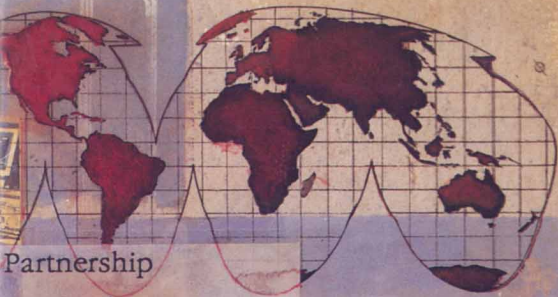


CONSOLIDATED RAIL CORPORATION

First Quarter Report 1990



Partnership

Concord Resources

Co-Generation

Conrail Mercury



Common Stock Dividends

Latest dividend declared:

Amount: 35 cents a share

Record date: March 1, 1990

Payment date: March 15, 1990

Common Stock Price Data

First Quarter 1990

New York Stock Exchange—Composite:

High: $49\frac{7}{8}$

Low: $43\frac{3}{4}$

Close: 45

New York Stock Exchange Symbol: CRR

Shareholder Inquiries

Communications concerning stock transfer, dividend disbursement, change of address, loss of a stock certificate, or nonreceipt or loss of a dividend check should be directed to:

First Chicago Trust Company of New York

30 West Broadway

New York, New York 10007

212/791-6422

All other inquiries should be directed to:

Office of the Corporate Secretary

Consolidated Rail Corporation

1820 Six Penn Center Plaza

Philadelphia, PA 19103-2959

To Our Shareholders

Conrail reported first quarter 1990 net income of \$25 million (\$.43 per share) on revenue of \$823 million, as compared with first quarter 1989 net income of \$60 million (\$.88 per share) on revenue of \$872 million.

First quarter freight traffic volume (in tariff-based ton miles) was virtually flat, increasing by 0.3 percent versus the same period in 1989.

Our first quarter results reflect a revenue decline of 5.6 percent, mainly due to weakness in traffic mix related to the economy and pricing pressures. In addition, interest costs relating to our restructuring and certain non-recurring expenses affected net income. Considered in light of these factors, I believe our financial performance was good, and I am pleased with our progress.

Of significant importance in the 1990 first quarter was our restructuring. (This is described in detail in our 1989 Annual Report.) The restructuring was undertaken with the goals of giving Conrail a more appropriate capital structure consistent with our business and financial objectives; preserving the company's access to capital on investment-grade terms; and enhancing the opportunity for an increase in market value of the company's common stock.

In mid-January, we announced a \$1.3 billion restructuring, including a Dutch auction tender offer repurchase of common stock. In late February, we purchased approximately 22.3 million shares—about 33 percent of our outstanding shares. In addition, in late March, we established a previously announced Employee Stock Ownership Plan for our non-union employees, and we commenced purchasing common shares in the open market in support of that action.

The restructuring is being carried out successfully, and we're pleased with the response we

have received. After we complete the open market purchase, we expect to have about 40 million common shares outstanding as compared with the 67.1 million common shares before we began. I believe our actions demonstrate the Board of Directors' and management's commitment to returning value to our shareholders, and I believe we are in a position to continue to achieve that goal over the longer term.

Challenges, 1990 and Long Term

Looking at the rest of 1990, we see little change in the economy or its effect on Conrail. We expect our freight volume to remain relatively flat for the year versus 1989, and our traffic mix to continue somewhat weighted toward lower revenue commodities. As in the past, we will pursue tight cost controls in our operations to continue to work toward our target results for the year.

For 1990 and longer term, we have set several key goals for ourselves: to increase customer satisfaction with our service product; to achieve greater inflation recovery; and to address the challenge of maximizing utilization of assets we require, while disposing of assets which do not contribute to the company's future.

Increasing Customer Satisfaction

For Conrail, increasing customer satisfaction hinges largely on improving interline service with other carriers, because about 50 percent of Conrail's traffic is interchanged with other railroads. Successfully competing with trucks in the long run requires that we and our connecting carriers do all in our power to create seamless interline service that is consistent and reliable for our customers.

This year we have made new agreements with CSX Transportation (CSXT), Santa Fe Railway

and with the Springfield Terminal Company, a subsidiary of Guilford Transportation Industries, to further improve interline service. Over time, service improvements like these, which create better operating efficiency and bring added value to the customer, can also help us make progress toward greater inflation recovery.

