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Norfolk Southern Reports First-Quarter 2001 Results

NEW YORK, N.Y. - Norfolk Southern Corporation (NYSE: NSC) today announced first-quarter income from continuing operations of \$61 million, or \$0.16 per diluted share, compared with \$14 million, or \$0.04 per diluted share, in the first quarter of 2000, which excluded the cost of a work-force reduction program.

"We're encouraged with our progress in the first quarter in light of the difficult and uncertain economic climate," said David R. Goode, Norfolk Southern chairman, president and chief executive officer. "We are increasing capacity and introducing new services while at the same time continuing to drive out expenses."

Reported net income for the first quarter was \$74 million, or \$0.19 per diluted share, reflecting an after-tax gain of \$13 million, or \$0.03 per share, related to the 1998 sale of Norfolk Southern's former trucking subsidiary, North American Van Lines, Inc. For the comparable period in 2000, reported results were a net loss of \$48 million, or \$0.12 per diluted share, and included an after-tax work-force reduction charge of \$62 million, or \$0.16 per diluted share.

Railway operating revenues in the first quarter were \$1.54 billion, 2 percent higher compared with operating revenues of \$1.51 billion in the first quarter of 2000. Coal revenues increased \$46 million, or 13 percent, to \$393 million, driven by increased electricity generation and the replenishing of stockpiles by utilities. Strong utility demand reduced the supply of export coal, which resulted in a decrease in export coal revenues. Intermodal revenues increased \$30 million, or 12 percent over the first quarter 2000, to \$276 million, strengthened by increased domestic container business. General merchandise revenues declined \$44 million, or 5 percent, to \$871 million, primarily due to cutbacks in automotive production, which also impacted metals revenues.

First-quarter railway operating expenses were \$1.34 billion in 2001, down 3 percent compared with \$1.38 billion in 2000, excluding last year's work-force reduction charge. The decline largely was due to reduced compensation and benefit costs.

"Our restructuring initiatives are beginning to generate momentum," Goode said. "As we move ahead, we will continue to take the necessary steps to deliver the service our customers deserve and the returns our investors expect."

For the quarter, the railway operating ratio improved to 86.7 percent, compared with 91.4 percent in 2000, excluding the cost of a work-force reduction charge.

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Norfolk Southern Corporation and Subsidiaries

Consolidated Statements of Income

(Unaudited)

(\$ millions except per share)

	Three Months Ended March 31,	
	2001	2000
Railway operating revenues:		
Coal	\$ 393	\$ 347
General merchandise	871	915
Intermodal	276	246
	1,540	1,508
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Railway operating expenses:		
Compensation and benefits (note 2)	519	655
Materials, services and rents	372	371
Conrail rents and services	105	121
Depreciation	127	125
Diesel fuel	117	115
Casualties and other claims	37	32
Other	58	61
	1,335	1,480
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Income from railway operations	205	28
Other income - net	27	28
Interest expense on debt	(141)	(140)
	91	(84)
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Income (loss) from continuing operations before income taxes	91	(84)
Provision (benefit) for income taxes:		
Current	66	(2)
Deferred	(36)	(34)
	30	(36)
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Income (loss) from continuing operations	61	(48)
Discontinued operations - gain on sale of motor carrier, net of taxes (note 1)	13	--
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NET INCOME (LOSS) (notes <u>1</u> and <u>2</u>)	\$ 74	\$ (48)
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Earnings (loss) per share (notes <u>1</u> and <u>2</u>):		
Income from continuing operations, basic and diluted	\$ 0.16	\$ (0.12)
Net income, basic and diluted	0.19	(0.12)
Average shares outstanding (000's)	384,490	382,937
See notes to financial statements.		

