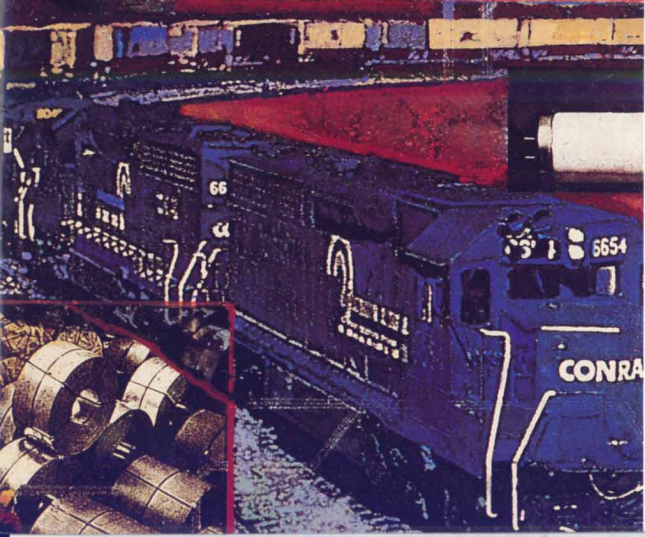


CONSOLIDATED RAIL CORPORATION

Third Quarter Report 1990



Common Stock Dividends

Amount: 40 cents per share

Record date: August 31, 1990

Payment date: September 14, 1990

Common Stock Price Data

Third Quarter 1990

New York Stock Exchange—Composite:

High: $51\frac{3}{8}$

Low: $34\frac{3}{4}$

Close: $35\frac{1}{2}$

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 third quarter earnings per share of \$1.50 (fully diluted basis), an 18.1 percent increase over third quarter 1989 earnings per share of \$1.27. Net income was \$72 million, a decrease of 17.2 percent from third quarter 1989 net income of \$87 million. Third quarter 1990 revenue was \$847 million, a 1.4 percent increase over third quarter 1989 revenue of \$835 million.

The net income decline was anticipated because of Conrail's financial restructuring earlier this year, which is part of Conrail's continuing commitment to provide maximum value to shareholders. The restructuring was accomplished through a \$1.1 billion first quarter Dutch auction tender offer followed by a \$200 million open market stock purchase program (completed in the third quarter), and resulted in higher net interest costs. The number of common shares outstanding at September 30, 1990, was 40.3 percent lower than at September 30, 1989, because of the tender offer and open market stock purchase program.

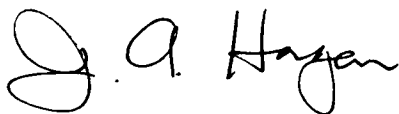
For the first nine months of 1990, net income was \$171 million (\$3.23 per share, fully diluted basis) as compared with nine-month 1989 net income of \$229 million (\$3.34 per share), a decrease of 25.3 percent in net income and a decrease of 3.3 percent in earnings per share. Revenue for the first nine months of 1990 was \$2.53 billion, a decrease of 2.2 percent from the \$2.59 billion in revenue for the first nine months of 1989.

Traffic volume during the third quarter was up 5.1 percent, but we continue to be affected by the unfavorable traffic mix we have experienced during the past year, with higher volumes of low-revenue freight, such as coal, and lower

volumes of high-revenue freight, such as motor vehicles. Still, we are pleased with Conrail's performance during the third quarter, particularly that we have continued to control costs and improve efficiency. One measure of this success is ton miles per employee, which increased 19 percent compared to the third quarter of 1989.

Looking ahead, we are concerned with the troublesome economic outlook for the remainder of the year and 1991. Rising fuel prices will impact our performance in the fourth quarter. We also expect pricing pressure to continue to dampen revenue, despite a four percent increase effective October 1 for much of our non-contract traffic.

Beyond the near-term economic concerns, we are focusing our efforts on building a continuous quality improvement process at Conrail, which ultimately will involve every one of our employees in seeking continuous improvement in the way we serve customers. Through this process, which we view as a long-term commitment, we aim to produce major positive change in the company's culture—how we think and the principles we abide by—toward achieving total customer satisfaction. As this process develops, it will yield greater value for Conrail's customers and shareholders.

