STB FD 33388 6-23-97 A 180274V7F 7/13

ANALYSIS OF OPERATIONS

working capital, dividend payments, capital expenditures and debt obligations. CSX also plans to generate cash from the lease or disposition of rights of way, real estate or other assets no longer needed in its core businesses. The company expects to have access to financial markets, if necessary, to fund operations, working capital or other cash requirements.

Discussion of Financial Position

Cash, cash equivalents and short-term investments totaled $660 million at December 29, 1995. This compares with $535 million at year-end 1994.

The working capital deficit increased $216 million during 1995, primarily due to higher current maturities of long-term debt. The company had year-end working capital deficits of $1.06 billion in 1995 and $840 million in 1994.

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.

1993

Total	Rail	Container Shipping	Inter-modal	Barge	Elim./ Other
$8,767	$4,380	$3,246	$ 793	$417	$ (69)
2,922	1,797	822	81	107	115
2,158	891	828	108	175	156
1,034	369	559	64	19	23
721	—	608	475	—	(362)
558	352	127	11	29	39
413	225	109	1	42	36
93	—	93	—	—	—
7,899	3,63[illegible]	3,146	740	372	7
$ 868	$ 746	$ 100	$ 53	$ 45	$ (76)
$ 961	$ 746	$ 193	$ 53	$ 45	$ (76)
	83.0%	94.1%	93.3%	89.2%	
	30,461	9,440	1,510	2,747	
$ 818	$ 576	$ 172	$ 50	$ 13	$ 7

Long-term debt decreased approximately $400 million from 1994 to $2.2 billion at December 29, 1995, due to a higher level of scheduled maturities and use of the company's increased cash flow to reduce outstanding debt.

The 1995 ratio of debt-to-total capitalization dropped to 34% from 41% in 1994. Excess cash provided by operations and property dispositions generated the cash available to reduce the outstanding long-term debt. CSX expects to continue reducing long-term debt over the next two to three years.

Other Matters

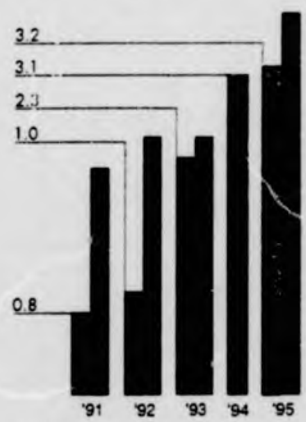
Environmental management is an important part of CSX's business planning. CSX focuses on finding the most efficient, cost-effective solutions for dealing responsibly with waste materials generated from past and present business operations. The solutions range from simple recycling to sophisticated remediation.

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 to whom costs associated with site investigation and cleanup may be allocated 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.

Fixed Charge Coverage



■ Excluding after-tax productivity/restructuring charges, fixed charge coverage in 1991, 1992, 1993 and 1995 would have been 2.2x, 2.5x, 2.5x and 3.7x, respectively.

PAGE | 11

Analysis Of Operations

At year-end 1995, the rail unit had identified and maintained reserves for approximately 108 sites, at which the company is or may be liable for remediation costs associated with alleged contamination or for violation of environmental requirements. The company reviews at least quarterly its environmental reserves 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 $43 million in 1995. This compares with $39 million in 1994 and $42 million in 1993. During 1996, the company expects to incur remedial environmental expenditures in the range of $40 to $50 million.

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.

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

Similarly, CSX monitors fuel oil prices for volatility and 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 actively trade financial instruments.

Rail Results

CSXT achieved an all-time record year for operating income, excluding its restructuring charge. Rail operating income increased 15% from 1994 and 43% from 1993, excluding the charge in 1995. The results reflect higher volumes in virtually all merchandise and commodity groups, selected rate increases and continued success in controlling costs.

Strong volumes and improved pricing produced operating revenue of $4.8 billion, a 4% increase over 1994 and a 10% increase over 1993.

Shipments of coal, CSXT's major commodity, remained strong in 1995. Largely due to a strong export market, coal tonnage increased to 158.5 million tons vs. 153.7 million tons in 1994 and 144.1 million tons in 1993.

Total merchandise traffic rose to 2.9 million carloads, 4% over 1994 and 10% over 1993.

Rail Operating Revenue
(Millions of Dollars)

Chemical traffic rose 5% over a strong 1994 and 9% over 1993. The 1995 increase was largely driven by strong demand for textile chemicals and raw materials used to produce plastic soft drink bottles.

Record corn and soybean harvests and strong domestic feed grain demand brought 6% increases in carloads and revenues for agricultural products over 1994's results. The increased volume is largely due to growing worldwide demand for grain, as developing countries improve their standards of living. Compared with 1993, carloads in 1995 remained level while revenue increased 3%.

Strong foreign demand for phosphates and fertilizer and an increase in CSXT's market share in Florida's Bone Valley led to a 9% increase in carloads and an 11% increase in revenue over 1994. The 1995 carloads increased 21% over 1993, while revenue increased 10% over that year.

On the expense side, CSXT continued to tightly control costs. Excluding the second-quarter charge, rail operating expense rose only 2% over 1994 and 3% over 1993. The railroad drove down its operating ratio (the ratio of operating expense to operating revenue) from 79.9% to 77.5%, reflecting a broad

Rail Assets
Owned or leased units
as of December 29, 1995

Freight Cars	
Box Cars	14,905
Open-Top Hoppers	26,328
Covered Hoppers	18,759
Gondolas	24,460
Other Cars	15,766
Total	100,218
Locomotives	2,697
Track	
Route Miles	18,645
Track Miles	31,961

Analysis Of Operations

organizational commitment and the continued success of its Performance Improvement Teams (PITs). PITs eliminated more than $350 million in expenses from 1993 through 1995, while revenues increased by over $430 million. In 1996, the railroad is targeting an additional $100 million in cost reductions through PIT initiatives.

The railroad has been moving to two-member crews on through trains. At year-end 1995, the average crew size was 2.4 members, including yard and local crews. CSXT is working to achieve an average crew size of 2.25 members in the next few years. In 1993, the crew size average was 2.7.

Labor and fringe benefits expense increased just 1% to $1.85 billion, vs. $1.83 billion in 1994 and $1.80 billion in 1993. The company is engaged in national labor negotiations that may result in competitive increases in labor and fringe benefits in 1996.

Rail Operating Expense
(Millions of Dollars)

■ Productivity/restructuring charges in 1991, 1992 and 1995 were $647 million, $619 million and $196 million, respectively.

CSXT ended the year with its best-ever employee safety performance, a 28% improvement over 1994, reducing its injury incident frequency to 1.7 per 100 full-time employees (200,000 man hours). The rail unit experienced a 13% reduction in train accidents. Five years ago, the injury incident frequency was 5.0 and accidents were 66% more common. In addition to making the work environment safer, the results of this effort include reducing unnecessary expense.

Over the past several years, CSXT has achieved one of the best employee safety improvement performances among Class I railroads. To reward employee contribution to this achievement, the railroad initiated a "Take Stock in Safety" program, which awards CSX common stock to employees for team performance that achieves a 1.5 or lower injury frequency. Of 39 teams representing transportation, mechanical and engineering departments, 46% qualified for the "Take Stock in Safety" award.

Rail capital additions for 1995 increased to $773 million from 1994's $675 million and 1993's $576 million. CSXT's efforts to constrain capital expenditures will continue in 1996. Improvements in service and asset utilization will enable the railroad, in effect, to create additional capacity without increasing capital investment significantly. Also in 1996, CSXT will take delivery of 77 new fuel-efficient 4,400 horsepower AC locomotives, each of which replaces an average of two older units. As of year-end 1995, there were 118 AC units in service in CSXT's fleet of approximately 2,700 locomotives.

CSXT expects 1996 to be another year of earnings growth, with moderate volume and revenue increases across most lines of business. The railroad will continue to focus on its key strategic efforts, which include improving safety, lowering costs and increasing asset utilization. CSXT also will expand the scope of more recent initiatives for improving service reliability through process re-engineering. With moderate economic growth projected, CSXT will build on competitive advantages it has attained through market-share gains and improved fundamentals.

Rail Commodities by Carload

	Market Share (Percent)	Carloads (Thousands)			Revenue (Millions of Dollars)		
	1995	1995	1994	1993	1995	1994	1993
Automobiles	28%	[illegible]	354	326	$ 503	$ 493	$ 461
Chemicals	40%	[illegible]	386	371	700	685	652
Minerals	38%	414	419	374	375	365	332
Food & Consumer	34%	179	176	166	207	204	196
Agricultural Products	29%	280	263	284	336	318	327
Metals	29%	301	292	258	291	285	243
Forest Products	34%	456	442	435	464	444	442
Phosphates & Fertilizer	79%	512	470	423	282	254	256
Coal	41%	1,678	1,678	1,566	1,523	1,465	1,363
Total		4,583	4,480	4,203	4,681	4,513	4,272
Other Revenue					138	112	108
Total Operating Revenue					$4,319	$4,[illegible]25	$4,380

Market share is defined as percent of major Eastern railroads' carloads handled by CSX.

Analysis Of Operations

Container-shipping Results

Sea-Land has been capitalizing on increasing global demand for containerized cargoes in most major trade lanes to produce double-digit increases in container loads and operating revenue, along with selected rate increases.

Sea-Land generated $238 million of operating income in 1995, excluding its portion of the second-quarter restructuring charge, vs. $187 million in 1994 and $193 million in 1993, excluding a restructuring charge taken in that year.

Total operating revenue rose to $4 billion, a 15% increase over 1994's revenue and 23% higher than in 1993.

Volume increased to 1.4 million loads, 12% over 1994's level. The weak U.S. dollar fueled strong demand for U.S. exports to European and Asian markets. The company also benefited from an improving northern European economy and aid agency cargo to the former Soviet Union, as well as modest growth in military cargo.

The average revenue per container increased 2%, reflecting a more favorable supply/demand situation. Better cargo mix and a general rate increase in the first quarter generated increased revenue in the fast-growing Europe-to-Asia trade. Rate increases were implemented in most Pacific trade lanes; however, market pressures led to some erosion in rates late in the year that continues into 1996.

Sea-Land's operating expense rose to $3.8 billion, excluding the restructuring charge, from $3.3 billion in 1994 and $3 billion in 1993, excluding that year's charge. The higher operating expense was attributable to the increased volumes and a surge in the world price of bunker fuel.

In 1995, Sea-Land initiated a number of actions to lower expense. The Maritime Administration (MARAD) approved reflagging of five U.S.-flag vessels to the registry of the Marshall Islands. The reflagging and the consolidation of divisional and corporate headquarters in Charlotte, N.C., are expected to reduce annual operating costs by $25 to $30 million.

Container-shipping Operating Revenue
(Millions of Dollars)

In 1995, Sea-Land and Maersk Line, two of the world's leading container-shipping companies, announced the formation of a global alliance covering vessels and terminals. The alliance will allow Sea-Land to offer shippers faster transit times, greater flexibility and more direct ports of call. However, it is not expected to have a substantial impact on operating income for 1996, as early savings will be offset by transition costs.

Container-shipping Load Volume
(Thousands)

Sea-Land eliminated operating expenses of more than $120 million in 1995 through its productivity improvement initiatives covering terminal and vessel operations, as well as inland transportation. The unit expects to achieve additional productivity improvements in 1996.

Capital additions for 1995 totaled $275 million, including $269 million in expenditures and $6 million in present value of operating leases. The total compares with $199 million in 1994 and $172 million in 1993.

Sea-Land contracted in 1994 for five new Champion Class vessels, three of which were received in the fourth quarter of 1995. The other two vessels will be put into service in the first quarter of 1996, replacing chartered space at significant cost savings. Sea-Land also invested to upgrade its container fleet and to enhance terminal facilities.

The carrier's 1996 capital expenditures are expected to total $295 million. This amount will include final payment for the Champion Class vessels, as well as allocations for terminal upgrades and technological advances. Pursuant to the formation of the Sea-Land and Maersk global alliance, orders were placed for four new container ships. These vessels will enable Sea-Land to eliminate 11 vessels operating in both line-haul and feeder service.

In 1996, global economic expansion is expected to continue. This positive outlook is tempered somewhat, however, by some near-term concerns, including possible deregulation, intensifying rate competition in major trade lanes, and possible near-term overcapacity.

Deregulation in the United States is expected to affect roughly a third of Sea-Land's current business relating to U.S.-to-foreign trade. Sea-Land views deregulation as an opportunity to serve its customers better and to provide a more responsive business environment.

Analysis Of Operations

Capacity will increase in 1996, with carriers taking delivery of new vessels; however, over the long term, demand in global trade should more than absorb capacity increases.

In 1996, Sea-Land will focus on the highest-return markets and increased margins. Proposed maritime reform legislation pending in the U.S. Congress is expected to help lower vessel costs. Capital investments will be oriented toward improving operating efficiency and further strengthening Sea-Land's infrastructure for competitive advantage.

Container-shipping Assets
Owned or leased units as of December 29, 1995

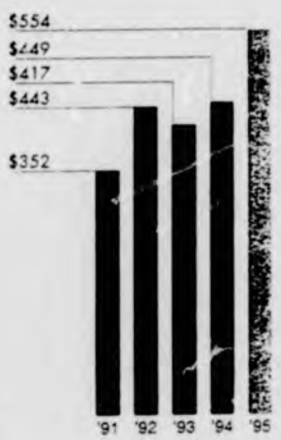
Containers	
40- and 20-foot Dry Vans	166,148
45-foot Dry Vans	10,166
Refrigerated Vans	18,452
Other Specialized Equipment	5,198
Total	199,964
Container Ships	105
Terminals	
Exclusive-Use	14
Preferential Berthing Rights	14

Barge Results

American Commercial Lines Inc. (ACL) achieved record operating income of $106 million in 1995, 68% higher than the previous year and 136% above 1993. Surging demand for transportation of grain, one of the barge carrier's key commodities, and other bulk commodities, coupled with a favorable rate environment, were major drivers. In 1993, operations and harvests were adversely affected by flooding along the upper Mississippi River and its tributaries.

Total operating revenue at ACL increased 23% to $554 million, compared with $449 million in 1994 and $417 million in 1993. Barge ton miles totaled 52 billion, an increase of 1 billion ton miles over 1994 and 7 billion ton miles more than 1993.

Barge Operating Revenue
(Millions of Dollars)



Demand for non-grain commodities, such as import steel and raw materials for steel mini-mills, remained strong. Coal tonnage and revenue decreased slightly during the year as the company shifted use of the equipment into growing, higher-margin markets. Revenue from terminal operations and Jeffboat, ACL's marine construction division, increased $31 million from 1994 primarily due to the completion of four towboats, one gaming vessel and 55 hopper barges.

Operating expense increased 16% to $448 million, driven by additional volumes and construction activity at Jeffboat. Repair and fuel costs reflected increasing the speed of the fleet to move more grain.

Barge Assets
Owned or leased units as of December 29, 1995

Towboats	116
Barges	
Covered/Open-Top Hoppers	2,994
Tankers	234
Total	3,228
Marine Services	
River Terminals	11
Fleet Operations	15
Shipyards	2

Performance Improvement Team initiatives generated nearly $2 million in savings at ACL in 1995. Similar savings are targeted for 1996. Overhead and administrative costs have been well controlled during this period of substantial growth.

Capital additions at ACL in 1995 totaled $36 million, compared with $15 million in 1994 and $13 million in 1993. Spending in 1995 included $5 million for two used towboats and $4 million for 20 hopper barges. ACL's capital expenditures are expected to increase in 1996 as the company renews a covered hopper construction program and absorbs the acquisition of the marine assets of Conti-Carriers & Terminals Inc. (CCTI).

The CCTI acquisition, which was completed in January 1996, increased ACL's fleet size by 400 barges, or 12%, and eight towboats. The larger fleet size will allow ACL to increase its movement of grain and other bulk commodities.

ACL's outlook for 1996 is highly positive. Grain farmers planted 20 million additional acres which, weather permitting, could produce a record harvest. ACL also expects moderate growth in export coal to meet continued demand overseas. In South America, aggressive development of the river systems provides additional opportunities for ACL to expand its operations on the Paraguai and Paraná Rivers and elsewhere.

Intermodal Results

Severe competition from the trucking industry resulted in lower operating income at CSX Intermodal (CSXI). Operating income declined to $30 million in 1995 from $61 million in 1994. Revenue increased to $926 million vs. 1994's $902 million, while volume was 1.3 million trailers and containers, level with 1994. In 1993, operating revenue and income were $793 million and $53 million, respectively.

Analysis Of Operations

An overcapacity of trucks, resulting from a slowing domestic economy and instability in the Mexican market, brought lower truck pricing. This contributed to a 7% reduction in CSXI's domestic trailer business, which was offset by an increase of 3% in international traffic and 13% in transcontinental domestic container business. Fixed rail costs in CSXI's principal trailer lanes and higher equipment expenses also adversely affected operating income. Operating expense for the year totaled $896 million, compared with $841 million in 1994 and $740 million in 1993.

Intermodal Assets
Owned or leased units as of December 29, 1995

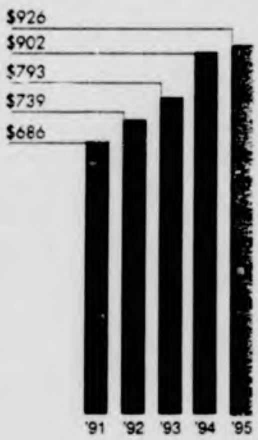
Equipment	
Domestic Containers	3,564
Rail Trailers	5,616
Facilities	
CSX Intermodal Terminals	33
Motor Carrier Operations Terminals	28
CSX Services Facilities	18

CSXI responded decisively to these business conditions by instituting a number of cost-cutting and service enhancement initiatives. Employee headcount was reduced 16% and preparations were made for consolidating headquarters offices in Jacksonville, Fla., in 1996. Forty percent of the trailer fleet was sold or returned from lease. These and other initiatives will result in a significant reduction in CSXI's cost base, while strengthening the unit's competitiveness.

Capital expenditures totaled $57 million in 1995 vs. $50 million in both 1994 and 1993, as CSXI continued to enhance its terminal infrastructure and equipment base.

In 1996, CSXI will focus on service improvements and cost-cutting initiatives. CSXI also expects demand for its trailer business to rebound and its international and transcontinental businesses to continue to grow.

Intermodal Operating Revenue
(Millions of Dollars)



CTI Results

Customized Transportation Inc. (CTI) increased revenue and operating income during 1995. Revenue surged to $240 million, 32% over 1994's level, while operating income increased to $12 million, 20% above 1994. Both figures are new highs.

CTI continues to diversify its customer base, with growth in automotive customers and an increased portfolio of non-automotive clients. By providing an array of services across the supply chain, CTI has been able to improve its position with current customers and develop business in new industries. CTI has also expanded into Brazil, Argentina and Europe.

CTI's high growth rate is expected to continue.

Consolidated Outlook

CSX enters 1996 confident it can build upon its performance in recent years and sustain its record of continuous improvement. The economic outlook for the year presents a mixed picture. U.S. inflation rates are expected to remain low. Transportation growth should outpace growth of the U.S. economy. Rail equipment supply remains tight, and barge demand remains strong. Continued expansion of global trade boosts Sea-Land's outlook, although some concerns remain about capacity in the Pacific trade and the intermodal sector.

CSX units are committed to exceeding their goals and delivering more shareholder value. Strong emphasis will be placed on cost control, more efficient asset utilization, revenue enhancements and improving margins. A positive view of 1996 is supported by the growth of global trade, the alliance between Sea-Land and Maersk and possible maritime reform, service improvements and stronger pricing at CSXT, continued strong demand for barge services and talented management.

The capabilities and dedication of CSX's 48,000 employees will produce further efficiencies, new business and innovative solutions to our customers' increasingly complex transportation and logistics needs.

Consolidated Statement Of Earnings

(Millions of Dollars, Except Per Share Amounts)	Fiscal Years Ended Dec. 29, 1995	Dec. 30, 1994	Dec. 31, 1993
Operating Revenue			
Transportation	$10,317	$ 9,410	$ 8,767
Non-Transportation	187	198	173
Total	10,504	9,608	8,940
Operating Expense			
Transportation	8,937	8,232	7,806
Non-Transportation	138	144	128
Restructuring Charge	257	—	93
Total	9,332	8,376	8,027
Operating Income	1,172	1,232	913
Other Income	72	55	18
Interest Expense	270	281	298
Earnings			
Earnings Before Income Taxes	974	1,006	633
Income Tax Expense	356	354	274
Net Earnings	$ 618	$ 652	$ 359
Per Common Share			
Earnings Per Share	$ 2.94	$ 3.12	$ 1.73
Average Common Shares Outstanding (Thousands)	210,270	209,303	207,830
Cash Dividends Paid Per Common Share	$ .92	$ .88	$ .79

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement Of Cash Flows

(Millions of Dollars)	Fiscal Years Ended Dec. 29, 1995	Dec. 30, 1994	Dec. 31, 1993
Operating Activities			
Net Earnings	$ 618	$ 652	$ 359
Adjustments to Reconcile Net Earnings to Net Cash Provided			
Depreciation	600	577	572
Deferred Income Taxes	(26)	176	181
Restructuring Charge Provision	257	—	93
Productivity/Restructuring Charge Payments	(155)	(159)	(293)
Other Operating Activities	10	56	35
Changes in Operating Assets and Liabilities			
Accounts Receivable	(82)	(60)	(15)
Other Current Assets	(22)	20	(7)
Accounts Payable	170	9	4
Other Current Liabilities	197	55	33
Net Cash Provided by Operating Activities	1,567	1,326	962
Investing Activities			
Property Additions	(1,156)	(875)	(768)
Proceeds from Property Dispositions	97	170	85
Proceeds from Sales of Long-Term Marketable Securities	97	54	22
Purchases of Long-Term Marketable Securities	(114)	(66)	(137)
Other Investing Activities	22	(144)	(72)
Net Cash Used by Investing Activities	(1,054)	(861)	(870)
Financing Activities			
Short-Term Debt — Net	(53)	37	150
Long-Term Debt Issued	121	92	81
Long-Term Debt Repaid	(343)	(447)	(249)
Cash Dividends Paid	(194)	(184)	(164)
Other Financing Activities	11	4	14
Net Cash Used by Financing Activities	(458)	(498)	(168)
Net Increase (Decrease) in Cash and Cash Equivalents	55	(33)	(76)
Cash, Cash Equivalents and Short-Term Investments			
Cash and Cash Equivalents at Beginning of Year	265	298	374
Cash and Cash Equivalents at End of Year	320	265	298
Short Term Investments at End of Year	340	270	201
Cash, Cash Equivalents and Short-Term Investments at End of Year	$ 660	$ 535	$ 499
Supplemental Cash Flow Information			
Interest Paid — Net of Amounts Capitalized	$ 275	$ 306	$ 304
Income Taxes Paid	$ 253	$ 175	$ 92

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement Of Financial Position

(Millions of Dollars)	Dec. 29, 1995	Dec. 30, 1994
Assets		
Current Assets		
Cash, Cash Equivalents and Short-Term Investments	$ 660	$ 535
Accounts Receivable	832	706
Materials and Supplies	220	211
Deferred Income Taxes	148	151
Other Current Assets	75	62
Total Current Assets	1,935	1,665
Properties — Net	11,297	11,044
Affiliates and Other Companies	312	302
Other Long-Term Assets	738	713
Total Assets	$14,282	$13,724
Liabilities		
Current Liabilities		
Accounts Payable	$ 1,121	$ 926
Labor and Fringe Benefits Payable	526	490
Casualty, Environmental and Other Reserves	298	276
Current Maturities of Long-Term Debt	486	312
Short-Term Debt	148	201
Other Current Liabilities	412	300
Total Current Liabilities	2,991	2,505
Casualty, Environmental and Other Reserves	813	837
Long-Term Debt	2,222	2,618
Deferred Income Taxes	2,560	2,570
Other Long-Term Liabilities	1,454	1,463
Total Liabilities	10,040	9,993
Shareholders' Equity		
Common Stock, $1 Par Value	210	105
Other Capital	1,319	1,368
Retained Earnings	2,822	2,391
Minimum Pension Liability	(109)	(133)
Total Shareholders' Equity	4,242	3,731
Total Liabilities and Shareholders' Equity	$14,282	$13,724

See accompanying Notes to Consolidated Financial Statements.

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
Balance December 31, 1992	103,476	$103	$1,250	$1,729	$(107)	$2,975
Net Earnings	—	—	—	359	—	359
Dividends — Common	—	—	—	(164)	—	(164)
Common Stock —						
Stock Purchase and Loan Plan						
Stock Canceled	(82)	—	(4)	—	—	(4)
Purchase Loans — Net	—	—	19	—	—	19
Other Stock Issued — Net	749	1	42	—	—	43
Minimum Pension Liability	—	—	—	—	(51)	(51)
Other — Net	—	—	—	3	—	3
Balance December 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 December 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 December 29, 1995	210,495	$210	$1,319	$2,822	$(109)	$4,242

See accompanying Notes to Consolidated Financial Statements.

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 and barging services. Other transportation units offer intermodal, logistics management, warehousing, distribution, and inland marine construction and repair services. Rail transportation services are provided principally throughout the eastern United States and account for nearly one-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. Barging, intermodal, logistics management, warehousing, distribution, and marine construction and repair services are provided principally within the United States and together account for the remaining transportation operating revenue. Non-transportation revenues are primarily from resort and real estate operations.

Common Stock Split

On October 11, 1995, the company's board of directors declared a 2-for-1 common stock split distributed on December 21, 1995, to shareholders of record at the close of business on December 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 have been restated to reflect the stock split. In addition, an amount equal to the one dollar par value of the shares outstanding on the date of record has been transferred from other capital to common stock.

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

Effective January 1, 1994, the company changed its fiscal reporting period from a calendar year to a fiscal year ending on the last Friday in December. The financial statements presented are for the fiscal periods ended December 29, 1995, December 30, 1994, and December 31, 1993. Each fiscal year consists of four 13-week quarters.

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 December 29, 1995, the Certificates were collateralized by $240 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 December 29, 1995, and December 30, 1994, 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 $32 million, $29 million and $15 million in 1995, 1994 and 1993, respectively.

Notes To Consolidated Financial Statements

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

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 $79 million and $84 million have been applied as a reduction of accounts receivable at December 29, 1995, and December 30, 1994, 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-production method. All other property and equipment is depreciated on a straight-line basis over estimated useful lives of three to 42 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 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.

When it is indicated that assets have a fair value below book value, they are evaluated for sale or other disposition and any necessary write-down is reflected. The recoverability of the book value of property and equipment is based upon potential cash flows or other estimates of fair value for the property.

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 condition caused by past operations, and which 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 are also deferred and recognized in income in the same period as the hedged transaction. There were no significant derivative financial instruments outstanding at December 29, 1995.

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 all periods presented have been restated to reflect the 2-for-1 common stock split distributed to shareholders in December 1995.

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 1995 presentation.

Notes To Consolidated Financial Statements

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

Accounting Pronouncements

The Financial Accounting Standards Board has issued Statement No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and Statement No. 123 "Accounting for Stock-Based Compensation", which the company will adopt in 1996. Statement No. 121 establishes standards for identifying and recording impairments in the carrying value of long-lived assets. Statement No. 123 provides an alternative for income statement recognition of costs associated with stock-based employee compensation plans and requires expanded disclosures with respect to such plans. The company is currently evaluating both pronouncements and does not expect a material impact on its financial statements from the adoption of either pronouncement.

NOTE 2. RESTRUCTURING CHARGES.

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 recorded its $196 million portion of the pretax restructuring charge to recognize the costs associated with a contractual agreement with AT&T Solutions (AT&T) to replace, manage and technologically enhance its existing private telecommunications network. The initiative resulted in a $163 million write-down of assets rendered technologically obsolete and will further result in separation and labor protection payments totaling $33 million to affected employees.

Under the agreement, AT&T supplies and manages new technology thereby rendering CSXT's existing telecommunications assets commercially obsolete. CSXT is obligated to pay minimum charges of approximately $330 million in equal annual amounts over the next 10 years.

The commercially obsolete assets represented CSXT's internal companywide telecommunications network including the existing microwave and fiber optic communications systems. AT&T provides wireless communications technology over its existing network to replace the CSXT system. After the phase-in of this technology, AT&T will retain ownership of the equipment and will grant CSXT access to the equipment and the network.

The commercially obsolete assets have no alternative use and their net realizable value as a companywide telecommunications network is not significant. As a result of the agreement with AT&T, the net book value of the assets being replaced was reduced by $163 million.

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.

A summary of the restructuring charge and related activity through December 29, 1995, is as follows:

	Obsolete Assets	Separation and Labor Protection Costs	Lease and Facility Exit Costs	Total
Restructuring Charge:				
CSXT Telecommunications	$163	$33	$—	$196
Sea-Land Global Integration	—	19	12	31
Sea-Land Vessel Reflagging	—	28	2	30
Total	163	80	14	257
Amounts Utilized through December 29, 1995	163	20	5	188
Remaining Reserve as of December 29, 1995	$ —	$60	$ 9	$ 69

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. The company expects 90% of the affected employees to be impacted within one year and the remaining 10% to be impacted within four to five years. Through December 29, 1995, approximately 500 employee separations have been finalized.

Notes To Consolidated Financial Statements

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

1993 Restructuring Charge

The company recorded a $93 million pretax charge in the first quarter of 1993 to recognize the estimated costs of restructuring certain operations and functions at Sea-Land. The charge provided for separations affecting approximately 450 employees and for various exit and settlement costs, and reduced net earnings by $61 million, 30 cents per share. At December 29, 1995, the restructuring initiatives have been completed and substantially all costs have been paid.

NOTE 3. OPERATING EXPENSE.

	1995	1994	1993
Labor and Fringe Benefits	$3,264	$3,154	$3,055
Materials, Supplies and Other	2,599	2,249	2,086
Building and Equipment Rent	1,168	1,136	1,087
Inland Transportation	970	839	721
Depreciation	600	577	572
Fuel	474	421	413
Restructuring Charge	257	—	93
Total	$9,332	$8,376	$8,027
Selling, General and Administrative Expense Included in Above Items	$1,383	$1,299	$1,202

NOTE 4. OTHER INCOME.

	1995	1994	1993
Interest Income	$ 62	$ 57	$ 52
Net Gain on Investment Transactions (a)	77	—	—
Gain on South Florida Track Sale (b)	—	91	20
Net Costs for Accounts Receivable Sold	(32)	(29)	(15)
Minority Interest	(32)	(21)	(14)
Loss on Redemption of Debt	—	(13)	—
Equity Losses of Other Affiliates	(3)	(10)	(7)
Miscellaneous	—	(20)	(18)
Total	$ 72	$ 55	$ 18

(a) 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%.

(b) 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.

Notes To Consolidated Financial Statements

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

NOTE 5. INCOME TAXES.

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

	1995	1994	1993
Earnings Before Income Taxes:			
— Domestic	$765	$ 893	$570
— Foreign	209	113	63
Total	$974	$1,006	$633
Income Tax Expense (Benefit):			
Current — Federal	$337	$ 144	$ 71
— Foreign	26	20	18
— State	19	14	4
Total Current	382	178	93
Deferred— Federal	(26)	165	160
— Foreign	—	2	1
— State	—	9	20
Total Deferred	(26)	176	181
Total Expense	$356	$ 354	$274

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

	1995		1994		1993	
Tax at Statutory Rates	$341	35%	$352	35%	$222	35%
State Income Taxes	12	1	15	1	16	2
Prior Years' Income Taxes	—	—	(10)	(1)	(15)	(2)
Other Items[a]	3	1	(3)	—	51	8
Total Expense	$356	37%	$354	35%	$274	43%

(a) *The company revised its annual effective tax rate in 1993 to reflect the change in the federal statutory rate from 34 to 35 percent. The effect of this change was to increase income tax expense by $51 million related to applying the newly enacted statutory income tax rate to deferred tax balances as of January 1, 1993.*

The significant components of deferred tax assets and liabilities include:

	Dec. 29, 1995	Dec. 30, 1994
Deferred Tax Assets:		
Productivity/Restructuring Charges	$ 240	$ 246
Employee Benefit Plans	417	336
Deferred Gains and Related Rents	166	166
Other	300	330
Total	1,123	1,078
Deferred Tax Liabilities:		
Accelerated Depreciation	3,104	3,045
Other	431	452
Total	3,535	3,497
Net Deferred Tax Liabilities	$2,412	$2,419

Notes To Consolidated Financial Statements

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

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 1995 and 1994.

The company has not recorded domestic deferred or additional foreign income taxes applicable to undistributed earnings of foreign subsidiaries that are reinvested. Such earnings amounted to $314 million and $257 million at December 29, 1995, and December 30, 1994, respectively. These amounts may become taxable upon their remittance as dividends or upon the sale or liquidation of these foreign subsidiaries. It is not practical 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 1987. Returns for 1988-1990 are currently under examination and a final report and assessment is expected in 1996. Management believes adequate provision has been made for any adjustments that might be assessed.

NOTE 6. PROPERTIES.

	Dec. 29, 1995 Cost	Dec. 29, 1995 Accumulated Depreciation	Dec. 29, 1995 Net	Dec. 30, 1994 Cost	Dec. 30, 1994 Accumulated Depreciation	Dec. 30, 1994 Net
Transportation	$16,264	$5,269	$10,995	$15,884	$5,161	$10,723
Non-Transportation	409	107	302	431	110	321
Total	$16,673	$5,376	$11,297	$16,315	$5,271	$11,044

NOTE 7. CASUALTY, ENVIRONMENTAL AND OTHER RESERVES.

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

	Casualty Reserves [a][b]	Environmental Reserves [a]	Separation Liabilities [a][c]	Other Reserves [a]	Total
Balance December 31, 1992	$493	$ 77	$ 931	$18	$1,519
Charged to Expense and Other Additions	333	63	32	62	490
Payments and Other Reductions	(276)	(9)	[d](321)	(26)	(632)
Balance December 31, 1993	550	131	642	54	1,377
Charged to Expense and Other Additions	240	32	—	7	279
Payments and Other Reductions	(251)	(23)	[d](248)	(21)	(543)
Balance December 30, 1994	539	140	394	40	1,113
Charged to Expense and Other Additions	237	22	80	42	381
Payments and Other Reductions	(244)	(25)	(70)	(44)	(383)
Balance December 29, 1995	$532	$137	$ 404	$38	$1,111

(a) Balances include current portions of casualty, environmental, separation and other reserves, respectively, of $231 million, $20 million, $37 million and $10 million at December 29, 1995, $215 million, $20 million, $22 million and $19 million at December 30, 1994, and $223 million, $1 million, $44 million and $38 million at December 31, 1993.

(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 $344 million at December 29, 1995, $376 million at December 30, 1994, and $607 million at December 31, 1993, 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 25 years.

(d) Includes the transfer of $156 million in 1994 to a separation-related pension obligation and the reallocation of $95 million in 1993 to other negotiated settlements contemplated by the 1991 productivity charge. The transfer for 1994 represents the future cost of pensions for certain train crew employees impacted by the buyout of trip-based compensation and was provided for in the 1992 productivity charge. The 1993 reallocation adjusted for an overaccrual of separation liabilities and an underaccrual of amounts recorded for other negotiated settlements.

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

NOTE 8. DEBT AND CREDIT AGREEMENTS.

Type and Maturity Dates	Average Interest Rates at Dec. 29, 1995	Dec. 29, 1995	Dec. 30, 1994
Notes Payable (1996-2021)	8%	$ 895	$1,122
Debentures (1997-2022)	9%	649	649
Equipment Obligations (1996-2010)	8%	606	570
Commercial Paper	6%	300	300
Mortgage Bonds (1998-2003)	4%	76	78
Other Obligations (1996-2011)	7%	182	211
Total	8%	2,708	2,930
Less Debt Due Within One Year		486	312
Total Long-Term Debt		$2,222	$2,618

In June 1991, the company filed a shelf registration with the Securities and Exchange Commission to provide for the issuance of up to $250 million in debt securities. In September 1992, the company filed a shelf registration to provide for the issuance of up to $450 million in senior debt securities, warrants to purchase debt securities or currency warrants. As of December 29, 1995, $50 million and $200 million of debt is available for issuance under the 1991 and 1992 shelf registrations, respectively.

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.

The company maintains revolving credit agreements with domestic and foreign banks aggregating $880 million under which there were no borrowings as of December 29, 1995. Substantially all of these agreements have underlying debt maturities greater than 12 months. These agreements support $448 million of privately placed commercial paper outstanding at December 29, 1995, of which $300 million has been classified as long-term debt based upon the company's ability and intention to maintain this debt outstanding for at least one year.

Commercial paper classified as short-term debt was $148 million at December 29, 1995, and $201 million at December 30, 1994. The weighted average interest rate for the short-term commercial paper outstanding at year-end was 6% for 1995 and 1994.

Excluding long-term commercial paper, the company has long-term debt maturities for 1996 through 2000 aggregating $486 million, $85 million, $124 million, $81 million and $313 million, respectively. Substantially all of the company's rail unit properties are pledged as security for various rail-related, long-term debt issues.

NOTE 9. 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 December 29, 1995, common shares issued and outstanding totaled 210,494,658.

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 December 29, 1995.

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.

Notes To Consolidated Financial Statements
(All Tables in Millions of Dollars, Except Per Share Amounts)

NOTE 10. 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.

Stock Purchase and Loan Plan

The 1991 Stock Purchase and Loan Plan provided for the purchase of common stock and related rights by eligible officers and key employees of the company and entitled them to obtain loans with respect to the shares purchased. The Plan is intended to further the long-term stability and financial success of the company by providing a method for eligible employees to significantly increase their ownership of common stock. At December 29, 1995, there were 135 participants in the Plan.

Shares were issued in 1991 and 1992 at the market price on date of issue. Participants purchased the shares with a 5% down payment in the form of cash or recourse loans. The remaining 95% of the purchase price was in the form of non-recourse loans secured by the shares issued. The loans bear interest at rates set on the issue date and are due on July 31, 1996. All loans were subject to certain adjustments after a vesting period if the market price of CSX common stock equaled or exceeded certain thresholds for a period of 10 consecutive business days. Those thresholds were met in prior years and, as of December 29, 1995, all interest (less dividends applied to accrued interest) and 25% of each participant's loan balance has been forgiven.

Transactions involving the 1991 Stock Purchase and Loan Plan are summarized as follows:

	Shares (000's)	Average Price [a]
Outstanding at December 31, 1993	4,056	$20.22
Canceled and Withdrawn	(187)	$20.09
Outstanding at December 30, 1994	3,869	$18.67
Canceled and Withdrawn	(446)	$19.25
Outstanding at December 29, 1995	3,423	$18.64

	1995	1994	1993
5% Down Payment Loans Outstanding	$ 4	$ 4	$ 5
95% Purchase Loans Outstanding	$ 60	$ 68	$ 77
Average Interest Rate	7.75%	7.75%	7.75%
Compensation Expense for the Year	$ 26	$ 4	$ 48

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

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 1991 Stock Purchase and Loan Plan are not eligible to participate in this Plan. At December 29, 1995, there were 687,936 shares of common stock available for issuance under this Plan.

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 December 29, 1995, there were 5,514,930 shares reserved for issuance under these Plans.

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) and Performance Share Awards (PSAs) to eligible officers and employees. The awards are based on increases in the market value of CSX common stock over the market value at date of grant or the financial performance of CSX, or both. At December 29, 1995, there were 454 participants in the Plan.

Notes To Consolidated Financial Statements

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

During 1994, 10 million additional shares of common stock were reserved for issuance under this Plan. At December 29, 1995, a total of 20,504,484 shares were reserved for issuance, of which 7,503,922 were available for new grants (9,588,996 at December 30, 1994). The remaining shares are assigned to outstanding stock options, SARs and PSAs.

Transactions involving stock options and SARs are summarized as follows:

	Options		SARs	
	Shares (000s)	Average Price	Units (000s)	Average Price
Outstanding at December 30, 1994	10,206	$30.97	505	$15.82
Granted	2,165	$40.25	—	—
Canceled or Expired	(57)	$38.95	—	—
Exercised	(433)	$27.18	—	—
Outstanding at December 29, 1995	11,881	$32.76	505	$15.82
Exercisable at December 29, 1995	8,017	$28.79	505	$15.82
Exercised in 1994	328	$24.92	56	$15.63
Exercised in 1993	1,342	$20.03	108	$15.61

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 December 29, 1995, there were 614,800 shares reserved for outstanding PSAs.

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. All awards of common stock are issued based on terms and conditions approved by the Compensation Committee of the company's board of directors. At December 29, 1995, there were 1,901,436 shares reserved for issuance under this Plan, of which 802,440 were available for new grants.

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 to the basic level of payment in stock, 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 December 29, 1995, there were 968,704 shares of common stock reserved for issuance under this Plan.

NOTE 11. 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 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. At December 30, 1994, the fair value of long-term debt, including current maturities, was $2.91 billion, compared with a carrying amount of $2.93 billion. The fair values of long-term debt have been estimated using discounted cash flow analyses based upon the company's current incremental borrowing rates for similar types of financing arrangements.

The company had no significant hedging or derivative financial instruments employed at December 29, 1995, or December 30, 1994.

Notes To Consolidated Financial Statements
(All Tables in Millions of Dollars, Except Per Share Amounts)

NOTE 12. 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:

	1995	1994	1993
Service Cost	$ 28	$ 36	$ 28
Interest Cost on Projected Benefit Obligation	91	89	88
Actual Return on Plan Assets	(190)	(10)	(95)
Net Amortization and Deferral	117	(45)	26
Foreign Plans	4	4	4
Pension Expense	$ 50	$ 74	$ 51

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

	Assets Exceed Benefits		Benefits Exceed Assets	
	Dec. 29, 1995	Dec. 30, 1994	Dec. 29, 1995	Dec. 30, 1994
Assets and Obligations:				
Vested Benefits	$24	$19	$1,086	$ 994
Non-Vested Benefits	1	1	69	58
Accumulated Benefit Obligation	25	20	1,155	1,052
Effect of Anticipated Future Salary Increases	1	1	122	125
Projected Benefit Obligation	26	21	1,277	1,177
Fair Value of Plan Assets	39	33	957	822
Funded Status	13	12	(320)	(355)
Unrecognized Initial Net Obligation (Asset)	(3)	(3)	25	31
Unrecognized Prior Service Cost	2	1	11	15
Unrecognized Net Loss	4	6	276	316
Recognition of Minimum Liability	—	—	(200)	(252)
Net Pension Asset (Obligation)	$16	$16	$ (208)	$ (245)

The following actuarial assumptions were used in determining net pension expense and projected benefit obligations:

	1995	1994	1993
Discount Rate	7.50%	8.25%	7.25%
Estimated Long-Term Rate of Salary Increases	5.00%	5.00%	5.00%
Expected Long-Term Rate of Return on Assets	9.75%	8.75%	9.75%

The aggregate minimum pension liability was reduced by $52 million in 1995, primarily due to the increase in fair value of plan assets.

