11. Marketable Equity Securities

	Dec. 31, 2007	2006
	(in millions of dollars)	
Marketable equity securities of 20,683,686 and 20,780,638 shares, respectively, of NS Common Stock at fair value	$1,043	$1,045

Carrying value adjustments which are noncash transactions, are not included in the Combined Statement of Cash Flows. The gross unrealized holding gain was $1,024 million on Dec. 31, 2007 and $1,027 million on Dec. 31, 2006. Sales of "available-for-sale-securities" were immaterial for years ended Dec. 31, 2007 and 2006.

12. Required Accounting Changes

In August 2001, the FASB issued Statement No. 143 "Accounting for Asset Retirement Obligations." (SFAS No. 143). Pursuant to SFAS No. 143, the cost to remove crossties must be recorded as an expense when incurred; previously these removal costs were accrued as a component of depreciation. STB accounting rules require that railroads accrued the cost of removing crossties over the expected useful life of these assets. NS Rail has not implemented SFAS No. 143 for STB reporting purposes. As a result, these financial statements do not reflect generally accepted accounting principles with regard to the removal of crossties.

Effective Dec. 31, 2006, NS Rail adopted Statement of Financial Accounting Standards (SFAS) No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (see Note 9).

Effective Jan. 1, 2007, NS Rail adopted Financial Accounting Standards Board Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes," which clarifies accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. Under the guidelines of FIN 48, an entity should recognize the financial statement benefit of a tax position if it determines that it is more likely than not that the position will be sustained on examination.

Reclassifications

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

13. Related Parties

General

Norfolk Southern Corporation (NS) is the parent holding company of NSR. Rail operations are coordinated at the holding company level by the NS Vice Chairman and Chief Operating Officer. NS charges NS Rail a fee for management services it performs for NS Rail (which totaled $720 million, including a $45 million markup, in 2007; $747 million, including a $46 million markup, in 2006; and $673 million, including a $42 million markup, in 2005). In addition, NS charges NS Rail a revenue-based licensing fee (which totaled $138 million in 2007; $136 million in 2006; and $123 million in 2005) for use of certain intangible assets owned by NS.

Intercompany Accounts

	Dec. 31, 2007	2006
	($ in millions)	
Current:		
Payables to affiliated companies	$ 985	$ 629
Long-term:		
Accounts payable – affiliated companies	$ 1,099	$ 1,063

"Payables to affiliated companies" includes $78 million at Dec. 31, 2007, and $68 million at Dec. 31, 2006, due to Conrail for the operation of the Shared Assets Areas. In addition, "Accounts payable – affiliated companies" includes $101 million at Dec. 31, 2007 and 2006, for long-term advances from Conrail, maturing 2035, entered into in 2005 that bear interest at a rate of 4.4%.

Interest is applied to certain advances at the average NS yield on short-term investments and to the notes at specified rates. NS Rail's results for the year ended Dec. 31 include interest income on amounts due from NS of $118 million in 2007, $42 million in 2006 and $18 million in 2005, and interest expense of $58 million in 2007, $61 million in 2006 and $42 million in 2005, related to these intercompany accounts. These amounts are included in "Other expense – net."

Noncash Dividend

NSR declared and issued to NS noncash dividends totaling $1.7 billion in 2007, zero in 2006 and $667 million in 2005, which were settled by reduction of NS Rail's interest-bearing advances due from NS. Noncash dividends are excluded from the Combined Statements of Cash Flows.

Capital Contributions

In 2007 and 2006, NS Rail recognized $41 million and $7 million in capital contributions, respectively, for benefits it received related to tax credits generated by a nonrail subsidiary of NS.