

in brief...

PUBLISHED MONTHLY FOR EMPLOYEES OF CONSOLIDATED RAIL CORPORATION

CONRAIL

February, 1985

A MESSAGE TO ALL EMPLOYEES

Secretary of Transportation Dole has named Norfolk Southern Corporation to acquire Conrail, as part of the process the DOT established for the company's return to the private sector. Conrail's management has stated that it will continue its efforts on behalf of a public offering of stock for the railroad's return to the private sector.

Accounts in the news media about the Conrail sale process, which you have been reading and seeing in recent months, clearly indicate that Congress will carefully examine the matter in upcoming months and review all implications before taking any final action.

In the interim, I urge each of you to continue to uphold the outstanding tradition we have established at Conrail in its short existence: Do your job on a daily basis with the enthusiasm and initiative you have demonstrated, which has made the company the success story it is. Each of you is responsible for Conrail's success. Let's carry on the tradition.

—L. Stanley Crane

Chairman and Chief Executive Officer

AGREEMENT MADE WITH 14 UNIONS

By February 19, Conrail reached new contractual agreements with 14 unions representing about 25,200 of its 34,200 union employees. Conrail anticipated concluding similar agreements with its remaining unions.

The basic agreement includes the following provisions:

- a return to rail industry wage levels for all Conrail employees covered under union contracts who are a party to the agreement, retroactive to July 1, 1984;

- an agreement by Conrail management to join with the National Railway Labor Conference (representing rail management) to enter into national bargaining with rail labor for wage increases and fringe benefits, to be negotiated under a new national contract;

continued on page 4

DOLE RECOMMENDS NORFOLK SOUTHERN AS CONRAIL BUYER

On February 8, Secretary of Transportation Elizabeth Dole said she will recommend to Congress that the Norfolk Southern Corporation purchase Conrail.

Dole made her selection of a buyer, under a process developed by the Department of Transportation, after almost seven months of negotiations with several interested parties. Fifteen bids to purchase Conrail were received by the DOT last year, subsequently the bidders were narrowed to three finalists—Alleghany Corporation, the Marriott Group, and Norfolk Southern Corporation.

On January 4, Conrail's management submitted a proposal to the DOT for a public stock offering to transfer Conrail to the private sector. Management still supports this option. (See comments on this page.)

Dole said that along with the recommendation of a buyer for Conrail, she will send to Congress the Memorandum of Intent between the DOT and Norfolk Southern and implementing legislation specifying terms of the proposed sale.

In a press release issued on February 8, the DOT stated that, "Under the Memorandum of Intent, Norfolk Southern has agreed to pay a minimum of \$1.2 billion in cash and surrender Conrail's accumulated tax benefits in the form of net operating loss carry forwards (\$2.1 billion) and investment tax credits (\$275 million). The ultimate purchase price is likely to be higher, because Norfolk Southern has agreed to increase it by an amount equal to Conrail's excess cash on the day of closing. Excess cash is defined as the amount Conrail has on hand in excess of \$800 million."

The press release further stated: "As part of the consideration to the government, the Department of Transportation has negotiated restrictive covenants with Norfolk Southern that would ensure quality service, protect Conrail's shippers and ensure Conrail's continued financial strength by limiting the amount of dividends Norfolk Southern could pay to stockholders, requiring that Norfolk Southern reinvest several hundreds of millions of dollars each year in Conrail, requiring that money be spent on equipment and track maintenance, requiring Norfolk Southern to operate Conrail as a total system, and requiring that a balance

of \$500 million in cash on hand be maintained if any dividends on common stock are to be paid."

continued on page 2

MANAGEMENT COMMENTS ON DOT'S DECISION

In response to the Department of Transportation's February 8 announcement that it would recommend a sale of Conrail to Norfolk Southern Corporation, Conrail's management issued the following statement.

"The Secretary of Transportation's decision today recommending the acquisition by Norfolk Southern of the Federal Government's 85 percent common stock interest in Conrail is vigorously opposed by Conrail management. Congressional action will be required in the form of enabling legislation to move the matter forward. Conrail management intends to state its case before Congress, both in opposition to Norfolk Southern and in support for a financing program which includes a public stock offering to return Conrail to the private sector. Morgan Stanley & Company is continuing to work on behalf of a public offering.

