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**Record results reported for second quarter**

- **Railway operating revenues increased to a record \$2.15 billion.**
- **Income from railway operations rose to a record \$592 million.**
- **Net income was a record \$424 million, or \$1.04 per diluted share.**
- **The railroad operating ratio improved to 72.5 percent.**

For the second quarter of 2005, Norfolk Southern reported record net income of \$424 million, or \$1.04 per diluted share, compared with \$213 million, or \$0.54 per diluted share, for the same period of 2004. Second-quarter net income included two previously announced items (the effects of Ohio tax legislation and settlements of two coal rate cases) totaling \$120 million, or \$0.29 per diluted share. Excluding these items, net income would have been \$304 million, or \$0.75 per diluted share. This is the highest income before accounting changes for any quarter in NS history.

"This was a great quarter for the company as we set a number of financial records. We recorded the highest railway operating revenues in our history. We posted our best ever income from railway operations, exceeding the half-billion dollar mark for the first time in any quarter. And we continue to improve our margins, posting a significantly better quarterly operating ratio," said **David R. Goode**, chairman and chief executive officer.

For the first six months, net income was a record \$618 million, or \$1.51 per diluted share, an increase of 67 percent compared with \$371 million, or \$0.94 per diluted share, during the same period a year earlier. Six-month results included \$37 million for expenses related to a January train derailment in Graniteville, S.C., which reduced net income by \$23 million, or \$0.05 per diluted share.

Second-quarter railway operating revenues of \$2.15 billion were the highest of any quarter in NS history and improved 19 percent compared with \$1.81 billion for the same quarter a year earlier. Railway operating revenues for the first half of 2005 set a six-month record, increasing 17 percent to \$4.1 billion compared with \$3.5 billion for the first half of 2004.

General merchandise revenues rose 12 percent to a record \$1.15 billion in the second quarter and improved 12 percent to a record \$2.23 billion during the first half of 2005 compared with the same periods of 2004. All merchandise market groups reached record quarterly and six-month revenue levels primarily due to higher average revenues, including fuel surcharges.

In the second quarter, coal revenues increased 36 percent to a record \$578 million compared with the same period of 2004. NS handled 47.3 million tons of coal, coke and iron ore during the period, setting a second-quarter volume record. For the first six months, coal revenues improved 27 percent to \$1.05 billion compared with the same period last year. The revenue gains during both periods were the result of higher average revenues, fuel surcharges, heightened demand for utility coal and domestic and international metallurgical coal and the coal rate case settlements.

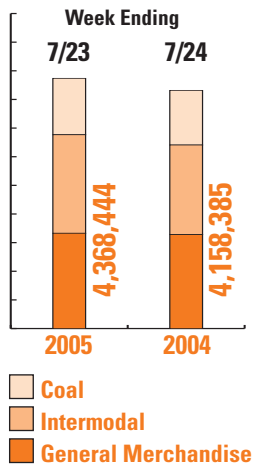
Intermodal revenues increased 18 percent to \$428 million for the second quarter and climbed 21 percent to \$836 million for the first six months compared to the same periods of 2004 primarily as the result of strong international business as well as higher average revenues, including higher fuel surcharges. Container volume increased by more than 51,000 units, or 10 percent, in the second quarter, and rose by more than 106,000 units, or 11 percent, in the first six months compared with the same periods a year earlier.

Second-quarter railway operating expenses were \$1.56 billion, up 13 percent compared with second-quarter 2004. For the first six months, railway operating expenses were \$3.12 billion, up 14 percent over the same period a year earlier. The increases primarily were due to higher diesel fuel prices and costs associated with increased traffic volume, including expenses related to hiring additional train and engine service employees and maintenance activities.

The second-quarter operating ratio of 72.5 percent was an improvement of 4.1 percentage points compared with second-quarter 2004. The settlement of the coal rate cases contributed 1.2 percentage points to this improvement. For the first six months, the operating ratio was 75.8 percent, which was 2.2 percentage points better than the same period a year earlier.

*Dear Fellow Employee,*  
Our second quarter results speak volumes about this Thoroughbred team. Your commitment to service and safety have helped NS grow its business and achieve record results. It confirms my belief that NS people are the best in the industry.

## Carloadings Year to Date



Week #1 began Dec. 26, 2004, for the year 2005 and Dec. 28, 2003, for the year 2004.

**“A 75-car unit is the optimum train size for our network. It allows a train to operate from origin to destination without additional handling.”**

*Pat Simonic  
marketing director  
agricultural products.*

## NS expands grain shuttle program

Three new Georgia feed mills will be added to Norfolk Southern’s 75-car Mercury shuttle network in 2005 -- Mar-Jac Poultry and Wayne Farms at Maysville, and Sanderson Farms at Adel.

NS began providing Mercury Service in the fall of 2001. The option provides customers an economical and dependable means of transporting grain and soybeans from the Midwest to facilities across the system.

“A 75-car unit is the optimum train size for our network. It allows a train to operate from origin to destination without additional handling,” said **Pat Simonic**, marketing director agricultural products.

