

# Quarterly Financial Review

## Fourth Quarter 2006



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

# Norfolk Southern Railway System



- NS Lines & Rights
- ⋯ NS Trackage/Haulage Rights
- Conrail Shared Assets Areas

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*The accompanying unaudited interim 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,  
(S millions except per share)

	2006	2005
Railway operating revenues:		
Coal	\$ 592	\$ 524
General merchandise	1,234	1,214
Intermodal	493	519
<b>Total railway operating revenues</b>	<b>2,319</b>	<b>2,257</b>
Railway operating expenses:		
Compensation and benefits	655	636
Materials, services and rents	481	465
Conrail rents and services	33	32
Depreciation	187	192
Diesel fuel	229	226
Casualties and other claims	52	47
Other	68	65
<b>Total railway operating expenses</b>	<b>1,705</b>	<b>1,663</b>
Income from railway operations	614	594
Other income — net	40	31
Interest expense on debt	115	121
Income before income taxes	539	504
Provision for income taxes:		
Current	120	69
Deferred	34	73
Total income taxes	154	142
<b>Net income</b>	<b>\$ 385</b>	<b>\$ 362</b>
Earnings per share:		
Basic	\$ 0.97	\$ 0.89
Diluted	\$ 0.95	\$ 0.87
Average shares outstanding (000's):		
Basic	395,952	407,481
Diluted	404,320	416,953

See notes to consolidated financial statements on pages 3-5.

# Consolidated Statements of Income

Years Ended December 31,

(\$ millions except per share)

	2006	2005	<b>Notes to Consolidated Financial Statements</b>
Railway operating revenues:			
Coal	\$ 2,330	\$ 2,115	
General merchandise	5,106	4,586	
Intermodal	1,971	1,826	
<b>Total railway operating revenues</b>	<b>9,407</b>	<b>8,527</b>	
Railway operating expenses:			
Compensation and benefits (note 1)	2,637	2,493	
Materials, services and rents	1,895	1,809	
Conrail rents and services	126	129	
Depreciation	738	774	
Diesel fuel	977	727	
Casualties and other claims (note 5)	220	224	
Other	257	254	
<b>Total railway operating expenses</b>	<b>6,850</b>	<b>6,410</b>	
Income from railway operations	2,557	2,117	
Other income — net	149	74	
Interest expense on debt	476	494	
Income before income taxes	2,230	1,697	
Provision for income taxes:			
Current	757	336	
Deferred (note 3)	(8)	80	
Total income taxes	749	416	
<b>Net income (note 2)</b>	<b>\$ 1,481</b>	<b>\$ 1,281</b>	
Earnings per share:			
Basic	\$ 3.63	\$ 3.17	
Diluted	\$ 3.57	\$ 3.11	
Average shares outstanding (000's):			
Basic	405,988	404,170	
Diluted	414,700	412,291	

## 1. Required Accounting Change- Share-Based Payments

Effective January 1, 2006, NS adopted Statement of Financial Accounting Standards, No. 123(R), "Share-Based Payment," [SFAS 123(R)]. This statement applies to awards granted, modified, repurchased or cancelled after the effective date as well as awards that are unvested at the effective date and includes, among other things, the requirement to expense the fair value of stock options. As a result of the implementation of SFAS 123(R), compensation and benefits expense for the year included \$23 million for the accelerated recognition of awards granted to retirement eligible employees and \$13 million for stock options granted to non-retirement eligible employees.

## 2. Settlements of Coal Rate Cases

In 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). 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.

## 3. 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.

See notes to consolidated financial statements on pages 3-5.

# Consolidated Balance Sheets

As of December 31,  
(\$ millions)

	2006	2005	<b>Notes to Consolidated Financial Statements</b>
<b>Assets</b>			
Current assets:			
Cash, cash equivalents and short-term investments	\$ 918	\$ 1,257	<p><b>4. Required Accounting Change—Pension and Other Postretirement Benefits</b></p> <p>As of December 31, 2006, NS adopted Statement of Financial Accounting Standards, No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans” (SFAS 158). This statement requires an employer to recognize in its statement of financial position the overfunded or underfunded status of defined benefit pension and postretirement plans measured as the difference between the fair value of plan assets and the benefit obligation. As a result of adopting this standard, NS reduced its pension asset by \$217 million and increased its pension and postretirement liabilities by \$294 million in its Consolidated Balance Sheet, with a corresponding reduction to stockholders’ equity of \$314 million (net of tax) reflected as an increase to accumulated other comprehensive loss. The adoption of SFAS 158 had no impact on years prior to 2006 and had no effect on the calculation of expenses for pensions and postretirement benefits.</p> <p><b>5. Graniteville Derailment</b></p> <p>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.</p> <p>Results for 2005 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.</p> <p>(Continued on next page)</p>
Accounts receivable — net (note 5)	992	931	
Materials and supplies	151	132	
Deferred income taxes	186	167	
Other current assets	153	163	
Total current assets	2,400	2,650	
Investments	1,787	1,590	
Properties less accumulated depreciation	21,068	20,705	
Other assets (notes 4 and 5)	775	916	
<b>Total assets</b>	<b>\$ 26,030</b>	<b>\$ 25,861</b>	
<b>Liabilities and stockholders’ equity</b>			
Current liabilities:			
Accounts payable (note 5)	\$ 1,181	\$ 1,163	
Income and other taxes	205	231	
Other current liabilities	216	213	
Current maturities of long-term debt	491	314	
Total current liabilities	2,093	1,921	
Long-term debt	6,109	6,616	
Other liabilities (notes 4 and 5)	1,767	1,415	
Deferred income taxes	6,433	6,620	
<b>Total liabilities</b>	<b>16,402</b>	<b>16,572</b>	
Stockholders’ equity:			
Common stock \$1.00 per share par value	418	431	
Additional paid-in capital	1,303	992	
Unearned restricted stock	—	(17)	
Accumulated other comprehensive loss (note 4)	(369)	(77)	
Retained income	8,296	7,980	
Total stockholders’ equity	9,648	9,309	
Less treasury stock at cost, 20,780,638 and 20,833,125 shares, respectively	(20)	(20)	
<b>Total stockholders’ equity</b>	<b>9,628</b>	<b>9,289</b>	
<b>Total liabilities and stockholders’ equity</b>	<b>\$ 26,030</b>	<b>\$ 25,861</b>	

See notes to consolidated financial statements on pages 3-5.

# Consolidated Statements of Cash Flows

Years Ended December 31,

(\$ millions)

	2006	2005	
<b>Cash flows from operating activities:</b>			<b>Notes to Consolidated Financial Statements (continued)</b>  <b>5. Graniteville Derailment (Continued)</b> 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 insurance 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.  <b>6. Stock Repurchase Program</b> In November 2005, NS' Board of Directors authorized the repurchase of up to 50 million shares of NS common stock through the end of 2015. In 2006, NS purchased and retired 21.8 million shares of common stock at a cost of \$964 million under this program.  <b>7. Debt Exchange</b> 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 Statement of Cash Flows and is being amortized as additional interest expense over the terms of the new debt.
Net income	\$ 1,481	\$ 1,281	
Reconciliation of net income to net cash provided by operating activities:			
Depreciation	750	787	
Deferred income taxes	(8)	80	
Equity in earnings of Conrail	(25)	(37)	
Gains on properties and investments	(54)	(51)	
Changes in assets and liabilities affecting operations:			
Accounts receivable	(60)	(94)	
Materials and supplies	(19)	(28)	
Other current assets	(11)	20	
Current liabilities other than debt	38	55	
Other — net	114	92	
Net cash provided by operating activities	<u>2,206</u>	<u>2,105</u>	
<b>Cash flows from investing activities:</b>			
Property additions	(1,178)	(1,025)	
Property sales and other transactions	119	110	
Investments, including short-term	(1,804)	(1,822)	
Investment sales and other transactions	2,179	910	
Net cash used for investing activities	<u>(684)</u>	<u>(1,827)</u>	
<b>Cash flows from financing activities:</b>			
Dividends	(278)	(194)	
Common stock issued — net	297	194	
Purchase and retirement of common stock (note 6)	(964)	—	
Proceeds from borrowings	—	433	
Debt repayments (note 7)	(339)	(889)	
Net cash used for financing activities	<u>(1,284)</u>	<u>(456)</u>	
Net increase (decrease) in cash and cash equivalents	<u>238</u>	<u>(178)</u>	
<b>Cash and cash equivalents:</b>			
At beginning of year	<u>289</u>	<u>467</u>	
At end of year	527	289	
<b>Short-term investments at end of year</b>	<u>391</u>	<u>968</u>	
<b>Cash, cash equivalents and short-term investments at end of year</b>	<u>\$ 918</u>	<u>\$ 1,257</u>	
<b>Supplemental disclosure of cash flow information</b>			
Cash paid during the year for:			
Interest (net of amounts capitalized)	\$ 473	\$ 485	
Income taxes (net of refunds)	\$ 692	\$ 271	

See notes to consolidated financial statements on pages 3-5.

