

Dear fellow Shareholders

This was an exceptional year for Norfolk Southern.

We posted record net income and earnings per share. Revenues and carloads both were all-time highs.

We continued to make progress in our operating ratio, improving our margins by 1.5 points.

Norfolk Southern people once again – for the 16th consecutive year – had the safest work place in the transportation industry and one of the safest in all industries.

These are basic goals for us, and 2005 was a year our people did well. Service was challenged by a number of factors, principally hurricanes and other extraordinary weather events. Still, strong service levels were maintained for our customers. We implemented technology innovations to handle our

increasing business levels as both coal and intermodal volumes continued their strong upward trend, as did most commodity groups.

Overall, the year was a fine success. At the same time, it was marked by the tragic accident at Graniteville, S.C. We also had to cope with hurricanes Katrina and Rita and finished the year with ice storms. Throughout all difficulties, NS people responded well, and that commitment made the year possible.

GROWTH

A retiring CEO inevitably looks back. As I think of where we've been, the hallmark of the last several years clearly has been growth and the dramatic changes our company has made to position ourselves to benefit by it.

We're much better off to compete now than when I became CEO in 1992. We're not just bigger in revenue and profit. We have scope, and that required a lot of change since 1992. As the economy changed, we had to transform ourselves into a much more nimble, service-driven



David Goode

organization. At the same time, we had to make strategic moves to make sure we had geographic and market access to do business in the changing world.

The company looks nothing like it did when I joined Norfolk and Western Railway 40 years ago. We were then regional. We were driven by coal. We were a small, tight organization with little diversity. Our horizons were much smaller, but we were led – as we always have been – by people who dreamed of bigger and better things.

Over time, we built ourselves into a company of national – indeed global – strength and recognition. We have been admired consistently for safety and efficiency. We have earned a reputation for being an ethical, transparent organization known for fair dealing and for doing what we say we will. We've added technology, innovation and a commitment to diversity to the mix, along with a passion for safety and service – all of which have set us up for growth.

Our 175th anniversary finds us excelling in the values that have made a great organization not just endure, but grow and prosper.

That should not come as a surprise to those more familiar with the history and culture of our company. We are, after all, the children of our founders, who gave their early companies names like Atlantic, Mississippi and Ohio when they were still bound by Virginia alone and indeed by the eastern half. We have taken the values of our predecessors and really have created that strong bloodline that now puts us in position to be the recognized leader in our industry.

Our railroad ancestors understood that transportation is a powerful force for the economy. This is a company that's important to our nation. We always have driven growth, not only for ourselves, but for our communities and beyond – and thereby have produced better and better returns for our investors. The 175-year culture of Norfolk Southern has been always to move ahead, to find new

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horizons and along the way spread some powerful forces for good.

So it is in the present. Leading up to 2004, I set a goal for NS people that we called "7 plus 7" – revenues beginning with a 7, and an operating ratio returning to a number that started with a 7. A glance back will remind what a stretch that looked like, but our people

surpassed it by a significant margin. So for 2005, we had a goal for our company to be a 10. That meant reaching \$8 billion in revenues and achieving a 2-point improvement in margins – again quite a stretch. Of course, a glance at the financial table shows how well the 8 part was achieved, and we had a strong run at the 2, with a 1.5 percent reduction in the operating ratio.

My point is simply this: Norfolk Southern and its people can produce impressive results and grow significantly. We've proven it consistently. Given today's economy and business environment, we are in the best position in our 175-year history to move ahead with even greater momentum. We're 175 years old and just beginning.

The opportunity is clearer than it ever has been. Indeed, the story we've believed in is now well known, and it's discussed in this report. Fuel costs are pervasively high. Rail offers environmental advantages. Demographics limit highway movements in spite of new investment. Technology and innovation in rail puts Norfolk Southern on the cutting edge. Consumer goods increasingly are moving to markets in a global economy. Demand is coming our way. A company like ours, which consistently has proven it has the talented people, the capacity and the vision to seize the opportunity, can achieve the dream we talk about in our vision statement to be the most successful transportation company.

The year 2005 to me exemplifies what our company is all about – moving ahead and making opportunity even in spite of



Wick Moorman, left, succeeds David Goode as head of Norfolk Southern. Goode retired in 2006 after an illustrious 40-year railroad career.

adversity. Certainly, the January tragedy in South Carolina tested our resources and our people. We stand boldly as the safest transportation company. We have led the industry for 16 years. Safety is and always will remain the hallmark of all we do. Yet, the tragedy occurred. After first and foremost doing all we could to remediate the damage and help the recovery, we have taken the tragic events and have done all we can to learn from them, to improve and to rededicate ourselves to an even stronger commitment to safety. Furthermore, we saw at Graniteville and later in the year when we had hurricane damage of historic scope, the ability of Norfolk Southern people to step up and lead in recovery.

The story of Katrina as it affected NS and our response is told in this report and the DVD enclosed. To say I was proud of our people in a difficult time and task is only the surface. What the

events of the year show in my mind is that the momentum of a strong culture backed by 175 years of moving forward can get the job done. We have kept the spirit and focus and family values that have built a strong company.

The Norfolk Southern story is one of great people in a great organization getting the job done for the nation as a key and growing part of the essential transportation system that makes the economy strong. Our progress has not been an unbroken upward curve, but we have always moved ahead to a better tomorrow.

As 2006 begins, our company and people have never been in better shape for a successful future. We have the capacity, geography and position to prosper. More important, we have people and culture tested by adversity, propelled by a commitment always to improve and focus on the customer and better and

more efficient service, with the will and backing of a tradition of excellence.

As I retire after 40 years in the business, I am very confident in our company. It has been the highest honor and the greatest personal satisfaction to lead Norfolk Southern. Even more, it has been a remarkable privilege to serve with the finest people in business today – Norfolk Southern Thoroughbred people. With the strong leadership of Wick Moorman and his team, they will take us to a great future. 🐾