"Norfolk Southern and Conrail are vigorous competitors, both in the extensive areas where their tracks are parallel and elsewhere in their service territories. The two railroads both serve terminal areas at Chicago, Indianapolis, Fort Wayne, Louisville, Cincinnati, Columbus, Toledo, Cleveland, Akron, Canton, Detroit and Pittsburgh.

"We continue to believe that a Norfolk Southern acquisition of Conrail will significantly reduce railroad competition in the Northeast quadrant of the nation, and shippers will suffer the short and long term anti-competitive consequences of such an action—even if Norfolk Southern reaches agreement with other railroads concerning access to specific markets.

"In short, the procompetitive quick 'fix' cannot work. A Norfolk Southern/Conrail merger is anticompetitive. It would eliminate the independent, strong, competitive,

continued on page 2

CRANE: PUBLIC OFFERING CAN BE ACCOMPLISHED

In testimony before the Northeast/Midwest Coalition on February 8, Conrail Chairman and Chief Executive Officer L. Stanley Crane testified that a public offering of Conrail stock can be accomplished—and would be in the public interest and the interests of Conrail's constituencies.

He said that a public offering could result in proceeds to the U.S. government of at least \$1.4 billion, "a premium considerably higher than the private placement process has been able to obtain."

Crane also said that a public offering plan could accommodate all the relevant protective covenants that the government would require from a private bidder. "Conrail can sign a binding agreement obligating it to meet the intent of the relevant covenants while preserving management independence necessary to assuring long-term viability—the ultimate goal for which Conrail was created," said Crane.

Goldman, Sachs & Co., the Department of Transportation's financial advisor, had questioned the feasibility of the public offering option and its effect on Conrail's financial strength in a January 24 letter to the DOT.

"It is interesting to note that while Goldman, Sachs questions the feasibility of a public offering, never once do they say it can't be done," said Crane on February 8. "And there should be no secret why they don't—it can be done." Crane quoted from a January 28 letter from Morgan Stanley & Company, management's financial advisor, which stated, "... the high level of unsolicited inquiries which we have re-

BILL INTRODUCED FOR PUBLIC STOCK OFFERING

On January 30, U.S. Representative Bob Edgar (D-Pennsylvania) introduced a bill in the House of Representatives calling for a public stock offering to return Conrail to the private sector.

In a statement announcing the bill, entitled "The Conrail Privatization Act of 1985," Edgar said that a public stock offering best serves the public interest because:

- selling Conrail in a public offering decreases the likelihood that the railroad will cut service and reduce its commitment to the Northeast and Midwest;
- Conrail's current management and employees would be allowed to continue their good work in creating a strong, profitable Conrail;
- a public stock offering would best ensure that Conrail's track, bridges and yards are maintained, as they have been under Conrail's present management; and
- a public offering seems likely to provide the greatest long-term financial benefit to the government, since Conrail's future tax benefits could not be used to shelter non-Conrail income.

ceived from a number of large financial institutions demonstrates the soundness of our conclusion that there is an enormous investor appetite for Conrail equity securities."

Said Crane, "What I find truly ironic is the attack made on the public offering based on questions about the financial strength of Conrail after the transaction. The reason this attack is ironic is that it is also an attack on the bidders that have been selected as part of the private placement process. If they don't believe in Conrail, why are they even bidding?"

"I believe in the future of Conrail. The Conrail management proposal for a public offering is the strongest possible statement it can make in support of its view that over the long term Conrail is a viable company."

"I can't help but recall that four years ago the Department of Transportation took the position that Conrail could not make it and should be split up. Conrail put a plan together, presented it to Congress and said, 'We believe we can do it. We can make Conrail a viable, profitable company. Congress gave Conrail a chance. The results speak for themselves.'"

DOLE RECOMMENDS NORFOLK SOUTHERN

continued from page 1

Norfolk Southern's primary business is railroads. It operates the combined rail systems of the Norfolk and Western Railway Company and the Southern Railway Company. The two systems are composed of more than 18,000 miles of track in 20 states and Canada. To maintain competition in the Northeast, the Department of Justice would require the Norfolk Southern to grant trackage rights to other carriers and divest itself of certain trackage that may pose a threat to competition in some areas.

Congress directed the DOT to arrange for the sale of Conrail more than three years ago in the Northeast Rail Service Act of 1981. Secretary Dole's recommendation of Norfolk Southern as purchaser will now be reviewed by Congress, which must enact implementing legislation to complete a sale.