With the goal of meeting or exceeding expectations in all dealings with our customers on an ever-improving basis, Conrail is also laying the groundwork to implement a system-wide, total quality improvement process. Conrail's Board of Directors in April elected Dr. John M. Samuels to the newly-created position of Vice President-Continuous Quality Improvement, and he reports directly to me. This long-term process ultimately will involve all levels of Conrail's organization and all of its people. Its aim is to produce major changes in Conrail's corporate culture in an evolutionary fashion, so that we can provide the kind of customer service which will make us more competitive in the 1990s and into the next century. Dr. Samuels, who began his railroad career with Conrail in 1978 and has a rich background in industrial engineering, is uniquely qualified to lead us in this major new commitment.

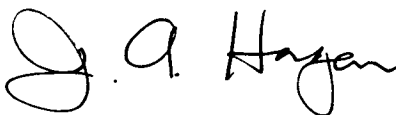
Important Asset Actions

Regarding the matter of assets, we took two noteworthy actions in the first quarter as part of our overall strategy.

We completed the sale of our Pennsylvania Truck Lines (PTL) subsidiary to a management-led group. We will continue to work with PTL under a two-year agreement to operate 23 Conrail intermodal terminals, so the immediate effect on our operations is minimal. We believe the separation will better serve the interests of Conrail, as well as PTL, long term.

The second action involves the acquisition of an important asset, pending Interstate Commerce Commission (ICC) approval. We reached an agreement in principle to acquire CSXT's one-third interest in the Monongahela Railway, which serves coal mines in southwestern Pennsylvania and northern West Virginia. Upon ICC approval of this transaction, as well as its approval of an earlier transaction whereby we agreed to purchase the Pittsburgh & Lake Erie Railroad's one-third interest in the Monongahela, Conrail will own all shares of the Monongahela. This will give us control of a valuable resource for accessing mid-sulfur content coal, and significant potential for additional coal traffic and revenue in the future.

In summary, there is no single "magic bullet" which will help us to continue to improve our service and enhance its quality, to achieve greater inflation recovery, or to make better use of our assets. But I am confident of this: We have the right management team in place at Conrail—totally focused on meeting these goals—and I believe we will succeed. I will continue to report to you on our progress. And just as we believe our restructuring will result in higher shareholder value over time, I'm confident that successfully addressing the other vital challenges will bring the same result.



James A. Hagen
Chairman, President and
Chief Executive Officer

April 19, 1990

Marketing and Sales Group Realigned to Focus on Customers' Products

Conrail has realigned its Marketing and Sales Department to focus each of its business groups on customers in one of seven major product areas. The company also created a new unit, Marketing Services, to provide pricing support services to the business groups.

Gordon H. Kuhn, Senior Vice President-Marketing and Sales, said: "The changes strengthen Conrail's commitment to provide its customers with responsive and high-quality transportation and distribution services."

In the business group realignment, the grain and food businesses handled by the former Chemical and Agriculture Group and the former Boxcar Group have been transferred to a Food and Agriculture Group. As a result, the seven commodity and product-based business groups are: Automotive; Petrochemicals and Minerals; Coal, Coke and Iron Ore; Food and Agriculture; Forest and Manufactured Products; Intermodal; and Steel.

A major goal of the new Marketing Services unit is to improve billing accuracy through emphasis on increasing the use of automated rates and tariffs, and simplification of the pricing process.

Hagen: Conrail Will Provide Service Like No Railroad Has Ever Had Before

"Developing truck-like service across the board, with consistency and reliability like no railroad has ever had before," is Conrail's new strategy for attracting additional intermodal business, Conrail's Chairman, President and Chief Executive Officer told the Intermodal Marketing Association on February 27.

