

# Quarterly Financial Review

## Fourth Quarter 2005



**Norfolk Southern Corporation**  
Finance Department  
Three Commercial Place  
Norfolk, Virginia 23510.2191

## Contents

Consolidated Statements of Income.....	2
Consolidated Balance Sheets.....	4
Consolidated Statements of Cash Flows.....	5
Consolidated Financial Information.....	6
Railway Operating Revenue Yield Analysis.....	8
Monthly Railway Carloadings.....	9
Railway Operating Revenue Variance Analysis.....	10
Coal, Coke and Iron Ore Carloads by Market.....	10
Railway Operating Expense Variance Analysis.....	11
Compensation and Benefits Expense Analysis.....	12
Diesel Fuel Expense Analysis.....	12
Other Income — Net Analysis.....	13
Productivity Measures.....	14
Financial, Traffic and Operating Statistics:	
Consolidated Financial Data.....	16
Traffic and Operating Statistics.....	18

Financial Inquiries: Henry C. Wolf..... (757) 629-2650

Investor Inquiries: William J. Romig..... (757) 629-2780  
Leanne D. Marilley..... (757) 629-2861

*The accompanying unaudited interim and annual financial statements should be read in conjunction with: (a) the financial statements and notes included in the Corporation's latest Annual Report on Form 10-K and in subsequent Quarterly Reports on Form 10-Q, and (b) any Current Reports on Form 8-K.*

*Any statements contained in this document which are not related to historical facts are forward-looking statements as that term is defined in the Private Securities Reform Act of 1995 and Norfolk Southern undertakes no obligation to update such statements. Such forward-looking statements are subject to risks and uncertainties (noted in Norfolk Southern's SEC filings) which could cause actual results to differ.*

# Consolidated Statements of Income

Three Months Ended December 31,  
(\$ millions except per share)

	2005	2004	
Railway operating revenues:			<b>Notes to Consolidated Financial Statements</b>
Coal	\$ 524	\$ 459	
General merchandise	1,214	1,049	
Intermodal	519	441	
<b>Total railway operating revenues</b>	<b>2,257</b>	<b>1,949</b>	
Railway operating expenses:			
Compensation and benefits	636	592	
Materials, services and rents	465	436	
Conrail rents and services (note 4)	32	37	
Depreciation (note 4)	192	189	
Diesel fuel	226	138	
Casualties and other claims	47	42	
Other	65	53	
<b>Total railway operating expenses</b>	<b>1,663</b>	<b>1,487</b>	
Income from railway operations	594	462	
Other income — net	31	39	
Interest expense on debt	(121)	(126)	
Income before income taxes	504	375	
Provision for income taxes:			
Current	69	23	
Deferred	73	88	
Total income taxes	142	111	
<b>Net income</b>	<b>\$ 362</b>	<b>\$ 264</b>	
Earnings per share:			
Basic	\$ 0.89	\$ 0.66	
Diluted	\$ 0.87	\$ 0.65	
Average shares outstanding (000's):			
Basic	407,481	398,723	
Diluted	416,953	406,810	

### 1. Settlements of Coal Rate Cases

During the second quarter of 2005, NS entered into settlement agreements with two utility customers that resolved their rail transportation rate cases before the Surface Transportation Board (STB). In 2002, Duke Energy (Duke) and Carolina Power & Light (CP&L) each filed rate reasonableness complaints with the STB. In October 2004, the STB found NS' rates to be reasonable in both cases, and at the STB's invitation, Duke and CP&L each initiated proceedings to determine if phasing constraints should apply. As a result of the settlements, NS recognized additional revenue related to the period in dispute, which net of associated expenses and income taxes increased second-quarter net income by \$24 million, or 6 cents per diluted share.

### 2. Reduction of Deferred Taxes

In the second quarter of 2005, Ohio enacted tax legislation that phases out its Corporate Franchise Tax, which was generally based on federal taxable income, and phases in a new gross receipts tax called the Commercial Activity Tax, which is based on current year sales and rentals. The elimination of the Corporate Franchise Tax resulted in a reduction of NS' deferred income tax liability in the second quarter, as required by Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," which increased net income by \$96 million, or 23 cents per diluted share.

### 3. Graniteville Derailment

In the first quarter of 2005, NS recorded a liability related to the Jan. 6, 2005, derailment in Graniteville, SC. The liability, which includes a current and long-term portion, represents NS' best estimate based on current facts and circumstances. The estimate includes amounts related to business property damage and other economic losses, personal injury and individual property damage claims as well as third-party response costs. NS' commercial insurance policies are expected to cover expenses related to this derailment above NS' self-insured retention, including its own response costs and legal fees. Accordingly, the Consolidated Balance Sheet reflects a current and long-term receivable for estimated recoveries from its insurance carriers.

(Continued on p. 3)

See notes to consolidated financial statements on pages 2-5.

# Consolidated Statements of Income

Years Ended December 31,  
(\$ millions except per share)

	2005	2004
Railway operating revenues:		
Coal	\$ 2,115	\$ 1,728
General merchandise	4,586	4,047
Intermodal	1,826	1,537
<b>Total railway operating revenues</b>	<b>8,527</b>	<b>7,312</b>
Railway operating expenses:		
Compensation and benefits	2,493	2,272
Materials, services and rents	1,809	1,601
Conrail rents and services (note 4)	129	319
Depreciation (note 4)	774	598
Diesel fuel	727	449
Casualties and other claims (note 3)	224	151
Other	254	220
<b>Total railway operating expenses</b>	<b>6,410</b>	<b>5,610</b>
Income from railway operations	2,117	1,702
Other income — net (note 4)	74	89
Interest expense on debt	(494)	(489)
Income before income taxes	1,697	1,302
Provision for income taxes:		
Current	336	179
Deferred (note 2)	80	200
<b>Total income taxes</b>	<b>416</b>	<b>379</b>
<b>Net income (note 1)</b>	<b>\$ 1,281</b>	<b>\$ 923</b>
Earnings per share:		
Basic	\$ 3.17	\$ 2.34
Diluted	\$ 3.11	\$ 2.31
Average shares outstanding (000's):		
Basic	404,170	394,201
Diluted	412,291	399,327

## Notes to Consolidated Financial Statements (continued)

### 3. Graniteville Derailment (Continued)

Results for the year include approximately \$41 million of expenses related to this incident, which represents NS' retention under its insurance policies and other uninsured costs, and which reduced net income by approximately \$24 million, or 6 cents per diluted share.

While it is reasonable to expect that the liability for covered losses could differ from the amount recorded, such a change would be offset by a corresponding change in the recovery receivable. As a result, NS does not believe that it is reasonably likely that its net loss (the difference between the liability and future recoveries) will be materially different than the loss recorded in 2005. NS expects at this time that insurance coverage is adequate to cover potential claims and settlements above its self-insurance retention.

### 4. Conrail Corporate Reorganization

On August 27, 2004, NS, CSX and Conrail completed a corporate reorganization of Conrail that resulted in the direct ownership and control by Norfolk Southern Railway Company (NSR) of routes and assets that had previously been operated by NSR under operating and lease agreements with a Conrail subsidiary.

As a part of the reorganization, NSR issued new unsecured debt obligations, which were exchanged for unsecured debt obligations of Consolidated Rail Corporation (CRC), a Conrail subsidiary. In addition, NSR entered into new lease and sublease arrangements with CRC to support CRC's secured debt and lease obligations, and the long-term note due to Conrail was eliminated. The reorganization did not affect the Shared Assets Areas, which continue to be owned and operated by CRC. After the reorganization, "Conrail rents and services" reflects only the expenses associated with the Shared Assets Areas, and other expenses (primarily the depreciation related to the routes and assets) are reflected in their respective line items.

This distribution resulted in a net gain of \$53 million, which is included in Other income-net on the Consolidated Statement of Income. The gain increased net income by \$53 million, or 13 cents per diluted share.

See notes to consolidated financial statements on pages 2-5.

# Consolidated Balance Sheets

As of December 31,  
(\$ millions)

	2005	2004
<b>Assets</b>		
Current assets:		
Cash, cash equivalents and short-term investments	\$ 1,257	\$ 669
Accounts receivable — net (note 3)	931	767
Materials and supplies	132	104
Deferred income taxes	167	187
Other current assets	163	240
Total current assets	<u>2,650</u>	<u>1,967</u>
Investments	1,590	1,499
Properties less accumulated depreciation	20,705	20,526
Other assets (note 3)	916	758
<b>Total assets</b>	<b>\$ <u>25,861</u></b>	<b>\$ <u>24,750</u></b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable (note 3)	\$ 1,163	\$ 1,090
Income and other taxes	231	210
Other current liabilities	213	239
Current maturities of long-term debt	314	662
Total current liabilities	<u>1,921</u>	<u>2,201</u>
Long-term debt (note 5)	6,616	6,863
Other liabilities (note 3)	1,415	1,146
Deferred income taxes	6,620	6,550
<b>Total liabilities</b>	<b><u>16,572</u></b>	<b><u>16,760</u></b>
Stockholders' equity:		
Common stock \$1.00 per share par value	431	421
Additional paid-in capital	992	728
Unearned restricted stock	(17)	(8)
Accumulated other comprehensive loss	(77)	(24)
Retained income	7,980	6,893
	<u>9,309</u>	<u>8,010</u>
Less treasury stock at cost, 20,833,125 and 20,907,125 shares, respectively	<u>(20)</u>	<u>(20)</u>
<b>Total stockholders' equity</b>	<b><u>9,289</u></b>	<b><u>7,990</u></b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ <u>25,861</u></b>	<b>\$ <u>24,750</u></b>

## Notes to Consolidated Financial Statements (continued)

### 5. Debt Exchange

In the second quarter of 2005, NS issued \$717 million of new unsecured notes (\$350 million at 5.64% due 2029 and \$367 million at 5.59% due 2025) and paid \$218 million of premium in exchange for \$717 million of its previously issued unsecured notes (\$350 million at 7.8% due 2027, \$200 million at 7.25% due 2031, and \$167 million at 9.0% due 2021). The \$218 million cash premium payment is reflected as a reduction of debt in the Consolidated Balance Sheet and Statement of Cash Flows and will be amortized as additional interest expense over the terms of the new debt.

