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Our vision:

Be the safest, most customer-focused and successful transportation company in the world

Description of business

Norfolk Southern Corporation, a Virginia-based holding company with headquarters in Norfolk, Va., owns all the common stock of and controls a major freight railroad, Norfolk Southern Railway Co. In addition, it owns a natural resources company, Pocahontas Land Corp., and a telecommunications company, Thoroughbred Technology and Telecommunications, Inc.

The railroad system's owned and operated lines extend over approximately 21,800 miles of road in 22 states, the District of Columbia and the province of Ontario, Canada.

Pocahontas Land Corp. manages more than a million acres of coal and natural gas resources in Alabama, Illinois, Kentucky, Tennessee, Virginia and West Virginia.

Thoroughbred Technology and Telecommunications, Inc., or T-Cubed, pursues opportunities to use the Corporation's assets for various technology-related purposes.

Financial Highlights

($ in millions, except per share amounts)	2000*	1999	% Increase (Decrease)
Financial Results			
Railway operating revenues	**$ 6,159**	$ 5,242	17
Income from railway operations	**$ 633**	$ 718	(12)
Railway operating ratio	**89.7%**	86.3%	4
Net income	**$ 172**	$ 239	(28)
Earnings per share — diluted	**$ 0.45**	$ 0.63	(29)
Financial Position			
Total assets	**$ 18,976**	$ 19,250	(1)
Total debt	**$ 7,687**	$ 8,182	(6)
Stockholders' equity	**$ 5,824**	$ 5,932	(2)
Debt-to-total capitalization	**56.9%**	58.0%	(2)
Stockholders' equity per share	**$ 15.16**	$ 15.50	(2)
Other Information			
Year-end stock price	**$ 13.31**	$ 20.50	(35)
Dividends per share	**$ 0.80**	$ 0.80	—
Price/earnings ratio at year end	**29.6**	32.5	(9)
Number of shareholders at year end	**53,194**	51,123	4
Shares outstanding at year end	**384,057,473**	382,681,770	—
Number of employees at year end	**32,341**	35,640	(9)

* 2000 results include costs for work-force reduction programs that reduced income from railway operations by $165 million, net income by $101 million and diluted earnings per share by 26 cents. Excluding these costs, the railway operating ratio was 87.0%. See note 11 on page 52.

Equal Opportunity Policy

Norfolk Southern's policy is to comply with all applicable laws, regulations and executive orders concerning equal opportunity and nondiscrimination and to offer employment on the basis of qualification and performance, regardless of race, color, creed, national origin, sex, age or veteran status.

Additionally, the policy provides employment and equal conditions of employment to qualified individuals with disabilities and disabled veterans within their capabilities to safely perform services with a reasonable accommodation that does not cause the Corporation undue hardship.

Norfolk Southern's 2000 Annual Report cost 64 cents per book to produce, which represents an 11 percent decrease from 1999. This is compared with a national average of $4.38 for annual reports produced by other companies, according to the National Investor Relations Institute.

Dear Fellow Stockholders:

Norfolk Southern's performance in 2000 met neither our standards nor yours.

While we overcame operating challenges and improved the condition of our company as a functioning transportation system, we did not achieve acceptable financial results.

Lower-than-expected railroad carloadings and record-high diesel fuel prices combined to produce disappointing earnings. Pressure on the bottom line was compounded by weakness in the economy and changes in our transportation markets at a time when we were focused on recovery from prior service problems.

As a result, we recorded net income of $273 million, or 71 cents per diluted share, excluding work-force reduction charges of $101 million. Including the charges, net income was $172 million, or 45 cents per diluted share, down 28 percent compared with 1999.

Our goal now is to improve the financial performance of our expanded network. We will do that through a series of planned restructuring initiatives designed to reduce costs and enhance value for investors, although we now must do so in an uncertain economic environment.

As stockholders, you are aware of one of those actions. Our Board of Directors reduced Norfolk Southern's quarterly dividend to 6 cents per share, compared with the previously paid quarterly dividend of 20 cents per share. This was a difficult decision but a necessary component of our restructuring. We must manage our costs and create a package of debt repayment and total returns that will move us successfully forward.

Reducing the dividend is one step in a strategy we are implementing to further align our company with changing economic realities and sharpen our focus on improving financial performance while maintaining our commitment to safety and customer service.

The restructuring includes:

- Improving productivity by a work-force reduction over the next 12 months, which will be in addition to programs announced in 2000;
- Disposition of at least 12,000 surplus freight cars;
- A line rationalization program targeting 3,000 to 4,000 underutilized or duplicate track miles over the next 24 months;
- Continuing investment in technology and implementation of state-of-the-art transportation systems;
- Consolidation or disposition of several underutilized or redundant facilities; and
- A redesign of Norfolk Southern's service network with the assistance of MultiModal Applied Systems, a railroad consulting firm with a successful track record of helping railroads reduce operating costs while improving service levels.

We began attacking our cost structure last year through work-force reductions. Since the end of 1999, we have reduced the number of employees by 3,300, or 9 percent of the work force. As part of that effort, we have been able to reduce our nonagreement work force by almost 25 percent from approximately 6,000 to about 4,600. Meanwhile, our agreement work force has been reduced by almost 7 percent.

Going forward, we will continue to review our work-force requirements against business levels and will size our work force accordingly. Our ability to provide our product at competitive prices depends in part on this effort, and we will continue to improve.

At the same time, we will not let up on our commitments to service and safety. In May, Norfolk Southern employees again set the industry standard and earned an unprecedented eleventh consecutive E.H. Harriman Gold Medal award, a remarkable safety achievement. This is a testament to the hard work and dedication of all our people, who maintained their focus on safety during a time of change. It shows what we can do.

A significant milestone was reached in Thoroughbred Quality during the year with ISO 9002 registration of our Northern Region transportation operations, major mechanical shops and the training group. As a result, all of the company's transportation operations now meet this internationally recognized standard for quality and customer service. This recognition is another real achievement in changing times.

We completed in November an accelerated systemwide rollout of our service-enhancing yard inventory data system, the Thoroughbred Yard Enterprise System. We also are making operating system changes, in development with our consulting partners, to improve routes, train movement and service design. We have announced major e-commerce efforts in partnership with other transportation companies to enhance efficiency and improve our service.

On another front, interest in our Thoroughbred Technology and Telecommunications, Inc., or T-Cubed, subsidiary remains strong. In cooperation with its telecommunications partners, T-Cubed is pursuing a unique business plan and building an eastern U.S. fiber optic network along Norfolk Southern's right of way, leveraging the physical assets of our network to create added shareholder value.

Norfolk Southern reached agreement this year in a case that ends a class action lawsuit alleging race discrimination in the company's promotion practices. We are pleased to bring closure to this litigation through voluntary mediation, and we are dedicated to building on our continuing commitment to provide a work place in which all people are treated fairly and given equal opportunity.

I pledge my personal commitment to this objective. We will redouble our efforts to make Norfolk Southern's work environment the best for everyone.

As we move forward, we will continue to aggressively – but prudently – make significant changes in the railroad's structure that will improve our financial performance and better position us for the service improvements necessary to continue as an important link in the global logistics chain.

We know that we have the people, track infrastructure, facilities and technology to position us as industry leaders and to attract large shares of business from highways to rail, making our system thrive over the long term.

While we focus on productivity, we will focus just as hard on growth. High fuel costs, congestion on our nation's highways and environmental concerns spell opportunity for us. We're focused on leveraging the inherent advantages of our industry to encourage public-sector rail investments to handle more intercity freight.

We are systematically attacking constraints to growth and continue to make the investments necessary to keep our system in top serviceable condition. Our $806 million capital budget for 2001 reflects expenditures that have been carefully targeted to take advantage of growth markets.

Our primary goal for 2001 is to build on the momentum our restructuring initiatives generate and to create added value for our investors, our customers, our people and the communities we proudly serve.

As we press forward, we will continue to listen appreciatively to the advice of our critics and supporters alike. In this, we will continue to feel the loss of one of our strongest allies, Norfolk Southern director and retired chairman and chief executive officer of The Lubrizol Corporation Lester E. Coleman Jr., who died in October.

Les had served on our Board of Directors since 1982, and his legacy is one of long-term dedication, keen business sense and enduring friendship. Les embodied the characteristics that your company represents – integrity, commitment and vision.

Admittedly, we have work ahead as we continue to take decisive steps in all areas of our business to improve service, grow our revenue base and drive efficiencies throughout our organization. We must rise to the occasion in an uncertain economy. However, Norfolk Southern has tremendous power to influence our own destiny and make ourselves a stronger company. With the strength of our franchise, we have what it takes to deliver the service our customers deserve and the returns our investors expect.

In 2001, we will meet the challenge.

January 23,2001

An overview of 2000: Meeting the challenge

During 2000, Norfolk Southern underwent changes and overcame challenges associated with expanding its transportation network.

Stabilization of operations and continuing improvement throughout the year is evidence of NS' ability to manage its expanded network. Norfolk Southern is emerging as an important link in the global logistics chain.

The railroad's network extends over 21,800 route miles, serving 22 states, the District of Columbia and the province of Ontario, Canada. NS provides access to 13 seaports and seven lake ports to handle international trade.

Norfolk Southern continues to enhance capacity in key areas that will allow increased traffic volume between markets now connected by single-system service.

Despite NS' growth and operating improvement, financial performance has been disappointing. Pressure on the bottom line has been compounded by weakness in the economy, a change in traffic mix and record-high diesel fuel prices.

As a result, improving financial performance is the company's primary focus. NS is taking steps to meet the challenge and enhance value for customers, investors, employees and communities.

Employee Safety Excellence Continues

Employee commitment to safety remained a priority at NS during a time of change and challenge.

In May, NS took top honors in the E.H. Harriman Memorial Safety Awards for an unprecedented eleventh consecutive year for having the safest employees among major railroads in 1999.

NS in 1999 had 1.25 reportable injuries for every 200,000 employee-hours worked.

Inventory Information System Enhances Service

In November, NS completed a systemwide rollout of its service-enhancing yard inventory information system.

Norfolk Southern's Thoroughbred Yard Enterprise System (TYES) is a centralized yard inventory system that provides accurate, timely reports on car and train movements.

Improved data quality translates into more efficient railroad operations that enhance customer service.

NS Achieves Global Quality and Service Standard

NS achieved another quality milestone with ISO 9002 registration of its Northern Region transportation operations, major Mechanical shops and Human Resources Training Group, which includes the Training Centers at McDonough, Ga., and Conway, Pa.

All of the company's transportation operations now meet the internationally recognized ISO 9002 standards for quality and customer service.

ISO refers to the International Organization of Standardization, created to promote universal industrial, service and quality management standards.

Norfolk Southern has achieved ISO 9002 certification in these areas:

- Transportation Department
- Research and Tests Department
- Major Mechanical Shops
- Lamberts Point Coal Terminal
- Sandusky Dock Coal Terminal
- Wheelersburg Coal Terminal
- Automotive Mixing Centers
- Triple Crown Services
- Training Centers

All of the company's transportation operations now meet the internationally recognized ISO 9002 standards for quality and customer service.

Targeted Team Initiatives

The following teams are focused on improving NS' performance:

- Executive Focus Teams supported directly by senior management are implementing specific profit improvement initiatives. These include train and terminal productivity, track and freight car utilization and revenue and margin enhancement programs.
- Car Action Teams consist of employees from the Operations, Marketing and Finance departments. These teams monitor, analyze and determine the most productive use of NS' freight car fleet.
- "NS 21" is a team project assisted by Mercer Management Consulting to help NS benchmark core processes. Processes under review include customer billing, purchasing, freight car management, engineering and mechanical.
- Joint NS-CSX teams are working with Woodside Consulting to achieve terminal efficiencies in the Shared Assets Areas through better coordination and communication.

Aligning the Work Force

Along with other initiatives to increase efficiency and reduce operating expenses, NS' voluntary retirement programs are designed to match the railroad's human resources to changing marketplace requirements in 2001 and beyond.

In February 2000, 919 of 1,180 eligible nonagreement employees participated in a voluntary retirement program.

In December 2000, 370 of 846 eligible nonagreement employees participated in a second voluntary retirement program.

Since 1999, NS' work force has declined from 35,640 employees to 32,341 at year end.

Staffing needs will continue to be reviewed as NS aligns the size of its work force with business demands.

Revenue Enhancement Steps

NS has established tariff rates and is negotiating contract rates with customers to reflect the current market value of rail service and associated costs. Reasonable rate adjustments will occur as contracts expire.

In addition, NS imposed throughout the year a fuel surcharge on all public tariffs and open quotes. In October, NS instituted a surcharge on private quotes.

These surcharges will help offset record-high diesel fuel prices.

Investing in Customer Service: NS to Spend $806 Million

NS plans to spend $806 million for capital improvements in 2001.

Anticipated spending includes $449 million in roadway spending and $256 million in equipment spending.

Roadway spending includes:

- $264 million for rail, crosstie, ballast and bridge programs
- $63 million for new or improved intermodal facilities
- $35 million for marketing and industrial development initiatives
- $35 million for signal and electrical projects
- $23 million for environmental projects and public improvements, such as grade-crossing separations and crossing signal upgrades

Equipment spending includes the purchase of 160 six-axle, high-adhesion locomotives and the upgrade of existing locomotives.

Additional equipment spending also includes $29 million for computer-related projects.

NS' Thoroughbred Technology and Telecommunications (T-Cubed) subsidiary plans to spend $62 million to complete the installation of fiber optic conduits.

In constructing its regional telecommunications network, T-Cubed in 2001 expects to finish installing conduits and some fiber optics on corridors between Chicago and Washington, between Atlanta and Jacksonville and between Atlanta and Chattanooga. –

Infrastructure Team Improves System Efficiency, Service

As part of Norfolk Southern's commitment to improve performance and customer satisfaction, Executive Focus Teams were formed to "create a vehicle for communicating and making decisions," according to Dan Mazur, assistant vice president Strategic Planning and facilitator of NS' Infrastructure Team.

"The team's primary goal was to eliminate congestion on the railroad, thus improving productivity and reducing costs," he said. "This will assure that Norfolk Southern has the ability to handle increased traffic efficiently."

Although NS is focused on attracting new business, the railroad also is committed to maintaining system capacity at optimum levels. The team's long-term goal is to balance business with capacity.

"Together, we want to ensure that we have the right capacity, at the right place, at the right time," said Jim McClellan, senior vice president Strategic Planning and team chairman. "Communication and planning are the keys to achieving that goal."

NS committed $50 million for capital expenditures in 2000 for infrastructure investment to eliminate congestion points and to accommodate new business.

Some 88 locations were identified, examined and prioritized. Of those, 10 were high priority, and the team focused on those routes.

By year end, efficiency and fluidity on the majority of critical areas had improved due, in part, to expenditures on new connections, sidings, signal systems and terminals.

"The best part about this targeted team initiative is that we assembled all the necessary players and promptly made the right decisions to keep the railroad fluid," Mazur said. "This initiative will help Norfolk Southern meet its ultimate goal of providing the best customer service possible." –

Operating performance positions system for growth

Norfolk Southern Railway System

- Norfolk Southern
- Norfolk Southern Trackage/Haulage Rights
- Shared Assets Areas
- Fully Cleared Double-Stack Routes on Norfolk Southern
- Fully Cleared Double-Stack Routes with Haulage Rights on Connecting Railroads
- Single-Stack Intermodal Routes
- Single-Stack Intermodal Routes on Connecting Railroads
- Intermodal Terminals
- Major Yards
- Ports
- Major Interchange Points

BNSF: Burlington Northern and Santa Fe
CN: Canadian National
CP: Canadian Pacific Railway
FEC: Florida East Coast
KCS: Kansas City Southern
UP: Union Pacific
WC: Wisconsin Central

Norfolk Southern's operations were fluid throughout 2000.

A steady improvement in operating performance was accomplished through continued focus on safety, operating plan execution and cost control.

Norfolk Southern continually fine-tunes its operating plan to balance system fluidity and capacity while enhancing efficiency.

Improvement in standard operating measurements – number of cars on line, average train speed and terminal dwell time – is evidence of the operating efficiency of the system.

In addition to performance metrics, the number of trains that require new crews helps measure service improvement. Norfolk Southern reduced the percentage of trains recrewed from 6.4% in 1999 to 3.0% in 2000 – a 53.1% improvement.

Another measure of service improvement is the number of calls received by NS' National Customer Service Center. Calls in 2000 were 34.6% fewer than in 1999.

In the first half of 2000, NS returned all 533 locomotives it had leased temporarily to help improve system velocity and fluidity during the integration of its expanded territory.

Norfolk Southern recognizes the importance of maintaining safe, fluid operations and improving customer service. The company is focused on improved efficiency now that operations are stable.

Grade-Crossing Safety Innovation

NS continued in 2000 its focus to improve highway-rail grade-crossing safety.

In Charlotte, N.C., Norfolk Southern "sealed" one corridor by equipping public crossings with one or a combination of median barriers, longer gate arms, articulated gate arms, four-quadrant gates and a video monitoring system.

The test methods and results have drawn favorable responses from federal and state authorities, the news media and other railroads.

Digital Recording Systems Installed in Locomotives

In 2000, NS installed a digital video recording system on a number of its locomotives to record events along the railroad's right of way.

Called "Railview," the system is mounted in a locomotive cab. It records track conditions, train speed, weather, visibility, signal operation, horn soundings, a train's direction of travel, brake applications and activities on or near the right of way.

Railview will help NS improve grade-crossing safety. NS plans to install the system on 160 additional locomotives in 2001, bringing the total number of locomotives equipped with Railview to 270.

NS is Recognized For Safety and Performance

Industrywide Awards

- **E.H. Harriman Memorial Gold Medal Award for Employee Safety**

NS employees earned an unprecedented eleventh consecutive award for the best safety record among the nation's largest railroads.

- **Toyota Logistics Services Inc. – Logistics Excellence Award for Quality Performance**

NS earned the award for providing transportation of finished vehicles with fewer defects than any other Toyota rail carrier. This was NS' third recognition.

- **Dow Chemical Co. – Most Improved Rail Safety Award**

Dow recognized NS for continuous improvement in safety and performance in chemical transport. This was the first year NS won this award.

Outside Recognition

- **Georgia Freight Bureau – Rail Carrier of the Year**

NS was named rail carrier of the year by the Georgia Freight Bureau. This was NS' sixth recognition.

- **TRANSCAER® — National Achievement in the Carrier Category**

NS received the National Transportation Community Awareness and Emergency Response achievement award.

TRANSCAER® is a safety and educational effort among manufacturers, distributors and transporters of hazardous materials. This was NS' second recognition.

- **State of Indiana Quality Improvement Award**

Triple Crown Services, an NS affiliate, earned the State of Indiana Quality Improvement Award for continuous service and operation improvement. This was TCS' second recognition.

Agreement Signed with Locomotive Engineers

NS signed a five-year agreement with the Brotherhood of Locomotive Engineers that links engineer compensation to corporate performance.

The agreement covers approximately 5,000 locomotive engineers and maintains a groundbreaking bonus system originally implemented in a 1996 agreement.

Under this agreement, bonuses are paid to engineers based on corporate financial performance and are calculated in the same way as those of NS' management employees.

The bonus potential is in lieu of wage increases over the term of the agreement. The agreement also raised base wages to national standard levels effective Jan. 1, 2000, as a one-time wage adjustment.

Thoroughbred Mechanical Services Sets the Stage for New Business

NS opened the doors of its car and locomotive shops to others, setting the stage for new business opportunities.

Thoroughbred Mechanical Services (TMS) is a division of NS' Mechanical department.

In 2000, TMS generated $36 million in billings for locomotive and railcar repair and remanufacture. Customers included Class I, short line and regional railroads, locomotive manufacturers and international rail systems.

TMS meets stringent standards for safety and quality work set by the Association of American Railroads.

NS Improves Service to the Northeast

Norfolk Southern and its service partners enhanced service to the Northeast.

Capital investments and a revised operating plan enabled NS to offer consistent, more competitive rail transportation connecting the Northeast to major western U.S. markets through Chicago.

Westbound service is provided through Kansas City.

Key improvements include:

- NS' route through Cleveland has been upgraded to connect existing NS routes with new double-track connections to a former Conrail main line, improving efficiency and service to New York and New England.
- Completion of a $13 million expansion of Bison Yard in Buffalo, N.Y., gives NS increased capacity, service flexibility and efficiency.

Cooperation Helps Speed Trains

Both freight and passenger trains will be able to improve transit times once a rail interlocking is upgraded in Northern Virginia. Completion is scheduled for 2001.

NS and CSX tracks converge in Alexandria, Va. Numerous freight trains operate over these tracks as do intercity and commuter passenger trains of Amtrak and Virginia Railway Express (VRE).

The project is funded by VRE and the federal government, with leadership from the commonwealth of Virginia.

It is an initial step in the planned introduction of high-speed passenger rail service between Washington, D.C., and Richmond, Va., as well as additional commuter and intercity passenger trains.

Short Line Partnership Attracts New Business

Eastman Kodak awarded NS and Rochester and Southern Railroad, Inc., a multiyear contract to handle coal business originating in the Monongahela coal region of Pennsylvania and West Virginia.

Eastman Kodak uses approximately 550,000 tons of this type of coal annually for energy to power its manufacturing facility in Rochester, N.Y.

This contract is just one example of NS' commitment to working with short line partners to create new business opportunities over its expanded rail network. –

Cooperation Yields Improved Efficiency

Norfolk Southern and CSX Transportation joined forces in 2000 to decrease congestion in the Cincinnati terminal.

