STB FD 33388 6-23-97 A 180274V1 10/14

SECTION 1180.9 (c)
PRO FORMA SOURCES AND APPLICATION OF FUNDS (STATEMENT OF CASH FLOWS)
CSX / CONRAIL
(In Millions)

	CSX / CONRAIL BASE YEAR (1)	YEAR 2 ADJUSTMENTS (2)	CSX / CONRAIL PRO FORMA YEAR 2 (3)
OPERATING ACTIVITIES			
NET EARNINGS	$919	($86)	$833
ADJUSTMENTS TO RECONCILE NET EARNINGS TO NET CASH PROVIDED:			
DEPRECIATION AND AMORTIZATION	723	112	835
DEFERRED INCOME TAXES	145	9	154
OTHER OPERATING ACTIVITIES	146	(32)	114
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,933	3	1,936
INVESTING ACTIVITIES			
PROPERTY ADDITIONS	(1,330)	(91)	(1,421)
OTHER INVESTING ACTIVITIES	(12)		(12)
NET CASH USED BY INVESTING ACTIVITIES	(1,342)	(91)	(1,433)
FINANCING ACTIVITIES			
SHORT-TERM DEBT-NET	(63)	63	0
LONG-TERM DEBT ISSUED	157		157
LONG-TERM DEBT REPAID	(399)	(77)	(476)
PURCHASE AND RETIREMENT OF COMMON STOCK	(39)	39	0
CASH DIVIDENDS PAID	(257)	63	(194)
OTHER FINANCING ACTIVITIES	14		14
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(587)	88	(499)
NET INCREASE IN CASH AND CASH EQUIVALENTS	$4	$0	$4

SECTION 1180.9 (c)
PRO FORMA SOURCES AND APPLICATION OF FUNDS (STATEMENT OF CASH FLOWS)
CSX / CONRAIL
(In Millions)

	CSX / CONRAIL BASE YEAR (1)	YEAR 3 ADJUSTMENTS (2)	CSX / CONRAIL PRO FORMA YEAR 3 (3)
OPERATING ACTIVITIES			
NET EARNINGS	$919	$10	$929
ADJUSTMENTS TO RECONCILE NET EARNINGS TO NET CASH PROVIDED:			
DEPRECIATION AND AMORTIZATION	723	114	837
DEFERRED INCOME TAXES	145	2	147
OTHER OPERATING ACTIVITIES	146	(16)	130
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,933	110	2,043
INVESTING ACTIVITIES			
PROPERTY ADDITIONS	(1,330)	(25)	(1,355)
OTHER INVESTING ACTIVITIES	(12)		(12)
NET CASH USED BY INVESTING ACTIVITIES	(1,342)	(25)	(1,367)
FINANCING ACTIVITIES			
SHORT-TERM DEBT-NET	(63)	63	0
LONG-TERM DEBT ISSUED	157		157
LONG-TERM DEBT REPAID	(399)	(250)	(649)
PURCHASE AND RETIREMENT OF COMMON STOCK	(39)	39	0
CASH DIVIDENDS PAID	(257)	63	(194)
OTHER FINANCING ACTIVITIES	14		14
NET CASH USED BY FINANCING ACTIVITIES	(587)	(85)	(672)
NET INCREASE IN CASH AND CASH EQUIVALENTS	$4	$0	$4

SECTION 1180.9 (c)
PRO FORMA SOURCES AND APPLICATION OF FUNDS (STATEMENT OF CASH FLOWS)
CSX / CONRAIL
(In Millions)

	CSX / CONRAIL BASE YEAR (1)	NORMAL YEAR ADJUSTMENTS (2)	CSX / CONRAIL PRO FORMA NORMAL YEAR (3)
OPERATING ACTIVITIES			
NET EARNINGS	$919	$42	$961
ADJUSTMENTS TO RECONCILE NET EARNINGS TO NET CASH PROVIDED:			
DEPRECIATION AND AMORTIZATION	723	112	835
DEFERRED INCOME TAXES	145	(6)	139
OTHER OPERATING ACTIVITIES	146	(6)	140
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,933	142	2,075
INVESTING ACTIVITIES			
PROPERTY ADDITIONS	(1,330)	26	(1,304)
OTHER INVESTING ACTIVITIES	(12)		(12)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(1,342)	26	(1,316)
FINANCING ACTIVITIES			
SHORT-TERM DEBT-NET	(63)	63	0
LONG-TERM DEBT ISSUED	157		157
LONG-TERM DEBT REPAID	(399)	(333)	(732)
PURCHASE AND RETIREMENT OF COMMON STOCK	(39)	39	0
CASH DIVIDENDS PAID	(257)	63	(194)
OTHER FINANCING ACTIVITIES	14		14
NET CASH USED BY FINANCING ACTIVITIES	(587)	(168)	(755)
NET INCREASE IN CASH AND CASH EQUIVALENTS	$4	$0	$4

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NOTES TO PRO FORMA SOURCES AND APPLICATION OF FUNDS (STATEMENT OF CASH FLOWS)

CSX / CONRAIL

YEAR 1 THROUGH NORMAL YEAR

1. CSX / CONRAIL BASE YEAR (1995): Represents pro forma combined CSX / Conrail base year sources and application of funds (statement of cash flows), included separately in this section of the Application.

2. YEAR 1 THROUGH NORMAL YEAR ADJUSTMENTS: Represents the effects on the combined CSX / Conrail pro forma base year sources and application of funds of (1) cumulative benefits arising from implementation of the operating plan, (2) one-time capital expenditures related to combining operations, (3) the issuance or repayment of debt and (4) the elimination of amounts paid by Conrail to repurchase shares of its common stock and pay dividends to shareholders:

   NET EARNINGS - Represents net adjustments to net earnings in the respective years, as derived from the income statement.

   DEPRECIATION AND AMORTIZATION - Represents the increased depreciation or amortization expense arising from (1) one-time capital expenditures to combine operations, (2) the adjustment of property and equipment to fair value, and (3) goodwill.

   DEFERRED INCOME TAXES - Represents the adjustment to deferred income tax expense resulting from the net adjustments to pretax earnings.

   OTHER OPERATING ACTIVITIES - Represents annual changes to working capital accounts for each of the respective years, principally changes in accounts payable and other current liabilities.

   PROPERTY ADDITIONS - Represents capital expenditures for each of the respective years, including one-time expenditures necessary to combine operations of CSX and Conrail.

   SHORT-TERM DEBT - NET - A reclassification was made to reflect base year repayments of short-term debt as repayments of long-term debt. CSX's base year balance sheet reflects short-term debt balances which are representative of levels maintained in the normal course of business to provide liquidity.

   LONG-TERM DEBT ISSUED / REPAID - Represents the issuance or repayment of long-term debt for the respective years. In any year where there is a net use of cash arising from the combination of CSX and Conrail and the implementation of the operating plan, long-term debt is assumed to be issued. In any year where there is a net source of cash arising from the combination and the operating plan, long-term debt is assumed to be repaid.

   PURCHASE AND RETIREMENT OF COMMON STOCK - Represents CSX's proportionate share of the of the elimination of Conrail's base year cash outlay to repurchase shares of its common stock under Conrail's ongoing stock repurchase programs.

   CASH DIVIDENDS PAID - Represents CSX's proportionate share of the elimination of Conrail's base year cash outlay to pay dividends to common and preferred shareholders.

CSX / CONRAIL
VARIOUS PRO FORMA FINANCIAL RATIOS
(Dollars in millions)

	Base Year	Year 1	Year 2	Year 3	Normal Year
I. Pro Forma Fixed Charge Coverage Ratio					
1. Income Available For Fixed Charges	$1,815	$1,845	$1,965	$2,096	$2,118
2. Fixed Charges	351	641	632	609	579
3. Times Fixed Charge Coverage (L1/L2)	5.2	2.9	3.1	3.4	3.7
II. Pro Forma Cash Throw-Off-To-Debt Ratio					
1. Net Income	$919	$753	$833	$929	$961
2. Depreciation and Amortization	723	828	835	837	835
3. Deferred Income Taxes	145	156	154	147	139
4. Other Operating Activities	146	111	114	130	140
5. Net Cash Provided By Operating Activities (L1+L2+L3+L4)	1,933	1,848	1,936	2,043	2,075
6. Current Maturities of Long-Term Debt	562	562	562	562	562
7. Cash Throw-Off-To-Debt Ratio (L5/L6)	3.4	3.3	3.4	3.6	3.7
III. Pro Forma Operating Ratio					
1. Operating Revenues	$11,852	$12,022	$12,162	$12,266	$12,266
2. Operating Expense	10,133	10,273	10,293	10,266	10,244
3. Operating Ratio (L2/L1)	85.5%	85.5%	84.6%	83.7%	83.5%
IV. Pro Forma Return on Equity					
1. Net Income	$919	$753	$833	$929	$961
2. Shareholders' Equity	4,351	4,888	5,527	6,262	7,029
3. Return on Equity (L1/L2)	21.1%	15.4%	15.1%	14.8%	13.7%
V. Pro Forma Debt to Debt Plus Equity Ratio					
1. Long-Term Debt (excluding current maturities)	$7,302	$7,301	$6,982	$6,490	$5,915
2. Shareholders' Equity	4,351	4,888	5,527	6,262	7,029
3. Total Debt Plus Equity	11,653	12,189	12,509	12,752	12,944
4. Ratio of Debt to Debt Plus Equity (L1/L3)	62.7%	59.9%	55.8%	50.9%	45.7%

NOTES TO VARIOUS PRO FORMA FINANCIAL RATIOS

SOURCES OF DATA:

The data in this table were derived and computed from information contained in the following submissions by applicants: (a) Volume 1 of the Application, Exhibit 16 (pro forma balance sheets for the base year, the first 3 years after the Division, and the normal year); (b) Volume 1 of the Application, Exhibit 17 (pro forma income statements for the base year, the first three years after the Division, and the normal year); and Volume 1 of the Application, Exhibit 18 (proforma statements of sources and application of funds for the base year, the first three years after the Division, and the normal year).

BASE YEAR DATA:

The data shown in this table for the base year represent 1995 information as reported or derived from the Form 10-K annual reports for CSX and Conrail, adjusted to eliminate the effects of non-recurring transactions, to reflect the permanent annual cost savings of Conrail's 1996 voluntary separation program in the base year, and to give effect to CSX's purchase accounting and the related increase in debt arising from the joint acquisition and division of Conrail.

DATA SUBSEQUENT TO BASE YEAR:

Data subsequent to the base year (i.e., data for the first three years after the Division and the normal year) give effect to the estimated benefits from combined CSX and Conrail operations (increased revenues and traffic and cost savings), including joint operations with NS. The data also include non-recurring expenditures necessary to implement the operating plan and apply net increases in cash flow as a reduction of long-term debt.

OTHER:

Acquisition debt maturities commence in the Year 2002 and therefore do not affect current maturities of long-term debt during the forecast period.

BEFORE THE

SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 33388

CSX CORPORATION AND CSX TRANSPORTATION, INC.

NORFOLK SOUTHERN CORPORATION AND NORFOLK SOUTHERN

RAILWAY COMPANY -- CONTROL AND OPERATING LEASES --

CONRAIL INC. AND CONSOLIDATED

RAIL CORPORATION

VERIFIED STATEMENT

OF

JOHN C. KLICK

VERIFIED STATEMENT

OF

JOHN C. KLICK

My name is John C. Klick. I am a Principal of Klick, Kent & Allen, Inc. ("KKA"), an economic and financial consulting firm with offices at 66 Canal Center Plaza, Suite 670, Alexandria, VA 22314. Since 1970, I have been continuously involved in the economic analysis of transportation, particularly transportation by rail. I have conducted numerous studies of railroad traffic, the costs of handling those traffic movements, and the financial impacts of those movements. Many of these studies have resulted in testimony before the Surface Transportation Board ("STB" or "Board") and its predecessor, the Interstate Commerce Commission ("ICC" or "Commission"), other administrative agencies, various courts, and arbitration proceedings. A more detailed statement of my qualifications is attached as Exhibit No. 1 to this verified statement.

KKA has been retained in this proceeding by CSX Corporation and CSX Transportation, Inc. (collectively, "CSX"). Its primary roles in the preparation of this Application have been (1) to work in conjunction with ALK Associates, Inc. ("ALK") to develop an initial "split" of the Consolidated Rail Corporation ("Conrail") 1995 revenues and expenses into the portions allocated to CSX and to Norfolk Southern Corporation and Norfolk Southern Railway Company (collectively, "NS"), (2) to coordinate the development of the CSX operating savings resulting from the proposed transaction, and (3) to estimate the additional costs that would be associated with the CSX traffic diversions that are described in the verified statements of Messrs. Rosen, Bryant, Sharp, Hawk and Jenkins. The results of this effort were provided to Mr. William W. Whitehurst, Jr. for incorporation into the CSX financial statements accompanying the Application. The purpose of this verified statement is to describe how these calculations were made and how they were transmitted to Mr. Whitehurst.

It is useful to separate my discussion into four topics, i.e.:

- segregation of Conrail 1995 (i.e., base year) revenues and expenses into those allocated to CSX and those allocated to NS;
- construction of a Uniform Rail Costing System ("URCS") application for the combined CSX/Conrail;
- development of dollar estimates for operating savings; and
- calculation of additional costs associated with growth traffic and transmittal to Mr. Whitehurst.

Each of these topics is discussed below.

I. ALLOCATION OF CONRAIL TRAFFIC TO CREATE BASE YEAR CSX/CONRAIL REVENUES AND EXPENSES

If the transaction is approved, Conrail will be operated by two carriers, not one. This fact necessitates an initial separation of Conrail's 1995 revenues and expenses into those allocated to CSX and those allocated to NS. The starting point for the calculation of benefits reflected an allocation of Conrail's revenues, expenses, assets, and liabilities 42 percent to CSX and 58 percent to NS. This conforms to the joint ownership percentages reflected in the Transaction Agreement dated as of June 10, 1997.

The starting point for the traffic and operating studies conducted by CSX and NS was an analysis performed by ALK. ALK was asked to identify 1995 Conrail traffic movements from the Carload Waybill Sample ("CWS") that were associated with the CSX and NS allocated portions of Conrail. Traffic that moved between "common points," i.e. points that will be accessible by both post-transaction entities, was allocated on the basis of ALK's diversion model. Traffic moving from a Conrail point that will be served exclusively by either CSX or NS and terminating at a point that will be served exclusively by the other was converted to interchange traffic between CSX and NS, and a revenue division was calculated using the ALK division algorithm. Conrail freight revenues reported in the R-1 for 1995 were divided on the basis of CSX's and NS's proportion of Conrail 1995 CWS revenues resulting from the ALK process described above. This analysis indicated that CSX would receive slightly more than 42 percent of the Conrail base-year revenues (43.8 percent versus 42.0 percent). Therefore, an adjustment was made in the CSX summary of benefits to reflect this additional revenue. The ALK 1995 Conrail CWS traffic split also was utilized to develop an initial adjustment to the portion of Conrail operating expenses allocated to CSX.[1] These adjustments were coordinated with NS, and the results provided to Mr. Whitehurst for use in the 1995 "base case" CSX/Conrail financial statements.

II. CONSTRUCTION OF AN URCS APPLICATION FOR CSX AND ITS PORTION OF CONRAIL

In order to estimate certain of the operating cost savings and to calculate the additional costs associated with growth traffic, a 1995 URCS application was developed for CSX and its portion of Conrail ("CRC"). To do so, data from Schedule 410 of the 1995 R-1 reports for CSX were combined with CSX's portion of the 1995 Conrail expenses from Schedule 410 described in Section I to create a "Combined Schedule 410."[2] Expenses associated with Conrail's Voluntary Separation Plan and Voluntary Retirement Plan were eliminated from the "Combined Schedule 410." The resulting expenses were used in conjunction with CSX's 1995 operating statistics and CSX's portion of Conrail's 1995 operating statistics to create a modified URCS Master File (UMF), which was used to develop a combined CSX/CRC URCS for 1995. This URCS application for CSX/CRC was utilized to estimate certain operating savings and to calculate the additional costs associated with the growth traffic.

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[1]In addition to the ALK traffic allocation process, adjustments were made to incorporate commodity-specific differences that exist between the CWS traffic and the annual totals reported in the Freight Commodity Statistics.

[2]The actual starting point for the separation of Conrail's 1995 expenses into CSX's portion and NS's portion of expenses shown in Schedule 410 is the Board's 1995 URCS data set. This data set excludes special charges as reflected in Conrail's 1995 R-1. In addition to bifurcating Schedule 410, all other URCS expense data have been separated between CSX and NS, including R-1 Schedules 412, 414, 415 and 417.

III. DEVELOPMENT OF OPERATING SAVINGS ESTIMATES

CSX's operating plan (Exhibit No. 13) discusses many of the savings that will be realized as a result of the proposed transaction. KKA was asked to assist Mr. Orrison, the witness sponsoring CSX's operating plan, in estimating the dollar savings in various categories that are reflected in Exhibit No. 13.

In order to estimate the dollar value of changes in the labor requirements that have been identified by various CSX subject area teams, data compiled with Conrail assistance were utilized. These data developed an average annual 1995 wage associated with personnel in each craft -- including overtime and constructive allowances, if appropriate -- and associated fringe benefits. These annual wages plus fringes were multiplied by the labor reductions that were identified to calculate annual labor savings.

A. General and Administrative

CSX undertook analyses to determine general and administrative (G&A) savings that would result from the proposed transaction. The results of those analyses are sponsored in the verified statement of Charles J. Wodehouse, Vice President and Controller of CSX. Mr. Wodehouse identifies annual recurring G&A savings of $74.3 million beginning in the third year following the transaction.

In addition to these recurring G&A savings identified by Mr. Wodehouse, there is a one-time avoidable Conrail capital expenditure that will accrue to the benefit of CSX. A major synergy of this transaction is the elimination of information technology expenditures that Conrail would have made <u>absent</u> the transaction. Prior to the transaction, Conrail had entered into the final stages of negotiations to acquire transportation systems to replace its outmoded systems at a cost of approximately $253 million. This expenditure will be avoided because the expanded railroad will utilize the CSX systems (the one-time expenditures reflected in Mr. Whitehurst's pro forma financial statements include expenditures required to extend the CSX systems to the portions of Conrail that CSX will operate). Under these circumstances, CSX's portion of these avoided expenditures (42 percent of $253 million, or $106.3 million) is clearly a benefit to CSX stemming from its allocated portion of Conrail. Although they do not appear in the pro forma financial statement, one-time savings arising from the transaction -- such as these avoided expenditures and avoided capital investment in locomotives and freight cars -- are an offset to the capital expenditures that will be required by the transaction. CSX's $488 million in capital expenditures is a gross number that does not reflect this offset.

B. Maintenance-of-Way (MofW)

CSX maintenance-of-way personnel have identified a number of savings arising from the transaction. These savings are summarized below in Table 1.

Table 1
Maintenance-of-Way Savings
(Dollars in Millions)

I.	ANNUAL OPERATING EXPENSE SAVINGS	
	Non-revenue car fleet	$3.7
	MofW equipment maintenance	5.2
	Changes in maintenance standards and practices	5.0
	Non-track program maintenance	1.0
	Total Annual Operating Expense Savings	$14.9
II.	ANNUAL CAPITAL EXPENSE SAVINGS	
	Program Maintenance -- Gangs, Ties, and Rail	$21.0
III.	ONE-TIME SAVINGS	
	Sale of non-revenue equipment	$5.0
	Avoided purchase of non-revenue equipment	2.8
	Sale of MofW equipment	4.0
	Total One-Time Savings	$11.8

Some of the areas of operating expense savings include adoption of improved field practices (including use of propane instead of acetylene for field welding and use of CSX specifications for switch points and vehicle maintenance), which is expected to save approximately $5.0 million annually. In addition, CSX expects to save $5.2 million annually in maintenance expenses associated with equipment currently utilized by Conrail system gangs that will be eliminated and $1.2 million annually in car inspection and maintenance expenses associated with a reduction in the non-revenue car fleet. Also, CSX's managed lodging concept will replace Conrail's maintenance-of-way employee housing in camp cars, resulting in annual savings of $2.5 million. CSX expects to save $1.0 million annually in Conrail non-track program maintenance activities (e.g. vegetation control, yard cleaning).

A $21 million savings in annual capital expense will be achieved from improved productivity of programmed rail, tie, and surfacing gangs. This improved productivity will arise, in particular, from increased flexibility in scheduling work to take advantage of seasonal work opportunities, whereby a larger number of maintenance-of-way gangs can work on CSX lines in the south during the winter and on Conrail lines in the north in the summer. In addition, $9.0 million in one-time capital investment savings will be generated by the sale of non-revenue equipment ($5.0 million) and maintenance-of-way equipment ($4.0 million) made expendable by the improved efficiency of these gangs. Also, $2.8 million in new purchases of non-revenue equipment will be avoided.

C. Mechanical

Based upon the operating plan, CSX has concluded that the expanded CSX system can avoid purchasing 59 road locomotives and 11 yard locomotives. As I discuss in more detail below, this is a "net" number reflecting significant efficiencies that would be realized in handling base traffic volumes as well as additional locomotive power that would be required to handle diverted and extended haul traffic. Assuming that one new locomotive would have the capacity of 1.7 existing Conrail locomotives, this results in a one-time capital savings of $94.8 million in avoided expenditures on new locomotives. In addition, the maintenance that otherwise would have to be incurred on these units is avoided, resulting in estimated annual operating expense savings of $6.2 million.

These savings reflect the combined effect of reductions in locomotive power requirements from merger synergies on base case traffic handled by CSX and its portion of Conrail and increases in locomotive power required to handle the growth traffic. In Section IV, I have determined (using the combined CSX/CRC URCS application for 1995) that growth traffic will require $10.2 million annually in additional locomotive costs. Because CSX's operating plan reflects a "net" locomotive requirement, recognition of this $10.2 million cost to handle growth traffic requires the recognition of a $10.2 million synergy benefit on locomotives needed to handle base case traffic.

Second, CSX will not operate Conrail's Juniata heavy repair shop, which will be operated by NS. CSX's 42 percent share of labor expenses -- $18.8 million -- is offset by the need to add approximately 130 standard overhauls per year at CSX's facility at Huntington, WV, at an annual cost of approximately $10.2 million, yielding a net labor savings in locomotive heavy repairs of $8.6 million annually.

In addition, CSX will not operate Conrail's Hollidaysburg freight car repair shop, which will be operated by NS. CSX's share of these labor costs will be saved (42 percent of $28.6 million, or $12.0 million), but this savings is offset by the expectation that CSX's existing work force at the Raceland, KY shop will work approximately 100 additional days per year, at an incremental cost of approximately $7.0 million annually. Net savings therefore are anticipated to be approximately $5.0 million.