The 75-car shuttle will eventually replace the 50-car unit network that has been operating since 1989. The 50-car shuttle network requires consolidating multiple 50-car units into larger trains based on common geography, which adds complexity, transportation cost and variability to the movement.

“The 75-car shuttles provide transportation a better product to work with and incorporate into the new Thoroughbred Operating Plan II network,” Simonic said.

TOP was created to improve NS customer service and consistency, reduce car handling and shorten routes. Implementation began in 2001. TOP II now

includes intermodal and grain trains and is designed to reduce complexity and costs and provide more reliable service to NS customers.

## Local Scorecard is a winner for customers, NS employee

When **Craig Marin**, manager transportation and budget, began a quest to provide better customer service in September 2003, he wasn’t focusing on winning



*Craig Marin, left, receives a 2004 Thoroughbred Award from David Goode, chairman and chief executive officer.*

awards. Nearly two years later, his work has earned him recognition and the company’s highest honor.

Marin said the process began on the Georgia Division with a close look at local service. “We had to ask ourselves: Are we servicing the customer in the right way and from the right place?” he said.

The questions arose as Marin and other managers noticed that available cars were not being used to their capacity. Cars were sitting idle for any number of reasons, including waiting to be delivered or ordered, or simply waiting for the next connections. Marin focused on the reasons for underutilization.

His efforts resulted in the creation of Local Scorecard, a tool to track variances in local expense, performance and service as part of the local Operating Review team. It enables superintendents and other division managers to keep track of expenses and how equipment and crews are allocated. The information is used to improve operations and provide better customer service.

In a May ceremony in Norfolk, Marin received a Thoroughbred Award for his accomplishments.

“It’s great to be recognized,” Marin said. “This kind of recognition may motivate others to present their ideas to improve the way we do business. We are delivering the cars to our customers on time now, so in this case, we are all winners.”

## Safety is a family affair in Brunswick

Twins typically have more in common than the average siblings—birthdays, appearance and sometimes behavior.

Twin brothers **Ronnie and Don Lance** have even more in common. They both are engineers on the Brunswick, Ga., District, and they take great pride in being part of a district that has achieved 15 years of injury-free service.

“The Lance brothers really have contributed to the district’s remarkable safety record,” said **Dave Talley**, Georgia Division superintendent. “They are active in the safety process and have set an example for others. If a problem happens to arise, I know it is going to be taken care of because the people of the district are proactive. They take the initiative and get the job done.”

The Lance brothers have been employed with NS for more than 30 years. They both stress communication as a key for injury-free service.

“Our communication is great in the Brunswick District,” said Ronnie Lance. “We have lots of new people, and we have to make sure that they are aware of everything that needs to be done in a safe and effective way.”

Don Lance, who serves as the district’s safety chairman, echoes that sentiment. “We have great interdepartmental communication in this district,” he said. “Various departments are in constant contact,

ensuring that everything operates smoothly. Our goal is to coordinate all of our movements without any delays and do it safely."

"August 1990 was the last time we had an injury," Don said. "When we made it through the first injury-free year, it was hard to believe. So we said, let's make it two. Now, nobody wants to be the first to break the streak. It's a matter of pride."

The brothers said a collaborative effort on behalf of all employees has made them successful in preventing injuries. Together, they developed a plan that has brought them to this remarkable achievement.

"We would have our safety meeting, and the managers would ask us for our input. They didn't dictate what we would do, and that created camaraderie of sorts," Don said.

"The 15-year record is the result of a joint effort by all employees of the Brunswick District, including management, the extra-board engineers and the extra-board conductors," Ronnie said. "This record could not have been possible without everyone's diligent efforts."

In addition to handling NS safety matters, the district also advises NS customers on good safety practices.

"Communicating with our customers is just as important," said Ronnie. "When we see an issue that we believe needs their attention, we let them know by offering suggestions on how to handle the situation. This prevents accidents from happening to them as well as us. They're really appreciative."

Perhaps the family atmosphere can be credited to the fact that Don and Ronnie aren't the only Lances working in the Georgia Division. Don's son **Duane Lance**, also an engineer, has been employed with NS for eight years. His son-in-law, **Reggie Miles**, a machine operator, has been employed with NS 13 years.

"It is truly a pleasure working with the people in the Brunswick District," Talley said. "There is a genuine family atmosphere where people really look out for one another. This is a hard-working district where injuries can happen any time, so going 15 years without an injury is astounding and deserving of recognition."

## DARS Jubilee celebrates recovery where it all began

"I was really living a secret life of alcoholism. No one knew about it, and I wouldn't admit it to myself."

That was the beginning of a testimonial to recovery by a Norfolk Southern conductor at the 29th Drug and Alcohol Rehabilitation Services Jubilee.

Themed "Where It All Started," the jubilee was held in Akron, Ohio, the birthplace of Alcoholics Anonymous. AA developed many of the principles that DARS and other support programs use to assist employees or family members affected by drinking or substance abuse.

"It was like a pilgrimage for us," said **Jack Scott**, manager DARS. "To be at the home of the man who helped start a program that has helped millions of people was truly an honor."