Both NS and CSXT experienced terminal congestion in Cincinnati, a major interchange point for each railroad. As a result, the two railroads began a unique experiment that required coordination by train dispatching offices in Dearborn, Mich., Fort Wayne, Ind., and Jacksonville, Fla., and cooperation between two competing railroads.

Northbound NS and CSXT trains leaving Cincinnati now use CSXT's Toledo, Ohio, route, while all trains entering Cincinnati from the north operate over NS' Norwood, Ohio, route.

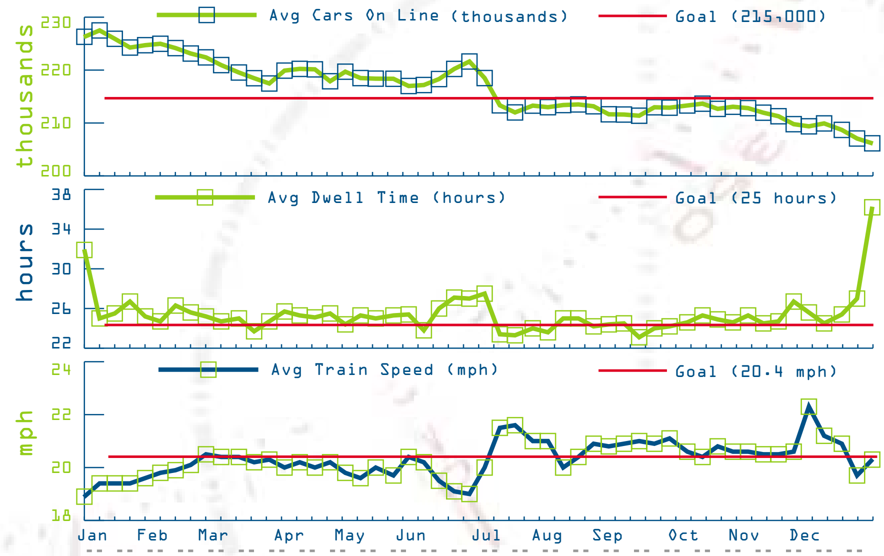
More than 50 Norfolk Southern and CSXT trains move in both directions over the new route daily.

The cooperative effort has paid off. Terminal congestion was virtually eliminated for both railroads, according to NS Cincinnati Terminal Superintendent Bob Setzer.

"We experienced an immediate reduction in train delay, and we continue to improve performance," said Setzer, adding that this initiative resulted in significant cost savings for NS. "Not only have our customers and employees benefited from this project, but it also has improved our financial performance."

"Thanks to the NS and CSXT train crews, train dispatchers and operating supervision, we improved service at this terminal," Western Region General Manager Greg Comstock said. –

Operating Performance Metrics



NS' ability to improve service, grow the business and operate efficiently depends primarily on the ability to manage the number of cars on line, train speed and terminal dwell time.

(top) The average number of cars on line on NS' system improved significantly throughout 2000, as indicated by the green line. The red line indicates a system goal of 215,000 cars.

(center) Average terminal dwell time on NS' system remained stable during 2000, as indicated by the green line. The red line indicates a system goal of 25 hours.

(bottom) Average train speed on NS improved incrementally during 2000, as indicated by the blue line. The red line indicates a system goal of 20.4 mph.

Normal variations in July and December are attributed to customer holiday shutdowns.

Meeting customer needs through innovation and technology

Norfolk Southern is enhancing ways in which it will meet customers' needs electronically.

NS plays an important role in electronic commerce by delivering goods purchased online.

The railroad is pursuing system advancements to yield wide-ranging productivity improvements, linking NS, customers and suppliers more efficiently. These initiatives will improve the quality of information and the consistency of service NS provides to customers.

NS focuses on technology and innovation to improve car utilization, management and repair of rail equipment by providing information that connects customers with the tools needed to do business with the railroad.

Internet Coal Information System Under Way

NS implemented the second phase of its Coal Transportation Management System. CTMS is an Internet-based system that provides customers with access to real-time shipment tracking.

Unique to Norfolk Southern, CTMS combines track-side scanners, automatic computer-assisted dispatch reporting and manual reporting with online technology.

CTMS' common information base allows customers to schedule loading, equipment and personnel more efficiently.

Developed by NS' Coal Transportation, Coal Marketing and Information Technology departments, CTMS yields improved coal car utilization and increased customer satisfaction.

The second phase provides information to external customers through the Internet. It was rolled out to NS' major coal customers in 2000.

Phase three, which addresses tracking and scheduling of empty cars, equipment release and bill of lading shipping instructions, will be completed in 2001.

CTMS is provided to Norfolk Southern customers as a value-added service.

Locomotive System Enhances Efficiency

Thoroughbred Locomotive System (TLS) is an Intranet-based system that enables NS to better manage its locomotive fleet.

TLS provides locomotive managers with information used to assign locomotives to trains.

TLS features an electronic system map that displays all or selected trains operating over the NS network. It also shows locomotive supply and demand at selected locations.

The system improves the quality of supply and demand information and assists with forecasting, leading to better asset utilization.

NS Enhances Automotive Visibility, Shipment Tracking

In 2000, NS enhanced its Internet-based tracking system for Ford Motor Company's North American automotive distribution network.

This system provides Vehicle Identification Number (VIN) shipment tracking from manufacturer to dealer delivery. This system can be customized to track all shipments across multiple modes of transportation.

Information is transmitted real-time to transportation and supply chain partners, improving efficiency and visibility.

This tracking system links Stock Keeping Unit (SKU) and product inventory information to railcar or truck shipments and warehousing for total product visibility.

In 2001, Norfolk Southern plans to use this system for other customers for supply chain management.

Equipment Tracking Improved

NS now provides customers with a more efficient equipment tracking option through the Internet for intermodal shipments.

The feature, called Quik-Trak, allows customers to track shipments online 24 hours a day through NS' Web site.

Quik-Trak provides the most up-to-date event record for intermodal shipments.

Intermodal Web Page Enhanced

NS Intermodal launched in 2000 a redesigned Web page at www.nscorp.com/intermodal.

In addition to a new look, the site features updated information and enhancements:

- A direct link to Quik-Trak for equipment tracking
- Service matrices for individual equipment types
- More functional navigation throughout NS' Web site, including easy-to-find terminal information and schedules
- A News Ticker with links to details and current railroad events
- A Spotlight section that features current services and upcoming enhancements
- A Customer Corner with contact information for intermodal customers

In 2001, the site also will feature an interactive system map, a frequently asked questions section and direct e-mail to NS Intermodal department representatives.

Thoroughbred Direct Introduces New Web Site

Thoroughbred Direct Intermodal Services (TDIS), a Norfolk Southern subsidiary, introduced its Web site, www.ns-direct.com, in December.

The site allows TDIS customers to access information by using either a trailer reference or a TDIS load number. Customers can determine pickup and delivery times and the number of loads arriving or departing a terminal.

Through a link to the TDIS database, customers can view all data associated with their shipments and can request rate quotes.

TDIS provides door-to-door, time-sensitive transportation services to select retail customers through rail and highway carriers.

RailMarketplace.com℠ Created for Global Rail Industry

Norfolk Southern, Burlington Northern Santa Fe, Union Pacific, Canadian National and Canadian Pacific Railway, along with iRail.com, Inc., and GE Global eXchange Services, announced a partnership in January 2001 to launch an online marketplace for the worldwide railroad industry.

The new initiative, RailMarketplace.com℠, will create an electronic exchange to link buyers and sellers across the North American rail industry through fast, open access to goods and services.

Through RailMarketplace.com, railroads, suppliers and other buyers will be able to improve efficiency and reduce costs through improved spending controls and global sourcing. Suppliers will benefit from improved access to an expanded customer base.

The exchange will link the rail industry globally in a multicurrency, multilingual marketplace.

B2B Speeds Transactions, Reduces Costs

NS is using business-to-business (B2B) technology to auction scrap and surplus materials.

Qualified scrap buyers submit bids electronically and receive immediate bid status information.

The highest bidder is awarded material and provided a price quote for transportation costs.

NS Joins Railroads in Internet-based Venture

Norfolk Southern, along with Canadian Pacific, CSX Corporation and Union Pacific, invested in a company called Arzoon.

Arzoon is developing an online system that allows customers to procure rail and transport services and track movements across all modes and borders.

Each carrier's performance will be monitored and analyzed. Real-time reports showing the status of all shipments will be provided.

TCS Unveils Online Booking

Triple Crown Services Company (TCS), a Norfolk Southern affiliate, has completed the rollout of five new customer services available through the company's Internet site at www.triplecrownsvc.com.

The new services include rate quote requests, load booking, tracing, open-load viewing and bill-of-lading viewing.

Customers and consignees can conduct and manage the entire booking and transit process online 24 hours a day. The new services are easy to use, improve efficiency and help ensure accuracy.

Steelroads.com Improves Customer Service

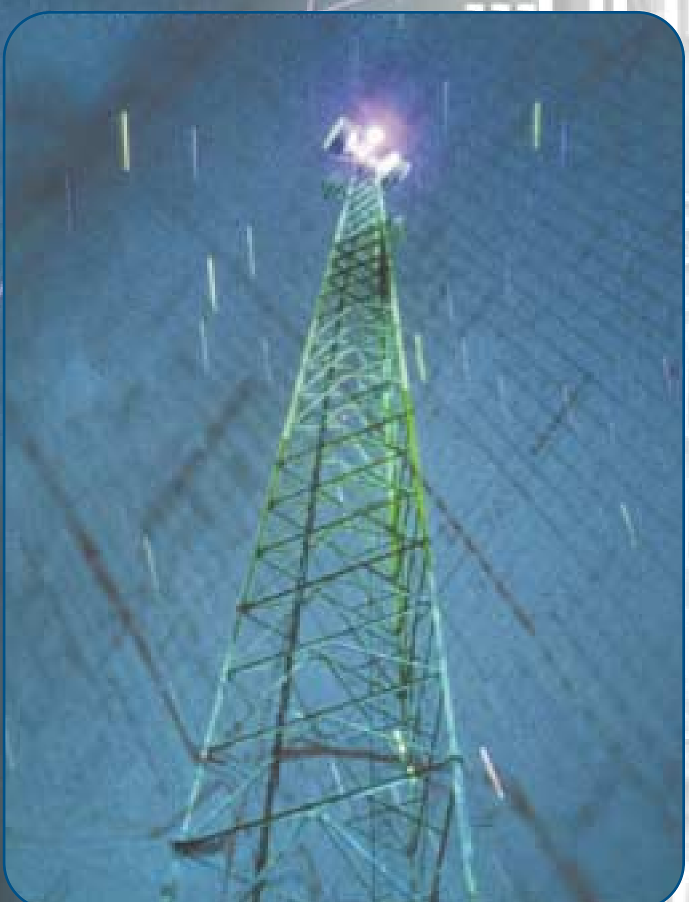
A new Web site, www.steelroads.com, provides information for existing and potential rail customers.

The site can be accessed through www.railinc.com. It is a cooperative initiative of Association of American Railroads (AAR) members.

The site connects participating railroads and enables customers to electronically set up and track freight shipments, determine transit and arrival times and make rate inquiries.

The site is available in French and Spanish to better serve customers. –

Adding value through growth, service and asset utilization



New Intermodal Hub Speeds Operations

In June, NS opened its Rutherford intermodal hub in Harrisburg, Pa.

The new hub offers enhanced service capabilities for NS customers:

- Redesigned and improved services for customers using the mid-Atlantic ports of Philadelphia, Baltimore, New York/New Jersey and Norfolk, Va.
- Reduced congestion in Chicago as NS and its interline partners “hub” traffic at Rutherford
- New north-south service options

The Rutherford hub differs from traditional intermodal facilities in that it transfers trailers not only between road and rail, but also between trains. This flexibility enables NS to reduce transit times, serve more lanes and offer additional services.

In addition to providing increased terminal capacity, the new facility serves as a hub for traffic moving in and out of the Northeast, facilitating both east-west and north-south flexibility.

This operational benefit reduces truck traffic through Chicago. The hub helps NS deliver on the intermodal service potential resulting from the railroad’s expansion into the Northeast.

The $31 million facility consists of 10 classification tracks and two loading-unloading tracks. Two overhead cranes transfer shipments between trains and trucks.

Four inbound and four outbound lanes accommodate trucks entering and leaving the terminal, which has parking capacity for more than 600 trailers or containers.

Austell Intermodal Hub to Benefit Customers, Improve Service Reliability

Construction is under way at Norfolk Southern's Austell, Ga., intermodal hub.

The new Atlanta-area facility will be a key component in NS' intermodal network and is expected to open in 2001.

The Austell hub will improve NS' efficiency in moving freight between the Southeast and Southwest and between the North and Southeast, as well as in handling strong local and regional demand for intermodal freight distribution.

"Austell is vital for Norfolk Southern and its customers," said Mike McClellan, vice president Intermodal Marketing. "Complementing our new Rutherford hub in the Northeast, and located at the crossing of major traffic lanes constituting a giant 'X,' it will allow Norfolk Southern to provide a broader variety of services more consistently."

The hub is being developed on 450 acres of an 830-acre industrial site. It will feature four one-mile-long loading-unloading tracks, four one-mile-long support yard tracks, 4,000 parking spots for 12-by-53-foot trailers, and convenient access to nearby Interstate 20.

Additional capacity created by the hub should reduce congestion at NS' Inman Yard in Atlanta.

Railroads Team Up to Improve Intermodal Service

In 2000, Norfolk Southern and Burlington Northern Santa Fe Railway Company (BNSF) launched run-through transcontinental intermodal service between the West Coast, the Southwest and the Southeast.

The service links the California terminals of Richmond, Modesto, Fresno, Los Angeles and San Bernardino, and Phoenix, Ariz., with Atlanta, Charlotte, N.C., and Jacksonville, Fla.

NS provides service between Dallas and the Southeast through an agreement with the Kansas City Southern Railway Company (KCS). BNSF provides service between the West Coast and Dallas.

The new service provides customers with fifth-morning availability for both westbound and eastbound freight moving between southern California and Atlanta.

This service is the first fully integrated operating agreement between NS and BNSF. It gives customers a competitive, cost-efficient alternative to over-the-road shipping between the West Coast and the Southeast.

Triple Crown Services Expands to Mexico City

Triple Crown Services Company (TCS), an NS affiliate, now serves Mexico City.

In a cooperative effort with TMM Logistics, a member of Grupo TMM, which is an owner of Transportación Ferroviaria Mexicana (TFM) and Texas Mexican Railway Company (Tex-Mex), Triple Crown Services offers five-days-a-week service to and from Mexico City.

Dedicated trains hauling TCS RoadRailer® trailers operate over Norfolk Southern lines to Kansas City, Mo., where they connect with the Burlington Northern Santa Fe Railway Company (BNSF).

BNSF transports trains to the Tex-Mex at Robstown, Texas, and Tex-Mex handles them to Laredo, Texas, where they are interchanged with TFM for final delivery to Mexico City.

This marks TCS' first service agreement with a Mexican logistics provider using Mexican rail carriers. This service creates opportunities for Norfolk Southern to move freight from the Midwest, Northeast and the Dallas-Fort Worth, Texas, area to Mexico.

The new service enables shippers to transport freight between the United States and Mexico faster by eliminating border delays and providing one-invoice pricing, door-to-terminal cargo insurance and enhanced security en route.

Distribution Network Attracts New Business

NS adopted the name "SteelNet" for its network of qualifying steel distribution centers.

SteelNet refers to certain rail-served distribution centers on NS lines that handle just-in-time truck deliveries of steel and metal products to nonrail-served customers.

SteelNet facilities provide quality service for high-value steel and metal commodities.

SteelNet facilities offer integrated pricing packages that include rail rates, handling and storage. In some cases, the package price includes delivery charges on a single bill.

Of the 71 distribution facilities served by NS, 35 are classified as SteelNet operations.

Shuttle Train Improves Service to Feed Mills

In 2000, NS introduced a 75-car grain shuttle train program to better serve the southeastern feed mill industry.

This new program allows NS to deliver larger grain volumes with more consistency and improved transit times.

Shuttle trains operate seven days a week, 24 hours a day, with dedicated power and defined allowance for loading and unloading, resulting in improved equipment utilization and delivery dependability.

Cars originate at grain elevators in Indiana, Michigan and Ohio and terminate at feed mills in the Southeast.

The program is expected to grow in 2001 to include additional elevator track expansions and feed mills.

T-Cubed Expands Fiber Optic Network

In cooperation with its partners in the telecommunications industry, Thoroughbred Technology and Telecommunications, Inc., or T-Cubed, is pursuing a unique business plan and building an eastern U.S. fiber optic conduit and dark fiber network along NS' rail right of way.

T-Cubed is Norfolk Southern's telecom infrastructure provider and leverages the physical assets of NS' network to create added value.

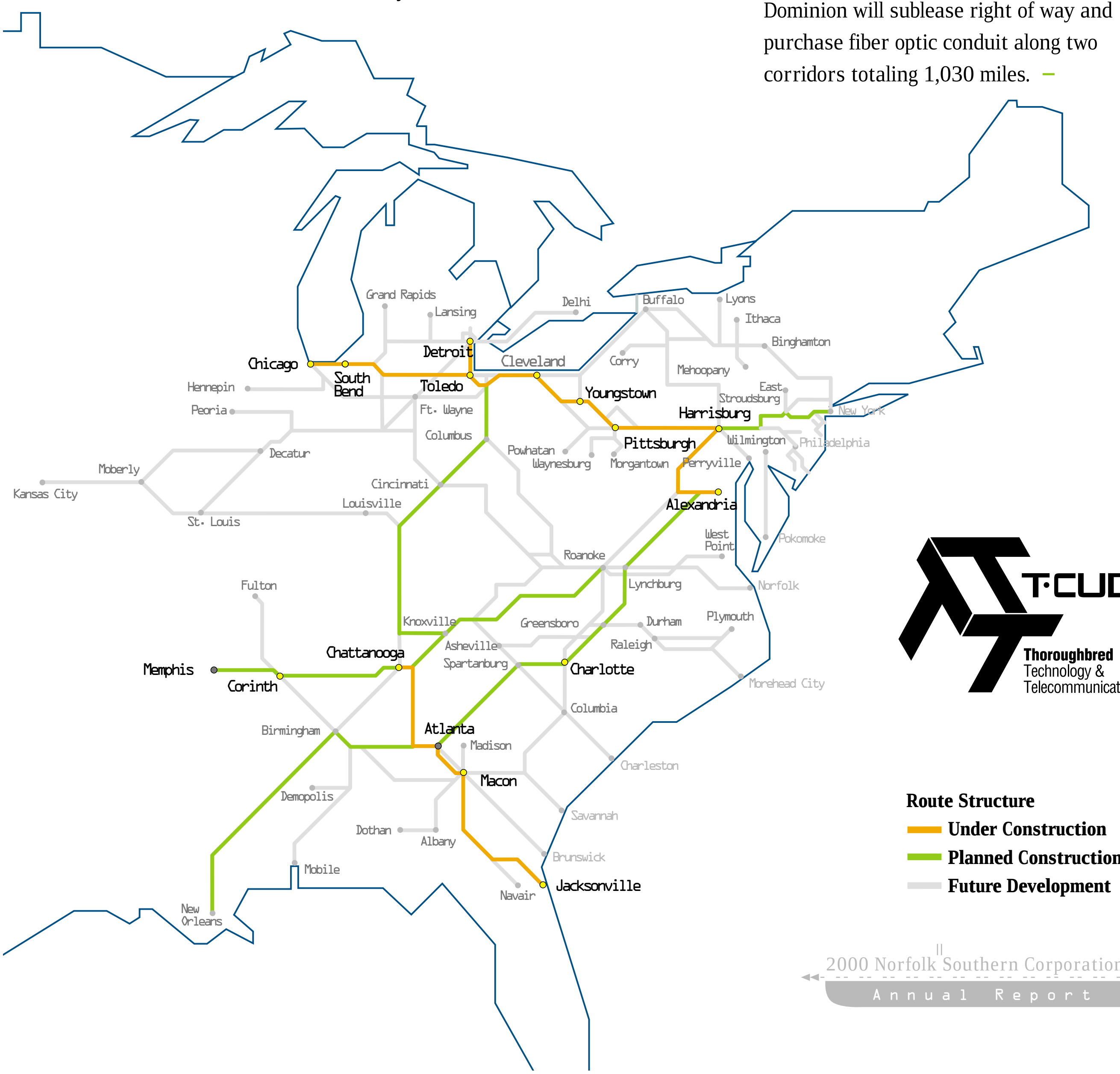
With more than 21,000 miles of right of way and some 375 microwave towers at its disposal, T-Cubed offers network builders access to major metropolitan areas as well as other eastern U.S. markets.

Interest from the telecommunications industry continues to be strong.

T-Cubed announced in October a joint agreement with 360networks to install and market fiber optic network infrastructure on NS properties.

In addition, NS entered into a long-term transaction in 2000 with Dominion Telecom, a telecommunications subsidiary of Dominion Resources, to build and provide telecommunications infrastructure along NS' right of way.

Under the 25-year agreement, Dominion will sublease right of way and purchase fiber optic conduit along two corridors totaling 1,030 miles. –



T-CUBED
Thoroughbred Technology & Telecommunications

Moving the goods that move the economy

The diversity of Norfolk Southern's traffic mix helps balance economic impact in a given sector.

At year end, general merchandise traffic accounted for 59% of total NS revenues, while coal accounted for 23% and intermodal 18%.

