

in brief...

PUBLISHED MONTHLY FOR EMPLOYEES OF CONSOLIDATED RAIL CORPORATION

CONRAIL

May/June, 1986



DINGELL SAYS DOT/NS PLAN 'FLAWED,' CALLS FOR PUBLIC OFFERING OF CONRAIL STOCK

Rep. John D. Dingell, the highly influential chairman of the House Committee on Energy and Commerce, said April 29 that the Department of Transportation (DOT) plan to sell Conrail to Norfolk Southern Corp. (NS) is "flawed," and called for another proposal that would preserve Conrail as an independent company through a public offering of stock.

"The Administration's proposal... is mired in a hopeless swamp of confusion and controversy," said Dingell, a Democrat from the Detroit, Mich. area, in a statement. "If Conrail is to be returned to the private sector, a new plan must be devised."

Dingell strengthened his opposition to the NS proposal in early May. After Transportation Secretary Elizabeth Dole asked NS to increase its bid to \$1.9 billion (see related story, Page 1), Dingell

responded in a lengthy May 8 letter, saying, "My position in this regard is final. It is time for us to move forward together on a bi-partisan, consensus public offering plan."

Dingell said that his committee's analysis of the sale has concluded that "Conrail has become a highly successful and well-regarded railroad, which is viable as a stand-alone entity today and can continue to be a stand-alone entity well into the foreseeable future. Contrary to assertions of the (DOT) staff, Conrail is not doomed to fail."

He added that Dole's request for an increase in Norfolk Southern's bid, and her inclusion of Interstate Commerce Commission review into the sale process, did not respond effectively to his concerns.

continued on page 3

NS AGREES TO BOOST CONRAIL BID TO \$1.4 BILLION, PLUS \$500 MILLION IN CONRAIL FUNDS

Norfolk Southern Corp. (NS) has agreed to a request by Transportation Secretary Elizabeth Dole to increase its offer for the government's 85 percent stake in Conrail to \$1.4 billion from \$1.2 billion, plus an additional \$500 million in Conrail funds. In a May 9 letter to Secretary Dole, NS Chairman Robert B. Claytor said NS was agreeing to the increase "in light of improved economic conditions" since their original proposal was submitted to the Department of Transportation (DOT).

Dole's request for the increase was first disclosed in a May 6 letter to U.S. Rep. John D. Dingell, chairman of the House Energy and Commerce Committee, which must approve the sale of Conrail. The letter was seen as an attempt to gain Dingell's favor for the NS proposal.

continued on page 3

WHAT DID NS AGREE TO IN ITS REVISED CONRAIL BID?

- Compensation for Conrail employees: \$375 million; no increase in value from previous NS offer.
- \$200 million more cash from NS to the government.
- Conrail cash assets worth \$500 million to the government — the major portion of the increase in the NS offer, which Rep. Dingell described as "creative arithmetic."
- Submit merger to limited 6-month Interstate Commerce Commission review, which Rep. Dingell called "a joke" (normal ICC review of merger of this size would be 34 months).
- Limits on "certain built-in" Conrail tax deductions, which Dingell said would "have little effect on any of the potential revenue loss" the government would suffer as a result of a sale to NS.

CONRAIL TAKES SECOND IN HARRIMAN COMPETITION

For the second consecutive year, Conrail won the second-place silver medal in the E. H. Harriman Memorial Award competition.

The competition, held annually, recognizes achievement in employee safety by railroads around the country. Conrail placed second to the Southern Railway System in the Group A (major line-haul) railroad category, which includes all railroads posting more than 15 million employee-hours a year. The bronze third-place medal was awarded to the Norfolk & Western Railway.

For the Southern, it was the sixth time in 10 years it has taken the gold medal in the Harriman competition. The Southern

continued on page 4

CONRAIL AND EMPLOYEES DONATE NEARLY \$500,000 TO UNITED WAY CAMPAIGNS

Donations by Conrail and its employees to local United Way campaigns totaled \$487,323 during the 1985 fund drive to support United Way-sponsored agencies.

Individually, Conrail employees across the system donated almost \$325,000 to United Way. Conrail matched that donation on a 50 percent basis with another \$162,350 in donations to the various local campaigns.

