NORFOLK SOUTHERN

Committed to Customer Service

1999 ANNUAL REPORT

Financial Highlights

($ in millions, except per share amounts)	1999	1998	% Increase (Decrease)
Financial Results			
Railway operating revenues	**$ 5,195**	$ 4,221	23
Income from railway operations	**$ 718**	$ 1,052	(32)
Railway operating ratio	**86.2%**	75.1%	15
Income from continuing operations*	**$ 239**	$ 630	(62)
Earnings per share from continuing operations — diluted*	**$ 0.63**	$ 1.65	(62)
Financial Position			
Total assets	**$ 19,250**	$ 18,180	6
Total debt	**$ 8,182**	$ 7,624	7
Stockholders' equity	**$ 5,932**	$ 5,921	—
Debt-to-total capitalization	**58.0%**	56.3%	3
Stockholders' equity per share	**$ 15.50**	$ 15.61	(1)
Other Information			
Year-end stock price	**$ 20.50**	$ 31.69	(35)
Dividends per share	**$ 0.80**	$ 0.80	—
Price/earnings ratio at year end	**32.5**	16.4	98
Number of shareholders at year end	**51,123**	51,727	(1)
Shares outstanding at year end	**382,681,770**	379,404,092	1
Number of employees at year end	**35,640**	24,795	44

* 1998 results included a gain from the sale of NS' motor carrier subsidiary that increased reported net income by $105 million, or 28 cents per diluted share.

Equal Opportunity Policy

Norfolk Southern's policy is to comply with all applicable laws, regulations and executive orders concerning equal opportunity and nondiscrimination and to offer employment on the basis of qualification and performance, regardless of race, color, creed, national origin, sex, age or veteran status.

Additionally, the policy provides employment and equal conditions of employment to qualified individuals with disabilities and disabled veterans within their capabilities to safely perform services with a reasonable accommodation that does not cause the Corporation undue hardship.

Our vision:

Be the safest,
most customer-
focused
and successful
transportation
company
in the world

Description of Business

Norfolk Southern Corporation, a Virginia-based holding company with headquarters in Norfolk, Va., owns all the common stock of and controls a major freight railroad, Norfolk Southern Railway Co. In addition, it owns a natural resources company, Pocahontas Land Corp., and a telecommunications company, Thoroughbred Technology and Telecommunications, Inc.

The railroad system's owned and operated lines extend over approximately 21,800 miles of road in 22 states, the District of Columbia and the Province of Ontario, Canada.

Pocahontas Land Corp. manages more than 1.2 million acres of coal, natural gas and timber resources in Alabama, Illinois, Kentucky, Tennessee, Virginia and West Virginia.

Thoroughbred Technology and Telecommunications, Inc., or T-Cubed, pursues opportunities to use the Corporation's assets for various technology-related purposes.

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Dear Fellow Stockholders:

In 1999, Norfolk Southern made a difficult transition as we integrated a large portion of Conrail into our transportation network. Despite our intensive planning and the undivided concentration of our great Norfolk Southern people, this undertaking proved more complex than anticipated. This has been your company's greatest challenge — a challenge that cost us this year financially and in service to our customers.

Pressure on the bottom line was compounded by the weakest export coal market in more than two decades and fuel prices that nearly doubled during the course of the year. As a result, we recorded net income of $239 million, or 63 cents per share, down 62 percent compared with income from continuing operations in 1998.

David R. Goode
Chairman,
President and
Chief Executive Officer

"Norfolk Southern is again on a **sure and steady course** to **improve customer service** and realize the **benefits** of our expanded rail system."

All of us at Norfolk Southern are strongly committed to improvement. We aspire to be the best in safety, service and in building value. As stockholders ourselves, we are acutely aware of the importance of producing prompt improvements in shareholder value and are dedicated to that end.

In spite of the challenges, we continue to focus on building for the future and rewarding our shareholders. Norfolk Southern made capital investments of $912 million last year, which reaffirms our commitment to the long-term value of the Conrail transaction and our conviction that the new Norfolk Southern will succeed and deliver the promised results.

During 1999, we concentrated on restoring service and improving deliveries for our customers. This year, as we continue to improve service, we also are focused on increasing revenues, reducing expenses and increasing profitability for our investors.

Executing the Transition

In my letter last year, I outlined goals for 1999, the primary one being successful integration of a large new territory to create an entirely new Norfolk Southern. We knew that putting in place and executing an integrated operating plan were the keys to success. However, we missed the mark on execution and found we needed to adjust our plans.

Our employees dedicated themselves to overcoming the early challenges and service interruptions caused by transaction-related problems, and Norfolk Southern made enormous progress during the year.

David Goode addresses employees at Altoona, Pa., on June 1, 1999, the day Norfolk Southern launched operations over its expanded network in the Northeast.

Thousands deserve special recognition and thanks for going the extra mile to help customers in conditions that were far from ideal after the June 1 closing of the transaction.

At the same time, we made additional financial commitments to improve service, including more locomotives, extra cars, and investments in capacity improvements. Regrettably, we paid a short-term price in lower earnings, which were made even worse because of business lost due to service difficulties.

Lessons learned from experience are helping us improve service and achieve our vision to "be the safest, most customer-focused and successful transportation company in the world." I believe our people are more dedicated than ever to reaching that goal.

Norfolk Southern is committed to being a company with which customers want to do business, where employees are proud to work and where value is created for stockholders. We know that we have caused many of our customers to lose confidence in us as a result of 1999. That only increases our commitment to serving our customers better in the future.

Investments — both financial and in the time and effort of our employees — paid off. We have improved service, and we are moving forward. We now need to turn improvement into results.

Persevering

As great as the challenge of reshaping the nation's transportation network has been, it's certainly not the first hurdle Norfolk Southern has had to overcome in its century-long history. Our legacy shows that Norfolk Southern people, including those Conrail people who joined our team this year, are a determined, talented group in a resilient industry.

Some might say a difficult time like the second half of 1999 is best forgotten, but I believe we should remember and learn from the experience. We should remember how important thorough planning is, and we should remember how well our dedicated people respond to challenge.

I am proud of our employees who, like generations of railroaders before them, confronted change and persevered. I also want to thank our many partners for their cooperation: our customers, our short-line and regional rail partners, Amtrak, labor leadership and other carriers. Many stepped forward to help us, just as we offered assistance to other rail partners in the past.

Norfolk Southern is again on a sure and steady course to improve customer service and realize the benefits of our expanded rail system. We have reduced the number of cars on line, improved train speed across the system and cut the time cars spend in rail yards. We met performance and service goals, and we have set new stretch targets.

We are encouraged by performance barometers that show system efficiency improvements and remain committed to a strategy of growth through continuous improvement in safety, service and customer satisfaction. We are well on our way to regaining customer confidence and business.

On an on-going basis, teams from various departments analyze the network and deploy resources with better service and safety in mind. Infrastructure improvements increase capacity for existing traffic and anticipated new business, improve service reliability and provide additional capability for traffic growth. We continue to make improvements.

Building a Foundation for Growth

While 1999 service and financial results did not meet our expectations, we were successful in many ways.

Safety remains our top priority. Even in the midst of challenge, employees earned in 1999 our tenth consecutive E.H. Harriman Gold

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"The new Norfolk Southern is a **franchise in its infancy**, a **true growth** company **packed** with **potential.**"

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Medal award, an unprecedented accomplishment. We again set the industry standard, a remarkable safety achievement.

Despite the weakening in the export coal market, a significant milestone was reached in Thoroughbred Quality during the year when the Lamberts Point Pier 6 coal transload facility achieved ISO 9002 quality certification. The facility loaded its billionth ton of coal in 1999 and is the only one of its kind to reach that level. We believe we can continue a strong market position and revenue growth in this area of our business.

Norfolk Southern completed an accelerated rollout of a new data system for the former Conrail territory now referred to as the Northern Region. The Thoroughbred Yard Enterprise System (TYES) provides accurate, timely reports on car and train movements. This system is directly related to improved service and will be installed over the entire network later this year.

In addition, we accelerated implementation of a data management system for intermodal operations on the Northern Region. The installation of the Strategic Intermodal Management System (SIMS) was completed at least two months ahead of schedule and will help accommodate the aggressive growth of this business.

Investments in technology will reward your company in other ways. We are rapidly developing the company's capability in e-business. We are using technology to expand and improve our customer contacts and the ease of doing business with us.

In addition, in 1999 Norfolk Southern formed a new subsidiary — Thoroughbred Technology and Telecommunications, Inc. — to make its assets available in the fast-growing technology field and capitalize on our capacity in fiber optics, wireless communications and logistics technology. We expect these commitments to enhance our returns in future years.

Going Forward

We have learned a lot this past year about the strength and resilience of our extended network. We are putting that knowledge to work to improve operating efficiency, service reliability and customer satisfaction. With those improvements, we will increase profitability and total returns to our owners.

We are focused on capturing the synergies that we believe our expanded system makes possible. With the investments we have made, we know that we have the track infrastructure and facilities to make this new network thrive over the long term.

We realize there is a great deal of work ahead to regain fully customer confidence and to rebuild and expand our revenue base while improving our cost structure. That is our focus in the coming year. With the strength of our expanded franchise and the continued support of our employees, we are creating the momentum for 2000 and beyond.

I am confident that we have what it takes to deliver the performance our customers deserve and post the returns our stockholders expect. Our goal for 2000 is to build on the recovery and improvements we have made and give our customers, our investors, our people and our communities the results they expect. We know we have the system. We know we can do it. We will get the job done.

Although our roots wind back to the 1800s, Norfolk Southern has a barely tapped world of opportunity before us. The new Norfolk Southern is a franchise in its infancy, a true growth company packed with potential. We can — and will — deliver.

January 25, 2000

The addition of 150 new six-axle, high-adhesion locomotives in 2000 under a lease financing arrangement is among NS investments in customer service.

"Lessons **learned** from **experience** are **helping us** **improve** service and **achieve** our vision."

An Overview of 1999: Expanding the System

The big story for Norfolk Southern in 1999 was growth.

Two years of planning and regulatory review for the most comprehensive restructuring of the eastern transportation network in history culminated on June 1. That's the day NS began operating its new Northern Region, restoring competition to the Northeast for the first time in more than two decades.

Overnight, NS increased by nearly 50% both the size of its rail system — to approximately 21,800 miles of road — and its number of employees — to some 35,600 people.

NS now reaches customers in 22 states. The new NS serves virtually the entire eastern United States, with interchange partners offering connections to the West Coast.

The assets and reach of the new system make it second to none in routes and service opportunities. NS has the best double-stack routes in the East. It offers greater geographic reach to New England and the West and South. Expanded steel and automotive markets make NS the rail industry leader in those commodity groups.

For the first time, NS offers customers single-system access to the major East Coast ports of Baltimore, Philadelphia and New York. NS now is a competitive presence in all major ports and markets east of the Mississippi River, linking customers to the world's economy.

The larger NS connects with some 220 short-line and regional railroad service partners that feed traffic for movement across the NS system.

NS also offers seven new, expanded service routes linking the Northeast, Midwest and Southeast. The larger transportation network gives NS the opportunity to serve more customer facilities than ever before.

With such greater market opportunity, the NS focus remains constant: to operate safely, achieve greater customer satisfaction and offer more consistent and reliable service.

Safety Remains on Top

Employee commitment to safety prevailed at NS throughout 1999.

In May, NS took top honors in the E.H. Harriman Memorial Safety Awards for having the safest employees among major railroads in 1998 — 1.06 reportable injuries for every 200,000 employee-hours worked. This was the tenth consecutive year, an unprecedented accomplishment, that NS employees earned this distinction.

The rail industry's top individual safety award, the Harold F. Hammond Award, was presented to NS employee Doug Wylie, a locomotive engineer from Fort Wayne, Ind.

Executing the Transition

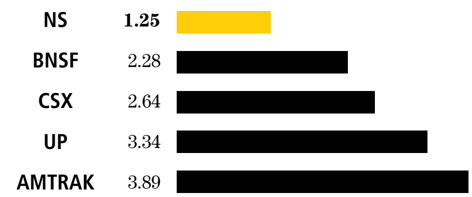
Expanding the NS system involved dividing the routes and assets of Conrail between two rail competitors, NS and CSXT. Splitting a functioning rail network between two large transportation systems had never before been attempted.

In the early stages of the transition, NS experienced service and operational issues that affected customers in all commodity groups.

Assisted by other railroads and with the cooperation of its customers, NS responded aggressively on many fronts to address those issues. By year end, operations had shown measurable improvement, and NS was serving customers better and was ready to grow its transportation business.

FRA-Reportable Injuries Comparison
Preliminary figures for 1999

(Per 200,000 employee-hours worked)



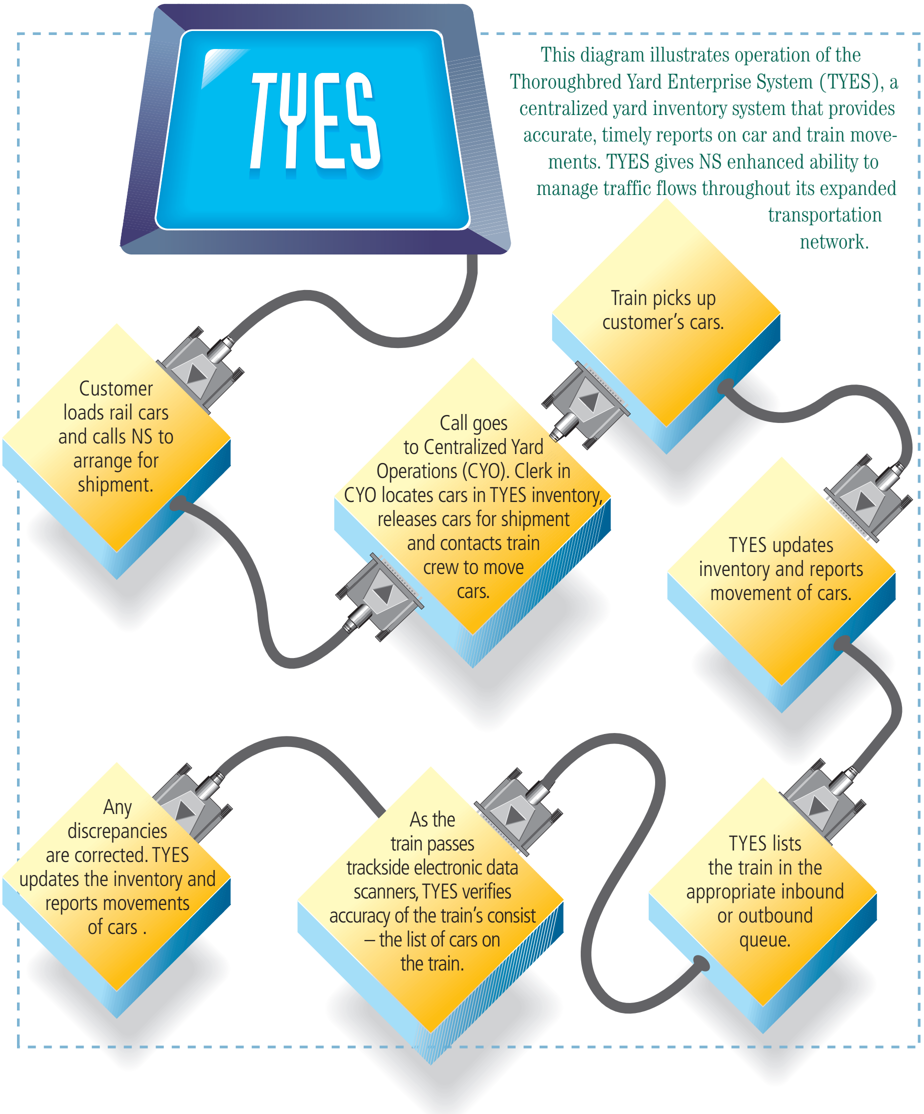
Cited for its industry-leading employee safety performance for 10 consecutive years, NS again posted the safest record for 1999, according to preliminary figures as of Feb. 10, 2000.

Systems Enhance Service

Improved data quality translates into more efficient railroad operations that enhance customer service.

By December, NS finished an accelerated rollout of its Thoroughbred Yard Enterprise System (TYES) in all transportation field locations in the Northern Region. TYES is a centralized yard inventory system that provides accurate, timely reports on car and train movements. From the beginning, it was designed to be the most integrated application ever developed by NS.

Originally scheduled for a 30-week phase-in extending to February 2000, installation of TYES on the Northern Region was accomplished in 18 weeks. This helped to reduce transition-related car-tracking problems.



This diagram illustrates operation of the Thoroughbred Yard Enterprise System (TYES), a centralized yard inventory system that provides accurate, timely reports on car and train movements. TYES gives NS enhanced ability to manage traffic flows throughout its expanded transportation network.

By the end of December, some 60% of the NS rail system was equipped with TYES. Installation over the entire network, which also includes the Eastern and Western regions, is scheduled to be completed in 2000.

NS also accelerated implementation of its data management system for intermodal operations. The Strategic Intermodal Management System was installed at 13 intermodal terminals in about two months, instead of four to six months as originally planned.

E-commerce Initiatives

The Internet presents many new opportunities for railroads and their customers.

NS has established a cross-functional team of senior people in Transportation, Marketing, Finance and Information Technology to implement its corporate electronic commerce strategy.

NS, which long has practiced electronic transfer of information, now is engaged in Internet-based applications. Key opportunities for further Internet-based e-commerce development in 2000 lie in enhanced customer service, improved efficiency and cost reduction.

Internet applications being developed include the cars-due reports. These will enable NS to provide timely, large-scale, low-cost access to traffic information and support data such as waybills and customer profiles.

Web-enabled bills of lading and car orders also are being developed.

In an innovative e-commerce undertaking, NS is testing an application designed specifically for Internet deployment. The Coal Transportation Management System will facilitate all aspects of the coal business — from initiating a shipment, to scheduling, tracing and capturing vital information.

Reaching a Milestone at Pier 6

NS loaded the billionth ton of coal at its Lamberts Point Pier 6 transload facility in Norfolk, Va., on Sept. 4, 1999. Lamberts Point, the largest coal transload terminal in the Northern Hemisphere, is the only facility of its kind to reach this milestone.

Coal moving through Lamberts Point originates primarily in Virginia, West Virginia and Kentucky and is exported to 22 countries.

2000 and Beyond

NS preparations for Jan. 1, 2000, began in October 1995, with 100 people assigned to the task of ensuring a smooth transition to a new century of service.

With the commitment of that initial group and many others, including the NS people who monitored key systems during the New Year holiday, NS experienced no Y2K-related problems in its operations.

The Y2K project worked for important business partners of NS as well. Amtrak, which operates passenger service over certain NS routes, commended NS for its coordinated Y2K planning and noted that Amtrak trains were operated safely over NS during the transition.

Routes, Facilities, Clearances

Norfolk Southern Railway System

In cooperation with other railroads, Norfolk Southern provides service linking the East with the major West Coast port cities, and along the entire Eastern Seaboard, from southern Florida to New England.

Expanded Reach:

- 21,800 route miles, extending through 22 states, the District of Columbia and the Province of Ontario, Canada
- Partnerships with some 220 regional and short line railroads
- Access to 13 seaports and seven lake ports

Service to:

- 152 Bulk Transfer Facilities
- 147 Coal Loading Facilities
- 109 Lumber Reload Centers
- 94 Paper Distribution Centers
- 83 Paper Mills
- 82 Metals Distribution Centers
- 72 Steel Production and Processing Facilities
- 67 Utility Plants
- 43 Intermodal Terminals
- 38 Auto Distribution Facilities
- 34 Auto Assembly Plants
- 29 Coal and Iron Ore Transload Facilities
- 4 Vehicle Mixing Centers
- 4 Just-In-Time Rail Auto Parts Centers

Major Projects:

Ashtabula, Ohio A new connection from Ashtabula Harbor west toward Cleveland permits direct movements between the Pittsburgh-Youngstown line and the Buffalo-Cleveland route. It is scheduled for completion in 2000.

Buffalo, N.Y. Construction at Bison Yard was completed in December. Together with rehabilitation of the leased Buffalo and Pittsburgh Railroad yard and a new connection to it, these improvements enhance service for Buffalo, western New York and the Southern Tier.

Central Ohio Capacity enhancements on NS' core routes from Bellevue to Columbus and Oak Harbor, near Toledo, include 24 miles of double track, an additional siding at Kingsway, Ohio, and signal enhancements at the Bellevue yard. These investments will help improve service between the Midwest, Northeast and Southeast. All three projects are scheduled for completion in mid-2000.

Chicago Conversion of two former Metra tracks to new intermodal loading tracks will increase operating efficiency. This project is scheduled for completion in third quarter 2000.

Cleveland (Cloggsville, Ohio) Connection tracks will reduce congestion and allow some train traffic to bypass Cleveland's western suburbs. Completion is scheduled for the third quarter 2000.

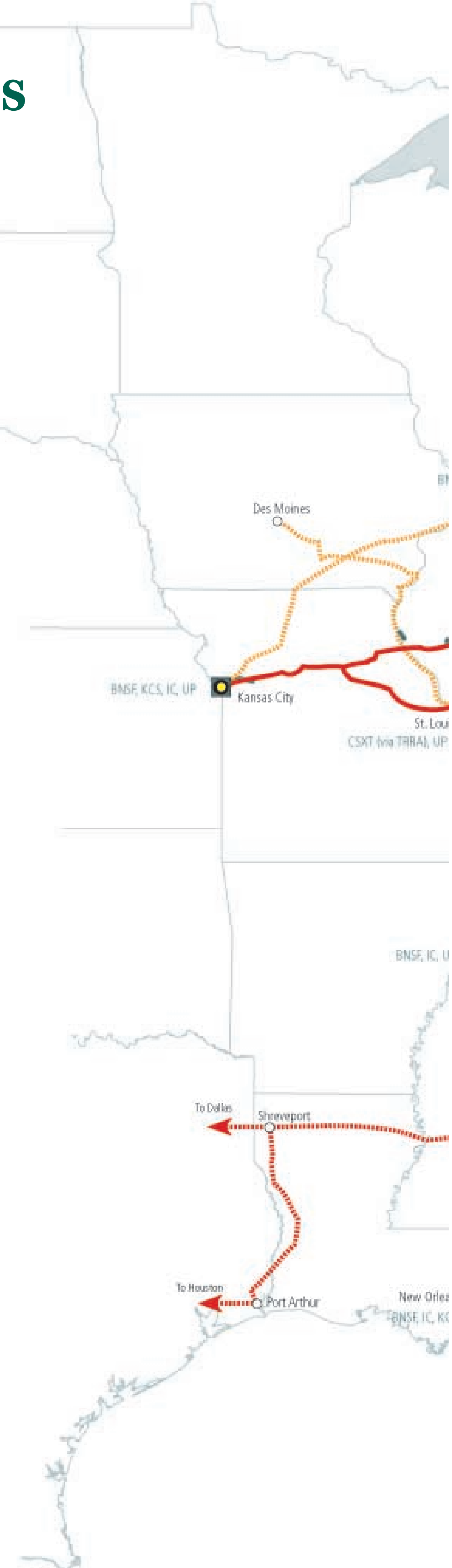
Harrisburg, Pa. Additional double track and improved signals will improve operating flexibility in the Harrisburg terminal area and along the east-west route between northern New Jersey/Philadelphia and Chicago. The project is scheduled for completion in 2000.

