 3%, while revenue rose 2%.

Demand for phosphates and fertilizer remained solid. Carloads were level with 1995, while revenue decreased 1%. This compares with a 9% increase in carloads and a 10% increase in revenue over 1994.

Rail Commodities by Carload

	Carloads (Thousands)			Revenue (Millions of Dollars)		
	1996	1995	1994	1996	1995	1994
Automobiles	367	357	354	$ 520	$ 503	$ 493
Chemicals	408	406	386	719	700	685
Minerals	428	414	419	379	375	365
Food & Consumer	167	179	176	199	207	204
Agricultural Products	254	280	263	323	336	318
Metals	277	301	292	290	291	285
Forest Products	443	456	442	472	464	444
Phosphates & Fertilizer	511	512	470	279	282	254
Coal	1,711	1,678	1,678	1,584	1,523	1,465
Total	4,566	4,583	4,480	4,765	4,681	4,513
Other Revenue				144	138	112
Total Operating Revenue				$4,909	$4,819	$4,625

Throughout the year, CSXT continued its emphasis on cost control. Despite bad weather earlier in the first quarter and a 20% rise in the average price of diesel fuel, rail operating expense rose only 1% over 1995, excluding the 1995 second-quarter charge, and 2% over 1994. On that basis, the railroad lowered its operating ratio (the ratio of operating expense to operating revenue) from 77.9% to 77.0% -- a record for the unit.

The ongoing efforts of the unit's Performance Improvement Teams (PITs) resulted in cost savings of more than $106 million. PIT initiatives also resulted in more cost-effective procedures for locomotive and car repair, as well as maintenance of way.

Labor and fringe benefits expense increased 2% to $1.88 billion, vs. $1.85 billion in 1995 and $1.83 billion in 1994. Rail management successfully negotiated, without a strike, a union contract that provides for competitive increases in labor and fringe benefits over the next five years.

Rail Assets
Owned or leased units as of Dec. 27, 1996

Freight Cars	
Box Cars	14,872
Open-Top Hoppers	24,760
Covered Hoppers	18,248
Gondolas	24,533
Other Cars	15,379
Total	97,792
Locomotives	2,781
Track	
Route Miles	18,504
Track Miles	31,365

Safety continues to be a top priority at CSXT. During 1996, the railroad reduced train accidents 3% over 1995, and the latest published figures from the Federal Railroad Administration place CSXT as the safest Class I freight railroad in the nation. Employee safety performance in 1996 dipped slightly compared with 1995's record year. While zero injuries continues to be the ultimate goal, employees have made tremendous gains by reducing personal injuries by 79% over the past seven years.

Of equal importance is CSXT's emphasis on public safety. In 1996, the railroad continued its industry leadership in the area of rail-highway grade crossing safety, where the number of collisions dropped 23%. This dramatic improvement is attributed to two factors: public education and the elimination of unneeded crossings. CSXT employees delivered hundreds of presentations during 1996 to raise the motoring public's awareness of crossing safety.

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ANALYSIS OF OPERATIONS

RAIL OPERATING EXPENSE
(Millions of Dollars)

[GRAPH]

'92	'93	'94	'95	'96
$4,313	$3,634	$3,696	$3,951	$3,782

Productivity/restructuring charges in 1992 and 1995 were $619 million and $196 million, respectively.

These public education efforts touched thousands of lives throughout CSXT's 20-state system, ranging from school children to school bus and commercial truck drivers. In addition, more than 500 redundant or unneeded crossings were eliminated last year.

Greater asset utilization in 1996 enhanced CSXT's continued efforts to constrain capital expenditures. Rail capital additions were $764 million in 1996 vs. $765 million in 1995 and $641 million in 1994. In 1996, CSXT took delivery of 138 new fuel-efficient 4,400-horsepower AC locomotives, each of which has the power of two older units. CSXT became the first railroad in North America to place into service the new 6,000-horsepower AC model, the world's most powerful single-engine locomotive. The company is presently testing three AC6000s in anticipation of taking delivery of 50 more in 1997. As of year-end 1996, CSXT's fleet of approximately 2,800 locomotives included 255 AC units.

CSXT expects continued earnings growth in 1997, with modest volume and revenue increases across its major lines of business. The unit will continue its focus on becoming a High Performance Organization, which involves process re-engineering of core operations. In particular, the railroad will continue improving terminal throughput to optimize asset utilization and on-time performance. Thirty terminals were re-engineered in 1996, and 24 are scheduled to be completed by mid-1997. In addition, the unit will continue its emphasis on cutting costs and achieving profitable growth.

Container-shipping Results

Intensified rate competition in major trade lanes and short-term over-capacity made 1996 a challenging year for the container-shipping industry. In spite of a difficult pricing environment, Sea-Land Service Inc. (Sea-Land) capitalized on increasing global demand for containerized cargo and grew its market share in every major trade lane while improving its cargo mix. The carrier also enjoyed one of the best utilization rates in the container-shipping industry.

Sea-Land generated $318 million of operating income in 1996, vs. $238 million in 1995, excluding its portion of the 1995 second-quarter restructuring charge. In 1994, Sea-Land generated $187 million in operating income.

Volume increased to 1.5 million loads, 7% over 1995's level, driven by continued strong demand and market share gains in virtually all major trade lanes. In 1994, volume totaled 1.3 million loads.

Total operating revenue increased to $4.1 billion, a 1% increase over 1995's revenue and 16% higher than in 1994.

Average revenue per container fell 5%, reflecting higher capacity in major trade lanes, particularly Asia-Middle East-Europe and Eastbound Pacific. However, Sea-Land was more than able to mitigate the effects of a difficult rate environment through increased volume and effective cost-cutting measures.

Sea-Land's operating expense declined to $3.7 billion from $3.8 billion in 1995, excluding that year's restructuring charge. In 1994, operating expense totaled $3.3 billion. The unit improved its operating ratio through its continued emphasis on cost containment and productivity improvement.

In 1996, Sea-Land eliminated operating expenses of $136 million through the efforts of its cost-intervention teams, which targeted improvements in terminal and vessel operations, inland transportation and network management. The teams' recommendations include both short-term tactical considerations and long-term strategic goals. The intervention teams expect to achieve productivity improvements of similar magnitude in 1997.

CONTAINER-SHIPPING
OPERATING REVENUE
(Millions of Dollars)

[GRAPH]

'92	'93	'94	'95	'96
$3,148	$3,246	$3,492	$4,008	$4,051

15

<PAGE>

ANALYSIS OF OPERATIONS

After six years of discussion and debate, the U.S. Congress passed the Maritime Security Act by an overwhelming margin. This shipping bill establishes a program to provide participating carriers with $1 billion in operating assistance over 10 years to help offset the higher environmental, safety and wage costs of operating as a U.S.-flag carrier. Sea-Land has applied to the program, and the government has accepted 15 of its ships. Sea-Land will receive $2.1 million a year for each ship participating in the program.

Implementation of the global alliance with the Danish shipping line Maersk began in the third quarter of 1996. A revised vessel network plan, incorporating 163 vessels and 348,000 TEUs (20-foot equivalent units) of container capacity, provides improved frequency and scope of service within the major sectors of Sea-Land's global network. Several million dollars of cost-reduction benefits have been realized as a result of terminal and equipment rationalization programs. Other cost-reduction opportunities have been identified and targeted for implementation in 1997 and beyond.

CONTAINER-SHIPPING
LOAD VOLUME
(Thousands)

[GRAPH]

'92	'93	'94	'95	'96
1,150	1,180	1,288	1,442	1,541

Container-shipping Assets
Owned or leased units as of Dec. 27, 1996

Containers	
40- and 20-foot Dry Vans	174,941
45-foot Dry Vans	10,505
Refrigerated Vans	18,495
Other Specialized Equipment	4,460
Total	208,401
Chassis	70,075
Container Ships	99
Terminals	
Exclusive-Use	14
Preferential Berthing Rights	14

Capital expenditures in 1996 included $252 million for new asset deployments and $55 million for containers formerly leased. The new deployments included vessels, terminal property and equipment and systems enhancements. The 1996 expenditures compare with $269 million in 1995 and $133 million in 1994.

In 1997, the growth in global trade is expected to continue at a healthy rate, although a difficult rate environment is expected to persist. Overall capacity is anticipated to increase at a pace slightly ahead of market growth. Within the competitive arena, it is anticipated that a realignment of existing alliances between various shipping lines will occur. Additional mergers within the industry also remain a possibility.

Sea-Land will continue meeting the challenges of a difficult rate environment with continued emphasis on controlling costs through its intervention teams and performance improvement initiatives. The unit also will continue its efforts to gain market share in the more profitable market segments by focusing on the changing needs of shippers. Improving the mix of higher margin freight will remain an ongoing priority.

Barge Results

The 1996 operating income of $112 million at American Commercial Lines Inc. (ACL) topped last year's record by 6%. The 1996 results were 78% higher than 1994's operating income. Key factors for 1996's excellent performance were continued strong demand for export grain and other bulk commodities and the acquisition of the marine assets of Conti-Carriers & Terminals Inc. (CCTI), which increased ACL's fleet size by 400 barges and eight towboats.

Total operating revenue at ACL increased 12% to $622 million, compared with $554 million in 1995 and $449 million in 1994. Barge ton miles totaled 55.8 billion, an increase of 3.6 billion over 1995 and 4.5 billion over 1994.

Barge Operating Revenue
(Millions of Dollars)

[GRAPH]

'92	'93	'94	'95	'96
$433	$417	$449	$554	$622

<PAGE>

Analysis of Operations

Barge Assets
Owned or leased units as of Dec. 27, 1996

Towboats	137
Barges	
Covered/Open-Top Hoppers	3,481
Tankers	237
Total	3,718
Marine Services	
River Terminals	11
Fleet Operations	17
Shipyards	2

The CCTI acquisition, completed in January 1996, has been successfully integrated into ACL's operations, delivering higher revenues to ACL and savings to customers. This acquisition is an excellent example of a customer outsourcing its barging functions, creating a "win-win" situation for both ACL and the customer.

Demand for non-grain commodities, such as import steel and raw materials for steel mini-mills, remained strong, resulting in better backhaul opportunities from the Gulf of Mexico.

Coal tonnage and revenue decreased during the year as the company continued to shift equipment into higher-margin markets.

Operating expense increased 14% to $510 million, primarily due to additional volumes and higher fuel prices. Fuel price per gallon increased 24%, representing an additional $11 million in expense over 1995.

ACL remains focused on continuous improvement to reduce operating costs through the quality improvement process. Performance Improvement Team initiatives generated approximately $4 million in annualized savings in 1996 and have targeted additional savings for 1997.

Safety remains a high priority. ACL reduced its incident rate by 10% during the year, reflecting a safer work environment overall and resulting in accident-related cost reductions of $1.5 million.

Capital additions at ACL in 1996 totaled $91 million, compared with $33 million in 1995 and $12 million in 1994. Spending in 1996 included $21 million for the acquisition of CCTI, $31 million for new domestic marine equipment and $26 million for expansion in South America.

ACL enters 1997 with a positive outlook. The 1996 fall harvests of corn and soybean crops were among the largest in U.S. history, indicating traffic levels for these commodities should be strong. Coal should remain a solid base business for the barge line, although an existing long-term coal contract may be restructured. ACL also anticipates continued strong demand for liquid commodities and steel feedstock for mini-mills.

Intermodal Results

With the implementation of aggressive measures to counter severe competition from the trucking industry, CSX Intermodal Inc. (CSXI) experienced a steady turnaround in 1996. Operating income increased 17% to $35 million in 1996 from $30 million in 1995. In 1994, operating income was $61 million. Revenue decreased 5% to $674 million, while volume totaled 980,000 trailers and containers, level with 1995. In 1994, operating revenue was $684 million, and volume was 986,000 trailers and containers.

Intermodal Assets
Owned or leased units as of Dec. 27, 1996

Equipment

Domestic Containers	4,002
Rail Trailers	5,124

Facilities

CSX Intermodal Terminals	33
Motor Carrier Operations Terminals	28

Intermodal Operating Revenue
(Millions of Dollars)

[GRAPH]

'92	'93	'94	'95	'96
$535	$59[illegible]	$684	$707	$674

CSXI has responded aggressively to the stiff competition caused by an over-capacity of trucks. In July, the unit consolidated its headquarters in Jacksonville, Fla., and reduced headcount by 30%. CSXI also implemented comprehensive service changes throughout its nationwide network to enhance service reliability, transit times and train capacity. The network redesign is aimed at achieving better cost controls and productivity gains from CSXI's operations while expanding services in key markets with the greatest growth potential.

Capital expenditures totaled $24 million in 1996 vs. $57 million in 1995 and $50 million in 1994. During 1996, CSXI acquired property for a new terminal in Atlanta and expanded terminal facilities at its gateway New Orleans terminal.

In 1997, CSXI will focus on containing costs and growing its business in key lanes. The unit expects substantial improvement in operating income.

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Analysis of Operations

Contract Logistics Results

Customized Transportation Inc. (CTI) achieved record revenue and operating income during 1996. Revenue rose to $316 million, 32% over 1995 and 73% over 1994. Operating income increased to $17 million, 36% over 1995 and 73% above 1994.

CTI continues as a leading logistics provider of materials management, transportation, warehousing and staging activities. In 1996, the unit improved its position with current customers and developed business in new industries, such as electronics, retail and chemical. It executed 46 million transactions for its customers at an error-free rate of 99.9745% in 1996.

In 1997, CTI will maintain an emphasis on the redesign and re-engineering of supply chain processes for its customers and will follow its customers as they expand internationally. Growth rates and financial performance are anticipated to remain strong in the coming year.

Contract Logistics
Operating Revenue
(Millions of Dollars)

[GRAPH]

'93	'94	'95	'96
$145	$182	$240	$316

Consolidated Outlook

CSX enters 1997 with confidence and an optimistic outlook. Modest economic growth and low inflation are expected to continue in the United States and Europe. Economic growth in Japan, following a sluggish 1996, should begin to improve gradually. The price of diesel fuel, which was unusually high in 1996, is expected to return to more normal levels as Iraqi oil re-enters the market on a limited basis.

The railroad will capitalize on anticipated steady growth in the U.S.

economy to improve its overall performance, while maintaining its focus on cost control. The continued growth in global demand for containerized cargo bodes well for Sea-Land, although some concerns remain about rate pressures continuing, possibly until mid-year.

CSX anticipates its 1997 capital spending to be less than 1996 levels, while it will continue to reinvest in core business assets. CSXT will fund equipment and track programs at nearly comparable levels, including delivery of 75 alternating current locomotives. Sea-Land will continue toward completion of its Champion Class vessel program with three vessels to be delivered in 1997 and the last one in the first quarter of 1998.

CSX units are committed to achieving their stretch targets, even though some units are subject to such unpredictable external factors as adverse weather conditions, work stoppages at major customer facilities and shifting economic conditions in the United States and abroad. Continued emphasis will be placed on controlling costs, enhancing core earning power and increasing shareholder returns.

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Consolidated Statement of Earnings

(Millions of Dollars, Except Per Share Amounts)	Fiscal Years Ended Dec. 27, 1996	Dec. 29, 1995	Dec. 30, 1994
<S> <C>			
Operating Income			
Operating Revenue	$10,536	$10,304	$ 9,409
Operating Expense	9,014	8,921	8,227
Restructuring Charge	--	257	--
Total Operating Expense	9,014	9,178	8,227
Operating Income	1,522	1,126	1,182
Other Income and Expense			
Other Income	43	118	105
Interest Expense	249	270	281
Earnings			
Earnings Before Income Taxes	1,316	974	1,006
Income Tax Expense	461	356	354
Net Earnings	$ 855	$ 618	$ 652
Per Common Share			
Earnings Per Share	$ 4.00	$ 2.94	$ 3.12
Average Common Shares Outstanding (Thousands)	213,633	210,270	209,303
Cash Dividends Paid Per Common Share	$ 1.04	$ .92	$ .88

</Table>

See accompanying Notes to Consolidated Financial Statements.

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Consolidated Statement of Cash Flows

(Millions of Dollars)	Fiscal Years Ended Dec. 27, 1996	Dec. 29, 1995	Dec. 30, 1994
<S> <C>			
Operating Activities			
Net Earnings	$ 855	$ 618	$ 652
Adjustments to Reconcile Net Earnings to Net Cash Provided			

Depreciation	620	600	577
Deferred Income Taxes	166	(26)	176
Restructuring Charge Provision	--	257	--
Productivity/Restructuring Charge Payments	(88)	(155)	(159)
Other Operating Activities	12	10	56
Changes in Operating Assets and Liabilities			
Accounts Receivable	(67)	(82)	(60)
Other Current Assets	(65)	(22)	20
Accounts Payable	84	170	9
Other Current Liabilities	(77)	197	55
Net Cash Provided by Operating Activities	1,440	1,567	1,326
Investing Activities			
Property Additions	(1,223)	(1,156)	(875)
Proceeds from Property Dispositions	84	97	170
Acquisition of Conrail Common Stock	(1,965)	--	--
Purchases of Long-Term Marketable Securities	(45)	(114)	(66)
Proceeds from Sales of Long-Term Marketable Securities	137	97	54
Other Investing Activities	25	22	(144)
Net Cash Used by Investing Activities	(2,987)	(1,054)	(861)
Financing Activities			
Short-Term Debt -- Net	187	(53)	37
Long-Term Debt Issued	2,118	121	92
Long-Term Debt Repaid	(486)	(343)	(447)
Cash Dividends Paid	(223)	(194)	(184)
Other Financing Activities	(1)	11	4
Net Cash Provided (Used) by Financing Activities	1,595	(458)	(498)
Net Increase (Decrease) in Cash and Cash Equivalents	48	55	(33)
Cash, Cash Equivalents and Short-Term Investments			
Cash and Cash Equivalents at Beginning of Year	320	265	298
Cash and Cash Equivalents at End of Year	368	320	265
Short-Term Investments at End of Year	314	340	270
Cash, Cash Equivalents and Short-Term Investments at End of Year	$682	$ 660	$ 535
Supplemental Cash Flow Information			
Interest Paid -- Net of Amounts Capitalized	$ 265	$ 275	$ 306
Income Taxes Paid	$ 381	$ 253	$ 175

</Table>

See accompanying Notes to Consolidated Financial Statements.

20

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Consolidated Statement of Financial Position

(Millions of Dollars)	Dec. 27, 1996	Dec. 29, 1995
<S>	<C>	
Assets		
Current Assets		
Cash, Cash Equivalents and Short-Term Investments	$ 682	$ 660
Accounts Receivable	894	832
Materials and Supplies	229	220
Deferred Income Taxes	139	148
Other Current Assets	128	75
Total Current Assets	2,072	1,935
Properties -- Net	11,906	11,297
Investment in Conrail	1,965	--
Affiliates and Other Companies	345	312
Other Long-Term Assets	677	738
Total Assets	$16,965	$14,282
Liabilities		
Current Liabilities		
Accounts Payable	$ 1,189	$ 1,121
Labor and Fringe Benefits Payable	499	526
Casualty, Environmental and Other Reserves	306	298
Current Maturities of Long-Term Debt	101	486

Short-Term Debt	335	148
Other Current Liabilities	327	412
Total Current Liabilities	2,757	2,991
Casualty, Environmental and Other Reserves	715	813
Long-Term Debt	4,331	2,222
Deferred Income Taxes	2,720	2,560
Other Long-Term Liabilities	1,447	1,454
Total Liabilities	11,970	10,040
Shareholders' Equity		
Common Stock, $1 Par Value	217	210
Other Capital	1,433	1,319
Retained Earnings	3,452	2,822
Minimum Pension Liability	(107)	(109)
Total Shareholders' Equity	4,995	4,242
Total Liabilities and Shareholders' Equity	$16,965	$14,282

</Table>

See accompanying Notes to Consolidated Financial Statements.

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Consolidated Statement of Changes in Shareholders' Equity

(Millions of Dollars, Except Shares)	Common Shares Outstanding (Thousands)	Common Stock	Other Capital	Retained Earnings	Minimum Pension Liability	Total
<S> <C>						
Balance Dec. 31, 1993	104,143	$104	$1,307	$1,927	$(158)	$3,180
Net Earnings	--	--	--	652	--	652
Dividends -- Common	--	--	--	(184)	--	(184)
Common Stock--						
Stock Purchase and Loan Plan						
Stock Canceled	(68)	--	(4)	--	--	(4)
Purchase Loans -- Net	--	--	9	--	--	9
Other Stock Issued -- Net	647	1	56	--	--	57
Minimum Pension Liability	--	--	--	--	25	25
Other -- Net	--	--	--	(4)	--	(4)
Balance Dec. 30, 1994	104,722	105	1,368	2,391	(133)	3,731
Net Earnings	--	--	--	618	--	618
Dividends -- Common	--	--	--	(194)	--	(194)
Common Stock--						
Stock Purchase and Loan Plan						
Stock Canceled	(155)	(1)	(11)	--	--	(12)
Purchase Loans -- Net	--	--	12	--	--	12
Other Stock Issued -- Net	716	1	55	--	--	56
Minimum Pension Liability	--	--	--	--	24	24
2-for-1 Stock Split	105,212	105	(105)	--	--	--
Other -- Net	--	--	--	7	--	7
Balance Dec. 29, 1995	210,495	210	1,319	2,822	(109)	4,242
Net Earnings	--	--	--	855	--	855
Dividends -- Common	--	--	--	(223)	--	(223)
Common Stock--						
Stock Purchase and Loan Plan						
Stock Issued	7,652	8	356	--	--	364
Stock Canceled and Exchanged	(2,786)	(3)	(67)	--	--	(70)
Purchase Loans -- Net	--	--	(240)	--	--	(240)
Other Stock Issued -- Net	1,524	2	65	--	--	67
Minimum Pension Liability	--	--	--	--	2	2
Other -- Net	--	--	--	(2)	--	(2)
Balance Dec. 27, 1996	215,885	$217	$1,433	$3,452	$(107)	$4,995

</Table>

See accompanying Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All Tables in Millions of Dollars, Except Per Share Amounts)

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES.

Nature of Operations

CSX Corporation (CSX) is a global freight transportation company with principal business units providing rail, container-shipping, intermodal, barging and contract logistics services. Rail transportation services are provided principally throughout the eastern United States and account for nearly half of the company's operating revenue, with coal, bulk products and manufactured products each contributing a relatively equal share of rail revenue. Coal shipments primarily supply domestic utility and export markets. Container-shipping services are provided in the United States and more than 80 countries and territories throughout the world and account for more than one-third of the company's operating revenue. Intermodal, barging and contract logistics services are provided principally within the United States and together account for the company's remaining operating revenue.

Principles of Consolidation

The Consolidated Financial Statements include CSX and its majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Investments in companies that are not majority-owned are carried at either cost or equity, depending on the extent of control.

Fiscal Year

The company's fiscal reporting period ends on the last Friday in December. The financial statements presented are for the fiscal periods ended Dec. 27, 1996, Dec. 29, 1995, and Dec. 30, 1994. Each fiscal year consists of four 13-week quarters.

Common Stock Split

On Oct. 11, 1995, the company's board of directors declared a 2-for-1 common stock split distributed on Dec. 21, 1995, to shareholders of record at the close of business on Dec. 4, 1995. In the accompanying Consolidated Statement of Earnings and Notes to the Consolidated Financial Statements, all references to shares of common stock and per share amounts for periods prior to the stock split have been restated.

Cash, Cash Equivalents and Short-Term Investments

Cash in excess of current operating requirements is invested in various short-term instruments carried at cost that approximates market value. Those short-term investments having a maturity of three months or less at the date of acquisition are classified as cash equivalents. Cash and cash equivalents are net of outstanding checks that are funded daily from cash receipts and maturing short-term investments.

Accounts Receivable

The company has sold, directly and through Trade Receivables Participation Certificates (Certificates), ownership interests in designated pools of accounts receivable originated by CSX Transportation Inc. (CSXT), its rail unit.

During 1993, $200 million of Certificates were issued at 5.05%, due September 1998. The Certificates represent undivided interests in a master trust holding an ownership interest in a revolving pool of rail freight accounts receivable. The proceeds from the issuance of the Certificates were used to reduce the amount of accounts receivable sold under a previous agreement. At Dec. 27, 1996, the Certificates were collateralized by $248 million of accounts receivable held in the master trust. The company has the ability to issue $50 million in additional Certificates through September 1998 at prevailing market terms.

In addition, the company has a revolving agreement with a financial institution to sell with recourse on a monthly basis an undivided percentage ownership interest in designated pools of freight and other accounts receivable. The agreement provides for the sale of up to $200 million in accounts receivable and expires in September 1998.

The company has retained the responsibility for servicing and collecting accounts receivable held in trust or sold. At Dec. 27, 1996, and Dec. 29, 1995, accounts receivable have been reduced by $372 million, representing Certificates and accounts receivable sold. The net costs associated with sales of Certificates and receivables were $30 million, $32 million and $29 million in 1996, 1995 and 1994, respectively.

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The company maintains an allowance for doubtful accounts based upon the expected collectibility of accounts receivable, including receivables collateralizing Certificates and receivables sold. Allowances for doubtful accounts of $97 million and $88 million have been applied as a reduction of accounts receivable at Dec. 27, 1996, and Dec. 29, 1995, respectively.

Materials and Supplies

Materials and supplies consist primarily of fuel and items for maintenance of property and equipment, and are carried at average cost.

Properties

Main line track on the rail system is depreciated on a group basis using a unit-of-property method. All other property and equipment is depreciated on a straight-line basis over estimated useful lives of three to 50 years.

Regulations maintained by the Surface Transportation Board (STB) of the U.S. Department of Transportation require periodic formal studies of ultimate service lives for all railroad assets. Resulting service life estimates are subject to review and approval by the STB. Significant premature retirements for all properties, which would include major casualty losses, abandonments, sales and obsolescence of assets, are recorded as gains or losses at the time of their occurrence. Expenditures that significantly increase asset values or extend useful lives are capitalized. Repair and maintenance expenditures are charged to operating expense when the work is performed. All properties are stated at cost.

Properties and other long-lived assets are reviewed for impairment whenever events or business conditions indicate the carrying amount of such assets may not be fully recoverable. Initial assessments of recoverability are based on estimates of undiscounted future net cash flows associated with an asset or a group of assets. Where impairment is indicated, the assets are evaluated for sale or other disposition, and their carrying amount is reduced to fair value based on discounted net cash flows or other estimates of fair value.

Revenue Recognition

Transportation revenue is recognized proportionately as shipments move from origin to destination.

Environmental Costs

Environmental costs relating to current operations are expensed or capitalized as appropriate. Expenditures relating to remediating an existing condition caused by past operations, and that do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when CSX's responsibility for environmental remedial efforts is deemed probable, and the costs can be reasonably estimated. Generally, the timing of these accruals coincides with the completion of a feasibility study or the company's commitment to a formal plan of action.

Derivative Financial Instruments

Derivative financial instruments may be used from time to time by the company in the management of its interest, foreign currency and commodity exposures, and are accounted for on an accrual basis. Income and expense are recorded in the same category as that of the underlying asset or liability. Gains and losses related to hedges of existing assets or liabilities are deferred and recognized over the expected remaining life of the related asset or liability. Gains and losses related to hedges of anticipated transactions also are deferred and recognized in income in the same period as the hedged transaction. There were no significant derivative financial instruments outstanding at Dec. 27, 1996.

Earnings Per Share

Earnings per share are based on the weighted average of common shares outstanding. Dilution, which could result if all outstanding common stock equivalents were exercised, is not significant. Weighted average shares and earnings per share for 1995 and 1994 have been restated to reflect the 2-for-1 common stock split distributed to shareholders in December 1995.

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Stock-Based Compensation

The company records expense for stock-based compensation in accordance with the provisions of APB Opinion No. 25 "Accounting for Stock Issued to Employees" and related Interpretations. Disclosures required with respect to the alternative fair value measurement and recognition methods prescribed by Financial Accounting Standards Board (FASB) Statement No. 123 "Accounting for Stock-Based Compensation" are presented in Note 11 -- Stock Plans.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates in reporting the amounts of certain revenues and expenses for each fiscal year and certain assets and liabilities at the end of each fiscal year. Actual results may differ from those estimates.

Prior-Year Data

Certain prior-year data have been reclassified to conform to the 1996 presentation.

Accounting Pronouncements

The FASB has issued Statement No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which establishes new guidelines for accounting and disclosure related to transfers of trade accounts receivable and other financial assets. In addition, the American Institute of Certified Public Accountants has issued Statement of Position No. 96-1 "Environmental Remediation Liabilities," which provides revised guidance on accounting and disclosure relative to environmental obligations. The company will adopt both pronouncements in 1997 and does not expect either pronouncement to have a material impact on its financial statements.

NOTE 2. MERGER AGREEMENT.

On Oct. 14, 1996, CSX entered into an agreement with Conrail, Inc. (Conrail) pursuant to which the companies would combine in a strategic merger transaction. The terms of the agreement provided for CSX to acquire 40% of the outstanding Conrail Common Stock and ESOP Preferred Stock (the Conrail shares) for cash and the remaining 60% in exchange for CSX common stock. Norfolk Southern Corporation (Norfolk Southern) challenged the CSX/Conrail merger agreement and announced an all-cash competing offer to acquire Conrail at a price which was ultimately increased to $115 per share. CSX and Conrail subsequently negotiated several amendments to the merger agreement, generally to provide increased consideration to Conrail shareholders in exchange for their shares. On Nov. 20, 1996, CSX completed an initial cash tender offer for approximately 19.9% of the Conrail shares at $110 per share, acquiring approximately 17.9 million of the shares at a total cost of $1.965 billion. The shares were placed in a voting trust as provided for in the merger agreement. Borrowings in connection with a $4.8 billion bank credit facility negotiated by CSX subsequent to the announcement of the merger were used to finance the initial cash tender offer.

CSX initiated a second conditional cash tender offer for an additional 20.1% of the Conrail shares, but was prevented from completing this or subsequent steps of the merger transaction when a Jan. 17, 1997 vote by Conrail shareholders defeated a proposal to opt out of the Pennsylvania Control Transaction Law (the Pennsylvania statute). A favorable vote on the opt-out proposal would have removed restrictions limiting CSX's ownership to less than 20% of the Conrail shares under the terms contemplated by the merger agreement. The outcome of the Conrail shareholder vote coupled with public comments by the Chairwoman of the STB favoring a negotiated settlement of competitive issues surrounding the proposed merger prompted joint discussions between CSX, Conrail, and Norfolk Southern. These discussions, which began in late January, led to the negotiation of an amendment to the CSX/Conrail merger agreement on March 7, 1997. The amended agreement provides for the acquisition of the remaining Conrail shares for cash at $115 per share and, among other things, allows CSX to unilaterally enter into negotiations with Norfolk Southern. It is anticipated that when these negotiations are completed, CSX and Norfolk Southern will share, roughly equally, the Conrail rail system.

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CSX will reflect the terms of the amended merger agreement in a revised tender offer. Since the revised offer provides cash consideration for all Conrail shares, it is no longer subject to a vote by Conrail shareholders to opt out of the Pennsylvania statute. The revised tender offer is expected to be completed no later than June 2, 1997. The transactions ultimately agreed to by the three companies are subject to regulatory approval by the STB. The Conrail shares currently held by CSX and the shares to be acquired pursuant to the revised merger agreement will be held in the voting trust until such time as a regulatory decision is rendered. CSX's financing arrangements will be revised or renegotiated to accommodate the final structure agreed to by the companies.

(All Tables in Millions of Dollars, Except Per Share Amounts)

At Dec. 27, 1996, CSX has accounted for its 19.9% investment in Conrail using the cost method. Dividends totaling $8 million received on those shares in 1996 are reported in other income in the consolidated statement of earnings. The method of accounting applicable to CSX holdings of Conrail shares for future periods may differ, depending on the timing and final structure of the related transactions.

NOTE 3. 1995 RESTRUCTURING CHARGE.

In the second quarter of 1995, the company recorded a $257 million pretax restructuring charge to recognize the estimated costs of specific initiatives at CSXT and at Sea-Land Service Inc. (Sea-Land), its container-shipping unit. The charge reduced 1995 net earnings by $160 million, 76 cents per share.

CSXT Initiative

CSXT recorded its $196 million portion of the pretax restructuring charge to recognize the costs associated with a contractual agreement with a major telecommunications vendor to replace, manage and technologically enhance its existing private telecommunications network. The initiative resulted in a write-down of assets rendered technologically obsolete and a provision for separation and labor protection payments to affected employees.

The agreement, which originally was to expire in May 2005, provided for the vendor to supply and manage new technology to replace CSXT's existing telecommunications system, thereby rendering it commercially obsolete. These assets, comprising CSXT's internal companywide telecommunications network including existing microwave and fiber optic communications systems, have no alternative use and their net realizable value is not significant. As a result of the agreement, the net book value of the assets to be replaced was reduced by $163 million.

During 1996, CSXT and the vendor amended the agreement to change the termination date to June 30, 1998, to increase the payments required over the revised service period, and to relieve the vendor's obligations to replace certain technology. CSXT is currently evaluating options for proceeding with further telecommunications initiatives.

Sea-Land Initiatives

The restructuring initiatives at Sea-Land represented $61 million of the total charge and included its global integration program and the reflagging of five U.S.-flag vessels to the registry of the Marshall Islands in accordance with approval from the Maritime Administration. Sea-Land's global integration program resulted in the consolidation of worldwide senior management functions, the relocation of the corporate headquarters to Charlotte, N.C., and the integration of information technologies. The vessel reflagging initiative primarily involves crew separations on the five vessels.

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Summary

The 1995 restructuring charge and related activity through Dec. 27, 1996, is as follows:

	Obsolete Assets	Separation and Labor Protection Costs	Lease and Facility Exit Costs	Total
Restructuring Charge	$163	$80	$14	$257
Amounts Utilized through Dec. 27, 1996	163	28	8	199
Remaining Reserve as of Dec. 27, 1996	$ --	$ 52	$ 6	$ 58

The total provision for separation and labor protection payments relates to approximately 800 affected employees and was based on existing collective bargaining agreements with members of clerical, electrical, and signal crafts and seafarer trades. Through Dec. 27, 1996, approximately 530 employee separations have been finalized. The company expects the remaining affected employees to be impacted within the next four years.

NOTE 4. OPERATING EXPENSE.

	1996	1995	1994
Labor and Fringe Benefits	$3,161	$3,133	$3,005
Materials, Supplies and Other	2,530	2,622	2,311
Building and Equipment Rent	1,143	1,134	1,087
Inland Transportation	995	970	839
Depreciation	611	588	564
Fuel	574	474	421
Restructuring Charge	--	257	--
Total	$9,014	$9,178	$8,227
Selling, General and Administrative Expense Included in Above Items	$1,297	$1,351	$1,265

<PAGE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All Tables in Millions of Dollars, Except Per Share Amounts)

NOTE 5. OTHER INCOME.

	1996	1995	1994
Interest Income	$48	$ 62	$ 57
Income from Real Estate and Resort Operations(a)	62	54	58
Net Gain (Loss) on Investment Transactions(b)	(4)	77	--
Gain on South Florida Track Sale(c)	--	--	91
Net Costs for Accounts Receivable Sold	(30)	(32)	(29)
Minority Interest	(42)	(32)	(21)
Loss on Redemption of Debt	--	--	(13)
Equity Earnings (Losses) of Other Affiliates	6	(3)	(10)
Dividend Income	9	1	1
Miscellaneous	(6)	(9)	(29)
Total	$43	$118	$105

(a) Gross revenue from real estate and resort operations was $186 million, $178 million and $190 million in 1996, 1995 and 1994, respectively.

(b) In December 1995, the company recognized a net investment gain of $77 million on the issuance of an equity interest in a Sea-Land terminal and related operations in Asia and the write-down of various investments. The equity interest portion of the transaction resulted in proceeds of $105 million and a pretax gain of $93 million, $61 million after-tax, 29 cents per share. Sea-Land's interest in the terminal operations was reduced from approximately 67% to 57%.

(c) In December 1994, the state of Florida elected to satisfy its remaining unfunded obligation issued in 1988 to consummate the purchase of 80 miles of track and right of way. The transaction resulted in cash proceeds of $102 million and an accelerated pretax gain of $69 million, $42 million after-tax, 20 cents per share. The scheduled payment resulted in a $22 million gain in 1994.

NOTE 6. INCOME TAXES.

Earnings from domestic and foreign operations and related income tax expense are as follows:

	1996	1995	1994
Earnings Before Income Taxes:			
-- Domestic	$1,158	$765	$ 893
-- Foreign	158	209	113
Total	$1,316	$974	$1,006
Income Tax Expense (Benefit):			
Current -- Federal	$ 250	$337	$ 144
-- Foreign	30	26	20
-- State	15	19	14
Total Current	295	382	178
Deferred-- Federal	166	(26)	165
-- Foreign	--	--	2
-- State	--	--	9

Total Deferred	166	(26)	176
Total Expense	$ 461	$356	$ 354

<PAGE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All Tables in Millions of Dollars, Except Per Share Amounts)

Income tax expense reconciled to the tax computed at statutory rates is as follows:

	1996		1995		1994	
Tax at Statutory Rates	$461	35%	$341	35%	$352	35%
State Income Taxes	10	1	12	1	15	1
Prior Years' Income Taxes	(27)	(2)	--	--	(10)	(1)
Other Items	17	1	3	1	(3)	--
Total Expense	$461	35%	$356	37%	$354	35%

The significant components of deferred tax assets and liabilities include:

	Dec. 27, 1996	Dec. 29, 1995
Deferred Tax Assets		
Productivity/Restructuring Charges	$ 171	$ 178
Employee Benefit Plans	434	417
Deferred Gains and Related Rents	195	166
Other	252	300
Total	1,052	1,061
Deferred Tax Liabilities		
Accelerated Depreciation	3,095	3,042
Other	538	431
Total	3,633	3,473
Net Deferred Tax Liabilities	$2,581	$2,412

In addition to the annual provision for deferred income tax expense, the change in the year-end net deferred income tax liability balances included the income tax effect of the changes in the minimum pension liability in 1996 and 1995.

The company has not recorded domestic deferred or additional foreign income taxes applicable to undistributed earnings of foreign subsidiaries that are considered to be indefinitely reinvested. Such earnings amounted to $279 million and $314 million at Dec. 27, 1996, and Dec. 29, 1995, respectively. These amounts may become taxable upon their remittance as dividends or upon the sale or liquidation of these foreign subsidiaries. It is not practicable to determine the amount of net additional income tax that may be payable if such earnings were repatriated.

The company files a consolidated federal income tax return, which includes its principal domestic subsidiaries. Examinations of the federal income tax returns of CSX have been completed through 1990. Returns for 1991 through 1993 are currently under examination. Management believes adequate provision has been made for any adjustments that might be assessed.

<PAGE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All Tables in Millions of Dollars, Except Per Share Amounts)

NOTE 7. PROPERTIES.

<Table>
<Caption>

Dec. 27, 1996	Dec. 29, 1995
Accumulated	Accumulated

(All Tables in Millions of Dollars, Except Per Share Amounts)

	Cost	Depreciation	Net	Cost	Depreciation	Net
<S> <C>						
Rail:						
Road	$ 9,308	$2,619	$ 6,689	$ 9,157	$2,620	$ 6,537
Equipment	4,220	1,427	2,793	3,829	1,417	2,412
Total Rail	13,528	4,046	9,482	12,986	4,037	8,949
Container-shipping	2,437	1,017	1,420	2,175	906	1,269
Other	1,455	451	1,004	1,512	433	1,079
Total	$17,420	$5,514	$11,906	$16,673	$5,376	$11,297

</Table>

NOTE 8. CASUALTY, ENVIRONMENTAL AND OTHER RESERVES.