NS will continue to focus on increasing revenues and profitability in each market group to realize the potential of its expanded network.

General Merchandise

Automotive

Automotive revenue growth resulted from system expansion and record-breaking vehicle production in 2000. A new NS-served assembly plant and a vehicle parts distribution center also contributed to increased revenue.

NS is implementing network redesign of critical routes for the automotive mixing centers to improve velocity of shipments over the system. The redesign will be completed in 2001.

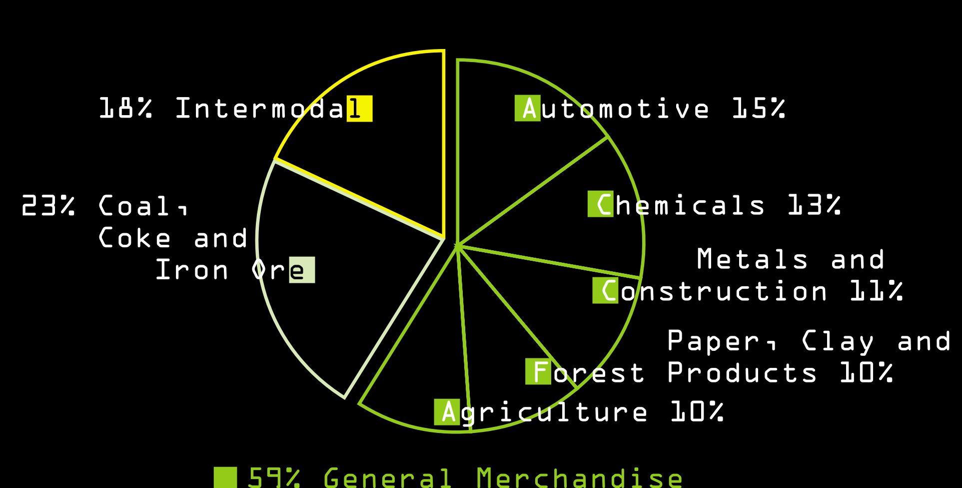
Additional auto assembly plants and distribution centers along NS' network are expected to help offset anticipated declines in light-vehicle production in the United States.

Metals and Construction

NS strengthened its metals franchise as a result of expanded access to steel mills in the Northeast and Midwest, plant expansions and new mini-mills locating on the railroad's lines. Traffic benefited from marketing initiatives involving NS' network of 72 steel mills and 71 metals distribution centers.

Construction revenues increased as a result of highway expansion programs in the eastern United States, primarily benefiting aggregates and cement traffic. New NS-served cement terminals continue to contribute to volume increases.

Percentage of NS Revenues



Chemicals

Chemicals traffic benefited from the return of diverted traffic following NS' integration of its Northeast operations, plant expansions and new facilities locating on NS' system. Additional plant expansions are expected in 2001.

NS has access to 174 bulk transfer facilities capable of handling a range of chemical products. Growth of integrated rail-to-truck delivery services has averaged 21% annually.

Softness in domestic chemical and petroleum production could affect the outlook for 2001.

Paper, Clay and Forest Products

NS serves 95 paper distribution centers and 124 lumber reload facilities that are well positioned to supplement NS' direct carload service.

Initiatives in 2001 will include a network approach to NS' enhanced distribution system, rate negotiations that reflect current market values for rail service and improved car utilization through cycle time reduction programs.

The paper, clay and forest products industries are expecting little expansion and limited capacity growth in 2001. Paper consumption in the United States is expected to increase, but at a slower pace.

Agriculture, Consumer Products and Government

System expansion bolstered agriculture revenue growth.

Volume growth resulted from increased grain consumption by poultry producers in eastern Pennsylvania, Delaware, Maryland and Virginia; sweetener traffic from the Midwest to rail-truck transfer facilities in the Northeast; and canned goods shipments from the West.

A 75-car shuttle train program that began in 2000 contributed to feed mill growth and improved equipment utilization and service reliability.

Coal

Coal revenue increased due primarily to system expansion. Utility coal tonnage increased 11% due to system expansion and increased electricity demand. Export coal tonnage increased 8% in 2000 as a result of increased East Coast port access.

Domestic metallurgical coal, coke and iron ore volume increased 17% in 2000. Strong first-half production at integrated steel manufacturers and increases in NS market share further buoyed traffic gains over 1999 levels.

Other coal traffic, primarily steam coal shipped to manufacturing plants, increased 4% in 2000 as a result of system expansion.

Three utility coal market opportunities brought additional business to NS.

NS began hauling a significant portion of the coal consumed by the utility plant operated by Keystone-Conemaugh Projects at Shelocta, Pa. Future construction of a track connection designed to improve routing to the plant and allow heavier tonnage should enable NS to compete for even greater market share.

At Blairsville, Pa., NS established a rail-to-truck transfer facility to supply coal from CONSOL Energy, Inc., to a utility plant owned and operated by Edison Mission Energy at Homer City, Pa. The facility began operations in October, and NS supplies a significant portion of the plant's total coal consumption.

At Tennessee Valley Authority's Kingston Plant, construction of an unloading facility and track improvements allowed NS to capture additional market share and handle traffic more efficiently.

Increasing demand for electricity in the NS-served region and high natural gas prices that continue to make coal-fired generation the most economical source of electricity leave NS well positioned to realize gains in the utility coal market.

Intermodal

Intermodal volume growth was 18%, and intermodal is NS' fastest growing business sector.

In 2000, the introduction of several new or improved intermodal services contributed to growth.

The new Rutherford intermodal hub terminal opened in Harrisburg, Pa., expanding NS' north-south services and significantly improving Atlantic port services.

NS teamed up with Burlington Northern Santa Fe to launch run-through transcontinental intermodal service between the West Coast, Southwest and Southeast, improving service for freight moving between the West Coast and the Southeast.

Additionally, Triple Crown Services began service to Mexico City in a cooperative effort with TMM Logistics and Texas Mexican Railway Company, enabling customers to ship freight between the United States and Mexico more efficiently.

A new intermodal facility at Austell, Ga., scheduled to be completed in 2001, should improve efficiency in moving freight between the Southeast and Southwest and between the North and

Southeast, as well as in handling strong local and regional demand for intermodal freight distribution.

Industrial Development

NS assisted with the location of 74 new industries and the expansion of another 43 in 2000.

This represents an investment of $2.3 billion by NS customers and is expected to create approximately 7,000 jobs in the 20 states where the plants and expansions are located.

NS expects these industrial development efforts to generate more than 100,000 carloads annually.

The largest project of 2000 was the location of a new vehicle loading facility in Chesapeake, Va., to serve Ford Motor Company's truck assembly plant in Norfolk, Va.

Additionally, Martin Marietta and Florida Rock completed major quarry expansions in 2000. The paper and packaging sector saw major new plants at Valparaiso, Ind., and Albion, Mich., locating on NS lines.

Five new feed mills opened on NS lines, and seven feed mills and grain elevators expanded. In addition, five food manufacturers expanded facilities.

Other projects include facilities involved in the production or handling of plastics, scrap metal, steel, chemicals, paper, cement, lumber and construction materials.

NS works with state and local economic development authorities on projects involving site location and development of infrastructure to connect customers to its rail system. NS provides free and confidential plant location services, including site layout, engineering and logistics assistance.

New plants under construction for completion in 2001 include Honda Motors' $400 million minivan plant in Lincoln, Ala., and IPSCO Steel's $426 million steel mill in LeMoyne, Ala. –

Partnering for Success in Expanded Territory

In 2000, NS participated with state, regional and local economic development organizations in the Northeast to assist in the location and expansion of 25 industries in the new service area.

The new plants and expansions represent an investment of more than $978 million by NS customers and are expected to create more than 1,200 jobs and to generate some 10,000 new carloads of rail traffic annually.

One of the largest initiatives involves the location of NUCOR Corp., the nation's second largest producer of steel for the construction industry, at Chemung, N.Y., along NS' Southern Tier rail line.

NUCOR's 500,000-square-foot Vulcraft facility will produce steel ceiling and floor joists. It is expected to employ 300 at capacity when it opens in 2001. Vulcraft already has one plant on NS lines near Fort Payne, Ala.

George Miner, president of Southern Tier Economic Growth and executive director of the Chemung County Industrial Development Agency, described the NUCOR project as "a team effort by the county, state, New York State Electric & Gas Corp., Norfolk Southern and the town. Each entity was a critical participant."

Other recent industry locations and expansions in the railroad's new service territory include facilities involved in the production or handling of plastics, beverages, lumber, steel, paper, chemicals, auto parts and construction materials in Delaware, Indiana, Maryland, Michigan, New Jersey, New York, Ohio, Pennsylvania and West Virginia.

"The expanded market reach and service opportunities generated by our larger rail network are key benefits for new and existing customers," said Roger Bennett, director Industrial Development for NS' Northeast Region. "With our economic development partners in the Northeast and all along the NS system, we look forward to continued growth as 2001 progresses."

New industrial development offices serving the Northeast are located in Philadelphia and Harrisburg, Pa., and in Binghamton, N.Y. –

Financial Overview

NS' financial results in 2000 include the first full year of operations over the Northern Region and reflect both the economic and business challenges faced during the year and the actions taken to address them. The combination of lower-than-expected railroad carloadings and higher-than-expected diesel fuel prices combined to produce lower income from operations.

NS responded with a number of actions to control costs and enhance revenues. These actions included programs to reduce the size of the work force, changes in operating procedures and implementation of fuel surcharges. NS continues to review its operations for opportunities to enhance revenues and lower costs.

NS responded with a number of actions to control costs and enhance revenues. These actions included programs to reduce the size of the work force, changes in operating procedures and implementation of fuel surcharges.

Net income for 2000 was $172 million, or 45 cents per diluted share. Results in 2000 included $165 million in work-force reduction charges, which reduced net income by $101 million, or 26 cents per diluted share. Excluding these charges, net income would have been $273 million, or 71 cents per diluted share, up 14% compared with 1999. Most of the improvement resulted from higher nonoperating income, which reflected gains from the sales of timber rights and oil and gas royalty and working interests.

"Most of the traffic that was diverted in 1999 has returned and operating statistics have improved; however, the softening in the economy and a sharp rise in fuel prices hurt our financial performance," said Henry C. Wolf, NS vice chairman and chief financial officer. "Our challenge is to deliver a superior product to our customers and improve the efficiency of our expanded railroad."

Railway operating revenues were $6.2 billion, up $917 million, or 17%, compared with 1999, reflecting a full year of Northern Region operations. General merchandise revenues increased $534 million, or 17%. Intermodal revenues increased $270 million, or 32%, reflecting Northern Region traffic and new business. Coal revenues increased $113 million, or 9%, as the effects of the Northern Region traffic were somewhat offset by lower export coal volume at Lambert's Point and the effects of utility plant outages and larger stockpiles early in the year.

Revenues for each of the general merchandise commodity groups increased, principally as a result of the expanded operations. Automotive revenues increased $175 million, or 23%. Metals and construction revenues increased $122 million, or 22%. Chemicals revenues increased $115 million, or 18%. Agriculture, consumer products and government revenues increased $70 million, or 13%. Paper, clay and forest products revenues increased $52 million, or 9%.

Excluding the work-force reduction charges, railway operating expenses were $5.4 billion, up $837 million, or 19%, compared with 1999, principally due to a full year of Northern Region operations. The railway operating ratio was 87.0%, compared with 86.3% in 1999, principally due to lower than expected carloadings and a sharp increase in diesel fuel prices.

Quarterly Financial Data

(UNAUDITED)

	Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
	(In millions of dollars, except per share amounts)			
2000				
Railway operating revenues	$ 1,508	$ 1,592	$1,535	$1,524
Income from railway operations	28	278	211	116
Net income (loss)	(48)	116	99	5
Earnings (loss) per share – Basic	$ (0.12)	$ 0.30	$ 0.26	$ 0.01
– Diluted	$ (0.12)	$ 0.30	$ 0.26	$ 0.01
1999				
Railway operating revenues	$ 1,038	$ 1,202	$1,514	$1,488
Income from railway operations	237	198	146	137
Net income	112	77	19	31
Earnings per share – Basic	$ 0.30	$ 0.20	$ 0.05	$ 0.08
– Diluted	$ 0.30	$ 0.20	$ 0.05	$ 0.08

Stock Price and Dividend Information

(UNAUDITED)

The Common Stock of Norfolk Southern Corporation, owned by 53,194 stockholders of record as of Dec. 31, 2000, is traded on the New York Stock Exchange with the symbol NSC. The following table shows the high and low sales prices and dividends per share, by quarter, for 2000 and 1999.

	Quarter			
2000	**1st**	**2nd**	**3rd**	**4th**
Market Price				
High	$ $22\,^{3}/_{4}$	$ $19^{11}/_{16}$	$ $19^{3}/_{4}$	$ $15^{5}/_{8}$
Low	$12^{11}/_{16}$	$14^{3}/_{16}$	$14^{1}/_{8}$	$11^{15}/_{16}$
Dividends per share	$0.20	$0.20	$0.20	$0.20
1999	**1st**	**2nd**	**3rd**	**4th**
Market Price				
High	$ $32^{3}/_{16}$	$ $36^{7}/_{16}$	$ $31^{5}/_{16}$	$ $25^{3}/_{8}$
Low	$26^{1}/_{4}$	$25^{1}/_{2}$	$24^{1}/_{8}$	$19^{5}/_{8}$
Dividends per share	$0.20	$0.20	$0.20	$0.20

Eleven-Year Financial Review

Norfolk Southern Corporation and Subsidiaries

($ in millions, except per-share amounts)	**2000[1]**	1999[2]	1998	1997	1996
Results of operations					
Railway operating revenues	**$ 6,159**	$ 5,242	$ 4,254	$ 4,249	$ 4,118
Railway operating expenses	**5,526**	4,524	3,202	3,036	2,953
Income from railway operations	**633**	718	1,052	1,213	1,165
Other income – net	**168**	164	309	170	117
Interest expense on debt	**551**	531	516	385	116
Income from continuing operations before income taxes	**250**	351	845	998	1,166
Provision for income taxes	**78**	112	215	299	413
Income from continuing operations before accounting changes	**172**	239	630	699	753
Discontinued operations[3]	**—**	—	104	22	17
Cumulative effect of accounting changes	**—**	—	—	—	—
Net income	**$ 172**	$ 239	$ 734	$ 721	$ 770
Per share data					
Net income – basic	**$ 0.45**	$ 0.63	$ 1.94	$ 1.91	$ 2.03
Net income – diluted	**$ 0.45**	$ 0.63	$ 1.93	$ 1.90	$ 2.01
Dividends	**$ 0.80**	$ 0.80	$ 0.80	$ 0.80	$0.74 2/3
Stockholders' equity at year end	**$ 15.16**	$ 15.50	$ 15.61	$ 14.44	$ 13.26
Financial position					
Total assets	**$ 18,976**	$ 19,250	$ 18,180	$ 17,350	$ 11,234
Total long-term debt, including current maturities	**$ 7,636**	$ 8,059	$ 7,624	$ 7,459	$ 1,856
Stockholders' equity	**$ 5,824**	$ 5,932	$ 5,921	$ 5,445	$ 4,977
Other					
Capital expenditures	**$ 731**	$ 912	$ 1,060	$ 929	$ 789
Average number of shares outstanding (thousands)	**383,358**	380,606	378,749	376,593	379,372
Number of stockholders at year end	**53,194**	51,123	51,727	50,938	50,748
Average number of employees:					
Rail	**33,344**	30,897	24,185	23,323	23,361
Nonrail[3]	**394**	269	115	2,494	2,469
Total	**33,738**	31,166	24,300	25,817	25,830

All share and per-share amounts have been restated to reflect the Sept. 5, 1997, three-for-one stock split.

Notes

1 2000 operating expenses include $165 million in work-force reduction costs for early retirement and separation programs. These costs reduced net income by $101 million, or 26 cents per diluted share.

2 On June 1, 1999, NS began operating a substantial portion of Conrail's properties. As a result, both its railroad route miles and the number of its railroad employees increased by approximately 50% on that date.

3 In 1998, NS sold all the common stock of its motor carrier subsidiary, North American Van Lines, Inc. (NAVL), for $207 million and recorded a $90 million pretax ($105 million, or 28 cents per diluted share, after-tax) gain. Accordingly, NAVL's results of operations, financial position and cash flows are presented as "Discontinued operations."

4 1993 results include an increase in the provision for income taxes reflecting a 1% increase in the federal income tax rate, which reduced net income by $54 million, or 13 cents per diluted share. "Discontinued operations" includes a $50 million pretax charge for the disposition of two NAVL businesses. Net income also reflects two accounting changes, the cumulative effect of which increased 1993 net income by $223 million, or 53 cents per diluted share: a change in accounting for income taxes increased net income by $467 million, with a corresponding reduction in deferred taxes, and changes in accounting for postretirement and postemployment benefits decreased net income by $244 million.

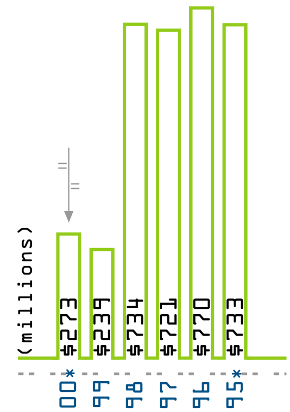
5 1991 operating expenses include a $483 million charge primarily for labor force reductions. "Discontinued operations" includes a $197 million charge primarily for the write-down of the goodwill portion of NS' investment in NAVL. These charges reduced net income by $498 million, or $1.12 per diluted share.

1995	1994	1993[4]	1992	1991[5]	1990
$ 4,028	$ 3,921	$ 3,746	$ 3,777	$ 3,654	$ 3,786
2,966	2,878	2,831	2,851	3,345	2,969
1,062	1,043	915	926	309	817
140	86	135	97	131	142
113	101	98	109	99	78
1,089	1,028	952	914	341	881
391	372	370	328	112	316
698	656	582	586	229	565
15	12	(33)	(28)	(199)	(9)
—	—	223	—	—	—
$ 713	$ 668	$ 772	$ 558	$ 30	$ 556
$ 1.81	$ 1.63	$ 1.85	$ 1.31	$ 0.07	$ 1.14
$ 1.80	$ 1.62	$ 1.83	$ 1.30	$ 0.07	$ 1.14
$0.69 1/3	$ 0.64	$ 0.62	$ 0.60	$0.53 1/3	$0.50 2/3
$ 12.47	$ 11.73	$ 11.12	$ 10.05	$ 9.55	$ 10.52
$10,718	$10,403	$10,301	$10,188	$ 9,959	$10,326
$ 1,638	$ 1,619	$ 1,594	$ 1,648	$ 1,387	$ 1,122
$ 4,829	$ 4,685	$ 4,621	$ 4,233	$ 4,093	$ 4,912
$ 757	$ 707	$ 639	$ 628	$ 688	$ 605
392,987	408,904	418,243	424,378	443,276	486,284
53,401	52,442	51,884	51,200	53,725	56,187
24,488	24,710	25,531	25,650	27,366	28,697
2,456	2,458	3,773	4,485	4,586	4,584
26,944	27,168	29,304	30,135	31,952	33,281

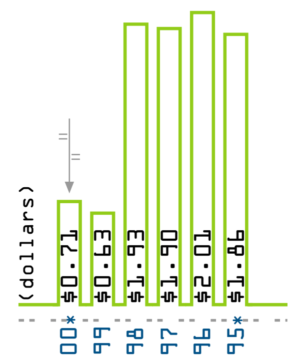
Net Income and Earnings Per Share

In 2000, excluding the work-force reduction costs, net income increased 14% and diluted earnings per share increased 13%, compared with results in 1999. The improvement reflected gains from the sale of nonoperating properties and higher income from railway operations.

*2000 excludes work-force reduction costs that reduced net income by $101 million and diluted earnings per share by 26 cents. 1995 excludes an early retirement charge that reduced net income by $20 million and diluted earnings per share by 6 cents.



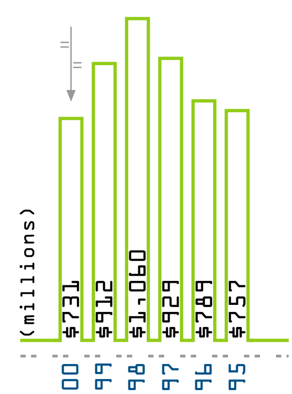
Net Income



Earnings Per Share
—Diluted

Capital Expenditures

NS has made more than $5 billion of capital expenditures since 1995 — demonstrating a commitment to make the investments necessary to support safe, efficient and reliable operations and revenue growth.



Capital Expenditures

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes beginning on Page 42 and the Eleven-Year Financial Review on Pages 26 and 27.

Operations Over Conrail's Lines

Results for 2000 reflect the first full year of operations over Conrail's lines. On June 1, 1999 (the "Closing Date"), NS' railroad subsidiary (Norfolk Southern Railway Company [NSR]) began operating a substantial portion of Conrail's properties (NSR's "Northern Region") under various agreements with Pennsylvania Lines LLC (PRR), a wholly owned subsidiary of Consolidated Rail Corporation (CRC) (see Note 2 on Page 47). As a result, both the railroad route miles operated by NSR and the number of its railroad employees increased by approximately 50% on that date. Results for 1999 reflect five months (January through May) of operating the former Norfolk Southern railroad system and seven months (June through December) of operating the present system, which includes the Northern Region.

