

**CONSOLIDATED RAIL CORPORATION
FIRST QUARTER REPORT 1987**

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THE QUARTER IN REVIEW

Consolidated Rail Corporation reported net income of \$86 million (\$1.28 per share) for the first quarter of 1987, compared with 1986 first quarter net income of \$60 million (\$.89 per share, restated to reflect a 135 percent stock dividend declared February 12, 1987).

Revenue for the first quarter of 1987 was \$788 million, vs. first-quarter 1986 revenue of \$775 million.

Traffic in the first quarter of 1987, as measured by tariff-based ton miles (the product of the weight of freight carried for hire and the distance in tariff miles between origin and destination) increased 5.9 percent vs. the first quarter of 1986.

Traffic increases occurred in intermodal (truck trailers or marine cargo containers carried on railroad flatcars), up 7.7 percent; chemicals and related products, up 0.8 percent; and metals and related products, up 0.2 percent. Coal traffic declined by 0.5 percent, and automotive parts and finished vehicles traffic was down 0.1 percent. All other traffic was up 17.1 percent.

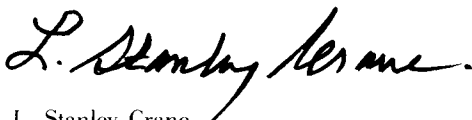
Results for 1987's first quarter were favorably affected by continuing expense control efforts; revenues from the increase in traffic handled; and the completion of certain nonrecurring transactions, primarily property sales.

As set forth in the Registration Statement filed with the Securities and Exchange Commission in connection with the March 26 public offering of Conrail common stock previously owned by the United States Government, tax provisions related to the Conrail privatization are expected to cause Conrail to incur substantial federal income tax expense commencing in the second quarter of 1987. In addition, certain legislative benefits which improved Conrail's historical results of operations were terminated at the end of 1986.

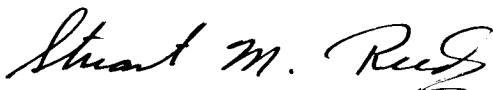
Stated on a pro forma basis (to reflect these additional expenses, and other changes related to the privatization, as if all of them were in effect during the first quarters of 1987 and 1986), first-quarter 1987 net income would have been \$49 million (\$.71 per share), while the first quarter of 1986 would have shown net income of \$23 million (\$.33 per share). Per share data

reflects the 135 percent stock dividend declared February 12, 1987.

We thank all of our employees for their dedication and support during this transition from a government-owned railroad to a stand alone, publicly-owned corporation.

A handwritten signature in black ink that reads "L. Stanley Crane". The signature is written in a cursive style with a large initial "L" and a long, sweeping underline.

L. Stanley Crane
Chairman and
Chief Executive Officer

A handwritten signature in black ink that reads "Stuart M. Reed". The signature is written in a cursive style with a large initial "S" and a long, sweeping underline.

Stuart M. Reed
President and
Chief Operating Officer

April 30, 1987

NEWS BRIEFS

Reregulation Bills Loom in House and Senate

The potential for adverse changes in the provisions of the Staggers Rail Act of 1980, which brought substantial regulatory reform to the railroad industry, again looms in Congress with the introduction of bills in both the House and Senate early this year. Hearings on those measures may begin in June this year.

The bills, HR 1393 and S 676, if enacted, would greatly endanger the railroad industry's financial stability and adversely impact the modest progress to increase profitability made by the industry in recent years through utilization of Staggers Act provisions.

Conrail Chairman Crane said in a recent letter to Congress that the special interests pushing for alterations in Staggers seek to deny railroads the opportunity to earn a competitive return on investment. "It is hard to understand why some shippers oppose our efforts to meet this goal," he added, "since continued failure to meet it can only lead to the railroads' inability to provide needed shipper services."

Shareholders have an opportunity to support Conrail and regulatory reform—and to inhibit efforts to “turn back the clock”—by writing or visiting their Congressional representatives and voicing their opposition to any moves to reregulate the railroad industry. We strongly encourage you to do so.

Government Sells Conrail Stock to Public; Management Holds First Meetings with Analysts

The federal government sold its 85 percent share of Conrail’s common

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Secretary of Transportation Elizabeth Hanford Dole and Conrail Chairman L. Stanley Crane view trading activity from the floor of the New York Stock Exchange the morning of Conrail’s initial public offering.

CONSOLIDATED RAIL CORPORATION
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In Millions, Except Per Share)
(Unaudited)

	Quarter ended March 31,	
	1987	1986
STATEMENTS OF INCOME		
Revenues	\$ 788	\$ 775
Operating expenses	715	726
Income from operations	73	49
Other income, net	17	11
Income before income taxes and extraordinary credit	90	60
Income taxes	36	15
Income before extraordinary credit	54	45
Extraordinary credit-utilization of net operating loss carryforward	32	15
Net income	\$ 86	\$ 60
Income per common share		
Income before extraordinary credit	\$.79	\$.66
Net income	1.28	.89
STATEMENTS OF CHANGES IN FINANCIAL POSITION		
Funds provided by operations	\$ 124	\$ 75
Funds provided by (used for) financing activities		
Issuance of long-term debt	6	36
Current portion of long-term debt	(32)	(32)
Total funds provided by (used for) financing activities	(26)	4
Funds provided by (used for) investment activities		
Property and equipment additions	(29)	(63)
Sales and other property transactions	15	15
Other, net		(2)
Total funds used for investment activities	(14)	(50)
Payment to U.S. Government as required by Conrail Privatization Act	(100)	
Increase (decrease) in cash and temporary cash investments	\$ (16)	\$ 29