MANAGEMENT COMMENTS ON DOT'S DECISION

continued from page 1

financially secure rail system that Congress worked so long to create.

"Conrail management has not been a party to the DOT decision-making process regarding the selection of Norfolk Southern, nor have they been given an opportunity to examine the specific proposal of Norfolk Southern. Until we have had this opportunity, we cannot comment further."

JUSTICE DEPARTMENT SETS CONDITIONS FOR SALE TO NORFOLK SOUTHERN

On January 31, the Justice Department told the U.S. Department of Transportation that a sale of Conrail to Norfolk Southern would violate antitrust laws and hurt competition unless the railroad sold or leased some of its track.

The DOT had asked the Justice Department to study the competitive effects of a sale of Conrail to Norfolk Southern. In the January 31 letter to Transportation Secretary Elizabeth Dole, Assistant Attorney General J. Paul McGrath said, "We identified more than 100 markets located in 39 counties in 21 states in which it appeared that a merger between Conrail and Norfolk Southern could have a significant anticompetitive effect."

To overcome this problem, a combined Norfolk Southern/Conrail system would have to sell lines or grant trackage rights to other railroads in the affected areas, the Justice Department said. But track could not be sold or leased to CSX Corporation—Norfolk Southern's major competitor—because that would give shippers only two options for moving their freight to connections with other railroads.

Conrail VP foresees problems

Earlier, in January 24 testimony before Senator Arlen Specter (R-Pennsylvania) and the Northeast-Midwest Coalition, a group of senators from states in the Northeast and Midwest, Conrail Vice President-Marketing Charles N. Marshall said that a Norfolk Southern-Conrail merger would create major competitive problems.

"For the first time in 30 years, the Northeast rail system is working," said Marshall. "It has taken billions of taxpayer dollars, four major pieces of legislation, sacrifice by rail labor and bold, innovative management. Many thought it could not be done. Selling Conrail to the Norfolk Southern Corporation would undo it."

"Make no mistake—the widespread adverse effects on competition of a Norfolk Southern/Conrail merger requires breaking the merged system up," he said. "The majority of it would become a giant new system; the rest would be divided among a multitude of smaller railroads. The Northeast rail game thus begins again, without, in my view, much hope of producing as good a result as we've got now."

Some of the points raised by Marshall:

- The combined railroad could control a large part of the market now served by two or three carriers, including more than 50 percent of the transportation market for chemicals, metals, motor vehicles and equipment, scrap and grain.
- Shippers have benefited from competition between several railroads in areas such as Detroit, where Conrail, Norfolk Southern and the Grand Trunk compete directly for outbound Chrysler vehicles from several plants. This competition has kept rates low for Chrysler and for consumers.

• Even in areas where Conrail and Norfolk Southern are not direct competitors, shippers benefit because they have more options for purchasing needed supplies. For example, Marshall said, a utility can purchase coal from a mine located on either Norfolk Southern or Conrail, and Conrail has made efforts to lower costs to make mine operators on its own lines more competitive.

• Over the years, Conrail has been an independent competitive force in the rail industry—campaigning for greater regulatory freedom, trying out new ideas and setting the pace for the rest of the industry.

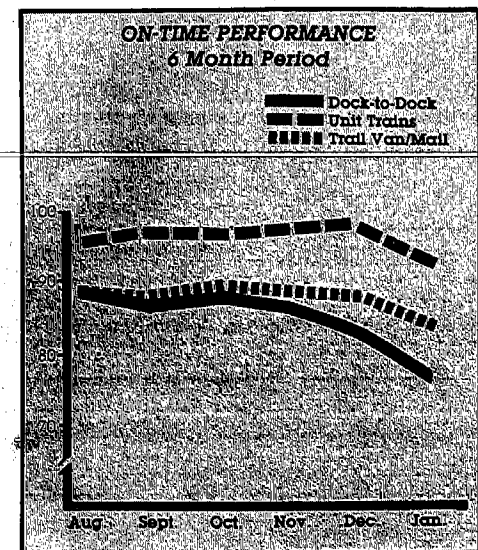
Concluded Marshall, "A Norfolk Southern/Conrail merger is anticompetitive, and it would destroy the strong, competitive, financially secure rail system that Congress worked so long to create."

SERVICE REPORT

Severe winter storms, as well as sub-zero temperatures across most of the Conrail system, affected Conrail's on-time performance during the month of January.