Results in 1999 were adversely affected by difficulties encountered in the assimilation of the Northern Region into NSR's existing system that resulted in system congestion, an increase in cars on line, increased terminal dwell time and reduced system velocity. These service issues and actions taken to address them increased operating expenses, primarily labor costs and equipment costs, including car hire and locomotive rentals. Moreover, revenues were lower than expected as some customers diverted traffic to other modes of transportation.

Summarized Results of Operations

2000 Compared with 1999

Net income in 2000 was $172 million, down 28%. Results in 2000 included $165 million of costs related to actions taken to reduce the size of the work force, which reduced net income by $101 million, or 26 cents per diluted share. Excluding these costs, net income would have been $273 million, up 14%. The increase resulted from gains from the sale of nonoperating properties (see Note 3 on Page 49) and higher income from railway operations, compared with a weak 1999.

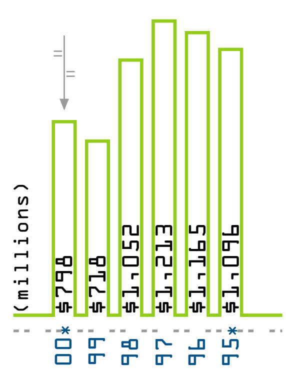
Diluted earnings per share were 45 cents, down 29%. Excluding the effects of the work-force reduction costs, diluted earnings per share were up 13%.

1999 Compared with 1998

Net income in 1999 was $239 million, a decrease of 67%. Net income in 1998 included the $105 million gain from the sale of NS' former motor carrier subsidiary (see Note 16 on Page 56). Income from continuing operations, which excludes both the motor carrier's results of operations prior to its sale and the gain from its sale, declined 62%. The decrease resulted from lower income from railway operations and from lower Conrail earnings before the Closing Date. The decline in income from railway operations reflected the difficulties in integrating the Northern Region and a sharp decline in export coal traffic.

Diluted earnings per share of 63 cents were down 67%. Diluted earnings per share from continuing operations were down 62%.

Income from Railway Operations



Income from railway operations increased 11% in 2000, despite a sharp rise in diesel fuel prices, reflecting a full year of Northern Region operations.

* 2000 excludes $165 million of work-force reduction costs. 1995 excludes a $34 million charge for an early retirement program.

Detailed Results Of Operations

Railway Operating Revenues

Railway operating revenues were $6.2 billion in 2000, $5.2 billion in 1999, and $4.3 billion in 1998. Revenues in 2000 and 1999 include results of operations in the Northern Region for 12 months and seven months, respectively. The following table presents a three-year comparison of revenues by market group.

Railway Operating Revenues by Market Group

($ in millions)	2000	1999	1998
Coal	$1,435	$1,322	$1,252
General merchandise:			
Automotive	921	746	577
Chemicals	756	641	492
Metals/construction	689	567	375
Paper/clay/forest	630	578	535
Agriculture/consumer products/ government	609	539	468
General merchandise	3,605	3,071	2,447
Intermodal	1,119	849	555
Total	$6,159	$5,242	$4,254

In 2000, revenues increased for all market groups, reflecting a full year of handling Northern Region traffic. Revenues for the last seven months, a comparison that fully includes the Northern Region in both years, improved, reflecting recovery of most of the diverted traffic and new business. However, weakness in the economy resulted in lower revenues very late in the year. As shown in the following table, the full-year volume gains attributable to expanded operations produced most of the revenue increase.

Railway Operating Revenue Variance Analysis

	Increases (Decreases)	
($ in millions)	2000 vs. 1999	1999 vs. 1998
Volume	$ 779	$ 1,015
Revenue per unit/mix	138	(27)
Total	$ 917	$ 988

Revenue per unit improved in most market groups, principally due to the effects of Northern Region traffic and increased rates. About one-half of the revenue per unit increase for the intermodal market group was attributable to the effects of the consolidation of Triple Crown Services Company (TCS) revenues.

In 1999, revenues increased for all market groups as a result of Northern Region traffic. Prior to the Closing Date, revenues for all market groups, except automotive, were below or even with those of the prior year. Revenue per unit improved principally due to the effects of consolidating TCS' revenues and Northern Region traffic; however, the effects of changes in the mix of traffic, most notably reduced export coal traffic, more than offset the revenue-per-unit improvements.

Coal tonnage increased 11% in 2000, and revenues increased 9%, reflecting a full year of Northern Region traffic. Revenue per unit declined, a result of a higher proportion of traffic with a shorter length of haul, principally attributable to a full year of Northern Region operations. Coal revenues represented 23% of total railway operating revenues in 2000, and 89% of NS' coal shipments originated on lines it operated. In 1999, coal tonnage increased 18%, but revenues increased only 5%. The positive revenue effects of handling Northern Region tonnage were largely offset by the significant drop in export coal tonnage. In addition, a larger proportion of the Northern Region traffic is shorter-haul (lower revenue-per-unit) traffic.

Total Coal, Coke and Iron Ore Tonnage

(In millions of tons)	2000	1999	1998
Utility	119	108	83
Export	20	18	25
Domestic metallurgical	25	22	18
Other	11	10	8
Total	175	158	134

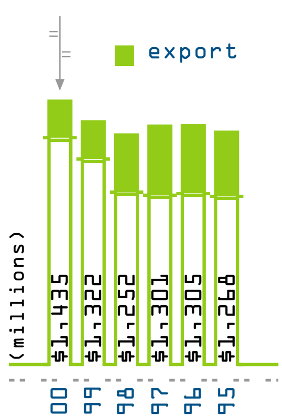
Utility coal traffic increased 11% in 2000, reflecting a full year of Northern Region operations. The effects of expanded operations were somewhat offset by coal production problems at several NS-served mines, unanticipated outages at some NS-served utility plants, large stockpiles at the beginning of the year and mild summer weather in portions of NS' service territory. In 1999, utility coal traffic increased 30%, due to the expansion of operations into the Northern Region after the Closing Date.

The near-term outlook for utility coal remains positive. U.S. demand for electricity continues to grow rapidly, and coal-fired generation remains the cheapest marginal source of electricity. Several underutilized coal-fired power plants are making the transition from peak-only generation to full-time generation. In addition, natural gas prices reached record levels in 2000 and are anticipated to remain higher than historical levels for the near future, further improving the competitive position of coal-fired generation.

Phase II of Title IV of the Clean Air Act Amendments of 1990, which imposes more stringent limits on sulfur dioxide emissions, took effect on Jan. 1, 2000. Many of the mines served by NS produce coals that satisfy Phase II requirements. In addition, substantial banks of sulfur dioxide allowances held by many NS-served utilities should continue to provide a market for other NS-served mines for nearly a decade. However, several federal environmental regulatory initiatives continued to be pursued during 2000. Many of the rules that have been promulgated to date are in litigation. If the rules survive litigation and are implemented, they could increase the cost of coal-fired generation and potentially adversely affect the value of the sulfur dioxide allowance bank. Also, the Kyoto Protocol, if ratified and implemented, could put additional cost pressures on coal-fired generation.

A 1999 decision by a federal district court judge in West Virginia held that some common mountaintop mining practices in the coal industry are illegal. There are a small number of mountaintop mining operations on NS' lines; however, if sustained, the decision could have an adverse effect on these operations and on NS' coal traffic, revenues and royalties (see Note 3 on Page 49, "Royalties from coal"). A decision by the appellate court is expected in 2001. The district court's ruling already has made coal mine permitting a more arduous and lengthy process.

Coal



Revenues increased $113 million, or 9%, in 2000, due to the effects of a full year of Northern Region traffic. This group includes utility coal, export coal, domestic metallurgical coal and industrial coal, coke and iron ore.

Export coal tonnage increased 8% in 2000, a result of a full year of access to Baltimore through the Northern Region, mitigated by lower tonnage through Lambert's Point. Several additional factors also adversely affected export coal traffic volume. Delayed settlements between buyers and sellers in the spring postponed shipments of some export tonnage. Foreign buyers ultimately intended to purchase additional U.S. metallurgical coal, but production capacity available for export had been diminished by two years of dramatically lower prices. Toward the end of 2000, production difficulties at several large NS-served mines significantly reduced tonnage available for export. Limited supplies overall prevented other coal producers from providing substitute coal.

In 1999, export coal tonnage decreased 28%, despite the expansion of operations into the Northern Region. The lower traffic resulted from reduced demand for U.S. coking coal (in part, the result of a strong U.S. dollar), productivity gains made by foreign producers, lower ocean transportation rates and lower foreign royalties. Steam coal exports continued to be noncompetitive on price, making domestic markets more attractive for U.S. producers.

Export tonnage is expected to continue to be limited by supply and competition from Australian coals. In addition, environmental issues concerning carbon-based fuels could increase pressure to reduce their use.

Domestic metallurgical coal, coke and iron ore traffic increased 17% in 2000, due to a full year of Northern Region operations. In addition, increased production in the first half of the year and gains in NS' market share contributed to the higher traffic. However, the softening economy and increased steel imports diminished blast furnace production rates, sharply reducing demand for raw materials.

In 1999, domestic metallurgical coal, coke and iron ore traffic increased 22%, as the addition of Northern Region traffic more than offset the effects of reduced U.S. steel production. Lower-priced steel imports led to reduced production levels at integrated steel manufacturers, especially through the first three quarters of 1999, thereby lowering demand for raw materials.

Domestic metallurgical coal, coke and iron ore traffic is expected to continue to suffer from the effects of the slowing economy. Curtailed steel production levels are expected to continue in the near term, which could further weaken the steel industry. In 2000, an Alabama steel producer closed permanently, and several others filed for Chapter 11 bankruptcy protection. Long-term demand is expected to continue to decline, due to advanced technologies that allow production of steel using less coke.

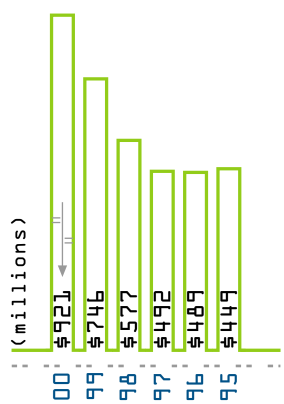
Other coal traffic, principally steam coal shipped to manufacturing plants, increased 4% in 2000, reflecting a full year of handling Northern Region traffic; however, this was mitigated by the loss of some traffic to competitors. Other coal traffic increased 25% in 1999, due to the commencement of operations in the Northern Region.

GENERAL MERCHANDISE traffic volume (carloads) increased 15% in 2000, and revenues increased 17%, principally due to a full year of operating the Northern Region. In 1999, traffic volume increased 24%, and revenues increased 26%, reflecting the commencement of operations in the Northern Region; however, service issues resulted in traffic diversions in all market groups.

Automotive traffic volume increased 13%, and revenues increased 23% in 2000, reflecting a full year of Northern Region operations, record vehicle production and the recapture of business diverted because of service issues after the Closing Date. The carload increase was less than the revenue increase principally due to the effects of a redesign of the mixing center network. This redesign improves vehicle velocity through the network and includes changes in traffic flows that resulted in a decline in carloads, with no corresponding decrease in revenues.

In 1999, automotive traffic volume increased 26%, and revenues increased 29%, largely due to the expansion of operations into the Northern Region and record vehicle production. The NS-served Toyota plant in Princeton, Ind., and the vehicle parts distribution center in Dayton, Ohio, which were new in 1999, also contributed to the increase. However, design and service issues and equipment shortages caused by extended cycle times adversely affected NS' mixing center network. In addition, service issues after the Closing Date resulted in significant traffic diversions.

Automotive

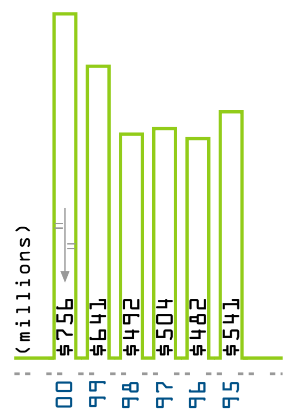


Revenues increased $175 million, or 23%, in 2000, due to a full year of operations in the Northeast and record vehicle production. This group includes finished vehicles for BMW, DaimlerChrysler, Ford Motor Company, General Motors, Honda, Isuzu, Jaguar, Land Rover, Mazda, Mercedes-Benz, Mitsubishi, Nissan, Saab, Subaru, Suzuki, Toyota and Volkswagen, and auto parts for Ford Motor Company, General Motors, Mercedes-Benz and Toyota.

Automotive revenues in 2001 are expected to be down, reflecting an anticipated decline in light vehicle production from the record level of 2000.

Chemicals traffic volume increased 15%, and revenues increased 18% in 2000, due to a full year of Northern Region operations and the return of traffic that had been diverted because of service issues after the Closing Date. Shipments of miscellaneous chemicals, chlorine, caustic soda and plastics continued to rebound, but sulfur carloads were down due to weak fertilizer markets. Chemicals shipments continued to increase through NS' Thoroughbred Bulk Transfer (TBT) facilities that handle chemicals and bulk commodities for customers not located on NS-served lines.

Chemicals



Revenues increased $115 million, or 18%, in 2000, reflecting a full year of Northern Region traffic and the return of traffic diverted last year. This group includes sulfur and related chemicals, petroleum products, chlorine and bleaching compounds, plastics, rubber, industrial chemicals, chemical wastes and municipal wastes.

In 1999, chemicals traffic volume increased 25%, and revenues increased 30%, due to the addition of Northern Region traffic. Chemical production increased slightly during the year, and shipments of chlorine, caustic soda and PVC plastics rebounded from 1998 levels, benefiting from an improved Asian economy. The location of new and expanded processing plants on lines NS serves increased shipments of plastic pellets. Chemicals shipments also increased through NS' TBT facilities. Shipments of sulfur declined, due to production cutbacks at plants served by NS.

Chemicals revenues in 2001 are expected to remain relatively flat, due to fewer plant expansions and softness in U.S. chemical and petroleum production.

Metals and construction traffic volume increased 29%, and revenues increased 22% in 2000, reflecting a full year of operations over the expanded system. Revenue per unit declined, largely due to a change in the mix of traffic. Metals traffic benefited from increased shipments of sheet steel, imported slab steel and ferrous scrap; however, this was tempered by a significant slowdown in the steel industry in the last half of the year. Construction traffic benefited from continued strength in housing starts and highway construction.

In 1999, metals and construction traffic volume increased 57%, and revenues increased 51%, due to the addition of Northern Region traffic. Continued growth, resulting from the location of new mini-mills and steel processors in NS' service territory, offset the effects of a weaker scrap market. Construction traffic benefited from strong housing starts and highway construction in the Southeast. In addition, new cement terminals on NS' lines generated additional traffic.

Metals and construction revenues in 2001 are expected to suffer from the effects of a continued softness in the steel market.

Paper, clay and forest products traffic volume increased 5%, and revenues increased 9% in 2000, principally due to the effects of a full year of Northern Region operations. Additional consolidation in the paper industry and a weakening paper market in the second half of the year contributed to lower carloads during the summer months and into the fall. Demand for paper production inputs, such as scrap paper and wood pulp, was weak, but this was tempered by stronger demand for newsprint and printing paper.

In 1999, paper, clay and forest products traffic volume increased 4%, and revenues increased 8%, reflecting the commencement of Northern Region operations. The closure of four major paper mills and some chip mills late in 1998, coupled with the effects of consolidations and weak demand within the paper industry, had a negative impact on traffic volume.

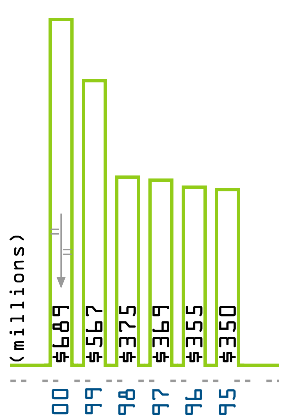
Paper, clay and forest products revenues are expected to continue to be adversely affected by weak demand in 2001, due to continued consolidations and little anticipated capacity expansion through 2003.

Agriculture, consumer products and government traffic volume increased 7%, and revenues increased 13% in 2000, due to the effects of a full year of Northern Region traffic and modest growth in the Southeast markets. Rate increases and more longer-haul (higher revenue-per-unit) traffic also contributed to the revenue increase. Grain traffic benefited from new shuttle-train service that improved service to new and expanded Southeast feed mills. In addition, traffic increased for Midwest grain and sweeteners and consumer goods from the West.

In 1999, agriculture, consumer products and government traffic volume increased 11%, and revenues increased 15%, reflecting access to the large Northeast consumer markets. Service issues that arose early in the year due to harsh weather conditions and continued during integration of the Northern Region had an adverse effect on volume. In addition, soybean traffic was negatively affected by low-priced imports from South America. Shipments of fertilizer declined, reflecting significantly lower production.

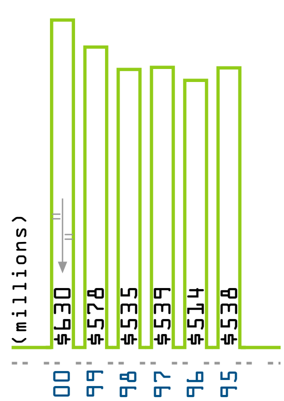
Agriculture, consumer products and government revenues are expected to be tempered by the soft economic conditions. While only a normal crop year is expected, strong export demand could help offset the resulting drop in domestic shipments.

Metals and Construction



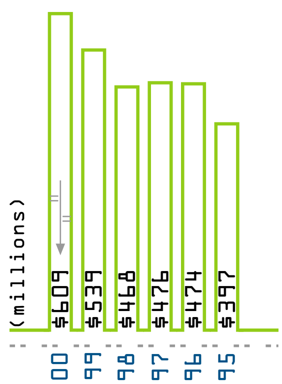
Revenues increased $122 million, or 22%, in 2000, principally due to the effects of a full year of expanded operations. This group includes steel, aluminum products, machinery, scrap metals, cement, aggregates, bricks and minerals.

Paper, Clay and Forest Products



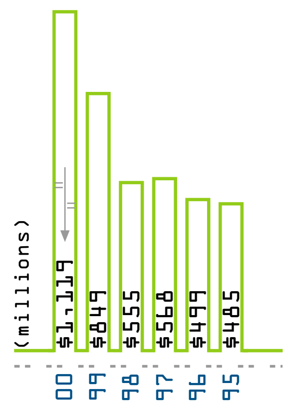
Revenues increased $52 million, or 9%, in 2000, reflecting a full year of operations in the Northern Region. This group includes lumber and wood products, pulpboard and paper products, woodfibers, woodpulp, scrap paper and clay. NS serves 85 paper mills, 95 paper distribution centers and more than 100 lumber reload centers.

Agriculture, Consumer Products and Government



Revenues increased $70 million, or 13%, in 2000, reflecting a full year of Northern Region operations and modest growth in the Southeast markets. This group includes soybeans, wheat, corn, fertilizers, animal and poultry feed, food oils, flour, beverages, canned goods, sweeteners, consumer products and items for the military.

Intermodal



Revenues increased $270 million, or 32%, in 2000, due to a full year of Northern Region traffic and the consolidation of TCS revenues. This group handles trailers, domestic and international containers, TCS equipment and equipment for intermodal marketing companies, international steamship lines, truckers and other shippers.

INTERMODAL traffic volume increased 18%, and revenues increased 32% in 2000, primarily due to a full year of Northern Region traffic and the consolidation of TCS revenues (see Note 2 on Page 47). About one-half of the improvement in revenue per unit resulted from the effects of consolidating TCS. Prior to June 1, 1999, NS' revenues included only the amounts for rail services it performed under contract to TCS, but NS' volume included most TCS units. Also contributing to the revenue-per-unit improvement were rate increases throughout the year on domestic business and the implementation of fuel surcharges later in the year. In addition, increased demand, new business and improved service contributed to the gains, as major customers, including UPS, JB Hunt, Hub Group and Maersk, increased volumes. Despite weak demand in the first quarter and the loss in December 1999 of a major customer, NS had regained its market share by the second quarter. Domestic and premium business volumes benefited from service improvements and expansion initiatives. International traffic, which accounts for about half of intermodal volume, grew 5%, notwithstanding the loss of business from the major customer. TCS traffic increased 3%, as it recovered from service shortcomings after the Closing Date.

In 1999, intermodal traffic volume increased 31%, and revenues increased 53%, due to the addition of the Northern Region and the consolidation of TCS after the Closing Date. More than half of the increase in revenue per unit resulted from the effects of consolidating TCS. Intermodal traffic volume declined in the first five months of 1999, reflecting the network redesign implemented in August 1998, which pared a significant number of lanes and associated volumes. Service issues following the integration of the Northern Region also negatively affected volume and revenues.

Intermodal revenues are expected to continue to grow, supported by continued improvements in service and added capacity, notably through a new terminal in Austell, Ga., scheduled to open in the third quarter of 2001. However, a softening economy could temper this positive outlook.

Railway Operating Expenses

Railway operating expenses increased 22% in 2000 and included $165 million of costs related to actions taken to reduce the size of the work force. Excluding these costs, railway operating expenses increased 19%, while carloadings increased 15%, reflecting a full year of Northern Region operations and sharply higher diesel fuel prices.

In 1999, railway operating expenses increased 41%, while carloadings increased 24%. The expense increase was attributable to the commencement of operations in the Northern Region, and included significant costs arising from the service issues experienced after the Closing Date.

As a result, the **railway operating ratio,** which measures the percentage of railway operating revenues consumed by railway operating expenses, was 87.0% in 2000 (excluding the work-force reduction costs, which increased the ratio 2.7 percentage points), compared with 86.3% in 1999 and 75.3% in 1998.