See notes to consolidated financial statements on pages 2-5.

# Consolidated Statements of Cash Flow

Years Ended December 31,

(\$ millions)

	2005	2004	
<b>Cash flows from operating activities:</b>			<b>Notes to Consolidated Financial Statements (continued)</b>
Net income	\$ 1,281	\$ 923	
Reconciliation of net income to net cash provided by operating activities:			<b>6. Payments to Conrail</b>
Depreciation	787	609	Payments made to Conrail in accordance with the operating and lease agreements in place before the Conrail corporate reorganization (see note 4 on page 3) reduced NS' "Net cash provided by operating activities." A significant portion of these payments was borrowed back from a Conrail subsidiary. The net borrowings were included in NS' "Net cash used for financing activities" and totaled \$118 million in 2004.
Deferred income taxes	80	200	
Equity in earnings of Conrail	(37)	(54)	
Gain on Conrail corporate reorganization (note 4)	—	(53)	
Gains on properties and investments	(51)	(46)	
Changes in assets and liabilities affecting operations:			
Accounts receivable	(94)	(71)	
Materials and supplies	(28)	(12)	
Other current assets	20	(18)	
Current liabilities other than debt	55	126	
Other — net	92	57	
Net cash provided by operating activities	<u>2,105</u>	<u>1,661</u>	
<b>Cash flows from investing activities:</b>			
Property additions	(1,025)	(1,041)	
Property sales and other transactions	110	75	
Investments, including short-term	(1,822)	(396)	
Investment sales and other transactions	910	117	
Net cash used for investing activities	<u>(1,827)</u>	<u>(1,245)</u>	
<b>Cash flows from financing activities:</b>			
Dividends	(194)	(142)	
Common stock issued — net	194	162	
Proceeds from borrowings (note 6)	433	202	
Debt repayments (note 5)	(889)	(455)	
Net cash used for financing activities	<u>(456)</u>	<u>(233)</u>	
Net (decrease) increase in cash and cash equivalents	<u>(178)</u>	<u>183</u>	
<b>Cash and cash equivalents:</b>			
At beginning of year	467	284	
At end of year	289	467	
<b>Short-term investments at end of year</b>	<u>968</u>	<u>202</u>	
<b>Cash, cash equivalents and short-term investments at end of year</b>	<u>\$ 1,257</u>	<u>\$ 669</u>	
<b>Supplemental disclosure of cash flow information</b>			
Cash paid during the year for:			
Interest (net of amounts capitalized)	\$ 485	\$ 483	
Income taxes (net of refunds)	\$ 271	\$ 146	

See notes to consolidated financial statements on pages 2-5.

# Consolidated Financial Information

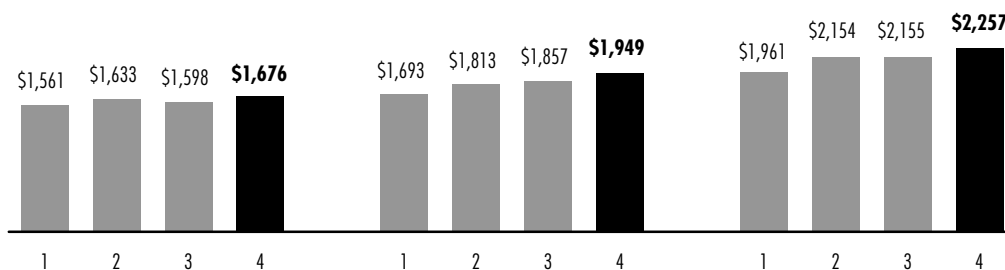
2003

2004

2005

## Railway Operating Revenues

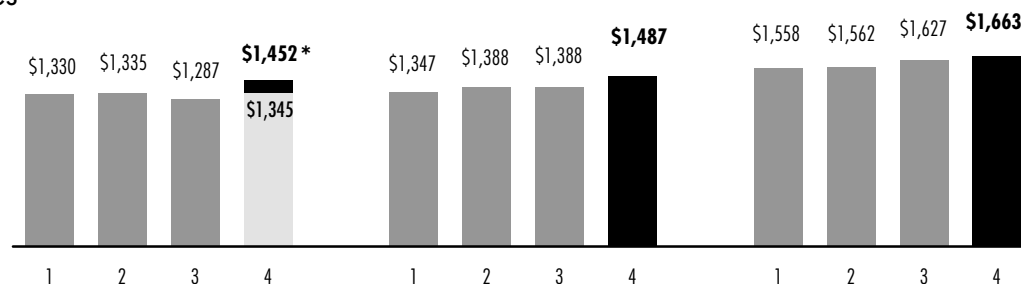
(see page 16 for details)



## Railway Operating Expenses

(see page 16 for details)

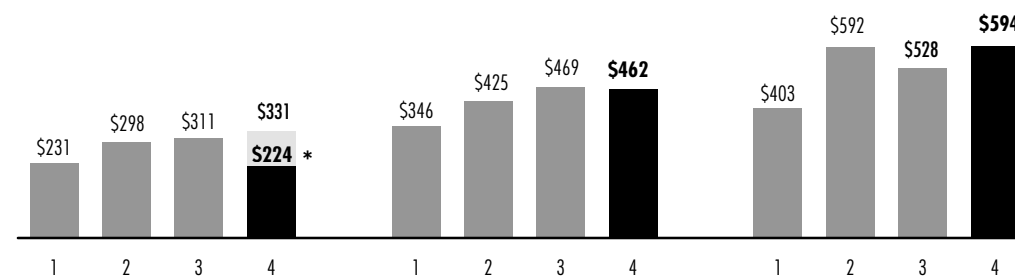
\* Includes costs related to a voluntary separation program (see note 3 on page 17).



## Income from Railway Operations

(see page 16 for details)

\* Includes costs related to a voluntary separation program (see note 3 on page 17).

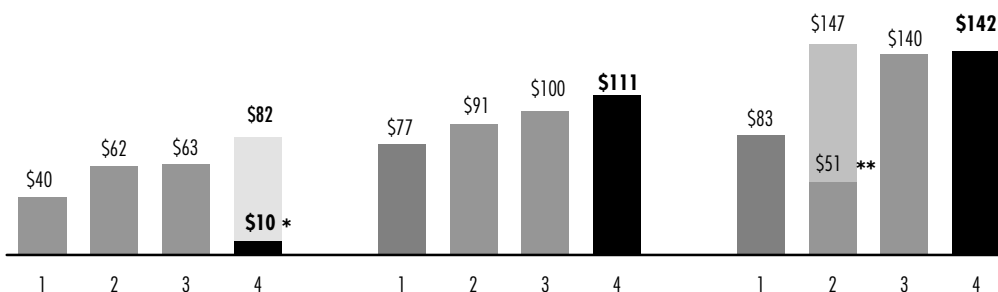


## Income Taxes

(see page 16 for details)

\* Includes costs related to a voluntary separation program and the impairment of telecommunications assets (see note 3 on page 17).

\*\*Includes reduction of deferred income taxes (see note 1 on page 16).



# Consolidated Financial Information

2003

2004

2005

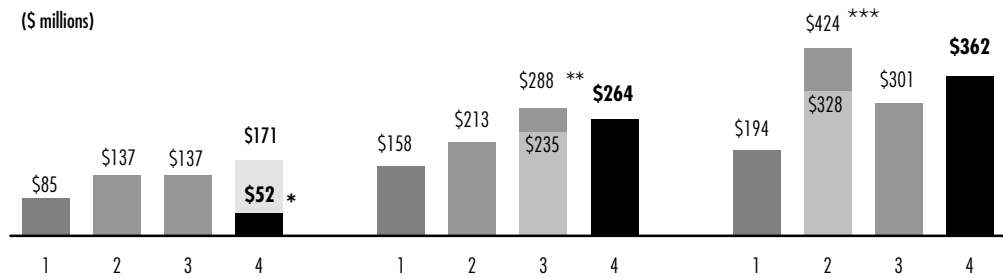
## Income from Continuing Operations Before Accounting Changes

\* Includes costs related to a voluntary separation program and the impairment of telecommunications assets (see note 3 on page 17).