This year's testimonials included that of a conductor who spoke about her personal struggle with alcohol and how it affected her personal life and career.

"There was nothing I wanted more than to work for NS. I felt that it would complete my life and make alcohol less necessary," she said.

Her addiction became stronger, requiring several drinks per day. Then she failed an alcohol test that threatened her job.

"I held my job in very high esteem," she said. "Being at work was really the only thing that made me happy. So when the threat of losing the only thing that I truly enjoyed became real, I knew I had to do something. This is what led me to DARS."

"DARS really changed my life," she said. "I gained a circle of friends who understood what I was going through and who were willing to help."

**John Rathbone**, executive vice president administration, commended the group on behalf of senior management.

"For more than 30 years, NS and its predecessors have reached out – railroader to railroader – to support and provide resources to help those who seek recovery from addiction," Rathbone said. "We do it because every NS employee is a valued and appreciated member of the Thoroughbred team. That's why, as you travel your road to recovery, we're walking with you through DARS. We're proud of you and what you have accomplished, and what you can share with others."

The first and most difficult step in recovering from addiction is the recognition and admission of a problem. "Quite often, the last one to know that they're an alcoholic is the alcoholic," Scott said. "Everything can be falling down around them, but they're fine as long as they have a drink."

"The Jubilee is a celebration of recovery and the reuniting of people who have common problems and solutions," Scott said. "Some NS employees have never missed the event. We had nearly 135 people from all over the system, and the camaraderie was amazing. It was a real homecoming for many of us."

The conductor has resumed work at NS and has been sober for nearly two years.

"I thought the job would cure my drinking because my job made me so happy," she said. "It didn't stop me until I found DARS, and that has brought me happiness in ways I simply could not have imagined. I really have a nice life thanks to NS and DARS. I am living proof that miracles can happen."

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Buck Stewart Calling Trains at The Roanoke Station, 1956

## Link photo display brings back steam era

Norfolk's Chrysler Museum of Art showcased Norfolk & Western Railway's steam locomotives in a display of 101 photos taken by O. Winston Link. Link made thousands of photographs of NW steam locomotives between 1955 and 1960, when NW's last steam locomotive was retired.

The photos are from the collection of **David and Susan Goode**. It is the most comprehensive set of original signed prints, printed by the artist himself.

The collection includes well-known photos such as "Old Maude Bows to the Virginia Creeper," "A Summer's Evening with Train No. 2" and "Hotshot Eastbound at the laeger Drive-In."

Fifty of the photos are displayed in a photo gallery; the remaining 51 are video projections dissolving into one another every 10 seconds. Museum visitors also hear sounds of steam locomotives recorded by Link.

On the exhibit's opening day July 24, visitors were treated to special gallery activities, including an NW H-O scale model train layout, photos taken by NS employees that appear in its annual calendar, a gallery chat and exhibits by the Tidewater Division of the National Model Railroad Association.

"This special opening event was a way to demonstrate our appreciation for Norfolk Southern's support through the years," said Rick Salzberg, director public relations for the museum, which gave free admission to NS employees and their families on opening day.

The exhibit will be on display until Dec. 31.

## NS employees, Lawmen cheer on Atlanta racers

Two Norfolk Southern employees devised a way to cheer on the nearly 55,000 participants in Atlanta's Peachtree Road Race, the world's largest 10k run, and get some recognition for NS. The last leg of the race passed 1200 Peachtree Street, NS' newest Atlanta office facility.

**Alan Brown** and **Steve McCurdy** saw a way to support the runners and the race and introduce NS to the midtown area. McCurdy, senior manager facilities, and Brown, manager network optimization, arranged for a banner to be hung on the building and a special appearance by the Lawmen, NS' country band. They encouraged NS employees to come and cheer the runners on.

"This year we tried to think of a way to say 'good luck' to all the participants, including the 40 - 50 NS people in the race," Brown said. "We wanted to motivate the runners and show NS' community involvement. Most of the runners waved or made some kind of positive gesture. Some even ran over and said 'thank you' as the band played."

"It was great exposure for the company," said Brown. "We couldn't have introduced ourselves to the Midtown community in a better way."

This is the first year the Lawmen played for the race.

"It was very successful," said **Stan West**, NS



NS' Lawmen cheered runners on in the Peachtree Road Race

Lawmen manager. "It gave the runners a boost to finish the race and created a favorable image for NS. We had a really good reception."

The Lawmen recently made their international debut traveling to Toronto, Canada, to perform for the Ontario Chiefs of Police Association.

"We were invited to the conference after the chief of police heard the band perform at a conference in Sun Valley, Idaho," West said. "The band played at the chief's reception, and I don't ever remember being treated any better. We had a great time and made a lot of new friends north of the border."

## Virginia House honors Goode

**David Goode**, Norfolk Southern's chairman and chief executive officer, was honored with a resolution from the Virginia House of Delegates in recognition of his being named Railway Age magazine's "Railroader of the Year." Del. Paula Miller of Norfolk presented the resolution to Goode at a luncheon at NS headquarters.

The resolution congratulated Goode for his accomplishments and cited his leadership in making NS an industry leader in safety and service.