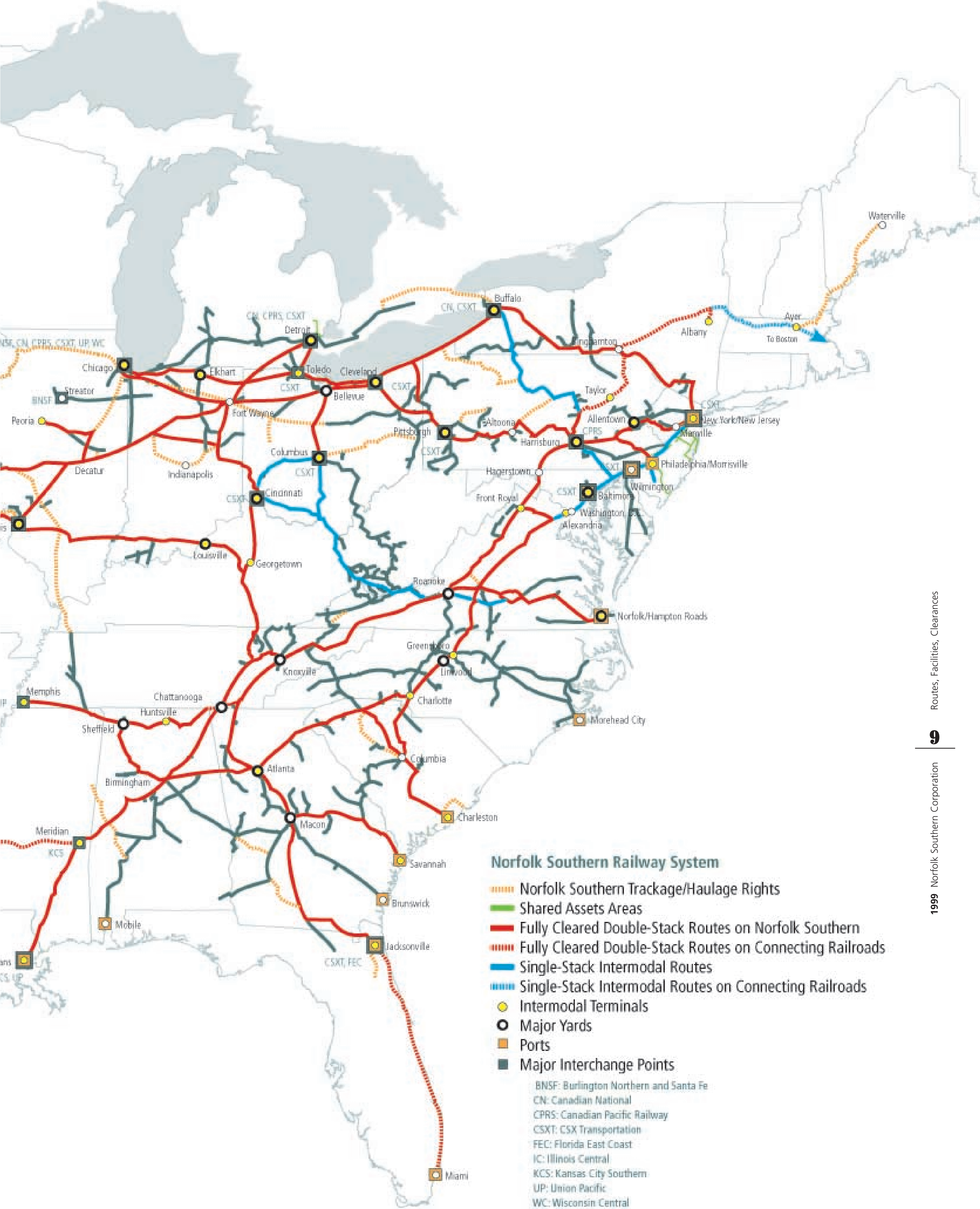
Mitchell, Ill. A new Triple Crown Services terminal is scheduled for completion in 2000.

Princeton, Ind. Construction of four miles of second main line track will facilitate movement of traffic between St. Louis, Mo., and Louisville, Ky. It is scheduled for completion in 2000.

Rutherford, Pa. A new intermodal facility will be a major distribution center for traffic to and from the East Coast. It is scheduled for completion in second quarter 2000.

Toledo, Ohio Additional track capacity will support interchange and staging of coal trains for customers in southern Michigan, northern Ohio and northern Indiana. The project is scheduled for completion in 2000.




Waterville
Buffalo
CN, CSXT
CN, CPRS, CSXT
Detroit
BNSF, CN, CPRS, CSXT, UP, WC
Chicago
Elkhart
Toledo
Cleveland
CSXT
Bellevue
Streator
BNSF
Fort Wayne
Peoria
Decatur
Indianapolis
Columbus
Pittsburgh
Altoona
Harrisburg
Binghamton
Albany
Ayer
To Boston
Taylor
Allentown
CPRS
New York/New Jersey
Manville
Philadelphia/Morrisville
Wilmington
Hagerstown
Baltimore
Washington, DC
Alexandria
Front Royal
Cincinnati
Louisville
Georgetown
Roanoke
Norfolk/Hampton Roads
Greensboro
Linwood
Knoxville
Charlotte
Morehead City
Memphis
Chattanooga
Huntsville
Sheffield
Birmingham
Atlanta
Columbia
Charleston
Macon
Meridian
KCS
Savannah
Brunswick
Mobile
Jacksonville
CSXT, FEC
Miami
Norfolk Southern Railway System
Norfolk Southern Trackage/Haulage Rights
Shared Assets Areas
Fully Cleared Double-Stack Routes on Norfolk Southern
Fully Cleared Double-Stack Routes on Connecting Railroads
Single-Stack Intermodal Routes
Single-Stack Intermodal Routes on Connecting Railroads
Intermodal Terminals
Major Yards
Ports
Major Interchange Points
BNSF: Burlington Northern and Santa Fe
CN: Canadian National
CPRS: Canadian Pacific Railway
CSXT: CSX Transportation
FEC: Florida East Coast
IC: Illinois Central
KCS: Kansas City Southern
UP: Union Pacific
WC: Wisconsin Central

The Operating Plan: Concentrating on Customer Needs

At its core, the NS operating plan focuses on specific customer needs.

The objective might be achieving reliable, scheduled service for time-sensitive traffic. It might be reducing cycle times or providing specialized equipment. Often, it's a combination of customer requirements.

Whatever the need, NS has the network reach and people to tailor services with the individual customer in mind.

Case in point: PPL, Inc., is a major coal receiver on the Northern Region. It depends on efficient cycle times for its train sets operating between mines and three utility plants.

When short-term service difficulties experienced by NS after June 1 led to unacceptable increases in PPL cycle times, NS went to work on the solution. "The commitment was there to take care of it for the customer," said Ron Listwak, NS assistant vice president Coal Marketing.

NS Marketing and Transportation people participated in a series of meetings with PPL. "Mutual awareness of each other's operational methods led to a common search for solutions," Listwak said. "We gave it the attention and resources needed to resolve the issues."

The result? Cycle times improved dramatically by early October. In some cases, cycle times were even better than they had been prior to June 1. NS was able to meet all goals, replenishing PPL coal stockpiles and even building reserves as part of PPL's normal winter inventory requirements.

What's more, NS sustained service at high levels. "We really put everything back on track pretty quickly," Listwak said.

The response to PPL illustrates NS' commitment to customer service. And when challenged, the entire NS team pulls together, as it did when the number of cars on line reached unanticipated levels after June 1.

NS expected to begin its operations in the Northeast on June 1 with approximately 216,000 cars on line, an increase of some 67,000 cars.

On June 3, however, the car count on NS was 227,000, and by the end of June, cars on line hit a high of 248,000 as traffic volumes grew more than anticipated.

In response, the NS team mobilized, launching several initiatives to reduce cars on line and improve service and operations.

NS dispatched employees across its rail system to address specific service needs. Manual efforts supplemented automated car data processes that initially were inadequate.

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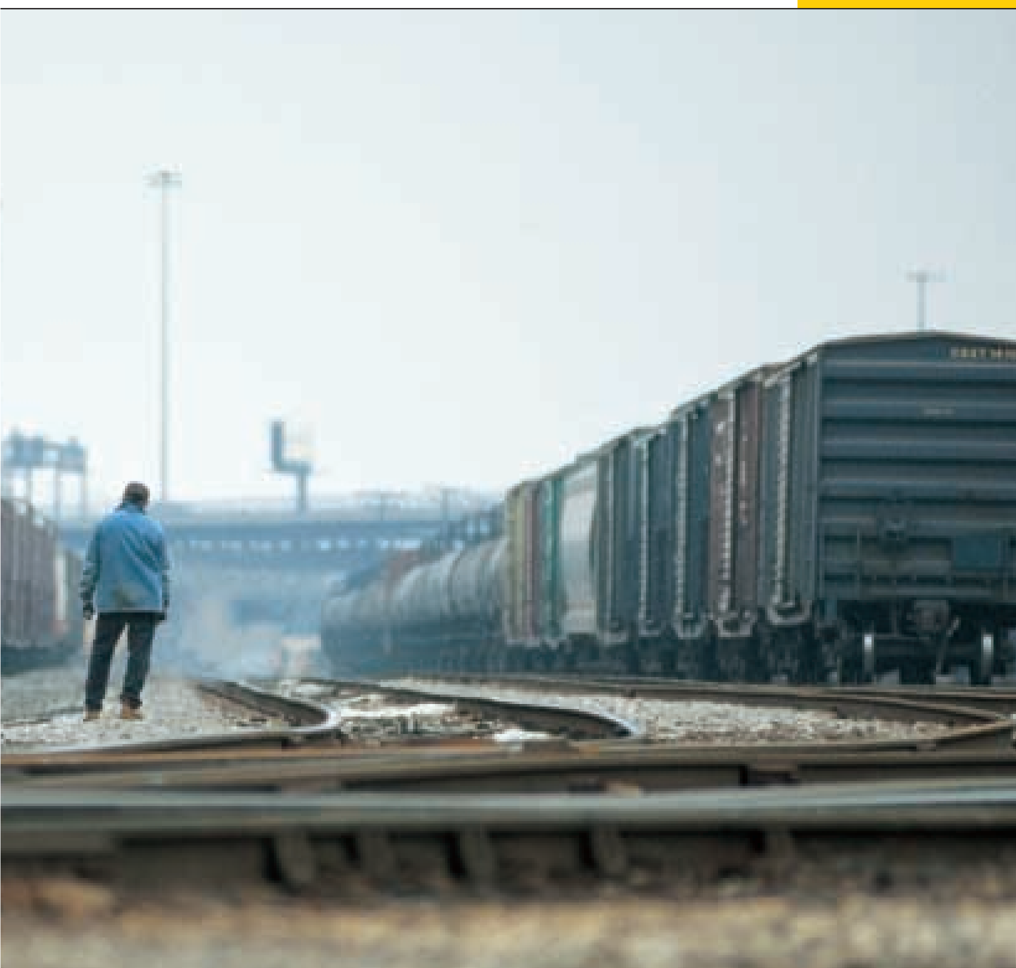
Conductor's Spirit Speaks for Many at NS

During the latter half of 1999, it wasn't uncommon for customer conversations with NS representatives to conclude with a remark like this: "In spite of the problems, you've got a great employee in …. He's really gone out of his way to try to help me out."



Such is the case with Bob Stephenson, a yard conductor in Baltimore and a 41-year railroad veteran. He represents thousands of employees who work tirelessly to improve rail operations and customer service.

"I take it personally to act as a customer service agent," says Stephenson. "I make a point to ask my customers what they need. When you talk to people and you're sincere, they trust you, and that's where we can build customer loyalty."

Knowing Stephenson takes a personal interest in his business is reassuring to Mike Buckley, vice president and general manager of Terminal Corp., one of Stephenson's customers.

"He just goes above and beyond the call of duty in every aspect of what he does," says Buckley of Stephenson. "NS couldn't have a better representative."

Stephenson keeps his eyes peeled for business opportunities and never hesitates to suggest rail as the best alternative.

"I work for my customers," Stephenson says. "If I help them succeed, NS succeeds and so do I."

With employees like Bob Stephenson, NS will restore service to optimum levels and maintain customer loyalty.

Bob Stephenson, right, a yard conductor at Baltimore, is a 41-year railroad veteran who is committed to customer service. Above is Bayview Yard at Baltimore, which NS began serving June 1 as part of its new Northern Region.

Customer Service: 'The Most Important Thing I Do'

Continued **from** page 10

Greg McReynolds is a locomotive engineer at Carbo, Va., who exemplifies thousands of people on the NS team when he speaks of his mission to serve NS customers.

"Customer service is the most important thing I do," says McReynolds, who has 14 years of railroad experience. "Good service ensures more business for NS and ensures our future. If I do a good job, then the word gets around that NS is a good company to do business with."

Greg McReynolds

Wayne Peters, a train conductor at Adel, Ga., echoes that commitment. "I have a great relationship with my customers," says Peters. "I respect them and keep them informed. In turn, they keep in touch with me, and we make things work to both our advantage."

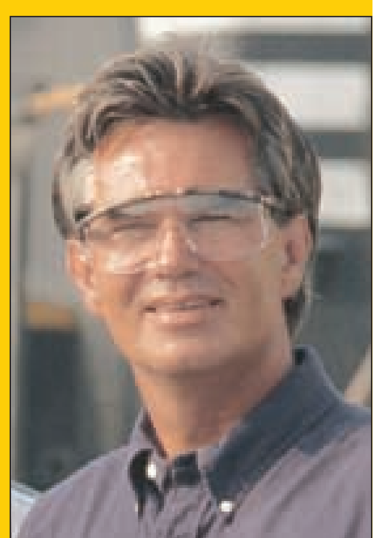
Mac Ingram, transportation coordinator for Sierra Pine Limited, a manufacturer of particle board, is one of Peters' customers. "Wayne is excellent at what he does, a real professional," says Ingram. "He communicates well, and we are happy to have him working with us. If NS operates as well as Wayne Peters, they'll do well."

Peters, who has 21 years of railroad service, calls his customers at least once every day. "They respect me for that and therefore are more likely to stick with NS." He even gives customers his home number so they can reach him around the clock. "They do call me at home, but I don't mind. I want to give them what they need."

Customer service is a team effort. "My crew steps up when it is needed," says Peters. "They know what our customers expect, and we work together as a team to provide it."

The same is true of McReynolds: "Our team will keep things moving and make sure the clients get what they need. It's not just me; it's about the team and providing service."

And, says McReynolds, "We have made the connection between customer service and safety. We will continue to improve."



Wayne Peters

NS accelerated installation of its Thoroughbred Yard Enterprise System (TYES) to provide more timely, accurate information on deliveries to customers. NS completed TYES installation 12 weeks earlier than the original 30-week schedule, enhancing its ability to manage traffic flows over the network.

NS hired additional people to train for engineer and conductor positions and offered incentives to agreement employees to increase employee availability.

NS leased more than 500 additional locomotives, bringing the available fleet to approximately 4,000 units.

NS called on assistance from Class I connecting carriers, Amtrak, regional railroads and short lines. Some classified cars for NS; others made their tracks available as links between segments of the NS system.

NS reconstructed a 10-track facility in Buffalo at a cost of $13 million to improve service for western New York. The project involved reinstalling five tracks for local service and five 8,000-foot tracks to support NS operations and facilitate interchanges with other carriers in Buffalo.

NS created teams of employees from various departments to analyze service issues at Harrisburg, Pa.; Sandusky and Bellevue, Ohio; Decatur, Ill.; and Detroit. The teams reviewed capacity and performance and recommended changes.

By the end of the year, NS reported greater operating fluidity across its expanded network and had positioned itself to handle growing service opportunities.

Short Lines and Regional Roads Partner with NS to Improve Service

The Aberdeen, Carolina and Western Railway Company joined forces with NS to create a transportation package to secure a new poultry feed mill for Mountaire Farms near Candor, N.C. The effort resulted in new business and is typical of the partnership NS fosters with short lines and regional railroads. Shown from left to right are Raeford Elkins, project manager, and Ray Williams, feed mill manager, both of Mountaire Farms; Mark Bean, NS account manager Sales, Charlotte, N.C.; Judy Stephens, director Montgomery County (N.C.) Economic Development Corporation; Bill Johnson, NS group sales manager, Charlotte; Bob Ingram, NS product manager Grain Marketing, Roanoke, Va.; and Jim Bowman, NS industrial development manager, Raleigh, N.C.

A spirit of camaraderie and collaboration has grown among NS and its connecting short lines and regional railroads.

"There is an attitude of cooperation and determination that benefits customers — theirs and ours," says John Kraemer, NS general manager Short Line Marketing. "We work together to determine the best way to interchange traffic to provide the highest levels of safety, service and value."

Bill Strawn, president of the Ohio Central Railroad System, agrees.

"It's not always easy for the big corporation to listen to a small company, but that's what NS has done," Strawn says. "I think they will continue to add value not only for themselves, but also for customers by these partnerships with short lines."

Dick Robey, president of North Shore Railroad Co., which operates eight short lines in Pennsylvania, says large and small railroads are interdependent.

"This is a hand-in-glove relationship," he says. "We are the fingertips on the larger NS."

The expanded NS rail system connects with some 220 regional and short line railroads throughout the Southeast, East, and Midwest. Those short line and regional rail partners feed traffic for movement across the NS system.

"The short lines come through for us in terms of route management and capacity," Kraemer says. "They have been, and continue to be, a great asset to our rail network."

NS will continue to explore additional partnership opportunities, as many short line and regional rail routes provide cost-effective and service-enhancing ways for NS to meet demand and improve service.

"We share an undivided focus on safety, customer service and continuous improvement," Kraemer says. "With common goals, we'll be able to improve service and add value for customers as we go forward together."

NS Launches Initiatives for Growth

NS Adds to Infrastructure To Improve Rail Network

In 1999, NS had under way some $250 million in infrastructure improvements to enhance operations on its expanded rail system.

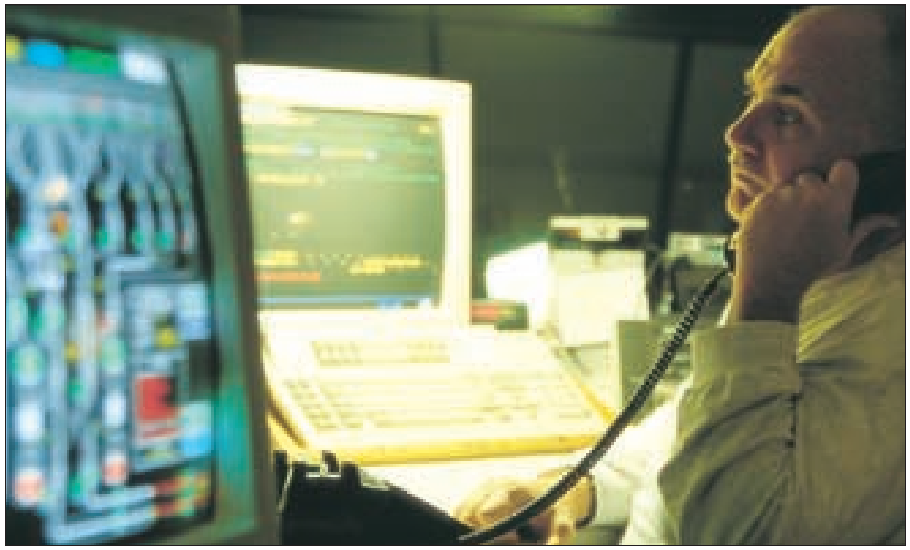
The improvements are designed to increase the railroad system's ability to attract business and to enhance service reliability.

Key elements include:

- Additional double track and improved signals on NS' main east-west route in Pennsylvania between northern New Jersey/ Philadelphia and Chicago
- Capacity enhancements on core routes in Ohio from Bellevue to Columbus and Toledo
- Creation of a bypass route around Atlanta by upgrading rail, crossties and bridges on a former secondary line

Also, NS completed in 1999 a project to clear the Pattenburg tunnel in New Jersey for double-stack operation. This provides NS two double-stack routes serving New Jersey, linking the Northeast with the Midwest and Southeast and greatly enhancing intermodal operating efficiency and service capacity.

NS construction at Bison Yard (left) at Buffalo, N.Y., helps improve service for Buffalo, western New York and the Southern Tier route on the new Northern Region. Below, Bill Hawkins, general yardmaster in the tower at Conway Yard, Pittsburgh, checks systems information to ensure proper car classification. Conway, on the Northern Region, is the largest classification yard on NS.



Whatever the need, **NS has the network** reach and people to **tailor services** with the **individual customer** in mind.

Investing in Customer Service: NS to Spend $747 Million

NS has announced plans to spend $747 million for capital improvements to its railroad operations in 2000.

In addition, NS plans to acquire 150 new six-axle, high-adhesion locomotives in 2000 under a lease financing arrangement.

The anticipated spending includes $576 million in roadway spending and $143 million in equipment spending.

Roadway spending includes:

- $284 million for rail, crosstie, ballast and bridge programs
- More than $110 million for additional track, such as construction of passing sidings and installation of double track on key routes
- $75 million for new or expanded intermodal facilities
- $32 million for marketing and industrial development initiatives
- $30 million for signal and electrical projects
- $22 million for environmental projects and public improvements, such as grade crossing separations and crossing signal upgrades

Equipment spending includes $72 million for upgrading existing locomotives, purchasing 255 multilevel automobile racks, rebodying coal and coke hoppers and modifying open coil cars.

NS also plans to lease 475 articulated bilevels for automotive service.

Additional equipment spending

Continued **on** page **16**

Continued **from** page **15**

includes $23 million for computer-related projects and $35 million for maintenance equipment and highway vehicles.

Thoroughbred Mechanical Services Sets the Stage For New Business

In 1999, NS opened the doors of its Mechanical shops to others.

This sets the stage for new business opportunities for NS.

Thoroughbred Mechanical Services provides locomotive, railcar and maritime repairs, building and rebuilding.

NS operates locomotive repair shops at Altoona, Pa., and Roanoke, Va.; car repair shops at Roanoke and Hollidaysburg, Pa.; and wheel shops at Knoxville, Tenn., and Hollidaysburg.

The shops meet stringent standards for safety and quality work set by the Association of American Railroads.

New Intermodal Subsidiary Offers Door-to-Door Service

In 1999, NS created a new subsidiary to provide door-to-door service for shippers of time-sensitive business.

Known as Thoroughbred Direct Intermodal Services (TDIS), the new company designs transportation logistics. It uses a combination of conventional rail intermodal service, RoadRailer® equipment and motor carriers to meet customers' transportation needs.

TDIS offers a single point of contact and provides shipment security for customers.

Key customers of TDIS include the U.S. Postal Service and others whose business is time-sensitive, such as those who ship bulk mail products and printed materials.

The car repair shop at Hollidaysburg, Pa., on NS' Northern Region, is a key to the new business opportunities being developed by the Thoroughbred Mechanical Services division.

START: A Positive Approach To Rules Compliance

In cooperation with the United Transportation Union and the Brotherhood of Locomotive Engineers, NS developed a new policy in 1999 to address operating and safety rules compliance in an educational manner.

The policy, System Teamwork and Responsibility Training (START), was instituted Jan. 1, 2000.

START provides for employees to receive positive learning experiences, training and growth opportunities in a cooperative environment.