# Consolidated Financial Information

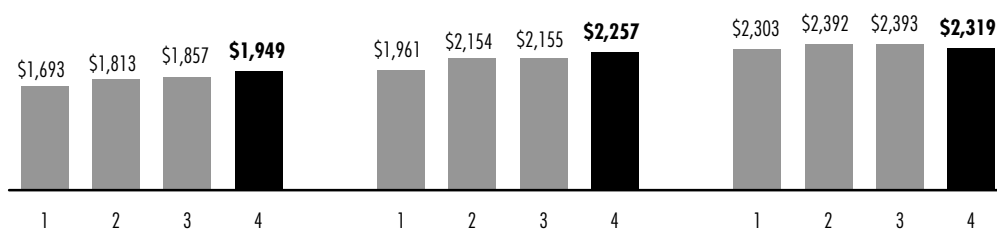
2004

2005

2006

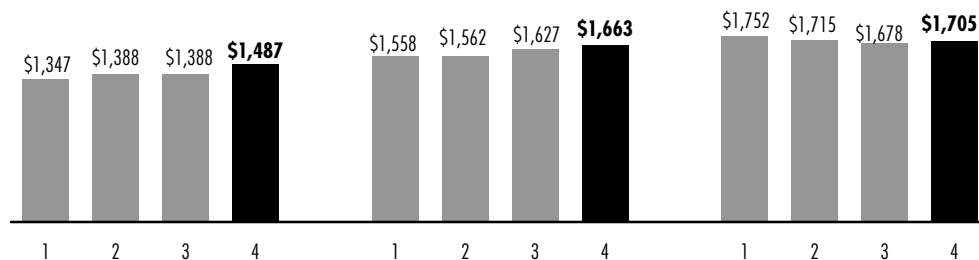
## Railway Operating Revenues

(see page 16 for details)



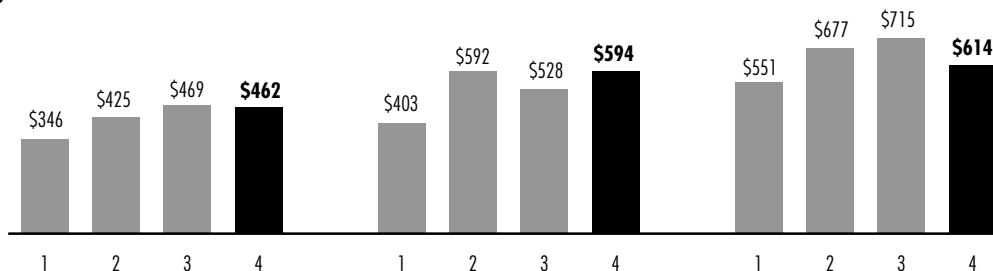
## Railway Operating Expenses

(see page 16 for details)



## Income from Railway Operations

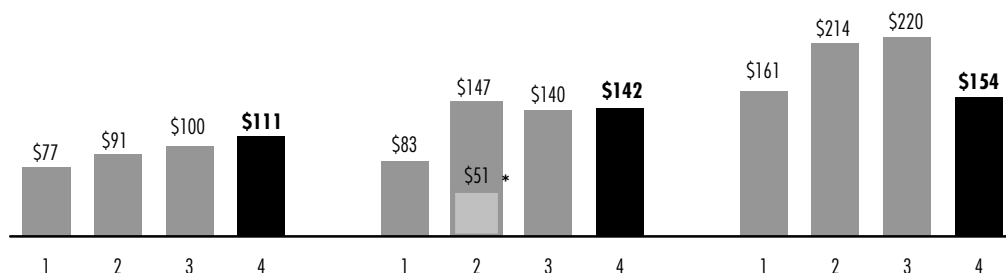
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## Income Taxes

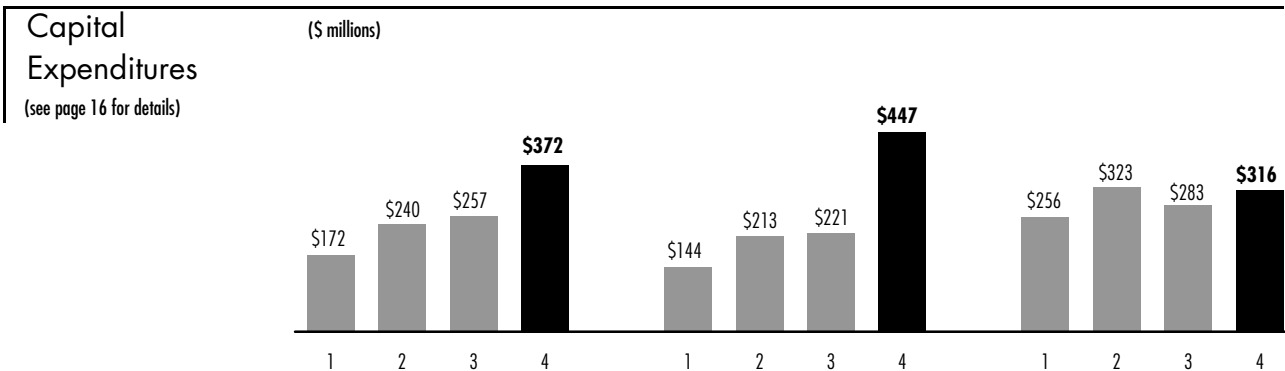
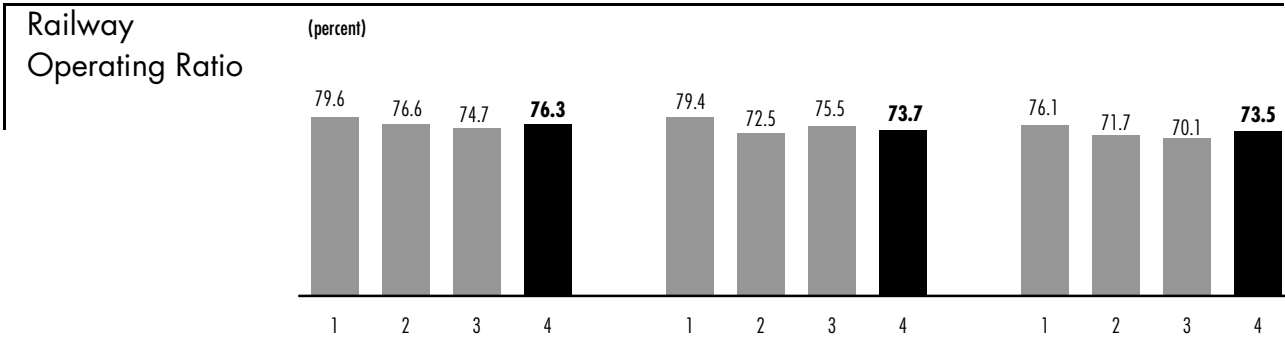
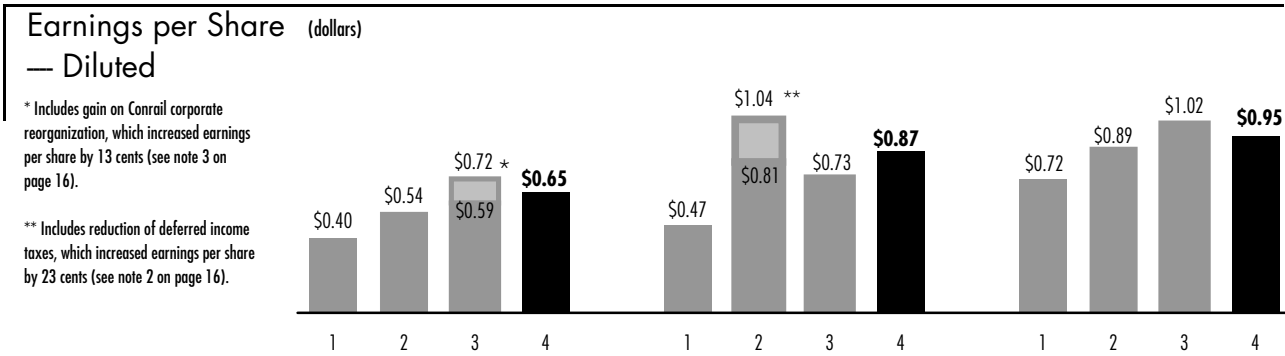
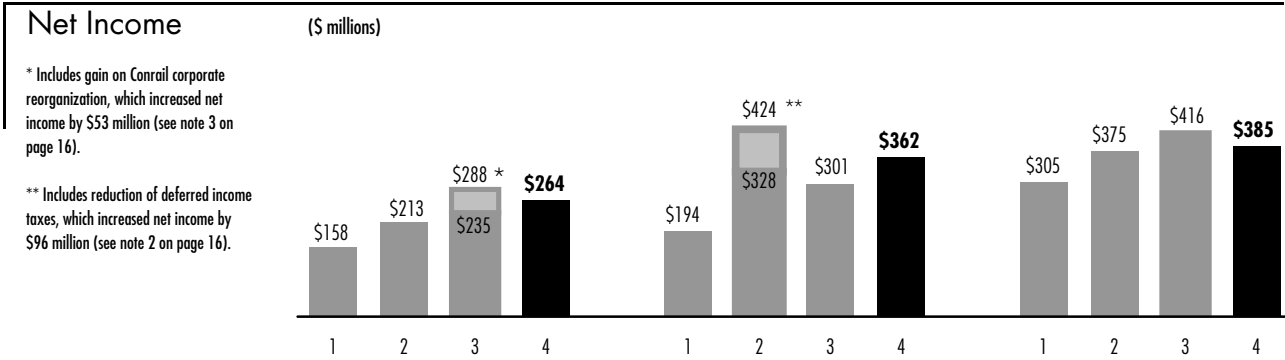
(see page 16 for details)