Last month, 77.7 percent of the loaded cars measured under Conrail's Keypoint Quality Control Program were delivered to their destinations at a customer siding or interchange within 24 hours of schedule. This program measures actual transportation performance against Conrail's published schedules. The Keypoint index dropped from 82.1 percent in December, when the weather was more favorable.

In other measures, 84 percent of Conrail's piggyback and mail trains reached their destination yards within one hour of schedule last month, as did 93.6 percent of Conrail's unit trains (95.2 percent of the coal trains; 100 percent of the ore trains and 84.2 percent of the grain trains.) At major Conrail yards, 97 percent of the cars monitored made their connections.



CONRAIL REPORTS RECORD INCOME FOR '84

On February 11, Conrail reported net income of \$500.2 million on revenue of \$3.379 billion for 1984, marking Conrail's fourth consecutive year of record net income. For the fourth quarter 1984, Conrail earned \$89.6 million on revenue of \$792 million.

Net income for the year 1983 was \$313.0 million on revenue of \$3.076 billion, while the fourth quarter of that year showed net income of \$117.5 million on revenue of \$808 million. The full-year 1984 net income represents an increase of 60 percent over 1983's performance.

Conrail's cash balance continued to increase during the fourth quarter, reaching \$846 million at year-end compared with \$533 million at the end of 1983. In addition, during 1984 Conrail undertook an aggressive \$550 million capital improvement program.

The decline in fourth quarter 1984 net income from the same period in 1983 was attributable in part to a decline in traffic. Carloadings of freight carried were about 7.6 percent lower than for the fourth quarter of 1983, due primarily to a drop in coal traffic—as users began to work off stockpiles accumulated earlier in the year in anticipation of a possible coal strike—and a 17.3 percent drop in steel traffic. In addition, fourth quarter 1984 results reflect expenses which will be involved in restoring employee wages to industry standards for the full second half of 1984.

Said L. Stanley Crane, Chairman and Chief Executive Officer: "The results for the

BUSINESS REPORT

Besides affecting on-time performance, cold weather also caused a slowdown in Conrail's freight business last month.

Conrail hauled 224,860 carloads of freight last month, a 7.1 percent decrease from carloads hauled in the same period in 1984. Traffic loaded on Conrail lines decreased 2.6 percent, and traffic received from connections plunged 13.8 percent as a result of severe winter weather in the West and Midwest.

Despite a greater demand for energy because of the cold, Conrail's shipments of coal were still lower than last year's levels, because of utilities' overabundant coal supplies. Coal shipments for the month of January were 16.7 percent lower than shipments for January of 1983. In addition, piggyback traffic decreased 1.9 percent, partly as a result of a dropoff in fresh fruit and vegetable traffic from the West because of the weather.

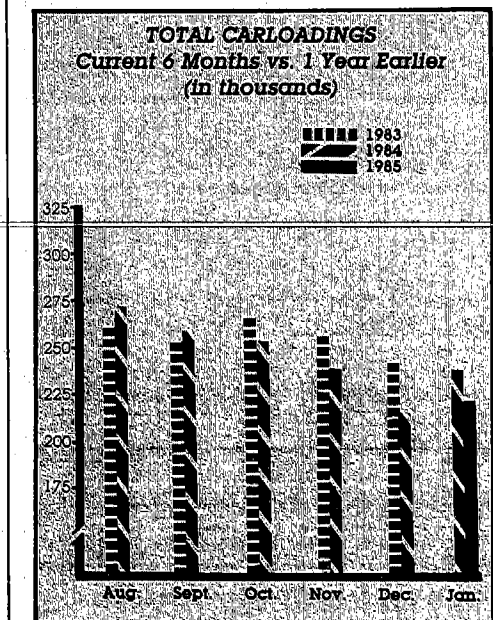
Other decreases last month were in food products, down 8.8 percent, pulp and paper, down 7.7 percent, chemicals, down 2.2 percent, primary metals, down 17.5 percent and waste and scrap, down 18.0 percent.

Traffic increased last month over year-earlier levels in farm products, up 12.7

percent and automobiles and parts, up 2.7 percent.

"The results underscore our commitment to sound financial performance, which we expect to continue in 1985, even with the possible resumption of state tax payments and higher wage levels. We will continue to pursue additional efficiencies in our operations which we believe will help the railroad to continue highly satisfactory levels of earnings, providing there is reasonable stability in the economy."