Total mechanical savings are $30.0 million in annual operating expense savings and $94.8 million in one-time savings in locomotive capital investment.

CSX has determined that during the transition period it will be necessary to have overhauls on 65 locomotives per year performed at Juniata and it also will have 333 cars per year repaired at the Hollidaysburg facility. These costs are reflected in the summary of benefits.

The following table summarizes these benefits.

Table 2
Mechanical Savings
(Dollars In Millions)

I.	ANNUAL OPERATING EXPENSE SAVINGS	
	Maintenance on Net Reduction in Units	$6.2
	Locomotive Heavy Repairs	8.6
	Freight Car Repairs	5.0
	Operating Synergies, Base Traffic	10.2
	Total Annual Operating Expense Savings	$30.0
II.	ONE-TIME CAPITAL COST SAVINGS	$94.8

D. Purchasing

CSX has identified substantial transaction-related savings in the purchasing area from a variety of sources. These include standardization of purchasing practices across both carriers and price reductions resulting from volume discounts to be derived from achieving further economies of scale.

CSX concluded that, post-transaction, overall purchasing expenditures would be reduced by 2 percent in real terms over a three-year period. Total 1995 purchases by CSX and the CSX portion of Conrail (42 percent of Conrail's 1995 purchases) were summed and then segregated into operating expense and capital components. Each component was multiplied by 2 percent to estimate annual operating expense and capital expense savings of $25.5 million and $5.2 million, respectively. In addition, CSX has identified an additional savings of $1.4 million in one-time inventory reductions.

E. Intermodal Operations

CSX is projecting approximately $13 million in annual operating savings in intermodal operations. Nearly half of these savings -- $6 million -- are created by substituting rail service for the truck hauls from Philadelphia, Chicago, and Cincinnati on existing rail-truck movements (e.g. traffic moving from Atlanta to New York, which currently moves in intermodal service via rail to Philadelphia and from there is hauled by truck to New York, would move entirely by rail). Additional annual savings of $4 million are anticipated through improved equipment utilization that will be achieved from triangulation of traffic flows and enhanced empty repositioning on the expanded network. The remainder of the savings are attributed to other efficiencies of the post-transaction system, including reduction of switching expenses by relocating the Philadelphia terminal from Snyder Avenue.

F. Other Operating Synergies Resulting in Savings

In addition to the savings summarized above, there are other synergies that will accrue to the expanded CSX system. These occur in three areas, i.e. (1) savings in car-miles, (2) reductions in crew requirements on base case traffic, and (3) reduced handlings at interchange points.

1. Car-Mile Savings

By operating a combined freight car fleet over the expanded CSX system (with its more efficient route structure) and by employing an improved empty car management system, the transaction will create benefits that will affect numerous car types, to the benefit of all car owners. Combining CSX with its portion of Conrail will allow CSX to create new traffic patterns that improve the utilization of freight cars. For example (as noted in CSX's operating plan), CSX and Conrail are major interline connections for each other, and empty CSX and Conrail cars routinely pass each other as they are returned to their owners for loading. CSX management of the combined fleet will reduce this inefficiency.

Because of shorter routes, reduced handlings, eliminated gateway bottlenecks, and better service design, CSX expects to reduce loaded and empty car mileage by 90 million car-miles annually -- equivalent to 2,813 cars. This translates into annual savings of $9.9 million in per diem payments to private and foreign car owners and one-time savings of approximately $79.3 million for reduction in system cars. Because the other operating changes associated with the "route structure" efficiencies are accounted for elsewhere in CSX's operating plan, we have computed only the savings in associated freight car capital costs.

In addition, after the transaction CSX will utilize its state-of-the-art car distribution model over the expanded system. CSX anticipates that 116 million empty car-miles will be eliminated by using this car management tool. It is appropriate to reflect both reductions in freight car capital costs that will arise from these empty car distribution efficiencies and reductions in train and yard service and in maintenance-of-way activity that will result. As was the case with savings from route efficiencies, we have calculated the resulting annual savings from reduced per diem payments on foreign cars and private multi-level cars ($14.1 million, annually) and one-time annual capital cost savings of $53.7 million associated with system-owned cars.

To estimate savings associated with train service and maintenance, we have developed an average cost per empty car-mile from the combined CSX/CRC 1995 URCS described in Section II. This figure -- $.3351 per empty car-mile -- was multiplied by the car-mile savings resulting from empty car distribution efficiencies to estimate this component of savings -- approximately $38.9 million annually. Finally, CSX has identified annual savings of $2.8 million from rationalizing Conrail's freight car financial structure.

2. Base Case Reductions in Crew Costs

As was the case with locomotive power, CSX's operating plan reflects the <u>combined</u> effect of reductions in crew requirements anticipated from merger synergies on base case traffic handled by the expanded CSX system and <u>increases</u> in crew requirements needed to handle the growth traffic.[3] In Section IV, I have determined (using the combined CSX/CRC URCS run for 1995) that the growth traffic will necessitate additional annual expenditures for crews of $38.6 million. Therefore, I show a corresponding annual synergy savings of $38.6 million in crews required to handle base case traffic.[4]

3. Reduced Car Handlings

By virtue of its operation of its portion of Conrail, CSX will reduce car handlings, particularly at former CSX-Conrail interchange points, for the base case traffic. I have estimated these reductions in car handlings by identifying those moves from the general merchandise and coal, coke, and iron ore traffic studies (1) in which CSX and CR (at least) participated in the move in 1995 and (2) for which CSX expected to retain the business post-transaction. For instance, CSX and CR historically served two Pepco utility plants in Maryland with inter-line service, interchanging in Washington D.C. After the transaction, the expanded CSX system will provide local service to these utilities and avoid the interchange

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[3]As noted in CSX's operating plan, CSX anticipates that additional locomotives and crews will be required to handle the growth traffic. This means that corresponding <u>reductions</u> in crew and locomotive requirements are anticipated in handling the base case traffic -- resulting in the "net" changes in locomotives and crews contained in CSX's operating plan.

[4]CSX has concluded that, overall, it will need a small number of additional crew personnel to operate the expanded CSX system. The cost of these additional personnel is included as a component (i.e. an offset against other labor reductions and associated savings) of the $3.7 million in the "Net Effect of Changes in Other Personnel" included in Section III.F.4. Therefore, it is appropriate to show the full annual synergy savings of $38.6 million as discussed in this paragraph.

handlings. These calculations result in an estimated reduction of 376,300 interchange handlings.

I have utilized URCS to estimate the value of these reductions. Because the reductions in yard locomotives is already accounted for in CSX's operating plan, I have removed these costs from URCS. In addition, because the G&A savings also reflect the effects of these reductions, I have eliminated all URCS overhead expenditures. Finally, I have eliminated freight car capital costs from URCS, because the car-mile savings shown in Section III.E.1 take into account reduced handlings. Using these modified URCS costs, I calculated savings associated with reduced interchange car handlings of $3.9 million annually.

4. Net Effect of Changes in Other Personnel

CSX's operating plan anticipates relatively minor changes in the level of employment in addition to the G&A, maintenance-of-way and mechanical savings previously discussed. Overall, this will result in an additional savings of $3.7 million annually.

5. Conclusion

The following table summarizes the operating synergy savings described above.

Table 3
Operating Synergy Savings
(Dollars in Millions)

I.	ANNUAL OPERATING EXPENSE SAVINGS	
	Reduction in Foreign and Private Car Per Diem	$24.0
	Reduction in Operating Expenses Associated With Reduction in Empty Car-Miles	38.9
	Reduction in Annual Crew Costs	38.6
	Reduced Car Handlings	3.9
	Rationalizing Freight Car Financing	2.8
	Changes in Other Personnel	3.7
	Total Annual Operating Expense Savings	$111.9
II.	ONE-TIME CAPITAL COST SAVINGS	
	Reductions in System Car Requirements	$133.0

G. Summary of Savings Anticipated

Table 4 summarizes the transaction savings that have been developed.

Table 4
Summary of Savings Anticipated
From CSX Operation of Its Portion of Conrail
(Dollars in Millions)

	Operating Expense		Capital Expense	
Description	Recurring	One-Time	Recurring	One-Time
General and Administrative	$74.3	$106.3*		
Maintenance-of-Way	14.9		21.0	$11.8
Mechanical	30.0			94.8
Purchasing	25.5		5.2	1.4
Intermodal	13.0			
Other Operating Synergies:				
More Efficient Routes	9.9			79.3
Empty Car Distribution	53.0			53.7
Freight Car Financing	2.8			
Crew Reductions on Base Traffic	$38.6			
Reduced Car Handlings on Base Traffic	3.9			
Changes in Other Personnel	3.7			
Total	$269.6	$106.3*	$26.2	$241.0

* Because these expenditures were not reflected in Conrail's 1995 financial results, these operating expense savings will not affect the pro-forma financial statements provided as part of the Application. However, these <u>are</u> savings associated with the CSX operation of its portion of Conrail.

H. Employee Separation and Related Costs

As a result of the transaction, various separation, compensation and relocation amounts will be paid. Pursuant to the June 10, 1997 Transaction Agreement, CSX and NS agreed that separation and related costs associated with non-contract employees would be pooled costs shared by the joint ownership percentages -- to be borne 42% by CSX and 58% by NS. CSX's share of these non-recurring costs is $157.3 million, comprised of $93.7 million in separation expenses, $53.1 million in additional compensation, and $10.5 in relocation costs. For contract employees, the non-recurring costs total $65.6 million for CSX, of which $40 million are attributable to labor protection expenses, $20.5 million to relocation costs, and $5.1 million to separation expenses. These have been reported in CSX's summary of benefits.

I. Philadelphia Lease

The June 10, 1997 transaction agreement gives CSX responsibility for the Conrail General Office Building in Philadelphia. The summary of benefits reflects incremental expense to be incurred by CSX, because it bears 100 percent of the cost of the Philadelphia lease, not just a 42 percent share. CSX has reported this incremental cost as follows: $19.2 million in year one, $17.4 million in year two, $12.4 million in year three, and $5.9 million annually thereafter. The reduced amounts over time reflect CSX's ability to sublease the facility to other tenants after the transaction and are net of the anticipated income.

IV. DEVELOPMENT OF ADDITIONAL COSTS ASSOCIATED WITH GROWTH TRAFFIC

My discussion of the costing of the growth traffic is contained in two subsections. Subsection A describes KKA's development of the additional service units associated with each category of growth traffic. Subsection B describes the application of unit costs from the 1995 URCS application for the combined CSX/CRC to the service units from subsection A to generate the additional costs associated with diverted and extended haul traffic.

A. Development of Service Units

KKA received information on net growth traffic from the individual traffic studies:

- General Merchandise
- CSX Internal Study of Coal, Coke and Iron Ore (Bulk)
- Coal, Coke and Iron Ore not covered by CSX's Internal Study (Remainder)
- Finished Vehicles
- Intermodal
- Truck / Barge-to-Rail Carload

For each movement, KKA was provided data for the year 3, full-growth traffic that included waybill information (e.g., cars, net tons, trailers or containers, AAR car type) and routing information.

It was necessary to develop certain service units associated with growth traffic before any costing could be performed. The following subsections describe this effort.

1. Car-Miles

ALK provided the additional on-system car-mileage associated with each growth traffic movement. Empty car-miles were calculated by applying empty return ratios that resulted from an empty simulation to the loaded car-miles.

For intermodal traffic, loaded trailer / container counts were converted to rail cars and car-miles based upon corridor-specific trailer / container per car factors and a rail car empty return ratio that were provided by the CSX intermodal marketing team and an URCS-based container empty return ratio of 1.33.

2. Gross Ton-Miles

Loaded and empty car-miles for non-intermodal traffic were converted to trailing gross ton-miles using the following equation:

Gross Ton-Miles = ((Tare Wt. + Net Tons) x Loaded Car-Miles) + ((Tare Wt.) x Empty Car-Miles)

Tare weights were obtained from the 1995 URCS application for the combined CSX/CRC; net tons were provided as part of the waybill data for each growth traffic movement. For intermodal diversions, the following formula was used:

Gross Ton-Miles =((Net Tons + (4 tons tare (TCUs) x TCUs per car)) x Loaded Car-Miles) + (50 tons tare (car) x Total Car-Miles)

3. Train-Miles

To be consistent with the assumptions underlying CSX's operating plan, train-miles were calculated by dividing total car-miles generated by each traffic group by the group-specific average number of cars per train (developed from the post-transaction, year 3 operating statistics) as follows:

- General Merchandise, Coal, Coke and Iron Ore Remainder, and Truck / Barge-to-Rail Carload traffic train miles are based on 94 cars per train,
- Coal, Coke and Iron Ore Bulk traffic train miles are based on 84 cars per train,
- Finished Vehicle traffic train miles are based on 49 cars per train, and
- Intermodal traffic train miles are based on 35 cars per train.

4. Locomotive Unit-Miles

Locomotive unit-miles were developed by multiplying the train-miles from subsection 3, above, by the average number of locomotive units per train for each traffic group. The assumed locomotives per train by traffic group (also developed from the post-transaction, year 3 operating statistics) are as follows:

- General Merchandise, Coal, Coke and Iron Ore Remainder, and Truck / Barge-to-Rail Carload traffic locomotive unit miles are based on 2.1 units per train,
- Coal, Coke and Iron Ore Bulk traffic locomotive unit miles are based on 2.1 units per train.
- Finished Vehicle traffic locomotive unit miles are based on 2.0 units per train, and
- Intermodal traffic locomotive unit miles are based on 2.5 units per train.

5. Switching Minutes

Within each traffic category, a net change in terminal, interchange and I&I switches was determined. These were accumulated and multiplied by factors of (1) 5.50 minutes per terminal switch, (2) 3.03 minutes per interchange switch, and (3) 1.38 minutes per I&I switch[5] to generate total incremental switching minutes.

6. Car Days - Running

Car days were developed by dividing total car-miles by a factor of 492.12 miles per day, developed from the 1995 URCS application for the combined CSX/CRC.

7. Car Days - Switching

Net changes in terminal, interchange, and I&I switches were multiplied by days/switch factors of 4.0, 1.0 and 0.5, respectively, to generate incremental yard days associated with the growth traffic.[6] These factors are consistent with standard URCS assumptions.

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[5]These values are from the 1995 URCS application for the combined CSX/CRC.

[6]For intermodal diversions interchanging at Chicago, I assumed -- based on discussions with CSX personnel -- that 50% were "rubber tire" interchanges, meaning that there would be no rail interchange cost incurred, but lift costs would be incurred.

8. **Car Miles - Switching**

Net changes in terminal, interchange, and I&I switches were multiplied by miles/switch factors of 4.0, 2.75 and 1.0, respectively, to generate incremental yard car-miles associated with the growth traffic. These factors are consistent with standard URCS assumptions.

9. **Drayage**

Because the revenue figures assumed in the CSX studies for intermodal traffic -- $.55 per trailer / container highway mile -- are net of drayage and trailer / container costs, there was no need to develop the costs of additional drayage.

10. **Lifts**

For trailer / container units that are originated and terminated at a rail head, a cost is incurred to "lift" the unit on or off the rail car. I calculated the lifts associated with the intermodal growth traffic by multiplying the total units diverted by (1) 2 to reflect a lift at each end of the rail move for local moves; (2) 1.5 for those moves interchanged at Chicago; or (3) 1 for interline moves forwarded or received elsewhere.

11. Summary

The following table summarizes these service units.

Table 5
Service Units For Diverted and Extended Haul Traffic

Service Unit	General Merchandise & CC&IO Remainder	Intermodal & Truck / Barge-to-Rail Carload	Coal, Coke & Iron Ore Bulk	Finished Vehicles	Total
Gross Ton-Miles	5,841,301,418	14,081,897,016	5,285,494,590	977,266,685	26,185,959,709
Car-Miles Running	72,527,774	130,596,458	66,148,636	14,981,828	284,254,696
Locomotive Unit-Miles	1,620,301	7,789,241	1,653,716	642,078	11,705,337
Train-Miles	771,572	3,169,064	787,484	305,752	5,033,871
Switch Engine Minutes	1,244,219	4,144,357	1,572,471	391,066	7,352,113
Car-Days Running	147,377	265,375	134,415	30,443	577,610
Car-Days Switching	536,115	1,154,687	518,412	114,680	2,323,894
Car-Miles Switching	3,392,167	6,878,049	3,128,892	660,192	14,059,300

B. Modification of the URCS Application for the Combined CSX/Conrail

Before the growth traffic could be costed, it was necessary to modify the standard URCS unit costs to eliminate costs that were accounted for elsewhere. To do so, I made the following modifications:

- Eliminated all general overhead expenses. The reductions in general and administrative expenditures identified by Mr. Wodehouse already take into account the requirements of the growth traffic.

- Eliminated all departmental overhead expenses, because the reductions identified by the various study groups already take into account the requirements of the growth traffic.

- Eliminated yard crew wages (including fringe benefits), because these were developed outside the URCS process.

- Eliminated yard locomotive ownership costs, because these were developed outside the URCS process.

- Eliminated the depreciation, lease rental and return component of road and yard facility costs, because the capital investments required by post-transaction operations were developed outside the URCS process.

Because Mr. Orrison concluded that growth traffic would require additional road locomotive power and crews, I have included these components of URCS costs. To be consistent with the net changes in locomotives and crews shown in CSX's operating plan, I have shown corresponding savings on base case traffic from merger synergies in the savings described in Section II, above.

In addition, certain modifications were made to the standard URCS assumptions for intermodal costing. These changes are:

- Eliminated URCS trailer / container ownership costs because the $.55 per trailer / container mile reflect revenues net of trailer / container ownership costs;

- Eliminated the URCS drayage costs because the $.55 per trailer / container mile reflect revenues net of drayage;

Exhibit No. 2 contains the calculations developing the operating costs associated with the growth traffic which are summarized in Table 6, below.

Table 6
Additional Costs Associated With Growth Traffic
(Dollars in Millions)

Related Service Unit		Total
I.	Gross Ton-Miles	$38.4
	Car-related	71.6
	Locomotive Unit-Miles	27.2
	T&E Crew Costs	31.4
	Train-Miles (non-crew)	2.7
	Switch Engine Minutes	17.1
	Station Clerical	6.2
	TOFC/COFC Lifts (Load & Unload)	27.4
	Total Additional Cost	$221.9
II.	Revenues Associated With Diverted and Extended Haul Traffic	$347.3
III.	Contribution	$125.4

C. Transmission of Results for Inclusion in Pro Forma Financial Statements

The results summarized in Tables 4 and 6 were transmitted to Mr. Whitehurst so that he could incorporate them into the CSX pro forma financial statements that are being submitted as part of the Application.

VERIFICATION

CITY OF ALEXANDRIA)
) SS:
STATE OF VIRGINIA)

JOHN C. KLICK, being duly sworn, deposes and says that he has read the foregoing statement, knows the contents thereof and that the same are true as stated to the best of his knowledge and belief.

John C Klick

JOHN C. KLICK

Subscribed and Sworn to
Before Me, a Notary Public
This 19th Day of June, 1997.

Jennifer L Carragrossa

NOTARY PUBLIC

My Commission expires March 31, 1999

VERIFICATION

CITY OF ALEXANDRIA)
) SS:
STATE OF VIRGINIA)

JOHN C. KLICK, being duly sworn, deposes and says that he has read the foregoing statement, knows the contents thereof and that the same are true as stated to the best of his knowledge and belief.

John C Klick
JOHN C. KLICK

Subscribed and Sworn to
Before Me, a Notary Public
This 19th Day of June, 1997.

Jennifer L Torregrossa
NOTARY PUBLIC

My Commission expires March 31, 1999

STATEMENT OF QUALIFICATIONS

OF

JOHN C. KLICK

My name is John C. Klick. I am a Principal of the economic and financial consulting firm of Klick, Kent & Allen, Inc. The firm's offices are located at 66 Canal Center Plaza, Suite 670, Alexandria, Virginia 22314.

I am a 1970 graduate of Bates College, from which I obtained a Bachelor of Science degree in Mathematics. I also have taken graduate courses in finance, accounting, and operations research. Since 1970, I have been involved continuously in cost-based economic and financial studies for a variety of industries.

Throughout my career, I have organized and directed cost for service providers, state governments, and other public bodies dealing with network industries. Examples of past studies that I have participated in include (1) organizing and directing traffic, operational and cost analyses in connection with the valuation of northeastern rail property transferred to the Consolidated Rail Corporation, (2) calculation of stand-alone and long-run incremental costs for major segments of the nation's railroad industry, and (3) estimation of the marginal, incremental costs and stand-alone costs for various services performed by a major petroleum products pipeline company. Virtually all of these studies have involved the development and/or use of complex, computerized cost models that make extensive use of detailed engineering and operating input and incorporate sophisticated discounted cash flow techniques.

The results of these studies frequently have been presented in both oral and written testimony before the Interstate Commerce Commission, the Federal Energy Regulatory Commission, arbitration panels, and the federal and state courts. This testimony has related to subjects such as the development of variable cost of service, marginal costs, incremental costs, stand-alone costs, the economic principles concerning the maximum and minimum level of rates, and procedures for implementing these maximum and minimum rate principles.

Recently, I have been retained by AT&T and MCI to assist them in analyzing cost evidence submitted by various parties in proceedings arising out of the Telecommunications Act of 1996, and I have testified extensively on a variety of costing issues in this area.

