in brief...

PUBLISHED MONTHLY FOR EMPLOYEES OF CONSOLIDATED RAIL CORPORATION

CONRAIL

May, 1983

FINANCIAL RESULTS: OUR BEST FIRST QUARTER IN HISTORY

Conrail on April 21 reported net income of $12.6 million on revenue of $729.7 million for the first quarter of 1983, compared with a loss of $23.5 million on revenue of $944.2 million for the first quarter of 1982. Revenue in the first quarter of 1982 included $160.4 million from the passenger service formerly operated by Conrail. Effective January 1, 1983, these operations were transferred to commuter agencies and Amtrak.

First quarter 1983 results include income of $8.3 million from the sale of tax benefits, compared with $7.3 million in the first quarter of 1982.

"Conrail's first quarter financial results represent the best bottom line performance for a first quarter in our seven-year history," said L. Stanley Crane, chairman and chief executive officer. "The railroad was able to record the net income of $12.6 million despite a 6.7 percent drop in carloadings in the quarter, vs. the same period in 1982. The cumulative effects of Conrail's stringent cost controls were in large part responsible for the first quarter performance. In addition, Conrail, in being relieved of responsibility for passenger service obligations in the Northeast effective January 1 this year, was able to devote greater attention to taking necessary steps to improving its freight operations performance. Conrail also benefited in the first quarter from the relatively mild winter, allowing the corporation to save on snow-removal and other related costs.

"In regard to the rest of 1983, we believe that with any reasonable recovery of the national economy—which appears to be getting under way—Conrail will be a direct beneficiary, thanks to the more streamlined system we now operate. We also are confident that with continuing positive trends in the economy, Conrail will be able to pass the profitability tests it faces in June and at the end of October, this year, as mandated by the Northeast Rail Service Act of 1981, and continue its progress toward a transfer to the private sector."

Under the financial reporting requirements of the Interstate Commerce Commission (ICC), Conrail reported net income of $18.6 million for the first quarter of 1983, compared with a loss of $15.1 million for the same period in 1982.

INSIDE: *Other roads report financial results for the first quarter.*

CONRAIL SECURES $100 MILLION LINE OF CREDIT

Conrail has obtained a $100 million unsecured line of credit at the prime rate from Morgan Guaranty Trust Company of New York, as agent, and 11 other banking institutions.

The line of credit, to be utilized as Conrail requires, is another building block in the financial foundation which Conrail is laying as it progresses toward self-sustaining operations, and is an important milestone for the company.

"By securing another entry to the financial market in this manner," said Robert H. Platt, executive vice president, finance and administration, "Conrail is fulfilling several important goals. First, the line of credit provides a safety valve in the event of a cash emergency. Secondly, it gives Conrail greater flexibility to structure future equipment financing agreements, which have totaled more than $1 billion since Conrail began operations on April 1, 1976. Third, it serves as a building block for expansion of the line of credit in the future as Conrail moves toward private sector ownership.

"In addition," Platt added, "the establishment of the line of credit is one of the factors which may satisfy the requirements of the Northeast Rail Service Act (NERSA) of 1981, which states, in part, that 'profitable carrier means a carrier that...will be able to borrow capital in the private market sufficient to meet all its capital needs.' Conrail faces NERSA-imposed profitability tests in June and at the end of October this year, so this is important to Conrail's future."

The $100 million line of credit is being extended at the prime rate. While there are a variety of uses to which the loan money could be put, Conrail has no immediate plans to make use of the line of credit. Conrail has not drawn down any federal funding since June of 1981.

CONRAIL, BLE REACH AGREEMENT

Robert E. Swert, Conrail vice president-labor relations, and W.J. Wanke, first vice president of the Brotherhood of Locomotive Engineers, announced on April 21 that Conrail and the BLE had reached an agreement, subject to ratification, disposing of those matters in dispute between Conrail and the BLE.

The agreement averted a work stoppage on Conrail that was scheduled to begin at 12:01 a.m. on April 30, at the end of a 30-day cooling-off period. Details of the agreement were not available at press time for this issue of *In Brief*, since the agreement had not yet been ratified by the BLE membership.

CONRAIL MEETS ESOP BENCHMARKS

By achieving net income in two consecutive quarters and certain operational efficiencies, Conrail has met the two critical benchmarks established by the federal government for Conrail's Employee Stock Ownership Plan (ESOP) that became effective January 1, 1980.