\*\* Includes gain on Conrail corporate reorganization (see note 2 on page 16).

\*\*\* Includes reduction of deferred income taxes (see note 1 on page 16).

(\$ millions)



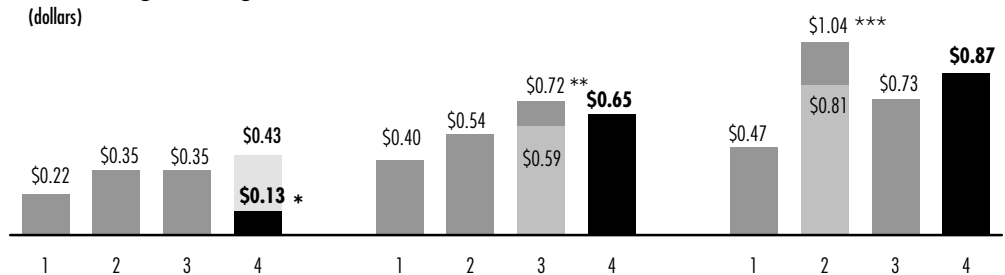
## Diluted Earnings per Share from Continuing Operations Before Accounting Changes

\* Includes costs related to a voluntary separation program and the impairment of telecommunications assets (see note 3 on page 17).

\*\* Includes gain on Conrail corporate reorganization (see note 2 on page 16).

\*\*\* Includes reduction of deferred income taxes (see note 1 on page 16).

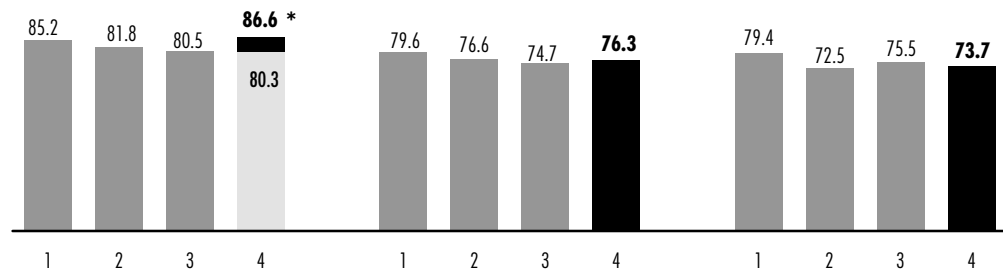
(dollars)



## Railway Operating Ratio

\* Includes costs related to a voluntary separation program (see note 3 on page 17).

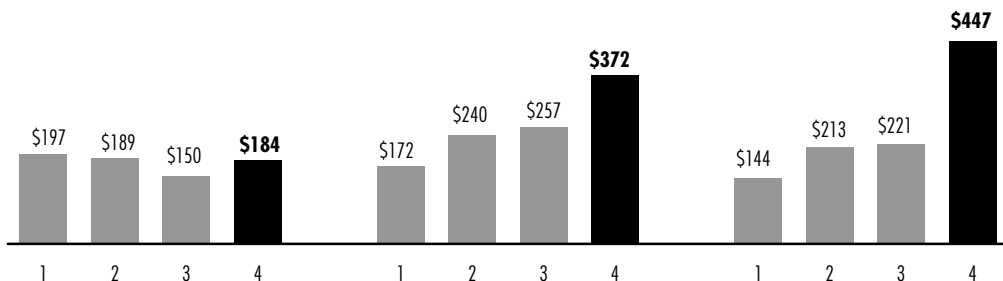
(percent)



## Capital Expenditures

(see page 16 for details)

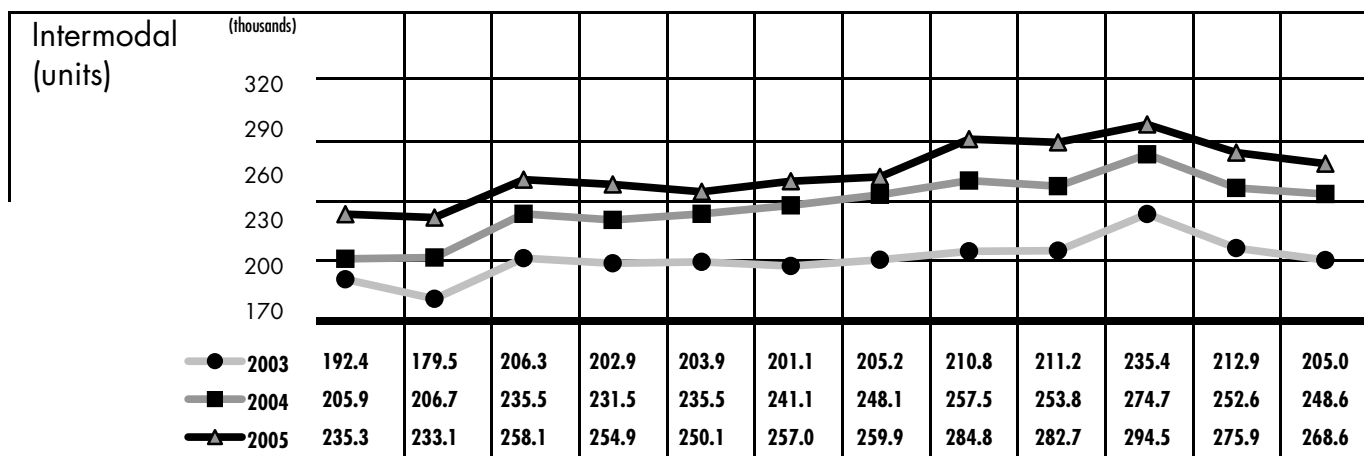
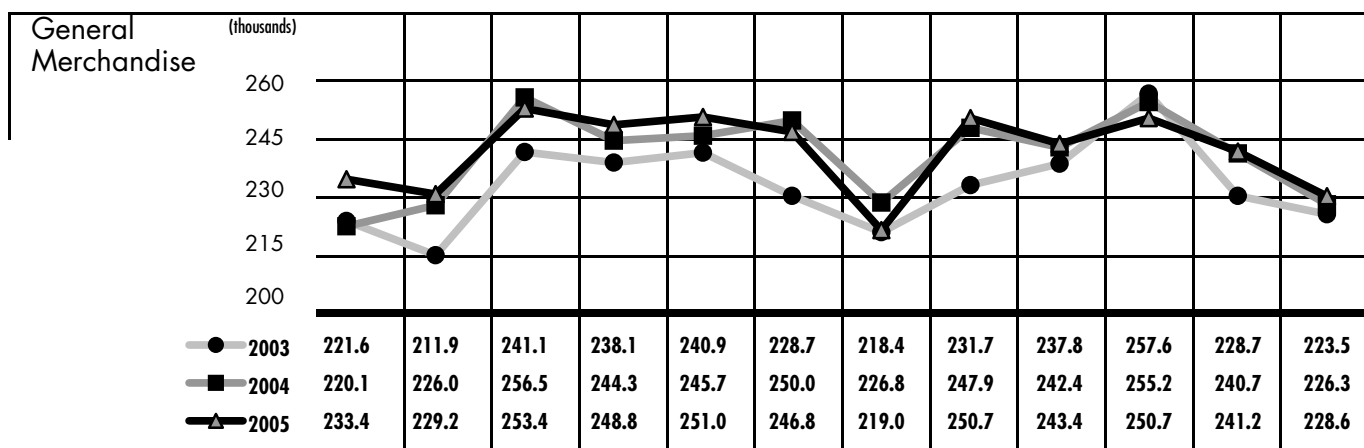
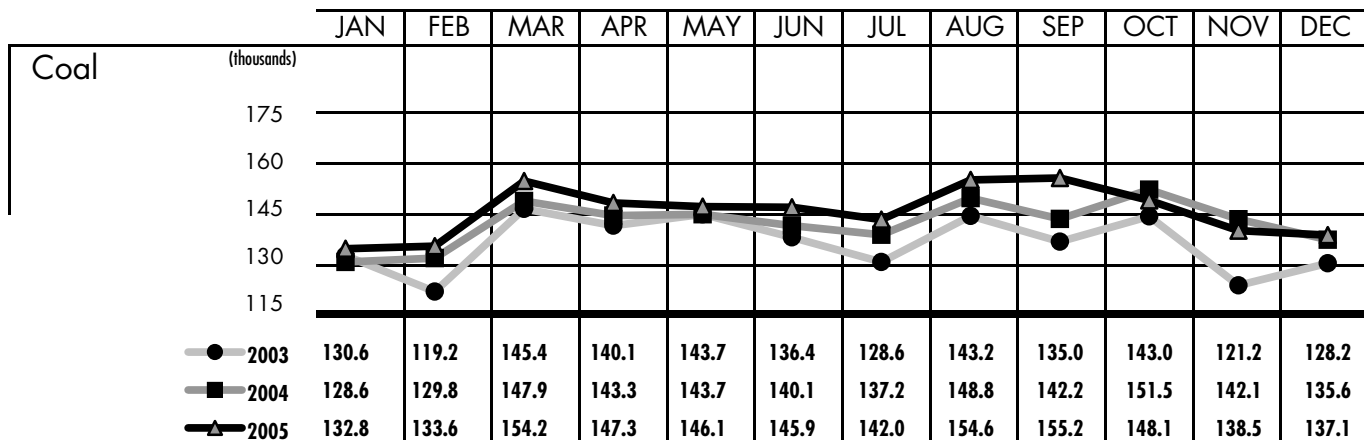
(\$ millions)