GRAND TOTAL

CALCULATIONS DEVELOPING THE OPERATING COSTS ASSOCIATED WITH THE GROWTH TRAFFIC

URCS UNIT COSTS - 1995 COMBINED CSXT PLUS ITS PORTION OF CONRAIL

		SERVICE UNITS							
UNIT COSTS FROM REV NEUTRAL PHASE II		TRAILING GTM'S	LOCO UNIT MILES	TRAIN MILES (Non-Crew)	TRAIN MILES (Crew)	SEM	STATION CLERICAL	CAR COSTS (Miles & Day)	TOFC Ld / Unld
NUMBER OF UNITS ADDED		26,185,959,709	11,705,337	5,033,871	5,033,871	7,352,113	447,575	See attached sheets	Loading / Unlding = 562495
Unit cost description	URCS WT location								
Running MoW & Ownshp	D1	COL 10	None	None	None	None	None	None	None
	1. L157 Total (Adjusted)	$0.00051876	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	2. L234 Total D&L Exp	$0.00000000	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	3. L251 Total ROI Exp	$0.00000000	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	4. OPR - GOH	1.00000	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	5. D&L - GOH	1.00000	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	6. ROI - GOH	1.00000	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00051876	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$0.00000000
Total Variable Costs		$13,584,228	$0	$0	$0	$0	$0	$0	$0
Yard MoW & Ownshp	D2	None	None	None	None	COL 10	D5 L 122 COL 14	None	D7 L 721 COL 8
	1. L159 Total (Adjusted)	xxx	xxx	xxx	xxx	$0.18917187	$13.83370000	TOFC ld/unld =	$48.64312000
	2. L236 Total D&L Exp	xxx	xxx	xxx	xxx	$0.00000000	xxx	xxx	xxx
	3. L255 Total ROI Exp	xxx	xxx	xxx	xxx	$0.00000000	xxx	xxx	xxx
	4. OPR - GOH	xxx	xxx	xxx	xxx	1.00000	1.00000	xxx	1.00000
	5. D&L - GOH	xxx	xxx	xxx	xxx	1.00000	xxx	xxx	xxx
	6. ROI - GOH	xxx	xxx	xxx	xxx	1.00000	xxx	xxx	xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$0.18917187	$13.83370000	$0.00000000	$48.64312000
Total Variable Costs		$0	$0	$0	$0	$1,390,813	$6,191,618	$0	$27,361,512
Road Operations	D3	COL 10	COL 20/18	COL 25/22	COL 30/26	COL 40\34	None	See attached sheets	None
	1. L191 Total (Adjusted)	$0.00059015	$1.44863915	$0.50207735	$6.23066000	$0.16652822	xxx	GM = $8,288,771	xxx
	2. L217 Total D&L Exp	$0.00015592	$0.38462000	$0.01015000	$0.00000000	$0.01220000	xxx	CC&IO = $4,914,069	xxx
	3. L224 Total ROI Exp	$0.00020004	$0.49346000	$0.01773000	$0.00000000	$0.01565000	xxx	TOFC = $39,244,420	xxx
	4. OPR - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx	AUTO = $3,384,001	xxx
	5. D&L - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx		xxx
	6. ROI - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx		xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00094611	$2.32671915	$0.52995735	$6.23066000	$0.19437822	$0.00000000	xxx	$0.00000000
Total Variable Costs		$24,774,798	$27,235,031	$2,667,737	$31,364,340	$1,429,091	$0	$55,831,261	$0
Yard Operations	D4	None	None	None	None	Col 10	None	See attached sheets	None
	1. L159 Total (Adjusted)	xxx	xxx	xxx	xxx	$1.86794407	xxx	GM = $5,066,407	xxx
	2. L213 Total D&L Exp	xxx	xxx	xxx	xxx	$0.02779000	xxx	CC&IO = $5,309,993	xxx
	3. L220 Total ROI Exp	xxx	xxx	xxx	xxx	$0.04414000	xxx	TOFC = $4,954,694	xxx
	4. OPR - GOH	xxx	xxx	xxx	xxx	1.00000	xxx	AUTO = $486,131	xxx
	5. D&L - GOH	xxx	xxx	xxx	xxx	1.00000	xxx		xxx
	6. ROI - GOH	xxx	xxx	xxx	xxx	1.00000	xxx		xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$1.93987407	$0.00000000	xxx	$0.00000000
Total Variable Costs		$0	$0	$0	$0	$14,262,173	$0	$15,817,225	$0
Total Variable Operating Costs		**$38,359,027**	**$27,235,031**	**$2,667,737**	**$31,364,340**	**$17,082,077**	**$6,191,618**	**$71,648,486**	**$27,361,512**

GRAND TOTAL	**$221,909,829**

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CALCULATIONS DEVELOPING THE OPERATING COSTS ASSOCIATED WITH THE GROWTH TRAFFIC

URCS UNIT COSTS - 1995 COMBINED CSXT PLUS ITS PORTION OF CONRAIL

		SERVICE UNITS								
UNIT COSTS FROM REV NEUTRAL PHASE II		TRAILING GTM'S	LOCO UNIT MILES	TRAIN MILES (Non-Crew)	TRAIN MILES (Crew)	SEM	STATION CLERICAL		CAR COSTS (Miles & Day)	TOFC Ld / Unld
NUMBER OF UNITS ADDED		5,841,301,418	1,620,301	771,572	771,572	1,244,219	125,947			
									Ld & Unld =	N/A
Unit cost description	URCS WT location									
Running MoW & Ownshp	*D1*	COL 10	None	None	None	None	None		None	None
	1. L157 Total (Adjusted)	$0.00051876	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	2. L234 Total D&L Exp	$0.00000000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	3. L251 Total ROI Exp	$0.00000000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	4. OPR - GOH	1.00000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	5. D&L - GOH	1.00000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	6. ROI - GOH	1.00000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00051876	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$0.00000000		$0.00000000	$0.00000000
Total Variable Costs		$3,030,234	$0	$0	$0	$0	$0		$0	$0
Yard MoW & Ownshp	D2	None	None	None	None	COL 10	D5 L 122 COL 14		None	D7 L 721 COL 8
	1. L159 Total (Adjusted)	xxx	xxx	xxx	xxx	$0.18917187	$13.83370000		TOFC ld/unld =	$48.64312000
	2. L236 Total D&L Exp	xxx	xxx	xxx	xxx	$0.00000000	xxx		xxx	xxx
	3. L255 Total ROI Exp	xxx	xxx	xxx	xxx	$0.00000000	xxx		xxx	xxx
	4. OPR - GOH	xxx	xxx	xxx	xxx	1.00000	1.00000		xxx	1.00000
	5. D&L - GOH	xxx	xxx	xxx	xxx	1.00000	xxx		xxx	xxx
	6. ROI - GOH	xxx	xxx	xxx	xxx	1.00000	xxx		xxx	xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$0.18917187	$13.83370000		$0.00000000	$48.64312000
Total Variable Costs		$0	$0	$0	$0	$235,371	$1,742,313		$0	$0
Road Operations	D3	COL 10	COL 20/18	COL 25/22	COL 30/26	COL 40\34	None			None
	1. L191 Total (Adjusted)	$0.00059015	$1.44863915	$0.50207735	$6.23066000	$0.16652822	xxx	GM =	$8,288,771	xxx
	2. L217 Total D&L Exp	$0.00015592	$0.38462000	$0.01015000	$0.00000000	$0.01220000	xxx			xxx
	3. L224 Total ROI Exp	$0.00020004	$0.49346000	$0.01773000	$0.00000000	$0.01565000	xxx			xxx
	4. OPR - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx			xxx
	5. D&L - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx			xxx
	6. ROI - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx			xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00094611	$2.32671915	$0.52995735	$6.23066000	$0.19437822	$0.00000000		xxx	$0.00000000
Total Variable Costs		$5,526,514	$3,769,986	$408,900	$4,807,403	$241,849	$0		$8,288,771	$0
Yard Operations	D4	None	None	None	None	Col 10	None			None
	1. L159 Total (Adjusted)	xxx	xxx	xxx	xxx	$1.86794407	xxx	GM =	$5,066,407	xxx
	2. L213 Total D&L Exp	xxx	xxx	xxx	xxx	$0.02779000	xxx			xxx
	3. L220 Total ROI Exp	xxx	xxx	xxx	xxx	$0.04414000	xxx			xxx
	4. OPR - GOH	xxx	xxx	xxx	xxx	1.00000	xxx			xxx
	5. D&L - GOH	xxx	xxx	xxx	xxx	1.00000	xxx			xxx
	6. ROI - GOH	xxx	xxx	xxx	xxx	1.00000	xxx			xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$1.93987407	$0.00000000		xxx	$0.00000000
Total Variable Costs		$0	$0	$0	$0	$2,413,629	$0		$5,066,407	$0
Total Variable Operating Costs		**$8,556,747**	**$3,769,986**	**$408,900**	**$4,807,403**	**$2,890,849**	**$1,742,313**		**$13,355,178**	**$0**

Gen. Merch. Total	**$35,531,377**

CALCULATIONS DEVELOPING THE OPERATING COSTS ASSOCIATED WITH THE GROWTH TRAFFIC

URCS UNIT COSTS - 1995 COMBINED CSXT PLUS ITS PORTION OF CONRAIL

		SERVICE UNITS								
UNIT COSTS FROM REV NEUTRAL PHASE II		TRAILING GTM'S	LOCO UNIT MILES	TRAIN MILES (Non-Crew)	TRAIN MILES (Crew)	SEM	STATION CLERICAL		CAR COSTS (Miles & Day)	TOFC Ld / Unld
NUMBER OF UNITS ADDED		5,285,494,590	1,653,716	787,484	787,484	1,572,471	102,180			
									Ld & Unld =	N/A
Unit cost description	URCS WT location									
Running MoW & Ownshp	D1	COL 10	None	None	None	None	None		None	None
	1. L157 Total (Adjusted)	$0.00051876	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	2. L234 Total D&L Exp	$0.00000000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	3. L251 Total ROI Exp	$0.00000000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	4. OPR - GOH	1.00000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	5. D&L - GOH	1.00000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	6. ROI - GOH	1.00000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00051876	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$0.00000000		$0.00000000	$0.00000000
Total Variable Costs		$2,741,903	$0	$0	$0	$0	$0		$0	$0
Yard MoW & Ownshp	D2	None	None	None	None	COL 10	D5 L 122 COL 14		None	D7 L 721 COL 8
	1. L159 Total (Adjusted)	xxx	xxx	xxx	xxx	$0.18917187	$13.83370000		TOFC ld/unld =	$48.64312000
	2. L236 Total D&L Exp	xxx	xxx	xxx	xxx	$0.00000000	xxx		xxx	xxx
	3. L255 Total ROI Exp	xxx	xxx	xxx	xxx	$0.00000000	xxx		xxx	xxx
	4. OPR - GOH	xxx	xxx	xxx	xxx	1.00000	1.00000		xxx	1.00000
	5. D&L - GOH	xxx	xxx	xxx	xxx	1.00000	xxx		xxx	xxx
	6. ROI - GOH	xxx	xxx	xxx	xxx	1.00000	xxx		xxx	xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$0.18917187	$13.83370000		$0.00000000	$48.64312000
Total Variable Costs		$0	$0	$0	$0	$297,467	$1,413,527		$0	$0
Road Operations	D3	COL 10	COL 20/18	COL 25/22	COL 30/26	COL 40\34	None			None
	1. L191 Total (Adjusted)	$0.00059015	$1.44863915	$0.50207735	$6.23066000	$0.16652822	xxx			xxx
	2. L217 Total D&L Exp	$0.00015592	$0.38462000	$0.01015000	$0.00000000	$0.01220000	xxx	CC&IO =	$4,914,069	xxx
	3. L224 Total ROI Exp	$0.00020004	$0.49346000	$0.01773000	$0.00000000	$0.01565000	xxx			xxx
	4. OPR - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx			xxx
	5. D&L - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx			xxx
	6. ROI - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx			xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00094611	$2.32671915	$0.52995735	$6.23066000	$0.19437822	$0.00000000		xxx	$0.00000000
Total Variable Costs		$5,000,659	$3,847,732	$417,333	$4,906,544	$305,654	$0		$4,914,069	$0
Yard Operations	D4	None	None	None	None	Col 10	None			None
	1. L159 Total (Adjusted)	xxx	xxx	xxx	xxx	$1.86794407	xxx			xxx
	2. L213 Total D&L Exp	xxx	xxx	xxx	xxx	$0.02779000	xxx	CC&IO =	$5,309,993	xxx
	3. L220 Total ROI Exp	xxx	xxx	xxx	xxx	$0.04414000	xxx			xxx
	4. OPR - GOH	xxx	xxx	xxx	xxx	1.00000	xxx			xxx
	5. D&L - GOH	xxx	xxx	xxx	xxx	1.00000	xxx			xxx
	6. ROI - GOH	xxx	xxx	xxx	xxx	1.00000	xxx			xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$1.93987407	$0.00000000		xxx	$0.00000000
Total Variable Costs		$0	$0	$0	$0	$3,050,396	$0		$5,309,993	$0
Total Variable Operating Costs		$7,742,562	$3,847,732	$417,333	$4,906,544	$3,653,518	$1,413,527		$10,224,062	$0

C, C & IO Total	$32,205,279

CALCULATIONS DEVELOPING THE OPERATING COSTS ASSOCIATED WITH THE GROWTH TRAFFIC

URCS UNIT COSTS - 1995 COMBINED CSXT PLUS ITS PORTION OF CONRAIL

SERVICE UNITS

UNIT COSTS FROM REV NEUTRAL PHASE II		TRAILING GTM'S	LOCO UNIT MILES	TRAIN MILES (Non-Crew)	TRAIN MILES (Crew)	SEM	STATION CLERICAL		CAR COSTS (Miles & Day)	TOFC Ld / Unld
NUMBER OF UNITS ADDED		14,081,897,016	7,789,241	3,169,064	3,169,064	4,144,357	199,648			
									Ld & Unld =	562,495
Unit cost description	URCS WT location									
Running MoW & Ownshp	D1	COL 10	None	None	None	None	None		None	None
	1. L157 Total (Adjusted)	$0.00051876	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	2. L234 Total D&L Exp	$0.00000000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	3. L251 Total ROI Exp	$0.00000000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	4. OPR - GOH	1.00000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	5. D&L - GOH	1.00000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	6. ROI - GOH	1.00000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00051876	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$0.00000000		$0.00000000	$0.00000000
Total Variable Costs		$7,305,125	$0	$0	$0	$0	$0		$0	$0
Yard MoW & Ownshp	D2	None	None	None	None	COL 10	D5 L 122 COL 14		None	D7 L 721 COL 8
	1. L159 Total (Adjusted)	xxx	xxx	xxx	xxx	$0.18917187	$13.83370000		TOFC ld/unld =	$48.64312000
	2. L236 Total D&L Exp	xxx	xxx	xxx	xxx	$0.00000000	xxx		xxx	xxx
	3. L255 Total ROI Exp	xxx	xxx	xxx	xxx	$0.00000000	xxx		xxx	xxx
	4. OPR - GOH	xxx	xxx	xxx	xxx	1.00000	1.00000		xxx	1.00000
	5. D&L - GOH	xxx	xxx	xxx	xxx	1.00000	xxx		xxx	xxx
	6. ROI - GOH	xxx	xxx	xxx	xxx	1.00000	xxx		xxx	xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$0.18917187	$13.83370000		$0.00000000	$48.64312000
Total Variable Costs		$0	$0	$0	$0	$783,996	$2,761,871		$0	$27,361,512
Road Operations	D3	COL 10	COL 20/18	COL 25/22	COL 30/26	COL 40\34	None			None
	1. L191 Total (Adjusted)	$0.00059015	$1.44863915	$0.50207735	$6.23066000	$0.16652822	xxx			xxx
	2. L217 Total D&L Exp	$0.00015592	$0.38462000	$0.01015000	$0.00000000	$0.01220000	xxx			xxx
	3. L224 Total ROI Exp	$0.00020004	$0.49346000	$0.01773000	$0.00000000	$0.01565000	xxx	TOFC =	$39,244,420	xxx
	4. OPR - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx			xxx
	5. D&L - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx			xxx
	6. ROI - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx			xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00094611	$2.32671915	$0.52995735	$6.23066000	$0.19437822	$0.00000000		xxx	$0.00000000
Total Variable Costs		$13,323,024	$18,123,377	$1,679,469	$19,745,359	$805,573	$0		$39,244,420	$0
Yard Operations	D4	None	None	None	None	Col 10	None			None
	1. L159 Total (Adjusted)	xxx	xxx	xxx	xxx	$1.86794407	xxx			xxx
	2. L213 Total D&L Exp	xxx	xxx	xxx	xxx	$0.02779000	xxx			xxx
	3. L220 Total ROI Exp	xxx	xxx	xxx	xxx	$0.04414000	xxx	TOFC =	$4,954,694	xxx
	4. OPR - GOH	xxx	xxx	xxx	xxx	1.00000	xxx			xxx
	5. D&L - GOH	xxx	xxx	xxx	xxx	1.00000	xxx			xxx
	6. ROI - GOH	xxx	xxx	xxx	xxx	1.00000	xxx			xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$1.93987407	$0.00000000		xxx	$0.00000000
Total Variable Costs		$0	$0	$0	$0	$8,039,530	$0		$4,954,694	$0
Total Variable Operating Costs		**$20,628,148**	**$18,123,377**	**$1,679,469**	**$19,745,359**	**$9,629,099**	**$2,761,871**		**$44,199,114**	**$27,361,512**

Intermodal	
Truck to Rail Total	**$144,127,949**

CALCULATIONS DEVELOPING THE OPERATING COSTS ASSOCIATED WITH THE GROWTH TRAFFIC

URCS UNIT COSTS - 1995 COMBINED CSXT PLUS ITS PORTION OF CONRAIL

		SERVICE UNITS								
UNIT COSTS FROM REV NEUTRAL PHASE II		TRAILING GTM'S	LOCO UNIT MILES	TRAIN MILES (Non-Crew)	TRAIN MILES (Crew)	SEM	STATION CLERICAL		CAR COSTS (Miles & Day)	TOFC Ld / Unld
NUMBER OF UNITS ADDED		977,266,685	642,078	305,752	305,752	391,066	19,800			
									Ld & Unld =	N/A
Unit cost description	URCS WT location									
Running MoW & Ownshp	D1	COL 10	None	None	None	None	None		None	None
	1. L157 Total (Adjusted)	$0.00051876	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	2. L234 Total D&L Exp	$0.00000000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	3. L251 Total ROI Exp	$0.00000000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	4. OPR - GOH	1.00000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	5. D&L - GOH	1.00000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	6. ROI - GOH	1.00000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00051876	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$0.00000000		$0.00000000	$0.00000000
Total Variable Costs		$506,967	$0	$0	$0	$0	$0		$0	$0
Yard MoW & Ownshp	D2	None	None	None	None	COL 10	D5 L 122 COL 14		None	D7 L 721 COL 8
	1. L159 Total (Adjusted)	xxx	xxx	xxx	xxx	$0.18917187	$13.83370000		TOFC ld/unld =	$48.64312000
	2. L236 Total D&L Exp	xxx	xxx	xxx	xxx	$0.00000000	xxx		xxx	xxx
	3. L255 Total ROI Exp	xxx	xxx	xxx	xxx	$0.00000000	xxx		xxx	xxx
	4. OPR - GOH	xxx	xxx	xxx	xxx	1.00000	1.00000		xxx	1.00000
	5. D&L - GOH	xxx	xxx	xxx	xxx	1.00000	xxx		xxx	xxx
	6. ROI - GOH	xxx	xxx	xxx	xxx	1.00000	xxx		xxx	xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$0.18917187	$13.83370000		$0.00000000	$48.64312000
Total Variable Costs		$0	$0	$0	$0	$73,979	$273,907		$0	$0
Road Operations	D3	COL 10	COL 20/18	COL 25/22	COL 30/26	COL 40\34	None			None
	1. L191 Total (Adjusted)	$0.00059015	$1.44863915	$0.50207735	$6.23066000	$0.16652822	xxx			xxx
	2. L217 Total D&L Exp	$0.00015592	$0.38462000	$0.01015000	$0.00000000	$0.01220000	xxx			xxx
	3. L224 Total ROI Exp	$0.00020004	$0.49346000	$0.01773000	$0.00000000	$0.01565000	xxx			xxx
	4. OPR - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx	AUTO =	$3,384,001	xxx
	5. D&L - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx			xxx
	6. ROI - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx			xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00094611	$2.32671915	$0.52995735	$6.23066000	$0.19437822	$0.00000000		xxx	$0.00000000
Total Variable Costs		$924,602	$1,493,936	$162,035	$1,905,034	$76,015	$0		$3,384,001	$0
Yard Operations	D4	None	None	None	None	Col 10	None			None
	1. L159 Total (Adjusted)	xxx	xxx	xxx	xxx	$1.86794407	xxx			xxx
	2. L213 Total D&L Exp	xxx	xxx	xxx	xxx	$0.02779000	xxx			xxx
	3. L220 Total ROI Exp	xxx	xxx	xxx	xxx	$0.04414000	xxx			xxx
	4. OPR - GOH	xxx	xxx	xxx	xxx	1.00000	xxx	AUTO =	$486,131	xxx
	5. D&L - GOH	xxx	xxx	xxx	xxx	1.00000	xxx			xxx
	6. ROI - GOH	xxx	xxx	xxx	xxx	1.00000	xxx			xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$1.93987407	$0.00000000		xxx	$0.00000000
Total Variable Costs		$0	$0	$0	$0	$758,818	$0		$486,131	$0
Total Variable Operating Costs		$1,431,569	$1,493,936	$162,035	$1,905,034	$908,611	$273,907		$3,870,132	$0

Finished Auto Total $10,045,225

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BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 33388

CSX CORPORATION AND CSX TRANSPORTATION, INC. AND
NORFOLK SOUTHERN CORPORATION AND
NORFOLK SOUTHERN RAILWAY COMPANY
--CONTROL AND OPERATING LEASES/AGREEMENTS--
CONRAIL INC. AND CONSOLIDATED RAIL CORPORATION

VERIFIED STATEMENT OF BRUCE P. NOLOP

VERIFIED STATEMENT
OF
BRUCE P. NOLOP

My name is Bruce P. Nolop. I am a Managing Director of Wasserstein Perella & Co., Inc. ("Wasserstein Perella"), located at 31 West 52nd Street, New York, New York. I received a J.D. and an M.B.A. from Stanford University.

I have been a Managing Director and the head of the Industrial Group since joining Wasserstein Perella in 1993. Before joining Wasserstein Perella, I was with Goldman, Sachs (1986-1993), Kimberly-Clark (1981-1986) and Morgan Stanley (1976-1981).

Wasserstein Perella, founded in February 1988, is an internationally recognized, specialized advisory and investment banking firm that regularly performs valuations of businesses and securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. Since its inception, Wasserstein Perella has provided advisory services on more than 320 announced transactions with an aggregate value of approximately $312 billion.

Wasserstein Perella's Assignment and Opinion
<u>with Respect to the CSX/NSC/Conrail Transaction</u>

By letter agreement dated October 14, 1996, CSX retained Wasserstein Perella to act as its financial advisor with respect to the contemplated acquisition of Conrail Inc. ("Conrail"). CSX requested that Wasserstein Perella advise it in connection with the acquisition of Conrail and evaluate the fairness to CSX, from a financial point of view, of the consideration to be paid by CSX in the transaction. Wasserstein Perella subsequently rendered a fairness opinion to CSX with respect to the consideration paid and to be paid by CSX pursuant to the terms of (i) the Agreement and Plan of Merger, dated as of October 14, 1996, as amended by the First Amendment, dated as of November 5, 1996, the Second Amendment, dated as of December 18, 1996, the Third Amendment, dated as of March 7, 1997 and the Fourth Amendment, dated as of April 8, 1997 (as so amended and together with the exhibits and annexes thereto, the "Merger Agreement"), by and among CSX, Green Acquisition Corp., a wholly owned subsidiary of CSX ("CSX Sub"), and Conrail and (ii) the letter agreement, dated April 8, 1997, between Norfolk Southern Corporation ("NSC") and CSX (together with the exhibits and annexes thereto, the "CSX/NSC Agreement").