The two required benchmarks which were met are:

- a financial benchmark requiring that Conrail attain "positive net income" for two consecutive calendar quarters during the ten-year period ending December 31, 1990; and
- an operational benchmark intended to measure, among other things, the relative productivity of Conrail's employees. This benchmark required that Conrail attain for two consecutive quarters a freight labor cost to freight revenue ratio at least equal to the average such ratio for all Class I railroads in 1977.

Conrail has successfully met these requirements through profit and cost performance in the fourth quarter of 1982 and the first quarter of 1983.

In order to understand how achieving these benchmarks benefits ESOP participants, it is necessary to understand some of the history of the ESOP.

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OTHER ROADS REPORT FIRST-QUARTER RESULTS

For the first quarter of this year, other railroads' financial results were affected by the coal market, merger activities and performance of non-railroad holdings. Here is a summary of their results for the first quarter.

• **CSX Corporation** reported first-quarter earnings of $35.6 million, compared to $48.2 million earned in the first quarter of 1982. CSX officials said the results reflect a 20 percent year-to-year decline in coal traffic—which more than offset improved traffic in some general commodity groups, continued reductions in operating costs and lower fuel prices. Total revenue from transportation for the first quarter of 1983 was $1.07 billion, a 10 percent decline from the first quarter of last year.

• **Chicago and Northwestern Transportation Company** reported a $2.2 million net loss for the first quarter of this year, compared to a $7.5 million net income for the first quarter of last year. Last year's results were favorably affected by the $17 million profit from the sale of the railroad's Chicago terminal, officials said. Revenues for the first quarter of 1983 declined to $196.8 million, from $199.6 million one year earlier.

• **Norfolk Southern Corporation's** first quarter earnings, like CSX's, were adversely affected by a poor market for coal. First quarter net income for the railroad holding company totaled $55.9 million, a 57 percent drop from the $131.1 million reported for the first quarter of 1982. Revenue declined 18 percent, from almost $900 million a year ago to $735.2 million for the most recent first quarter. Officials said that the figures for 1982 reflect the combined results of the Southern and the Norfolk and Western railways, which merged last June to form Norfolk Southern Corporation.

• **Santa Fe Industries, Inc.**, reported a first quarter, 1983, net income of $32.9 million, up from $30.2 million for the same period in 1982. Santa Fe Chairman John Reed said that while pre-tax earnings were essentially the same this year as they were a year earlier, lower federal income tax rates favorably affected financial results for the first quarter of 1983.

• **Southern Pacific Company's** profits for the first quarter jumped to $18.4 million, from $2.1 million a year earlier, because of a strong performance from its communications subsidiary. However, rail operations of this company lost $31.2 million during the first quarter of 1983, compared to a $16.4 million loss for the corresponding quarter last year.

• **Union Pacific Corporation,** which acquired the Missouri Pacific and Western Pacific railroads on December 22, increased their first quarter earnings by 30 percent to $62.5 million. Union Pacific earned $48 million for the 1982 first quarter, before the acquisition of the two smaller railroads. Revenues rose 67.2 percent, from $1.28 billion a year ago to $2.14 billion in the most recent quarter. But earnings from Union Pacific's original rail operations fell to $37.7 million, from $64 million a year earlier.

ICC RELEASES DETAILS OF BOXCAR DECISION

On May 2, the Interstate Commerce Commission released details of its March 4 decision to deregulate boxcar traffic. Conrail, which has been a leading advocate of railroad deregulation, had petitioned the ICC two years ago to deregulate boxcars.

The ICC voted 3-to-2 to deregulate pricing for all types of boxcar traffic, except for non-ferrous recyclables, effective next November. This gives railroads more freedom to set rates for boxcar traffic without ICC approval.

The decision also gives railroads more freedom to establish rental, storage and return charges for use of one another's boxcars. Railroads received permission to assess charges of up to 35 cents per mile for movement of empty boxcars, if requested through the Association of American Railroads or the ICC, and to store empty cars after 72 hours without paying per diem fees.

The ICC said that boxcar deregulation "would permit boxcar equipment charges to fluctuate with supply and demand, reducing current inefficiencies in boxcar use and promoting the opportunity for carriers to manage their car hire expenses." Conrail hopes to reduce the cost of operating boxcars, especially the cost of performing unnecessary empty handling, and thereby gain an edge on truck competition.

NEWS DIGEST

TRESPASSING FILM WINS AWARD—A Conrail-sponsored safety film aimed at reducing trespassing accidents among children and teenagers has won an honorable mention award from the American Film Festival. The film, entitled "Trespass!," was shot on Conrail property and features Conrail employees.