# Railway Operating Revenue Yield Analysis

Commodity and Period	Revenues			Carloads			Revenue Yield		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
	(\$ millions)			(thousands)			(\$ per carload)		
<b>First Quarter</b>									
Coal	\$ 354	\$ 398	\$ 467	395.2	406.3	420.6	\$ 895	\$ 979	\$ 1,111
Agriculture/consumer/gov't	168	176	193	134.6	141.0	145.5	1,247	1,251	1,323
Metals and construction	166	183	224	161.3	177.2	185.8	1,027	1,033	1,206
Paper/clay/forest	150	157	187	106.6	107.3	113.4	1,404	1,459	1,650
Chemicals	192	203	231	105.7	110.2	112.1	1,823	1,844	2,058
Automotive	242	248	251	166.4	166.9	159.2	1,453	1,486	1,579
General merchandise	918	967	1,086	674.6	702.6	716.0	1,360	1,377	1,517
Intermodal	289	328	408	578.2	648.1	726.5	500	506	561
Total	\$ 1,561	\$ 1,693	\$ 1,961	1,648.0	1,757.0	1,863.1	\$ 947	\$ 964	\$ 1,053
<b>Second Quarter</b>									
Coal	\$ 389	\$ 424	\$ 578	420.2	427.1	439.3	\$ 927	\$ 992	\$ 1,314
Agriculture/consumer/gov't	175	182	200	136.9	140.4	147.1	1,278	1,292	1,365
Metals and construction	175	209	243	183.8	203.8	202.4	954	1,024	1,197
Paper/clay/forest	162	168	197	113.2	113.3	116.4	1,433	1,490	1,686
Chemicals	190	214	245	104.9	112.3	116.7	1,809	1,908	2,104
Automotive	242	252	263	168.9	170.2	164.0	1,433	1,480	1,603
General merchandise	944	1,025	1,148	707.7	740.0	746.6	1,334	1,385	1,537
Intermodal	300	364	428	607.9	708.1	762.0	493	514	562
Total	\$ 1,633	\$ 1,813	\$ 2,154	1,735.8	1,875.2	1,947.9	\$ 941	\$ 967	\$ 1,106
<b>Third Quarter</b>									
Coal	\$ 372	\$ 447	\$ 546	406.8	428.2	451.8	\$ 915	\$ 1,045	\$ 1,209
Agriculture/consumer/gov't	167	179	203	137.7	141.8	140.4	1,212	1,264	1,440
Metals and construction	180	214	252	187.1	205.8	206.8	965	1,042	1,222
Paper/clay/forest	163	177	202	112.9	114.6	114.6	1,445	1,546	1,766
Chemicals	196	226	252	108.4	115.5	112.2	1,805	1,950	2,247
Automotive	205	210	229	141.8	139.4	139.1	1,447	1,508	1,645
General merchandise	911	1,006	1,138	687.9	717.1	713.1	1,325	1,403	1,596
Intermodal	315	404	471	627.2	759.4	827.4	502	532	569
Total	\$ 1,598	\$ 1,857	\$ 2,155	1,721.9	1,904.7	1,992.3	\$ 928	\$ 975	\$ 1,082
<b>Fourth Quarter</b>									
Coal	\$ 385	\$ 459	\$ 524	392.4	429.2	423.7	\$ 981	\$ 1,068	\$ 1,236
Agriculture/consumer/gov't	178	190	249	146.6	145.7	147.3	1,217	1,305	1,691
Metals and construction	178	212	259	178.0	194.3	199.2	995	1,095	1,297
Paper/clay/forest	159	182	207	110.5	113.6	114.4	1,442	1,595	1,815
Chemicals	194	221	245	106.7	110.5	106.0	1,823	2,003	2,306
Automotive	247	244	254	168.0	158.1	153.6	1,468	1,542	1,656
General merchandise	956	1,049	1,214	709.8	722.2	720.5	1,347	1,453	1,685
Intermodal	335	441	519	653.3	775.9	839.0	513	568	619
Total	\$ 1,676	\$ 1,949	\$ 2,257	1,755.5	1,927.3	1,983.2	\$ 955	\$ 1,011	\$ 1,138
<b>Year</b>									
Coal	\$ 1,500	\$ 1,728	\$ 2,115	1,614.6	1,690.8	1,735.4	\$ 929	\$ 1,022	\$ 1,219
Agriculture/consumer/gov't	688	727	845	555.8	568.9	580.3	1,238	1,278	1,455
Metals and construction	699	818	978	710.2	781.1	794.2	984	1,048	1,231
Paper/clay/forest	634	684	793	443.2	448.8	458.8	1,431	1,524	1,729
Chemicals	772	864	973	425.7	448.5	447.0	1,815	1,927	2,176
Automotive	936	954	997	645.1	634.6	615.9	1,450	1,503	1,620
General merchandise	3,729	4,047	4,586	2,780.0	2,881.9	2,896.2	1,341	1,404	1,583
Intermodal	1,239	1,537	1,826	2,466.6	2,891.5	3,154.9	502	531	579
Total	\$ 6,468	\$ 7,312	\$ 8,527	6,861.2	7,464.2	7,786.5	\$ 943	\$ 980	\$ 1,095

# Monthly Railway Carloadings



## Railway Operating Revenue Variance Analysis

Fourth Quarter  
2005 vs. 2004

	Coal		General Merchandise		Intermodal		Total	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
<b>Revenue Variance due to:</b>								
Volume	\$ (6)	(1)%	\$ (2)	—%	\$ 35	8%	\$ 56	3%
Revenue per unit/mix	71	15%	167	16%	43	10%	252	13%
	<u>\$ 65</u>	<u>14%</u>	<u>\$ 165</u>	<u>16%</u>	<u>\$ 78</u>	<u>18%</u>	<u>\$ 308</u>	<u>16%</u>

Year  
2005 vs. 2004

<b>Revenue Variance due to:</b>								
Volume	\$ 46	2%	\$ 20	—%	\$ 140	9%	\$ 316	4%
Revenue per unit/mix	341	20%	519	13%	149	10%	899	13%
	<u>\$ 387</u>	<u>22%</u>	<u>\$ 539</u>	<u>13%</u>	<u>\$ 289</u>	<u>19%</u>	<u>\$ 1,215</u>	<u>17%</u>

## Coal, Coke and Iron Ore Carloads by Market

Fourth Quarter  
(cars in thousands)

	2003		2004		2005	
	Carloads	Change vs. 2002	Carloads	Change vs. 2003	Carloads	Change vs. 2004
Utility	288.5	(1%)	306.9	6%	318.9	4%
Export	28.3	(7%)	41.1	45%	28.8	(30%)
Steel	50.4	(15%)	57.5	14%	53.1	(8%)
Industrial	25.2	8%	23.7	(6%)	22.9	(3%)
	<u>392.4</u>	<u>(3%)</u>	<u>429.2</u>	<u>9%</u>	<u>423.7</u>	<u>(1%)</u>

Year

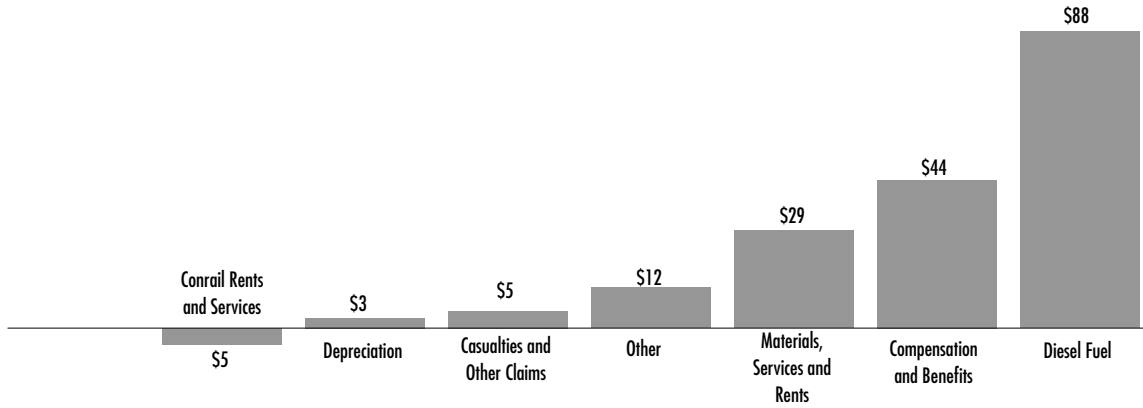
Utility	1,188.5	1%	1,222.4	3%	1,292.0	6%
Export	116.5	7%	157.0	35%	139.2	(11%)
Steel	213.8	(6%)	214.0	—%	209.5	(2%)
Industrial	95.8	(2%)	97.4	2%	94.7	(3%)
	<u>1,614.6</u>	<u>—%</u>	<u>1,690.8</u>	<u>5%</u>	<u>1,735.4</u>	<u>3%</u>