Notes To Consolidated Financial Statements

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

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 participating employees covered by certain collective bargaining agreements. Expense associated with these plans was $29 million, $31 million and $32 million for 1995, 1994 and 1993, 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 December 29, 1995, and December 30, 1994, are as follows:

	Medical		Life Insurance	
	Dec. 29, 1995	Dec. 30, 1994	Dec. 29, 1995	Dec. 30, 1994
Accumulated Post-Retirement Benefit Obligation:				
Retirees	$188	$172	$ 69	$66
Fully Eligible Active Participants	30	26	3	3
Other Active Participants	45	39	3	3
Accumulated Post-Retirement Benefit Obligation	263	237	75	72
Unrecognized Prior Service Cost	17	23	5	6
Unrecognized Net Loss	(41)	(25)	(11)	(7)
Net Post-Retirement Benefit Obligation	$239	$235	$ 69	$71

Net expense for post-retirement benefits was $27 million, $29 million and $23 million for 1995, 1994 and 1993, respectively. The net post-retirement benefit obligation was determined using the assumption that the health care cost trend rate for medical plans was 10.5% for 1995-1996, 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 29, 1995, by $23 million and net post-retirement benefit expense for 1995 by $3 million. The discount rate used in determining the accumulated post-retirement benefit obligation was 7.50% for 1995, 8.25% for 1994, and 7.25% for 1993.

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 $239 million, $209 million and $211 million, respectively, were made to these plans in 1995, 1994 and 1993.

Notes To Consolidated Financial Statements
(All Tables in Millions of Dollars, Except Per Share Amounts)

NOTE 13. 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 December 29, 1995, minimum building and equipment rentals under non-cancelable operating leases totaled approximately $399 million for 1996, $377 million for 1997, $351 million for 1998, $308 million for 1999, $272 million for 2000 and $2.4 billion thereafter.

Rent expense on operating leases, including net daily rental charges on railroad operating equipment of $257 million, $258 million and $247 million in 1995, 1994 and 1993, respectively, amounted to $1.2 billion in 1995, and $1.1 billion in 1994 and 1993.

Purchase Commitments

CSXT entered into an agreement during 1993 to purchase 300 locomotives. This large single order covers normal locomotive replacement needs for 1994 through 1997 and introduces alternating current traction technology to the locomotive fleet. CSXT has taken delivery of 50 direct current and 118 alternating current locomotives through December 29, 1995. The remaining 132 alternating current units will be delivered in 1996 and 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 $518 million, of which $188 million has been expended through December 29, 1995, with the remaining $330 million expected to be incurred over the next two years. Three of the vessels were delivered in 1995.

Other Commitments

During 1995, CSXT entered into an agreement with AT&T to supply and manage its telecommunications needs through May 2005. The agreement requires minimum payments totaling approximately $330 million in equal annual amounts over the ten-year period.

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 amounted to approximately $86 million at December 29, 1995.

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 substantial portion of the insurance coverage, up to $100 million per occurrence from rail and certain other operations, is provided by companies owned or 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) in a number of investigations and actions. CSXT has identified approximately 108 environmentally impaired sites that are or may be subject to remedial action under the Federal Superfund statute (Superfund) or corresponding state statutes. Many of these proceedings are based on allegations that CSXT, or its railroad predecessors, sent hazardous substances to the facilities in question for disposal. Such proceedings arising under Superfund or corresponding state statutes typically 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.

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 is 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.

Notes To Consolidated Financial Statements

(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 December 29, 1995, and December 30, 1994, were $137 million and $140 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 29, 1995, 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 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 14. 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:	1995	1994	1993
Operating Revenue	$4,008	$3,492	$3,246
Operating Expense — Public	3,563	3,101	2,972
— Affiliated [a]	299	235	202
Operating Income	$ 146	$ 156	$ 72
Net Earnings	$ 86	$ 73	$ 12

Summary of Financial Position:	Dec. 29, 1995	Dec. 30, 1994
Current Assets — Public	$ 713	$ 584
— Affiliated [a]	2	16
Other Assets — Public	1,674	1,527
— Affiliated [a]	—	101
Current Liabilities — Public	684	515
— Affiliated [a]	48	266
Other Liabilities — Public	718	671
— Affiliated [a]	200	75
Equity	739	701

(a) Amounts represent activity with CSX affiliated companies.

Notes To Consolidated Financial Statements

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

SL Alaska Trade Company (SLATCO) is a special purpose, unconsolidated subsidiary of Sea-Land with assets of $117 million in a trust account securing $106 million of debt maturing on October 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.

NOTE 15. BUSINESS SEGMENTS.

	Operating Revenue Fiscal Years Ended			Operating Income Fiscal Years Ended			Identifiable Assets	
	Dec. 29, 1995	Dec. 30, 1994	Dec. 31, 1993	Dec. 29, 1995	Dec. 30, 1994	Dec. 31, 1993	Dec. 29, 1995	Dec. 30, 1994
Transportation	$10,317	$9,410	$8,767	$1,123	$1,178	$868	$13,489	$12,974
Non-Transportation	187	198	173	49	54	45	793	750
Total	$10,504	$9,608	$8,940	1,172	1,232	913	$14,282	$13,724
Other Income				72	55	18		
Interest Expense				270	281	298		
Earnings Before Income Taxes				$ 974	$1,006	$633		

The principal components of the business segments are:

Transportation - Rail, international container-shipping, barge, intermodal, logistics management, warehousing, and distribution operations. The container-shipping operation reported revenue of $4.0 billion for 1995, $3.5 billion for 1994 and $3.2 billion for 1993. Approximate revenue allocation by port of origin for 1995, 1994 and 1993 was: North America — 42%; Asia — 33%; Europe — 17%; and Other — 8%.

Non-Transportation - Real estate sales and rentals, resort management and operations, integrated computer services and eliminations of intersegment sales and corporate-related items.

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

NOTE 16. QUARTERLY DATA (Unaudited).

1995	1st	2nd(b)	3rd	4th(c)
Operating Revenue	$2,468	$2,600	$2,665	$2,771
Operating Income	$ 271	$ 95	$ 382	$ 424
Net Earnings	$ 121	$ 19	$ 202	$ 276
Earnings Per Share(a)	$ .58	$ .09	$ .96	$ 1.31

1994	1st	2nd	3rd	4th(d)
Operating Revenue	$2,227	$2,371	$2,470	$2,540
Operating Income	$ 186	$ 304	$ 350	$ 392
Net Earnings	$ 74	$ 162	$ 177	$ 239
Earnings Per Share(a)	$ .36	$ .77	$ .84	$ 1.15

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

(b) 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.

(c) 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.

(d) 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, an accelerated pretax gain of $69 million, and increased net earnings by $42 million, 20 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 29, 1995 and December 30, 1994, 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 29, 1995. 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 17-35) present fairly, in all material respects, the consolidated financial position of CSX Corporation and subsidiaries at December 29, 1995 and December 30, 1994, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended December 29, 1995, in conformity with generally accepted accounting principles.

Ernst + Young LLP

Richmond, Virginia
January 31, 1996

FORM 10-K ANNUAL REPORT

Form 10-K

Securities and Exchange Commission
Washington, DC 20549

Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 29, 1995
Commission File Number 1-8022

CSX Corporation
A Virginia Corporation

IRS Employer Identification No. 62-1051971

One James Center, 901 East Cary Street
Richmond, Virginia 23219-4031
Telephone (804) 782-1400

Portions of this report are not required by the Form 10-K and are not "filed" as part of the company's 10-K. Only the sections referenced in the index below are incorporated into this 10-K.

The Securities and Exchange Commission has not approved or disapproved this report or passed upon its accuracy or adequacy.

Securities Registered Pursuant to Section 12(b) of the Act:

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

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

The registrant 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 and has been subject to such filing requirements for the past 90 days.

On January 26, 1996, the aggregate market value of the Registrant's voting stock held by non-affiliates was $8.8 billion.

On January 26, 1996, there were 210,529,205 shares of Common Stock outstanding.

Index—Form 10-K Annual Report

(a) Items Number 11, 12 and 13 will be incorporated by reference from the registrant's 1996 Proxy Statement pursuant to instructions G(1) and G(3) of the General Instructions to Form 10-K.

Index to Exhibits

FORM 10-K ANNUAL REPORT

Index to Exhibits, (cont'd).

(b) Incorporated by Reference to a Prior Filing
(c) Filed Herewith Electronically

* Management Contract or Compensatory Plan or Arrangement.

Subsidiaries of the Registrant **Exhibit 21**

As of December 29, 1995, Registrant was the beneficial owner of 100 percent of the common stock of CSX Transportation Inc. (a Virginia corporation).

As of December 29, 1995, Registrant was the beneficial owner of 100 percent of the common stock of Sea-Land Service Inc. (a Delaware corporation).

As of December 29, 1995, Registrant was the beneficial owner of 100 percent of the common stock of CSX Intermodal Inc. (a Delaware corporation).

As of December 29, 1995, Registrant was the beneficial owner of 100 percent of the common stock of American Commercial Lines Inc. (a Delaware corporation).

As of December 29, 1995, the other subsidiaries included in registrant's consolidated financial statements, and all other subsidiaries considered in the aggregate as a single subsidiary, did not constitute a significant subsidiary.

Consent of Independent Auditors **Exhibit 23**

We consent to the incorporation by reference in the following Registration Statements of our report dated January 31, 1996, with respect to the consolidated financial statements of CSX Corporation and subsidiaries included in its Annual Report (Form 10-K) for the year ended December 29, 1995:

Registration Statement Number	Description
33-2083	Post-Effective Amendment No. 1 to Form S-3
33-2084	Post-Effective Amendment No. 1 to Form S-3
33-16230	Form S-8
33-25537	Form S-8
33-29136	Form S-8
33-37449	Form S-8
33-41236	Form S-3
33-41498	Form S-8
33-41499	Form S-8
33-41735	Form S-8
33-41736	Form S-8
33-48841	Form S-3
33-49767	Form S-8
33-57029	Form S-8

Ernst + Young LLP

Richmond, Virginia
February 26, 1996

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 1st day of March 1996.

CSX Corporation

By: /s/ GREGORY R. WEBER
Gregory R. Weber, Vice President, Controller and Treasurer

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)*
Edward L. Addison	Director*
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
* Peter J. Shudtz, Attorney-in-Fact
March 1, 1996

Board Of Directors

Edward L. Addison (3,5)
Retired Chairman and CEO
The Southern Company
Pensacola Beach, Fla.

Elizabeth E. Bailey (2,4)
John C. Hower Professor of
Public Policy and Management
The Wharton School
University of Pennsylvania
Philadelphia, Pa.

Robert L. Burrus Jr. (4,5)
Partner and Chairman
McGuire, Woods,
Battle & Boothe
Richmond, Va.

Bruce C. Gottwald (4,5)
Chairman and CEO
Ethyl Corporation
Richmond, Va.

John F. Hall (2)
Chairman and CEO
Ashland Inc.
Ashland, Ky.

Robert D. Kunisch (1,3)
Chairman, President and CEO
PHH Corporation
Hunt Valley, Md.

Hugh L. McColl Jr. (2,4)
Chairman and CEO
NationsBank Corp.
Charlotte, N.C.

James W. McGlothlin (1,5)
Chairman and CEO
The United Company
Bristol, Va.

Southwood J. Morcott (1,2,4)
Chairman and CEO
Dana Corporation
Toledo, Ohio

Charles E. Rice (1,2,3)
Chairman and CEO
Barnett Banks Inc.
Jacksonville, Fla.

William C. Richardson (3)
President and CEO
W.K. Kellogg Foundation
Battle Creek, Mich.

Frank S. Royal, M.D. (3)
Physician and Health Care
Authority
Richmond, Va.

John W. Snow (1)
Chairman, President and CEO
CSX Corporation
Richmond, Va.

**Sir Denis Thatcher,
Bt MBE TD**
Counsellor to the Board
London, England

Key to committees of the board

1 - Executive
2 - Audit
3 - Compensation
4 - Pension
5 - Organization & Corporate Responsibility

Corporate, Unit Officers And Internet Addresses

CSX CORPORATE OFFICERS

John W. Snow, 56*
Chairman, President and CEO, elected February 1991

Mark G. Aron, 53*
Executive Vice President-Law and Public Affairs, elected April 1995

James Ermer, 53*
Executive Vice President-Corporate Planning & Development, elected April 1995

Paul R. Goodwin, 53*
Executive Vice President-Finance and Chief Financial Officer, elected April 1995

Sally B. Basso, 38
Vice President-Compensation and Benefits, elected April 1995

Andrew B. Fogarty, 50
Vice President-Audit and Advisory Services, elected March 1995

Thomas E. Hoppin, 54
Vice President-Corporate Communications, elected July 1986

Richard H. Klem, 51*
Vice President-Corporate Strategy, elected May 1992

Jesse R. Mohorovic, 53*
Vice President-Executive Department, elected February 1995

James P. Peter, 44
Vice President-Taxes, elected June 1993

Woodruff M. Price, 60
Vice President-Federal Affairs, elected May 1988

Alan A. Rudnick, 48
Vice President-General Counsel and Corporate Secretary, elected June 1991

Michael J. Ruehling, 48
Vice President-State Relations, elected January 1995

James A. Searle Jr., 49
Vice President-Administration, elected August 1989

Peter J. Shudtz, 47
General Counsel, elected September 1991

William H. Sparrow, 52*
Vice President-Financial Planning, elected February 1996

Gregory R. Weber, 50*
Vice President, Controller and Treasurer, elected April 1989

CSX UNIT OFFICERS

CSX Transportation Inc.

Alvin R. (Pete) Carpenter, 54*
President and CEO, since January 1992

Gerald L. Nichols, 60*
Executive Vice President and COO, since February 1995

Donald D. Davis, 56*
Senior Vice President-Employee Relations, since April 1992

Michael J. Ward, 45*
Senior Vice President-Finance, since April 1995

Sea-Land Service Inc.

John P. Clancey, 51*
President and CEO, since August 1991

Wilford W. Middleton Jr., 57*
Executive Vice President, since January 1990

Robert J. Grassi, 49*
Senior Vice President-Finance and Planning, since October 1991

Charles G. Raymond, 52*
Senior Vice President-Operations, since September 1988

CSX Intermodal Inc.

M. McNeil Porter, 62*
Chairman, since January 1996

Ronald T. Sorrow, 49*
President and CEO, since January 1996

American Commercial Lines Inc.

Michael C. Hagan, 49*
President and CEO, since May 1992

Customized Transportation Inc.

David G. Kulik, 47
President and CEO, since December 1994

The Greenbrier

Ted J. Kleisner, 51
President and Managing Director, since January 1989

Yukon Pacific Corporation

Jeff B. Lowenfels, 47
President and CEO, since February 1995

**Executive officers of the corporation*

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

CSX Transportation Inc., 500 Water Street, Jacksonville, FL 32202 • (904) 359-3100 • http://www.csxt.com

Sea-Land Service Inc., 6000 Carnegie Blvd., Charlotte, NC 28209 • (704) 571-2000 • http://www.sealand.com

CSX Intermodal Inc., 301 West Bay Street, Jacksonville, FL 32202 • (904) 359-4855 • http://www.csxi.com

American Commercial Lines Inc., 1701 E. Market Street, Jeffersonville, IN 47130 • (812) 288-0100 • http://www.aclines.com

Customized Transportation Inc., 10407 Centurion Parkway, N., Ste. 400, Jacksonville, FL 32256 • (904) 928-1400 • http://www.csx.com/docs/cti.html

The Greenbrier, White Sulphur Springs, WV 24986 • (304) 536-1110 • http://www.greenbrier.com

Yukon Pacific Corporation, 1049 W. 5th Avenue, Anchorage, AK 99501 • (907) 265-3100 • http://www.ypc.com

Corporate Information

Headquarters

One James Center
901 East Cary Street
Richmond, VA 23219-4031
(804) 782-1400
Internet Address: 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."

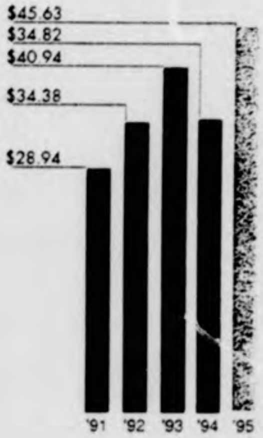
Description of Common and Preferred Stocks

A total of 300 million shares of common stock is authorized, of which 210,494,658 shares were outstanding as of December 29, 1995. 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 if 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 Year-End
(Dollars)



Common Stock Price Range and Dividends Per Share

Year 1995 / Quarter	1st	2nd	3rd	4th
Market Price				
High	$39.88	$41.00	$44.63	$46.13
Low	$34.69	$36.00	$37.44	$39.06
Dividends Per Share	$ .22	$ .22	$ .22	$ .26

Year 1994 / Quarter	1st	2nd	3rd	4th
Market Price				
High	$46.19	$41.63	$39.56	$37.25
Low	$39.94	$35.50	$33.00	$31.56
Dividends Per Share	$ .22	$ .22	$ .22	$ .22

Year 1993 / Quarter	1st	2nd	3rd	4th
Market Price				
High	$39.98	$39.06	$40.13	$44.06
Low	$33.56	$33.19	$33.94	$37.44
Dividends Per Share	$ .19	$ .19	$ .19	$ .22

Year 1992 / Quarter	1st	2nd	3rd	4th
Market Price				
High	$31.00	$33.75	$33.88	$36.81
Low	$27.44	$27.75	$28.31	$27.25
Dividends Per Share	$ .19	$ .19	$ .19	$ .19

Year 1991 / Quarter	1st	2nd	3rd	4th
Market Price				
High	$19.50	$23.94	$26.31	$29.00
Low	$14.88	$18.25	$22.13	$23.88
Dividends Per Share	$ .18	$ .18	$ .18	$ .19

(All data restated to reflect the 2-for-1 stock split distributed to shareholders in December 1995.)

Common Stock Shares Outstanding, Number of Registered Shareholders

	1995	1994	1993	1992	1991
Number of shareholders:	55,528	57,355	59,714	62,820	66,032

Shares Outstanding as of January 26, 1996: 210,529,205

Common Stock Shareholders as of January 26, 1996: 55,503

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

Corporate Communications
Suzanne S. Walston
Manager-Corp. Comm.
CSX Corporation
P.O. Box 85629
Richmond, VA 23285-5629
(804) 782-1406

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

Investor Relations
Katherine E. Wilson
Director-Financial Analysis
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.

Annual Shareholder Meeting
10 a.m., Thursday, April 25, 1996
The Greenbrier
White Sulphur Springs, W.Va.

Shareholder House Parties at The Greenbrier

Throughout the year, The Greenbrier offers Shareholder House Parties featuring discounted rates and special activities. Shareholder House Parties in 1996 are scheduled for:

Easter — April 3-7;
Annual Meeting — April 24-28;
Labor Day — Aug. 30-Sept. 3

For information on shareholder parties, contact:

Maryann Sanford
Reservations Department
The Greenbrier
White Sulphur Springs, WV 24986
or phone (800) 624-6070.

Again in 1996, The Greenbrier is pleased to extend to all shareholders a 10 percent discount on their Modified American Plan rates, applicable to one visit per year. Reservations will be accepted on a space-available basis. This offer does not apply during CSX House Parties, when rates are already discounted, or if a shareholder is attending a conference being held at The Greenbrier.

CSX
CORPORATION

CSX Corporation

1996 Annual Report & Form 10-K

CSX Corporation is a Fortune 500 transportation company providing rail, intermodal, container-shipping, barging and contract logistics services worldwide.

Our holdings include: CSX Transportation Inc., Sea-Land Service Inc., CSX Intermodal Inc., American Commercial Lines Inc. and Customized Transportation Inc.

The company's non-transportation interests include: The Greenbrier, the Grand Teton Lodge Company, and CSX Real Property Inc. CSX also holds a majority interest in Yukon Pacific Corporation.

In 1996, CSX generated more than $10.5 billion of operating revenue.

Table of Contents

Financial Highlights

(Millions of Dollars, Except Per Share Amounts)	1996	1995 (b)	1994 (c)	1993 (d)	1992
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

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.

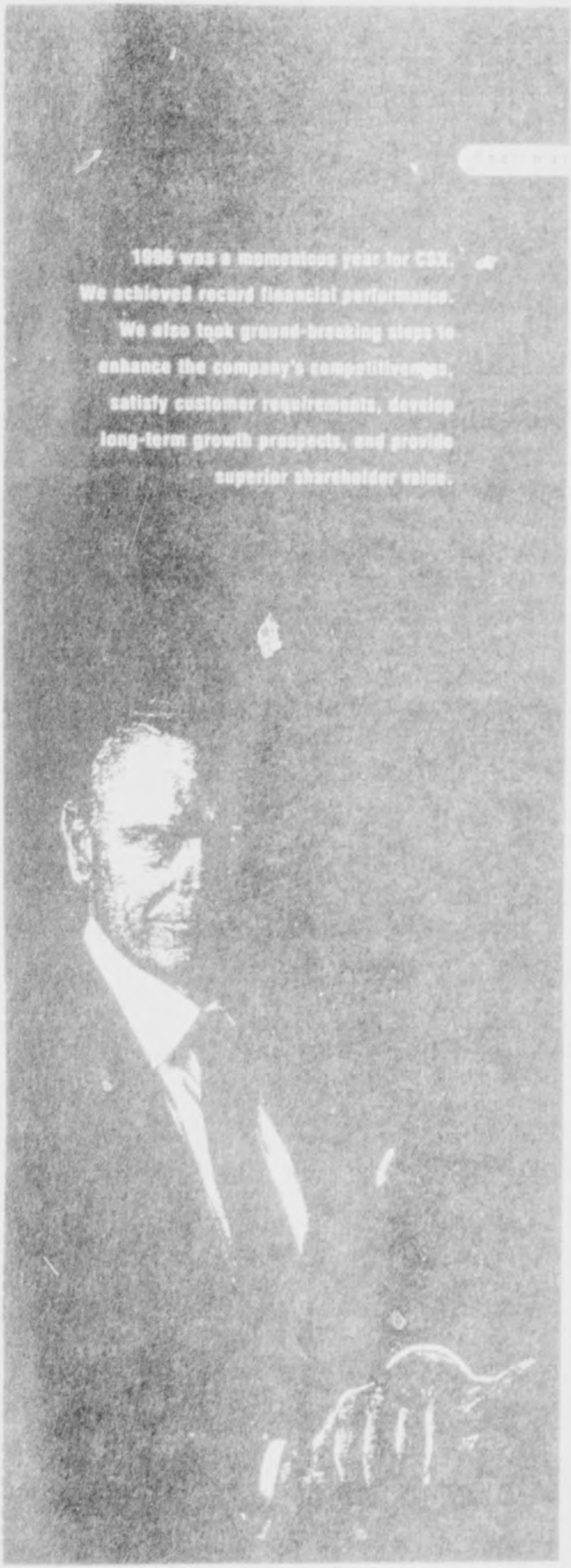
(c) In 1994, the state of Florida elected to satisfy its remaining unfunded obligation issued in 1988 to consummate the purchase of 80 miles of track and right of way. The transaction resulted in an accelerated pretax gain of $69 million and increased net earnings by $42 million, 20 cents per share.

(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.


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.

Northeast. 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

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.

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.

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.

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,

John W. Snow

John W. Snow
Chairman and Chief Executive Officer

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 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.

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.

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 an 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.

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.

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.

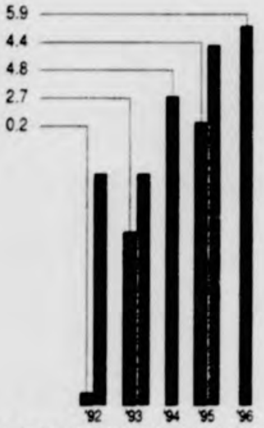
Non-transportation

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.

Average Return on Equity
(Percent)

■ 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.

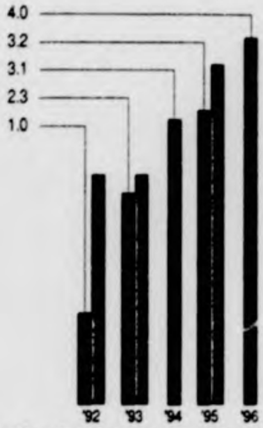
Average Return on Assets
(Percent)



■ 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)

Fixed Charge Coverage



■ 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

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

in additional revenue, capitalizing on strong international demand for U.S. grain.

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.

Operating Results
(Millions of Dollars)

	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	

(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.

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

1995

Total	Rail	Container Shipping	Inter-modal(c)	Barge	Contract Logistics	Elim./Other
$10,304	$4,819	$4,008	$707	$554	$240	$(24)
3,133	1,847	934	85	122	92	53
2,622	941	1,166	94	232	46	143
1,134	373	636	72	20	33	—
970	—	730	411	—	41	(212)
588	367	139	14	32	6	30
474	227	165	1	42	10	29
257	196	61	—	—	—	—
9,178	3,951	3,831	677	448	228	43
$ 1,126	$ 868	$ 177	$ 30	$ 106	$ 12	$ (67)
$ 1,383	$ 1,064	$ 238	$ 30	$ 106	$ 12	$ (67)
	77.9%	94.1%	95.8%	80.9%	94.7%	
	29,537	9,168	1,434	2,914	1,853	
	$ 765	$ 269	$ 57	$ 33	$ 8	

1994

Total	Rail	Container Shipping	Inter-modal(c)	Barge	Contract Logistics	Elim./Other
$9,409	$4,625	$3,492	$684	$449	$182	$(23)
3,005	1,828	859	89	104	71	54
2,311	918	919	83	191	44	156
1,087	374	600	67	19	27	—
839	—	676	372	—	14	(223)
564	352	132	11	32	6	31
421	224	119	1	40	10	27
—	—	—	—	—	—	—
8,227	3,696	3,305	623	386	172	45
$1,182	$ 929	$ 187	$ 61	$ 63	$ 10	$ (68)
$1,182	$ 929	$ 187	$ 61	$ 63	$ 10	$ (68)
	79.9%	94.6%	91.1%	86.0%	94.5%	
	29,729	9,437	1,626	2,644	1,475	
	$ 641	$ 133	$ 50	$ 12	$ 7	

(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.

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.

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.

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.

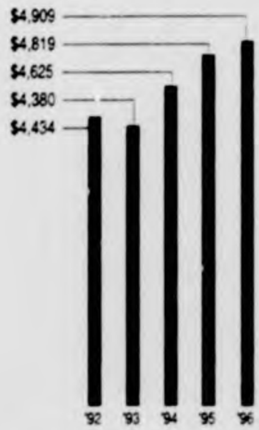
Rail Results

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)



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.

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.

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.

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

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

Rail Operating Expense
(Millions of Dollars)

■ 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.

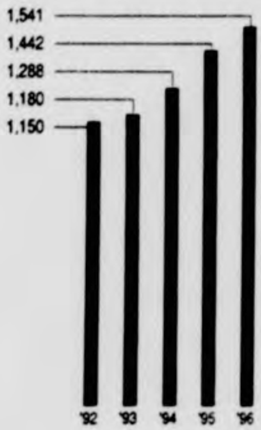
In 1996, Sea-Land eliminated operating expenses of $136 million through the efforts of its cost-intervention teams, which targeted improvements in terminal and vessel operations, inland transportation and network management. The teams' recommendations include both short-term tactical considerations and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

Container-shipping Operating Revenue
(Millions of Dollars)

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.

Container-shipping Load Volume
(Thousands)



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

Other cost-reduction opportunities have been identified and targeted for implementation in 1997 and beyond.

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.

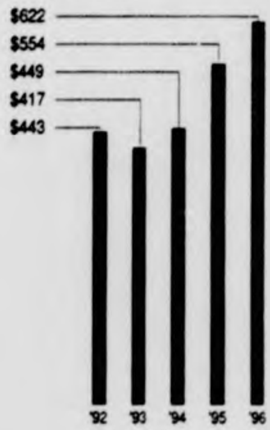
Sea-Land will continue meeting the challenges of a difficult rate environment with continued emphasis on controlling costs through its intervention teams and performance improvement initiatives. The unit also will continue its efforts to gain market share in the more profitable market segments by focusing 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)



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 Container	4,002
Rail Trailers	5,124
Facilities	
CSX Intermodal Terminals	33
Motor Carrier Operations Terminals	28

Intermodal Operating Revenue

(Millions of Dollars)

CSXI has responded aggressively to the stiff competition caused by an overcapacity 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.

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 48 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)

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.

Consolidated Statement of Earnings

(Millions of Dollars, Except Per Share Amounts)

	Fiscal Years Ended Dec. 27, 1996	Dec. 29, 1995	Dec. 30, 1994
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

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

(Millions of Dollars)	Dec. 27, 1996	Dec. 29, 1995	Dec. 30, 1994
	Fiscal Years Ended		
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

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Financial Position

(Millions of Dollars)	Dec. 27, 1996	Dec. 29, 1995
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

See accompanying Notes to Consolidated Financial Statements.

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
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	216,885	$217	$1,433	$3,452	$(107)	$4,995

See accompanying Notes to Consolidated Financial Statements.

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.

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.

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.

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.

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.

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

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

(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

(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.

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

NOTE 7. PROPERTIES.

	Dec. 27, 1996			Dec. 29, 1995		
	Cost	Accumulated Depreciation	Net	Cost	Accumulated Depreciation	Net
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

NOTE 8. CASUALTY, ENVIRONMENTAL AND OTHER RESERVES.

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

	Casualty and Other Reserves[a][b]	Environmental Reserves[a]	Separation Liabilities[a][c]	Total
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

(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.*

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

NOTE 9. DEBT AND CREDIT AGREEMENTS.

Type and Maturity Dates	Average Interest Rates at Dec. 27, 1996	Dec. 27, 1996	Dec. 29, 1995
Commercial Paper and Borrowings Under Bank Credit Agreement	6%	$2,300	$ 300
Notes Payable (1999-2021)	8%	493	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

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.

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

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.

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.

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

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.

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:

	1996		1995		1994	
	Shares (000s)	Weighted-Avg. Exercise Price	Shares (000s)	Weighted-Avg. Exercise Price	Shares (000s)	Weighted-Avg. Exercise Price
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	$13.76		$11.33			

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

	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
$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

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.

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.

(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:

	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)

* 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.

(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:

	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%

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:

	Medical (At Valuation Date)		Life Insurance (At Valuation Date)	
	Sept. 30, 1996	Dec. 29, 1995	Sept. 30, 1996	Dec. 29, 1995
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

* 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.

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.

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.

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.

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

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.

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

NOTE 16. BUSINESS SEGMENTS.

	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
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		

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

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 responsibilty 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.

Ernst + Young LLP

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

Form 10-K

Securities and Exchange Commission
Washington, DC 20549

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year Ended Dec. 27, 1996
Commission File Number 1-8022

CSX Corporation

A Virginia Corporation

IRS Employer Identification No. 62-1051971
One James Center, 901 East Cary Street · Richmond, Virginia 23219-4031 · Telephone (804) 782-1400

Portions of this report are not required by the Form 10-K and are not "filed" as part of the company's 10-K. Only the sections referenced in the index below are incorporated into this 10-K.

The Securities and Exchange Commission has not approved or disapproved this report or passed upon its accuracy or adequacy.

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

The registrant 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 and has been subject to such filing requirements for the past 90 days.

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 Registant'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.

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

On Jan. 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.

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.

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 (b)
(10.1) CSX Stock Plan for Directors* (b)
(10.2) Special Retirement Plan for CSX Directors* (b)
(10.3) Corporate Director Deferred Compensation Plan* (b)
(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* (b)
(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* (b)
(10.8) Form of Amendment to Agreement with J.P. Clancey* (b)
(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* (b)
(10.12) Agreement with J.W. Snow* (b)
(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* (b)
(10.16) 1985 Deferred Compensation Program for Executives of CSX Corporation and Affiliated Companies* (b)
(10.17) Supplementary Savings Plan and Incentive Award Deferral Plan for Eligible Executives of CSX Corporation and Affiliated Companies* (b)
(10.18) Special Retirement Plan of CSX Corporation and Affiliated Companies* (b)
(10.19) Supplemental Retirement Plan of CSX Corporation and Affiliated Companies* (b)
(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 44
(23) Consent of Independent Auditors 44
(27) Financial Data Schedule — Schedule II 45

(b) Filed Herewith Electronically

* *Management Contract or Compensatory Plan or Arrangement.*

Subsidiaries of the Registrant — Exhibit 21

As of Dec. 27, 1996, Registrant was the beneficial owner of 100% of the common stock the following significant subsidiaries: CSX Transportation Inc. (a Virginia corporation), Sea-Land Service Inc. (a Delaware corporation), CSX Intermodal Inc. (a Delaware corporation) and American Commercial Lines Inc. (a Delaware corporation).

As of Dec. 27, 1996, the other subsidiaries included in registrant's consolidated financial statements, and all other subsidiaries considered in the aggregate as a single subsidiary, did not constitute a significant subsidiary.

Consent of Independent Auditors — Exhibit 23

We consent to the incorporation by reference in the following Registration Statements of our report dated January 31, 1997 (except for Note 2, as to which the date is March 7, 1997), with respect to the consolidated financial statements of CSX Corporation and subsidiaries included in its Annual Report (Form 10-K) for the year ended December 27, 1996:

Registration Statement Number	Description
33-2083	Post-Effective Amendment No. 1 to Form S-3
33-2084	Post-Effective Amendment No. 1 to Form S-3
33-16230	Form S-8
33-25537	Form S-8
33-29136	Form S-8
33-37449	Form S-8
33-41236	Form S-3
33-41498	Form S-8
33-41499	Form S-8
33-41735	Form S-8
33-41736	Form S-8
33-48841	Form S-3
33-49767	Form S-8
33-57029	Form S-8
333-09213	Form S-8
333-19523	Form S-4

Ernst + Young LLP

Richmond, Virginia
March 12, 1997

Financial Data Schedule — Schedule II **Exhibit 27**

Article	5
Multiplier	1,000,000
Period Type	Year
Fiscal Year End	Dec. 27, 1996
Period End	Dec. 27, 1996
Cash	$ 682
Securities	0
Receivables	$ 991
Allowances	$ 97
Inventory	$ 229
Current Assets	$ 2,072
PP&E	$17,420
Depreciation	$ 5,514
Total Assets	$16,965
Current Liabilities	$ 2,757
Bonds	$ 4,331
Preferred Mandatory	0
Preferred	0
Common	$ 217
Other SE	$ 4,778
Total Liability and Equity	$16,965
Sales	0
Total Revenues	$10,536
CGS	0
Total Cost	$ 9,014
Other Expenses	0
Loss Provision	0
Interest Expense	$ 249
Income Pretax	$ 1,316
Income Tax	$ 461
Income Continuing	$ 855
Discontinued	0
Extraordinary	0
Changes	0
Net Income	$ 855
EPS Primary	$ 4.00
EPS Diluted	NA

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

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 199?
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)

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.

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)

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

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

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

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

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

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

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.

Annual Shareholder Meeting

10 a.m., Thursday, April 17, 1997
The Greenbrier, White Sulphur Springs, W.Va.

Shareholder House Parties at *The Greenbrier*

Throughout the year, The Greenbrier offers Shareholder House Parties featuring discounted rates and special activities. Shareholder House Parties in 1997 are scheduled for:

Easter — March 26-30
Annual Meeting — April 16-20
Fourth of July — July 3-6
Labor Day — August 29 - September 2

For More Information on Shareholder Parties:

Maryann Sanford
Reservations Department
The Greenbrier
300 W. Main Street
White Sulphur Springs, WV 24986
or phone (800) 624-6070 or
e-mail to The_Greenbrier@csx.com

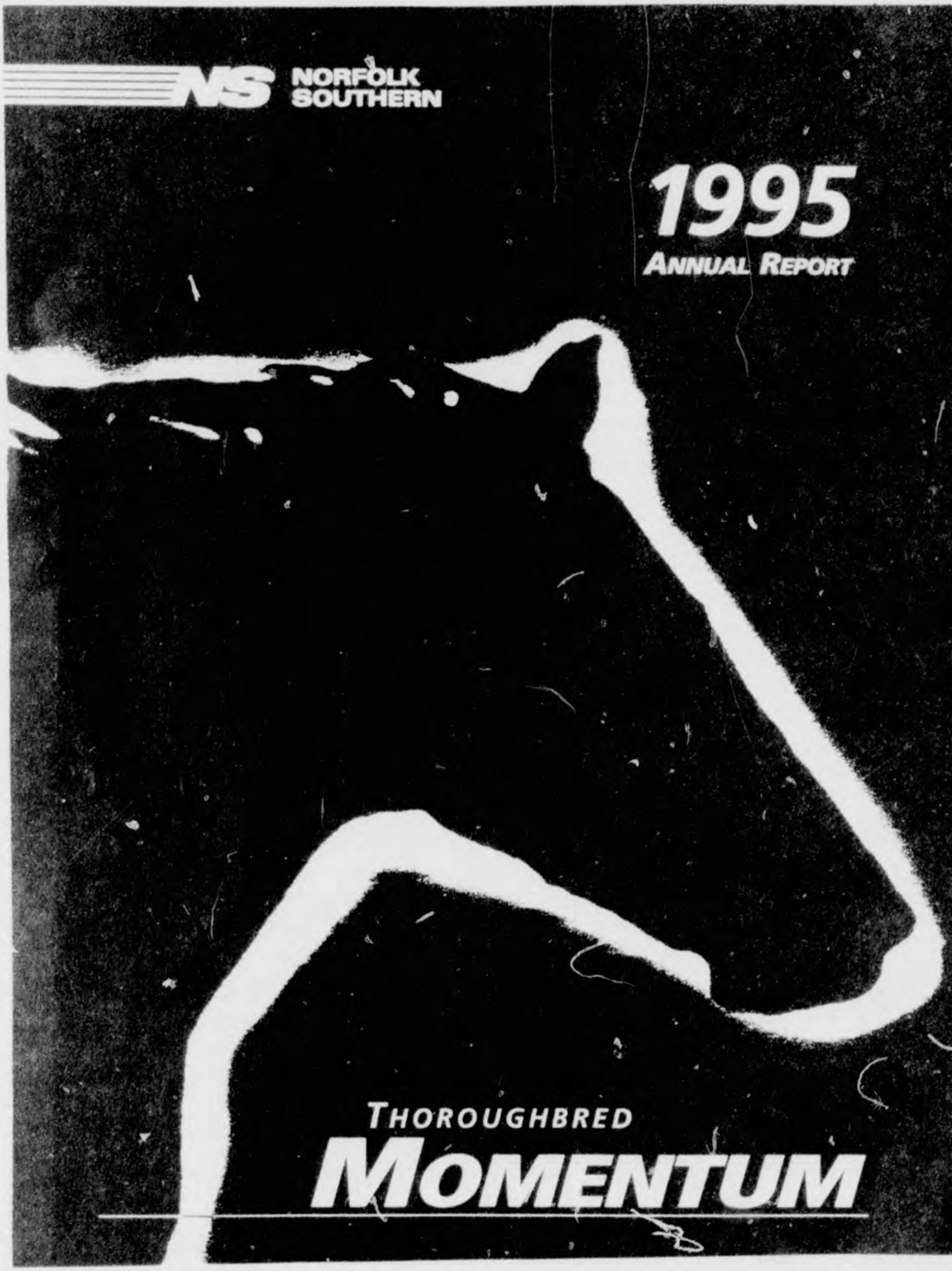
Again in 1997, The Greenbrier is pleased to extend to all shareholders a 10% discount on their Modified American Plan rates, applicable to one visit per year. Reservations will be accepted on a space-available basis. This offer does not apply during CSX House Parties, when rates are already discounted, or if a shareholder is attending a conference being held at The Greenbrier.

CSX Corporation, One James Center, 901 East Cary Street, Richmond, VA 23219-4031 • (804) 782-1400 • http://www.csx.com
CSX Transportation Inc., 500 Water Street, Jacksonville, FL 32202 • (904) 359-3100 • http://www.csxt.com
Sea-Land Service Inc., 6000 Carnegie Blvd., Charlotte, NC 28209 • (704) 571-2000 • http://www.sealand.com
CSX Intermodal Inc., 301 West Bay Street, Jacksonville, FL 32202 • (904) 633-1000 • http://www.csxi.com
American Commercial Lines Inc., 1701 E. Market Street, Jeffersonville, IN 47130 • (812) 288-0100 • http://www.aclines.com
Customized Transportation Inc., 10407 Centurion Parkway, N., Ste. 400, Jacksonville, FL 32256 • (904) 928-1400 • http://www.csx.com/docs/cti
The Greenbrier, 300 W. Main Street, White Sulphur Springs, WV 24986 • (304) 536-1110 • http://www.greenbrier.com
Yukon Pacific Corporation, 1049 W. 5th Avenue, Anchorage, AK 99501 • (907) 265-3100 • http://www.csx.com/docs/ypc/ypc.html

CSX
CORPORATION

NORFOLK SOUTHERN

1995 Annual Report



Thoroughbred Momentum

Our Vision: Be the safest, most customer-focused and successful transportation company in the world

Our Creed

We are responsible to our Stockholders, Customers, Employees, and the Communities we serve.

For all our Constituencies, we will make safety our highest priority.

For our Customers, we will provide quality service, always trying to reduce our costs in order to offer competitive prices.

For our Stockholders, we will strive to earn a return on their equity investment which will increase the value of their ownership. By generating a reasonable return on invested capital, we will provide the security of a financially strong company to our Customers, Employees, Stockholders, and Communities.

For our Employees, our greatest asset, we will provide fair and dignified treatment with equal opportunity at every level. We will seek talented Management with the highest standards of honesty and fairness.

For the Communities we serve, we will be good corporate citizens, seeking to enhance their quality of life through service, jobs, investment, and the energies and good will of our Employees.

Description of Business

Norfolk Southern Corporation is a Virginia-based holding company that owns all the common stock of and controls a major freight railroad, Norfolk Southern Railway Company; a motor carrier, North American Van Lines, Inc.; and a natural resources company, Pocahontas Land Corporation.

The railroad system's lines extend over more than 14,500 miles of road in 20 states, primarily in the Southeast and Midwest, and the Province of Ontario, Canada.

North American provides household moving and specialized freight handling services in the United States and Canada, and offers certain motor carrier services worldwide.

Pocahontas Land manages approximately 900,000 acres of coal, natural gas and timber resources in Alabama, Illinois, Kentucky, Tennessee, Virginia and West Virginia.

Contents

Top, Rodney Fouch of Atlanta, page 6. Bottom, left to right, Monty Hurley, Mike Patrick and Don Gentry of Decatur, Ill., page 19. Right, automotive mixing center at Kansas City, page 15.