Activity related to casualty, environmental and other reserves is as follows:

<Table>
<Caption>

	Casualty and Other Reserves(a)(b)	Environmental Reserves(a)	Separation Liabilities(a)(c)	Total
<S> <C>				
Balance Dec. 31, 1993	$604	$131	$642	$1,377
Charged to Expense and Other Additions	247	32	--	279
Payments and Other Reductions	(272)	(23)	(d)(248)	(543)
Balance Dec. 30, 1994	579	140	394	1,113
Charged to Expense and Other Additions	279	22	80	381
Payments and Other Reductions	(288)	(25)	(70)	(383)
Balance Dec. 29, 1995	570	137	404	1,111
Charged to Expense and Other Additions	254	16	--	270
Payments and Other Reductions	(290)	(36)	(34)	(360)
Balance Dec. 27, 1996	$534	$117	$370	$1,021

</TABLE>

(a) Balances include current portions of casualty and other, environmental and separation reserves, respectively, of $234 million, $20 million and $52 million at Dec. 27, 1996; $241 million, $20 million and $37 million at Dec. 29, 1995; and $234 million, $20 million and $22 million at Dec. 30, 1994.

(b) Casualty reserves are estimated based upon the first reporting of an accident or personal injury to an employee. Liabilities for accidents are based upon field reports and liabilities for personal injuries are based upon the type and severity of the injury and the use of current trends and historical data.

(c) Separation liabilities include $318 million at Dec. 27, 1996, $344 million at Dec. 29, 1995, and $376 million at Dec. 30, 1994, related to productivity charges recorded in 1991 and 1992 to provide for the estimated costs of implementing work-force reductions, improvements in productivity and other cost reductions at the company's major transportation units. The remaining liabilities are expected to be paid out over the next 20 to 25 years.

(d) Includes the transfer of $156 million in 1994 to a separation-related pension obligation, representing the future cost of pensions for certain train crew employees impacted by the buyout of trip-based compensation provided for in the 1992 productivity charge.

<PAGE>

NOTE 9. DEBT AND CREDIT AGREEMENTS.

<Table>
<Caption>

Type and Maturity Dates	Average Interest Rates at Dec. 27, 1996	Dec. 27, 1996	Dec. 29, 1995

(All Tables in Millions of Dollars, Except Per Share Amounts)

<S> <C>

Commercial Paper and Borrowings Under Bank Credit Agreement	6%	$2,300	$ 300
Notes Payable (1999-2021)	8%	498	895
Debentures (2000-2022)	9%	650	649
Equipment Obligations (1997-2011)	8%	739	606
Mortgage Bonds (1998-2003)	4%	76	76
Other Obligations, including Capital Leases (1997-2021)	7%	169	182
Total	7%	4,432	2,708
Less Debt Due Within One Year		101	486
Total Long-Term Debt		$4,331	$2,222

</Table>

To provide financing for its acquisition of Conrail shares and to accommodate working capital needs, the company entered into a $4.8 billion bank credit agreement in November 1996. Under the agreement, the company may borrow directly from the participating banks or utilize the credit facility to support the issuance of commercial paper. Direct borrowings from the participating banks can be obtained, at the company's option, under a competitive bid process among the banks or under a revolving credit arrangement with interest either at LIBOR plus a margin determined by the company's credit ratings or at an alternate base rate, as defined in the agreement. The terms of the agreement provided for $800 million to become available immediately to replace existing credit agreements totaling $880 million, which supported the company's outstanding commercial paper. The remaining $4 billion of credit under the facility is available for the purchase of Conrail shares, of which $1.965 billion was used to acquire approximately 19.9% of Conrail's outstanding shares in November 1996. At Dec. 27, 1996, the company had borrowings related to the credit facility of $2.635 billion ($300 million direct borrowings and $2.335 billion commercial paper outstanding), of which $2.3 billion has been classified as long-term debt based upon the company's ability and intention to maintain this debt outstanding for more than one year. The company pays annual fees to the participating banks that may range from .06% to .15% of the total commitment, depending upon its credit ratings. The credit agreement, which expires in November 2001, also includes certain covenants and restrictions, such as limitations on debt as a percentage of total capitalization and restrictions on the sale or disposition of certain assets.

Commercial paper classified as short-term debt was $335 million at Dec. 27, 1996, and $148 million at Dec. 29, 1995. The weighted-average interest rate for the short-term commercial paper outstanding at year-end was 6% for 1996 and 1995.

In September 1992, the company filed a shelf registration statement with the Securities and Exchange Commission to provide for the issuance of up to $450 million in senior debt securities, warrants to purchase debt securities or currency warrants. This shelf registration included a combined prospectus covering amounts remaining to be issued as debt securities under a previous shelf registration. As of Dec. 27, 1996, an aggregate of $250 million of debt is available for issuance under the company's shelf registration statement and combined prospectus.

During 1994, the company redeemed $300 million of 9.5%, 11.625% and 11.875% Sinking Fund Debentures. The redemption premium, unamortized debt discount and issuance costs totaling $18 million were charged to expense.

Excluding long-term commercial paper, the company has long-term debt maturities for 1997 through 2001 aggregating $101 million, $145 million, $95 million, $328 million and $65 million, respectively. A portion of the company's rail unit properties are pledged as security for various rail-related, long-term debt issues.

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NOTE 10. COMMON AND PREFERRED STOCK.

The company has a single class of common stock, $1 par value, of which 300 million shares are authorized. Each share is entitled to one vote in all matters requiring a vote. In December 1995, shareholders received one additional share of common stock for each share held, pursuant to a 2-for-1 stock split approved by the board of directors. At Dec. 27, 1996, common shares issued and outstanding totaled 216,885,140.

(All Tables in Millions of Dollars, Except Per Share Amounts)

The company also has total authorized preferred stock of 25 million shares, of which 250,000 shares of Series A have been reserved for issuance, and 3 million shares of Series B have been reserved for issuance under the Shareholder Rights Plan discussed below. All preferred shares rank senior to common shares both as to dividends and liquidation preference. No preferred shares were outstanding at Dec. 27, 1996.

Pursuant to a Shareholder Rights Plan adopted by the board of directors in 1988 and amended in 1990, each outstanding share of common stock also evidences one preferred share purchase right ("right"). Each right entitles shareholders of record to purchase from the company, until the earlier of June 8, 1998, or the redemption of the rights, one one-hundredth of a share of Series B preferred stock at an exercise price of $100, subject to certain adjustments or, under certain circumstances, to obtain additional shares of common stock in exchange for the rights. The rights are not exercisable or transferable apart from the related common shares until the earlier of 10 days following the public announcement that a person or affiliated group has acquired or obtained the right to acquire 20% or more of the company's outstanding common stock; or 10 days following the commencement or announcement of an intention to make a tender offer or exchange offer, the consummation of which would result in the ownership by a person or group of 20% or more of the outstanding common stock. The board of directors may redeem the rights at a price of one cent per right at any time prior to the acquisition by a person or group of 20% or more of the outstanding common stock.

NOTE 11. STOCK PLANS.

The company maintains several stock plans designed to encourage ownership of its stock and provide incentives for employees to contribute to its success. Compensation expense for stock-based awards under these plans is determined by the awards' intrinsic value accounted for under the principles of APB Opinion No. 25 and related Interpretations. Compensation expense recognized for stock-based awards in 1996 was $36 million. Had compensation expense been determined based upon fair values at the date of grant for awards under these plans, consistent with the methods of FASB Statement No. 123, the company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

		1996	1995
Net Income	As Reported	$ 855	$ 618
	Pro Forma	$ 832	$ 610
Earnings Per Share	As Reported	$4.00	$2.94
	Pro Forma	$3.90	$2.90

The pro forma fair value method of accounting was applied only to stock-based awards granted after Dec. 30, 1994. Because all stock-based compensation expense for 1996 and 1995 was not restated and because stock-based awards granted may vary from year to year, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

Stock Purchase and Loan Plan

The Stock Purchase and Loan Plan provides for the purchase of common stock and related rights by eligible officers and key employees of the company and entitles them to obtain loans with respect to the shares purchased. The Plan, which originated in 1991, is intended to further the long-term stability and financial success of the company by providing a method for eligible employees to increase significantly their ownership of common stock. Amendments to the Plan were approved by the company's shareholders and implemented in 1996, providing for continuation of the Plan through February 2006, and increasing the common stock reserved for issuance from 4.4 million to 9 million shares.

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Under the revised Plan, upon maturity of purchase loans issued in 1991 and 1992, existing participants either withdrew shares from the Plan, applied all or part of their equity in shares purchased in the original Plan as a down payment to acquire additional shares, or extended their participation at existing levels for up to one year. In addition, shares were offered to certain employees who were not previously eligible to participate in the Plan. In connection with the Plan amendments, from Aug. 1, 1996, through Dec. 27, 1996, 72,497 shares were withdrawn from the Plan, 2,630,727 shares were exchanged and canceled, and 7,651,970 new shares were sold to participants at an average market price of $47.52 per share. In consideration for the shares purchased, participants have provided down payments of not less than 5% nor more than 25% of the purchase price in the form of cash, recourse notes or equity earned in the original Plan. The remaining purchase price is in the form of non-recourse loans secured by the shares issued.

All non-recourse loans under the Plan are or were subject to certain adjustments after a vesting period based upon targeted increases in the market price of CSX common stock. The market price thresholds for loans to employees who extended their participation in the original plan have been met in prior years and, upon maturity at July 31, 1997, or earlier repayment, all interest (less dividends applied to accrued interest) will be forgiven and the loan balances will be reduced by 25% of the purchase price. Loans to participants who exchanged shares or entered the Plan in 1996 are due July 31, 2001, and also are subject to forgiveness of a portion of the principal and accrued interest balances; however, at Dec. 27, 1996, none of the related market price thresholds had been met.

At Dec. 27, 1996, there were 187 participants in the Plan. Transactions involving the Plan are as follows:

	Shares (000's)	Average Price(a)
Outstanding at Dec. 30, 1994	3,869	$18.67
Canceled or Withdrawn	(446)	$19.25
Outstanding at Dec. 29, 1995	3,423	$18.64
Issued	7,652	$47.52
Exchanged, Canceled or Withdrawn	(2,964)	$18.73
Outstanding at Dec. 27, 1996	8,111	$46.26

	1996	1995	1994
Down Payment (Recourse) Loans Outstanding	$ 7	$ 4	$ 4
Purchase (Non-Recourse) Loans Outstanding	$ 296	$ 60	$ 68
Average Interest Rate	6.64%	7.75%	7.75%
Compensation Expense for the Year	$ 13	$ 26	$ 4

(a) Represents average cost to participants, net of cumulative note forgiveness.

The weighted-average fair value benefit to participants for a share issued in 1996 under the Stock Purchase and Loan Plan was $15.65, and was estimated as of the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 6.5%; dividend yield of 2.4%; volatility factor of 21.5%; and an expected life of 6 years.

1987 Long-Term Performance Stock Plan

The CSX Corporation 1987 Long-Term Performance Stock Plan provides for awards in the form of stock options, Stock Appreciation Rights (SARs), Performance Share Awards (PSAs) and Incentive Compensation Program shares (ICPs) to eligible officers and employees. Awards granted under the Plan are determined by the board of directors based on the financial performance of the company.

At Dec. 27, 1996, there were 440 current or former employees with outstanding grants under the Plan. A total of 19,661,492 shares were reserved for issuance, of which 5,396,274 were available for new grants (7,503,922 at Dec. 29, 1995). The remaining shares are assigned to outstanding stock options, SARs and PSAs.

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All stock options have been granted with 10-year terms and vest at the end of one year of continued employment. The exercise price for options granted equals the market price of the underlying stock on the date of grant. Options under recent grants become exercisable based on the achievement of performance goals. A summary of the company's stock option activity, and related information for the fiscal years ended Dec. 27, 1996, Dec. 29, 1995, and Dec. 30, 1994, follows:

<Table>
<Caption>

1996		1995		1994	
Shares (000s)	Weighted-Avg. Exercise Price	Shares (000s)	Weighted-Avg. Exercise Price	Shares (000s)	Weighted-Avg. Exercise Price

(All Tables in Millions of Dollars, Except Per Share Amounts)

<S> <C>

Outstanding at Beginning of Year	11,881	$32.76	10,206	$30.97	7,390	$26.80
Granted	1,978	$51.43	2,165	$40.25	3,212	$39.99
Canceled or Expired	(42)	$27.69	(57)	$38.95	(68)	$32.81
Exercised	(715)	$42.08	(433)	$27.18	(328)	$24.92
Outstanding at End of Year	13,102	$35.82	11,881	$32.76	10,206	$30.97
Exercisable at End of Year	10,139	$31.90	8,017	$28.79	7,014	$26.85
Weighted-Average Fair Value of Options Granted	$ 13.78		$11.33			

</Table>

The following table summarizes information about stock options outstanding at Dec. 27, 1996:

<Table>
<Caption>

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Avg. Remaining Contractual Life	Weighted-Avg. Exercise Price	Number Exercisable	Weighted-Avg. Exercise Price
<S> <C>					
$15 to $20	2,584	3.1	$17.40	2,584	$17.40
$30 to $39	5,453	6.5	$35.55	5,453	$35.55
$40 to $52	5,065	8.5	$45.51	2,102	$40.25
$15 to $52	13,102	6.6	$35.82	10,139	$31.90

</Table>

The fair value of options granted in 1996 and 1995 was estimated as of the dates of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 1996 and 1995, respectively: risk-free interest rates of 6.3% and 6.8% and volatility factors of 22% and 23%. Dividend yields of 2.4% and expected lives of 6 years were used in both years.

The value of PSAs is contingent on the achievement of performance goals and completion of certain continuing employment requirements over a three-year period. Each PSA earned will equal the fair market value of one share of CSX common stock on the date of payment. At Dec. 27, 1996, there were 728,600 shares reserved for outstanding PSAs. In 1996 and 1995, respectively, 110,600 and 122,200 PSAs were granted to employees. The weighted-average fair value of those shares was $44.44 for 1996 and $32.56 for 1995.

At Dec. 27, 1996, there were 435,073 SARs outstanding with a weighted-average exercise price of $15.85. In 1996 and 1994, respectively, 69,494 and 56,740 SARs were exercised at weighted-average exercise prices of $15.68 and $15.63; there were no exercises in 1995. There were no grants of SARs in 1996, 1995 or 1994.

34

<PAGE>

Stock Award Plan

Under the 1990 Stock Award Plan, all officers and employees of the company are eligible to receive shares of CSX common stock as an incentive award and certain key employees are eligible to receive them as a deferral award. All awards of common stock are issued based on terms and conditions approved by the company's board of directors. At Dec. 27, 1996, there were 1,340,369 shares reserved for issuance under this Plan, of which 513,369 were available for new grants. In 1996 and 1995, respectively, 633,587 shares and 348,278 shares were granted under the Plan. The weighted-average fair value of those shares was $45.63 for 1996 and $35.78 for 1995.

Stock Purchase and Dividend Reinvestment Plans

The 1991 Employees Stock Purchase and Dividend Reinvestment Plan provides a method and incentive for eligible employees to purchase shares of the company's common stock at market value by payroll deductions. To encourage stock ownership, employees receive a 17.65% matching payment on their contributions in the form of additional stock purchased by the company. Each matching payment of stock is subject to a two-year holding period. Sales of stock prior to the completion of the holding period result in forfeiture of the matching stock purchase. Officers and key employees who qualify for the Stock Purchase and Loan Plan are not eligible to participate in this Plan. At Dec. 27, 1996, there were 706,899 shares of common stock available for purchase under this Plan. Employees purchased 40,985 shares in 1996 and 46,224 shares in 1995 under the plan at weighted-average market prices of $47.39 and $40.31 for 1996 and 1995, respectively.

The company also maintains the Employees Stock Purchase and Dividend Reinvestment Plan and the Shareholders Dividend Reinvestment Plan, adopted in 1981, under which all employees and shareholders may purchase CSX common stock at the average of daily high and low sale prices for the five trading days ending on the day of purchase. To encourage stock ownership, employees receive a 5% discount on all purchases under this program. At Dec. 27, 1996, there were 5,128,605 shares reserved for issuance under these Plans.

Stock Plan for Directors

The Stock Plan for Directors, approved by the shareholders in 1992, governs in part the manner in which directors' fees and retainers are paid. A minimum of 40% of the retainer fees must be paid in common stock of the company. In addition, each director may elect to receive up to 100% of the remaining retainer and fees in the form of common stock of the company. The Plan permits each director to elect to transfer stock into a trust that will hold the shares until the participant's death, disability, retirement as a director, other cessation of services as a director, or change in control of the company. At Dec. 27, 1996, there were 959,236 shares of common stock reserved for issuance under this Plan.

NOTE 12. FAIR VALUE OF FINANCIAL INSTRUMENTS.

Fair values of the company's financial instruments are estimated by reference to quoted prices from market sources and financial institutions, as well as other valuation techniques. Long-term debt and the company's investment in Conrail common stock are the only financial instruments of the company with fair values significantly different from their carrying amounts. At Dec. 27, 1996, the fair value of long-term debt, including current maturities, was $4.56 billion, compared with a carrying amount of $4.43 billion. At Dec. 29, 1995, the fair value of long-term debt, including current maturities, was $2.94 billion, compared with a carrying amount of $2.71 billion. The fair value of long-term debt has been estimated using discounted cash flow analyses based upon the company's current incremental borrowing rates for similar types of financing arrangements.

The company's investment in approximately 17.9 million shares of Conrail common stock was acquired at a price of $110 per share, resulting in an aggregate carrying amount of $1.965 billion. At Dec. 27, 1996, the closing market price of Conrail common stock was $100 per share, resulting in an aggregate market value of $1.786 billion. As of Dec. 27, 1996, the terms of the voting trust agreement under which the shares were held prohibited the company from selling any of the Conrail shares without Conrail's written approval prior to the earlier of Dec. 31, 1998, or a regulatory decision by the STB that denies completion of the company's merger with Conrail under the terms contemplated at that date.

The company had no significant hedging or derivative financial instruments employed at Dec. 27, 1996, or Dec. 29, 1995.

<PAGE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All Tables in Millions of Dollars, Except Per Share Amounts)

NOTE 13. EMPLOYEE BENEFIT PLANS.

Pension Plans

The company sponsors defined benefit pension plans, principally for salaried personnel. The plans provide eligible employees with retirement benefits based principally on years of service and compensation rates near retirement. Annual contributions to the plans are sufficient to meet the minimum funding standards set forth in the Employee Retirement Income Security Act of 1974, as amended. Plan assets consist primarily of common stocks, corporate bonds and cash and cash equivalents. Pension costs for these plans include the following components:

	1996	1995	1994
Service Cost	$ 37	$ 28	$ 36
Interest Cost on Projected Benefit Obligation	93	91	89
Actual Return on Plan Assets	(89)	(190)	(10)

Net Amortization and Deferral	18	117	(45)
Foreign Plans	4	4	4
Pension Expense	$63	$ 50	$ 74

The funded status of the plans and the amounts reflected in the accompanying statement of financial position at year-end are:

<TABLE>
<CAPTION>

<S> <C>	Assets Exceed Benefits (at Valuation Date)		Benefits Exceed Assets (at Valuation Date)	
	Sept. 30, 1996	Dec. 29, 1995	Sept. 30, 1996	Dec. 29, 1995
Assets and Obligations --				
Vested Benefits	$44	$24	$1,161	$1,086
Non-Vested Benefits	1	1	59	69
Accumulated Benefit Obligation	45	25	1,220	1,155
Effect of Anticipated Future Salary Increases	1	1	105	122
Projected Benefit Obligation	46	26	1,325	1,277
Fair Value of Plan Assets	63	39	1,047	957
Funded Status	17	13	(278)	(320)
Unrecognized Initial Net Obligation (Asset)	--	(3)	18	25
Unrecognized Prior Service Cost	1	2	(3)	11
Unrecognized Net Loss	6	4	257	276
Recognition of Minimum Liability	--	--	(176)	(200)
Cash Contributions, Oct. 1 through Year-End	--	*	2	*
Net Pension Asset (Obligation) at Year-End	$24	$16	$ (180)	$ (208)

</TABLE>

* In 1996, the company changed the measurement date for pension assets and liabilities from the end of the fiscal year to Sept. 30. The change in measurement date had no effect on 1996 or prior years' pension expense.

36

<PAGE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All Tables in Millions of Dollars, Except Per Share Amounts)

Pension expense is determined based upon an actuarial valuation as of the beginning of each year. The following actuarial assumptions were used in determining net pension expense and projected benefit obligations:

<TABLE>
<CAPTION>

<S> <C>	1996	1995	1994
Discount Rate at Valuation Date	7.50%	7.50%	8.25%
Estimated Long-Term Rate of Salary Increases at Valuation Date	5.00%	5.00%	5.00%
Expected Long-Term Rate of Return on Assets During the Period	9.50%	9.75%	8.75%

</TABLE>

The aggregate minimum pension liability was reduced by $24 million in 1996, primarily due to the increase in fair value of plan assets.

Savings Plans

The company maintains savings plans for virtually all full-time salaried employees and certain employees covered by collective bargaining agreements. Eligible employees may contribute from 1% to 15% of their annual compensation in 1% multiples to these plans. The company matches eligible employees' contributions in an amount equal to the lesser of 50% of each participating employee's contributions or 3% of their annual compensation. In addition, the company contributes fixed amounts for each participating employee covered by certain collective bargaining agreements. Expense associated with these plans was $23 million, $29 million and $31 million for 1996, 1995 and 1994, respectively.

Other Post-Retirement Benefit Plans

In addition to the defined benefit pension plans, the company sponsors three plans that provide medical and life insurance benefits to most full-time salaried employees upon their retirement. The post-retirement medical plans are contributory, with retiree contributions adjusted annually, and contain other cost-sharing features such as deductibles and coinsurance. The net benefit obligation for medical plans anticipates future cost-sharing changes consistent with the company's expressed intent to increase retiree contribution rates annually in line with expected medical cost inflation rates. The life insurance plan is non-contributory.

The company's current policy is to fund the cost of the post-retirement medical and life insurance benefits on a pay-as-you-go basis, as in prior years. The amounts recorded for the combined plans in the company's statement of financial position at Dec. 27, 1996, and Dec. 29, 1995, are as follows:

<TABLE>
<CAPTION>

	Medical (At Valuation Date)		Life Insurance (At Valuation Date)	
	Sept. 30, 1996	Dec. 29, 1995	Sept. 30, 1996	Dec. 29, 1995
<S> <C>				
Accumulated Post-Retirement Benefit Obligation:				
Retirees	$214	$188	$60	$69
Fully Eligible Active Participants	34	30	3	3
Other Active Participants	38	45	2	3
Accumulated Post-Retirement Benefit Obligation	286	263	65	75
Unrecognized Prior Service Cost	10	17	4	5
Unrecognized Net (Loss) Gain	(48)	(41)	1	(11)
Claim Payments, Oct. 1 through Year-End	(6)	*	(1)	*
Net Post-Retirement Benefit Obligation at Year-End	$242	$239	$69	$69

</TABLE>

* In 1996, the company changed the measurement date for valuing its post-retirement benefit obligation to Sept. 30. The change in measurement date had no effect on 1996 or prior years' net expense for post-retirement benefits.

37

<PAGE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All Tables in Millions of Dollars, Except Per Share Amounts)

Net expense for post-retirement benefits was $30 million, $27 million and $29 million for 1996, 1995 and 1994, respectively. The net post-retirement benefit obligation was determined using the assumption that the health care cost trend rate for medical plans was 10% for 1996-1997, decreasing gradually to 5.5% by 2005 and remaining at that level thereafter. A 1% increase in the assumed health care cost trend rate would increase the accumulated post-retirement benefit obligation for medical plans as of Dec. 27, 1996, by $21 million and net post-retirement benefit expense for 1996 by $3 million. The discount rate used in determining the accumulated post-retirement benefit obligation was 7.50% for 1996 and 1995, and 8.25% for 1994.

Other Plans

Under collective bargaining agreements, the company participates in a number of union-sponsored, multiemployer benefit plans. Payments to these plans are made as part of aggregate assessments generally based on number of employees covered, hours worked, tonnage moved or a combination thereof. The administrators of the multiemployer plans generally allocate funds received from participating companies to various health and welfare benefit plans and pension plans. Current information regarding such allocations has not been provided by the administrators. Total contributions of $224 million, $239 million and $209 million, respectively, were made to these plans in 1996, 1995 and 1994.

NOTE 14. COMMITMENTS AND CONTINGENCIES.

Lease Commitments

The company leases equipment under agreements with terms up to 21 years. Non-cancelable, long-term leases generally include options to purchase at fair value and to extend the terms. At Dec. 27, 1996, minimum building and equipment rentals under non-cancelable operating leases totaled approximately $418 million for 1997, $390 million for 1998, $337 million for 1999, $286 million for 2000, $272 million for 2001 and $2.2 billion thereafter.

Rent expense on operating leases, including net daily rental charges on railroad operating equipment of $245 million, $257 million and $258 million in 1996, 1995 and 1994, respectively, amounted to $1.2 billion in 1996 and 1995, and $1.1 billion in 1994.

Purchase Commitments

CSXT entered into agreements during 1993 and 1996 to purchase 380 locomotives. These large orders cover normal locomotive replacement needs for 1994 through 1997 and introduced alternating current traction technology to the locomotive fleet. CSXT has taken delivery of 50 direct current and 255 alternating-current locomotives through Dec. 27, 1996. The remaining 75 alternating-current units will be delivered in 1997.

During 1994 and 1995, Sea-Land entered into agreements for the construction of nine high-performance, fuel-efficient container vessels. Estimated capital expenditures for these vessels total $525 million, of which $312 million has been expended through Dec. 27, 1996, with the remaining $213 million expected to be incurred over the next two years. Five of the vessels have been delivered through Dec. 27, 1996.

Other Commitments

During 1995, CSXT entered into an agreement with a major telecommunications vendor to supply and manage its telecommunications needs through May 2005. As discussed in Note 3 - Restructuring Charge, the agreement was amended in 1996 to significantly reduce the service period, increase contractual payment amounts over the revised service period, and relieve the vendor of obligations to replace certain telecommunications technology. The amended agreement provides for a revised termination date of June 30, 1998, and requires minimum payments totaling $56 million over the remaining service period.

<PAGE>

Contingent Liabilities

The company and its subsidiaries are contingently liable individually and jointly with others as guarantors of long-term debt and obligations principally relating to leased equipment, joint ventures and joint facilities. These contingent obligations were immaterial to the company's results of operations and financial position at Dec. 27, 1996.

The company has been advised that activities of a subsidiary that administered student loans and that was sold by the company in 1992 are under review to determine whether, and to what extent, damages should be asserted against the company for government insurance payments on uncollected loans related to alleged processing deficiencies or errors that may have occurred prior to the time the subsidiary was sold. The company believes it has no material liability for any claim that might be asserted, but the final outcome of the review and the amount of potential damages are not yet reasonably estimable. Based upon information currently available to the company, it is believed any adverse outcome will not be material to the company's results of operations or financial position.

Although the company obtains substantial amounts of commercial insurance for potential losses for third-party liability and property damage, reasonable levels of risk are retained on a self-insurance basis. A portion of the insurance coverage, $25 million limit above $25 million per occurrence from rail and certain other operations, is provided by a company partially owned by CSX.

CSXT is a party to various proceedings involving private parties and regulatory agencies related to environmental issues. CSXT has been identified as a potentially responsible party (PRP) at approximately 105 environmentally impaired sites that are or may be subject to remedial action under the Federal Superfund statute (Superfund) or similar state statutes. A number of these proceedings are based on allegations that CSXT, or its predecessor railroads, sent hazardous substances to the facilities in question for disposal. Such proceedings arising under Superfund or similar state statutes can involve numerous other waste generators and disposal companies and seek to allocate or recover costs associated with site investigation and cleanup, which could be substantial.

CSXT is involved in a number of administrative and judicial proceedings and other clean-up efforts at approximately 270 sites, including the sites addressed under the Federal Superfund statute or similar state statutes, at which it is participating in the study and/or clean-up of alleged environmental contamination. The assessment of the required response and remedial costs associated with most sites is extremely complex. Cost estimates are based on information available for each site, financial viability of other PRPs, where available, and existing technology, laws and regulations. CSXT's best estimates of the allocation method and percentage of liability when other PRPs are involved are based on assessments by consultants, agreements among PRPs, or determinations by the U.S. Environmental Protection Agency or other regulatory agencies.

At least once each quarter, CSXT reviews its role, if any, with respect to each such location, giving consideration to the nature of CSXT's alleged connection to the location (e.g., generator, owner or operator), the extent of CSXT's alleged connection (e.g., volume of waste sent to the location and other relevant factors), the accuracy and strength of evidence connecting CSXT to the location, and the number, connection and financial position of other named and unnamed PRPs at the location. The ultimate liability for remediation can be difficult to determine with certainty because of the number and creditworthiness of PRPs involved. Through the assessment process, CSXT monitors the creditworthiness of such PRPs in determining ultimate liability.

(All Tables in Millions of Dollars, Except Per Share Amounts)

Based upon such reviews and updates of the sites with which it is involved, CSXT has recorded, and reviews at least quarterly for adequacy, reserves to cover estimated contingent future environmental costs with respect to such sites. The recorded liabilities for estimated future environmental costs at Dec. 27, 1996, and Dec. 29, 1995, were $117 million and $137 million, respectively. These recorded liabilities include amounts representing CSXT's estimate of unasserted claims, which CSXT believes to be immaterial. The liability has been accrued for future costs for all sites where the company's obligation is probable and where such costs can be reasonably estimated. The liability includes future costs for remediation and restoration of sites as well as any significant ongoing monitoring costs, but excludes any anticipated insurance recoveries. The majority of the Dec. 27, 1996, environmental liability is expected to be paid out over the next five to seven years, funded by cash generated from operations.

The company does not currently possess sufficient information to reasonably estimate the amounts of additional liabilities, if any, on some sites until completion of future environmental studies. In addition, latent conditions at any given location could result in exposure, the amount and materiality of which cannot presently be reliably estimated. Based upon information currently available, however, the company believes that its environmental reserves are adequate to accomplish remedial actions to comply with present laws and regulations, and that the ultimate liability for these matters will not materially affect its overall results of operations and financial condition.

<PAGE>

Legal Proceedings

A number of legal actions, other than environmental, are pending against CSX and certain subsidiaries in which claims are made in substantial amounts. While the ultimate results of environmental investigations, lawsuits and claims involving the company cannot be predicted with certainty, management does not currently expect that these matters will have a material adverse effect on the consolidated financial position, results of operations and cash flows of the company.

NOTE 15. SUMMARIZED FINANCIAL DATA - SEA-LAND SERVICE INC.

During 1987, Sea-Land entered into agreements to sell and lease back by charter three new U.S.-built, U.S.-flag, D-7 class container ships. CSX has guaranteed the obligations of Sea-Land pursuant to the related charters which, along with the container ships, serve as collateral for debt securities registered with the Securities and Exchange Commission (SEC). In accordance with SEC disclosure requirements, summarized financial information for Sea-Land and its consolidated subsidiaries is as follows:

Summary of Operations:	1996	1995(b)	1994(b)
Operating Revenue	$4,051	$4,008	$3,492
Operating Expense-- Public	3,648	3,755	3,279
-- Affiliated (a)	122	107	57
Operating Income	$ 281	$ 146	$ 156
Net Earnings	$ 84	$ 86	$ 73

Summary of Financial Position:	Dec. 27, 1996	Dec. 29, 1995
Current Assets -- Public	$ 747	$ 713
-- Affiliated (a)	1	2
Other Assets -- Public	1,829	1,674
-- Affiliated (a)	14	--
Current Liabilities -- Public	725	684
-- Affiliated (a)	115	48

Other Liabilities -- Public	756	718
-- Affiliated (a)	347	200
Equity	648	739

(a) Amounts represent activity with CSX affiliated companies.

(b) Beginning in 1996, Sea-Land assumed primary responsibility for direct purchase of transportation from non-affiliated rail carriers. These services were previously purchased through a CSX-affiliated company. Operating expense for 1995 and 1994 has been restated to report this activity as public expense.

SL Alaska Trade Company (SLATCO) is a special purpose, unconsolidated subsidiary of Sea-Land with trust-related assets of $117 million securing $106 million of debt maturing on Oct. 1, 2005. The assets of SLATCO are not available to creditors of Sea-Land or its subsidiaries, nor are the SLATCO notes guaranteed by Sea-Land or any of its subsidiaries.

<PAGE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All Tables in Millions of Dollars, Except Per Share Amounts)

NOTE 16. BUSINESS SEGMENTS.

<TABLE>
<CAPTION>

	Operating Revenue Fiscal Years Ended			Operating Income Fiscal Years Ended			Identifiable Assets	
	Dec. 27, 1996	Dec. 29, 1995	Dec. 30, 1994	Dec. 27, 1996	Dec. 29, 1995	Dec. 30, 1994	Dec. 27, 1996	Dec. 29, 1995
<S> <C>								
Transportation	$10,536	$10,304	$9,409	$1,522	$1,126	$1,182	$16,071	$13,304
Non-Transportation Segment	$ 220	$ 200	$ 199	43	46	50	$ 894	$ 978
Other (Net)				--	72	55		
Total Other Income				43	118	105		
Interest Expense				249	270	281		
Earnings Before Income Taxes				$1,316	$ 974	$1,006		

</TABLE>

The principal components of the business segments are:

Transportation - Rail, container-shipping, barge, intermodal and contract logistics operations. The container-shipping operation reported revenue of $4.1 billion for 1996, $4.0 billion for 1995 and $3.5 billion for 1994. Approximate revenue allocation by port of origin for 1996, 1995 and 1994 was: North America -- 43%; Asia -- 32%; Europe -- 17%; and Other -- 8%. Foreign business activities outside the container-shipping operation do not contribute materially to the company's financial results.

Non-Transportation - Real estate sales and rentals, resort management and resort operations.

NOTE 17. QUARTERLY DATA (Unaudited).

	1996			
	1st	2nd(a)	3rd	4th
Operating Revenue	$2,514	$2,672	$2,647	$2,703
Operating Income	$ 296	$ 408	$ 392	$ 426
Net Earnings	$ 146	$ 234	$ 222	$ 253
Earnings Per Share	$ .69	$ 1.11	$ 1.04	$ 1.17

<PAGE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All Tables in Millions of Dollars, Except Per Share Amounts)

	1995			
	1st	2nd(c)	3rd	4th(d)
Operating Revenue	$2,444	$2,549	$2,601	$2,710
Operating Income	$ 276	$ 84	$ 369	$ 397
Net Earnings	$ 121	$ 19	$ 202	$ 276
Earnings Per Share(b)	$ .58	$ .09	$ .96	$ 1.31

(a) In the second quarter of 1996, the company changed its earnings presentation to exclude non-transportation activities from operating revenue and expense. These activities, principally real estate and resort operations, are now included in other income in the consolidated statement of earnings. Amounts for prior quarters have been restated to conform to the new presentation.

(b) Earnings per share amounts for 1995 have been restated to reflect the 2-for-1 stock split distributed to shareholders in December 1995.

(c) The company recorded a $257 million pretax restructuring charge in the second quarter of 1995 to recognize the estimated costs of initiatives at its rail and container-shipping units to revise, restructure and consolidate specific operations and administrative functions. The charge included a write-down of technologically obsolete telecommunications assets and provisions for employee separations and exit obligations. The restructuring charge reduced net earnings by $160 million, 76 cents per share.

(d) In December 1995, the company recognized a net investment gain of $77 million on the issuance of an equity interest in a Sea-Land terminal and related operations in Asia and the write-down of various investments. The equity interest portion of the transaction resulted in proceeds of $105 million, a pretax gain of $93 million, and increased net earnings by $61 million, 29 cents per share.

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of CSX Corporation

We have audited the accompanying consolidated statements of financial position of CSX Corporation and subsidiaries as of December 27, 1996 and December 29, 1995, and the related consolidated statements of earnings, cash flows, and changes in shareholders' equity for each of the three fiscal years in the period ended December 27, 1996. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 (appearing on pages 19-42) present fairly, in all material respects, the consolidated financial position of CSX Corporation and subsidiaries at December 27, 1996 and December 29, 1995, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended December 27, 1996, in conformity with generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

Ernst & Young LLP

Richmond, Virginia
January 31, 1997, except for Note 2,
as to which the date is March 7, 1997

<PAGE>

BOARD OF DIRECTORS AND CORPORATE OFFICERS

BOARD OF DIRECTORS

Elizabeth E. Bailey(b,d)
John C. Hower Professor of Public Policy and Management
The Wharton School, University of Pennsylvania, Philadelphia, Pa.

Robert L. Burrus Jr.(d,e)
Partner and Chairman
McGuire, Woods, Battle & Boothe, Richmond, Va.

Bruce C. Gottwald(d,e)
Chairman and CEO
Ethyl Corporation, Richmond, Va.

John R. Hall(b,c)
Retired Chairman and CEO
Ashland Inc., Ashland, Ky.

Robert D. Kunisch(a,c)
Chairman, President and CEO
PHH Corporation, Hunt Valley, Md.

Hugh L. McColl Jr.(b,d)
CEO
NationsBank Corp., Charlotte, N.C.

James W. McGlothlin(a,e)
Chairman and CEO
The United Company, Bristol, Va.

Southwood J. Morcott(a,b,d)
Chairman and CEO
Dana Corporation, Toledo, Ohio

Charles E. Rice(a,b,c)
Chairman and CEO
Barnett Banks Inc., Jacksonville, Fla.

William C. Richardson(c,e)
President and CEO
W.K. Kellogg Foundation, Battle Creek, Mich.

Frank S. Royal, M.D.(c)
Physician and Health Care Authority, Richmond, Va.

John W. Snow(a)
Chairman, President and CEO
CSX Corporation, Richmond, Va.

Key to committees of the board
a - Executive b - Audit c - Compensation d - Pension
e - Organization & Corporate Responsibility

CSX CORPORATE OFFICERS

John W. Snow, 57* Chairman, President and CEO, elected February 1991

Mark G. Aron, 54* Executive Vice President-Law and Public Affairs, elected April 1995(1)

Paul R. Goodwin, 54* Executive Vice President-Finance and Chief Financial Officer, elected April 1995(2)

Arnold I. Havens, 49 Vice President-Federal Affairs, elected February 1997

Thomas E. Hoppin, 55 Vice President-Corporate Communications, elected July 1986

Richard H. Klem, 52* Vice President-Corporate Strategy, elected May 1992(3)

William F. Miller, 54 Vice President-Audit and Advisory Services, elected September 1996

Jesse R. Mohorovic, 54* Vice President-Executive Department, elected February 1995(4)

James P. Peter, 46 Vice President-Taxes, elected June 1993

Woodruff M. Price, 61 Vice President-Public Policy, elected February 1997

James L. Ross, 58* Vice President and Controller, elected May 1996(5)

Alan A. Rudnick, 49 Vice President-General Counsel and Corporate Secretary, elected June 1991

Michael J. Ruehling, 49 Vice President-State Relations, elected January 1995

James A. Searle Jr., 50 Vice President-Administration, elected April 1996

Peter J. Shudtz, 48 General Counsel, elected September 1991

William H. Sparrow, 53* Vice President-Financial Planning, elected February 1996(6)

Gregory R. Weber, 51* Vice President and Treasurer, elected May 1996(7)

<PAGE>

UNIT OFFICERS

CSX TRANSPORTATION INC.

Alvin R. (Pete) Carpenter, 55* President and CEO, since January 1992

John Q. Anderson, 45* Executive Vice President-Sales & Marketing, since May 1996(8)

Donald D. Davis, 57* Senior Vice President-Employee Relations, since November 1990

Gerald L. Nichols, 61* Executive Vice President and COO, since February 1995(9) Michael J. Ward, 46* Executive Vice President-Finance and CFO, since June 1996(10)

SEA-LAND SERVICE INC.