Pursuant to the Merger Agreement (as then in effect), CSX Sub purchased 17,860,124 Conrail Shares at a price of $110.00 per share in cash in a tender offer consummated on November 20, 1996. The Conrail Shares purchased by CSX Sub thereby were placed in a voting trust to ensure that CSX and its affiliates did not acquire or, directly or indirectly, exercise control over Conrail and it affiliates prior to obtaining necessary Surface Transportation Board approval.

The Merger Agreement currently provides for, among other things, a cash tender offer (the "Tender Offer") by CSX and NSC to acquire all of the outstanding Conrail Shares and ESOP Preferred Stock (each as defined below and, in each case, including the associated common share purchase rights) (excluding any shares owned by CSX Sub, Atlantic Acquisition Corporation, a wholly owned subsidiary of NSC ("NSC Sub"), or CRR Holdings (as defined below)) for $115.00 in cash per share, and for the subsequent Merger (as defined in the Merger Agreement) pursuant to which each remaining outstanding Conrail Share not purchased in the Tender Offer (other than Conrail Shares held in the treasury of Conrail or owned by CSX, NSC, CSX Sub, NSC Sub or any of their respective subsidiaries or affiliates) will be converted into the right to receive $115.00 per share. The Tender Offer was consummated on May 23, 1997. All Conrail Shares acquired in the Tender Offer have been, and the Conrail Shares to be acquired in the Merger will be, placed in a voting trust for the purpose described in the immediately preceding paragraph. For the purposes hereof, "Conrail Shares" shall mean the outstanding shares, on a fully diluted basis, of common stock, par value $1.00 per share, of Conrail (the "Conrail Common Stock") (including Conrail Common Stock issuable upon conversion of the Series A ESOP Convertible Junior Preferred Stock, without par value, of Conrail (the "ESOP Preferred Stock") but excluding Conrail Common Stock outstanding or issuable upon conversion of the Green Stock Option (as defined in the Merger Agreement)).

Pursuant to the CSX/NSC Agreement, CSX and NSC agreed to jointly participate in the Tender Offer. Pursuant to the CSX/NSC Agreement, CSX and NSC formed a new entity, CRR Holdings LLC ("CRR Holdings"), to which CSX contributed all of the capital stock of CSX Sub (and retain 100 Conrail Shares outside of CSX Sub) and NSC contributed to CRR Holdings the 8,200,000 Conrail Shares owned by NSC Sub. Each of CSX and NSC also contributed to CRR Holdings cash sufficient to purchase in the Tender Offer and Merger all of the Conrail Shares purchased or to be purchased therein. The relative amounts of cash contributed by CSX and NSC were in such a proportion that CSX has a 42% economic ownership interest in CRR Holdings and NSC has a 58% economic ownership interest (valuing the Conrail Shares contributed by CSX at $110 per share and by NSC at $115 per share), and each of CSX and NSC will be allocated assets and liabilities as provided in the CSX/NSC Agreement. For the purposes hereof, "Transaction" shall mean the Tender Offer and the consummation of the transactions contemplated by the Merger Agreement and the CSX/NSC Agreement.

At a meeting of CSX's Board of Directors held on April 8, 1997, Wasserstein Perella rendered to the Board of Directors an oral opinion (subsequently confirmed in writing) to the effect that, as of that date and subject to the matters described in the opinion letter, the consideration paid and to be paid by CSX in the Transaction is fair to CSX from a financial point of view. A copy of the written opinion is attached.

The foregoing is a summary of the transactions contemplated by the Merger Agreement and the CSX/NSC Agreement and is qualified in its entirety by reference thereto. The text of the Merger Agreement and the CSX/NSC Agreement is included in Volume 8 of this application.

Wasserstein Perella's Analysis

In connection with rendering its opinion, Wasserstein Perella reviewed, among other things, (i) the Merger Agreement, (ii) the Offer to Purchase relating to the Tender Offer, as it has been amended and supplemented to the date of the opinion, (iii) the CSX/NSC Agreement, (iv) certain public filings made by CSX and Conrail, including filings made in connection with the Transaction, (v) certain publicly available business and financial information relating to CSX and Conrail for recent years and interim periods to the date of such opinion, (vi) certain internal financial and operation information, including financial forecasts, and certain information relating to the allocation of assets and liabilities of Conrail pursuant to the CSX/NSC Agreement, in each case prepared by or on behalf of CSX and Conrail and provided to Wasserstein Perella for purposes of its analysis, (vii) certain financial and stock market data relating to CSX and Conrail and (viii) the financial terms of certain recent acquisitions and business combinations which Wasserstein Perella believed to be reasonably comparable to the Transaction or otherwise relevant to its inquiry. Wasserstein Perella also performed such other studies, analyses and investigations and reviewed such other information as it considered appropriate.

Prior to rendering its opinion, Wasserstein Perella also held discussions with members of the management of CSX and Conrail to review and discuss the information reviewed by Wasserstein Perella, and, among other matters, CSX's and Conrail's respective businesses, operations, assets, financial condition and future prospects. Wasserstein Perella considered the views of the management of CSX and Conrail regarding the strategic importance of, and potential cost savings and other operating efficiencies expected to result from, consummation of the Transaction. Wasserstein Perella compared the expected synergies with those realized and reported in other recent acquisitions and business combinations which Wasserstein Perella believed to be reasonably comparable to the Transactions.

Wasserstein Perella's opinion was subject to certain assumptions and limitations set forth in the written opinion, and was necessarily based on information available to it and on financial, stock market and other conditions and circumstances as they existed and could be evaluated as of the date the opinion was rendered.

In preparing its opinion and presentation to CSX's Board of Directors, Wasserstein Perella performed a variety of financial and comparative analyses, including those described below. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses or of the summary set forth above, without considering the analyses as a whole, could create an incomplete view of the processes underlying Wasserstein Perella's opinion. In arriving at its determination of fairness, Wasserstein Perella considered the results of all such analyses, as well as other analyses, factors and considerations. No company or transaction used in the above analyses as a comparison is identical to CSX or Conrail or the contemplated Transaction. The analyses were prepared solely for purposes of providing Wasserstein Perella's opinion to the CSX Board as to the fairness to CSX from a financial point of view of the consideration paid and to be paid in the Transaction. Set forth below is a summary of certain of the financial analyses used by Wasserstein Perella in connection with providing its opinion to the CSX Board on April 8, 1997.

(i) *Pro Forma Transaction Analysis.* Wasserstein Perella prepared pro forma analyses of the financial impact of the Transaction on CSX, relying on financial projections prepared by the management of both CSX and Conrail and on estimates made (as of the relevant dates) by management of both CSX and Conrail of the relative cost savings, revenue enhancements and other operating efficiencies (net of incremental costs) expected to result from consummation of the Transaction. The annual synergies expected to result from the Transaction were estimated to total $575 million in the third year after consummation of the Transaction.

In addition, Wasserstein Perella compared the EPS of CSX Common Stock on a stand-alone basis to the EPS of the common stock of the combined company giving effect to the Transaction on a pro forma basis. Such analyses were prepared for the years 1997, 1998, 1999 and 2000. These analyses showed that the Transaction would provide EPS dilution to holders of CSX Common Stock for the years 1997 and 1998, and accretion in the years 1999 and 2000, after taking into account the synergies expected to be realized in each year.

(ii) *Selected Companies Analysis.* Wasserstein Perella reviewed certain financial information relating to CSX and Conrail and compared it to corresponding financial information, ratios and public market multiples for three publicly-traded corporations: Burlington Northern Santa Fe, Norfolk Southern Corporation and Union Pacific Corporation (the "Selected Companies"). The Selected Companies were chosen because they are publicly-traded companies with operations that, for purposes of analysis, may be considered to be similar to the operations of Conrail. Wasserstein Perella's analysis incorporated, among other things, the price to earnings ratio for the Selected Companies, using estimated 1996 and 1997 earnings (based on mean estimates from First Call as of April 8, 1997. First Call is a data service which monitors and publishes a compilation of earnings estimates produced by selected research analysts on companies of interest to investors. Wasserstein Perella's analysis also incorporated Enterprise Value as a multiple of forecasted 1996 and 1997 EBITDA and EBIT.

No company considered in Wasserstein Perella's analysis is identical to CSX or Conrail. Accordingly, an analysis of the results of Wasserstein Perella's analysis necessarily involves certain considerations and judgments concerning differences in the financial and operating characteristics of Conrail and other factors which could affect the implied public trading value of the Selected Companies to which it is being compared.

(iii) *Selected Acquisitions Analysis.* Wasserstein Perella reviewed and analyzed certain financial information based on selected mergers and acquisitions in the railroad industry. Wasserstein Perella considered (a) the multiples of Enterprise Value to EBITDA and to EBIT, (b) the multiples of Equity Value to net income and (c) the effective premium offered to shareholders of the target companies over the stock price prevailing four weeks prior to the announcement of each transaction, in each case in certain recent mergers and acquisitions, and principally those between Burlington Northern and Santa Fe and between Union Pacific and Southern Pacific. Wasserstein Perella also considered the offer of Union Pacific for Santa Fe which was not consummated. Based on an analysis of those transactions, multiples of latest twelve-month ("LTM") EBITDA (earnings before interest, taxes, depreciation and amortization), LTM EBIT (earnings before interest and taxes), LTM net income and the effective premium (as compared with unaffected market prices of target company stocks) were applied to Conrail's corresponding year-end information to suggest per share equity value ranges. Wasserstein Perella also compared the estimated synergies expected to be realized in the Transaction with those synergies reported and realized in certain recent transactions considered to be reasonably comparable to the Transaction.

"Enterprise Value" means the fully-diluted equity market value of the transaction plus net debt and "Equity Value" means the fully-diluted equity market value of the transaction. No transaction utilized in this analysis is identical to the Transaction. Accordingly, an analysis of the results of the foregoing necessarily involves certain considerations and judgments concerning differences in the financial and operating characteristics of Conrail and certain other factors which could affect the derived values of the transactions to which the Transaction is being compared.

(iv) *Discounted Cash Flow Analysis.* Wasserstein Perella performed a discounted cash flow analysis to calculate a present value of the Unlevered Free Cash Flows that Conrail is expected to generate in accordance with certain financial forecasts. This analysis was performed with respect to Conrail's Unlevered Free Cash Flows on two bases -- one which did not take into account any of the cost savings and other operating efficiencies expected to result from the Transaction, and one which allocated such synergies to Conrail on a stand-alone basis. Assumptions with regard to synergies expected to be realized, for the purposes of this analysis, were identical to the assumptions made in developing the Pro Forma Transaction Analysis described above. To arrive at valuations of Conrail's Unlevered Free Cash Flows over a 10-year projection period commencing in 1997, Wasserstein Perella discounted such estimated cash flows using an appropriate range of discount rates. To such present values, Wasserstein Perella added the discounted terminal values using an appropriate exit multiple range of EBITDA, assuming the relevant discount rate ranges.

"Unlevered Free Cash Flows" means EBIT less taxes plus depreciation and amortization and other non-cash items minus capital expenditures and net changes in working capital.

(v) *Historical Stock Trading Analysis.* Wasserstein Perella reviewed the historical price trading performance of CSX Common Stock and Conrail Common Stock, on both a monthly and weekly basis, in the three years prior to the execution of the Merger Agreement, and the relationship between movements of such common stock and movements in a composite index (the "Index") composed of the Selected Companies.

This analysis showed that both CSX and Conrail slightly underperformed the Index from the period of October 1993 through September 1996, on a monthly basis, that CSX outperformed the Index from the period of October 16, 1995 through October 11, 1996, on a weekly basis, and that Conrail underperformed the Index from the period of October 16, 1995 through October 11, 1996, on a weekly basis. No comparison was made for the period after October 11, 1996 due to the distorting effects of subsequent events, including the execution of the Merger Agreement.

Conclusion

In addition to the above outlined analyses, Wasserstein Perella performed such other valuation analyses as it deemed appropriate in determining the fairness to CSX of the consideration paid and to be paid by CSX from a financial point of view. In arriving at its opinion, Wasserstein Perella did not rely on any single analysis. Rather it considered all analyses taken as a whole, which together supported the conclusions Wasserstein Perella reached. Wasserstein Perella concluded that, in its judgment, as of the relevant dates, the consideration paid and to be paid in the Transaction is fair to CSX from a financial point of view.

VERIFICATION

STATE OF NEW YORK)
) ss.
COUNTY OF NEW YORK)

Bruce P. Nolop, being duly sworn, deposes and says that his is Managing Director of Wasserstein Perella & Co. Inc., that he is qualified and authorized to submit this Verified Statement, and that he has read the foregoing statement, knows the contents thereof, and that the same is true and correct.

Bruce P Nolop

Bruce P. Nolop

Subscribed and sworn to before me by Bruce P. Nolop this 9TH day of JUNE, 1997.

Thomas Kuhn

Notary Public

THOMAS J. KUHN
NOTARY PUBLIC, STATE OF NEW YORK
NO. 31-4861607
QUALIFIED IN NEW YORK COUNTY
COMMISSION EXPIRES FEBRUARY 8, 1998

VERIFICATION

STATE OF NEW YORK)
) ss.
COUNTY OF NEW YORK)

Bruce P. Nolop, being duly sworn, deposes and says that his is Managing Director of Wasserstein Perella & Co, Inc., that he is qualified and authorized to submit this Verified Statement, and that he has read the foregoing statement, knows the contents thereof, and that the same is true and correct.

Bruce P Nolop

Bruce P. Nolop

Subscribed and sworn to before me by Bruce P. Nolop this 9TH day of JUNE, 1997.

Thomas Kuhn

Notary Public

THOMAS J. KUHN
NOTARY PUBLIC, STATE OF NEW YORK
NO. 31-4961607
QUALIFIED IN NEW YORK COUNTY
COMMISSION EXPIRES FEBRUARY 5, 1998

The terms and conditions of the Transaction are set forth in the Offer to Purchase relating to the Tender Offer, as it has been amended and supplemented to the date of this opinion (the "Offer to Purchase"), and in the Merger Agreement and the CSX/NSC Agreement. We understand that the consummation of the Merger is conditioned on, among other things, Conrail's stockholders' approval of the Merger, that, if the Minimum Condition (as defined in the Merger Agreement) is satisfied, such approval may be effected solely through the Conrail Shares acquired in the Tender Offer, and that execution and delivery of the CSX/NSC Agreement may be considered a "control transaction" for purposes of the Pennsylvania Control Transaction Law (as defined in the Offer to Purchase).

We understand that, subject to applicable voting trust arrangements, (i) CSX Sub is the beneficial owner of 17,775,124 Conrail Shares which were purchased by it at a price of $110.00 per share in cash in a tender offer consummated on November 20, 1996 and (ii) NSC Sub is the beneficial owner of 8,200,000 Conrail Shares.

We further understand that pursuant to the CSX/NSC Agreement, CSX and NSC have agreed to jointly participate in the Tender Offer. Pursuant to the CSX/NSC Agreement, CSX (or CSX and NSC) will form a new entity ("CSX/NSC Acquisition Sub"), to which CSX will contribute all of the capital stock of CSX Sub (and retain 100 Conrail Shares outside of CSX Sub) and NSC will contribute to CSX/NSC Acquisition Sub the 8,200,000 Conrail Shares owned by NSC Sub. Each of CSX and NSC will also contribute to CSX/NSC Acquisition Sub cash sufficient to purchase in the Tender Offer and Merger all of the Conrail Shares to be purchased therein. The relative amounts of cash to be contributed by CSX and NSC will be in such a proportion that CSX will have a 42% economic ownership interest in CSX/NSC Acquisition Sub and NSC will have a 58% economic ownership interest (valuing the Conrail Shares contributed by CSX at $110 per share and by NSC at $115 per share), and each of CSX and NSC will be allocated assets and liabilities as provided in the CSX/NSC Agreement.

In connection with rendering our opinion, we have reviewed the Offer to Purchase, the Merger Agreement and the CSX/NSC Agreement. We have also reviewed and analyzed certain publicly available business and financial information relating to CSX and Conrail for recent years and interim periods to date, as well as certain internal financial and operating information, including financial forecasts, prepared by or on behalf of CSX and Conrail and provided to us for purposes of our analysis, and we have met with management of CSX and Conrail to review and discuss such information and, among other matters, CSX's and Conrail's respective businesses, operations, assets, financial condition and future prospects. We have also reviewed certain information prepared by or on behalf of CSX relating to the allocation of assets and liabilities of Conrail pursuant to the CSX/NSC Agreement and the methodology used in connection therewith provided to us for purposes of our analysis, and we have met with management of CSX to review and discuss such information. We have also reviewed and considered certain financial and stock market data relating to CSX and Conrail, and we have compared that data with similar data for certain other companies, the securities of which are publicly traded, that we believe may be relevant or comparable in certain respects to CSX and Conrail or one or more of their respective businesses or assets, and we have reviewed and considered the financial terms of certain recent acquisitions and business combinations which we believe to be reasonably comparable to the Transaction or otherwise relevant to our inquiry. We have considered the relative cost savings and other operating efficiencies expected to result from consummation of the Transaction and have compared such expected synergies with those realized and reported in other recent acquisitions and business combinations which we believe to be reasonably comparable to the Transaction. We have considered the limited opportunities available for business combinations in the railroad industry. We also performed such other studies, analyses and investigations and reviewed such other information as we considered appropriate.

In addition, in our review and analysis and in formulating our opinion, we have assumed and relied upon the accuracy and completeness of all the financial and other information provided to or discussed with us or publicly available, and we have not assumed any responsibility for independent verification of any of such information. We have also relied upon the reasonableness and accuracy of the financial forecasts (including estimates of the cost savings and other operating efficiencies expected to result from consummation of the Transaction), certain information relating to tax matters and the information relating to the allocation of assets and liabilities of Conrail pursuant to the CSX/NSC Agreement and the methodology used in connection therewith provided to us and we have assumed, with your consent, that the financial forecasts and estimates, certain information relating to tax matters and the information relating to the allocation of assets and liabilities of Conrail pursuant to the CSX/NSC Agreement and the methodology used in connection therewith provided to us were reasonably prepared in good faith and on bases reflecting the best currently available judgments and estimates of the managements of CSX and Conrail, and we express no opinion with respect to such forecasts, estimates, information or methodology or the assumptions upon which they are based. In addition, we have not reviewed any of the books and records of CSX or Conrail or assumed any responsibility for conducting a physical inspection of the properties or facilities of CSX or Conrail, or for making or obtaining an independent valuation or appraisal of the assets or liabilities of CSX or Conrail (including, without limitation, any of the assets and liabilities contemplated to be allocated to CSX or NSC under the terms of the CSX/NSC Agreement) and we have not been furnished any such valuation or appraisal. We have assumed that the Transaction will be consummated on the terms set forth in the Merger Agreement and the CSX/NSC Agreement, without any waiver of any of the terms and conditions thereof by CSX. Our opinion is necessarily based on economic and market conditions and other circumstances as they exist and can be evaluated by us as of the date hereof.

In rendering our opinion, we have also assumed, with your consent and without independent inquiry, that all regulatory and other approvals required to consummate the Transaction will be received in the manner contemplated by the Merger Agreement and the CSX/NSC Agreement, and that, in the course of obtaining such approvals, no restrictions will

STB FD 33388 6-23-97 A 180274V1 11/14

VERIFICATION

CITY OF ALEXANDRIA	)	
	)	SS:
STATE OF VIRGINIA	)	

JOHN C. KLICK, being duly sworn, deposes and says that he has read the foregoing statement, knows the contents thereof and that the same are true as stated to the best of his knowledge and belief.

John C Klick

JOHN C. KLICK

Subscribed and Sworn to
Before Me, a Notary Public
This 19th Day of June, 1997.

Jennifer L Torregrossa

NOTARY PUBLIC

My Commission expires March 31, 1999

STATEMENT OF QUALIFICATIONS

OF

JOHN C. KLICK

My name is John C. Klick. I am a Principal of the economic and financial consulting firm of Klick, Kent & Allen, Inc. The firm's offices are located at 66 Canal Center Plaza, Suite 670, Alexandria, Virginia 22314.

I am a 1970 graduate of Bates College, from which I obtained a Bachelor of Science degree in Mathematics. I also have taken graduate courses in finance, accounting, and operations research. Since 1970, I have been involved continuously in cost-based economic and financial studies for a variety of industries.

Throughout my career, I have organized and directed cost for service providers, state governments, and other public bodies dealing with network industries. Examples of past studies that I have participated in include (1) organizing and directing traffic, operational and cost analyses in connection with the valuation of northeastern rail property transferred to the Consolidated Rail Corporation, (2) calculation of stand-alone and long-run incremental costs for major segments of the nation's railroad industry, and (3) estimation of the marginal, incremental costs and stand-alone costs for various services performed by a major petroleum products pipeline company. Virtually all of these studies have involved the development and/or use of complex, computerized cost models that make extensive use of detailed engineering and operating input and incorporate sophisticated discounted cash flow techniques.

The results of these studies frequently have been presented in both oral and written testimony before the Interstate Commerce Commission, the Federal Energy Regulatory Commission, arbitration panels, and the federal and state courts. This testimony has related to subjects such as the development of variable cost of service, marginal costs, incremental costs, stand-alone costs, the economic principles concerning the maximum and minimum level of rates, and procedures for implementing these maximum and minimum rate principles.

Recently, I have been retained by AT&T and MCI to assist them in analyzing cost evidence submitted by various parties in proceedings arising out of the Telecommunications Act of 1996, and I have testified extensively on a variety of costing issues in this area.

