
Dear fellow
SHAREHOLDERS

THE STORY OF 2004 is Norfolk Southern's ability to respond to unusual — indeed unprecedented — demand growth and to produce excellent returns for our investors.

It is a story with several points. First is the ability and willingness of Norfolk Southern people to get the job done. When customers needed us at a rate that surpassed all our predictions, our people stepped up and provided service for the business our shippers brought us. We were able to handle increases of 8.8 percent in unit volume and 7.5 percent in gross ton miles with an average of 1 percent fewer employees than last year. We should congratulate our people for an enviable but necessary improvement in productivity.

We also should recognize that handling the increased traffic depends on the consistent and systematic investments we have made over the last few years in infrastructure, equipment and, perhaps most significantly, in adding people where necessary and training them in a timely manner.

We benefited from a shift in transportation focus and rapidly escalating demand for rail service in 2004. Among many economic and global factors creating this shift were steady growth in U.S. industrial production, high fuel prices, the dollar's relation to international currencies, the dramatic growth of China, and the rapid increase of transcontinental import business.

What marked the year for us was our ability to handle the business. We had challenges, but in the end, we were able to get the job done. Increasing the value of our services to customers enabled us to raise the yield for our business. Adding in our improving productivity and efficiency spelled good results in the bottom line, and our stock value improved.

We had a number of accomplishments for our investors in 2004. For example, we improved our operating ratio, the basic indicator of our efficiency, by 6.8 percentage points, clearly a significant year-over-year improvement. Our earnings per share were up 69 percent, we increased our dividends by 2 cents per share or 25 percent, and we repaid \$371 million of debt.

Our statistics for 2004 confirm in my mind the fundamental transformation — indeed, the structural change — that is taking place in the North American transportation market. A combination of trends — increasing congestion on the highways, demand for better transportation options in environmental terms, fuel price pressures and regulatory changes affecting the trucking industry — are coming together to result in significantly increased demand for rail freight. The successful rail companies will be prepared with adequate capacity and with the ability to offer customers the products they want. Norfolk Southern succeeded in 2004 and will continue to do so. We are at the threshold of a new growth-oriented, growth-driven business model for the railroad industry. Norfolk Southern will be prepared and is determined to seize the opportunity.

The explosive growth of intermodal is a very important part of the growth story. In intermodal, we most clearly see the increasing desire of the best truck companies to do more business with us, which represents a meaningful shift. We see this trend in other commodities as well. We also are favored increasingly by an

openness in public policy to fuller consideration of freight rail as a component of a balanced transportation system.

Fortunately, Norfolk Southern has expanded in the last few years. Our geographic coverage matches population density. We cover the industrial heartland, the growing southland and the eastern metropolitan areas. We can go where the traffic wants to go. Our transcontinental connections and our enviable port position put us where we need to be. And we made investments since 1999 in intermodal facilities, track capacity and equipment to be in position for growth. Even more important, we have instituted systems and technology to provide service for the business.

Norfolk Southern showed this past year that we are positioned to handle the growth that the changing economy is bringing. We need to prove continually that we have the capacity and ability to handle the growth. Our management team and I are confident that we can do so. We will be aggressive but selective as business develops to make certain we are taking on business we can handle well, because we want to make sure we are providing the highest-value transportation service and being compensated accordingly. We also recognize that our investors expect and deserve to have us provide fair returns. We have made important progress on our returns, but we still have a way to go. We will improve.

The year also saw significant progress in creating the future management structure for the Thoroughbred. The board of directors named C.W. "Wick" Moorman as president and also named key leaders as executive vice presidents to make up a senior management team for the company. As I head toward 65 in January 2006, it is clear that Norfolk Southern will have the strongest kind of future leadership.

I cannot end this letter without recognizing the tragic accident we had in Graniteville, S.C., in January that resulted in the deaths of nine people, a number of injuries and the evacuation of the affected area. We are saddened by the losses and have tried to take care of the



David Goode

people in the community. Our people responded to this accident and the aftermath in a very skillful and professional manner. They were recognized favorably by many, and I am very proud of the way the whole company acted in most difficult times. We will continue to take all appropriate actions to remediate the situation and to learn from the event to improve and make our entire operation safer. While we cannot change what has happened, Norfolk Southern and all our people are rededicating our efforts to be, as our vision says, the safest transportation company in the world.

As 2005 began, we saw a continuation of the strong business levels of 2004. To prepare for more volume, we remain committed to investing prudently in the business to keep the network operating as it should. Our people are eager to meet the challenges presented by the opportunity to sustain the powerful growth of our transportation franchise. I am very confident that the talented and professional people of Norfolk Southern will lead the transportation business into a very bright future.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER
FEBRUARY 28, 2005