The increase in the 2000 ratio reflected the effects of a full year of Northern Region operations and the sharp increase in diesel fuel prices, which more than offset the absence of the significant costs incurred in 1999 related to the service issues after the Closing Date. In addition, the ratio was adversely affected by a continuation of the trends seen in 1999 involving changes in the mix of traffic.

In 1999, the railway operating ratio reflected the effects of integration-related service issues, including traffic diversions, which in total were estimated to have resulted in more than half of the ratio's 1999 increase. The remaining increase was principally attributable to the change in traffic mix (more resource-intensive traffic, such as automotive and intermodal) and the new traffic in the Northern Region, coupled with the decrease in export coal traffic.

The railway operating ratio is not expected to return to pre-Closing Date levels in the near term, due to the changes in NS' traffic mix and the higher cost structure attributable to the Conrail properties now operated by NSR.

In response to the economic slowdown and changes in its transportation markets, NS announced in January 2001 several strategies designed to reduce costs. These include additional work-force reductions, disposition of surplus freight cars, line rationalization programs, consolidation or disposition of underutilized or redundant facilities and a redesign of its service network.

The following table shows the changes in railway operating expenses summarized by major classifications.

Railway Operating Expenses

	Increases (Decreases)	
($ in millions)	**2000 vs. 1999**	1999 vs. 1998
Compensation and benefits	**$ 379***	$ 363
Materials, services and rents	**171**	435
Conrail rents and services	**167**	311
Depreciation	**28**	38
Diesel fuel	**223**	81
Casualties and other claims	**4**	43
Other	**30**	51
Total	**$1,002**	$1,322

* Includes $165 million of work-force reduction costs in 2000.

Compensation and benefits (excluding work-force reduction costs) represented 39% of total railway operating expenses in 2000 and increased 12% in 2000 and 24% in 1999.

The work-force reduction costs, which totaled $165 million, principally resulted from voluntary early retirement and separation programs accepted by 1,446 nonunion employees (see Note 11 on Page 52 for details concerning the early retirement programs). In addition, an accrual was made for certain postemployment benefits due to some union employees who were furloughed. At year end, employment levels were down about 9%, largely the result of these programs and other actions taken throughout the year to reduce the size of the work force.

The 12% increase (excluding the work-force reduction costs) in compensation and benefits in 2000 was largely attributable to the effects of a full year of expanded operations and higher wages and benefit costs for union employees. These increases were mitigated by higher pension income and the absence of the $49 million incurred in 1999 for the Special Work Incentive Program (SWIP) for union employees in the third quarter of 1999. Pension income was higher in 2000 largely due to the transfer of assets from the Conrail pension plan after the Closing Date. NS has substantial unrecognized gains related to its overfunded pension plan; amortization of these gains will continue to be included in "Compensation and benefits" expenses (see Note 11 on Page 52).

In 1999, the increase resulted largely from the almost 50% increase in the railroad work force following commencement of operations in the Northern Region. The service issues encountered after the Closing Date also contributed to the increase, including the $49 million cost of the SWIP. These increases were somewhat offset by reduced stock-based incentive compensation, the absence of bonus accruals and reduced pension and other postretirement benefits expenses.

Materials, services and rents includes items used for the maintenance of the railroads' lines, structures and equipment; the costs of services purchased from outside contractors, including the net costs of operating joint (or leased) facilities with other railroads; and the net cost of equipment rentals. This category of expenses increased 13% in 2000 and 52% in 1999.

The 2000 increase was mostly attributable to the effects of a full year of Northern Region operations and the consolidation of TCS and was mitigated by the absence of significant costs incurred in 1999 related to the service issues encountered after the Closing Date.

The increase in 1999 reflected the expanded operations in the Northern Region; additional costs attributable to the service issues, including costs for alternate transportation to meet the needs of customers; and the effects of consolidating TCS.

Equipment rents, which include the cost to NS of using equipment (mostly freight cars) owned by other railroads or private owners, less the rent paid to NS for the use of its equipment, increased 22% in 2000 and 93% in 1999. The

2000 increase was principally due to the effects of a full year of expanded operations, but was mitigated by a favorable comparison for the last seven months, as expenses in 1999 were high due to the service issues encountered after the Closing Date. The 1999 increase principally was due to: (1) the commencement of Northern Region operations, (2) higher rental costs driven by cycle times that were increased because of the service issues and (3) short-term locomotive leases to improve system fluidity. In addition, Conrail historically rented a higher percentage of its freight cars than NS, resulting in higher equipment rents in the Northern Region.

Locomotive and car repair costs increased in 2000, reflecting a full year of Northern Region operations; however, the increase was tempered by reduced maintenance activities, a result of cost control efforts. In 1999, maintenance costs increased due to the expansion of operations and higher repair costs associated with temporarily leased locomotives.

Conrail rents and services, a new category of expense arising from the expansion of operations on the Closing Date, amounted to $478 million in 2000 and $311 million in 1999. This item includes amounts due to PRR and CRC for use of their operating properties and equipment and CRC's operation of the Shared Assets Areas. Also included is NS' equity in Conrail's net earnings since the Closing Date, plus the additional amortization related to the difference between NS' investment in Conrail and its underlying equity (see Note 2 on Page 47).

Depreciation expense was up 6% in 2000 and 9% in 1999. Increases in both years were due to property additions, reflecting substantial levels of capital spending (see Note 1, "Properties," on Page 46 for NS' depreciation policy).

Diesel fuel expenses increased 87% in 2000 and 47% in 1999. In both years, most of the increase resulted from higher prices. In 2000, 86% of the increase resulted from a 61% rise in the average price per gallon, which ranged from 77 cents in January to $1.07 in December. In 1999, 53% of the increase was attributable to a 19% increase in the average price per gallon, due to a sharp rise in the last half of the year. Higher consumption accounted for the remainder of the increases, primarily the result of the addition of the Northern Region.

Casualties and other claims expenses (including the estimates of costs related to personal injury, property damage and environmental matters) increased 3% in 2000 and 45% in 1999. The 1999 increase resulted principally from higher personal injury accruals related to the increased size of the work force as well as higher environmental expenses.

The largest component of casualties and other claims expense is personal injury costs. In 2000, cases involving so-called "occupational" injuries comprised about 40% of the total employee injury cases settled and 20% of the total settlement payments made. Injuries of this type are not generally caused by a specific accident or event, but, rather, result from a claimed exposure over time to some condition of employment. Many such claims are being asserted by former or retired employees, some of whom have not been actively employed in the rail industry for decades. NS continues to work actively to eliminate all employee injuries and to reduce the associated costs.

The rail industry remains uniquely susceptible to litigation involving job-related accidental injury and occupational claims because of an outmoded law, the Federal Employers' Liability Act (FELA), originally passed in 1908 and applicable only to railroads. This law, which covers employee claims for job-related injuries, promotes an adversarial claims environment and produces results that are unpredictable and inconsistent, at a far greater cost to the rail industry than the no-fault workers' compensation system to which nonrail competitors and other employers are universally subject. The railroads have been unsuccessful so far in efforts to persuade Congress to replace FELA with a no-fault workers' compensation system.

NS maintains substantial amounts of commercial insurance for potential third-party liability and property damage claims. It also retains reasonable levels of risk through self-insurance.

Other expenses increased 14% in 2000 and 31% in 1999. The increase in 2000 reflected a full year of Northern Region operations and higher bad debt expense. The 1999 increase resulted from the expansion of operations, including property and other taxes related to the Northern Region, and to costs arising from service issues.

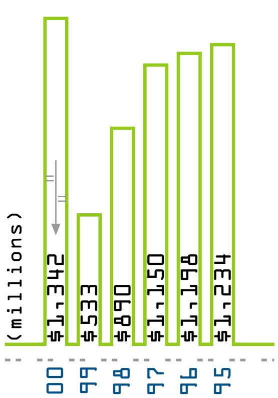
Income Taxes

Income tax expense in 2000 was $78 million, for an effective rate of 31%, compared with effective rates of 32% in 1999 and 25% in 1998. Excluding the equity in Conrail's after-tax earnings, the effective rate was 34% in both 2000 and 1999 and was 33% in 1998.

The effective rates in all three years were below the statutory federal and state rates because of investments in coal-seam gas properties, favorable adjustments upon filing the prior year tax returns and favorable adjustments to state tax liabilities. In addition, the rate in 1998 benefited from investments in corporate-owned life insurance and favorable adjustments resulting from settlement of federal income tax years 1993 and 1994.

The effective rate in 2001 is expected to increase somewhat, primarily due to a substantial reduction in the level of benefits from investments in coal-seam gas properties.

Cash Provided by Operations



Cash provided by operations increased significantly, reflecting an infusion of cash from the commencement of a revolving accounts receivable sale program and favorable changes in working capital.

In January 1995, the United States Tax Court issued a preliminary decision that disallowed some of the tax benefits a subsidiary of NS purchased from a third party pursuant to a safe harbor lease agreement in 1981. In January 2001, NS received payment from the third party in accordance with indemnification provisions of the lease agreement.

Discontinued Operations

Income from discontinued operations in 1998 included the $105 million after-tax gain from the sale of NS' motor carrier subsidiary (see Note 16 on Page 56). Motor carrier operations in 1998 (through March 28) produced a $1 million loss.

Financial Condition, Liquidity and Capital Resources

Cash provided by operating activities, NS' principal source of liquidity, was $1.3 billion in 2000, and reflects a new program under which accounts receivable are sold on a revolving basis (see Note 5 on Page 50). Excluding the infusion of cash from this program, operating cash flow was $954 million in 2000, compared with $533 million in 1999 and $890 million in 1998.

The improvement in 2000 resulted primarily from favorable changes in working capital, including an improvement in collection of accounts receivable, a lengthening of accounts payable and the lack of bonus payments. The decline in 1999 reflected lower income from operations, offset somewhat by lower income tax payments. The large changes in "Accounts receivable" and "Current liabilities other than debt" in the 1999 cash flow statement primarily resulted from the commencement of operations in the Northern Region. In addition, collection of accounts receivable had slowed.

NS' working capital deficit was $1.0 billion at Dec. 31, 2000, compared with $553 million at Dec. 31, 1999. The large increase reflected the use of accounts receivable sale proceeds to reduce long-term debt. NS currently has the capability to issue commercial paper to meet its more immediate working capital needs (see the discussion of financing activities, below).

Cash used for investing activities decreased slightly in 2000, following an 11% decline in 1999. In 2000, property additions were significantly lower than in the prior years -- locomotive fleet additions in 2000 were accomplished by operating lease, whereas locomotives were purchased in prior years. Investing activities in 1999 included more borrowings against the net cash surrender value of corporate-owned life insurance: approximately $140 million more than in 2000 and $160 million more than in 1998. In addition, 1999 included $60 million in proceeds from the sublease of certain licensing rights and the sale of NS' signboard business. Investing activities in 1998 included the $207 million of proceeds from the sale of NS' motor carrier subsidiary. Property additions account for most of the recurring spending in this category.

The following tables show capital spending and track and equipment statistics for the past five years. Capital expenditures include amounts relating to capital leases, which are excluded from the Consolidated Statements of Cash Flows (see Note 8, "Capital Lease Obligations," on Page 51).

Capital Expenditures

($ in millions)	2000	1999	1998	1997	1996
Road	$ 557	$ 559	$ 612	$ 599	$ 438
Equipment	146	349	442	306	326
Other property	28	4	6	24	25
Total	$ 731	$ 912	$1,060	$ 929	$ 789

Capital expenditures decreased 20% in 2000 and 14% in 1999. The decline in 2000 reflected lower capital expenditures for locomotives as a result of the operating lease. The 1999 decrease was largely attributable to significant outlays in 1998 for roadway projects and equipment in anticipation of the Closing Date and automotive-related projects.

Track Structure Statistics (Capital and Maintenance)

	2000	1999	1998	1997	1996
Track miles of rail installed	392	403	429	451	401
Miles of track surfaced	3,687	5,087	4,715	4,703	4,686
New crossties installed (millions)	1.5	2.3	2.0	2.2	1.9

Average Age of Owned Railway Equipment

(Years)	2000	1999	1998	1997	1996
Freight cars	24.6	23.8	23.6	23.0	22.3
Locomotives	16.1	15.4	15.4	15.3	15.4
Retired locomotives	24.5	22.7	20.6	23.3	24.4

In addition to NS-owned equipment, 16% of the freight car fleet and 27% of the locomotive fleet is leased from PRR (see Note 2 on Page 47).

The increase in 2000 in the average age of owned locomotives reflects the fact that locomotives leased in 2000 are not included in the statistic. The 1998 decrease in the average age of retired locomotives resulted from a disproportionate share of early retirements due to casualties and service failures and retention of older units in anticipation of the Closing Date.

Through its coal car rebody program, which was suspended in 2000, NS converted about 29,000 hopper cars into high-capacity steel gondolas or hoppers. As a result, the remaining service life of the freight-car fleet is greater than may be inferred from the increasing average age shown in the table, above.

For 2001, NS has budgeted $806 million for capital expenditures. The anticipated spending includes $449 million for roadway projects, of which $264 million is for track and bridge program work. Also included are projects for new or improved intermodal facilities, marketing and industrial development initiatives, signal upgrades and environmental and other public improvements. Equipment spending includes the purchase of locomotives and the upgrade of existing locomotives. In addition, NS' telecommunications subsidiary plans to spend $62 million on the installation of fiber optic conduits.

Cash used for financing activities was $798 million in 2000 and reflected a substantial net reduction of debt, accomplished using the proceeds from the sale of accounts receivable, compared with the net increase in 1999. Dividend payments were comparable in all three years; however, in January 2001 the Corporation's Board of Directors declared a quarterly dividend of 6 cents per share, compared with the 20 cents per share that had been paid in recent quarters. NS' debt-to-total capitalization ratio at year end was 57% in 2000 and 58% in 1999.

NS currently has in place a $2.0 billion credit facility to support the $1.1 billion of commercial paper outstanding at Dec. 31, 2000. In February 2001, NS issued $1.0 billion of debt under its $1.0 billion shelf registration and used the proceeds to reduce the amount of commercial paper outstanding.

NS is subject to various financial covenants with respect to its credit agreement, including a maximum leverage ratio restriction (see Note 8, "Debt Covenants," on Page 52). As a result of a negotiated amendment to the credit agreement, the maximum leverage ratio will not tighten through the remainder of the agreement's term.

Conrail's Results of Operations, Financial Condition and Liquidity

Through May 31, 1999, Conrail's results of operations include freight line-haul revenues and related expenses. After the Closing Date, June 1, 1999, its results reflect its new structure and operations (see Note 2 on Page 47). Currently, Conrail's major sources of operating revenues are operating fees and rents from NSR and CSXT. The composition of Conrail's operating expenses also has changed.

Conrail's net income was $170 million in 2000, compared with $26 million in 1999 and $267 million in 1998 (see Note 2 on Page 47).

Results in 1999 included $180 million of expenses ($121 million after taxes), principally to increase certain components of its casualty reserves based on an actuarial valuation, to adjust certain litigation and environmental reserves related to settlements and completion of site reviews and a credit adjustment related to the assumption of a lease obligation by CSX. Results in 1998 included a $170 million charge ($105 million after taxes) for severance benefits covering nonunion employees and $132 million ($82 million after taxes) of other charges and reserves.

Excluding the effects of these items, net income increased $23 million in 2000, but decreased $307 million in 1999. The 2000 increase reflected a $37 million after-tax gain from a property sale. The 1999 decrease was principally the result of Conrail's change in operations.

Conrail's operating revenues were $985 million in 2000, $2.2 billion in 1999 and $3.9 billion in 1998. Both year-to-year declines were attributable to the change in operations. In addition, 1999's comparison reflected a 2% decrease in freight revenues prior to the Closing Date.

Conrail's operating expenses were $749 million in 2000, $2.0 billion in 1999 and $3.3 billion in 1998.

In addition to the $180 million of 1999 expenses and the $302 million of 1998 expenses discussed above, Conrail's operating expenses reflect transition-related expenses of $60 million in 1999 and $149 million in 1998 (principally technology integration costs and employee stay bonuses). Excluding the effects of the acquisition-related compensation and transition costs, operating expenses decreased 62% in 2000 and 34% in 1999. Both declines reflected the change in operations. In 1999, this was somewhat offset by higher casualty and other claims expenses.

Conrail's cash provided by operations decreased $34 million, or 9%, in 2000, and $331 million, or 46%, in 1999. The 2000 reduction reflected the change in operations and payment of one-time items owed to NSR and CSXT. The 1999 decrease was principally due to the change in operations. Cash generated from operations is Conrail's principal source of liquidity and is primarily used for debt repayments and capital expenditures. Debt repayments totaled $318 million in 2000 and $112 million in 1999. Capital expenditures totaled $220 million in 2000 and $176 million in 1999, but are expected to decrease significantly in 2001.

Conrail had working capital of $85 million at Dec. 31, 2000, compared with a working capital deficit of $194 million at Dec. 31, 1999. The deficit at Dec. 31, 1999, reflected $250 million of long-term debt paid in June 2000.

Conrail is not an SEC registrant and, therefore, presently cannot issue any publicly traded securities. Conrail is expected to have sufficient cash flow to meet its ongoing obligations.

NS' equity in earnings of Conrail, net of amortization, was $21 million in 2000, $17 million in 1999 and $194 million in 1998.

Other Matters

Proposed Merger Guidelines

The Surface Transportation Board (STB) has issued proposed merger guidelines which, if adopted as proposed, would increase the substantive and evidentiary standards that Class 1 railroad applicants will have to satisfy. Final rules are due in June 2001.

Prior to the STB's release of its proposed guidelines, Canadian National Railway Company and Burlington Northern Sante Fe Corporation announced the cancellation of their earlier proposal to combine their companies under common control.

Market Risks and Hedging Activities

NS does not engage in the trading of derivatives. NS manages its overall exposure to fluctuations in interest rates by issuing both fixed- and floating-rate debt instruments and by entering into interest-rate hedging transactions to achieve a targeted mix within its debt portfolio.

Of NS' total debt outstanding (see Note 8 on Page 51), all is fixed-rate debt, except for commercial paper and most capital leases. As a result, NS' debt subject to interest rate exposure totaled $1.4 billion on Dec. 31, 2000. A 1% increase in interest rates would increase NS' total annual interest expense related to all its variable debt by approximately $14 million. Management considers it unlikely that interest rate fluctuations applicable to these instruments will result in a material adverse effect on NS' financial position, results of operations or liquidity.

The average interest rate on commercial paper was 7.0% on Dec. 31, 2000, and 6.4% on Dec. 31, 1999. During 2000, the weighted-average interest rate on NS' outstanding commercial paper ranged from 6.1% to 7.0%.

The capital leases, which carry an average fixed rate of 7.1%, were effectively converted to variable rate obligations using interest rate swap agreements. On Dec. 31, 2000, the average pay rate under these agreements was 7.2%, and the average receive rate was

7.1%. During 2000, the effect of the swaps was to reduce interest expense by $1 million. A portion of the lease obligations is payable in Japanese yen. NS hedged the associated exchange rate risk at the inception of each lease with a yen deposit sufficient to fund the yen-denominated obligation. Most of these deposits are held by Japanese banks. As a result, NS is exposed to financial market risk relative to Japan. Counterparties to the interest rate swaps and Japanese banks holding yen deposits are major financial institutions believed by Management to be creditworthy.

Accounting Changes and New Pronouncements

As discussed in Note 1 under "Required Accounting Changes" on Page 47, NS adopted in 2000 the consensus reached by the Emerging Issues Task Force of the Financial Accounting Standards Board (FASB) concerning Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent." In addition, NS has adopted the disclosure provisions of the FASB's Statement of Financial Accounting Standards (SFAS) No. 140.

NS has adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," effective Jan. 1, 2001. This adoption did not have a material effect on NS' consolidated financial statements.

Lawsuits

Norfolk Southern and certain subsidiaries are defendants in numerous lawsuits relating principally to railroad operations. While the final outcome of these lawsuits cannot be predicted with certainty, it is the opinion of Management, based on known facts and circumstances, that the amount of NS' ultimate liability is unlikely to have a material adverse effect on NS' financial position, results of operations or liquidity.

The Corporation has reached agreement on terms of a consent decree that should bring to a conclusion a class action suit filed in federal district court in Birmingham, Ala. The action had been brought on behalf of African-Americans currently employed or working since Dec. 16, 1989, who alleged that the Corporation had discriminated against them in promotion to nonunion positions because of their race. The consent decree, which received preliminary approval from the court on Dec. 22, 2000, provides for a total payment of $28 million to the class of approximately 7,700 African-Americans and their attorneys and commits the Corporation to establish good faith goals for the promotion of class members to management-level positions during the four-year term of the decree. In addition, the decree commits the Corporation to make extensive improvements to its procedures for identifying, training and selecting candidates for promotion to higher-rated positions for all its employees.

The settlement funds have been paid into a trust account in the South Trust Bank in Birmingham. Final approval of the consent decree and distribution of the settlement proceeds to qualified members of the class are subject to a fairness hearing scheduled for March 2, 2001.

While it is possible that the district court will decline to give final approval to the settlement, or that the settlement will be overturned on appeal, Management believes that the consent decree is a fair resolution of this controversy and that disapproval by the courts is unlikely.

On Sept. 8, 1997, a state court jury in New Orleans returned a verdict awarding $175 million in punitive damages against The Alabama Great Southern Railroad Company (AGS), a subsidiary of NSR. The verdict was returned in a class action suit which ultimately involved some 10,000 individuals who claimed injury or damage as the result of an explosion and fire that occurred in New Orleans on Sept. 9, 1987, when a chemical called butadiene leaked from a tankcar.