CALCULATIONS DEVELOPING THE OPERATING COSTS ASSOCIATED WITH THE GROWTH TRAFFIC

URCS UNIT COSTS - 1995 COMBINED CSXT PLUS ITS PORTION OF CONRAIL

		SERVICE UNITS							
UNIT COSTS FROM REV NEUTRAL PHASE II		TRAILING GTM'S	LOCO UNIT MILES	TRAIN MILES (Non-Crew)	TRAIN MILES (Crew)	SEM	STATION CLERICAL	CAR COSTS (Miles & Day)	TOFC Ld / Unld
NUMBER OF UNITS ADDED		26,185,959,709	11,705,337	5,033,871	5,033,871	7,352,113	447,575	See attached sheets	
								Loading / Unlding =	562495
Unit cost description	URCS WT location								
Running MoW & Ownshp	D1	COL 10	None	None	None	None	None	None	None
	1. L157 Total (Adjusted)	$0.00051876	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	2. L234 Total D&L Exp	$0.00000000	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	3. L251 Total ROI Exp	$0.00000000	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	4. OPR - GOH	1.00000	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	5. D&L - GOH	1.00000	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	6. ROI - GOH	1.00000	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00051876	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$0.00000000
Total Variable Costs		$13,584,228	$0	$0	$0	$0	$0	$0	$0
Yard MoW & Ownshp	D2	None	None	None	None	COL 10	D5 L 122 COL 14	None	D7 L 721 COL 8
	1. L159 Total (Adjusted)	xxx	xxx	xxx	xxx	$0.18917187	$13.83370000	TOFC ld/unld =	$48.64312000
	2. L236 Total D&L Exp	xxx	xxx	xxx	xxx	$0.00000000	xxx	xxx	xxx
	3. L255 Total ROI Exp	xxx	xxx	xxx	xxx	$0.00000000	xxx	xxx	xxx
	4. OPR - GOH	xxx	xxx	xxx	xxx	1.00000	1.00000	xxx	1.00000
	5. D&L - GOH	xxx	xxx	xxx	xxx	1.00000	xxx	xxx	xxx
	6. ROI - GOH	xxx	xxx	xxx	xxx	1.00000	xxx	xxx	xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$0.18917187	$13.83370000	$0.00000000	$48.64312000
Total Variable Costs		$0	$0	$0	$0	$1,390,813	$6,191,618	$0	$27,361,512
Road Operations	D3	COL 10	COL 20/16	COL 25/22	COL 30/26	COL 40\34	None	See attached sheets	None
	1. L191 Total (Adjusted)	$0.00059015	$1.44863915	$0.50207735	$6.23066000	$0.16652822	xxx	GM = $8,288,7[illegible]1	xxx
	2. L217 Total D&L Exp	$0.00015592	$0.38462000	$0.01015000	$0.00000000	$0.01220000	xxx	CC&IO = $4,914,069	xxx
	3. L224 Total ROI Exp	$0.00020004	$0.49346000	$0.01773000	$0.00000000	$0.01565000	xxx	TOFC = $39,244,420	xxx
	4. OPR - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx	AUTO = $3,384,001	xxx
	5. D&L - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx		xxx
	6. ROI - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx		xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00094611	$2.32671915	$0.52995735	$6.23066000	$0.19437822	$0.00000000	xxx	$0.00000000
Total Variable Costs		$24,774,798	$27,235,031	$2,667,737	$31,364,340	$1,429,091	$0	$55,831,261	$0
Yard Operations	D4	None	None	None	None	Col 10	None	See attached sheets	None
	1. L159 Total (Adjusted)	xxx	xxx	xxx	xxx	$1.86794407	xxx	GM = $5,066,407	xxx
	2. L213 Total D&L Exp	xxx	xxx	xxx	xxx	$0.02779000	xxx	CC&IO = $5,309,993	xxx
	3. L220 Total ROI Exp	xxx	xxx	xxx	xxx	$0.04414000	xxx	TOFC = $4,954,694	xxx
	4. OPR - GOH	xxx	xxx	xxx	xxx	1.00000	xxx	AUTO = $486,131	xxx
	5. D&L - GOH	xxx	xxx	xxx	xxx	1.00000	xxx		xxx
	6. ROI - GOH	xxx	xxx	xxx	xxx	1.00000	xxx		xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$1.93987407	$0.00000000	xxx	$0.00000000
Total Variable Costs		$0	$0	$0	$0	$14,262,173	$0	$15,817,225	$0
Total Variable Operating Costs		**$38,359,027**	**$27,235,031**	**$2,667,737**	**$31,364,340**	**$17,082,077**	**$6,191,618**	**$71,648,486**	**$27,361,512**

GRAND TOTAL $221,909,829

455

General Merchandise + Coal, Coke & Iron Ore Remainder

CALCULATIONS DEVELOPING THE OPERATING COSTS ASSOCIATED WITH THE GROWTH TRAFFIC

URCS UNIT COSTS - 1995 COMBINED CSXT PLUS ITS PORTION OF CONRAIL

		SERVICE UNITS								
UNIT COSTS FROM REV NEUTRAL PHASE II		TRAILING GTM'S	LOCO UNIT MILES	TRAIN MILES (Non-Crew)	TRAIN MILES (Crew)	SEM	STATION CLERICAL		CAR COSTS (Miles & Day)	TOFC Ld / Unld
NUMBER OF UNITS ADDED		5,841,301,418	1,620,301	771,572	771,572	1,244,219	125,947			
									Ld & Unld =	N/A
Unit cost description	URCS WT location									
Running MoW & Ownshp	D1	COL 10	None	None	None	None	None		None	None
	1. L157 Total (Adjusted)	$0.00051876	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	2. L234 Total D&L Exp	$0.00000000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	3. L251 Total ROI Exp	$0.00000000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	4. OPR - GOH	1.00000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	5. D&L - GOH	1.00000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	6. ROI - GOH	1.00000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00051876	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$0.00000000		$0.00000000	$0.00000000
Total Variable Costs		$3,030,234	$0	$0	$0	$0	$0		$0	$0
Yard MoW & Ownshp	D2	None	None	None	None	COL 10	D5 L 122 COL 14		None	D7 L 721 COL 8
	1. L159 Total (Adjusted)	xxx	xxx	xxx	xxx	$0.18917187	$13.83370000		TOFC ld/unld =	$48.64312000
	2. L236 Total D&L Exp	xxx	xxx	xxx	xxx	$0.00000000	xxx		xxx	xxx
	3. L255 Total ROI Exp	xxx	xxx	xxx	xxx	$0.00000000	xxx		xxx	xxx
	4. OPR - GOH	xxx	xxx	xxx	xxx	1.00000	1.00000		xxx	1.00000
	5. D&L - GOH	xxx	xxx	xxx	xxx	1.00000	xxx		xxx	xxx
	6. ROI - GOH	xxx	xxx	xxx	xxx	1.00000	xxx		xxx	xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$0.18917187	$13.83370000		$0.00000000	$48.64312000
Total Variable Costs		$0	$0	$0	$0	$235,371	$1,742,313		$0	$0
Road Operations	D3	COL 10	COL 20/18	COL 25/22	COL 30/26	COL 40\34	None			None
	1. L191 Total (Adjusted)	$0.00059015	$1.44863915	$0.50207735	$6.23066000	$0.16652822	xxx	GM =	$8,288,771	xxx
	2. L217 Total D&L Exp	$0.00015592	$0.38462000	$0.01015000	$0.00000000	$0.01220000	xxx			xxx
	3. L224 Total ROI Exp	$0.00020004	$0.49346000	$0.01773000	$0.00000000	$0.01565000	xxx			xxx
	4. OPR - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx			xxx
	5. D&L - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx			xxx
	6. ROI - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx			xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00094611	$2.32671915	$0.52995735	$6.23066000	$0.19437822	$0.00000000		xxx	$0.00000000
Total Variable Costs		$5,526,514	$3,769,986	$408,900	$4,807,403	$241,849	$0		$8,288,771	$0
Yard Operations	D4	None	None	None	None	Col 10	None			None
	1. L159 Total (Adjusted)	xxx	xxx	xxx	xxx	$1.86794407	xxx	GM =	$5,066,407	xxx
	2. L213 Total D&L Exp	xxx	xxx	xxx	xxx	$0.02779000	xxx			xxx
	3. L220 Total ROI Exp	xxx	xxx	xxx	xxx	$0.04414000	xxx			xxx
	4. OPR - GOH	xxx	xxx	xxx	xxx	1.00000	xxx			xxx
	5. D&L - GOH	xxx	xxx	xxx	xxx	1.00000	xxx			xxx
	6. ROI - GOH	xxx	xxx	xxx	xxx	1.00000	xxx			xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$1.93987407	$0.00000000		xxx	$0.00000000
Total Variable Costs		$0	$0	$0	$0	$2,413,629	$0		$5,066,407	$0
Total Variable Operating Costs		**$8,556,747**	**$3,769,986**	**$408,900**	**$4,807,403**	**$2,890,849**	**$1,742,313**		**$13,355,178**	**$0**

Gen. Merch. Total $35,531,377

CSX Internal Study of Coal, Coke & Iron Ore (Bulk)

CALCULATIONS DEVELOPING THE OPERATING COSTS ASSOCIATED WITH THE GROWTH TRAFFIC

URCS UNIT COSTS - 1995 COMBINED CSXT PLUS ITS PORTION OF CONRAIL

		SERVICE UNITS								
UNIT COSTS FROM REV NEUTRAL PHASE II		TRAILING GTM'S	LOCO UNIT MILES	TRAIN MILES (Non-Crew)	TRAIN MILES (Crew)	SEM	STATION CLERICAL		CAR COSTS (Miles & Day)	TOFC Ld / Unld
NUMBER OF UNITS ADDED		5,285,494,590	1,653,716	787,484	787,484	1,572,471	102,180		Ld & Unld =	N/A
Unit cost description	URCS WT location									
Running MoW & Ownshp	D1	COL 10	None	None	None	None	None		None	None
	1. L157 Total (Adjusted)	$0.00051876	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	2. L234 Total D&L Exp	$0.00000000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	3. L251 Total ROI Exp	$0.00000000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	4. OPR - GOH	1.00000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	5. D&L - GOH	1.00000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	6. ROI - GOH	1.00000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00051876	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$0.00000000		$0.00000000	$0.00000000
Total Variable Costs		$2,741,903	$0	$0	$0	$0	$0		$0	$0
Yard MoW & Ownshp	D2	None	None	None	None	COL 10	D5 L 122 COL 14		None	D7 L 721 COL 8
	1. L159 Total (Adjusted)	xxx	xxx	xxx	xxx	$0.18917187	$13.83370000		TOFC ld/unld =	$48.64312000
	2. L236 Total D&L Exp	xxx	xxx	xxx	xxx	$0.00000000	xxx		xxx	xxx
	3. L255 Total ROI Exp	xxx	xxx	xxx	xxx	$0.00000000	xxx		xxx	xxx
	4. OPR - GOH	xxx	xxx	xxx	xxx	1.00000	1.00000		xxx	1.00000
	5. D&L - GOH	xxx	xxx	xxx	xxx	1.00000	xxx		xxx	xxx
	6. ROI - GOH	xxx	xxx	xxx	xxx	1.00000	xxx		xxx	xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$0.18917187	$13.83370000		$0.00000000	$48.64312000
Total Variable Costs		$0	$0	$0	$0	$297,467	$1,413,527		$0	$0
Road Operations	D3	COL 10	COL 20/18	COL 25/22	COL 30/26	COL 40\34	None			None
	1. L191 Total (Adjusted)	$0.00059015	$1.44863915	$0.50207735	$6.23066000	$0.16652822	xxx	CC&IO =	$4,914,069	xxx
	2. L217 Total D&L Exp	$0.00015592	$0.38462000	$0.01015000	$0.00000000	$0.01220000	xxx			xxx
	3. L224 Total ROI Exp	$0.00020004	$0.49346000	$0.01773000	$0.00000000	$0.01565000	xxx			xxx
	4. OPR - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx			xxx
	5. D&L - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx			xxx
	6. ROI - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx			xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00094611	$2.32671915	$0.52995735	$6.23066000	$0.19437822	$0.00000000		xxx	$0.00000000
Total Variable Costs		$5,000,659	$3,847,732	$417,333	$4,906,544	$305,654	$0		$4,914,069	$0
Yard Operations	D4	None	None	None	None	Col 10	None			None
	1. L159 Total (Adjusted)	xxx	xxx	xxx	xxx	$1.86794407	xxx	CC&IO =	$5,309,993	xxx
	2. L213 Total D&L Exp	xxx	xxx	xxx	xxx	$0.02779000	xxx			xxx
	3. L220 Total ROI Exp	xxx	xxx	xxx	xxx	$0.04414000	xxx			xxx
	4. OPR - GOH	xxx	xxx	xxx	xxx	1.00000	xxx			xxx
	5. D&L - GOH	xxx	xxx	xxx	xxx	1.00000	xxx			xxx
	6. ROI - GOH	xxx	xxx	xxx	xxx	1.00000	xxx			xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$1.93987407	$0.00000000		xxx	$0.00000000
Total Variable Costs		$0	$0	$0	$0	$3,050,396	$0		$5,309,993	$0
Total Variable Operating Costs		$7,742,562	$3,847,732	$417,333	$4,906,544	$3,653,518	$1,413,527		$10,224,062	$0

C, C & IO Total	$32,205,279

Intermodal + Truck / Barge-to-Rail Carload

CALCULATIONS DEVELOPING THE OPERATING COSTS ASSOCIATED WITH THE GROWTH TRAFFIC

URCS UNIT COSTS - 1995 COMBINED CSXT PLUS ITS PORTION OF CONRAIL

		SERVICE UNITS								
UNIT COSTS FROM REV NEUTRAL PHASE II		TRAILING GTM'S	LOCO UNIT MILES	TRAIN MILES (Non-Crew)	TRAIN MILES (Crew)	SEM	STATION CLERICAL		CAR COSTS (Miles & Day)	TOFC Ld / Unld
NUMBER OF UNITS ADDED		14,081,897,016	7,789,241	3,169,064	3,169,064	4,144,357	199,648			
									Ld & Unld =	562,495
Unit cost description	URCS WT location									
Running MoW & Ownshp	D1	COL 10	None	None	None	None	None		None	None
	1. L157 Total (Adjusted)	$0.00051876	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	2. L234 Total D&L Exp	$0.00000000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	3. L251 Total ROI	$0.00000000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	4. OPR - GOH	1.00000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	5. D&L - GOH	1.00000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
	6. ROI - GOH	1.00000	xxx	xxx	xxx	xxx	xxx		xxx	xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00051876	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$0.00000000		$0.00000000	$0.00000000
Total Variable Costs		$7,305,125	$0	$0	$0	$0	$0		$0	$0
Yard MoW & Ownshp	D2	None	None	None	None	COL 10	D5 L 122 COL 14		None	D7 L 721 COL 8
	1. L159 Total (Adjusted)	xxx	xxx	xxx	xxx	$0.18917187	$13.83370000		TOFC ld/unld =	$48.64312000
	2. L236 Total D&L Exp	xxx	xxx	xxx	xxx	$0.00000000	xxx		xxx	xxx
	3. L255 Total ROI Exp	xxx	xxx	xxx	xxx	$0.00000000	xxx		xxx	xxx
	4. OPR - GOH	xxx	xxx	xxx	xxx	1.00000	1.00000		xxx	1.00000
	5. D&L - GOH	xxx	xxx	xxx	xxx	1.00000	xxx		xxx	xxx
	6. ROI - GOH	xxx	xxx	xxx	xxx	1.00000	xxx		xxx	xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$0.18917187	$13.83370000		$0.00000000	$48.64312000
Total Variable Costs		$0	$0	$0	$0	$783,996	$2,761,871		$0	$27,361,512
Road Operations	D3	COL 10	COL 20/18	COL 25/22	COL 30/26	COL 40\34	None			None
	1. L191 Total (Adjusted)	$0.00059015	$1.44863915	$0.50207735	$6.23066000	$0.16652822	xxx			xxx
	2. L217 Total D&L Exp	$0.00015592	$0.38462000	$0.01015000	$0.00000000	$0.01220000	xxx			xxx
	3. L224 Total ROI Exp	$0.00020004	$0.49346000	$0.01773000	$0.00000000	$0.01565000	xxx	TOFC =	$39,244,420	xxx
	4. OPR - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx			xxx
	5. D&L - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx			xxx
	6. ROI - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx			xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00094611	$2.32671915	$0.52995735	$6.23066000	$0.194378[illegible]	$0.00000000		xxx	$0.00000000
Total Variable Costs		$13,323,024	$18,123,377	$1,679,469	$19,745,359	$805,57[illegible]	$0		$39,244,420	$0
Yard Operations	D4	None	None	None	None	Col 10	None			None
	1. L159 Total (Adjusted)	xxx	xxx	xxx	xxx	$1.86794407	xxx			xxx
	2. L213 Total D&L Exp	xxx	xxx	xxx	xxx	$0.02779000	xxx			xxx
	3. L220 Total ROI Exp	xxx	xxx	xxx	xxx	$0.04414000	xxx	TOFC =	$4,954,694	xxx
	4. OPR - GOH	xxx	xxx	xxx	xxx	1.00000	xxx			xxx
	5. D&L - GOH	xxx	xxx	xxx	xxx	1.00000	xxx			xxx
	6. ROI - GOH	xxx	xxx	xxx	xxx	1.00000	xxx			xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$1.93987407	$0.00000000		xxx	$0.00000000
Total Variable Costs		$0	$0	$0	$0	$8,039,530	$0		$4,954,694	$0
Total Variable Operating Costs		**$20,628,148**	**$18,123,377**	**$1,679,469**	**$19,745,359**	**$9,629,099**	**$2,7[illegible]**		**$44,199,114**	**$27,361,512**

Intermodal
Truck to Rail Total $144,127,949

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CALCULATIONS DEVELOPING THE OPERATING COSTS ASSOCIATED WITH THE GROWTH TRAFFIC

URCS UNIT COSTS - 1995 COMBINED CSXT PLUS ITS PORTION OF CONRAIL

		SERVICE UNITS							
UNIT COSTS FROM REV NEUTRAL PHASE II		TRAILING GTM'S	LOCO UNIT MILES	TRAIN MILES (Non-Crew)	TRAIN MILES (Crew)	SEM	STATION CLERICAL	CAR COSTS (Miles & Day)	TOFC Ld / Unld
NUMBER OF UNITS ADDED		977,266,685	642,078	305,752	305,752	391,066	19,800	Ld & Unld =	N/A
Unit cost description	URCS WT location								
Running MoW & Ownshp	D1	COL 10	None	None	None	None	None	None	None
	1. L157 Total (Adjusted)	$0.00051876	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	2. L234 Total D&L Exp	$0.00000000	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	3. L251 Total ROI Exp	$0.00000000	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	4. OPR - GOH	1.00000	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	5. D&L - GOH	1.00000	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	6. ROI - GOH	1.00000	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00051876	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$0.00000000
Total Variable Costs		$506,967	$0	$0	$0	$0	$0	$0	$0
Yard MoW & Ownshp	D2	None	None	None	None	COL 10	D5 L 122 COL 14	None	D7 L 721 COL 8
	1. L159 Total (Adjusted)	xxx	xxx	xxx	xxx	$0.18917187	$13.83370000	TOFC ld/unld =	$48.64312000
	2. L236 Total D&L Exp	xxx	xxx	xxx	xxx	$0.00000000	xxx	xxx	xxx
	3. L255 Total ROI Exp	xxx	xxx	xxx	xxx	$0.00000000	xxx	xxx	xxx
	4. OPR - GOH	xxx	xxx	xxx	xxx	1.00000	1.00000	xxx	1.00000
	5. D&L - GOH	xxx	xxx	xxx	xxx	1.00000	xxx	xxx	xxx
	6. ROI - GOH	xxx	xxx	xxx	xxx	1.00000	xxx	xxx	xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$0.18917187	$13.83370000	$0.00000000	$48.64312000
Total Variable Costs		$0	$0	$0	$0	$73,979	$273,907	$0	$0
Road Operations	D3	COL 10	COL 20/18	COL 25/22	COL 30/26	COL 40\34	None		None
	1. L191 Total (Adjusted)	$0.00059015	$1.44863915	$0.50207735	$6.23066000	$0.16652822	xxx		xxx
	2. L217 Total D&L Exp	$0.00015592	$0.38462000	$0.01015000	$0.00000000	$0.01220000	xxx		xxx
	3. L224 Total ROI Exp	$0.00020004	$0.49346000	$0.01773000	$0.00000000	$0.01565000	xxx		xxx
	4. OPR - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx	AUTO = $3,384,001	xxx
	5. D&L - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx		xxx
	6. ROI - GOH	1.00000	1.00000	1.00000	1.00000	1.00000	xxx		xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00094611	$2.32671915	$0.52995735	$6.23066000	$0.19437822	$0.00000000	xxx	$0.00000000
Total Variable Costs		$924,602	$1,493,936	$162,035	$1,905,034	$76,015	$0	$3,384,001	$0
Yard Operations	D4	None	None	None	None	Col 10	None		None
	1. L159 Total (Adjusted)	xxx	xxx	xxx	xxx	$1.86794407	xxx		xxx
	2. L213 Total D&L Exp	xxx	xxx	xxx	xxx	$0.02779000	xxx		xxx
	3. L220 Total ROI Exp	xxx	xxx	xxx	xxx	$0.04414000	xxx		xxx
	4. OPR - GOH	xxx	xxx	xxx	xxx	1.00000	xxx	AUTO = $486,131	xxx
	5. D&L - GOH	xxx	xxx	xxx	xxx	1.00000	xxx		xxx
	6. ROI - GOH	xxx	xxx	xxx	xxx	1.00000	xxx		xxx
Total Variable Unit Cost	(Lns 1*4+2*5+3*6)	$0.00000000	$0.00000000	$0.00000000	$0.00000000	$1.93987407	$0.00000000	xxx	$0.00000000
Total Variable Costs		$0	$0	$0	$0	$758,618	$0	$486,131	$0
Total Variable Operating Costs		$1,431,569	$1,493,936	$162,035	$1,905,034	$908,611	$273,907	$3,870,132	$0

Finished Auto Total $10,045,225

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BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 33388

CSX CORPORATION AND CSX TRANSPORTATION, INC. AND
NORFOLK SOUTHERN CORPORATION AND
NORFOLK SOUTHERN RAILWAY COMPANY
--CONTROL AND OPERATING LEASES/AGREEMENTS--
CONRAIL INC. AND CONSOLIDATED RAIL CORPORATION

VERIFIED STATEMENT OF BRUCE P. NOLOP

VERIFIED STATEMENT
OF
BRUCE P. NOLOP

My name is Bruce P. Nolop. I am a Managing Director of Wasserstein Perella & Co., Inc. ("Wasserstein Perella"), located at 31 West 52nd Street, New York, New York. I received a J.D. and an M.B.A. from Stanford University.

I have been a Managing Director and the head of the Industrial Group since joining Wasserstein Perella in 1993. Before joining Wasserstein Perella, I was with Goldman, Sachs (1986-1993), Kimberly-Clark (1981-1986) and Morgan Stanley (1976-1981).

Wasserstein Perella, founded in February 1988, is an internationally recognized, specialized advisory and investment banking firm that regularly performs valuations of businesses and securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. Since its inception, Wasserstein Perella has provided advisory services on more than 320 announced transactions with an aggregate value of approximately $312 billion.