John P. Clancey, 52* President and CEO, since August 1991

Andrew B. Fogarty, 51* Senior Vice President-Finance and Planning, since June 1996(11)

Robert J. Grassi, 50* Senior Vice President-Atlantic, AME Services, since June 1996(12)

Richard E. Murphy, 52* Senior Vice President-Corporate Marketing, since June 1996(13)

Charles G. Raymond, 53* Senior Vice President and Chief Transportation Officer, since May 1995(14)

CSX INTERMODAL INC.
Ronald T. Sorrow, 50* Chairman, President and CEO, since January 1997(15)

AMERICAN COMMERCIAL LINES INC.
Michael C. Hagan, 50* President and CEO, since May 1992(16)

CUSTOMIZED TRANSPORTATION INC.
David G. Kulik, 48 President and CEO, since December 1994

THE GREENBRIER
Ted J. Kleisner, 52 President and Managing Director, since January 1989

YUKON PACIFIC CORPORATION
Jeff B. Lowenfels, 48 President and CEO, since February 1995

* Executive officers of the corporation. Executive officers of CSX Corporation are elected by the CSX board of directors and hold office until the next annual election of officers. Officers of CSX business units are elected annually by the respective boards of directors of the business units. There are no family relationships or any arrangement or understanding between any officer an any other person pursuant to which such officer was selected. All of the executive officers listed have held their current positions for at least 5 years except as noted below:

1) Prior to April 1995, Mr. Aron served as Sr. VP-Law and Public Affairs.

2) Prior to April 1995, Mr. Goodwin served as an officer of CSXT as Exec. VP-Finance and Administration from February 1995 to April 1995; as Sr. VP-Finance from April 1992 to February 1995; and prior thereto as Sr. VP-Finance.

3) Prior to May 1992, Mr. Klem served as VP-Economic Analysis and Corporate Strategy.

4) Prior to February 1995, Mr. Mohorovic served as VP-Corporate Communications, CSXT, from April 1994 to February 1995, and prior thereto as VP-Corporate

Communications, Sea-Land.

5) Prior to May 1996, Mr. Ross served as CSX VP-Special Projects from October 1995 to May 1996, and prior thereto as a Partner with Ernst & Young, LLP.

6) Prior to February 1996, Mr. Sparrow served as VP-Capital Planning and Budgeting from May 1994 to February 1996 and prior thereto as VP and Treasurer.

7) Prior to May 1996, Mr. Weber served as VP, Controller and Treasurer, from May 1994 to May 1996, and prior thereto as VP and Controller.

8) Prior to May 1996, Mr. Anderson served as Sr. VP for Burlington Northern Santa Fe Railway from 1995 to May 1996 and prior thereto as Executive VP of Burlington Northern Railroad.

9) Prior to February 1995, Mr. Nichols served as Sr. VP-Administration of CSXT.

10) Prior to June 1996, Mr. Ward served as an officer of CSXT as Sr. VP-Finance from April 1995 to June 1996; General Manager-C&O Business Unit from 1994 to April 1995; and prior thereto as VP-Coal.

11) Prior to June 1996, Mr. Fogarty served as CSX VP-Audit and Advisory Services from March 1995 to June 1996, and prior thereto as CSX VP-Executive Department.

12) Prior to June 1996, Mr. Grassi served as Sea-Land Sr. VP-Finance and Planning.

13) Prior to June 1996, Mr. Murphy served as Sea-Land VP-Atlantic and AME from 1995 to June 1996; Sr. VP-Pacific Services from 1993 to 1995; and prior thereto as VP-Pacific Services.

14) Prior to May 1995, Mr. Raymond served as Sea-Land Sr. VP-Operations and Inland Transportation.

15) Prior to January 1997, Mr. Sorrow served as CSXI President and CEO from January 1996 to January 1997 and prior thereto as VP-Sales and Marketing of CSXI.

16) Prior to May 1992, Mr. Hagan served as President and COO of ACL.

<PAGE>

CORPORATE INFORMATION

Headquarters
One James Center
901 East Cary Street
Richmond, VA 23219-4031
(804) 782-1400
(http://www.csx.com)

Market Information

CSX's common stock is listed on the New York, London and Swiss stock exchanges and trades with unlisted privileges on the Midwest, Boston, Cincinnati, Pacific and Philadelphia stock exchanges. The official trading symbol is "CSX."

Description of Common and Preferred Stocks

A total of 300 million shares of common stock is authorized, of which 216,885,140 shares were outstanding as of Dec. 27, 1996. Each share is entitled to one vote in all matters requiring a vote of shareholders. There are no pre-emptive rights.

A total of 25 million shares of preferred stock is authorized. Series A consists of 250,000 shares of $7 Cumulative Convertible Preferred Stock. All outstanding shares of Series A Preferred Stock were redeemed as of July 31, 1992.

Series B consists of 3 million shares of Junior Participating Preferred Stock, none of which has been issued. These shares will become issuable only and when the rights distributed to holders of common stock under the Preferred Share Rights Plan adopted by CSX on June 8, 1988, become exercisable.

Closing Price of Common Stock at Fiscal Year-End
(Dollars)

[GRAPH]

'92	'93	'94	'95	'96
$34.38	$40.94	$34.82	$45.63	$42.88

Common Stock Price Range and Dividends Per Share

Fiscal Year	1996			
Quarter	1st	2nd	3rd	4th
Market Price				
High	$48.50	$53.13	$53.00	$52.38
Low	$42.25	$44.13	$42.25	$42.50
Dividends Per Share	$ .26	$ .26	$ .26	$ .26

Fiscal Year	1995			
Quarter	1st	2nd	3rd	4th
Market Price				
High	$39.88	$41.00	$44.63	$46.13
Low	$34.63	$36.00	$37.44	$39.06
Dividends Per Share	$ .22	$ .22	$ .22	$ .26

Fiscal Year	1994			
Quarter	1st	2nd	3rd	4th
Market Price				
High	$46.19	$41.63	$39.57	$37.25
Low	$39.94	$35.50	$33.00	$31.57
Dividends Per Share	$ .22	$ .22	$ .22	$ .22

Fiscal Year	1993			
Quarter	1st	2nd	3rd	4th
Market Price				
High	$39.98	$39.07	$40.13	$44.07
Low	$33.57	$33.19	$33.94	$37.44
Dividends Per Share	$ .19	$ .19	$ .19	$ .22

Fiscal Year	1992			
Quarter	1st	2nd	3rd	4th
Market Price				
High	$31.00	$33.75	$33.88	$36.82
Low	$27.44	$27.75	$28.32	$27.25
Dividends Per Share	$ .19	$ .19	$ .19	$ .19

(All data adjusted for 2-for-1 split of common stock effective Dec. 21, 1995.)

Common Stock Shares Outstanding, Number of Registered Shareholders

<TABLE>
<CAPTION>

<S> <C>	1996	1995	1994	1993	1992
Number of shareholders:	55,176	55,528	57,355	59,714	62,820

</TABLE>

Shares Outstanding as of Jan. 24, 1997: 216,898,817
Common Stock Shareholders as of Jan. 24, 1997: 55,074

45

<PAGE>

SHAREHOLDER INFORMATION

Shareholder Services
Shareholders with questions about their accounts should contact the transfer agent at the address or telephone number shown below.
General questions about CSX or information contained in company publications should be directed to corporate communications at the address or telephone number shown below.
Security analysts, portfolio managers or other investment community representatives should contact investor relations at

the address or telephone number shown below.

Transfer Agent, Registrar and
Dividend Disbursing Agent
Harris Trust Company
P.O. Box A3504
Chicago, IL 60690
(800) 521-5571
(312) 461-4061, in Illinois

Shareholder Relations
Anne B. Taylor
Administrator-Shareholder
Services
CSX Corporation
P.O. Box 85629
Richmond, VA 23285-5629
(804) 782-1465

Corporate Communications
Elisabeth Gabrynowicz
Director-Corporate
Communications
P.O. Box 85629
Richmond, VA 23285-5629
(804) 782-6775

Investor Relations
Joseph C. Wilkinson
Director-Investor Relations
CSX Corporation
P.O. Box 85629
Richmond, VA 23285-5629
(804) 782-1553

Stock Held in Brokerage Accounts

When a broker holds your stock, it is usually registered in the broker's name, or "street name." We do not know the identity of individual shareholders who hold stock in this manner. We know only that a broker holds a certain number of shares that may be for any number of customers. If your stock is in a street-name account, you are not eligible to participate in the company's Dividend Reinvestment Plan. Also, you will receive your dividend payments, annual reports and proxy materials through your broker. You should notify your broker, not Harris Trust, if you wish to eliminate unwanted, duplicate mailings and improve the timeliness on the delivery of these materials and your dividend payments.

Lost or Stolen Stock Certificates

If your stock certificates are lost, stolen or in some way destroyed, you should notify Harris Trust in writing immediately.

Multiple Dividend Checks and Duplicate Mailings

Some shareholders hold their stock on CSX records in similar but different names (e.g. John A. Smith and J.A. Smith). When this occurs, we are required to create separate accounts for each name. Although the mailing addresses are the same, we are required to mail separate dividend checks to each account. Duplicate mailings of annual reports can be eliminated if you send the labels or copies of the labels from a CSX mailing to Harris Trust. You should mark the labels to indicate names to be kept on the mailing list and names to be deleted. However, this action will affect mailings of financial materials only. Dividend checks and proxy materials will continue to be sent to each account.

Consolidating Accounts

If you want to consolidate separate accounts into one account, you should contact Harris Trust for the necessary forms and instructions. When accounts are consolidated, it may be necessary to reissue the stock certificates.

Dividends

CSX pays quarterly dividends on its common stock on or about the 15th of March, June, September and December, when declared by the board of directors, to shareholders of record approximately three weeks earlier. CSX now offers direct deposit of dividends to shareholders who request it. If you are interested, please contact Harris Trust at the address or phone number shown above.

Replacing Dividend Checks

If you do not receive your dividend check within 10 business days after the payment date or if your check is lost or destroyed, you should notify Harris Trust so payment on the check can be stopped and a replacement issued.

Dividend Reinvestment

CSX provides dividend reinvestment and stock purchase plans for shareholders of record and employees as a convenient method of acquiring additional CSX shares by reinvestment of dividends or by optional cash payments, or both.

The Shareholders Dividend Reinvestment Plan permits automatic reinvestment of common stock dividends without payment of any brokerage commission or service charge. In fact, under the plan, you may elect to continue receiving dividend payments while making cash payments of up to $1,500 per month for investment in additional CSX shares without any fee.

For a prospectus or other information on the plan, write or call the Harris Trust Dividend Reinvestment Department at the address or telephone number shown above.

<PAGE>

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 14th day of March 1997.

CSX Corporation

By: /s/ JAMES L. ROSS

James L. Ross
Vice President and Controller

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title
John W. Snow	Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)*
Paul R. Goodwin	Executive Vice President-Finance (Principal Financial Officer)*
Elizabeth E. Bailey	Director*
Robert L. Burrus Jr.	Director*
Bruce C. Gottwald	Director*
John R. Hall	Director*
Robert D. Kunisch	Director*
Hugh L. McColl Jr.	Director*
James W. McGlothlin	Director*
Southwood J. Morcott	Director*
Charles E. Rice	Director*
William C. Richardson	Director*
Frank S. Royal, M.D.	Director*

/s/ PETER J. SHUDTZ

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* Peter J. Shudtz, Attorney-in-Fact
  March 14, 1997

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CSX CORPORATION
Statement of Differences

1. The printed Annual Report and Form 10-K contains numerous graphs and photographs not incorporated into the electronic Form 10-K.

2. The 10-K cover sheet and index, presented on pages 43 and 44 of the printed document, have been repositioned to the front of the electronic document.

<PAGE>

Index to Exhibits

Description

(3.1) Articles of Incorporation (incorporated by reference as Exhibit 3 to Form 10-K dated Feb. 15, 1991)

(3.2) Bylaws

(10.1) CSX Stock Plan for Directors*

(10.2) Special Retirement Plan for CSX Directors*

(10.3) Corporate Director Deferred Compensation Plan*

(10.4) CSX Directors' Charitable Gift Plan* (incorporated by reference to Exhibit 10.4 to Form 10-K dated March 4, 1994)

(10.5) CSX Directors' Matching Gift Plan*

(10.6) Form of Agreement with J.W. Snow, A.R. Carpenter, J.P. Clancey, P.R. Goodwin and G.L. Nichols* (incorporated by reference to Exhibit 10.6 to Form 10-K dated March 3, 1995)

(10.7) Form of Amendment to Agreement with A.R. Carpenter, P.R. Goodwin and G.L. Nichols*

(10.8) Form of Amendment to Agreement with J.P. Clancey*

(10.9) Form of Retention Agreement with A.R. Carpenter and J.P. Clancey* (incorporated by reference to Exhibit 10.3 to Form 10-K dated Feb. 28, 1992)

(10.10) Agreement with J.W. Snow* (incorporated by reference to Exhibit 10.9 to Form 10-K dated March 4, 1994)

(10.11) Amendment to Agreement with J.W. Snow*

(10.12) Agreement with J.W. Snow*

(10.13) Loan Agreement with A.R. Carpenter* (incorporated by reference to Exhibit 10.9 to Form 10-K dated March 1, 1996)

(10.14) Stock Purchase and Loan Plan* (incorporated by reference to Exhibit 99 to Form S-8 dated July 31, 1996)

(10.15) 1987 Long-Term Performance Stock Plan*

(10.16) 1985 Deferred Compensation Program for Executives of CSX Corporation and Affiliated Companies*

(10.17) Supplementary Savings Plan and Incentive Award Deferral Plan for Eligible Executives of CSX Corporation and Affiliated Companies*

(10.18) Special Retirement Plan of CSX Corporation and Affiliated Companies*

(10.19) Supplemental Retirement Plan of CSX Corporation and Affiliated Companies*

(10.20) 1994 Senior Management Incentive Compensation Plan* (incorporated by reference to Exhibit 10.16 to Form 10-K dated March 3, 1995)

(21) Subsidiaries of the Registrant

(23) Consent of Independent Auditors

(27) Financial Data Schedule -- Schedule II

* Management Contract or Compensatory Plan or Arrangement.

FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 27, 1996

OR

( ) 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 1-3359

CSX TRANSPORTATION, INC.

(Exact name of registrant as specified in its charter)

Virginia (State or other jurisdiction of incorporation or organization)	54-6000720 (I.R.S. Employer Identification No.)
500 Water Street, Jacksonville, FL. (Address of principal executive offices)	32202 (Zip Code)

Registrant's telephone number, including area code: (904) 359-3100

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

Title of each class	Name of each exchange on which each class is registered
Hocking Valley Railroad Company First Consolidated Mortgage 4-1/2% Bonds, due July 1, 1999	New York Stock Exchange
Louisville and Nashville Railroad Company First and Refunding Mortgage 3-3/8% Bonds, Series F, due April 1, 2003	New York Stock Exchange
Louisville and Nashville Railroad Company First and Refunding Mortgage 2-7/8% Bonds, Series G, due April 1, 2003	New York Stock Exchange
Monon Railroad 6% Income Debentures, due January 1, 2007	New York Stock Exchange

REGISTRANT MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION I (1) (a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH THE REDUCED DISCLOSURE FORMAT.

Securities Registered Pursuant to Section 12(g) of the Act: None.

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

State the aggregate market value of the voting stock held by nonaffiliates of the registrant. The aggregate market value of the voting stock at March 19, 1997, was $-0-, excluding the voting stock held by the parent of the registrant.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. The registrant has 9,061,038 shares of common stock, par value $20.00, outstanding at March 19, 1997.

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CSX TRANSPORTATION, INC. AND SUBSIDIARIES
1996 FORM 10-K ANNUAL REPORT
Table of Contents

PART I

Items 1. & 2. Business and Properties.

General

CSX Transportation, Inc. (CSXT) is engaged principally in the business of railroad transportation and operates a system comprising 18,504 miles of first main line track in 20 states principally east of the Mississippi River (exclusive of New England), southern Ontario and the District of Columbia, employing an average of 28,559 employees during its most recent fiscal year. It conducts railroad operations in its own name and through railroad subsidiaries.

CSXT is a wholly-owned subsidiary of CSX Corporation (CSX). CSX is a publicly-owned Virginia corporation with headquarters at One James Center, 901 East Cary Street, Richmond, Virginia, 23219-4031. CSX also controls other transportation businesses which include Sea-Land Service, Inc., an ocean container-shipping company; CSX Intermodal, Inc., an intermodal and trucking company; American Commercial Lines, Inc., an inland barging and other marine-related activities business; and Customized Transportation, Inc., a contract logistics service supplier. CSX also has interests in real estate, resorts and resort management.

For information concerning business conducted by CSXT during 1996, see "Management's Narrative Analysis and Results of Operations" on pages 32 and 33.

Roadway

On December 27, 1996, CSXT's consolidated system consisted of 31,365 miles of track as follows:

	Track Miles
First Main	18,504
Second Main	2,674
Passing, Crossovers and Turnouts	2,369
Way and Yard Switching	7,818
Total	31,365

Included above are 865 miles of leased track, 2,408 miles of track under trackage rights agreements with other railroads and 198 miles of track under operating contracts.

Equipment

On December 27, 1996, CSXT and subsidiaries owned or leased the following:

	Owned	Leased	Total
Locomotives			
Freight	1,874	525	2,399
Switching	205	15	220
Auxiliary Units	162	0	162
Total	2,241	540	2,781
Freight Cars			
Open Top Hoppers	14,713	10,047	24,760
Gondolas	9,800	14,733	24,533
Covered Hoppers	11,233	7,015	18,248
Box Cars	9,306	5,566	14,872
Flat Cars	684	11,946	12,630
Other	1,479	1,270	2,749
Total	47,215	50,577	97,792

Item 3. Legal Proceedings.

A number of legal actions, other than the environmental matters described below, are pending against CSXT in which claims are made in substantial amounts. While the ultimate results of such actions cannot be predicted with certainty, management does not currently expect that these matters will have a material adverse effect on the consolidated financial position, results of operations and cash flows of the company.

CSXT has been identified, together with other parties, as a potentially responsible party in a number of governmental investigations and actions relating to environmentally impaired sites. Such sites frequently involve other waste generators and disposal companies that may pay some or all of such costs associated with site investigation and cleanup or from whom such costs may be recovered.

The wide range of costs of the possible remediation alternatives, changing cleanup technology, the length of time over which these matters develop and evolving governmental standards make it impossible to estimate precisely the company's potential liability for the costs associated with the assessment and remediation of contaminated sites.

CSXT has identified and maintains reserves for approximately 270 environmental sites at which the company is or may be liable for remediation costs. CSXT reviews its environmental reserves at least quarterly to determine whether additional provisions are necessary. Based on current information, CSXT believes its reserves are adequate to meet remedial actions and to comply with present laws and regulations. Although CSXT's financial results could be significantly affected in any quarterly reporting period in which CSXT incurred substantial remedial expenses at a number of these and other sites, CSXT believes the ultimate liability for these matters will not materially affect its overall results of operations and financial condition.

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

Information omitted in accordance with General Instruction I(2)(c).

PART II

Item 5. Market for Registrant's Common Stock and Related Stockholder Matters.

There is no market for CSXT's common stock as CSXT is a wholly-owned subsidiary of CSX. During the years 1996, 1995 and 1994, CSXT paid dividends on its common stock aggregating $886 million, $158 million and $28 million, respectively.

Item 6. Selected Financial Data.

Information omitted in accordance with General Instruction I(2)(a).

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

Information omitted in accordance with General Instruction I(2)(a).

However, in compliance with said Instruction, see "Management's Narrative Analysis and Results of Operations" on pages 32 and 33.

Item 8. Financial Statements and Supplementary Data.

The consolidated financial statements of CSXT and notes thereto required in response to this item are included herein (refer to Index to Consolidated Financial Statements on page 9).

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors, Executive Officers, Promoters and Control Persons of the Registrant.

Information omitted in accordance with General Instruction I(2)(c).

Item 11. Executive Compensation.

Information omitted in accordance with General Instruction I(2)(c).

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Information omitted in accordance with General Instruction I(2)(c).

Item 13. Certain Relationships and Related Transactions.

Information omitted in accordance with General Instruction I(2)(c).

PART IV

Item 14. Exhibits. Financial Statement Schedules and Reports on Form 8-K.

(a) 1. Financial Statements.

See Index to Consolidated Financial Statements on page 9.

2. Financial Statement Schedules.

All schedules are omitted because of the absence of the conditions under which they are required or because the required information is set forth in the financial statements or related notes thereto.

3. Exhibits.

(3.1) Articles of Incorporation, as amended, incorporated herein by reference from Registrant's report on Form 10-K for the year ended December 29, 1995.

(3.2) By-laws of the Registrant, as amended, incorporated herein by reference from Registrant's report on Form 10-K for the year ended December 29, 1995.

(27) Financial Data Schedule - Schedule II

(b) Reports on Form 8-K.

None.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 19th day of March, 1997.

CSX TRANSPORTATION, INC.

/s/ JAMES L. ROSS

James L. Ross
(Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title
/s/ John W. Snow John W. Snow*	Chairman of the Board and Director
/s/ Alvin R. Carpenter Alvin R. Carpenter*	President and Chief Executive Officer (Principal Executive Officer) and Director
/s/ Gerald L. Nichols Gerald L. Nichols*	Executive Vice President and Chief Operating Officer and Director
/s/ Mark G. Aron Mark G. Aron*	Director
/s/ Paul R. Goodwin Paul R. Goodwin*	Director
/s/ Michael J. Ward Michael J. Ward*	Executive Vice President-Finance (Principal Finance Officer) and Director

/s/ Patricia J. Aftoora

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*Patricia J. Aftoora
(Attorney-in-Fact)

March 19, 1997

CSX TRANSPORTATION, INC. AND SUBSIDIARIES
Index to Consolidated Financial Statements

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

To the Shareholder and Board of Directors
of CSX Transportation, Inc.

We have audited the accompanying consolidated statement of financial position of CSX Transportation, Inc. and subsidiaries as of December 27, 1996 and December 29, 1995, and the related consolidated statements of earnings, cash flows and retained earnings for each of the three years in the period ended December 27, 1996. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 (appearing on pages 11-31) present fairly, in all material respects, the consolidated financial position of CSX Transportation, Inc. and subsidiaries at December 27, 1996 and December 29, 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 27, 1996, in conformity with generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

Ernst & Young LLP

Richmond, Virginia
January 31, 1997

CSX TRANSPORTATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EARNINGS
(Millions of Dollars)

	Fiscal Years Ended		
	Dec. 27, 1996	Dec. 29, 1995	Dec. 30, 1994
OPERATING REVENUE			
Merchandise	$ 3,181	$ 3,158	$ 3,048
Coal	1,584	1,523	1,465
Other	144	138	112
Total	4,909	4,819	4,625
OPERATING EXPENSE			
Labor and Fringe Benefits	1,890	1,855	1,856
Materials, Supplies and Other	1,006	1,076	1,022
Equipment Rent	366	391	392
Depreciation	413	385	371
Fuel	308	255	251
Restructuring Charge	---	196	---
Total	3,983	4,158	3,892
OPERATING INCOME	926	661	733
Other Income	46	37	96
Interest Expense	70	46	45
EARNINGS BEFORE INCOME TAXES	902	652	784
Income Tax Expense	325	244	289
NET EARNINGS	$ 577	$ 408	$ 495

See accompanying Notes to Consolidated Financial Statements.

STB FD 33388 6-23-97 A 180274V7A 2/10

CSX TRANSPORTATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(Millions of Dollars)

	Fiscal Years Ended		
	Dec. 27, 1996	Dec. 29, 1995	Dec. 30, 1994
OPERATING ACTIVITIES			
Net Earnings	$ 577	$ 408	$ 495
Adjustments to Reconcile Net Earnings to Cash Provided			
Depreciation	413	385	371
Deferred Income Taxes	198	52	171
Restructuring Charge Provision	---	196	---
Productivity/Restructuring Charge Payments	(77)	(105)	(129)
Proceeds from Real Estate Sales	29	24	42
Gain on Sale of South Florida Track	---	---	(91)
Gain from Disposition of Properties	(20)	(20)	(38)
Other Operating Activities	(21)	38	66
Changes in Operating Assets and Liabilities			
Accounts Receivable	(37)	42	(27)
Sale of Accounts Receivable-Net	41	25	20
Other Current Assets	(22)	(7)	31
Accounts Payable and Other Current Liabilities	(39)	29	(15)
Net Cash Provided by Operating Activities	1,042	1,067	896
INVESTING ACTIVITIES			
Property Additions	(764)	(765)	(676)
Proceeds from Property Dispositions	56	76	18
Affiliated Company Activity	40	(37)	(37)
Proceeds from Sale of South Florida Track	---	---	130
Other Investing Activities	10	(1)	(35)
Net Cash Used by Investing Activities	(658)	(727)	(600)

CSX TRANSPORTATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS, CONTINUED
(Millions of Dollars)

	Fiscal Years Ended		
	Dec. 27, 1996	Dec. 29, 1995	Dec. 30, 1994
FINANCING ACTIVITIES			
Long-Term Debt Issued	118	121	92
Long-Term Debt Repaid	(80)	(114)	(93)
Cash Dividends Paid	(886)	(158)	(28)
Parent Company Advances Repaid	(19)	---	(86)
Affiliated Company Activity	56	---	---
Other Financing Activities	1	(8)	(1)
Cash Used by Financing Activities	(810)	(159)	(116)
Increase (Decrease) in Cash and Cash Equivalents	(426)	181	180
CASH AND CASH EQUIVALENTS			
Cash and Cash Equivalents at Beginning of Year	633	452	272
Cash and Cash Equivalents at End of Year	$ 207	$ 633	$ 452
SUPPLEMENTAL CASH FLOW INFORMATION			
Interest Paid - Net of Amounts Capitalized	$ 63	$ 50	$ 53
Income Taxes Paid	$ 135	$ 227	$ 192

See accompanying Notes to Consolidated Financial Statements.

CSX TRANSPORTATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Millions of Dollars)

	Dec. 27, 1996	Dec. 29, 1995
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 207	$ 633
Accounts and Notes Receivable	62	66
Materials and Supplies	121	116
Deferred Income Taxes	183	201
Other Current Assets	41	15
Total Current Assets	614	1,031
Properties-Net	9,750	9,189
Affiliates and Other Companies	148	226
Other Long-Term Assets	288	183
Total Assets	$10,800	$10,629
LIABILITIES		
Current Liabilities		
Accounts Payable	$ 547	$ 558
Labor and Fringe Benefits Payable	353	377
Casualty, Environmental and Other Reserves	199	194
Current Maturities of Long-Term Debt	77	74
Due to Parent Company	25	24
Due to Affiliate	90	---
Other Current Liabilities	37	6
Total Current Liabilities	1,328	1,233
Casualty, Environmental and Other Reserves	597	683
Long-Term Debt	886	613
Deferred Income Taxes	2,493	2,265
Other Long-Term Liabilities	684	787
Total Liabilities	5,988	5,581
SHAREHOLDER'S EQUITY		
Common Stock, $20 Par Value: Authorized 10,000,000 Shares; Issued and Outstanding 9,061,038 Shares	181	181
Other Capital	1,263	1,193
Retained Earnings	3,368	3,674
Total Shareholder's Equity	4,812	5,048
Total Liabilities and Shareholder's Equity	$10,800	$10,629

See accompanying Notes to Consolidated Financial Statements.

CSX TRANSPORTATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF RETAINED EARNINGS
(Millions of Dollars)

	Dec. 27, 1996	Dec. 29, 1995	Dec. 30, 1994
Beginning Balance	$3,674	$3,424	$2,957
Net Earnings	577	408	495
Dividends - Common	(886)	(158)	(28)
Minimum Pension Liability Adjustments and Other	3	---	---
Ending Balance	$3,368	$3,674	$3,424

See accompanying Notes to Consolidated Financial Statements.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES.

Nature of Operations

CSX Transportation, Inc. (CSXT) is a rail freight transportation company operating a system composed of 18,504 route miles of track in 20 states in the eastern, midwestern, and southern portions of the United States and in Ontario, Canada. Coal, bulk products, and manufactured products each contribute approximately one-third of the company's transportation revenue. Coal shipments primarily supply domestic utility and export markets. Shipments of bulk products for domestic and export markets include chemicals, minerals, agricultural products, and phosphates and fertilizer. Shipments of manufactured products for domestic and export markets include automobiles, forest products, metals, and food and consumer products.

CSXT is a wholly-owned subsidiary of CSX Corporation (CSX).

Principles of Consolidation

The Consolidated Financial Statements include CSXT and its majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Investments in companies that are not majority-owned are carried at either cost or equity, depending on the extent of control.

Fiscal Year

The company's fiscal reporting period ends on the last Friday in December. The financial statements presented are for the fiscal periods ended December 27, 1996, December 29, 1995 and December 30, 1994. Each fiscal year consists of four 13-week quarters.

Cash and Cash Equivalents

Cash and cash equivalents primarily represent amounts due from CSX for CSXT's participation in the CSX cash management plan and are net of outstanding checks which are funded daily as presented for payment.

Accounts Receivable

CSXT has an ongoing agreement to sell without recourse, on a revolving basis each month, an undivided percentage ownership interest in all freight accounts receivable to CSX Trade Receivables Corporation (CTRC), a wholly-owned subsidiary of CSX. At December 27, 1996 and December 29, 1995, accounts receivable sold under this agreement totaled \$644 million and \$603 million, respectively. In addition, CSXT has a revolving agreement with a financial institution to sell with recourse on a monthly basis an undivided percentage ownership interest in all miscellaneous accounts receivable. At December 27, 1996 and December 29, 1995, accounts receivable sold under this agreement totaled \$46 million. The sales of receivables have been reflected as reductions of "Accounts and Notes Receivable" in the Consolidated Statement of Financial Position. The net costs associated with the sales of receivables were \$55 million in 1996, \$54 million in 1995 and \$45 million in 1994.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES, Continued.

Materials and Supplies

Materials and supplies consist primarily of fuel and items for maintenance of property and equipment, and are carried at average cost.

Properties

Main line track is depreciated on a group basis using a unit-of-property method. All other property and equipment is depreciated on a straight-line basis over estimated useful lives of three to 50 years.

Regulations established by the former Interstate Commerce Commission and currently monitored by the Surface Transportation Board of the U.S. Department of Transportation (DOT) require periodic formal studies of ultimate service lives for all railroad assets. Resulting service life estimates are subject to review and approval by the DOT. Significant premature retirements for all properties, which would include major casualty losses, abandonments, sales and obsolescence of assets, are recorded as gains or losses at the time of their occurrence. Expenditures which significantly increase asset values or extend useful lives are capitalized. Repair and maintenance expenditures are charged to operating expense when the work is performed. All properties are stated at cost.

Properties and other long-lived assets are reviewed for impairment whenever events or business conditions indicate the carrying amount of such assets may not be fully recoverable. Initial assessments of recoverability are based on estimates of undiscounted future net cash flows associated with an asset or group of assets. Where impairment is indicated, the assets are evaluated for sale or other disposition, and their carrying amount is reduced to fair value based on discounted net cash flows or other estimates of fair value.

The company acquired $255 million in property in 1996 which did not require an immediate outlay of cash. These property additions included the acquisition of $164 million in railcars and locomotives, formerly leased from a CSX-affiliated company, in exchange for the assumption of corresponding debt. The property additions also included the early delivery of 55 alternating current locomotives under an arrangement in which payment of the $91 million aggregate purchase price was deferred to the subsequent periods in which the locomotives would have originally been delivered. Under generally accepted accounting principles, these noncash transactions are not reflected in the Consolidated Statement of Cash Flows.

Revenue Recognition

Transportation revenue is recognized proportionately as shipments move from origin to destination.

Environmental Costs

Environmental costs that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to remediating an existing

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES, Continued.

condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when CSXT's responsibility for environmental remedial efforts is deemed probable, and the costs can be reasonably estimated. Generally, the timing of these accruals coincides with the completion of a feasibility study or CSXT's commitment to a formal plan of action.

Derivative Financial Instruments

CSX may use derivative financial instruments from time to time in the management of its interest, foreign currency and commodity exposure on behalf of CSXT and other CSX subsidiaries. Such derivative financial instruments are accounted for on an accrual basis, and income and expense are recorded in the same category as that of the underlying asset or liability. Gains and losses related to hedges of existing assets or liabilities are deferred and recognized over the expected remaining life of the related asset or liability. Gains and losses related to hedges of anticipated transactions are also deferred and recognized in income in the same period as the hedged transaction. CSX had no significant derivative financial instruments outstanding at December 27, 1996.

Common Stock and Other Capital

There have been no changes in common stock during the last three years. During 1996, CSX contributed to the company $70 million in net pension assets. During 1995, $146 million in capital stock of CSX Realty, Inc. and related subsidiaries was contributed by CSX.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates in reporting the amounts of certain revenues and expenses for each fiscal year and certain assets and liabilities at the end of each fiscal year. Actual results may differ from those estimates.

Prior-Year Data

Certain prior-year data have been reclassified to conform to the 1996 presentation.

Accounting Pronouncements

The Financial Accounting Standards Board has issued Statement No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which establishes new guidelines for accounting and disclosure related to transfers of trade accounts receivable and other financial assets. In addition, the American Institute of Certified Public Accountants has issued Statement of Position No. 96-1 "Environmental Remediation Liabilities," which provides revised guidance on accounting and disclosure relative to environmental

(All Tables in Millions of Dollars)

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES, Continued.

obligations. The company will adopt both pronouncements in 1997 and does not expect either pronouncement to have a material impact on its financial statements.

NOTE 2. RESTRUCTURING CHARGE.

In the second quarter of 1995, the company recorded a $196 million pretax restructuring charge to recognize the costs associated with a contractual agreement with a major telecommunications vendor to replace, manage, and technologically enhance its existing private telecommunications network. The initiative resulted in a write-down of assets rendered technologically obsolete and a provision for separation and labor protection payments to affected employees.

The agreement, which originally was to expire in May 2005, provided for the vendor to supply and manage new technology to replace CSXT's existing telecommunications system, thereby rendering it commercially obsolete. These assets, comprising CSXT's internal companywide telecommunications network, including existing microwave and fiber optic communications systems, have no alternative use and their net realizable value is not significant. As a result of the agreement, the net book value of the assets to be replaced was reduced by $163 million.

During 1996, CSXT and the vendor amended the agreement to change the termination date to June 30, 1998, to increase the payments required over the revised service period, and to relieve the vendor's obligations to replace certain technology. CSXT is currently evaluating options for proceeding with further telecommunications initiatives.

A summary of the restructuring charge and related activity through December 27, 1996 is as follows:

	Obsolete Assets	Separation and Labor Protection Costs	Total
Restructuring Charge	$163	$33	$196
Amounts Utilized through December 27, 1996	163	1	164
Remaining Reserve as of December 27, 1996	$---	$32	$ 32

The total provision for separation and labor protection payments relates to approximately 275 affected employees and was based on existing collective bargaining agreements with members of clerical, electrical, and signal crafts. Through December 27, 1996, 29 employee separations have been finalized. The company expects the remaining affected employees to be impacted within the next four years.

(All Tables in Millions of Dollars)

NOTE 3. SUPPLEMENTAL STATEMENT OF EARNINGS FINANCIAL DATA.

	1996	1995	1994
Selling, General and Administrative Expense	$800	$846	$849

NOTE 4. OTHER INCOME.

	1996	1995	1994
Interest Income - Other	$ 9	$ 17	$ 20
Interest Income - CSX Cash Management Plan	33	34	13
Income from Real Estate Operations (a)	51	43	47
Loss on Investment Transactions	---	---	(26)
Gain on South Florida Track Sale (b)	---	---	91
Fees Related to Accounts Receivable Sold	(55)	(54)	(45)
Miscellaneous	8	(3)	(4)
Total	$ 46	$ 37	$ 96

(a) Gross revenue from real estate operations was $76 million, $68 million and $78 million in 1996, 1995 and 1994, respectively.

(b) In May 1988, CSXT sold approximately 80 miles of track and right of way in Broward, Dade and Palm Beach counties to the State of Florida for $264 million subject to annual appropriations which were accounted for on an installment basis. In December 1994, the State of Florida elected to satisfy its remaining unfunded obligation issued in 1988 to consummate the purchase of track and right-of-way. The transaction resulted in cash proceeds of $102 million and a pretax gain of $69 million. The scheduled payment resulted in a $22 million gain in 1994.

(All Tables in Millions of Dollars)

NOTE 5. INCOME TAXES.

Income tax expense information is as follows:

	1996	1995	1994
Current			
Federal	$106	$169	$106
State and Foreign	21	23	12
Total Current	127	192	118
Deferred			
Federal	202	55	164
State	(4)	(3)	7
Total Deferred	198	52	171
Total Expense	$325	$244	$289

Income tax expense reconciled to the tax computed at statutory rates is as follows:

	1996		1995		1994	
Tax at Statutory Rates	$316	35%	$228	35%	$274	35%
State Income Taxes	10	1	13	2	13	2
Other	(1)	--	3	--	2	--
Total Expense	$325	36%	$244	37%	$289	37%

The significant components of deferred tax assets and liabilities include:

	Dec. 27, 1996	Dec. 29, 1995
Deferred Tax Assets		
Productivity/Restructuring Charges	$ 154	$ 220
Employee Benefit Plans	206	209
Alternative Minimum Tax Credits	5	93
Other	269	274
Total	634	796
Deferred Tax Liabilities		
Accelerated Depreciation	2,685	2,684
Other	259	176
Total	2,944	2,860
Net Deferred Tax Liabilities	$2,310	$2,064

NOTE 5. INCOME TAXES, Continued.

CSXT and its subsidiaries are included in the consolidated federal income tax return filed by CSX. The consolidated federal income tax expense or benefit is allocated to CSXT and its subsidiaries as though CSXT had filed a separate consolidated return.

Examinations of the federal income tax returns of CSX and its principal subsidiaries have been completed through 1990. Returns for 1991-1993 are currently under examination. Management believes adequate provision has been made for any adjustments that might be assessed.

NOTE 6. RELATED PARTIES.

Cash and cash equivalents at December 27, 1996 and December 29, 1995, includes $250 million and $677 million, respectively, representing amounts due from CSX for CSXT's participation in the CSX cash management plan. Under this plan, excess cash is advanced to CSX for investment and CSX makes cash funds available to its subsidiaries as needed for use in their operations. CSX is committed to repay all amounts due on demand should circumstances require. The companies are charged for borrowings or compensated for investments based on returns earned by the plan portfolio.

During 1994, CSXT entered into a loan agreement with Customized Transportation, Inc. (CTI), a wholly-owned subsidiary of CSX, whereby CTI borrowed $40 million at prevailing interest rates from CSXT. On March 1, 1996, the loan was sold at book value to another CSX affiliate.

During 1992, CSXT entered into an agreement with CTRC to sell, on a revolving basis, without recourse, all existing accounts receivable to CTRC. In 1993, this agreement was amended to sell only freight accounts receivable to CTRC. As of December 27, 1996 and December 29, 1995, CSXT had sold $644 million and $603 million, respectively, of accounts receivable to CTRC.

During 1994, CSXT repaid the remaining formal long-term borrowings from CSX outstanding at December 31, 1993. No long-term borrowings from CSX were outstanding during either 1996 or 1995. Interest expense on borrowings from CSX was $3 million in 1994.

During 1989, CSXT's pension plan for salaried employees was merged with the CSX Pension Plan, and all assets of CSXT's plan were transferred to the merged plan. Since the plans were merged, CSX has allocated to CSXT a portion of the net pension expense for the CSX Pension Plan based on CSXT's relative level of participation in the merged plan, which considers the assets and personnel previously in the CSXT plan. The allocated expense from the CSX Pension Plan amounted to $32 million in 1996, $26 million in 1995 and $42 million in 1994. During 1996, CSXT also received $113 million in pension assets, $70 million after-tax, from CSX through a capital contribution.