The jury verdict awarded a total of nearly $3.2 billion in punitive damages against four other defendants in the same case: two rail carriers, the owner of the car and the shipper. Previously, the jury had awarded nearly $2 million in compensatory damages to 20 of the individual plaintiffs. Prior to the trial court's ruling on the post trial motions, AGS and four other defendants agreed to settle their liability in this case for a total payment of approximately $150 million, of which AGS' share was $15 million. The settlement has been given final approval by the trial court, the time for appeals has expired, and the case has been concluded insofar as AGS is concerned.

Environmental Matters

NS is subject to various jurisdictions' environmental laws and regulations. It is NS' policy to record a liability where such liability or loss is probable and its amount can be estimated reasonably. Claims, if any, against third parties for recovery of cleanup costs incurred by NS are reflected as receivables (when collection is probable) in the balance sheet and are not netted against the associated NS liability. Environmental engineers regularly participate in ongoing evaluations of all identified sites and in determining any necessary adjustments to initial liability estimates. NS also has established an Environmental Policy Council, composed of senior managers, to oversee and interpret its environmental policy.

Operating expenses for environmental matters totaled approximately $11 million in 2000, $12 million in 1999 and $4 million in 1998, and capital expenditures totaled approximately $10 million in 2000, $8 million in 1999 and $7 million in 1998. The lower operating expenses in 1998 principally were due to higher recoveries from third parties of amounts paid by NS in prior years for environmental cleanup and remediation. Capital expenditures in 2001 are expected to be comparable to those of 2000.

As of Dec. 31, 2000, NS' balance sheet included a reserve for environmental exposures in the amount of $36 million (of which $8 million is accounted for as a current liability), which is NS' estimate of the probable cleanup and remediation costs based on available information at 125 identified locations. On that date, 10 sites accounted for $18 million of the reserve, and no individual site was considered to be material. NS anticipates that much of this liability will be paid out over five years; however, some costs will be paid out over a longer period.

At some of the 125 locations, certain NS subsidiaries, usually in conjunction with a number of other parties, have been identified as potentially responsible parties by the Environmental Protection Agency (EPA) or similar state authorities under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, or comparable state statutes, which often impose joint and several liability for cleanup costs.

With respect to known environmental sites (whether identified by NS or by the EPA or comparable state authorities), estimates of NS' ultimate potential financial exposure for a given site or in the aggregate for all such sites are necessarily imprecise because of the widely varying costs of currently available cleanup techniques, the likely development of new cleanup technologies, the difficulty of determining in advance the nature and full extent of contamination and each potential participant's share of any estimated loss (and that participant's ability to bear it), and evolving statutory and regulatory standards governing liability.

The risk of incurring environmental liability — for acts and omissions, past, present and future — is inherent in the railroad business. Some of the commodities in NS' traffic mix, particularly those classified as hazardous materials, can pose special risks that NS and its subsidiaries work diligently to minimize. In addition, several NS subsidiaries own, or have owned, land used as operating property, or which is leased or may have been leased and operated by others, or held for sale.

Because environmental problems that are latent or undisclosed may exist on these properties, there can be no assurance that NS will not incur environmentally related liabilities or costs with respect to one or more of them, the amount and materiality of which cannot be estimated reliably at this time. Moreover, lawsuits and claims involving these and other now-unidentified environmental sites and matters are likely to arise from time to time. The resulting liabilities could have a significant effect on financial condition, results of operations or liquidity in a particular year or quarter.

However, based on its assessments of the facts and circumstances now known, Management believes that it has recorded the probable costs for dealing with those environmental matters of which the Corporation is aware. Further, Management believes that it is unlikely that any identified matters, either individually or in the aggregate, will have a material adverse effect on NS' financial position, results of operations or liquidity.

Labor Agreements

Approximately 85% of NS' railroad employees are covered by collective bargaining agreements with 15 different labor unions. These agreements remain in effect until changed pursuant to the Railway Labor Act. Moratorium provisions in these agreements permitted NS and the unions to propose such changes in late 1999; negotiations at the national level commenced shortly thereafter. The outcome of these negotiations is uncertain at this time. However, an agreement was reached with the Brotherhood of Locomotive Engineers, which represents about 5,000 locomotive engineers on NS, and a tentative national agreement (subject to ratification) has been reached with the United Transportation Union, which represents about 7,500 train service employees on NS.

Inflation

Generally accepted accounting principles require the use of historical cost in preparing financial statements. This approach disregards the effects of inflation on the replacement cost of property. NS, a capital-intensive company, has most of its capital invested in such assets. The replacement cost of these assets, as well as the related depreciation expense, would be substantially greater than the amounts reported on the basis of historical cost.

Trends

■ **Federal Economic Regulation** — Efforts may be made in 2001 to re-subject the rail industry to unwarranted federal economic regulation. The Staggers Rail Act of 1980, which substantially reduced such regulation, encouraged and enabled rail carriers to innovate and to compete for business, thereby contributing to the economic health of the nation and to the revitalization of the industry. Accordingly, NS and other rail carriers vigorously will oppose these counterproductive efforts to reimpose or to authorize reimposing such economic regulation.

■ **Utility Deregulation** — Deregulation of the electrical utility industry is expected to increase competition among electric power generators; deregulation over time would permit wholesalers and possibly retailers of electric power to sell or purchase increasing quantities of power to or from far-distant parties. The effects of deregulation on NS and on its customers cannot be predicted with certainty; however, NS serves a number of efficient power producers and is working diligently to assure that its customers remain competitive in this evolving environment.

■ **Carbon-Based Fuel** — There is growing concern that emissions resulting from burning carbon-based fuel, including coal, are contributing to global warming and causing other environmental changes. To the extent that these concerns evolve into a firm consensus, the impact could be either a reduction in the demand for coal or imposition of even more stringent regulations on emissions, which might result in making coal a less economical source of power generation or make permitting of coal-fired facilities even more difficult. The revenues and net income of NSR and other railroads that move large quantities of coal could be affected adversely.

Forward-Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Annual Report contain forward-looking statements that are based on current expectations, estimates and projections. Such forward-looking statements reflect Management's good-faith evaluation of information currently available. However, because such statements are based upon and, therefore, can be influenced by, a number of external variables over which Management has no, or incomplete, control, they are not, and should not be read as being, guarantees of future performance or of actual future results; nor will they necessarily prove to be accurate indications of the times at or by which any such performance or result will be achieved. Accordingly, actual outcomes and results may differ materially from those expressed in such forward-looking statements. This caveat has particular importance in the context of all such statements that relate to the addition of new business and the ability to reduce expenses.

Consolidated Statements of Income

Norfolk Southern Corporation and Subsidiaries

	Years ended December 31,		
	2000	1999	1998
	($ in millions, except earnings per share)		
Railway operating revenues	**$ 6,159**	$ 5,242	$ 4,254
Railway operating expenses			
Compensation and benefits (Note 11)	**2,234**	1,855	1,492
Materials, services and rents	**1,445**	1,274	839
Conrail rents and services (Note 2)	**478**	311	—
Depreciation	**503**	475	437
Diesel fuel	**478**	255	174
Casualties and other claims	**142**	138	95
Other	**246**	216	165
Total railway operating expenses	**5,526**	4,524	3,202
Income from railway operations	**633**	718	1,052
Equity in earnings of Conrail (Note 2)	**—**	49	194
Other income – net (Note 3)	**168**	115	115
Interest expense on debt (Note 6)	**(551)**	(531)	(516)
Income from continuing operations before income taxes	**250**	351	845
Provision for income taxes (Note 4)	**78**	112	215
Income from continuing operations	**172**	239	630
Discontinued operations (Note 16):			
Loss from motor carrier operations, net of taxes	**—**	—	(1)
Gain on sale of motor carrier, net of taxes	**—**	—	105
Income from discontinued operations	**—**	—	104
Net income	**$ 172**	$ 239	$ 734
Earnings per share (Note 14)			
Income from continuing operations – Basic	**$ 0.45**	$ 0.63	$ 1.66
– Diluted	**$ 0.45**	$ 0.63	$ 1.65
Net income – Basic	**$ 0.45**	$ 0.63	$ 1.94
– Diluted	**$ 0.45**	$ 0.63	$ 1.93

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

Norfolk Southern Corporation and Subsidiaries

	As of December 31, 2000	1999
	($ in millions)	
Assets		
Current assets:		
Cash and cash equivalents	**$ —**	$ 37
Short-term investments	**2**	14
Accounts receivable, net (Note 5)	**411**	857
Due from Conrail (Note 2)	**31**	77
Materials and supplies	**91**	100
Deferred income taxes (Note 4)	**182**	134
Other current assets	**132**	152
Total current assets	**849**	1,371
Investment in Conrail (Note 2)	**6,154**	6,132
Properties less accumulated depreciation (Note 6)	**11,105**	10,956
Other assets	**868**	791
Total assets	**$ 18,976**	$ 19,250
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable (Note 7)	**$ 925**	$ 818
Income and other taxes	**251**	163
Notes and accounts payable to Conrail (Note 2)	**155**	184
Other current liabilities (Note 7)	**259**	256
Current maturities of long-term debt (Note 8)	**297**	503
Total current liabilities	**1,887**	1,924
Long-term debt (Note 8)	**7,339**	7,556
Other liabilities (Note 10)	**1,131**	1,101
Minority interests	**50**	50
Deferred income taxes (Note 4)	**2,745**	2,687
Total liabilities	**13,152**	13,318
Stockholders' equity:		
Common stock $1.00 per share par value, 1,350,000,000 shares authorized; issued 405,421,447 and 404,309,672 shares, respectively	**405**	404
Additional paid-in capital	**392**	372
Accumulated other comprehensive income (Note 13)	**(6)**	(11)
Retained income	**5,053**	5,187
Less treasury stock at cost, 21,363,974 and 21,627,902 shares, respectively	**(20)**	(20)
Total stockholders' equity	**5,824**	5,932
Total liabilities and stockholders' equity	**$ 18,976**	$ 19,250

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Norfolk Southern Corporation and Subsidiaries

	2000	1999	1998
		Years ended December 31, ($ in millions)	
Cash flows from operating activities			
Net income	**$ 172**	$ 239	$ 734
Reconciliation of net income to net cash provided by continuing operations:			
Depreciation	**517**	489	450
Deferred income taxes	**2**	85	114
Equity in earnings of Conrail	**(21)**	(17)	(194)
Gains and losses on properties and investments	**(160)**	(62)	(51)
Income from discontinued operations	**—**	—	(104)
Changes in assets and liabilities affecting continuing operations:			
Accounts receivable (Note 5)	**446**	(322)	33
Materials and supplies	**9**	(40)	(1)
Other current assets and due from Conrail	**60**	(50)	(16)
Current liabilities other than debt	**220**	259	(23)
Other – net (Note 11)	**97**	(48)	(50)
Net cash provided by continuing operations	**1,342**	533	892
Net cash used for discontinued operations	**—**	—	(2)
Net cash provided by operating activities	**1,342**	533	890
Cash flows from investing activities			
Property additions	**(731)**	(912)	(956)
Property sales and other transactions	**137**	104	83
Investments, including short-term	**(77)**	(126)	(156)
Investment sales and other transactions	**90**	343	155
Proceeds from sale of motor carrier	**—**	—	207
Net cash used for investing activities	**(581)**	(591)	(667)
Cash flows from financing activities			
Dividends	**(306)**	(304)	(303)
Common stock issued – net	**2**	14	34
Proceeds from borrowings	**1,055**	1,110	196
Debt repayments	**(1,549)**	(730)	(179)
Net cash provided by (used for) financing activities	**(798)**	90	(252)
Net increase (decrease) in cash and cash equivalents	**(37)**	32	(29)
Cash and cash equivalents			
At beginning of year	**37**	5	34
At end of year	**$ —**	$ 37	$ 5
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest (net of amounts capitalized)	**$ 543**	$ 520	$ 519
Income taxes	**$ 5**	$ 16	$ 76

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Stockholders' Equity

Norfolk Southern Corporation and Subsidiaries

	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Income	Treasury Stock	Total
			($ in millions, except per share amounts)			
Balance December 31, 1997	**$ 399**	**$ 241**	**$ 5**	**$ 4,821**	**$ (21)**	**$ 5,445**
Comprehensive income – 1998						
Net income				734		734
Other comprehensive income (Note 13)			(13)			(13)
Total comprehensive income						721
Dividends on Common Stock, $0.80 per share				(303)		(303)
Other	2	55			1	58
Balance December 31, 1998	**401**	**296**	**(8)**	**5,252**	**(20)**	**5,921**
Comprehensive income – 1999						
Net income				239		239
Other comprehensive income (Note 13)			(3)			(3)
Total comprehensive income						236
Dividends on Common Stock, $0.80 per share				(304)		(304)
Other	3	76				79
Balance December 31, 1999	**404**	**372**	**(11)**	**5,187**	**(20)**	**5,932**
Comprehensive income – 2000						
Net income				172		172
Other comprehensive income (Note 13)			5			5
Total comprehensive income						177
Dividends on Common Stock, $0.80 per share				(306)		(306)
Other	1	20				21
Balance December 31, 2000	**$ 405**	**$ 392**	**$ (6)**	**$ 5,053**	**$ (20)**	**$ 5,824**

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

The Following Notes are an integral part of the Consolidated Financial Statements.

1 Summary of Significant Accounting Policies

Description of Business

Norfolk Southern Corporation is a Virginia-based holding company engaged principally in the transportation of freight by rail, operating approximately 21,800 route miles primarily in the East and Midwest. These financial statements include Norfolk Southern Corporation (Norfolk Southern) and its majority-owned and controlled subsidiaries (collectively NS) on a consolidated basis. Norfolk Southern's major subsidiary is Norfolk Southern Railway Company (NSR). Financial results of a former motor carrier subsidiary, North American Van Lines, Inc. (NAVL), are reflected as "Discontinued Operations" (see Note 16). All significant intercompany balances and transactions have been eliminated in consolidation.

The railroad transports raw materials, intermediate products and finished goods classified in the following market groups (percent of total railway operating revenues): coal (23%); automotive (15%); chemicals (13%); metals/construction (11%); paper/clay/forest products (10%); agriculture/consumer products/government (10%); and intermodal (18%). Ultimate points of origination or destination for some of the freight (particularly coal bound for export and intermodal containers) are outside the United States. Approximately 85% of NS' railroad employees are covered by collective bargaining agreements with 15 different labor unions.

Through a jointly owned entity, Norfolk Southern and CSX Corporation own the stock of Conrail Inc., which owns the major Northeast freight railroad. Norfolk Southern has a 58% economic and 50% voting interest in the jointly owned entity (see Note 2).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

"Cash equivalents" are highly liquid investments purchased three months or less from maturity.

Investments

Marketable equity and debt securities are reported at amortized cost or fair value, depending upon their classification as securities "held-to-maturity," "trading" or "available-for-sale." On Dec. 31, 2000 and 1999, all "Short-term investments," consisting primarily of United States government and federal agency securities, were designated as "available-for-sale." Accordingly, unrealized gains and losses, net of taxes, are recognized in "Accumulated other comprehensive income."

Investments where NS has the ability to exercise significant influence over, but does not control, the entity are accounted for using the equity method in accordance with APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock."

Materials and Supplies

"Materials and supplies," consisting mainly of fuel oil and items for maintenance of property and equipment, are stated at the lower of average cost or market. The cost of materials and supplies expected to be used in capital additions or improvements is included in "Properties."

Properties

"Properties" are stated principally at cost and are depreciated using group depreciation. Rail is depreciated primarily on the basis of use measured by gross ton-miles. Other properties are depreciated generally using the straight-line method over the lesser of estimated service or lease lives. NS capitalizes interest on major capital projects during the period of their construction. Additions to properties, including those under lease, are capitalized. Maintenance expense is recognized when repairs are performed. When properties other than land and nonrail assets are sold or retired in the ordinary course of business, the cost of the assets, net of sale proceeds or salvage, is charged to accumulated depreciation rather than recognized through income. Gains and losses on disposal of land and nonrail assets are included in "Other income - net" (see Note 3).

NS reviews the carrying amount of properties whenever events or changes in circumstances indicate that such carrying amount may not be recoverable based on future undiscounted cash flows or estimated net realizable value. Assets that are deemed impaired as a result of such review are recorded at the lower of carrying amount or fair value.

Revenue Recognition

Revenue is recognized proportionally as a shipment moves from origin to destination. Refunds due in accordance with transportation contracts are recorded as a reduction to revenues during the life of the contract, based on Management's best estimate of projected liability.

Derivatives

NS does not engage in the trading of derivatives. NS has entered into a limited number of derivative agreements to hedge interest rate exposures on certain components of its debt portfolio. All of these derivative instruments are designated as hedges, have high correlation with the underlying exposure and are highly effective in offsetting underlying price movements. Accordingly, payments made or received under interest rate swap agreements are recorded in the income statement with the corresponding interest expense. Payments made to hedge interest rate exposure related to the anticipated issuance of debt were deferred as a reduction of the debt proceeds and are being amortized to interest expense over the life of the underlying debt.

Required Accounting Changes

Effective Oct. 1, 2000, NS adopted the consensus reached by the Emerging Issues Task Force of the Financial Accounting Standards Board (FASB) concerning Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent." The consensus presents indicators to consider in establishing the accounting for revenue. As a result of the application of the consensus, NS has reclassified to railway operating expenses certain charges that previously have been reported net with railway operating revenues. This change in reporting has no effect on income from railway operations. Prior period amounts have been reclassified to conform to the current presentation.

Effective with this Annual Report, NS has adopted the disclosure provisions of the FASB's Statement of Financial Accounting Standards (SFAS) No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," which replaced SFAS No. 125 of the same name. SFAS No. 140 revises the standards for accounting for securitizations and other transfers of financial assets and requires certain disclosures, but carries over most of the provisions of SFAS No. 125.

Reclassifications

Certain amounts in the financial statements and notes thereto have been reclassified to conform to the 2000 presentation.

2 Investment in Conrail and Operations Over Its Lines

Overview

NS and CSX Corporation (CSX) jointly own Conrail Inc. (Conrail), whose primary subsidiary is Consolidated Rail Corporation (CRC), the major freight railroad in the Northeast. From May 23, 1997, the date NS and CSX completed their acquisition of Conrail stock, until June 1, 1999, Conrail's operations continued substantially unchanged while NS and CSX awaited regulatory approvals and prepared for the integration of the respective Conrail routes and assets to be leased to their railroad subsidiaries, NSR and CSX Transportation, Inc. (CSXT). From time to time, NS and CSX, as the indirect owners of Conrail, may need to make capital contributions, loans or advances to Conrail.

Commencement of Operations

On June 1, 1999 (the "Closing Date"), NSR and CSXT began operating as parts of their respective rail systems the separate Conrail routes and assets leased to them pursuant to operating and lease agreements.

The Operating Agreement between NSR and Pennsylvania Lines LLC (PRR), a wholly owned subsidiary of CRC, governs substantially all nonequipment assets to be operated by NSR and has an initial 25-year term, renewable at the option of NSR for two five-year terms. Payments under the Operating Agreement are subject to adjustment every six years to reflect changes in values. NSR also has leased or subleased for varying terms from PRR a number of equipment assets. Costs necessary to operate and maintain the PRR assets, including leasehold improvements, are borne by NSR. CSXT has entered into comparable arrangements, for the operation and use of certain other CRC routes and assets, with another wholly owned CRC subsidiary.

NSR and CSXT also have entered into agreements with CRC governing other Conrail properties that continue to be owned and operated by Conrail (the "Shared Assets Areas"). NSR and CSXT pay CRC a fee for joint and exclusive access to the Shared Assets Areas. In addition, NSR and CSXT pay, based on usage, the costs incurred by CRC to operate the Shared Assets Areas.

Future minimum lease payments due to PRR under the Operating Agreement and lease agreements and to CRC under the Shared Assets Areas (SAA) agreements are as follows:

($ in millions)	PRR Oper. Agmt.	PRR Lease Agmts.	SAA Agmts.
2001	$ 178	$ 126	$ 24
2002	196	119	27
2003	217	105	30
2004	238	89	32
2005	246	71	34
2006 and subsequent years	4,776	229	652
Total	$5,851	$ 739	$ 799

Operating lease expense related to the agreements, which is included in "Conrail rents and services," amounted to $502 million in 2000 and $273 million in 1999.

On the Closing Date, both NS' railroad route miles and its railroad employees increased approximately 50 percent. NSR and CSXT now provide substantially all rail freight services on Conrail's route system, perform or are responsible for performing most services incident to customer freight contracts and employ the majority of Conrail's former work force. As a result, NSR began to receive all freight revenues and incur all expenses on the PRR lines.

Investment in Conrail

NS is applying the equity method of accounting to its investment in Conrail in accordance with APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock."

NS is amortizing the excess of the purchase price over Conrail's net equity using the principles of purchase accounting, based primarily on the estimated remaining useful lives of Conrail's property and equipment, including the related deferred tax effect of the differences in tax and accounting bases for certain assets. At Dec. 31, 2000, the difference between NS' investment in Conrail and its share of Conrail's underlying net equity was $3.8 billion.

NS' consolidated balance sheet at Dec. 31, 2000, includes $116 million of liabilities related to the Conrail transaction, principally for contractual obligations to Conrail employees imposed by the STB when it approved the transaction. Through Dec. 31, 2000, NS had paid $71 million of these costs.