Wasserstein Perella's Assignment and Opinion
with Respect to the CSX/NSC/Conrail Transaction

By letter agreement dated October 14, 1996, CSX retained Wasserstein Perella to act as its financial advisor with respect to the contemplated acquisition of Conrail Inc. ("Conrail"). CSX requested that Wasserstein Perella advise it in connection with the acquisition of Conrail and evaluate the fairness to CSX, from a financial point of view, of the consideration to be paid by CSX in the transaction. Wasserstein Perella subsequently rendered a fairness opinion to CSX with respect to the consideration paid and to be paid by CSX pursuant to the terms of (i) the Agreement and Plan of Merger, dated as of October 14, 1996, as amended by the First Amendment, dated as of November 5, 1996, the Second Amendment, dated as of December 18, 1996, the Third Amendment, dated as of March 7, 1997 and the Fourth Amendment, dated as of April 8, 1997 (as so amended and together with the exhibits and annexes thereto, the "Merger Agreement"), by and among CSX, Green Acquisition Corp., a wholly owned subsidiary of CSX ("CSX Sub"), and Conrail and (ii) the letter agreement, dated April 8, 1997, between Norfolk Southern Corporation ("NSC") and CSX (together with the exhibits and annexes thereto, the "CSX/NSC Agreement").

Pursuant to the Merger Agreement (as then in effect), CSX Sub purchased 17,860,124 Conrail Shares at a price of $110.00 per share in cash in a tender offer consummated on November 20, 1996. The Conrail Shares purchased by CSX Sub thereby were placed in a voting trust to ensure that CSX and its affiliates did not acquire or, directly or indirectly, exercise control over Conrail and it affiliates prior to obtaining necessary Surface Transportation Board approval.

The Merger Agreement currently provides for, among other things, a cash tender offer (the "Tender Offer") by CSX and NSC to acquire all of the outstanding Conrail Shares and ESOP Preferred Stock (each as defined below and, in each case, including the associated common share purchase rights) (excluding any shares owned by CSX Sub, Atlantic Acquisition Corporation, a wholly owned subsidiary of NSC ("NSC Sub"), or CRR Holdings (as defined below)) for $115.00 in cash per share, and for the subsequent Merger (as defined in the Merger Agreement) pursuant to which each remaining outstanding Conrail Share not purchased in the Tender Offer (other than Conrail Shares held in the treasury of Conrail or owned by CSX, NSC, CSX Sub, NSC Sub or any of their respective subsidiaries or affiliates) will be converted into the right to receive $115.00 per share. The Tender Offer was consummated on May 23, 1997. All Conrail Shares acquired in the Tender Offer have been, and the Conrail Shares to be acquired in the Merger will be, placed in a voting trust for the purpose described in the immediately preceding paragraph. For the purposes hereof, "Conrail Shares" shall mean the outstanding shares, on a fully diluted basis, of common stock, par value $1.00 per share, of Conrail (the "Conrail Common Stock") (including Conrail Common Stock issuable upon conversion of the Series A ESOP Convertible Junior Preferred Stock, without par value, of Conrail (the "ESOP Preferred Stock") but excluding Conrail Common Stock outstanding or issuable upon conversion of the Green Stock Option (as defined in the Merger Agreement)).

Pursuant to the CSX/NSC Agreement, CSX and NSC agreed to jointly participate in the Tender Offer. Pursuant to the CSX/NSC Agreement, CSX and NSC formed a new entity, CRR Holdings LLC ("CRR Holdings"), to which CSX contributed all of the capital stock of CSX Sub (and retain 100 Conrail Shares outside of CSX Sub) and NSC contributed to CRR Holdings the 8,200,000 Conrail Shares owned by NSC Sub. Each of CSX and NSC also contributed to CRR Holdings cash sufficient to purchase in the Tender Offer and Merger all of the Conrail Shares purchased or to be purchased therein. The relative amounts of cash contributed by CSX and NSC were in such a proportion that CSX has a 42% economic ownership interest in CRR Holdings and NSC has a 58% economic ownership interest (valuing the Conrail Shares contributed by CSX at $110 per share and by NSC at $115 per share), and each of CSX and NSC will be allocated assets and liabilities as provided in the CSX/NSC Agreement. For the purposes hereof, "Transaction" shall mean the Tender Offer and the consummation of the transactions contemplated by the Merger Agreement and the CSX/NSC Agreement.

At a meeting of CSX's Board of Directors held on April 8, 1997, Wasserstein Perella rendered to the Board of Directors an oral opinion (subsequently confirmed in writing) to the effect that, as of that date and subject to the matters described in the opinion letter, the consideration paid and to be paid by CSX in the Transaction is fair to CSX from a financial point of view. A copy of the written opinion is attached.

The foregoing is a summary of the transactions contemplated by the Merger Agreement and the CSX/NSC Agreement and is qualified in its entirety by reference thereto. The text of the Merger Agreement and the CSX/NSC Agreement is included in Volume 8 of this application.

Wasserstein Perella's Analysis

In connection with rendering its opinion, Wasserstein Perella reviewed, among other things, (i) the Merger Agreement, (ii) the Offer to Purchase relating to the Tender Offer, as it has been amended and supplemented to the date of the opinion, (iii) the CSX/NSC Agreement, (iv) certain public filings made by CSX and Conrail, including filings made in connection with the Transaction, (v) certain publicly available business and financial information relating to CSX and Conrail for recent years and interim periods to the date of such opinion, (vi) certain internal financial and operation information, including financial forecasts, and certain information relating to the allocation of assets and liabilities of Conrail pursuant to the CSX/NSC Agreement, in each case prepared by or on behalf of CSX and Conrail and provided to Wasserstein Perella for purposes of its analysis, (vii) certain financial and stock market data relating to CSX and Conrail and (viii) the financial terms of certain recent acquisitions and business combinations which Wasserstein Perella believed to be reasonably comparable to the Transaction or otherwise relevant to its inquiry. Wasserstein Perella also performed such other studies, analyses and investigations and reviewed such other information as it considered appropriate.

Prior to rendering its opinion, Wasserstein Perella also held discussions with members of the management of CSX and Conrail to review and discuss the information reviewed by Wasserstein Perella, and, among other matters, CSX's and Conrail's respective businesses, operations, assets, financial condition and future prospects. Wasserstein Perella considered the views of the management of CSX and Conrail regarding the strategic importance of, and potential cost savings and other operating efficiencies expected to result from, consummation of the Transaction. Wasserstein Perella compared the expected synergies with those realized and reported in other recent acquisitions and business combinations which Wasserstein Perella believed to be reasonably comparable to the Transactions.

Wasserstein Perella's opinion was subject to certain assumptions and limitations set forth in the written opinion, and was necessarily based on information available to it and on financial, stock market and other conditions and circumstances as they existed and could be evaluated as of the date the opinion was rendered.

In preparing its opinion and presentation to CSX's Board of Directors, Wasserstein Perella performed a variety of financial and comparative analyses, including those described below. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses or of the summary set forth above, without considering the analyses as a whole, could create an incomplete view of the processes underlying Wasserstein Perella's opinion. In arriving at its determination of fairness, Wasserstein Perella considered the results of all such analyses, as well as other analyses, factors and considerations. No company or transaction used in the above analyses as a comparison is identical to CSX or Conrail or the contemplated Transaction. The analyses were prepared solely for purposes of providing Wasserstein Perella's opinion to the CSX Board as to the fairness to CSX from a financial point of view of the consideration paid and to be paid in the Transaction. Set forth below is a summary of certain of the financial analyses used by Wasserstein Perella in connection with providing its opinion to the CSX Board on April 8, 1997.

(i) *Pro Forma Transaction Analysis.* Wasserstein Perella prepared pro forma analyses of the financial impact of the Transaction on CSX, relying on financial projections prepared by the management of both CSX and Conrail and on estimates made (as of the relevant dates) by management of both CSX and Conrail of the relative cost savings, revenue enhancements and other operating efficiencies (net of incremental costs) expected to result from consummation of the Transaction. The annual synergies expected to result from the Transaction were estimated to total $575 million in the third year after consummation of the Transaction.

In addition, Wasserstein Perella compared the EPS of CSX Common Stock on a stand-alone basis to the EPS of the common stock of the combined company giving effect to the Transaction on a pro forma basis. Such analyses were prepared for the years 1997, 1998, 1999 and 2000. These analyses showed that the Transaction would provide EPS dilution to holders of CSX Common Stock for the years 1997 and 1998, and accretion in the years 1999 and 2000, after taking into account the synergies expected to be realized in each year.

(ii) *Selected Companies Analysis.* Wasserstein Perella reviewed certain financial information relating to CSX and Conrail and compared it to corresponding financial information, ratios and public market multiples for three publicly-traded corporations: Burlington Northern Santa Fe, Norfolk Southern Corporation and Union Pacific Corporation (the "Selected Companies"). The Selected Companies were chosen because they are publicly-traded companies with operations that, for purposes of analysis, may be considered to be similar to the operations of Conrail. Wasserstein Perella's analysis incorporated, among other things, the price to earnings ratio for the Selected Companies, using estimated 1996 and 1997 earnings (based on mean estimates from First Call as of April 8, 1997. First Call is a data service which monitors and publishes a compilation of earnings estimates produced by selected research analysts on companies of interest to investors. Wasserstein Perella's analysis also incorporated Enterprise Value as a multiple of forecasted 1996 and 1997 EBITDA and EBIT.

No company considered in Wasserstein Perella's analysis is identical to CSX or Conrail. Accordingly, an analysis of the results of Wasserstein Perella's analysis necessarily involves certain considerations and judgments concerning differences in the financial and operating characteristics of Conrail and other factors which could affect the implied public trading value of the Selected Companies to which it is being compared.

(iii) *Selected Acquisitions Analysis.* Wasserstein Perella reviewed and analyzed certain financial information based on selected mergers and acquisitions in the railroad industry. Wasserstein Perella considered (a) the multiples of Enterprise Value to EBITDA and to EBIT, (b) the multiples of Equity Value to net income and (c) the effective premium offered to shareholders of the target companies over the stock price prevailing four weeks prior to the announcement of each transaction, in each case in certain recent mergers and acquisitions, and principally those between Burlington Northern and Santa Fe and between Union Pacific and Southern Pacific. Wasserstein Perella also considered the offer of Union Pacific for Santa Fe which was not consummated. Based on an analysis of those transactions, multiples of latest twelve-month ("LTM") EBITDA (earnings before interest, taxes, depreciation and amortization), LTM EBIT (earnings before interest and taxes), LTM net income and the effective premium (as compared with unaffected market prices of target company stocks) were applied to Conrail's corresponding year-end information to suggest per share equity value ranges. Wasserstein Perella also compared the estimated synergies expected to be realized in the Transaction with those synergies reported and realized in certain recent transactions considered to be reasonably comparable to the Transaction.

"Enterprise Value" means the fully-diluted equity market value of the transaction plus net debt and "Equity Value" means the fully-diluted equity market value of the transaction. No transaction utilized in this analysis is identical to the Transaction. Accordingly, an analysis of the results of the foregoing necessarily involves certain considerations and judgments concerning differences in the financial and operating characteristics of Conrail and certain other factors which could affect the derived values of the transactions to which the Transaction is being compared.

(iv) *Discounted Cash Flow Analysis.* Wasserstein Perella performed a discounted cash flow analysis to calculate a present value of the Unlevered Free Cash Flows that Conrail is expected to generate in accordance with certain financial forecasts. This analysis was performed with respect to Conrail's Unlevered Free Cash Flows on two bases -- one which did not take into account any of the cost savings and other operating efficiencies expected to result from the Transaction, and one which allocated such synergies to Conrail on a stand-alone basis. Assumptions with regard to synergies expected to be realized, for the purposes of this analysis, were identical to the assumptions made in developing the Pro Forma Transaction Analysis described above. To arrive at valuations of Conrail's Unlevered Free Cash Flows over a 10-year projection period commencing in 1997, Wasserstein Perella discounted such estimated cash flows using an appropriate range of discount rates. To such present values, Wasserstein Perella added the discounted terminal values using an appropriate exit multiple range of EBITDA, assuming the relevant discount rate ranges.

"Unlevered Free Cash Flows" means EBIT less taxes plus depreciation and amortization and other non-cash items minus capital expenditures and net changes in working capital.

(v) *Historical Stock Trading Analysis.* Wasserstein Perella reviewed the historical price trading performance of CSX Common Stock and Conrail Common Stock, on both a monthly and weekly basis, in the three years prior to the execution of the Merger Agreement, and the relationship between movements of such common stock and movements in a composite index (the "Index") composed of the Selected Companies.

This analysis showed that both CSX and Conrail slightly underperformed the Index from the period of October 1993 through September 1996, on a monthly basis, that CSX outperformed the Index from the period of October 16, 1995 through October 11, 1996, on a weekly basis, and that Conrail underperformed the Index from the period of October 16, 1995 through October 11, 1996, on a weekly basis. No comparison was made for the period after October 11, 1996 due to the distorting effects of subsequent events, including the execution of the Merger Agreement.

Conclusion

In addition to the above outlined analyses, Wasserstein Perella performed such other valuation analyses as it deemed appropriate in determining the fairness to CSX of the consideration paid and to be paid by CSX from a financial point of view. In arriving at its opinion, Wasserstein Perella did not rely on any single analysis. Rather it considered all analyses taken as a whole, which together supported the conclusions Wasserstein Perella reached. Wasserstein Perella concluded that, in its judgment, as of the relevant dates, the consideration paid and to be paid in the Transaction is fair to CSX from a financial point of view.

<u>VERIFICATION</u>

STATE OF NEW YORK)
) ss.
COUNTY OF NEW YORK)

Bruce P. Nolop, being duly sworn, deposes and says that his is Managing Director of Wasserstein Perella & Co. Inc., that he is qualified and authorized to submit this Verified Statement, and that he has read the foregoing statement, knows the contents thereof, and that the same is true and correct.

Bruce P. Nolop

Bruce P. Nolop

Subscribed and sworn to before me by Bruce P. Nolop this 9TH day of JUNE, 1997.

Thomas Kuhn

Notary Public

THOMAS J. KUHN
NOTARY PUBLIC, STATE OF NEW YORK
NO. 31-4861607
QUALIFIED IN NEW YORK COUNTY 98
COMMISSION EXPIRES FEBRUARY 5, 1998

VERIFICATION

STATE OF NEW YORK)
) ss.
COUNTY OF NEW YORK)

Bruce P. Nolop, being duly sworn, deposes and says that his is Managing Director of Wasserstein Perella & Co, Inc., that he is qualified and authorized to submit this Verified Statement, and that he has read the foregoing statement, knows the contents thereof, and that the same is true and correct.

Bruce P. Nolop

Bruce P. Nolop

Subscribed and sworn to before me by Bruce P. Nolop this 9TH day of JUNE, 1997.

Thomas Kuhn

Notary Public

THOMAS J. KUHN
NOTARY PUBLIC, STATE OF NEW YORK
NO. 31-4861607
QUALIFIED IN NEW YORK COUNTY
COMMISSION EXPIRES FEBRUARY 5, 1998

WASSERSTEIN
PERELLA & CO

Wasserstein Perella & Co., Inc.
31 West 52nd Street
New York, New York 10019
Telephone 212-969-2700
Fax 212-969-7836

April 8, 1997

Board of Directors
CSX Corporation
One James Center
Richmond, Virginia 23219

Members of the Board:

You have asked us to advise you with respect to the fairness, from a financial point of view, to CSX Corporation ("CSX") of the consideration paid and to be paid by CSX pursuant to the terms of (i) the Agreement and Plan of Merger, dated as of October 14, 1996, as amended by the First Amendment, dated as of November 5, 1996, the Second Amendment, dated as of December 18, 1996, the Third Amendment, dated as of March 7, 1997 and the Fourth Amendment, dated as of April 8, 1997 (as so amended and together with the exhibits and annexes thereto, the "Merger Agreement"), by and among CSX, Green Acquisition Corp., a wholly owned subsidiary of CSX ("CSX Sub"), and Conrail Inc. ("Conrail") and (ii) the letter agreement, dated April 8, 1997, between Norfolk Southern Corporation ("NSC") and CSX (together with the exhibits and annexes thereto, the "CSX/NSC Agreement").

The Merger Agreement provides for, among other things, a cash tender offer (the "Tender Offer") by CSX and NSC to acquire all of the outstanding Conrail Shares and ESOP Preferred Stock (each as defined below and, in each case, including the associated common share purchase rights) (excluding any shares owned by CSX Sub, Atlantic Acquisition Corporation, a wholly owned subsidiary of NSC ("NSC Sub"), or CSX/NSC Acquisition Sub (as defined below)) for $115.00 in cash per share, and for the subsequent Merger (as defined in the Merger Agreement) pursuant to which each remaining outstanding Conrail Share not purchased in the Tender Offer (other than Conrail Shares held in the treasury of Conrail or owned by CSX, NSC, CSX Sub, NSC Sub or any of their respective subsidiaries or affiliates) will be converted into the right to receive $115.00 per share. For purposes of this opinion, "Conrail Shares" shall mean the outstanding shares, on a fully diluted basis, of common stock, par value $1.00 per share, of Conrail (the "Conrail Common Stock") (including Conrail Common Stock issuable upon conversion of the Series A ESOP Convertible Junior Preferred Stock, without par value, of Conrail (the "ESOP Preferred Stock") but excluding Conrail Common Stock outstanding or issuable upon conversion of the Green Stock Option (as defined in the Merger Agreement)). For purposes of this opinion, "Transaction" shall mean the Tender Offer and the consummation of the transactions contemplated by the Merger Agreement and the CSX/NSC Agreement.

certain respects to CSX and Conrail or one or more of their respective businesses or assets, and we have reviewed and considered the financial terms of certain recent acquisitions and business combinations which we believe to be reasonably comparable to the Transaction or otherwise relevant to our inquiry. We have considered the relative cost savings and other operating efficiencies expected to result from consummation of the Transaction and have compared such expected synergies with those realized and reported in other recent acquisitions and business combinations which we believe to be reasonably comparable to the Transaction. We have considered the limited opportunities available for business combinations in the railroad industry. We also performed such other studies, analyses and investigations and reviewed such other information as we considered appropriate.

In addition, in our review and analysis and in formulating our opinion, we have assumed and relied upon the accuracy and completeness of all the financial and other information provided to or discussed with us or publicly available, and we have not assumed any responsibility for independent verification of any of such information. We have also relied upon the reasonableness and accuracy of the financial forecasts (including estimates of the cost savings and other operating efficiencies expected to result from consummation of the Transaction), certain information relating to tax matters and the information relating to the allocation of assets and liabilities of Conrail pursuant to the CSX/NSC Agreement and the methodology used in connection therewith provided to us and we have assumed, with your consent, that the financial forecasts and estimates, certain information relating to tax matters and the information relating to the allocation of assets and liabilities of Conrail pursuant to the CSX/NSC Agreement and the methodology used in connection therewith provided to us were reasonably prepared in good faith and on bases reflecting the best currently available judgments and estimates of the managements of CSX and Conrail, and we express no opinion with respect to such forecasts, estimates, information or methodology or the assumptions upon which they are based. In addition, we have not reviewed any of the books and records of CSX or Conrail or assumed any responsibility for conducting a physical inspection of the properties or facilities of CSX or Conrail, or for making or obtaining an independent valuation or appraisal of the assets or liabilities of CSX or Conrail (including, without limitation, any of the assets and liabilities contemplated to be allocated to CSX or NSC under the terms of the CSX/NSC Agreement) and we have not been furnished any such valuation or appraisal. We have assumed that the Transaction will be consummated on the terms set forth in the Merger Agreement and the CSX/NSC Agreement, without any waiver of any of the terms and conditions thereof by CSX. Our opinion is necessarily based on economic and market conditions and other circumstances as they exist and can be evaluated by us as of the date hereof.

In rendering our opinion, we have also assumed, with your consent and without independent inquiry, that all regulatory and other approvals required to consummate the Transaction will be received in the manner contemplated by the Merger Agreement and the CSX/NSC Agreement, and that, in the course of obtaining such approvals, no restrictions will

The terms and conditions of the Transaction are set forth in the Offer to Purchase relating to the Tender Offer, as it has been amended and supplemented to the date of this opinion (the "Offer to Purchase"), and in the Merger Agreement and the CSX/NSC Agreement. We understand that the consummation of the Merger is conditioned on, among other things, Conrail's stockholders' approval of the Merger, that, if the Minimum Condition (as defined in the Merger Agreement) is satisfied, such approval may be effected solely through the Conrail Shares acquired in the Tender Offer, and that execution and delivery of the CSX/NSC Agreement may be considered a "control transaction" for purposes of the Pennsylvania Control Transaction Law (as defined in the Offer to Purchase).

We understand that, subject to applicable voting trust arrangements, (i) CSX Sub is the beneficial owner of 17,775,124 Conrail Shares which were purchased by it at a price of $110.00 per share in cash in a tender offer consummated on November 20, 1996 and (ii) NSC Sub is the beneficial owner of 8,200,000 Conrail Shares.

We further understand that pursuant to the CSX/NSC Agreement, CSX and NSC have agreed to jointly participate in the Tender Offer. Pursuant to the CSX/NSC Agreement, CSX (or CSX and NSC) will form a new entity ("CSX/NSC Acquisition Sub"), to which CSX will contribute all of the capital stock of CSX Sub (and retain 100 Conrail Shares outside of CSX Sub) and NSC will contribute to CSX/NSC Acquisition Sub the 8,200,000 Conrail Shares owned by NSC Sub. Each of CSX and NSC will also contribute to CSX/NSC Acquisition Sub cash sufficient to purchase in the Tender Offer and Merger all of the Conrail Shares to be purchased therein. The relative amounts of cash to be contributed by CSX and NSC will be in such a proportion that CSX will have a 42% economic ownership interest in CSX/NSC Acquisition Sub and NSC will have a 58% economic ownership interest (valuing the Conrail Shares contributed by CSX at $110 per share and by NSC at $115 per share), and each of CSX and NSC will be allocated assets and liabilities as provided in the CSX/NSC Agreement.

In connection with rendering our opinion, we have reviewed the Offer to Purchase, the Merger Agreement and the CSX/NSC Agreement. We have also reviewed and analyzed certain publicly available business and financial information relating to CSX and Conrail for recent years and interim periods to date, as well as certain internal financial and operating information, including financial forecasts, prepared by or on behalf of CSX and Conrail and provided to us for purposes of our analysis, and we have met with management of CSX and Conrail to review and discuss such information and, among other matters, CSX's and Conrail's respective businesses, operations, assets, financial condition and future prospects. We have also reviewed certain information prepared by or on behalf of CSX relating to the allocation of assets and liabilities of Conrail pursuant to the CSX/NSC Agreement and the methodology used in connection therewith provided to us for purposes of our analysis, and we have met with management of CSX to review and discuss such information. We have also reviewed and considered certain financial and stock market data relating to CSX and Conrail, and we have compared that data with similar data for certain other companies, the securities of which are publicly traded, that we believe may be relevant or comparable in be imposed that will have a material adverse effect on the contemplated benefits of the Transaction to CSX.