T-Cubed, New NS Subsidiary, Pursues Telecommunications Business

T·CUBED
Thoroughbred
Technology &
Telecommunications

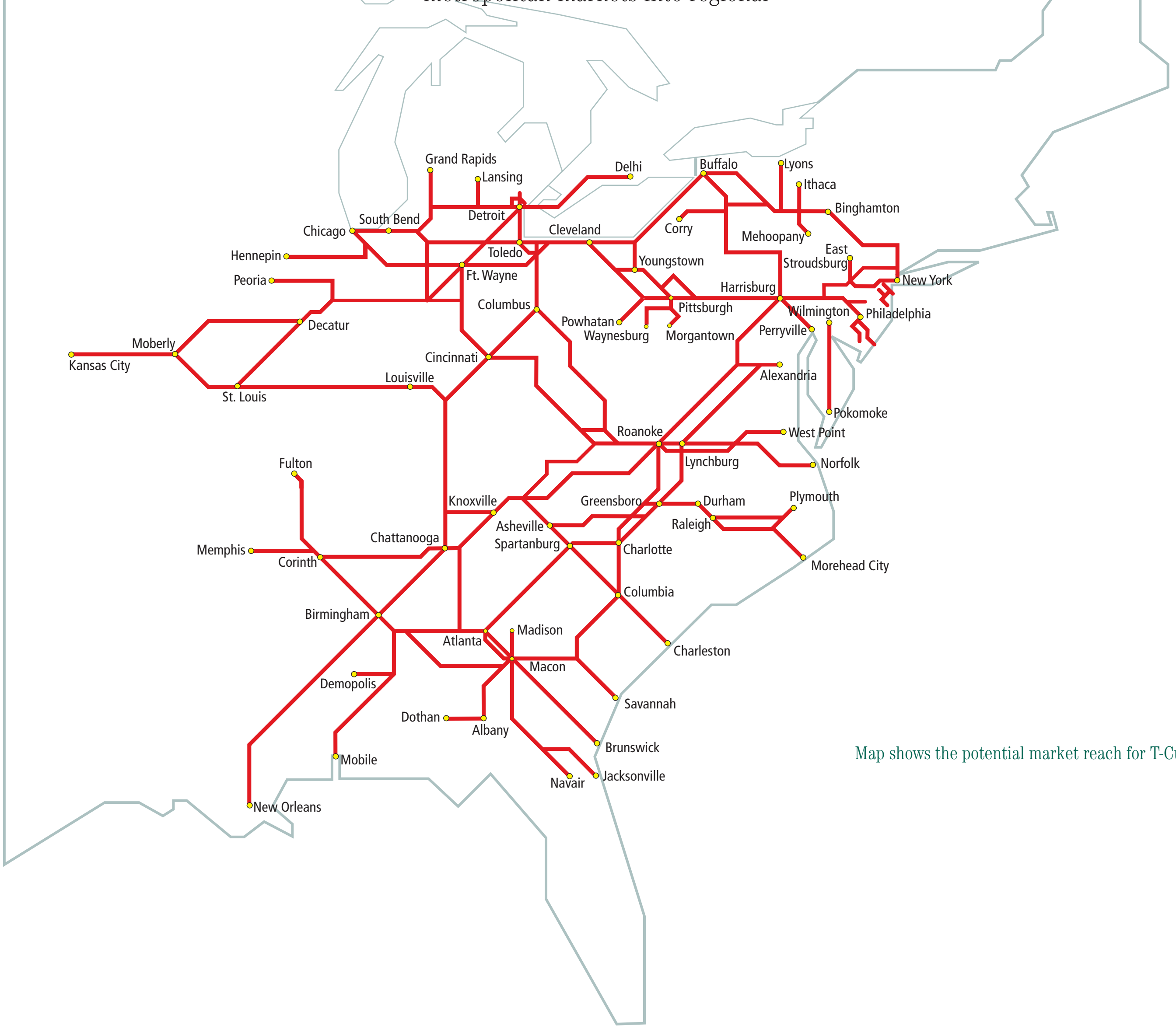
During 1999, NS formed a new subsidiary — Thoroughbred Technology and Telecommunications, Inc. — to participate in the telecommunications business.

Doing business as "T-Cubed," the new company pursues development opportunities with a variety of telecommunications providers.

Using NS' assets, telecommunications companies doing business with T-Cubed can reach beyond the major metropolitan markets into regional centers and even smaller locations.

"We believe the time is right to launch new telecommunications and technology business ventures that will add value to Norfolk Southern's assets," said Charles W. Moorman, president of T-Cubed.

T-Cubed also will be responsible for marketing and selling NS' information systems.



Map shows the potential market reach for T-Cubed

Reaching New Northeast Markets Diversifies and Balances NS' Traffic Mix

New business in new markets in the Northeast helps NS achieve a more diverse and balanced traffic mix. At year-end, general merchandise traffic accounted for 59% of total NS revenues, while coal accounted for 25% and intermodal 16%.

All commodity groups showed volume increases as a result of NS' June 1 commencement of operations in its new Northern Region.

General Merchandise

Automotive

The system expansion further boosted NS' position as the carrier with the highest automotive market share in the rail industry. NS attributes growth to increased vehicle production and its initiatives to provide automotive manufacturers and their customers with parts and finished vehicle supply chain services.

The outlook is favorable, as NS now serves 34 assembly plants and 38 auto distribution facilities in addition to four strategically placed Just-In-Time rail centers to support consolidation and supply chain management of auto parts to selected assembly plants.

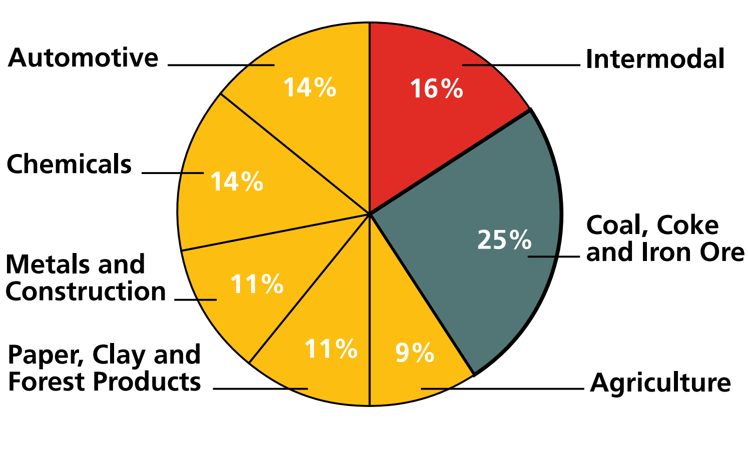
Chemicals

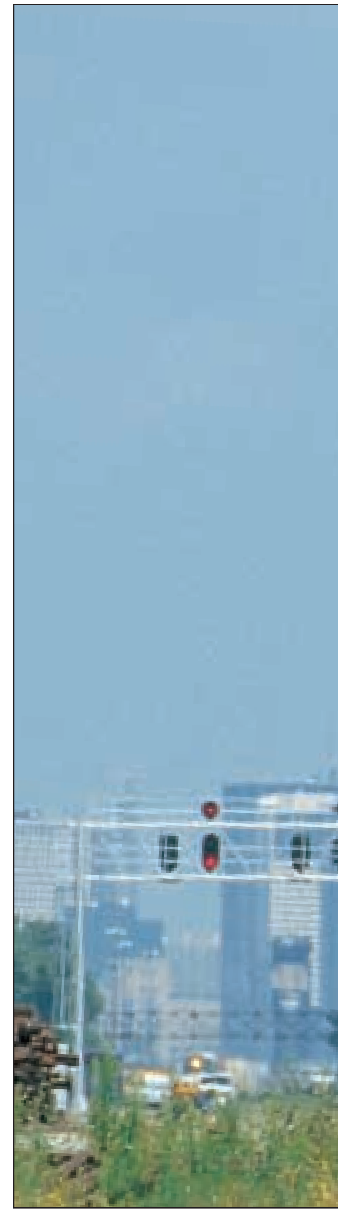
Plastics and petroleum led growth as a result of NS' gaining access to large chemical plants, petroleum refineries and chemical coast storage tanks in New Jersey.

NS has access to 152 bulk transfer facilities capable of handling a range of chemical products. Growth of

Continued **on** page **20**

Total Percentage of NS Revenues





An NS locomotive pulls away from the Chicago skyline. Chicago is an important gateway linking West Coast interchange partners to NS' service territory in the East. NS offers the shortest rail route between Chicago and the Northeast.

Serving the Automotive Industry: Meeting the Challenges of Growth

The automotive industry broke all production records in 1999. That meant bigger opportunities for NS, the largest carrier of parts and finished vehicles in North America.

But NS also faced big challenges handling surging vehicle traffic at the same time it began operating over its new Northern Region.

Although shipments of finished vehicles were affected, the greatest demands came on the parts side of the automotive business. A steady supply of rail equipment and reliable delivery of parts to assembly plants is required to support vehicle manufacturing.

In early June, the NS automotive group participated side-by-side with customers in command centers set up at the domestic auto manufacturers' Detroit headquarters. Coordinating with the NS National Customer Service Center and the Car Distribution and Utilization department in Atlanta, plus field Transportation people, they worked on the operating plan to keep auto manufacturing production going.

"We responded quickly and comprehensively," says David Julian, NS director Automotive Markets Management Team. "It was a challenging and demanding time for our customers."

Richard Kiley, NS national account manager – General Motors, said, "We are dedicated to problem resolution, and we do all that we can to do just that."

Scott McGregor, NS national account manager – Ford, notes that when it comes to customer needs, NS' goal is "to do everything we safely can do."

"We have had extraordinary cooperation from our customers," says McGregor. "They have been willing to do what it takes to help us make it all come together."

Strengthening relationships with automobile and parts manufacturers is now a focus of the Automotive Markets Management Team. "As the manufacturers see our continued improvements, we expect to see additional freight on our rails," Kiley says.

Continued **from** page **18**

integrated rail-to-truck delivery services is averaging 12% annually.

NS expects future increases in chemicals will be driven by value-added supply chain services, improved transit time, and higher production of synthetics, basic chemicals and agricultural chemicals.

NCSC: Opening Lines Of Communication

Aside from customers, few know better than employees at NS' National Customer Service Center (NCSC) in Atlanta about the importance of providing quality service over an expanded rail system.

Shaun Sutton is one of 76 customer service representatives at NCSC who answer the phones when customers call. "We just try to take customers one at a time," Sutton says, "and treat each one like he is the only customer needing our help. We let them know that open lines of communication are always a priority."

The experience affirms Sutton's commitment to customer service.

"We take customer service seriously," Sutton says of himself and others at NCSC. "It's as if we own those cars and as if it's our money on the line. That's what true service is all about."

"With that approach," says Rush Bailey, director NCSC, "we are a better, stronger company with more ability to assist customers in expanding their businesses."

Metals and Construction

Metals traffic benefited from marketing initiatives with the NS network of 72 steel mills and 82 metals distribution centers. NS now holds a 57% share of the eastern U.S. rail market for metals shipments, supported by a fleet of more than 20,000 gondolas.

Construction revenues are expected to continue growing as a result of highway expansion programs in the eastern U.S., primarily benefiting aggregates and cement.

Paper, Clay and Forest Products

NS now serves 94 paper distribution centers and 109 lumber reload facilities that are well positioned to supplement NS' direct carload service.

Initiatives in 2000 include a network approach to NS' enhanced distribution system, and improved car utilization through cycle time reduction programs.

Agriculture

NS' marketing strategies and anticipated increases in commodity prices are expected to improve fertilizer shipments. Continued growth in corn shipments for processing, increased animal feed demand and new feed mill projects should strengthen NS' agricultural market share.

A 75-car shuttle train program to begin in 2000 will contribute to feed mill growth and improve equipment utilization and service reliability.

Coal

Coal revenue increased due to growth in utility coal markets and the addition of service in the Northern Region. Export coal tonnage decreased 28% in 1999 and will continue to be affected by strong global competition from Australia, South Africa and South America.

Two utility coal market opportunities awarded in 1999 bring significant new business to NS. Beginning in January 2000, NS began hauling a significant portion of the coal consumed by the utility plant operated by Keystone-Conemaugh Projects at Shelocta, Pa. Future construction of a track connection will improve routing to the plant and allow heavier tonnage, enabling NS to compete for even greater market share.

At Homer City, Pa., NS is establishing a rail-to-truck transfer facility to supply CONSOL Energy, Inc., coal to a utility plant owned and operated by Edison Mission Energy. When the facility is operational in the second quarter 2000, NS will supply a significant portion of the plant's coal consumption.

Access to high-quality coal that complies with requirements of the Clean Air Act leaves NS well-positioned in utility coal markets.

The 2000 outlook calls for increasing volume in utility coal, domestic metallurgical coal and industrial coal, as well as coke and iron ores.

Intermodal

Operations in the Northern Region brought a 31% growth in intermodal traffic volume over 1998. NS invested in structures, yards and equipment to upgrade intermodal corridor capacity to serve the growing business.

Key locations for expansion of intermodal capacity included Atlanta, Chicago and North Jersey. Clearance of the Pattenburg, N.J., tunnel for double-stack handling gives NS the best double-stack routes in the East, with two cleared corridors connecting the Northeast with the Midwest and Southeast. NS has the only double-stack north-south route east of Cincinnati.

In 2000, intermodal growth is expected to come from the launch of several new or improved intermodal services.

A new intermodal facility at Rutherford, Pa., scheduled to be completed in the second quarter, will be a

"We take **customer service** seriously.

It's as if we own those cars and

as if it's our money on the line.

That's what **true service**

is all about."

– Shaun Sutton, NS customer service representative, Atlanta

major intermodal center for distribution of traffic to and from the East Coast. Rutherford will be a primary classification point for traffic between New Jersey, Pennsylvania, Baltimore and New England in the North, and Memphis, Atlanta, Jacksonville and Texas in the South.

The Rutherford facility also will enhance intermodal service to the Atlantic Coast ports of New York/New Jersey, Baltimore and Norfolk. Additionally, it will serve as a staging area for traffic moving through the western gateway of Chicago to the East.

With the planned opening of another new hub terminal in Harrisburg, Pa., in April, NS will add expanded north-south services, as well as significantly improved Atlantic port services.

Intermodal container traffic continues to grow. In 1999, NS began taking delivery of more than 5,000 53-foot truck-competitive units to ensure that enough containers are available to support business growth and the industry's conversion from trailers.

The trailer business remains an important component of NS' intermodal traffic base, especially in the movement of less-than-truckload, parcel and postal shipments.

Industrial Development

NS assisted with the location of 89 new industries and the expansion of another 35 in 1999.

This represents an investment of $2.84 billion by NS customers and is expected to create nearly 8,000 jobs in the 19 states where the plants and expansions are located.

NS expects these industrial development efforts to generate 114,000 carloads annually.

Honda Motor Co. announced that it will construct a new assembly plant on NS lines near Lincoln, Ala. Honda will manufacture minivans and sport utility vehicles, as well as engines, at the plant.

Construction of the plant begins in mid-2000, with completion set for 2002.

The Honda facility is the ninth out of the last 12 assembly plants locating in the eastern United States to locate on NS lines.

Two of the year's largest projects involved other NS automotive customers, BMW and Mercedes-Benz. Each announced plant expansions at their respective facilities in Greer, S.C., and Vance, Ala.

Other key automotive projects were new General Motors auto parts distribution facilities at Dayton, Ohio; Chattanooga, Tenn.; and Charlotte, N.C.

Additional major projects include location of new steel processing facilities for Duferco at Farrell, Pa., and Chaparral Steel at Petersburg, Va., and expansion of a steel coating facility for Protec at Leipsic, Ohio.

Other projects include facilities involved in the production or handling of scrap metal, plastics, food products, chemicals, paper, cement, lumber and construction materials.

'Doing Everything Possible To Meet Customer Needs'

Steel mills are built for just-in-time production with no way to accommodate too many or too few materials for inventory.

"Getting supply trains through to the mills is vitally important for continued steel production," says Gary Wendorf, NS director Metals in the Merchandise Marketing department. "We do everything possible to meet our customers' needs."

Wendorf and hundreds of other Marketing, Sales and Transportation employees concentrated on keeping metals traffic moving after June 1. The traffic totals nearly 2,900 cars weekly, moving in 50-car and 75-car unit trains. NS helped keep most steel mills open.

"We continually kept our customers updated on what was going on," says Wendorf. "Many stuck with us, due to loyalty to NS for all the years we've been able to meet their needs. The others see us coming back and meeting their needs again."

Financial Overview

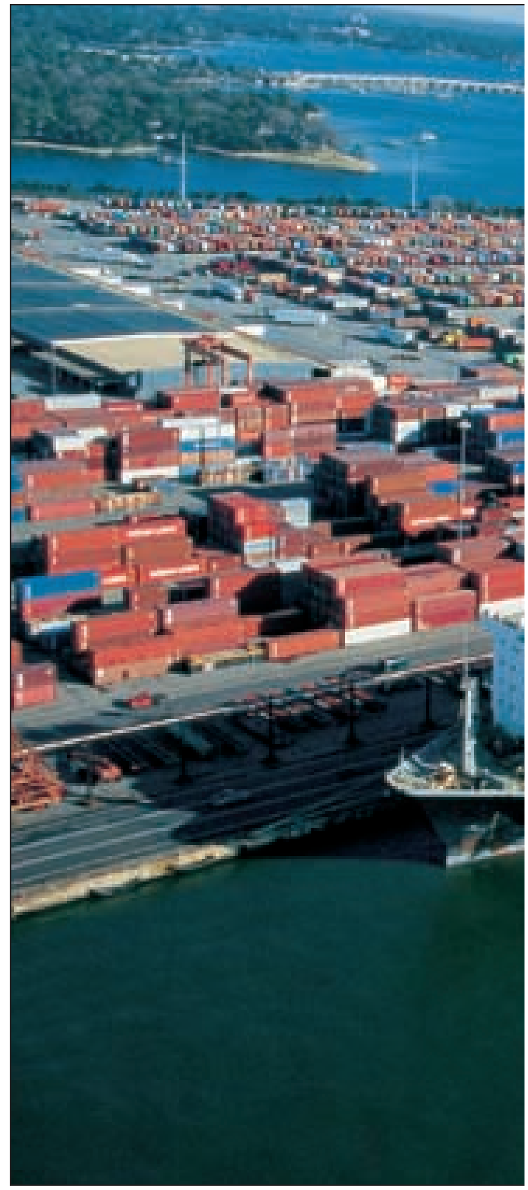
Financial results in 1999 reflect the difficulties encountered in the commencement of operations in the Northern Region, a sharp drop in export coal traffic volume and a large increase in diesel fuel costs. On June 1, NS began operations in the new Northern Region, and as a result, railroad route-miles operated and railroad employees increased by about 50%. However, service problems resulted in some customers using other modes of transportation.

Net income for 1999 was $239 million, or 63 cents per diluted share, down 62% compared with income from continuing operations in 1998.

"Our challenges now are to continue the recent improvements in operating efficiency, recapture diverted business and reduce the added costs we have faced in the second half of the year," said Hank Wolf, NS vice chairman and chief financial officer. "Continuous improvement in operating efficiency and customer service are the keys to restoring the financial performance that our stockholders expect."

Railway operating revenues were $5.2 billion, up $1.0 billion, or 23%, compared with 1998, reflecting the operations in the Northern Region. General merchandise revenues increased $620 million, or 26%. Intermodal revenues increased $291 million, or 54%. Coal revenues increased $63 million, or only 5%, as the effects of the Northern Region traffic were largely offset by a sharp decline in export coal volume.

Revenues for each of the general merchandise commodity groups increased, principally as a result of the expanded operations. Metals and construction revenues increased $189 million, or 51%. Automotive revenues increased $174 million, or 31%. Chemicals revenues increased $146 million, or 25%. Agriculture, consumer products and government



"Continuous **improvement** in operating efficiency and **customer service** are the keys to restoring the financial **performance** that our stockholders expect."

— Hank Wolf, NS vice chairman and chief financial officer

revenues increased $70 million, or 18%. Paper, clay and forest products revenues increased $41 million, or 8%.

Railway operating expenses were $4.5 billion, up $1.3 billion, or 41%, compared with 1998, which reflected costs associated with the commencement of operating on the Northern Region and congestion-related costs following the June 1 transition. The railway operating ratio was 86.2%, compared with 75.1% in 1998, reflecting the revenue diversions and congestion-related costs experienced following the commencement of operations on the Northern Region.

Dividends

Total dividends paid in 1999 were $304 million, and dividends per share were 80 cents. Based on year-end prices, stockholders received a dividend yield of 3.9% in 1999, compared with an average of 1.1% for all S&P 500 stocks.

Since 1983, NS' first full year after consolidation of Norfolk and Western and Southern railways, the annual dividend has grown at a compound annual rate of 6.1%, well above the average inflation rate of 3.3%.

The volume of containers at the Norfolk International Terminal intermodal facility illustrates the growth of international shipping. NS' expanded system is well positioned to handle this market segment, with new access to the ports of New York/New Jersey, Baltimore and Philadelphia. Those ports have a combined tonnage of 105 million tons of cargo annually. NS now serves every major East Coast port and provides customers with transportation links to global markets.

Eleven-Year Financial Review

Norfolk Southern Corporation and Subsidiaries

($ in millions, except per share amounts)	1999[1]	1998	1997	1996	1995
Results of operations					
Railway operating revenues	**$ 5,195**	$ 4,221	$ 4,223	$ 4,101	$ 4,012
Railway operating expenses	**4,477**	3,169	3,010	2,936	2,950
Income from railway operations	**718**	1,052	1,213	1,165	1,062
Other income – net	**164**	309	170	117	140
Interest expense on debt	**531**	516	385	116	113
Income from continuing operations before income taxes	**351**	845	998	1,166	1,089
Provision for income taxes	**112**	215	299	413	391
Income from continuing operations before accounting changes	**239**	630	699	753	698
Discontinued operations[2]	**—**	104	22	17	15
Cumulative effect of accounting changes	**—**	—	—	—	—
Net income	**$ 239**	$ 734	$ 721	$ 770	$ 713
Per share data					
Net income – basic	**$ 0.63**	$ 1.94	$ 1.91	$ 2.03	$ 1.81
Net income – diluted	**$ 0.63**	$ 1.93	$ 1.90	$ 2.01	$ 1.80
Dividends	**$ 0.80**	$ 0.80	$ 0.80	$ 0.74 2/3	$ 0.69 1/3
Stockholders' equity at year end	**$ 15.50**	$ 15.61	$ 14.44	$ 13.26	$ 12.47
Financial position					
Total assets	**$ 19,250**	$ 18,180	$ 17,350	$ 11,234	$ 10,718
Total long-term debt, including current maturities	**$ 8,059**	$ 7,624	$ 7,459	$ 1,856	$ 1,638
Stockholders' equity	**$ 5,932**	$ 5,921	$ 5,445	$ 4,977	$ 4,829
Other					
Capital expenditures	**$ 912**	$ 1,060	$ 929	$ 789	$ 757
Average number of shares outstanding (thousands)	**380,606**	378,749	376,593	379,372	392,987
Number of stockholders at year end	**51,123**	51,727	50,938	50,748	53,401
Average number of employees:					
Rail	**30,897**	24,185	23,323	23,361	24,488
Nonrail[2]	**269**	115	2,494	2,469	2,456
Total	**31,166**	24,300	25,817	25,830	26,944

All share and per-share amounts have been restated to reflect the Sept. 5, 1997, three-for-one stock split.

Notes

1 On June 1, 1999, NS began operating a substantial portion of Conrail's properties. As a result, both its railroad route miles and the number of its railroad employees increased by approximately 50% on that date.

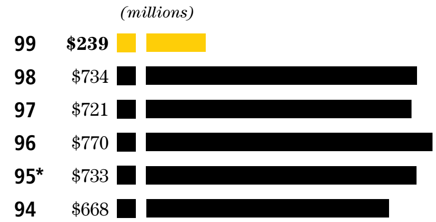
2 In 1998, NS sold all the common stock of its motor carrier subsidiary, North American Van Lines, Inc. (NAVL), for $207 million and recorded a $90 million pretax ($105 million, or 28 cents per diluted share, after-tax) gain. Accordingly, NAVL's results of operations, financial position and cash flows are presented as "Discontinued operations."