Condensed Consolidated Financial Statements (continued)

BALANCE SHEETS	March 31, 1987	Dec. 31, 1986
Assets		
Current assets	\$ 1,562	\$1,544
Property and equipment, net	5,114	5,164
Other assets	70	68
Total assets	\$ 6,746	\$6,776
Liabilities and stockholders' equity		
Current liabilities	1,094	811
Special income tax obligation	1,020	
Long-term debt and other liabilities	971	1,851
Preferred stock		2,362
Common equity	3,661	1,752
Total liabilities and stockholders' equity	\$ 6,746	\$6,776

Notes to Condensed Consolidated Financial Statements

1. These condensed consolidated financial statements should be read in conjunction with the financial statements and related notes contained in the Company's 1986 Annual Report.
2. The consolidated balance sheet at March 31, 1987 reflects the cancellation of preferred stock and certain debt, recording of a special income tax obligation attributable to the excess of book over tax basis of assets and elimination of net operating loss and investment tax credit carry-forwards, and provision for payment to certain

Notes (continued)

present and former employees (\$267 million, including payroll taxes, paid in April 1987), as well as other transactions which resulted from the public sale (by the U.S. Government) of 85% of the Company's common stock. The net effect of sale-related transactions resulted in an increase of \$1,825 million in common equity during the first quarter of 1987.

3. The Company's results of operations for the first quarter of 1987 will not be comparable to future quarters primarily due to the elimination of the Company's net operating loss carryforwards. If the sale and related transactions had occurred as of January 1, 1987, net income on a pro forma (unaudited) basis, would have been \$49 million (\$.71 per share) for the first quarter of 1987.
4. The Company adopted Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions, in the first quarter of 1987, as required. Because the Company's pension plans are overfunded, this change in accounting increased first quarter income before extraordinary credit by \$4 million (\$.06 per share) and net income by \$6 million (\$.09 per share).

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stock—58,750,000 shares—to the public on March 26, marking the largest initial public stock offering in United States history. Of those shares, 52,000,000 were offered in the United States and Canada and 6,750,000 in other countries.

Conrail's common stock is traded on the New York Stock Exchange and the Philadelphia Stock Exchange under the symbol CRR.

Gross proceeds of the sale totaled \$1.645 billion. On April 2, a check for \$1.575 billion (representing gross proceeds less underwriting commissions) was turned over to the federal government. Conrail had previously paid \$300 million to the government in accordance with the Conrail Privatization Act of 1986, raising the total proceeds to the government to \$1.875 billion.

On April 16, Conrail held its first meetings with securities analysts in New York and Boston to discuss Conrail's first quarter results.

Conrail executives making presentations at those meetings included Chairman Crane, President Stuart M. Reed, Senior Vice President-Finance H. William Brown, Senior Vice President-Marketing and Sales Charles N. Marshall, Senior Vice

President-Law Bruce B. Wilson,
and Vice President and Treasurer
David M. LeVan

Commenting on expectations of traffic levels for 1987, Conrail representatives at the meetings said that the strongest traffic group continues to be intermodal business, both container and trailer shipments. They also noted that the business outlook for the remainder of the year is "generally positive."

Conrail, CSX Transportation, Establish Competitive Zip-Based Boxcar Rates

Conrail and CSX Transportation (CSXT) have implemented interline prices which are designed to be truck-competitive for boxcar shipments of a wide variety of manufactured products moving between CSXT points in the South and Conrail points in the Northeast and Midwest.

The prices, which went into effect March 1, are expected to meet or beat comparable truck transportation prices in virtually all target markets.

The reduced prices also represent a dramatic simplification of the previous tariff-based structure,

which involved the use of as many as 10 price and mileage scales to determine the transportation price of a freight movement. The new prices are constructed from a single table of origin and destination Zip Codes.

“This interline, Zip Code-based pricing system for boxcar movements is a perfect example of the innovative and aggressively competitive pricing permitted under the Staggers Rail Act of 1980,” said Charles N. Marshall, Conrail’s Senior Vice President-Marketing and Sales.



Conrail’s boxcar traffic increased in 1986 for the first time in years—a direct result of the pricing innovation made possible by deregulation.

Conrail, Koppers, PP & L to Develop Electrical Plant Fueled by Railroad Ties

An electrical co-generation plant fueled by recycled railroad crossties is expected to begin operations in April, 1988, Conrail and two other companies announced.

The \$9 million cogeneration plant is being constructed in Montgomery, Pa.,—near Williamsport. Construction of the plant began in February.

Koppers Co. Inc., of Pittsburgh, is building the facility; Conrail will supply used crossties to fuel the plant, and Pennsylvania Power & Light Co., of Allentown, will purchase and distribute the electricity generated by the plant.

Koppers produces building and construction materials, including ties for the railroad industry, chemicals and chemical-related products, and provides building and construction services.

The prime benefits of the new facility will be energy efficiency and an environmentally sound method of disposing of crossties. Conrail will supply a minimum of 750,000 scrap crossties annually as fuel, which will be delivered to the plant by rail.

CONRAIL



CONSOLIDATED RAIL CORPORATION

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