A handwritten signature in black ink that reads "J. A. Hagen". The signature is fluid and cursive, with the first letters of each name being capitalized and prominent.

*James A. Hagen
Chairman, President and
Chief Executive Officer*

October 30, 1990

Monongahela Railway Acquisition Complete

On October 19, Conrail completed transactions to acquire 100 percent ownership of the Monongahela Railway Co., which includes rail lines between Millsboro and Waynesburg, Pa., and Brownsville, Pa., and Fairmont, W. Va. The transactions included purchase of one-third interests in the Monongahela from CSX Transportation (CSXT) and from the Pittsburgh & Lake Erie Railroad Co. (P&LE).

Plans for the purchases were announced with P&LE in November 1989 and with CSXT in March 1990, and they were approved by the Interstate Commerce Commission (ICC) in an order that became effective on September 17. The acquisition gives Conrail customers, particularly utilities, improved rail access to mines containing large amounts of mid-sulfur, high-BTU coal to help them conform with environmental requirements.

Agreement Reached on St. Louis Interline Traffic

Conrail, Burlington Northern Railroad (BN) and the Terminal Railroad Association of St. Louis (TRRA) have entered into an interline service agreement covering traffic exchanged between Conrail and BN via TRRA in St. Louis. The agreement became effective October 1.

The agreement, believed to be the first of its kind in the railroad industry, contains specific performance standards for each railroad, details blocking arrangements, coordinates schedules and stipulates notification procedures in the event of schedule changes. The agreement

Condensed Consolidated Financial Statements (Unaudited)

Consolidated Rail Corporation

(In Millions, Except Per Share)

Statements of Income	Quarters Ended Sept. 30,		Nine Months Ended Sept. 30,	
	1990	1989	1990	1989
Revenues	\$ 847	\$ 835	\$2,531	\$2,588
Operating expenses	719	709	2,229	2,244
Income from operations	128	126	302	344
Interest expense	(46)	(20)	(116)	(61)
Other, net	29	31	80	81
Income before income taxes	111	137	266	364
Income taxes	39	50	95	135
Net income	\$ 72	\$ 87	\$ 171	\$ 229
Net income per common share				
Primary	\$1.64	\$1.27	\$ 3.40	\$ 3.34
Fully diluted	1.50	1.27	3.23	3.34
Statements of Cash Flows				
Cash flows from operating activities	\$ 151	\$ 156	\$ 445	\$ 448
Cash flows from investing activities				
Property and equipment acquisitions	(103)	(196)	(225)	(394)
Acquisition of Trailer Train Co. stock				(43)
Proceeds from disposals of properties	8	6	45	27
Change in temporary cash investments and other	54	41	241	117
Net cash from (used in) investing activities	(41)	(149)	61	(293)
Cash flows from financing activities				
Tender offer purchase of common stock			(1,094)	
Open market purchase of common stock	(95)	(20)	(200)	(20)
Proceeds from short-term borrowings			696	
Repayment of short-term borrowings	(240)		(646)	
Proceeds from long-term borrowings		10	817	46
Payment of capital lease and equipment obligations	(28)	(25)	(85)	(83)
Dividends paid on common stock	(16)	(24)	(47)	(65)
Other	(4)		(22)	
Net cash used in financing activities	(383)	(59)	(581)	(122)
Increase (decrease) in cash and cash equivalents	\$(273)	\$ (52)	\$ (75)	\$ 33
Balance Sheets			Sept. 30,	Dec. 31,
			1990	1989
Assets				
Current assets			\$ 888	\$1,230
Property and equipment, net			6,013	5,980
Other assets			320	261
Total assets			\$7,221	\$7,471
Liabilities and Stockholders' Equity				
Current liabilities			1,127	1,077
Long-term debt and other liabilities			3,224	2,350
Stockholders' equity			2,870	4,044
Total liabilities and stockholders' equity			\$7,221	\$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 \$696 million from short-term notes. In public offerings in June 1990, Conrail sold \$250 million aggregate principal amount of its 9¾% Notes Due 2000 and \$550 million aggregate principal amount of its 9¾% Debentures Due 2020. Proceeds from such sales were used to repay \$646 million of the short-term notes and to finance a portion of Conrail's open market common stock purchase program. In addition, during the first quarter of 1990, 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 commenced a program to purchase its common stock in the open market, and in August, the Company completed the program having acquired approximately 4.4 million shares for \$200 million. This program was initiated primarily to offset the dilution to common shareholders resulting from the ESOP.