NOTE 6. RELATED PARTIES, Continued.

Included in Materials, Supplies and Other expense are amounts related to a management service fee charged by CSX, data processing related charges from CSX Technology, Inc.(CSX Technology), and the reimbursement, under an operating agreement, from CSX Intermodal, Inc. (CSXI), for costs incurred by CSXT related to intermodal operations. The management service fee charged by CSX represents compensation for certain corporate services provided to CSXT. These services include, but are not limited to, development of corporate policy and long-range strategic plans, allocation of capital, placement of debt, maintenance of employee benefit plans, internal audit and tax administration. The data processing related charges are compensation to CSX Technology for the development, implementation and maintenance of computer systems, software and associated documentation for the day-to-day operations of CSXT. CSX Technology and CSXI are wholly-owned subsidiaries of CSX. Materials, Supplies and Other expense includes net expense of $212 million, $202 million and $203 million in 1996, 1995 and 1994, respectively, relating to the above arrangements.

CSXT entered into operating lease agreements with CSXI in October 1991 and December 1992 under which it agreed to lease 3,400 rebuilt coal gondola cars through March 2006 and 65 locomotives through May 2008, respectively. Effective March 1, 1996, the operating leases were terminated and CSXT purchased the cars and locomotives from CSXI for $164 million, an amount approximating CSXI's net book value. In conjunction with this transaction, CSXT assumed $145 million in long-term debt secured by the equipment and $19 million of advances payable from CSXI to CSX. CSXT repaid the $19 million advances due to CSX in December 1996.

In March 1996, CSXT entered into a loan agreement with CSX Insurance Company (CSX Insurance), a wholly-owned subsidiary of CSX, whereby CSXT may borrow up to $100 million from CSX Insurance. The loan is payable in full on demand. At December 27, 1996, $90 million was outstanding under the agreement. Interest on the loan is payable monthly at .25% over the LIBOR rate, and was 5.84% at December 27, 1996. Interest expense incurred for the fiscal year ended December 27, 1996 was $4 million relating to this loan agreement.

During 1988, CSXT participated with Sea-Land Service, Inc. (Sea-Land), a wholly-owned subsidiary of CSX, in four sale-leaseback arrangements. Under these arrangements, Sea-Land sold equipment to a third party and CSXT leased the equipment and assigned the lease to Sea-Land. Sea-Land is obligated for all lease payments and other associated equipment expenses. If Sea-Land defaults on its obligations, under the arrangements CSXT would assume the asset lease rights and obligations of $131 million at December 27, 1996.

(All Tables in Millions of Dollars)

NOTE 7. PROPERTIES.

December 27, 1996

	Cost	Accumulated Depreciation	Net
Transportation			
Road	$ 9,308	$2,619	$6,689
Equipment	4,220	1,427	2,793
	13,528	4,046	9,482
Non Transportation	275	7	268
Total	$13,803	$4,053	$9,750

December 29, 1995

	Cost	Accumulated Depreciation	Net
Transportation			
Road	$ 9,157	$2,620	$6,537
Equipment	3,829	1,417	2,412
	12,986	4,037	8,949
Non Transportation	246	6	240
Total	$13,232	$4,043	$9,189

(All Tables in Millions of Dollars)

NOTE 8. CASUALTY, ENVIRONMENTAL AND OTHER RESERVES.

Activity relating to casualty, environmental and other reserves is as follows:

	Casualty(a) Reserves(b)	Environmental Reserves(a)	Separation (a) Liabilities(c)	Total
Balance Dec. 31, 1993	$ 379	$ 131	$ 622	$1,132
Charged to Expense and Other Additions	164	32	---	196
Payments and Other Reductions	(184)	(23)	(228)(d)	(435)
Balance Dec. 30, 1994	359	140	394	893
Charged to Expense and Other Additions	179	22	33	234
Payments and Other Reductions	(174)	(25)	(51)	(250)
Balance Dec. 29, 1995	364	137	376	877
Charged to Expense and Other Additions	116	16	---	132
Payments and Other Reductions	(151)	(36)	(26)	(213)
Balance Dec. 27, 1996	$ 329	$ 117	$ 350	$ 796

(a) Balances include current portion of casualty and environmental reserves and separation liabilities, respectively, of $135 million, $20 million, and $45 million at December 27, 1996, $147 million, $20 million and $27 million at December 29, 1995 and $133 million, $20 million and $14 million at December 30, 1994.

(b) Casualty reserves are estimated based upon the first reporting of an accident or personal injury to an employee. Liabilities for accidents are based upon field reports and liabilities for personal injuries are based upon the type and severity of the injury and the use of current trends and historical data.

(c) Separation liabilities include $318 million at December 27, 1996, $344 million at December 29, 1995 and $376 million at December 30, 1994 related to productivity charges recorded in 1991 and 1992 to provide for the estimated costs of implementing workforce reductions, improvements in productivity and other cost reductions. The remaining liabilities are expected to be paid out over the next 20 to 25 years.

(d) Includes the transfer of $156 million in 1994 to a separation-related pension obligation, representing the future cost of pensions for certain train crew employees impacted by the buyout of trip-based compensation provided for in the 1992 productivity charge.

(All Tables in Millions of Dollars)

NOTE 9. LONG-TERM DEBT.

Type and Maturity Dates	Average Interest Rates at Dec. 27, 1996	Dec. 27, 1996	Dec. 29, 1995
Equipment Obligations (1997-2011)	8%	$ 711	$ 427
Mortgage Bonds (1998-2003)	4%	76	76
Other Obligations (1997-2021)	6%	176	184
Total	7%	963	687
Less Debt Due Within One Year		77	74
Total Long-Term Debt		$ 886	$ 613

CSXT has long-term debt maturities for 1997 through 2001 aggregating $77 million, $80 million, $89 million, $69 million and $60 million, respectively.

A portion of the properties and certain other assets of CSXT and its subsidiaries are pledged as security for various long-term debt issues.

NOTE 10. FAIR VALUE OF FINANCIAL INSTRUMENTS.

Fair values of the company's financial instruments are estimated by reference to quoted prices from market sources and financial institutions, as well as other valuation techniques. Long-term debt is the only financial instrument of the company with a fair value significantly different from its carrying amount. At December 27, 1996, the fair value of long-term debt, including current maturities, was $989 million, compared with a carrying amount of $963 million. At December 29, 1995, the fair value of long-term debt, including current maturities, was $720 million, compared with a carrying amount of $687 million. The fair value of long-term debt has been estimated using discounted cash flow analyses based upon the company's current incremental borrowing rates for similar types of financing arrangements.

NOTE 11. EMPLOYEE BENEFIT PLANS.

Pension Plans

CSX and its subsidiaries, including CSXT, sponsor defined benefit pension plans principally for salaried employees. The plans provide eligible employees with retirement benefits based principally on years of service and compensation rates near retirement. Annual contributions to the plans are sufficient to meet the minimum funding standards set forth in the Employee Retirement Income Security Act of 1974, as amended. See Note 6 for the allocated pension expense from the CSX Pension Plan.

(All Tables in Millions of Dollars)

NOTE 11. EMPLOYEE BENEFIT PLANS, Continued.

Savings Plans

CSXT maintains savings plans for virtually all full-time salaried employees and certain employees covered by collective bargaining agreements of CSXT and subsidiary companies. Eligible employees may contribute from 1% to 15% of their annual compensation in 1% multiples to these plans. CSXT matches eligible employees' contributions in an amount equal to the lesser of 50% of each participating employee's contribution or 3% of their annual compensation. In addition, CSXT contributes fixed amounts for participating employees covered by certain collective bargaining agreements. Expense for these plans was $15 million for 1996 and $22 million for each of the years 1995 and 1994.

Other Post-Retirement Benefit Plans

In addition to the CSX defined benefit pension plans, CSXT participates with CSX and other affiliates in two defined benefit post-retirement plans which cover most full-time salaried employees. One plan provides medical benefits and the other provides life insurance benefits. The post-retirement medical plan is contributory, with retiree contributions adjusted annually, and contains other cost-sharing features such as deductibles and coinsurance. The net benefit obligation for the medical plan anticipates future cost-sharing changes consistent with the company's expressed intent to increase retiree contribution rates annually in line with expected medical cost inflation rates. The life insurance plan is non-contributory.

The company's current policy is to fund the cost of the post-retirement medical and life insurance benefits on a pay-as-you-go basis, as in prior years. The amounts recorded for the plans in CSXT's statement of financial position are as follows:

	Medical Plan (at Valuation Date)		Life Insurance Plan (at Valuation Date)	
	Sept. 30, 1996	Dec. 29, 1995	Sept. 30, 1996	Dec. 29, 1995
Accumulated Post-Retirement Benefit Obligation:				
Retirees	$168	$155	$55	$63
Fully Eligible Active Participants	17	13	2	2
Other Active Participants	20	20	1	1
Accumulated Post-Retirement Benefit Obligation	205	188	58	66
Unrecognized Prior Service Cost	6	9	3	3
Unrecognized Net(Loss) Gain	(41)	(32)	1	(8)
Claim Payments, Oct. 1 through Year-End	(5)	(a)	(1)	(a)
Net Post-Retirement Benefit Obligation at Year-End	$165	$165	$61	$61

(a) In 1996, the company changed the measurement date for valuing its post-retirement benefit obligation to September 30. The change in measurement date had no effect on 1996 or prior years' net expense for post-retirement benefits.

NOTE 11. EMPLOYEE BENEFIT PLANS, Continued

Other Post-Retirement Benefit Plans, Continued

Net expense for post-retirement benefits was $22 million, $22 million, and $21 million for 1996, 1995 and 1994, respectively. The net post-retirement benefit obligation was determined using the assumption that the health care cost trend rate for medical plans was 10% for 1996-1997, decreasing gradually to 5.5% by 2005 and remaining at that level thereafter. A 1% increase in the assumed health care cost trend rate would increase the accumulated post-retirement benefit obligation for medical plans as of December 27, 1996 by $14 million and net post-retirement benefit expense for 1996 by $2 million. The discount rate used in determining the accumulated post-retirement benefit obligation was 7.50% for 1996 and 1995, and 8.25% for 1994.

Other Plans

Under collective bargaining agreements, the company participates in a number of union-sponsored, multi-employer benefit plans. Payments to these plans are made as part of aggregate assessments generally based on number of employees covered, hours worked, tonnage moved or a combination thereof. The administrators of the multi-employer plans generally allocate funds received from participating companies to various health and welfare benefit plans and pension plans. Current information regarding such allocations has not been provided by the administrators. Total contributions of $142 million, $148 million and $125 million, respectively, were made to these plans in 1996, 1995 and 1994.

Certain officers and key employees of CSXT participate in stock purchase, performance and award plans of CSX. CSXT is allocated its share of any cost to participate in these plans.

NOTE 12. SUMMARY OF COMMITMENTS AND CONTINGENCIES.

Lease Commitments

CSXT leases equipment under agreements with terms up to 21 years. Non-cancelable, long-term leases generally include provisions for maintenance, and options to purchase at fair value and to extend the terms. At December 27, 1996, minimum equipment rentals under non-cancelable operating leases totaled approximately $165 million for 1997, $164 million for 1998, $147 million for 1999, $129 million for 2000, $122 million for 2001 and $1 billion thereafter.

Rent expense on equipment operating leases, including net daily rental charges on railroad operating equipment of $205 million, $218 million and $220 million in 1996, 1995 and 1994, respectively, amounted to $366 million in 1996, $390 million in 1995 and $392 million in 1994.

Purchase Commitment

CSXT entered into agreements during 1993 and 1996 to purchase 380 locomotives. These large orders cover normal locomotive replacement needs

NOTE 12. SUMMARY OF COMMITMENTS AND CONTINGENCIES, Continued.

for 1994 through 1997 and introduced alternating current traction technology to the locomotive fleet. CSXT has taken delivery of 50 direct current and 255 alternating current locomotives through December 27, 1996. The remaining 75 alternating current units will be delivered in 1997.

Other Commitments

During 1995, CSXT entered into an agreement with a major telecommunications vendor to supply and manage its telecommunications needs through May 2005. As discussed in Note 2 - Restructuring Charge, the agreement was amended in 1996 to significantly reduce the service period, increase contractual payment amounts over the revised service period, and relieve the vendor of obligations to replace certain telecommunications technology. The amended agreement provides for a revised termination date of June 30, 1998, and requires minimum payments totaling $56 million over the remaining service period.

Contingent Liabilities and Long-Term Operating Agreements

CSXT and its subsidiaries are contingently liable individually and jointly with others as guarantors of long-term debt and obligations principally related to leased equipment, joint ventures and joint facilities. These contingent obligations were immaterial to the company's results of operations and financial position at December 27, 1996.

CSXT has various long-term railroad operating agreements that allow for exclusive operating rights over various railroad lines. Under these agreements, CSXT is obligated to pay usage fees of approximately $9 million annually. The terms of these agreements range from 30 to 40 years.

CSXT is a party to various proceedings involving private parties and regulatory agencies related to environmental issues. CSXT has been identified as a potentially responsible party (PRP) at approximately 105 environmentally impaired sites that are or may be subject to remedial action under the Federal Superfund statute (Superfund) or similar state statutes. A number of these proceedings are based on allegations that CSXT, or its predecessor railroads, sent hazardous substances to the facilities in question for disposal. Such proceedings arising under Superfund or similar state statutes can involve numerous other waste generators and disposal companies and seek to allocate or recover costs associated with site investigation and cleanup, which could be substantial.

CSXT is involved in a number of administrative and judicial proceedings and other cleanup efforts at approximately 270 sites, including sites addressed under the Federal Superfund statute or similar state statutes, at which it is participating in the study and/or cleanup of alleged environmental contamination. The assessment of the required response and remedial costs associated with many sites is extremely complex. Cost estimates are based on information available for each site, financial viability of other

NOTE 12. SUMMARY OF COMMITMENTS AND CONTINGENCIES, Continued

PRPs, where available, and existing technology, laws and regulations. CSXT's best estimates of the allocation method and percentage of liability when other PRPs are involved are based on assessments by consultants, agreements among PRPs, or determinations by the U.S. Environmental Protection Agency or other regulatory agencies.

At least once each quarter, CSXT reviews its role, if any, with respect to each such location, giving consideration to the nature of CSXT's alleged connection to the location (e.g., generator, owner or operator), the extent of CSXT's alleged connection (e.g., volume of waste sent to the location and other relevant factors), the accuracy and strength of evidence connecting CSXT to the location, and the number, connection and financial position of other named and unnamed PRPs at the location. The ultimate liability for remediation can be difficult to determine with certainty because of the number and creditworthiness of PRPs involved. Through the assessment process, CSXT monitors the creditworthiness of such PRPs in determining ultimate liability.

Based upon such reviews and updates of the sites with which it is involved, CSXT has recorded, and reviews at least quarterly for adequacy, reserves to cover estimated contingent future environmental costs with respect to such sites. The recorded liabilities for estimated future environmental costs at December 27, 1996 and December 29, 1995 were $117 million and $137 million, respectively. These recorded liabilities include amounts representing CSXT's estimate of unasserted claims, which CSXT believes to be immaterial. The liability has been accrued for future costs for all sites where the company's obligation is probable and where such costs can be reasonably estimated. The liability includes future costs for remediation and restoration of sites as well as any significant ongoing monitoring costs, but excludes any anticipated insurance recoveries. The majority of the December 27, 1996 environmental liability is expected to be paid out over the next five to seven years, funded by cash generated from operations.

The company does not currently possess sufficient information to reasonably estimate the amounts of additional liabilities, if any, on some sites until completion of future environmental studies. In addition, latent conditions at any given location could result in exposure, the amount and materiality of which cannot presently be reliably estimated. Based upon information currently available, however, the company believes that its environmental reserves are adequate to accomplish remedial actions to comply with present laws and regulations, and that the ultimate liability for these matters will not materially affect its overall results of operations and financial condition.

Legal Proceedings

A number of legal actions, other than environmental, are pending against CSXT in which claims are made in substantial amounts. While the ultimate results of environmental investigations, lawsuits and claims involving CSXT cannot be predicted with certainty, management does not currently expect

(All Tables in Millions of Dollars)

NOTE 12. SUMMARY OF COMMITMENTS AND CONTINGENCIES, Continued

that these matters will have a material adverse effect on the consolidated financial position, results of operations and cash flows of the company.

NOTE 13. QUARTERLY DATA (Unaudited).

	1996			
	1st	2nd(a)	3rd	4th
Operating Revenue	$1,195	$1,255	$1,211	$1,248
Operating Income	182	269	224	251
Net Earnings	107	164	133	173

	1995			
	1st	2nd(b)	3rd	4th
Operating Revenue	$1,194	$1,211	$1,191	$1,223
Operating Income	196	21	217	227
Net Earnings	114	9	138	147

(a) In the second quarter of 1996, the company changed its earnings presentation to exclude real estate activities from operating revenue and expense. These activities are now included in other income in the consolidated statement of earnings. Amounts for prior quarters have been restated to conform to the new presentation.

(b) The company recorded a $196 million pretax restructuring charge in the second quarter of 1995 to recognize the costs associated with a contractual agreement with a major telecommunications vendor to replace, manage and technologically enhance its existing private telecommunications network. The charge included a $163 million write-down of technologically obsolete telecommunications assets and provisions for employee separations. The restructuring charge reduced net earnings by $121 million.

CSXT posted record operating income of $926 million in 1996, 8% above 1995's comparable $857 million. The results are primarily due to strong performances by the coal and auto business units, continued selective rate increases and ongoing cost control efforts.

Improved pricing and volume strength combined to produce operating revenue of $4.9 billion, a 2% increase over 1995.

CSXT COMMODITIES BY CARLOADS AND REVENUE

	Carloads (Thousands)		Revenue (Millions of Dollars)	
	1996	1995	1996	1995
Automotive	367	357	$ 520	$ 503
Chemicals	408	406	719	700
Minerals	428	414	379	375
Food and Consumer	167	179	199	207
Agricultural Products	254	280	323	336
Metals	277	301	290	291
Forest Products	443	456	472	464
Phosphates and Fertilizer	511	512	279	282
Coal	1,711	1,678	1,584	1,523
Total	4,566	4,583	4,765	4,681
Other Revenue			144	138
Total Operating Revenue			$4,909	$4,819

Shipments of coal, CSXT's major commodity, remained strong in 1996, with total coal volume increasing to 163.6 million tons vs. 158.5 million tons in 1995. Total merchandise traffic of 2.9 million carloads remained level with 1995. Chemical traffic remained strong, comparable to the 1995 level, due to steady demand for plastic production. Driven by strong demand for trucks and sport utility vehicles, the automotive market experienced a 3% increase in carloads and a like increase in revenues in 1996.

A late harvest caused grain shipments to be less robust than in the prior year. This resulted in a 9% decrease in carloads and a 4% decrease in revenues for agricultural products. Demand for phosphates and fertilizer remained solid. Carloads were level with 1995, while revenue decreased 1%.

Throughout the year, CSXT continued its emphasis on cost control. Despite bad weather earlier in the first quarter and a 20% rise in the average price of diesel fuel, rail operating expense rose only 1% over 1995, excluding the 1995 second-quarter charge.

The ongoing efforts of the company's Performance Improvement Teams (PITs) resulted in cost savings of more than $106 million. PIT initiatives also resulted in more cost-effective procedures for locomotive and car repair, as well as maintenance of way.

Labor and fringe benefits expense increased 2% to $1.89 billion, vs. $1.86 billion in 1995. Rail management successfully negotiated, without a strike, a union contract that provides for competitive increases in labor and fringe benefits over the next five years.

OTHER MATTERS

CSX Corporation is negotiating the final details of a transaction to combine key components of the current Conrail, Inc. operations into the CSX rail system. Discussions with Norfolk Southern Corporation are expected to lead to a roughly equal division of the Conrail system between the two remaining major rail carriers in the East. The final terms of the acquisition will remain subject to a number of conditions, including the approval by the Surface Transportation Board, which has the authority to modify terms and impose additional conditions.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K405

(X) ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) of THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **December 31, 1996**.

OR

( ) 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 or organization)	(I.R.S. 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 on which registered
Norfolk Southern Corporation 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 whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes (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-K405 or any amendment to this Form 10-K405. (X)

The aggregate market value of the voting stock held by nonaffiliates as of February 28, 1997: $11,407,533,062

The number of shares outstanding of each of the registrant's classes of common stock, as of February 28, 1997: 125,185,548 (excluding 7,252,634 shares held by registrant's consolidated subsidiaries)

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's definitive proxy statement (to be dated April 1, 1997) to be filed electronically pursuant to Regulation 14A not later than 120 days after the end of the fiscal year are incorporated by reference in Part III.

TABLE OF CONTENTS

PART I

Item 1. Business.

and

Item 2. Properties.

GENERAL - Norfolk Southern Corporation (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 (ICC) (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). As of December 31, 1996, all the common stock of NW (100 percent voting control) was owned by Norfolk Southern Railway, and all the common stock of Norfolk Southern Railway and 16.1 percent of its voting preferred stock (resulting in 94.8 percent voting control) was owned directly by Norfolk Southern.

On June 21, 1985, Norfolk Southern acquired control of North American Van Lines, Inc. and its subsidiaries (NAVL), a diversified motor carrier. In accordance with an Acquisition Agreement dated May 2, 1984, and with the approval of the transaction by the ICC, Norfolk Southern acquired all the issued and outstanding common stock of NAVL. During 1993, NAVL underwent a restructuring (see discussion on page 7) designed to enhance its opportunities to return to profitability.

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

PROPOSED ACQUISITION OF CONRAIL INC. - On October 24, 1996, in response to the October 15, 1996, announcement that Conrail Inc. (Conrail) had entered into a merger agreement with CSX Corporation, NS commenced an all-cash tender offer for all the Common Stock and Series A ESOP Convertible Junior Preferred Stock of Conrail (collectively, Shares), including in each case the associated Common Stock Purchase Rights. See Note 15 to the Consolidated Financial Statements on page 76 for additional details.

On February 11, 1997, NS acquired 8.2 million Shares of Conrail stock (approximately 9.9 percent of the then outstanding Conrail Common Stock), representing the approximate maximum number NS could buy without triggering Conrail's anti-takeover defenses, at a cost of $115 per Share, or $943 million in the aggregate. The purchase was financed through issuance of commercial paper backed by a portion of the revolving debt capacity under the credit facility obtained in connection with the proposed acquisition of Conrail. These Shares have been placed in a voting trust and under certain circumstances might have to be sold at a loss.

On February 12, 1997, NS commenced a second tender offer for the remaining Shares and has notified Conrail of its intention to conduct a proxy contest in connection with Conrail's 1997 Annual Meeting of shareholders, currently scheduled for December 19, 1997, seeking, among other things, to remove certain of the current members of the Conrail Board and to elect a new slate of nominees designated by NS.

Pursuant to an amendment to the merger agreement between CSX and Conrail announced on March 7, 1997, CSX has offered to purchase all Shares for $115 per Share in cash and CSX is permitted to enter into negotiations with other parties, including NS, concerning the acquisition of the securities or assets, or concessions relating to the assets or operations, of Conrail. NS and CSX are negotiating a comprehensive resolution of the issues confronting the eastern railroads based on the proposal submitted by NS to both CSX and Conrail on February 24, 1997. Such a resolution could involve a joint acquisition of Shares by NS and CSX. However, unless and until such negotiations are successfully concluded, NS intends to continue in effect its tender offer for all Shares not owned by NS.

For additional information concerning NS' pending tender offer for Shares not owned by NS, reference is made to NS' Tender Offer Statement on Schedule 14D-1, together with the exhibits thereto, initially filed with the Securities and Exchange Commission on February 12, 1997, as amended.

RAILROAD OPERATIONS - As of December 31, 1996, NS' railroads operated approximately 14,300 miles of road in the states of Alabama, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maryland, Michigan, Mississippi, Missouri, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia and West Virginia, and the Province of Ontario, Canada. Of this total, 12,094 miles are owned with the balance operated under lease or trackage rights; most of this total are main line track. In addition, its railroads operate 10,800 miles of passing, industrial, yard and side tracks.

NS' railroads have major leased lines between Cincinnati, Ohio, and Chattanooga, Tennessee, and in the State of North Carolina.

The Cincinnati-Chattanooga lease, covering about 335 miles, expires in 2026, and is subject to an option to extend the lease for an additional 25 years, at terms to be agreed upon.

The North Carolina leases, covering approximately 330 miles, expired by their terms at the end of 1994. Although a lease extension agreement was approved by the boards of both Norfolk Southern and the North Carolina Railroad Company (NCRR) and by the stockholders of NCRR, the U.S. District Court in Raleigh ruled that there was no quorum at the stockholders' meeting and enjoined the parties from performing under the extension agreement. NCRR has suits pending against Norfolk Southern and various subsidiaries in federal court in Raleigh to enforce rights under the expired leases and at the STB to seek the establishment of terms and conditions of NS' railroads' continued use, including interim and long-term compensation. Also, certain NCRR stockholders earlier had filed four separate, and still pending, derivative actions challenging the adequacy of the rental terms in the extension agreement. NS' railroads presently are operating over the leased lines under the requirements of federal law, and will continue to do so until the matter has been resolved through agreement or a decision by the STB establishing reasonable conditions or permitting discontinuance of such operations. Whatever the ultimate resolution of the litigation, it is not expected to have a material effect on NS' consolidated financial statements.

NS' lines carry raw materials, intermediate products and finished goods primarily in the Southeast and Midwest and to and from the rest of the United States and parts of Canada. These lines also transport overseas freight through several Atlantic and Gulf Coast ports. Atlantic ports served by NS include: Norfolk, Virginia; Morehead City, North Carolina; Charleston, South Carolina; Savannah and Brunswick, Georgia; and Jacksonville, Florida. Gulf Coast ports served include: Mobile, Alabama, and New Orleans, Louisiana.

The lines of NS' railroads reach most of the larger industrial and trading centers of the Southeast and Midwest, with the exception of those in central and southern Florida. Atlanta, Birmingham, New Orleans, Memphis, St. Louis, Kansas City (Missouri), Chicago, Detroit, Cincinnati, Buffalo, Norfolk, Charleston, Savannah and Jacksonville are among the leading centers originating and terminating freight traffic on the system. In addition, a haulage arrangement with the Florida East Coast Railway allows NS' railroads to provide single-line service to and from south Florida, including the port cities of Miami, West Palm Beach and Fort Lauderdale. The system's lines also reach many individual industries, mines (in western Virginia, eastern Kentucky and southern West Virginia) and businesses located in smaller communities in its service area. The traffic corridors carrying the heaviest volumes of freight include those from the Appalachian coal fields of Virginia, West Virginia and Kentucky to Norfolk and Sandusky, Ohio; Buffalo to Chicago and Kansas City; Chicago to Jacksonville (via Cincinnati, Chattanooga and Atlanta); and Washington, D.C./Hagerstown, Maryland, to New Orleans (via Atlanta and Birmingham).

Buffalo, Chicago, Hagerstown, Jacksonville, Kansas City, Memphis, New Orleans and St. Louis are major gateways for interterritorial system traffic.

NS' railroads and other railroads have entered into service interruption agreements, effective December 30, 1994, providing indemnities to parties affected by a strike over specified industry issues. If NS were so affected, it could receive daily indemnities from non-affected parties; if parties other than NS were affected, NS could be required to pay indemnities to those parties. If NS were required to pay the maximum amount of indemnities required of it under these agreements--an event considered unlikely at this time--such liability should not exceed approximately $85 million.

MOTOR CARRIER OPERATIONS - DOMESTIC OPERATIONS - NAVL's principal transportation activity is the domestic, irregular route common and contract carriage of used household goods and special commodities between points in the United States. NAVL also operates as an intrastate carrier of property in 29 states. Prior to its restructuring in 1993, NAVL's domestic motor carrier business was organized into three primary divisions: Relocation Services (RS) specializing in residential relocation of used household goods; High Value Products (HVP) specializing in office and industrial relocations and transporting exhibits; and Commercial Transport (CT) specializing in the transportation of truckload shipments of general commodities. In 1993, NAVL underwent a restructuring involving termination of the CT Division and sale of the operations of Tran-Star, Inc. (Tran-Star), NAVL's refrigerated trucking subsidiary. In 1993, NAVL discontinued CT's operations, transferred some parts of CT's business to other divisions and began selling CT's assets that were not needed in NAVL's other operations. The sale of Tran-Star's operations was completed on December 31, 1993.

During 1996, the RS and HVP divisions conducted operations through a network of over 400 agents at approximately 680 locations in the United States. Agents are local moving and storage companies that provide NAVL with such services as solicitation, packing and warehousing in connection with the movement of household goods and specialized products. NAVL's future domestic operations are expected to be conducted principally through the RS and HVP divisions.

Customized Logistics Services (CLS) was established in 1993 as an operating unit of the HVP Division. CLS' business is to focus NAVL's resources to respond to a variety of customer needs for integrated logistics services. The services include emergency parts order fulfillment, time-definite transportation and in-transit merge programs (delivering an entire order, merged from multiple manufacturing points, to a customer at one time).

FOREIGN OPERATIONS - NAVL's foreign operations are conducted through the RS and HVP Divisions and through foreign subsidiaries, including North American Van Lines Canada, Ltd. The Canadian subsidiary provides motor carrier service for the transportation of used household goods and specialized commodities between most points in Canada through a network of approximately 150 agent locations. During 1996, certain administrative functions related to the Canadian operations were transferred to NAVL's Fort Wayne, Indiana, headquarters.

NAVL's international operations consist primarily of forwarding used household goods to and from the United States and between foreign countries through a network of approximately 360 foreign agents and representatives. NAVL's international operations are structurally aligned with the services provided by its domestic operating divisions. All international household goods operations and related subsidiaries in Alaska and Canada are assigned to the RS Division. The remaining international operations, which include subsidiaries in the United States, Germany and the United Kingdom, are involved in the transportation of selected general and specialized commodities and are assigned to the HVP Division.

TRIPLE CROWN OPERATIONS - Until April 1993, Norfolk Southern's intermodal subsidiary, Triple Crown Services, Inc. (TCS), offered intermodal service using RoadRailer (Registered Trademark) (RT) equipment and domestic containers. RoadRailer(RT) units are enclosed vans which can be pulled over highways in tractor-trailer configuration and over the rails by locomotives. On April 1, 1993, the business, name and operations of TCS were transferred to Triple Crown Services Company (TCSC), a partnership in which subsidiaries of Norfolk Southern and Conrail are equal partners. RoadRailer(RT) equipment owned or leased by TCS (which was renamed TCS Leasing, Inc.) is operated by TCSC. Because NS indirectly owns only 50 percent of TCSC, the revenues of TCSC are not consolidated with the results of NS. TCSC offers door-to-door intermodal service using RoadRailer(RT) equipment and domestic containers in the corridors previously served by TCS, as well as service to the New York and New Jersey markets via Conrail. Major traffic corridors include those between New York and Chicago, Chicago and Atlanta, and Atlanta and New York.

TRANSPORTATION OPERATING REVENUES - NS' total transportation operating revenues were $4.8 billion in 1996. Revenue, shipments and revenue yield by principal transportation operating revenue sources for the past five years are set forth in the following table:

Principal Sources of Transportation Operating Revenues	Year Ended December 31, 1996	1995	1994	1993	1992
(Revenues in millions, shipments in thousands, revenue yield in dollars per shipments)					
COAL					
Revenues	$ 1,304.7	$ 1,267.8	$ 1,290.2	$ 1,239.2	$ 1,324.1
% of total revenues	27.4%	27.2%	28.1%	27.8%	28.7%
Shipments	1,309.6	1,266.8	1,274.2	1,208.7	1,291.9
% of total shipments	26.5%	26.2%	27.2%	26.4%	28.2%
Revenue Yield	$ 996	$ 1,001	$ 1,013	$ 1,025	$ 1,025
CHEMICALS					
Revenues	$ 555.9	$ 536.5	$ 534.7	$ 499.0	$ 498.9
% of total revenues	11.7%	11.5%	11.7%	11.2%	10.8%
Shipments	378.6	368.3	370.7	341.6	327.4
% of total shipments	7.7%	7.6%	7.9%	7.5%	7.1%
Revenue Yield	$ 1,468	$ 1,457	$ 1,442	$ 1,461	$ 1,524
PAPER/FOREST					
Revenues	$ 513.0	$ 537.3	$ 521.8	$ 522.2	$ 517.2
% of total revenues	10.8%	11.5%	11.4%	11.7%	11.2
Shipments	438.2	459.1	464.2	466.3	465.4
% of total shipments	8.9%	9.5%	9.9%	10.2%	10.1%
Revenue Yield	$ 1,171	$ 1,170	$ 1,124	$ 1,120	$ 1,111
AUTOMOTIVE					
Revenues	$ 488.7	$ 449.1	$ 429.0	$ 425.8	$ 391.6
% of total revenues	10.2%	9.6%	9.4%	9.5%	8.5%
Shipments	354.3	328.4	317.2	317.8	287.7
% of total shipments	7.2%	6.8%	6.8%	6.9%	6.3%
Revenue Yield	$ 1,379	$ 1,368	$ 1,352	$ 1,340	$ 1,361

Principal Sources of Transportation Operating Revenues	1996	1995	1994	1993	1992
(Revenues in millions, shipments in thousands, revenue yield in dollars per shipment)					
AGRICULTURE					
Revenues	$ 393.3	$ 393.7	$ 379.5	$ 357.0	$ 344.4
% of total revenues	8.2%	8.4%	8.3%	8.0%	7.5%
Shipments	376.3	391.1	382.5	359.1	352.4
% of total shipments	7.6%	8.1%	8.2%	7.9%	7.7%
Revenue Yield	$ 1,045	$ 1,007	$ 992	$ 994	$ 977
METALS/CONSTRUCTION					
Revenues	$ 358.0	$ 353.1	$ 334.2	$ 310.9	$ 289.4
% of total revenues	7.5%	7.6%	7.3%	7.0%	6.3%
Shipments	364.9	372.3	371.3	339.6	312.8
% of total shipments	7.4%	7.7%	7.9%	7.4%	6.8%
Revenue Yield	$ 981	$ 948	$ 900	$ 915	$ 925
INTERMODAL (Trailers, Containers and RoadRailers)					
Revenues	$ 487.4	$ 474.3	$ 428.7	$ 373.6	$ 343.5
% of total revenues	10.2%	10.2%	9.3%	8.4%	7.5%
Shipments	1,331.0	1,262.6	1,127.3	994.7	916.2
% of total shipments	27.0%	26.2%	24.0%	21.7%	20.0%
Revenue Yield	$ 366	$ 376	$ 380	$ 376	$ 375
OTHER INTERMODAL RELATED*					
Revenues	$ --	$ --	$ --	$ 18.2	$ 67.9
% of total revenues	--	--	--	0.4%	1.5%
Total Railway Operating Revenues	$ 4,101.0	$ 4,011.8	$ 3,918.1	$ 3,745.9	$ 3,777.0
Total Railway Shipments	4,552.9	4,448.6	4,307.4	4,027.8	3,953.8
MOTOR CARRIER**					
Revenues	$ 669.0	$ 656.2	$ 663.2	$ 714.2	$ 829.6
% of total revenues	14.0%	14.0%	14.5%	16.0%	18.0%
Shipments (domestic)	383.1	381.1	379.3	550.2	631.0
% of total shipments	7.7%	7.9%	8.1%	12.0%	13.8%
Revenue Yield	$ 1,746	$ 1,722	$ 1,748	$ 1,298	$ 1,315
Total Transportation Operating Revenues	$ 4,770.0	$ 4,668.0	$ 4,581.3	$ 4,460.1	$ 4,606.6
Total Shipments	4,936.0	4,829.7	4,686.7	4,578.0	4,584.8

Note: Revenues previously reported as "other railway revenues" (principally switching and demurrage) have been allocated to revenues reported for each commodity group.

Shipments include general merchandise and coal rail carloads, intermodal rail and RoadRailer(RT) units, and domestic motor carrier shipments.

* See discussion on page 8 regarding TCSC revenues.

** See discussion on page 7 regarding motor carrier restructuring.

COAL TRAFFIC - Coal, coke and iron ore--most of which is bituminous coal--is NS' railroads' principal commodity group. They originated 116.8 million tons of coal, coke and iron ore in 1996 and handled a total of 130.2 million tons. Originated tonnage increased 2 percent from 114.2 million tons in 1995, and total tons handled increased 4 percent from 125.1 million tons in 1995. Revenues from coal, coke and iron ore account for about 27 percent of NS' total transportation operating revenues.

The following table shows total coal, coke and iron ore tonnage originated on line, received from connections and handled for the past five years:

	Tons of Coal, Coke and Iron Ore (Millions)				
	1996	1995	1994	1993	1992
Originated	116.8	114.2	114.8	111.9	117.9
Received	13.4	10.9	11.1	6.1	6.5
Handled	130.2	125.1	125.9	118.0	124.4

Of the 116.8 million tons of coal, coke and iron ore originated on NS' railroads' lines in 1996, the approximate breakdown by origin state was as follows:

Origin State	Millions of Tons
West Virginia	40.7
Virginia	35.4
Kentucky	26.8
Alabama	5.4
Illinois	5.1
Tennessee	1.8
Indiana	0.9
Ohio	0.5
New York	0.2
Total	116.8

Of this originated coal, coke and iron ore, approximately 26.9 million tons moved for export, principally through NS' pier facilities at Norfolk (Lamberts Point), Virginia; 19.7 million tons moved to domestic and Canadian steel industries; 62.3 million tons of steam coal moved to electric utilities; and 7.9 million tons moved to other industrial and miscellaneous users.

NS' railroads moved 8.7 million tons of originated coal, coke and iron ore to various docks on the Ohio River, and 3.6 million tons to various Lake Erie ports. Other than coal for export, virtually all coal handled by NS' railroads was terminated in states situated east of the Mississippi River.

Total coal handled through all system ports in 1996 was 41.7 million tons. Of this total, 71 percent moved through the pier facilities at Lamberts Point. In 1996, total tonnage handled at Lamberts Point, including coastwise traffic, was 29.5 million tons, a 2 percent increase from the 28.9 million tons handled in 1995.

The quantities of NS export coal handled through Lamberts Point for the past five years were as follows:

Export Coal through Lamberts Point
(Millions of tons)

	1996	1995	1994	1993	1992
Originated	26.3	25.4	23.9	24.6	30.8
Handled	26.4	25.5	24.1	24.9	31.2

See the discussion of coal traffic, by type of coal, in Part II, Item 7, "Management's Discussion and Analysis," on page 37.

MERCHANDISE RAIL TRAFFIC - The merchandise traffic group consists of Intermodal and five major commodity groupings: Paper/Forest; Chemicals; Automotive; Agriculture; and Metals/Construction. Total merchandise revenues in 1996 were $2.8 billion, a 2 percent increase over 1995. Merchandise carloads handled in 1996 were 3.24 million, compared with 3.18 million handled in 1995, an increase of 2 percent.

Intermodal results, for 1993 and later, reflect the effect of the formation, in April 1993, of TCSC, a partnership between NS and Conrail subsidiaries (see also page 7). This partnership provides RoadRailer(RT) service previously offered by a wholly owned subsidiary of NS. Because NS owns only 50 percent of TCSC, its revenues are not consolidated. NS' intermodal revenues include only revenues for rail service NS provides the partnership.

In 1996, 106.2 million tons of merchandise freight, or approximately 68 percent of total merchandise tonnage handled by NS, originated on line. The balance of merchandise traffic was received from connecting carriers (mostly railroads, with some truck, water and highway as well), usually 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.

