

Norfolk Southern Corporation and Subsidiaries  
Consolidated Statements of Income  
(Unaudited)  
(\$ millions except per share)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b><u>2006</u></b>	<b><u>2005</u></b>
Railway operating revenues:		
Coal	\$ 559	\$ 467
General merchandise	1,278	1,086
Intermodal	466	408
<b>Total railway operating revenues</b>	<b><u>2,303</u></b>	<b><u>1,961</u></b>
Railway operating expenses:		
Compensation and benefits (note 1)	721	604
Materials, services and rents	471	436
Conrail rents and services	32	35
Depreciation	183	193
Diesel fuel	231	150
Casualties and other claims (note 2)	53	78
Other	61	62
<b>Total railway operating expenses</b>	<b><u>1,752</u></b>	<b><u>1,558</u></b>
Income from railway operations	551	403
Other income – net	35	2
Interest expense on debt	<u>120</u>	<u>128</u>
Income before income taxes	466	277
Provision for income taxes:		
Current	162	59
Deferred	(1)	24
Total income taxes	<u>161</u>	<u>83</u>
<b>Net income</b>	<b><u>\$ 305</u></b>	<b><u>\$ 194</u></b>
Earnings per share:		
Basic	\$ 0.74	\$ 0.48
Diluted	\$ 0.72	\$ 0.47
Average shares outstanding (000's):		
Basic	412,444	401,771
Diluted	421,773	410,107

See notes to consolidated financial statements.

Norfolk Southern Corporation and Subsidiaries  
Consolidated Balance Sheets  
**(Unaudited)**  
(\$ millions)

	<b>March 31, <u>2006</u></b>	<b>Dec. 31, <u>2005</u></b>
<b>Assets</b>		
Current assets:		
Cash, cash equivalents and short-term investments	\$ 1,542	\$ 1,257
Accounts receivable – net (note 2)	985	931
Materials and supplies	143	132
Deferred income taxes	167	167
Other current assets	107	163
Total current assets	2,944	2,650
Investments	1,623	1,590
Properties less accumulated depreciation	20,756	20,705
Other assets (note 2)	918	916
<b>Total assets</b>	<b>\$ 26,241</b>	<b>\$ 25,861</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable (note 2)	\$ 1,036	\$ 1,163
Income and other taxes	301	231
Other current liabilities	276	213
Current maturities of long-term debt	348	314
Total current liabilities	1,961	1,921
Long-term debt	6,550	6,616
Other liabilities (note 2)	1,408	1,415
Deferred income taxes	6,613	6,620
<b>Total liabilities</b>	<b>16,532</b>	<b>16,572</b>
Stockholders' equity:		
Common stock \$1.00 per share par value	436	431
Additional paid-in capital	1,220	992
Unearned restricted stock	--	(17)
Accumulated other comprehensive loss	(85)	(77)
Retained income	8,158	7,980
	9,729	9,309
Less treasury stock at cost, 20,833,125	(20)	(20)
Total stockholders' equity	<b>9,709</b>	<b>9,289</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 26,241</b>	<b>\$ 25,861</b>

See notes to consolidated financial statements.

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<u><b>2006</b></u>	<u><b>2005</b></u>
<b>Cash flows from operating activities:</b>		
Net income	\$ 305	\$ 194
Reconciliation of net income to net cash provided by operating activities:		
Depreciation	185	197
Deferred income taxes	(1)	24
Equity in earnings of Conrail	(6)	(6)
Gains on properties and investments	(19)	(7)
Changes in assets and liabilities affecting operations:		
Accounts receivable	(54)	(52)
Materials and supplies	(11)	(10)
Other current assets	28	23
Current liabilities other than debt	53	36
Other – net	30	9
Net cash provided by operating activities	<u>510</u>	<u>408</u>
<b>Cash flows from investing activities:</b>		
Property additions	(256)	(144)
Property sales and other transactions	52	4
Investments, including short-term	(354)	(303)
Investment sales and other transactions	267	216
Net cash used for investing activities	<u>(291)</u>	<u>(227)</u>
<b>Cash flows from financing activities:</b>		
Dividends	(66)	(44)
Common stock issued – net	183	66
Purchase and retirement of common stock (note 3)	(67)	--
Proceeds from borrowings	--	332
Debt repayments	(32)	(138)
Net cash provided by financing activities	<u>18</u>	<u>216</u>
Net increase in cash and cash equivalents	237	397
<b>Cash and cash equivalents:</b>		
At beginning of year	<u>289</u>	<u>467</u>
At end of period	526	864
<b>Short-term investments at end of period</b>	<u>1,016</u>	<u>255</u>
<b>Cash, cash equivalents and short-term investments at end of period</b>	<u>\$ 1,542</u>	<u>\$ 1,119</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for:		
Interest (net of amounts capitalized)	\$ 63	\$ 70
Income taxes (net of refunds)	\$ 17	\$ --

See notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS:

1. **ADOPTION OF SFAS 123(R), "SHARE-BASED PAYMENT"**  
Effective January 1, 2006, NS adopted Statement of Financial Accounting Standards, No. 123(R), "Share-Based Payment," [SFAS 123(R)]. This statement applies to awards granted, modified, repurchased or cancelled after the effective date as well as awards that are unvested at the effective date and includes, among other things, the requirement to expense the fair value of stock options. As a result of the implementation of SFAS 123(R), compensation and benefits expense in the first quarter of 2006 included \$27 million for the immediate expensing of awards granted to retirement eligible employees and \$4 million for stock options granted to non-retirement eligible employees.
  
2. **GRANITEVILLE DERAILMENT –**  
In the first quarter of 2005, NS recorded a liability related to the Jan. 6, 2005, derailment in Graniteville, SC. The liability, which includes a current and long-term portion, represents NS' best estimate based on current facts and circumstances. The estimate includes amounts related to business property damage and other economic losses, personal injury and individual property damage claims as well as third-party response costs. NS' commercial insurance policies are expected to cover expenses related to this derailment above NS' self-insured retention, including its own response costs and legal fees. Accordingly, the Consolidated Balance Sheet reflects a current and long-term receivable for estimated recoveries from its insurance carriers.  
  
Results for the first quarter of 2005 include approximately \$35 million of expenses related to this incident, which represents NS' retention under its insurance policies and other uninsured costs, and which reduced net income by approximately \$21 million, or 5 cents per diluted share.  
  
While it is reasonable to expect that the liability for covered losses could differ from the amount recorded, such a change would be offset by a corresponding change in the insurance receivable. As a result, NS does not believe that it is reasonably likely that its net loss (the difference between the liability and future recoveries) will be materially different than the loss recorded in 2005. NS expects at this time that insurance coverage is adequate to cover potential claims and settlements above its self-insurance retention.
  
3. **STOCK REPURCHASE PROGRAM -**  
In November 2005, NS' Board of Directors authorized the repurchase of up to 50 million shares of NS common stock through the end of 2015. During the first quarter of 2006, cash flows from financing activities included \$67 million for the purchase and retirement of 1,310,000 shares of common stock under this program.