Condensed Consolidated Financial Statements (Unaudited)

Consolidated Rail Corporation

(In Millions, Except Per Share)

Statements of Income	Quarters Ended March 31,	
	1990	1989
Revenues	\$ 823	\$ 872
Operating expenses	763	782
Income from operations	60	90
Other income (expense), net	(20)	7
Income before income taxes	40	97
Income taxes	15	37
Net income	\$ 25	\$ 60
Net income per common share		
Primary	\$.43	\$.88
Fully diluted	.42	.88

Statements of Cash Flows

Cash flows from operating activities	\$ 65	\$ 87
Cash flows from investing activities		
Property and equipment acquisitions	(30)	(29)
Proceeds from disposals of properties	7	6
Change in temporary cash investments and other	248	(15)
Net cash from (used in) investing activities	225	(38)
Cash flows from financing activities		
Tender offer purchase of common stock	(1,094)	
Short-term borrowings	396	
Proceeds from long-term debt	317	
Payment of capital lease and equipment obligations	(30)	(27)
Dividends paid	(16)	(21)
Other	(4)	
Net cash used in financing activities	(431)	(48)
Increase (decrease) in cash and cash equivalents	\$ (141)	\$ 1

Balance Sheets

	Mar. 31, 1990	Dec. 31, 1989
Assets		
Current assets	\$ 846	\$1,230
Property and equipment, net	5,926	5,980
Other assets	289	261
Total assets	\$ 7,061	\$7,471
Liabilities and Stockholders' Equity		
Current liabilities	1,478	1,077
Long-term debt and other liabilities	2,628	2,350
Stockholders' equity	2,955	4,044
Total liabilities and stockholders' equity	\$ 7,061	\$7,471

See accompanying Notes.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. These condensed consolidated financial statements should be read in conjunction with the financial statements and related notes contained in the Company's 1989 Annual Report.

2. During the first quarter of 1990, Conrail purchased 22.3 million shares of its outstanding common stock through a Dutch auction tender offer, at a cost of approximately \$1.1 billion. The purchase was funded by about \$400 million of available cash and about \$700 million from interim financing, of which \$300 million is classified as long-term debt at March 31, 1990. Conrail intends to replace most of this interim financing with long-term financing later in 1990, subject to market conditions. In addition, Conrail established an employee stock ownership plan (ESOP) for non-union employees by issuing approximately 5 million shares of Series A ESOP Convertible Junior Preferred Stock to the ESOP in exchange for a promissory note of approximately \$288 million.

3. In April 1990, Conrail began an approximately \$200 million program of open market purchases of common stock primarily to offset the dilution to common shareholders resulting from the ESOP.

News Briefs (continued from page 5)

James A. Hagen told the group that Conrail's "target market is controlled by trucks. Tackling that market requires extremely tight management and an intense focus on precisely what potential intermodal customers want, when they want it, with no excuses."

Hagen pointed out a number of initiatives underway to raise service levels, including: reorganization of customer service functions into a single unit to improve the company's ability to respond quickly to customer concerns; advancements in simplified pricing and billing systems, and electronic filing of rates that customers can access from their remote computer terminals; and launching of a computerized car scheduling system covering every shipment, including local delivery performance and monitoring.

Shippers Honored with Second Annual Transportation Quality Awards

Conrail recently honored 10 shippers of hazardous materials with its second annual Chairman's Transportation Quality Awards. The awards recognize companies that shipped at least 1,000 carloads of hazardous materials via Conrail in 1989, without a shipper-caused incident.

Companies receiving the Chairman's Transportation Quality Award for 1989 were: **Amoco Corporation**, Chicago, for its Amoco Chemical Company and Amoco Oil Company subsidiaries; **Aristech Chemical Corporation**, Pittsburgh; **The BFGoodrich Company**, Akron, Ohio; **Dow Chemical USA**, Midland, Michigan; **Exxon Chemical Americas**, Houston; **Georgia Gulf Corporation**, Atlanta; **Hoechst Celanese Chemical Group**, Dallas; **Ohio Oil Gathering Corporation**, Frazeyburg, Ohio; **PPG Industries, Inc.**, Pittsburgh; and **Shell Oil Company**, Houston.

Agreement Reached on New Headquarters Building

Conrail has selected a center city Philadelphia site for its new corporate headquarters. The company reached an agreement for a long-term lease in a new building, Two Commerce Square, with a joint venture of developer Maguire Thomas Partners (MTP), and International Business Machines Corporation (IBM).

Conrail will lease 750,000 square feet of office space in the new tower, to be constructed adjacent to a large public court across from the existing One Commerce Square building, which was developed by MTP. The new tower will be a 41-story granite structure and will include office and retail space. Conrail expects to begin occupying space in the new building in early 1992, consolidating offices from four different sites in center city Philadelphia.

Consolidated Rail Corporation
Six Penn Center Plaza
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