3 1993 results include an increase in the provision for income taxes reflecting a 1% increase in the federal income tax rate, which reduced net income by $54 million, or 13 cents per diluted share. "Discontinued operations" includes a $50 million pretax restructuring charge for the disposition of two NAVL businesses. Net income also reflects two accounting changes, the cumulative effect of which increased 1993 net income by $223 million, or 53 cents per diluted share: a change in accounting for income taxes increased net income by $467 million, with a corresponding reduction in deferred taxes, and changes in accounting for postretirement and postemployment benefits decreased net income by $244 million.

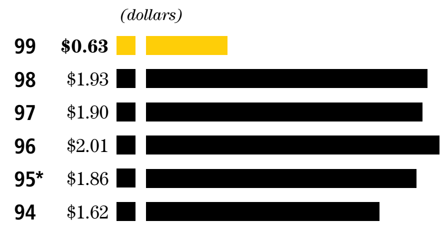
4 1991 operating expenses include a $483 million special charge primarily for labor force reductions. "Discontinued operations" includes a $197 million charge primarily for the write-down of the goodwill portion of NS' investment in NAVL. These charges reduced net income by $498 million, or $1.12 per diluted share.

1994	1993[3]	1992	1991[4]	1990	1989
$ 3,918	$ 3,746	$ 3,777	$ 3,654	$ 3,786	$ 3,694
2,875	2,831	2,851	3,345	2,969	2,864
1,043	915	926	309	817	830
86	135	97	131	142	155
101	98	109	99	78	50
1,028	952	914	341	881	935
372	370	328	112	316	323
656	582	586	229	565	612
12	(33)	(28)	(199)	(9)	(6)
—	223	—	—	—	—
$ 668	$ 772	$ 558	$ 30	$ 556	$ 606
$ 1.63	$ 1.85	$ 1.31	$ 0.07	$ 1.14	$ 1.16
$ 1.62	$ 1.83	$ 1.30	$ 0.07	$ 1.14	$ 1.15
$ 0.64	$ 0.62	$ 0.60	$ 0.53 $^{1}/_{3}$	$ 0.50 $^{2}/_{3}$	$ 0.46
$ 11.73	$ 11.12	$ 10.05	$ 9.55	$ 10.52	$ 10.15
$ 10,403	$ 10,301	$ 10,188	$ 9,959	$ 10,326	$ 10,049
$ 1,619	$ 1,594	$ 1,648	$ 1,387	$ 1,122	$ 838
$ 4,685	$ 4,621	$ 4,233	$ 4,093	$ 4,912	$ 5,169
$ 707	$ 639	$ 628	$ 688	$ 605	$ 620
408,904	418,243	424,378	443,276	486,284	523,109
52,442	51,884	51,200	53,725	56,187	61,630
24,710	25,531	25,650	27,366	28,697	29,667
2,458	3,773	4,485	4,586	4,584	4,645
27,168	29,304	30,135	31,952	33,281	34,312

Net Income



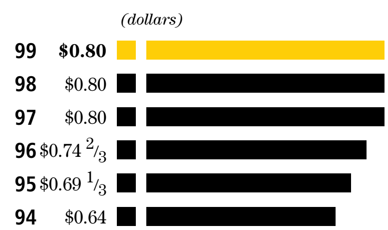
Earnings per Share - Diluted



1999's net income and diluted earnings per share were down 62% compared with income from continuing operations in 1998, reflecting the difficulties encountered in the commencement of operations in the Northern Region and a sharp decline in export coal.

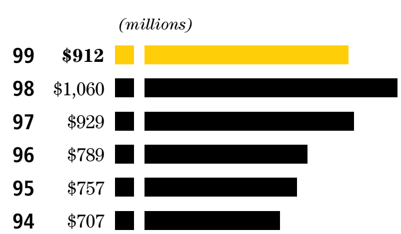
* 1995 excludes an early retirement charge that reduced net income by $20 million and diluted EPS by 6 cents.

Dividends per Share



Since 1983, NS' first full year after consolidation, the annual dividend has grown at a compound annual rate of 6.1%. Stockholders received a dividend yield of 3.9% in 1999, compared with an average of 1.1% for all S&P 500 stocks.

Capital Expenditures



NS has made more than $5 billion of capital expenditures since 1994 — demonstrating commitment to make the investments necessary to support safe, efficient operations and revenue growth.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes beginning on Page 40 and the Eleven-Year Financial Review on Pages 24 and 25.

Commencement Of Operations Over Conrail's Lines

On June 1, 1999 (the "Closing Date"), NS' railroad subsidiary (Norfolk Southern Railway Company [NSR]) began operating a substantial portion of Conrail's properties (NSR's new "Northern Region") under various agreements with Pennsylvania Lines LLC (PRR), a wholly owned subsidiary of Consolidated Rail Corporation (CRC) (see Note 2 on Page 45). As a result, both the railroad route miles operated by NSR and the number of its railroad employees increased by approximately 50% on that date. Results for 1999 reflect five months (January through May) of operating the former Norfolk Southern railroad system and seven months (June through December) of operations that include the Northern Region.

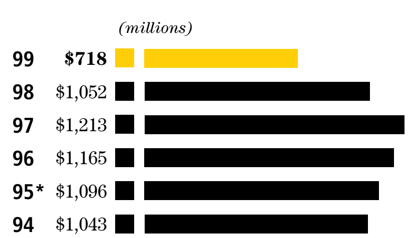
Difficulties encountered in the assimilation of the Northern Region into NSR's existing system resulted in system congestion, an increase in cars on line, increased terminal dwell time and reduced system velocity. These service issues and actions taken to address them increased operating expenses, primarily labor costs and equipment costs, including car hire and locomotive rentals. Moreover, revenues were lower than expected as some customers diverted traffic to other modes of transportation. Income from railway operations is expected to continue to be adversely affected until these revenue and expense issues have been resolved. A prolonged continuation of these operational difficulties could have a substantial adverse impact on NS' financial position, results of operations and liquidity.

Summarized Results of Operations

1999 Compared with 1998

Net income in 1999 was $239 million, a decrease of 67%. Net income in 1998 included the $105 million gain from the sale of NS' former motor carrier subsidiary (see Note 15 on Page 54). Income from continuing operations, which excludes both the motor carrier's results of operations prior to its sale and the gain from its sale, declined 62%. The decrease resulted from lower income from railway operations and from lower Conrail earnings before the Closing Date. The decline in income from railway operations reflected the difficulties in integrating the Northern Region and a sharp decline in export coal traffic.

Income from Railway Operations



Income from railway operations decreased 32% in 1999, reflecting both service issues that arose after the Closing Date and a sharp decline in export coal revenues.

* 1995 excludes a $34 million charge for an early retirement program.

Diluted earnings per share of 63 cents were down 67%. Diluted earnings per share from continuing operations were down 62%.

1998 Compared with 1997

Net income in 1998 was $734 million, an increase of 2%, reflecting the $105 million gain from the sale of the former motor carrier subsidiary. Income from continuing operations was $630 million, a decrease of 10%. The decline was principally due to Conrail-related integration expenses and additional expenses related to the start-up of the Ford mixing centers.

Diluted earnings per share of $1.93 were up 2%. Diluted earnings per share from continuing operations of $1.65 were down 10%.

Detailed Results Of Operations

Railway Operating Revenues

Railway operating revenues were $5.2 billion in 1999 and were $4.2 billion in both 1998 and 1997. Revenues in 1999 reflect the commencement of operations in the Northern Region on June 1. Revenues were lower than expected because of service issues associated with the expansion of the network and a sharp decline in export coal traffic. The following table presents a three-year comparison of revenues by market group.

Railway Operating Revenues by Market Group

($ in millions)	1999	1998	1997
Coal	**$1,315**	$ 1,252	$ 1,301
General merchandise:			
Automotive	**740**	566	492
Chemicals	**720**	574	585
Paper/clay/forest	**575**	534	539
Metals/construction	**562**	373	368
Agriculture/consumer products/ government	**453**	383	391
General merchandise	**3,050**	2,430	2,375
Intermodal	**830**	539	547
Total	**$5,195**	$ 4,221	$ 4,223

In 1999, revenues increased for all market groups as a result of traffic handled in the Northern Region. Prior to the Closing Date, revenues for all commodity groups, except automotive, were below or even with those of the prior year. As shown in the following table, the full-year volume gains attributable to expanded operations produced the revenue increase. Revenue per unit improved principally due to the effects of the consolidation of Triple Crown Services Company's revenues and Northern Region traffic; however, the effects of changes in the mix of traffic, most notably the reduced export coal traffic, more than offset the effects of the revenue-per-unit improvements.

In 1998, revenue increases in the automotive and metals and construction groups were offset by revenue decreases in the other market groups. Volume gains were more than offset by lower revenue per unit. However, almost all of the volume increase and revenue per unit decrease were mixing-center related (see the discussion under the "Automotive" caption, below). Revenues for the remaining market groups declined $76 million, $60 million of which resulted from lower traffic volume and $16 million of which resulted from lower revenue per unit that was mitigated by favorable effects from changes in traffic mix.

Railway Operating Revenue Variance Analysis

	Increases (Decreases)	
($ in millions)	1999 vs. 1998	1998 vs. 1997
Volume	**$ 1,007**	$ 48
Revenue per unit/mix	**(33)**	(50)
Total	**$ 974**	$ (2)

COAL tonnage increased 18% in 1999, but revenues increased by only 5%. The positive revenue effects of tonnage handled in the Northern Region were largely offset by significantly lower export coal tonnage. In addition, a larger proportion of the Northern Region traffic is shorter-haul (lower average revenue) traffic. Coal revenues represented 25% of total railway operating revenues in 1999, and 88% of coal shipments originated on lines operated by NS. In 1998, coal tonnage was unchanged compared with 1997, but revenues decreased 4%. An increase in utility tonnage, especially shorter-haul traffic, helped offset decreases in longer-haul (higher average revenue) export and domestic metallurgical traffic.

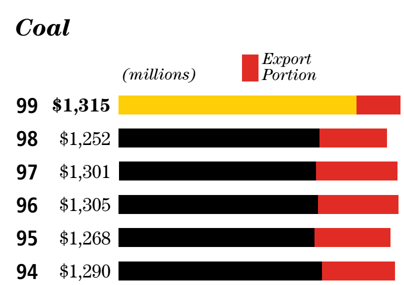
Total Coal, Coke and Iron Ore Tonnage

(In millions of tons)	1999	1998	1997
Utility	**108**	83	76
Export	**18**	25	29
Domestic metallurgical	**22**	18	21
Other	**10**	8	8
Total	**158**	134	134

Utility coal traffic increased 30% in 1999, due to the expansion of operations into the Northern Region.

In 1998, utility coal traffic increased 9%, due to rising electricity production, the return of some traffic to rail and increased business from several customers.

The near-term outlook for utility coal remains positive. U.S. demand for electricity continues to increase at a rate greater than generation capacity is being added, and coal-fired generation continues to be the cheapest marginal source of electricity. Many underutilized coal-fired power plants are making the transition from



Revenues increased $63 million, or 5%, in 1999 as the effects of Northern Region traffic were largely offset by a sharp decline in export coal traffic. This group includes utility coal, export coal, domestic metallurgical coal and industrial coal, coke and iron ore.

peak-only generation to full-time generation. NS also could benefit from access to several utility coal customers not now receiving coal by rail. However, competitive pressures on utilities to reduce costs could put price pressure on generation source fuels, including NS-delivered coal. NS continues to work with utility customers to reduce the delivered price of coal by developing more efficient coal handling facilities, which lead to more efficient train operations.

Many of the mines served by NS produce coals that satisfy the Phase II requirements of the Clean Air Act Amendments. In the Northern Region, NS now has access to high-quality, low-cost coal that can be blended with coal from the Powder River Basin to meet the Phase II requirements. In addition, substantial banks of sulfur dioxide allowances held by many NS-served utilities should continue to provide a market for other NS-served mines for nearly a decade. However, more stringent environmental rules have been promulgated and are scheduled to be implemented during the next decade, some as early as 2003. Most of these rules are being challenged in court; but, if they survive and are implemented, they could increase the cost of coal-fired generation. Also, the Kyoto Protocol, if ratified and implemented, could put additional cost pressures on some coal-fired generation.

A recent decision by a federal district court judge in West Virginia holds that some common mountaintop mining practices in the coal industry are illegal. There are a small number of mountaintop mining operations on NS' lines; however, if sustained, the decision could have an adverse effect on these coal mining operations and on NS' coal traffic, revenues and royalties (see Note 3 on Page 48, "Royalties from coal").

Export coal tonnage decreased 28% in 1999, despite additional traffic handled in the Northern Region. The lower traffic resulted from reduced demand for U.S. coking coal (in part, the result of a strong U.S. dollar), productivity gains made by foreign producers, lower ocean transportation rates and lower foreign royalties. Steam coal exports continued to be noncompetitive on price, making domestic markets more attractive for U.S. producers.

In 1998, export coal tonnage decreased 14%, due to weak economies in Asia and a strong U.S. dollar. The dollar gained 20% or more compared with the currencies of other countries (such as Australia, South Africa and Indonesia) that provide the primary competition for U.S. export coal. A significant decline in Asian demand for coal created supplies that competed at deeply discounted prices with U.S. export coal in Europe and South America. Steam coal exports declined to 0.4 million tons in 1998, compared with 1.7 million tons in 1997. U.S. low-sulfur coals were not price-competitive due to lower-cost foreign production and the strength of the dollar.

Export coal tonnage is expected to continue to suffer from the effects of strong global competition. Despite rising steel production, continued pricing pressure from foreign producers is expected to keep demand for U.S. coking coal weak. In addition, the Kyoto Protocol, if implemented, could increase pressure to reduce the use of carbon-based fuels.

Domestic metallurgical coal, coke and iron ore traffic increased 22% in 1999, as the addition of Northern Region traffic more than offset the effects of reduced U.S. steel production. Lower-priced steel imports led to reduced production levels at integrated steel manufacturers, especially through the first three quarters of 1999, thereby dampening demand for raw materials.

In 1998, domestic metallurgical coal, coke and iron ore traffic declined 14%, due to plant closures, reduced blast furnace operations and the continuation of aggressive producer pricing of high-volatile metallurgical coals not located on NS' lines.

Domestic metallurgical coal, coke and iron ore traffic is expected to benefit from recent strengthening of domestic and foreign steel markets. Several domestic blast furnaces are expected to resume production in 2000. However, long-term demand is expected to continue to decline, due to advanced technologies that allow production of steel using less coal.

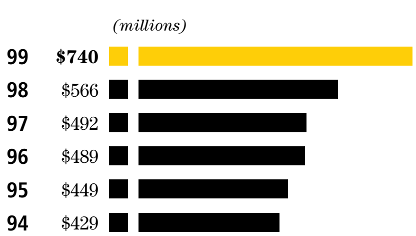
Other coal traffic, primarily steam coal shipped to manufacturing plants, increased 25% in 1999, due to the expansion of operations in the Northern Region, and was flat in 1998.

GENERAL MERCHANDISE traffic volume (carloads) increased 24%, and revenues increased 26%, in 1999, due to the addition of Northern Region traffic. Service issues resulted in traffic diversions in all market groups. In 1998, traffic volume increased 5%, and revenues increased 2%, driven by higher automotive revenues.

Automotive traffic volume increased 26%, and revenues increased 31%, in 1999, largely reflecting the expansion of operations in the Northern Region and record vehicle production. The new NS-served Toyota plant in Princeton, Ind., and the new vehicle parts distribution center in Dayton, Ohio, also contributed to the increase. NS' mixing center network is not yet fully utilized due to network design and service issues and equipment shortages caused by extended cycle times. In addition, service issues after the Closing Date resulted in significant traffic diversions.

In 1998, automotive carloads increased 35%, and revenues increased 15%. Finished vehicles led the growth, as carloads increased 54% and

Automotive



Revenues increased $174 million, or 31%, in 1999, due to the expansion of operations into the Northeast, new vehicles and parts business and record vehicle production. This group includes finished vehicles for BMW, DaimlerChrysler, Ford Motor Company, General Motors, Honda, Isuzu, Jaguar, Land Rover, Mazda, Mercedes-Benz, Mitsubishi, Nissan, Saab, Subaru, Suzuki, Toyota and Volkswagen, and auto parts for Ford Motor Company, General Motors, Mercedes-Benz and Toyota.

revenues increased 19%, primarily due to new business through the Ford mixing centers. Full production volume at the Mercedes-Benz plant in Vance, Ala., and the Toyota minivan line at Georgetown, Ky., also contributed to the increases. Vehicle parts traffic volume and revenues remained steady despite the effects of the mid-year strike at General Motors.

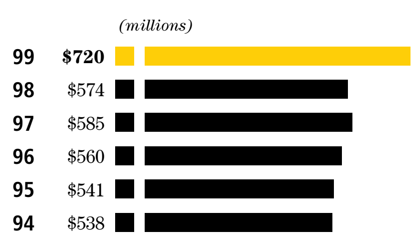
A substantial portion of the 1998 increase in carloads resulted from the nature of the mixing centers. Previously, carloads of vehicles went from plant to distribution center, where vehicles were classified and loaded onto trucks for transport to dealers. Now, carloads of vehicles, mostly in unit-train service, go from plant to the mixing centers, where vehicles are sorted by destination and loaded onto other trains in a mix suitable for direct transport to dealers. As a result, carload counts have increased; each vehicle that is handled through the centers arrives on one carload and departs on another carload. This hub-and-spoke method of distribution is intended to improve Ford's delivery logistics and reduce its inventory costs and order-to-delivery times.

Light vehicle production in 2000 is expected to decline 3% from the record level of 1999. However, NS expects to recapture diverted traffic as its service improves and to benefit from increased shipments of finished vehicles from Ford's Norfolk, Va., assembly plant and from the introduction of new sport utility vehicles at BMW's Greer, S.C., assembly plant and at Toyota's second plant in Princeton, Ind., and increased parts business from General Motors.

Chemicals traffic volume increased 18%, and revenues increased 25%, in 1999, due to the addition of Northern Region traffic. Chemical production increased slightly during the year, but fertilizer production declined. In addition, significant production cutbacks at plants served by NS affected shipments of both sulfur and fertilizer. Shipments of chlorine, caustic soda and PVC plastics rebounded from 1998 levels, benefiting from an improved Asian economy. The location of new and expanded processing plants on lines NS serves improved shipments of plastic pellets. Chemicals shipments also increased through NS' Thoroughbred Bulk Transfer (TBT) facilities that handle chemicals and bulk commodities for customers not located on lines it serves.

In 1998, chemicals traffic volume decreased 1%, and revenues decreased 2%, the first decline since 1989. The weak economies in Asia and softness in certain domestic markets adversely affected shipments of products for the vinyl, polyester and pulp markets. In addition, nationwide rail service issues, particularly early in the year, caused some customers to divert

Chemicals



Revenues increased $146 million, or 25%, in 1999, reflecting the addition of Northern Region traffic. This group includes fertilizers, sulfur and related chemicals, petroleum products, chlorine and bleaching compounds, plastics, industrial chemicals, chemical wastes and municipal wastes.

traffic to truck and barge. However, several NS-served facilities with new and expanded plant capacity increased shipments of plastics and petroleum products, somewhat offsetting these reductions. NS also increased traffic through its TBT facilities.

Chemicals revenues in 2000 are expected to benefit from plant expansions, increases in U.S. chemical production and extended market reach through the TBT facilities.

Paper, clay and forest products traffic volume increased 4%, and revenues increased 8%, in 1999, principally due to the expansion of operations into the Northern Region. The closure of four major paper mills and some chip mills late in 1998, coupled with the effects of continued consolidation and weak demand within the paper industry, had a negative impact on 1999 traffic volume.

In 1998, paper, clay and forest products traffic volume decreased 3%, and revenues declined 1%. Traffic volume increases in the first three quarters were offset by a sudden and pronounced weakness in the paper industry in the fourth quarter, adversely affecting shipments of paper, wood fiber and kaolin clay. Decreased domestic and foreign demand resulted in both widespread paper mill downtime late in the year and indefinite closure of several NS-served paper mills. Record carloads and revenues from shipments of lumber and wood products to meet demand in the housing construction industry partially offset the effects of these declines.

The paper industry is expected to continue to experience weak demand during 2000.

Metals and construction traffic volume increased 57%, and revenues increased 51%, in 1999, due to the addition of Northern Region traffic. NS' expanded operations give it access to numerous steel mills, processors and distribution facilities. Continued growth from new mini-mills and steel processors locating in NS' service territory offset the effects of a weaker scrap market. Construction traffic benefited from continued strength in housing starts and highway construction in the Southeast. Agricultural limestone shipments were higher in the first half of the year, due to an early planting season as a result of the mild winter. In addition, new cement terminals on NS' lines generated additional traffic.

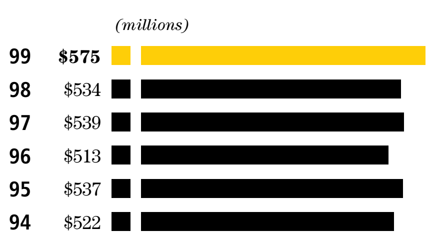
In 1998, metals and construction traffic volume was unchanged, and revenues increased 1%. The strong performance in the metals market during 1997 was repeated in the first half of 1998, due to improved efficiency at integrated mills and the continued growth of new mini-mills and steel processors in NS' service territory. However, the domestic metals market weakened in the second half of 1998, due to an increase in the supply of lower-priced, imported steel. Construction traffic and revenues increased, due to increased highway and housing construction activity in the Southeast.

Metals revenues are expected to show the benefits of continued strength in the steel and construction industries.

Agriculture, consumer products and government traffic volume increased 15%, and revenues increased 18%, in 1999, reflecting new access to the large Northeast consumer markets. Service issues that arose early in the year due to harsh weather conditions and continued during efforts to integrate the Northern Region had an adverse effect on traffic volume. In addition, soybean traffic was negatively affected by low-priced imports from South America.

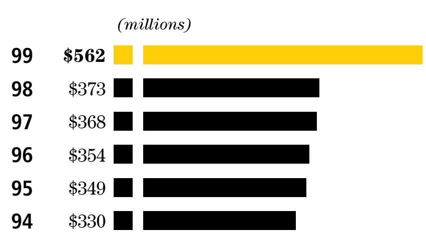
In 1998, agriculture, consumer products and government traffic volume decreased 3%, and revenues

Paper, Clay and Forest Products



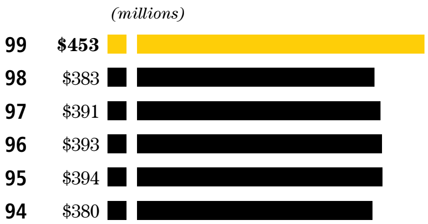
Revenues increased $41 million, or 8%, in 1999, principally due to the expansion of operations into the Northern Region. This group includes lumber and wood products, pulpboard and paper products, wood fibers, woodpulp, scrap paper and clay. NS serves 83 paper mills, 94 paper distribution centers and more than 100 lumber reload centers.

Metals and Construction



Revenues increased $189 million, or 51%, in 1999, due to the addition of traffic in the Northern Region. This group includes steel, aluminum products, machinery, scrap metals, cement, aggregates, bricks and minerals.

Agriculture, Consumer Products and Government



Revenues increased $70 million, or 18%, in 1999, reflecting the addition of Northern Region traffic. This group includes soybeans, wheat, corn, animal and poultry feed, food oils, flour, beverages, canned goods, sweeteners, consumer products and items for the military.