# Railway Operating Expense Variance Analysis

Fourth Quarter  
2005 vs. 2004

(\$ millions)  
Amount of change

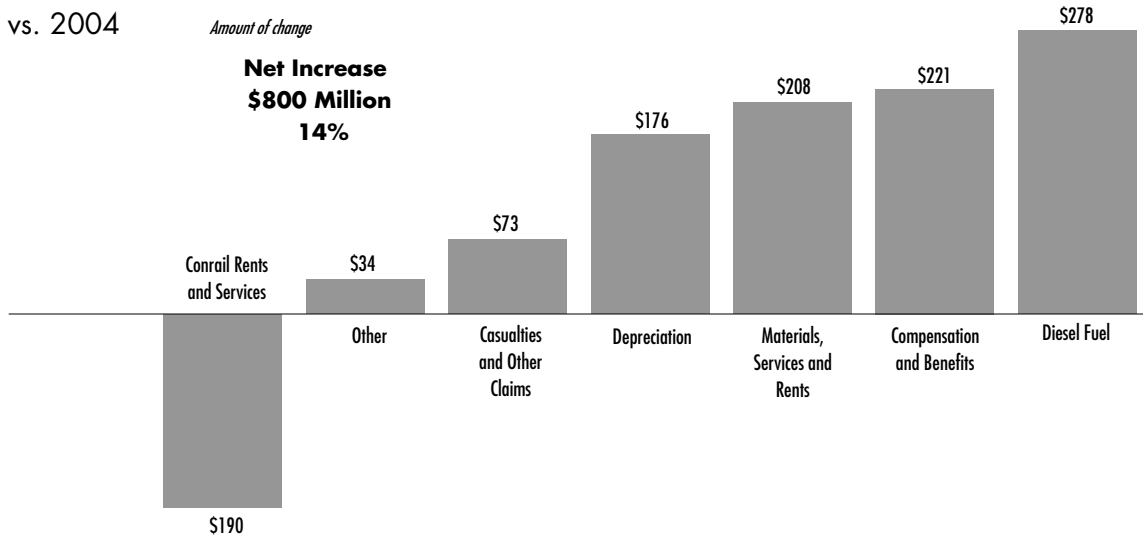
**Net Increase  
\$176 Million  
12%**



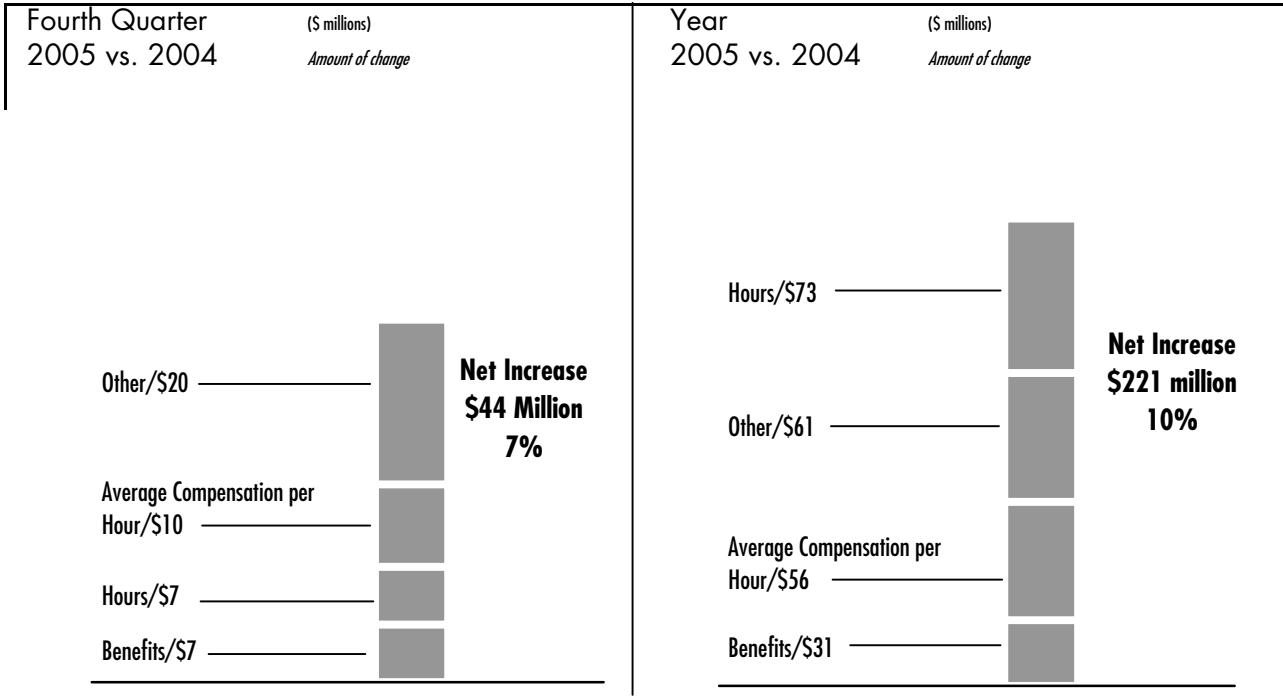
Year  
2005 vs. 2004

(\$ millions)  
Amount of change

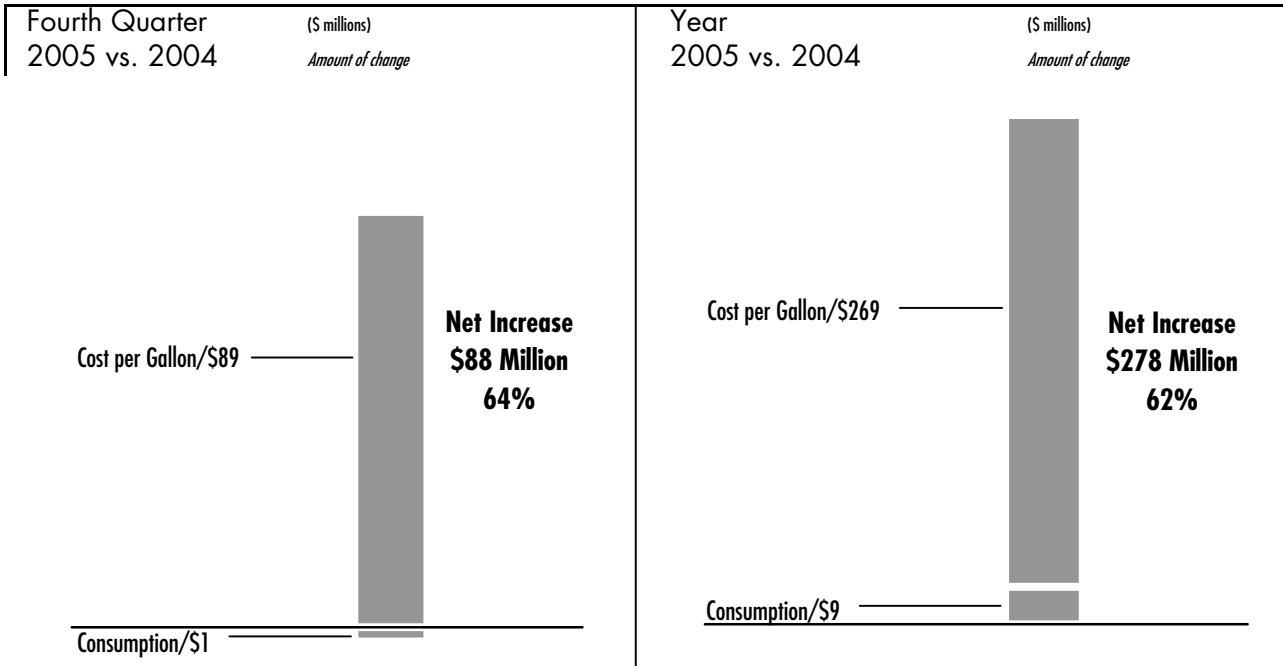
**Net Increase  
\$800 Million  
14%**



# Compensation and Benefits Expense Analysis



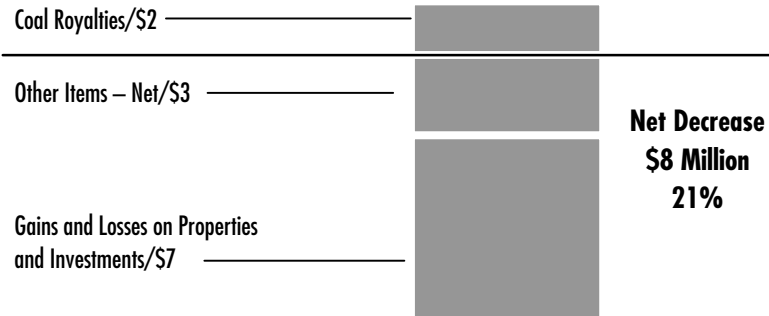
# Diesel Fuel Expense Analysis



## Other Income — Net Analysis

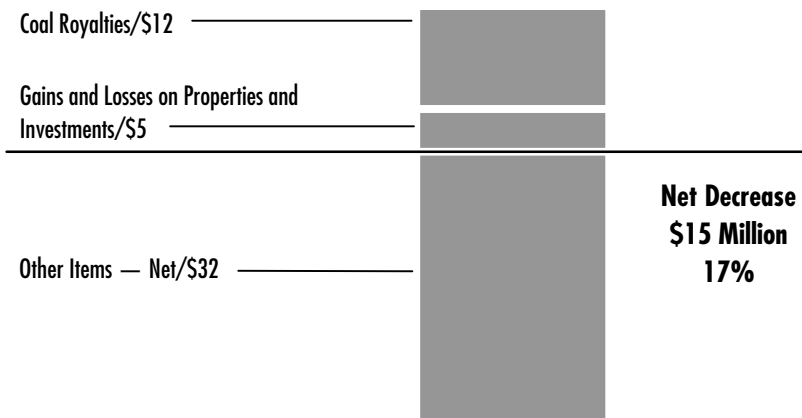
Fourth Quarter  
2005 vs. 2004

(\$ millions)  
*Amount of change*



Year  
2005 vs. 2004

(\$ millions)  
*Amount of change*



# Productivity Measures

2003

2004

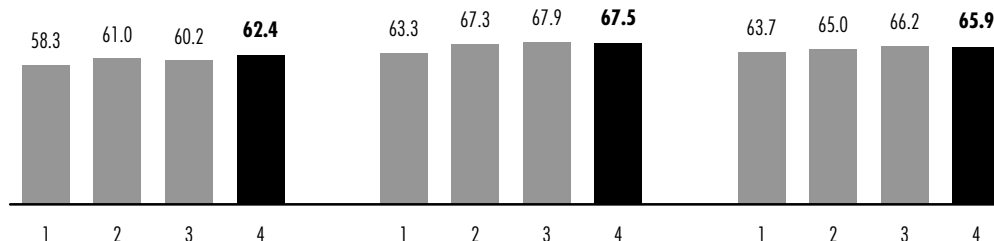
2005

Operating Revenue  
per Employee

(\$ thousands)

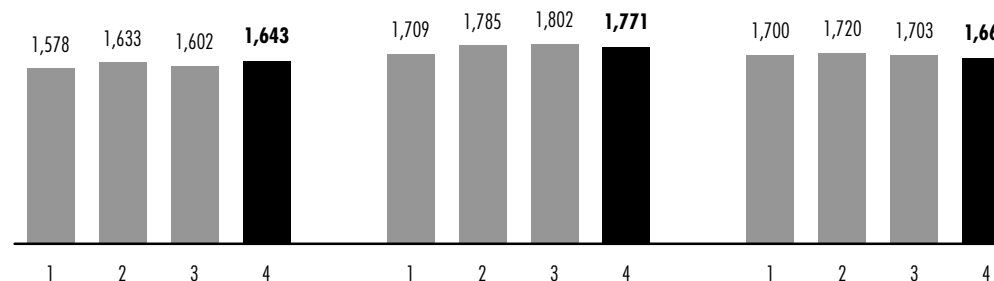


Carloads per  
