VALUE OF OFFERS FOR CONRAIL

I. CASH CONTRIBUTED AND GUARANTEED BY PURCHASER

Norfolk Southern	Morgan Stanley	Allen & Company
$1.575 Billion (cash guaranteed on closing date)	$1.4 Billion (available *if* all investors provide their share at closing)	- Actual Amount Unknown (Allen & Co. proposes to raise $1.55 billion, but actual payment is totally dependent on the amount of Conrail acquisition stock sold by closing. Allen & Co. also "contemplates" offering up to $274 million for the ESOP.
- Consists of $1.2 billion for Federal Government's 85% stock interest and $375 million for interests of employees (15% stock in ESOP and back wage claims).	- No cash provided by Morgan Stanley or investor group for interests of employees (Morgan Stanley proposes to use Conrail's cash to settle the claims of employees).	- Allen & Co. would use up to $480 million of Conrail cash to pay for various commitments, the largest drawdown of Conrail cash reserves proposed by any bidder.

The critical issue here is the cash contributed by the purchaser and guaranteed at closing. If the offers are considered on this basis, Norfolk Southern is clearly guaranteeing the highest amount of its own cash to acquire Conrail. The only way the other bidders can argue they are paying more is by adding in Conrail's own cash or indebtedness that they are using to finance the transaction, or by speculations that stock market conditions will potentially yield a higher price at some date in the future.

One way to compare the NS and Morgan Stanley offers on an "apples to apples" basis would be to require the bidders to use their own resources, not Conrail's, to settle the employees' interests. If this were done, Morgan Stanley's payment to the Government would be less than Norfolk Southern's $1.2 billion. Allen & Co. apparently would use a combination of stock sales and Conrail cash to settle the employees' interests. Again, it is not possible to put any exact value on the Allen offer, due to numerous contingencies involved.* (Any Allen & Co. "payment" is really nothing more than a number used in a press release — it is totally dependent on future stock sales.)

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* Allen & Co. has testified, for example, that their proposal will become a firmer commitment after they are designated by the House Energy & Commerce Committee as the buyer of Conrail.

II. LONG TERM STABILITY/ASSUMPTION OF RISK

Norfolk Southern	Morgan Stanley	Allen & Company
- Conrail becomes part of strong rail system, providing the best guarantee of rail service and stable employment over the long-term.	- Initial investors are gone after gaining short-term profits, leaving a stand alone Conrail with greatly reduced cash reserves. Transaction itself decreases chances for long-term stability.	- Acquiring company provides no guarantee of rail service or stable employment. Problems of a stand alone Conrail left unaddressed. Transaction itself decreases chances for long-term stability.
- NS assumes all the risk of the uncertainties facing Conrail in future years.	- Neither Morgan Stanley nor investors assume any long-term risk.	- Acquiring company assumes no long-term risk.

Probably the most dramatic difference in value between the competing offers is inherent in the nature of the acquisitions. Norfolk Southern wants to buy a railroad to integrate into its transportation system for the long-term — the other bidders want to buy stock that they believe they can resell at a profit in the short-term, after gaining investment banking fees and large dividends. Any of these three bidders will receive the benefits of the transaction if Conrail is successful. However, only under a sale to Norfolk Southern does the Federal Government transfer the risk of Conrail's uncertain future to the purchaser. As the operator of Conrail for the long-term, NS assumes that risk — as buyers of stock for speculative purposes, the other bidders avoid essentially all the long-term risk.

Who then assumes the risk under Morgan Stanley or Allen & Co.'s proposals? First, shippers and employees who would suffer the direct impact of a struggling Conrail cutting service and jobs to survive. Ultimately, the Federal Government, when it is called upon to subsidize a failing Conrail, especially if the Government is viewed as having returned Conrail to the private sector in a way destined to lead to financial instability. What is the cost of this risk? It is probably difficult to place any exact dollar figure on the cost — but it is worth remembering that the first Government bailout cost $7 billion.

III. BENEFITS TO STATE TRANSPORTATION SYSTEMS

Norfolk Southern	Morgan Stanley	Allen & Company
- Significant commitments to states throughout the Conrail region that directly address transportation problems and provide significant benefits to states, local communities, shippers, and employees.	- No commitments made or improvements agreed to by Morgan Stanley. No basic state transportation issues addressed.	- No commitments made or improvements agreed to by Allen & Co. No basic state transportation issues addressed.
- Estimated cost to NS - $200 million.	- No cost incurred.	- No cost incurred.

During the course of the Conrail debate, NS has worked — and continues to work — with state and local officials and shipper groups throughout the Conrail region to address pressing local concerns. Out of these discussions, NS has made commitments such as an agreement with New York State to build an intermodal facility at Harlem River in the Bronx, a commitment to Indiana to improve competitive access for shippers, a commitment to New Jersey to waive Federal preemption defenses Conrail has used to avoid its obligation to maintain orphan bridges, a commitment with Delaware to maintain and improve the State's rail infrastructure, and an agreement with Massachusetts to give the MBTA first refusal rights to buy key property at transportation value. The list of commitments is extensive, but three salient features of each commitment stand out — the issues are long neglected matters of vital interest to states and localities, the solution involves a direct economic cost to Norfolk Southern, and the problem has not been, and will not be, satisfactorily addressed by a stand alone Conrail under either Morgan Stanley or Allen & Co.