We understand that the structure and terms of the allocation of the assets and liabilities between CSX and NSC pursuant to the CSX/NSC Agreement has not yet been definitively determined. We have assumed, with your consent and without independent inquiry or analysis, that the allocation to CSX of the assets and liabilities of Conrail pursuant to the CSX/NSC Agreement represents at least 42% of the historical and forecasted total assets, liabilities, revenues, cash flows and net income of Conrail, and our analysis was premised on the application of that percentage to the financial information furnished to us or derived by us. We have further assumed that no material tax liability will be imposed upon either CSX or Conrail in connection with the consummation of the transactions contemplated by the CSX/NSC Agreement.

We are acting as financial advisor to CSX in connection with the proposed Transaction and will receive a fee for our services, a major portion of which is contingent upon the consummation of the Transaction. We also have committed to participate as dealer manager in connection with the Tender Offer. We have performed financial advisory services for CSX from time to time in the past and have received customary fees for rendering such services, and we may provide investment banking services to CSX in the future.

Our opinion addresses only the fairness from a financial point of view to CSX of the consideration paid and to be paid by CSX in the Transaction. We do not express any views on any other terms of the Transaction. Specifically, our opinion does not address either (i) CSX's underlying business decision to effect the Transaction or (ii) whether the allocation to CSX of the assets and liabilities of Conrail pursuant to the CSX/NSC Agreement represents at least 42% of the historical and forecasted total assets, liabilities, revenues, cash flows and net income of Conrail.

It is understood that this letter is for the benefit and use of the Board of Directors of CSX in its consideration of the Transaction. Except for inclusion in a proxy statement relating to the Merger or as may otherwise be required by law or by a court of competent jurisdiction, this letter may not be disclosed or otherwise referred to without our prior written consent. This opinion does not constitute a recommendation to any shareholder with respect to how such holder should vote with respect to the Merger and should not be relied upon as such, and we are expressing no opinion herein as to the prices at which any security of CSX or Conrail may trade following the announcement or completion of the Transaction.

Based upon and subject to the foregoing, including the various assumptions and limitations set forth herein, it is our opinion that, as of the date hereof, the consideration paid and to be paid by CSX in the Transaction is fair to CSX from a financial point of view.

Very truly yours,

Wasserstein Perella + Co., Inc.

WASSERSTEIN PERELLA & CO., INC.

Based upon and subject to the foregoing, including the various assumptions and limitations set forth herein, it is our opinion that, as of the date hereof, the consideration paid and to be paid by CSX in the Transaction is fair to CSX from a financial point of view.

Very truly yours,

Wasserstein Perella & Co., Inc.

WASSERSTEIN PERELLA & CO., INC.

BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 33388

CSX CORPORATION AND CSX TRANSPORTATION, INC. AND
NORFOLK SOUTHERN CORPORATION AND
NORFOLK SOUTHERN RAILWAY COMPANY
--CONTROL AND OPERATING LEASES/AGREEMENTS--
CONRAIL INC. AND CONSOLIDATED RAIL CORPORATION

VERIFIED STATEMENT OF STEPHEN C. TOBIAS

VERIFIED STATEMENT

OF

STEPHEN C. TOBIAS

I. INTRODUCTION AND QUALIFICATIONS

My name is Stephen C. Tobias. I am Executive Vice President - Operations at Norfolk Southern Corporation, a position I have held since July 1, 1994. My duties include responsibility for the Engineering, Mechanical, Safety, Police, Material Management and Transportation Departments of Norfolk Southern Corporation ("NS"), Three Commercial Place, Norfolk, Virginia 23510. My career in railroading began in October 1969 as a Junior Engineer for Norfolk and Western Railway Company ("NW"). Subsequent to that time, I held various positions at NW in the Engineering and Transportation Departments, including Junior Engineer, Assistant Roadmaster, Assistant Trainmaster, General Yardmaster, Terminal Trainmaster and Division Superintendent. On October 1, 1989, I was promoted from the position of NS's General Manager-Western Lines in Atlanta, Georgia, to the position of Vice President of Transportation. On December 1, 1992, I was appointed Vice President - Strategic Planning and on October 1, 1993, I was elected Senior Vice President - Operations. I served in this position until I became Executive Vice President - Operations. In addition to my responsibilities for NS, I serve as an Officer or Director on a number of railroad-affiliated boards, including TTX Company and Terminal Railroad Association of St. Louis, and on the partnership management committee of Triple Crown Services Company.

Our mission at NS, known to our customers, employees and shareholders alike, is to be the safest, most customer-focused and successful transportation company in the world. The successful execution of this mission is the top priority at NS.

Because the aspects of our current operation relevant to this transaction are described in the Operating Plan, Exhibit 13, my statement will not reiterate these details. I will comment, generally, on the development of our Operating Plan for NS after NS obtains use of certain Consolidated Rail Corporation ("Conrail") assets and on my belief in the feasibility and practicality of our expanded business and rail operations. Before addressing the expanded operations, I will take this opportunity to demonstrate why I am confident in NS's ability, working with the employees of Conrail, to operate effectively the acquired routes of Conrail together with the present NS system, while increasing productivity, enhancing competition, expanding markets and improving railroad service throughout the East.

II. INDICATIONS OF PAST AND FUTURE SUCCESS

A. Safety

Norfolk Southern's name is synonymous with safety. For eight consecutive years, NS received the E. H. Harriman Memorial Medal award for employee safety, and with it, the recognition that NS is the safest major railroad in America. At the end of 1988, Norfolk Southern's employee injury performance was 5.83 for every 200,000 person hours worked. While that was the second best ratio among Class I railroads in 1988, NS determined that it was not good enough and turned to the safety experts at Du Pont to obtain review and recommendations for improvement of safety practices. Through implementation of the recommendations from this review, and as a result of dedication to safety as a part of the NS culture, injuries at NS have decreased every year since 1988 with NS reaching a record low injury ratio of 1.25 per 200,000 person hours worked in calendar year 1996. This has been achieved only through the collective efforts of our employees. We are still not satisfied, however, and are continuing to work with Du Pont for additional improvements as we strive to achieve zero injuries and fatalities.

We are well aware that, in the Northeast, our freight operations will share many of the same tracks and facilities with passenger and commuter train operations. We expect to mesh these differing operations in a manner consistent with and built upon NS's dedication to safety. Any concern about Norfolk Southern's future relationship with Amtrak and commuter agencies in the Northeast is misplaced. NS currently works harmoniously with commuter operations and Amtrak and will continue to do so in our expanded territory. To work together for our mutual benefit makes good business and safety sense.

The New Norfolk Southern system will remain focused on safety and, through continued application of NS rules and safety programs, will strive to remain the safety leader in the railroad industry. NS will not be content until it can achieve on the expanded, New Norfolk Southern system its goal of zero injuries and fatalities.

B. Customer Focus

Probably the most important measure of how a railroad responds to customer needs is how the customer evaluates the railroad. In 1996, NS received a number of industry-wide awards: Amoco Chemical - Amoco Chemical Excellence Award; BP Chemicals - Quality in Distribution Supplier of the Year; DOW Chemical Company - Rail Safety Achievement Award; and Occidental Chemical Corporation - Rail Carrier of the Year. NS also received the following service awards: ABB Power T&D - Superior Excellence Award; Air Products and Chemicals, Inc. - Rail Carrier of the Year; C. H. Robinson & Co. - Service Award; Eastman Chemical - Supplier Excellence Award; and Owens Corning Fiberglass - Rail Van Multi-Modal/Intermodal

Carrier of the Year. In 1996, NS also was named "Best of the Best" in the rail carrier category in *Distribution* Magazine's "Quest for Quality" survey. NS has earned this distinction six consecutive years. NS also was ranked by that same survey the best in terms of equipment and operations.

C. <u>Transportation Success</u>

We appreciate our customers' accolades, but of real importance is what lies behind them. Our underlying operating philosophy is that NS always strives to deliver the service that our customers require at the lowest possible cost. Our financial strengths and capabilities are covered in the testimony of other witnesses. However, I want to briefly point out that 1996 was the best year in NS's history, with records set for railway and transportation operating revenues, income from railway operations, net income and earnings per share. I am particularly proud that NS has the lowest and best operating ratio of any major Class I operating railroad. The NS operating ratio in 1996 was a record 71.6%. This reflects continuing improvement in the operating ratio from a respectable 78.3% in 1991. To achieve this level of operating success, the support of the entire company was required. A key ingredient in achieving these results has been the willingness of NS to invest in the assets needed to support performance, such as locomotives, rolling stock, track and structures, and support systems.

The above comments provide hard evidence that, where it matters most--safety, customer satisfaction and efficiency--NS has a long-standing record as a highly qualified railroad operator. I am personally committed that we will build upon our NS culture of safety and operating success as we achieve the successful implementation of the Operating Plan for the New Norfolk Southern system.

III. FORMULATION OF THE OPERATING PLAN

The formulation of the Operating Plan for the New Norfolk Southern system set forth in Exhibit 13 has been guided by my senior operating management team working together with a team of transportation consultants who offer a broad range of railroad expertise. The coordination and development of the Operating Plan was directed by D. Michael Mohan, of the Kingsley Group. I have participated in the development and review of the Operating Plan, Exhibit 13, and in particular, its assumptions concerning more direct routes, new train service, more efficient use of facilities, increased competition, capital improvements and expansion of intermodal services. Development of the Operating Plan essentially was accomplished using 1995 traffic data. The operation of the expanded, New Norfolk Southern system was modified to account for additional traffic predicted through diversion studies. Where appropriate, we estimated the additional capital required to be spent on portions of the expanded system to enable it to increase capacity and provide efficient, low cost service over the affected routes. Accordingly, the Operating Plan proposes more than 100 new or substantially revised train schedules, over 300 new or substantially revised blocks, and expanded or new terminal functions that are realistic and practical and will accommodate projected traffic while facilitating improved and efficient service. Further, we will be able to make any prudent modifications necessitated by future traffic changes to ensure our ability to provide better service to our customers at the lowest possible cost over the expanded system.

IV. ENHANCED TRANSPORTATION SYSTEM

From an operational sta point, with the expansion of NS's existing system through our use and operation of certain Conrail lines we will be able to create single-line service that will provide new and faster carload and intermodal services. We will be able to operate key routes, such as the principal east-west mainline from New York to Chicago through Pennsylvania that is the shortest single-line rail route between these major metropolitan areas, as well as the north-south routes connecting our southeastern lines with Philadelphia and Northern New Jersey, and the Southern Tier line connecting Buffalo to New York City.

One example of operational benefits is evidenced by the anticipated north-south single-line service. Traffic flowing north from NS's existing southeastern markets connects at Hagerstown, Maryland, with the Conrail secondary mainline that connects with Conrail's east-west, former Pennsylvania Railroad line at Harrisburg, Pennsylvania. As a result of this transaction, this combination of routes will create new single-line access from southeastern points to major markets such as Philadelphia and Northern New Jersey.

We have worked with Conrail to coordinate our activities in this traffic lane, particularly in the area of intermodal shipments. In order to reach the New York market better, Conrail acquired in 1993 a one-half interest in Triple Crown Services Company, and NS made available capital dollars for the Conrail lines in this same north-south corridor in order to permit double-stack container clearances. While these steps have improved intermodal train service through this corridor and increased marketing opportunities, they have been only marginally successful. The real potential for this corridor, and the ability to remove truck traffic from the I-85 and I-81 corridors, remains only partially realized. Conrail traditionally has focused its attention on its core, long-haul east-west lanes rather than what for it was the shorter haul north-south traffic. Accordingly, Conrail has been unwilling to commit the capital or resources required to work with NS in fully developing the terminals and capacity requirements necessary to create an efficient north-south corridor.

Overcoming the institutional barriers arising from each company's differing philosophies and priorities is a major benefit evidenced in our Operating Plan. NS, as a single operator, will be able to integrate the railroad and overcome the operating and capital investment differences which exist today between Conrail and NS. We will have a unified dispatching operation focusing on a single set of priorities in the movement of train loads with varying time constraints. We will be able to avoid the delays and costs associated with the interchange of traffic and achieve better utilization of locomotive power, freight cars, trailers, containers and Triple Crown units.

A similar benefit can be achieved in east-west traffic. Today, NS reaches Kansas City without going through the often congested Chicago and St. Louis gateways. Investments will be made to create additional track capacity and terminals, particularly between Fort Wayne, Indiana, and Decatur, Illinois, which will facilitate the movement of additional traffic coming from Conrail's existing northeastern markets. In the past, Conrail has preferred its own east-west traffic routes that connect with the western carriers at the Chicago and St. Louis gateways. The expanded, New Norfolk Southern system will be able to reroute, block and designate traffic to the appropriate western gateway. Customers will benefit through more consistent on-time deliveries, the elimination of intermediate switching, reduced transit times and increased equipment availability and utilization.

NS also anticipates new and expanded intermodal service consistent with its proven past record. NS has grown its intermodal business 53.3% between 1991 and 1996 through investments in intermodal terminals, equipment, and new and reliable trains and services. These NS intermodal capital investments totaled $157 million between 1991 and 1996. While NS is competitive for intermodal hauls as short as four hundred miles, such services to and from northeastern markets remain undeveloped. With Conrail's focus on longer haul services, NS has faced difficulties in effecting the operating changes necessary to develop competitive service to the major markets located on Conrail just a few hundred miles from existing NS facilities. Even aside from this conflict of corporate philosophies, establishing single-line service for shorter hauls is critical to creating the efficiencies required to make rail transportation financially competitive and to developing the operational improvements that will bring greater customer satisfaction.

While we have had some success in expanding market opportunities through operating coordinations developed with Conrail, based on my experience, I have concluded that the inherent philosophical differences which permeate the operational and business focuses of the two railroads cannot be reconciled on a day-to-day operational basis to the extent that will be possible through common management of single line routes. For this reason, it is my view that creation of the expanded, New Norfolk Southern system through this transaction will synchronize our combined operations and prove beneficial to our customers.

V. SHARED ASSETS AREAS

The Operating Plan describes three Shared Assets Areas that will be operated by Conrail to provide NS and CSX Transportation, Inc. ("CSXT") competitive, equal access to customers. The Shared Assets Areas are Northern New Jersey, Southern New Jersey/Philadelphia and Detroit. Both through our agreements and the development of the Operating Plan for this transaction, substantial care has been taken by NS and CSXT to ensure the effective operation of the Shared Assets Areas.

Each Shared Assets Area will be under the supervision of a separate superintendent who will be responsible for ensuring the safe and efficient operations of trains of NS, CSXT and the area's operator over the shared tracks. Train movements will be handled on an impartial and non-discriminatory basis between CSXT and NS. The primary function for the area's operator within the Shared Assets Areas will be to provide switching and train break-up and assembly services for CSXT and NS. CSXT and NS responsibilities will be to operate trains to, from and within the Shared Assets Areas, as the case may be, picking up and setting off cars or blocks of cars in order to provide safe, efficient and timely service to customers. The end result will be the provision of competitive alternatives for the benefit of the public, with equal access to customers by both NS and CSXT.

VI. CONCLUSION

While the specific aspects of the Operating Plan are discussed in more detail in the Verified Statement of Mr. D. Michael Mohan, based upon my experience and the experience of the people who have helped establish NS's record of excellence discussed above, I believe that the Operating Plan is feasible, practical and can be implemented to provide safer, more efficient, seamless, single-line direct service at lower cost. The Operating Plan details the new train schedules and blocking plans developed by NS to more efficiently reroute trains onto shorter routes and divert new traffic from other rail carriers and from trucks. Meeting customers' increasing needs for timely, reliable and consistently on-time service at competitive rates will be made possible through the more efficient single-line train routes that result from combining the existing NS system with those Conrail lines over which NS will acquire operational control into the New Norfolk Southern system.

VERIFICATION

I, Stephen C. Tobias, verify under penalty of perjury that I am Executive Vice President - Operations, that I have read the foregoing document and know its contents, and that the same is true and correct to the best of my knowledge and belief.

Executed on June 9, 1997.

Stephen C. Tobias

Stephen C. Tobias

VERIFICATION

I, Stephen C. Tobias, verify under penalty of perjury that I am Executive Vice President - Operations, that I have read the foregoing document and know its contents, and that the same is true and correct to the best of my knowledge and belief.

Executed on June 9, 1997.

Stephen C. Tobias

Stephen C. Tobias

BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 33388

CSX CORPORATION AND CSX TRANSPORTATION, INC. AND
NORFOLK SOUTHERN CORPORATION AND
NORFOLK SOUTHERN RAILWAY COMPANY
--CONTROL AND OPERATING LEASES/AGREEMENTS--
CONRAIL INC. AND CONSOLIDATED RAIL CORPORATION

VERIFIED STATEMENT OF HENRY C. WOLF

VERIFIED STATEMENT

OF

HENRY C. WOLF

I. INTRODUCTION

My name is Henry C. Wolf. I am Executive Vice President-Finance of Norfolk Southern Corporation, headquartered in Norfolk, Virginia. My qualifications and my experience, encompassing more than 24 years of service to Norfolk Southern, are described in Appendix A.

Norfolk Southern Corporation is a Virginia-based holding company that owns all the common stock of and controls a major freight railroad, Norfolk Southern Railway Company; a motor carrier, North American Van Lines, Inc.; and a natural resources company, Pocahontas Land Corporation. The Norfolk Southern Railway Company's lines extend over approximately 14,300 miles of road in 20 states, primarily in the Southeast and Midwest, and the Province of Ontario, Canada. North American provides household moving and specialized freight handling services in the United States and Canada, and offers certain motor carrier services worldwide. Pocahontas Land manages more than 900,000 acres of coal, natural gas and timber resources in Alabama, Illinois, Kentucky, Tennessee, Virginia, and West Virginia.

I am providing this statement to detail Norfolk Southern's financial condition and the projected financial results from our use and operation of portions of Conrail's assets, including those that would be operated jointly by and for the benefit of both Norfolk Southern and CSX Transportation.

Your attention is directed to the statements submitted by other senior officers of Norfolk Southern who explain the strategic need and implications of Norfolk Southern's acquisition of a substantial portion of Conrail stock. From my financial perspective, however, I want to stress my conviction that the terms under which we have agreed to acquire a portion of Conrail stock will allow Norfolk Southern to meet our obligations to creditors and provide an attractive return to our shareholders. By restructuring the rail system in the Northeast Region, the Conrail transaction presents a unique business opportunity to achieve rewarding private benefits while providing substantial benefits to the public.

II. CONCLUSIONS

The key conclusions in this Statement are:

- Norfolk Southern is financially strong.
- Norfolk Southern has successfully financed its $5.7 billion cost of the Conrail acquisition through the largest single **investment grade** public corporate debt offering ever sold in the U.S. market and the issuance of commercial paper.
- Norfolk Southern's pro forma financial statements demonstrate Norfolk Southern's capacity at existing freight rate levels, after allowing for rate compression resulting from increased competition, to repay its Conrail acquisition debt while making the capital expenditures necessary to maintain service excellence.

The remaining sections of this Statement provide more detailed analyses in support of my conclusions. Section III provides a review of Norfolk Southern Combined Railroads' historic financial performance; Section IV discusses Norfolk Southern's acquisition financing for Conrail; and Section V presents the pro forma financial statements that encompass the consolidation of Norfolk Southern with those portions of Conrail that we propose to operate.

III. REVIEW OF NORFOLK SOUTHERN'S FINANCIAL PERFORMANCE

Norfolk Southern was named "America's Most Admired Railroad" in *Fortune's* 15th Annual Corporate Reputations Survey, as reported in that magazine's March 3, 1997, issue. Overall, Norfolk Southern placed forty-first among 431 Fortune 1000 companies in forty-nine industries. Companies were rated by 13,000 senior executives, outside directors and financial security analysts on innovation; quality of management; value as a long-term investment; community and environmental responsibility; ability to attract, develop, and keep talented people; quality of products or services; financial soundness; and use of corporate assets. This is the third time in four years that Norfolk Southern has been first in the railroad category.

Attachment HCW-1 presents a Summary of Norfolk Southern Combined Railroads' financial performance, 1986-1995, as reported to the Surface Transportation Board and the Interstate Commerce Commission. From Attachment HCW-1, the following summarizes the key elements in Norfolk Southern Combined Railroads' financial performance during that decade:

- Norfolk Southern's Net Revenue From Rail Operations increased by 60 percent from $661.9 million in 1986 to $1,061.9 million in 1995.
- Norfolk Southern's Annual Capital Expenditures for its rail operations increased over the decade and, at $715.9 million, exceeded $700 million for the first time in 1995.
- Norfolk Southern's rail Operating Ratio continued its improvement, decreasing from 80.1 percent in 1986 to 73.5 percent in 1995.
- Norfolk Southern Combined Railroads' After Tax Rate of Return on total capitalization has typically been at 13 percent or higher during the decade.

As shown by Attachment HCW-2, compared with the average of all U.S. Class I railroads, Norfolk Southern's Combined Railroads' key 1995 financial ratios were superior:

- The Operating Ratio of 73.5 percent was about 13 percentage points **below** the average of all U.S. Class I railroads;
- The After Tax Rate of Return on total capitalization was about six percentage points **higher** than the average of all U.S. Class I railroads; and
- The Fixed Charge Coverage Ratio of 9.4 times was almost **double** the average of all U.S. Class I railroads.

In 1996, Norfolk Southern's Combined Railroads continued to improve their financial performance, although those improvements are not reflected in our pro forma financial statements that are based on 1995 data:

- Net Revenues From Operations increased to $1,164.8 million.
- Our Operating Ratio reached a record low of 71.6 percent.
- Capital expenditures continued at the substantial level of $754.1 million.

I would like to emphasize the high quality of Norfolk Southern's reported earnings. The financial community tends to focus on earnings per share before unusual items. In recent years, however, the frequency of special charges and accounting changes have increased to the point that one must ask whether or not they can be ignored in assessing earnings. Using data developed by *Value Line*, we recently compared Norfolk Southern's earnings per share with other major railroads before and after such unusual items. From 1991-1995, the net impact that these items had on Norfolk Southern amounted to less than 10 percent of cumulative earnings per share. The percentage impact was significantly higher for the other major railroads.

Over the years, as Norfolk Southern's railroads made money, our shareholders made money. Since 1983, our first full year after the consolidation of Southern Railway Company and Norfolk and Western Railway Company, through 1996, dividends grew 140 percent, or at an average compound annual growth rate of seven percent, well above the S&P 500 average. In January of 1997, the Board of Directors voted to again increase the quarterly dividend to $0.60 cents per share.

I believe that this history of continuing improvement in Norfolk Southern's performance demonstrates its extraordinary financial strength and the extent of its financial resources as it enters the Conrail transaction.