The Conrail film was in competition with 12 other films submitted in the Health and Safety category for the competition, which is for non-theatrical and documentary films. The festival is sponsored by the Educational Film Library Association.

A feature on "Trespass!" appears in the Spring edition of *The Conrail Inside Track*. Arrangements are being made to distribute the film to schools and civic groups.

COMPETITIVE RATES FOR EXPORT COAL—Conrail and Canada Steamship Lines (CSL) have begun offering through rates for export coal shipments moving via the Great Lakes ports of Ashtabula and Toledo, Ohio to Seven Islands, Quebec and several other deepwater loading ports near the mouth of the St. Lawrence Seaway.

The rate package is aimed at attracting coal producers and brokers who have been shipping through other ports at Curtis Bay in Maryland and Hampton Roads in Virginia and who can benefit from using the larger ocean-going vessels at Seven Islands. The new plan will also increase opportunities for coal shippers on Conrail lines to blend and export their coal, as well as increase Conrail's competitiveness for moving high-quality Ohio River coal.

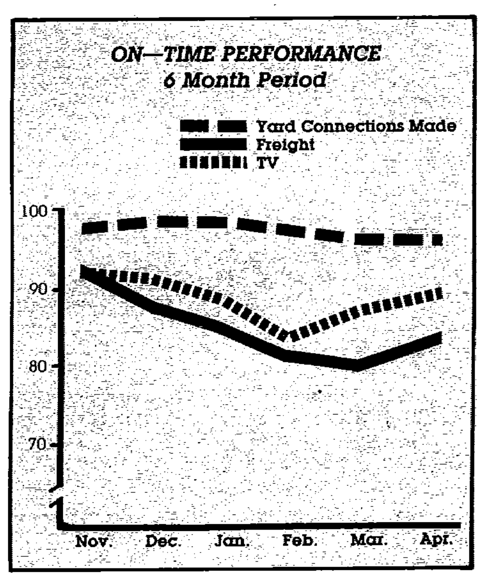
DEBATE CONTINUES ON RAILROAD RETIREMENT—In testimony before the Senate Labor and Human Resources Committee on April

SERVICE REPORT

Last month's on-time performance was better in most areas than it was for April of 1982.

Conrail's Keypoint Quality Control Program, which measures on-time delivery of loaded freight cars to the customer's siding or interchange, showed that 84.1 percent of the measured cars were delivered within 24 hours of the scheduled standard. This was an improvement from the 82 percent in April of 1982.

In other measures, 89.8 percent of the TrailVan trains last month reached their destination yards within one hour of schedule, compared to 83 percent for April of 1982; 83.8 percent of the freight trains were on time last month, up from 77 percent a year ago; and 96 percent of the cars monitored at Conrail yards made their connections, up from 94 percent a year ago. The only measure that fell was for mail trains, whose on-time performance fell to 83 percent last month from 88 percent a year ago.



19, representatives of rail labor and management urged Congress to adopt their plan to preserve the financial solvency of the railroad retirement and unemployment system.

Their plan, which forms the basis of bill H.R. 1646, calls for higher railroad retirement taxes, a postponement of the cost-of-living increase for present retirees, and reductions in benefits to those retiring before age 62. (See April's *In Brief* for more details.) The House Ways and Means Committee met on May 3 to further discuss the Railroad Retirement problems and various solutions proposed for solving it.

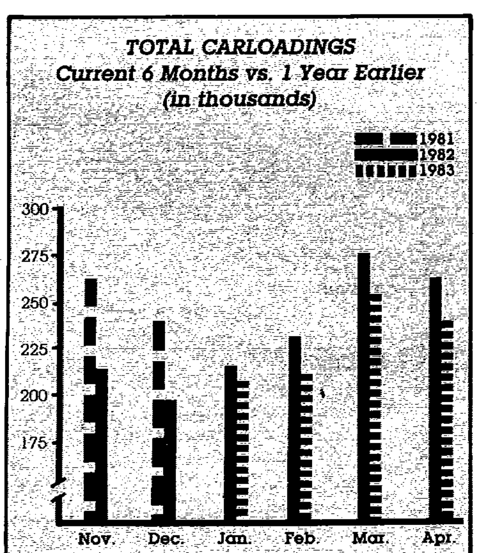
BUSINESS REPORT

Despite increased carloadings of transportation equipment and lumber over last year's levels, Conrail hauled almost 9 percent fewer total carloadings last month than it did in April of 1982.