Norfolk Southern Corporation and Subsidiaries
Consolidated Balance Sheets

(Unaudited)
(\$ millions)

	March 31, 2001 ----	December 31, 2000 ----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 54	\$ --
Short-term investments	1	2
Accounts receivable - net	440	411
Due from Conrail	20	31
Materials and supplies	93	91
Deferred income taxes	171	182
Other current assets	75	132
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Total current assets	854	849
Investment in Conrail	6,166	6,154
Properties less accumulated depreciation	11,268	11,105
Other assets	952	868
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TOTAL ASSETS	\$19,240	\$18,976
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 866	\$ 925
Income and other taxes	246	251
Notes and accounts payable to Conrail	219	155
Other current liabilities	329	259
Current maturities of long-term debt	306	297
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Total current liabilities	1,966	1,887

Long-term debt	7,535	7,339
Other liabilities	1,108	1,131
Minority interests	46	50
Deferred income taxes	2,703	2,745
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TOTAL LIABILITIES	13,358	13,152
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Stockholders' equity:		
Common stock \$1.00 per share par value	406	405
Additional paid-in capital	399	392
Accumulated other comprehensive income	(7)	(6)
Retained income	5,104	5,053
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	5,902	5,844
Less treasury stock at cost, 21,363,974 shares	(20)	(20)
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TOTAL STOCKHOLDERS' EQUITY	5,882	5,824
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TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$19,240	\$18,976
	=====	=====

See notes to financial statements.

Norfolk Southern Corporation and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)
(\$ millions)

	Three Months Ended March 31,	
	2001	2000
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CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 74	\$ (48)
Reconciliation of net income (loss) to net cash provided by operating activities:		
Depreciation	130	129
Deferred income taxes	(36)	(34)
Equity in earnings of Conrail	(12)	(11)
Gains on properties and investments	(9)	(20)
Income from discontinued operations (note 1)	(13)	--
Changes in assets and liabilities affecting operations:		
Accounts receivable	(28)	3
Materials and supplies	(2)	(20)
Other current assets and due from Conrail	68	89

Current liabilities other than debt	--	165
Other - net	(54)	39
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Net cash provided by operating activities	118	292
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(294)	(170)
Property sales and other transactions	10	30
Investments, including short-term	(35)	(21)
Investment sales and other transactions	2	35
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Net cash used for investing activities	(317)	(126)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends	(23)	(77)
Common stock issued - net	4	--
Proceeds from borrowings	1,275	68
Debt repayments	(1,003)	(134)
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Net cash provided by (used for) financing activities	253	(143)
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Net increase in cash and cash equivalents	54	23
CASH AND CASH EQUIVALENTS:		
At beginning of year	--	37
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At end of period	\$ 54	\$ 60
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH-FLOW INFORMATION		
Cash paid during the period for:		
Interest (net of amounts capitalized)	\$ 82	\$ 74
Income taxes	\$ 62	\$ (2)

See notes to financial statements.

NOTES:

NOTES TO FINANCIAL STATEMENTS:

1. DISCONTINUED OPERATIONS -

First quarter 2001 includes an adjustment to the estimated gain recorded in 1998 on the sale of North American Van Lines, Inc., NS' motor carrier subsidiary. The adjustment resulted in

additional after-tax gain of \$13 million, or 3 cents per share, and was related to the expiration of certain indemnities contained in the sales agreement.

During 1998, NS received \$207 million of proceeds from the sale and recorded an after-tax gain of \$105 million, or 28 cents per share.

2. WORK-FORCE REDUCTION CHARGE IN 2000 - First quarter 2000 "Compensation and benefits" expenses include a \$101 million work-force reduction charge which reduced net income by \$62 million, or 16 cents per share. Reductions in non-union personnel were achieved primarily through a voluntary early retirement program while union personnel reductions resulted primarily from furloughs. The voluntary early retirement program was accepted by 919 of 1,180 eligible employees. The retirements were effective March 1, 2000, and most of the related benefits will be paid from NS' overfunded pension plan.

These unaudited interim financial statements should be read in conjunction with the financial statements and notes thereto included in the Corporation's most recent Annual Report to Stockholders and quarterly report to the Securities and Exchange Commission.