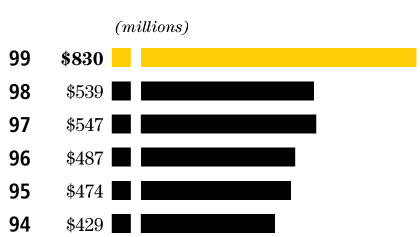
declined 2%. Weak export and soybean meal markets adversely affected shipments. Sweeteners volume and revenues declined, as a strong beet sugar crop negatively affected cane sugar shipments out of the South. Increased revenues from grain, soybeans and feed ingredients from the longer-haul Southeast feed and corn processing markets somewhat offset the effects of the declines.

Moderate growth is expected in 2000 as service levels improve and more benefits are realized from NS' expanded operations. Continued low prices and abundant supply are expected to increase consumption of corn for feed and processing. However, the export market for other grain products is expected to remain weak.

INTERMODAL traffic volume increased 31%, and revenues increased 54%, in 1999, due to the addition of Northern Region traffic and the consolidation of Triple Crown Services Company (TCS) revenues, beginning June 1 (see Note 2 on Page 45). More than half of the increase in revenue per unit resulted from the effects of consolidating TCS. Prior to June 1, NS' revenues included only the amounts for rail services it performed under contract to TCS, but NS' volume included most TCS units. NS was awarded the majority of Conrail's postal business, which it handles through a new subsidiary, Thoroughbred Direct Intermodal Services (TDIS), a logistics company headquartered in Plymouth Meeting, Pa. Intermodal traffic volume declined in the first five months of 1999, reflecting the network redesign implemented in August 1998 which pared a significant number of lanes and associated volumes. Service issues following the integration of the Northern Region also negatively affected volume and revenues.

In 1998, intermodal traffic volume decreased 2%, and revenues decreased 1%. The decline, the first in 12 years, was due to the service network redesign that was implemented in August. As a result, trailer traffic volume declined 16%, but this decrease was largely offset by increases in both container traffic volume and revenues (respectively, 2% and 5%) and TCS traffic volume and revenues (respectively, 5% and 9%).

Intermodal



Revenues increased $291 million, or 54%, in 1999, due to the addition of Northern Region traffic and the consolidation of Triple Crown Services Company's revenues. This group handles trailers, domestic and international containers, Triple Crown Services equipment and equipment for intermodal marketing companies, international steamship lines, truckers and other shippers.

Intermodal revenues are expected to continue to benefit from the expansion of operations in the Northeast, as well as terminal and line capacity expansions and equipment additions. However, APL, which generated 247,000 units of annualized volume on NS, moved almost all of this volume to CSX after their strategic alliance. Most of this traffic had been shifted by December 1999.

Railway Operating Expenses

Railway operating expenses increased 41% in 1999, while carloadings increased 24%. The expense increase was attributable to the commencement of operations in the Northern Region, and includes significant costs arising from the service issues experienced after the Closing Date.

Railway operating expenses increased 5% in 1998, while carloadings increased 1%. The expense increase was mostly attributable to Conrail-related integration expenses, and additional expenses, including start-up costs, related to the Ford mixing centers.

As a result, the **railway operating ratio**, which measures the percentage of railway revenues consumed by railway expenses, was 86.2% in 1999, compared with 75.1% in 1998 and the record-low 71.3% in 1997.

Management estimates that the integration-related service issues in the Northern Region, including estimated traffic diversions, resulted in more than half of the increase in the railway operating ratio in 1999. The remaining increase was principally attributable to the change in traffic mix (more resource-intensive traffic, such as automotive and intermodal) and the new traffic in the Northern Region, coupled with the decrease in export coal traffic.

In 1998, the railway operating ratio was adversely affected by Conrail-related integration expenses and a change in traffic mix related to the growth in automotive traffic coupled with the change in coal traffic mix. Automotive traffic includes some of NS' most time-sensitive and resource-intensive business, requiring more trains, increased handling costs and higher equipment rents.

The railway operating ratio is not expected to return to pre-Closing Date levels in the near term, due to changes in NS' traffic mix and the higher cost structure of the Conrail properties now operated by NSR. However, the railway operating ratio is expected to show favorable year-to-year comparisons after the first quarter of 2000.

The following table shows the changes in railway operating expenses summarized by major classifications.

Railway Operating Expenses

	Increases (Decreases)	
($ in millions)	**1999 vs. 1998**	1998 vs. 1997
Compensation and benefits	**$ 363**	$ 87
Materials, services and rents	**421**	121
Conrail rents and services	**311**	—
Depreciation	**38**	16
Diesel fuel	**81**	(53)
Casualties and other claims	**43**	(28)
Other	**51**	16
Total	**$1,308**	$ 159

Compensation and benefits, which represented 41% of total railway operating expenses in 1999, increased 24% in 1999 and 6% in 1998.

In 1999, the increase resulted largely from the almost 50% increase in the railroad work force following commencement of operations in the Northern Region. The service issues encountered after the expansion of operations also contributed to the increase, including $49 million for the Special Work Incentive Program available to union employees during much of the third quarter. These increases were mitigated by reduced stock-based incentive compensation, the absence of bonus accruals and reduced pension and other postretirement benefits expenses. NS has substantial unrecognized gains relating to its over-funded pension plan; amortization of these gains will continue to be included in "Compensation and benefits" expenses (see Note 10 on Page 50).

In 1998, higher wages and salaries — results of additional staffing in anticipation of the Closing Date and union wage increases, including the effect of an increase in the bonus fund for locomotive engineers — were offset somewhat by lower expenses for pension benefits, due to favorable investment returns on pension plan assets. Also contributing to the increase were new FRA train inspection requirements and a higher Railroad Unemployment Tax rate.

In January 2000, NS announced a voluntary early retirement program that included enhancements to pension benefits for eligible nonunion employees. Approximately 1,180 employees, or 20% of NS' nonunion work force, were eligible for the program; and retirements were effective March 1. Benefits will be paid out of NS' over-funded pension plan. Actions also were taken in the first quarter of 2000 to reduce the size of the union work force. These work force reduction efforts were taken to resize employment levels and reduce operating expenses in response to changes in NS' business. The cost of these work force reductions will be reflected in expenses in the first quarter of 2000.

Materials, services and rents includes items used for the maintenance of the railroads' lines, structures and equipment; the costs of services purchased from outside contractors, including the net costs of operating joint (or leased) facilities with other railroads; and the net cost of equipment rentals. This category of expenses increased 52% in 1999 and 18% in 1998.

The 1999 increase reflected the expanded operations in the Northern Region; additional costs attributable to the service issues, including costs for alternate transportation to meet the needs of customers; and the effects of consolidating TCS.

The 1998 increase was principally due to Conrail-related integration costs and higher-than-anticipated mixing center costs associated with the increase in automotive traffic. Higher equipment rents and locomotive repair expenses also contributed to the increase.

Equipment rents, which represent the cost to NS of using equipment (mostly freight cars) owned by other railroads or private owners, less the rent paid to NS for the use of its equipment, increased 93% in 1999 and 18% in 1998. The 1999 increase principally was due to: (1) increased volume attributable to expanded operations, (2) higher rental costs for freight cars, as service issues increased car cycle times and (3) costs for short-term locomotive leases to improve system fluidity. In addition, Conrail historically rented a higher percentage of its freight cars than has NS, resulting in higher equipment rents in the Northern Region. The 1998 increase was due to: (1) rents for equipment needed to support the increase in automotive traffic, (2) reduced rents received from the leasing of owned locomotives and (3) increased lease expenses for equipment obtained to meet anticipated demand after the Closing Date. These 1998 increases were somewhat offset by higher receipts on NS-owned freight cars and auto racks.

Locomotive and car repair costs increased in 1999 due to the expansion of operations and to the higher repair costs associated with the leased locomotives. Locomotive repair costs increased in 1998 due to the higher traffic levels and an increase in the average number of locomotives in service, reflecting the retention of older units.

Conrail rents and services, a new category of expense arising from the expansion of operations on June 1, amounted to $311 million in 1999. This item includes amounts due to PRR and CRC for: (1) use of their operating properties and equipment, (2) CRC's operation of the Shared Assets Areas and (3) CRC's operation of certain transition facilities. Also included is NS' equity in Conrail's net earnings since June 1, plus additional amortization related to the difference between NS' investment in Conrail and its underlying equity (see Note 2 on Page 45).

Depreciation expense (see Note 1, "Properties," on Page 44 for NS' depreciation policy) was up 9% in 1999 and 4% in 1998. Increases in both years were due to property additions, reflecting substantial levels of capital spending.

Diesel fuel expenses increased 47% in 1999, but declined 23% in 1998. The increase in 1999 resulted from a 19% increase in the average price per gallon, due to a sharp rise in the last half of the year, and higher consumption, primarily the result of the additional Northern Region traffic. The 1998 decrease was due to a 26% drop in the average price per gallon, which was the lowest since 1988, somewhat offset by a 3% increase in consumption.

Casualties and other claims expenses (including the estimates of costs related to personal injury, property damage and environmental matters) increased 45% in 1999, but decreased 23% in 1998. The 1999 increase principally resulted from higher personal injury accruals related to the increased size of the work force as well as higher environmental expenses. The 1998 decrease was due to cost recoveries from third parties and lower accruals for environmental remediation costs and to reduced personal injury expenses.

The largest component of casualties and other claims expense is personal injury costs. Costs related to so-called "occupational" injuries continued to increase. Within the past decade, there has been a dramatic increase in the number of these types of claims. In 1999, about two-thirds of the total employee injury cases settled and one-quarter of settlement payments made were related to occupational claims. These claims generally do not relate to a specific accident or event, but rather result from a claimed exposure over time to some condition of employment. As a result, many of these claims are asserted by former or retired employees. NS continues to work actively to eliminate all accidents and exposure risks and to control associated costs.

The rail industry remains uniquely susceptible to litigation involving job-related accidental injury and occupational claims because of an outmoded law, the Federal Employers' Liability Act (FELA), originally passed in 1908 and applicable only to railroads. This law, which covers employee claims for job-related injuries, promotes an adversarial claims environment and produces results that are unpredictable and inconsistent, at a far greater cost to the rail industry than the no-fault workers' compensation system to which nonrail competitors and other employers are universally subject. The railroads have been unsuccessful so far in efforts to persuade Congress to replace FELA with a no-fault workers' compensation system.

NS maintains substantial amounts of commercial insurance for potential third-party liability and property damage claims. It also retains reasonable levels of risk through self-insurance.

Other expenses increased 31% in 1999 and 11% in 1998. The 1999 increase resulted from the expansion of operations, including property and other taxes related to the Northern Region, and to costs arising from the service issues. The 1998 increase principally resulted from: (1) higher property and other taxes, due to the effects of favorable adjustments in prior years resulting from settlements with taxing authorities; and (2) increased travel expenses, mostly attributable to planning in advance of the Closing Date.

Income Taxes

Income tax expense in 1999 was $112 million, for an effective rate of 32%, compared with an effective rate of 25% in 1998 and 30% in 1997. Excluding the equity in Conrail's after-tax earnings, the effective rate was 34% in 1999, 33% in 1998 and 34% in 1997.

The effective rates in all three years were below the statutory federal and state rates — results of investments in coal-seam gas properties, favorable adjustments upon filing the prior year tax returns and favorable adjustments to state tax liabilities. In addition, 1998 and 1997 benefited from investments in corporate-owned life insurance, and 1998 benefited from favorable adjustments resulting from settlement of federal income tax years 1993 and 1994.

Discontinued Operations

Income from discontinued operations in 1998 included the $105 million after-tax gain from the sale of NS' motor carrier subsidiary (see Note 15 on Page 54). Motor carrier operations in 1998 (through March 28) produced a $1 million loss; these same operations produced income of $22 million in 1997.

Financial Condition, Liquidity and Capital Resources

Cash provided by operating activities, NS' principal source of liquidity, decreased $357 million, or 40%, in 1999, and $260 million, or 23%, in 1998. Both declines reflected the reductions in income from operations, mitigated somewhat by lower income tax payments. In 1998, higher interest payments related to the debt issued in mid-1997 in connection with the Conrail transaction also contributed to the decline in operating cash flow. The large change in "Accounts receivable" and "Current liabilities other than debt" in the 1999 cash flow statement primarily resulted from the commencement of operations in the Northern Region. In addition, collection of accounts receivable has slowed.

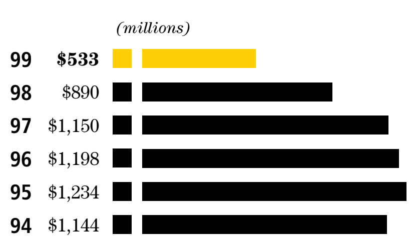
NS' working capital deficit of $553 million at Dec. 31, 1999, included $400 million of notes due May 1, 2000. NS currently has the capability to issue commercial paper to meet its more immediate working capital needs (see the discussion of financing activities, below).

Cash used for investing activities in 1999 decreased 11%, compared with 1998. Investing activities in 1999 included approximately $160 million more of borrowings against the net cash surrender value of company-owned life insurance, compared with 1998. In addition, 1999 included $60 million in proceeds from the sale of certain licensing arrangements and the sale of NS' signboard business.

Investing activities in 1998 included the $207 million of proceeds from the sale of NS' motor carrier subsidiary. Investing activities in 1997 included the costs of NS' acquisition of its interest in Conrail. Property additions account for most of the recurring spending in this category.

The following tables show capital spending, track and equipment statistics for the past five years. Capital expenditures include amounts relating to capital leases, which are excluded from the Consolidated Statements of Cash Flows (see Note 7, "Capital Lease Obligations," on Page 49).

Cash Provided by Operations



Cash provided by operations declined significantly in 1999 and 1998, reflecting lower income from railway operations. Cash provided by operations is NS' principal source of liquidity.

Capital Expenditures

($ in millions)	1999	1998	1997	1996	1995
Road	$ 559	$ 612	$ 599	$ 438	$ 386
Equipment	349	442	306	326	338
Other property	4	6	24	25	33
Total	$ 912	$ 1,060	$ 929	$ 789	$ 757

Capital expenditures decreased 14% in 1999, but increased 14% in 1998. Both variances were largely attributable to significant outlays in 1998 for roadway projects and equipment in anticipation of the Closing Date. In addition, 1997 and 1998 included significant expenditures for automotive-related projects.

Track Structure Statistics (Capital and Maintenance)

	1999	1998	1997	1996	1995
Track miles of rail installed	403	429	451	401	403
Miles of track surfaced	5,087	4,715	4,703	4,686	4,668
New crossties installed (millions)	2.3	2.0	2.2	1.9	2.0

Average Age of Owned Railway Equipment

(Years)	1999	1998	1997	1996	1995
Freight cars	23.8	23.6	23.0	22.3	22.0
Locomotives	15.4	15.4	15.3	15.4	15.7
Retired locomotives	22.7	20.6	23.3	24.4	22.6

In addition to NS-owned equipment, approximately 20% of the freight car fleet and 30% of the locomotive fleet is leased from PRR (see Note 2 on Page 45).

The 1998 decrease in the average age of retired locomotives resulted from a disproportionate share of early retirements due to casualties and service failures and retention of older units in anticipation of the Closing Date.

Since 1988, NS has rebodied about 29,000 coal cars, and plans to continue that program at least through the first half of 2000. This work, performed at NS' Roanoke Car Shop, converts hopper cars into high-capacity steel gondolas or hoppers. As a result, the remaining service life of the freight car fleet is greater than may be inferred from the increasing average age shown in the table, above.

For 2000, NS has budgeted $747 million for capital expenditures. In addition, NS plans to enter into a lease financing arrangement for 150 new locomotives. The anticipated spending includes $576 million for roadway projects, of which $284 million is for track and bridge program work. Also included are projects to increase track and terminal capacity. Equipment spending includes the rebodying of coal and coke hoppers, the purchase of 255 multilevel automobile racks, the upgrading of existing locomotives and the modification of open coil steel cars. NS also plans to lease 475 articulated bilevels for automobile service.

Cash provided by financing activities was $90 million in 1999 and included proceeds from the sale of notes, commercial paper and equipment trust certificates as well as $149 million of borrowings from a PRR subsidiary (see Note 2 on Page 45). Proceeds from borrowings in 1998 included amounts received from the sale of commercial paper and equipment trust certificates, and in 1997 included debt issued to finance NS' share of the cost of acquiring Conrail stock. Debt repayments in all three years included repayment of some commercial paper. Financing activities in 1997 also included $72 million of credit facility costs related to certain now-terminated commitments under credit agreements that were in place to support NS' tender offer for all shares of Conrail. NS' debt-to-total capitalization ratio was 58% at the end of 1999 and 56% at the end of 1998.

NS currently has in place a $2.8 billion credit facility to support its commercial paper program. In addition, NS has issued only $400 million of debt under its November 1998 $1 billion shelf registration. NS expects to issue additional debt in 2000 to refinance the Senior Notes maturing in May.

NS is subject to various financial covenants with respect to its debt and under its credit agreement, including a maximum leverage ratio restriction (see Note 7, "Debt Covenants," on Page 50). The maximum leverage ratio tightens in the first quarter of 2001.

Conrail's Results of Operations, Financial Condition and Liquidity

Through May 31, 1999, Conrail's results of operations include freight line-haul revenues and related expenses. After the Closing Date, June 1, 1999, its results reflect its new structure and operations (see Note 2 on Page 45). Conrail's major sources of operating revenues are now from operating fees and rents from NSR and CSXT. The composition of Conrail's operating expenses also has changed.

Conrail's net income was $26 million in 1999, compared with $267 million in 1998 and $7 million in 1997 (see Note 2 on Page 45).

Conrail's operating revenues were $2.2 billion in 1999, $3.9 billion in

1998 and $3.8 billion in 1997. The decline in 1999 was attributable to the change in operations and a 2% decrease in freight revenues prior to the Closing Date. The increase in 1998 was due to a 4% increase in traffic volume, as all market groups except automotive posted gains for the year.

Conrail's operating expenses were $2.0 billion in 1999, $3.3 billion in 1998 and $3.4 billion in 1997. Operating expenses in 1999 included $180 million of expenses ($121 million after taxes), principally to increase certain components of its casualty reserves based on an actuarial valuation, to adjust certain litigation and environmental reserves related to settlements and completion of site reviews, and a credit adjustment related to the assumption of a lease obligation by CSX. Operating expenses in 1998 included a $170 million charge ($105 million after taxes) for severance benefits covering nonunion employees and $132 million ($82 million after taxes) of other charges and reserves. Operating expenses in 1997 included a $221 million charge in conjunction with the termination of the Conrail ESOP (which had no related income tax effect) and a $173 million charge ($142 million after taxes) for stock compensation and executive severance costs related to the change in ownership. In addition, Conrail's operating expenses reflect transition-related expenses of $60 million in 1999 and $149 million in 1998 (principally technology integration costs and employee stay bonuses) and $114 million in 1997 (principally investment banking, legal and consulting fees and employee stay bonuses). Excluding the effects of the acquisition-related compensation and transition costs, operating expenses decreased 34% in 1999, but increased 3% in 1998. The 1999 decreases reflected the change in operations, somewhat offset by higher casualty and other claims expenses. The 1998 increase resulted from volume-related expense increases and higher casualty and other claims expenses, somewhat offset by lower diesel fuel costs.

Conrail's cash provided by operations decreased by $331 million, or 46%, in 1999, and by $157 million, or 18%, in 1998. The 1999 decrease was principally due to the change in operations. The decline in 1998 reflected higher incentive compensation payments and transition-related costs. Cash generated from operations is the principal source of liquidity and is primarily used for debt repayments and capital expenditures. Debt repayments totaled $112 million in 1999 and $119 million in 1998. Capital expenditures totaled $176 million in 1999 and $550 million in 1998; the decline reflected the change in operations.

Conrail had a working capital deficit of $194 million at Dec. 31, 1999, compared with a deficit of $202 million at Dec. 31, 1998. The deficit at Dec. 31, 1999, resulted from reclassifying as a current liability $250 million of long-term debt due in June 2000.

Conrail is not an SEC registrant and, therefore, presently cannot issue any publicly traded securities. Conrail is expected to have sufficient cash flow to meet its ongoing obligations.

NS' equity in earnings of Conrail, net of amortization, was $17 million in 1999, $194 million in 1998 and $117 million in 1997.

Other Matters

Proposed CN-BNSF Combination

On Dec. 20, 1999, Canadian National Railway Company and Burlington Northern Santa Fe Corporation announced plans to combine their companies under common control, thereby forming the largest railroad in North America. Norfolk Southern and other Class I railroads have expressed strong concerns about both the timing and the implications for the railroad industry of the proposed combination; moreover, the Surface Transportation Board (which would have to approve the combination) has indicated that the carriers will be expected to address the "cumulative impacts and crossover effects" of the transaction. Management will monitor developments and take appropriate actions to protect the interests of NS stockholders.

Market Risks and Hedging Activities

NS does not engage in the trading of derivatives. NS manages its overall exposure to fluctuations in interest rates by issuing both fixed- and floating-rate debt instruments and by entering into interest-rate hedging transactions to achieve a targeted mix within its debt portfolio.

Of NS' total debt outstanding (see Note 7 on Page 49), all is fixed-rate debt, except for commercial paper and most capital leases. As a result, NS' debt subject to interest rate exposure totaled $2.0 billion on

Dec. 31, 1999. A 1% increase in interest rates would increase NS' total annual interest expense related to all its variable debt by approximately $20 million. Management considers it unlikely that interest rate fluctuations applicable to these instruments will result in a material adverse effect on NS' financial position, results of operations or liquidity.

The average interest rate on commercial paper was 6.4% on Dec. 31, 1999, and 6.0% on Dec. 31, 1998. During 1999, interest rates on NS' commercial paper ranged from 5.1% to 6.5%.

The capital leases, which carry an average fixed rate of 7.1%, were effectively converted to variable rate obligations using interest rate swap agreements. On Dec. 31, 1999, the average pay rate under these agreements was 6.3%, and the average receive rate was 7.1%. During 1999, the effect of the swaps was to reduce interest expense by $4 million. A portion of the lease obligations is payable in Japanese yen. NS hedged the associated exchange rate risk at the inception of each lease with a yen deposit sufficient to fund the yen-denominated obligation. Most of these deposits are held by Japanese banks. As a result, NS is exposed to financial market risk relative to Japan. Counterparties to the interest rate swaps and Japanese banks holding yen deposits are major financial institutions believed by Management to be creditworthy.

Accounting Changes and New Pronouncements

As discussed in Note 1 under "Required Accounting Changes" on Page 45, NS adopted AICPA Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" in 1999.

During 1999, the Financial Accounting Standards Board deferred the effective date of Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." NS expects to adopt SFAS No. 133 effective Jan. 1, 2001. This adoption is not expected to have a material effect on NS' consolidated financial statements.

Lawsuits

Norfolk Southern and certain subsidiaries are defendants in numerous lawsuits relating principally to railroad operations.

The Corporation is the defendant in a class action suit filed in federal district court in Birmingham, Ala., on behalf of African Americans currently employed or working since Dec. 16, 1989, who allege that the Corporation has discriminated against them in promotion to nonagreement positions because of their race. The nonjury trial on liability, which the Corporation vigorously defended, concluded in June 1997, and the matter is with the court for requesting briefs and decision. In the meantime, the parties are participating in mediation of the case.

On Sept. 8, 1997, a state court jury in New Orleans returned a verdict awarding $175 million in punitive damages against The Alabama Great Southern Railroad Company (AGS), a subsidiary of NSR, all of the common stock of which is owned by NS. The verdict was returned in a class action suit involving some 8,000 individuals who claim to have been damaged as the result of an explosion and fire that occurred in New Orleans on Sept. 9, 1987, when a chemical called butadiene leaked from a tankcar.