News Briefs (continued from page 3)

results in a more consistent and reliable traffic exchange, creating smoother interline service with faster transit times.

Central Railroad Co. of Indianapolis Selected to Purchase Shelbyville Line

Conrail has chosen the Central Railroad Co. of Indianapolis as the purchaser of the portion of Conrail's Shelbyville Line stretching between Shelbyville, Ind., and Cincinnati, Ohio.

Sale of the line is subject to continuing negotiations between Conrail and the Central Railroad, execution of a sales agreement and

ICC approval. Conrail worked with the Indiana and Ohio Departments of Transportation to select the Central Railroad as the purchaser of the line. Indiana Governor Evan Bayh noted that a successful sale should mean that "this important rail corridor will remain in place and operational," and provide eastern and southeastern Indiana communities with an important economic development tool.

Conrail announced in July that it had put the 81-mile section of the line up for sale, as an alternative to abandoning and dismantling the 58.5 mile section between Shelbyville and Thatcher, Ind., which the ICC authorized in 1982.

Conrail Wins Ohio Short-Haul Coal Business

Ohio Valley Transloading Co. has tapped Conrail to move coal from the Powhatan No. 6 mine in Belmont County, Ohio to a barge-loading facility on the Ohio River, just 16 miles away. The mine belongs to Ohio Valley Transloading's parent company, Ohio Valley Coal Co.

The new business removes nearly 200 daily truck trips from roads between the mine and the barge site, since all of the traffic previously moved by truck. Conrail is moving the business using dedicated crews and equipment, including rapid-discharge hopper cars with air-operated doors. More than 1 million tons of coal are expected annually, with the potential to double that amount.

The coal moves primarily to electric utilities along the Ohio River.

Conrail Forms Transloading Services Group

Conrail has established a Transloading Services Group as part of its Marketing and Sales organization to pursue additional business opportunities in bulk and transloaded materials. The group helps Conrail customers take advantage of the cost and service benefits of combining long-haul rail transportation with local truck delivery.

The group, headed by Robert E. Mortensen, Assistant Vice President-Transloading Services, is exploring several options, from providing public-access "team track" space to customers who can transload materials to full-service transloading operations that include warehousing and inventory control. The group is also responsible for managing Conrail's Flexi-Flo operations for shippers of liquid and dry bulk commodities.

Pennsylvania Student Wins Kroll Scholarship

Virginia M. Miori of Rosemont, Pa., has been named the 1990 recipient of the Fred Kroll Scholarship. She is the daughter of Mr. and Mrs. Eugene G. Miori of Depew, N.Y. Her father, a Conrail Conductor, is a 37-year railroad veteran.

The scholarship was established in recognition of the outstanding labor leadership of the late Fred J. Kroll, a former Chairman of the Railway Labor Executives Association. Kroll was instrumental in reaching a landmark labor agreement in 1981 which helped put Conrail on the road to profitability, and ultimately led to its return to the private sector. The scholarship

is open to children of Conrail union employees working toward graduate degrees in transportation or a transportation-related field.

Miori is currently studying toward a doctoral degree in Transportation at the University of Pennsylvania in Philadelphia. Since 1986, she has been employed in various positions in operations research, most recently at Rohm & Haas Co., and holds a master's degree in Operations Research from Case Western Reserve University in Cleveland.

Daughters and sons of Conrail union employees can obtain application information by writing to: Fred Kroll Scholarship, Conrail, Room 1010, Six Penn Center, Philadelphia, Pa. 19103.

Consolidated Rail Corporation
Six Penn Center Plaza
Philadelphia, Pennsylvania 19103-2959