Employee



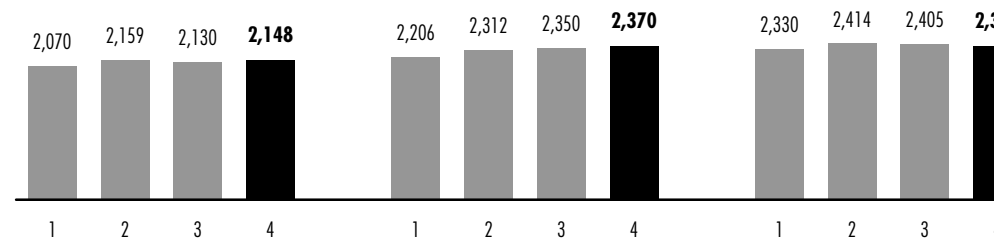
Revenue Ton Miles  
per Employee

(thousands)



Revenue Ton Miles  
per Mile of Road  
Operated

(thousands)



# Productivity Measures

2003

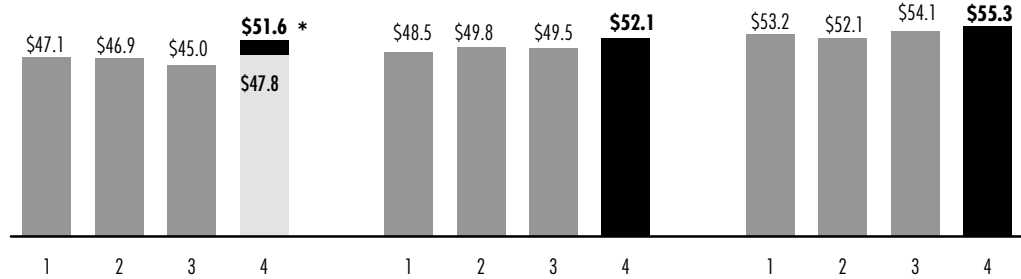
2004

2005

## Operating Expense per Employee

(\$ thousands)

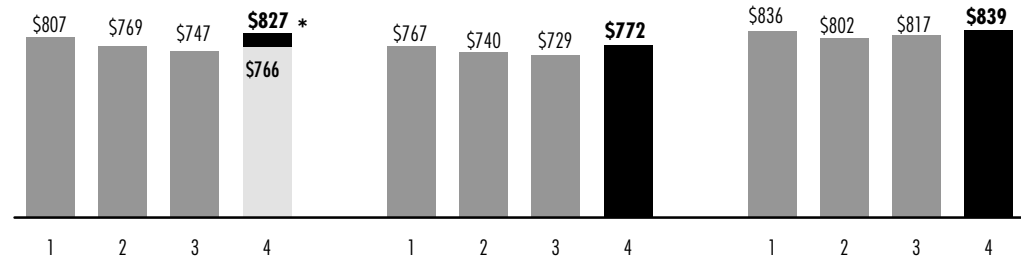
\* Includes costs related to a voluntary separation program (see note 3 on page 17).



## Operating Expense per Carload

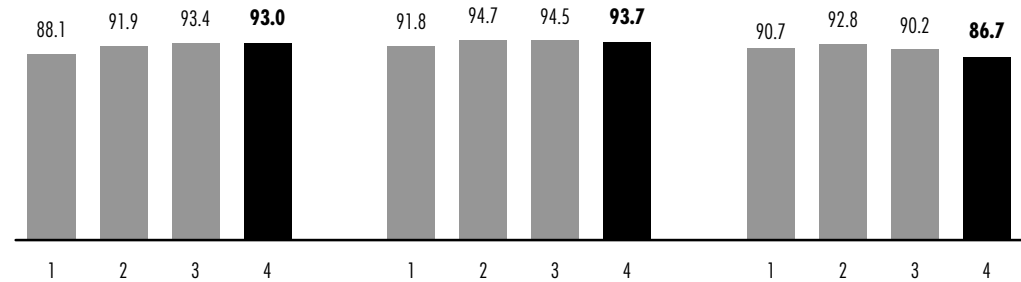
(dollars)

\* Includes costs related to a voluntary separation program (see note 3 on page 17).



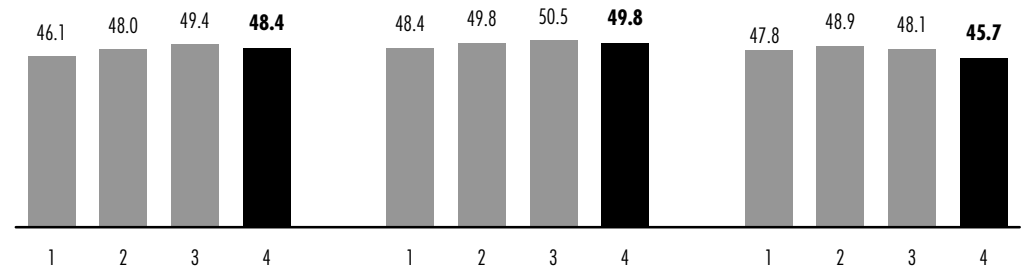
## Gross Ton Miles per Train Hour

(thousands)



## Revenue Ton Miles per Train Hour

(thousands)



# Financial, Traffic and Operating Statistics

## Consolidated Financial Data

(\$ millions — except as noted)

- No corresponding charts for this data.