The jury verdict awarded a total of nearly $3.2 billion in punitive damages against four other defendants in the same case: two rail carriers, the owner of the car and the shipper. Previously, the jury had awarded nearly $2 million in compensatory damages to 20 of the more than 8,000 individual plaintiffs. Prior to the trial court's ruling on the post trial motions, AGS and four other defendants agreed to settle their liability in this case for a total payment of approximately $150 million, of which AGS' share was $15 million. The settlement has been given preliminary approval by the trial court, and the money has been paid into an escrow account maintained by Bank One Trust Company in New Orleans. Final approval of the settlement and distribution of the settlement proceeds to qualified members of the class are subject to a fairness hearing scheduled for March 22, 2000.

While it is possible that the trial court will decline to give final approval to the settlement, or that the settlement may be overturned on appeal, Management believes that the settlement is a fair resolution of this controversy and that disapproval by the courts is unlikely.

While the final outcome of these matters and other lawsuits cannot be predicted with certainty, it is the opinion of Management, based on known facts and circumstances, that the amount of NS' ultimate liability is unlikely to have a material adverse effect on NS' financial position, results of operations or liquidity.

Environmental Matters

NS is subject to various jurisdictions' environmental laws and regulations. It is NS' policy to record a liability where such liability or loss is probable and its amount can be estimated reasonably. Claims, if any, against third parties for recovery of cleanup costs incurred by NS are reflected as receivables (when collection is probable) in the balance sheet and are not netted against the associated NS liability. Environmental engineers regularly participate in ongoing evaluations of all identified sites and in determining any necessary adjustments to initial liability estimates. NS also has established an Environmental Policy Council, composed of senior managers, to oversee and interpret its environmental policy.

Operating expenses for environmental matters totaled approximately $12 million in 1999, $4 million in 1998 and $21 million in 1997, and capital expenditures totaled approximately $8 million in 1999, $7 million in 1998 and $6 million in 1997. The increase in operating expenses in 1999 compared with 1998 was principally due to a combination of unfavorable development experience on identified sites during 1999, and higher recoveries in 1998 from third parties of amounts paid by NS in prior years for environmental cleanup and remediation. Capital expenditures in 2000 are expected to be comparable with 1999.

As of Dec. 31, 1999, NS' balance sheet included a reserve for environmental exposures in the amount of $41 million (of which $8 million is accounted for as a current liability), which is NS' estimate of the probable cleanup and remediation costs based on available information at 126 identified locations. On that date, 12 sites accounted for $20 million of the reserve, and no individual site was considered to be material. NS anticipates that much of this liability will be paid out over five years; however, some costs will be paid out over a longer period.

At some of the 126 locations, certain NS subsidiaries, usually in conjunction with a number of other parties, have been identified as potentially responsible parties by the Environmental Protection Agency (EPA) or similar state authorities under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, or comparable state statutes, which often impose joint and several liability for cleanup costs.

With respect to known environmental sites (whether identified by NS or by the EPA or comparable state authorities), estimates of NS' ultimate potential financial exposure for a given site or in the aggregate for all such sites are necessarily imprecise because of the widely varying costs of currently available cleanup techniques, the likely development of new cleanup technologies, the difficulty of determining in advance the nature and full extent of contamination and each potential participant's share of any estimated loss (and that participant's ability to bear it), and evolving statutory and regulatory standards governing liability.

The risk of incurring environmental liability — for acts and omissions, past, present and future — is inherent in the railroad business. Some of the commodities in NS' traffic mix, particularly those classified as hazardous materials, can pose special risks that NS and its subsidiaries work diligently to minimize. In addition, several NS subsidiaries own, or have owned, land used as operating property, or which is leased or may have been leased and operated by others, or held for sale.

Because environmental problems that are latent or undisclosed may exist on these properties, there can be no assurance that NS will not incur environmentally related liabilities or costs with respect to one or more of them, the amount and materiality of which cannot be estimated reliably at this time. Moreover, lawsuits and claims involving these and other now-unidentified environmental sites and matters are likely to arise from time to time. The resulting liabilities could have a significant effect on financial condition, results of operations or liquidity in a particular year or quarter.

However, based on its assessments of the facts and circumstances now known, Management believes that it has recorded the probable costs for dealing with those environmental matters of which the Corporation is aware. Further, Management believes that it is unlikely that any identified matters, either individually or in the aggregate, will have a material adverse effect on NS' financial position, results of operations or liquidity.

Labor Agreements

Approximately 85% of NS' railroad employees are represented by labor unions under collective bargaining agreements with 14 different labor organizations. Moratorium provisions of the agreements currently in force expired Dec. 31, 1999; however, the agreements remain in effect until amendments are agreed to or until the Railway Labor Act's procedures are exhausted. In late 1999, negotiations began at the national level on agreements with major labor organizations. The outcome of these negotiations is uncertain at this time. However, a tentative agreement was reached with the Brotherhood of Locomotive Engineers which represents approximately 5,000 of NS' locomotive engineers. The settlement requires ratification by the members before acceptance. Negotiations with the other unions are progressing.

Inflation

Generally accepted accounting principles require the use of historical cost in preparing financial statements. This approach disregards the effects of inflation on the replacement cost of property. NS, a capital-intensive company, has most of its capital invested in such assets. The replacement cost of these assets, as well as the related depreciation expense, would be substantially greater than the amounts reported on the basis of historical cost.

Trends

■ **Federal Economic Regulation** — Efforts may be made in 2000 to re-subject the rail industry to unwarranted federal economic regulation. The Staggers Rail Act of 1980, which substantially reduced such regulation, encouraged and enabled rail carriers to innovate and to compete for business, thereby contributing to the economic health of the nation and to the revitalization of the industry. Accordingly, NS and other rail carriers vigorously will oppose these counterproductive efforts to reimpose or to authorize reimposing such economic regulation.

■ **Reduction of "Greenhouse" Gases** — In December 1997, international environmental officials meeting in Kyoto, Japan, agreed to reduce substantially the emission of so-called "greenhouse" gases by 2010. Agreement on such reductions was reached on the basis of questionable scientific evidence and in spite of the fact that the burden of the reduction regimen will be borne disproportionally by developed nations such as the United States. NS, the rail industry and a wide variety of other affected constituencies in the United States expect to assure that, prior to a Senate vote on the proposed treaty, the public and governmental authorities have available to them additional scientific information and data concerning other effects that are likely to result from implementation.

■ **Utility Deregulation** — Deregulation of the electrical utility industry is expected to increase competition among electric power generators; deregulation over time would permit wholesalers and possibly retailers of electric power to sell or purchase increasing quantities of power to or from far-distant parties. The effects of deregulation on NS and on its customers cannot be predicted with certainty; however, NS serves a number of efficient power producers and is working diligently to assure that its customers remain competitive in this evolving environment.

Forward-Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Annual Report contain forward-looking statements that are based on current expectations, estimates and projections. Such forward-looking statements reflect Management's good-faith evaluation of information currently available. However, because such statements are based upon and, therefore, can be influenced by, a number of external variables over which Management has no, or incomplete, control, they are not, and should not be read as being, guarantees of future performance or of actual future results; nor will they necessarily prove to be accurate indications of the times at or by which any such performance or result will be achieved. Accordingly, actual outcomes and results may differ materially from those expressed in such forward-looking statements. This caveat has particular importance in the context of all such statements that relate to the resolution of the service issues, the recapture of diverted business, the addition of new business, and the ability to reduce expenses.

Consolidated Statements of Income

Norfolk Southern Corporation and Subsidiaries

	1999	1998	1997
	Years ended December 31,		
	($ in millions, except earnings per share)		
Railway operating revenues	**$ 5,195**	$ 4,221	$ 4,223
Railway operating expenses			
Compensation and benefits	**1,855**	1,492	1,405
Materials, services and rents	**1,227**	806	685
Conrail rents and services (Note 2)	**311**	—	—
Depreciation	**475**	437	421
Diesel fuel	**255**	174	227
Casualties and other claims	**138**	95	123
Other	**216**	165	149
Total railway operating expenses	**4,477**	3,169	3,010
Income from railway operations	**718**	1,052	1,213
Equity in earnings of Conrail (Note 2)	**49**	194	117
Charge for credit facility costs	—	—	(77)
Other income – net (Note 3)	**115**	115	130
Interest expense on debt (Note 5)	**(531)**	(516)	(385)
Income from continuing operations before income taxes	**351**	845	998
Provision for income taxes (Note 4)	**112**	215	299
Income from continuing operations	**239**	630	699
Discontinued operations (Note 15):			
Income (loss) from motor carrier operations, net of taxes	—	(1)	22
Gain on sale of motor carrier, net of taxes	—	105	—
Income from discontinued operations	—	104	22
Net income	**$ 239**	$ 734	$ 721
Earnings per share (Note 13)			
Income from continuing operations – Basic	**$ 0.63**	$ 1.66	$ 1.85
– Diluted	**$ 0.63**	$ 1.65	$ 1.84
Net income – Basic	**$ 0.63**	$ 1.94	$ 1.91
– Diluted	**$ 0.63**	$ 1.93	$ 1.90

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

Norfolk Southern Corporation and Subsidiaries

	1999	1998
	As of December 31, ($ in millions)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 37**	$ 5
Short-term investments	**14**	58
Accounts receivable, net of allowance for doubtful accounts of $5 million and $4 million, respectively	**857**	519
Due from Conrail (Note 2)	**77**	—
Materials and supplies	**100**	59
Deferred income taxes (Note 4)	**134**	141
Other current assets	**152**	131
Total current assets	**1,371**	913
Investment in Conrail (Note 2)	**6,132**	6,210
Properties less accumulated depreciation (Note 5)	**10,956**	10,477
Other assets	**791**	580
Total assets	**$ 19,250**	$ 18,180
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable (Note 6)	**$ 818**	$ 600
Income and other taxes	**163**	151
Notes and accounts payable to Conrail (Note 2)	**184**	—
Other current liabilities (Note 6)	**256**	225
Current maturities of long-term debt (Note 7)	**503**	141
Total current liabilities	**1,924**	1,117
Long-term debt (Note 7)	**7,556**	7,483
Other liabilities (Note 9)	**1,101**	1,065
Minority interests	**50**	49
Deferred income taxes (Note 4)	**2,687**	2,545
Total liabilities	**13,318**	12,259
Stockholders' equity:		
Common stock $1.00 per share par value, 1,350,000,000 shares authorized; issued 404,309,672 shares and 401,031,994 shares, respectively	**404**	401
Additional paid-in capital	**372**	296
Accumulated other comprehensive income (Note 12)	**(11)**	(8)
Retained income	**5,187**	5,252
Less treasury stock at cost, 21,627,902 shares	**(20)**	(20)
Total stockholders' equity	**5,932**	5,921
Total liabilities and stockholders' equity	**$ 19,250**	$ 18,180

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Norfolk Southern Corporation and Subsidiaries

	1999	1998	1997
		Years ended December 31, ($ in millions)	
Cash flows from operating activities			
Net income	**$ 239**	$ 734	$ 721
Reconciliation of net income to net cash provided by continuing operations:			
Depreciation	**489**	450	432
Deferred income taxes	**85**	114	75
Equity in earnings of Conrail	**(17)**	(194)	(117)
Charge for credit facility costs	**—**	—	77
Nonoperating gains and losses on properties and investments	**(62)**	(51)	(63)
Income from discontinued operations	**—**	(104)	(22)
Changes in assets and liabilities affecting continuing operations:			
Accounts receivable	**(322)**	33	(23)
Materials and supplies	**(40)**	(1)	3
Other current assets and due from Conrail	**(50)**	(16)	(8)
Current liabilities other than debt	**259**	(23)	115
Other – net	**(48)**	(50)	(44)
Net cash provided by continuing operations	**533**	892	1,146
Net cash provided by (used for) discontinued operations	**—**	(2)	4
Net cash provided by operating activities	**533**	890	1,150
Cash flows from investing activities			
Property additions	**(912)**	(956)	(875)
Property sales and other transactions	**104**	83	74
Investment in Conrail	**(3)**	(40)	(5,741)
Investments, including short-term	**(123)**	(116)	(185)
Investment sales and other transactions	**343**	155	217
Proceeds from sale of motor carrier	**—**	207	—
Net cash used for investing activities	**(591)**	(667)	(6,510)
Cash flows from financing activities			
Dividends	**(304)**	(303)	(301)
Common stock issued – net	**14**	34	24
Credit facility costs paid	**—**	—	(72)
Proceeds from borrowings	**1,110**	196	5,781
Debt repayments	**(730)**	(179)	(245)
Net cash provided by (used for) financing activities	**90**	(252)	5,187
Net increase (decrease) in cash and cash equivalents	**32**	(29)	(173)
Cash and cash equivalents			
At beginning of year	**5**	34	207
At end of year	**$ 37**	$ 5	$ 34
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest (net of amounts capitalized)	**$ 520**	$ 519	$ 379
Income taxes	**$ 16**	$ 76	$ 209

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Stockholders' Equity

Norfolk Southern Corporation and Subsidiaries

	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Income	Treasury Stock	Total
			($ in millions, except per share amounts)			
Balance December 31, 1996	**$ 132**	**$ 462**	**$ 3**	**$ 4,401**	**$ (21)**	**$ 4,977**
Comprehensive income – 1997						
Net income				721		721
Other comprehensive income (Note 12)			2			2
Total comprehensive income						723
Dividends on Common Stock, $0.80 per share				(301)		(301)
3-for-1 stock split, effective Sept. 5	266	(266)		—		—
Other	1	45				46
Balance December 31, 1997	**399**	**241**	**5**	**4,821**	**(21)**	**5,445**
Comprehensive income – 1998						
Net income				734		734
Other comprehensive income (Note 12)			(13)			(13)
Total comprehensive income						721
Dividends on Common Stock, $0.80 per share				(303)		(303)
Other	2	55			1	58
Balance December 31, 1998	**401**	**296**	**(8)**	**5,252**	**(20)**	**5,921**
Comprehensive income – 1999						
Net income				239		239
Other comprehensive income (Note 12)			(3)			(3)
Total comprehensive income						236
Dividends on Common Stock, $0.80 per share				(304)		(304)
Other	3	76				79
Balance December 31, 1999	**$ 404**	**$ 372**	**$ (11)**	**$ 5,187**	**$ (20)**	**$ 5,932**

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

The following Notes are an integral part of the Consolidated Financial Statements.

1 Summary of Significant Accounting Policies

Description of Business

Norfolk Southern Corporation is a Virginia-based holding company engaged principally in the transportation of freight by rail, operating approximately 21,800 route miles primarily in the East and Midwest. These financial statements include Norfolk Southern Corporation (Norfolk Southern) and its majority-owned and controlled subsidiaries (collectively NS) on a consolidated basis. Norfolk Southern's major subsidiary is Norfolk Southern Railway Company (NSR). Financial results of a former motor carrier subsidiary, North American Van Lines, Inc. (NAVL), are reflected as "Discontinued Operations" (see Note 15). All significant intercompany balances and transactions have been eliminated in consolidation.

The railroad transports raw materials, intermediate products and finished goods classified in the following market groups: coal; automotive; chemicals; paper/clay/forest products; metals/construction; agriculture/consumer products/government; and intermodal. Except for coal, all groups are approximately equal in size based on revenues; coal accounts for about 25% of total railway operating revenues. Ultimate points of origination or destination for some of the freight (particularly coal bound for export and intermodal containers) are outside the United States.

Through a jointly owned entity, Norfolk Southern and CSX Corporation own the stock of Conrail Inc., which owns the major railroad in the Northeast. Norfolk Southern has a 58% economic and 50% voting interest in the jointly owned entity (see Note 2).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

"Cash equivalents" are highly liquid investments purchased three months or less from maturity.

Investments

Marketable equity and debt securities are reported at amortized cost or fair value, depending upon their classification as securities "held-to-maturity," "trading" or "available-for-sale." On Dec. 31, 1999 and 1998, all "Short-term investments," consisting primarily of United States government and federal agency securities, were designated as "available-for-sale." Accordingly, unrealized gains and losses, net of taxes, are recognized in "Accumulated other comprehensive income."

Investments where NS has the ability to exercise significant influence over, but does not control, the entity are accounted for using the equity method in accordance with APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock."

Materials and Supplies

"Materials and supplies," consisting mainly of fuel oil and items for maintenance of property and equipment, are stated at the lower of average cost or market. The cost of materials and supplies expected to be used in capital additions or improvements is included in "Properties."

Properties

"Properties" are stated principally at cost and are depreciated using group depreciation. Rail is depreciated primarily on the basis of use measured by gross ton-miles. Other properties are depreciated generally using the straight-line method over the lesser of estimated service or lease lives. NS capitalizes interest on major capital projects during the period of their construction. Additions to properties, including those under lease, are capitalized. Maintenance expense is recognized when repairs are performed. When properties other than land and nonrail assets are sold or retired in the ordinary course of business, the cost of the assets, net of sale proceeds or salvage, is charged to accumulated depreciation rather than recognized through income. Gains and losses on disposal of land and nonrail assets are included in "Other Income" (see Note 3).

NS reviews the carrying amount of properties whenever events or changes in circumstances indicate that such carrying amount may not be recoverable based on future undiscounted cash flows or estimated net realizable value. Assets that are deemed impaired as a result of such review are recorded at the lower of carrying amount or fair value.

Revenue Recognition

Revenue is recognized proportionally as a shipment moves from origin to destination.

Derivatives

NS does not engage in the trading of derivatives. NS has entered into a limited number of derivative agreements to hedge interest rate exposures on certain components of its debt portfolio. All of these derivative instruments are designated as hedges, have high correlation with the underlying exposure and are highly effective in offsetting underlying price movements. Accordingly, payments made or received under interest rate swap agreements are recorded in the income statement with the corresponding interest expense. Payments made to hedge interest rate exposure related to the anticipated issuance of debt were deferred as a reduction of the debt proceeds and are being amortized to interest expense over the life of the underlying debt.

Required Accounting Changes

Effective Jan. 1, 1999, NS adopted AICPA Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Adoption of this pronouncement had no material effect on NS' consolidated financial statements.

Reclassifications

Certain amounts in the financial statements and notes thereto have been reclassified to conform to the 1999 presentation.

2 Investment in Conrail and Operations Over Its Lines

Overview

NS and CSX Corporation (CSX) jointly own Conrail Inc. (Conrail), whose primary subsidiary is Consolidated Rail Corporation (CRC), the major railroad in the Northeast. From May 23, 1997, the date NS and CSX completed their acquisition of Conrail stock, until June 1, 1999, Conrail's operations continued substantially unchanged while NS and CSX awaited regulatory approvals and prepared for the integration of the respective Conrail routes and assets to be leased to their railroad subsidiaries, NSR and CSX Transportation, Inc. (CSXT). From time to time, NS and CSX, as the indirect owners of Conrail, may need to make capital contributions, loans or advances to Conrail.

Commencement of Operations

On June 1, 1999 (the "Closing Date"), NSR and CSXT began operating as parts of their rail systems the separate Conrail routes and assets leased to them pursuant to operating and lease agreements.

The Operating Agreement between NSR and Pennsylvania Lines LLC (PRR), a wholly owned subsidiary of CRC, governs substantially all nonequipment assets to be operated by NSR and has an initial 25-year term, renewable at the option of NSR for two five-year terms. Payments under the Operating Agreement are subject to adjustment every six years to reflect changes in values. NSR also has leased or subleased for varying terms from PRR a number of equipment assets. Costs necessary to operate and maintain the PRR assets, including leasehold improvements, are borne by NSR. CSXT has entered into comparable arrangements, for the operation and use of certain other CRC routes and assets, with another wholly owned CRC subsidiary.

NSR and CSXT also have entered into agreements with CRC governing other Conrail properties that continue to be owned and operated by Conrail (the "Shared Assets Areas"). NSR and CSXT pay CRC a fee for joint and exclusive access to the Shared Assets Areas. In addition, NSR and CSXT pay, based on usage, the costs incurred by CRC to operate the Shared Assets Areas.

Future minimum lease payments due to PRR under the Operating Agreement and lease agreements and to CRC under the Shared Assets Areas (SAA) agreements are as follows:

($ in millions)	PRR Oper. Agmt.	PRR Lease Agmts.	SAA Agmts.
2000	$ 166	$ 154	$ 22
2001	178	129	24
2002	196	122	27
2003	217	110	30
2004	238	92	32
2005 and subsequent years	5,022	367	687
Total	$ 6,017	$ 974	$ 822

Operating lease expense related to the agreements, which is included in "Conrail rents and services," amounted to $273 million in 1999.

On the Closing Date, both NS' railroad route miles and its railroad employees increased by approximately 50 percent. NSR and CSXT now provide substantially all rail freight services on Conrail's route system, perform or are responsible for performing most services incident to customer freight contracts and employ the majority of Conrail's former work force. Consequently, NSR began to receive all freight revenues and incur all expenses on the PRR lines.

Since June 1, 1999, difficulties in integrating the PRR routes and assets have affected adversely both NSR's revenues and expenses. These higher expenses included the cost of a special incentive program available to unionized employees for much of the third quarter, higher labor costs and equipment rents and service alteration costs to meet the needs of shippers. A long-term failure by NSR to integrate successfully these PRR properties could have a substantial adverse impact on NS' financial position, results of operations and liquidity.

Investment in Conrail

NS is applying the equity method of accounting to its investment in Conrail in accordance with APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock."

On the effective date of the STB decision approving the Conrail transaction, NS' 58% investment in Conrail exceeded Conrail's net equity by $4.1 billion. This excess has been allocated to the fair values of Conrail's assets and liabilities, using the principles of purchase accounting, as follows:

($ in millions)	
Property, equipment and investments in railroads	$ 6,708
Other assets, principally pension and other employee benefit plans and trusts	224
Debt revaluation and other liabilities	(209)
Deferred taxes	(2,585)
Total	$ 4,138

NS is amortizing the excess of the purchase price over Conrail's net equity using the principles of purchase accounting, based primarily on the estimated remaining useful lives of Conrail's property and equipment, including the related deferred tax effect of the differences in tax and accounting bases for certain assets. At Dec. 31, 1999, the difference between NS' investment in Conrail and its share of Conrail's underlying net equity was $3.9 billion.

NS' investment in Conrail includes $187 million ($115 million after taxes) of costs that will be paid by NSR. These costs consist principally of: (1) contractual obligations to Conrail employees imposed by the STB when it approved the transaction and (2) costs to relocate Conrail employees. Most of these costs are expected to be paid in the two years following the Closing Date; $52 million is classified on NS' balance sheet as

"Current liabilities." However, certain contractual obligations by their terms will be paid out over a longer period and are classified as "Other liabilities" on NS' balance sheet. Through Dec. 31, 1999, NS has paid $33 million of these costs.

Had NS acquired its investment in Conrail on Jan. 1, 1997, NS' net income and diluted earnings per share for the year ended Dec. 31, 1997, would have been $671 million and $1.77, respectively. These pro forma results reflect only the application of the equity method of accounting and the specific financing costs of the transaction. They do not reflect revenues from or costs of operating PRR's assets nor do they include integration costs.

Effective June 1, 1999, NS' consolidated financial statements include the consolidated financial position and results of Triple Crown Services Company (TCS), a partnership in which subsidiaries of NS and PRR are partners. As a result, NS' total assets increased by approximately $140 million (including $121 million of properties, mostly RoadRailer® equipment), and NS' total liabilities increased by approximately $130 million (including $109 million of long-term debt).