Financial Highlights

(In millions of dollars except per share amounts)	**1995***	1994	% Increase (Decrease)
Financial Results:			
Operating revenues	**$ 4,668.0**	$ 4,581.3	2
Operating income	**$ 1,086.3**	$ 1,065.4	2
Net income	**$ 712.7**	$ 667.8	7
Earnings per share	**$ 5.44**	$ 4.90	11
Railway operating ratio	**73.5%**	73.4%	—
Return on average stockholders' equity	**15.0%**	14.4%	4
Financial Position:			
Total assets	**$ 10,904.8**	$10,587.8	3
Total debt**	**$ 1,684.2**	$ 1,664.7	1
Stockholders' equity	**$ 4,829.0**	$ 4,684.8	3
Debt-to-total capitalization	**25.9%**	26.2%	(1)

* *1995 results include a charge for an early retirement program that reduced operating income by $33.6 million, net income by $20.4 million and earnings per share by 16 cents. Excluding the charge, the railway operating ratio was 72.7% and return on average stockholders' equity was 15.4%. See note 10 on page 50.*

** *Includes short-term debt, current maturities of long-term debt and long-term debt.*

Norfolk Southern's Five-Year Growth

(1995, excluding the early retirement charge, compared with 1990)

Income from Railway Operations .... ***Up 34%***

Net Income .... ***Up 32%***

Earnings per Share .... ***Up 63%***

Return on Equity .... ***Up 40%***

Safety Improvement .... ***Up 62%***

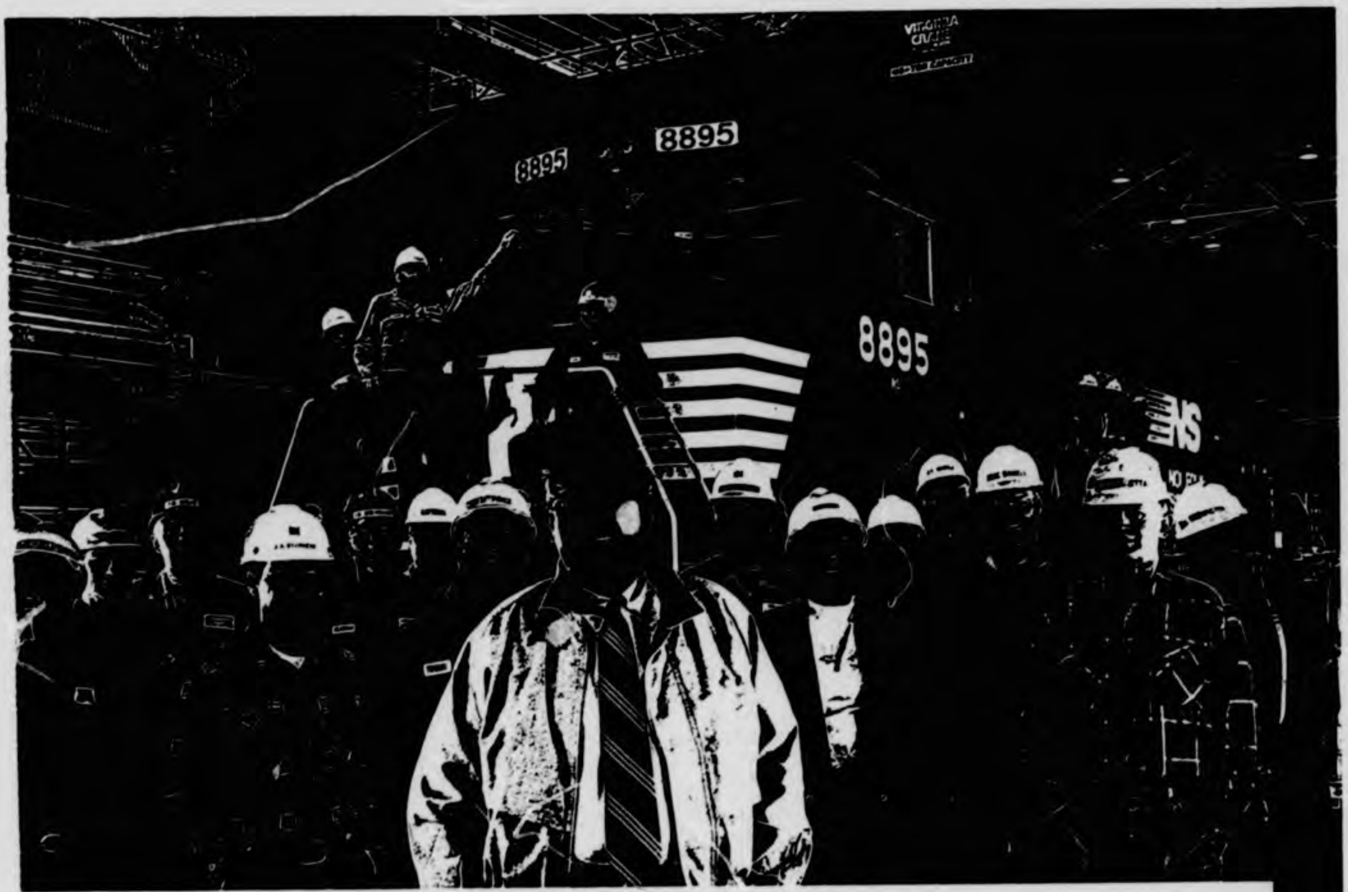
Dear Fellow Stockholders:

1995 was an outstanding year for Norfolk Southern. We set records for net income and earnings per share. We improved customer service, surpassed an already exceptional employee safety record, bettered our productivity and asset utilization and attracted 85 new industries to our lines. Recognizing that these and other accomplishments have laid a sound foundation for NS' long-term success, the Board of Directors in January increased our regular quarterly dividend to the highest in the rail industry and authorized the repurchase of an additional 30 million shares of common stock.

David R. Goode, chairman, president and chief executive officer. Accompanying the chairman at the Roanoke, Va., Locomotive Shop, from left to right on the locomotive: Jimmy Wyrick, stationary fireman in the power house; Barry Dooley, sheet-metal worker; John Lee, machinist; Byron Markham, boilermaker; David Jones, pipefitter, and Benny Powell, boilermaker. From left to right in the foreground: A. Twine, laborer; Jessie Mann, carpenter; Tommy Snead, electrician; Joe Stephens, general foreman; Jon Brewbaker, machinist; Ed Noell, supervisor-Personnel and Material; Tegus Price, machinist; Jim Pedigo, painter; Gail Candis, secretary-stenographer; Barry Doss, machinist; Cal Gamble, manager-Locomotive Shop; Gene Daniels, electrician; Chuck Manetta, supervisor-Mechanical, and Paul Washington, laborer-machine operator.

Norfolk Southern's achievements in 1995, and our relentless efforts to improve every area of our performance, show a momentum that I believe gives the Thoroughbred the power to continue to set records. That momentum is made possible by dedicated and enthusiastic employees whose hard work daily demonstrates their individual commitment to realize Norfolk Southern's vision: ***"Be the safest, most customer-focused and successful transportation company in the world."***

Our people are special — they know they have inherited a strong tradition of excellence, and they expect both to accomplish great things and to be integral parts of the team that leads the transportation industry. They also know that pursuing the vision has served all of our constituencies well and that it will remain the standard by which we assess all our initiatives.



Thoroughbred Momentum: What It Made Possible In 1995

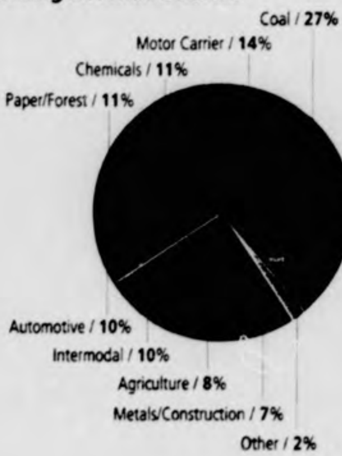
◆ Record net income of $713 million, up 7%.
◆ Record income from rail operations that exceeded $1 billion, a 2% increase over 1994.
◆ An operating ratio that led major railroads. Our ratio — the percentage of rail revenues that goes into operating the railroad — was 73.5.
◆ Record earnings per share of $5.44, an 11% improvement.
◆ The best safety record in our history. We won our sixth consecutive E.H. Harriman Memorial gold medal award for employee safety — an achievement unmatched among the industry's major freight railroads. Norfolk Southern people have raised the industry's safety standards to unparalleled heights, thereby encouraging others to follow suit.

In addition, we improved customer service in 1995, with advances in train performance, service time and deliveries, better billing accuracy and communications. Although we recognize that we have far to go in our quest for total customer satisfaction, we are improving. Results of our 1995 customer service surveys show we have advanced from a 79% "overall satisfaction" rating to 82%. Better — but with plenty of room to get better still.

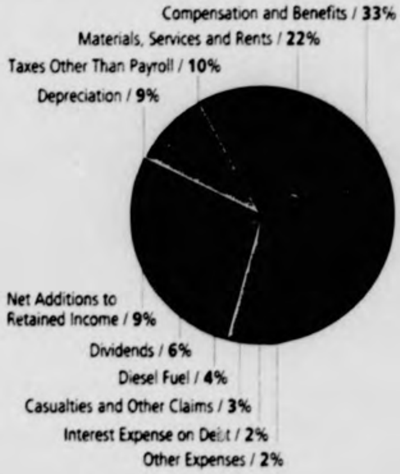
Thoroughbred quality and education are our beacons for improving customer service and making Norfolk Southern a better place to work. We continued to encourage employee involvement, teamwork solutions and better work practices throughout the system.

At year's end, we had made significant progress toward completing a 1995 productivity initiative to retire some 17,000 surplus freight cars. As a result,

Principal Transportation Operating Revenue Sources



Distribution of Total Revenue Dollar



we will realize a 26% improvement in utilization of merchandise cars and a 15% improvement for the coal fleet — but this is only a good start. We must apply the focus on productivity to improve the use of all our assets.

Thoroughbred Momentum: Where It Will Take Us

At Norfolk Southern, we build on accomplishment. We are moving ahead at a good pace, and we intend to capitalize on our momentum and to increase stockholder value by:

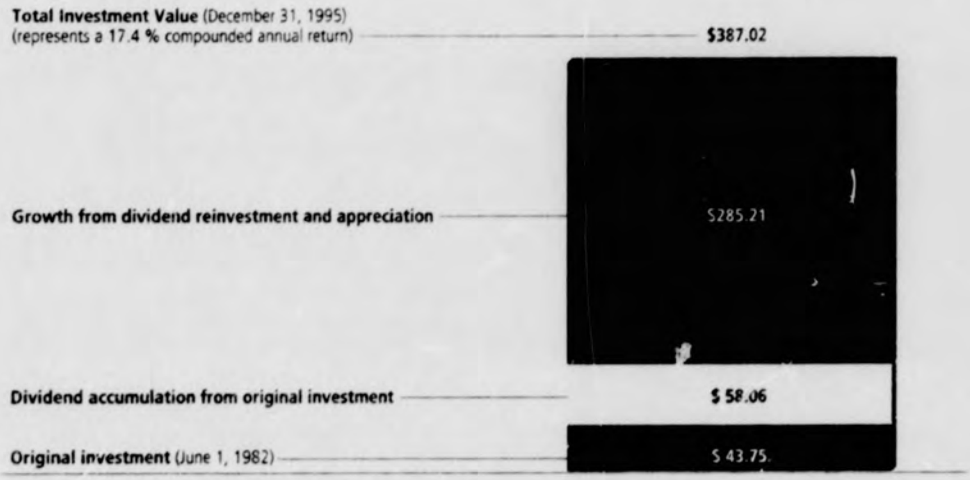
◆ serving our customers better than ever before,
◆ making our business grow, and
◆ continuing to improve our productivity and asset utilization.

Can Norfolk Southern grow its business? We say — unequivocally — we are growing our business now, and we relentlessly pursue every opportunity for further growth. Norfolk Southern is fortunate to operate in a thriving geographic area poised for continued growth. And a varied traffic base allows us to prosper even when one segment of the economy sags.

Although our rail system is concentrated in 20 states and one province of Canada, we are a crucial link in a vast and rapidly evolving global distribution chain — and we are extending our market reach through a number of cooperative arrangements with other carriers.

However, rail mergers are in the news, and western combinations are being consummated. In that context, how do we keep the Thoroughbred strong and at the top of the transportation field? I believe the answer is clear: We remain focused on our core obliga-

Investment Growth
(Value of one share of NS stock)



Past performance is no guarantee of future results.

tion — serving customers better than anyone else does.

Just as we have set standards in safety, productivity and efficiency, so have we set our sights on being the service benchmark. Our business is built on service; if we practice what we preach and strive to do even better what we already do well, we will succeed with or without acquisitions.

We justifiably are proud of our standing in the transportation industry, and we intend to protect and nurture it. We will use our capacities — our skills and knowledge, our willingness to work and persevere, our financial strength, and our tightly focused vision — to benefit our customers, our Norfolk Southern family, our communities and our owners.

As we approach the end of the 20th century, transportation remains an exciting and unfolding enterprise. The rail and corporate maps are in flux and may be so for quite a while. But the qualities necessary for success endure at Norfolk Southern.

Together, we expect to prosper because the Thoroughbred of Transportation has the vision and the people — the momentum — to carry it confidently into the 21st century.

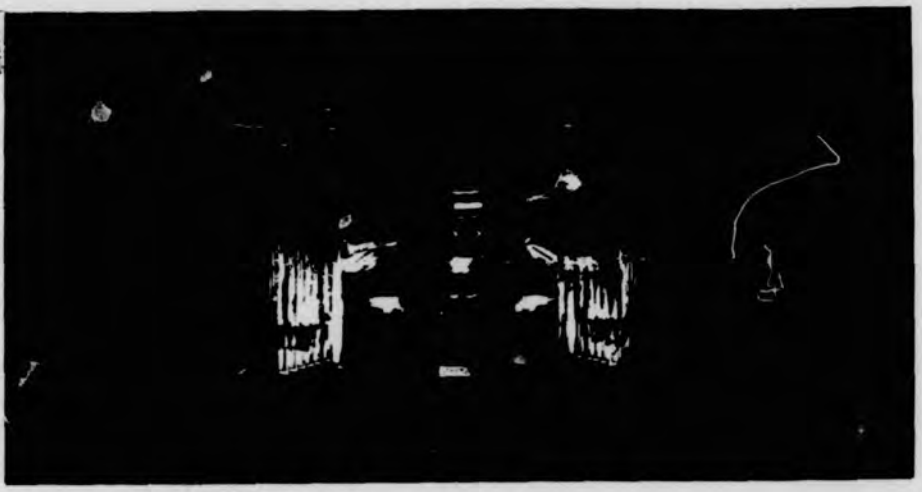
David R. Goode

Chairman, President and
Chief Executive Officer

January 23, 1996


609

Service Recognitions Received In 1995



NS has dramatically improved service to the automotive industry.

Industry-wide Awards

◆ *Amoco Chemical — Certified Supplier of Quality Transportation*
Amoco named NS a recipient of the Amoco Chemical Excellence Award for the second year in a row.

◆ *Chrysler — Pentastar Award*
Chrysler awarded NS its Gold Pentastar award for "world-class" quality, delivery, price and innovation. This is NS' sixth Pentastar Award.

◆ *Diebold — "Partners for Excellence Today and Tomorrow"*
Diebold awarded the High Value Products division of North American Van Lines, Inc., an NS subsidiary, its supplier award for quality performance.

◆ *DuPont — Rail Carrier Quality Award*
DuPont awarded NS its Rail Carrier Quality Award for the third consecutive year. NS received the highest score ever earned in the quality carrier competition.

◆ *Georgia Gulf — Railroad Performer of the Year*
Georgia Gulf Corp. named NS its Railroad Performer of the Year.

◆ *Union Carbide — Quality Rail Carrier of the Year*
Union Carbide's Polymers Group named NS its "Rail Carrier of the Year." NS was chosen from among nine rail carriers. This is the first time NS has received this award.

Local Service Awards

◆ *ABB Power T&D — Supplier Excellence Award*
The ABB Power T&D Co. plant in Muncie, Ind., recognized NS for "outstanding service and reliability." This company manufactures large transformers.

◆ *Chrysler — Chrysler Crystal Award*
Chrysler awarded NS' Buffalo, N.Y., auto facility its Chrysler Crystal Award for handling more vehicles damage-free than any other auto facility in North America.

◆ *Riverwood International USA — Outstanding Strategic Rail Supplier*
Riverwood International USA, Inc., named NS its Outstanding Strategic Rail Supplier. Riverwood International operates a mill that produces linerboard for box plants and the soft drink industry.

Outside Recognition

◆ *Association of American Railroads — Petersburg Auto Ramp*
The Association of American Railroads notified NS that its auto unloading facility at Petersburg, Va., earned a 99% rating during a quality survey.

◆ *DISTRIBUTION — "Quest for Quality" Award*
NS was named a "Quality Carrier" in ***DISTRIBUTION*** magazine's "Quest for Quality" survey.

NS has earned this distinction five consecutive years.

The High Value Products division of NAVL earned this distinction for the third year in a row.

◆ *Progressive Railroading — Productivity Award*
Progressive Railroading magazine presented NS' Roanoke Locomotive Shop one of its annual productivity awards. Productivity there increased 75% since 1990.

◆ *Traffic Management — National Transportation Quality Award*
Traffic Management magazine's National Transportation Quality Survey ranked NS first among participating carriers. Results were based on nearly 2,000 questionnaires.

◆ *TRANSCAER® — National Achievement in the Carrier Category*
NS received the National Transportation Community Awareness and Emergency Response achievement award.

TRANSCAER® is a safety educational effort among manufacturers, distributors and transporters of hazardous materials.

Spotlighting Growth, Change And Progress
Norfolk Southern System Map

1 ***Atlanta to Dallas*** — Intermodal service with Kansas City Southern over this corridor exceeded expectations in its first full year of operation.

2 ***Atlanta to Miami*** — A car haulage arrangement between NS and Florida East Coast Railway allows NS to provide single-line intermodal service into and out of South Florida, including Miami.

3 ***Chicago*** — NS and Hanjin Shipping Co. of South Korea launched a service partnership in October 1995 to handle Hanjin's international container business in NS territory east of the Mississippi River.

4 ***Chicago to Fort Wayne, Ind.*** — NS added capacity in September 1995 with the purchase from Conrail of a 50-mile track segment between Warsaw and Fort Wayne, Ind. This was the last of a three-part purchase of Conrail's "Fort Wayne Secondary," totaling approximately 130 miles.

5 ***Cincinnati*** — NS added to its capacity and provided for traffic growth with completion of a third main line through Cincinnati in 1995. Trains began running on the new track in November.

6 ***Clover, Va.*** — Clover is the site of Virginia Power's new coal-burning plant, the first to receive a permit under the Clean Air Act Amendments of 1990. The related coal transportation contract involves the largest volume of any ever negotiated by NS.

7 ***Detroit*** — NS began rail service in February 1995 to a new facility in Detroit built exclusively to handle and store international containers. This facility complements the service of a dedicated double-stack train that began operating in 1994 between Detroit and the port of Norfolk, Va.

8 ***Doraville, Ga., and Wentzville, Mo.*** — In 1995, General Motors named NS its first "Lead Rail Logistics Provider" at auto assembly plants at Doraville, Ga., and Wentzville, Mo.

9 ***Hagerstown, Md.*** — Intermodal service with Conrail from Atlanta to New York runs through Hagerstown. A new Atlanta-New York double-stack train was inaugurated in September 1995.

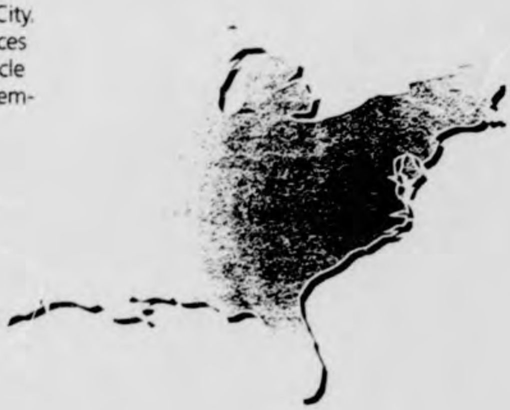
10 ***Illinois*** — NS received overhead trackage rights from Burlington Northern in December 1995 between Jacksonville, Ill., and Centralia, Ill. This gives NS more efficient routing for coal train service to a central Illinois power plant.

11 ***Kansas City*** — In September 1995, NS began testing a concept to distribute newly built vehicles for Ford Motor Co. at a facility in Kansas City. This "mixing center" reduces the time it takes for a vehicle to be shipped from an assembly plant to a dealer.

12 ***Mississippi/Alabama*** — In September 1995, NS received overhead trackage rights from Burlington Northern to operate trains from Kimbrough, Ala., to Demopolis, Ala., and from Boligee, Ala., to Columbus, Miss. When implemented, these agreements will give NS new routes to Columbus and the port of Mobile, Ala.

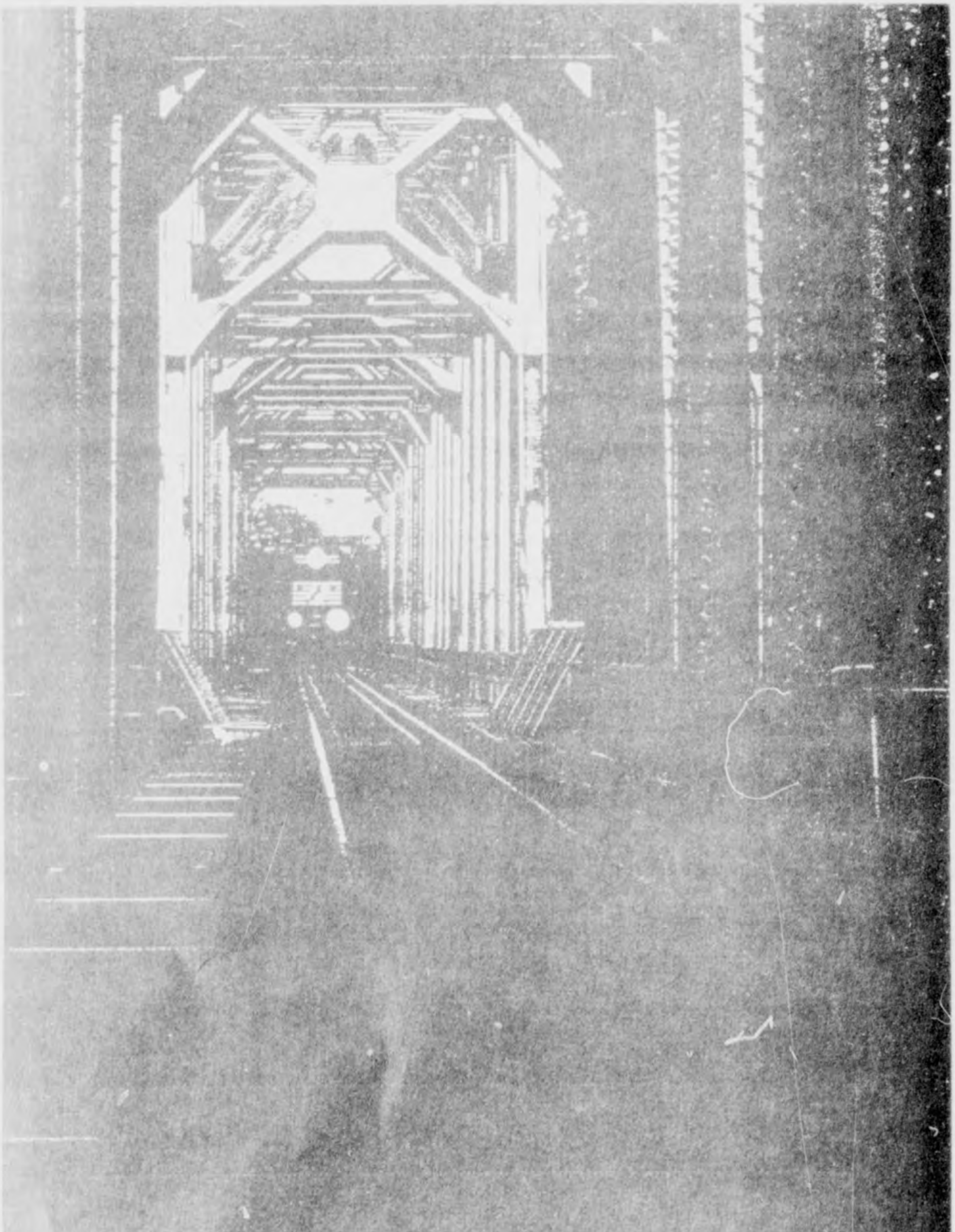
13 ***Ohio*** — NS received overhead trackage rights from Conrail between Columbus, Ohio, and Cincinnati in December 1995. This gives NS shippers a shorter route between Buffalo, Cleveland and Bellevue, Ohio, in the north, and Cincinnati, Chattanooga and Atlanta in the south.

14 ***Parrish, Ala.*** — Parrish is the site of NS' rail/highway interchange for COLTainer® movements of coal to Alabama Power Co.'s Gorgas plant. NS handled 46,300 containers, or 1.1 million tons, of coal by rail and truck during COLTainer's first year. This is the country's first-ever movement of coal using intermodal containers.




Buffalo
NYS&W
CN
Detroit
Chicago
Ft. Wayne
Cleveland
Des Moines
BNSF
Peoria
IC
CR
Columbus
Cincinnati
Kansas City
St. Louis
Louisville
Roanoke
CSXT
Richmond
Norfolk
Raleigh
Knoxville
Charlotte
Chattanooga
Greenville
Memphis
Columbia
Atlanta
Charleston
Birmingham
Macon
Meridian
Dallas
KCS
Mobile
FEC
1
2
3
4
5
6
7
8
9
10
11
12
13
14
Norfolk Southern
Trackage Rights, Haulage Agreements and Coordinated Services

9



A train with "ditch" lights, which enhance its visibility at grade crossings, crosses a bridge over the Mississippi River at Hannibal, Mo.

Growth Across A Varied Commodity Base Sustains The Thoroughbred's Momentum

In an increasingly global marketplace, NS constantly explores and evaluates business opportunities. There is no limit to the ideas NS people will consider to generate growth, and that's key to sustaining Thoroughbred momentum.

GROWTH INITIATIVES

◆ ***NS/Conrail double-stack service*** — Another new intermodal train began operating in late spring over the Hagerstown, Md., gateway between NS and Conrail territories. Double-stack capability was added in September after completion of overhead clearance projects on both roads.

The service provides truck-competitive intermodal transportation between New York and Atlanta markets. It provides customers with access to a fleet of new 48-foot containers.

◆ ***New terminal at Kansas City gateway*** — When this double-stack terminal was completed in the fall of 1994, the western gateway at Kansas City became a better alternative to the congested Chicago gateway.

Some 39,000 shipments moved through Kansas City in 1995, and volumes are expected to increase.

Connections at Kansas City with Southern Pacific, Union Pacific and Burlington Northern Santa Fe provide shippers with numerous options for seamless train service in major east-west corridors.

◆ ***New Chicago terminal*** — NS began a project in 1995 to transform Calumet Yard on Chicago's southeast side into a modern intermodal terminal.

Calumet Yard, a 173-acre facility, will become one of the largest intermodal terminals serving metropolitan Chicago.

◆ ***Detroit facility and dedicated train*** — NS began rail service in February to a new facility in Detroit built exclusively to handle and store containers.

Serving this facility gives NS an opportunity to handle an additional 30,000 units annually and complements a new, dedicated train that began operating in 1994 between Detroit and Norfolk, Va.

This double-stack train provides direct service to and from Virginia's largest container port and offers connecting service to other mid-Atlantic ports.

Designed to compete with a trucker's 700-mile haul, the train offers a comparable 53-hour transit schedule, plus the economic and environmental advantages of rail.

◆ *Haulage agreement with FEC* — NS and Florida East Coast Railway have a car haulage arrangement that allows NS to provide single-line intermodal service into and out of South Florida, including the port cities of Miami, West Palm Beach and Fort Lauderdale.

The operating and marketing arrangement has enabled NS to offer its intermodal customers a competitive transit schedule, at rates as if it were a local NS service.

◆ *Terminal expansions* — NS completed expansion projects during 1995 at four of its intermodal facilities: Birmingham, Ala.; Charlotte, N.C.; Columbus, Ohio, and Norfolk, Va.

◆ *Just-in-time auto parts for Ford Motor Co.* — NS laid the groundwork in 1995 to expand an award-winning concept and began a pilot project for just-in-time delivery of parts to Ford's truck assembly plant in Norfolk, Va.

NS capitalized on the success of the Detroit Regional Distribution Center, where auto parts are brought in by truck and moved out by rail.

Going one step further, NS satisfies, through boxcar shipments, the Norfolk plant's daily assembly needs with precisely the parts — in assembly-line order — necessary to build an exact number of trucks.

◆ *New sheet steel plant* — A new sheet steel plant is under construction on NS' lines at Decatur, Ala.

The plant, operated by Trico Steel, is expected to produce 2.2 million tons of coil sheet steel for the Southeast and Southwest markets using 2.6 million tons of scrap metal annually.

This is the second mini-mill to locate on NS' lines in the past two years.

◆ *Aluminum sheet metal* — NS prepared to expand its aluminum sheet metal business in 1995 by entering into a long-term contract with Alcoa.

To handle this traffic, NS is purchasing 100 new 60-foot boxcars to serve Alcoa's plants at Warrick, Ind., and Alcoa, Tenn.

◆ *Bulk transfer network* — NS' Thoroughbred Bulk Transfer (TBT) network continued to grow in 1995 with the addition of a facility at Jacksonville, Fla.

Other TBT facilities are located in Detroit; Cincinnati, Cleveland and Columbus, Ohio; Chattanooga, Tenn.; Dalton and Atlanta, Ga.; Winston-Salem, N.C., and Petersburg, Va.

Bulk transfer facilities provide clean, secure and well-equipped sites for the transfer of plastic pellets, soda ash, oils and other goods from rail to truck.

◆ *Wood-chip partnership* — NS developed an innovative, cost-effective transportation initiative in 1995 to satisfy Champion International's growing transportation needs at its Canton, N.C., paper mill.

In cooperation with the paper company, NS helped locate suitable wood-chip sources and facilities to support the Canton mill for the next 10 years.

As a result, NS and Champion signed a long-term transportation contract expected to generate 150,000 carloads of wood chips moving across NS' lines over the contract term.

◆ *BMW plant on NS* — NS completed track work in 1995 for vehicle handling facilities to support the new BMW assembly plant at Greer, S.C. BMW is expected to reach full production in 1996, assembling 90,000 vehicles annually.

To facilitate production of BMW vehicles for export and import, NS is operating a rail shuttle between the Port of Charleston, S.C., and Greer. In addition, vehicles destined for domestic markets move via NS.

◆ *New business* — NS, in cooperation with state and local authorities, located 85 new industries and provided support for 47 business expansions along its lines in 1995.

These efforts are expected to result in new annual rail revenues of approximately $100 million and investments of $2.5 billion in NS territory.

A double-stack train heads east near Danville, Ky.

NS sells service to its customers, and across the board its goal is to offer unmatched quality service.

SERVICE INITIATIVES

◆ ***Logistics program at General Motors*** — General Motors named NS its first "Lead Rail Logistics Provider" at auto assembly plants in Wentzville, Mo., and Doraville, Ga., during 1995.

In this role, NS goes beyond simple logistics management. It monitors GM's parts flow by rail into the plant, alerting the automaker to potential supply shortages, errors in orders or possible problems that could jeopardize steady vehicle production.

With NS keeping a watchful eye, General Motors can plan for supply deviations and pursue suitable, alternative rail options instead of resorting to more costly modes when substitutions are necessary.

◆ ***Railcar technology*** — During 1995, NS and its affiliates continued to evaluate railcar technologies for improving customer service.

NS acquired 293 new 5,150-cubic-foot covered hopper cars capable of handling 112-ton payloads.

These units can handle 14 tons more per carload than the standard industry grain car.

A train of 88 of these cars, for example, has the equivalent carrying capacity of 100 older cars.

Triple Crown Services Company, the intermodal company owned equally by NS and Conrail, is testing 20 AutoRailer® units.

These units provide fully enclosed transportation on both rail and highway and can be used to deliver vehicles directly to dealers from the assembly plant or port facility.

◆ ***Railcar ride quality*** — NS has developed an automatic equipment monitoring (AEM) tag system that builds on the efficiencies of the existing automatic equipment identification (AEI) network.

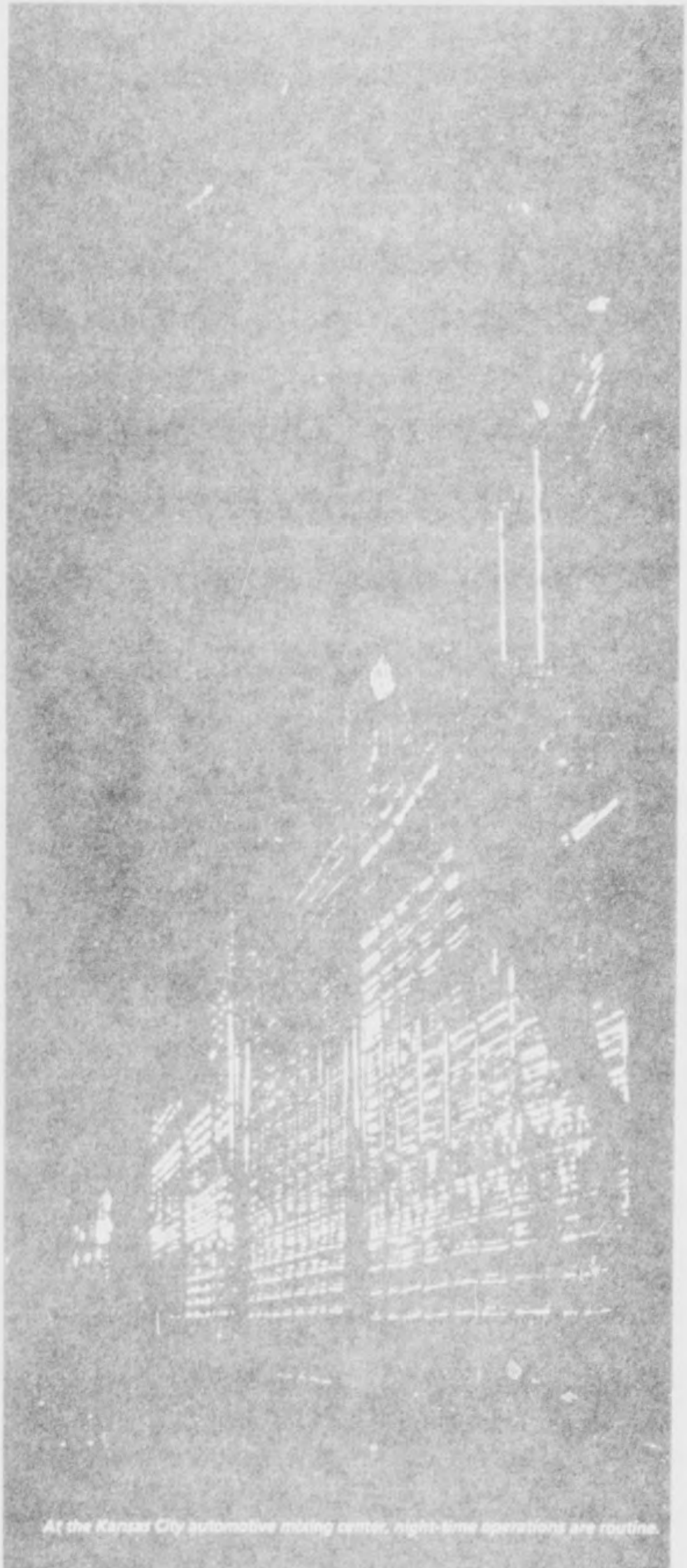
As freight cars pass specified points, AEM tags transmit ride-quality information to NS' mainframe computer and provide data about shipments.

Times, dates and ride-impact force levels that exceed certain thresholds are recorded and transmitted.

NS uses this information to respond to customers' needs for smooth, damage-free transportation.

Safety Headline

◆ Conductor Wally Binner, left, is NS' nominee in 1996 for an industry-wide safety award known as the "Harold Hammond Award." Co-workers at NS' Chicago Terminal attribute Binner's success as a safety committee chairman to his attitude, commitment, pride and strict rule compliance. He was the catalyst in helping the terminal achieve in 1995 its goal of zero injuries for the second consecutive year. Among his safety contributions, Binner developed the slogan, "3 C's to Safety: Concentration, Communication and Common Sense;" instituted recognition for the safe employee of the month, and produced an instructional winter safety video titled "Freeze Out Accidents."



At the Kansas City automotive mixing center, night-time operations are routine.

NS Blends Service And Swiftness At 'Mixing Center'

In September 1995, NS began testing a new concept in distribution of vehicles for Ford Motor Co.

Along with Allied Industries, NS is operating in Kansas City a "mixing center," the goal of which is to reduce the time it takes for an automobile to be shipped from an assembly plant to a dealer.

A mixing center is similar to an airline hub.

For example, Ford's automobiles are shipped by rail from six assembly plants to the mixing center in Kansas City. Each vehicle is unloaded and driven into a loading line with other vehicles destined for the same distribution center.

The vehicles then are reloaded on multilevel railcars for shipment to one of 16 distribution centers for final delivery to dealers.

Motor vehicles traditionally can wait several days in load lines outside assembly plants. They typically do not depart the plant until enough vehicles are produced to fill a railcar for specific destinations.

The mixing center concept enables Ford to ship automobiles without delay to the hub, where other vehicles have been assembled for consolidation.

Ford's success with a similar center in Germany influenced its decision to become the first automaker in the United States to ship motor vehicles to dealers from assembly plants through a dedicated rail mixing center.

The automaker selected NS from among several rail carriers to conduct the test operations.

◆ ***New railcars for auto parts*** — Late in 1995, NS took delivery of 200 60-foot, 100-ton, high-cube boxcars to serve suppliers of automotive parts.

The cars incorporate the latest design features, including those to improve ride quality and reduce the chance for damage to sensitive cargo.

◆ ***More centerbeam flatcars*** — NS began taking delivery mid-year of 157 73-foot centerbeam cars for transporting lumber.

These cars simplify loading and unloading for customers.

◆ ***EMP domestic containers*** — EMP, a domestic container supply and management program operated jointly by NS, Conrail and Union Pacific, experienced month-over-month growth of 20% throughout 1995.

EMP provides an independent source of containers and chassis available to intermodal customers for shipments moving on participating carriers' lines.

Its purpose is to increase domestic volume while shifting traffic from trailers into containers, thereby reducing operating costs.

EMP connects more than 29 intermodal terminals coast-to-coast. It expects to continue to add terminals to its network in 1996.

◆ ***Rebody program for hoppers*** — In 1995, NS "rebodied" more than 3,200 older coal hoppers to improve their service reliability.

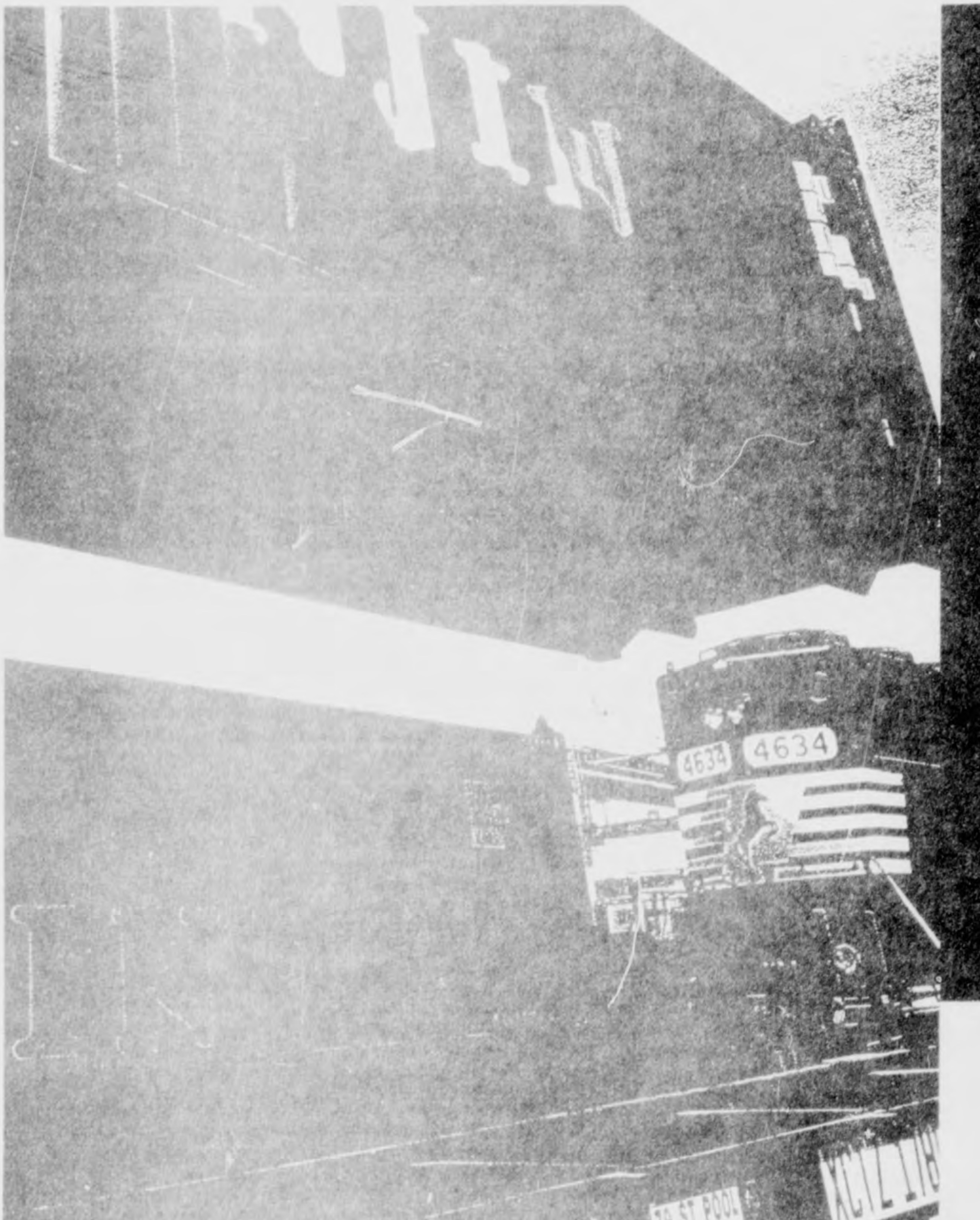
This brings to nearly 20,500 the number of coal cars to pass through the rebody program, which will continue through 1996.