Effective June 1, 1999, NS' consolidated financial statements include the consolidated financial position and results of Triple Crown Services Company (TCS), a partnership in which subsidiaries of NS and PRR are partners.

Related-Party Transactions

Until the Closing Date, NSR and CRC had transactions with each other in the customary course of handling interline traffic. As of Dec. 31, 2000, substantially all of the amounts receivable or payable related to these transactions had been satisfied.

NS provides certain general and administrative support functions to Conrail, the fees for which are billed in accordance with several service-provider arrangements.

"Conrail rents and services," a new line on the income statements beginning June 1, 1999, includes: (1) expenses for amounts due to PRR and CRC for use by NSR of operating properties and equipment, operation of the Shared Assets Areas and continued operation of certain facilities during a transition period; and (2) NS' equity in the earnings (or loss) of Conrail, net of amortization.

"Notes and accounts payable to Conrail" includes $51 million at Dec. 31, 2000, and $123 million at Dec. 31, 1999, of interest-bearing loans made to NS by a PRR subsidiary that are payable on demand. The interest rate for these loans is variable and was 5.9% at Dec. 31, 2000. Also included is $104 million at Dec. 31, 2000, and $61 million at Dec. 31, 1999, due to PRR and CRC related to expenses included in "Conrail rents and services," as discussed above.

Summary Financial Information – Conrail

The following summary financial information should be read in conjunction with Conrail's audited financial statements, included as an exhibit to NS' Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Through May 31, 1999, Conrail's results of operations include freight line-haul revenues and related expenses. After the Closing Date, June 1, 1999, its results reflect its new structure and operations. Currently, Conrail's major sources of operating revenues are from NSR and CSXT. The composition of Conrail's operating expenses also has changed.

Summarized Consolidated Statements of Income – Conrail

($ in millions)	2000	1999	1998
Operating revenues	$ 985	$2,174	$3,863
Operating expenses	749	2,046	3,348
Operating income	236	128	515
Other – net	31	(83)	(81)
Income before income taxes	267	45	434
Provision for income taxes	97	19	167
Net income	$ 170	$ 26	$ 267

Note: Conrail's results for 2000 included gains from the sale of property that had been written up to fair market value in the allocation of NS' investment in Conrail. Accordingly, the gains related to that fair-value write-up, totaling $17 million after taxes, were excluded in determining NS' equity in Conrail's net income. Conrail's results in 1999 included after-tax expenses of $121 million, principally: (1) to increase certain components of its casualty reserves based on an actuarial valuation, (2) to adjust certain litigation and environmental reserves related to settlements and completion of site reviews and (3) to adjust a credit related to the assumption of a lease obligation by CSX. Conrail's results in 1998 included a $187 million after-tax charge, primarily for estimated severance obligations to nonunion employees. These 1999 and 1998 items were considered in the allocation of NS' investment in Conrail to the fair values of Conrail's assets and liabilities and, accordingly, were excluded in determining NS' equity in Conrail's net income.

Summarized Consolidated Balance Sheets – Conrail

($ in millions)	December 31, 2000	1999
Assets:		
Current assets	$ 520	$ 669
Noncurrent assets	7,540	7,714
Total assets	$ 8,060	$ 8,383
Liabilities and stockholders' equity:		
Current liabilities	$ 435	$ 863
Noncurrent liabilities	3,643	3,701
Stockholders' equity	3,982	3,819
Total liabilities and stockholders' equity	$ 8,060	$ 8,383

3 Other Income — Net

($ in millions)	2000	1999	1998
Income from natural resources:			
Gains from sale of timber, oil and gas rights and interests	$101	$ —	$ —
Royalties from coal	55	59	57
Nonoperating depletion and depreciation	(13)	(14)	(13)
Subtotal	143	45	44
Gains from sale of properties and investments	59	62	51
Rental income	40	34	26
Interest income	11	8	12
Other interest expense	(39)	(30)	(21)
Sale of accounts receivable (Note 5)	(23)	—	—
Taxes on nonoperating property	(9)	(7)	(4)
Corporate-owned life insurance – net	—	(3)	11
Other – net	(14)	6	(4)
Total	$ 168	$ 115	$ 115

"Other current assets" in the Consolidated Balance Sheets includes prepaid interest on corporate-owned life insurance borrowings of $43 million at Dec. 31, 2000, and $37 million at Dec. 31, 1999.

4 Income Taxes

Provision for Income Taxes

($ in millions)	2000	1999	1998
Current:			
Federal	$ 65	$ 18	$ 89
State	11	9	12
Total current taxes	76	27	101
Deferred:			
Federal	1	78	100
State	1	7	14
Total deferred taxes	2	85	114
Provision for income taxes	$ 78	$ 112	$ 215

Reconciliation of Statutory Rate to Effective Rate

Total income taxes as reflected in the Consolidated Statements of Income differ from the amounts computed by applying the statutory federal corporate tax rate as follows:

($ in millions)	2000 Amount	2000 %	1999 Amount	1999 %	1998 Amount	1998 %
Federal income tax at statutory rate	$ 87	35	$ 123	35	$ 296	35
State income taxes, net of federal tax benefit	8	3	10	3	17	2
Equity in earnings of Conrail	(7)	(3)	(6)	(2)	(68)	(8)
Corporate-owned life insurance	(2)	(1)	1	—	(11)	(1)
Other – net	(8)	(3)	(16)	(4)	(19)	(3)
Provision for income taxes	$ 78	31	$ 112	32	$ 215	25

Deferred Tax Assets and Liabilities

Certain items are reported in different periods for financial reporting and income tax purposes. Deferred tax assets and liabilities are recorded in recognition of these differences.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

	December 31,	
($ in millions)	2000	1999
Deferred tax assets:		
Reserves, including casualty and other claims	$ 158	$ 168
Employee benefits	104	111
Retiree health and death benefit obligation	139	127
Taxes, including state and property	200	174
Other	28	42
Total gross deferred tax assets	629	622
Less valuation allowance	(12)	(9)
Net deferred tax assets	617	613
Deferred tax liabilities:		
Property	(3,117)	(3,093)
Other	(63)	(73)
Total gross deferred tax liabilities	(3,180)	(3,166)
Net deferred tax liability	(2,563)	(2,553)
Net current deferred tax assets	182	134
Net long-term deferred tax liability	$ (2,745)	$ (2,687)

Except for amounts for which a valuation allowance has been provided, Management believes the other deferred tax assets will be realized. The total valuation allowance increased $3 million in 2000, $6 million in 1999 and $1 million in 1998.

Internal Revenue Service (IRS) Reviews

Consolidated federal income tax returns have been examined and Revenue Agent Reports have been received for all years up to and including 1996. The consolidated federal income tax returns for 1997, 1998 and 1999 are being audited by the IRS. Management believes that adequate provision has been made for any additional taxes and interest thereon that might arise as a result of IRS examinations.

5 Accounts Receivable

Beginning in May 2000, a bankruptcy-remote special purpose subsidiary of NS sold without recourse undivided ownership interests in a pool of accounts receivable totaling approximately $700 million. Upon commencement of this program, NS received cash proceeds of $460 million. The buyers have a priority collection interest in the entire pool of receivables, and as a result, NS has retained credit risk to the extent the pool exceeds the amount sold. NS services and collects the receivables on behalf of the buyers; however, no servicing asset or liability has been recognized because the benefits of servicing are estimated to be just adequate to compensate NS for its responsibilities. Payments collected from sold receivables are reinvested in new accounts receivable on behalf of the buyers.

At Dec. 31, 2000, $388 million had been sold under this arrangement and, therefore, is not included in "Accounts receivable, net," on the consolidated balance sheet. The fees associated with the sale, which are based on the buyers' financing costs, are included in "Other income - net" (see Note 3). NS' retained interest, which is included in "Accounts receivable, net," is recorded at fair value using estimates of dilution based on NS' historical experience. These estimates are adjusted regularly based on NS' actual experience with the pool, including defaults and credit deterioration. NS has historically experienced very low levels of default, and as a result, little dilution. If historical dilution percentages were to increase one percentage point, the value of NS' retained interest would be reduced by approximately $7 million.

NS' allowance for doubtful accounts was $7 million at Dec. 31, 2000, and $5 million at Dec. 31, 1999.

6 Properties

	December 31,		Depreciation
($ in millions)	2000	1999	Rate for 2000
Railway property:			
Road	$ 10,078	$ 9,681	2.9%
Equipment	5,588	5,577	4.1%
Other property	653	627	3.3%
	16,319	15,885	
Less: Accumulated depreciation	5,214	4,929	
Net properties	$ 11,105	$ 10,956	

Equipment includes $592 million at Dec. 31, 2000, and $593 million at Dec. 31, 1999, of assets recorded pursuant to capital leases. Other property includes the costs of obtaining rights to natural resources of $341 million at Dec. 31, 2000, and $349 million at Dec. 31, 1999.

Capitalized Interest

Total interest cost incurred on debt in 2000, 1999 and 1998 was $569 million, $546 million and $537 million, respectively, of which $18 million, $15 million and $21 million was capitalized.

7 Current Liabilities

($ in millions)	December 31, 2000	1999
Accounts payable:		
Accounts and wages payable	**$ 427**	$ 354
Casualty and other claims	**223**	181
Equipment rents payable – net	**134**	135
Vacation liability	**117**	124
Other	**24**	24
Total	**$ 925**	$ 818
Other current liabilities:		
Interest payable	**$ 131**	$ 123
Accrued Conrail-related costs (Note 2)	**47**	56
Liabilities for forwarded traffic	**40**	37
Retiree health and death benefit obligation (Note 11)	**24**	24
Other	**17**	16
Total	**$ 259**	$ 256

8 Debt

Shelf Registration

NS has filed with the Securities and Exchange Commission a shelf registration statement on Form S-3 covering the issuance of up to $1 billion of securities. As of Dec. 31, 2000, NS had not issued any securities under this shelf registration; however, NS expected to issue debt in February 2001 and use the proceeds to reduce the amount of commercial paper outstanding.

Long-Term Debt

($ in millions)	December 31, 2000	1999
Commercial paper at an average rate of 7.0%	**$ 1,132**	$ 1,722
Notes at average rates and maturities as follows:		
6.93%, maturing 2001 to 2002	**700**	1,100
7.52%, maturing 2004 to 2010	**2,200**	1,600
8.10%, maturing 2017 to 2021	**800**	800
7.80%, maturing 2027	**800**	800
7.05%, maturing 2037	**750**	750
7.90%, maturing 2097	**350**	350
Equipment obligations at an average rate of 6.7%, maturing to 2014	**473**	548
Capitalized leases at an average rate of 7.2%, maturing to 2015	**343**	382
Other debt at an average rate of 7.4%, maturing to 2019	**119**	35
Discounts and premiums, net	**(31)**	(28)
Total long-term debt	**7,636**	8,059
Current maturities	**(297)**	(503)
Long-term debt less current maturities	**$ 7,339**	$ 7,556
Long-term debt matures as follows:		
2002	**$ 593**	
2003	**92**	
2004	**335**	
2005	**388**	
2006 and subsequent years	**5,931**	
Total	**$ 7,339**	

Each holder of a 2037 note may require NS to redeem all or part of the note at face value, plus accrued and unpaid interest, on May 1, 2004.

The railroad equipment obligations and the capitalized leases are secured by liens on the underlying equipment.

Commercial Paper

Commercial paper debt is due within one year, but has been classified as long-term because NS has the ability through a $2.0 billion credit agreement to convert this obligation into longer-term debt. The credit agreement expires in 2002 and provides for interest on borrowings at prevailing rates. NS intends to refinance the commercial paper either by issuing additional commercial paper or by replacing commercial paper notes with long-term debt.

Capital Lease Obligations

During 1998, NSR entered into capital leases covering new locomotives. The related capital lease obligations, totaling $127 million, were reflected in the Consolidated Balance Sheets as debt and, because they were noncash transactions, were excluded from the Consolidated Statements of Cash Flows.

These and certain other lease obligations require the maintenance of a yen-denominated deposit, which is pledged to the lessor to satisfy yen-denominated lease payments. They carry an average stated interest rate of 7.1%, but were effectively converted to variable rate obligations using interest rate swap agreements. The interest rates on the swap obligations are based on the six-month London Interbank Offered Rate and are reset every six months with changes in interest rates accounted for as an adjustment of interest expense over the terms of the leases. As of Dec. 31, 2000, the notional amount of the swap agreements was $253 million, and the average interest rate was 7.2%. As a result, NS is exposed to the market risk associated with fluctuations in interest rates. To date, the effects of the rate fluctuations have been favorable and not material. Counterparties to the interest rate swap agreements are major financial institutions believed by Management to be creditworthy.

Debt Covenants

NS is subject to various financial covenants with respect to its debt and under its credit agreement, including a minimum net worth requirement, a maximum leverage ratio restriction and certain restrictions on issuance of further debt. At Dec. 31, 2000, NS was in compliance with all debt covenants.

9 Lease Commitments

NS is committed under long-term lease agreements, which expire on various dates through 2067, for equipment, lines of road and other property. The following amounts do not include payments to PRR under the Operating Agreement and lease agreements or to CRC under the SAA agreements (see Note 2). Future minimum lease payments and operating lease expense, other than to PRR and CRC, are as follows:

($ in millions)	Operating Leases	Capital Leases
2001	$ 107	$ 47
2002	94	46
2003	84	46
2004	69	46
2005	62	44
2006 and subsequent years	512	190
Total	$ 928	419
Less imputed interest on capital leases at an average rate of 7.1%		76
Present value of minimum lease payments included in debt		$ 343

Operating Lease Expense

($ in millions)	2000	1999	1998
Minimum rents	$ 167	$ 118	$ 75
Contingent rents	61	61	40
Total	$ 228	$ 179	$ 115

During 2000, NS entered into an operating lease for 140 locomotives, which is renewable annually, has a maximum term of eight years and includes purchase options. If NS does not purchase the locomotives at the end of the maximum lease term, it is liable for any shortfall in the then fair-value of the locomotives and a specified residual value. NS does not expect to be required to make any payments under this provision.

10 Other Liabilities

($ in millions)	December 31, 2000	1999
Retiree health and death benefit obligation (Note 11)	$ 291	$ 261
Casualty and other claims	262	275
Deferred compensation	148	142
Net pension obligations (Note 11)	83	74
Accrued Conrail-related costs (Note 2)	72	102
Other	275	247
Total	$ 1,131	$ 1,101

11 Pensions and Other Postretirement Benefits

Norfolk Southern and certain subsidiaries have both funded and unfunded defined benefit pension plans covering principally salaried employees. Norfolk Southern and certain subsidiaries also provide specified health care and death benefits to eligible retired employees and their dependents. Under the present plans, which may be amended or terminated at NS' option, a defined percentage of health care expenses is covered, reduced by any deductibles, copayments, Medicare payments and, in some cases, coverage provided under other group insurance policies.

Early Retirement Programs

During 2000, NS offered two voluntary early retirement programs to its salaried employees. The principal incentives offered in these programs were enhanced pension benefits, the cost for most of which will be paid from NS' overfunded pension plan. A February program was accepted by 919 of 1,180 eligible employees, and a December program was accepted by 370 of 846 eligible employees. The total cost of these programs, which is included in "Compensation and benefits," was $133 million. The resulting noncash reduction to NS' pension plan asset is included in "Other - net" in the Consolidated Statement of Cash Flows.

($ in millions)	Pension Benefits 2000	Pension Benefits 1999	Other Benefits 2000	Other Benefits 1999
Change in benefit obligations				
Benefit obligation at beginning of year	**$1,058**	$1,063	**$ 340**	$ 362
Cost of early retirement benefits	**119**	—	**14**	—
Increase related to former Conrail employees	**—**	68	**—**	—
Service cost	**18**	17	**15**	11
Interest cost	**79**	73	**27**	23
Amendment	**21**	—	**—**	—
Actuarial (gains) losses	**120**	(92)	**79**	(33)
Benefits paid	**(103)**	(71)	**(30)**	(23)
Benefit obligation at end of year	**1,312**	1,058	**445**	340
Change in plan assets				
Fair value of plan assets at beginning of year	**2,072**	1,544	**152**	139
Transfer of assets from Conrail plan	**—**	352	**—**	—
Actual return on plan assets	**30**	250	**(5)**	21
Employer contribution	**8**	4	**9**	15
401(h) account transfer	**(8)**	(7)	**—**	—
Benefits paid	**(103)**	(71)	**(30)**	(23)
Fair value of plan assets at end of year	**1,999**	2,072	**126**	152
Funded status	**687**	1,014	**(319)**	(188)
Unrecognized initial net asset	**(3)**	(10)	**—**	—
Unrecognized (gain) loss	**(478)**	(799)	**4**	(97)
Unrecognized prior service cost (benefit)	**47**	40	**—**	—
Net amount recognized	**$ 253**	$ 245	**$ (315)**	$ (285)
Amounts recognized in the Consolidated Balance Sheets consist of:				
Prepaid benefit cost	**$ 315**	$ 298	**$ —**	$ —
Accrued benefit liability	**(83)**	(74)	**(315)**	(285)
Accumulated other comprehensive income	**21**	21	**—**	—
Net amount recognized	**$ 253**	$ 245	**$ (315)**	$ (285)

Of the pension plans included above, the unfunded pension plans were the only plans with an accumulated benefit obligation in excess of plan assets. These plans' accumulated benefit obligations were $83 million at Dec. 31, 2000, and $74 million at Dec. 31, 1999. These plans' projected benefit obligations were $89 million at Dec. 31, 2000, and $76 million at Dec. 31, 1999. Because of the nature of such plans, there are no plan assets.

NS received Section 401(h) account transfers, from pension assets, of $8 million in 2000 and $7 million in 1999 as reimbursement for medical payments for retirees.

As a result of the commencement of operations over Conrail's lines (see Note 2), NS hired a substantial portion of Conrail's former work force. In August 1999, NS assumed certain pension obligations related to those employees. These obligations, along with pension plan assets in excess of the obligations, were transferred to the NS plans in 1999. This transfer resulted in an increase to NS' pension plan asset and a corresponding decrease in NS' investment in Conrail.

NS amended its qualified pension plan, effective Oct. 1, 2000, to allow for the payment of qualifying disability benefits. The amendment increased the pension benefit obligation by $21 million at Dec. 31, 2000.

Pension and other postretirement benefit costs are determined based on actuarial valuations that reflect appropriate assumptions as of the measurement date, ordinarily the beginning of each year. The funded status of the plans is determined using appropriate assumptions as of each year end. During 1999, NS received assets from the Conrail pension plan and assumed certain related liabilities. As a result, the measurement dates for determining pension costs were Jan. 1, 1999, and Aug. 31, 1999; the costs reflect discount rates of 6.75% and 7.75%, respectively, and other assumptions appropriate at those dates.

A summary of the major assumptions follows:

	2000	1999	1998
Funded status:			
Discount rate	**7.5%**	7.75%	6.75%
Future salary increases	**5%**	5%	5%
Pension cost:			
Discount rate	**7.75%**	6.75%	7.25%
Return on assets in plans	**10%**	10%	9%
Future salary increases	**5%**	5%	5.25%

Pension and Other Postretirement Benefit Costs Components

($ in millions)	2000	1999	1998
Pension benefits			
Service cost	**$ 18**	$ 17	$ 13
Interest cost	**79**	73	67
Cost of early retirement programs	**119**	—	—
Expected return on plan assets	**(192)**	(152)	(106)
Amortization of prior service cost	**4**	4	1
Amortization of initial net asset	**(7)**	(7)	(7)
Recognized net actuarial (gain) loss	**(38)**	(22)	(12)
Net cost (benefit)	**$ (17)**	$ (87)	$ (44)
Other postretirement benefits			
Service cost	**$ 15**	$ 11	$ 10
Interest cost	**27**	23	24
Cost of early retirement programs	**14**	—	—
Expected return on plan assets	**(14)**	(12)	(9)
Amortization of prior service cost	**—**	(12)	(12)
Recognized net actuarial (gain) loss	**(4)**	(2)	(2)
Net cost	**$ 38**	$ 8	$ 11

For measurement purposes, increases in the per capita cost of covered health care benefits were assumed to be 7.0% for 2001 and 7.5% for 2000. It is assumed the rate will decrease gradually to an ultimate rate of 5.0% for 2003 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported in the financial statements. To illustrate, a one-percentage-point change in the assumed health care cost trend would have the following effects:

($ in millions)	One percentage point Increase	Decrease
Increase (decrease) in:		
Total service and interest cost components	$ 5	$ (4)
Postretirement benefit obligation	$ 35	$(30)

Under collective bargaining agreements, NS and certain subsidiaries participate in a multi-employer benefit plan, which provides certain postretirement health care and life insurance benefits to eligible union employees. Premiums under this plan are expensed as incurred and amounted to $7 million in 2000 and $5 million in both 1999 and 1998.

401(k) Plans

Norfolk Southern and certain subsidiaries provide 401(k) savings plans for employees. Under the plans, NS matches a portion of employee contributions, subject to applicable limitations. Since 1999, NS has issued shares of Common Stock to fund its contributions. NS' expenses under these plans were $12 million in both 2000 and 1999 and $10 million in 1998.

In November 1999, NS issued and contributed to eligible participants' accounts approximately 2 million shares of Norfolk Southern Common Stock in connection with a temporary special work incentive program available to its unionized employees during much of the third quarter of 1999. The cost of the program, which was charged to compensation and benefits expenses, was $49 million.