The largest dollar amount donated was in Philadelphia, where Conrail and employees from the Philadelphia area and system headquarters donated more than \$222,000 to that city's local campaign.

Other cities where Conrail and its employees made major contributions included: Altoona, \$60,762; Pittsburgh, \$41,324; Detroit, \$30,448; Columbus, Ohio, \$22,087; and ElizabethPort, N.J., \$21,621.

continued on page 4

CONRAIL SALES, MARKETING & RMD PROFESSIONALS CHARTER MEMBERS OF NEW 'PRESIDENT'S CLUB'

In recognition of their outstanding achievements during 1985, seven Conrail marketing and sales professionals have been named charter members of the "President's Club."

"Conrail has a well-deserved reputation for unique and innovative price and service solutions to the transportation challenges of its customers," said Stuart M. Reed, Conrail's President and Chief Operating Officer. "That institutional reputation reflects the creativity of individual Conrail people in putting together transportation packages which fulfill our customers' needs. Through the newly created President's Club, Conrail recognizes these significant individual contributions."

The charter members of the President's Club are: **J. Pierce Avant**, Coal Sales Manager, Pittsburgh; **Mario N. Carrier**, Manager-National Accounts, Detroit; **Raymond L. Cunningham**, Account Executive, Pittsburgh; **Joseph J. Grassia**, Sales Representative, New York City; **Charles E. Hunter**, Sales Manager, Baton Rouge, La.; **Mark R. Mastro**, Area Manager-Regional Market Development, Selkirk, N.Y.; and **Charles D. Niland**, Assistant Manager-Domestic Sales, Philadelphia.

"These individuals exceeded their 1985 sales goals by a wide margin to gain membership in the President's Club," said Reed. "But just as important was the quality of the efforts producing these outstanding results. These sales leaders brought freight traffic to Conrail by understanding the departments at Conrail like Transpor-

tation and Car Management, and creating price and service competitive transportation packages to meet the customers' needs. In today's deregulated environment, this kind of approach is crucial for any transportation provider's success. In effect, our sales professionals become transportation consultants to our customers," said Reed.

Those named to the club were selected for a variety of successes in marketing and selling Conrail's service. Avant's success was the generation of more than 2.2 million tons of export and domestic coal business for Conrail, and Carrier succeeded in developing a rate and service package for shipments to an auto manufacturer's warehouse in Chicago.

Cunningham was selected to the club for his efforts in generating new business for Conrail's SteelNET program, and Grassia for his efforts in serving the chemical industry in his New Jersey sales territory. Hunter gained membership in the club by helping a New Jersey chemical manufacturer find new affordable sources of lead ingot when a supplier closed down two processing facilities.

Mastro helped turn an under-utilized freight yard in Albany into a busy bulk transfer facility shared by many different customers, and Niland was selected for his efforts to fit the U.S. Postal Service into Conrail's premium service intermodal network for mail shipments between Chicago and Detroit.

BUSINESS REPORT

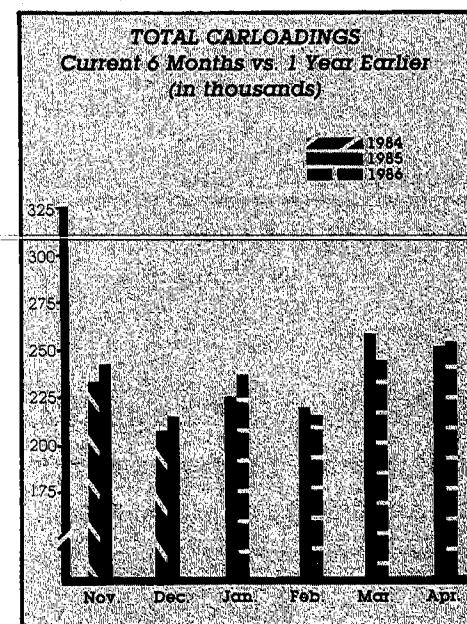
Traffic carried on Conrail lines was off 6.2 percent in March, but rebounded to finish slightly ahead in April, compared with the same months a year ago.