The Coal Marketing and Transportation departments monitor and forecast coal car needs to ensure that NS has available the right number and mix of cars to meet customer needs.

◆ ***EDI billing*** — In 1995, NS implemented a new electronic data technology for bills of lading called "EDInow!" It eliminates paperwork by using PC-based software to generate bills of lading in a customer's office.

Eight NS customers produce more than 28,000 bills of lading annually using this technology. Six others, producing more than 24,000 bills of lading annually, are testing it for their operations.

◆ Laborer Harold Berry, left, of Huntington, Ind., is no stranger to safety. Berry has worked 41 injury-free years for the railroad and attributes his record to an ability to focus on the job at hand and to stay alert even in poor weather. As an NS Maintenance-of-Way gang member, Berry spends much of his time on the road, traveling to various locations to lay crossties, patrol track or clear snow and debris from tracks. Before work each day, Berry and his fellow crew members review safety rules and remind one another of the importance of working safely.


4634
4634
79 ST POOL

Jocelyn Stripling is a customer account representative in NS' Revenue Accounting department in Atlanta, where she is responsible for delivering timely and accurate billing information.

◆ *Integrated Transportation Management System* — NS' computerized freight traffic management system provides customers with a comprehensive transportation plan for their shipments.

The system, an industry-wide initiative frequently referred to as ITMS, charts a customer's best route and monitors traffic as it moves across the NS system. It also alerts the customer to service complications.

By October, the data base for ITMS included all of NS' merchandise traffic.

Once ITMS is fully implemented, new planning capabilities will be available to improve rail operations. NS will be able to predict its yard and train volumes more reliably.

◆ *NS' National Customer Service Center* — NS made plans to incorporate freight claim settlements into its National Customer Service Center in Atlanta during early 1996.

The freight claim settlement group has responsibility for investigating and settling claims filed by customers. It also coordinates claims settlements with connecting lines when NS was involved in the movement.

◆ *Automatic Equipment Identification* — NS continued to expand its network of automatic equipment identification (AEI) scanners.

NS supplies customers with car location messages from 140 AEI scanners.

NS exceeds customer expectations and reduces expenses by squeezing the most out of its car and locomotive fleets.

PRODUCTIVITY INITIATIVES

• *Grain car efficiency* — Utilization of the NS covered hopper grain car fleet increased 10.5% in 1995 for a total gain of 17.6% since 1993.

Contributing to these gains were:

• *The Pegasus Project:* Pegasus began in 1994 as a joint effort by NS, two grain customers and various grain elevators in the Midwest to improve utilization by better coordinating scheduling, loading, movement and unloading of 50-car unit trains moving into the processors at Decatur, Ill.

• *Increased use of unit trains:* Unit trains offer efficiencies that single cars in general train service cannot. Increasing numbers of shippers and receivers have recognized this value and have upgraded their facilities to accommodate unit trains.

• *Improved blocking:* Improved grouping of cars to move units longer distances has reduced the number of intermediate terminal delays. This, in turn, reduces total transit time.

• *Unit Train Matching Program:* The matching program involves "marrying" two 50-car trains from geographically similar origins to run as a single 100-car unit as close to the destination as possible before it splits again into the original 50-car blocks.

The "marriage" reduces car days, as well as crew and locomotive requirements.

In 1995, 644 50-car trains were matched into 322 100-car units. This is a significant improvement from 1991, when 42 50-car trains were matched into 21 100-car units.

SAFETY FEATURE

• NS promotes job briefings, or "huddles," to encourage job safety awareness. Discussions ensure that participants understand safe performance. Members of the Decatur, Ill., Terminal Safety Committee form a huddle: left to right, Monty Hurley, clerk; Mike Patrick, water service repairman; Don Gentry, switchman; Jiggs McKinney, yardmaster; Kevin Gould, machine operator; Scott Klinger, system installer; Dave Hector, carman, and Larry Hayes, carman.

Sharon Cole, a Mechanical employee at the Car Shop in Roanoke, Va., has worked six years with no injuries.

• *ThoroughLoad* — NS completed installation in 1995 of two ThoroughLoad systems. This brings to seven the number of these systems, which load 16 million tons of coal annually.

The ThoroughLoad system uses the automatic equipment identification technology and automated weighing to simplify loading and ensure that cars are filled to capacity.

ThoroughLoad lessens clerical work at loading sites, eliminates manual errors and reduces by up to 10% the number of cars and trains required to meet customer needs.

NS expects to install another 16 ThoroughLoad systems in 1996. They will handle loading of an additional 28 million tons of coal.

• *Longer trains* — The Federal Railroad Administration in December 1995 gave NS authority to operate longer trains for Triple Crown Services Company, a joint venture of NS and Conrail.

FRA now permits these trains to haul 125 units, which improves overall efficiency. Their length had been limited to 100 units.

Divesting Of Surplus Cars Brings Immediate Results In Utilization Factors

At the end of 1994, NS had identified some 17,000 surplus or obsolete freight cars in its fleet. Retiring this equipment was crucial to achieving improvements in freight car utilization.

Initial estimates were that the divestiture process would take about three years.

By the end of 1995, however, all but 6,800 cars were sold. NS expects to complete disposition of all 17,000 cars by the end of the second quarter 1996. This is expected to result in total proceeds of $100 million.

The impact of the disposition process on car utilization was immediate and dramatic.

• Utilization of the mill gondola fleet rose almost 40% over 1994 levels.

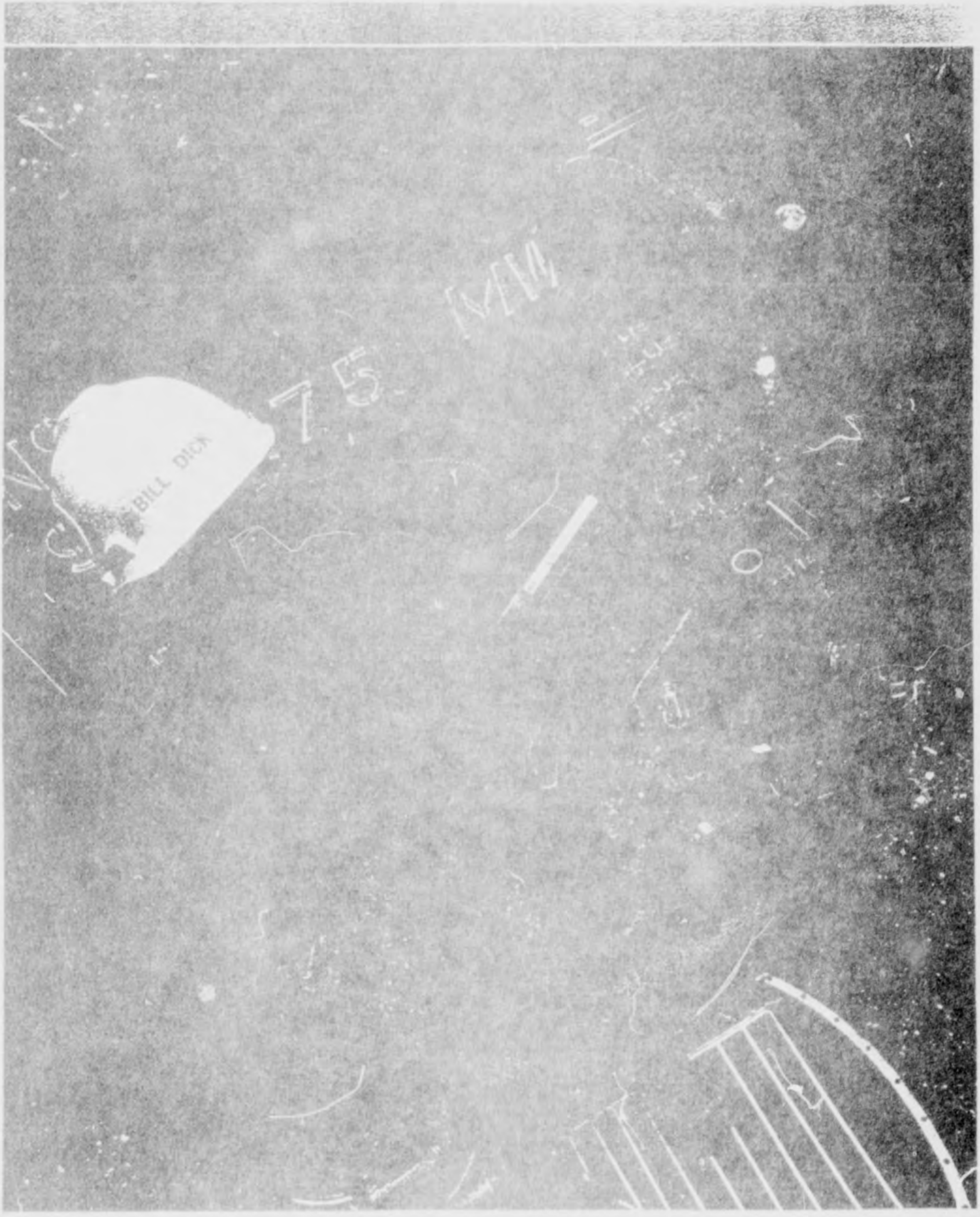
• Grain covered hopper utilization was 10.5% better than 1994.

• Coal car utilization, which trailed 1994 levels for most of 1995, jumped 7% in the fourth quarter.

NS expects by mid-1996 to see a double-digit percentage improvement in freight car utilization — 26% in the merchandise fleet and 15% in the coal fleet when compared with 1994 levels.

These numbers reflect the car divestiture, as well as ongoing efforts to achieve better cycle times for cars in service and to improve system operations.

A pair of locomotives moves through the Midwest over track purchased from Conrail to increase traffic capacity over a heavily traveled corridor between Chicago and Atlanta.


75 MM
BILL DICK

• *Coordinated operating effort in Des Moines* — NS completed transfer in 1995 of its yard operations to a Burlington Northern Santa Fe yard and assumed joint NS/BNSF switching responsibilities in Des Moines.

This project enabled NS to abandon a branch line, while retaining Des Moines-area traffic.

• *New locomotives* — NS took delivery in 1995 of 125 General Electric Dash-9 locomotives.

These 4,000-horsepower, six-axle units contribute to operating efficiency through improved reliability and better fuel efficiency.

Delivery of another 120 Dash-9 locomotives is expected before May 1996.

• *Car pool analyses* — NS worked during 1995 to improve car utilization by beginning a review of each of its more than 1,200 pools of cars assigned to customers, terminals or commodities.

After analyzing every detail of railcar cycles, the Equipment Marketing and Car Utilization groups agreed on the number of cars necessary for each pool.

Although the cars in some pools increased to support new business, most pools were reduced in size.

Completed reviews of 165 pools by the end of 1995 resulted in a net savings of more than 300 freight cars.

• *Main-line refueling* — In 1995, NS completed installation of facilities to accommodate main-line refueling of locomotives at Danville, Ky., and Bluefield and Princeton, W.Va.

This operation improves locomotive and car utilization, reduces expenses and improves service to customers.

Other main-line fueling locations will be added in 1996.

• *"Find-it/Fix-it"* — In 1995, Mechanical employees on the Georgia Division launched an initiative to improve inbound train inspection and repair procedures.

Efforts to "find-it/fix-it" are giving NS better use of its car and locomotive fleets, while helping provide customers better service.

NS expects to extend this concept to other operating divisions in 1996.

SAFETY FEATURE

• Bridges and Buildings Mechanic Steve Williams, left, of Greenville, S.C., has taken an active role in safety at NS. As a safety committee member, Williams was instrumental in forming a Maintenance-of-Way defensive driving quality team in 1995 to set safety guidelines for use of company vehicles on the Piedmont Division. The team distributed bumper stickers and posters to more than 40 work sites as part of an initiative that reminded employees to "Do yourself a favor: Buckle up." An 18-year railroad veteran, Williams serves as a quality facilitator, introducing employees system-wide to NS' *Thoroughbred Quality* improvement process.

24

Protect III cars for shippers of coil steel were developed cooperatively by NS' equipment engineers and customers. These cars are in service at various steel mills across the NS system.

GENERAL MERCHANDISE

Metals/Construction revenues increased $18.1 million, or 6%, over 1994.

Most of the revenue increase was the result of strong demand and price increases for steel and aluminum.

Demand for construction products dropped, reflecting postponement of highway projects and weakness in residential construction.

Automotive revenues increased $22 million, or 5%. This growth occurred even as several plants on NS' lines were operating at limited production or were shut down for retooling.

Agriculture revenues increased $11.5 million, or 3%. This growth was driven by increased demand for grain, soybeans and miscellaneous food products.

There was a strong domestic demand for corn, wheat and soybeans, along with good supplies during the first three quarters of 1995. A smaller harvest in NS territory resulted in less growth during the fourth quarter.

Paper/Forest revenues increased $14.4 million, or 3%. This market looked promising in the first half of 1995 as paper production began to recover from a five-year slump; however, by mid-year, demand for pulp and paper eased.

Increased shipments of pulpboard, woodpulp and kaolin clay were partially offset by decreased volumes in pulpwood logs and lumber.

Chemicals revenues were up $1.3 million, or 0.3%, despite lower traffic volumes for petroleum products, fertilizers and plastics.

Traffic for petroleum products was adversely affected by mild winter weather, and an unusually wet spring planting season weakened fertilizer shipments. The plastics market was depressed because of increased commodity prices and high inventories.

COAL

Coal revenues decreased $22.2 million, or 2%.

Mild weather and increased production at several Southeastern nuclear generating plants lowered demand for domestic utility coal, the largest segment of NS' coal market.

Phase I of the Clean Air Act Amendments took effect in 1995, resulting in increased movements of NS-originated low-sulfur coal to several utilities.

Traffic to support domestic and foreign steel production was up slightly in 1995. Domestic metallurgical shipments improved because of a strong demand for domestic coke used in making steel.

INTERMODAL

Intermodal revenues increased $44.9 million, or 11%.

NS intermodal continued to grow significantly in 1995 because of cooperative efforts with customers and several strategic service alliances that helped NS extend its reach to New York, Miami and Dallas.

Growth in intermodal traffic also was attributable to NS' substantial investments during the past five years to improve its intermodal facilities and other infrastructure.

The 1995 growth generated a three-point market share increase for NS.

SUBSIDIARIES

Pocahontas Land Corporation (PLC), NS' natural resources subsidiary, experienced a small decline in revenues to $67 million from the record level in 1994 as a result of conditions in the eastern U.S. coal market.

PLC derives most of its revenue from royalties on coal, natural gas and timber on its properties.

In late 1995, PLC purchased interests in nearly 90,000 acres of coal and timber lands in eastern Kentucky, southwestern Virginia and southern West Virginia, increasing PLC's total land holdings to approximately 900,000 acres.

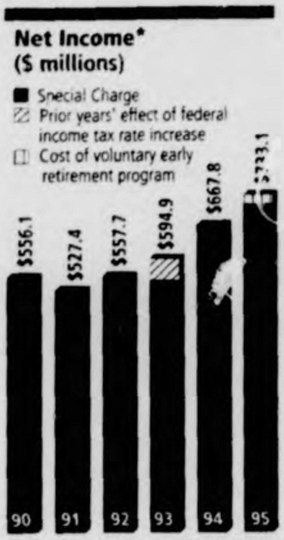
North American Van Lines, Inc. In 1995, NAVL had revenues of $656.2 million from its ongoing operations — High Value Products (HVP) and Relocation Services (RS).

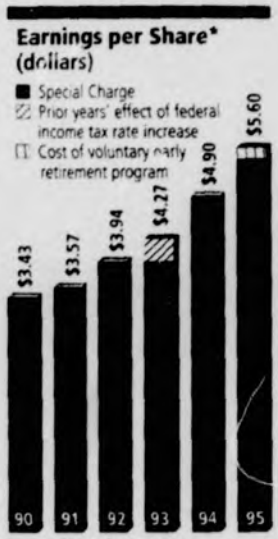
NAVL integrated RS' Canadian and domestic operations to provide seamless service across North America. Satellite capabilities were expanded, and RS began field testing an electronic shipment estimating and field data entry system.

HVP was the first in the trucking industry to file tariffs electronically, which enhanced customer service.

The Customized Logistics Services business unit of HVP signed new parts distribution contracts with Hewlett-Packard and G.E. Medical and renewed its contract with IBM.

Financial Overview





* Charts exclude accounting changes and highlight unusual or infrequent items.

In 1995, NS' broad traffic mix and tight cost control again produced record financial results.

NS set records for both transportation and railway operating revenues, income from operations, income before income taxes, net income, and earnings per share.

Adjusted for the effect of an early retirement program, the railway operating ratio also reached a record low of 72.7%.

Net income was a record $713 million, up 7% over 1994. Earnings per share, also a record, were $5.44, up 11%.

Included in these results was a $33.6 million charge for the cost of an early retirement program that reduced net income by $20.4 million, or 16 cents per share. Excluding the early retirement charge, net income was $733 million, up 10% over 1994, and earnings per share were $5.60, up 14%.

Income from railway operations and operating expenses discussed in the following paragraphs exclude the effects of the early retirement charge.

Income from railway operations was a record $1.1 billion, representing a 5% improvement over a strong 1994. Motor carrier operating income was $24.5 million in 1995, an 11% improvement over 1994.

Railway operating revenues exceeded $4 billion for the first time in NS' history, with all commodity groups, except coal, posting increases in 1995. Total transportation operating revenues were $4.7 billion, up 2% from 1994.

Intermodal revenue led the revenue increases, up 11% over 1994. Other merchandise groups with significant increases were metals/construction, up 6%, and automotive, up 5%.

In 1995, coal revenues decreased $22 million, or 2% from 1994, reflecting a 5% decline in eastern U.S. coal production.

Motor carrier revenues decreased $7 million, or 1% compared to 1994.

Total transportation operating expenses were $3.5 billion, up 1% from 1994. Railway expenses were up $42 million, or 1%, while motor carrier expenses decreased $9 million, or 1%.

Capital spending for 1996 is estimated at $708 million, compared to 1995 spending of $763 million.

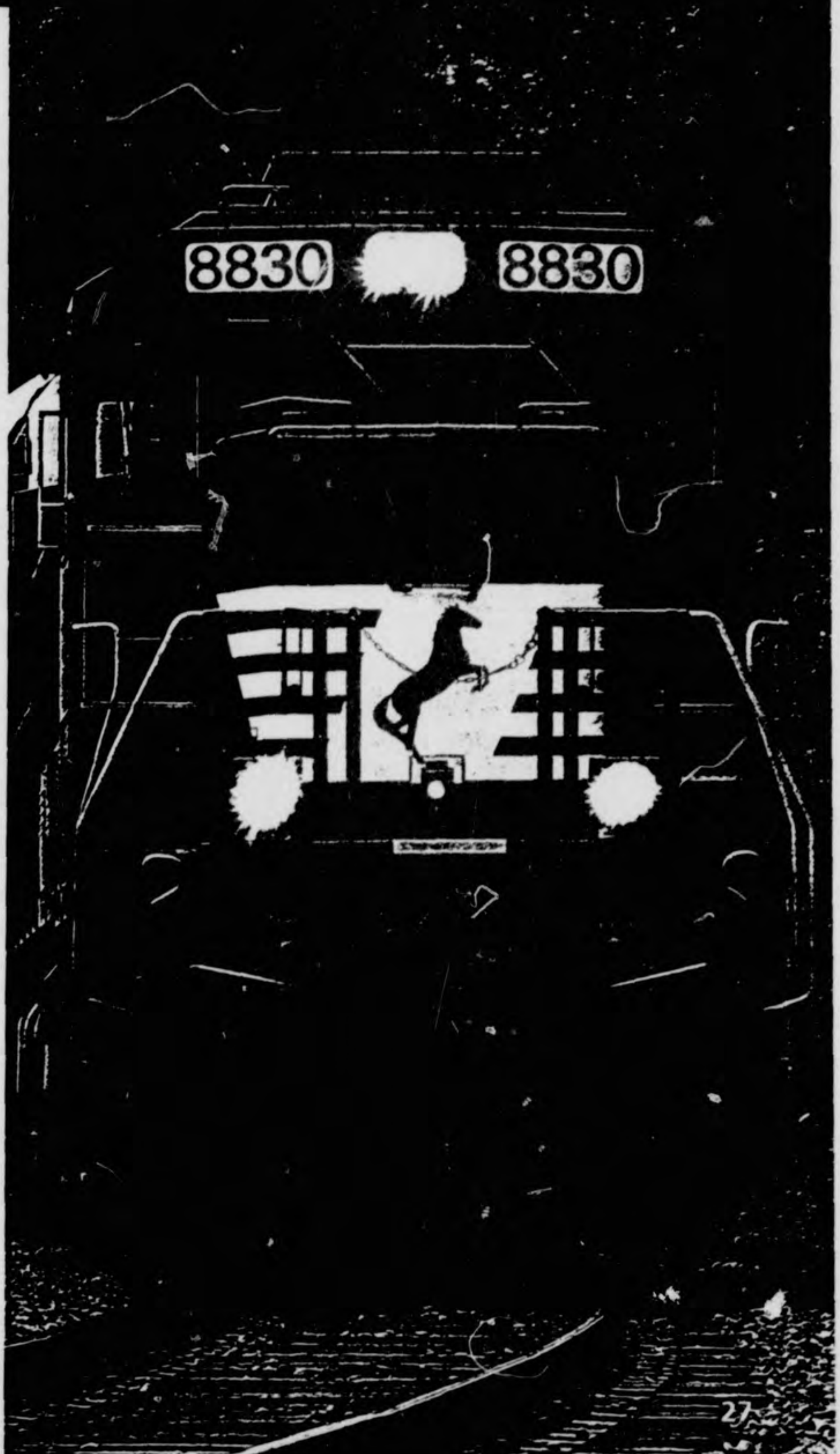
Total dividends paid in 1995 were $273.5 million. Dividends per share were $2.08, producing a payout ratio of 38% based on 1995 earnings per share of $5.44.

In January 1996, the quarterly dividend rate was increased to 56 cents per share. Annualized, this rate is equal to $2.24 per share.

Since 1983, NS' first full year after consolidation, the annual dividend rate has grown at a compound annual rate of 7%, well above the average inflation rate of 4%.

Also in January, the Board of Directors approved a new 30 million share stock purchase program, expected to be completed by the end of the year 2000.

Financial Review

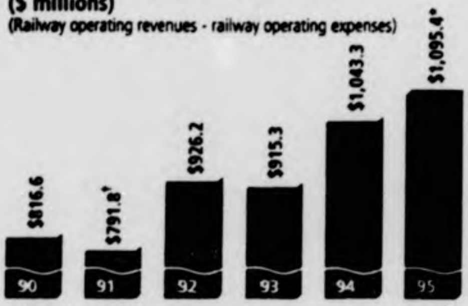


Eleven-Year Financial Review
Norfolk Southern Corporation and Subsidiaries

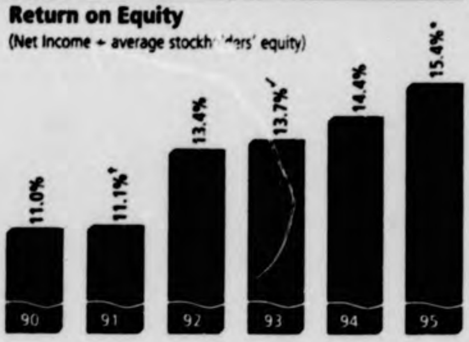
($ in millions, except per share amounts)	**1995**	1994	1993[1]	1992	1991[2]
Results of operations:					
Transportation operating revenues:					
Railway operating revenues	**$ 4,011.8**	$ 3,918.1	$ 3,745.9	$ 3,777.0	$ 3,654.0
Motor carrier operating revenues	**656.2**	663.2	714.2	829.6	797.3
Total transportation operating revenues	**4,668.0**	4,581.3	4,460.1	4,606.6	4,451.3
Transportation operating expenses:					
Railway operating expenses	**2,950.0**	2,874.8	2,830.6	2,850.8	2,862.2
Motor carrier operating expenses	**631.7**	641.1	769.1	869.3	797.1
Special charge	**—**	—	—	—	680.0
Total transportation operating expenses	**3,581.7**	3,515.9	3,599.7	3,720.1	4,339.3
Income from operations	**1,086.3**	1,065.4	860.4	886.5	112.0
Other income — net	**141.8**	85.2	136.8	97.8	131.3
Interest expense on debt	**113.4**	101.6	98.6	109.0	99.7
Income before income taxes	**1,114.7**	1,049.0	898.6	875.3	143.6
Provision for income taxes	**402.0**	381.2	349.9	317.6	113.9
Income before accounting changes	**712.7**	667.8	548.7	557.7	29.7
Cumulative effect of accounting changes	**—**	—	223.3	—	—
Net income	**$ 712.7**	$ 667.8	$ 772.0	$ 557.7	$ 29.7
Per share data:					
Earnings	**$ 5.44**	$ 4.90	$ 5.54	$ 3.94	$ 0.20
Dividends	**$ 2.08**	$ 1.92	$ 1.86	$ 1.80	$ 1.60
Stockholders' equity at year-end	**$ 37.42**	$ 35.19	$ 33.36	$ 30.16	$ 28.64
Financial position:					
Total assets	**$ 10,904.8**	$ 10,587.8	$ 10,519.8	$ 10,400.5	$ 10,148.1
Total long-term debt, including current maturities	**$ 1,639.0**	$ 1,619.8	$ 1,595.2	$ 1,648.9	$ 1,389.2
Stockholders' equity	**$ 4,829.0**	$ 4,584.8	$ 4,620.7	$ 4,232.6	$ 4,093.4
Other:					
Capital expenditures	**$ 763.4**	$ 712.9	$ 669.2	$ 716.1	$ 713.4
Average number of shares outstanding (thousands)	**130,996**	136,301	139,414	141,459	147,759
Number of stockholders at year-end	**53,401**	52,442	51,884	51,200	53,725
Average number of employees:					
Rail	**24,488**	24,710	25,531	25,650	27,366
Nonrail	**2,456**	2,458	3,773	4,485	4,586
Total	**26,944**	27,168	29,304	30,135	31,952

All per share amounts have been restated to reflect the March 6, 1987, 3-for-1 stock split.

Income From Railway Operations
($ millions)
(Railway operating revenues - railway operating expenses)



Return on Equity
(Net Income ÷ average stockholders' equity)



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

1990	1989	1988	1987[3]	1986	1985[4]
$ 3,786.0	$ 3,694.1	$ 3,616.6	$ 3,335.6	$ 3,327.8	$ 3,434.8
831.0	841.9	845.0	777.2	748.6	390.3
4,617.0	4,536.0	4,461.6	4,112.8	4,076.4	3,825.1
2,969.4	2,864.4	2,679.7	2,652.8	2,665.9	2,740.1
839.5	846.4	836.6	734.5	708.5	366.0
—	—	—	620.4	—	—
3,808.9	3,710.8	3,516.3	4,007.7	3,374.4	3,106.1
808.1	825.2	945.3	105.1	702.0	719.0
145.3	158.2	108.4	232.9	215.8	171.7
78.0	50.7	53.1	58.5	61.8	68.5
875.4	932.7	1,000.6	279.5	856.0	822.2
319.3	326.5	365.5	107.1	337.3	322.0
556.1	606.2	635.1	172.4	518.7	500.2
—	—	—	—	—	—
556.1	$ 606.2	$ 635.1	$ 172.4	$ 518.7	$ 500.2
3.43	$ 3.48	$ 3.51	$ 0.91	$ 2.74	$ 2.65
1.52	$ 1.38	$ 1.26	$ 1.20	$ 1.13 1/3	$ 1.13 1/3
31.57	$ 30.44	$ 28.74	$ 26.48	$ 26.78	$ 25.20
10,523.0	$ 10,244.3	$ 10,059.1	$ 9,831.6	$ 9,752.4	$ 9,768.6
1,125.2	$ 841.1	$ 780.9	$ 795.0	$ 891.3	$ 941.0
4,911.9	$ 5,168.6	$ 5,152.6	$ 4,979.4	$ 5,070.8	$ 4,761.5
696.9	$ 651.7	$ 528.8	$ 562.9	$ 698.4	$ 738.6
162,095	174,370	181,038	189,464	189,217	188,867
56,187	61,630	64,974	68,121	65,832	71,325
28,697	29,667	30,330	32,563	34,857	36,415
4,584	4,645	4,209	3,539	3,440	3,379
33,281	34,312	34,539	36,102	38,297	39,794

Notes:

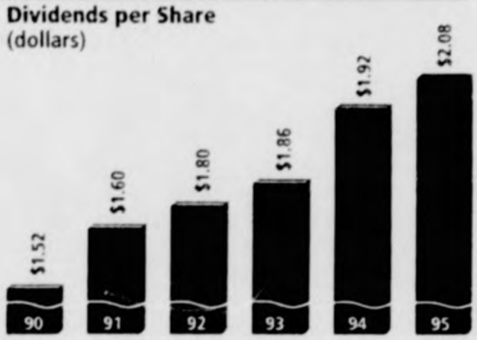
1 1993 results include a $54 million increase in the provision for income taxes reflecting a 1% increase in the federal income tax rate, which reduced net income by $54 million, or $0.39 per share (see Note 3 on page 47). 1993 motor carrier expenses include a $50 million restructuring charge for the disposition of two North American Van Lines, Inc. (NAVL), businesses (see Note 15 on page 54). The cumulative effect of accounting changes (see Note 1 on page 46) increased 1993 earnings by $223 million, or $1.60 per share.

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.

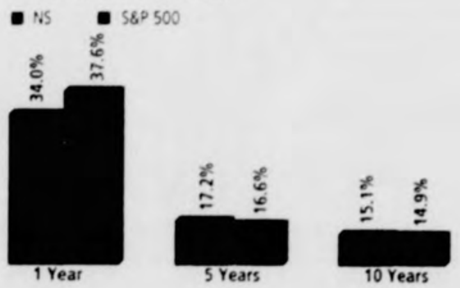
3 1987 transportation operating expenses include a $620 million special charge, principally related to railroad restructuring costs. This charge reduced net income by $352 million, or $1.86 per share.

4 Includes NAVL from the acquisition date of June 21, 1985.

Dividends per Share
(dollars)



Total Return to Stockholders
(From dividends and appreciation)



Report of Management
Norfolk Southern Corporation and Subsidiaries

January 23, 1996

To the Stockholders
Norfolk Southern Corporation

Management is responsible for the preparation and content of the financial statements included in this annual report. The financial statements have been prepared in conformity with generally accepted accounting principles and reflect Management's judgments and estimates concerning effects of events and transactions that are accounted for or disclosed. The financial information contained in other sections of this annual report is consistent with that contained in the financial statements.

Norfolk Southern Corporation and its subsidiaries maintain accounting systems that are supported by internal accounting controls. These systems and controls provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with Management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. The concept of reasonable assurance is based on the recognition that the cost of a system of internal accounting control should not exceed the benefits. A staff of experienced and highly trained internal auditors conducts audit procedures designed to test compliance with internal controls. Results of audit efforts and actions are communicated to appropriate Management, including the Chairman, President and Chief Executive Officer, and to the Audit Committee of the Board of Directors.

Norfolk Southern Corporation and its subsidiaries have established their intent to maintain the highest standards of ethical conduct in all their business activities. Internal accounting and operating control policies, as well as a corporate code of conduct, are documented and communicated to all levels of Management. Adherence to these policies and procedures and this code is continuously being evaluated by a thorough, coordinated audit effort of internal audit staff and independent auditors.

The Audit Committee of the Board of Directors is composed solely of non-employee directors. The Committee meets periodically with the Vice President-Internal Audit and the independent auditors to review and discuss audit findings and other accounting and financial matters. Matters reviewed include the annual audit plan and the accounting policies of Norfolk Southern Corporation and its subsidiaries, conflict of interest policy, internal control systems and financial operations and reporting.

KPMG Peat Marwick LLP, a firm of independent public accountants, has been engaged to audit and render an opinion on the consolidated financial statements. As independent auditors, they also provide an objective, outside review of Management's report of operating results and financial condition. Working with the internal auditors, they review internal accounting controls and make tests as appropriate of the data included in the financial statements.

David R. Goode Chairman, President and Chief Executive Officer	Henry C. Wolf Executive Vice President – Finance	John P. Rathbone Vice President and Controller

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes beginning on page 42 and the Eleven-Year Financial Review on page 28.

SUMMARIZED RESULTS OF OPERATIONS

1995 Compared with 1994

Net income in 1995 was a record $712.7 million, up 7% over 1994 earnings of $667.8 million. Excluding a $20.4 million after-tax charge for an early retirement program in 1995, net income would have been $733.1 million, up 10%. These results were driven primarily by improved income from railway operations, up $52.1 million, or 5% (excluding the early retirement charge), and by greater nonoperating income, up $56.6 million, or 66%. Railway operating revenues increased $93.7 million, or 2%, while railway operating expenses, excluding the early retirement charge, were up only $41.6 million, or 1%. Income from motor carrier operations of $24.5 million was $2.4 million, or 11%, higher than in 1994. Nonoperating income of $141.8 million was up $56.6 million, due to a $30.5 million ($18.8 million after-tax) gain resulting from the partial redemption of a real estate partnership interest and a $26.2 million increase in gains on property sales (see Note 2 on page 47). Interest expense on debt was up $11.8 million, or 12%, largely a result of higher rates of interest on commercial paper debt.

1994 Compared with 1993

Net income was $667.8 million in 1994, compared with $772.0 million in 1993. However, 1993 net income was increased by $223.3 million, related to the implementation of required accounting changes (see Note 1 on page 46), and reduced by $46.2 million for the prior years' effect of a federal income tax rate increase (see Note 3 on page 47). Excluding the effects of the 1993 accounting changes and the tax rate increase, 1993 net income was $594.9 million, and 1994 net income was up 12%.

Income from railway operations produced most of the improvement, increasing $128.0 million, or 14%. These results reflected a 5% increase in railway operating revenues (largely due to higher traffic volume) combined with only a 2% increase in railway operating expenses. Income from motor carrier operations improved to $22.1 million in 1994, compared with a $4.6 million loss in 1993, excluding the 1993 restructuring charge (see Note 15 on page 54). Nonoperating income was $85.2 million, compared with $136.8 million in 1993, principally a result of reduced gains on sales of stock and property.

DETAILED RESULTS OF OPERATIONS

Railway Operating Revenues

Railway operating revenues were $4.01 billion in 1995, compared with $3.92 billion in 1994 and $3.75 billion in 1993. The $93.7 million improvement in 1995, compared with 1994, was largely attributable to increases in the intermodal ($44.9 million), automotive ($22.0 million) and metals/construction ($18.1 million) market groups. The $172.2 million improvement in 1994, compared with 1993, was primarily attributable to increases in the intermodal, coal and chemicals market groups.

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

Railway Operating Revenues by Market Group

($ in millions)	**1995**	1994	1993
Coal	**$ 1,240.3**	$ 1,262.5	$ 1,213.3
Paper/forest	**519.8**	505.4	502.7
Chemicals	**513.5**	512.2	472.9
Automotive	**454.1**	432.1	429.5
Agriculture	**359.0**	347.5	319.7
Metals/construction	**339.5**	321.4	296.1
Intermodal	**470.5**	425.6	390.2
Freight revenues	**3,896.7**	3,806.7	3,624.4
Other – principally switching and demurrage	**115.1**	111.4	121.5
Total	**$ 4,011.8**	$ 3,918.1	$ 3,745.9

Traffic volume changes in 1995 were mixed, with improvements in automotive, agriculture, metals/construction and intermodal partially offset by declines in the other three market groups. Traffic volume increased or remained steady for all market groups in 1994. These volume gains accounted for most of the revenue improvement in 1995 and all the improvement in 1994 as illustrated by the following table.

RAILWAY OPERATING REVENUE VARIANCE ANALYSIS
INCREASES (DECREASES)

($ in millions)	1995 vs. 1994	1994 vs. 1993
Traffic volume	$ 62.6	$ 195.1
Revenue per unit	31.1	(22.9)
Total	$ 93.7	$ 172.2

Average revenue per unit rose in 1995 due to moderate rate increases. The revenue per unit variance in 1994 was principally attributable to growth in shorter haul and double-stack business, both of which generally have lower average rates.

COAL traffic volume declined 1%, and revenues were down 2%, from 1994. In 1995, coal revenues represented 31% of total railway operating revenues, and 91% of coal shipments originated on NS' lines. As shown in the following table, coal tonnage by type remained stable in 1995, compared with 1994. However, utility coal tonnage in 1994 increased significantly.

TOTAL COAL TONNAGE

(In millions of tons)	1995	1994	1993
Utility	69.1	70.2	60.6
Export	25.8	25.2	25.7
Steel	18.9	18.8	20.5
Other	8.2	8.9	8.8
Total	122.0	123.1	115.6

Utility coal traffic had been expected to grow in 1995, but instead 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. The mild weather pattern actually began in third-quarter 1994, causing a number of NS' utility customers to start 1995 with high coal inventories. However, inventories began to normalize, as seasonal weather returned to the service region in midsummer, and nuclear plants began to power down for refueling and repairs in third-quarter 1995. Compliance with Phase I of the Clean Air Act Amendments, which took effect on January 1, 1995, increased shipments of both NS- and foreign-line-originated, low-sulfur coal. A significant proportion of the mines served by NS produce coal that satisfies both Phase I and the more stringent Phase II requirements, which take effect on January 1, 2000.

In 1994, utility coal traffic was up early in the year as a result of bitter weather and the resulting depletion of coal stockpiles. The pace at which 1994 outperformed 1993 slowed as the weather normalized. New movements of western coal into Georgia also contributed to the 1994 increase.

The near-term outlook for utility coal is favorable, as most NS-served utilities began 1996 with normal or somewhat low inventory levels. The long-term outlook is less certain due to the deregulation and ongoing restructuring of the utility industry, although low-sulfur coal traffic should increase with the approach of the Phase II deadline of the Clean Air Act.

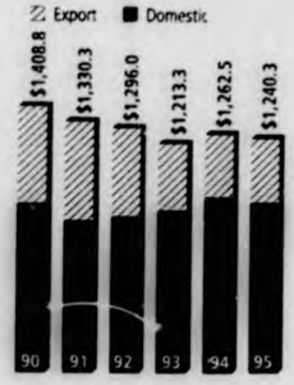
Export coal traffic in 1995 benefited from the continued recovery of the European steel-producing economy. Demand from other parts of the world also improved. Brazil, Belgium, France, Romania and Japan took increased amounts of NS coal. In addition, NS began handling metallurgical coal for steel production in Mexico. Congestion and high barge rates on the Mississippi River caused an increase in movements to NS' coal piers in Norfolk, Va.

Export coal traffic at the beginning of 1994 reflected the poor demand also seen in 1993. Shipments remained somewhat depressed as a result of the weak European economy and strong competition from other producing countries. Economic recovery in Europe and Japan improved demand for steel and electricity, and the coal supply-demand situation tightened during 1994. As a result, delivery times were longer and prices rose during 1994.

A recent softening in world demand for steel could limit near-term growth in export metallurgical coal shipments. However, demand for export steam coal is increasing, and NS is working to increase participation in this market.

Steel coal domestic traffic was up slightly in 1995 due to completion of extend-

**Coal
($ millions)**
This group comprises utility coal, export coal, domestic metallurgical coal, industrial coal, coke and iron ore.



ed coke oven work at one facility and continued strong demand for domestic coke for making steel. In 1994, traffic was reduced by the closing of one coke battery. 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 consists of traffic for industries that burn coal to generate energy used in manufacturing processes and often for the production of electricity for in-plant use and outside sales. Lower demand for electricity due to mild weather, as discussed above, continued to affect this market in 1995. In addition, some industries 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 some additional loss to natural gas.

Merchandise traffic volume rose 5%, and revenues increased by $112.2 million, or 4%, compared with 1994. Merchandise traffic volume in 1994 increased 8%, and revenues, excluding, for comparative purposes, the effect of the Triple Crown Services Company (TCSC) partnership (see discussion on page 35), increased by $151.3 million, or 6%, compared with 1993. All six market groups comprising merchandise traffic reported increased revenues in 1995 over 1994 and in 1994 over 1993.

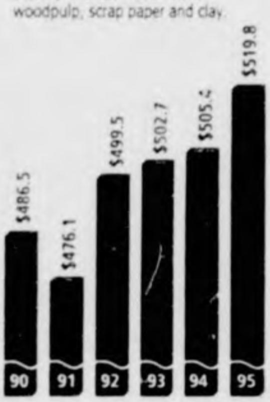
Paper/forest traffic declined 1%; however, revenues were up 3%, compared with 1994. Paper and pulpwood products traffic was even with 1994, while lumber traffic suffered from weak housing starts in 1995. For 1994, paper/forest volume and revenues were about even with 1993, reflecting weak paper production, severe winter weather and floods in south Georgia. Some of the weakness in paper was offset by a gain in lumber traffic due, in part, to the opening of five new lumber distribution centers in 1994. Moderate growth is expected for 1996 based on the anticipated completion of several wood-chip mills and an improvement in housing starts.

Chemicals traffic and revenues showed little change compared with 1994. Increases for general chemicals were overshadowed by weakness in the plastics and fertilizer markets. However, 1994 showed a 9% traffic increase and an 8% revenue increase, compared with 1993. The demand for chemicals increased in 1994, and shipments of fertilizer and plastics were stronger than prior years. A resumption of moderate growth is expected for 1996, as the fertilizer and plastics markets strengthen and demand for liquefied petroleum gas grows.

Automotive traffic rose 3%, and revenues—their highest in NS' history—increased 5% over 1994. This growth occurred even though some plants served by NS were shut down or operating at reduced capacity. These effects were mitigated by strong production at selected plants that produce popular cars and trucks. In 1994, automotive traffic had remained steady, and

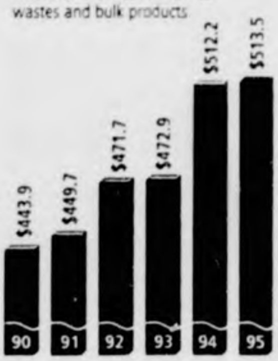
Paper/Forest
($ millions)

This group comprises lumber and wood products, pulpboard and paper products, wood fibers, woodpulp, scrap paper and clay.



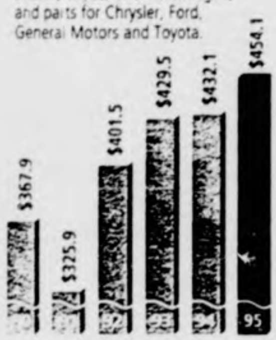
Chemicals
($ millions)

This group comprises fertilizers, sulfur and related chemicals, petroleum products, chlorine and bleaching compounds, plastics, industrial chemicals, chemical wastes and bulk products.