\*Includes \$96 million reduction of deferred income taxes (see note 2 on page 16).



# Consolidated Financial Information

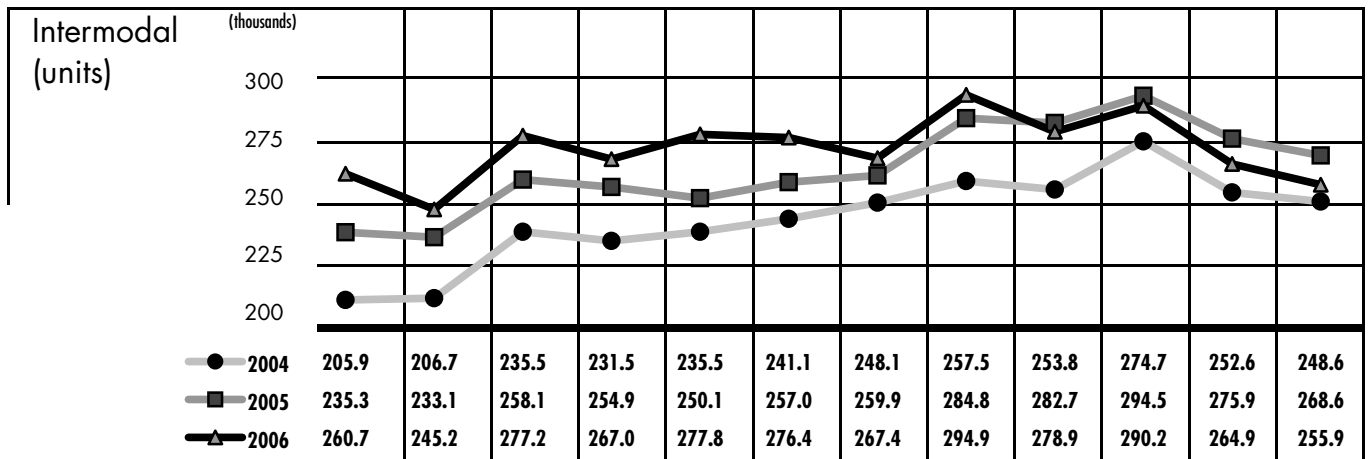
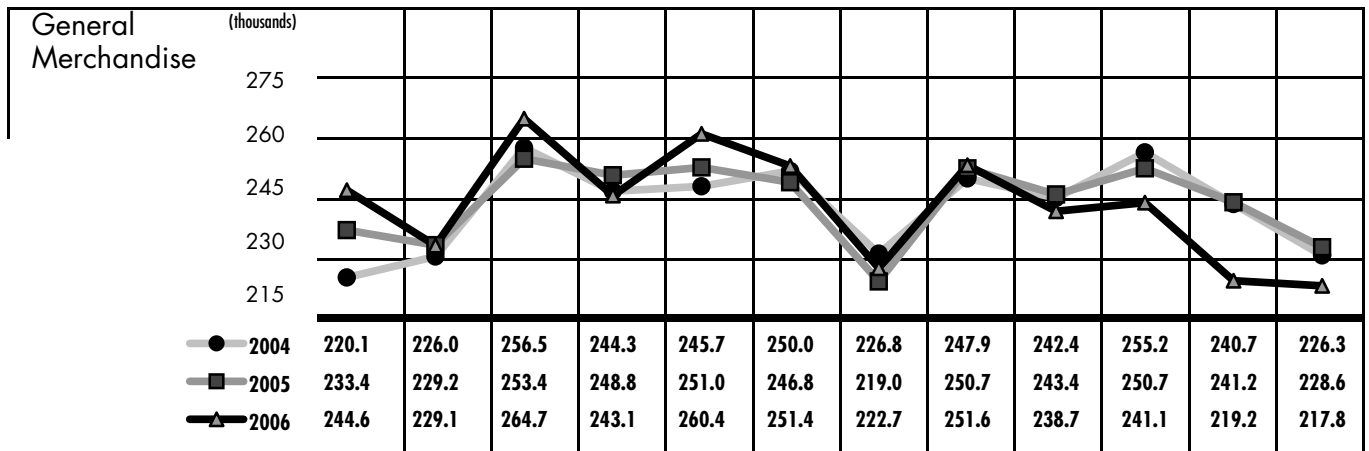
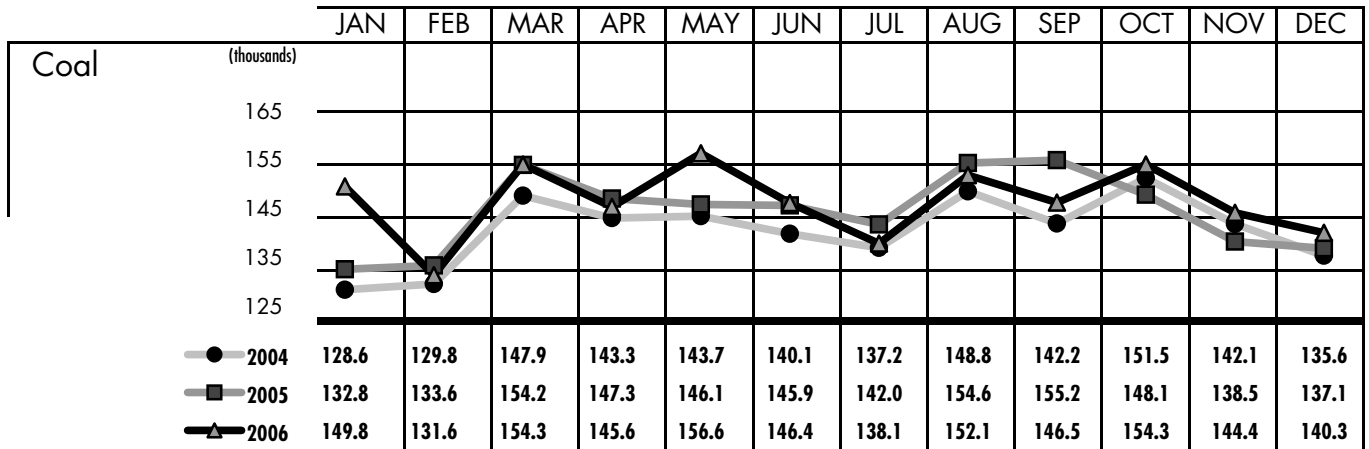
2004
2005
2006