Revenues in four of the six market groups comprising merchandise traffic improved in 1996 over 1995. The biggest gains were in Automotive, up $39.6 million; Chemicals, up $19.4 million; and Intermodal, up $13.1 million.

See the discussion of merchandise rail traffic by commodity group in Part II, Item 7, "Management's Discussion and Analysis," on page 37.

MOTOR CARRIER TRAFFIC - Motor carrier revenues increased 2 percent to $669.0 million in 1996, primarily due to gains in the HVP Division. In 1995, motor carrier revenues were $656.2 million, down 1 percent from 1994, as gains in the HVP Division were offset by reductions in RS.

DOMESTIC OPERATIONS are conducted through NAVL's RS and HVP divisions. In 1996, total domestic shipments for these divisions were 383,137, up 0.5 percent from 1995.

RS - Domestic shipments of used household goods transported by the RS Division fall into three market categories. Approximately 52 percent of the domestic shipment volume comes from the sale of moving services to individual consumers. Another 38 percent comes from corporations and other businesses that pay for the relocation of their employees. The remaining 10 percent is derived from military, government and other sources. Total domestic RS Division shipments in 1996 represented 27 percent of the NAVL domestic motor carrier shipments transported by the two primary divisions. Total domestic revenues from this division were down 2 percent, compared with 1995, and represented 40 percent of total revenues from operations.

HVP - The HVP Division specializes in providing transportation services in less-than-truckload (LTL) and truckload (TL) quantities of sensitive products. These products are divided into the following categories: office furniture and equipment, exhibits and displays, electronic equipment, industrial machinery, commercial relocation, LTL furniture and selected general commodities. Total HVP Division shipments transported in 1996, including TL and LTL, represented 73 percent of the NAVL domestic motor carrier shipments transported by the two primary divisions. Revenues from this division were up 5 percent from 1995 levels and represented 47 percent of total revenues from operations.

FOREIGN OPERATIONS include NAVL's Canadian subsidiary, North American Van Lines Canada, Ltd., as well as operating subsidiaries in England and Germany. Foreign operations involving the transportation of used household goods and selected general and specialized commodities generated revenues of $86.0 million in 1996, up 5 percent from 1995. Revenues from foreign operations represented 13 percent of NAVL's total revenues.

RAIL OPERATING STATISTICS - The following table sets forth certain statistics relating to NS' railroads' operations for the past five years:

	Year Ended December 31,				
	1996	1995	1994	1993	1992
Revenue ton miles (billions)	129.8	126.6	122.3	111.6	107.6
Freight train miles traveled (millions)	49.4	48.5	46.0	43.3	41.1
Revenue per ton mile	$0.0316	$0.0317	$0.0320	$0.0336	$0.0351
Revenue tons per train	2,625	2,611	2,655	2,577	2,618
Revenue ton miles per man-hour worked	2,764	2,679	2,579	2,304	2,184
Percentage ratio of railway operating expenses to railway operating revenues	71.6	73.5	73.4	75.6	75.5

FREIGHT RATES - In 1996, NS' railroads continued their reliance on private contracts and exempt price quotes as their predominant pricing mechanisms. Thus, a major portion of NS' railroads' freight business is not 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 1996, NS' railroads were found by the STB to be "revenue adequate" based on results for the year 1995. A railroad is "revenue adequate" under the applicable law when its return on net investment exceeds the rail industry's composite cost of capital.

The revenue adequacy measure is one of several factors considered by the STB when it is called upon to rule on the reasonableness of regulated rates.

Pricing and service flexibility afforded by the Motor Carrier Act of 1980 and the Household Goods Transportation Act of 1980 has resulted in NAVL's increased emphasis on innovative pricing action in order to remain competitive. Since 1980, NAVL has increasingly operated as a contract carrier. As of December 31, 1996, domestic contract carriage agreements accounted for the following percentage of shipments: RS Division, 31 percent and HVP Division, 69 percent.

PASSENGER OPERATIONS - Regularly scheduled passenger operations on NS' railroads' lines consist of Amtrak trains operating between Alexandria and New Orleans, and between Charlotte and Selma, North Carolina. Former Amtrak operations between East St. Louis and Centralia, Illinois, were discontinued by Amtrak on November 3, 1993. Commuter trains continued operations on the NS line between Manassas and Alexandria under contract with two transportation commissions of the Commonwealth of Virginia, providing for rental and for reimbursement of related expenses incurred by NS. During 1993, a lease of the Chicago to Manhattan, Illinois, line to the Commuter Rail Division of the Regional Transportation Authority of Northeast Illinois replaced an agreement under which NS had provided commuter rail service for the Authority.

NONCARRIER OPERATIONS - Norfolk Southern's noncarrier subsidiaries engage principally in the acquisition and subsequent leasing of coal, oil, gas and timberlands, the development of commercial real estate and the leasing or sale of rail property and equipment. In 1996, no such noncarrier subsidiary or industry segment grouping of noncarrier subsidiaries met the requirements for a reportable business segment set forth in Statement of Financial Accounting Standards No. 14.

RAILWAY PROPERTY:

EQUIPMENT - As of December 31, 1996, NS owned or leased the following units of equipment:

Type of Equipment	Owned*	Leased	Total	Capacity of Equipment
	Number of Units			
Locomotives:				(Horsepower)
Multiple purpose	1,974	0	1,974	6,149,850
Switching	119	0	119	174,450
Auxiliary units	65	0	65	0
Total locomotives	2,158	0	2,158	6,324,300
Freight Cars:				(Tons)
Hopper	24,933	41	24,974	2,643,019
Box	19,976	428	20,404	1,584,306
Covered Hopper	12,489	2,272	14,761	1,549,737
Gondola	24,170	105	24,275	2,584,134
Flat	4,078	819	4,897	352,762
Caboose	231	0	231	0
Other	1,741	4	1,745	119,598
Total freight cars	87,618	3,669	91,287	8,833,556
Other:				
Work equipment	6,959	5	6,964	
Vehicles	3,698	0	3,698	
Highway trailers and containers	2,348	3,181	5,529	
RoadRailers(RT)	923	0	923	
Miscellaneous	1,518	1,199	2,717	
Total other	15,446	4,385	19,831	

* Includes railroad equipment leased to outside parties and railroad equipment operated by NS' railroads that is subject to equipment trusts and capitalized leases.

The following table indicates the number and year of purchase for locomotives and freight cars owned at December 31, 1996:

	Year Built								
	1996	1995	1994	1993	1992	1986-1991	1980-1985	1979 & Before	Total
Locomotives:									
Number of units	120	125	25	31	55	452	426	924	2,158
Percent of fleet	5.6	5.8	1.2	1.4	2.6	21.0	19.7	42.7	100.0
Freight cars:									
Number of units	871	932	778	930	607	5,520	10,210	67,770	87,618
Percent of fleet	1.0	1.1	0.9	1.1	0.7	6.3	11.7	77.2	100.0

The average age of the freight car fleet at December 31, 1996, was 22.3 years. During 1996, 7,485 freight cars were retired. As of December 31, 1996, the average age of the locomotive fleet was 15.4 years. During 1996, 105 locomotives, the average age of which was 24.4 years, were retired. Since 1988, more than 23,000 coal cars have been rebodied. As a result, the remaining serviceability of the freight car fleet is greater than may be inferred from the high percentage of freight cars built in earlier years.

Ongoing freight car and locomotive maintenance programs are intended to ensure the highest standards of safety, reliability, customer satisfaction and equipment marketability. In past years, the bad order ratio reflected the storage of certain types of cars which were not in high demand. The ratio has declined more recently as a result of a disposition program for underutilized, unserviceable and over-age revenue cars. In this connection, an orderly disposition of 17,000 freight cars, begun in October 1994, was substantially complete at the end of 1996.

	Annual Average Bad Order Ratio				
	1996	1995	1994	1993	1992
Freight Cars (excluding cabooses):					
NS Rail	4.8%	5.8%	6.7%	7.3%	7.6%
All Class I railroads	5.0*	6.0*	7.3	7.1	7.5
Locomotives:					
NS Rail	4.5	4.7	4.7	4.3	4.4

*In 1996 and 1995, the industry bad order ratio was as of June 1. Prior years' industry ratios were based on a monthly average.

TRACKAGE - All NS trackage is standard gauge, and the rail in approximately 95 percent of the main line trackage (including first, second, third and branch main tracks, all excluding trackage rights) ranges from 100 to 140 pounds per yard. Of the 22,369 miles of track maintained as of December 31, 1996, 15,877 were laid with welded rail.

The density of traffic on running tracks (main line trackage plus passing tracks) during 1996 was as follows:

Gross tons of freight carried per track mile (Millions)	Track miles of running tracks*	Percent of total
0-4	4,837	30
5-19	4,682	29
20 and over	6,529	41
	16,048	100

* Excludes trackage rights.

The following table summarizes certain information about NS' track roadway additions and replacements during the past five years:

	1996	1995	1994	1993	1992
Track miles of rail installed	401	403	480	574	660
Miles of track surfaced	4,686	4,668	4,760	5,048	5,690
New crossties installed (millions)	1.9	2.0	1.7	1.6	1.9

MICROWAVE SYSTEM - The NS microwave system, consisting of 6,960 radio path miles, 398 active stations and 5 passive repeater stations, provides communications between most operating locations. The microwave system is used principally for voice communications, VHF radio control circuits, data and facsimile transmissions, traffic control operations, AEI data transmissions and relay of intelligence from defective equipment detectors.

TRAFFIC CONTROL - Of a total of 12,762 road miles operated by NS, excluding trackage rights over foreign lines, 5,400 road miles are governed by centralized traffic control systems (of which 230 miles are controlled by data radio from 14 microwave site locations) and 2,600 road miles are equipped for automatic block system operation.

COMPUTERS - Data processing facilities connect the yards, terminals, transportation offices, rolling stock repair points, sales offices and other key system locations to the central computer complex in Atlanta, Ga. Operating and traffic data are compiled and stored to provide customers with information on their shipments throughout the system. Data processing facilities are capable of providing 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. Additionally, these facilities afford substantial capacity for, and are utilized to assist management in the performance of, a wide variety of functions and services, including payroll, car and revenue accounting, billing, material management activities and controls, and special studies.

OTHER - The railroads have extensive facilities for support of operations, including freight depots, car construction shops, maintenance shops, office buildings, and signals and communications facilities.

MOTOR CARRIER PROPERTY:

REAL ESTATE - NAVL owns and leases real estate in support of its operations. Principal real estate holdings include NAVL's headquarters complex and warehouse and vehicle maintenance facilities in Fort Wayne, Indiana, vehicle maintenance facilities in Fontana, California, and terminal facilities in Grand Rapids, Michigan, and Great Falls, Montana. NAVL also leases facilities throughout the United States for sales offices, maintenance facilities and for warehouse, terminal and distribution center operations.

EQUIPMENT - NAVL relies extensively on independent contractors (owner-operators) who supply the power equipment (tractors) used to pull NAVL trailers. Agents also provide a substantial portion of NAVL's equipment needs, particularly for the transportation of household goods, by furnishing tractors and trailers on either a permanent or an intermittent lease basis.

As of December 31, 1996, agents and owner-operators together supplied 3,438 tractors, representing 97 percent of the U.S. power equipment operated in NAVL service. Also as of December 31, 1996, NAVL owned 2,976 trailer units, representing 52 percent of the U.S. trailer fleet in NAVL service. The remaining 48 percent was provided mainly by agents and owner-operators. Agents and owner-operators also provided 1,058 straight trucks, or 97 percent, of such units in NAVL service.

NAVL has an extensive program for the repair and maintenance of its trailer equipment. In 1996, approximately 12,920 work orders were completed at NAVL's facility in Fort Wayne. As of December 31, 1996, the average age of trailer equipment in the NAVL fleet was 8.4 years.

COMPUTERS - NAVL relies extensively on data processing facilities for shipment planning and dispatch functions as well as shipment tracing. Data processing capabilities are also utilized in revenue processing functions, driver and agent account settlement activity, and internal accounting and record keeping service.

ENCUMBRANCES - Certain railroad equipment is subject to the prior lien of equipment financing obligations amounting to approximately $593.4 million as of December 31, 1996, and $545.4 million at December 31, 1995. In addition, a portion of NS' properties is subject to liens securing, as of December 31, 1996, and 1995, approximately $50.9 million and $77.2 million of mortgage debt, respectively.

Many of the tractors utilized in NAVL service are purchased by NAVL from manufacturers and resold to agents and owner-operators under a NAVL-sponsored financing program. At December 31, 1996, NAVL had $13.9 million in such tractor contracts receivable. This program allows NAVL to generate the funds necessary to purchase the tractors and to resell them under favorable financing terms. The equipment is sold under conditional sales contracts with the agents and owner-operators.

CAPITAL EXPENDITURES - Capital expenditures for road, equipment and other property for the past five years were as follows:

	Capital Expenditures				
	1996	1995	1994	1993	1992
	(In millions of dollars)				
Transportation property					
Road	$ 437.8	$ 385.7	$ 384.6	$ 417.9	$ 426.5
Equipment	332.1	344.3	245.9	240.5	281.3
Other property	26.1	33.4	82.4	10.8	8.3
Total	$ 796.0	$ 763.4	$ 712.9	$ 669.2	$ 716.1

Capital spending and maintenance programs are and have been designed to assure the ability to provide safe, efficient and reliable transportation services. For 1997, NS is planning $792 million of capital spending, of which $781 million will be for railway projects and $11 million for motor carrier property. Looking further ahead, total rail and motor carrier spending is expected to be similar to 1995 and 1996 levels. A substantial portion of future capital spending is expected to be funded through internally generated cash, although debt financing will continue as the primary funding source for equipment acquisitions.

Acquisition of all or part of Conrail (see page 4) could cause the reallocation of already-planned capital spending and/or additional capital spending.

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 the discussion of "Environmental Matters" in Part II, Item 7, "Management's Discussion and Analysis" on page 37, and in Note 15 to the Consolidated Financial Statements on page 76.

EMPLOYEES - NS employed an average of 25,830 employees in 1996, compared with an average of 26,944 in 1995. The approximate average cost per employee during 1996 was $45,173 in wages and $17,772 in employee benefits. Approximately 74 percent of these employees are represented by various labor organizations.

As of the end of 1996, NS had negotiated labor agreements with all of its unions, except the American Train Dispatchers, which represents about 200 employees The accords with the 12 other union organizations, which include compensation settlements in line with other major industries, will not be due for change until after January 1, 2000.

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, which succeeded the ICC on January 1, 1996. The STB has jurisdiction over some rates, routes, conditions of service, and the extension or abandonment of rail lines. The STB also has jurisdiction over the consolidation, merger or acquisition of control of and by rail common carriers. The Department of Transportation regulates certain track and mechanical equipment standards.

The relaxation of economic regulation of railroads, begun over a decade ago by the ICC under the Staggers Rail Act of 1980, is expected to continue under the STB. Thus it appears that additional rail business will be exempted from regulation in the future. Significant exemptions are TOFC/COFC (i.e., "piggyback") business, rail boxcar traffic, lumber, manufactured steel, automobiles and certain bulk commodities such as sand, gravel, pulpwood and wood chips for paper manufacturing. Transportation contracts on regulated shipments, which no longer require regulatory approval, effectively remove those shipments from regulation as well. Over 80 percent of NS' freight revenues come from either exempt traffic or traffic moving under transportation contracts.

For motor carrier operations conducted by NAVL, the Department of Transportation and the STB are the principal regulatory entities. The STB exercises jurisdiction over the relationship between carriers and owner-operators, and carrier practices and common carrier rates relating to the transportation of household goods. The primary focus of the Department of Transportation is on driver qualification and safety standards, including maximum trailer length and width.

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 increasingly important considerations, especially for higher valued finished goods, machinery and consumer products. Even for raw materials, semi-finished goods and work-in-process, users are increasingly sensitive to transport arrangements which 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. Consummation of the proposed merger agreement between Conrail and CSX (see page 4) could result in a serious imbalance in rail competition in the East--an outcome NS is resisting vigorously on a number of fronts and that the negotiations with CSX could prevent.

Certain cooperative strategies between railroads (such as the TCSC partnership involving NS and Conrail, see page 7) and between railroads and motor carriers enable carriers to compete more effectively in specific markets.

NAVL continues to face strong competition due to deregulation and overcapacity in the industry that will keep profits at a modest level. While service remains a key issue, many shippers now place greater emphasis on price. For the RS Division, contract carriage and volume discount programs dominate the corporate relocation segment, and guaranteed price options are common to the individual consumer segment. Contract carriage agreements are also utilized extensively by the HVP Division to meet the service and price requirements of its customers.

Item 3. Legal Proceedings.

Conrail. On October 15, 1996, Conrail Inc. ("Conrail") and CSX Corporation ("CSX") announced an agreement to merge, in connection with which CSX announced its intention to commence a multi-tier tender offer for shares of Conrail stock in return for cash and shares of CSX stock.

On October 23, 1996, NS announced it would make a competing, all-cash tender offer for all shares of Conrail stock; on the same date, NS, Atlantic Acquisition Corporation (a wholly owned Pennsylvania subsidiary of NS) and a Conrail stockholder who is an NS employee (such parties together, the "Plaintiffs") filed a complaint against Conrail and its directors and against CSX (such parties together, the "Defendants") in the United States District Court for the Eastern District of Pennsylvania. Plaintiffs sought, among other things, certain declaratory and injunctive relief and alleged various breaches of fiduciary duty and violations of certain federal securities laws. The District Court set a November 12 hearing date--two days prior to the date then set for a Special Meeting at which Conrail stockholders were to be asked to approve an amendment to the Articles of Incorporation that ultimately would be necessary to permit CSX to acquire sufficient shares of Conrail stock virtually to assure approval of that merger.

On October 30, 1996, Plaintiffs amended the complaint. In addition to the allegations cited in the original complaint, the amended complaint alleged, among other things, that provisions in the merger agreement between Conrail and CSX, which prohibit the Conrail Board from redeeming the rights issuable under a Conrail-adopted rights plan (Conrail's "Poison Pill") and from amending or otherwise taking further action with respect to the Conrail rights plan, are _ultra vires_ under Pennsylvania law and constitute a breach of the Conrail directors' fiduciary duties of loyalty and care; that the tender offer materials distributed by Conrail and CSX misrepresented key terms of the Conrail rights plan necessary to an understanding of the effects of that plan; that the provisions of the merger agreement between Conrail and CSX which prohibit the Conrail directors from withdrawing their recommendation that Conrail stockholders accept and approve the proposed CSX transaction and from terminating the merger agreement between Conrail and CSX for a period of 180 days from the date of execution of that agreement are _ultra vires_ under Pennsylvania law and constitute a breach of the Conrail directors' fiduciary duties of loyalty and care; and that CSX has knowingly participated in the illegal conduct of Conrail and its directors. In the amended complaint, Plaintiffs sought certain declaratory and injunctive relief in addition to that sought pursuant to the original complaint.

On November 1, Plaintiffs requested that the District Court temporarily enjoin the Defendants from taking, or in certain instances to require them to take, certain actions, including taking the steps necessary to prevent a "Distribution Date" from occurring under the Conrail rights plan. At the hearing on November 4 to hear arguments concerning Plaintiffs' motion, Conrail advised that its directors earlier that day had adopted a resolution deferring the "Distribution Date" under that plan.

As a result of Conrail's announcement that its Special Meeting had been rescheduled from November 14, the District Court moved its hearing from November 12 to November 18. At that hearing, Plaintiffs also sought to enjoin, among other things, CSX from acquiring shares pursuant to the CSX offer. On November 19, 1996, the District Court denied Plaintiffs' motion for preliminary injunctive relief.

On December 5, 1996, Defendants filed an answer and counterclaim alleging, among other things, tortious interference with contractual relationships and requesting, among other things, damages. NS believes that the counterclaim is without merit and on December 20, 1996, filed a Motion to Dismiss the counterclaim for failure to state a claim pursuant to Rule 12(b) of the Federal Rules of Civil Procedure.

On December 17, 1996, the District Court held a hearing to consider Plaintiffs' Motion for a Preliminary Injunction as to Plaintiffs' claims (i) that Defendants' stated intention not to convene the special meeting of the Company's stockholders scheduled for December 23, 1996, constituted a breach of fiduciary duty; and (ii) that Defendants' stated intention successively to postpone the vote of Company stockholders scheduled for December 23, 1996, until such stockholders submit to Defendants' will constituted fraudulent and fundamentally unfair conduct. At the conclusion of the hearing, the District Court issued an order enjoining Defendants from failing to convene, and/or from postponing, and/or from adjourning the Pennsylvania Special Meeting scheduled for Monday, December 23, 1996, by reason of the Company, or its nominees' not having received sufficient proxies to assure approval of the proposal set forth in the Company's "Notice of Special Meeting of Shareholders" and in the Company's proxy materials to "opt-out" of Subchapter E.

On January 2, 1997, Plaintiffs filed a Motion for Preliminary Injunction and a Motion for Partial Summary Judgment in the District Court. In their Motion for Partial Summary Judgment, Plaintiffs requested an order stating that consummation of the CSX First Offer caused a "Control Transaction" with respect to the Company to occur under the Pennsylvania Control Transaction Law and created joint and several liability among the members of the Control Transaction Group to pay at least $110 cash per Share to each demanding Company stockholder. In their Motion for Preliminary Injunction, Plaintiffs requested that the District Court enjoin Defendants, and all persons acting in concert with them, from seeking to enforce or requiring compliance with, the No Negotiation Provision, as extended, and to enjoin Defendants from convening the Pennsylvania Special Meeting until ten business days after Company stockholders receive notice of the District Court's ruling on Plaintiffs' Motions for Preliminary Injunction and Partial Summary Judgment. On January 8, 1997, Plaintiffs filed a Supplemental Motion for Preliminary Injunction requesting that Defendants be enjoined from convening the Pennsylvania Special Meeting until ten business days after Company stockholders received notice of the District Court's final judgment on the Pennsylvania Control Transaction Law issue. Such motions were denied on January 9, 1997.

On January 28, 1997, the Third Circuit issued an order consolidating the pending appeals and setting a briefing schedule and an oral argument for February 25, 1997; the decision of the District Court was affirmed on March 7.

Pursuant to an amendment to the merger agreement between CSX and Conrail announced on March 7, 1997, CSX has offered to purchase all shares of Conrail for $115 per Share in cash and CSX is permitted to enter into negotiations with other parties, including NS, concerning the acquisition of the securities or assets, or concessions relating to the assets or operations, of Conrail. NS and CSX are negotiating a comprehensive resolution of the issues confronting the eastern railroads based on the proposal submitted by NS to both CSX and Conrail on February 24, 1997. Such a resolution could involve a joint acquisition of shares of Conrail by NS and CSX. However, unless and until such negotiations are successfully concluded, NS intends to continue in effect its tender offer for all shares of Conrail not owned by NS.

The effect of these negotiations on the described legal proceedings cannot be predicted with certainty.

This matter has been reported previously by NS in Part II, Item 1, of its Form 10-Q Report for the quarter ending September 30, 1996.

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 1996.

Executive Officers of the Registrant.

Norfolk Southern's officers are elected 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. There are no family relationships among the officers, nor any arrangement or understanding between any officer and any other person pursuant to which the officer was selected. The following table sets forth certain information, as of March 1, 1997, relating to these officers:

Name, Age, Present Position	Business Experience during past 5 Years
David R. Goode, 56, Chairman, President and Chief Executive Officer	Present position since September 1992; prior thereto was President.
James C. Bishop, Jr., 60, Executive Vice President-Law	Present position since March 1, 1996; prior thereto was Vice President-Law.
R. Alan Brogan, 56, Executive Vice President-Transportation Logistics (and President-North American Van Lines, Inc.)	Present position since December 1992; prior thereto was Vice President-Quality Management.
L. I. Prillaman, 53, Executive Vice President-Marketing	Present position since October 1995. Served as Vice President-Properties from December 1992 to October 1995, and prior thereto was Vice President and Controller.
Stephen C. Tobias, 52, Executive Vice President-Operations	Present position since July 1994. Served as Senior Vice President-Operations from October 1993 to July 1994, Vice President-Strategic Planning from December 1992 to October 1993, and prior thereto was Vice President-Transportation.
Henry C. Wolf, 54, Executive Vice President-Finance	Present position since June 1993; prior thereto was Vice President-Taxation.
William B. Bales, 62, Senior Vice President-International	Present position since October 1995. Served as Vice President-Coal Marketing from August 1993 to October 1995, and prior thereto was Vice President-Coal and Ore Traffic.

Name, Age, Present Position	Business Experience during past 5 Years
Paul N. Austin, 53, Vice President-Personnel	Present position since June 1994. Served as Assistant Vice President-Personnel from February 1993 to June 1994, and prior thereto was Director Compensation.
John F. Corcoran, 56, Vice President-Public Affairs	Present position since March 1992.
David A. Cox, 60, Vice President-Properties	Present position since December 1995; prior thereto was Assistant Vice President-Industrial Development.
Thomas L. Finkbiner, 44, Vice President-Intermodal	Present position since August 1993. Served as Senior Assistant Vice President-International and Intermodal from April to August 1993, and prior thereto was Assistant Vice President-International and Intermodal.
Robert C. Fort, 52, Vice President-Public Relations	Present position since December 1996; prior thereto was Assistant Vice President-Public Relations.
John W. Fox, Jr., 49, Vice President-Coal Marketing	Present position since October 1995. Served as Assistant Vice President-Coal Marketing from August 1993 to October 1995, and prior thereto was General Manager Eastern Region.
Thomas J. Golian, 63, Vice President	Present position since October 1995. Served as Executive Assistant to the Chairman, President and CEO from April 1993 to October 1995, and prior thereto was Special Assistant to the President.
James L. Granum, 60, Vice President-Public Affairs	Present position since March 1992.
James A. Hixon, 43, Vice President-Taxation	Present position since June 1993; prior thereto was Assistant Vice President-Tax Counsel.

Name, Age, Present Position	Business Experience during past 5 Years
Jon L. Manetta, 58, Vice President-Transportation & Mechanical	Present position since December 1995. Served as Vice President-Transportation from June 1994 to December 1995, Assistant Vice President-Transportation from October 1993 to June 1994, Assistant Vice President-Strategic Planning from January to October 1993, and prior thereto was Director Joint Facilities and Budget.
Harold C. Mauney, Jr., 58, Vice President-Operations Planning and Budget	Present position since December 1996; prior thereto was Vice President-Quality Management.
Donald W. Mayberry, 53, Vice President-Research and Tests	Present position since December 1995; prior thereto was Vice President-Mechanical.
James W. McClellan, 57, Vice President-Strategic Planning	Present position since October 1993; prior thereto was Assistant Vice President-Corporate Planning.
Kathryn B. McQuade, 40, Vice President-Internal Audit	Present position since December 1992; prior thereto was Director-Income Tax Administration.
Charles W. Moorman, 45, Vice President-Information Technology	Present position since October 1993. Served as Vice President-Employee Relations from December 1992 to October 1993, and prior thereto was Vice President-Personnel and Labor Relations.
Phillip R. Ogden, 56, Vice President-Engineering	Present position since December 1992; prior thereto was Assistant Vice President-Maintenance.
John P. Rathbone, 45, Vice President and Controller	Present position since December 1992; prior thereto was Assistant Vice President-Internal Audit.
William J. Romig, 52, Vice President and Treasurer	Present position since April 1992; prior thereto was Assistant Vice President-Finance.

Name, Age, Present Position	Business Experience during past 5 Years
Donald W. Seale, 44, Vice President-Merchandise Marketing	Present position since August 1993. Served as Assistant Vice President-Sales and Service from May 1992 to August 1993, and prior thereto was Director-Metals, Waste and Construction.
Robert S. Spenski, 62, Vice President-Labor Relations	Present position since June 1994; prior thereto was Senior Assistant Vice President-Labor Relations.
Rashe W. Stephens, Jr., 55, Vice President-Quality Management	Present position since December 1996. Served as Assistant Vice President-Public Affairs from February 1993 to December 1996, and prior thereto was Director, EEO and Manpower Planning.
William C. Wooldridge, 53, Vice President-Law	Present position since March 1996; prior thereto was General Counsel-Corporate.
Dezora M. Martin, 49, Corporate Secretary	Present position since April 1995. Served as Assistant Corporate Secretary-NS from October 1993 to April 1995, and prior thereto was Assistant Corporate Secretary-Planning.

PART II

Item 5. Market for Registrant's Common Stock and Related Stockholder Matters.

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
STOCK PRICE AND DIVIDEND INFORMATION
(Unaudited)

The common stock of Norfolk Southern Corporation, owned by 50,748 stockholders of record as of December 31, 1996, is traded on the New York Stock Exchange with the symbol NSC. The following table shows the high and low sales prices and dividends per share, by quarter, for 1996 and 1995.

	Quarter			
1996	1st	2nd	3rd	4th
Market price				
High	$ 88	$ 89-7/8	$ 91-3/4	$ 96-5/8
Low	76-3/8	80	78-3/8	84-5/8
Dividends per share	$ 0.56	$ 0.56	$ 0.56	$ 0.56
1995	1st	2nd	3rd	4th
Market price				
High	$ 68-1/8	$ 68-1/2	$ 77-3/8	$ 81-5/8
Low	60-1/2	62-3/4	67-1/8	72-1/4
Dividends per share	$ 0.52	$ 0.52	$ 0.52	$ 0.52

Item 6. Selected Financial Data.

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
ELEVEN-YEAR FINANCIAL REVIEW
1993 - 1996
Page One

	1996	1995	1994	1993(1)
	($ in millions, except per share amounts)			
RESULTS OF OPERATIONS:				
Transportation operating revenues:				
Railway operating revenues	$ 4,101.0	$ 4,011.8	$ 3,918.1	$ 3,745.9
Motor carrier operating revenues	669.0	656.2	663.2	714.2
Total transportation operating revenues	4,770.0	4,668.0	4,581.3	4,460.1
Transportation operating expenses:				
Railway operating expenses	2,936.1	2,950.0	2,874.8	2,830.6
Motor carrier operating expenses	636.9	631.7	641.1	769.1
Special charge	--	--	--	--
Total transportation operating expenses	3,573.0	3,581.7	3,515.9	3,599.7
Income from operations	1,197.0	1,086.3	1,065.4	860.4
Other income - net	115.6	141.8	85.2	136.8
Interest expense on debt	115.7	113.4	101.6	98.6
Income before income taxes	1,196.9	1,114.7	1,049.0	898.6
Provision for income taxes	426.5	402.0	381.2	349.9
Income before accounting changes	770.4	712.7	667.8	548.7
Cumulative effect of accounting changes	--	--	--	223.3
Net income	$ 770.4	$ 712.7	$ 667.8	$ 772.0

Item 6. Selected Financial Data. (continued)

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
ELEVEN-YEAR FINANCIAL REVIEW
1993 - 1996
Page Two

	1996	1995	1994	1993(1)
	($ in millions, except per share amounts)			
PER SHARE DATA:				
Earnings	$ 6.09	$ 5.44	$ 4.90	$ 5.54
Dividends	$ 2.24	$ 2.08	$ 1.92	$ 1.86
Stockholders' equity at year end	$ 39.79	$ 37.42	$ 35.19	$ 33.36
FINANCIAL POSITION:				
Total assets	$11,416.4	$10,904.8	$10,587.8	$10,519.8
Total long-term debt, including current maturities	$ 1,856.3	$ 1,639.0	$ 1,619.8	$ 1,595.2
Stockholders' equity	$ 4,977.6	$ 4,829.0	$ 4,684.8	$ 4,620.7
OTHER:				
Capital expenditures	$ 796.0	$ 763.4	$ 712.9	$ 669.2
Average number of shares outstanding (thousands)	126,457	130,996	136,301	139,414
Number of stockholders at year end	50,748	53,401	52,442	51,884
Average number of employees:				
Rail	23,361	24,488	24,710	25,531
Nonrail	2,469	2,456	2,458	3,773
Total	25,830	26,944	27,168	29,304

(1) 1993 results include a $54 million increase in the provision for income taxes reflecting a 1% increase in the federal income tax rate, which reduced net income by $54 million, or $0.39 per share. 1993 motor carrier expenses include a $50 million restructuring charge for the disposition of two NAVL businesses. The cumulative effect of accounting changes increased 1993 earnings by $223 million, or $1.60 per share. The change in accounting for income taxes increased net income by $467 million, with a corresponding reduction in deferred taxes. The changes in accounting for postretirement and postemployment benefits decreased net income by $244 million.

Item 6. Selected Financial Data. (continued)

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
ELEVEN-YEAR FINANCIAL REVIEW
1989 - 1992
Page One

	1992	1991(2)	1990	1989
	($ in millions, except per share amounts)			
RESULTS OF OPERATIONS:				
Transportation operating revenues:				
Railway operating revenues	$ 3,777.0	$ 3,654.0	$ 3,786.0	$ 3,694.1
Motor carrier operating revenues	829.6	797.3	831.0	841.9
Total transportation operating revenues	4,606.6	4,451.3	4,617.0	4,536.0
Transportation operating expenses:				
Railway operating expenses	2,850.8	2,862.2	2,969.4	2,864.4
Motor carrier operating expenses	869.3	797.1	839.5	846.4
Special charge	--	680.0	--	--
Total transportation operating expenses	3,720.1	4,339.3	3,808.9	3,710.8
Income from operations	886.5	112.0	808.1	825.2
Other income - net	97.8	131.3	145.3	158.2
Interest expense on debt	109.0	99.7	78.0	50.7
Income before income taxes	875.3	143.6	875.4	932.0
Provision for income taxes	317.6	113.9	319.3	326.5
Income before accounting changes	557.7	29.7	556.1	606.2
Cumulative effect of accounting changes	--	--	--	--
Net income	$ 557.7	$ 29.7	$ 556.1	$ 606.2

Item 6. Selected Financial Data. (continued)

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
ELEVEN-YEAR FINANCIAL REVIEW
1989 - 1992
Page Two

	1992	1991(2)	1990	1989
	($ in millions, except per share amounts)			
PER SHARE DATA:				
Earnings	$ 3.94	$ 0.20	$ 3.43	$ 3.48
Dividends	$ 1.80	$ 1.60	$ 1.52	$ 1.38
Stockholders' equity at year end	$ 30.16	$ 28.64	$ 31.57	$ 30.44
FINANCIAL POSITION:				
Total assets	$10,400.5	$10,148.1	$10,523.0	$10,244.3
Total long-term debt, including current maturities	$ 1,648.9	$ 1,389.2	$ 1,125.2	$ 841.1
Stockholders' equity	$ 4,232.6	$ 4,093.4	$ 4,911.9	$ 5,168.6
OTHER:				
Capital expenditures	$ 716.1	$ 713.4	$ 696.9	$ 651.7
Average number of shares outstanding (thousands)	141,459	147,759	162,095	174,370
Number of stockholders at year end	51,200	53,725	56,187	61,630
Average number of employees:				
Rail	25,650	27,366	28,697	29,667
Nonrail	4,485	4,586	4,584	4,645
Total	30,135	31,952	33,281	34,312

(2) 1991 transportation operating expenses include a $680 million special charge, primarily comprised of costs for labor force reductions and the write-down of the goodwill portion of NS' investment in NAVL. This charge reduced net income by $498 million, or $3.37 per share.

Item 6. Selected Financial Data. (continued)

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
ELEVEN-YEAR FINANCIAL REVIEW
1986 - 1988
Page One

	1988	1987(3)	1986
	($ in millions, except per share amounts)		
RESULTS OF OPERATIONS:			
Transportation operating revenues:			
Railway operating revenues	$ 3,616.6	$ 3,335.6	$ 3,327.8
Motor carrier operating revenues	845.0	777.2	748.6
Total transportation operating revenues	4,461.6	4,112.8	4,076.4
Transportation operating expenses:			
Railway operating expenses	2,679.7	2,652.8	2,665.9
Motor carrier operating expenses	836.6	734.5	708.5
Special charge	--	620.4	--
Total transportation operating expenses	3,516.3	4,007.7	3,374.4
Income from operations	945.3	105.1	702.0
Other income - net	108.4	232.9	215.8
Interest expense on debt	53.1	58.5	61.8
Income before income taxes	1,000.6	279.5	856.0
Provision for income taxes	365.5	107.1	337.3
Income before accounting changes	635.1	172.4	518.7
Cumulative effect of accounting changes	--	--	--
Net income	$ 635.1	$ 172.4	$ 518.7

Item 6. Selected Financial Data. (continued)

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
ELEVEN-YEAR FINANCIAL REVIEW
1986 - 1988
Page Two

	1988	1987(3)	1986
	($ in millions, except per share amounts)		
PER SHARE DATA:			
Earnings	$ 3.51	$ 0.91	$ 2.74
Dividends	$ 1.26	$ 1.20	$1.13-1/3
Stockholders' equity at year end	$ 28.74	$ 26.48	$ 26.78
FINANCIAL POSITION:			
Total assets	$10,059.1	$ 9,831.6	$ 9,752.4
Total long-term debt, including current maturities	$ 780.9	$ 795.0	$ 891.3
Stockholders' equity	$ 5,152.6	$ 4,979.4	$ 5,070.8
OTHER:			
Capital expenditures	$ 528.8	$ 562.9	$ 698.4
Average number of shares outstanding (thousands)	181,038	189,464	189,217
Number of stockholders at year end	64,974	68,121	65,832
Average number of employees:			
Rail	30,330	32,563	34,857
Nonrail	4,209	3,539	3,440
Total	34,539	36,102	38,297

(3) 1987 transportation operating expenses include a $620 million special charge, principally related to railroad restructuring costs. This charge reduced net income by $352 million, or $1.86 per share.

Item 6. Selected Financial Data. (continued)

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
Table of Graphs
Included with the
Eleven-Year Financial Review

The following financial information appears as three (3) separate graphs with the Eleven-Year Financial Review in the 1996 Norfolk Southern Corporation Annual Report to Stockholders.

	1996	1995	1994	1993	1992	1991
INCOME FROM RAILWAY OPERATIONS (Railway operating revenues less railway operating expenses) ($ millions)	$1,164.9	$1,095.4*	$1,043.3	$915.3	$926.2	$791.8***
RETURN ON EQUITY (Net income divided by average stockholders' equity)	15.7%	15.4%*	14.4%	13.7%**	13.4%	11.1%***
DIVIDENDS PER SHARE (dollars)	$2.24	$2.08	$1.92	$1.86	$1.80	$1.60

* Excludes $33.6 million ($20.4 million after-tax) charge for early retirement program.
** Excludes the cumulative effects of required accounting changes and the prior years' effect of the federal income tax increase.
*** Excludes special charge.

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

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
Management's Discussion and Analysis
of Financial Condition and Results of Operations

The following discussion and analysis (which--with the exception of "Proposed Acquisition of Conrail"--is identical to what is contained in the Corporation's 1996 Annual Report to Stockholders) should be read in conjunction with the Consolidated Financial Statements and Notes beginning on page 56 and the Eleven-Year Financial Review beginning on page 30.

SUMMARIZED RESULTS OF OPERATIONS

1996 Compared with 1995

Net income in 1996 was a record $770.4 million, an increase of 8%. However, results in 1995 were affected by a $33.6 million early retirement charge, which reduced net income by $20.4 million.

Absent the effects of that charge, 1996 net income was up 5%. The improvement was due to increased operating income, reflecting higher railway operating revenues, up 2%, and generally flat railway operating expenses, up less than 1% (excluding the early retirement charge), which more than compensated for decreased nonoperating income. Included in 1995 nonoperating income was a $30.5 million gain from the partial redemption of a real estate partnership interest. Interest expense on debt was up 2%, a result of interest expense on $200 million of new debt issued in September 1996 (see Note 6 on page 65).

Record earnings per share of $6.09 for 1996 were up 12% (9%, excluding the effects of the early retirement charge). The greater improvement in earnings per share compared with net income was the result of the stock purchase program, which was suspended on October 23, 1996 (see Note 13 on page 75).