Related-Party Transactions

Until the Closing Date, NSR and CRC had transactions with each other in the customary course of handling interline traffic. As of Dec. 31, 1999, most of the amounts receivable or payable related to these transactions have been satisfied.

NS provides certain general and administrative support functions to Conrail, the fees for which are billed in accordance with several service-provider arrangements.

"Conrail rents and services," a new line on the income statements beginning June 1, 1999, includes: (1) expenses for amounts due to PRR and CRC for use by NSR of operating properties and equipment, operation of the Shared Assets Areas and continued operation of certain facilities during a transition period; and (2) NS' equity in the earnings (or loss) of Conrail, net of amortization.

"Due from Conrail" includes $39 million for vacation liability related to the portion of CRC's work force that became NS employees on the Closing Date. NS increased its vacation liability accordingly, and will pay these employees as they take vacation.

"Notes and accounts payable to Conrail" includes $123 million of interest-bearing loans made to NS by a PRR subsidiary, payable on demand. The interest rate for these loans is variable and was 5.6% at Dec. 31, 1999. Also included is $61 million due to PRR and CRC related to expenses included in "Conrail rents and services," as discussed above.

Summary Financial Information — Conrail

The following summary financial information should be read in conjunction with Conrail's audited financial statements, included as an exhibit to NS' Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Conrail's results of operations include freight line-haul revenues and related expenses through May 31, 1999, but reflect its new structure and operations since June. Conrail's major sources of operating revenues are now from NSR and CSXT. The composition of Conrail's operating expenses also has changed.

Summarized Consolidated Statements of Income — Conrail

($ in millions)	**1999**	1998	1997
Operating revenues	**$2,174**	$ 3,863	$ 3,765
Operating expenses	**2,046**	3,348	3,443
Operating income	**128**	515	322
Other – net	**(83)**	(81)	(87)
Income before income taxes	**45**	434	235
Provision for income taxes	**19**	167	228
Net income	**$ 26**	$ 267	$ 7

Note: Conrail's results in 1999 included after-tax expenses of $121 million, principally: (1) to increase certain components of its casualty reserves based on an actuarial valuation, (2) to adjust certain litigation and environmental reserves related to settlements and completion of site reviews and (3) to adjust a credit related to the assumption of a lease obligation by CSX. Conrail's results in 1998 included a $187 million after-tax charge, primarily for estimated severance obligations to nonunion employees. Conrail's results in 1997 included a $221 million (no related tax effect) charge in conjunction with the termination of the Conrail ESOP and a $142 million after-tax charge for transaction-related stock compensation costs and change-in-control benefits. These items were considered in the allocation of NS' investment in Conrail to the fair values of Conrail's assets and liabilities and, accordingly, were excluded in determining NS' equity in Conrail's net income.

Summarized Consolidated Balance Sheets — Conrail

($ in millions)	December 31, 1999	1998
Assets:		
Current assets	$ 669	$ 1,005
Noncurrent assets	7,714	8,039
Total assets	$ 8,383	$ 9,044
Liabilities and stockholders' equity:		
Current liabilities	$ 863	$ 1,207
Noncurrent liabilities	3,701	4,037
Stockholders' equity	3,819	3,800
Total liabilities and stockholders' equity	$ 8,383	$ 9,044

3 Other Income — Net

($ in millions)	1999	1998	1997
Gains from sale of properties and investments	$ 62	$ 51	$ 56
Royalties from coal	59	57	58
Rental income	34	26	22
Interest income	8	12	30
Gain from partial redemption of partnership interest	—	—	7
Other interest expense	(30)	(21)	(27)
Nonoperating depletion and depreciation	(14)	(13)	(11)
Taxes on nonoperating property	(7)	(4)	(5)
Corporate-owned life insurance – net	(3)	11	7
Other – net	6	(4)	(7)
Total	$ 115	$ 115	$ 130

4 Income Taxes

Provision for Income Taxes

($ in millions)	1999	1998	1997
Current:			
Federal	$ 18	$ 89	$ 197
State	9	12	27
Total current taxes	27	101	224
Deferred:			
Federal	78	100	78
State	7	14	(3)
Total deferred taxes	85	114	75
Provision for income taxes	$ 112	$ 215	$ 299

Reconciliation of Statutory Rate to Effective Rate

Total income taxes as reflected in the Consolidated Statements of Income differ from the amounts computed by applying the statutory federal corporate tax rate as follows:

($ in millions)	1999 Amount	%	1998 Amount	%	1997 Amount	%
Federal income tax at statutory rate	$ 123	35	$ 296	35	$ 349	35
State income taxes, net of federal tax benefit	10	3	17	2	16	2
Equity in earnings of Conrail	(6)	(2)	(68)	(8)	(41)	(4)
Corporate-owned life insurance	1	—	(11)	(1)	(10)	(1)
Other – net	(16)	(4)	(19)	(3)	(15)	(2)
Provision for income taxes	$ 112	32	$ 215	25	$ 299	30

Deferred Tax Assets and Liabilities

Certain items are reported in different periods for financial reporting and income tax purposes. Deferred tax assets and liabilities were recorded in recognition of these differences.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

($ in millions)	December 31, 1999	1998
Deferred tax assets:		
Reserves, including casualty and other claims	$ 168	$ 157
Employee benefits	111	209
Retiree health and death benefit obligation	127	127
Taxes, including state and property	174	173
Other	42	41
Total gross deferred tax assets	622	707
Less valuation allowance	(9)	(3)
Net deferred tax assets	613	704
Deferred tax liabilities:		
Property	(3,093)	(3,023)
Other	(73)	(85)
Total gross deferred tax liabilities	(3,166)	(3,108)
Net deferred tax liability	(2,553)	(2,404)
Net current deferred tax assets	134	141
Net long-term deferred tax liability	$ (2,687)	$ (2,545)

Except for amounts for which a valuation allowance has been provided, Management believes the other deferred tax assets will be realized. The total valuation allowance increased $6 million in 1999 and $1 million in 1998.

Internal Revenue Service (IRS) Reviews

Consolidated federal income tax returns have been examined and Revenue Agent Reports have been received for all years up to and including 1994. The consolidated federal income tax returns for 1995 and 1996 are being audited by the IRS. Management believes that adequate provision has been made for any additional taxes and interest thereon that might arise as a result of IRS examinations.

5 Properties

($ in millions)	December 31, 1999	1998	Depreciation Rate for 1999
Railway property:			
Road	$ 9,681	$ 9,267	2.8%
Equipment	5,577	5,157	4.2%
Other property	627	639	3.4%
	15,885	15,063	
Less: Accumulated depreciation	4,929	4,586	
Net properties	$ 10,956	$ 10,477	

Equipment includes $593 million at Dec. 31, 1999 and 1998, of assets recorded pursuant to capital leases.

Capitalized Interest

Total interest cost incurred on debt in 1999, 1998 and 1997 was $546 million, $537 million and $402 million, respectively, of which $15 million, $21 million and $17 million was capitalized.

6 Current Liabilities

($ in millions)	December 31, 1999	1998
Accounts payable:		
Accounts and wages payable	$ 354	$ 283
Casualty and other claims	181	144
Equipment rents payable – net	135	72
Vacation liability	124	81
Other	24	20
Total	$ 818	$ 600
Other current liabilities:		
Interest payable	$ 123	$ 91
Accrued Conrail-related costs (Note 2)	56	67
Liabilities for forwarded traffic	37	27
Retiree health and death benefit obligation (Note 10)	24	24
Other	16	16
Total	$ 256	$ 225

7 Debt

Shelf Registration

In November 1998, NS filed with the Securities and Exchange Commission a shelf registration statement on Form S-3 covering the issuance of up to $1 billion of securities. In April 1999, NS issued $400 million of 6.2% 10-year term Senior Notes under this registration.

Long-Term Debt

($ in millions)	December 31, 1999	1998
Commercial paper at an average rate of 6.4%	$ 1,722	$1,889
Notes at average rates and maturities as follows:		
6.85%, maturing 2000 to 2002	1,100	1,100
7.14%, maturing 2004 to 2009	1,600	1,200
8.10%, maturing 2017 to 2021	800	800
7.80%, maturing 2027	800	800
7.05%, maturing 2037	750	750
7.90%, maturing 2097	350	350
Railroad equipment obligations at an average rate of 6.8%, maturing to 2014	548	379
Capitalized leases at an average rate of 6.3%, maturing to 2015	382	349
Other debt at an average rate of 5.4%, maturing to 2015	35	35
Discounts and premiums, net	(28)	(28)
Total long-term debt	8,059	7,624
Current maturities	(503)	(141)
Long-term debt less current maturities	$ 7,556	$7,483

Long-term debt matures as follows:	
2001	$ 297
2002	593
2003	92
2004	335
2005 and subsequent years	6,239
Total	$ 7,556

Each holder of a 2037 note may require NS to redeem all or part of the note at face value, plus accrued and unpaid interest, on May 1, 2004.

The railroad equipment obligations and the capitalized leases are secured by liens on the underlying equipment.

Commercial Paper

Commercial paper debt is due within one year, but has been classified as long-term because NS has the ability through a $2.8 billion credit agreement to convert this obligation into longer-term debt. The credit agreement expires in 2002 and provides for interest on borrowings at prevailing rates. NS intends to refinance the commercial paper either by issuing additional commercial paper or by replacing commercial paper notes with long-term debt.

Capital Lease Obligations

During 1998 and 1997, NSR entered into capital leases covering new locomotives. The related capital lease obligations, totaling $127 million in 1998 and $64 million in 1997, were reflected in the Consolidated Balance Sheets as debt and, because they were noncash transactions, were excluded from the Consolidated Statements of Cash Flows.

These and certain other lease obligations carry an average stated interest rate of 7.1%, but were effectively converted to variable rate obligations using interest rate swap agreements. The interest rates on the swap obligations are based on the six-month London Interbank Offered Rate and are reset every six months with changes in interest rates accounted for as an adjustment of interest expense over the terms of the leases. As of Dec. 31, 1999, the notional amount of the swap agreements was $281 million, and the average interest rate was 6.3%. As a result, NS is exposed to the market risk associated with fluctuations in interest rates. To date, the effects of the rate fluctuations have been favorable and not material. Counterparties to the interest rate swap agreements are major financial institutions believed by Management to be creditworthy.

Debt Covenants

NS is subject to various financial covenants with respect to its debt and under its credit agreement, including a minimum net worth requirement, a maximum leverage ratio restriction and certain restrictions on issuance of further debt. At Dec. 31, 1999, NS was in compliance with all debt covenants.

8 Lease Commitments

NS is committed under long-term lease agreements, which expire on various dates through 2067, for equipment, lines of road and other property. The following amounts do not include payments to PRR under the Operating Agreement and lease agreements or to CRC under the SAA agreements (see Note 2). Future minimum lease payments other than to PRR and CRC are as follows:

($ in millions)	Operating Leases	Capital Leases
2000	$ 97	$ 47
2001	75	47
2002	62	47
2003	59	46
2004	50	46
2005 and subsequent years	555	245
Total	$ 898	478
Less imputed interest on capital leases at an average rate of 7.1%		96
Present value of minimum lease payments included in debt		$ 382

Operating Lease Expense

($ in millions)	**1999**	1998	1997
Minimum rents	**$ 118**	$ 75	$ 68
Contingent rents	**61**	40	43
Total	**$ 179**	$ 115	$ 111

9 Other Liabilities

($ in millions)	December 31, **1999**	1998
Casualty and other claims	**$ 275**	$ 271
Retiree health and death benefit obligation (Note 10)	**261**	268
Accrued Conrail-related costs (Note 2)	**102**	100
Net pension obligations (Note 10)	**74**	72
Other	**389**	354
Total	**$ 1,101**	$ 1,065

10 Pensions and Other Postretirement Benefits

Norfolk Southern and certain subsidiaries have both funded and unfunded defined benefit pension plans covering principally salaried employees. Norfolk Southern and certain subsidiaries also provide specified health care and death benefits to eligible retired employees and their dependents. Under the present plans, which may be amended or terminated at NS' option, a defined percentage of health care expenses is covered, reduced by any deductibles, co-payments, Medicare payments and, in some cases, coverage provided under other group insurance policies.

	Pension Benefits		Other Benefits	
($ in millions)	**1999**	1998	**1999**	1998
Change in benefit obligations				
Benefit obligation at beginning of year	**$1,063**	$ 956	**$ 362**	$ 360
Increase related to former Conrail employees	**68**	—	**—**	—
Service cost	**17**	13	**11**	10
Interest cost	**73**	67	**23**	24
Amendment	**—**	40	**—**	—
Actuarial (gains) losses	**(92)**	61	**(33)**	(9)
Benefits paid	**(71)**	(74)	**(23)**	(23)
Benefit obligation at end of year	**1,058**	1,063	**340**	362
Change in plan assets				
Fair value of plan assets at beginning of year	**1,544**	1,360	**139**	111
Transfer of assets from Conrail plan	**352**	—	**—**	—
Actual return on plan assets	**250**	253	**21**	28
Employer contribution	**4**	5	**15**	23
401(h) account transfer	**(7)**	—	**—**	—
Benefits paid	**(71)**	(74)	**(23)**	(23)
Fair value of plan assets at end of year	**2,072**	1,544	**152**	139
Funded status	**1,014**	481	**(188)**	(223)
Unrecognized initial net asset	**(10)**	(16)	**—**	—
Unrecognized (gain) loss	**(799)**	(517)	**(97)**	(57)
Unrecognized prior service cost (benefit)	**40**	44	**—**	(12)
Net amount recognized	**$ 245**	$ (8)	**$ (285)**	$ (292)
Amounts recognized in the Consolidated Balance Sheets consist of:				
Prepaid benefit cost	**$ 298**	$ 41	**$ —**	$ —
Accrued benefit liability	**(74)**	(72)	**(285)**	(292)
Accumulated other comprehensive income	**21**	23	**—**	—
Net amount recognized	**$ 245**	$ (8)	**$(285)**	$ (292)

Of the pension plans included above, the nonqualified pension plans were the only plans with an accumulated benefit obligation in excess of plan assets. These plans' accumulated benefit obligations were $74 million at Dec. 31, 1999, and $72 million at Dec. 31, 1998. These plans' projected benefit obligations were $76 million at Dec. 31, 1999, and $77 million at Dec. 31, 1998. Because of the nature of such plans, there are no plan assets.

During 1999, a Section 401(h) account transfer of $7 million was made, transferring a portion of pension assets to fund 1999 medical payments for retirees.

As a result of the commencement of operations over Conrail's lines (see Note 2), NS hired a substantial portion of Conrail's former work force. In August 1999, NS assumed certain pension obligations related to those employees. These obligations, along with pension plan assets in excess of the obligations, were transferred to the NS plans in 1999. This transfer resulted in an increase to NS' pension plan asset and a corresponding decrease to NS' investment in Conrail.

NS has amended its qualified pension plan to conform certain provisions of its plan with the Conrail plan and to provide prior service credit to Conrail employees for benefits under the NS plan. The amendment, as it relates to NS employees, increased the pension benefit obligation at Dec. 31, 1998, by $40 million.

Pension and other postretirement benefit costs are determined based on actuarial valuations that reflect appropriate assumptions as of the measurement date, ordinarily the beginning of each year. The funded status of the plans is determined using appropriate assumptions as of each year end. During 1999, NS received assets from the Conrail pension plan and assumed certain related liabilities. As a result, the measurement dates for determining pension costs were Jan. 1, 1999, and Aug. 31, 1999, and reflect discount rates of 6.75% and 7.75%, respectively, and other assumptions appropriate at those dates. A summary of the major assumptions follows:

	1999	1998	1997
Funded status:			
Discount rate	**7.75%**	6.75%	7.25%
Future salary increases	**5%**	5%	5.25%
Pension cost:			
Discount rate	**6.75%**	7.25%	7.75%
Return on assets in plans	**10%**	9%	9%
Future salary increases	**5%**	5.25%	5.25%

Pension and Other Postretirement Benefit Costs Components

($ in millions)	1999	1998	1997
Pension benefits			
Service cost	**$ 17**	$ 13	$ 11
Interest cost	**73**	67	66
Expected return on plan assets	**(152)**	(106)	(90)
Amortization of prior service cost	**4**	1	1
Amortization of initial net asset	**(7)**	(7)	(6)
Recognized net actuarial (gain) loss	**(22)**	(12)	(7)
Net cost (benefit)	**$ (87)**	$ (44)	$ (25)
Other postretirement benefits			
Service cost	**$ 11**	$ 10	$ 9
Interest cost	**23**	24	25
Expected return on plan assets	**(12)**	(9)	(7)
Amortization of prior service cost	**(12)**	(12)	(12)
Recognized net actuarial (gain) loss	**(2)**	(2)	—
Net cost	**$ 8**	$ 11	$ 15

For measurement purposes, increases in the per capita cost of covered health care benefits were assumed to be 7.5% for 2000 and 8.0% for 1999. The rate was assumed to decrease gradually to an ultimate rate of 5.0% for 2003 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported in the financial statements. To illustrate, a one-percentage-point change in assumed health care cost trend would have the following effects:

	One percentage point	
($ in millions)	Increase	Decrease
Increase (decrease) in:		
Total service and interest cost components	$ 4	$ (3)
Postretirement benefit obligation	$ 28	$ (24)

Under collective bargaining agreements, NS and certain subsidiaries participate in a multi-employer benefit plan, which provides certain postretirement health care and life insurance benefits to eligible agreement employees. Premiums under this plan are expensed as incurred and amounted to $5 million in 1999, $5 million in 1998 and $4 million in 1997.

401(k) Plans

Norfolk Southern and certain subsidiaries provide 401(k) savings plans for employees. Under the plans, NS matches a portion of employee contributions, subject to applicable limitations. In 1999, NS issued shares of Common Stock to fund its contributions. NS' expenses under these plans were $12 million in 1999, $10 million in 1998 and $9 million in 1997.

In November 1999, NS issued and contributed to eligible participants' accounts approximately 2 million shares of Norfolk Southern common stock in connection with a temporary special work incentive program available to its unionized employees during much of the third quarter. The cost of the program, which was charged to compensation and benefits expenses, was $49 million.

11 Stock-Based Compensation

Under the stockholder-approved Long-Term Incentive Plan (LTIP), a committee of nonemployee directors of the Board may grant stock options, stock appreciation rights (SARs), restricted stock and performance share units (PSUs), up to a maximum 53,025,000 shares of Norfolk Southern common stock ("Common Stock"). Under the Board-approved Thoroughbred Stock Option Plan (TSOP), the committee may grant stock options up to a maximum of 6,000,000 shares of Common Stock. Options may be granted for a term not to exceed 10 years, but may not be exercised prior to the first anniversary of the date of grant. Options are exercisable at the fair market value of Common Stock on the date of grant.

The LTIP also permits the payment — on a current or a deferred basis and in cash or in stock — of dividend equivalents on shares of Common Stock covered by options or PSUs in an amount commensurate with dividends paid on Common Stock. Tax absorption payments also are authorized, in amounts estimated to equal the federal and state income taxes applicable to shares of Common Stock issued subject to a share retention agreement.

Accounting Method

NS applies APB Opinion 25 and related interpretations in accounting for awards made under the plans. Accordingly, PSUs, restricted stock, dividend equivalents, tax absorption payments and SARs result in charges to net income, while stock options have no effect on net income. Related compensation costs were $2 million in 1999, $25 million in 1998 and $29 million in 1997. Had such compensation costs been determined in accordance with SFAS 123, net income would have been $210 million in 1999, $718 million in 1998 and $714 million in 1997; basic earnings per share would have been $0.55 in 1999, $1.90 in 1998 and $1.90 in 1997; and diluted earnings per share would have been $0.55 in 1999, $1.89 in 1998 and $1.89 in 1997. These pro forma amounts include compensation costs as calculated using the Black-Scholes option-pricing model with average expected option lives of four years for 1999 grants and five years for grants made in 1998 and 1997; average risk-free interest rates of 5.2% in 1999, 5.5% in 1998 and 6.3% in 1997; average stock-price volatilities of 21% in 1999, 15% in 1998 and 16% in 1997; and dividend yields ranging from 0% to 3%.

Stock Option Activity

	Option Shares	Weighted Average Exercise Price
Balance 12/31/96	10,884,537	$20.38
Granted	1,986,000	29.46
Exercised	(1,477,226)	17.62
Surrendered for SAR	(6,393)	7.42
Canceled	(13,500)	29.46
Balance 12/31/97	11,373,418	22.32
Granted	3,625,000	32.16
Exercised	(1,908,370)	19.22
Canceled	(31,000)	29.46
Balance 12/31/98	13,059,048	25.48
Granted	9,150,400	30.09
Exercised	(859,085)	17.10
Canceled	(234,000)	29.84
Balance 12/31/99	21,116,363	$27.77

Except for those granted during 1999, all outstanding options were exercisable on Dec. 31, 1999. The difference between the weighted average exercise prices for all outstanding options and those exercisable on Dec. 31, 1999, was not significant.

Stock Options Outstanding

Exercise Price		Number	Weighted Average
Range	Weighted Average	Outstanding at 12/31/99	Remaining Contractual Life
$12.56 to $14.25	$14.12	619,163	1.0 years
18.81 to 21.08	20.44	3,170,450	3.7 years
24.31 to 27.69	26.78	8,123,100	7.6 years
29.46 to 33.25	32.10	9,203,650	8.3 years
$12.56 to $33.25	$27.77	21,116,363	7.1 years

Performance Share Units

PSUs provide for awards based upon achievement of certain predetermined corporate performance goals at the end of a three-year cycle. PSU grants and average grant-date fair market values were 850,000 and $27.72 in 1999; 565,500 and $32.16 in 1998; and 529,500 and $29.46 in 1997, respectively. PSUs may be paid in the form of shares of Common Stock, cash or a combination. Shares earned and issued may be subject to share retention agreements and held by NS for up to five years.

Shares Available and Issued

Shares of stock available for future grants and issued in connection with all features of the LTIP and TSOP are as follows:

	1999	1998	1997
Available for future grants 12/31:			
LTIP	**10,512,997**	16,233,600	19,928,853
TSOP	**2,349,600**	—	—
Shares of Common Stock issued:			
LTIP	**1,086,288**	2,212,323	1,933,703
TSOP	**—**	—	—

12 Stockholders' Equity

Accumulated Other Comprehensive Income

"Accumulated other comprehensive income" reported in "Stockholders' equity" included unrealized gains on securities, net of taxes, of $2 million at Dec. 31, 1999, and $6 million at Dec. 31, 1998, and minimum pension liability of $13 million at Dec. 31, 1999, and $14 million at Dec. 31, 1998. "Other comprehensive income" reported in the Consolidated Statements of Changes in Stockholders' Equity consisted of the following:

($ in millions)	1999	1998	1997
Unrealized gains on securities	**$ (6)**	$ 1	$ 4
Minimum pension liability	**2**	(23)	—
Income taxes	**1**	9	(2)
Other comprehensive income	**$ (3)**	$ (13)	$ 2

"Unrealized gains on securities" included reclassification adjustments for gains realized in income from the sale of the securities of less than $1 million in each year.

Undistributed Earnings of Equity Investees

"Retained income" includes undistributed earnings of equity investees, principally attributable to NS' equity in the earnings of Conrail, of $330 million at Dec. 31, 1999, $314 million at Dec. 31, 1998, and $120 million at Dec. 31, 1997.

Stock Split

On July 22, 1997, the Board of Directors approved an amendment of the Articles of Incorporation increasing the number of authorized shares of Common Stock from 450 million to 1,350 million in connection with a three-for-one split to stockholders of record on Sept. 5, 1997. This stock split, with no change in the par value of $1 per share, resulted in the issuance of approximately 266 million additional shares of Common Stock. All share and per share amounts in this report have been restated to reflect the split.