Automotive
($ millions)

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.



revenues increased 1%, compared with 1993, due to retooling downtime at four plants. Moderate growth is expected to continue in 1996, as plant retoolings are completed and new plants come on line. The GM plant at Wentzville, Mo., should resume production early in 1996 after remaining down for two years. NS also should see more traffic from the expanded Toyota plant at Georgetown, Ky.; from BMW's new facility at Greer, S.C.; and in 1997, from the Mercedes plant under construction in Tuscaloosa, Ala.

Agriculture traffic rose 2%, and revenues increased 3%, compared with a strong 1994. This growth was driven by a 6% increase in grain and soybean traffic, a result of higher shipments from the Midwest to the Southeast primarily for the poultry industry.

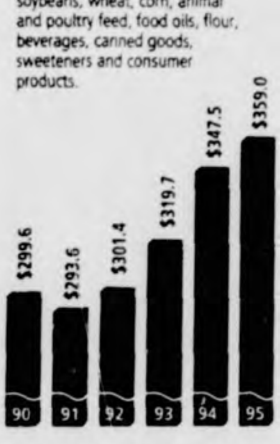
Agriculture traffic in 1994 rose 7%, and revenues increased 9%. This performance reflected record corn and soybean harvests and improved car utilization through greater use of 50- and 100-car unit trains. This market group is expected to continue to grow as poultry consumption increases, with a commensurate rise in demand for feed grain. Industrial development efforts may bring several new feed mills on line in 1996.

Metals/construction traffic rose slightly, and revenues were up 6%. Most of the revenue increase was in the steel and aluminum markets, driven by strong demand, improved pricing and traffic from a new steel mini-mill in Butler, Ind. These results were partially offset by reduced demand for construction products, reflecting postponement of some highway projects and general weakness in residential construction. Metals/construction traffic in 1994 was strong, with both volume and revenues increasing 9%, compared with 1993. Most of the revenue gain was in shipments of steel due to exceptionally strong industry demand. Increased housing starts and new projects, such as at the Chesapeake Bay Bridge Tunnel, may improve construction traffic in 1996. Moderate growth is expected for metals.

Intermodal volume rose 12%, and revenues increased 11%. 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, the container equipment-sharing arrangement with Union Pacific and Conrail, contributed significantly to domestic growth. Almost all the increase in international container business was attributable to new services, thereby increasing NS' market

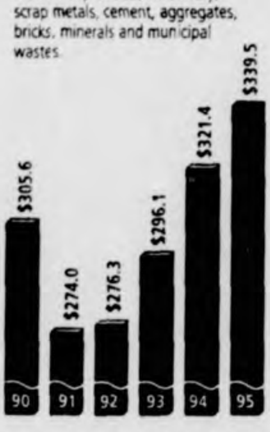
Agriculture
($ millions)

This group comprises grain, soybeans, wheat, corn, animal and poultry feed, food oils, flour, beverages, canned goods, sweeteners and consumer products.



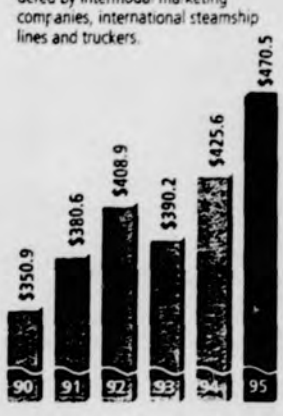
Metals/Construction
($ millions)

This group comprises steel, aluminum products, machinery, scrap metals, cement, aggregates, bricks, minerals and municipal wastes.



Intermodal
($ millions)

This group handles trailers, containers and Triple Crown® equipment tendered by intermodal marketing companies, international steamship lines and truckers.



share. Domestic business 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. Service and facility improvements are expected to result in a further market-share increase in 1996.

Intermodal traffic in 1994 rose 13%, and revenues rose 9%, compared with 1993. However, revenues reflect the effect of the formation in April 1993 of TCSC. This partnership provides RoadRailer® and domestic container services previously offered by a wholly owned subsidiary of NS. Because NS owns only 50% of TCSC, its revenues are not consolidated. NS' intermodal revenues include only revenues for rail service NS provides the partnership. Excluding this partnership effect, 1994 intermodal revenues increased 14%, compared with 1993. As was the case in 1995, the 1994 growth in intermodal was led by an increase in container business. The export container segment improved, as the economies in Europe recovered and countries in the Asia/Pacific region experienced rapid growth in production. Revenues from domestic container movements also improved, as NS increased its market share. Much of this growth was related to aggressive facility and transit-time improvements, including expanding or upgrading five terminal facilities.

Railway Operating Expenses

Railway operating expenses in 1995 totaled $2.95 billion, an increase of $75.2 million. However, 1995 expenses included a $33.6 million charge for an early retirement program (see Note 10 on page 50). Excluding the early retirement charge, 1995 railway operating expenses were up only $41.6 million, or 1%, on a 3% increase in traffic volume. Similarly, railway operating expenses in 1994 were $2.87 billion, a 2% increase, compared with 1993, despite a 7% increase in traffic volume.

As a result, the _NS railway operating ratio_, which measures the percentage of revenues consumed by expenses, was a record 72.7 (excluding the early retirement charge) and 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 ($ in millions)	Increases (Decreases) 1995 vs. 1994	1994 vs. 1993
Compensation and benefits	$ 108.9*	$ (19.4)
Materials, services and rents	(41.9)	10.7
Depreciation	14.7	12.4
Diesel fuel	1.5	9.0
Casualties and other claims	(13.7)	16.0
Other	5.7	15.5
Total	$ 75.2	$ 44.2

*Includes $33.6 million early retirement charge.

Compensation and benefits, which represents about half of total railway operating expenses, increased 8% in 1995 and declined 1% in 1994.

The 1995 increase was principally a result of: (1) the early retirement charge of $33.6 million; (2) higher wages; (3) increased performance-based compensation accruals, particularly those linked to the NS stock price, which rose nearly $19 per share in 1995; and (4) higher health care costs for agreement employees.

The 1994 decline was principally due to (1) lower accruals for performance-based compensation plans as a result of a lower stock price; (2) reduced accruals for postretirement benefits resulting from a change in the benefit plan's creditable service period (see Note 11 on page 51); (3) the expiration of the Railroad Retirement Repayment Tax in June 1993; (4) the effect of the early retirement program in 1993 (see Note 10 on page 50); and (5) productivity improvements as a result of continuing reductions in train crew sizes.

Materials, services and rents consists of items used for the maintenance of the railroad's lines, structures and equipment; the cost 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 decreased 6% in 1995 but increased 2% in 1994.

The 1995 decrease of $41.9 million reflected initiatives to improve asset utilization that resulted in (1) re-engineering of rail-line and freight-car maintenance practices that reduced repair and maintenance expenses and facilitated the closure of two repair facilities; (2) reduced locomotive repair costs due to older locomotives' being replaced with new units; (3) disposition of excess freight cars (see "Cash used for investing activities" on page 39), resulting in a reduction in the number of freight cars to be maintained; and (4) short-term leasing of certain older locomotives to other railroads, which reduced net equipment rental expense. Also contributing to the improvement was a decline in equipment rental expenses, resulting from the partial deprescription (deregulation by the ICC) 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.

The 1994 increase of $10.7 million was principally due to higher joint-facility and leased-road costs and to increased locomotive repair costs, resulting mostly from higher traffic volume. However, a decrease in other railroads' use of NS' facilities also contributed to the increase in joint-facilities expense. Partially offsetting these increases was a decline in equipment rent expenses resulting from the partial deprescription of car-hire rates.

Depreciation expense (see Note 1 "Properties" on page 46 for NS' depreciation policy) was up 4% in 1995 and 3% in 1994. The increases in both periods were due to property additions, reflecting substantial levels of capital spending over the last several years.

Diesel fuel costs rose 1% in 1995 and 5% in 1994. The 1995 increase was primarily due to a small increase in the average price paid for diesel fuel. Because even fuel-efficient locomotives consume substantial quantities of diesel fuel, a slight price increase translates into large cost increases. The increase in 1994 diesel fuel costs was entirely driven by higher consumption, a result of a 7% increase in carloadings. On average, fuel prices in 1994 were slightly lower than in 1993.

Casualties and other claims (including estimates of costs related to personal injury, property damage and environmental matters) decreased 10% in 1995 but increased 13% in 1994 over 1993. Both of these fluctuations primarily were attributable to environmental clean-up costs in 1994 associated with a tankcar leak.

The largest component of "Casualties and other claims" is personal injury expense. Although there has been a favorable trend in the number of accidental injuries since 1990, much of the financial benefit from this decline unfortunately has been offset by higher costs related to non-accidental "occupational" claims and by an increase in the cost of third-party injury claims arising from accidents at grade crossings. NS is actively involved in efforts to reduce the risk of all accidents and is placing particular emphasis on programs involving grade-crossing safety.

The rail industry remains uniquely susceptible to 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, produces results that are unpredictable and inconsistent, at a far greater cost to the rail industry than the 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 the FELA with a no-fault workers' compensation system.

Other expenses increased 1% in 1995, and increased 12% in 1994. The 1995 increase was due to higher sales, use and franchise taxes. The 1994 increase was due to favorable property tax settlements in 1993 and to higher relocation expenses in 1994 related to new job assignments following the early retirement program in 1993.

MOTOR CARRIER RESULTS

Motor carrier operating income was $24.5 million, compared with $22.1 million in 1994 and with an operating loss of $54.9 million in 1993. The large loss reported in 1993 was almost entirely attributable to a restructuring of the business as described below. In 1995, because certain expenses were below original estimates, $3.9 million of the restructuring charge taken in 1993 was reversed. The ongoing operations, comprised of Relocation Services (RS) and High Value Products (HVP), produced operating income of $20.6 million in 1995, $22.1 million in 1994, and $14.4 million in 1993.

A restructuring decision was made in 1993 due to persistently poor performance in the general commodities operations despite repeated turnaround efforts. The restructuring led to the liquidation of the Commercial Transport (CT) Division and the sale of Tran-Star (TS), a refrigerated carrier. A restructuring charge of $50.3 million was recorded in 1993 (see Note 15 on page 54).

The following table presents a three-year comparison of revenues by principal operations.

Motor Carrier Operating Revenues by Principal Operations

($ in millions)	**1995**	1994	1993
Relocation Services (RS)	**$ 310.9**	$ 325.5	$ 315.3
High Value Products (HVP)	**345.3**	337.7	262.2
Commercial Transport (CT) •	—	—	105.3
Tran-Star (TS) •	—	—	31.4
Total	**$ 656.2**	$ 663.2	$ 714.2

• *See restructuring discussion in Note 15 on page 54.*

RS' revenues depend on four primary segments of household goods transportation: corporate relocation accounts, individual shipments, military, and international shipments. RS' 1995 revenues decreased 4% from 1994 after having increased 3% over 1993. In 1995, international shipments and domestic corporate account business gained 6% and 5%, respectively. These gains were more than offset, however, by lower individual business (6%), lower military volume (17%) and decreased Canadian volume, primarily military related (30%). Revenue per shipment improved nearly 3% in 1995. In 1994, volume gains were achieved in the military and C.O.D. segments, although prices were flat. Domestic market-share gains were partially offset by reduced revenues from Canadian operations. The total number of household-goods moves industry-wide has declined about 1% per year in each of the past six years. Changes in domestic and Canadian policy relating to military staffing levels may result in additional reduction in the overall number of moves available in the industry. There are six major van lines in this market, and competition is likely to remain intense.

HVP's main line of business is transporting office products, sensitive equipment, and exhibits and displays. A Customized Logistics Services (CLS) segment provides integrated logistics services. A Blanketwrap segment, formerly part of the discontinued CT Division, provides specialized handling of uncartoned truckload freight. HVP's revenues increased 2%, compared with a strong 1994, and 29% in 1994, compared with 1993. Traditional HVP business, Blanketwrap and CLS experienced continued growth with their core accounts in 1995. These gains were partially offset by a decrease in airfreight revenue due to the rationalization of certain service centers. The increase in 1994 was due to (1) the inclusion of Blanketwrap, which was in HVP for only two months of 1993, and (2) to CLS, which was awarded a major logistics contract by IBM in third-quarter 1993. In an effort to improve timeliness and efficiency, HVP expanded its distribution network in 1995 and increased scheduled services. Additional growth in the CLS segment is possible, as more shippers look to logistics providers like NAVL to provide logistics expertise to reduce overall shipping and handling costs.

Motor carrier operating expenses as a percentage of revenues were 96.3%, 96.7%, and 107.7%, respectively, in 1995, 1994 and 1993. The highly unfavorable 1993 operating ratio was principally related to losses sustained in the truckload operations and the restructuring charge associated with discontinuing those operations.

NAVL's ongoing operations generated operating ratios of 96.9%, 96.7% and 97.5%, respectively, in 1995, 1994 and 1993. Intense price 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 1995 was $402.0 million for an effective rate of 36.1%, compared with an effective rate of 36.3% in 1994 and 38.9% in 1993. Absent the federal income tax rate increase in 1993 (see Note 3 on page 47), income tax expense that year would have been $295.8 million for an effective rate of 32.9%.

The below statutory rate in 1995 results from investments in corporate-owned life insurance and coal-seam gas properties, and favorable adjustments upon filing the 1994 tax returns. The below statutory rate in 1994 was 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 returns. Deferred tax expense was an unusually high proportion of total tax expense in 1994. A corresponding reduction is reflected in 1994 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.

The low effective rate for 1993 (excluding the rate increase) was partially due to tax benefits related to the motor carrier restructuring (see Note 15 on page 54). Also in 1993, current tax expense increased and deferred tax expense decreased because of tax payments made in anticipation of Revenue Agent Reports for the 1988-1989 federal tax audit (see Note 3 on page 47 for the components of income tax expense).

ACCOUNTING CHANGES AND NEW ACCOUNTING PRONOUNCEMENTS

1994 – Effective January 1, 1994, NS adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115). SFAS 115 did not have a significant effect on NS (see also Note 1 on page 46).

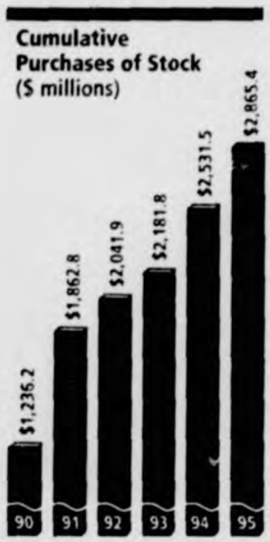
1993 – Effective January 1, 1993, NS adopted required accounting for postretirement benefits other than pensions, postemployment benefits and income taxes (see Note 1 on page 46 for a discussion of these accounting changes). The net cumulative effect of these non-cash adjustments increased 1993 net income by $223.3 million, or $1.60 per share.

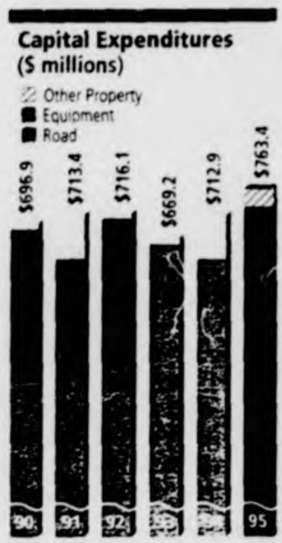
New Accounting Pronouncements – In March 1995, the Financial Accounting Standards Board (FASB) issued Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" (SFAS 121). This standard establishes the accounting and reporting requirements for recognizing and measuring impairment of long-lived assets to be either held and used or held for disposal. SFAS 121 is effective for years beginning after December 15, 1995. NS does not expect SFAS 121 to have a material effect on its financial statements.

In October 1995, the FASB issued Statement No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). This standard 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 will be required to provide pro forma footnote disclosures effective for 1996 financial statements. NS expects to continue recording stock-based compensation costs based on APB 25 and, beginning in 1996, to provide the pro forma disclosures required under SFAS 123.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

<u>*Financial Condition*</u> refers to the assets, liabilities and stockholders' equity of an organization (see Consolidated Balance Sheets on page 43). <u>*Liquidity*</u> 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 44). <u>*Capital*</u>





resources refers to the ability of an organization to raise funds through the sale of either debt or equity (stock) securities.

($ in millions)	1995	1994	1993	1992	1991
Cash and short-term investments	**$329.0**	$306.7	$258.2	$378.1	$464.7
Current assets to current liabilities	**1.1**	1.2	1.3	1.2	1.1
Debt-to-total capitalization	**25.9%**	26.2%	27.4%	29.8%	29.5%
Return on average stockholders' equity	**15.4%***	14.4%	13.7%*	13.4%	11.1%*

** Excluding unusual items: in 1995, the early retirement charge; in 1993, the cumulative effects of required accounting changes and the prior years' effect of the federal income tax rate increase; and in 1991, the special charge.*

Cash provided by operating activities, which is NS' principal source of liquidity, increased $93.1 million, or 8%, in 1995, compared with 1994 and $269.7 million, or 31%, in 1994, compared with 1993. Since the NS 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 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. The 1994 increase was largely attributable to increased income from operations and to lower income tax payments.

Implementation of the labor portion of the 1991 special charge also contributed to the fluctuations in cash provided by operations. In 1995, 1994 and 1993, $29.3 million, $41.9 million and $36.1 million, respectively, were for such labor costs. In 1993, failure to reach agreement on terms for certain further savings led to a partial reversal of the 1991 special charge (see Note 16 on page 54). Looking ahead, the labor portion of the special charge is expected to require approximately $30 million in 1996 to achieve productivity gains permitted by the agreements. NS regards this cash outflow as an investment because, in view of the high cost of labor and fringe benefits, these payments produce significant future savings. In 1995, it is estimated that NS' expenses were reduced by $160 million as a result of these programs and, upon full implementation, there should be additional savings of about $10 million per year.

Cash used for investing activities increased 16% in 1995, compared with 1994, and was up 4% in 1994, compared with 1993. 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 ($ in millions)	1995	1994	1993	1992	1991
Road	**$385.7**	$384.6	$417.9	$426.5	$395.4
Equipment	**344.3**	245.9	240.5	281.3	235.2
Other property	**33.4**	82.4	10.8	8.3	82.8
Total	**$763.4**	$712.9	$669.2	$716.1	$713.4

Track Structure Statistics (Capital and Maintenance)	1995	1994	1993	1992	1991
Track miles of rail installed	**403**	480	574	660	679
Miles of track surfaced	**4,668**	4,760	5,048	5,690	5,646
New crossties installed (millions)	**2.0**	1.7	1.6	1.9	1.9

Average Ages of Railway Equipment (Years)	1995	1994	1993	1992	1991
Freight cars	**22.0**	21.9	21.3	20.9	20.2
Locomotives	**15.7**	15.8	15.1	14.5	14.2
Retired locomotives	**22.6**	23.6	24.7	24.0	27.1

Since 1988, NS has rebodied more than 20,500 coal cars and plans to continue that program at the rate of about 3,200 cars per year for the next several years. 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 is inferable 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 up to 17,000 freight cars in October 1994. Through the end of 1995, 7,272 of these cars were sold, with proceeds of $42 million included in "Property sales and other transactions" in the Consolidated Statements of Cash Flows. In 1995 and 1993, this line item reflected proceeds from large land sales (see Note 2 on page 47).

For 1996, NS is planning $708 million of capital spending, of which $699 million is for railway projects and $9 million is for motor carrier property. NS anticipates that a portion of its locomotive acquisitions will be financed using capitalized leases similar to the 1995 leases (see Note 6 on page 49). In 1996, equipment financing needs are expected to be somewhat lower than in 1995, as proceeds from the sale of freight cars may be used for some locomotive acquisitions. Barring unforeseen events, total rail and motor carrier capital spending are expected to continue to be similar to 1994 and 1995 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 3% in 1995, compared with 1994, but increased 56% in 1994, compared with 1993. The reduction in 1995 was primarily attributable to lower debt repayments; 1994 had included the maturity of a large mortgage (see Note 6 on page 49 for debt maturities). The 1994 increase was a result of increased purchases under the stock purchase program (see Note 13 on page 53). Cash spent since 1987 to purchase and retire stock totaled $2.9 billion, of which $338.2 million, $344.8 million and $138.1 million was spent in 1995, 1994 and 1993, respectively. Through December 31, 1995, NS had purchased 63.9 million of a total 65 million shares authorized under the stock purchase programs.

On January 23, 1996, the NS Board authorized a new program to acquire up to 30 million additional shares of common stock. NS plans to complete these purchases, dependent on market conditions and other factors, by the end of the year 2000. Some debt is expected to be issued to finance a portion of these purchases. Also on January 23, 1996, NS increased its quarterly dividend, payable in March, from 52 cents to 56 cents per share. The effect of this 7.7% dividend increase on cash outflows will be offset, to some extent, by a reduction in the number of shares outstanding as a result of the stock purchase programs.

HEDGING ACTIVITIES

Certain NS subsidiaries have entered into hedging transactions relating to diesel fuel purchases, foreign exchange transactions and interest rate swaps. The notional amount of diesel fuel and foreign exchange agreements settled from 1993 through 1995 was less than $2 million, and outstanding agreements at December 31, 1995, were less than $5 million. As discussed under "Capital Leases" in Note 6 on page 49, NS has made limited use of interest rate swaps in connection with certain equipment financings.

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 $13 million in 1995 and are anticipated to increase somewhat in 1996. Capital expenditures for environmental projects amounted to approximately $8 million in 1995 and are expected to be at the same level in 1996. As of December 31, 1995, NS' balance sheet included a reserve for environmental exposures in the amount of $44 million (of which $12 million is accounted for as a current liability), which is NS' present best estimate of ultimate liability at 96 identified locations. On that date, eight sites accounted for $16 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.

At many of the 96 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. Liability will be contested. Because the amount of any 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 $132 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 appropriate estimates of liability 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.

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 $13.6 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.

INDUSTRY TRENDS

■ A tentative settlement was reached with the United Transportation Union, which represents the largest number of employees in the railroad industry. The settlement requires ratification by the members before acceptance. The negotiation of this settlement demonstrated that national handling produces the quickest path to agreement. Negotiations with the other unions are progressing.

■ NS and other railroads are continuing to seek opportunities to share traffic routes and facilities, furthering the goals of providing seamless service to customers and maximizing efficiency of the respective railroads.

■ NS is closely monitoring recent merger and consolidation activities within the railroad industry in light of its own long-term strategic objectives to protect the interests of its stockholders.

■ 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.

CONSOLIDATED STATEMENTS OF INCOME

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES

	Years ended December 31, 1995	1994	1993
	($ in millions, except earnings per share)		
Transportation operating revenues:			
Railway	**$ 4,011.8**	$ 3,918.1	$ 3,745.9
Motor carrier (Note 15)	**656.2**	663.2	714.2
Total transportation operating revenues	**4,668.0**	4,581.3	4,460.1
Transportation operating expenses:			
Railway:			
Compensation and benefits (Notes 10 and 16)	**1,480.0**	1,371.1	1,390.5
Materials, services and rents	**618.5**	660.4	649.7
Depreciation	**389.0**	374.3	361.9
Diesel fuel	**189.8**	188.3	179.3
Casualties and other claims	**121.4**	135.1	119.1
Other	**151.3**	145.6	130.1
Total railway operating expenses	**2,950.0**	2,874.8	2,830.6
Motor carrier (Note 15)	**631.7**	641.1	769.1
Total transportation operating expenses	**3,581.7**	3,515.9	3,599.7
Income from operations	**1,086.3**	1,065.4	860.4
Other income — net (Note 2)	**141.8**	85.2	136.8
Interest expense on debt (Note 5)	**113.4**	101.6	98.6
Income before income taxes and accounting changes	**1,114.7**	1,049.0	898.6
Provision for income taxes (Note 3):			
Income taxes	**402.0**	381.2	303.7
Adjustment of net deferred tax liability for federal rate increase	**—**	—	46.2
Total income taxes	**402.0**	381.2	349.9
Income before accounting changes	**712.7**	667.8	548.7
Cumulative effect on years prior to 1993 of changes in accounting principles (Note 1) for:			
Income taxes	**—**	—	466.8
Postretirement benefits other than pensions; and postemployment benefits — net of taxes	**—**	—	(243.5)
Net income	**$ 712.7**	$ 667.8	$ 772.0
Earnings per share amounts (Note 13):			
Earnings per share before accounting changes	**$ 5.44**	$ 4.90	$ 3.94
Cumulative effect on years prior to 1993 of changes in accounting principles for (Note 1):			
Income taxes	**—**	—	3.34
Postretirement benefits other than pensions; and postemployment benefits	**—**	—	(1.74)
Earnings per share	**$ 5.44**	$ 4.90	$ 5.54

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

Norfolk Southern Corporation and Subsidiaries

	As of December 31, 1995	1994
	($ in millions)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 67.7**	$ 57.0
Short-term investments	**261.3**	249.7
Accounts receivable net of allowance for doubtful accounts of $19.1 million and $21.9 million, respectively	**703.5**	726.6
Materials and supplies	**61.7**	61.9
Deferred income taxes (Note 3)	**144.7**	137.0
Other current assets	**103.9**	105.3
Total current assets	**1,342.8**	1,337.5
Investments (Note 4)	**231.7**	172.8
Properties less accumulated depreciation (Note 5)	**9,258.8**	8,987.1
Other assets	**71.5**	90.4
Total assets	**$ 10,904.8**	$ 10,587.8
Liabilities and stockholders' equity		
Current liabilities:		
Short-term debt (Note 6)	**$ 45.2**	$ 44.9
Accounts payable (Note 7)	**732.8**	704.1
Income and other taxes	**190.8**	168.5
Other current liabilities (Note 7)	**151.3**	142.3
Current maturities of long-term debt (Note 6)	**85.7**	72.0
Total current liabilities	**1,205.8**	1,131.8
Long-term debt (Note 6)	**1,553.3**	1,547.8
Other liabilities (Note 9)	**965.5**	961.9
Minority interests	**52.2**	53.5
Deferred income taxes (Note 3)	**2,299.0**	2,208.0
Total liabilities	**6,075.8**	5,903.0
Stockholders' equity:		
Common stock $1.00 per share par value, 450,000,000 shares authorized; issued 136,285,530 shares and 140,386,027 shares, respectively	**136.3**	140.4
Other capital	**430.9**	410.4
Retained income	**4,282.4**	4,154.6
Less treasury stock at cost, 7,252,634 shares	**(20.6)**	(20.6)
Total stockholders' equity	**4,829.0**	4,684.8
Total liabilities and stockholders' equity	**$ 10,904.8**	$ 10,587.8

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows
Norfolk Southern Corporation and Subsidiaries

	Years ended December 31, 1995	1994	1993
		($ in millions)	
Cash flows from operating activities:			
Net income	**$ 712.7**	$ 667.8	$ 772.0
Reconciliation of net income to net cash provided by operating activities:			
Net cumulative effect of changes in accounting principles	—	—	(223.3)
Special charge payments	**(29.3)**	(41.9)	(36.1)
Depreciation	**413.5**	403.8	405.5
Deferred income taxes	**66.7**	112.7	56.2
Nonoperating gains and losses on properties and investments	**(71.8)**	(17.0)	(73.2)
Changes in assets and liabilities affecting operations:			
Accounts receivable	**28.1**	(12.9)	18.1
Materials and supplies	**0.2**	8.4	9.8
Other current assets	**1.4**	(17.8)	4.0
Current liabilities other than debt	**84.2**	55.5	(37.4)
Other — net	**31.7**	(14.3)	(21.0)
Net cash provided by operating activities	**1,237.4**	1,144.3	874.6
Cash flows from investing activities:			
Property additions	**(658.9)**	(712.9)	(669.2)
Property sales and other transactions	**129.5**	86.1	124.4
Investments and loans	**(67.1)**	(58.7)	(95.5)
Investment sales and other transactions	**36.9**	272.0	81.6
Short-term investments — net	**(8.3)**	(74.4)	88.6
Net cash used for investing activities	**(567.9)**	(487.9)	(470.1)
Cash flows from financing activities:			
Dividends	**(273.5)**	(262.7)	259.7)
Common stock issued — net	**19.1**	9.8	15.7
Purchase and retirement of common stock	**(338.2)**	(344.8)	(138.1)
Commercial paper proceeds	—	—	1.3
Proceeds from long-term borrowings	**7.6**	41.4	53.6
Debt repayments	**(73.8)**	(123.6)	(108.6)
Net cash used for financing activities	**(658.8)**	(679.9)	(435.8)
Net increase (decrease) in cash and cash equivalents	**10.7**	(23.5)	(31.3)
Cash and cash equivalents:			
At beginning of year	**57.0**	80.5	111.8
At end of year	**$ 67.7**	$ 57.0	$ 80.5
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest (net of amounts capitalized)	**$ 119.4**	$ 114.3	$ 140.1
Income taxes	**$ 282.9**	$ 226.4	$ 350.7

See accompanying notes to consolidated financial statements.

STB FD 33388 6-23-97 A 180274V7F 9/13

Consolidated Statements of Changes in Stockholders' Equity

Norfolk Southern Corporation and Subsidiaries

	Common Stock	Other Capital	Retained Income	Treasury Stock	Total
			($ in millions)		
Balance December 31, 1992	**$ 147.6**	**$ 407.8**	**$ 3,697.8**	**$ (20.6)**	**$ 4,232.6**
Net income — 1993			772.0		772.0
Dividends on common stock $1.86 per share			(259.7)		(259.7)
Purchase and retirement of common stock	(2.2)	(6.1)	(131.6)		(139.9)
Other	0.3	15.4			15.7
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**

See accompanying notes to consolidated financial statements.

The following notes 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 about one third of railway 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, and 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

"Investments" are reported at amortized cost or fair value depending upon their classification as held-to-maturity, trading or available-for-sale securities in accordance with SFAS No. 115 (see "Required Accounting Changes" below).

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."

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 write off 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 1995, the overall depreciation rate averaged 2.7% for roadway and 4.3% 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

"Earnings per share" in any period are 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 the stock purchase program described in Note 13.

REQUIRED ACCOUNTING CHANGES

<u>1994</u> – Effective January 1, 1994, NS adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115), which addresses the accounting and reporting for

investments in equity securities that have readily determinable fair values and for all investments in debt securities. The implementation of SFAS 115 had no impact on earnings and resulted in a small change in stockholders' equity, reflecting unrealized market changes in certain investments, net of the related deferred taxes.

1993 – Effective January 1, 1993, NS adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (SFAS 106), and Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" (SFAS 112). SFAS 106 requires accrual of the cost of specified health care and death benefits over an employee's creditable service period rather than, as was the previously prevailing practice, accounting for such expenses on a pay-as-you-go basis. SFAS 112 requires recognition of the cost of benefits payable to former or inactive employees after employment but before retirement on an accrual basis. For NS, such postemployment benefits consist principally of obligations under the long-term disability plan. NS recognized the effects of these changes in accounting on the immediate recognition basis. The cumulative effect on years prior to 1993 of adopting SFAS 106 and SFAS 112 increased pretax expenses $360.2 million ($223.8 million after-tax), and $31.8 million ($19.7 million after-tax), respectively (see also Note 11).

Also effective January 1, 1993, NS adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109). SFAS 109 requires a liability approach for measuring deferred tax assets and liabilities based on differences between the financial statement and tax bases of assets and liabilities at each balance sheet date using enacted tax rates in effect when those differences are expected to reverse. The cumulative effect on years prior to 1993 of adopting SFAS 109 increased net income $466.8 million (see also Note 3).

The effect on net income and earnings per share of implementing the accounting changes was to increase net income and earnings per share $223.3 million and $1.60 per share, respectively.

2 Other Income — Net

($ in millions)	1995	1994	1993
Interest income	$ 27.9	$ 25.5	$ 25.1
Royalties from coal	58.6	61.0	55.7
Gains from sale of properties	43.2	17.0	38.6
Gain from partial redemption of partnership interest	30.5	—	—
Rental income	20.8	19.6	21.1
Corporate-owned life insurance — net	7.1	7.7	10.8
Other interest expense	(23.5)	(19.7)	(27.4)
Non-rail depletion and depreciation	(10.2)	(11.6)	(8.9)
Taxes on nonoperating property	(6.9)	(8.2)	(7.7)
Gains from sale of stocks	—	—	34.6
Other — net	(5.7)	(6.1)	(5.1)
Total	$141.8	$ 85.2	$136.8

3 Income Taxes

Provision for Income Taxes ($ in millions)	1995	1994	1993
Current:			
Federal	$ 282.6	$226.4	$250.2
State	52.7	42.1	43.5
Total current taxes	335.3	268.5	293.7
Deferred:			
Federal	57.8	99.0	(2.4)
State	8.9	13.7	12.4
Adjustment of net deferred tax liability for federal rate increase	—	—	46.2
Total deferred taxes	66.7	112.7	56.2
Provision for income taxes	$ 402.0	$381.2	$349.9

1993 Federal Income Tax Rate Increase

In August 1993, Congress enacted the Revenue Reconciliation Act of 1993, which increased the federal corporate income tax rate from 34% to 35%, retroactive to January 1, 1993. The tax rate increase had two components that, as required by SFAS 109, were recognized in 1993 earnings.

The first component relates to the increased income tax rate's effect on 1993 earnings, which increased the provision for income taxes and reduced net income by $7.9 million, or $0.06 per share. The second component increased the provision for the net deferred tax liability in the Consolidated Balance Sheet, which reduced that year's net income by $46.2 million, or $0.33 per share. Excluding this one-time, non-cash charge of $0.33 per share, 1993 earnings per share before accounting changes would have been $4.27.

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:

	1995		1994		1993	
($ in millions)	Amount	%	Amount	%	Amount	%
Federal income tax at statutory rate	**$390.1**	**35.0**	$367.2	35.0	$314.5	35.0
State income taxes, net of federal tax benefit	**40.0**	**3.6**	36.1	3.4	37.2	4.1
Motor carrier restructuring	**—**	**—**	—	—	(36.8)	(4.1)
Corporate-owned life insurance	**(17.0)**	**(1.5)**	(10.5)	(1.0)	(9.8)	(1.1)
Other — net	**(11.1)**	**(1.0)**	(11.6)	(1.1)	(1.4)	(0.1)
	402.0	**36.1**	381.2	36.3	303.7	33.8
Adjustment of net deferred tax liability for federal rate increase	**—**	**—**	—	—	46.2	5.1
Provision for income taxes	**$402.0**	**36.1**	$381.2	36.3	$349.9	38.9

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 1989. The consolidated federal income tax returns for 1990 through 1992 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 in accordance with SFAS 109.

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,	
($ in millions)	1995	1994
Deferred tax assets:		
Reserves, including casualty and other claims	**$ 189.3**	$ 204.0
Employee benefits	**196.1**	176.5
Postretirement benefits other than pension and postemployment benefits	**148.3**	142.1
Taxes, including state and property	**170.3**	165.2
Other	**59.1**	23.4
Total gross deferred tax assets	**763.1**	711.2
Less valuation allowance	**(1.5)**	(1.4)
Net deferred tax assets	**761.6**	709.8
Deferred tax liabilities:		
Property	**(2,821.5)**	(2,744.3)
Other	**(94.4)**	(36.5)
Total gross deferred tax liabilities	**(2,915.9)**	(2,780.8)
Net deferred tax liability	**(2,154.3)**	(2,071.0)
Net current deferred tax assets	**144.7**	137.0
Net long-term deferred tax liability	**$ (2,299.0)**	$ (2,208.0)

Except for amounts for which a valuation allowance is provided, Management believes the deferred tax assets will be realized. The valuation allowance for deferred tax assets as of January 1, 1993, was $9.8 million. The net change in the total valuation allowance was a $0.1 million increase for 1995, a $9.5 million decrease for 1994 and a $1.1 million increase for 1993.

4 INVESTMENTS

	December 31,	
($ in millions)	1995	1994
Corporate-owned life insurance at net cash surrender value	**$ 175.2**	$ 138.6
Marketable equity securities	**5.2**	3.0
Other	**51.3**	31.2
Total	**$ 231.7**	$ 172.8

5 Properties

($ in millions)	December 31, 1995	1994
Transportation property:		
Road	$ 8,235.7	$ 8,019.6
Equipment	4,775.7	4,626.8
Other property	573.7	563.9
	13,585.1	13,210.3
Less: Accumulated depreciation	4,326.3	4,223.2
Net properties	$ 9,258.8	$ 8,987.1

Capitalized Interest

Total interest cost incurred on debt in 1995, 1994 and 1993 was $127.4 million, $119.4 million and $120.2 million, respectively, of which $14.0 million, $17.8 million and $21.6 million was capitalized.

6 Debt

Commercial Paper Program

NS' commercial paper debt totaled $518.0 million and $517.3 million as of December 31, 1995 and 1994, respectively.

Commercial paper debt is due within one year, but $500 million has been classified as long-term because NS has the ability through its $500 million 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 $500 million credit agreement is effective through 1999, provides for interest on borrowings at prevailing rates and contains customary financial covenants, including principally a minimum tangible net worth requirement of $3.3 billion and a restriction on the creation or assumption of certain liens.

Short-Term Debt

($ in millions)	December 31, 1995	1994
Commercial paper notes	$ 18.0	$ 17.3
Other notes	27.2	27.2
Subsidiaries' credit lines	—	0.4
Total	$ 45.2	$ 44.9

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. In March 1991, NS issued and sold $250 million principal amount of its 9% notes due March 1, 2021. In February 1992, NS issued and sold $250 million principal amount of its 7-7/8% notes due February 15, 2004. These notes are not redeemable prior to maturity and are not entitled to any sinking fund.

Capital Leases Obligations

During the first quarter of 1995, an NS rail subsidiary entered into capital leases covering new locomotives. The related capital lease obligations totaling $104.5 million were reflected in the Consolidated Balance Sheet as debt and, because they were non-cash transactions, were excluded from the Consolidated Statement of Cash Flows. The lease obligations carry an average stated interest rate of 8.4% but 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. 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 creditworthy. NS' use of interest rate swaps has been limited to those discussed above.

6 DEBT (CONTINUED)

LONG-TERM DEBT

($ in millions)	December 31, 1995	1994
Railroad equipment obligations at an average rate of 8.0% maturing to 2009	$ 444.6	$ 520.9
Notes at an average rate of 8.4% maturing to 2021	497.5	497.3
Commercial paper classified as long-term debt at an average rate of 5.9%	500.0	500.0
Capitalized leases at an average rate of 6.5% maturing to 2015	100.9	2.0
Mortgage bonds at an average rate of 4.2% maturing to 2003	27.5	33.9
Other debt at an average rate of 8.6% maturing to 2015	68.5	65.7
Total long-term debt	1,639.0	1,619.8
Less: Current maturities	85.7	72.0
Long-term debt less current maturities	$ 1,553.3	$ 1,547.8
Long-term debt matures as follows:		
1997	$ 49.5	
1998	107.1	
1999	119.4	
2000	49.3	
2001 and subsequent years	1,228.0	
Total	$ 1,553.3	

A substantial portion of NS' properties and certain investments in affiliated companies are pledged as collateral for much of the secured debt.

7 CURRENT LIABILITIES

($ in millions)	December 31, 1995	1994
Accounts payable:		
Accounts and wages payable	$ 385.2	$ 363.2
Casualty and other claims	197.4	191.2
Vacation liability	74.4	72.7
Equipment rents payable — net	62.0	67.0
Other	13.8	10.0
Total	$ 732.8	$ 704.1
Other current liabilities:		
Prepaid amounts on forwarded traffic	$ 69.7	$ 72.8
Interest payable	42.8	38.3
Retiree health and death benefit obligation (Note 11)	25.3	22.0
Other	13.5	9.2
Total	$ 151.3	$ 142.3

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:

($ in millions)	Operating Leases	Capital Leases
1996	$ 56.6	$ 15.0
1997	53.8	14.9
1998	45.5	14.9
1999	33.4	14.9
2000	31.8	14.8
2001 and subsequent years	583.8	80.5
Total	$ 804.9	155.0
Less imputed interest on capital leases at an average rate of 8.4%		54.1
Present value of minimum lease payments included in debt		$ 100.9

OPERATING LEASE EXPENSE

($ in millions)	1995	1994	1993
Minimum rents	$ 67.8	$ 56.1	$ 42.0
Contingent rents	36.0	45.4	36.1
Total	$ 103.8	$101.5	$ 78.1

9 OTHER LIABILITIES

($ in millions)	December 31, 1995	1994
Casualty and other claims	$ 286.5	$ 305.0
Net pension obligation (Note 10)	102.2	91.6
Retiree health and death benefit obligation (Note 11)	307.4	300.5
Other	269.4	264.8
Total	$ 965.5	$ 961.9

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

($ in millions)	1995	1994	1993
Service cost-benefits earned during the year	$ 11.5	$ 12.5	$ 13.3
Interest cost on projected benefit obligation	68.0	62.6	60.8
Actual return on assets in plans	(263.4)	(17.0)	(107.4)
Net amortization and deferral	177.0	(62.8)	29.5
Net pension benefit	(6.9)	(4.7)	(3.8)
Cost of early retirement benefits	23.4	—	38.7
Total	$ 16.5	$ (4.7)	$ 34.9

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:

	1995	1994	1993
Discount rate for determining funded status	7.25%	8.50%	7.25%
Future salary increases	6%	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,			
	1995		1994	
($ in millions)	Funded Plans	Unfunded Plans	Funded Plans	Unfunded Plans
Actuarial present value of benefit obligations:				
Vested benefits	$ 812.5	$ 51.7	$ 643.4	$ 41.2
Non-vested benefits	6.6	0.3	4.0	0.2
Accumulated benefit obligation	819.1	52.0	647.4	41.4
Effect of expected future salary increases	115.3	11.5	102.0	9.5
Projected benefit obligation	934.4	63.5	749.4	50.9
Fair value of assets in plans	1,088.8	—	892.0	—
Funded status	154.4	(63.5)	142.6	(50.9)
Unrecognized initial net asset	(35.9)	—	(42.4)	—
Unrecognized (gain) loss	(169.2)	21.5	(159.6)	10.1
Unrecognized prior service cost	(12.8)	3.3	3.8	4.8
Net pension liability included in the balance sheets	$ (63.5)	$ (38.7)	$ (55.6)	$ (36.0)

Early Retirement Programs

During 1995 and 1993, NS completed voluntary early retirement programs for salaried employees. The principal benefit for those who participated in these programs was enhanced pension benefits, which are reflected in the accumulated benefit obligation. The charge for these programs is included in "Compensation and benefits" expense and was $33.6 million in 1995 (including $8.3 million related to postretirement benefits other than pensions) and $42.4 million in 1993. The 1995 program was accepted by 272 employees; the 1993 program, by 378 employees.

401(k) Plans

Norfolk Southern and certain subsidiaries provide 401(k) savings plans for employees. Under the plans, NS matches a portion of the employee contributions, subject to applicable limitations. NS' expenses under these plans were $7.0 million, $5.1 million and $5.2 million in 1995, 1994 and 1993, 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.