1995 Compared with 1994

Net income in 1995 was $712.7 million, up 7%. Excluding the 1995 early retirement charge, net income rose 10%. Increases in both operating income and nonoperating income were principally responsible for the improvement. The increase in nonoperating income primarily resulted from the $30.5 million partnership gain and a $24.3 million increase in gains from sale of properties and investments (see Note 2 on page 62).

Interest expense on debt was up 12%, largely a result of higher rates of interest on commercial paper debt. Earnings per share of $5.44 for 1995 were up 11% (14%, excluding the effects of the early retirement charge).

DETAILED RESULTS OF OPERATIONS

Railway Operating Revenues

Railway operating revenues were $4.1 billion in 1996, compared with $4.0 billion in 1995 and $3.9 billion in 1994. The $89.2 million improvement in 1996, compared with 1995, was the result of improvements in all market groups except paper/forest and agriculture. The $93.7 million improvement in 1995, compared with 1994, was primarily attributable to increases in the intermodal, automotive and metals/construction market groups.

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

The following table presents a three-year comparison of revenues by market group.

RAILWAY OPERATING REVENUES BY MARKET GROUP
($ in millions)

	1996	1995	1994
Coal	$ 1,304.7	$ 1,267.8	$ 1,290.2
Chemicals	555.9	536.5	534.7
Paper/forest	513.0	537.3	521.8
Automotive	488.7	449.1	429.0
Agriculture	393.3	393.7	379.5
Metals/construction	358.0	353.1	334.2
Intermodal	487.4	474.3	428.7
Total	$ 4,101.0	$ 4,011.8	$ 3,918.1

Note: Revenues previously reported as "Other railway revenues" (principally switching and demurrage) have been reclassified into each of the commodity groups.

In 1996, increases in coal, automotive, intermodal and chemicals traffic offset decreases in the remaining market groups. For 1995 improvements in automotive, agriculture, metals/construction and intermodal traffic offset declines in the other groups. The traffic volume gains in both years accounted for most of the revenue improvement as shown in the table below. Average revenue per unit rose in both 1996 and 1995 due to moderate rate increases.

RAILWAY OPERATING REVENUE VARIANCE ANALYSIS
Increases (Decreases)
($ in millions)

	1996 vs. 1995	1995 vs. 1994
Traffic volume	$ 72.6	$ 62.6
Revenue per unit	16.6	31.1
Total	$ 89.2	$ 93.7

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

Coal traffic volume increased 4%, and revenues increased 3% in 1996, primarily due to increased utility and export coal tonnage. Coal revenues represented almost 32% of total railway operating revenues in 1996, and 90% of coal shipments originated on NS' lines. Coal traffic volume declined 1%, and revenues were down 2% in 1995, compared with 1994, as coal tonnage by type remained relatively stable.

TOTAL COAL, COKE AND IRON ORE TONNAGE
(In millions of tons)

	1996	1995	1994
Utility	74.7	70.3	71.6
Export	27.0	25.8	25.2
Steel	20.6	22.1	21.6
Other	7.9	6.9	7.5
Total	130.2	125.1	125.9

Note: Certain prior year amounts have been reclassified to conform to the current year presentation.

Utility coal traffic increased 6% in 1996, compared with 1995. Several utility customers in the NS service region shifted more generation to coal-fired plants, as many nuclear power plants experienced downtime. In addition, NS gained market share at several Southeastern utilities.

In 1995, utility coal traffic decreased slightly due to moderate weather throughout much of the NS service region during the first half of the year and to sustained periods of maximum generation from several Southeastern nuclear power plants. Partially mitigating these declines were increased shipments of both NS- and foreign-line-originated, low-sulfur coal related to utilities' compliance with Phase I of the Clean Air Act Amendments, which took effect on January 1, 1995.

The near-term outlook for utility coal is positive, as a significant number of the mines served by NS produce coals that satisfy both Phase I and the more stringent Phase II requirements, which take effect on January 1, 2000. However, adoption of tighter restrictions on nitrous oxide particulate emissions, as proposed by the Environmental Protection Agency, could impose added cost burdens on some coal-fired plants.

Utilities in the Southeast, NS' largest steam coal market, are expected to increase their demand for Central Appalachian coal. Utility deregulation is likely to affect the structure and development of that market. Specifically, it is widely anticipated that U.S. utilities will have greater flexibility in selling electricity to, and buying it from, other regional markets. At present, however, transmission line capacity is somewhat strained on the lines leading to and from the Southeastern U.S., and resistance by environmentalists and the high cost of adding new line capacity could deter its development. Less certain is the outlook for demand for Central Appalachian coal from utilities in the Midwest, as the delivered cost of Western coal tends to be lower. However, NS expects to participate in the movement of any Western coal that displaces NS-originated deliveries.

Export coal traffic increased 5% in 1996, compared with 1995, as NS benefited from increased steam coal exports to Italy and greater metallurgical shipments to Germany, a result of reduced subsidies to German coal producers that enhanced the competitiveness of U.S. coal. Increased exports of U.S. coal to Brazil also contributed to the improvement.

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

Export coal traffic increased 2% in 1995, benefiting from the continued recovery of European steel production. Demand from other parts of the world also improved. Brazil, Belgium, France, Romania and Japan took increased amounts of NS coal. In addition, NS began handling metallurgical coal for steel production in Mexico. Congestion and high barge rates on the Mississippi River caused an increase in movements over NS' coal piers in Norfolk, Va.

Metallurgical coal exports are expected to experience slight to modest growth through the year 2000, as continued reductions in European government subsidies to coal producers should benefit NS-served exporters. A gradual decline is projected in the long term, as new steel-making technologies replace those requiring coking coal. Demand for export steam coal is expected to increase, and NS is working to increase its participation in this market.

Steel coal domestic traffic was down 7%, as aggressive producer pricing of higher volatile metallurgical coals not located on NS' lines resulted in a loss of traffic. In 1995, traffic was up 2% due to completion of extended coke oven work at one facility and continued strong demand for domestic coke for making steel. Advanced technologies that allow production of steel with little or no coke could cause this market to decline slowly over the long term. However, NS could participate in the movement of non-coking coal used by technologies such as pulverized coal injection.

Other coal traffic, primarily steam coal shipped to manufacturing plants, increased 14% in 1996, compared with 1995, reflecting gains from other modes of transportation and more seasonal weather conditions in 1996. Traffic volume declined 8% in 1995, compared with 1994, resulting from lower demand for in-plant use of electricity due to mild weather. In addition, some industries have switched to natural gas as a fuel source. This market is expected to remain stable in coming years, as growth through innovative packaged delivery services offsets losses from natural gas conversions.

COAL
(Shown as a Graph in the Annual Report to Stockholders)
This group comprises utility coal, export coal, domestic metallurgical coal, industrial coal, coke and iron ore.
($ in millions)

1996	1995	1994	1993	1992	1991
$ 1,304.7	$ 1,267.8	$ 1,290.2	$ 1,239.2	$ 1,324.1	$ 1,357.5

MERCHANDISE traffic volume in 1996 decreased slightly, compared with 1995, as increases in automotive, intermodal and chemicals traffic were more than offset by declines in the remaining commodity groups. However, increased average revenues for most commodity groups resulted in a 2% improvement in revenues. In 1995, merchandise traffic volume increased 5%, driven by increases in intermodal, automotive and agriculture traffic. Merchandise revenues in 1995 increased 4%, compared with 1994.

CHEMICALS traffic and revenues grew 3% and 4%, respectively, for 1996. Fertilizer and plastics markets strengthened during 1996, which resulted in increased traffic and revenues for these two groups. In addition, the harsh winter resulted in greater movements of liquid petroleum gas, and industrial chemicals remained strong throughout the year. These 1996 results compared favorably with relatively flat carloads and revenues in 1995, as increases for general chemicals were overshadowed by weakness in the plastics and fertilizer markets. The chemicals market group is expected to continue to show moderate growth through 1997, as NS expands its Thoroughbred Bulk Distribution facilities and chemicals production nationwide is expected to increase.

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

CHEMICALS
(Shown as a Graph in the Annual Report to Stockholders)
This group comprises fertilizers, sulfur and related chemicals, petroleum products, chlorine and bleaching compounds, plastics, industrial chemicals, chemical wastes and bulk products.
($ in millions)

1996	1995	1994	1993	1992	1991
$ 555.9	$ 536.5	$ 534.7	$ 499.0	$ 498.9	$ 476.7

PAPER/FOREST traffic and revenues each declined 5% in 1996, due to the overall downturn in the paper and forest products industry. Early in 1995, the paper industry enjoyed record price levels and associated volumes, but growth slowed and inventories of paper products swelled in late 1995 and into 1996. To correct the inventory problems, many large paper producers operated mills well below capacity and shut down mills to balance capacity with demand. This compares to a 1% decrease in volume and a 3% increase in revenues for 1995. Paper and pulpwood products traffic in 1995 was about even with 1994, while lumber traffic suffered from weak housing starts. These markets are expected to begin a slight turnaround by mid-1997.

PAPER/FOREST
(Shown as a Graph in the Annual Report to Stockholders)
This group comprises lumber and wood products, pulpboard and paper products, wood fibers, woodpulp, scrap paper and clay.
($ in millions)

1996	1995	1994	1993	1992	1991
$ 513.0	$ 537.3	$ 521.8	$ 522.2	$ 517.2	$ 495.6

AUTOMOTIVE traffic rose 8%, and revenues increased 9%, both the highest in this group's history. Auto parts provided the majority of the growth as volume increased 21%, while vehicle traffic increased 3%. NS opened two just-in-time (JIT) rail centers at Hagerstown, Md., and near Buffalo, N.Y., in 1996 for distribution of vehicle parts for GM. Also, GM awarded NS another JIT rail center to be constructed in 1997 near Dayton, Ohio. These three centers are expected to handle over 23,000 carloads annually by 1998. 1996 also marked the first time in several years that all NS-served assembly plants were on-line. GM's Wentzville, Mo., assembly plant returned to production early in the year after a two-year retooling, and GM's Doraville, Ga., plant returned midyear from a one-year retooling. In 1996, BMW's new plant at Greer, S.C., reached full production. In 1995, automotive traffic increased 4%, and revenues were up 5%. Strong production at selected plants that produce popular cars and trucks mitigated the effects of several plants' being shut down or operated at reduced capacity.

Good market growth is expected in 1997, supported by the new JIT rail centers, full production levels at existing plants, the start of production at the new Mercedes plant in Tuscaloosa, Ala., and the expansion of Toyota's plant in Georgetown, Ky. Supporting long-term growth, Ford awarded NS a 12-year contract in 1996 to handle approximately 3 million new vehicles annually through four mixing centers to be built in 1997. When operational in 1998, NS expects to increase its motor vehicle business with Ford by 60%. In addition, Toyota's new Princeton, Ind., truck plant may add to 1998-1999 traffic. For the automotive industry as a whole, annual production increases are forecast through 2002, as transplants bring production to North America, exports continue to rise and the Mexican and Canadian economies improve.

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

AUTOMOTIVE
(Shown as a Graph in the Annual Report to Stockholders)
This group comprises finished vehicles for BMW, Chrysler, Ford, General Motors, Honda, Isuzu, Jaguar, Land Rover, Mazda, Mitsubishi, Nissan, Saab, Subaru, Suzuki, Toyota and Volkswagen, and parts for Chrysler, Ford, General Motors and Toyota.
($ in millions)

1996	1995	1994	1993	1992	1991
$ 488.7	$ 449.1	$ 429.0	$ 425.8	$ 391.6	$ 310.6

AGRICULTURE traffic declined 4% and revenues were flat in 1996. Despite strong demand for feed grains in the Southeast, grain traffic suffered, as poor crops and strong export demand left NS receivers competing for limited supplies. Slight average revenue growth occurred, resulting primarily from longer hauls, as receivers reached farther west for grain supplies. In 1995, agriculture traffic rose 2%, and revenues increased 4%, due to higher grain shipments from the Midwest to the Southeast poultry industry.

Moderate growth is expected in 1997, as 1996 crops should provide abundant supplies throughout the year, and demand from the poultry market for feed grain continues to grow. Also for 1997, a full year of new business is expected from two feed mills which were ramping up production in 1996, and from a new major grain elevator located on a line purchased during 1996 from Conrail.

AGRICULTURE
(Shown as a Graph in the Annual Report to Stockholders)
This group comprises grain, soybeans, wheat, corn, animal and poultry feed, food oils, flour, beverages, canned goods, sweeteners and consumer products.
($ in millions)

1996	1995	1994	1993	1992	1991
$ 393.3	$ 393.7	$ 379.5	$ 357.0	$ 344.4	$ 342.5

METALS/CONSTRUCTION traffic declined 2%, but revenues were up 1% for 1996. Construction carloads fell behind in early 1996 due to inclement weather and were flat the rest of the year; however, higher average revenues more than offset the volume decline. In the metals market, NS' shipments remained strong due to a healthy domestic steel market, which has added capacity through improved efficiency at integrated mills and new mini-mills. In 1995, metals/construction traffic was up slightly, and revenues increased 6%, as increases in the steel and aluminum markets were somewhat offset by reduced demand for construction products.

Moderate growth is expected for 1997. New steel production facilities in Decatur, Ala., and Memphis, Tenn., are expected to contribute to growth in late 1997. Although construction starts are expected to decrease in 1997 versus 1996, projects already begun, such as at the Chesapeake Bay Bridge Tunnel, the opening of new cement terminals and the expansion of various on-line plants, are expected to produce moderate growth for construction in 1997 and beyond.

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

METALS/CONSTRUCTION
(Shown as a Graph in the Annual Report to Stockholders)
This group comprises steel, aluminum products, machinery, scrap metals, cement, aggregates, bricks, minerals and municipal wastes.
($ in millions)

1996	1995	1994	1993	1992	1991
$ 358.0	$ 353.1	$ 334.2	$ 310.9	$ 289.4	$ 288.6

INTERMODAL traffic volume increased 5% and revenues increased 3%, both reaching record levels in 1996, driven by increased domestic container and Triple Crown Services Company (TCSC) volume.

EMP, the container equipment-sharing arrangement with Union Pacific and Conrail, contributed significantly to domestic growth. International container volume declined only slightly, despite an industry slowdown that began in the spring and lasted until the fall. NS' overall market share improved slightly due to new international business and the continued domestic container and TCSC growth.

Intermodal volume rose 12%, and revenues increased 11% in 1995. Although intermodal traffic levels nationwide declined in 1995, NS intermodal achieved record levels of volume, revenues and profitability, led by container shipments in both domestic and international service.

During 1995, a seven-year agreement with Hanjin Shipping Company was signed under which NS will handle nearly all of Hanjin's international container business in NS' territory east of the Mississippi River.

EMP contributed significantly to domestic growth. Almost all the increase in international container business was attributable to new services, thereby increasing NS' market share. Domestic business also was augmented by growth in the trucking segment, as both truckload and less-than-truckload companies increased their use of NS intermodal. Additionally, intermodal marketing companies increased their business on NS.

NS' intermodal volume is expected to remain strong, resulting from continued domestic container and TCSC volume growth and the recovery in the international market. Higher wages in the trucking industry may encourage shippers to use NS' intermodal and TCSC networks. In addition, growth of steamship companies' use of Suez Canal services may have a positive impact on international container shipments into and out of Southeast ports.

INTERMODAL
(Shown as a Graph in the Annual Report to Stockholders)
This group handles trailers, containers and Triple Crown (RT) equipment tendered by intermodal marketing companies, international steamship lines and truckers.
($ in millions)

1996	1995	1994	1993	1992	1991
$ 487.4	$ 474.3	$ 428.7	$ 391.8	$ 411.4	$ 382.5

STB FD 33388 6-23-97 A 180274V7A 3/10

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

Railway Operating Expenses

Railway operating expenses in 1996 decreased slightly; however, 1995's expenses included a $33.6 million charge for an early retirement program (see Note 10 on page 69). Excluding that early retirement charge, railway operating expenses increased 1%, despite a 2% increase in traffic volume. Railway operating expenses in 1995 were up 3% (up 1%, excluding the early retirement charge) on a 3% increase in traffic volume.

As a result, the NS railway operating ratio, which measures the percentage of railway revenues consumed by expenses, was a record 71.6 in 1996, compared with 73.5 (72.7 excluding the early retirement charge) in 1995 and 73.4 in 1994. NS' railway operating ratio continues to be the best among the major railroads in the United States.

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

RAILWAY OPERATING EXPENSES
Increases (Decreases)
($ in millions)

	1996 vs. 1995	1995 vs. 1994
Compensation and benefits	$ (81.3) *	$ 108.9*
Materials, services and rents	5.9	(41.9)
Depreciation	18.9	14.7
Diesel fuel	43.6	1.5
Casualties and other claims	2.0	(13.7)
Other	(3.0)	5.7
Total	$ (13.9)	$ 75.2

*Includes the $33.6 million early retirement charge in 1995.

COMPENSATION AND BENEFITS, which represents about half of total railway operating expenses, decreased 5% in 1996 and increased 8% in 1995. Excluding the 1995 early retirement charge, compensation and benefits expenses were down 3% in 1996 and up 5% in 1995.

The 1996 decrease (excluding the effect of the 1995 early retirement charge) was principally attributable to: (1) reduced employment resulting from the 1995 early retirement program and productivity improvements due to ongoing reductions in train crew sizes and train efficiencies and (2) lower costs for fringe benefits, principally medical costs for salaried employees. These decreases were somewhat offset by increases attributable to higher volume and increased wage rates resulting from new labor agreements.

The 1995 increase was primarily a result of: (1) higher wages; (2) increased performance-based compensation accruals, particularly those linked to the market price of NS stock, which rose nearly $19 per share in 1995; and (3) higher health care costs for agreement employees.

As of the end of 1996, NS had negotiated labor agreements with all of its unions, except the American Train Dispatchers which represents about 200 employees. The accords with the 12 other union organizations, which include compensation settlements in line with other major industries, will not be due for change until after January 1, 2000.

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

MATERIALS, SERVICES AND RENTS includes items used for the maintenance of the railroads' lines, structures and equipment; 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 increased 1% in 1996 and decreased 6% in 1995.

The increase in 1996 resulted from higher intermodal expenses due to increased volume, as well as higher equipment rent costs, that more than offset lower locomotive and car repair costs.

Equipment rents, which represent 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, were up 10% in 1996. This increase was due to a variety of factors, including increased intermodal container traffic, lower receipts from short-term leases of locomotives to various railroads and increased freight car leases to meet customer requirements. These increased costs were somewhat offset by lower net costs for multilevel equipment.

Locomotive repair costs continued to be reduced as a result of the replacement of older units with newer ones. NS expects to acquire 120 new locomotives in 1997. Freight car repair costs continued to benefit from the effects of initiatives launched in 1995 to improve asset utilization that resulted in the re-engineering of maintenance practices, facilitating the closure of two repair facilities in 1995 and the disposition of 17,000 excess freight cars, which was substantially completed in 1996.

The decrease in "Materials, services and rents" in 1995 reflected initial results from the initiatives to improve asset utilization, as well as reduced locomotive repair costs and lower net equipment rental expense. The reduction in equipment rents in 1995 was due to the short-term leasing of certain older locomotives to other railroads and the deregulation of car-hire rates among railroads, which began in 1994. These favorable results were somewhat offset by increased expenses related to the 12% growth in intermodal traffic.

DEPRECIATION expense (see Note 1, "Properties," on page 60 for NS' depreciation policy) was up 5% in 1996 and 4% in 1995. Both increases were due to property additions, reflecting substantial levels of capital spending over the last several years.

DIESEL FUEL costs rose 23% in 1996, but were up less than 1% in 1995. The increase in 1996 was due to a 20% increase in the average price per gallon, as prices reached levels unseen since 1991 during and following the Persian Gulf Crisis. Consumption was up 3% on a similar increase in carloadings. The 1995 increase was primarily due to a small increase in the average price per gallon.

CASUALTIES AND OTHER CLAIMS (including estimates of costs related to personal injury, property damage and environmental matters) increased 2% in 1996, but declined 10% in 1995. In 1996, higher accruals for environmental remediation costs more than offset reduced accruals for personal injury liabilities and the effects of a nonrecurring liability insurance premium refund. The 1995 decrease was primarily attributable to environmental costs in 1994 associated with a tankcar leak.

The largest component of "Casualties and other claims" is personal injury expense. NS continued to benefit from a reduction in the number of reportable injuries in 1996; however, as in prior years, much of that benefit was offset by an increase in the cost of third-party injury claims and by the continuing costs associated with the handling of non-accidental "occupational" claims. NS continues to work actively to reduce the risk of all accidents.

The rail industry remains uniquely susceptible to litigation involving job-related accidental injury and occupational claims because of an outmoded law, the Federal Employers' Liability Act (FELA), originally passed in 1908 and applicable only to railroads. This law, which covers employees' claims for on-the-job injuries, promotes an adversarial claim settlement environment and produces results that are unpredictable and inconsistent, at far greater cost to the rail industry than the

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

no-fault workers' compensation system to which non-rail competitors are universally subject. The railroads have been unsuccessful so far in efforts to persuade Congress to replace FELA with a no-fault workers' compensation system.

OTHER expenses were down 2% in 1996, but were up 4% in 1995. The 1995 increase was due to higher sales, use and franchise taxes.

NS expects to complete work to make its software year-2000 compliant by the end of 1998. It is anticipated that the total cost of conversion will not be material to NS' financial statements.

Motor Carrier Results

Motor carrier operating income was $32.1 million in 1996, compared with $24.5 million in 1995 and $22.1 million in 1994. In 1996 and 1995, because certain expenses were below original estimates, $4.1 million and $3.9 million, respectively, of reserves related to a former division were reversed. The on-going operations, comprising Relocation Services (RS) and High Value Products (HVP), produced operating income of $28.0 million in 1996, $20.6 million in 1995, and $22.1 million in 1994.

The following table presents a three-year comparison of revenues by division.

MOTOR CARRIER OPERATING REVENUES BY DIVISION
($ in millions)

	1996	1995	1994
Relocation Services	$ 304.0	$ 310.9	$ 325.5
High Value Products	365.0	345.3	337.7
Total	$ 669.0	$ 656.2	$ 663.2

RS' revenues depend on four primary segments of household goods transportation: corporate, individual, military and international shipments. RS' revenues decreased 2% in 1996 and 4% in 1995. In 1996, domestic shipments declined 4% due to weakness in all segments, and international shipments were down 1%. However, these decreases were somewhat offset by a 3% gain in average revenue per shipment. The total number of industrywide moves of domestic household goods increased about 2% in 1996; over the previous six years, it had declined about 1% per year on average.

In 1995, international business was up 6% and domestic corporate account business was up 5%. However, these increases were more than offset by lower volume in individual and military business. Average revenue per shipment improved about 3%. There are six major van lines in this market, and competition is likely to remain intense.

HVP's main line of business is the distribution of office products, sensitive equipment, and exhibits and displays. A Customized Logistics Services (CLS) segment provides integrated logistics services. A Blanketwrap segment provides specialized handling of uncartoned truckload freight. Two international subsidiaries provide HVP and logistics services in Europe. HVP's revenues increased 6% in 1996 and 2% in 1995. Traditional HVP business, Blanketwrap, CLS and International, all experienced growth with their major customers in 1996 and 1995. During 1996, CLS business grew by nearly 11%, due to new customer programs and expansion of the emergency parts service business. In 1995, gains in the major business segments were partially offset by a decrease in air freight revenues due to the rationalization of certain service centers. Continued growth in the CLS segment is possible, as more shippers look to sophisticated logistics providers like NAVL to provide integrated supply chain management to reduce overall shipping and handling costs.

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

Motor carrier operating expenses as a percentage of revenues were 95.8%, 96.9% and 96.7% in 1996, 1995 and 1994, respectively, excluding the reversals related to a former division. The improvement in 1996 was partly due to a favorable appeals decision on certain aspects of a legal claim that was reserved in 1992. Also, the CLS segment reduced its costs as it moved out of the start-up phase of several of its logistics and parts distribution programs. The increase in the 1995 operating ratio was due, in large measure, to costs associated with closing operations in Panama and discontinuing certain subsidiary operations in Canada. Both of these moves were completed in order to streamline operations and reduce costs over the long term. The costs of these programs offset other gains in operating efficiency, primarily achieved in the HVP distribution operations. Intense competition in the motor carrier industry is likely to keep margins at a modest level and will require carriers to continue to focus on cost reductions.

Income Taxes

Income tax expense in 1996 was $426.5 million for an effective rate of 35.6%, compared with an effective rate of 36.1% in 1995 and 36.3% in 1994.

The effective rates in 1996 and 1995 were below the statutory federal and state rates as a result of investments in corporate-owned life insurance and coal-seam gas properties and from favorable adjustments upon filing the prior year tax returns. In addition, 1996 benefited from favorable adjustments resulting from settlement of federal income tax years 1990-1992. The effective rate in 1994 also was below the statutory federal and state rates due to favorable adjustments resulting from settlement of federal income tax years 1988 and 1989, an adjustment to the valuation allowance for deferred tax assets and a favorable adjustment upon filing the 1993 tax return. Deferred tax expense was an unusually high portion of total tax expense in 1994. A corresponding reduction is reflected in 1994's current tax expense for the effects of expenditures that affect book and tax accounts in different years, primarily in the areas of compensation, motor carrier restructuring and property.

Accounting Changes and New Accounting Pronouncements

As discussed in Note 1 under "Required Accounting Changes" on page 60, effective January 1, 1996, NS adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" (SFAS 121), which had no material effect on NS' financial statements.

On October 10, 1996, the AICPA issued Statement of Position 96-1, "Environmental Remediation Liabilities" (SOP 96-1), which is effective for fiscal years beginning after December 15, 1996. SOP 96-1 provides guidance with respect to recognition and measurement of environmental remediation liabilities and disclosure of such liabilities in financial statements. SOP 96-1 is not expected to have a material effect on NS' financial statements.

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

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

FINANCIAL CONDITION refers to the assets, liabilities and stockholders' equity of an organization (see Consolidated Balance Sheets on page 57). LIQUIDITY refers to the ability of an organization to generate adequate amounts of cash, principally from operating results or through borrowing power, to meet its short-term and long-term cash requirements (see Consolidated Statements of Cash Flows on page 58). CAPITAL RESOURCES refers to the ability of an organization to raise funds through the sale of either debt or equity (stock) securities.

($ in millions)	1996	1995	1994	1993	1992
Cash and short-term investments	$403.4	$329.0	$306.7	$258.2	$378.1
Current assets to current liabilities	1.2	1.1	1.2	1.3	1.2
Debt-to-total capitalization	27.6%	25.9%	26.2%	27.4%	29.8%
Return on average stockholders' equity	15.7%	15.4%*	14.4%	13.7%*	13.4%

* Excluding unusual items: In 1995, the early retirement charge; and, in 1993, the cumulative effects of required accounting changes and the prior years' effect of the federal income tax rate increase.

CASH PROVIDED BY OPERATING ACTIVITIES, NS' principal source of liquidity, decreased $32.7 million, or 3%, in 1996 and increased $93.1 million, or 8%, in 1995. Since the consolidation in 1982, cash provided by operating activities has been sufficient to fund dividend requirements, debt repayments and a significant portion of capital spending. The decrease in 1996 was largely attributable to lump-sum wage payments associated with labor contract settlements and higher income tax payments related to the settlement of federal income tax years 1990-1992. The improvement in 1995 was primarily a result of increased income from operations (excluding the early retirement charge, a non-cash item) and improved billing and collection of receivables.

CASH PROVIDED BY OPERATIONS
(Shown as a Graph in the Annual Report to Stockholders)
($ in millions)

1996	1995	1994	1993	1992	1991
$ 1,204.7	$ 1,237.4	$ 1,144.3	$ 874.6	$ 958.2	$ 762.4

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

CASH USED FOR INVESTING ACTIVITIES decreased 6% in 1996, and was up 16% in 1995. Property additions account for most of the spending in this category.

The following tables show capital spending, track and equipment statistics for the past five years.

CAPITAL EXPENDITURES

(Also Shown as a Graph in the Annual Report to Stockholders)

($ in millions)	1996*	1995*	1994	1993	1992
Road	$437.8	$385.7	$384.6	$417.9	$426.5
Equipment	332.1	344.3	245.9	240.5	281.3
Other property	26.1	33.4	82.4	10.8	8.3
Total	$796.0	$763.4	$712.9	$669.2	$716.1

* Includes non-cash equipment expenditures of $107.8 million in 1996 and $104.5 million in 1995 (see Note 6 on page 65).

TRACK STRUCTURE STATISTICS (CAPITAL AND MAINTENANCE)

	1996	1995	1994	1993	1992
Track miles of rail installed	401	403	480	574	660
Miles of track surfaced	4,686	4,668	4,760	5,048	5,690
New crossties installed (millions)	1.9	2.0	1.7	1.6	1.9

AVERAGE AGE OF RAILWAY EQUIPMENT

(Years)	1996	1995	1994	1993	1992
Freight cars	22.3	22.0	21.9	21.3	20.9
Locomotives	15.4	15.7	15.8	15.1	14.5
Retired locomotives	24.4	22.6	23.6	24.7	24.0

Since 1988, NS has rebodied about 23,000 coal cars and plans to continue that program, although at a slower rate, in 1997. This work, performed at NS' Roanoke Car Shop, converts hopper cars into high-capacity steel gondolas or hoppers. As a result, the remaining service life of the freight car fleet is greater than may be inferred from the increasing average age shown in the table above.

Efforts to hold down capital spending while increasing business are ongoing as NS seeks to maximize utilization of its assets. In this connection, NS began an orderly disposition of approximately 17,000 freight cars in October 1994. This was substantially completed in 1996 with total proceeds of $92 million included in

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

"Property sales and other transactions" in the 1996 and 1995 Consolidated Statements of Cash Flows. In 1996 and 1995, this line item also reflected proceeds from large land sales (see Note 2 on page 62).

For 1997, NS is planning $792 million of capital spending, of which $781 million is for railway projects and $11 million is for motor carrier property. Barring unforeseen events and excluding any capital spending related to the proposed Conrail transaction (see "Proposed Acquisition of Conrail"), total capital spending is expected to continue to be similar to 1995 and 1996 levels.

In 1994, large borrowings on corporate-owned life insurance, reflected in "Investment sales and other transactions" in the Consolidated Statements of Cash Flows, offset much of the use of cash for property additions in that year.

CASH USED FOR FINANCING ACTIVITIES declined 20% in 1996 and 3% in 1995. The reduction in 1996 resulted from amounts received in connection with the issuance of $200 million principal amount of medium-term notes (see Note 6 on page 65). The reduction in 1995 was primarily attributable to lower debt repayments; 1994 had included the maturity of a large mortgage.

On January 22, 1997, NS filed with the Securities and Exchange Commission a shelf registration statement on Form S-3 covering the issuance of up to $1.25 billion principal amount of debt or equity securities.

Cash spent to purchase and retire stock was $389.4 million in 1996, $338.2 million in 1995 and $344.8 million in 1994. On October 23, 1996, NS announced that the share purchase program had been suspended (see also Note 13 on page 75).

CUMULATIVE PURCHASES OF STOCK
(Shown as a Graph in the Annual Report to Stockholders)
($ in millions)

1996	1995	1994	1993	1992	1991
$3,250.5	$2,865.4	$2,531.5	$2,181.8	$2,041.9	$1,862.8

Hedging Activities

As discussed under "Capital Leases" in Note 6 on page 65, NS has made limited use of interest rate swaps in connection with certain equipment financings.

PROPOSED ACQUISITION OF CONRAIL

As discussed in Note 15 on page 76, NS commenced an all-cash tender offer for all Shares of Conrail Inc. (Conrail), on October 24, 1996, in response to the October 15, 1996, announcement that Conrail had entered into a merger agreement with CSX.

On February 11, 1997, NS acquired 8.2 million shares of Conrail stock (approximately 9.9%), representing the approximate maximum number of Shares NS can buy without triggering Conrail's current anti-takeover defenses, at a cost of $115 per Share, or $943 million in the aggregate. The purchase was financed with commercial paper backed by a portion of the debt commitments secured for the transaction. These Shares have been placed in a voting trust and under certain circumstances might have to be sold at a loss.

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

On February 12, 1997, NS commenced a second tender offer for the remaining Shares and has notified Conrail of its intention to conduct a proxy contest in connection with Conrail's 1997 Annual Meeting of shareholders, currently scheduled for December 19, 1997, seeking, among other things, to remove certain of the current members of the Conrail Board and to elect a new slate of nominees designated by NS.

Pursuant to an amendment to the merger agreement between CSX and Conrail announced on March 7, 1997, CSX has offered to purchase all Shares for $115 per Share in cash and CSX is permitted to enter into negotiations with other parties, including NS, concerning the acquisition of the securities or assets, or concessions relating to the assets or operations, of Conrail. NS and CSX are negotiating a comprehensive resolution of the issues confronting the eastern railroads based on the proposal submitted by NS to both CSX and Conrail on February 24, 1997. Such a resolution could involve a joint acquisition of Shares by NS and CSX. However, unless and until such negotiations are successfully concluded, NS intends to continue in effect its tender offer for all Shares not owned by NS.

For additional information concerning NS' pending tender offer for Shares not owned by NS, reference is made to NS' Tender Offer Statement on Schedule 14D-1, together with the exhibits thereto, initially filed with the Securities and Exchange Commission on February 12, 1997, as amended.

NS expects future cash flows of the combined entity would be sufficient to service and retire the acquisition and related debt. However, as a result of the proposed transaction and the related debt commitments, NS has been placed on the credit watch list of two major rating agencies. Furthermore, in connection with the acquisition of 8.2 million Shares, some of NS' debt ratings have already been downgraded.

ENVIRONMENTAL MATTERS

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 can be reasonably estimated. Claims, if any, against third parties for recovery of clean-up costs incurred by NS are reflected as receivables in the balance sheet and are not netted against the associated NS liability. Environmental engineers participate in ongoing evaluations of all identified sites, and--after consulting with counsel--any necessary adjustments to initial liability estimates are made. NS also has established an Environmental Policy Council, composed of senior managers, to oversee and interpret its environmental policy.

Operating expenses for environmental protection totaled approximately $25 million in 1996 and are anticipated to increase somewhat in 1997. Capital expenditures for environmental projects amounted to approximately $6 million in 1996 and are expected to be at the same level in 1997. As of December 31, 1996, NS' balance sheet included a reserve for environmental exposures in the amount of $53 million (of which $12 million is accounted for as a current liability), which is NS' estimate of the probable costs based on available information at 111 identified locations. On that date, nine sites accounted for $19 million of the reserve, 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.

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

At many of the 111 locations, certain 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 clean-up costs.

At one such site, the EPA alleged in 1995 that The Alabama Great Southern Railroad Company (AGS), a subsidiary of NS' rail subsidiary, is responsible, along with several other entities believed to be financially solvent, for past and future clean-up and monitoring costs at the Bayou Bonfouca NPL Superfund site located in Slidell, La. The EPA bases its claim of NS' responsibility primarily on the alleged activities in the 1880s of a company not at the time owned or controlled by an NS rail subsidiary, but acquired in 1916. Liability has been contested. Because the amount of liability that the EPA may assert against NS or AGS is not known, the materiality of such amount to NS' financial position, results of operation or liquidity in a particular quarter or year cannot be assessed at this time. The EPA has indicated that it has expended or expects to expend a total of approximately $130 million at the site.
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 clean-up techniques, the likely development of new clean-up technologies, the difficulty of determining in advance the nature and full extent of contamination and each potential participant's share of any estimated loss (and that participant's ability to bear it) and evolving statutory and regulatory standards governing liability.

The risk of incurring environmental liability--for acts and omissions, past, present and future--is inherent in the railroad business. Some of the commodities, particularly those classified as hazardous materials, in NS' traffic mix can pose special risks that NS and its subsidiaries work diligently to minimize. In addition, several NS subsidiaries own, or have owned in the past, land holdings used as operating property, or which are leased or may have been leased and operated by others, or held for sale. Because certain conditions may exist on these properties related to environmental problems that are latent or undisclosed, there can be no assurance that NS will not incur liabilities or costs with respect to one or more of them, the amount and materiality of which cannot be estimated reliably now. Moreover, lawsuits and claims involving these and other now-unidentified environmental sites and matters are likely to arise from time to time. The resulting liabilities could have a significant effect on financial condition, results of operations or liquidity in a particular year or quarter.

However, based on its assessments of the facts and circumstances now known and, after consulting with its legal counsel, Management believes that it has recorded the probable costs based on available information for those environmental matters of which the Corporation is aware. Further, Management believes that it is unlikely that any identified matters, either individually or in aggregate, will have a material adverse effect on NS' financial position, results of operations or liquidity.

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

INFLATION

Generally accepted accounting principles require the use of historical cost in preparing financial statements. This approach disregards the effects of inflation on the replacement cost of property. NS, a capital-intensive company, has approximately $14 billion invested in such assets. The replacement cost of these assets, as well as the related depreciation expense, would be substantially greater than the amounts reported on the basis of historical cost.

TRENDS

- Utility Deregulation--The potential deregulation of the electrical utility industry is expected to increase competition among electric power generators; deregulation in time would permit wholesalers and possibly retailers of electric power to sell or purchase increasing quantities of power to or from far-distant generators. The effects of deregulation on NS and on its patrons cannot be predicted with certainty; however, NS serves a number of efficient power producers and is working diligently to assure that its customers remain competitive in this evolving environment.

- FELA--NS and the rail industry are continuing their efforts to replace the FELA with no-fault workers' compensation laws comparable to those covering employees in other industries.

FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Annual Report contain forward-looking statements that are based on current expectations, estimates and projections. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed in such forward-looking statements.

Item 8. Financial Statements and Supplementary Data.

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
QUARTERLY FINANCIAL DATA
(Unaudited)

	Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
	(In millions of dollars except per share amounts)			
1996				
Transportation operating revenues	$1,161.5	$1,217.3	$1,211.3	$1,179.9
Income from operations	261.0	310.5	315.7	309.8
Net income	168.1	199.5	202.3	200.5
Earnings per share	$ 1.31	$ 1.57	$ 1.61	$ 1.60
1995				
Transportation operating revenues	$1,138.7	$1,190.2	$1,183.9	$1,155.2
Income from operations	249.1	290.1	292.1	255.0
Net income	170.7	181.2	183.9	176.9
Earnings per share	$ 1.29	$ 1.38	$ 1.40	$ 1.37

Item 8. Financial Statements and Supplementary Data. (continued)

Index to Financial Statements:

The Index to Consolidated Financial Statement Schedule appears in Item 14 on page 81.

Item 8. Financial Statements and Supplementary Data. (continued)

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
Consolidated Statements of Income

	Years ended December 31, 1996	1995	1994
	($ in millions, except earnings per share)		
Transportation operating revenues:			
Railway	$ 4,101.0	$ 4,011.8	$ 3,918.1
Motor carrier	669.0	656.2	663.2
Total transportation operating revenues	4,770.0	4,668.0	4,581.3
Transportation operating expenses:			
Railway:			
Compensation and benefits (Note 10)	1,398.7	1,480.0	1,371.1
Materials, services and rents	624.4	618.5	660.4
Depreciation	407.9	389.0	374.3
Diesel fuel	233.4	189.8	188.3
Casualties and other claims	123.4	121.4	135.1
Other	148.3	151.3	145.6
Total railway operating expenses	2,936.1	2,950.0	2,874.8
Motor carrier	636.9	631.7	641.1
Total transportation operating expenses	3,573.0	3,581.7	3,515.9
Income from operations	1,197.0	1,086.3	1,065.4
Other income - net (Note 2)	115.6	141.8	85.2
Interest expense on debt (Note 5)	115.7	113.4	101.6
Income before income taxes	1,196.9	1,114.7	1,049.0
Provision for income taxes (Note 3)	426.5	402.0	381.2
Net income	$ 770.4	$ 712.7	$ 667.8
Earnings per share (Note 13)	$ 6.09	$ 5.44	$ 4.90

See accompanying notes to consolidated financial statements.