Traffic loaded on Conrail lines was down 4.4 percent, and traffic received from connections was down 14.6 percent.

Carloadings of transportation equipment, which includes automobiles, rose 7.3 percent last month over levels for a year ago, thanks to increased production of automobiles. Carloadings of lumber and wood products rose 6.6 percent, and primary metals traffic was up 1.2 percent.

Because of the depressed steel industry, Conrail's carloadings of metallic ores declined 25.3 percent last month from levels for April of 1982. For the first four months of this year, metallic ores traffic declined 36.7 percent. Coal traffic—down 18.2 percent in April and 17.1 percent for the first four months of 1983—was hurt by the depressed economy, the mild winter (which decreased the demand for utility coal), and a poor market for export coal.



FIRST Q/C PROJECTS NEAR COMPLETION

The first quality circles established under Conrail's Labor/Management Project are expected to present the results of their first cost-saving projects late this month or early next month.

Of seven quality circles established in the **Cleveland** Division, two—for Communications and Signals (C&S) workers and for the Collinwood Diesel Terminal—have nearly wrapped up their first projects. The C&S group will present their findings to division management on May 23, and the Collinwood group has set their presentation for the week of May 30 or June 6.

In **Detroit,** the first quality circle group, for clerks at Conrail's Livernois Yard, has begun working on their first project. The Detroit Joint Improvement Committee—comprised of representatives of rail labor and Conrail management—is working on a new project that could save Conrail $50,000 a year.

Three quality circles were established at Conrail's 32nd Street offices in **Philadelphia** this month for the Systems and Billings departments. In **Toledo,** the Joint Improvement Committee is meeting regularly and beginning to develop projects to save money and improve the work environment. A similar group in **Altoona,** with eight members from management and 11 from labor, will begin meeting regularly next month.

A NEW DEAL FOR COAL SHIPPERS

Continuing its efforts to encourage the movement of export coal through the recently renovated Pier 124 in South Philadelphia, Conrail has announced that it is guaranteeing to load vessels at an average rate of 15,000 tons per 24-hour period—or pay a vessel detention fee of $335 per hour, subject to certain limitations. The guarantee was effective April 26.

Pier 124 is the first railroad-operated coal loading facility in the United States to offer this guarantee, which is effective until October 1, 1983.

Under the guarantee, for example, a vessel taking on 60,000 tons of coal would be loaded within 96 hours. If the vessel-loading process took more than 96 hours, Conrail would pay $335 to the shipper for each full hour of delay, up to certain limits.

"The guarantee is a further demonstration of Conrail's confidence in the dependability of the coal-handling operation at Pier 124," said Warren G. Barber, Conrail's assistant vice president-coal marketing.

In the past year, Conrail has instituted a series of rate and service initiatives to encourage the movement of Pennsylvania coal through the Philadelphia trans-loading facility. Examples of other rate initiatives include rolling back rates on Pennsylvania bituminous coal moving to Pier 124 for export; a freeze on rates for anthracite export coal moving through the Pier until at least January 1, 1984; and reducing rates to Pier 124 for coal coming from the mines of Kanawha Valley, West Virginia.

Since April 1, 1976, Conrail has also accomplished a massive rehabilitation of its coal-carrying lines. In 1982 alone, Conrail spent about $9.8 million to upgrade and improve its coal hauling routes in central and western Pennsylvania and eastern Ohio.

***Editor's Note:** a feature on Pier 124 will appear in the Summer edition of The Conrail Inside Track.*

NE REGION TO MOVE HEADQUARTERS

Conrail will move its Northeastern Region headquarters from New Haven, Connecticut to Selkirk, New York in October.

The reason for the move, which will affect about 100 employees working at regional headquarters, is to bring the management and staff closer to that part of the region with the heaviest concentration of employees and operations. A meeting was scheduled for May 16 to acquaint New Haven headquarters employees with the details of the relocation.

During recent years, intercity and commuter rail passenger operations in Connecticut and southern New York State have been transferred from Conrail to Amtrak and state commuter agencies. Certain branch lines have also been transferred to other operators because of federal legislation. This has resulted in a reduction in Conrail's operations in Connecticut.

Today, only 5.2 percent of the Northeastern Region's work force and 4.4 percent of its route miles are in Connecticut, compared to 79.5 percent of the work force and 74.2 percent of the route miles that are in New York.

Conrail's freight operations in Connecticut will not be affected by the transfer.