11 POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

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:

($ in millions)	1995	1994	1993
Service cost-benefits attributable to service during the year	$ 10.2	$ 14.5	$ 8.7
Interest cost on accumulated postretirement benefit obligation	28.6	25.0	29.1
Actual return on plan assets	(17.6)	—	(1.9)
Net amortization and deferral	0.9	(14.6)	(0.7)
Net postretirement benefit cost	$ 22.1	$ 24.9	$ 35.2
Cost of early retirement benefits	8.3	—	—
Total	$ 30.4	$ 24.9	$ 35.2

The following table sets forth these plans' total accumulated postretirement benefit obligation, reconciled with the accrued postretirement benefit obligation:

	December 31,			
	1995		1994	
($ in millions)	Health Care Benefits	Death Benefits	Health Care Benefits	Death Benefits
Accumulated postretirement benefit obligation:				
Retirees	$ 225.6	$ 83.8	$ 165.0	$ 77.2
Fully eligible active plan participants	23.9	8.0	13.5	4.7
Other active plan participants	52.7	12.8	36.9	11.2
Total	302.2	104.6	215.4	93.1
Plan assets at fair value	72.1	—	54.5	—
Funded status	(230.1)	(104.6)	(160.9)	(93.1)
Unrecognized loss (gain)	59.4	4.1	14.8	(4.5)
Unrecognized prior service cost (benefit)	(61.5)	—	(78.7)	(0.1)
Accrued postretirement benefit obligation	$(232.2)	$(100.5)	$ (224.8)	$ (97.7)

For measurement purposes, an 11% increase in the per capita cost of covered health care benefits was assumed for 1996. 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 health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1995, by about $35 million and the aggregate of the service and interest cost components of net postretirement benefit cost for the year 1995 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 $3.7 million, $4.8 million and $5.3 million in 1995, 1994 and 1993, respectively.

12 LONG-TERM INCENTIVE PLAN

Under the Long-Term Incentive Plan approved by stockholders at their 1995 annual meeting, a disinterested committee of the Board of Directors 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. Grants of SARs and PSUs result in charges to earnings, while grants of stock options have no effect on earnings. Options may be granted for a term not to exceed 10 years but may not be exercised prior to the first anniversary date of grant. Options are exercisable at the fair market value of Norfolk Southern 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. Dividend equivalents and tax absorption payments, if made, result in charges to operating expenses.

Through 1991, SARs were granted on a one-for-one basis in tandem with certain stock options. Upon the exercise of an SAR, the optionee receives in common stock or cash or both the amount by which the fair market value of common stock on the exercise date exceeds the option price. Exercise of an SAR or option cancels any related option/SAR. Because of regulations issued by the Securities and Exchange Commission in 1991, plan participants surrendered, without cash or other consideration, all outstanding SARs granted after 1988. Future grants of SARs are not anticipated at this time. SARs outstanding as of each year end were as follows: 46,562 in 1995; 74,519 in 1994; and 95,852 in 1993.

Stock Option Activity

	Option Shares	Exercise Price Range-Per Share		
Balance 12/31/92	2,513,472	$17.46	to	$56.44
Granted	689,750			63.25
Exercised	(278,083)	17.46	to	56.44
Surrendered for SAR	(28,482)	22.25	to	28.79
Cancelled	(1,250)			63.25
Balance 12/31/93	2,895,407	17.46	to	63.25
Granted	703,750			72.94
Exercised	(93,383)	17.46	to	63.25
Surrendered for SAR	(7,472)	22.25	to	28.79
Cancelled	—	—	to	—
Balance 12/31/94	3,498,302	22.25	to	72.94
Granted	718,250			62.50
Exercised	(656,743)	22.25	to	72.94
Surrendered for SAR	(13,440)	22.25	to	28.79
Cancelled	(3,750)	62.50	to	72.94
Balance 12/31/95	3,542,619	$22.25	to	$72.94

Stock options exercisable 12/31:

1993	2,205,657	$17.46	to	$56.44
1994	2,794,552	22.25	to	63.25
1995	2,825,619	22.25	to	72.94

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 totaled 252,500 in 1995; 163,000 in 1994; and 160,500 in 1993. Shares earned and issued may be subject to share retention agreements and held by NS for up to five years.

Shares of stock available for future grants or issued in connection with all features of the Long-Term Incentive Plan were as follows:

	1995	1994	1993
Available for future grants 12/31	7,143,126	2,060,796	2,835,862
Shares of common stock issued	807,760	190,060	352,248

13 Stock Purchase Programs

Since 1987, the Board of Directors has authorized the purchase and retirement of up to 65 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.

The decreases in the average number of outstanding common shares are the result of these purchase programs. Since the first purchases in December 1987 and through December 31, 1995, NS has purchased and retired 63,932,000 shares of its common stock under these programs at a cost of $2.9 billion. Future purchase decisions are dependent on market conditions, the economy, cash needs and alternative investment opportunities.

On January 23, 1996, the NS Board authorized a new program to acquire up to 30 million additional shares of common stock.

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. "Short-term investments" are reported at fair value in accordance with SFAS 115 (see Note 1). At December 31, 1995 and 1994, all "short-term investments" were designated as available for sale.

The fair value of long-term "Investments" approximated $297 million and $261 million at December 31, 1995 and 1994, respectively. Quoted market prices were used to determine the fair value of marketable securities which, beginning in 1994 (see Note 1, "Required Accounting Changes"), were recorded at fair value. Marketable securities reflect $3.5 million of unrealized holding gains at December 31, 1995, and $2.0 million of unrealized holding losses at December 31, 1994. Underlying net assets were used to estimate the fair value of non-marketable investments; however, if any such investment was sold after the end of the year, its sales price determined its fair value for these purposes. For the remaining investments, consisting principally of corporate-owned life insurance, the carrying value approximates fair value (see Note 4 for carrying values of "Investments").

The fair value of "Long-term debt," including current maturities, approximated $1.77 billion at December 31, 1995, and $1.63 billion at December 31, 1994. 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").

15 MOTOR CARRIER RESTRUCTURING IN 1993

In mid-1993, NS began a restructuring of its motor carrier subsidiary by seeking buyers for the truckload freight portion of NAVL, which consisted of the Commercial Transport Division (CT), a nationwide truckload carrier, and Tran-Star (TS), a refrigerated carrier. The restructuring resulted in the liquidation or transfer to other divisions of most of CT's assets and, in December 1993, the sale of TS' operations. NAVL's revenues and expenses after June 30, 1993, reflect the results of its remaining operations.

In 1993, as a result of these planned dispositions, NS recorded a $50.3 million pretax ($32.3 million after-tax) charge and recognized an additional tax benefit of $36.8 million.

The proceeds from the December 31, 1993, sale of TS' operations are reflected in "Investment sales and other" in the 1993 Consolidated Statement of Cash Flows.

16 PARTIAL REVERSAL OF SPECIAL CHARGE IN 1993

Included in 1991 results was a $680 million special charge for labor force reductions and asset write-downs. However, based on NS' success in eliminating reserve board positions in 1992 and 1993, and on events occurring in the third quarter of 1993, the accrual included in the 1991 special charge related to labor was reduced by $46 million, which was reflected as a credit in "Compensation and benefits" expense. The principal factor contributing to the reversal was the failure in 1993 to reach agreement on terms for certain further labor savings. Accordingly, it became apparent that a surplus existed in the labor portion of the provision established in the 1991 special charge.

17 CONTINGENCIES

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.

DEBT GUARANTEES

As of December 31, 1995, certain Norfolk Southern subsidiaries are contingently liable as guarantors with respect to $66 million of indebtedness of related entities.

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.

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, 1995, NS' balance sheet included a reserve for environmental exposures in the amount of $44 million (of which $12 million is accounted for as a current liability), which is NS' present best estimate of ultimate liability at 96 identified locations. On that date, eight sites accounted for $16 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 96 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.

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 appropriate estimates of liability 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.

KPMG Peat Marwick LLP

THE STOCKHOLDERS AND BOARD OF DIRECTORS
NORFOLK SOUTHERN CORPORATION:

We have audited the accompanying consolidated balance sheets of Norfolk Southern Corporation and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 present fairly, in all material respects, the financial position of Norfolk Southern Corporation and subsidiaries as of December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1995, in conformity with generally accepted accounting principles.

As discussed in Note 1, the Company changed its methods of accounting in 1993 by adopting the provisions of the Financial Accounting Standards Board's Statement 109, Accounting for Income Taxes; Statement 106, Employers' Accounting for Postretirement Benefits Other Than Pensions; and Statement 112, Employers' Accounting for Postemployment Benefits.

KPMG Peat Marwick LLP

Norfolk, Virginia
January 23, 1996

Board and Management Changes

At NS' annual meeting in May 1995, four NS directors were re-elected to three-year terms. They are **L.E. Coleman**, chairman of The Lubrizol Corporation; **T. Marshall Hahn, Jr.**, honorary chairman of the board of Georgia-Pacific Corporation; **Landon Hilliard**, a partner in Brown Brothers Harriman & Co.; and **Jane Margaret O'Brien**, president of Hollins College.

In March, NS announced the election of **Dezora M. Martin** as corporate secretary, succeeding Donald E. Middleton, who retired effective March 31, 1995.

In September, **D. Henry Watts**, formerly executive vice president-Marketing, became vice chairman. **L.I. Prillaman**, formerly vice president-Properties, was named executive vice president-Marketing, succeeding Mr. Watts.

David A. Cox, formerly assistant vice president-Industrial Development, was elected vice president-Properties in November, succeeding Mr. Prillaman.

Also in September, **William B. Bales**, formerly vice president-Coal Marketing, was elected to the new position of senior vice president-International. **John W. Fox, Jr.**, formerly assistant vice president-Coal Marketing, was elected vice president-Coal Marketing, succeeding Mr. Bales.

Thomas J. Golian, formerly executive assistant to the chairman, president and chief executive officer, was elected vice president.

In November, NS assigned new responsibilities to two vice presidents in its Operations division. **Jon L. Manetta**, formerly vice president-Transportation, was named vice president-Transportation and Mechanical, and **Donald W. Mayberry**, formerly vice president-Mechanical, was named vice president-Research and Tests.

Quarterly Financial Data

(Unaudited)

	Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
1995	*(In millions of dollars except per share amounts)*			
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
1994				
Transportation operating revenues	$1,076.8	$1,161.4	$1,171.2	$1,171.9
Income from operations	[illegible]2.3	278.3	277.5	287.3
Net income	144.9	178.5	168.3	176.1
Earnings per share	$ 1.05	$ 1.30	$ 1.24	$ 1.31

Stock Price and Dividend Information

(Unaudited)

The common stock of Norfolk Southern Corporation, owned by 53,401 stockholders of record as of December 31, 1995, 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 1995 and 1994.

	Quarter			
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
1994	**1st**	**2nd**	**3rd**	**4th**
Market Price				
High	$ 74 3/4	$ 67 3/8	$ 65 1/2	$ 64 5/8
Low	62 3/4	59 3/4	58 1/2	59
Dividends per share	$ 0.48	$ 0.48	$ 0.48	$ 0.48

NS' Equal Opportunity Policy

Norfolk Southern's policy is to comply with all applicable laws, regulations and executive orders concerning equal opportunity and non-discrimination and to offer employment on the basis of qualification and performance regardless of race, color, creed, national origin, sex, age, or status as a Vietnam veteran.

Additionally, the policy provides employment and equal conditions of employment to qualified individuals with disabilities and disabled veterans within their capabilities to safely perform services with a reasonable accommodation which does not cause the Corporation undue hardship.

The explicit intention is to assure equal treatment and opportunity for all employees and employment applicants beyond simple compliance with the letter of civil rights legislation, and to make every effort through affirmative action to comply fully with the spirit of equal employment opportunity.

Gerald L. Baliles, 55, of Richmond, Va., is a partner in the law firm of Hunton & Williams, a business law firm with offices in several major U.S. cities and international offices in Brussels, Warsaw and Hong Kong. His Board service began in 1990; his current term expires in 1996.

David R. Goode, 55, of Norfolk, Va., is chairman, president and chief executive officer of Norfolk Southern. He joined Norfolk and Western Railway in 1965 and was named CEO of Norfolk Southern in 1992. His Board service began in 1992; his current term expires in 1997.

Gene R. Carter, 56, of Alexandria, Va., is executive director of the Association for Supervision and Curriculum Development, among the world's largest international education associations. His Board service began in 1992; his current term expires in 1996.

T. Marshall Hahn, Jr., 69, of Atlanta, Ga., is honorary chairman of the board of Georgia-Pacific Corporation, a manufacturer and distributor of building products, pulp and paper products and chemicals. His Board service began in 1985; his current term expires in 1998.

L.E. Coleman, 65, of Wickliffe, Ohio, is chairman of The Lubrizol Corporation, a diversified specialty chemical company. A former director of Norfolk and Western Railway (1980-82), his NS Board service began in 1982; his current term expires in 1998.

Landon Hilliard, 56, of New York, N.Y., is a partner in Brown Brothers Harriman & Co., a private bank in New York City. His Board service began in 1992; his current term expires in 1998.

E.B. Leisenring, Jr., 70, of Philadelphia, Pa., is chairman of the Philadelphia Contributionship, the nation's oldest insurance company. A former director of Southern Railway (1961-82), his NS Board service began in 1982; his current term expires in 1996.

Jane Margaret O'Brien, 42, of Roanoke, Va., is president of Hollins College. Her Board service began in 1994; her current term expires in 1998.

Arnold B. McKinnon, 68, of Norfolk, Va., retired as NS' chairman and chief executive officer in 1992. He began his railroad service in 1951 with Southern Railway and was a director from 1979-82. His NS Board service began in 1986; his current term expires in 1996.

Harold W. Pote, 49, of New York, N.Y., is a partner of The Beacon Group, a private investment partnership. His Board service began in 1988; his current term expires in 1997.

Robert E. McNair, 72, of Columbia, S.C., is chairman of McNair Law Firm, P.A. A former director of Southern Railway (1971-82), his NS Board service began in 1987; his current term expires effective the date of the 1996 Annual Meeting.

Committees of the Board

Audit: Coleman, chairman; Baliles, Carter, Hilliard, Pote

Compensation and Nominating: Leisenring, chairman; Coleman, Hahn, McNair

Executive: McKinnon, chairman; Goode, Hahn, Leisenring

Pension: Hahn, chairman; Leisenring, McNair, O'Brien, Pote

Officers
(As of February 1, 1996)

David R. Goode, 55
Chairman, President and Chief Executive Officer, 30 years' service
John R. Turbyfill, 64
Vice Chairman, 35 years' service
D. Henry Watts, 64
Vice Chairman, 45 years' service
R. Alan Brogan, 55
Executive Vice President-Transportation Logistics, 31 years' service
L.I. Prillaman, 52
Executive Vice President-Marketing, 25 years' service
John S. Shannon, 64
Executive Vice President-Law, 39 years' service
Stephen C. Tobias, 51
Executive Vice President-Operations, 26 years' service
Henry C. Wolf, 53
Executive Vice President-Finance, 23 years' service
William B. Bales, 60
Senior Vice President-International, 33 years' service
Paul N. Austin, 52
Vice President-Personnel, 28 years' service
James C. Bishop, Jr., 59
Vice President-Law, 28 years' service
John F. Corcoran, 55
Vice President-Public Affairs, 33 years' service
David A. Cox, 59
Vice President-Properties, 39 years' service
Thomas L. Finkbiner, 43
Vice President-Intermodal, 8 years' railroad service
John W. Fox, Jr., 48
Vice President-Coal Marketing, 26 years' service
Thomas J. Golian, 62
Vice President, 45 years' service
James L. Granum, 59
Vice President-Public Affairs, 33 years' service
James A. Hixon, 42
Vice President-Taxation, 11 years' service
Jon L. Manetta, 57
Vice President-Transportation and Mechanical, 40 years' service
Harold C. Mauney, Jr., 57
Vice President-Quality Management, 34 years' service
Donald W. Mayberry, 52
Vice President-Research and Tests, 31 years' service
James W. McClellan, 56
Vice President-Strategic Planning, 21 years' service
Kathryn B. McQuade, 39
Vice President-Internal Audit, 15 years' service
Charles W. Moorman, 43
Vice President-Information Technology, 20 years' service
Phillip R. Ogden, 55
Vice President-Engineering, 32 years' service
Magda A. Ratajski, 45
Vice President-Public Relations, 19 years' service
John P. Rathbone, 43
Vice President and Controller, 14 years' service
William J. Romig, 51
Vice President and Treasurer, 18 years' service
Donald W. Seale, 43
Vice President-Merchandise Marketing, 19 years' service
Robert S. Spenski, 61
Vice President-Labor Relations, 30 years' service
Dezora M. Martin, 48
Corporate Secretary, 23 years' service

Glossary of Terms

Bulk transfer — the transfer of bulk products, such as plastic pellets or liquid sweeteners, from one mode of transportation to another. Bulk transfer permits off-rail shippers and receivers of varied commodities to combine rail's long-haul efficiencies with truck's convenient door-to-door delivery.
Capitalized costs — expenditures that have future benefit and thus are recorded as assets.
Car utilization — ways to measure railcar productivity. Among the measures are how much freight a car hauled and how many trips it made in a specified period of time.
Carload — a shipment of not less than five tons of one commodity.
Class I railroad — a railroad having operating revenues of more than $255.9 million annually.
Connecting carrier — a railroad with a physical connection with another.
Container — a large, weatherproof box designed for shipping freight in bulk by rail, truck or steamship.
Cycle time — the length of time consumed by a freight car from one loading to the next.
Debt-to-total-capitalization ratio — the percentage of total capital that is debt. Total capital is the combination of long-term debt, short-term debt, current maturities of long-term debt, and stockholders' equity.
Demurrage — the charge for delay of railcars held by shippers or receivers beyond prescribed free time.
Distribution center — a centrally located warehouse where goods shipped long distances by rail are loaded onto trucks for short-haul delivery to receivers, or vice versa. Also called a reload center, it combines the economies of rail with the flexibility of truck pickup and delivery.
Ditch lights — a pair of lights on the front of a locomotive intended to increase its visibility to motorists and pedestrians, especially at grade crossings.
Double-stack containers — containers that can be stacked one atop another on a flatcar.
Flatcar — an open car without sides or roof.
Grade crossing — that point at which a roadway intersects a rail line.
Gross ton-mile — the movement of the combined weight of cars and their contents a distance of one mile.
Hopper — an open-top car with pockets, or hoppers, opening on the underside of the car for unloading bulk commodities.
Hump yard — a regional gathering point where freight is classified and forwarded to final destinations. The three components are a receiving yard, a classification yard, in which railcars are pushed over a hump to various classification tracks, and a forwarding yard.
Intermodal service — freight moving via at least two different modes of transport. Intermodal service generally involves the shipment of containers and trailers by rail, truck, barge or ship.
Joint venture — a business activity by two or more companies.
Less-than-truckload (LTL) — the quantity of freight that's less than that required for application of a truckload rate.
Line capacity — the maximum number of trains that can operate safely and reliably over a given segment of track during a given period of time.
Line-haul service — the movement over the tracks of a carrier from one city to another, not including the switching service.
Main line — primary rail line over which trains operate between terminals. It excludes sidings, and yard and industry tracks.
Multilevel car — a long flatcar designed with one or more deck levels in addition to the car's main deck, and used to haul new automobiles and trucks.
Net ton-mile — the movement of a ton of freight one mile.
Operating ratio — the percentage of revenues that goes into operating the railroad. It is calculated by dividing railway operating expenses by railway operating revenues.
Return on equity — net income divided by average stockholders' equity.
Revenue ton-mile — the movement of a ton of freight one mile for revenue.
Right-of-way — the property owned by a railroad over which tracks have been laid.
Subsidiary — a company owned by another company that controls a majority of its stock.
Switching — movement of freight cars between two nearby locations or trains. Switching is a term typically associated with activities that occur in a railcar classification yard or terminal.
Terminal — a railroad facility used for handling freight and the receiving, classifying, assembling and dispatching of trains.
Through freight train — an express freight train between major terminals.
Total return to stockholders — stock-price change plus reinvested dividends expressed as a percentage of the purchase price of the stock.
Trailer — a cargo-carrying highway vehicle without automotive power.
Unit train — a freight train that moves carloads of a single product between two points. By unloading on arrival and returning promptly for another load, such trains cut costs because they eliminate intermediate stops in yards and reduce cycle times.
Yard — a system of tracks branching from a common track. Yards are used for switching, making up trains and storing cars.

Norfolk Southern 1995 Annual Report Reader Survey

Dear Investor:
Thank you for reading the Norfolk Southern 1995 Annual Report. Your opinions are important to us and will help us improve our ability to serve you. Please take a few minutes to tell us what you think about the annual report by answering the following questions. When you have completed the survey, please drop it in the mail. The postage is prepaid.

1 *When reading the annual report, individuals have different information needs. Please rate the sections of the annual report that you found most helpful by circling the appropriate number. When making your assessments, consider the overall quality, communication effectiveness and readability of the section.*

	Very Poor	Poor	Fair	Good	Excellent
Financial Highlights	1	2	3	4	5
Chairman's Letter to Stockholders	1	2	3	4	5
Spotlighting Growth, Change and Progress	1	2	3	4	5
Narratives on Growth, Service and Productivity	1	2	3	4	5
1995: The Year in Review	1	2	3	4	5
Financial Overview	1	2	3	4	5
Financial Statements	1	2	3	4	5
Management's Discussion and Analysis	1	2	3	4	5
Glossary of Terms	1	2	3	4	5
Stockholder Information	1	2	3	4	5

2 *Please rate the annual report on the following characteristics:*

	Very Poor	Poor	Fair	Good	Excellent
Appearance/design	1	2	3	4	5
Organization/ease of locating information	1	2	3	4	5
Readability	1	2	3	4	5
Use of charts/graphs	1	2	3	4	5
Helping you understand Norfolk Southern	1	2	3	4	5
Use of photographs	1	2	3	4	5
Showing how Norfolk Southern is positioned for the future	1	2	3	4	5

3 *Taken as a whole, please rate the report by circling the number below that best describes your overall impression of this report and how it compares to other annual reports you receive.*

	Very Poor	Poor	Fair	Good	Excellent
Overall, I feel the 1995 report is:	1	2	3	4	5

4 *What information would you like included in future reports?*

5 *What do you dislike about this report?*

(more)

6 *Please check the box that best describes you:*

- ☐ I personally own the stock in my own name and have the certificates
- ☐ I personally own the stock through an emp! ·yee stock plan
- ☐ I personally own the stock; however, my broker keeps the certificates
- ☐ I am an analyst following the company
- ☐ I am an investment manager
- ☐ I am a customer of Norfolk Southern
- ☐ I am a potential stockholder

7 *Comments*

fold here

tape here to seal

Thank you for reading the 1995 Annual Report and for answering our survey.

fold ... *e*

NO POSTAGE
NECESSARY
IF MAILED
IN THE
UNITED STATES

BUSINESS REPLY MAIL
FIRST-CLASS MAIL PERMIT NO. 1030 ROANOKE, VA.

POSTAGE WILL BE PAID BY ADDRESSEE

EDITOR, ANNUAL REPORT
NORFOLK SOUTHERN CORPORATION
PUBLIC RELATIONS DEPARTMENT
THREE COMMERCIAL PLACE
NORFOLK, VA 23510-2191

COMMON STOCK

Ticker symbol: NSC
Newspaper listing: NorflkSo

Common stock of Norfolk Southern Corporation is listed and traded on the New York Stock Exchange.

Stockholders of record at year-end: 53,401

Shares outstanding at year-end: 129,032,896, excluding treasury stock

DIVIDENDS

At its January 1996 meeting, the Corporation's Board of Directors increased the March quarterly dividend to 56 cents per share on its common stock.

Norfolk Southern Corporation pays quarterly dividends on its common stock, usually on or about March 10, June 10, September 10 and December 10. The Corporation has paid 54 consecutive quarterly dividends since its inception in 1982.

DIVIDEND REINVESTMENT PLAN

Stockholders whose names appear on their stock certificates (not a street or broker name) are eligible to participate in the Dividend Reinvestment Plan.

The Plan provides a convenient, economical and systematic method of acquiring additional shares of the Corporation's common stock. The Plan permits eligible stockholders of record to reinvest dividends from Corporation stock in shares of Norfolk Southern Corporation.

The Plan's administrator is The Bank of New York. For additional information, dial (800) 524-4458.

ANNUAL MEETING OF STOCKHOLDERS

May 9, 1996, at 10 a.m. EDT
The Norfolk Waterside Marriott
and Waterside Convention Center
235 East Main Street
Norfolk, Virginia

PUBLICATIONS

Upon written request, the Corporation's annual report to the Securities and Exchange Commission on Form 10-K for the fiscal year ended December 31, 1995, and its quarterly reports on Form 10-Q will be furnished to stockholders free of charge; write to: Public Relations Department, Norfolk Southern Corporation, 110 Franklin Road, S.E., Roanoke, Virginia 24042-0043.

A *Notice and Proxy Statement/Annual Meeting of Stockholders* are furnished to stockholders in advance of the annual meeting.

A toll-free telephone number — (800) 531-6757 — now provides access to information previously published in the quarterly Stockholder Newsletter.

CORPORATE OFFICES

Executive Offices

Norfolk Southern Corporation
Three Commercial Place
Norfolk, Virginia 23510-2191
(804) 629-2600

Regional Offices

110 Franklin Road, S.E.
Roanoke, Virginia 24042

99 Spring Street, S.W.
Atlanta, Georgia 30303

North American Van Lines, Inc.

5001 U.S. Highway 30 West
Post Office Box 988
Fort Wayne, Indiana 46801

STOCKHOLDER ACCOUNT ASSISTANCE

For assistance with lost stock certificates, transfer requirements and the Dividend Reinvestment Plan, contact:

Registrar and Transfer Agent
The Bank of New York
101 Barclay Street-12W
New York, New York 10286-1002
(800) 524-4458

For assistance with address changes, dividend checks and direct deposit of dividends, contact:

Assistant Corporate Secretary-
Stockholder Records
Norfolk Southern Corporation
Three Commercial Place
Norfolk, Virginia 23510-2191
(800) 531-6757

INVESTOR INQUIRIES

Securities analysts, portfolio managers and representatives of financial institutions seeking financial and operating information may contact:

Deborah Noxon
Director, Investor Relations
Norfolk Southern Corporation
Three Commercial Place
Norfolk, Virginia 23510-2191
(804) 629-2861

ANNUAL REPORT REQUESTS

(800) 531-6757

WORLD WIDE WEB ADDRESS

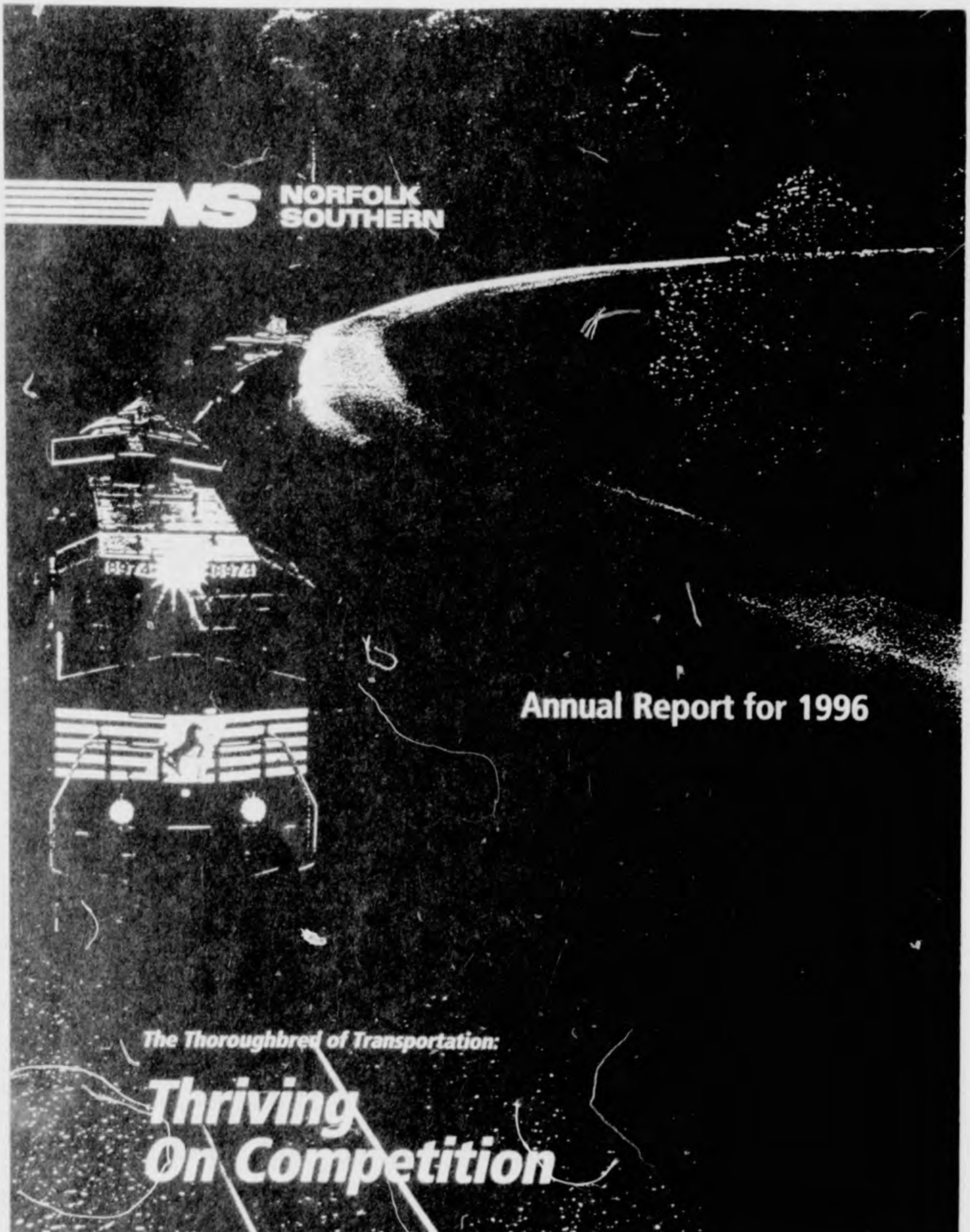
http://www.nscorp.com

This report has been printed on recycled paper. It contains 50% recycled fiber, 10% of which is post-consumer waste. Approximately 8% of the total fiber was manufactured from waste paper collected in NS' corporate office in Atlanta.

Photography: Andres Alonso, Gary Benson, Tom Busler, Diane Davis, Alan DeVorsey, Bob Lake, Chris Little, Jim McCoy, Tom Mileshko, Bobbe Wolfe
Printing: Progress Press, Inc., of Roanoke, Virginia

NSC Listed NYSE

Norfolk Southern Corporation
Three Commercial Place
Norfolk, Virginia 23510-2191


NS NORFOLK SOUTHERN
Annual Report for 1996
The Thoroughbred of Transportation:
Thriving On Competition

Our vision: Be the safest, most customer-focused and successful transportation company in the world

Our Creed

We are responsible to our Stockholders, Customers, Employees, and the Communities we serve.

For all our Constituencies, we will make safety our highest priority.

For our Customers, we will provide quality service, always trying to reduce our costs in order to offer competitive prices.

For our Stockholders, we will strive to earn a return on their equity investment which will increase the value of their ownership. By generating a reasonable return on invested capital, we will provide the security of a financially strong company to our Customers, Employees, Stockholders, and Communities.

For our Employees, our greatest asset, we will provide fair and dignified treatment with equal opportunity at every level. We will seek talented Management with the highest standards of honesty and fairness.

For the Communities we serve, we will be good corporate citizens, seeking to enhance their quality of life through service, jobs, investment, and the energies and good will of our Employees.

Description of Business

Norfolk Southern Corporation is a Virginia-based holding company that owns all the common stock of and controls a major freight railroad, Norfolk Southern Railway Company; a motor carrier, North American Van Lines, Inc.; and a natural resources company, Pocahontas Land Corporation.

The railroad system's lines extend over approximately 14,300 miles of road in 20 states, primarily in the Southeast and Midwest, and the Province of Ontario, Canada.

North American provides household moving and specialized freight handling services in the United States and Canada, and offers certain motor carrier services worldwide.

Pocahontas Land manages more than 900,000 acres of coal, natural gas and timber resources in Alabama, Illinois, Kentucky, Tennessee, Virginia, and West Virginia.

About the Cover

A coal train near Bluefield, W.Va., is passed by a westbound train hauling finished

NS' Equal Opportunity Policy

Norfolk Southern's policy is to comply with all applicable laws, regulations, and executive orders concerning equal opportunity and nondiscrimination and to offer employment on the basis of qualification and performance regardless of race, color, creed, national origin, sex, age, or status as a Vietnam veteran.

Additionally, the policy provides employment and equal conditions of employment to qualified individuals with disabilities and disabled veterans within their capabilities to safely perform services with a reasonable accommodation that does not cause the Corporation undue hardship.

Contents

Dear Fellow Stockholders:

1996 will go down as an historic year for Norfolk Southern. We set new safety, service, and performance levels and continued to break our own records. In 1996, we achieved:

- Record earnings per share of $6.09, a 12% improvement.
- Net income of $770 million, up 8%.
- Income from rail operations of $1.2 billion, a 10% increase over 1995.
- The 16th straight quarter of year-over-year increases in earnings per share.
- A dividend increase of 8%, strengthening the best return in the industry.

In the transportation industry, there are many ways to measure success, and we excelled in some of the most important of them:

- Our operating ratio. At 71.6%, we improved more than a point, and we intend to continue to improve.
- Our safety record. We marked our best-ever year, improving on last year's record by 17%. We received our seventh consecutive E.H. Harriman Memorial gold medal award for employee safety. No other major railroad comes close to matching this achievement. We've raised industry safety standards and competition for this award to unparalleled heights.
- Our grade-crossing safety record. Even though we reduced the number of rail/highway grade-crossing incidents on Norfolk Southern by 18%, we aim for greater reductions.
- On-time performance. We improved by 8% our ability to get the right car to the right place at the right time. Although we are making progress in this area, we must continue to raise the bar to meet customer expectations.
- Locomotive utilization. We increased the time our locomotives are pulling trains by more than 4%. This increases our ability to provide better service to customers, and we are redoubling our efforts to improve.

NS people accomplished these impressive results at a time when we were presented with a serious challenge to our position in the industry, to our ability to provide customers the service they expect, and to our leadership role on the national transportation scene. We responded to this challenge, and we accomplished much despite it.

Norfolk Southern is a benchmark — a company others seek to emulate. We take that role seriously and try to set business standards that are high for ourselves and others. Even so, we accept the call to do still better.

What Inspires And Drives The Thoroughbred?

What inspires Norfolk Southern's success? What drives the Thoroughbred of Transportation? What will sustain its success?

We have the competitive will to excel for the benefit of our customers. By doing that, we benefit our employees and shareholders.

Financial Highlights

(In millions of dollars except per share amounts)	1996	1995*	% Increase (Decrease)
Financial Results			
Operating revenues	**$ 4,770.0**	$ 4,668.0	2
Operating income	**$ 1,197.0**	$ 1,086.3	10
Net income	**$ 770.4**	$ 712.7	8
Earnings per share	**$ 6.09**	$ 5.44	12
Railway operating ratio	**71.6%**	73.5%	(3)
Return on average stockholders' equity	**15.7%**	15.0%	5
Financial Position			
Total assets	**$ 11,416.4**	$ 10,904.8	5
Total debt**	**$ 1,900.3**	$ 1,684.2	13
Stockholders' equity	**$ 4,977.6**	$ 4,829.0	3
Debt-to-total capitalization	**27.6%**	25.9%	7

** 1995 results include a charge for an early retirement program that reduced operating income by $33.6 million, net income by $20.4 million, and earnings per share by 16 cents. Excluding the charge, the railway operating ratio was 72.7%, and return on average stockholders' equity was 15.4%. See note 10 on page 50.*

** Includes [illegible]

We've been successful for many years and in many areas. We've posted impressive patterns of growth, but let me assure you that our success is not taken for granted. Norfolk Southern's accomplishments are made possible by a competitive spirit and sense of integrity that run deep in the soul of this company and its people. We thrive on challenge.

While it's true we've inherited a rich tradition, we have built on our legacy, using it as a catalyst for excellence.

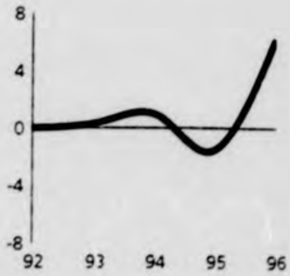
Our spirit — that intangible factor that's difficult to define, difficult to quantify, and difficult for others to duplicate — enables us to set industry standards with consistency. Nothing will cause us to veer from our course for improvement.

Norfolk Southern's success in the future will stem from the constant commitment of talented, dedicated people intent on achieving our vision to "be the safest, most customer-focused and successful transportation company in the world."

At Norfolk Southern, success is not built on good intentions but by working with our customers and suppliers as a team to produce a world-class transportation product. By doing the best job for our customers, we strengthen our ability to produce world-class results for our owners.

Norfolk Southern promotes an environment that encourages people to do their best, to find winning solutions for customers and to put their hearts and souls into serving them.

On-Time Performance — Committed Traffic
Percent change from 1992



NS people will continue to win big victories. We will continue to lead the industry — to be the hallmark — in bringing transportation and logistics solutions to an expanding market.

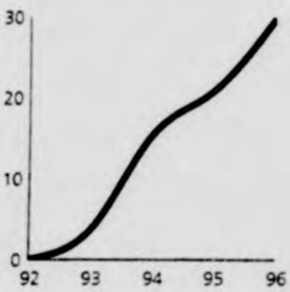
What Will Sustain Us?

Competition enhances successful operations. Norfolk Southern is willing to accept the challenge of fair competition with anyone. But competitive solutions work best when the playing field is level.

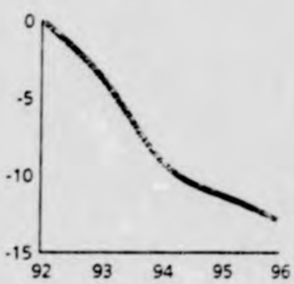
That is why we acted so quickly in 1996 when confronted with an effort to exclude us from a large share of the transportation business in the East.

During the closing months of 1996, we launched an all-cash offer for Conrail. We offered a fair price, but one

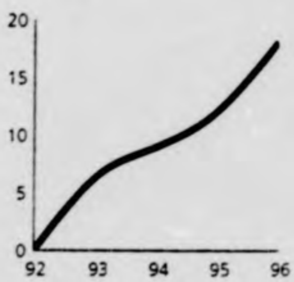
Gross Ton-Miles (GTM) per Employee
Percent change from 1992



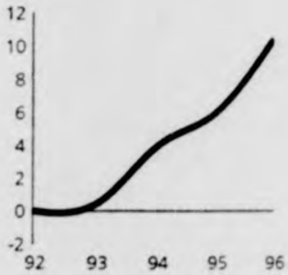
Railway Operating Expenses per Thousand GTM
Percent change from 1992



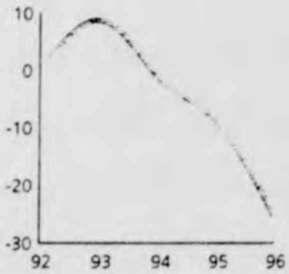
Car Utilization — Merchandise
Percent change from 1992



Locomotive Utilization
(Based on year-end performance)
Percent change from 1992



Grade Crossing Incidents
Percent change from 1992



that will ensure a solid return for our stockholders and a leading role in transportation for the Thoroughbred.

We have long sought to join forces with Conrail to extend our market reach. We have been aggressive in our pursuit because we believe in competition in the transportation industry. We want to ensure two strong, balanced rail systems in the East to match the two systems in the West.

By striking that balance, the future of effective, competitive rail transportation can be assured, not only for the shipping public but for all our constituencies.

For customers, a Norfolk Southern presence in the Northeast will mean improved single-line access to some of the largest markets in the world. We strongly believe we can use this access to benefit our customers.

For stockholders and employees, it will mean opportunities that come with greater growth, improved efficiency, and progressive management. The returns will follow our success in fitting our people's talents to our customers' needs. We can do this on a broader playing field, and everyone will benefit.

The combination of Norfolk Southern and Conrail will enable us to leverage our existing partnerships, expand the joint initiatives we have already undertaken, and improve our outstanding record of customer service.

Norfolk Southern — with the best safety, financial, and operating performance among major railroads, and a developing role as a logistics and distribution leader — is clearly an ideal strategic partner for Conrail. We welcome the opportunity to work with Conrail people to build an even stronger and more successful company.

As this matter proceeds through the regulatory process, we are committed to achieving competitive balance in the overall transportation picture and to ensuring Norfolk Southern's appropriate place in it. We are committed on behalf of our stockholders, customers, and employees, and on behalf of a nation that requires a strong transportation industry.

The development of this matter is a continuing challenge that we will see through to a solution that strengthens the Thoroughbred. At the same time, we will provide customer service of the highest quality. We will never let up.

**Our Pledge:
Compete Vigorously**

Norfolk Southern does not take its long history of success for granted. It is our nature to do better, to be better, to always strive. That's the catalyst that drives our results and improves our overall value. That's our pledge to every member of the extended NS family.

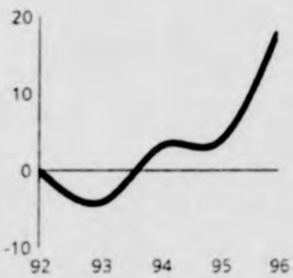
You can be confident that we will continue to learn from the past, prevail in the present, and compete vigorously in the future. The Thoroughbred of Transportation will continue its tradition of leadership.

David R. Goode

Chairman, President and
Chief Executive Officer

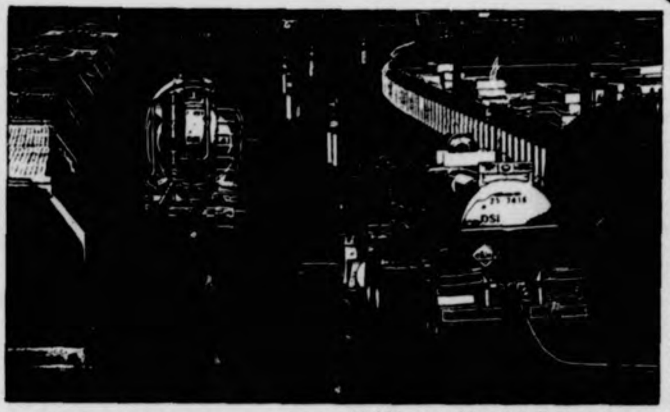
January 28, 1997

Car Utilization — Coal
Percent change from 1992



NORFOLK SOUTHERN OPERATIONS

1



NS' Thoroughbred Bulk Transfer (TBT) facilities form the most modern network available in the U.S. for transport of bulk goods. TBTs, like NS' newest facility at Petersburg, Va., are ideal for product transfer from railcar to truck of plastic pellets, corn sweeteners, flour, sugar, and starch, among other goods. The Petersburg facility handles plastics, caustic soda, and supplements for chicken feed.