Carloads during March totaled 243,512, compared with 259,611 in the same month a year ago. In April, Conrail hauled 255,417 carloads, compared with 250,473 carloads in April last year.

For the first four months of 1986, Conrail traffic totaled 954,622 carloads, down less than a half percent from 957,455 carloads during the same period in 1985.

Increases in carloadings during April were recorded in metallic ores, lumber and wood products, TOFC, and chemicals.

Declines were posted in farm products, primary metals, and transportation equipment.



RAIL INDUSTRY EARNINGS MOSTLY LOWER IN FIRST QUARTER; CONRAIL EARNINGS UP

Earnings at most of the nation's other major rail carriers were lower during the first quarter of 1986, following a downward trend in traffic so far during the year.

As reported in the April issue of In Brief, Conrail posted net income up 9 percent from the first quarter of last year — \$60 million on revenues of \$775 million.

Norfolk Southern Corp.

Norfolk Southern (NS) reported that its net income rose to a record \$103.7 million — \$1.65 a share — on revenues of \$1.02 billion, an increase of 3.9 percent over net income of \$99.8 million or \$1.59 a share on revenues of \$862.2 million.

Revenues were up 18.3 percent, including \$158.7 million from operations of North American Van Lines, which NS did not own in the first quarter of 1985. NS said that railroad revenues for the period were down 0.6 percent.

NS also said that it finalized its purchase of North American on January 2 of this year, paying Pepsico Inc. \$375.7 million in cash for the company.

Union Pacific Corp.

Union Pacific said that its net income fell to \$103.1 million or 88 cents a share,

CONRAIL CITED FOR EFFORTS TO HELP EARTHQUAKE VICTIMS

The Pan American Development Foundation (PADF) has honored Conrail for the railroad's relief efforts in the wake of last year's devastating earthquake in Mexico City.

The PADF gave Conrail a 1985 Inter-American Humanitarian Award in recognition of Conrail's quick response to the disaster, which occurred in September 1985. After the quake, Conrail organized free transportation services to ship medical equipment and supplies in trailers from Baltimore and the New York City area to St. Louis. The Union Pacific Railroad took the supplies from there on to the U.S.-Mexican border at Laredo, Texas for delivery to Mexico City.

The award was presented to Conrail April 10 at a ceremony in the Hall of Americas in the Organization of American States building in Washington, D.C. Accepting the award for Conrail were Vice President-Sales Gery M. Williams and Account Executive Sophia H. Garcia, who represented Conrail's Houston, Texas sales operations.

down 9.1 percent from \$113.4 million or 94 cents a share during 1985's first quarter. Revenues were down 6.7 percent to \$1.84 billion from \$1.97 billion.

UP said that rail income for its Union Pacific rail subsidiary increased 6 percent during the quarter, but falling oil prices hurt the company's Champlin Petroleum subsidiary, where profits fell more than 17 percent.

CSX Corp.

CSX said it posted a slight decline in net income during the first quarter as a result of reduced sales of real estate. Net income fell 5.6 percent to \$85 million or 56 cents a share from \$90 million or 60 cents a share in the first quarter of 1985.

Revenues declined 15 percent to \$1.70 billion from \$1.99 billion a year earlier.

CSX said rail traffic volume for the quarter was about equal with the same period last year, but pricing pressure pushed down rail revenues by 5 percent.

Santa Fe Southern Pacific Corp.

Net income at Santa Fe Southern Pacific fell 52 percent during the first quarter of 1986 as a result of severance program payments to employees.

Net income at SFSP was \$29.7 million or 17 cents a share on revenues of \$1.4 billion, compared with net income of \$61.6 million or 34 cents a share on revenues of \$1.6 billion. Revenues declined 12.5 percent.

The decline in net income resulted from \$38.8 million in expenses from severance and early retirement programs. The Southern Pacific System, currently held in trust pending the approval of the SF-SP merger, posted a loss of \$59.7 million, compared with an operating loss of \$26.3 million a year ago.

Burlington Northern Inc.

Burlington Northern said its net income dropped 31 percent during the first quarter to \$106.9 million or \$1.30 a share from \$155.2 million or \$1.85 a share in the same period a year ago.