13 Earnings Per Share

The following table sets forth the calculation of basic and diluted earnings per share:

($ in millions except per share, shares in millions)	1999	1998	1997
Basic earnings per share:			
Income available to common stockholders for basic and diluted computations	**$ 239**	$ 734	$ 721
Weighted-average shares outstanding	**381**	379	377
Basic earnings per share	**$0.63**	$ 1.94	$ 1.91
Diluted earnings per share:			
Weighted-average shares outstanding per above	**381**	379	377
Dilutive effect of outstanding options, PSUs and SARs (as determined by the application of the treasury stock method)	**1**	2	3
Adjusted weighted-average shares outstanding	**382**	381	380
Diluted earnings per share	**$0.63**	$ 1.93	$ 1.90

These calculations exclude options the exercise price of which exceeded the average market price of Common Stock as follows: in 1999, 17 million in the fourth quarter, 9 million in the third quarter, 7 million in the second quarter and 5 million in the first quarter; and in 1998, 4 million in the fourth and third quarters.

There are no adjustments to "Net income" or "Income from continuing operations" for the diluted earnings per share computations.

14 Fair Values of Financial Instruments

The fair values of "Cash and cash equivalents," "Short-term investments," "Accounts receivable," "Short-term debt" and "Accounts payable" approximate carrying values because of the short maturity of these financial instruments. The fair value of corporate-owned life insurance approximates carrying value. The carrying amounts and estimated fair values for the remaining financial instruments, excluding investments accounted for under the equity method in accordance with APB Opinion No. 18, consisted of the following at December 31:

	1999		1998	
($ in millions)	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Investments	**$ 49**	**$ 54**	$ 100	$ 105
Long-term debt	**(8,058)**	**(7,980)**	(7,624)	(8,182)
Interest rate swaps	**—**	**4**	—	20

Quoted market prices were used to determine the fair value of marketable securities; underlying net assets were used to estimate the fair value of other investments. The fair values of debt were estimated based on quoted market prices or discounted cash flows using current interest rates for debt with similar terms, company rating and remaining maturity. The fair value of interest rate swaps were estimated based on discounted cash flows, reflecting the difference between estimated future variable-rate payments and future fixed-rate receipts.

Carrying amounts of marketable securities reflect unrealized holding gains of $3 million on Dec. 31, 1999, and $9 million on Dec. 31, 1998. Sales of "available-for-sale" securities were immaterial for years ended Dec. 31, 1999 and 1998.

15 Discontinued Operations — Motor Carrier

On March 28, 1998, NS sold all the common stock of North American Van Lines, Inc. (NAVL), its motor carrier subsidiary. Total proceeds from the sale were $207 million, resulting in a $90 million pretax gain ($105 million, or 28 cents per basic and diluted share, after taxes). The higher after-tax gain was the result of differences between book and tax bases and the realization of deferred tax benefits.

NAVL's results of operations, financial position and cash flows are presented as "Discontinued operations" in the accompanying financial statements. A summary of NAVL's results of operations follows:

($ in millions)	1998	1997
Motor carrier revenues	$ 207	$ 942
Motor carrier expenses	208	907
Provision for income taxes	—	13
Income (loss) from operations	(1)	22
Gain on sale, net of taxes	105	—
Income from discontinued operations	$ 104	$ 22
Earnings per share (basic and diluted) from discontinued operations	$ 0.28	$ 0.06

16 Commitments and Contingencies

Lawsuits

Norfolk Southern and certain subsidiaries are defendants in numerous lawsuits relating principally to railroad operations. While the final outcome of these lawsuits cannot be predicted with certainty, it is the opinion of Management, based on known facts and circumstances, that the amount of NS' ultimate liability is unlikely to have a material adverse effect on NS' financial position, results of operations or liquidity.

Environmental Matters

NS is subject to various jurisdictions' environmental laws and regulations. It is NS' policy to record a liability where such liability or loss is probable and its amount can be estimated reasonably. Claims, if any, against third parties for recovery of cleanup costs incurred by NS are reflected as receivables in the balance sheet and are not netted against the associated NS liability. Environmental engineers regularly participate in ongoing evaluations of all identified sites and in determining any necessary adjustments to initial liability estimates. NS also has established an Environmental Policy Council, composed of senior managers, to oversee and interpret its environmental policy.

As of Dec. 31, 1999, NS' balance sheet included a reserve for environmental exposures in the amount of $41 million (of which $8 million is accounted for as a current liability), which is NS' estimate of the probable cleanup and remediation costs based on available information at 126 identified locations. On that date, 12 sites accounted for $20 million of the reserve, and no individual site was considered to be material. NS anticipates that much of this liability will be paid out over five years; however, some costs will be paid out over a longer period.

At some of the 126 locations, certain NS subsidiaries, usually in conjunction with a number of other parties, have been identified as potentially responsible parties by the Environmental Protection Agency (EPA) or similar state authorities under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, or comparable state statutes, which often impose joint and several liability for cleanup costs.

With respect to known environmental sites (whether identified by NS or by the EPA or comparable state authorities), estimates of NS' ultimate potential financial exposure for a given site or in the aggregate for all such sites are necessarily imprecise because of the widely varying costs of currently available cleanup techniques, the likely development of new cleanup technologies, the difficulty of determining in advance the nature and full extent of contamination and each potential participant's share of any estimated loss (and that participant's ability to bear it), and evolving statutory and regulatory standards governing liability.

The risk of incurring environmental liability — for acts and omissions, past, present and future — is inherent in the railroad business. Some of the commodities in NS' traffic mix, particularly those classified as hazardous materials, can pose special risks that NS and its subsidiaries work diligently to minimize. In addition, several NS subsidiaries own, or have owned, land used as operating property, or which is leased or may have been leased and operated by others, or held for sale. Because environmental problems may exist on these properties that are latent or undisclosed, there can be no assurance that NS will not incur environmentally related liabilities or costs with respect to one or more of them, the amount and materiality of which cannot be estimated reliably at this time. Moreover, lawsuits and claims involving these and other now-unidentified environmental sites and matters are likely to arise from time to time. The resulting liabilities could have a significant effect on financial condition, results of operations or liquidity in a particular year or quarter.

However, based on its assessments of the facts and circumstances now known, Management believes that it has recorded the probable costs for dealing with those environmental matters of which the Corporation is aware. Further, Management believes that it is unlikely that any identified matters, either individually or in the aggregate, will have a material adverse effect on NS' financial position, results of operations or liquidity.

Tax Benefit Leases

In January 1995, the United States Tax Court issued a preliminary decision that disallowed some of the tax benefits a subsidiary of NS purchased from a third party pursuant to a safe harbor lease agreement in 1981. The Tax Court finalized this decision in February 1997, and all avenues of appeal have been exhausted. NS has requested payment and filed suit to collect from the third party in accordance with indemnification provisions of the lease agreement, and Management believes that this receivable will be collected.

Change-In-Control Arrangements

Norfolk Southern has compensation agreements with officers and certain key employees that become operative only upon a change in control of the Corporation, as defined in those agreements. The agreements provide generally for payments based on compensation at the time of a covered individual's involuntary or other specified termination and for certain other benefits.

Debt Guarantees

As of Dec. 31, 1999, certain Norfolk Southern subsidiaries are contingently liable as guarantors with respect to $8 million of indebtedness of related entities.

Report of Management

Norfolk Southern Corporation and Subsidiaries

January 25, 2000

To the Stockholders
Norfolk Southern Corporation:

Management is responsible for the preparation and content of the financial statements included in this annual report. The financial statements have been prepared in conformity with generally accepted accounting principles and reflect Management's judgments and estimates concerning effects of events and transactions that are accounted for or disclosed. The financial information contained in other sections of this annual report is consistent with that contained in the financial statements.

Norfolk Southern Corporation and its subsidiaries maintain accounting systems that are supported by internal accounting controls. These systems and controls provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with Management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. The concept of reasonable assurance is based on the recognition that the cost of a system of internal accounting control should not exceed its benefits. A staff of experienced and highly trained internal auditors conducts audit procedures designed to test compliance with internal controls. Results of audit efforts and actions are communicated to appropriate Management, including the Chairman, President and Chief Executive Officer, and to the Audit Committee of the Board of Directors.

Norfolk Southern Corporation and its subsidiaries have established their intent to maintain the highest standards of ethical conduct in all their business activities. Internal accounting and operating control policies, as well as a corporate code of conduct, are documented and communicated to all levels of Management. Adherence to these policies and procedures and this code is continuously being evaluated by a thorough, coordinated effort of internal audit staff and independent auditors.

The Audit Committee of the Board of Directors is composed solely of nonemployee directors. The Committee meets periodically with the Vice President-Internal Audit and the independent auditors to review and discuss audit findings and other accounting and financial matters. Matters reviewed include the annual audit plan and the accounting policies of Norfolk Southern Corporation and its subsidiaries, conflict of interest policy, internal control systems, and financial operations and reporting.

KPMG LLP, a firm of independent public accountants, has been engaged to audit and render an opinion on the consolidated financial statements. As independent auditors, they also provide an objective, outside review of Management's report of operating results and financial condition. Working with the internal auditors, they review internal accounting controls and make tests as appropriate of the data included in the financial statements.

David R. Goode Chairman, President and Chief Executive Officer	Henry C. Wolf Vice Chairman and Chief Financial Officer	John P. Rathbone Vice President and Controller

Independent Auditors' Report

The Stockholders and Board of Directors
Norfolk Southern Corporation:

We have audited the accompanying consolidated balance sheets of Norfolk Southern Corporation and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Norfolk Southern Corporation and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

KPMG LLP

Norfolk, Virginia
January 25, 2000

Quarterly Financial Data

(Unaudited)

	Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
	(In millions of dollars, except per share amounts)			
1999				
Railway operating revenues	$1,030	$1,194	$1,500	$1,471
Income from railway operations	237	198	146	137
Income from continuing operations	112	77	19	31
Net income	112	77	19	31
Earnings per share – Basic	$ 0.30	$ 0.20	$ 0.05	$ 0.08
– Diluted	$ 0.30	$ 0.20	$ 0.05	$ 0.08
1998				
Railway operating revenues	$1,066	$1,079	$1,048	$1,028
Income from railway operations	251	293	258	250
Income from continuing operations	132	187	151	160
Net income	229	187	158	160
Earnings per share – Basic	$ 0.61	$ 0.49	$ 0.42	$ 0.42
– Diluted	$ 0.61	$ 0.48	$ 0.42	$ 0.42

Stock Price and Dividend Information

(Unaudited)

The Common Stock of Norfolk Southern Corporation, owned by 51,123 stockholders of record as of Dec. 31, 1999, is traded on the New York Stock Exchange with the symbol NSC. The following table shows the high and low sales prices and dividends per share, by quarter, for 1999 and 1998.

	Quarter			
1999	**1st**	**2nd**	**3rd**	**4th**
Market Price				
High	$ 32 3/16	$ 36 7/16	$ 31 5/16	$ 25 3/8
Low	26 1/4	25 1/2	24 1/8	19 5/8
Dividends per share	$ 0.20	$ 0.20	$ 0.20	$ 0.20
1998	**1st**	**2nd**	**3rd**	**4th**
Market Price				
High	$ 41 3/4	$ 39 1/16	$ 31 1/2	$ 34 15/16
Low	29 1/2	28 5/8	27 7/16	27 7/16
Dividends per share	$ 0.20	$ 0.20	$ 0.20	$ 0.20

Board of Directors and Officers

Gerald L. Baliles
59, of Richmond, Va., is a partner in the law firm of Hunton & Williams, a business law firm with offices in several major U.S. cities and international offices in Bangkok, Brussels, London, Vienna, Warsaw and Hong Kong. His Board service began in 1990; his current term expires in 2002.

Carroll A. Campbell Jr.
59, of Georgetown, S.C., and Alexandria, Va., is president and chief executive officer of the American Council of Life Insurance. His Board service began in 1996; his current term expires in 2000.

Gene R. Carter
60, of Alexandria, Va., is executive director of the Association for Supervision and Curriculum Development, among the world's largest international education associations. His Board service began in 1992; his current term expires in 2002.

L.E. Coleman
69, of Grantham, N.H., is retired chairman and chief executive officer of The Lubrizol Corporation, a diversified specialty chemical company. A former director of Norfolk and Western Railway (1980-82), his NS Board service began in 1982; his current term expires in 2001.

David R. Goode
59, of Norfolk, Va., is chairman, president and chief executive officer of Norfolk Southern. He joined Norfolk and Western Railway in 1965 and was named CEO of Norfolk Southern in 1992. His Board service began in 1992; his current term expires in 2000.

Landon Hilliard
60, of New York City, is a partner in Brown Brothers Harriman & Co., a private bank in New York City. His Board service began in 1992; his current term expires in 2001.

Steven F. Leer
47, of St. Louis, is president and chief executive officer of Arch Coal, Inc., the nation's second largest coal producer. His Board service began in 1999; his current term expires in 2002.

Arnold B. McKinnon
72, of Norfolk, Va., retired as NS' chairman and chief executive officer in 1992. He began his railroad service in 1951 with Southern Railway and was a director from 1979 to 1982. His NS Board service began in 1986; his current term expires effective the date of the 2000 Annual Meeting.

Jane Margaret O'Brien
46, of St. Mary's City, Md., is president of St. Mary's College of Maryland. Her Board service began in 1994; her current term expires in 2001.

Harold W. Pote
53, of New York City, is a partner in The Beacon Group, a private investment partnership. His Board service began in 1988; his current term expires in 2000.

Officers

NS officers as of Jan. 31, 2000:

David R. Goode, chairman, president and chief executive officer
L. I. Prillaman, vice chairman and chief marketing officer
Stephen C. Tobias, vice chairman and chief operating officer
Henry C. Wolf, vice chairman and chief financial officer
James C. Bishop Jr., executive vice president Law
R. Alan Brogan, president Intermodal
Charles W. Moorman, president Thoroughbred Technology and Telecommunications, Inc.
John F. Corcoran, senior vice president Public Affairs
David A. Cox, senior vice president Properties and Development
John W. Fox Jr., senior vice president Coal Marketing
James A. Hixon, senior vice president Employee Relations
Jon L. Manetta, senior vice president Operations
James W. McClellan, senior vice president Planning
Phillip R. Ogden, senior vice president Engineering
Donald W. Seale, senior vice president Merchandise Marketing
Paul N. Austin, vice president and assistant to chairman, president and chief executive officer
Timothy P. Dwyer, vice president Marketing Services
Nancy S. Fleischman, vice president
Robert C. Fort, vice president Public Relations
William A. Galanko, vice president Taxation
James L. Granum, vice president Public Affairs
Lewis D. Hale Jr., vice president Transportation
Thomas C. Hostutler, vice president Internal Audit
Robert E. Huffman, vice president Intermodal Operations
H. Craig Lewis, vice president Corporate Affairs
Bruno Maestri, vice president Public Affairs
Mark D. Manion, vice president Mechanical
Robert E. Martinez, vice president Ports and Development
Harold C. Mauney Jr., vice president Public Affairs
Donald W. Mayberry, vice president Research and Tests
Michael R. McClellan, vice president Intermodal Marketing
Kathryn B. McQuade, vice president Financial Planning
Richard W. Parker, vice president Properties
John P. Rathbone, vice president and controller
Stephen P. Renken, vice president Information Technology
William J. Romig, vice president and treasurer
John M. Samuels, vice president Operations Planning and Budget
Rashe W. Stephens Jr., vice president Quality Management
Walter B. Trollinger, vice president Distribution & Automotive Services
Charles J. Wehrmeister, vice president Safety and Environmental
William C. Wooldridge, vice president Law
Dezora M. Martin, corporate secretary

Glossary of Terms

AICPA — American Institute of Certified Public Accountants.

Basic earnings per share —net income divided by the average number of shares outstanding for the period.

Capitalized costs — expenditures that have future benefit and thus are recorded as assets.

Car utilization — ways to measure rail car productivity. Among the measures are how much freight a car hauled and how many trips it made in a specified period of time.

Carload — a shipment of not less than five tons of one commodity.

Class I railroad — a railroad having operating revenues of more than $259.4 million annually.

Classification — the process by which cars are grouped according to their destinations and made ready for proper train movement.

Clearance — refers to the capability of a rail corridor to handle equipment of excessive height or width.

Connecting carrier — a railroad with a physical connection with another.

Container — a large, weatherproof box designed for shipping freight in bulk by rail, truck or steamship.

Cycle time — the length of time consumed by a freight car from one loading to the next.

Debt-to-total-capitalization ratio — the percentage of total capital that is debt. Total capital is the combination of long-term debt, short-term debt, current maturities of long-term debt and stockholders' equity.

Diluted earnings per share — earnings per share that reflect the potentially dilutive effect of additional shares that could become outstanding, principally as a result of stock options.

Double track — parallel sets of main line tracks, typically found in areas with high densities of traffic.

Double-stack containers — containers that can be stacked one atop another on a flatcar.

EPA — Environmental Protection Agency.

ESOP — Employee Stock Ownership Plan.

Gross ton-mile — the movement of the combined weight of cars and their contents a distance of one mile.

Haulage rights — rights obtained by one railroad to have its cars or trains operated by another railroad over that railroad's tracks, using the other's crews and usually its locomotives.

Intermodal service — freight moving via at least two different modes of transport. Intermodal service generally involves the shipment of containers and trailers by rail, truck, barge or ship.

ISO 9002 — a globally recognized quality standard established by the International Organization for Standardization in Geneva, Switzerland, and adopted by more than 90 countries.

Just-in-time — a manufacturing strategy whereby parts are produced or delivered only as needed.

Line capacity — the maximum number of trains that can operate safely and reliably over a given segment of track during a given period of time.

Line-haul service — the movement over the tracks of a carrier from one city to another, not including the switching service.

Main line — primary rail line over which trains operate between terminals. It excludes sidings and yard and industry tracks.

Multilevel car — a long flatcar designed with one or more deck levels in addition to the car's main deck; used to haul new automobiles and trucks.

Net ton-mile — the movement of a ton of freight one mile.

Operating ratio — the percentage of revenues that goes into operating the railroad. It is calculated by dividing railway operating expenses by railway operating revenues.

Passing sidings — tracks adjacent to main-line or secondary tracks for meeting or passing trains.

Regional railroad — a non-Class I, line-haul freight railroad that operates at least 350 miles of road and/or has operating revenues of at least $40 million.

Return on equity — net income divided by average stockholders' equity.

Revenue ton-mile — the movement of a ton of freight one mile for revenue.

SEC — Securities and Exchange Commission.

Short line railroad — any freight railroad that cannot be classified as a Class I or regional railroad.

Single-line service — service by a single railroad between two locations.

Surface Transportation Board (STB) — a division of the U.S. Department of Transportation that regulates interstate surface transportation, including railroads, within the United States.

Terminal — a railroad facility used for handling freight and the receiving, classifying, assembling and dispatching of trains.

Through freight train — an express freight train between major terminals.

Total return to stockholders — stock-price change plus reinvested dividends expressed as a percentage of the purchase price of the stock.

Trackage rights — rights obtained by one railroad to operate its trains over the tracks of another railroad.

Unit train — a freight train that moves carloads of a single product between two points. By unloading on arrival and returning promptly for another load, such trains cut costs because they eliminate intermediate stops in yards and reduce cycle times.

Yard — a system of tracks branching from a common track. Yards are used for switching, classifying and making up trains, and storing cars.

Stockholder Information

Common Stock

Ticker symbol: NSC
Newspaper listing: NorflkSo

Common stock of Norfolk Southern Corporation is listed and traded on the New York Stock Exchange.

Annual Meeting

May 11, 2000, at 10 a.m. EDT
The Norfolk Waterside Marriott
and Waterside Convention Center
235 East Main Street
Norfolk, Va.

Publications

Upon written request, the Corporation's annual report to the Securities and Exchange Commission on Form 10-K for the fiscal year ended Dec. 31, 1999, and its quarterly reports on Form 10-Q will be furnished free to stockholders. Write to: Public Relations Department, Norfolk Southern Corporation, 110 Franklin Road, SE, Roanoke, Va. 24042-0043.

A Notice and Proxy Statement/Annual Meeting of Stockholders are furnished to stockholders in advance of the annual meeting.

A toll-free telephone number — (800) 531-6757 — provides access to information previously published in the discontinued quarterly Stockholder Newsletter.

Dividends

At its January 2000 meeting, the Corporation's Board of Directors declared a March quarterly dividend of 20 cents per share on its common stock, payable on March 10, 2000, to stockholders of record on Feb. 4, 2000.

Norfolk Southern Corporation pays quarterly dividends on its common stock, usually on or about March 10, June 10, Sept. 10, and Dec. 10. The Corporation has paid 70 consecutive quarterly dividends since its inception in 1982.

Financial Inquiries

Henry C. Wolf
Vice Chairman and Chief Financial Officer
Norfolk Southern Corporation
Three Commercial Place
Norfolk, Va. 23510-9215
(757) 629-2650

Corporate Offices

Executive offices

Norfolk Southern Corporation
Three Commercial Place
Norfolk, Va. 23510-9227
(757) 629-2600

Regional offices

110 Franklin Road, SE
Roanoke, Va. 24042

99 Spring St., SW
Atlanta, Ga. 30303

Account Assistance

For assistance with lost stock certificates, transfer requirements and the Dividend Reinvestment Plan, contact:

Registrar and Transfer Agent
The Bank of New York
101 Barclay St.-12W
New York, N.Y. 10286-1002
(800) 432-0140

For assistance with address changes, dividend checks and direct deposit of dividends, contact:

Assistant Corporate Secretary-
Stockholder Records
Norfolk Southern Corporation
Three Commercial Place
Norfolk, Va. 23510-9219
(800) 531-6757

Dividend Reinvestment Plan

Stockholders whose names appear on their stock certificates (not a street or broker name) are eligible to participate in the Dividend Reinvestment Plan.

The Plan provides a convenient, economical and systematic method of acquiring additional shares of the Corporation's common stock by permitting eligible stockholders of record to reinvest dividends.

The Plan's administrator is The Bank of New York. For additional information, dial (800) 432-0140.

Annual Report Requests

(800) 531-6757

World Wide Web Address

www.nscorp.com

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NSC
Listed
NYSE

Norfolk Southern Corporation
Three Commercial Place
Norfolk, VA 23510-2191

On the covers are representatives of the team of thousands of dedicated Norfolk Southern people committed to customer service.

Front Cover, left to right: Rudy Dowe, national account manager, Sales, Cleveland; Chris Cataffa, secretary, Transportation, Conway, Pa.; Ernest Hester, trackman, Maintenance of Way and Structures (MW&S), Conway; Doug Hann, terminal trainmaster, Transportation, Elkhart, Ind.; Carl Kocon, car inspector, Mechanical, Lorain, Ohio; Russ Mann, conductor, Transportation, Elkhart; Gayron Shackelford, engineer, Transportation, Elkhart; Warren Stubbs, director client/server systems, Information Technology, Atlanta; and Linda Liberatore, dispatcher, Transportation, Pittsburgh.

Back Cover, left to right: Mark Kirkpatrick, foreman, MW&S, Cleveland; Jesse Crunkleton, engineer, Transportation, Shire Oaks, Pa.; Chuck Hunter, national account manager, Sales, Cleveland; Tony Burton, car repairman, Mechanical, Macedonia, Ohio; Greg Gonzalez, foreman, MW&S, Cleveland; Joe DeBranski, foreman, MW&S, Conway; Jim Loch, dispatcher, Transportation, Pittsburgh; Joe Nea, conductor, Transportation, Mingo Junction, Ohio; and Agnes Verska, clerk, Freight Accounting, Atlanta.

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