12 Stock-Based Compensation

Under the stockholder-approved Long-Term Incentive Plan (LTIP), a committee of nonemployee directors of the Board may grant stock options, stock appreciation rights (SARs), restricted stock and performance share units (PSUs), up to a maximum 53,025,000 shares of Norfolk Southern Common Stock ("Common Stock"). Under the Board-approved Thoroughbred Stock Option Plan (TSOP), the committee may grant stock options up to a maximum of 6,000,000 shares of Common Stock. Options may be granted for a term not to exceed 10 years, but may not be exercised prior to the first anniversary of the date of grant. Options are exercisable at the fair market value of Common Stock on the date of grant.

The LTIP also permits the payment — on a current or a deferred basis and in cash or in stock — of dividend equivalents on shares of Common Stock covered by options or PSUs in an amount commensurate with dividends paid on Common Stock. Tax absorption payments also are authorized in amounts estimated to equal the federal and state income taxes applicable to shares of Common Stock issued subject to a share retention agreement.

Accounting Method

NS applies APB Opinion 25 and related interpretations in accounting for awards made under the plans. Accordingly, grants of PSUs, restricted stock, dividend equivalents, tax absorption payments and SARs result in charges to net income, while grants of stock options have no effect on net income. Related compensation costs were $5 million in 2000, $2 million in 1999 and $25 million in 1998. NS recognized additional paid-in capital of $4 million in 1999 and $10 million in 1998 related to the tax benefit generated by stock option exercises.

Had such compensation costs been determined in accordance with SFAS 123, net income would have been $149 million in 2000, $210 million in 1999 and $718 million in 1998; basic earnings per share would have been $0.39 in 2000, $0.55 in 1999 and $1.90 in 1998; and diluted earnings per share would have been $0.39 in 2000, $0.55 in 1999 and $1.89 in 1998. These pro forma amounts include compensation costs as calculated using the Black-Scholes option-pricing model, with average expected option lives of five years for 2000 grants, four years for 1999 grants and five years for 1998 grants; average risk-free interest rates of 6.8% in 2000, 5.2% in 1999 and 5.5% in 1998; average stock-price volatilities of 33% in 2000, 21% in 1999 and 15% in 1998; and dividend yields ranging from 0% to 3%. These assumptions produce per-share grant-date fair values of $5.22 in 2000, $5.12 in 1999 and $8.82 in 1998.

Stock Option Activity

	Option Shares	Weighted Average Exercise Price
Balance 12/31/97	11,373,418	$ 22.32
Granted	3,625,000	32.16
Exercised	(1,908,370)	19.22
Canceled	(31,000)	29.46
Balance 12/31/98	13,059,048	25.48
Granted	9,150,400	30.09
Exercised	(859,085)	17.10
Canceled	(234,000)	29.84
Balance 12/31/99	21,116,363	27.77
Granted	7,705,800	16.94
Exercised	(273,813)	13.95
Canceled	(427,400)	26.84
Balance 12/31/00	28,120,950	$24.96

Of the total options outstanding at Dec. 31, 2000, 20 million were vested and have a weighted-average exercise price of $27.97.

Stock Options Outstanding

Exercise Price Range	Weighted Average	Number Outstanding at 12/31/00	Weighted Average Remaining Contractual Life
$14.25 to $16.94	$16.82	8,037,350	8.7 years
18.81 to 21.08	20.43	3,059,750	2.7 years
24.31 to 27.69	26.81	7,988,100	6.7 years
29.46 to 33.25	32.09	9,035,750	7.3 years
$14.25 to $33.25	$24.96	28,120,950	7.0 years

Performance Share Units

PSUs provide for awards based on achievement of certain predetermined corporate performance goals at the end of a three-year cycle. PSU grants and average grant-date fair market values were 937,500 and $16.94 in 2000; 850,000 and $27.72 in 1999; and 565,500 and $32.16 in 1998, respectively. PSUs may be paid in the form of shares of Common Stock, cash or any combination thereof. Shares earned and issued may be subject to share retention agreements and held by NS for up to five years.

Shares Available and Issued

Shares of stock available for future grants and issued in connection with all features of the LTIP and TSOP are as follows:

	2000	1999	1998
Available for future grants 12/31:			
LTIP	2,554,584	10,512,997	16,233,600
TSOP	2,488,700	2,349,600	—
Shares of Common Stock issued:			
LTIP	395,626	1,086,288	2,212,323
TSOP	—	—	—

13 Stockholders' Equity

Accumulated Other Comprehensive Income

"Accumulated other comprehensive income" reported in "Stockholders' equity" included the following net-of-tax amounts: unrealized gains on securities of $7 million at Dec. 31, 2000, and $2 million at Dec. 31, 1999; and minimum pension liability of $13 million at each of Dec. 31, 2000, and Dec. 31, 1999. "Other comprehensive income" reported in the Consolidated Statements of Changes in Stockholders' Equity consisted of the following:

($ in millions)	2000	1999	1998
Unrealized gains on securities	$ 7	$ (6)	$ 1
Minimum pension liability	–	2	(23)
Income taxes	(2)	1	9
Other comprehensive income	$ 5	$ (3)	$ (13)

"Unrealized gains on securities" included reclassification adjustments for gains realized in income from the sale of the securities of less than $1 million in each year.

Undistributed Earnings of Equity Investees

"Retained income" includes undistributed earnings of equity investees, principally attributable to NS' equity in the earnings of Conrail, of $351 million at Dec. 31, 2000; $330 million at Dec. 31, 1999; and $314 million at Dec. 31, 1998.

14 Earnings Per Share

The following table sets forth the calculation of basic and diluted earnings per share:

($ in millions except per share, shares in millions)	2000	1999	1998
Basic earnings per share:			
Income available to common stockholders for basic and diluted computations	$ 172	$ 239	$ 734
Weighted-average shares outstanding	383	381	379
Basic earnings per share	$0.45	$0.63	$1.94
Diluted earnings per share:			
Weighted-average shares outstanding per above	383	381	379
Dilutive effect of outstanding options, PSUs and SARs (as determined by the application of the treasury stock method)	—	1	2
Adjusted weighted-average shares outstanding	383	382	381
Diluted earnings per share	$0.45	$0.63	$1.93

These calculations exclude options the exercise price of which exceeded the average market price of Common Stock as follows: in 2000, 28 million in the fourth, third and first quarters, and 20 million in the second quarter; in 1999, 17 million in the fourth quarter, 9 million in the third quarter, 7 million in the second quarter and 5 million in the first quarter; and in 1998, 4 million in the fourth and third quarters.

There are no adjustments to "Net income" or "Income from continuing operations" for the diluted earnings per share computations.

15 Fair Values of Financial Instruments

The fair values of "Cash and cash equivalents," "Short-term investments," "Accounts receivable," "Short-term debt" and "Accounts payable" approximate carrying values because of the short maturity of these financial instruments. The fair value of corporate-owned life insurance approximates carrying value. The carrying amounts and estimated fair values for the remaining financial instruments, excluding investments accounted for under the equity method in accordance with APB Opinion No. 18, consisted of the following at Dec. 31:

	2000		1999	
($ in millions)	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Investments	**$ 142**	**$ 149**	$ 49	$ 54
Long-term debt	**(7,636)**	**(7,809)**	(8,058)	(7,980)
Interest rate swaps	**—**	**5**	—	4

Quoted market prices were used to determine the fair value of marketable securities; underlying net assets were used to estimate the fair value of other investments. The fair values of debt were estimated based on quoted market prices or discounted cash flows using current interest rates for debt with similar terms, company rating and remaining maturity. The fair value of interest rate swaps was estimated based on discounted cash flows, reflecting the difference between estimated future variable-rate payments and future fixed-rate receipts.

Carrying amounts of marketable securities reflect unrealized holding gains of $11 million on Dec. 31, 2000, and $3 million on Dec. 31, 1999. Sales of "available-for-sale" securities were immaterial for years ended Dec. 31, 2000 and 1999.

16 Discontinued Operations — Motor Carrier

On March 28, 1998, NS sold all the common stock of North American Van Lines, Inc. (NAVL), its motor carrier subsidiary. Total proceeds from the sale were $207 million, resulting in a $90 million pretax gain ($105 million, or 28 cents per basic and diluted share, after taxes). The higher after-tax gain was the result of differences between book and tax bases and the realization of deferred tax benefits.

NAVL's results of operations, financial position and cash flows are presented as "Discontinued operations" in the accompanying financial statements. A summary of NAVL's results of operations follows:

($ in millions)	1998
Motor carrier revenues	$ 207
Motor carrier expenses	208
Loss from operations	(1)
Gain on sale, net of taxes	105
Income from discontinued operations	$ 104
Earnings per share (basic and diluted) from discontinued operations	$ 0.28

17 Commitments and Contingencies

Lawsuits

Norfolk Southern and certain subsidiaries are defendants in numerous lawsuits relating principally to railroad operations. While the final outcome of these lawsuits cannot be predicted with certainty, it is the opinion of Management, based on known facts and circumstances, that the amount of NS' ultimate liability is unlikely to have a material adverse effect on NS' financial position, results of operations or liquidity.

Environmental Matters

NS is subject to various jurisdictions' environmental laws and regulations. It is NS' policy to record a liability where such liability or loss is probable and its amount can be estimated reasonably. Claims, if any, against third parties for recovery of cleanup costs incurred by NS are reflected as receivables in the balance sheet and are not netted against the associated NS liability. Environmental engineers regularly participate in ongoing evaluations of all identified sites and in determining any necessary adjustments to initial liability estimates. NS also has established an Environmental Policy Council, composed of senior managers, to oversee and interpret its environmental policy.

As of Dec. 31, 2000, NS' balance sheet included a reserve for environmental exposures in the amount of $36 million (of which $8 million is accounted for as a current liability), which is NS' estimate of the probable cleanup and remediation costs based on available information at 125 identified locations. On that date, 10 sites accounted for $18 million of the reserve, and no individual site was considered to be material. NS anticipates that much of this liability will be paid out over five years; however, some costs will be paid out over a longer period.

At some of the 125 locations, certain NS subsidiaries, usually in conjunction with a number of other parties, have been identified as potentially responsible parties by the Environmental Protection Agency (EPA) or similar state authorities under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, or comparable state statutes, which often impose joint and several liability for cleanup costs.

With respect to known environmental sites (whether identified by NS or by the EPA or comparable state authorities), estimates of NS' ultimate potential financial exposure for a given site or in the aggregate for all such sites are necessarily imprecise because of the widely varying costs of currently available cleanup techniques, the likely development of new cleanup technologies, the difficulty of determining in advance the nature and full extent of contamination and each potential participant's share of any estimated loss (and that participant's ability to bear it), and evolving statutory and regulatory standards governing liability.

The risk of incurring environmental liability — for acts and omissions, past, present and future — is inherent in the railroad business. Some of the commodities in NS' traffic mix, particularly those classified as hazardous materials, can pose special risks that NS and its subsidiaries work diligently to minimize. In addition, several NS subsidiaries own, or have owned, land used as operating property, or which is leased or may have been leased and operated by others, or held for sale. Because environmental problems may exist on these properties that are latent or undisclosed, there can be no assurance that NS will not incur environmentally related liabilities or costs with respect to one or more of them, the amount and materiality of which cannot be estimated reliably at this time. Moreover, lawsuits and claims involving these and other now-unidentified environmental sites and matters are likely to arise from time to time. The resulting liabilities could have a significant effect on financial condition, results of operations or liquidity in a particular year or quarter.

However, based on its assessments of the facts and circumstances now known, Management believes that it has recorded the probable costs for dealing with those environmental matters of which the Corporation is aware. Further, Management believes that it is unlikely that any identified matters, either individually or in the aggregate, will have a material adverse effect on NS' financial position, results of operations or liquidity.

Purchase Commitment

NSR committed in 2000 to purchase 160 locomotives in 2001. Some of the locomotives were received and paid for in 2000, and the remainder will be delivered in the first half of 2001. NSR expects to finance the purchase of these locomotives with proceeds from the sale of equipment trust certificates.

Change-In-Control Arrangements

Norfolk Southern has compensation agreements with officers and certain key employees that become operative only upon a change in control of the Corporation, as defined in those agreements. The agreements provide generally for payments based on compensation at the time of a covered individual's involuntary or other specified termination and for certain other benefits.

Debt Guarantees

As of Dec. 31, 2000, certain Norfolk Southern subsidiaries are contingently liable as guarantors with respect to $8 million of indebtedness of related entities.

Report of Management

Norfolk Southern Corporation and Subsidiaries

January 23, 2001

To the Stockholders
Norfolk Southern Corporation:

Management is responsible for the preparation and content of the financial statements included in this annual report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and reflect Management's judgments and estimates concerning effects of events and transactions that are accounted for or disclosed. The financial information contained in other sections of this annual report is consistent with that contained in the financial statements.

Norfolk Southern Corporation and its subsidiaries maintain accounting systems that are supported by internal accounting controls. These systems and controls provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with Management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. The concept of reasonable assurance is based on the recognition that the cost of a system of internal accounting control should not exceed its benefits. A staff of experienced and highly trained internal auditors conducts audit procedures designed to test compliance with internal controls. Results of audit efforts and actions are communicated to appropriate Management, including the Chairman, President and Chief Executive Officer, and to the Audit Committee of the Board of Directors.

Norfolk Southern Corporation and its subsidiaries have established their intent to maintain the highest standards of ethical conduct in all their business activities. Internal accounting and operating control policies, as well as a corporate code of conduct, are documented and communicated to all levels of Management. Adherence to these policies and procedures and this code is continuously being evaluated by a thorough, coordinated effort of internal audit staff and independent auditors.

The Audit Committee of the Board of Directors is composed solely of independent nonemployee directors. The Committee meets periodically with the Vice President-Internal Audit and the independent auditors to review and discuss audit findings and other accounting and financial matters. Matters reviewed include the annual audit plan and the accounting policies of Norfolk Southern Corporation and its subsidiaries, conflict of interest policy, internal control systems, and financial operations and reporting.

KPMG LLP, a firm of independent public accountants, has been engaged to audit and render an opinion on the consolidated financial statements. As independent auditors, they also provide an objective, outside review of Management's report of operating results and financial condition. Working with the internal auditors, they review internal accounting controls and make tests as appropriate of the data included in the financial statements.

David R. Goode
Chairman, President and
Chief Executive Officer

Henry C. Wolf
Vice Chairman and
Chief Financial Officer

John P. Rathbone
Senior Vice President and
Controller

Independent Auditors' Report

KPMG

The Stockholders and Board of Directors
Norfolk Southern Corporation:

We have audited the accompanying consolidated balance sheets of Norfolk Southern Corporation and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Norfolk Southern Corporation and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Norfolk, Virginia
January 23, 2001

Board of Directors and Officers

Norfolk Southern Board of Directors and vice chairmen are: seated, left to right, Carroll A. Campbell Jr., Gerald L. Baliles and Jane Margaret O'Brien. Standing, left to right: Harold W. Pote, Henry C. Wolf, L.I. Prillaman, Stephen C. Tobias, Landon Hilliard, Gene R. Carter, Alston D. Correll, Steven F. Leer and David R. Goode.

Board of Directors

NS Board of Directors as of Feb. 1, 2001

Gerald L. Baliles, 60, of Richmond, Va., is a partner in the law firm of Hunton & Williams, a business law firm with offices in several major U.S. cities and international offices in Bangkok, Brussels, London, Vienna, Warsaw and Hong Kong. His Board service began in 1990; his current term expires in 2002.

Carroll A. Campbell Jr., 60, of Georgetown, S.C., is president and chief executive officer of the American Council of Life Insurers. His Board service began in 1996; his current term expires in 2003.

Gene R. Carter, 61, of Alexandria, Va., is executive director and chief executive officer of the Association for Supervision and Curriculum Development, among the world's largest international education associations. His Board service began in 1992; his current term expires in 2002.

Alston D. Correll, 59, of Atlanta, Ga., is chairman, chief executive officer and president of Georgia-Pacific Corporation. His Board service began in 2000; his current term expires in 2001.

David R. Goode, 60, of Norfolk, Va., is chairman, president and chief executive officer of Norfolk Southern. He joined Norfolk and Western Railway in 1965 and was named CEO of Norfolk Southern in 1992. His Board service began in 1992; his current term expires in 2003.

Landon Hilliard, 61, of New York City, is a partner in Brown Brothers Harriman & Co., a private bank in New York City. His Board service began in 1992; his current term expires in 2001.

Steven F. Leer, 48, of St. Louis, is president and chief executive officer of Arch Coal, Inc., the nation's second largest coal producer. His Board service began in 1999; his current term expires in 2002.

Jane Margaret O'Brien, 47, of St. Mary's City, Md., is president of St. Mary's College of Maryland. Her Board service began in 1994; her current term expires in 2001.

Harold W. Pote, 54, of New York City, is regional banking group executive of J. P. Morgan Chase Bank. His Board service began in 1988; his current term expires in 2003.

Officers

NS officers as of Feb. 1, 2001

David R. Goode, chairman, president and chief executive officer
L. I. Prillaman, vice chairman and chief marketing officer
Stephen C. Tobias, vice chairman and chief operating officer
Henry C. Wolf, vice chairman and chief financial officer
John F. Corcoran, senior vice president Public Affairs
John W. Fox Jr., senior vice president Coal Marketing
James A. Hixon, senior vice president Administration
J. Gary Lane, senior vice president Law
James W. McClellan, senior vice president Planning
Kathryn B. McQuade, senior vice president Financial Planning
Charles W. Moorman, president Thoroughbred Technology and Telecommunications, Inc.
John P. Rathbone, senior vice president and controller
Stephen P. Renken, senior vice president and chief information officer
John M. Samuels, senior vice president Operations Planning and Support
Donald W. Seale, senior vice president Merchandise Marketing
James E. Carter Jr., vice president Internal Audit
Cindy C. Earhart, vice president Information Technology
Robert C. Fort, vice president Public Relations
William A. Galanko, vice president Taxation
Robert E. Huffman, vice president Intermodal Operations
Tony L. Ingram, vice president Transportation Operations
H. Craig Lewis, vice president Corporate Affairs
Henry D. Light, vice president Law
Mark R. MacMahon, vice president Labor Relations
Bruno Maestri, vice president Public Affairs
Mark D. Manion, vice president Transportation Services and Mechanical
Robert E. Martínez, vice president Ports and Development
Michael R. McClellan, vice president Intermodal Marketing
Thomas H. Mullenix Jr., vice president Human Resources
Richard W. Parker, vice president Real Estate
William J. Romig, vice president and treasurer
Danny D. Smith, president NS Development
Charles J. Wehrmeister, vice president Safety and Environmental
Gary W. Woods, vice president Engineering
Dezora M. Martin, corporate secretary

Stockholder Information

Common Stock
Ticker symbol: NSC
Newspaper listing: NorflkSo
Common stock of Norfolk Southern Corporation is listed and traded on the New York Stock Exchange.

Annual Meeting
May 10, 2001, at 10 a.m. EDT
The Norfolk Waterside Marriott
and Waterside Convention Center
235 East Main Street
Norfolk, Va.

Publications
Upon written request, the Corporation's annual report to the Securities and Exchange Commission on Form 10-K for the fiscal year ended Dec. 31, 2000, and its quarterly reports on Form 10-Q will be furnished free to stockholders. Write to: Public Relations Department, Norfolk Southern Corporation, Three Commercial Place, Norfolk, Va. 23510-9227.

A Notice and Proxy Statement/Annual Meeting of Stockholders are furnished to stockholders in advance of the annual meeting.

A toll-free telephone number — (800) 531-6757 — is available for information.

Dividends
At its January 2001 meeting, the Corporation's Board of Directors declared a quarterly dividend of 6 cents per share on its common stock, payable on March 10, 2001, to stockholders of record on Feb. 2, 2001.

Norfolk Southern Corporation pays quarterly dividends on its common stock, usually on or about March 10, June 10, Sept. 10, and Dec. 10. The Corporation has paid 74 consecutive quarterly dividends since its inception in 1982.

Financial Inquiries
Henry C. Wolf
Vice Chairman and Chief Financial Officer
Norfolk Southern Corporation
Three Commercial Place
Norfolk, Va. 23510-9215
(757) 629-2650

Stockholder Inquiries
Director Investor Relations
Norfolk Southern Corporation
Three Commercial Place
Norfolk, Va. 23510-9215
(757) 629-2861

Corporate Offices
Executive offices
Norfolk Southern Corporation
Three Commercial Place
Norfolk, Va. 23510-9227
(757) 629-2600

Regional offices
110 Franklin Road, SE
Roanoke, Va. 24042

99 Spring St., SW
Atlanta, Ga. 30303

Account Assistance
For assistance with lost stock certificates, transfer requirements and the Dividend Reinvestment Plan, contact:
Registrar and Transfer Agent
The Bank of New York
101 Barclay St.-12W
New York, N.Y. 10286-1002
(800) 432-0140

For assistance with address changes, dividend checks and direct deposit of dividends, contact:
Assistant Corporate Secretary-
Stockholder Records
Norfolk Southern Corporation
Three Commercial Place
Norfolk, Va. 23510-9219
(800) 531-6757

Dividend Reinvestment Plan
Stockholders whose names appear on their stock certificates (not a street or broker name) are eligible to participate in the Dividend Reinvestment Plan.

The Plan provides a convenient, economical and systematic method of acquiring additional shares of the Corporation's common stock by permitting eligible stockholders of record to reinvest dividends.

The Plan's administrator is The Bank of New York. For additional information, dial (800) 432-0140.

Annual Report Requests
(800) 531-6757

World Wide Web Address
www.nscorp.com

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