# Railway Operating Revenue Yield Analysis

Commodity and Period	Revenues			Carloads			Revenue Yield		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
NOTE: Prior period amounts for the agriculture, paper, and chemicals groups have been reclassified to conform to the current presentation.									
<b>First Quarter</b>	(\$ millions)			(thousands)			(\$ per carload)		
Coal	\$ 398	\$ 467	\$ 559	406.3	420.6	435.7	\$ 979	\$ 1,111	\$ 1,282
Agriculture/consumer/gov't	174	190	264	138.8	143.6	149.9	1,253	1,323	1,760
Metals and construction	183	224	279	177.2	185.8	208.6	1,033	1,206	1,341
Paper/clay/forest	158	189	214	110.1	116.6	118.4	1,434	1,621	1,806
Chemicals	204	232	259	109.6	110.8	107.3	1,865	2,088	2,415
Automotive	248	251	262	166.9	159.2	154.2	1,486	1,579	1,697
General merchandise	967	1,086	1,278	702.6	716.0	738.4	1,377	1,517	1,731
Intermodal	328	408	466	648.1	726.5	783.1	506	561	595
Total	\$ 1,693	\$ 1,961	\$ 2,303	1,757.0	1,863.1	1,957.2	\$ 964	\$ 1,053	\$ 1,176
<b>Second Quarter</b>									
Coal	\$ 424	\$ 578	\$ 584	427.1	439.3	448.6	\$ 992	\$ 1,314	\$ 1,304
Agriculture/consumer/gov't	178	197	239	137.7	144.3	146.1	1,292	1,362	1,638
Metals and construction	209	243	304	203.8	202.4	222.6	1,024	1,197	1,362
Paper/clay/forest	170	198	224	116.6	120.0	118.8	1,463	1,652	1,889
Chemicals	216	247	268	111.7	115.9	107.6	1,933	2,138	2,495
Automotive	252	263	276	170.2	164.0	159.8	1,480	1,603	1,726
General merchandise	1,025	1,148	1,311	740.0	746.6	754.9	1,385	1,537	1,737
Intermodal	364	428	497	708.1	762.0	821.2	514	562	605
Total	\$ 1,813	\$ 2,154	\$ 2,392	1,875.2	1,947.9	2,024.7	\$ 967	\$ 1,106	\$ 1,182
<b>Third Quarter</b>									
Coal	\$ 447	\$ 546	\$ 595	428.2	451.8	436.7	\$ 1,045	\$ 1,209	\$ 1,362
Agriculture/consumer/gov't	177	198	239	139.7	138.3	147.9	1,264	1,436	1,617
Metals and construction	214	252	316	205.8	206.8	219.1	1,042	1,222	1,441
Paper/clay/forest	179	205	231	118.0	118.0	117.6	1,517	1,732	1,964
Chemicals	226	254	286	114.2	110.9	109.1	1,979	2,288	2,612
Automotive	210	229	211	139.4	139.1	119.3	1,508	1,645	1,774
General merchandise	1,006	1,138	1,283	717.1	713.1	713.0	1,403	1,596	1,799
Intermodal	404	471	515	759.4	827.4	841.2	532	569	614
Total	\$ 1,857	\$ 2,155	\$ 2,393	1,904.7	1,992.3	1,990.9	\$ 975	\$ 1,082	\$ 1,202
<b>Fourth Quarter</b>									
Coal	\$ 459	\$ 524	\$ 592	429.2	423.7	439.0	\$ 1,068	\$ 1,236	\$ 1,349
Agriculture/consumer/gov't	187	247	252	143.6	145.6	150.2	1,306	1,691	1,677
Metals and construction	212	259	269	194.3	199.2	185.0	1,095	1,297	1,455
Paper/clay/forest	184	209	222	117.0	117.6	111.9	1,565	1,783	1,982
Chemicals	222	245	266	109.2	104.5	102.4	2,034	2,347	2,599
Automotive	244	254	225	158.1	153.6	128.6	1,542	1,656	1,752
General merchandise	1,049	1,214	1,234	722.2	720.5	678.1	1,453	1,685	1,820
Intermodal	441	519	493	775.9	839.0	811.0	568	619	607
Total	\$ 1,949	\$ 2,257	\$ 2,319	1,927.3	1,983.2	1,928.1	\$ 1,011	\$ 1,138	\$ 1,203
<b>Year</b>									
Coal	\$ 1,728	\$ 2,115	\$ 2,330	1,690.8	1,735.4	1,760.0	\$ 1,022	\$ 1,219	\$ 1,324
Agriculture/consumer/gov't	716	832	994	559.8	571.8	594.1	1,279	1,454	1,673
Metals and construction	818	978	1,168	781.1	794.2	835.3	1,048	1,231	1,398
Paper/clay/forest	691	801	891	461.7	472.2	466.7	1,496	1,697	1,909
Chemicals	868	978	1,079	444.7	442.1	426.4	1,953	2,212	2,530
Automotive	954	997	974	634.6	615.9	561.9	1,503	1,620	1,734
General merchandise	4,047	4,586	5,106	2,881.9	2,896.2	2,884.4	1,404	1,583	1,770
Intermodal	1,537	1,826	1,971	2,891.5	3,154.9	3,256.5	531	579	605
Total	\$ 7,312	\$ 8,527	\$ 9,407	7,464.2	7,786.5	7,900.9	\$ 980	\$ 1,095	\$ 1,191

# Monthly Railway Carloadings



## Railway Operating Revenue Variance Analysis

Fourth Quarter  
2006 vs. 2005

(\$ millions)

	Coal		General Merchandise		Intermodal		Total	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
<b>Revenue Variance due to:</b>								
Volume	\$ 18	3%	\$ (71)	(6%)	\$ (17)	(3%)	\$ (63)	(3%)
Revenue per unit/mix	50	10%	91	8%	(9)	(2%)	125	6%
	<u>\$ 68</u>	<u>13%</u>	<u>\$ 20</u>	<u>2%</u>	<u>\$ (26)</u>	<u>(5%)</u>	<u>\$ 62</u>	<u>3%</u>

Year  
2006 vs. 2005

<b>Revenue Variance due to:</b>								
Volume	\$ 30	1%	\$ (19)	(1%)	\$ 59	3%	\$ 125	1%
Revenue per unit/mix	185	9%	539	12%	86	5%	755	9%
	<u>\$ 215</u>	<u>10%</u>	<u>\$ 520</u>	<u>11%</u>	<u>\$ 145</u>	<u>8%</u>	<u>\$ 880</u>	<u>10%</u>

## Coal, Coke and Iron Ore Tonnage by Market

Fourth Quarter

(tons in thousands)

	2004		2005		2006	
	Tons	Change vs. 2003	Tons	Change vs. 2004	Tons	Change vs. 2005
Utility	33,805	7%	35,105	4%	37,075	6%
Export	4,341	45%	2,999	(31%)	3,389	13%
Steel	5,598	15%	5,072	(9%)	4,915	(3%)
Industrial	2,398	(6%)	2,310	(4%)	2,395	4%
	<u>46,142</u>	<u>10%</u>	<u>45,486</u>	<u>(1%)</u>	<u>47,774</u>	<u>5%</u>

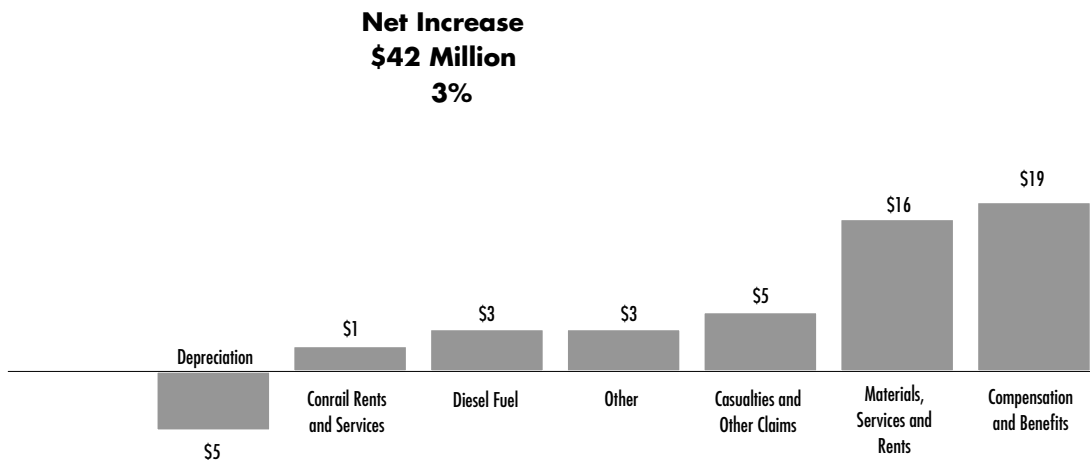
Year

Utility	134,085	3%	142,522	6%	148,078	4%
Export	16,583	35%	14,531	(12%)	12,409	(15%)
Steel	20,686	1%	20,076	(3%)	20,878	4%
Industrial	9,799	2%	9,524	(3%)	9,202	(3%)
	<u>181,153</u>	<u>5%</u>	<u>186,653</u>	<u>3%</u>	<u>190,567</u>	<u>2%</u>