BN's revenues during the period were down to \$1.90 billion from \$2.36 billion in last year's first quarter, a decline of 19 percent.

CONRAIL APPOINTMENT

James L. Woodward has been appointed General Superintendent-Damage Prevention Services for Conrail.

In his new position, Woodward is responsible for developing and monitoring Conrail's cargo inspection, loss and

DOT/NS PLAN FLAWED

continued from page 1

Dingell's committee must act on any bill to return Conrail to the private sector before it can be passed on to the full House of Representatives for consideration. Since Dingell chairs the key committee, press reports of his announcement speculated that his opposition might effectively block the bill that endorses the NS proposal to acquire Conrail.

Dingell said that "more than one year after announcement of its plan, the Administration has failed to establish that its proposal is in the public interest. The time clearly has come for the Administration to go back to the drawing board," Dingell continued. "Any new plan should preserve Conrail as an independent entity and afford the public a fair opportunity to participate in the ownership of the railroad."

Dingell also criticized the Department of Transportation, the Department of Justice and the Treasury Department for failing to provide him with adequate assurances that the NS proposal would not harm rail competition or result in a loss of tax revenues to the government.

Dingell's original announcement came less than two weeks after another member of his committee, Rep. Fred J. Eckert (R-N.Y.), endorsed a public offering of Conrail stock. In a press release on April 17, Eckert said, "I have reached the conclusion that Conrail should be sold through a public offering."

Eckert said his decision was based on the proposal that would best provide "continued and efficient rail service for western New York, a maximum return for the taxpayer," and "a competitive effect on rail transportation in western New York and throughout the country."

In response to Dingell's April 29 statement, Thomas A. Saunders III, managing partner of Morgan Stanley & Co. and the chief architect of its public offering proposal to return Conrail to the private sector, said he was "encouraged" and looked forward to working toward a proposal fitting Dingell's guidelines.

NS BID AT \$1.4 BILLION

continued from page 1

However, he continued to state emphatically that he will not support any proposal involving a merger with Norfolk Southern (see related story Page 1).

The revised proposal calls for NS and the DOT to "enter into a new agreement that will yield \$2.275 billion: \$1.9 billion to the government and \$375 million to purchase Conrail employees' stock and settle their outstanding claims."

According to the letter, the cost of the increase directly borne by NS would amount to just \$200 million. The remaining \$500 million would come from Conrail's cash assets (\$360 million from Conrail's overfunded pension plan, and \$140 million in excess Conrail cash over \$800 million).

Though Dole requested that NS increase its offer to the government, she did not request that the offer to employees be increased — and Norfolk Southern made no mention in its revised bid of additional value for Conrail employees.

In addition, another bidder for Conrail said it would match Dole's request. Conrail Acquisition Corp., the company created by investment banks Allen & Co. and First Boston Corp. said it would meet the \$1.9 billion, but said that additional cash necessary would come from Conrail's cash assets. Conrail Acquisition's bid would include \$1.55 billion from outside sources and \$350 million in Conrail cash. Its former bid totaled \$1.8 billion.

Dole's letter to Dingell rejected his call for a new Conrail sale proposal involving a public offering of stock.

Her letter also attempted to address a number of Dingell's concerns, including loss of competition that will result from the NS proposal and the loss of tax revenues to the government.

On the competition issue, Dole said she would ask the Interstate Commerce Commission to review the merger as a condition of Congress' approval of the NS proposal. Previously, ICC review of the proposal, standard procedure in railroad mergers, was excluded from the DOT-sponsored bill.

With regard to taxes, Dole said she would not oppose legislation limiting Norfolk Southern's access to Conrail's "built-in" tax deductions. The Congressional Budget Office has estimated that the government could lose tax revenues of \$500 million through 1991 as a result of the merger.

Norfolk Southern said it would agree to ICC review on an "expedited basis," and to limits on the use of certain "built-in" tax deductions, but the company reiterated that it should be "entitled to the same treatment as other taxpayers."

in brief...

HARRIMAN

continued from page 1

also posted a fatality-free year in 1985 for the first time in its history.