2

NS' Police Communications Center in Roanoke, Va., operates around-the-clock, providing centralized communications for the railroad's 43 police field offices and its 230 sworn officers. The center handles telephone calls from NS employees, customers, and the public regarding emergencies and other situations demanding rail police attention.

3

NS worked during 1996 to revamp the network necessary to transport paper and clay from the Southeast to the upper Midwest. Changes in train service were made in Georgia, South Carolina, and Alabama to speed service into Chattanooga, Chicago, and beyond.

4

NS ships newly manufactured vehicles for General Motors from its assembly plants in Atlanta, Detroit, Kansas City, Wentzville, Mo., and Fort Wayne, Ind., the newest GM plant to locate on NS tracks. NS handles about 20% of all vehicles produced in North America.

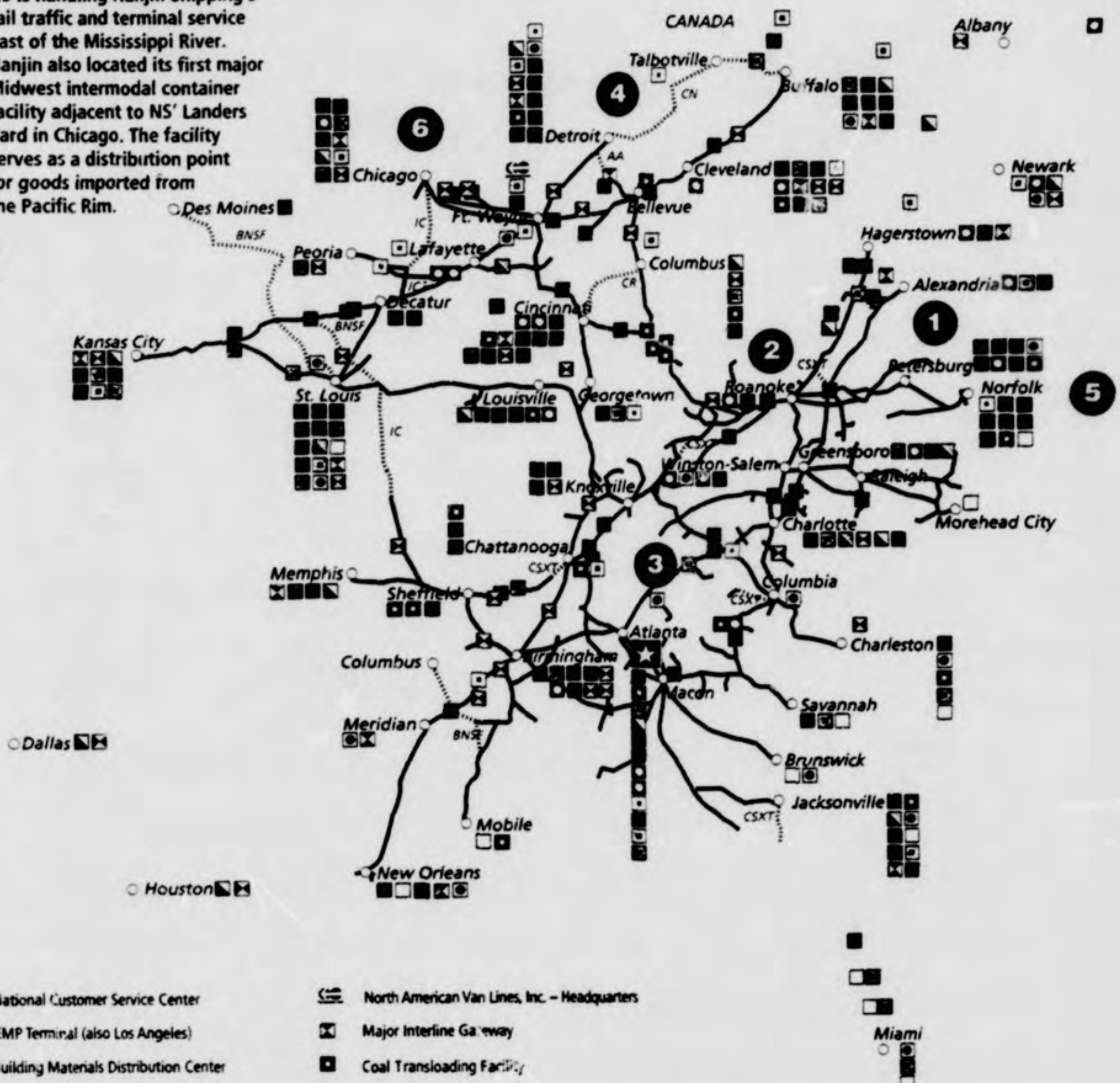
5

Total tonnage through Lamberts Point in Norfolk, Va., to domestic utilities along the East Coast and to export receivers increased 2% in 1996 over the previous year.

Under a long-term agreement, NS is handling Hanjin Shipping's rail traffic and terminal service east of the Mississippi River. Hanjin also located its first major Midwest intermodal container facility adjacent to NS' Landers Yard in Chicago. The facility serves as a distribution point for goods imported from the Pacific Rim.

6

NORFOLK SOUTHERN SYSTEM MAP



- National Customer Service Center
- EMP Terminal (also Los Angeles)
- Building Materials Distribution Center
- Lumber Reload Center Served
- Bulk Transfer Facility Served
- Auto Distribution Terminal
- Domestic Steel and Galvanizing Plant
- Off-Line Intermodal Terminal with NS Schedules (also Los Angeles)
- Auto Auction or Distribution Facility Served
- North American Van Lines, Inc. – Headquarters
- Major Interline Gateway
- Coal Transloading Facility
- Port Served
- Brick Transloading Center
- Intermodal Terminal
- Major Rail Classification Yard
- Auto Assembly Plant Served
- Triple Crown Services Co. – Terminal
- Paper Distribution Center Served
- Metals Products Transloading Center
- Thoroughbred Bulk Transfer (TBT) Terminal
- Auto Distribution Terminal and Auto Assembly Plant Served
- Norfolk Southern
- Norfolk Southern Trackage Rights

6

THRIVING ON COMPETITION

LESSONS OF AN EXTRAORDINARY 48 HOURS

During a two-day period in mid-November 1996, five customers chose Norfolk Southern to handle or coordinate rail service for major new projects.

Even though these important arrangements were "signed, sealed, and delivered" over a mere 48 hours, each was the culmination of a long, intensive, and focused Thoroughbred effort.

These accomplishments are important reminders of the qualities and attitudes on which future successes depend.

These five customers chose NS for basic reasons. NS has earned their business, and will earn more from others, because of the demonstrated credibility of its commitment to continuous service improvement.

NS people know that the better the Thoroughbred is at what it does and the more it understands about assisting customers, the better the customers can be at what they do.

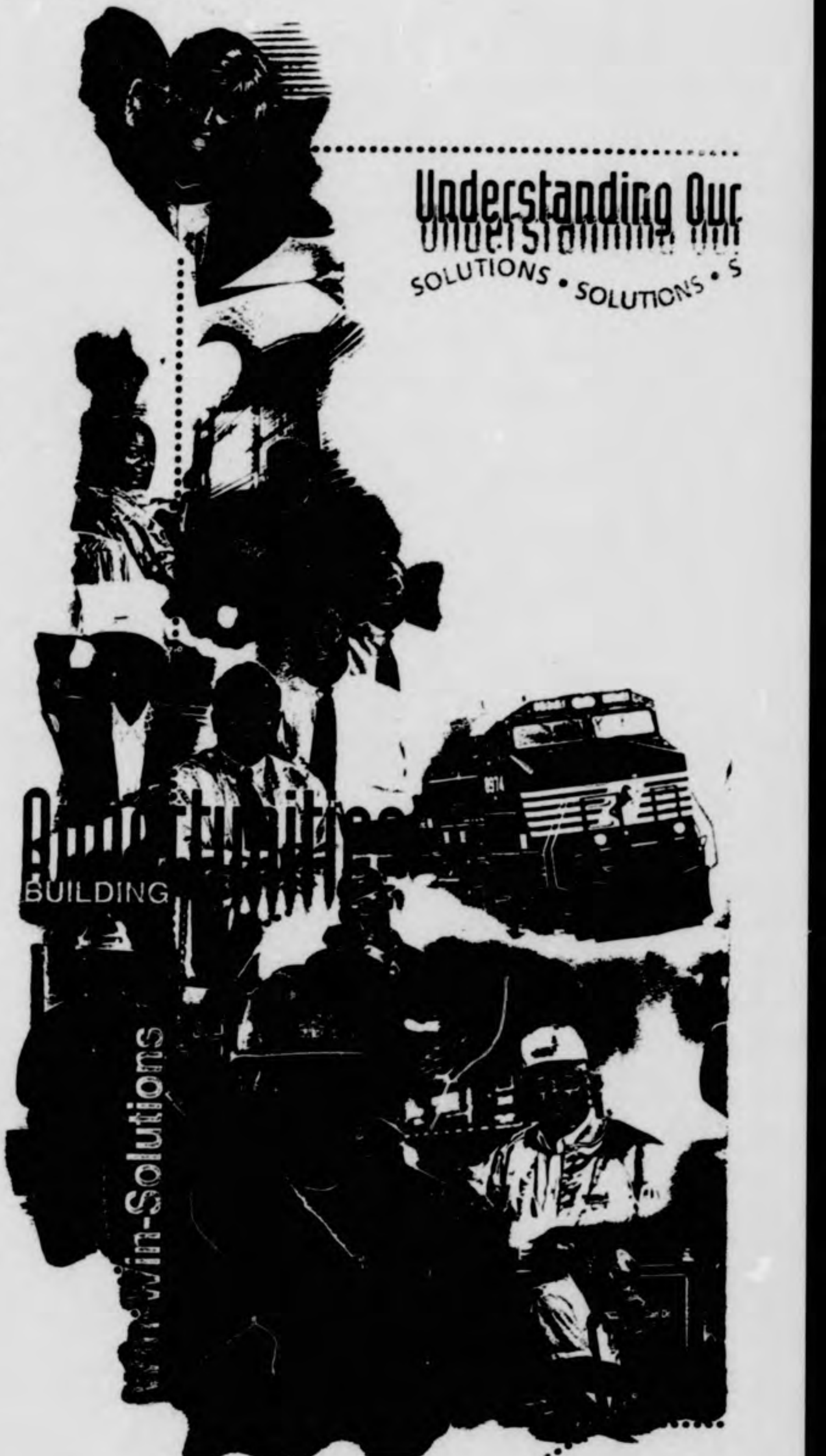
Realizing a belief in continuous service improvement requires:

1 the allegiance of NS' hard-working people;

2 NS' commitment to customer service;

3 its dedication to innovation; and

4 its pledge to efficiency.



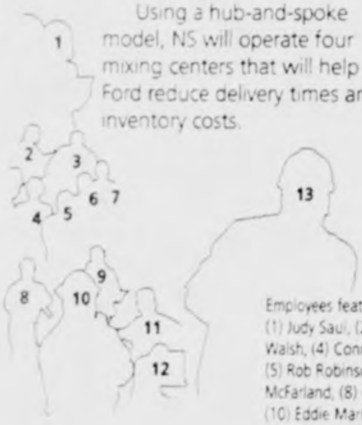
7

Highlights of the five new projects follow:

Four Mixing Centers For Ford Motor Co.

Ford Motor Co. has selected NS to develop and manage a comprehensive distribution system that will deliver more than 3 million vehicles from the auto manufacturer's 21 North American assembly plants to its national dealer network.

Using a hub-and-spoke model, NS will operate four mixing centers that will help Ford reduce delivery times and inventory costs.



Employees featured in this illustration are: (1) Judy Saul, (2) Marsha Dotson, (3) Mark Walsh, (4) Connie Brockenbrough-Vaughn, (5) Rob Robinson, (6) Tom Aker, (7) Randy McFarland, (8) Gary Casner, (9) Alan Cox, (10) Eddie Marrs, (11) Frank Sherman, (12) Richard Smoot, and (13) Roscoe Golliday.

"We are focused on building win-win partnerships with our customers."

— Bob Belvin, NS manager-Profit Analysis, Cost Department, Roanoke, Va.

The new centers are being constructed at Kansas City, Mo.; Chicago; Fostoria, Ohio; and Shelbyville, Ky.

This concept represents entirely different logistics for new-vehicle transport.

Here's how the network will function: Using dedicated unit trains, NS will haul finished Ford vehicles to a designated mixing center, where they will be sorted by destination. NS will coordinate with other railroads for their delivery to dealers.

This system is expected to improve transit time for vehicles by as much as 33% and become an integral element in Ford's goal to achieve production-to-delivery time of 15 days.

When the network is fully operational in 1998, NS expects to increase its motor vehicle business with Ford by about 60%.

General Motors

ANOTHER JIT RAIL CENTER FOR GENERAL MOTORS CO.

General Motors Co. has selected NS to develop a just-in-time (JIT) rail center near Dayton, Ohio, that will deliver daily quantities of auto parts to nine assembly plants.

This is the fourth such rail center that NS has added to its automotive network since 1991. Others are in Detroit, Buffalo, N.Y., and Hagerstown, Md.

The JIT rail center concept involves advance truck pickups of less-than-truckload quantities of auto parts from suppliers within a 250-mile radius of the center.

At the center, the trucked-in parts are loaded into railcars for each assembly plant's daily production. Delivery is made on a guaranteed schedule.

The Dayton facility, which is slated to open in late 1997, is expected to handle 4,800 carloads annually.

By 1998, NS anticipates the four centers will generate more than 23,000 carloads annually.

AK Steel

A STEEL FINISHING COMPLEX FOR AK STEEL IN ROCKPORT

AK Steel has selected a location in Rockport, Ind., on NS lines, to construct a 1.8 million-ton-per-year steel finishing complex.

With five steel finishing processes operating at the complex, the new facility will be unique in that it will produce both high-grade carbon and stainless steel at a single location for multiple markets.

AK Steel's Rockport Works is scheduled to begin operations in 1998. NS will move semi-finished steel into the plant and haul finished products to final markets.

Rockport Works represents one of the largest U.S. industrial development projects this decade.

Worthington Industries

A STEEL PROCESSING FACILITY FOR WORTHINGTON INDUSTRIES

Worthington Industries has selected a site in Decatur, Ala., on NS lines, to build a $150 million flat-rolled steel processing plant.

The plant will be Worthington's largest-ever facility. It will be adjacent to a Trico Steel Co. mini-mill also served by NS.

The Worthington plant, slated to open in mid-1998, is expected to process more than 1 million tons of steel annually.

NS will transport Worthington's finished steel to various centers around the eastern U.S.

ADM

EXPANDED SERVICE FOR ARCHER-DANIELS MIDLAND

The Archer-Daniels Midland Co. has selected NS to expand service to its grain processing plant in Decatur, Ill.

Increased service at this complex means the addition of numerous rail lanes for NS.

Additional NS movements include the coal ADM uses to generate its own power; acids and ammonia for use in manufacturing food products; and ethanol, acetone, sorbitol and carbon dioxide, as well as sweeteners, oil, and lysine, produced at the plant.

NS People Work for Safety and Service

9

Quality No. 1

Industrywide recognition of outstanding safety performance makes NS proud, but its families value employees' safe working habits the most.

For an unprecedented seventh year in a row, NS employees won the E.H. Harriman Memorial gold medal award for employee safety among the nation's larger railroads.

The award was given in May 1996 for the previous year's safety performance.

NS' safety ratio in 1996 was 1.25, a 17% improvement over 1995's award-winning ratio of 1.51.

Awards are achieved on the basis of the lowest injury rates per 200,000 employee-hours worked, using a formula that takes into account the number of fatalities, injuries, and occupational illnesses reported to the Federal Railroad Administration.

During 1996, NS Conductor Wally Binner of Chicago shared the nation's top employee rail safety award with an employee of another major carrier.

Binner's co-workers at NS' Chicago terminal attribute his success as a safety committee chairman to his attitude, commitment, pride, and strict compliance with rules.

He was the catalyst in helping the terminal achieve a goal of zero injuries for two consecutive years.

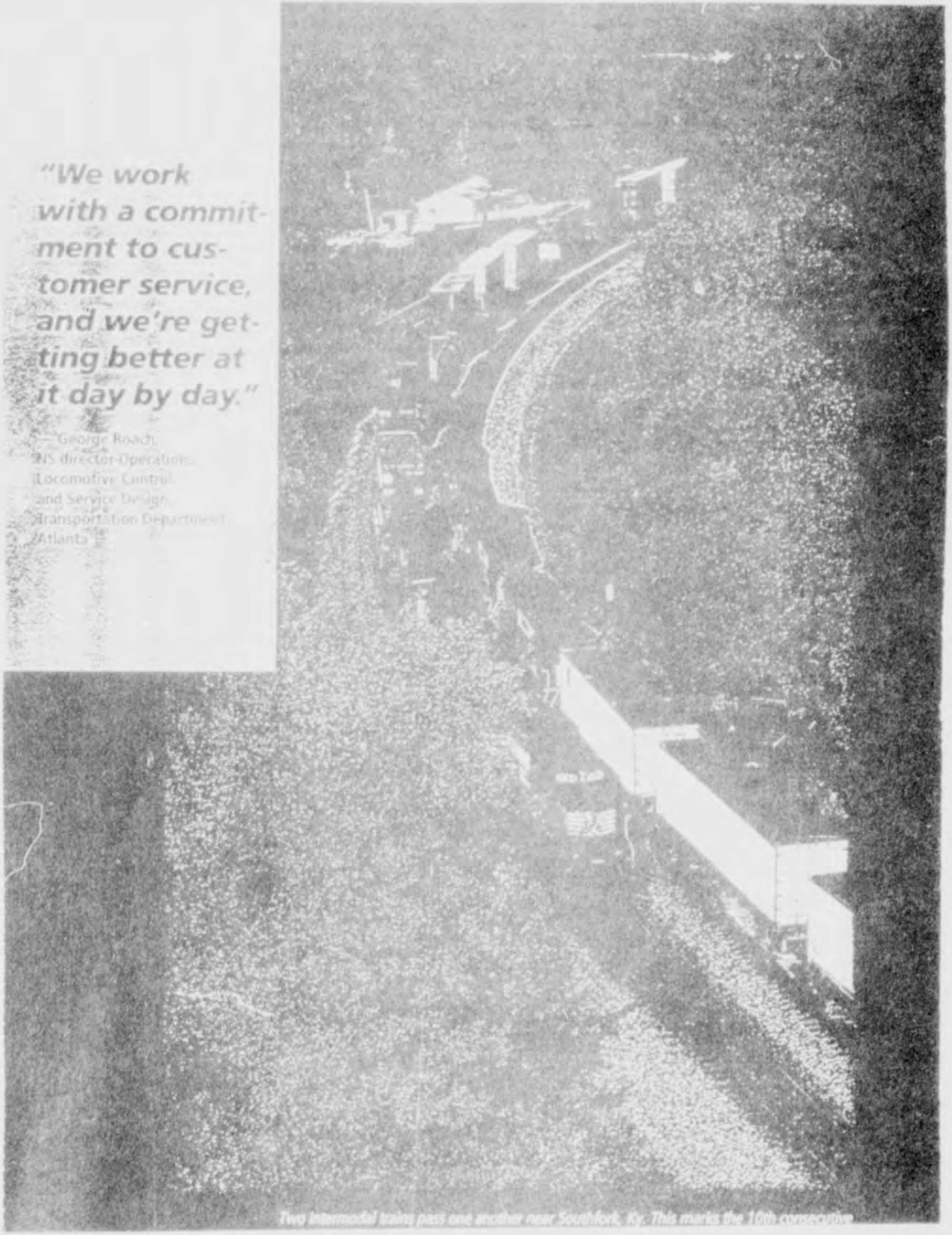
"While it's nice to win gold medals, the real prize is less human suffering. The real winners are employees who have stayed healthy and on the job."

— Jack Kerr, NS telephone maintainer, Knoxville, Tenn. (Kerr retired in June 1996 with 43 years of safe service.)

These employees represent thousands of NS people systemwide who concentrate on working safely each day. Pictured are: (1) Robert Weems, carman, Birmingham, Ala.; (2) Harvey Foster, forklift operator, Knoxville, Tenn.; (3) Joe Murphy, chief clerk, Buffalo, N.Y.; (4) Jack Kerr, telephone maintainer, Tennessee Division; (5) Chris Dickey, trainman, Savannah, Ga.; (6) Tim Minnick, engineer, Pocahontas Division; (7) Leonard Parker, Jr., signal maintainer, Norfolk, Va.; (8) Jeff Layne, boilermaker, Chattanooga Diesel Shop; (9) Agnes Verska, overhead specialist, Accounting, Atlanta; (10) John Thomas, division engineer, Engineering, Birmingham, Ala.; (11) William Daniel, rail gang foreman, Virginia Division; (12) Jiggs McKinney, yardmaster, Decatur, Ill.; (13) Doug Mullins, carman, Roanoke, Va.; (14) Pam Toms, material accountant, Accounting, Roanoke, Va.; (15) Wally Binner, conductor, Chicago, and (16) Mike Hula, machinist, Bellevue, Ohio.

"We work with a commitment to customer service, and we're getting better at it day by day."

—George Roach,
NS director-Operations
Locomotive Control
and Service Design,
Transportation Department
Atlanta



Two intermodal trains pass one another near Southfork, Ky. This marks the 10th consecutive

QUALITY NO. 2

Superior transportation service and logistics solutions bring growth and opportunity for NS and its customers.

Asset-Based Carriers On NS

Among NS' service-sensitive customers are intermodal shippers, particularly "asset-based carriers" who own their equipment and want to keep it moving.

In 1996, the greatest growth in NS' intermodal segment came from asset-based carriers. Growth in business from these shippers, who generally are truckload shippers, was 31%.

This was new business for NS, made up mainly of goods that moved previously in trucks.

Expanding Intermodal Network

In May 1996, NS extended its market reach to northeast Pennsylvania. This direct, double-stack route serves one of the nation's major distribution centers, Scranton/Wilkes-Barre, through a terminal at Taylor, Pa.

The service runs between NS' Midwestern markets of Chicago/Kansas City and Buffalo, N.Y., then over the Canadian Pacific (CP) east from Buffalo.

In August 1996, the CP haulage service was extended to Albany, N.Y. At Albany and Taylor, NS has made arrangements to serve customers directly, using NS locomotives.

Serving Dallas And Los Angeles With EMP

In April 1996, NS opened EMP service between the Southeast and Dallas through an agency arrangement to operate EMP at Kansas City Southern's terminal in Dallas.

EMP is a domestic container supply and management program operated jointly by Norfolk Southern, Union Pacific, and Conrail to help improve equipment utilization.

EMP was added to the daily, non-stop intermodal service that runs parallel to Interstate 20 between Dallas and Atlanta, via the Meridian, Miss., gateway.

In addition, NS in April began operating EMP service between the Southeast and Los Angeles in conjunction with a Southern Pacific agency arrangement.

This effort provides a premium daily service from coast to coast, using the Memphis gateway.

The cornerstone of EMP is shared responsibility for improved equipment utilization among railroads and intermodal marketing companies, logistics companies, and motor carriers.

The railroads operating EMP have purchased a pool of high-quality, 48-foot containers. Equipment moves seamlessly over the three railroad systems.

Each year NS employees gather for a safety meeting, where noteworthy safety achievements are recognized. In 1996, the meeting drew some 600 employees and guests from around the system. Among those present were Pocahontas Division employees, who received the top award for safety performance in their Transportation group. On hand were, left to right, Randy Beggs, train dispatcher; Tom Steele, assistant superintendent; Jim Crane, division road foreman of engines; Rita Mullins, clerk, and Royce Johnson, brakeman.

WIN-WIN SOLUTIONS

NS IS COMMITTED TO CUSTOMER SERVICE

Automobile parts come in by truck and move out by rail at the Buffalo Just-In-Time Rail Center.

Distribution Center For Auto Parts In Buffalo

In July 1996, NS began operating a regional center for distribution of auto parts at Buffalo, N.Y.

Each morning, trucks bring in less-than-truckload quantities of auto parts from suppliers. They are sorted and loaded into boxcars to satisfy daily production demands at eight assembly plants.

The boxcars are moved to the plants on a just-in-time schedule.

Auto Distribution Facilities

Growth in the auto industry has prompted NS to increase capacity at its auto distribution facilities.

Late in 1996, NS completed the first phase of constructing a new 38-acre vehicle distribution facility in Jacksonville, Fla.

During 1996, NS also developed a site for construction of a 26-acre distribution terminal near Orlando, Fla. It is expected to be operational in early 1998.

Thoroughbred Bulk Transfer (TBT) Facilities

During 1996, NS expanded its TBT facility at Dalton, Ga., to accommodate traffic growth.

The facility's capacity has increased 63%, permitting NS to handle a larger share of the plastics business destined for carpet mills in north Georgia.

Plastics traffic through TBT facilities grew 37% in 1996, compared with 1995.

In 1996, NS opened a new TBT facility at Petersburg, Va., and announced plans to open another during 1997 at Charlotte, N.C.

The Charlotte facility will be designed to handle multiple commodities.

Coal Deliveries Off-Line

In 1996, NS initiated a service using rail and truck for delivery of coal. In connection with the service, NS opened a distribution facility in Augusta, Ga., to serve two utility customers.

The service provides a daily supply of coal to a customer, eliminating the need for usual stockpiling and reclaiming processes.

Coal in this service moves via 100-ton unit train coal cars to a distribution point, where it is transferred to trucks for final delivery.

Coal is removed from hoppers by a piece of equipment similar to a backhoe, which scoops out the bulk of the coal.

A vacuum truck removes any remaining coal from the hopper.

NS expects to open a similar coal distribution facility in South Carolina during 1997.

Upgrades At Ohio Coal Docks

In 1996, NS completed a three-year, $10 million project to upgrade its Lake Erie coal transloading facility at Sandusky, Ohio.

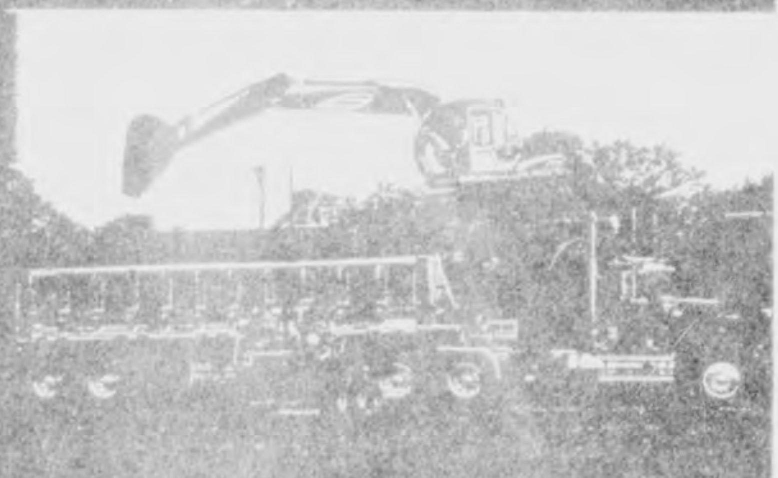
Improvements include fully automated car dumpers, shiploaders, conveyor belts, ground storage equipment, and a storm water management system.

For the benefit of vessels that call at the dock, NS also has upgraded some 2,400 feet of the dock wall.

About 75% of the coal shipped from the dock goes to Canadian steel makers, with the balance to industrial cus-

NS is developing four mixing centers for Ford Motor Co. to handle distribution of vehicles from the manufacturer's 21 North American assembly plants to dealers nationwide.

Bulk products, such as plastic pellets and corn sweeteners, are handled throughout NS' network of Thoroughbred Bulk Transfer facilities.



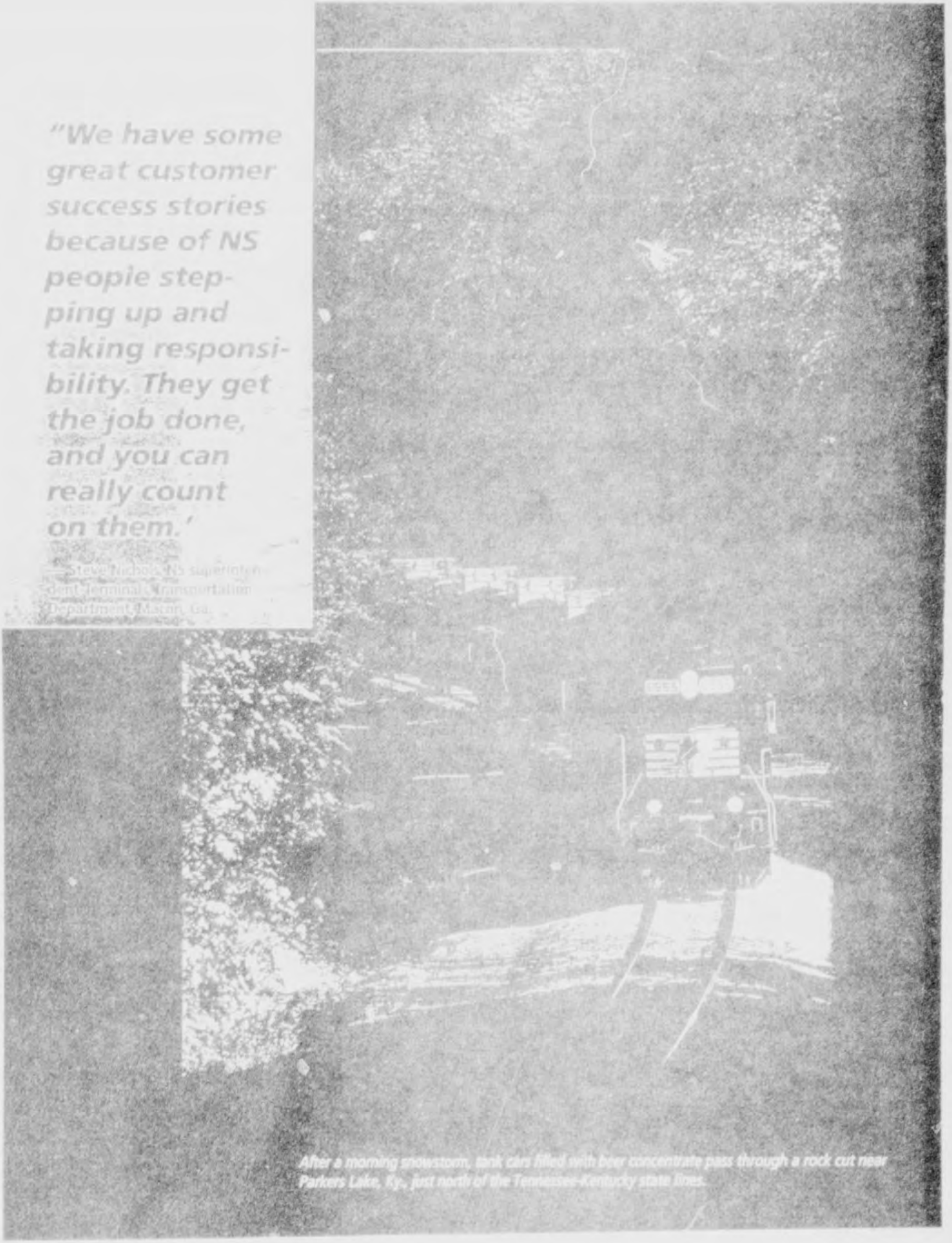
NS initiated in 1996 a new service for coal customers who do not have direct access to NS rail lines. Coal moves in hoppers to a distribution point and is unloaded into trucks for final delivery.

"This is not the railroad we grew up on. It's good to see that change can work — effectively and positively."

— Tom Gary, NS assistant director Automotive Distribution, Operations and Prevention Transportation Department, Melvindale, Mich.

"We have some great customer success stories because of NS people stepping up and taking responsibility. They get the job done, and you can really count on them."

— Steve Nichols, NS superintendent Terminal Transportation Department, Macon, Ga.



After a morning snowstorm, tank cars filled with beer concentrate pass through a rock cut near Parkers Lake, Ky., just north of the Tennessee-Kentucky state lines.

tomers and utilities on the Great Lakes.

The Sandusky dock transloads about 4 million tons of coal annually.

Adding Value For Customers Through Logistics Services

During 1996, NS established a dedicated distribution services group and located NS employees at several customers' production facilities to assist in inventory management and supply flows for shippers of paper, metals, auto parts, and finished vehicles.

These NS employees, each with specialized training in transportation logistics, help customers integrate production schedules with rail transportation and other modes that facilitate a customer's production requirements.

This integration provides shippers better transit times and improved inventory controls.

New Chip Mills On NS

As paper manufacturers switch from short logs to wood chips to improve efficiencies, NS has made available large-capacity cars for chips handled in rapid shuttle service.

Six chip mills opened on NS lines in 1996, and three others are expected to open in 1997.

Industrial Development On NS Surpasses Others

NS, in cooperation with state and local authorities, located 73 new industries and provided support for expansion of 32 others along its lines in 1996.

NS began serving six new chip mills on its lines during 1996.

NS expects to get more than 100,000 additional carloads annually as a result of these additions and expansions, which represent a total investment by the industries of $1.3 billion. Jobs creation is estimated at more than 3,900.

For the fourth consecutive year, projected revenues resulting from the year's industrial development efforts exceed those of the previous year.

NS traditionally commits more resources to industrial development than do others in transportation. As a result, nine of the last 12 assembly plants built by auto manufacturers in the U.S. have been located on NS lines. Steel manufacturers have located their last three major facilities on NS lines.

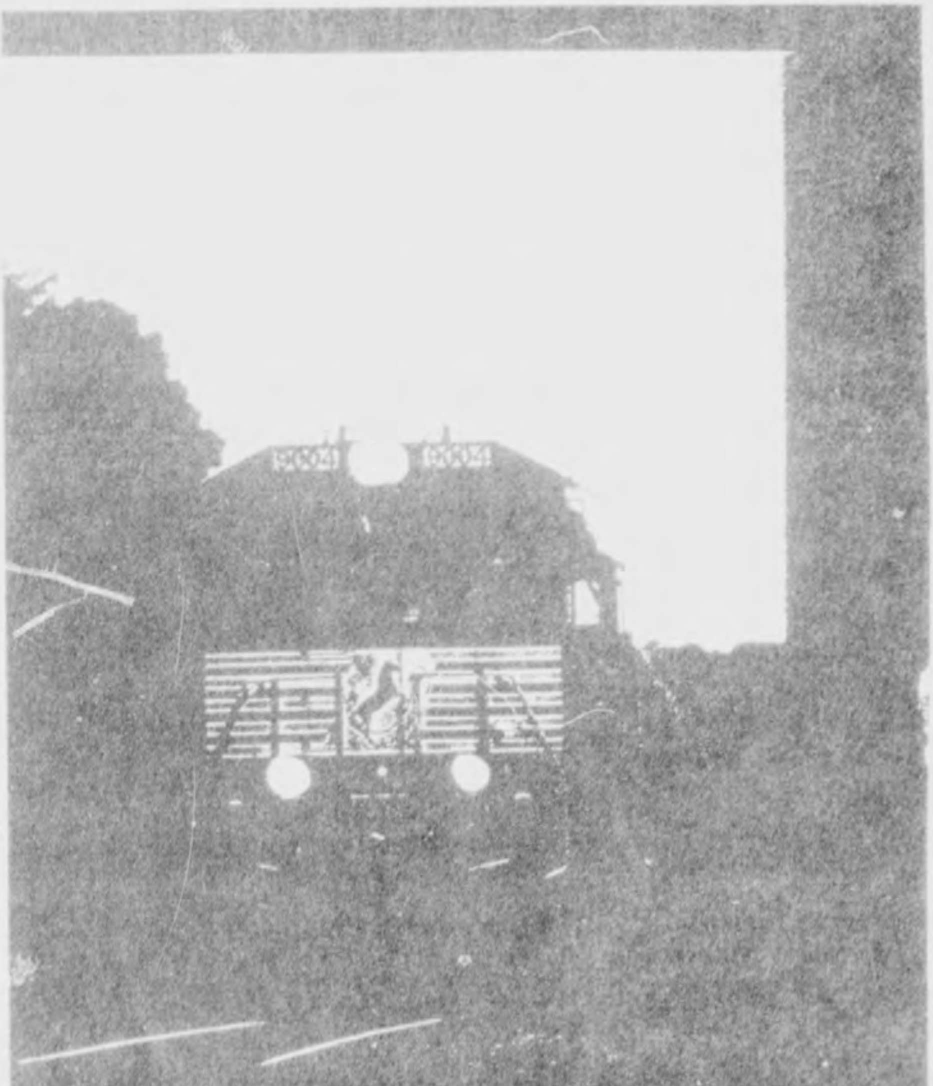
NS PEOPLE WORK TOGETHER

FOR SAFETY AND SERVICE

Sam Foreman, standing, and Danny Grant, helpers in the Maintenance-of-Way Department, are members of Bridge Maintenance Gangs G-1 and G-5, respectively, from Millen, Ga. Fully attired in harnesses and other safety gear, they perform maintenance on a bridge over the Ocmulgee River.

"We believe we can accomplish anything we put our minds to."

— Guy Nasello, NS assistant terminal superintendent, Transportation Department, St. Louis



NS purchased 120 new locomotives in 1996, including this wide-body General Electric Dash 9, shown cresting Tip Top, near Bluefield, W.Va.

NS hauls coal to Virginia Power's Clover, Va., power plant, the first to receive a permit under the Clean Air Act Amendments of 1990. The related coal transportation contract involves the largest volume of any ever negotiated by NS.

NS IS DEDICATED TO INNOVATION

QUALITY NO. 3

NS' continuing progress is an example of what is made possible by people, commitment, and innovation.

Grade-Crossing Safety

NS continued in 1996 to evaluate methods for improving grade-crossing safety.

NS completed a study in which video monitors record how motorists respond to various crossing protection devices.

Based on the results, NS plans to begin installing devices known as "median barriers" and "four-quadrant gates" at various NS crossings.

The test methods and results have drawn favorable responses from federal and state authorities, the news media, and other railroads.

In 1996, NS placed at public crossings on its lines signs with a toll-free telephone number for reporting signal malfunctions or emergencies.

In addition, NS completed in 1996 its program to equip 2,100 locomotives with bright, flashing lights that make motorists more likely to see approaching trains.

Bargaining Agreement With Locomotive Engineers

In 1996, NS reached an historic collective bargaining agreement with the Brotherhood of Locomotive Engineers.

Under this agreement, locomotive engineers assume a risk-and-reward wage package like that of NS' management employees.

Transporting Coal To NS Rail Site

In June 1996, NS began operating its second conveyor belt system to transport coal from mines not located on NS lines to NS loading facilities.

Beginning in Harlan County, Ky., this system operates over 3.5 miles and through a mountain to a loadout on NS in Benedict, Va.

Steam coal produced from two Kentucky mines moves up the side of Little Black Mountain on a conveyor belt, is loaded mechanically onto another going through the mountain and finally is loaded onto a third belt traveling down the other side to ground storage.

The belts move coal at a rate of 1,800 tons per hour. NS expects to load more than 2.5 million tons annually from this operation for transport to coal-fired utilities.

NS has operated its first conveyor belt system since 1993, moving about 1.5 million tons of coal yearly.

New Way To Thaw Frozen Coal

During 1996, NS installed a new quartz heating system in the thaw sheds at its Lamberts Point and Sandusky, Ohio, coal transloading facilities.

This new equipment provides significant energy savings when cars must be heated to allow complete dumping during freezing weather.

The quartz system permits quicker thawing, which improves the rate at which NS loads vessels in winter months. This means NS' coal hoppers are better utilized.

Environmental Protection With Steel Drip Pans

To protect the environment, NS in 1996 began installing steel drip pans at various locations across its system in the event a tank car is found leaking during transit.

Installations were made at 15 rail yards during 1996; several additional installations are anticipated in 1997.

The pans, 20 feet long, fit between the rails and have a capacity of about 250 gallons each. They are designed primarily for minor leaks; however, they are equipped to accommodate hoses if capacity of the pans is exceeded.

Rolling covers protect the pans from the elements when they are not in use. Butterfly flaps on the sides help direct leaking material into the pans.

The pans will allow NS to isolate and repair a leaking tank car quickly.

New Devices Enhance Safety

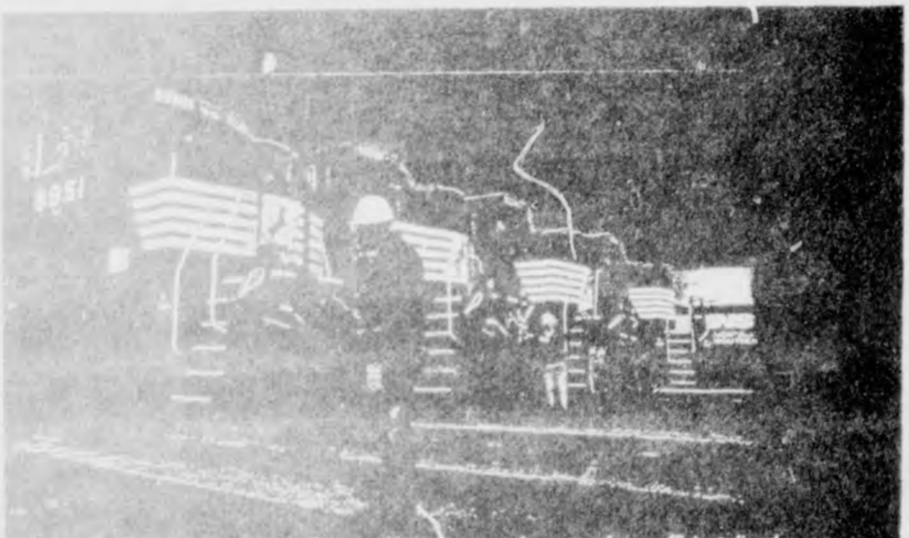
NS is the first major railroad to be fully equipped with new two-way, end-of-train devices.

These devices enable emergency brake applications from the rear of a train, improving stopping distances.

Equipping the nation's rail fleet with these devices is a priority of the Federal Railroad Administration.

"There's a difference between us and other carriers. We have a better way of doing business that will take care of us and our customers."

— Bob Bowling, NS manager industrial development, Atlanta



Locomotive fuel consumption has decreased in recent years because of new efficient diesel-electric locomotives purchased by NS.

As a result of an historic collective bargaining agreement, locomotive engineers, like Marvin Stanley of Appalachia, Va., participate in a risk-and-reward wage package.