IV. BENEFITS TO COMPETITION AND RAIL SERVICE

Norfolk Southern	Morgan Stanley	Allen & Company
A. North-South Traffic		
- New single line rail transportation available to shippers of north-south traffic. More efficient, lower cost service with direct benefits to shippers and consumers.	- No new single line service available to shippers. No introduction of more efficient, lower cost service; no direct benefits to shippers or consumers	No details available. Probably same as Morgan Stanley.
- New competition for CSX in many markets now monopolized by that carrier.	- No introduction of competition in CSX dominated markets.	
- Increase in north-south rail traffic; stronger competition with trucks.	- Continued decline in north-south rail traffic and loss of market share to trucks.	
B. East-West Traffic		
- Introduction of new Guilford single line competition from Midwestern gateways to the Northeast.	- No introduction of new competition.	- Same as Morgan Stanley.
- Market extensions, via single line service to Midwest for New England shippers. More direct, efficient, and lower cost service	- No market extensions to Midwest for New England shippers. No service improvements.	- Probably same as Morgan Stanley.

IV. BENEFITS TO COMPETITION AND RAIL SERVICE (continued)

Norfolk Southern	Morgan Stanley	Allen & Company
C. Rail Competition in Midwest		
- Divestiture agreements which dramatically reduce switching charges for GTI and P&LE throughout region of divestitures, thereby removing competitive barriers established by Conrail that block access to traffic by competing carriers.	- Continuation of all existing switching charges.	- Details unavailable. Probably same as Morgan Stanley.
- New Service by GTI & P&LE for shippers and communities in the Midwest.	- No increase in rail options.	
- Estimated value — at least $200 million.		
D. Joint Rates and Routes		
- Reopening of joint rates and routes with smaller carriers, thereby increasing marketing opportunities for those carriers and transportation options for shippers.	- Nominally offers to reopen certain joint routes. Likely to continue, wherever possible, current Conrail practice of closing joint rates and routes and/or imposing surcharges to foreclose competitive alternatives.	- Probably same as Morgan Stanley.
- Specific commitments to maintain and/or reestablish joint rates and routes have either been entered into or discussed with a number of regional railroads.	- No known specific commitments or discussions with other railroads.	- No known specific commitments or discussions with other railroads.

V. TAX IMPACT

A. Conrail as a Taxpayer

Norfolk Southern	Morgan Stanley	Allen & Company
- Conrail becomes a Federal taxpayer in its own right.	- Conrail does not pay any Federal taxes for the foreseeable future.	- No details available. Probably same as Morgan Stanley.
- Conrail becomes part of a railroad system that earns money and pays substantial taxes. In 1984, for example, Federal income taxes reported by the railroad industry were $172 million; the NS share of that amount was $154 million. In the future, NS will continue to be the major railroad taxpayer in the industry.	- Conrail remains a total tax shelter, contributing nothing to the Federal Treasury.	- No details available. Probably same as Morgan Stanley.

B. Use of Tax Benefits

Norfolk Southern	Morgan Stanley	Allen & Company
- Present value to NS of Conrail depreciation estimated by the U. S. Treasury at $81 - 125 million (depending on applicability of "built in" loss rule).	- Continuation of Conrail tax shelter practices that have resulted in $213 million in tax benefit sales and $185 million in tax leases since 1982. Conrail will undoubtedly use every available method (including tax leasing of most or all equipment) to transfer excess tax benefits to third parties, resulting in significant additional losses to the Treasury in future years.	- No information available. Probably similar to aggressive tax avoidance schemes followed by Morgan Stanley.

VI. INDUSTRIAL DEVELOPMENT BENEFITS

Norfolk Southern	Morgan Stanley	Allen & Company
- Conrail region receives all the benefits of NS industrial development team that has located over 400 new industries, representing $6 billion in investment and generating 26,000 new jobs, during the period 1982 - 1985.	- No announced industrial development plans. Continued emphasis on downsizing and cost cutting in order to pay large dividends and still survive. Little special effort expected in the industrial development area.	- Details unavailable. No known industrial development plans.

The significant benefits in the industrial development area from a purchase of Conrail by Norfolk Southern are in stark contrast to the future of a stand alone Conrail under Morgan Stanley or Allen & Co. Norfolk Southern's industrial development program, long regarded as the best in the railroad industry, would bring to Conrail and to the Northeast and Midwest the genuine potential for significant economic development, which is particularly critical in those areas hardest hit by loss of industry and employment. Companies making significant capital investments must be assured of quality rail service and stable transportation over the long-term, and NS meets both tests with flying colors. As evidence of this, four out of the last five major auto facilities have located on NS lines. However, with a stand alone Conrail under Morgan Stanley or Allen & Co., industrial development remains simply a faint hope, as major plants and facilities continue to locate elsewhere because of the uncertainties of Conrail's future as a stand alone carrier.