

**Fair Values**

Fair values of interest rate swaps at Dec. 31, 2007, and Dec. 31, 2006, were determined based upon the present value of expected future cash flows discounted at the appropriate implied spot rate from the spot rate yield curve. Fair value adjustments are noncash transactions and, accordingly, are excluded from the Combined Statements of Cash Flows. The total net asset position of NS' outstanding derivative financial instruments was comprised of a gross fair value asset position of \$1 million at both Dec. 31, 2007, and Dec. 31, 2006.

**16. Freight Rates**

In 2007, NS Rail continued its reliance on private contracts and exempt price quotes as the predominant pricing mechanism. Thus, a major portion of NS Rail's freight business is not currently economically regulated by the government. In general, market forces have been substituted for government regulation and now are the primary determinant of rail service prices. In 2005, coal movements that had been moving under common carrier (tariff) rates to Duke Energy and Carolina Power and Light power plants began moving under contract rates as part of the settlement agreements resolving the rail transportation rate cases brought by each of the utilities.

In 2008, NS Rail was found by the STB to be "revenue adequate" based on the results for the year 2006. A railroad is "revenue adequate" under the applicable law when its return on net investment exceeds the rail industry's composite cost of capital. This determination is made pursuant to statutory requirement.