Item 8. Financial Statements and Supplementary Data. (continued)

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets

	As of December 31, 1996	1995
	($ in millions)	
Assets		
Current assets:		
Cash and cash equivalents	$ 209.2	$ 67.7
Short-term investments	194.2	261.3
Accounts receivable net of allowance for doubtful accounts of $16.3 million and $19.1 million, respectively	704.3	703.5
Materials and supplies	63.0	61.7
Deferred income taxes (Note 3)	158.9	144.7
Other current assets	127.2	103.9
Total current assets	1,456.8	1,342.8
Investments (Note 4)	274.7	231.7
Properties less accumulated depreciation (Note 5)	9,529.1	9,258.8
Other assets (Note 15)	155.8	71.5
Total assets	$ 11,416.4	$ 10,904.8
Liabilities and stockholders' equity		
Current liabilities:		
Short-term debt (Note 6)	$ 44.0	$ 45.2
Accounts payable (Note 7)	708.9	732.8
Income and other taxes	178.7	190.8
Other current liabilities (Note 7)	202.7	151.3
Current maturities of long-term debt (Note 6)	56.0	85.7
Total current liabilities	1,190.3	1,205.8
Long-term debt (Note 6)	1,800.3	1,553.3
Other liabilities (Note 9)	987.1	965.5
Minority interests	49.5	52.2
Deferred income taxes (Note 3)	2,411.6	2,299.0
Total liabilities	6,438.8	6,075.8
Stockholders' equity:		
Common stock $1.00 per share par value, 450,000,000 shares authorized; issued 132,350,009 shares and 136,285,530 shares, respectively	132.4	136.3
Other capital	462.1	430.9
Retained income	4,403.7	4,282.4
Less treasury stock at cost, 7,252,634 shares	(20.6)	(20.6)
Total stockholders' equity	4,977.6	4,829.0
Total liabilities and stockholders' equity	$ 11,416.4	$ 10,904.8

See accompanying notes to consolidated financial statements.

Item 8. Financial Statements and Supplementary Data. (continued)

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows

	Years ended December 31,		
	1996	1995	1994
		($ in millions)	
Cash flows from operating activities:			
Net income	$ 770.4	$ 712.7	$ 667.8
Reconciliation of net income to net cash provided by operating activities:			
Special charge payments	(18.0)	(29.3)	(41.9)
Depreciation	429.2	413.5	403.8
Deferred income taxes	97.1	66.7	112.7
Nonoperating gains and losses on properties and investments	(56.8)	(71.8)	(17.0)
Changes in assets and liabilities affecting operations:			
Accounts receivable	(0.8)	28.1	(12.9)
Materials and supplies	(1.3)	0.2	8.4
Other current assets	(9.1)	1.4	(17.8)
Current liabilities other than debt	(5.5)	84.2	55.5
Other - net	(0.5)	31.7	(14.3)
Net cash provided by operating activities	1,204.7	1,237.4	1,144.3
Cash flows from investing activities:			
Property additions	(688.2)	(658.9)	(712.9)
Property sales and other transactions	131.1	129.5	86.1
Investments	(82.0)	(67.1)	(58.7)
Investment sales and other transactions	37.8	36.9	272.0
Short-term investments - net	65.6	(8.3)	(74.4)
Net cash used for investing activities	(535.7)	(567.9)	(487.9)
Cash flows from financing activities:			
Dividends	(283.7)	(273.5)	(262.7)
Common stock issued - net	28.6	19.1	9.8
Purchase and retirement of common stock	(389.4)	(338.2)	(344.8)
Proceeds from long-term borrowings	209.6	7.6	41.4
Debt repayments	(92.6)	(73.8)	(123.6)
Net cash used for financing activities	(527.5)	(658.8)	(679.9)
Net increase (decrease) in cash and cash equivalents	141.5	10.7	(23.5)
Cash and cash equivalents:			
At beginning of year	67.7	57.0	80.5
At end of year	$ 209.2	$ 67.7	$ 57.0
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest (net of amounts capitalized)	$ 127.5	$ 119.4	$ 114.3
Income taxes	$ 324.1	$ 282.9	$ 226.4

See accompanying notes to consolidated financial statements.

Item 8. Financial Statements and Supplementary Data. (continued)

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity

	Common Stock	Other Capital	Retained Income	Treasury Stock	Total
			($ in millions)		
Balance December 31, 1993	$ 145.7	$ 417.1	$ 4,078.5	$ (20.6)	$ 4,620.7
Net income - 1994			667.8		667.8
Dividends on common stock $1.92 per share			(262.7)		(262.7)
Purchase and retirement of common stock	(5.5)	(16.3)	(327.8)		(349.6)
Other	0.2	9.6	(1.2)		8.6
Balance December 31, 1994	140.4	410.4	4,154.6	(20.6)	4,684.8
Net income - 1995			712.7		712.7
Dividends on common stock $2.08 per share			(273.5)		(273.5)
Purchase and retirement of common stock	(4.8)	(14.3)	(314.8)		(333.9)
Other	0.7	34.8	3.4		38.9
Balance December 31, 1995	136.3	430.9	4,282.4	(20.6)	4,829.0
Net income - 1996			770.4		770.4
Dividends on common stock $2.24 per share			(283.7)		(283.7)
Purchase and retirement of common stock	(4.6)	(14.8)	(365.7)		(385.1)
Other	0.7	46.0	0.3		47.0
Balance December 31, 1996	$ 132.4	$ 462.1	$ 4,403.7	$ (20.6)	$ 4,977.6

See accompanying notes to consolidated financial statements.

Item 8. Financial Statements and Supplementary Data. (continued)

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

The following notes (which--with the exception of Note 16--are identical to those contained in the Corporation's 1996 Annual Report to Stockholders) are an integral part of the consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Norfolk Southern Corporation is a Virginia-based holding company engaged principally in the transportation of freight by rail, primarily in the Southeast and Midwest, and the operation of a motor carrier providing household moving and specialized freight handling services in the United States and Canada. The consolidated financial statements include Norfolk Southern Corporation (Norfolk Southern) and its majority-owned and controlled subsidiaries (collectively NS). The major subsidiaries are Norfolk Southern Railway Company and North American Van Lines, Inc. (NAVL). All significant intercompany balances and transactions have been eliminated in consolidation.

Rail freight consists of raw materials, intermediate products and finished goods classified in the following market groups: coal, paper/forest, chemicals, automotive, agriculture, metals/construction and intermodal. All groups are approximately equal in size based on revenues except for coal, which accounts for almost one third of total railway operating revenues. Ultimate destinations for some of the freight and a portion of the coal shipped are outside the United States.

Use of Estimates

The preparation of financial statements in conformity with 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. Actual results could differ from those estimates.

Cash Equivalents

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

Investments

Marketable equity and debt securities are reported at amortized cost or fair value depending upon their classification as held-to-maturity, trading or available-for-sale securities. At December 31, 1996 and 1995, all "Short-term investments," consisting primarily of United States government and federal agency securities, were designated as available for sale. Accordingly, unrealized gains and losses, net of taxes, are recognized in "Stockholders' equity."

Materials and Supplies

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

Item 8. Financial Statements and Supplementary Data. (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Properties

"Properties" are stated principally at cost and are depreciated using group depreciation. Rail is primarily depreciated on the basis of use measured by gross ton miles. The effect of this method is to depreciate these assets over 42 years on average. Other properties are depreciated generally using the straight-line method over estimated service lives at annual rates that range from 1% to 25%. In 1996, the overall depreciation rate averaged 2.8% for roadway and 4.1% for equipment. NS capitalizes interest on major capital projects during the period of their construction. Maintenance expense is recognized when repairs are performed. When properties, other than land and non-rail 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 rather than recognized through income. Gains and losses on disposal of land and non-rail assets are included in other income (see Note 2).

Revenue Recognition

Revenue is recognized proportionally as a shipment moves from origin to destination.

Earnings Per Share

The number reported as "Earnings per share" in any period is computed by dividing net income by the weighted average number of common shares outstanding during that period. Decreases in the number of shares outstanding are the result of stock purchase programs as described in Note 13.

Required Accounting Changes

1996 -- Effective January 1, 1996, NS adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" (SFAS 121). SFAS 121 establishes the accounting and reporting requirements for recognizing and measuring impairment of long-lived assets either to be held and used or to be held for disposal. SFAS 121 did not have a material effect on NS' financial statements.

In October 1995, the FASB issued Statement No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). This standard, effective for fiscal years beginning after December 15, 1995, defines a fair-value-based method of accounting for stock-based compensation plans. However, the standard also allows measurement of compensation cost using the intrinsic-value-based method of accounting prescribed in Accounting Principles Board Opinion No. 25 (APB 25). Companies that choose to retain APB 25 for measurement purposes are required to provide certain additional footnote disclosures. NS has elected to continue recording stock-based compensation costs based on APB 25 and to provide additional disclosures.

Item 8. Financial Statements and Supplementary Data. (continued)

2. OTHER INCOME - NET

	1996	1995	1994
		($ in millions)	
Interest income	$ 22.5	$ 27.9	$ 25.5
Royalties from coal	58.8	58.6	61.0
Gains from sale of properties and investments	56.8	41.3	17.0
Gain from partial redemption of partnership interest	--	30.5	--
Rental income	20.1	20.8	19.6
Corporate-owned life insurance - net	5.6	7.1	7.7
Other interest expense	(31.1)	(23.5)	(19.7)
Non-rail depletion and depreciation	(11.0)	(10.2)	(11.6)
Taxes on nonoperating property	(8.4)	(6.9)	(8.2)
Other - net	2.3	(3.8)	(6.1)
Total	$ 115.6	$ 141.8	$ 85.2

3. INCOME TAXES

Provision for Income Taxes

	1996	1995	1994
		($ in millions)	
Current:			
Federal	$ 287.8	$ 282.6	$ 226.4
State	41.6	52.7	42.1
Total current taxes	329.4	335.3	268.5
Deferred:			
Federal	79.2	57.8	99.0
State	17.9	8.9	13.7
Total deferred taxes	97.1	66.7	112.7
Provision for income taxes	$ 426.5	$ 402.0	$ 381.2

Item 8. Financial Statements and Supplementary Data. (continued)

3. INCOME TAXES (continued)

Reconciliation of Statutory Rate to Effective Rate

Total income taxes as reflected in the Consolidated Statements of Income differ from the amounts computed by applying the statutory federal corporate tax rate as follows:

	1996		1995		1994	
	Amount	%	Amount	%	Amount	%
			($ in millions)			
Federal income tax at statutory rate	$ 418.9	35.0	$ 390.1	35.0	$ 367.2	35.0
State income taxes, net of federal tax benefit	38.6	3.2	40.0	3.6	36.1	3.4
Corporate-owned life insurance	(15.4)	(1.3)	(17.0)	(1.5)	(10.5)	(1.0)
Other - net	(15.6)	(1.3)	(11.1)	(1.0)	(11.6)	(1.1)
Provision for income taxes	$ 426.5	35.6	$ 402.0	36.1	$ 381.2	36.3

Internal Revenue Service (IRS) Reviews

Consolidated federal income tax returns have been examined and Revenue Agent Reports have been received for all years up to and including 1992. The consolidated federal income tax returns for 1993 and 1994 are being audited by the IRS. Management believes that adequate provision has been made for any additional taxes and interest thereon that might arise as a result of these examinations.

Tax Benefit Leases

In January 1995, the United States Tax Court issued a preliminary decision that would disallow some of the tax benefits a subsidiary of NS purchased from a third party pursuant to a safe harbor lease agreement in 1981. Management continues to believe that NS ultimately should incur no loss from this decision, because the lease agreement provides for full indemnification if any such disallowance is sustained.

Deferred Tax Assets and Liabilities

Certain items are reported in different periods for financial reporting and income tax purposes. Deferred tax assets and liabilities were recorded in recognition of these differences.

Item 8. Financial Statements and Supplementary Data. (continued)

3. INCOME TAXES (continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities were as follows:

	December 31, 1996	December 31, 1995
	($ in millions)	
Deferred tax assets:		
Reserves, including casualty and other claims	$ 172.0	$ 189.3
Employee benefits	187.5	196.1
Retiree health and death benefit obligation	147.4	148.3
Taxes, including state and property	179.7	170.3
Other	79.8	59.1
Total gross deferred tax assets	766.4	763.1
Less valuation allowance	(2.1)	(1.5)
Net deferred tax assets	764.3	761.6
Deferred tax liabilities:		
Property	(2,902.9)	(2,821.5)
Other	(114.1)	(94.4)
Total gross deferred tax liabilities	(3,017.0)	(2,915.9)
Net deferred tax liability	(2,252.7)	(2,154.3)
Net current deferred tax assets	158.9	144.7
Net long-term deferred tax liability	$ (2,411.6)	$ (2,299.0)

Except for amounts for which a valuation allowance is provided, Management believes the deferred tax assets will be realized. The net change in the total valuation allowance was a $0.6 million increase for 1996, a $0.1 million increase for 1995 and a $9.5 million decrease for 1994.

Item 8. Financial Statements and Supplementary Data. (continued)

4. INVESTMENTS

	December 31, 1996	December 31, 1995
	($ in millions)	
Corporate-owned life insurance at net cash surrender value	$ 211.5	$ 175.2
Marketable equity securities	6.4	5.2
Other	56.8	51.3
Total	$ 274.7	$ 231.7

5. PROPERTIES

	December 31, 1996	December 31, 1995
	($ in millions)	
Transportation property:		
Road	$ 8,488.7	$ 8,235.7
Equipment	4,848.0	4,775.7
Other property	591.2	573.7
	13,927.9	13,585.1
Less: Accumulated depreciation	4,398.8	4,326.3
Net properties	$ 9,529.1	$ 9,258.8

Capitalized Interest

Total interest cost incurred on debt in 1996, 1995 and 1994 was $127.6 million, $127.4 million and $119.4 million, respectively, of which $11.9 million, $14.0 million and $17.8 million was capitalized.

6. DEBT

Commercial Paper Program

NS' commercial paper debt totaled $516.1 million and $518.0 million as of December 31, 1996 and 1995, respectively.

Commercial paper debt is due within one year, but $500 million has been classified as long-term because NS has the ability through a revolving credit back-up facility to convert this obligation into longer term debt. NS intends to refinance the commercial paper either by issuing additional commercial paper or by replacing commercial paper notes with long-term debt.

The credit facility provides for interest on borrowings at prevailing rates and contains customary financial covenants, including an initial minimum net worth requirement of $4.0 billion.

In connection with the tender offer to purchase up to 8.2 million shares of Conrail stock, NS has arranged for additional commercial paper debt (see Note 15).

Item 8. Financial Statements and Supplementary Data. (continued)

6. DEBT (continued)

Short-Term Debt

	December 31, 1996	December 31, 1995
	($ in millions)	
Commercial paper notes	$ 16.1	$ 18.0
Other notes	27.2	27.2
Subsidiaries' credit lines	0.7	--
Total	$ 44.0	$ 45.2

Shelf Registration

In 1991, NS filed with the Securities and Exchange Commission a shelf registration statement on Form S-3 covering the issuance of up to $750 million principal amount of unsecured debt securities. Through the end of 1996, $700 million principal amount of debt has been issued and sold under this shelf registration. These notes are not redeemable prior to maturity and are not entitled to any sinking fund.

	December 31, 1996	December 31, 1995
	($ in millions)	
9% notes issued March 1991, due March 1, 2021	$ 250	$ 250
7.875% notes issued February 1992, due February 15, 2004	250	250
7.4% notes issued September 1996, due September 15, 2006	100	--
7.22% notes issued September 1996, due September 15, 2006	100	--
Total	$ 700	$ 500

Capital Lease Obligations

During 1996 and 1995, an NS rail subsidiary entered into capital leases covering new locomotives. The related capital lease obligations totaling $107.8 million in 1996 and $104.5 million in 1995 were reflected in the Consolidated Balance Sheets as debt and, because they were non-cash transactions, were excluded from the Consolidated Statements of Cash Flows. The lease obligations carry an average stated interest rate of 6.5% for those entered into in 1996 and 8.4% for those entered into in 1995. All were converted to variable rate obligations using interest rate swap agreements. The interest rates on these obligations are based on the six-month London Interbank Offered Rate and are reset every six months with changes in interest rates accounted for as an adjustment of interest expense over the terms of the leases. As a result, NS is exposed to the market risk associated with fluctuations in interest rates. To date, while such rate fluctuations have been nominal, their effects have been favorable. Counterparties to the interest rate swap agreements are major financial institutions believed by Management to be credit-worthy. NS' use of interest rate swaps has been limited to those discussed above.

Item 8. Financial Statements and Supplementary Data. (continued)

6. DEBT (continued)

Long-Term Debt

	December 31, 1996	December 31, 1995
	($ in millions)	
Railroad equipment obligations at an average rate of 7.9% maturing to 2009	$ 396.4	$ 444.6
Notes at an average rate of 8.1% maturing to 2021	700.0	500.0
Commercial paper classified as long-term debt at an average rate of 5.4%	500.0	500.0
Capitalized leases at an average rate of 5.9% maturing to 2015	197.0	100.9
Other debt at an average rate of 8.7% maturing to 2015	62.9	93.5
Total long-term debt	1,856.3	1,639.0
Less: Current maturities	56.0	85.7
Long-term debt less current maturities	$ 1,800.3	$ 1,553.3

Long-term debt matures as follows:	
1998	$ 114.6
1999	127.2
2000	57.7
2001	51.8
2002 and subsequent years	1,449.0
Total	$ 1,800.3

A substantial portion of NS' properties and certain investments in affiliated companies are pledged as collateral for much of the secured debt.

Item 8. Financial Statements and Supplementary Data. (continued)

7. CURRENT LIABILITIES

	December 31, 1996	1995
	($ in millions)	
Accounts payable:		
Accounts and wages payable	$ 349.6	$ 385.2
Casualty and other claims	199.6	197.4
Vacation liability	76.8	74.4
Equipment rents payable - net	60.9	62.0
Other	22.0	13.8
Total	$ 708.9	$ 732.8
Other current liabilities:		
Prepaid amounts on forwarded traffic	$ 62.7	$ 69.7
Accrued acquisition costs (Note 15)	60.7	--
Interest payable	38.9	42.8
Retiree health and death benefit obligation (Note 11)	23.7	25.3
Other	16.7	13.5
Total	$ 202.7	$ 151.3

8. LEASE COMMITMENTS

NS is committed under long-term lease agreements, which expire on various dates through 2067, for equipment, lines of road and other property. Future minimum lease payments are as follows:

	Operating Leases	Capital Leases
	($ in millions)	
1997	$ 64.4	$ 28.6
1998	56.3	28.6
1999	42.1	28.6
2000	35.9	28.5
2001	33.7	28.0
2002 and subsequent years	643.2	143.1
Total	$ 875.6	285.4
Less imputed interest on capital leases at an average rate of 7.4%		88.4
Present value of minimum lease payments included in debt		$ 197.0

Item 8. Financial Statements and Supplementary Data. (continued)

8. LEASE COMMITMENTS (continued)

Operating Lease Expense

	1996	1995	1994
	($ in millions)		
Minimum rents	$ 77.4	$ 67.8	$ 56.1
Contingent rents	38.3	36.0	45.4
Total	$ 115.7	$ 103.8	$ 101.5

9. OTHER LIABILITIES

	December 31, 1996	1995
	($ in millions)	
Casualty and other claims	$ 274.2	$ 286.5
Net pension obligation (Note 10)	89.2	102.2
Retiree health and death benefit obligation (Note 11)	306.6	307.4
Other	317.1	269.4
Total	$ 987.1	$ 965.5

10. PENSION PLANS

Norfolk Southern and certain subsidiaries have defined benefit pension plans that principally cover salaried employees. Pension benefits are based primarily on years of creditable service with NS and compensation rates near retirement. Contributions to the plans are made on the basis of not less than the minimum funding standards set forth in the Employee Retirement Income Security Act of 1974, as amended. Assets in the plans consist mainly of common stocks.

Pension Cost (Benefit) Components

	1996	1995	1994
	($ in millions)		
Service cost-benefits earned during the year	$ 14.5	$ 11.5	$ 12.5
Interest cost on projected benefit obligation	69.6	68.0	62.6
Actual return on assets in plans	(174.9)	(263.4)	(17.0)
Net amortization and deferral	85.4	177.0	(62.8)
Net pension benefit	(5.4)	(6.9)	(4.7)
Cost of early retirement benefits	--	23.4	--
Total	$ (5.4)	$ 16.5	$ (4.7)

Item 8. Financial Statements and Supplementary Data. (continued)

10. PENSION PLANS (continued)

Pension cost is determined based on an actuarial valuation that reflects appropriate assumptions as of the beginning of each year. The funded status of the plans is determined using appropriate assumptions as of each year end. A summary of the major assumptions follows:

	1996	1995	1994
Discount rate for determining funded status	7.75%	7.25%	8.50%
Future salary increases	5.25%	6%	6%
Return on assets in plans	9%	9%	9%

The funded status of the plans and the amounts reflected in the accompanying balance sheets were as follows:

	December 31,			
	1996		1995	
	Funded Plans	Unfunded Plans	Funded Plans	Unfunded Plans
	($ in millions)			
Actuarial present value of benefit obligations:				
Vested benefits	$ 784.3	$ 58.9	$ 812.5	$ 51.7
Non-vested benefits	8.1	--	6.6	0.3
Accumulated benefit obligation	792.4	58.9	819.1	52.0
Effect of expected future salary increases	68.9	5.6	115.3	11.5
Projected benefit obligation	861.3	64.5	934.4	63.5
Fair value of assets in plans	1,191.0	--	1,088.8	--
Funded status	329.7	(64.5)	154.4	(63.5)
Unrecognized initial net asset	(29.4)	--	(35.9)	--
Unrecognized (gain) loss	(336.9)	21.0	(169.2)	21.5
Unrecognized prior service cost	(11.8)	2.7	(12.8)	3.3
Net pension liability included in the balance sheets	$ (48.4)	$ (40.8)	$ (63.5)	$ (38.7)

Early Retirement Program in 1995

During 1995, NS completed a voluntary early retirement program for certain salaried employees. The principal benefit for those who participated in this program was enhanced pension benefits, which are reflected in the accumulated benefit obligation. The charge for the 272 employees who accepted the offer is included in

Item 8. Financial Statements and Supplementary Data. (continued)

10. PENSION PLANS (continued)

"Compensation and benefits" expense and totaled $33.6 million (including $8.3 million related to postretirement benefits other than pensions).

401(k) Plans

Norfolk Southern and certain subsidiaries provide 401(k) savings plans for employees. Under the plans, NS matches a portion of employee contributions, subject to applicable limitations. NS' expenses under these plans were $8.1 million, $7.0 million and $5.1 million in 1996, 1995 and 1994, respectively.

11. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

Norfolk Southern and certain subsidiaries provide specified health care and death benefits to eligible retired employees and their dependents. Under the present plans, which may be amended or terminated at NS' option, a defined percentage of health care expenses is covered, reduced by any deductibles, co-payments, Medicare payments and, in some cases, coverage provided by other group insurance policies. The cost of such health care coverage to a retiree may be determined, in part, by the retiree's years of creditable service with NS prior to retirement. Death benefits are determined based on various factors, including, in some cases, salary at time of retirement.

NS continues to fund benefit costs principally on a pay-as-you-go basis. However, in 1991, NS established a Voluntary Employee Beneficiary Association (VEBA) account to fund a portion of the cost of future health care benefits for retirees. NS last made a corporate contribution of $10 million in 1994 to the VEBA.

Effective January 1, 1994, NS amended the attribution period for postretirement health care benefits. The amendment generally provides for benefits to be determined ratably over a 10-year period based on creditable service commencing at age 45, or from date of hire if employment began after age 45. The amendment reduced the accumulated postretirement health care benefit obligation by $90 million, which will be amortized as a reduction in annual cost on a pro rata basis over a six-year period.

A summary of the postretirement benefit cost follows:

	1996	1995	1994
		($ in millions)	
Service cost-benefits attributable to service during the year	$ 11.1	$ 10.2	$ 14.5
Interest cost on accumulated postretirement benefit obligation	25.1	28.6	25.0
Actual return on plan assets	(13.7)	(17.6)	--
Net amortization and deferral	(5.2)	0.9	(14.6)
Net postretirement benefit cost	$ 17.3	$ 22.1	$ 24.9
Cost of early retirement benefits	--	8.3	--
Total	$ 17.3	$ 30.4	$ 24.9

Item 8. Financial Statements and Supplementary Data. (continued)

11. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (continued)

The following table sets forth these plans' total accumulated postretirement benefit obligation, reconciled with the accrued postretirement benefit obligation:

	December 31, 1996 Health Care Benefits	1996 Death Benefits	1995 Health Care Benefits	1995 Death Benefits
	($ in millions)			
Accumulated postretirement benefit obligation:				
Retirees	$ 170.2	$ 83.1	$ 225.6	$ 83.8
Fully eligible active plan participants	23.0	7.2	23.9	8.0
Other active plan participants	46.4	12.1	52.7	12.8
Total	239.6	102.4	302.2	104.6
Plan assets at fair value	85.8	--	72.1	--
Funded status	(153.8)	(102.4)	(230.1)	(104.6)
Unrecognized loss (gain)	(23.7)	(2.6)	59.4	4.1
Unrecognized prior service cost (benefit)	(47.7)	(0.1)	(61.5)	--
Accrued postretirement benefit obligation	$ (225.2)	$ (105.1)	$ (232.2)	$ (100.5)

For measurement purposes, a 10.4% increase in the per capita cost of covered health care benefits was assumed for 1997. The rate was assumed to decrease gradually to an ultimate rate of 5.5% and remain at that level for 2005 and thereafter. The health care cost trend rate has a significant effect on the amounts reported in the financial statements. To illustrate, increasing the assumed trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1996, by about $27 million and the aggregate of the service and interest cost components of net postretirement benefit cost for the year 1996 by about $4 million.

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation, the salary increase assumption and the long-term rate of return on plan assets are the same as those used for the pension plans (see table of rate assumptions in Note 10).

The VEBA trust holding the plan assets is not expected to be subject to federal income taxes, as the assets are invested entirely in trust-owned life insurance.

Under collective bargaining agreements, NS and certain subsidiaries participate in a multi-employer benefit plan, which provides certain postretirement health care and life insurance benefits to eligible union employees. Premiums under this plan are expensed as incurred and amounted to $3.6 million, $3.7 million and $4.8 million in 1996, 1995 and 1994, respectively.

Item 8. Financial Statements and Supplementary Data. (continued)

12. LONG-TERM INCENTIVE PLAN

Under the stockholder-approved Long-Term Incentive Plan, a committee of non-employee directors of the Board may grant stock options, stock appreciation rights (SARs) and performance share units (PSUs), up to a maximum 17,675,000 shares of Norfolk Southern common stock. Options may be granted for a term not to exceed 10 years but may not be exercised prior to the first anniversary of the date of grant. Options are exercisable at the fair market value of Norfolk Southern Common Stock on the date of grant.

The plan also permits the payment--on a current or a deferred basis and in cash or in stock--of dividend equivalents on shares of common stock covered by options or PSUs granted after December 31, 1989, in an amount commensurate with dividends paid on common stock. Tax absorption payments, in an amount estimated to equal the federal and state income taxes applicable to shares of common stock issued subject to a share retention agreement, also are authorized.

Plan participants surrendered, without cash or other consideration, all outstanding SARs granted after 1988 because of regulations issued by the Securities and Exchange Commission in 1991. Future grants of SARs are not anticipated at this time. SARs outstanding as of each year end were: 32,648 in 1996; 46,562 in 1995; and 74,519 in 1994.

Accounting Method

NS applies APB Opinion 25 and related interpretations in accounting for awards made under the plan. Accordingly, SARs, PSUs, tax absorption and dividend equivalents result in charges to earnings, while stock options have no effect on earnings. Compensation costs were $35.4 million, $42.9 million and $14.3 million for 1996, 1995 and 1994, respectively. Had compensation cost been determined based on SFAS 123 using the Black-Scholes option-pricing model, net income would have been reduced no more than $10 million in each year.

Based on current and anticipated use of stock-based compensation, it is not envisioned that the effect of SFAS 123's accounting provisions would be material in any future period.

Item 8. Financial Statements and Supplementary Data. (continued)

12. LONG-TERM INCENTIVE PLAN (continued)

Stock Option Activity

	Option Shares	Weighted Average Exercise Price
Balance 12/31/93	2,895,407	$ 47.44
Granted	703,750	72.94
Exercised	(93,383)	35.37
Surrendered for SAR	(7,472)	26.63
Cancelled	--	--
Balance 12/31/94	3,498,302	52.94
Granted	718,250	62.50
Exercised	(656,743)	43.82
Surrendered for SAR	(13,440)	23.94
Cancelled	(3,750)	69.46
Balance 12/31/95	3,542,619	56.66
Granted	685,000	78.06
Exercised	(549,581)	53.87
Surrendered for SAR	(5,000)	22.25
Cancelled	(46,859)	58.85
Balance 12/31/96	3,626,179	$ 61.15

Except for those granted during the year, all outstanding options were exercisable at December 31. The difference between the weighted average exercise prices for all outstanding options and those exercisable at December 31 was not significant.

Stock Options Outstanding

Exercise Price Range	Exercise Price Weighted Average	Number Outstanding at 12/31/96	Weighted Average Remaining Contractual Life
$ 22.25	$ 22.25	56,620	0.9 years
33.06 to 42.75	38.84	747,359	3.3 years
56.44 to 72.94	64.63	2,149,200	6.8 years
78.06	78.06	673,000	9.1 years
$ 22.25 to $ 78.06	$ 61.15	3,626,179	6.4 years

Performance Share Units

PSUs were added to the Long-Term Incentive Plan as approved in 1989 and amended in 1995. PSUs entitle participants to earn shares of common stock at the end of a three-year performance cycle based upon achievement of certain predetermined corporate performance goals. PSU grants and grant-date fair values were 200,400 and $78.06 in 1996; 252,500 and $62.50 in 1995; and 163,000 and $72.94 in 1994, respectively. Shares earned and issued may be subject to share retention agreements and held by NS for up to five years.

Item 8. Financial Statements and Supplementary Data. (continued)

12. LONG-TERM INCENTIVE PLAN (continued)

Shares Available and Issued

Shares of stock available for future grants or issued in connection with all features of the Long-Term Incentive Plan were as follows:

	1996	1995	1994
Available for future grants 12/31	6,325,584	7,143,126	2,060,796
Shares of common stock issued	690,872	807,760	190,060

13. STOCK PURCHASE PROGRAMS

Since 1987, the Board of Directors has authorized the purchase and retirement of up to 95 million shares of common stock. Purchases under the programs have been made with internally generated cash, and with proceeds from the sale of commercial paper notes and from the issuance of long-term debt.

Since the first purchases in December 1987 and through October 22, 1996, NS had purchased and retired 68,545,000 shares of its common stock under these programs at a cost of $3.2 billion.

On October 23, 1996, NS announced that the stock purchase program had been suspended (see also Note 15). Future purchase decisions are dependent on the outcome of the proposed Conrail acquisition, the economy, cash needs and alternative investment opportunities.

14. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of "Cash and cash equivalents," "Short-term investments," "Accounts receivable," "Short-term debt" and "Accounts payable" approximate carrying values because of the short maturity of these financial instruments.

The fair value of long-term "Investments" approximated $353 million and $297 million at December 31, 1996 and 1995, respectively (see Note 4 for carrying values of "Investments"). The fair value of corporate-owned life insurance approximates carrying value. Quoted market prices were used to determine the fair value of marketable equity securities which are recorded at fair value. Marketable securities reflect $3.4 million and $3.5 million of unrealized holding gains at December 31, 1996 and 1995, respectively. Underlying net assets were used to estimate the fair value of other investments; however, if any such investment was sold after the end of the year, its sale price determined its fair value for these purposes.

The fair value of "Long-term debt," including current maturities, approximated $1.95 billion at December 31, 1996, and $1.77 billion at December 31, 1995. The fair values of debt were estimated based on quoted market prices or discounted cash flows using current interest rates for debt with similar terms, company rating and remaining maturity (see Note 6 for carrying values of "Long-term debt"). The fair value of interest rate swaps is immaterial.

Item 8. Financial Statements and Supplementary Data. (continued)

15. COMMITMENTS AND CONTINGENCIES

Proposed Acquisition of Conrail

On October 23, 1996, NS announced its intention to commence an all-cash tender offer for all shares of Conrail Inc. (Conrail), a Pennsylvania corporation. On October 24, 1996, Atlantic Acquisition Corporation, a Pennsylvania corporation and a wholly owned subsidiary of NS, offered to purchase all outstanding shares of Conrail's common stock and Series A ESOP Convertible Junior Preferred Stock (collectively, the Shares), including, in each case, the associated Common Stock Purchase Rights, at a price of $100 per Share--approximately $9.1 billion in the aggregate. Shares tendered in the offer or acquired in any subsequent merger would be held in a voting trust pending regulatory approval by the STB. The offer followed the October 15 announcement that Conrail had entered into a merger agreement with CSX Corporation (CSX), whereby Conrail stockholders would receive $92.50 in cash per Share for up to 40 percent of their Shares and receive CSX common stock for the balance of their Shares. On November 6, 1996, CSX and Conrail announced that CSX had raised the cash portion of its offer to $110 per Share and left unchanged the ratio pursuant to which certain Conrail stockholders would receive shares of CSX common stock. On November 8, 1996, NS announced that it had increased its all-cash offer to $110 per Share--approximately $10.0 billion in the aggregate. On December 19, 1996, CSX and Conrail announced that CSX was adding preferred stock (convertible into CSX common stock) to its offer--a feature said to be worth $16 per Share. On December 20, NS increased its all-cash offer to $115 per Share--approximately $11 billion in the aggregate--and on January 13, 1997, NS announced that it would offer to purchase up to 8.2 million Shares (approximately 9.9%), the approximate maximum number of Shares NS can buy without triggering Conrail's current anti-takeover defenses, for $115 per Share, if Conrail stockholders disapproved at a special meeting certain management recommendations designed to facilitate the merger with CSX.

At that special meeting on January 17, 1997, Conrail stockholders did disapprove those recommendations. Accordingly, on January 22, 1997, NS amended its pending all-cash tender offer by reducing the number of Shares sought to 8.2 million; on February 11, 1997, it acquired 8.2 million Shares for a total of $943 million, pursuant to that amended offer. These Shares have been placed in a voting trust and under certain circumstances might have to be sold at a loss. The Conrail board repeatedly has affirmed its commitment to a merger with CSX.

On February 12, 1997, NS commenced a second tender offer for the remaining Shares. NS' second tender offer is conditioned upon, among other things, the valid tender of at least Shares sufficient, with those already owned by NS, to constitute at least a majority of the Shares on a fully diluted basis, Subchapter 25F of Pennsylvania's Business Corporation Law not being applicable to the offer, Conrail's Rights Agreement (or poison pill) having been redeemed or otherwise made inapplicable to NS' tender offer, the merger agreement between CSX and Conrail having been terminated in accordance with its terms or otherwise, and other conditions. NS has received a favorable opinion from the STB regarding the use of a voting trust and has obtained sufficient financing commitments (see below).

The STB has proposed a schedule for handling Conrail control applications which could result in an STB decision in late 1997 or early 1998. If the STB does not approve NS' application or if NS deems any conditions imposed by the STB too onerous, NS would have the right and obligation to sell all Shares held in the voting trust. Such a disposition could result in a significant loss.

Through December 31, 1996, NS had incurred $76 million of costs associated with the proposed acquisition. These costs, most of which are debt commitment fees, are reflected in the Consolidated Balance Sheet in "Other assets" and, for the portion accrued, in "Other current liabilities" (see Note 7).

See also Note 16.

Item 8. Financial Statements and Supplementary Data. (continued)

15. COMMITMENTS AND CONTINGENCIES (continued)

Debt Commitments

In connection with the proposed acquisition of Conrail, NS has secured debt commitments sufficient for the tender offer and subsequent merger. The commitments expire on August 1, 1997, except for a portion of a revolving credit facility expiring on August 1, 1998. The total commitment fees will approximate $200 million if the entire facility is used. At December 31, 1996, $57 million of commitment fees had been incurred.

In connection with the purchase of the 8.2 million Shares, NS arranged for additional commercial paper debt in an aggregate amount not to exceed $1.0 billion. All or part of this amount could be refinanced either by issuing additional commercial paper or through drawing on the debt commitment that has been arranged in connection with the all-cash $115 per share tender offer for all Shares.

Lawsuits

Norfolk Southern and certain subsidiaries are defendants in numerous lawsuits relating principally to railroad operations. While the final outcome of these lawsuits cannot be predicted with certainty, it is the opinion of Management, after consulting with its legal counsel, that the amount of NS' ultimate liability will not materially affect NS' consolidated financial position.

Environmental Matters

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 can be reasonably estimated. Claims, if any, against third parties for recovery of clean-up costs incurred by NS are reflected as receivables in the balance sheet and are not netted against the associated NS liability. Environmental engineers participate in ongoing evaluations of all identified sites, and--after consulting with counsel--any necessary adjustments to initial liability estimates are made. NS also has established an Environmental Policy Council, composed of senior managers, to oversee and interpret its environmental policy.

As of December 31, 1996, NS' balance sheet included a reserve for environmental exposures in the amount of $53 million (of which $12 million is accounted for as a current liability), which is NS' estimate of the probable costs at 111 identified locations based on available information. On that date, nine sites accounted for $19 million of the reserve, and no individual site was considered to be material. NS anticipates that the majority of this liability will be paid out over five years; however, some costs will be paid out over a longer period.

At many of the 111 locations, certain 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 clean-up 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 clean-up techniques, the likely development of new clean-up 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.

Item 8. Financial Statements and Supplementary Data. (continued)

15. COMMITMENTS AND CONTINGENCIES (continued)

The risk of incurring environmental liability--for acts and omissions, past, present and future--is inherent in the railroad business. Some of the commodities, particularly those classified as hazardous materials, in NS' traffic mix can pose special risks that NS and its subsidiaries work diligently to minimize. In addition, several NS subsidiaries own, or have owned in the past, land holdings used as operating property, or which are leased or may have been leased and operated by others, or held for sale. Because certain conditions may exist on these properties related to environmental problems that are latent or undisclosed, there can be no assurance that NS will not incur liabilities or costs with respect to one or more of them, the amount and materiality of which cannot be estimated reliably now. Moreover, lawsuits and claims involving these and other now-unidentified environmental sites and matters are likely to arise from time to time. The resulting liabilities could have a significant effect on financial condition, results of operations or liquidity in a particular year or quarter.

However, based on its assessments of the facts and circumstances now known and, after consulting with its legal counsel, Management believes that it has recorded the probable costs based on available information for those environmental matters of which the Corporation is aware. Further, Management believes that it is unlikely that any identified matters, either individually or in aggregate, will have a material adverse effect on NS' financial position, results of operations or liquidity.

Change-in-Control Arrangements

Norfolk Southern has compensation agreements with officers and certain key employees, which become operative only upon a change in control of the Corporation, as defined in those agreements. The agreements provide generally for payments based on compensation at the time of a covered individual's involuntary or other specified termination and for certain other benefits.

Capital Expenditure Commitment

In connection with a long-term transportation contract entered into during 1996, NS has committed to construct and operate four motor vehicle distribution centers. These facilities are scheduled for completion in 1998.