Conrail accepted its award at a ceremony in Washington, D.C., April 29. Attending were Conrail President and Chief Operating Officer Stuart M. Reed, Clifford W. Owens, Vice President-Engineering and Staff; and Michael C. Mitchell, Director-Safety. Mitchell is also a member of the Harriman Awards Committee.

Also attending were several Conrail employees, including: William E. Flight, Allegheny Division superintendent; H. H. Batchen, patrolman and local steward-International Brotherhood of Teamsters; R. A. Kerr, track supervisor and general chairman-American Railway and Airline Supervisors Association; John Kohl, trainman; M. J. Giansante, electrician and local chairman-International Brotherhood of Electrical Workers; and J. Pimpinelli, trainman and local chairman-United Transportation Union.

Gold medal winners in other categories included the Denver and Rio Grande Western Railroad in Group B (4-15 million employee-hours), Florida East Coast Railway in Group C (fewer than 4 million employee-hours), and the Philadelphia, Bethlehem and New England Railroad in Group ST (switching and terminal companies).

In addition, the Harriman Awards Committee announced that it will establish the Harold F. Hammond Award to honor individual railroad employees who have demonstrated outstanding safety achievement during the preceding year.

A Hammond Award recipient will be selected each year beginning in 1987 from a group of candidates nominated by individual railroads.

MOHAWK-HUDSON DIVISION MOVES UP FRONT IN FEB.

The Mohawk-Hudson division assumed the lead in Conrail's 1986 safety rankings in February, posting a 2.37 total injury frequency rate in February. For January and February, Mohawk-Hudson compiled a total frequency rate of 3.41, best among Conrail divisions.

Next in the February division rankings were Pittsburgh at 2.87, Buffalo at 4.40, Cleveland at 4.47 and Toledo at 4.71. Pittsburgh, Buffalo and Cleveland all bettered Conrail's 1986 goal of fewer than 4.5 total injuries per 200,000 man-hours worked.

The total frequency rate for the entire Conrail system stood at 4.19 for February and 4.60 for the year-to-date.

The best Conrail department in February was Flexi-Flo, which posted an injury-free month, followed by Stations at 1.40, Mechanical at 2.26, Maintenance of Way at 3.22 and Materials and Purchasing at 3.55.

For the year-to-date, Stations maintained its lead in the department rankings, followed by Materials and Purchasing, Maintenance of Way, Mechanical and Flexi-Flo.

UNITED WAY

continued from page 1

The ElizabethPort campaign, and one in Selkirk, N.Y., that raised a total of \$7,575, were notable because those campaigns were in their first year of existence. In addition, the Pittsburgh drive and the drive in Toledo more than doubled 1984 results. A total of \$12,150 was raised in Toledo.

TOTAL FREQUENCY RATE BY DIVISION February

| Rank | Division | Rate |
|------|---------------|------|
| 1 | Mohawk-Hudson | 2.37 |
| 2 | Pittsburgh | 2.87 |
| 3 | Buffalo | 4.40 |
| 4 | Cleveland | 4.47 |
| 5 | Toledo | 4.71 |
| 6 | Harrisburg | 4.79 |
| 7 | Columbus | 5.00 |
| 8 | Chicago | 5.07 |
| 9 | Michigan | 5.82 |
| 10 | New Jersey | 6.02 |
| 11 | Allegheny | 6.05 |
| 12 | Southern Tier | 7.33 |
| 13 | Southwest | 8.03 |
| 14 | Philadelphia | 8.23 |
| 15 | New England | 9.57 |
| 16 | Youngstown | 9.69 |

TOTAL FREQUENCY RATE BY DEPARTMENT February

| Rank | Department | Rate |
|------|------------------------|-------|
| 1 | Flexi-Flo | 0.00 |
| 2 | Stations | 1.40 |
| 3 | Mechanical | 2.26 |
| 4 | Maintenance of Way | 3.22 |
| 5 | Materials & Purchasing | 3.55 |
| 6 | Transportation | 7.31 |
| 7 | Police | 10.91 |
| 8 | Auto Terminals | 11.11 |

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.

Christopher Mykrantz, 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

SC YARMOUTH MA 02664