WEST VIRGINIA UPGRADING IN PROGRESS

Conrail is carrying out a $5.5 million track improvement project to upgrade 42 miles of the West Virginia Secondary from Swiss to Charleston before the end of August.

The West Virginia Secondary links the industries of the Charleston area and coal fields of West Virginia and Ohio to the remainder of the Conrail system. Trains from those areas are routed to Buckeye Yard,

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CONRAIL MEETS ESOP BENCHMARK (continued from page 1)

In establishing the ESOP, Conrail formed a subsidiary corporation, Conrail Equity Corporation (CEC) and transferred 4,411,760 shares of Conrail's common stock—which represented 15 percent of its outstanding common stock—to CEC in exchange for 4,411,760 shares of CEC preferred stock.

The ESOP provides that, for each of the Plan Years beginning with Plan Year 1980, Conrail's contribution to the ESOP Trust will be 441,176 shares, which is 10 percent of this CEC preferred stock.

The shares of CEC preferred stock contributed for each Plan Year to the ESOP Trust are allocated on a pro-rata basis among the accounts of participants eligible to receive an allocation for that year. Essentially all Conrail employees are eligible to be participants; however, Federal requirements preclude participation by those employed by Conrail in Canada. Eligibility to share in the allocation of CEC preferred stock in any Plan Year is conditioned upon a participant's completing 1,000 "hours of service" in that year.

The benefit to participants from Conrail having met these two critical benchmarks is that the CEC preferred stock allocated to participants' accounts may be exchanged for Conrail common stock on a share-for-share basis when distributions from the ESOP are permitted to begin in 1991. If the benchmarks had not been met within the 10-year period, the CEC preferred stock would have been redeemed for its par value of one cent per share.

ALLEGHENY DIVISION SETS SAFETY RECORD

In March, the Allegheny Division became the first in Conrail's history to log more than a million man hours without a lost time injury. The last lost time injury on that division occured on October 28, 1982.

Along with the Allegheny Division, three others—the Youngstown, Southern Tier and Canada divisions—reported no lost time injuries in March. The Youngstown Division jumped from ninth place in February to first place in March in the rankings for lost time injury frequency, which measures the number of lost time injuries per 200,000 man hours worked. The Southern Tier improved their ranking from 14th place to third.

The Central Region continues to have the best safety record, with an injury rate of just 0.73 for March and 0.88 for the first quarter.

Systemwide, the rate of lost time injuries was 1.73 for the month of March, almost 60 percent better than the rate recorded for March of 1982. Conrail reported 55 lost time injuries in March. For the first quarter, Conrail had 1.73 lost time injuries for every 200,000 man hours worked . . . a 68 percent improvement over the first quarter of 1982.

LOST TIME FREQUENCY RATE BY DIVISION
March, 1983

Rank	Division	Rate
1	Youngstown	0.00
2	Allegheny	0.00
3	Southern Tier	0.00
4	Canada	0.00
5	Chicago	1.28
6	Columbus	1.32
7	New England	1.34
8	Pittsburgh	2.03
9	Cleveland	2.11
10	Harrisburg	2.12
11	Philadelphia	2.40
12	Mohawk-Hudson	2.59
13	Toledo	2.88
14	Detroit	3.12
15	Southwest	3.14
16	Buffalo	3.65
17	New Jersey	4.41
18	Michigan	6.03

WEST VIRGINIA UPGRADING (continued from page 3)

Conrail's major freight car classification facility in Columbus, Ohio.

The West Virginia Secondary project, begun in mid-March, includes the installation of 42 miles of continuous welded rail and more than 12,000 crossties and the surfacing of 60 pass miles of rail bed. In addition, 50 public and 73 private grade crossings will be rehabilitated.

Since 1976 Conrail has invested $28.7 million to rehabilitate the 231.6-mile line, including the installation of nearly 115 miles of rail and 336,000 crossties, and surfacing of 761.5 pass miles of track.

The project continues Conrail's ongoing effort to provide quality freight service over its rehabilitated 15,000-route mile system by investing capital resources where they will contribute the most to enhancing rail service to customers.

From April 1, 1976 through 1982, Conrail spent nearly $1.9 billion upgrading its lines by installing 5,200 miles of rail and 21.2 million crossties and by surfacing 48,600 pass miles of track bed. As a result, by the end of 1982, only two percent of Conrail's 6,400 mile core route structure was subject to slow orders restricting trains to less than normal speeds, as opposed to 31 percent in 1976.

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

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