		2003				
Page	Item	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
6	Railway operating revenues					
8	Coal	\$ 354	\$ 389	\$ 372	\$ 385	\$ 1,500
8	General merchandise	918	944	911	956	3,729
8	Intermodal	289	300	315	335	1,239
6	Total railway operating revenues	\$ 1,561	\$ 1,633	\$ 1,598	\$ 1,676	\$ 6,468
6	Railway operating expenses:					
•	Compensation and benefits (note 3)	\$ 526	\$ 535	\$ 531	\$ 683	\$ 2,275
•	Material (other than diesel fuel)	63	61	63	59	246
•	Purchased services (other than equipment rents)	205	220	209	202	836
•	Equipment rents	92	96	74	83	345
•	Conrail rents and services	107	102	105	105	419
•	Depreciation	127	129	128	129	513
•	Diesel fuel	104	93	86	97	380
•	Casualties and other claims	51	47	44	39	181
•	Other	55	52	47	55	209
	Total railway operating expenses (notes 1 and 3)	\$ 1,330	\$ 1,335	\$ 1,287	\$ 1,452	\$ 5,404
6	Income from railway operations (note 3)	\$ 231	\$ 298	\$ 311	\$ 224	\$ 1,064
•	Other income (expense) (notes 2 and 3)	\$ (106)	\$ (99)	\$ (111)	\$ (162)	\$ (478)
	Income from continuing operations before income taxes and accounting changes	\$ 125	\$ 199	\$ 200	\$ 62	\$ 586
•	Income taxes — current	\$ 46	\$ 9	\$ (6)	\$ (6)	\$ 43
•	Income taxes — deferred	(6)	53	69	16	132
6	Total income taxes (note 3)	\$ 40	\$ 62	\$ 63	\$ 10	\$ 175
7	Income from continuing operations before accounting changes	\$ 85	\$ 137	\$ 137	\$ 52	\$ 411
•	Discontinued operations (note 3)	10	-	-	-	10
•	Cumulative effect of changes in accounting principles, net of taxes (note 3)	114	-	-	-	114
•	Net income (notes 1-3)	\$ 209	\$ 137	\$ 137	\$ 52	\$ 535
	Earnings per share - diluted (dollars):					
7	Income from continuing operations before accounting changes (notes 1-3)	\$ 0.22	\$ 0.35	\$ 0.35	\$ 0.13	\$ 1.05
•	Net income (notes 1-3)	\$ 0.54	\$ 0.35	\$ 0.35	\$ 0.13	\$ 1.37
7	Railway operating ratio (note 3)	85.2	81.8	80.5	86.6	83.5
7	Capital expenditures:					
	Equipment	\$ 100	\$ 69	\$ 21	\$ 28	\$ 218
	Road	97	120	129	156	502
	Total	\$ 197	\$ 189	\$ 150	\$ 184	\$ 720
•	Cash, cash equivalents and short-term investments	\$ 128	\$ 110	\$ 161	\$ 286	\$ 286
•	Total debt, excluding notes payable to Conrail	\$ 7,489	\$ 7,461	\$ 7,186	\$ 7,160	\$ 7,160
•	Debt-to-total capitalization (percent)	52.8	52.3	51.0	50.7	50.7
•	Shares outstanding end of period - basic (thousands)	389,377	389,786	389,999	390,761	390,761

**Note 1** Second quarter 2005 includes a \$24 million, or 6 cents per diluted share, net gain from the settlements of coal rate cases. (See note 1 on page 2 for additional details.) Second quarter 2005 also includes a reduction of deferred income taxes which increased net income by \$96 million, or 23 cents per diluted share. (See note 2 on page 2 for additional details.) First quarter 2005 includes approximately \$35 million and second, third and fourth quarters include approximately \$2 million each in costs related to the derailment in Graniteville, SC, which reduced net income for the year by approximately \$24 million, or 6 cents per diluted share. (See note 3 on pages 2-3 for additional details.)

**Note 2** Third quarter 2004 includes a \$53 million, or 13 cents per diluted share, net gain from the Conrail corporate reorganization. (See note 4 on page 3 for additional details.)

2004					2005				
First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
\$ 398	\$ 424	\$ 447	\$ 459	\$ 1,728	\$ 467	\$ 578	\$ 546	\$ 524	\$ 2,115
967	1,025	1,006	1,049	4,047	1,086	1,148	1,138	1,214	4,586
328	364	404	441	1,537	408	428	471	519	1,826
\$ 1,693	\$ 1,813	\$ 1,857	\$ 1,949	\$ 7,312	\$ 1,961	\$ 2,154	\$ 2,155	\$ 2,257	\$ 8,527
\$ 545	\$ 565	\$ 570	\$ 592	\$ 2,272	\$ 604	\$ 624	\$ 629	\$ 636	\$ 2,493
68	72	73	74	287	87	87	95	80	349
209	226	240	262	937	250	254	266	285	1,055
88	91	98	100	377	99	105	101	100	405
102	101	79	37	319	35	31	31	32	129
129	130	150	189	598	193	194	195	192	774
107	106	98	138	449	150	162	189	226	727
40	38	31	42	151	78	40	59	47	224
59	59	49	53	220	62	65	62	65	254
\$ 1,347	\$ 1,388	\$ 1,388	\$ 1,487	\$ 5,610	\$ 1,558	\$ 1,562	\$ 1,627	\$ 1,663	\$ 6,410
\$ 346	\$ 425	\$ 469	\$ 462	\$ 1,702	\$ 403	\$ 592	\$ 528	\$ 594	\$ 2,117
\$ (111)	\$ (121)	\$ (81)	\$ (87)	\$ (400)	\$ (126)	\$ (117)	\$ (87)	\$ (90)	\$ (420)
\$ 235	\$ 304	\$ 388	\$ 375	\$ 1,302	\$ 277	\$ 475	\$ 441	\$ 504	\$ 1,697
\$ 49	\$ 31	\$ 76	\$ 23	\$ 179	\$ 59	\$ 122	\$ 86	\$ 69	\$ 336
28	60	24	88	200	24	(71)	54	73	80
\$ 77	\$ 91	\$ 100	\$ 111	\$ 379	\$ 83	\$ 51	\$ 140	\$ 142	\$ 416
\$ 158	\$ 213	\$ 288	\$ 264	\$ 923	\$ 194	\$ 424	\$ 301	\$ 362	\$ 1,281
-	-	-	-	-	-	-	-	-	-
\$ 158	\$ 213	\$ 288	\$ 264	\$ 923	\$ 194	\$ 424	\$ 301	\$ 362	\$ 1,281
\$ 0.40	\$ 0.54	\$ 0.72	\$ 0.65	\$ 2.31	\$ 0.47	\$ 1.04	\$ 0.73	\$ 0.87	\$ 3.11
\$ 0.40	\$ 0.54	\$ 0.72	\$ 0.65	\$ 2.31	\$ 0.47	\$ 1.04	\$ 0.73	\$ 0.87	\$ 3.11
79.6	76.6	74.7	76.3	76.7	79.4	72.5	75.5	73.7	75.2
\$ 65	\$ 95	\$ 79	\$ 190	\$ 429	\$ 25	\$ 36	\$ 36	\$ 187	\$ 284
107	145	178	182	612	119	177	185	260	741
\$ 172	\$ 240	\$ 257	\$ 372	\$ 1,041	\$ 144	\$ 213	\$ 221	\$ 447	\$ 1,025
\$ 107	\$ 207	\$ 530	\$ 669	\$ 669	\$ 1,119	\$ 615	\$ 1,050	\$ 1,257	\$ 1,257
\$ 6,881	\$ 6,847	\$ 7,548	\$ 7,525	\$ 7,525	\$ 7,682	\$ 6,992	\$ 6,958	\$ 6,930	\$ 6,930
49.1	48.2	49.5	48.5	48.5	48.2	44.8	43.8	42.7	42.7
391,330	392,961	395,280	399,712	399,712	402,972	403,257	405,143	408,623	408,623

**Note 3** Fourth quarter 2003 includes voluntary separation costs of \$107 million, which increased the railway operating ratio by 6.3 percentage points for the quarter and 1.6 percentage points for the year and reduced net income by \$66 million, or 17 cents per diluted share. Fourth quarter 2003 also includes an \$84 million impairment of telecommunications assets, which reduced net income by \$53 million, or 13 cents per diluted share. First quarter 2003 includes the effect of a \$10 million, or 3 cents per diluted share, gain on the 1998 sale of NS' motor carrier subsidiary, North American Van Lines, Inc. Additionally, first quarter 2003 includes \$114 million (\$188 million before taxes), or 29 cents per diluted share, related to required changes in accounting principles stemming from NS' adoption of Financial Accounting Standards Board (FASB) Statement No. 143, "Accounting for Asset Retirement Obligations" and FASB Interpretation No. 46, "Consolidation of Variable Interest Entities."