# Railway Operating Expense Variance Analysis

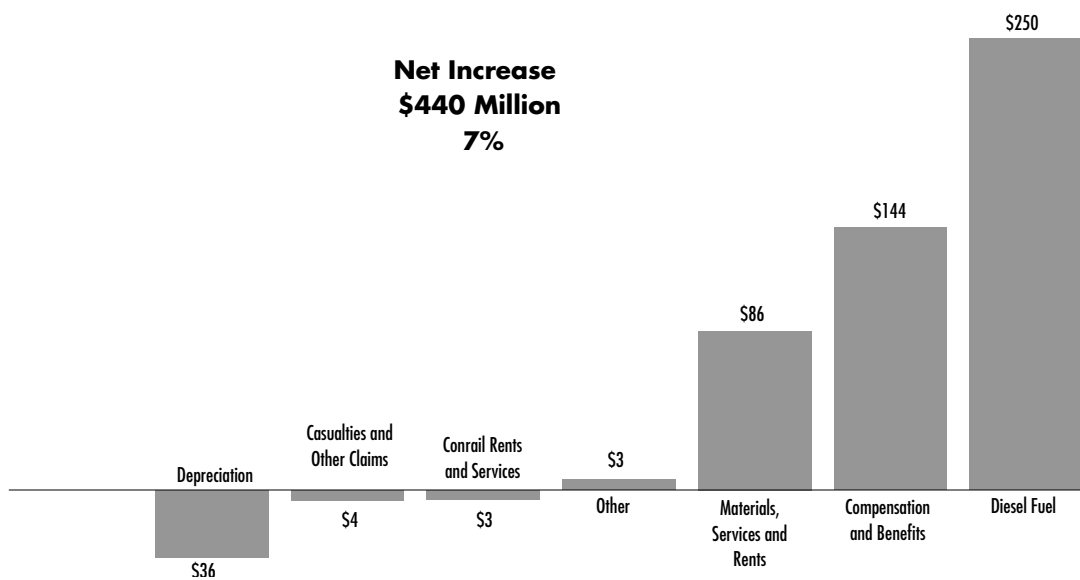
Fourth Quarter  
2006 vs. 2005

(\$ millions)  
Amount of change

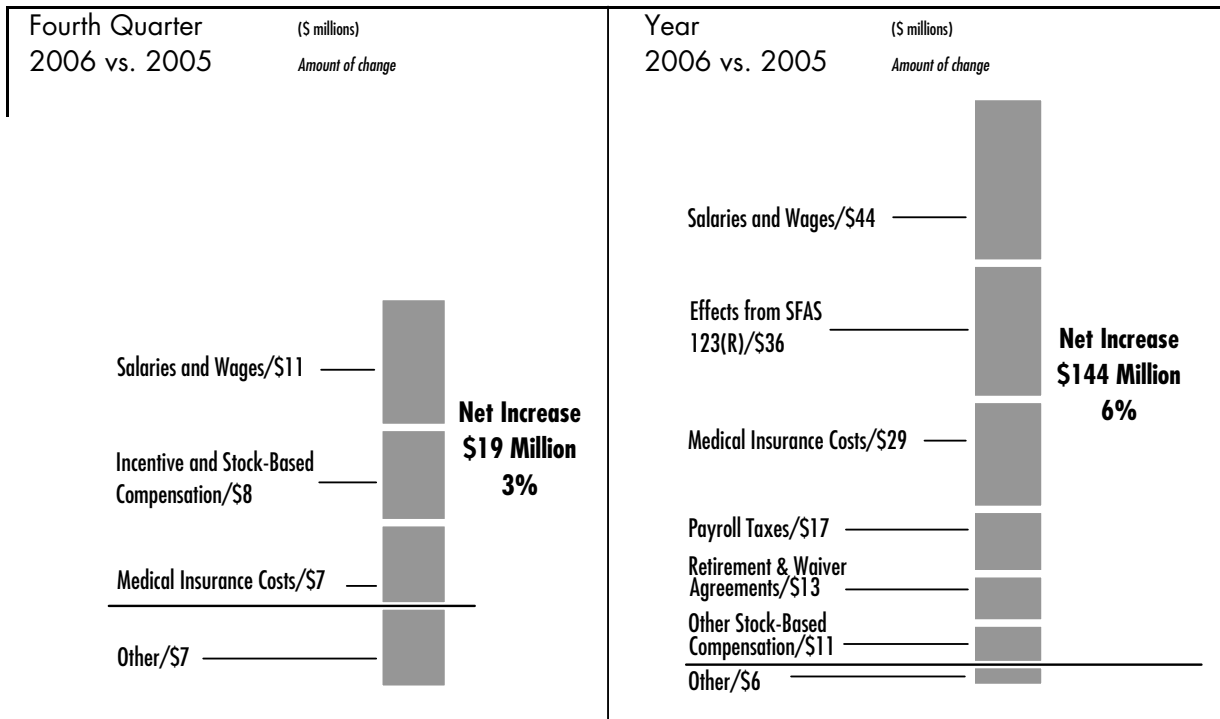


Year  
2006 vs. 2005

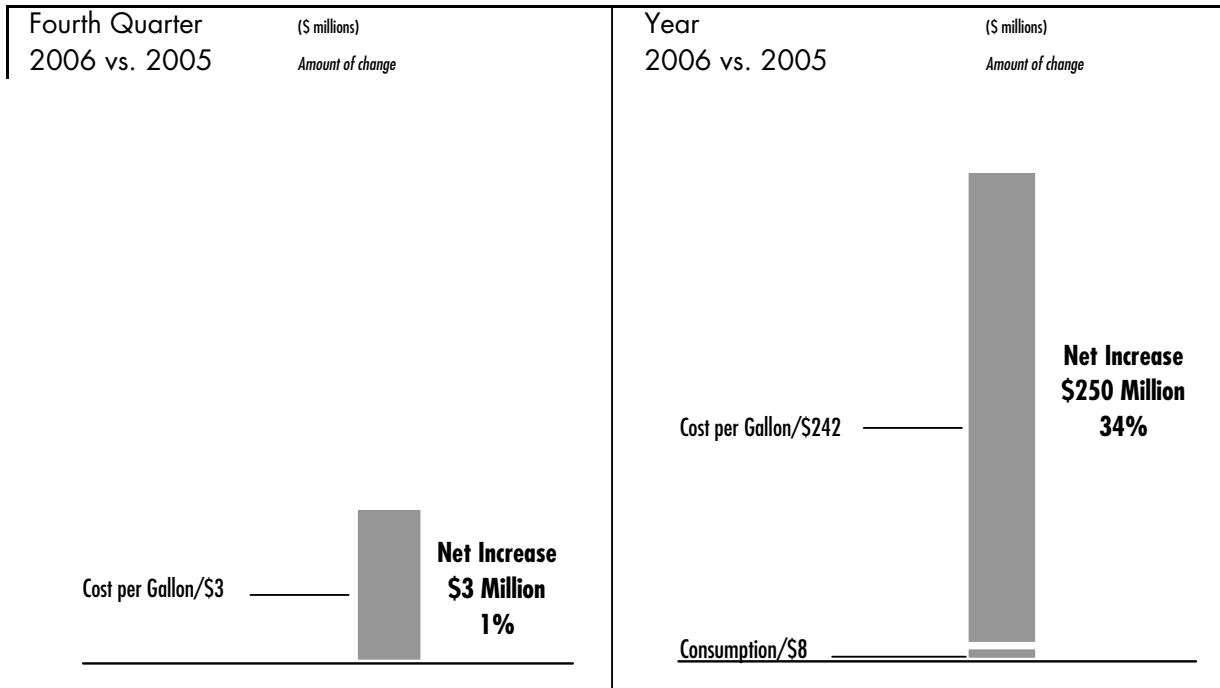
(\$ millions)  
Amount of change



## Compensation and Benefits Expense Analysis



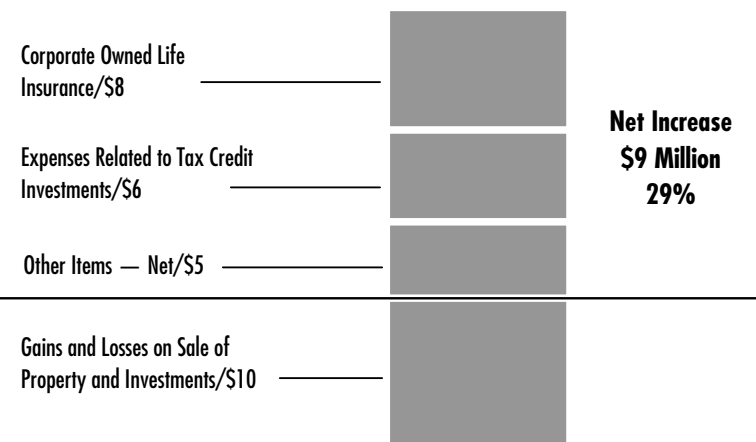
## Diesel Fuel Expense Analysis



## Other Income — Net Analysis

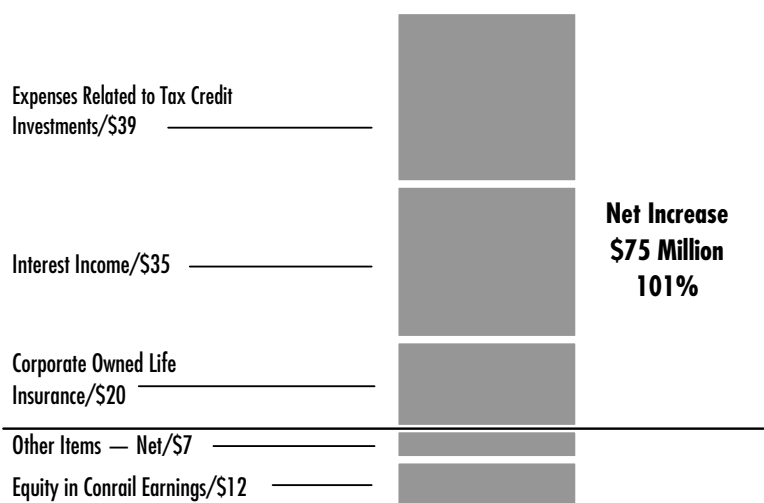
Fourth Quarter  
2006 vs. 2005

(\$ millions)  
Amount of change



Year  
2006 vs. 2005

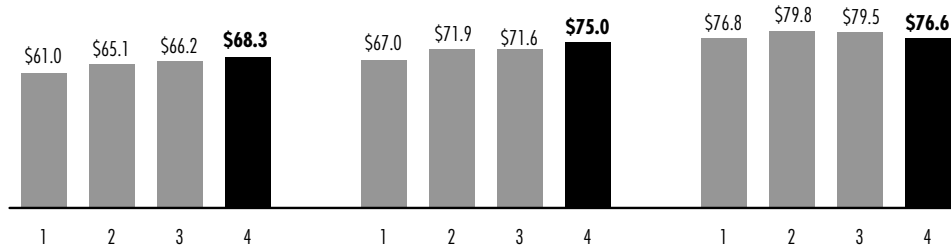
(\$ millions)  
Amount of change