"Conrail faces two major challenges in 1985," Crane continued. "The first involves the process of privatization of the company in a way that will best satisfy the needs of the transportation infrastructure of the nation, our shippers, our employees and the government and taxpayers, while assuring the continuation of high-quality rail freight service. We seek a result consistent with the public interest. Secondly, Congress is considering a review of the Staggers Rail Act of 1980, the legislation that helped revitalize the railroad industry through regulatory reform. As a leading advocate of rail deregulation and competition, Conrail will actively participate in that legislative review, vigorously defending the Staggers Act and the competitive environment which it has brought about, while continuing to address the needs of our shippers."



in brief...

AGREEMENT REACHED

continued from page 1

- an agreement by Conrail management and rail labor to be bound by any national contractual agreement reached;
- an agreement by Conrail and labor to pursue other issues through peaceful procedures.

In regard to the immediate wage restoration to rail industry wage levels, Conrail management will make every effort to distribute any retroactive pay adjustment to employees covered within 60 days of February 14, when the agreement was initially made with 10 of the 14 unions.

Concerning the actions taken by Conrail, L. Stanley Crane, chairman and chief executive officer, stated: "We have wanted to restore wages to our employees to industry levels since late last summer. The financial condition of the company is such that it can afford to take this important step in recognition of the sacrifices employees have made in the past to help the company achieve financial health. Now that the Department of Transportation has made a recommendation of a purchaser for Conrail under the DOT-created process, we believe it is time to recognize the employee sacrifices in a tangible fashion."

This action will not impact on Conrail's 1984 net income of \$500.2 million. Conrail's fourth quarter 1984 results (a net income of \$89.6 million) fully reflected expenses which will be involved in restoring employee wages to industry levels for the full second half of 1984.

13 DIVISIONS REACH SAFETY GOAL FOR '84

A total of 13 Conrail divisions finished 1984 with a lost time injury frequency rating of 1.80 or better—the safety goal established by Conrail for the year. The frequency rate measures the number of lost time injuries per 200,000 man hours worked.

The number-one division for the year was the Canada Division, which for the third straight year had no lost time injuries and a frequency rate of 0.00. Other divisions who met the safety goal for 1984 included Columbus, with a frequency rate of 0.54; Allegheny, with 0.68; Toledo, with 1.10; Mohawk-Hudson, with 1.31; Pittsburgh, with 1.35; Youngstown, with 1.41; New Jersey, with 1.52; Philadelphia, with 1.57; Cleveland, with 1.65; Chicago, with 1.70 and Harrisburg, with 1.78.

The top-rated region for 1984 was the Central Region, which finished the year with a frequency rate of 1.33. This was the third straight year in which the Central Region was number-one in safety.

For the month of December, eight Conrail divisions had no lost time injuries. The Toledo Division was ranked first because it worked the most man hours. Other divisions with no lost time injuries for December included Harrisburg, Philadelphia, Allegheny, Cleveland, New England, Michigan and Canada.

Systemwide, Conrail's lost time injury frequency rate was 1.82 for 1984 and 0.97 for the month of December.

LOST TIME INJURY FREQUENCY RATE BY DIVISION December, 1984

Rank	Division	Rate
1	Toledo	0.00
2	Harrisburg	0.00
3	Philadelphia	0.00
4	Allegheny	0.00
5	Cleveland	0.00
6	New England	0.00
7	Michigan	0.00
8	Canada	0.00
9	New Jersey	0.76
10	Chicago	0.89
11	Youngstown	1.00
12	Columbus	1.01
13	Buffalo	1.25
14	Pittsburgh	1.78
15	Mohawk-Hudson	2.29
16	Southwest	2.55
17	Southern Tier	3.51

in brief...

In Brief is published by the Public Affairs Department of Consolidated Rail Corporation, Room 1040, Six Penn Center, Philadelphia, Pennsylvania, 19103.

Letters to the editor are welcome and should be sent to the above address.

Change of addresses: Obtain Conrail Form G-2101 (Change of name and/or address) from your paycheck distributor or office manager. Send the completed form to Director-Payroll Operations, Room 207, 15 N. 32nd Street, Philadelphia, Pennsylvania, 19104.

Catherine A. Flynn, editor
Marsha Biderman, production coordinator

Presorted
FIRST CLASS MAIL
U.S. Postage Paid
Philadelphia, PA
Permit No. 227

753903 AC

EF KELLEY
102 WITCHWOOD RD

SO YARMOUTH MA 02664