# Financial, Traffic and Operating Statistics

Traffic and Operating Statistics		2003				
		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
	• No corresponding charts for this data.					
Page	Item					
8	Railway carloads (thousands)					
8	Coal	395.2	420.2	406.8	<b>392.4</b>	1,614.6
8	General merchandise	674.6	707.7	687.9	<b>709.8</b>	2,780.0
8	Intermodal	578.2	607.9	627.2	<b>653.3</b>	2,466.6
8	Total railway carloads	1,648.0	1,735.8	1,721.9	<b>1,755.5</b>	6,861.2
	• Revenue ton miles (RTMs) (billions):					
	• Coal	12.8	13.7	13.1	<b>13.0</b>	52.6
	• General merchandise	25.3	26.0	25.5	<b>25.6</b>	102.4
	• Intermodal	6.5	6.8	7.2	<b>7.6</b>	28.1
	• Total	44.6	46.5	45.8	<b>46.2</b>	183.1
	• Revenue (dollars) per thousand RTMs:					
	• Coal	\$ 27.69	\$ 28.43	\$ 28.35	<b>\$ 29.69</b>	\$ 28.54
	• General merchandise	\$ 36.29	\$ 36.34	\$ 35.73	<b>\$ 37.23</b>	\$ 36.40
	• Intermodal	\$ 44.37	\$ 44.10	\$ 43.84	<b>\$ 44.12</b>	\$ 44.10
	• Total	\$ 35.00	\$ 35.15	\$ 34.89	<b>\$ 36.25</b>	\$ 35.33
	• Gross ton miles (GTMs) (billions)	85.1	88.9	86.6	<b>88.9</b>	349.5
	• Revenue ton miles (RTMs) (billions)	44.6	46.5	45.8	<b>46.2</b>	183.1
	• Railroad employees (average)	28,260	28,446	28,597	<b>28,147</b>	28,363
	• Total operating expense (dollars) per thousand GTMs (see note 2 on page 16)	\$ 15.62	\$ 15.02	\$ 14.86	<b>\$ 16.34</b>	\$ 15.46
	• Compensation and benefits (dollars) per thousand GTMs (see note 2 on page 16)	\$ 6.18	\$ 6.02	\$ 6.13	<b>\$ 7.68</b>	\$ 6.51
	• Total operating expense (dollars) per thousand RTMs (see note 2 on page 16)	\$ 29.82	\$ 28.73	\$ 28.10	<b>\$ 31.41</b>	\$ 29.51
	• Compensation and benefits (dollars) per thousand RTMs (see note 2 on page 16)	\$ 11.80	\$ 11.51	\$ 11.59	<b>\$ 14.77</b>	\$ 12.43
14	Total operating revenue (\$ thousands) per employee	\$ 55.2	\$ 57.4	\$ 55.9	<b>\$ 59.5</b>	\$ 228.0
15	Total operating expense (\$ thousands) per employee (see note 2 on page 16)	\$ 47.1	\$ 46.9	\$ 45.0	<b>\$ 51.6</b>	\$ 190.6
	• GTMs (thousands) per employee	3,013	3,124	3,029	<b>3,158</b>	12,324
14	RTMs (thousands) per employee	1,578	1,633	1,602	<b>1,643</b>	6,456
14	Carloads per employee	58.3	61.0	60.2	<b>62.4</b>	241.9
14	RTMs (thousands) per mile of road operated	2,070	2,159	2,130	<b>2,148</b>	8,507
15	Total operating expense (dollars) per carload (see note 2 on page 16)	\$ 807	\$ 769	\$ 747	<b>\$ 827</b>	\$ 788
	• Compensation and benefits (dollars) per carload (see note 2 on page 16)	\$ 319	\$ 308	\$ 308	<b>\$ 389</b>	\$ 332
	• RTMs (thousands) per carload	27.1	26.8	26.6	<b>26.3</b>	26.7
	• Diesel fuel consumed (thousands of gallons)	121,116	116,507	111,989	<b>122,623</b>	472,235
	• Average price (cents) per gallon of diesel fuel	85.9	80.1	77.4	<b>78.9</b>	80.7
	• RTMs per gallon of fuel consumed	368	399	409	<b>377</b>	388
15	GTMs (thousands) per train hour	88.1	91.9	93.4	<b>93.0</b>	91.6
15	RTMs (thousands) per train hour	46.1	48.0	49.4	<b>48.4</b>	48.0
	• Percent of loaded-to-total car miles	58.3	57.6	58.1	<b>58.8</b>	58.2
	• Total new crossties installed (thousands)	522	653	682	<b>894</b>	2,751
	• Total track miles of rail laid (miles)	76	70	55	<b>32</b>	233

2004					2005				
First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
406.3	427.1	428.2	<b>429.2</b>	1,690.8	420.6	439.3	451.8	<b>423.7</b>	1,735.4
702.6	740.0	717.1	<b>722.2</b>	2,881.9	716.0	746.6	713.1	<b>720.5</b>	2,896.2
648.1	708.1	759.4	<b>775.9</b>	2,891.5	726.5	762.0	827.4	<b>839.0</b>	3,154.9
1,757.0	1,875.2	1,904.7	<b>1,927.3</b>	7,464.2	1,863.1	1,947.9	1,992.3	<b>1,983.2</b>	7,786.5
13.9	14.7	15.0	<b>14.6</b>	58.2	14.3	15.0	15.6	<b>14.4</b>	59.3
26.3	27.4	27.3	<b>27.2</b>	108.2	27.7	28.7	27.4	<b>27.4</b>	111.2
7.3	7.6	8.2	<b>8.8</b>	31.9	7.8	7.8	8.2	<b>8.5</b>	32.3
47.5	49.7	50.5	<b>50.6</b>	198.3	49.8	51.5	51.2	<b>50.3</b>	202.8
\$ 28.62	\$ 28.84	\$ 29.87	<b>\$ 31.54</b>	\$ 29.73	\$ 32.56	\$ 38.56	\$ 34.98	<b>\$ 36.61</b>	\$ 35.69
\$ 36.83	\$ 37.39	\$ 36.83	<b>\$ 38.59</b>	\$ 37.42	\$ 39.27	\$ 40.01	\$ 41.48	<b>\$ 44.34</b>	\$ 41.25
\$ 44.89	\$ 47.79	\$ 48.89	<b>\$ 49.94</b>	\$ 48.00	\$ 52.58	\$ 54.36	\$ 57.52	<b>\$ 60.98</b>	\$ 56.48
\$ 35.67	\$ 36.46	\$ 36.74	<b>\$ 38.54</b>	\$ 36.87	\$ 39.41	\$ 41.78	\$ 42.06	<b>\$ 44.95</b>	\$ 42.06
90.0	94.7	94.6	<b>95.1</b>	374.4	94.5	97.7	96.1	<b>95.3</b>	383.6
47.5	49.7	50.5	<b>50.6</b>	198.3	49.8	51.5	51.2	<b>50.3</b>	202.8
27,770	27,861	28,051	<b>28,546</b>	28,057	29,271	29,968	30,084	<b>30,082</b>	29,851
\$ 14.96	\$ 14.66	\$ 14.67	<b>\$ 15.64</b>	\$ 14.98	\$ 16.49	\$ 15.98	\$ 16.93	<b>\$ 17.46</b>	\$ 16.71
\$ 6.05	\$ 5.97	\$ 6.02	<b>\$ 6.22</b>	\$ 6.07	\$ 6.39	\$ 6.38	\$ 6.55	<b>\$ 6.68</b>	\$ 6.50
\$ 28.38	\$ 27.91	\$ 27.46	<b>\$ 29.41</b>	\$ 28.29	\$ 31.31	\$ 30.30	\$ 31.76	<b>\$ 33.12</b>	\$ 31.62
\$ 11.48	\$ 11.36	\$ 11.28	<b>\$ 11.71</b>	\$ 11.46	\$ 12.14	\$ 12.10	\$ 12.28	<b>\$ 12.67</b>	\$ 12.30
\$ 61.0	\$ 65.1	\$ 66.2	<b>\$ 68.3</b>	\$ 260.6	\$ 67.0	\$ 71.9	\$ 71.6	<b>\$ 75.0</b>	\$ 285.5
\$ 48.5	\$ 49.8	\$ 49.5	<b>\$ 52.1</b>	\$ 199.9	\$ 53.2	\$ 52.1	\$ 54.1	<b>\$ 55.3</b>	\$ 214.7
3,242	3,398	3,373	<b>3,332</b>	13,345	3,227	3,262	3,194	<b>3,167</b>	12,850
1,709	1,785	1,802	<b>1,771</b>	7,067	1,700	1,720	1,703	<b>1,669</b>	6,792
63.3	67.3	67.9	<b>67.5</b>	266.0	63.7	65.0	66.2	<b>65.9</b>	260.8
2,206	2,312	2,350	<b>2,370</b>	9,238	2,330	2,414	2,405	<b>2,370</b>	9,519
\$ 767	\$ 740	\$ 729	<b>\$ 772</b>	\$ 752	\$ 836	\$ 802	\$ 817	<b>\$ 839</b>	\$ 823
\$ 310	\$ 301	\$ 299	<b>\$ 307</b>	\$ 304	\$ 324	\$ 320	\$ 316	<b>\$ 321</b>	\$ 320
27.0	26.5	26.5	<b>26.2</b>	26.6	26.7	26.5	25.7	<b>25.3</b>	26.0
128,560	123,596	120,984	<b>129,369</b>	502,509	133,286	127,102	124,375	<b>128,637</b>	513,400
83.1	85.9	87.9	<b>106.8</b>	91.0	112.2	127.7	151.8	<b>176.1</b>	141.6
369	402	418	<b>391</b>	395	373	406	412	<b>390</b>	395
91.8	94.7	94.5	<b>93.7</b>	93.7	90.7	92.8	90.2	<b>86.7</b>	90.1
48.4	49.8	50.5	<b>49.8</b>	49.6	47.8	48.9	48.1	<b>45.7</b>	47.6
58.8	58.5	58.9	<b>59.3</b>	58.9	58.9	58.7	58.8	<b>59.4</b>	58.9
421	726	727	<b>596</b>	2,470	557	727	768	<b>497</b>	2,549
77	72	46	<b>51</b>	246	71	96	60	<b>75</b>	302