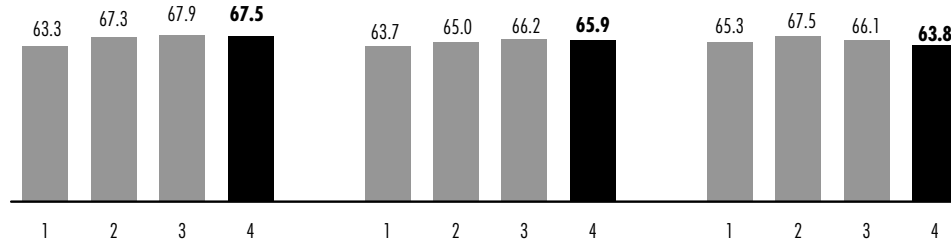
# Productivity Measures

2004
2005
2006

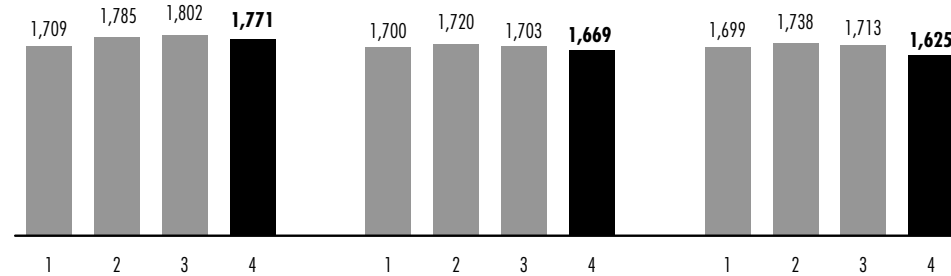
Operating Revenue per Employee (S thousands)



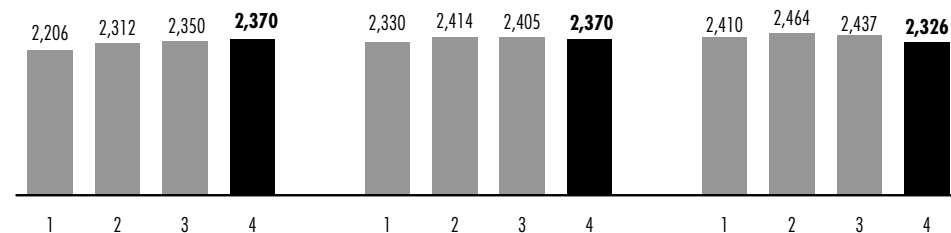
Carloads per Employee



Revenue Ton Miles per Employee (thousands)



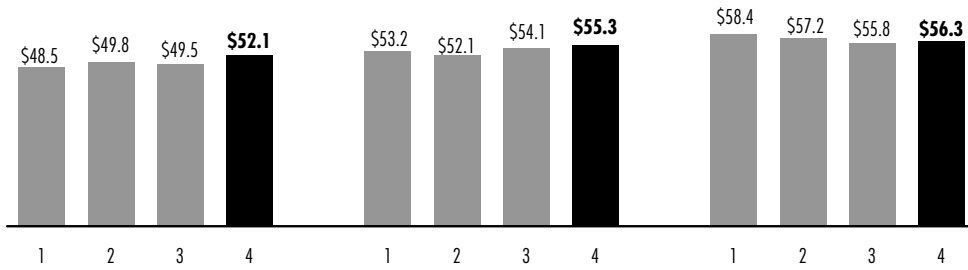
Revenue Ton Miles per Mile of Road Operated (thousands)



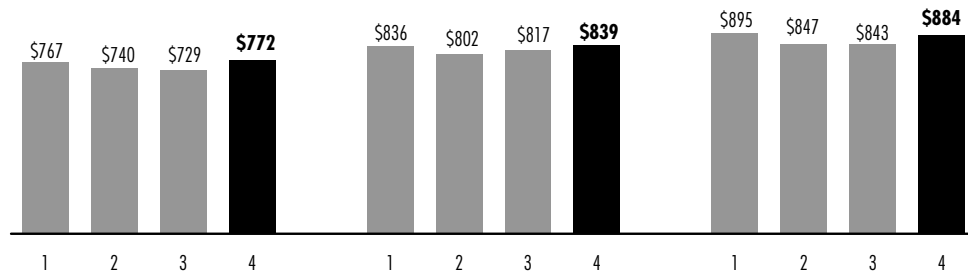
# Productivity Measures

2004
2005
2006

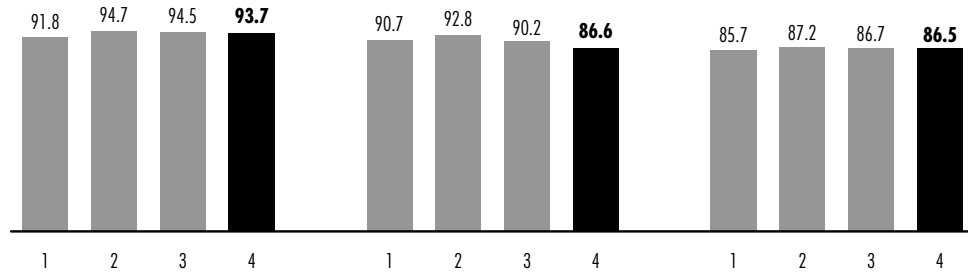
Operating Expense per Employee (\$ thousands)



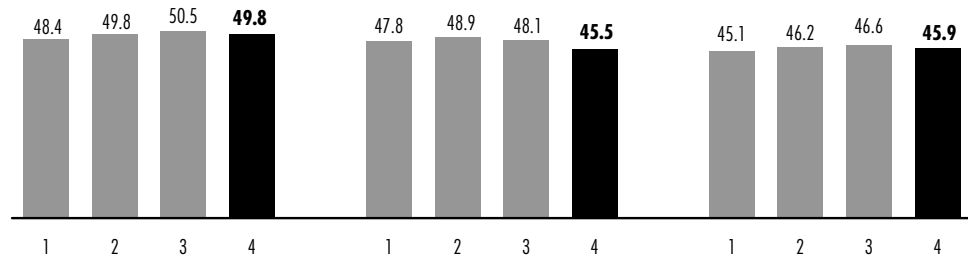
Operating Expense per Carload (dollars)



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.

