Norfolk Southern Corporation
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March 5, 2018

Mr. Pedro G. Ramirez
Branch Chief, Data Collection and Auditing
Surface Transportation Board
395 E Street, SW
Washington, DC 20423

RE: Request for Approval of Reporting Classification (Accounts 570, 590 and 591)

Dear Mr. Ramirez:

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Reform Act") was signed into law. The Tax Reform Act lowered the Federal corporate tax rate from 35% to 21% and made numerous other tax law changes.

U.S. Generally Accepted Accounting Principles ("GAAP") requires companies to recognize the effect of tax law changes in the period of enactment. Unless the Surface Transportation Board ("STB") takes the action we request below, the impact of the Tax Reform Act will be reflected in the December 31, 2017 Form R-1 for Norfolk Southern Combined Railroad Subsidiaries (the "R-1") as follows:

- Account 531 ("Railway operating expenses") will include a $118 million benefit for earnings generated from reductions to net deferred tax liabilities at certain equity investees,
- Account 556 ("Income taxes on ordinary income") will include a $5 million expense, and
- Account 557 ("Provision for deferred taxes") will include a $3,279 million benefit primarily due to the remeasurement of our net deferred tax liabilities to reflect the lower rate.

Pursuant to Instruction 1-2(d)(7), we respectfully request the STB's approval for reporting the effects of the Tax Reform Act in Accounts 570 "Extraordinary items," 590 "Income taxes on extraordinary items," and 591 "Provision for deferred taxes – extraordinary items" for purposes of the R-1 and the December 31, 2017 Quarterly Report of Revenues, Expenses and Income.

We believe the STB's General Instructions for its Uniform System of Accounts (49 CFR Part 1201, Subpart A) compel this result. Instruction 1-2(d) includes the following guidance with respect to extraordinary items:

- "Extraordinary items are characterized by both their unusual nature and infrequent occurrence taking into account the environment in which the firm operates; they must also meet the materiality standard." Instruction 1-2(d)(1).
- "Unusual means the event or transaction must possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to the ordinary and typical activities of the entity." Instruction 1-2(d)(1).

- "Infrequent occurrence means the event or transaction shall be of a type not reasonably expected to recur in the foreseeable future." Instruction 1-2(d)(1).
- "As a general standard an item shall be considered material when it exceeds 10 percent of annual income (loss) before extraordinary items." Instruction 1-2(d)(6).

We believe that the adjustments related to the Tax Reform Act clearly meet the definition of extraordinary items. First, the adjustments related to the Tax Reform Act are unusual because they possess a high degree of abnormality and are clearly unrelated to the ordinary activities of Norfolk Southern. Second, tax reform is infrequent. The Federal corporate tax rate was last substantially changed more than 30 years ago and a further change from the current 21% rate is not reasonably expected to recur in the foreseeable future. Finally, the adjustments from tax reform are material to the financial results of Norfolk Southern. The impact on "Net income attributable to reporting railroad" of $3,392 million is over 150% of annual income before extraordinary items. To facilitate making period-to-period comparisons, we excluded the impact of tax reform from our fourth quarter and 2017 results and presented the adjusted non-GAAP measures as supplemental information in our fourth quarter earnings press release, fourth quarter earnings call and 2017 financial information.

We recognize that the Financial Accounting Standards Board ("FASB") eliminated the concept of reporting of extraordinary items from GAAP in January of 2015 when it issued Accounting Standards Update (ASU) No. 2015-02 "Income Statement – Extraordinary and Unusual Items (Subtopic 225-20)." One year later, the STB adopted a final rule updating its accounting and reporting requirements for Class I railroads to make them more consistent with GAAP. *See* 81 FR 19907. Those updates did not result in any revisions to the treatment of extraordinary items, so we assume it was not the STB's intention to eliminate the concept of extraordinary items from R-1 reporting.

Our independent accountant, KPMG LLP, has commented on the concept of extraordinary items in its attached letter. That letter recites the definitions of "Infrequency of Occurrence" and "Unusual Nature" from the FASB Master Glossary. Those definitions are substantively indistinguishable from the definitions in the STB's General Instruction on extraordinary items. As noted at the end of Instruction 1-2(d), carriers may refer to GAAP principles "for further guidance" in applying the STB's extraordinary items instruction. We think preserving the concept of extraordinary items in the R-1, while using the definitions of "Infrequency of Occurrence" and "Unusual Nature" from GAAP to inform the application of the extraordinary items concept, is the proper interpretation of General Instruction 1-2(d).

Thank you for your assistance and if you have any questions or concerns, please contact me at (757) 629-2778.

Regards,

KPMG

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March, 5 2018

Mr. Pedro G. Ramirez
Branch Chief, Data Collection and Auditing
Surface Transportation Board
395 E Street, SW
Washington, DC 20423

Dear Mr. Ramirez:

I am the engagement partner on KPMG LLP's audit of Norfolk Southern's 2017 consolidated financial statements. Our "Report of Independent Registered Public Accounting Firm" is included in Norfolk Southern's Form 10-K filed with the SEC on February 5, 2018.

I have read Norfolk Southern's letter to you dated March 5, 2018, with regard to their request for approval of reporting classification as a result of the Tax Cuts and Jobs Act ('Tax Reform Act'), which was signed into law on December 22, 2017.

As stated in that letter, Accounting Standards Update No. 2015-02 – Income Statement – Extraordinary and Unusual Items (Subtopic 225-20) was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. This Update eliminates from U.S. GAAP the concept of extraordinary items.

While the concept of extraordinary items no longer exists in U.S. GAAP, Accounting Standards Codification 225-20-50-1 states, "The nature and financial effects of each event or transaction that is unusual in nature or occurs infrequently or both shall be presented as a separate component of income from continuing operations or, alternatively, disclosed in notes to the financial statements."

The *FASB Master Glossary* defines "Infrequency of Occurrence" and "Unusual Nature" as follows:

- Infrequency of Occurrence: The underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates.

- Unusual Nature: The underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates.

Very truly yours,

KPMG LLP

Stan W. Bever

Stan W. Bever
Partner