Debt Guarantees

As of December 31, 1996, certain Norfolk Southern subsidiaries are contingently liable as guarantors with respect to $50.7 million of indebtedness of related entities.

16. EVENTS SUBSEQUENT TO THE DATE OF THE INDEPENDENT AUDITORS' REPORT-CONRAIL DEVELOPMENTS (UNAUDITED)

Pursuant to an amendment to the merger agreement between CSX and Conrail announced on March 7, 1997, CSX has offered to purchase all Shares for $115 per Share in cash and CSX is permitted to enter into negotiations with other parties, including NS, concerning the acquisition of the securities or assets, or concessions relating to the assets or operations, of Conrail. NS and CSX are negotiating a comprehensive resolution of the issues confronting the eastern railroads based on the proposal submitted by NS to both CSX and Conrail on February 24, 1997. Such a resolution could involve a joint acquisition of Shares by NS and CSX. However, unless and until such negotiations are successfully concluded, NS intends to continue in effect its tender offer for all Shares not owned by NS.

INDEPENDENT AUDITORS' REPORT

The Stockholders and Board of Directors
Norfolk Southern Corporation:

We have audited the consolidated financial statements of Norfolk Southern Corporation and subsidiaries as listed in the index in Item 8. In connection with our audits of the consolidated financial statements, we also have audited the consolidated financial statement schedule listed in Item 14(a)2. These consolidated financial statements and this consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and this consolidated financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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, 1996 and 1995, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1996, in conformity with generally accepted accounting principles. Also, in our opinion, the related consolidated 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.

/s/ KPMG Peat Marwick LLP

Norfolk, Virginia
January 28, 1997, except as to the second and third paragraphs of Note 15, which are as of February 12, 1997

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Item 11. Executive Compensation.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

and

Item 13. Certain Relationships and Related Transactions.

In accordance with General Instruction G(3), the information called for by Part III is incorporated herein by reference from Norfolk Southern's definitive Proxy Statement, to be dated April 1, 1997, for the Norfolk Southern Annual Meeting of Stockholders to be held on May 8, 1997, which definitive Proxy Statement will be filed electronically with the Commission pursuant to Regulation 14A. The information regarding executive officers called for by Item 401 of Regulation S-K is included in Part I hereof beginning on page 25 under "Executive Officers of the Registrant."

PART IV

Item 14. Exhibits, Financial Statement Schedule, and Reports on Form 8-K.

(a) The following documents are filed as part of this report:

1. Index to Consolidated Financial Statements:

2. Financial Statement Schedule:

The following consolidated financial statement schedule should be read in connection with the consolidated financial statements:

Schedules other than the one listed above are omitted either because they are not required or are inapplicable or because the information is included in the consolidated financial statements or related notes.

Item 14. Exhibits, Financial Statement Schedule, and Reports on Form 8-K. (continued)

3. Exhibits

Exhibit Number	Description
3	Articles of Incorporation and Bylaws -
3(i)	The Restated Articles of Incorporation of Norfolk Southern Corporation are incorporated herein by reference from Exhibit 3(i) to Norfolk Southern's 1995 Annual Report in Form 10-K.
3(ii)	The Bylaws of Norfolk Southern Corporation, as amended July 23, 1996, are incorporated herein by reference from Norfolk Southern's Form 10-Q report for the quarter ended September 30, 1996.
4	Instruments Defining the Rights of Security Holders, Including Indentures -
	In accordance with Item 601(b)(4)(iii) of Regulation S-K, copies of instruments of Norfolk Southern Corporation and its subsidiaries with respect to the rights of holders of long-term debt are not filed herewith, or incorporated by reference, but will be furnished to the Commission upon request.
10	Material Contracts -
	(a) The Supplementary Agreement, entered into as of January 1, 1987, between the Trustees of the Cincinnati Southern Railway and The Cincinnati, New Orleans and Texas Pacific Railway Company (the latter a wholly owned subsidiary of Norfolk Southern Railway) - extending and amending a Lease, dated as of October 11, 1881 (both the Lease and Supplementary Agreement, formerly incorporated by reference from Exhibit 10(b) to Southern's 1987 Annual Report on Form 10-K) - is incorporated herein by reference from Exhibit 10(a) to Norfolk Southern's 1994 Annual Report on Form 10-K.
	Management Compensation Plans
	(b) The Norfolk Southern Corporation Management Incentive Plan, as amended effective January 1, 1996, is incorporated herein by reference from Exhibit 10(b) to Norfolk Southern's 1995 Annual Report on Form 10-K.

Item 14. Exhibits, Financial Statement Schedule, and Reports on Form 8-K. (continued)

Exhibit Number	Description
	(c) The Norfolk Southern Corporation Executive Management Incentive Plan, effective January 1, 1996, is incorporated herein by reference from Exhibit 10(c) to Norfolk Southern's 1995 Annual Report on Form 10-K.
	(d) The Norfolk Southern Corporation Long-Term Incentive Plan as amended effective January 23, 1996, is incorporated herein by reference from Exhibit 10(d) to Norfolk Southern's 1995 Annual Report on Form 10-K.
	(e) The Norfolk Southern Corporation Officers' Deferred Compensation Plan is incorporated herein by reference from Exhibit 10(g) to Norfolk Southern's 1993 Annual Report on Form 10-K.
	(f) The Directors' Deferred Fee Plan of Norfolk Southern Corporation, as amended effective May 9, 1996, is incorporated herein by reference from Exhibit 10(f) to Norfolk Southern's Form 10-Q Report for the quarter ended June 30, 1996.
	(g) The Norfolk Southern Corporation Directors' Restricted Stock Plan effective January 1, 1994, is incorporated herein by reference from Exhibit 99 to Norfolk Southern's Form S-8 filed electronically on January 26, 1994.
	(h) Form of Severance Agreement, dated as of June 1, 1996, between Norfolk Southern Corporation and certain executive officers (including those defined as "named executive officers" and identified in the Corporation's Proxy Statement for the 1997 Annual Meeting of Stockholders) is incorporated herein by reference from Exhibit 10 to Norfolk Southern's Form 10-Q Report for the quarter ended June 30, 1996.
	(i) Norfolk Southern Corporation Supplemental (formerly, Excess) Benefit Plan, as amended January 28, 1997, with such amendment to be effective as of January 1, 1996, subject to receipt of Internal Revenue Service approval of a coordinating provision in the Retirement Plan of Norfolk Southern Corporation and Participating Subsidiary Companies, is filed herewith.

Item 14. Exhibits, Financial Statement Schedule, and Reports on Form 8-K. (continued)

Exhibit Number	Description
	(j) The Norfolk Southern Corporation Directors' Charitable Award Program, effective February 1, 1996, is incorporated herein by reference from Exhibit 10(j) to Norfolk Southern's Form 10-Q Report for the quarter ended June 30, 1996.
	(k) The Norfolk Southern Corporation Directors' Pension Plan, as amended effective June 1, 1996, is incorporated herein by reference from Exhibit 10(k) to Norfolk Southern's Form 10-Q Report for the quarter ended June 30, 1996.
	(l) The Norfolk Southern Corporation Directors' Deferred Stock Unit Program, effective May 9, 1996, is incorporated herein by reference from Exhibit 10(l) to Norfolk Southern's Form 10-Q Report for the quarter ended June 30, 1996.
	(m) The Excess Long-Term Disability Plan of Norfolk Southern Corporation and Participating Subsidiary Companies, effective October 1, 1995, is incorporated herein by reference from Exhibit 10(m) to Norfolk Southern's Form 10-Q Report for the quarter ended June 30, 1996.
11	Statement re: Computation of Per Share Earnings.
12	Statement re: Computation of Ratio of Earnings to Fixed Charges.
21	Subsidiaries of the Registrant.
23	Consents of Experts and Counsel -
	Consent of Independent Auditors.
27	Financial Data Schedule.

(b) Reports on Form 8-K.

No reports on Form 8-K were filed for the three months ended December 31, 1996.

(c) Exhibits.

The Exhibits required by Item 601 of Regulation S-K as listed in Item 14(a)3 are filed herewith or incorporated herein by reference.

Item 14. Exhibits, Financial Statement Schedule, and Reports on Form 8-K. (continued)

Exhibit Number	Description
(d)	Financial Statement Schedules.
	Financial statement schedules and separate financial statements specified by this Item are included in Item 14(a)2 or are otherwise not required or are not applicable.

POWER OF ATTORNEY

Each person whose signature appears below under "SIGNATURES" hereby authorizes Henry C. Wolf and James C. Bishop, Jr., or either of them, to execute in the name of each such person, and to file, any amendment to this report and hereby appoints Henry C. Wolf and James C. Bishop, Jr., or either of them, as attorneys-in-fact to sign on his or her behalf, individually and in each capacity stated below, and to file, any and all amendments to this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Norfolk Southern Corporation has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 25th day of March, 1997.

NORFOLK SOUTHERN CORPORATION

By /s/ David R. Goode

(David R. Goode, Chairman, President and Chief Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on this 25th day of March, 1997, by the following persons on behalf of Norfolk Southern Corporation and in the capacities indicated.

Signature	Title
/s/ David R. Goode (David R. Goode)	Chairman, President and Chief Executive Officer and Director (Principal Executive Officer)
/s/ Henry C. Wolf (Henry C. Wolf)	Executive Vice President-Finance (Principal Financial Officer)
/s/ John P. Rathbone (John P. Rathbone)	Vice President and Controller (Principal Accounting Officer)
/s/ Gerald L. Baliles (Gerald L. Baliles)	Director

Signature	Title
/s/ Carroll A. Campbell, Jr. (Carroll A. Campbell, Jr.)	Director
(Gene R. Carter)	Director
/s/ L. E. Coleman (L. E. Coleman)	Director
/s/ T. Marshall Hahn, Jr. (T. Marshall Hahn, Jr.)	Director
/s/ Landon Hilliard (Landon Hilliard)	Director
/s/ E. B. Leisenring, Jr. (E. B. Leisenring, Jr.)	Director
/s/ Arnold B. McKinnon (Arnold B. McKinnon)	Director
/s/ Jane Margaret O'Brien (Jane Margaret O'Brien)	Director
/s/ Harold W. Pote (Harold W. Pote)	Director

Schedule II
Page 1 of 2

Norfolk Southern Corporation and Subsidiaries

Valuation and Qualifying Accounts
Years Ended December 31, 1994, 1995 and 1996
(In millions of dollars)

	Beginning Balance	Additions charged to Expenses	Additions charged to Other Accounts	Deductions	Ending Balance
Year ended December 31, 1994					
Valuation allowance (included net in deferred tax liability) for deferred tax assets	$ 10.9	$ --	$ --	$ 9.5	$ 1.4
Casualty and other claims included in other liabilities	$ 321.2	$ 120.2	$ 2.5 (1)	$ 138.9 (2)	$ 305.0
Current portion of casualty and other claims included in accounts payable	$ 185.1	$ 49.9	$ 163.7 (1)	$ 207.5 (3)	$ 191.2
Year ended December 31, 1995					
Valuation allowance (included net in deferred tax liability) for deferred tax assets	$ 1.4	$ --	$ 0.1	$ --	$ 1.5
Casualty and other claims included in other liabilities	$ 305.0	$ 99.5	$ 3.1 (1)	$ 121.1 (2)	$ 286.5
Current portion of casualty and other claims included in accounts payable	$ 191.2	$ 63.6	$ 172.6 (1)	$ 230.0 (3)	$ 197.4

(1) Includes revenue overcharges provided through charges to operating revenues, and transfers from other accounts.

(2) Payments and reclassifications to/from accounts payable.

(3) Payments and reclassifications to/from other liabilities.

(continued)

Norfolk Southern Corporation and Subsidiaries

Valuation and Qualifying Accounts
Years Ended December 31, 1994, 1995 and 1996 (continued)
(In millions of dollars)

	Beginning Balance	Additions charged to: Expenses	Additions charged to: Other Accounts	Deductions	Ending Balance
Year ended December 31, 1996					
Valuation allowance (included net in deferred tax liability) for deferred tax assets	$ 1.5	$ 0.6	$ --	$ --	$ 2.1
Casualty and other claims included in other liabilities	$ 286.5	$ 115.4	$ 4.0(1)	$ 131.7(2)	$ 274.2
Current portion of casualty and other claims included in accounts payable	$ 197.4	$ 61.4	$ 157.2(1)	$ 216.4(3)	$ 199.6

(1) Includes revenue overcharges provided through charges to operating revenues, and transfers from other accounts.

(2) Payments and reclassifications to/from accounts payable.

(3) Payments and reclassifications to/from other liabilities.

EXHIBIT INDEX

Exhibits 10(i) and 27 are not included in copies assembled for public dissemination. If you have a need for this type of information, we will be pleased to send it to you. Write to:

Office of Corporate Secretary
Norfolk Southern Corporation
Three Commercial Place
Norfolk, Virginia 23510-9211

SUPPLEMENTAL BENEFIT PLAN OF NORFOLK SOUTHERN CORPORATION AND PARTICIPATING SUBSIDIARY COMPANIES
(as last amended January 28, 1997)

ARTICLE I. INTRODUCTION

This Supplemental Benefit Plan ("Plan"), formerly the Excess Benefit Plan, was established by Norfolk Southern Corporation effective June 1, 1982, ("Effective Date") to provide retirement benefits to eligible employees in excess of those provided for by the Retirement Plan of Norfolk Southern Corporation and Participating Subsidiary Companies. This Plan is the successor to and supersedes, as of the Effective Date, the following plans:

Excess Benefit Plan of Norfolk and Western Railway Company
Southern Railway System Supplemental Retirement Plan
Norfolk and Western Railway Company Executives Contingent Compensation Plan Pension Resolution

ARTICLE II. DEFINITIONS:

NSC	Norfolk Southern Corporation, a Virginia corporation.
Pension Committee	The Pension Committee of the Board of Directors of NSC.
Retirement Plan	Retirement Plan of Norfolk Southern Corporation and Participating Subsidiary Companies.
Member	A person entitled to participate in the Retirement Plan.
Participating Subsidiary	Each subsidiary or affiliated company of NSC which is a Participating Subsidiary in the Retirement Plan shall automatically participate in the Plan.
Participant	A Member of the Retirement Plan who is eligible to participate under Article III.
Deferred Compensation	Amounts the receipt of which a Participant elects to defer under the:

Deferred Compensation Plan of Norfolk and Western Railway Company

Southern Railway System Executive, General or Middle Management Incentive Plan

	Norfolk Southern Corporation Management Incentive Plan Norfolk Southern Corporation Executive Management Incentive Plan Norfolk Southern Corporation Officers' Deferred Compensation Plan
NW Pension Resolutions	Resolutions adopted by the Board of Directors of Norfolk and Western Railway Company at its meetings held on January 23, 1968, June 24, 1969, November 25, 1969, January 26, 1971, and April 23, 1974, authorizing the respective payments of additional pension benefits to five Members.
Average Final Compensation	Compensation as defined in Article II of the Retirement Plan.

ARTICLE III. ELIGIBILITY

1. The following Members of the Retirement Plan shall be eligible to participate in the Plan on or after the Effective Date:

   (a) Any Member of the Retirement Plan whose benefit computed under Article VI of the Retirement Plan without regard to the maximum limitation on benefits imposed by Section 415 of the Internal Revenue Code exceeds such maximum limitation on benefits;

   (b) Any Member of the Retirement Plan whose benefit computed under Article VI of the Retirement Plan disregards amounts of Deferred Compensation in the computation of his Average Final Compensation;

   (c) Any Member of the Retirement Plan entitled to receive a pension benefit, in excess of the benefit computed under the provisions of the Retirement Plan, pursuant to an NW Pension Resolution;

   (d) Any Member of the Retirement Plan entitled to receive a pension benefit, in excess of the benefit computed under the provisions of the Retirement Plan, pursuant to a resolution adopted by the Board of Directors of NSC;

   (e) Any Member of the Retirement Plan whose Compensation exceeds the limitation contained in Section 401(a)(17) of the Internal Revenue Code;

   (f) Any Member protected by the Pension Benefits Standard Act of Canada whose benefit computed under Article VI of the Retirement Plan exceeds $60,000; or

(g) Any Member of the Retirement Plan entitled to receive a pension benefit in excess of the benefit computed under the provisions of the Retirement Plan, pursuant to the provisions of any agreement between a Participant and NSC providing benefits upon "Termination" of a Participant's employment following a "Change in Control" (as the terms "Termination" and "Change in Control" are defined in any such agreement).

2. Any participant of the Excess Benefit Plan of Norfolk and Western Railway Company or the Southern Railway System Supplemental Retirement Plan or any individual covered by the Norfolk and Western Railway Company Executives Contingent Compensation Plan Pension Resolution, dated September 24, 1968, shall become a Participant on the Effective Date.

ARTICLE IV. SUPPLEMENTAL BENEFIT

1. A Participant shall, upon retirement under the Retirement Plan, be entitled to receive a monthly benefit equal to the excess of

(a) the monthly benefit under Article VI of the Retirement Plan if such benefit had been computed

(i) without regard to the limitation imposed by Section 415 of the Internal Revenue Code and provided for in Section 1 of Article VII of the Retirement Plan;

(ii) without regard to the limitation of Compensation imposed by Section 401(a)(17) of the Internal Revenue Code;

(iii) without regard to the $60,000 limitation on benefits payable to Members protected by the Pension Benefits Standard Act of Canada;

(iv) by including in the calculation of Average Monthly Final Compensation amounts of Deferred Compensation, if any;

(v) by including service credits and applying any offsets provided for under any NW Pension Resolution, if any; and

(vi) by including the service credits and compensation to which a Participant is entitled pursuant to the provisions of any agreement providing the benefits described in Article III, Section 1(g), hereof; and

(vii) by excluding the Additional Retirement Benefit provided under Article VI of the Retirement Plan, as set forth in Schedule A of the Retirement Plan, over

(b) the monthly benefit actually payable under the Retirement Plan.

2. A Participant shall, upon retirement under the Retirement Plan, be entitled to receive a monthly benefit, in excess of the benefit otherwise payable under the Retirement Plan and in addition to any amount payable pursuant to Section 1 of this Article IV, in an amount so provided by a resolution adopted by the Board of Directors of NSC, if any.

3. Any survivorship option which has been elected or is in force under Article VIII of the Retirement Plan at the time of a Participant's death shall be deemed to have been elected or be in force under this Plan.

4. The payment of excess benefits under the Plan shall be made in a manner consistent with the provisions of the Retirement Plan, and shall continue for the same period of time.

ARTICLE V. FUNDING

The benefits under the Plan shall be paid in cash from the general funds of NSC or its Participating Subsidiary, and no special or separate fund shall be established or other segregation of assets made to assure such payments. Nothing contained in the Plan shall create or be construed to create a trust of any kind. To the extent that any person acquires a right to receive payments under the terms of the Plan, such right shall be no greater than the right of an unsecured creditor of NSC or its Participating Subsidiary.

ARTICLE VI. ADMINISTRATION

1. The Plan shall be administered by the Pension Committee, which is composed of three or more NSC directors appointed by the NSC Board who are not eligible to participate in the Plan and who shall serve at the pleasure of the Board. Each member of the Pension Committee, while serving as such, shall be considered to be acting in his capacity as a director of NSC.

2. The Pension Committee shall from time to time adopt rules and regulations determined to be necessary to ensure the effective implementation of the Plan.

3. The Pension Committee shall have the power to interpret the Plan. Any disputed question arising under the Plan, including questions of construction and interpretation, shall be determined conclusively and finally by the Pension Committee.

ARTICLE VII. RIGHTS AND RESTRICTIONS

1. Participants in the Plan shall have only those rights in respect of the Plan specifically set forth herein.

2. This Plan shall not be deemed to constitute a contract between NSC or any Participating Company and any Participant or surviving spouse of a deceased Participant, nor shall it be construed to be consideration for or an inducement or condition of the employment of any Participant. Nothing contained herein shall be deemed to give any Participant the right to continued employment.

3. Benefits payable hereunder shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or charge, and any attempt to accomplish any of these mentioned acts shall be void. Benefits shall not be subjected to attachment or other legal process or debts of the retired Participant or surviving spouse.

ARTICLE VIII. AMENDMENTS AND TERMINATIONS

The Plan may be amended at any time, and retroactively, if deemed necessary or appropriate, by any proper officer of NSC to effect changes which are, in his or her sole discretion, ministerial, substantively administrative, or necessary to comply with statutory or other legally mandated requirements, and the implementation of which does not result in a material cost to NSC.

The Board or Directors of NSC, in its sole discretion, may at any time modify or amend any provisions of the Plan or may suspend or terminate the Plan, in whole or in part, but no such action shall retroactively impair or otherwise adversely affect the rights of any person to benefits under the Plan which have accrued prior to the date of such action, as determined by the Pension Committee.

/s/ Paul N. Austin

P. N. Austin
Vice President Personnel

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
COMPUTATION OF PER SHARE EARNINGS
(In millions except per share amounts)

	1996	1995	1994
Computation for Statements of Income			
Net income per statements of income	$ 770.4	$ 712.7	$ 667.8
Weighted average number of shares outstanding	126.5	131.0	136.3
Primary earnings per share	$ 6.09	$ 5.44	$ 4.90
Additional Primary Computation			
Net income per statements of income	$ 770.4	$ 712.7	$ 667.8
Adjustment to weighted average number of shares outstanding:			
Weighted average number of shares outstanding per primary computation above	126.5	131.0	136.3
Dilutive effect of outstanding options, stock appreciation rights (SARs) and performance share units (PSUs) (as determined by the application of the treasury stock method) (1)	1.5	1.3	1.1
Weighted average number of shares outstanding, as adjusted	128.0	132.3	137.4
Primary earnings per share, as adjusted (2)	$ 6.02	$ 5.39	$ 4.86

(1) See Note 12 of Notes to Consolidated Financial Statements on page 73 for a description of the Long-Term Incentive Plan.

(2) These calculations are submitted in accordance with Regulation S-K item 601(b)(11) although not required by footnote 2 to paragraph 14 of APB Opinion No. 15 because they result in dilution of less than 3 percent.

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
COMPUTATION OF PER SHARE EARNINGS
(In millions except per share amounts)

	1996	1995	1994
Fully Diluted Computation			
Net income per statements of income	$ 770.4	$ 712.7	$ 667.8
Adjustment to increase earnings to requisite level to earn maximum PSUs, net of tax effect	95.6	55.3	93.0
Net income, as adjusted	866.0	$ 768.0	$ 760.8
Adjustment to weighted average number of shares outstanding, as adjusted for additional primary calculation:			
Weighted average number of shares outstanding, as adjusted per additional primary computation on page 1	128.0	132.3	137.4
Additional dilutive effect of outstanding options and SARs (as determined by the application of the treasury stock method using period end market price)	0.1	0.3	--
Additional shares issuable at maximum level for PSUs	0.1	0.1	0.1
Weighted average number of shares, as adjusted	128.2	132.7	137.5
Fully diluted earnings per share (3)	$ 6.76	$ 5.79	$ 5.53

(3) These calculations are submitted in accordance with Regulation S-K item 601(b)(11) although they are contrary to paragraph 40 of APB Opinion No. 15 because they produce an anti-dilutive result.

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Millions of Dollars)

	Year ended December 31				
	1996	1995	1994	1993	1992
EARNINGS					
Income before income taxes as reported	$1,196.9	$1,114.7	$1,049.0	$ 898.6	$ 875.3
Add:					
Total interest expenses (as detailed below)	186.4	174.9	159.9	160.7	161.6
Income (loss) of partially owned entities (1)	1.1	0.1	0.6	(2.6)	2.0
Subsidiaries' preferred dividend requirement	2.5	2.6	2.7	2.7	2.7
Income before income taxes, as adjusted	$1,386.9	$1,292.3	$1,212.2	$1,059.4	$1,041.6
FIXED CHARGES					
Interest expense on debt	$ 115.7	$ 113.4	$ 101.6	$ 98.6	$ 109.0
Other interest expense	38.9	31.5	31.8	38.7	33.0
Calculated interest portion of rent expense	31.8	30.0	26.5	23.4	19.6
Total interest expenses	186.4	174.9	159.9	160.7	161.6
Capitalized interest	11.9	14.0	17.8	21.7	17.9
Subsidiaries' preferred dividend requirement on a pretax basis	4.1	4.1	4.2	4.3	4.2
Total fixed charges	$ 202.4	$ 193.0	$ 181.9	$ 186.7	$ 183.7
RATIO OF EARNINGS TO FIXED CHARGES	6.85	6.70	6.66	5.67	5.67

(1) Includes the distributed income of 20%-49% owned entities, net of equity recorded in undistributed income and the minority income of consolidated entities which have fixed charges.

The computations do not include $0.3 million of interest expense related to $7.8 million of debt guaranteed for a less than 50% owned entity.

NAME AND STATE OF INCORPORATION OF SUBSIDIARIES
OF NORFOLK SOUTHERN CORPORATION
AS OF MARCH 1, 1997

Agency Media Services, Inc., Indiana
Atlantic Acquisition Corporation, Pennsylvania
Atlantic Investment Company, Delaware
Norfolk Southern Properties, Inc., Virginia
Norfolk Southern Railway Company, Virginia
North American Van Lines, Inc., Delaware
NS Crown Services, Inc., Virginia
NS Fiber Optics, Inc., Virginia
NS Transportation Brokerage Corporation, Virginia
Pocahontas Development Corporation, Kentucky
Pocahontas Land Corporation, Virginia
TCS Leasing, Inc., Oklahoma

Norfolk Southern Railway Company subsidiaries:
- Airforce Pipeline, Inc., North Carolina
- Alabama Great Southern Railroad Company, The; Alabama
- Atlantic and East Carolina Railway Company, North Carolina
- Camp Lejeune Railroad Company, North Carolina
- Central of Georgia Railroad Company, Georgia
- Chesapeake Western Railway, Virginia
- Cincinnati, New Orleans and Texas Pacific Railway Company, The; Ohio
- Citico Realty Company, Virginia
- Georgia Southern and Florida Railway Company, Georgia
- High Point, Randleman, Asheboro and Southern Railroad Company, North Carolina
- Interstate Railroad Company, Virginia
- Lamberts Point Barge Company, Inc., Virginia
- Memphis and Charleston Railway Company, Mississippi
- Mobile and Birmingham Railroad Company, Alabama
- Norfolk and Portsmouth Belt Line Railroad Company, Virginia
- Norfolk and Western Railway Company, Virginia
- North Carolina Midland Railroad Company, The; North Carolina
- Rail Investment Company, Delaware
- Shenandoah-Virginia Corporation, Virginia
- South Western Rail Road Company, The; Georgia
- Southern Rail Terminals, Inc., Georgia
- Southern Rail Terminals of North Carolina, Inc., North Carolina
- Southern Region Coal Transport, Inc., Alabama
- Southern Region Materials Supply, Inc., Georgia
- Southern Region Motor Transport, Inc., Georgia
- State University Railroad Company, North Carolina
- Tennessee, Alabama & Georgia Railway Company, Delaware
- Tennessee Railway Company, Tennessee
- Virginia and Southwestern Railway Company, Virginia
- Yadkin Railroad Company, North Carolina

Norfolk Southern Properties, Inc. subsidiaries:
- Alexandria-Southern Properties, Inc., Virginia
- Arrowood-Southern Company, North Carolina
- Arrowood Southern Executive Park, Inc., North Carolina
- Carlyle CA Corporation, Virginia
- Carlyle Development Corporation, Virginia
- Charlotte-Southern Corporation, North Carolina
- Charlotte-Southern Hotel Corporation, North Carolina
- Lambert's Point Docks, Incorporated, Virginia
- NS-Charlotte Tower Corporation, North Carolina
- Nickel Plate Improvement Company, Inc., The; Indiana
- NKPI Management, Inc., Indiana
- Norfolk Southern Industrial Development Corp., Virginia
- NS Gas Properties, Inc., Virginia
- NS Gas Properties, II, Inc., Virginia
- Sandusky Dock Corporation, Virginia
- Southern Region Industrial Realty, Inc., Georgia
- Virginia Holding Corporation, Virginia

North American Van Lines, Inc. domestic subsidiaries:
- A Five Star Forwarding, Inc., Delaware
- A Three Rivers Forwarding, Inc., Indiana
- Alaska USA Van Lines, Inc., Indiana
- Americas Quality Van Lines, Inc., Indiana
- City Storage & Transfer, Inc., Colorado
- Fleet Insurance Management, Inc., Indiana
- FrontRunner Worldwide, Inc., Delaware
- Great Falls North American, Inc., Montana
- Move Management Services, Inc., Indiana
- NACAL, Inc., California
- NALOG, Inc., Delaware
- NAVTRANS Container Lines, Inc., Florida
- NAVTRANS International Freight Forwarding, Inc., Indiana
- NorAm Forwarding, Inc., Indiana
- North American Distribution Systems, Inc., Indiana
- North American Forwarding, Inc., Indiana
- North American Logistics, Ltd., Indiana
- North American Moving & Storage, Inc., Indiana
- North American Transport Insurance Company, Indiana
- North American Van Lines of Texas, Inc., Texas
- Relocation Management Systems, Inc., Delaware

North American Van Lines, Inc. foreign subsidiaries:

- Cavalier Moving & Storage Co. Ltd., Canada
- Cold Lake Moving & Storage Ltd., Alberta
- Curry Moving & Storage Ltd., Ontario
- midi-Data Logistik GmbH, Germany
- NAVTRANS International Speditions GmbH, Germany
- North American Van Lines Ltd., United Kingdom
- North American Van Lines Canada Ltd., Canada
- North American Van Lines (Alberta) Ltd., Alberta
- North American Van Lines (Atlantic) Ltd., Nova Scotia
- Star Storage Ltd., Manitoba
- Tru-Flite Transportation Systems Inc., Canada
- Westlake Moving & Storage, Ltd., Ontario
- Westmount Moving & Storage, Inc. (Demanagement Et Entreposage Westmount), Quebec
- 153843 Canada Inc., Canada

NOTE: Of the above subsidiaries, each of which is more than 50% owned, only Norfolk Southern Railway Company and Norfolk and Western Railway Company meet the Commission's "significant subsidiary" test.

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
Norfolk Southern Corporation:

We consent to incorporation by reference in Registration Statements Nos. 33-44188, 33-61317, 33-556, 33-52031, and 33-57417 on Form S-8 and Registration Statements Nos. 33-38595 and 333-20203 on Form S-3 of Norfolk Southern Corporation of our report dated January 28, 1997, except as to the second and third paragraphs of Note 15, which are as of February 12, 1997, relating to the consolidated balance sheets of Norfolk Southern Corporation and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income, changes in stockholders' equity, and cash flows and the related consolidated financial statement schedule for each of the years in the three-year period ended December 31, 1996, which report appears in the December 31, 1996 annual report on Form 10-K405 of Norfolk Southern Corporation.

/s/ KPMG Peat Marwick LLP

Norfolk, Virginia
March 25, 1997

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K405

(X) ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) of THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **December 31, 1996**.

OR

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

Commission file numbers 1-743; 1-3744; 1-4793; 1-546-2

NORFOLK SOUTHERN RAILWAY COMPANY

(Exact name of registrant as specified in its charter)

Virginia	**53-6002016**
(State or other jurisdiction of incorporation or organization)	(I.R.S. 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) 629-2682**

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

TITLE OF EACH CLASS SO REGISTERED. EACH CLASS REGISTERED ON NEW YORK STOCK EXCHANGE:

Norfolk and Western Railway Company 4.85% Subordinated Income Debentures, due November 15, 2015; Guarantee of Norfolk Southern Railway Company with respect to $1,865,900 principal amount of Norfolk and Western Railway Company 4.85% Subordinated Income Debentures due November 15, 2015; The Virginian Railway Company 6% Subordinated Income Debentures, due August 1, 2008; Guarantee of Norfolk Southern Railway Company with respect to $5,043,000 principal amount of The Virginian Railway Company 6% Subordinated Income Debentures due August 1, 2008; Norfolk Southern Railway Company $2.60 Cumulative Preferred Stock, Series A (No Par Value, $50 Stated Value).

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes (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-K405 or any amendment to this Form 10-K405. (X)

The aggregate market value of the voting stock held by nonaffiliates as of February 28, 1997: $37,958,415

The number of shares outstanding of each of the registrant's classes of Common Stock, as of February 28, 1997: 16,668,997

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's definitive proxy statement (to be dated April 15, 1997) to be filed electronically pursuant to Regulation 14A not later than 120 days after the end of the fiscal year are incorporated by reference in Part III.

TABLE OF CONTENTS

PART I

Item 1. Business.

and

Item 2. Properties.

GENERAL - Norfolk Southern Railway Company (Norfolk Southern Railway) was incorporated in 1894 under the name Southern Railway Company (Southern) in the Commonwealth of Virginia and, together with its consolidated subsidiaries (collectively, NS Rail), is primarily engaged in the transportation of freight by rail.

On June 1, 1982, Southern and Norfolk and Western Railway Company (Norfolk and Western) became subsidiaries of Norfolk Southern Corporation (NS), a transportation holding company. Effective December 31, 1990, NS transferred all the common stock of Norfolk and Western to Southern, and Southern's name was changed to Norfolk Southern Railway Company. Accordingly, all the common stock of Norfolk and Western, which is its only voting security, is owned by Norfolk Southern Railway, and all the common stock of Norfolk Southern Railway (16,668,997 shares) is owned directly by NS. NS common stock is publicly held and listed on the New York Stock Exchange.

There remain issued and outstanding as of December 31, 1996, 1,197,027 shares of Norfolk Southern Railway's $2.60 Cumulative Preferred Stock, Series A (Series A Stock), of which 1,096,907 shares were held by other than subsidiaries. The Series A Stock is entitled to one vote per share, is nonconvertible, and is traded on the New York Stock Exchange.

PROPOSED ACQUISITION OF CONRAIL BY NS - On October 24, 1996, in response to the October 15, 1996, announcement that Conrail Inc. (Conrail) had entered into a merger agreement with CSX Corporation, NS commenced an all-cash tender offer for all the Common Stock and Series A ESOP Convertible Junior Preferred Stock of Conrail (collectively, Shares), including in each case the associated Common Stock Purchase Rights. See Note 16 to the Consolidated Financial Statements on page 61 for additional details.

On February 11, 1997, NS acquired 8.2 million Shares of Conrail stock (approximately 9.9 percent of the then outstanding Conrail Common Stock), representing the approximate maximum number NS could buy without triggering Conrail's anti-takeover defenses, at a cost of $115 per Share, or $943 million in the aggregate. The purchase was financed through issuance of commercial paper backed by a portion of the revolving debt capacity under the credit facility obtained in connection with the proposed acquisition of Conrail. These Shares have been placed in a voting trust and under certain circumstances might have to be sold at a loss.

On February 12, 1997, NS commenced a second tender offer for the remaining Conrail Shares and has notified Conrail of its intention to conduct a proxy contest in connection with Conrail's 1997 Annual Meeting of shareholders, currently scheduled for December 19, 1997, seeking, among other things, to remove certain of the current members of the Conrail Board and to elect a new slate of nominees designated by NS.

Pursuant to an amendment to the merger agreement between CSX and Conrail announced on March 7, 1997, CSX has offered to purchase all Shares for $115 per Share in cash and CSX is permitted to enter into negotiations with other parties, including NS, concerning the acquisition of the securities or assets, or concessions relating to the assets or operations, of Conrail. NS and CSX are negotiating a comprehensive resolution of the issues confronting the eastern railroads based on the proposal submitted by NS to both CSX and Conrail on February 24, 1997. Such a resolution could involve a joint acquisition of Shares by NS and CSX. However, unless and until such negotiations are successfully concluded, NS intends to continue in effect its tender offer for all Shares not owned by NS.

For additional information concerning NS' pending tender offer for Shares not owned by NS, reference is made to NS' Tender Offer Statement on Schedule 14D-1, together with the exhibits thereto, initially filed with the Securities and Exchange Commission on February 12, 1997, as amended.

PREFERRED STOCK PURCHASE PROGRAM - In June 1989, NS announced its intention to purchase up to 250,000 shares of Norfolk Southern Railway's Series A Stock during the subsequent two-year period. Since then, NS extended the stock purchase program through 1996. As of December 31, 1996, NS had purchased 176,608 shares of Series A Stock at a total cost of $6.7 million. Consequently, as of December 31, 1996, NS held 94.8 percent of the voting stock of Norfolk Southern Railway.

OPERATIONS - As of December 31, 1996, NS Rail operated approximately 14,300 miles of road in the states of Alabama, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maryland, Michigan, Mississippi, Missouri, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia and West Virginia, and the Province of Ontario, Canada. Of this total, 12,094 miles are owned with the balance operated under lease or trackage rights; most of this total are main line track. In addition, it operates 10,800 miles of passing, industrial, yard and side tracks.

NS Rail has major leased lines between Cincinnati, Ohio, and Chattanooga, Tennessee, and in the State of North Carolina.

The Cincinnati-Chattanooga lease, covering about 335 miles, expires in 2026, and is subject to an option to extend the lease for an additional 25 years, at terms to be agreed upon.

The North Carolina leases, covering approximately 330 miles, expired by their terms at the end of 1994. Although a lease extension agreement was approved by the boards of both NS and the North Carolina

Railroad Company (NCRR) and by the shareholders of NCRR, the U.S. District Court in Raleigh ruled that there was no quorum at the stockholders' meeting, and enjoined the parties from performing under the extension agreement. NCRR has suits pending against NS and various subsidiaries in federal court in Raleigh to enforce rights under the expired leases and at the STB to seek the establishment of terms and conditions of NS Rail's continued use, including interim and long-term compensation. Also, certain NCRR stockholders earlier had filed four separate, and still pending, derivative actions challenging the adequacy of the rental terms in the extension agreement. NS Rail is presently operating over the leased lines under the requirements of federal law, and will continue to do so until the matter has been resolved through agreement or a decision by the STB establishing reasonable conditions or permitting discontinuance of such operations. Whatever the ultimate resolution of the litigation, it is not expected to have a material effect on NS Rail's consolidated financial statements.

NS Rail's lines carry raw materials, intermediate products and finished goods primarily in the Southeast and Midwest and to and from the rest of the United States and parts of Canada. These lines also transport overseas freight through several Atlantic and Gulf Coast ports. Atlantic ports served by NS Rail include: Norfolk, Virginia; Morehead City, North Carolina; Charleston, South Carolina; Savannah and Brunswick, Georgia; and Jacksonville, Florida. Gulf Coast ports served include: Mobile, Alabama, and New Orleans, Louisiana.

NS Rail's lines reach most of the larger industrial and trading centers of the Southeast and Midwest, with the exception of those in central and southern Florida. Atlanta, Birmingham, New Orleans, Memphis, St. Louis, Kansas City (Missouri), Chicago, Detroit, Cincinnati, Buffalo, Norfolk, Charleston, Savannah and Jacksonville are among the leading centers originating and terminating freight traffic on the system. In addition, a haulage arrangement with the Florida East Coast Railway allows NS Rail to provide single-line service to and from south Florida, including the port cities of Miami, West Palm Beach and Fort Lauderdale. The system's lines also reach many individual industries, mines (in western Virginia, eastern Kentucky and southern West Virginia) and businesses located in smaller communities in its service area. The traffic corridors carrying the heaviest volumes of freight include those from the Appalachian coal fields of Virginia, West Virginia and Kentucky to Norfolk and Sandusky, Ohio; Buffalo to Chicago and Kansas City; Chicago to Jacksonville (via Cincinnati, Chattanooga and Atlanta); and Washington, D.C./Hagerstown, Maryland, to New Orleans (via Atlanta and Birmingham).

Buffalo, Chicago, Hagerstown, Jacksonville, Kansas City, Memphis, New Orleans and St. Louis are major gateways for interterritorial system traffic.

NS Rail and other railroads have entered into service interruption agreements, effective December 30, 1994, providing indemnities to parties affected by a strike over specified industry