Page	Item	2004				
		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
6	Railway operating revenues					
8	Coal	\$ 398	\$ 424	\$ 447	\$ 459	\$ 1,728
8	General merchandise	967	1,025	1,006	1,049	4,047
8	Intermodal	328	364	404	441	1,537
6	Total railway operating revenues (note 2)	\$ 1,693	\$ 1,813	\$ 1,857	\$ 1,949	\$ 7,312
6	Railway operating expenses:					
•	Compensation and benefits (note 1)	\$ 545	\$ 565	\$ 570	\$ 592	\$ 2,272
•	Material (other than diesel fuel)	68	72	73	74	287
•	Purchased services (other than equipment rents)	209	226	240	262	937
•	Equipment rents	88	91	98	100	377
•	Conrail rents and services	102	101	79	37	319
•	Depreciation	129	130	150	189	598
•	Diesel fuel	107	106	98	138	449
•	Casualties and other claims	40	38	31	42	151
•	Other	59	59	49	53	220
6	Total railway operating expenses (note 2)	\$ 1,347	\$ 1,388	\$ 1,388	\$ 1,487	\$ 5,610
6	Income from railway operations	\$ 346	\$ 425	\$ 469	\$ 462	\$ 1,702
•	Other income (expense) (note 3)	\$ (111)	\$ (121)	\$ (81)	\$ (87)	\$ (400)
•	Income before income taxes	\$ 235	\$ 304	\$ 388	\$ 375	\$ 1,302
•	Income taxes — current	\$ 49	\$ 31	\$ 76	\$ 23	\$ 179
•	Income taxes — deferred (note 2)	28	60	24	88	200
6	Total income taxes	\$ 77	\$ 91	\$ 100	\$ 111	\$ 379
7	Net income	\$ 158	\$ 213	\$ 288	\$ 264	\$ 923
7	Earnings per share - diluted (dollars) (notes 2 and 3)	\$ 0.40	\$ 0.54	\$ 0.72	\$ 0.65	\$ 2.31
7	Railway operating ratio	79.6	76.6	74.7	76.3	76.7
7	Capital expenditures:					
•	Equipment	\$ 65	\$ 95	\$ 79	\$ 190	\$ 429
•	Road	107	145	178	182	612
7	Total capital expenditures	\$ 172	\$ 240	\$ 257	\$ 372	\$ 1,041
•	Cash, cash equivalents and short-term investments	\$ 107	\$ 207	\$ 530	\$ 669	\$ 669
•	Total debt, excluding notes payable to Conrail	\$ 6,881	\$ 6,847	\$ 7,548	\$ 7,525	\$ 7,525
•	Debt-to-total capitalization (percent)	49.1	48.2	49.5	48.5	48.5
•	Shares outstanding end of period - basic (thousands)	391,330	392,961	395,280	399,712	399,712

**Note 1** First quarter 2006 includes expense related to effects from the implementation of Statement of Financial Accounting Standards, No. 123(R), "Share-Based Payment." (See note 1 on page 3 for additional details.)

**Note 2** Second quarter 2005 includes a \$24 million, or 6 cents per diluted share, net gain from the settlements of coal rate cases. (See note 2 on page 3 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 3 on page 3 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 5 on page 4 for additional details.)

**Note 3** Third quarter 2004 includes a \$53 million, or 13 cents per diluted share, net gain from the Conrail corporate reorganization.

2005					2006				
First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
\$ 467	\$ 578	\$ 546	\$ 524	\$ 2,115	\$ 559	\$ 584	\$ 595	\$ 592	\$ 2,330
1,086	1,148	1,138	1,214	4,586	1,278	1,311	1,283	1,234	5,106
408	428	471	519	1,826	466	497	515	493	1,971
\$ 1,961	\$ 2,154	\$ 2,155	\$ 2,257	\$ 8,527	\$ 2,303	\$ 2,392	\$ 2,393	\$ 2,319	\$ 9,407
\$ 604	\$ 624	\$ 629	\$ 636	\$ 2,493	\$ 721	\$ 637	\$ 624	\$ 655	\$ 2,637
87	87	95	80	349	100	95	93	100	388
250	254	266	285	1,055	264	270	273	287	1,094
99	105	101	100	405	107	106	106	94	413
35	31	31	32	129	32	31	30	33	126
193	194	195	192	774	183	182	186	187	738
150	162	189	226	727	231	260	257	229	977
78	40	59	47	224	53	65	50	52	220
62	65	62	65	254	61	69	59	68	257
\$ 1,558	\$ 1,562	\$ 1,627	\$ 1,663	\$ 6,410	\$ 1,752	\$ 1,715	\$ 1,678	\$ 1,705	\$ 6,850
\$ 403	\$ 592	\$ 528	\$ 594	\$ 2,117	\$ 551	\$ 677	\$ 715	\$ 614	\$ 2,557
\$ (126)	\$ (117)	\$ (87)	\$ (90)	\$ (420)	\$ (85)	\$ (88)	\$ (79)	\$ (75)	\$ (327)
\$ 277	\$ 475	\$ 441	\$ 504	\$ 1,697	\$ 466	\$ 589	\$ 636	\$ 539	\$ 2,230
\$ 59	\$ 122	\$ 86	\$ 69	\$ 336	\$ 162	\$ 240	\$ 235	\$ 120	\$ 757
24	(71)	54	73	80	(1)	(26)	(15)	34	(8)
\$ 83	\$ 51	\$ 140	\$ 142	\$ 416	\$ 161	\$ 214	\$ 220	\$ 154	\$ 749
\$ 194	\$ 424	\$ 301	\$ 362	\$ 1,281	\$ 305	\$ 375	\$ 416	\$ 385	\$ 1,481
\$ 0.47	\$ 1.04	\$ 0.73	\$ 0.87	\$ 3.11	\$ 0.72	\$ 0.89	\$ 1.02	\$ 0.95	\$ 3.57
79.4	72.5	75.5	73.7	75.2	76.1	71.7	70.1	73.5	72.8
\$ 25	\$ 36	\$ 36	\$ 187	\$ 284	\$ 109	\$ 124	\$ 77	\$ 112	\$ 422
119	177	185	260	741	147	199	206	204	756
\$ 144	\$ 213	\$ 221	\$ 447	\$ 1,025	\$ 256	\$ 323	\$ 283	\$ 316	\$ 1,178
\$ 1,119	\$ 615	\$ 1,050	\$ 1,257	\$ 1,257	\$ 1,542	\$ 1,535	\$ 803	\$ 918	\$ 918
\$ 7,682	\$ 6,992	\$ 6,958	\$ 6,930	\$ 6,930	\$ 6,898	\$ 6,865	\$ 6,625	\$ 6,600	\$ 6,600
48.2	44.8	43.8	42.7	42.7	41.5	40.8	40.9	40.7	40.7
402,972	403,257	405,143	408,623	408,623	413,531	412,701	395,773	396,301	396,301