Service trucks refuel locomotives on the main line across the NS system, avoiding stops at rail yards or terminals. This helps trains reach their destinations more quickly.

QUALITY NO. 4

Service and competition drive efficiency. In turn, efficiency allows NS to undertake improvements that lead to increased business.

New Locomotive Purchases Add To Efficiency Efforts

NS' purchase during the first part of 1996 of 120 new high-efficiency, diesel-electric locomotives is expected to reduce overall maintenance costs as older units are retired.

NS expects to purchase another 120 new locomotives in 1997. The company anticipates that related maintenance costs will continue to decrease, while fuel efficiency increases.

Locomotive Utilization

During 1996, NS experienced its largest percentage increase in locomotive utilization since 1990.

A new management system for locomotives, installed in 1996, contributed to utilization improvements.

In addition, each Transportation division has employee teams that are examining ways to improve utilization.

Also, a program is under way to change train schedules to improve locomotive utilization without decreases in customer service.

Coal Hopper Utilization

NS improved utilization of its coal fleet by nearly 9% in 1996, compared with 1995.

The performance in August of nearly three loads per car was the highest monthly coal utilization measure ever recorded on NS.

Several factors contributed to the improvement: increased carloadings; a leaner, better-maintained fleet; increased per-car capacities; and service improvements designed to reduce the number of days in a loading cycle.

Expanded Main-Line Fueling

Unit grain trains, time-sensitive freight, and intermodal traffic are moving faster as a result of main-line fueling.

With main-line fueling, locomotives stay coupled to the train, avoiding potential delays at yards and terminals.

Locomotive service trucks are located strategically around NS to handle refueling.

Originally implemented in NS' coal-hauling regions to expedite unit coal trains, main-line fueling now is carried out across the rail system.

Wheel/Rail Lubrication

NS has been testing different lubricants, as well as experimenting with various trackside lubrication devices for wheels and rails.

The goal is to identify ways to decrease rail wear, improve fuel efficiency, and reduce maintenance needs.

Implementation of test results is under way over the entire NS rail system.

NS PEOPLE WORK TOGETHER

FOR EFFICIENCY

Thanks to Stan Broome and his co-workers in the Car Accounting Department in Atlanta, NS has recorded some significant savings. Broome, manager of Car Accounting, led a review of computerized systems in 1996 that made improvements in computer processing of rail-car rentals.

A COMPETITIVE DRIVE

NS Pledges Itself to Efficiency

Capital Improvements For Intermodal Facilities

In 1996, NS continued to emphasize capacity and infrastructure planning in its intermodal business segment. Investments were made at several facilities:

- **Atlanta.** Three lift machines were added to handle increased volume.
- **Chicago.** Trackage was increased, along with parking capacity for containers.
- **Cincinnati.** Additions were completed to make the entire terminal capable of handling double-stack equipment.
- **Louisville, Ky.** Parking capacity for containers was increased.
- **Norfolk, Va.** Parking capacity for containers was increased.

Computer Management System For Intermodal

Facilities at Atlanta and Chicago, the two largest NS intermodal terminals, were improved with installation of the computer-based Strategic Intermodal Management System (SIMS).

SIMS provides NS with accurate and timely data, allowing containers and trailers to be loaded more efficiently, equipment to be transported more rapidly, and shipment information to be stored for analysis.

NS expects to implement SIMS at every intermodal facility by the end of 1997.

Crew Management Center In Atlanta

In September 1996, NS began centralizing crew management functions in Atlanta. By mid-1997, it expects to have all nine transportation operating divisions managed from the Atlanta office.

Previously, each division headquarters managed its train and engine service crews. One office offers NS greater efficiencies.

Crew management involves maintenance of computer records for NS' 8,500 train and engine service employees.

Payroll Project For Train, Engine Service Employees

In April 1996, NS completed implementation of a paperless payroll system for train and engine service employees.

The system, which is integrated with NS' computerized crew management system, permits electronic reporting by crews as they conclude their runs.

With the old system, many steps were involved between the time an employee completed a report slip at the end of a trip and the time the employee was paid.

With the new system and other electronic payroll delivery systems, NS is able to process data more rapidly and efficiently.

Thoroughbred Yard Enterprise System (TYES)

In 1996, NS completed development of a computerized car movement and inventory system. Implementation of TYES is slated to begin early in 1997 and is expected to take three years to complete.

TYES is driven by automatic equipment identification scanner technology. Cars are recorded automatically as trains move from terminal to terminal.

Complete car movement reporting improves NS' ability to monitor compliance with service commitments.

The system also allows NS to record every car movement and ensure that each one has a corresponding waybill.

Centralized Yard Operations

During 1996, NS continued its development of a system for centralized yard operations. Known as CYO, this system will consolidate in Atlanta all Transportation Department clerical functions.

Implementation of CYO is expected to begin in 1997 and continue for three years.

CYO combines telephone switching and office automation technology with NS' computerized system to monitor car movements.

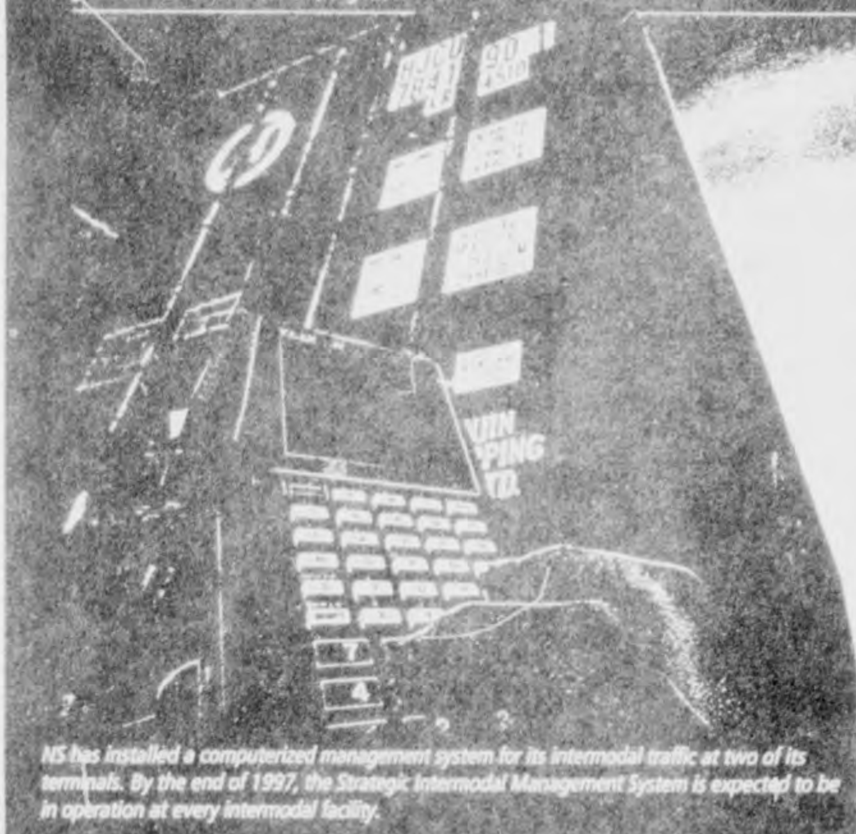
This creates a highly automated and flexible system to support customer service.

Instant Links With New Technology

NS has developed a new process for automatically capturing car weights and immediately updating computer files and waybills.

The process eliminates manual keying of weights, which improves billing quality and accuracy.

Stephanie Key of Roanoke, Va., a senior designer in NS' Information Technology Department, instructs train and engine service employees in Norfolk, Va., in how to use a computerized payroll reporting system. Shown are, from front to back, Don Burnett, conductor; Joe Robinette, engineer, and Charles Nissen III, engineer.



NS has installed a computerized management system for its intermodal traffic at two of its terminals. By the end of 1997, the Strategic Intermodal Management System is expected to be in operation at every intermodal facility.

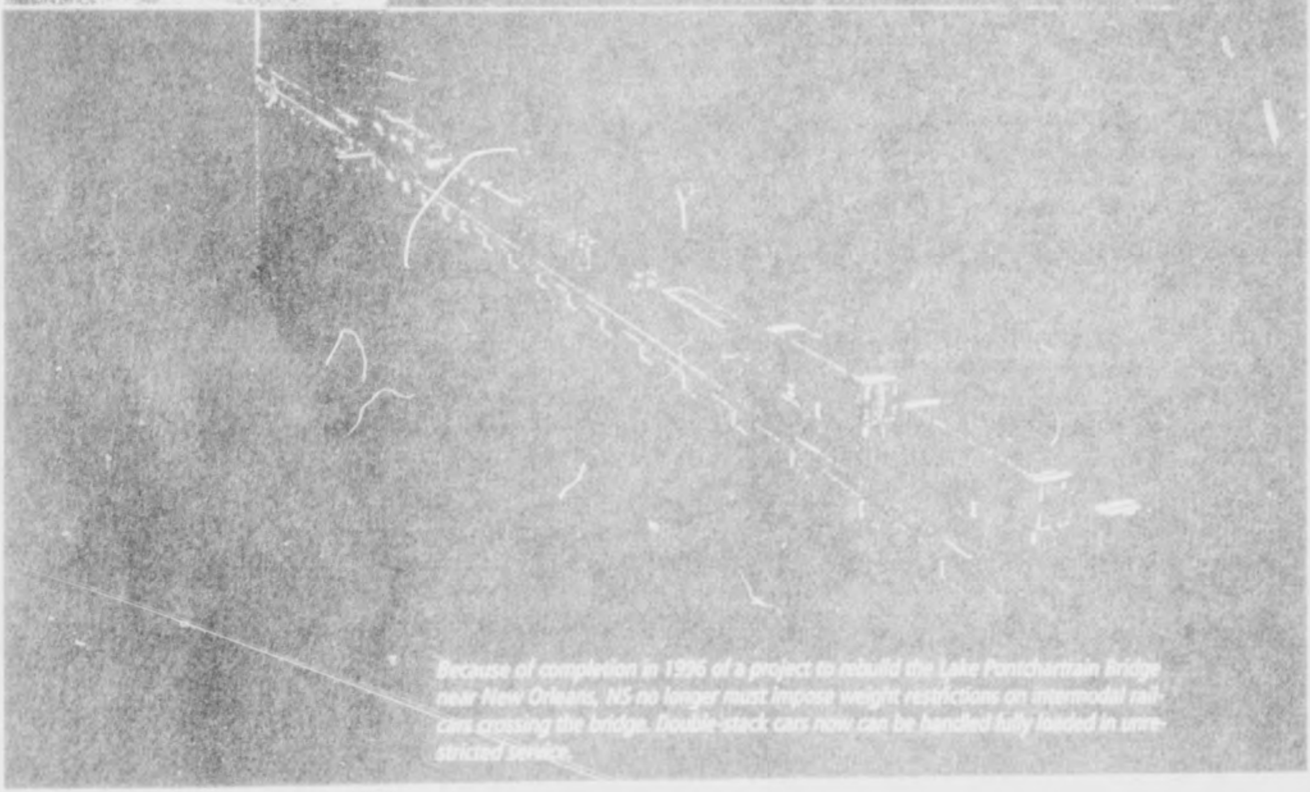
"Everyone is looking for the best solution. We always turn everything over and look at it a second time to say, 'What if?' "

— Charlie Tucker, NS special equipment engineer Equipment Marketing, Merchandise Marketing Department, Roanoke, Va.

"There's pride, heritage, and an unwillingness to accept anything other than success in the way we do business."

—Walt Trollinger, NS assistant vice president-Markets Management, Merchandise Marketing Department, Norfolk, Va.

A coal train running beside the New River near Narrows, Va., heads eastward toward NS' coal piers at Norfolk, Va.



Because of completion in 1996 of a project to rebuild the Lake Pontchartrain Bridge near New Orleans, NS no longer must impose weight restrictions on intermodal railcars crossing the bridge. Double-stack cars now can be handled fully loaded in unrestricted service.

GENERAL MERCHANDISE

Automotive revenues increased $39.6 million, or 9%, over 1995.

Growth in shipments of auto parts accounted for most of the increase. In 1996, NS opened two new just-in-time rail centers for parts distribution.

For the first time in several years, all NS-served assembly plants were actively producing vehicles.

Chemicals revenues increased $19.4 million, or 4%.

Fertilizer and plastics markets strengthened during 1996, and industrial chemicals remained strong throughout the year. In addition, a harsh winter increased demand for liquified petroleum gas.

Metals/Construction revenues increased $4.9 million, or 1%.

Shipments of metals remained strong because of a healthy domestic steel market that has added capacity due to improved efficiency at integrated mills and new minimills.

Construction carloads fell behind early in 1996 because of inclement weather and remained flat through the remainder of the year.

Agriculture revenues decreased $0.4 million, or 0.1%.

Despite strong demand for feed grains in the Southeast, grain traffic to NS receivers suffered primarily as a result of poor crops.

Paper/Forest revenues decreased $24.3 million, or 5%.

In 1996, the paper and forest products industry experienced an overall downturn.

Inventory build-up in 1995, when the paper business was good, led to excess capacity and reduced production in 1996, as paper producers tried to balance capacity with demand.

COAL

Coal revenues increased $36.9 million, or 3%.

The utility coal market benefited from widespread nuclear outages in the eastern U.S. and Canada during 1996. Market share gains at several Southeastern utilities also contributed to domestic coal increases.

Several factors contributed to gains in export shipments. Steam coal exports to Italy increased dramatically, while the market share of U.S. coal in Brazil improved.

Also, NS implemented new export contracts with customers in South Africa.

Reduced subsidies to European coal producers, especially in Germany, have increased Europe's demand for foreign coal.

INTERMODAL

Intermodal revenues increased $13.1 million, or 3%.

It was the 10th consecutive year intermodal traffic volume has set records.

The rate of volume growth in NS' intermodal segment more than doubled the industry's growth in 1996. This enabled NS to report record, year-over-year growth in volume for 28 consecutive quarters. It marked the longest period of sustained growth by any carrier in the industry.

NS PEOPLE WORK TOGETHER

FOR SAFETY

During 1996, telephone maintainers and their supervisor at DeButts Yard in Chattanooga, Tenn., achieved a safety milestone: 24 years without a reportable injury. These Communications and Signals Department employees attribute their success to teamwork. Members are Robin Buxton; Joe Riner; Richard Holmes; R.T. Burton; Robert Beasley; David Roberts, supervisor, Communications and Signals, and Claude Park III. Pictured are, left to right, Buxton, Riner, and Holmes.

1996: The Year in Review

Domestic business growth accounted principally for the improvement in volume.

Although international volume was flat in 1996, NS secured new contracts with several key international accounts for 1997 movements.

North American Van Lines, Inc.

North American Van Lines (NAVL), NS' motor carrier subsidiary, produced revenues of $669 million in 1996, up 2% compared with 1995. NAVL consists of two divisions, Relocation Services (RS) and High Value Products (HVP).

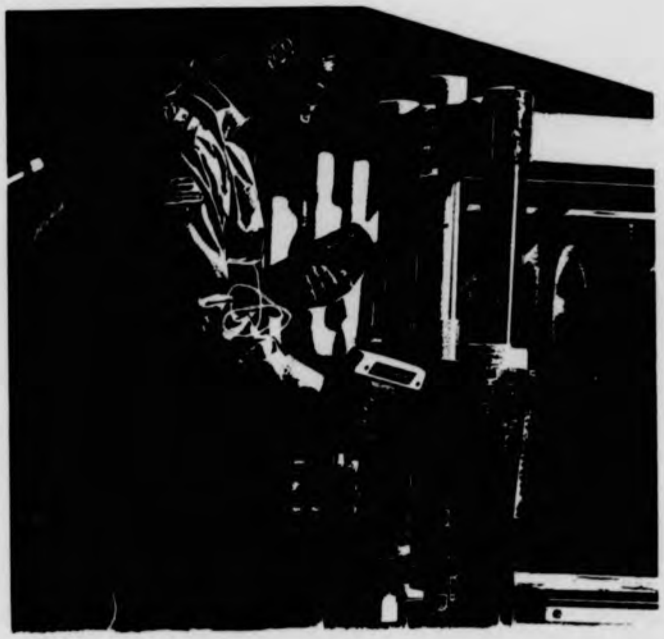
NAVL provides domestic and international relocation services for individuals and commercial accounts. It also provides transportation, distribution, and logistics support for manufacturers of high-value and specialized commodities.

NAVL is the first motor carrier to develop its own computerized, in-home estimating system for individuals seeking relocation services. Introduced in 1996, Home Touch!™ is designed to be the initial step in a paperless, more efficient, household relocation environment.

NAVL's HVP division continued to expand its On-Trac Network℠, opening new logistics centers in Sacramento and San Diego, Calif., and Billings, Mont.

The Customized Logistics Services (CLS) unit continued development of asset management and logistics software systems to enhance customer service. Growth areas for CLS include general logistics, order fulfillment, and parts programs.

Customer quality awards for NAVL in 1996 included recognition of HVP by Steelcase and Diebold, and of RS by AT&T/Lucent Technologies, Best Buy, Sonoco, and Allied Signal, and of the van line by *Logistics Management* magazine.



Hand-held devices are used to record data for the Customized Logistics Services unit of NAVL's High Value Products division.

Pocahontas Land Corporation

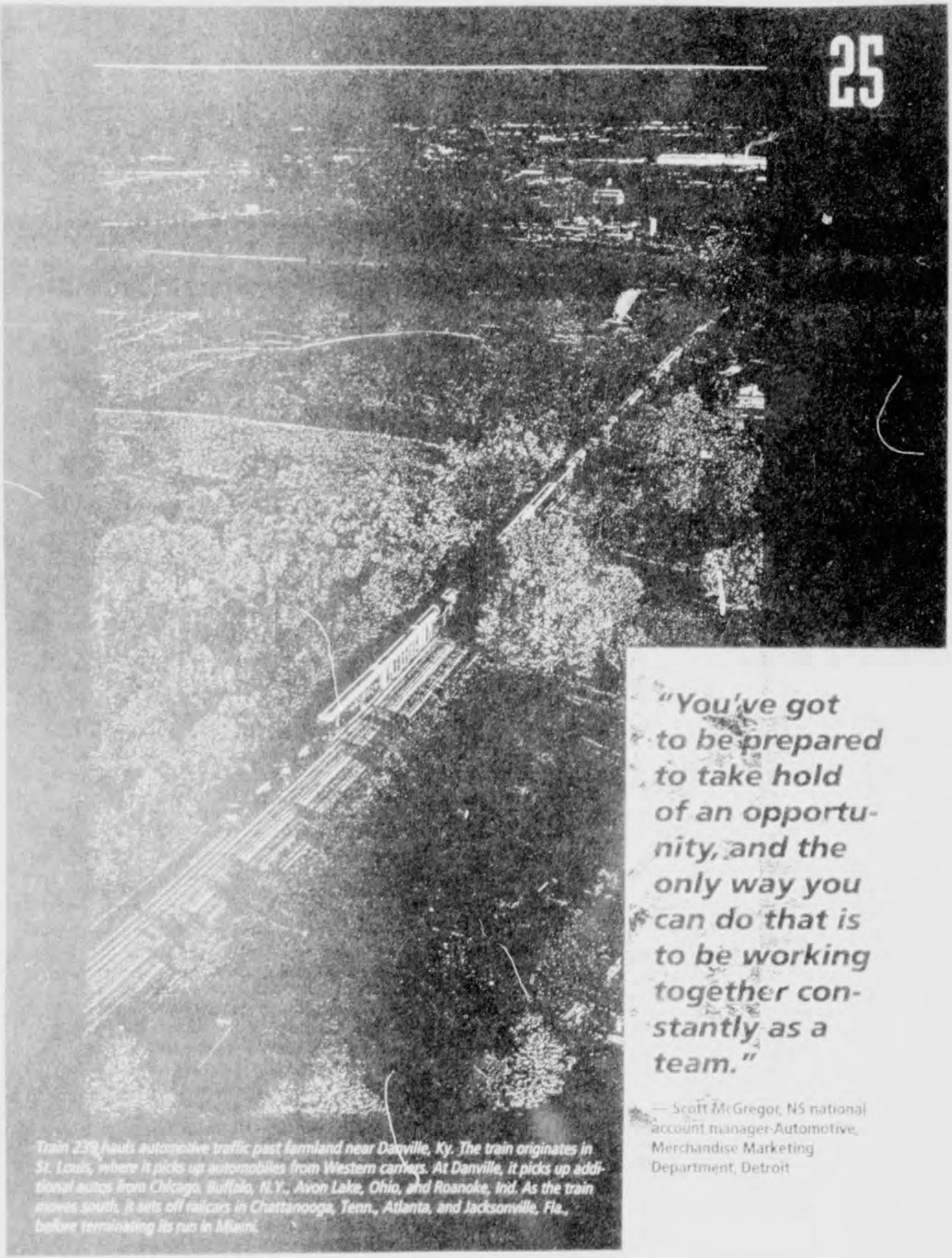
Pocahontas Land Corp. (PLC), NS' natural resources subsidiary, managed properties that generated revenues of $70.3 million in 1996, up 5% compared with 1995.

PLC derives most of its revenues from coal, natural gas, and timber royalties on properties it owns and manages, including some 900,000 acres in West Virginia, Kentucky, Illinois, Virginia, Alabama, and Tennessee.

Coal mining lessees produced a total of 45.9 million tons of coal in 1996, much of which was transported by NS. Since 1901, some 1.7 billion tons of coal have been mined from PLC and affiliated properties.

In 1996, PLC lessees produced 13.7 billion cubic feet of natural gas and 27.3 million board feet of timber. PLC also has working interest investments in 165 producing gas wells in southern West Virginia and eastern Kentucky.

In early 1996, PLC acquired 10,000 acres in southwest Virginia, containing an estimated 40 million tons of mid-volatile, metallurgical-grade coal.



Train 239 hauls automotive traffic past farmland near Danville, Ky. The train originates in St. Louis, where it picks up automobiles from Western carriers. At Danville, it picks up additional autos from Chicago, Buffalo, N.Y., Avon Lake, Ohio, and Roanoke, Ind. As the train moves south, it sets off railcars in Chattanooga, Tenn., Atlanta, and Jacksonville, Fla., before terminating its run in Miami.

"You've got to be prepared to take hold of an opportunity, and the only way you can do that is to be working together constantly as a team."

— Scott McGregor, NS national account manager-Automotive, Merchandise Marketing Department, Detroit

THE WILL TO WIN

NS RECEIVES AWARDS IN 1996

Industrywide Awards

- **E.H. Harriman Memorial Gold Medal Award for Employee Safety**
  NS employees earn their seventh consecutive award for the best safety record among the nation's largest railroads.
- **Amoco Chemical — Amoco Chemical Excellence Award**
  This is NS' third consecutive Amoco award.
- **BP Chemicals — Quality in Distribution Supplier of the Year**
  Early in 1996, BP names NS a "BP Chemicals Preferred Supplier" and later selects it as Supplier of the Year — a first for NS.
- **Dow Chemical Co. — Rail Safety Achievement Award**
  Dow recognizes NS for superior performance in chemical transport. NS has won 13 times, more than any other rail carrier.
- **Occidental Chemical Corp. — Rail Carrier of the Year**
  NS is chosen from among 12 carriers. It was NS' first award from Occidental.

Service Awards

- **ABB Power T&D — Supplier Excellence Award**
  The ABB Power T&D Co. plant in Muncie, Ind., recognizes NS for the second year in a row.
- **Air Products and Chemicals Inc. — Rail Carrier of the Year**
  Air Products, an industrial chemicals manufacturer, recognizes NS, along with UP and Conrail, for quality service.
- **C.H. Robinson Co. — Service Award**
  Robinson, an intermodal marketing company in Minneapolis, rewards NS for safe handling of some 7,500 intermodal loads.
- **Eastman Chemical — Supplier Excellence Award**
  Eastman Chemical rewards NS' Tennessee Division for its service efforts, particularly in severe weather conditions early in 1995.
- **Owens Corning Fiberglas/Rail Van Multi-Modal — Intermodal Carrier of the Year**
  These companies recognize NS for its successful transit of more than 8,000 intermodal loads.
- **Schneider Trucking — Continuous Improvement Presidential Award**
  NS, an intermodal partner with Schneider, receives this award for its accounting practices.

Outside Recognition

- **Association for Investment Management and Research — Award for Excellence in Corporate Reporting**
  Securities analysts recognize NS' corporate financial reporting as the best in the rail industry.
- ***DISTRIBUTION* Magazine — "Best of the Best"**
  NS is named "Best of the Best" in the rail carrier category in *DISTRIBUTION* magazine's "Quest for Quality" survey. NS has earned this distinction six consecutive years.
- **Georgia Freight Bureau — Rail Carrier of the Year**
  This is NS' fourth recognition by Georgia Freight Bureau.

NS PEOPLE WORK TOGETHER

FOR SAFETY

Leon Caldwell is NS' nominee in 1997 for an industrywide safety award known as the "Harold Hammond Award." Caldwell, an electrician at Shaffers Crossing Locomotive Shop in Roanoke, Va., has 34 years of service. He's served several times as a member and chairman of the shop's safety committee and, during his recent chairmanship, the shop completed its first year with no lost-time injuries. Among other safety contributions, Caldwell has created a "safety awareness area" in the shop, published a safety newsletter for employees and another for their families, launched campaigns that recognize people for working safely, contributed to producing numerous safety videos and an equipment manual, organized several safety education programs, and is an active presenter of Operation Lifesaver programs throughout his community.

Financial Overview

1996 was the best year in NS' history, with records set for railway and transportation operating revenues, income from railway operations, income from operations, income before income taxes, net income and earnings per share. The railway operating ratio was also a record 71.6%.

Net income was $770.4 million, up 8% over 1995. Earnings per share were $6.09, up 12%. Included in 1995's results was a $33.6 million charge for the cost of an early retirement program that reduced net income by $20.4 million, or 16 cents per share. Excluding that charge, 1996 net income was up 5% and earnings per share were up 9%.

Income from operations was a record $1.2 billion, up 7%, compared with 1995, excluding the early retirement charge.

Total transportation operating revenues were $4.8 billion, up 2%. Railway operating revenues were $4.1 billion, up 2% over the previous record in 1995, with all commodity groups, except paper/forest and agriculture, showing increases. Motor carrier revenues increased $12.8 million, or 2%.

General merchandise revenues increased $39.2 million, or 2%; coal revenues rose $36.9 million, or 3%; and intermodal revenues were up $13.1 million, or 3%.

Automotive revenues, up $39.6 million, or 9%, led the merchandise group, and chemicals revenues were up $19.4 million, or 4%. Paper/forest revenues decreased $24.3 million, or 5%.

Total transportation operating expenses were $3.6 billion, up 1%, excluding the early retirement charge; both railway and motor carrier expenses rose 1%.

Return on equity reached an all-time high 15.7%, marking six consecutive years of growth (see chart on page 29).

Total dividends paid in 1996 were $283.7 million, and dividends per share were $2.24. Stockholders received a dividend yield of 3%, compared with an average of 2% for all S&P 500 stocks.

In January 1997, the quarterly dividend rate was increased to 60 cents per share. Annualized, this rate is equal to $2.40 per share.

Since 1983, NS' first full year after consolidation, the annual dividend rate has grown at a compound annual rate of 7%, well above the average inflation rate of 4%.

NS purchased 4.6 million shares of its common stock in 1996 (see Note 13) at a cost of $385.1 million, or $83.48 per share, reducing total outstanding shares to 125.1 million as of December 31, 1996.

* Charts exclude a special charge in 1991, accounting and tax changes in 1993, and the early retirement program in 1995. Accordingly, charts present information for 1991, 1993 and 1995 on a pro forma basis. See notes on pages 28 and 50 for further details.

Eleven-Year Financial Review
Norfolk Southern Corporation and Subsidiaries

($ in millions, except per share amounts)	**1996**	1995	1994	1993[1]	1992
Results of operations:					
Transportation operating revenues:					
Railway operating revenues	**$ 4,101.0**	$ 4,011.8	$ 3,918.1	$ 3,745.9	$ 3,777.0
Motor carrier operating revenues	**669.0**	656.2	663.2	714.2	829.6
Total transportation operating revenues	**4,770.0**	4,668.0	4,581.3	4,460.1	4,606.6
Transportation operating expenses:					
Railway operating expenses	**2,936.1**	2,950.0	2,874.8	2,830.6	2,850.8
Motor carrier operating expenses	**636.9**	631.7	641.1	769.1	869.3
Special charge	**—**	—	—	—	—
Total transportation operating expenses	**3,573.0**	3,581.7	[illegible]515.9	3,599.7	3,720.1
Income from operations	**1,197.0**	1,086.3	1,065.4	860.4	886.5
Other income — net	**115.6**	141.8	85.2	136.8	97.8
Interest expense on debt	**115.7**	113.4	101.6	98.6	109.0
Income before income taxes	**1,196.9**	1,114.7	1,049.0	898.6	875.3
Provision for income taxes	**426.5**	402.0	381.2	349.9	317.6
Income before accounting changes	**770.4**	712.7	667.8	548.7	557.7
Cumulative effect of accounting changes	**—**	—	—	223.3	—
Net income	**$ 770.4**	$ 712.7	$ 667.8	$ 772.0	$ 557.7
Per share data:					
Earnings	**$ 6.09**	$ 5.44	$ 4.90	$ 5.54	$ 3.94
Dividends	**$ 2.24**	$ 2.08	$ 1.92	$ 1.86	$ 1.80
Stockholders' equity at year-end	**$ 39.79**	$ 37.42	$ 35.19	$ 33.36	$ 30.16
Financial position:					
Total assets	**$ 11,416.4**	$ 10,904.8	$ 10,587.8	$ 10,519.8	$ 10,400.5
Total long-term debt, including current maturities	**$ 1,856.3**	$ 1,639.0	$ 1,619.8	$ 1,595.2	$ 1,648.9
Stockholders' equity	**$ 4,977.6**	$ 4,829.0	$ 4,684.8	$ 4,620.7	$ 4,232.6
Other:					
Capital expenditures	**$ 796.0**	$ 763.4	$ 712.9	$ 669.2	$ 716.1
Average number of shares outstanding (thousands)	**126,457**	130,996	136,301	139,414	141,459
Number of stockholders at year-end	**50,748**	53,401	52,442	51,884	51,200
Average number of employees:					
Rail	**23,361**	24,488	24,710	25,531	25,650
Nonrail	**2,469**	2,456	2,458	3,773	4,485
Total	**25,830**	26,944	27,168	29,304	30,135

Notes:

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 North American Van Lines, Inc. (NAVL), businesses. The cumulative effect of accounting changes increased 1993 net income 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.

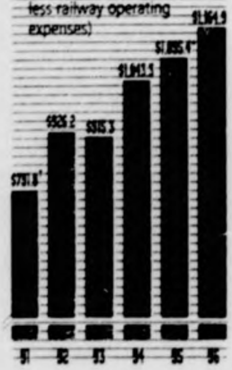
2 1991 transportation operating expenses include a $680 million special charge, primarily for labor force reductions and the write-down of the goodwill portion of NS' investment in NAVL. This charge reduced net income by $498 million, or $3.37 per share.

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.

1991[2]	1990	1989	1988	1987[3]	1986
3,654.0	$ 3,786.0	$ 3,694.1	$ 3,616.6	$ 3,335.6	$ 3,327.8
797.3	831.0	841.9	845.0	777.2	748.6
4,451.3	4,617.0	4,536.0	4,461.6	4,112.8	4,076.4
2,862.2	2,969.4	2,864.4	2,679.7	2,652.8	2,665.9
797.1	839.5	846.4	836.6	734.5	708.5
680.0	—	—	—	620.4	—
4,339.3	3,808.9	3,710.8	3,516.3	4,007.7	3,374.4
112.0	808.1	825.2	945.3	105.1	702.0
131.3	145.3	158.2	108.4	232.9	215.8
99.7	78.0	50.7	53.1	58.5	61.8
143.6	875.4	932.7	1,000.6	279.5	856.0
113.9	319.3	326.5	365.5	107.1	337.3
29.7	556.1	606.2	635.1	172.4	518.7
—	—	—	—	—	—
29.7	$ 556.1	$ 606.2	$ 635.1	$ 172.4	$ 518.7
0.20	$ 3.43	$ 3.48	$ 3.51	$ 0.91	$ 2.74
1.60	$ 1.52	$ 1.38	$ 1.26	$ 1.20	$ 1.13 1/3
28.64	$ 31.57	$ 30.44	$ 28.74	$ 26.48	$ 26.78
10,148.1	$ 10,523.0	$ 10,244.3	$ 10,059.1	$ 9,831.6	$ 9,752.4
1,389.2	$ 1,125.2	$ 841.1	$ 780.9	$ 795.0	$ 891.3
4,093.4	$ 4,911.9	$ 5,168.6	$ 5,152.6	$ 4,979.4	$ 5,070.8
713.4	$ 696.9	$ 651.7	$ 528.8	$ 562.9	$ 698.4
147,759	162,095	174,370	181,038	189,464	189,217
53,725	56,187	61,630	64,974	68,121	65,832
27,366	28,697	29,667	30,330	32,563	34,857
4,586	4,584	4,645	4,209	3,539	3,440
31,952	33,281	34,312	34,539	36,102	38,297

Income from Railway Operations ($ millions)

(Railway operating revenues, less railway operating expenses)



Return on Equity

(Net income ÷ average stockholder's equity)

Dividends per Share (dollars)

Notes to Charts

† Excludes special charge.

✓ Excludes the cumulative effects of required accounting changes and the prior years' effect of the federal income tax rate increase.

• Excludes $33.6 million ($20.4 million after-tax) charge for early retirement program.

Report of Management
Norfolk Southern Corporation and Subsidiaries

January 28, 1997

To the Stockholders
Norfolk Southern Corporation

Management is responsible for the preparation and content of the financial statements included in this annual report. The financial statements have been prepared in conformity with generally accepted accounting principles and reflect Management's judgments and estimates concerning effects of events and transactions that are accounted for or disclosed. The financial information contained in other sections of this annual report is consistent with that contained in the financial statements.

Norfolk Southern Corporation and its subsidiaries maintain accounting systems that are supported by internal accounting controls. These systems and controls provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with Management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. The concept of reasonable assurance is based on the recognition that the cost of a system of internal accounting control should not exceed its benefits. A staff of experienced and highly trained internal auditors conducts audit procedures designed to test compliance with internal controls. Results of audit efforts and actions are communicated to appropriate Management, including the Chairman, President and Chief Executive Officer, and to the Audit Committee of the Board of Directors.

Norfolk Southern Corporation and its subsidiaries have established their intent to maintain the highest standards of ethical conduct in all their business activities. Internal accounting and operating control policies, as well as a corporate code of conduct, are documented and communicated to all levels of Management. Adherence to these policies and procedures and this code is continuously being evaluated by a thorough, coordinated effort of internal audit staff and independent auditors.

The Audit Committee of the Board of Directors is composed solely of non-employee directors. The Committee meets periodically with the Vice President-Internal Audit and the independent auditors to review and discuss audit findings and other accounting and financial matters. Matters reviewed include the annual audit plan and the accounting policies of Norfolk Southern Corporation and its subsidiaries, conflict of interest policy, internal control systems and financial operations and reporting.

KPMG Peat Marwick LLP, a firm of independent public accountants, has been engaged to audit and render an opinion on the consolidated financial statements. As independent auditors, they also provide an objective, outside review of Management's report of operating results and financial condition. Working with the internal auditors, they review internal accounting controls and make tests as appropriate of the data included in the financial statements.

David R. Goode	Henry C. Wolf	John P. Rathbone
Chairman, President and Chief Executive Officer	Executive Vice President – Finance	Vice President and Controller

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes beginning on page 42 and the Eleven-Year Financial Review on page 28.

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 48).

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 53).

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 47).

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 effect 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.

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

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.

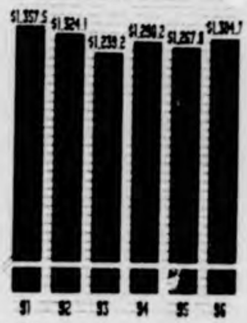
In 1995, utility coal traffic decreased slightly due to moderate weather throughout much of the NS service region during the first half of the year and no sustained periods of maximum generation from several Southeastern nuclear power plants. Partially mitigating these declines were increased shipments 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.

Coal
($ millions)

This group includes utility coal, export coal, domestic metallurgical coal, industrial coal, coke and iron ore



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.

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.

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.

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.

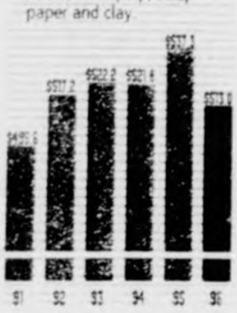
Automotive traffic rose 8%, and revenues increased 9%, both the highest in this group's history. Auto parts provided the majority of the growth as volume increased 21%, while vehicle traffic increased 3%. NS opened two just-in-time (JIT) rail centers at Hagerstown, Md., and near Buffalo, N.Y., in 1996 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

Chemicals
($ millions)

This group includes fertilizers, sulfur and related chemicals, petroleum products, chlorine and bleaching compounds, plastics, industrial chemicals, chemical wastes and bulk products.

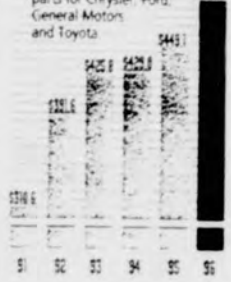
Paper/Forest
($ millions)

This group includes lumber and wood products, pulpboard and paper products, wood fibers, woodpulp, scrap paper and clay.



Automotive
($ millions)

This group includes finished vehicles for BMW, Chrysler, Ford, General Motors, Honda, Isuzu, Jaguar, Land Rover, Mazda, Mitsubishi, Nissan, Saab, Subaru, Suzuki, Toyota and Volkswagen, and auto parts for Chrysler, Ford, General Motors and Toyota.



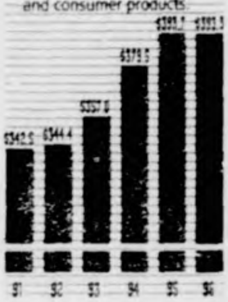
were on-line. GM's Wentzville, Mo., assembly plant returned to production early in the year after a two-year retooling, and GM's Doraville, Ga., plant returned midyear from a one-year retooling. In 1996, BMW's new plant at Greer, S.C., reached full production. In 1995, automotive traffic increased 4%, 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.

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.

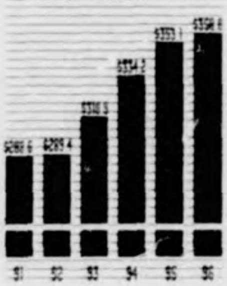
Agriculture
($ millions)

This group includes grain, soybeans, wheat, corn, animal and poultry feed, food oils, flour, beverages, canned goods, sweeteners and consumer products.



Metals/Construction
($ millions)

This group includes steel, aluminum products, machinery, scrap metals, cement, aggregates, bricks, minerals and municipal wastes.



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.

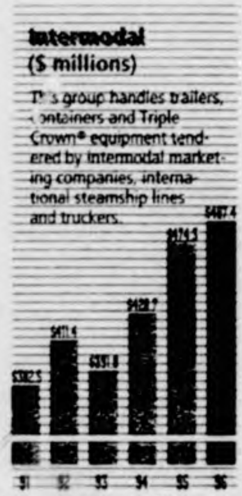
Metals/construction traffic declined 2%, but revenues were up 1% for 1996. Construction carloads fell behind in early 1996 due to inclement weather and were flat the rest of the year; however, higher average revenues more than offset the volume decline. In the metals market, NS' shipments remained strong 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.

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.

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 50). 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 *($ in millions)*	Increases (Decreases) 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.

Management's Discussion and Analysis of Financial Condition and Results of Operations

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 46 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 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.

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.

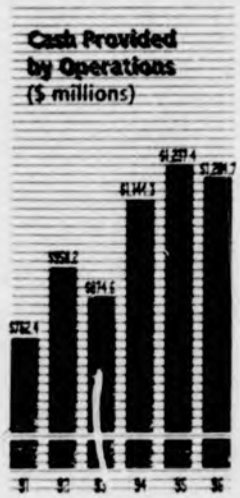
Accounting Changes and New Accounting Pronouncements

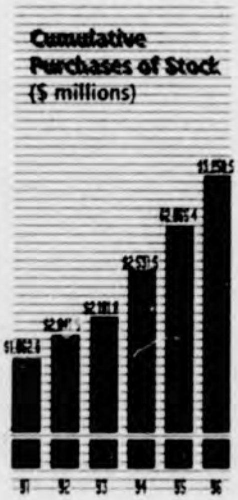
As discussed in Note 1 under "Required Accounting Changes" on page 46, effective January 1, 1996, NS adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" (SFAS 121), which had no material effect on 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.

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 43). **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 44). **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 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.

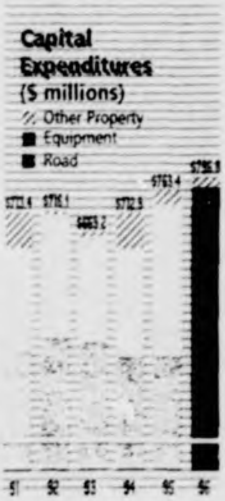
CAPITAL EXPENDITURES ($ in millions)	1996*	1995*	1994	1993	1992
Road	**$437.8**	$385.7	$384.6	$417.9	$426.5
Equipment	**332.1**	344.3	245.9	240.5	281.3
Other property	**26.1**	33.4	8[illegible].4	10.8	8.3
Total	**$796.0**	$763.4	$712.9	$669.2	$716.1

** Includes non-cash equipment expenditures of $107.8 million in 1996 and $104.5 million in 1995 (see Note 6 on page 48).*

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 "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 47).



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 48). 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 53).

Hedging Activities

As discussed under "Capital Leases" in Note 6 on page 48, 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 53, 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. The full terms and conditions of the tender offer and certain other disclosures are set forth in documents filed with the Securities and Exchange Commission on October 24, November 8 and December 20, 1996, and January 22 and February 12, 1997.

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 Conrail Shares have been placed in a voting trust and under certain circumstances might have to be sold at a loss.

NS expects future cash flows of the merged 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 Conrail Shares, some of NS' debt ratings have already been downgraded.

The Conrail board repeatedly has affirmed its commitment to a merger with CSX. Absent significant asset divestitures, the combined CSX-Conrail system would have almost 70% of the total NS, Conrail and CSX rail revenues, putting NS at a significant competitive disadvantage. NS intends to pursue its tender offer and expects to file an application for control of Conrail with the Surface Transportation Board (STB).

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.

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.

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.

Consolidated Statements of Income
Norfolk Southern Corporation and Subsidiaries

	1996	1995	1994
	Years ended December 31,		
	($ 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.

CONSOLIDATED BALANCE SHEETS

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES

43

	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.