## Financial, Traffic and Operating Statistics

Traffic and Operating Statistics		2004				
		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
	<ul style="list-style-type: none"> <li>No corresponding charts for this data.</li> </ul>					
Page	Item					
8	Railway carloads (thousands)					
8	Coal	406.3	427.1	428.2	<b>429.2</b>	1,690.8
8	General merchandise	702.6	740.0	717.1	<b>722.2</b>	2,881.9
8	Intermodal	648.1	708.1	759.4	<b>775.9</b>	2,891.5
8	Total railway carloads	1,757.0	1,875.2	1,904.7	<b>1,927.3</b>	7,464.2
	<ul style="list-style-type: none"> <li>Revenue ton miles (RTMs) (billions):</li> </ul>					
	• Coal	13.9	14.7	15.0	<b>14.6</b>	58.2
	• General merchandise	26.3	27.4	27.3	<b>27.2</b>	108.2
	• Intermodal	7.3	7.6	8.2	<b>8.8</b>	31.9
	• Total	47.5	49.7	50.5	<b>50.6</b>	198.3
	<ul style="list-style-type: none"> <li>Revenue (dollars) per thousand RTMs:</li> </ul>					
	• Coal	\$ 28.62	\$ 28.84	\$ 29.87	<b>\$ 31.54</b>	\$ 29.73
	• General merchandise	\$ 36.83	\$ 37.39	\$ 36.83	<b>\$ 38.59</b>	\$ 37.42
	• Intermodal	\$ 44.89	\$ 47.79	\$ 48.89	<b>\$ 49.94</b>	\$ 48.00
	• Total	\$ 35.67	\$ 36.46	\$ 36.74	<b>\$ 38.54</b>	\$ 36.87
	<ul style="list-style-type: none"> <li>Gross ton miles (GTMs) (billions)</li> </ul>	90.0	94.7	94.6	<b>95.1</b>	374.4
	• Revenue ton miles (RTMs) (billions)	47.5	49.7	50.5	<b>50.6</b>	198.3
	• Railroad employees (average)	27,770	27,861	28,051	<b>28,546</b>	28,057
	• Total operating expense (dollars) per thousand GTMs	\$ 14.96	\$ 14.66	\$ 14.67	<b>\$ 15.64</b>	\$ 14.98
	• Compensation and benefits (dollars) per thousand GTMs	\$ 6.05	\$ 5.97	\$ 6.02	<b>\$ 6.22</b>	\$ 6.07
	• Total operating expense (dollars) per thousand RTMs	\$ 28.38	\$ 27.91	\$ 27.46	<b>\$ 29.41</b>	\$ 28.29
	• Compensation and benefits (dollars) per thousand RTMs	\$ 11.48	\$ 11.36	\$ 11.28	<b>\$ 11.71</b>	\$ 11.46
14	Total operating revenue (\$ thousands) per employee	\$ 61.0	\$ 65.1	\$ 66.2	<b>\$ 68.3</b>	\$ 260.6
15	Total operating expense (\$ thousands) per employee	\$ 48.5	\$ 49.8	\$ 49.5	<b>\$ 52.1</b>	\$ 199.9
	• GTMs (thousands) per employee	3,242	3,398	3,373	<b>3,332</b>	13,345
14	RTMs (thousands) per employee	1,709	1,785	1,802	<b>1,771</b>	7,067
14	Carloads per employee	63.3	67.3	67.9	<b>67.5</b>	266.0
14	RTMs (thousands) per mile of road operated	2,206	2,312	2,350	<b>2,370</b>	9,238
15	Total operating expense (dollars) per carload	\$ 767	\$ 740	\$ 729	<b>\$ 772</b>	\$ 752
	• Compensation and benefits (dollars) per carload	\$ 310	\$ 301	\$ 299	<b>\$ 307</b>	\$ 304
	• RTMs (thousands) per carload	27.0	26.5	26.5	<b>26.2</b>	26.6
	• Diesel fuel consumed (thousands of gallons)	128,560	123,596	120,984	<b>129,369</b>	502,509
	• Average price (dollars) per gallon of diesel fuel	\$ 0.831	\$ 0.859	\$ 0.879	<b>\$ 1.068</b>	\$ 0.910
	• RTMs per gallon of fuel consumed	369	402	418	<b>391</b>	395
15	GTMs (thousands) per train hour	91.8	94.7	94.5	<b>93.7</b>	93.7
15	RTMs (thousands) per train hour	48.4	49.8	50.5	<b>49.8</b>	49.6
	• Percent of loaded-to-total car miles	58.8	58.5	58.9	<b>59.3</b>	58.9
	• Total new cross-ties installed (thousands)	421	726	727	<b>596</b>	2,470
	• Total track miles of rail laid (miles)	77	72	46	<b>51</b>	246

2005					2006				
First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
420.6	439.3	451.8	<b>423.7</b>	1,735.4	435.7	448.6	436.7	<b>439.0</b>	1,760.0
716.0	746.6	713.1	<b>720.5</b>	2,896.2	738.4	754.9	713.0	<b>678.1</b>	2,884.4
726.5	762.0	827.4	<b>839.0</b>	3,154.9	783.1	821.2	841.2	<b>811.0</b>	3,256.5
1,863.1	1,947.9	1,992.3	<b>1,983.2</b>	7,786.5	1,957.2	2,024.7	1,990.9	<b>1,928.1</b>	7,900.9
14.3	15.0	15.6	<b>14.4</b>	59.3	14.7	15.2	15.2	<b>14.8</b>	59.9
27.7	28.7	27.4	<b>27.4</b>	111.2	28.6	29.0	28.4	<b>26.8</b>	112.8
7.8	7.8	8.2	<b>8.5</b>	32.3	7.7	7.9	7.9	<b>7.6</b>	31.1
49.8	51.5	51.2	<b>50.3</b>	202.8	51.0	52.1	51.5	<b>49.2</b>	203.8
\$ 32.56	\$ 38.56	\$ 34.98	\$ <b>36.61</b>	\$ 35.69	\$ 38.10	\$ 38.34	\$ 39.24	\$ <b>39.85</b>	\$ 38.88
\$ 39.27	\$ 40.01	\$ 41.48	\$ <b>44.34</b>	\$ 41.25	\$ 44.77	\$ 45.23	\$ 45.05	\$ <b>46.15</b>	\$ 45.28
\$ 52.58	\$ 54.36	\$ 57.52	\$ <b>60.98</b>	\$ 56.48	\$ 60.19	\$ 63.09	\$ 65.17	\$ <b>64.99</b>	\$ 63.36
\$ 39.41	\$ 41.78	\$ 42.06	\$ <b>44.95</b>	\$ 42.06	\$ 45.19	\$ 45.91	\$ 46.42	\$ <b>47.15</b>	\$ 46.16
94.5	97.7	96.1	<b>95.6</b>	383.9	96.7	98.5	96.0	<b>92.8</b>	384.0
49.8	51.5	51.2	<b>50.3</b>	202.8	51.0	52.1	51.5	<b>49.2</b>	203.8
29,271	29,968	30,084	<b>30,082</b>	29,851	29,986	29,984	30,097	<b>30,251</b>	30,079
\$ 16.49	\$ 15.98	\$ 16.93	\$ <b>17.40</b>	\$ 16.70	\$ 18.11	\$ 17.42	\$ 17.48	\$ <b>18.38</b>	\$ 17.84
\$ 6.39	\$ 6.38	\$ 6.55	\$ <b>6.65</b>	\$ 6.49	\$ 7.45	\$ 6.47	\$ 6.50	\$ <b>7.06</b>	\$ 6.87
\$ 31.31	\$ 30.30	\$ 31.76	\$ <b>33.12</b>	\$ 31.62	\$ 34.38	\$ 32.92	\$ 32.55	\$ <b>34.67</b>	\$ 33.61
\$ 12.14	\$ 12.10	\$ 12.28	\$ <b>12.67</b>	\$ 12.30	\$ 14.15	\$ 12.23	\$ 12.11	\$ <b>13.32</b>	\$ 12.94
\$ 67.0	\$ 71.9	\$ 71.6	\$ <b>75.0</b>	\$ 285.5	\$ 76.8	\$ 79.8	\$ 79.5	\$ <b>76.6</b>	\$ 312.7
\$ 53.2	\$ 52.1	\$ 54.1	\$ <b>55.3</b>	\$ 214.7	\$ 58.4	\$ 57.2	\$ 55.8	\$ <b>56.3</b>	\$ 227.7
3,227	3,262	3,194	<b>3,177</b>	12,860	3,226	3,284	3,190	<b>3,065</b>	12,765
1,700	1,720	1,703	<b>1,669</b>	6,792	1,699	1,738	1,713	<b>1,625</b>	6,775
63.7	65.0	66.2	<b>65.9</b>	260.8	65.3	67.5	66.1	<b>63.8</b>	262.7
2,330	2,414	2,405	<b>2,370</b>	9,519	2,410	2,464	2,437	<b>2,326</b>	9,637
\$ 836	\$ 802	\$ 817	\$ <b>839</b>	\$ 823	\$ 895	\$ 847	\$ 843	\$ <b>884</b>	\$ 867
\$ 324	\$ 320	\$ 316	\$ <b>321</b>	\$ 320	\$ 368	\$ 315	\$ 313	\$ <b>340</b>	\$ 334
26.7	26.5	25.7	<b>25.3</b>	26.0	26.0	25.7	25.9	<b>25.5</b>	25.8
133,286	127,102	124,375	<b>128,637</b>	513,400	137,439	129,264	124,153	<b>127,927</b>	518,783
\$ 1.122	\$ 1.277	\$ 1.518	\$ <b>1.761</b>	\$ 1.416	\$ 1.680	\$ 2.014	\$ 2.071	\$ <b>1.783</b>	\$ 1.882
373	406	412	<b>390</b>	395	371	403	415	<b>384</b>	393
90.7	92.8	90.2	<b>86.6</b>	90.0	85.7	87.2	86.7	<b>86.5</b>	86.5
47.8	48.9	48.1	<b>45.5</b>	47.5	45.1	46.2	46.6	<b>45.9</b>	45.9
58.9	58.7	58.8	<b>59.5</b>	59.0	58.6	58.5	58.4	<b>58.1</b>	58.3
557	727	768	<b>497</b>	2,549	621	804	663	<b>576</b>	2,664
71	96	60	<b>75</b>	302	81	114	65	<b>67</b>	327