Equally important, Norfolk Southern has demonstrated a long-term commitment to use its resources to make the investments necessary to facilitate continued financial improvement. As Attachment HCW-1 shows, the Norfolk Southern Combined Railroads made Capital Expenditures of $5.9 billion from 1986 through 1995 in order to implement our strategy to continually improve operating efficiency and safety.

Further, the two charts contained in Attachments HCW-3 and HCW-4 demonstrate graphically that the Norfolk Southern Combined Railroads have invested more capital than the average of all U.S. Class I railroads. Attachment HCW-3 shows that the Norfolk Southern Combined Railroads' Total Capital Investment Per Mile of Track Operated as of year end 1995 was greater than the average of all U.S. Class I railroads. Attachment HCW-4 focuses on equipment investment. The condition and availability of rolling stock is of great importance to railroad customers, and Attachment HCW-4 shows that the Norfolk Southern Combined Railroads have, on average, invested more capital in their equipment fleet (freight cars, locomotives, trailers, etc.) than the average of all U.S. Class I railroads.

The two charts contained in Attachments HCW-3 and HCW-4 show clearly that the Norfolk Southern Combined Railroads have been willing to invest at the levels required to sustain our rail properties, and we intend to continue to do so in the future, both for our existing system and the portions of Conrail that we propose to operate.

IV. FINANCING NORFOLK SOUTHERN'S ACQUISITION OF CONRAIL STOCK

On April 8, 1997, Norfolk Southern and CSX reached an agreement to acquire Conrail's stock jointly for a total of approximately $10 billion. Prior to that time, CSX had acquired approximately 19.9 percent of Conrail shares, and Norfolk Southern had purchased approximately 9.9 percent of Conrail's shares.

The April 8, 1997 Agreement provides for the formation of a joint acquisition company to acquire all Conrail shares. Norfolk Southern contributed its Conrail stock and cash valued in total at $5.7 billion to the joint acquisition company for its 58 percent share of the acquisition, and CSX contributed its Conrail stock and cash valued in total at $4.2 billion for its 42 percent share. As my Statement demonstrates, Norfolk Southern can afford the fair price that we paid, and it is one that we believe will produce an attractive return for Norfolk Southern's shareholders. The transaction will ensure our leading role in railroad transportation, to the benefit of our customers and our employees.

During the week of May 12, 1997, Norfolk Southern raised $4.3 billion dollars in term debt, with maturities ranging from 3 years to 100 years. This was the largest **investment grade** corporate debt offering ever in the public U.S. market. The amount of the offering was increased twice, from the originally planned $3.0 billion to the final $4.3 billion, based on investor demand. The remaining portion of our Conrail acquisition cost was also readily financed in the public debt markets by the sale of commercial paper. The enthusiastic response to our debt issues demonstrates the confidence of the financial markets that Norfolk Southern will complete its operational integration of Conrail's assets successfully, and that the financial results of the transaction will be positive for Norfolk Southern creditors and shareholders alike.

Norfolk Southern traditionally has had the lowest debt to total capitalization ratio and the strongest balance sheet in the railroad industry. With the new debt, our debt to total capitalization ratio will be about 60 percent. Even so, both Norfolk Southern Railway Company and its parent, Norfolk Southern Corporation, continue to retain the highest investment grade credit ratings of any major U.S. railroad, from both Moody's and Standard & Poor's.

To enhance its ability to meet debt obligations associated with the Conrail acquisition, Norfolk Southern suspended its long-term stock purchase program in the fall of 1996. Since the first such purchases were authorized in December 1987, and continuing through October 1996, Norfolk Southern purchased and retired 68.5 million shares---over 35 percent--- of its common stock at a cost of $3.2 billion. The cost of the program was $389.4 million in 1996, $338.2 million in 1995, and $344.8 million in 1994. With the program suspended, all of Norfolk Southern's free cash flow will be available to repay debt incurred to acquire Conrail.

Another key to repayment of Norfolk Southern's Conrail acquisition debt will be the synergies derived from implementation of the Marketing and Operating Plans for this transaction. Also important will be the continued improvement in Norfolk Southern's operating efficiency that is independent of the Conrail acquisition, which is not reflected in our pro forma financial statements. Given the prospect of strong earnings growth and enhanced cash flows from the Conrail lines, as well as continued improvement in our existing operations and prudent cash management, Norfolk Southern plans to repay aggressively the Conrail acquisition debt.

V. PRO FORMA FINANCIAL STATEMENTS

This section of my Statement presents the Pro Forma Financial Statements for Norfolk Southern, reflecting use and operation of portions of Conrail. These pro forma financial statements were prepared in accordance with Surface Transportation Board requirements, and they reflect the consolidated Norfolk Southern Corporation, including North American Van Lines, Inc. and Pocahontas Land Corporation.

The base year used in our pro forma financial statements is 1995, as adjusted to eliminate the costs of a Norfolk Southern early retirement program in that year. All results are shown in constant 1995 dollars, except that the actual cost of acquisition and associated debt financing was used. These pro forma financial statements show our projected changes in revenues, expenses and capital expenditures as well as the debt financing associated with the acquisition by Norfolk Southern of 58 percent of Conrail. However, they do not reflect the impact of improvements in Norfolk Southern's and Conrail's operating and financial performance already attained in 1996 and 1997.

The pro forma financial projections were developed by Norfolk Southern's staff with assistance from independent consultants. The following Verified Statements submitted in this proceeding provided the primary information underlying the pro forma financial statements:

- Impacts on traffic volume and revenue were derived from the Rail Traffic Diversion Study, presented by Mr. John H. Williams, consultant; the Truck-To-Rail Diversion Study, presented by Mr. Patrick J. Krick, consultant; and the Coal Market Impact Study, presented by Mr. John William Fox, Norfolk Southern's Vice President-Coal Marketing.
- Impacts on operations and capital expenditures were derived from the Operating Plan presented by Mr. D. Michael Mohan, consultant.

- Savings were provided by the Statement of Mr. William E. Ingram, Norfolk Southern's Director Strategic Planning.

Norfolk Southern's projected pro forma financial statements are contained in Exhibits 16, 17, and 18 of the Joint Application. Following is a summary of the results:

- The proposed Norfolk Southern consolidation with its portion of Conrail would result in operating income of $2.0 billion, 24 percent above the base year 1995, in the third year after the transaction is consummated.
- By the third year, and in each successive year thereafter, operating cash flow will be sufficient to fund capital expenditures of approximately $1.0 billion per year. Long term debt will be reduced by a cumulative amount of $1.0 billion by the end of the third year.
- Fixed charge coverage will increase significantly, from 3.0 times in Year 1 to 3.8 times by the end of Year 3, as the benefits of the transaction are progressively realized in these and in each succeeding year.

I believe these pro forma financial statements demonstrate Norfolk Southern's capacity at existing freight rate levels, after allowing for rate compression from increased competition, to service its Conrail acquisition debt while maintaining service excellence and continuing historic levels of capital expenditures on its present Norfolk Southern properties and on its newly acquired Conrail properties.

I want to make an additional point about the acquisition of Conrail, from Norfolk Southern's perspective. Integration, we believe, is the key to the success of this transaction. We expect that Norfolk Southern will successfully and smoothly integrate Conrail operations into the New Norfolk Southern System. This will occur for a number of reasons, most importantly:

- Norfolk Southern has studied Conrail for more than ten years and knows its traffic, operations, networks and systems in great detail.
- The 58 percent portion of Conrail that Norfolk Southern will operate is substantially smaller than our current rail system.
- We have a history of jointly managed rail assets with CSX, going back over 60 years, which are successful precedents for CSX and Norfolk Southern operating the shared Conrail assets.
- At Norfolk Southern, we have a management team that not only has an outstanding track record for operating efficiency and financial success in railroad operations, but also has a history of successfully combining rail systems. The combination of Norfolk & Western and Southern Railway in the early 1980's was widely regarded as the most successful and smoothest of any rail consolidation. This was accomplished by the planning and attention to detail that characterizes our management culture.

It is Norfolk Southern's firm belief, therefore, that our operational integration of a portion of Conrail's assets will be successful, both operationally and financially.

VERIFICATION

I, Henry C. Wolf, verify under penalty of perjury that I am Executive Vice President-Finance, that I have read the foregoing document and know its contents, and that the same is true and correct to the best of my knowledge and belief.

Executed on June 7, 1997.

Henry C. Wolf

Henry C. Wolf

VERIFICATION

I, Henry C. Wolf, verify under penalty of perjury that I am Executive Vice President-Finance, that I have read the foregoing document and know its contents, and that the same is true and correct to the best of my knowledge and belief.

Executed on June 7, 1997.

Henry C. Wolf

Henry C. Wolf

Attachment HCW-1

Summary of Norfolk Southern Combined Railroads Financial Performance, 1986 - 1995

	Net Revenue From Operations (Millions)	Net Income (Millions)	Capital Expenditures (Millions)	Operating Ratio (%)	After Tax Rate of Return (%)	Fixed Charge Coverage (Times)
1986	$661.9	$ 505.2	$587.7	80.11	10.54	14.5
1987	75.5	168.3	467.0	97.74	4.39	5.4
1988	936.9	632.1	476.2	74.10	12.90	13.9
1989	829.7	620.6	615.5	77.54	12.80	12.2
1990	816.6	601.7	604.5	78.43	13.84	10.6
1991	308.5	223.5	604.9	91.56	6.47	4.1
1992	926.1	600.4	580.3	75.48	13.04	10.4
1993	915.3	773.1	646.3	75.57	15.41	11.3
1994	1,043.3	670.2	625.4	73.37	13.07	12.3
1995	1,061.9	697.4	715.9	73.53	13.63	9.4

Notes: (1) 1987 and 1991 results include pre-tax special charges of $607 and $483 million, respectively; 1993 results include the cumulative effects of accounting changes which increased net income by $24.6 million.

(2) After Tax Rate of Return is on Total Capitalization.

Source: *Analysis of Class I Railroads*, 1986 - 1995.

Attachment HCW-2

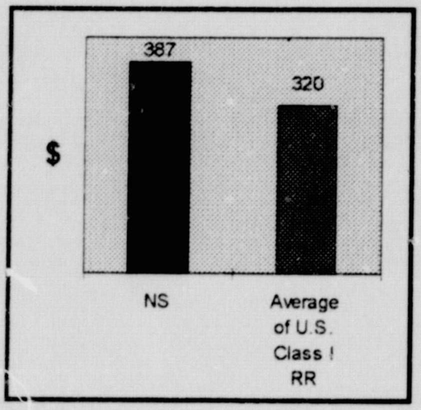
Comparison of 1995 Financial Ratios
Norfolk Southern Combined Railroads Versus Average Of U.S. Class I Railroads

	Operating Ratio (%)	After Tax Rate of Return (%)	Fixed Charge Coverage (Times)
Norfolk Southern Combined Railroads	73.53	13.63	9.4
Average of U.S. Class I Railroads	86.42	7.70	4.9

Source: *Analysis of Class I Railroads*, 1995

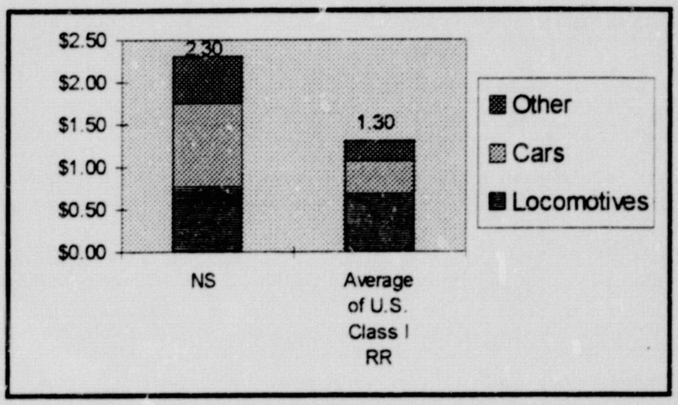
Attachment HCW-3

Total Capital Investment
Per Mile of Track Operated ($000)
(1995)



Attachment HCW-4

Average Annual Equipment Capital Expenditures Per Billion Revenue Ton Miles ($-Millions*)
(1986 - 1995)



*In constant 1995 dollars.

Appendix A

QUALIFICATIONS OF HENRY C. WOLF

I am Executive Vice President-Finance of Norfolk Southern Corporation, Three Commercial Place, Norfolk, VA 23510-2191.

I was educated at William and Mary, where I received a B.A. degree in 1964, and a J.D. in 1966. I received a M.B.A. from Louisiana State University in 1970. Subsequently, I also attended Georgetown University, receiving a L.LM. in 1973, and I attended Harvard's Advanced Management Program in 1992.

From 1966-1970, I served in the Judge Advocate General's Corps of the U.S. Army. In 1970, I was employed by the Internal Revenue Service as an Attorney in the Office of Chief Counsel. In 1971, I joined the United States Tax Court, as an Attorney-Advisor to Judge Irene F. Scott.

My career in railroading began with the Norfolk and Western Railway Company in 1973 as Senior Tax Attorney, and I was promoted to General Tax Attorney in 1976. Within Norfolk Southern Corporation, I became Senior Tax Counsel in 1983, Assistant Vice President-Tax Counsel in 1984, and Vice President-Taxation in 1991.

In 1993, I was promoted to Executive Vice President-Finance of Norfolk Southern Corporation. In that capacity, as Norfolk Southern's Chief Financial Officer, I am responsible for all aspects of our Finance Department, including Accounting, Taxation, Finance, Treasury, Investor Relations, and Information Technology.

I am a Director of Shenandoah Life Insurance Company, Virginia Institute of Marine Science, and Greater Norfolk Corporation.

BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 33388

CSX CORPORATION AND CSX TRANSPORTATION, INC. AND
NORFOLK SOUTHERN CORPORATION AND
NORFOLK SOUTHERN RAILWAY COMPANY
--CONTROL AND OPERATING LEASES/AGREEMENTS--
CONRAIL INC. AND CONSOLIDATED RAIL CORPORATION

VERIFIED STATEMENT OF JAMES W. MCCLELLAN

VERIFIED STATEMENT

OF

<u>JAMES W. MCCLELLAN</u>

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VERIFIED STATEMENT

OF

JAMES W. McCLELLAN

I. INTRODUCTION AND QUALIFICATIONS

My name is James W. McClellan. I am Vice President - Strategic Planning of Norfolk Southern Corporation. In that position, I have been responsible for negotiating directly with CSX Corporation many aspects of the transactions now before the Surface Transportation Board by which Norfolk Southern and CSX will create a balanced competitive rail system in the eastern United States by acquiring joint control of Conrail and operating certain Conrail properties (the "Plan").

I am a graduate of the Wharton School of the University of Pennsylvania with a Bachelor of Science in Economics. My association with the railroad industry spans more than thirty years and includes service in both the public and private sectors. I have been with Norfolk Southern and its predecessor company, Southern Railway, since 1978, holding various planning and corporate development positions. I started my railroad career in the Marketing Department of Southern Railway, and went on to hold marketing positions with New York Central and Penn Central, both predecessors of Conrail, and with Amtrak. I also served in various planning and policy positions with the Federal Railroad Administration, the United States Railway Association and the Association of American Railroads.

I have been involved with northeastern railroading for more than thirty years. As a marketing officer at New York Central in the late 1960s, I experienced the decline of that railroad as well as the Penn Central merger. From 1969 to 1971 and 1973 to 1974 at the Federal Railroad

Administration and the United States Railway Association, I was "inside" the decision making process as the Federal government wrestled with the growing financial and operating crisis that threatened the continued private sector existence of railroads in the Northeast. I was directly involved in the decisions and recommendations concerning the level of rail service and rail-to-rail competition believed needed and sustainable.

In the mid-1970s, I worked at the Association of American Railroads with other industry and government leaders as solutions were sought to the still widening "railroad crisis" which had, by that time, expanded into the Midwest. Starting in 1978 at Southern Railway, I was directly involved in the Norfolk Southern consolidation, as well as the Southern and NS responses to other rail mergers, such as the creation of CSX. At NS, I have been intimately involved in its various attempts to acquire Conrail, an effort that commenced in 1984.

In this statement, I discuss the genesis of the Plan, including some of the history of past restructuring efforts in the region. I review the current barriers to the free and efficient flow of goods in the East due to the current rail structure and outline the major efficiencies and service improvements planned by NS, and discuss transition planning for the New Norfolk Southern system.

II. BACKGROUND

This Conrail transaction cannot be understood in a vacuum. Indeed, this transaction cannot be understood without considering at least 30 years of recent northeastern railroad history.

A. Post-war Consolidations

Since World War II, the rail industry structure has been dominated by two trends: rail consolidations that have produced entities spanning regional boundaries, and the continued isolation of rail carriers serving the Northeast from the rest of the eastern and national network.

Rail consolidation has been ongoing since railroading began. After World War II, the initial efforts were modest and had little more than local impact: Gulf, Mobile and Ohio bought Alton (1948); Pere Marquette was absorbed by Chesapeake and Ohio (1948); Louisville & Nashville bought Nashville, Chattanooga & St. Louis (1957); Norfolk and Western acquired the Virginian (1959). The scale of consolidation escalated when Delaware, Lackawanna and Western merged with Erie to form Erie Lackawanna (1960), and Chesapeake and Ohio acquired Baltimore and Ohio (1963) to form what became the Chessie System.

Regional boundaries were breached in 1964 when N&W acquired Wabash and Nickel Plate, creating a system stretching from Norfolk to Kansas City. As a condition of that transaction, the ICC directed that the financially weak Erie Lackawanna and Delaware & Hudson be included. They were held by N&W in a separate subsidiary -- Dereco -- the first step in a persistent effort to keep healthier carriers isolated from the northeastern "problem."

In the Southeast, Southern acquired Central of Georgia (1963), and Atlantic Coast Line and Seaboard Air Line merged in 1967. Subsequent actions by the resulting southeastern systems created a two carrier competitive system in most of that region. These systems were formed against the backdrop of, and facilitated, rapid regional growth, partially offset by escalation of modal competition brought by completion of the Interstate Highway system.

In the Northeast, rail carriers had a more serious challenge. The competitive threat from trucks was at least as great, the region was shifting more to a service economy, and rail traffic was static or declining. Northeastern carriers continued to seek efficiencies through consolidation.

B. Penn Central and Financial Failure

Pennsylvania Railroad and New York Central were the premier railroads in the nation for decades, reflecting the importance of the northeastern region in the overall economy. They dwarfed their lesser northeastern rivals in terms of size, market share and quality of their routes; each possessed superb east-west routes between the Northeast and Midwest, a legacy of their passenger heritage.

Yet by the early 1960s, each had fallen on hard times. Trucks were making serious inroads into their freight traffic base, and losses were mounting on the extensive intercity passenger and commuter businesses operated by each. A consolidation offered significant cost savings, and PRR and NYC agreed to merge.

Penn Central was born on February 1, 1968. In the process of winning regulatory approval, PRR and NYC made a number of voluntary compromises, and other conditions were imposed. Penn Central agreed to lifetime labor protection and the return to work of furloughed employees to win union support. Penn Central agreed to run Metroliner service in the Northeast Corridor, even though passenger service was a growing source of deficits. PRR sold its interest in N&W, and PC was forced to include the bankrupt (in 1961) New Haven. In essence, two weak railroads agreed to take actions that in 20-20 hindsight appear suicidal: taking on employee guarantees when traffic was declining; and taking on passenger services when losses were huge and growing.

Penn Central filed for bankruptcy on June 21, 1970, the then largest bankruptcy in U.S. history. Within several years, most northeastern railroads were in bankruptcy: Erie Lackawanna, Reading, Lehigh Valley, Lehigh and Hudson River, and Boston and Maine (the Central of New Jersey bankruptcy predated the PC bankruptcy).

C. Federal Solution

The mounting financial crisis led to growing service problems on Penn Central and the other bankrupt railroads. lower speed limits were placed on deteriorated tracks, and derailments mounted. The northeastern rail system was literally coming unglued, and the threat that it would simply grind to a halt was very real. While northeastern railroads were in decline, they were still vitally important in some key markets: the electric utility, steel and automotive industries in the Northeast would have shut down without reliable rail service, and every day hundreds of thousands of commuters and intercity passengers rode on the bankrupt carriers.

Against this backdrop, the Federal Government was forced to intervene. The Regional Railroad Reorganization Act, passed in 1973, created the United States Railway Association to restructure the bankrupt northeastern carriers.

USRA looked at a number of alternatives, including splitting PC into its NYC and PRR components and forming two government funded competitors. But all interest in a more perfect competitive system had to be balanced against a deteriorating financial situation and an Administration reluctant to spend public money on freight railroads. In its Final System Plan, USRA recommended that a streamlined Penn Central become Conrail and that most of the remaining bankrupt carriers be acquired by Chessie System. While that deal would not have produced a totally balanced northeastern rail system, it would have maintained the rail competition that did exist at the time.

The Chessie deal failed when the necessary labor agreements could not be consummated. From the USRA perspective, the goal of competitive rail service was fading. The agency made

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one last attempt at a competitive solution when it considered the formation of "big Conrail" (essentially the Penn Central) and "little Conrail," a combination of the Erie Lackawanna, the Reading and the Central of New Jersey (also called "Middle Atlantic Rail-Erie Lackawanna, or MARC-EL). But that plan was deemed too risky, requiring the creation of not one but two government supported railroads. It was judged that both companies would be financially weak and in the end would meet neither the goals of financial viability nor vigorous competition.

In the same period, DOT was pursuing its own plans for northeastern railroads. DOT proposed to break PC into the lines of the former NYC and former PRR and then merge NYC and portions of the smaller bankrupts with Chessie, and PRR and other portions of the smaller bankrupt carriers with Norfolk and Western. The result would have been a more competitive and financially balanced system, but the financial incentives offered by DOT were insufficient to persuade N&W and Chessie to take on Northeast rail problems. The bankrupt carriers were in dreadful physical condition, and while the Federal Government addressed rehabilitation and light density line issues, it did not address labor issues or many of the passenger problems.

Thus, on April 1, 1976, "Unified" Conrail was born, essentially by default. The Federal planners concluded that the first goal of a northeastern rail reorganization was restoration of the rail carriers' financial viability. A more competitive rail system would have to wait for another day, if it came at all.

Conrail got off to a rocky start. Both operating losses and the cost of rehabilitation proved greater than the planners had predicted. The reluctance of the solvent carriers to become involved was, at least in the short run, vindicated by that reality.

D. Staggers Act and Financial Recovery

Between 1976 and 1981, the northeastern railroads -- in the form of the Federally-owned Conrail -- were rebuilt. While service improved, financial problems continued. The Reagan Administration sought to remove CR from government support, threatening to liquidate the company if fundamental changes were not made.

The Staggers Act reduced economic regulation of the rail industry, giving CR and all other railroads far more freedom to adjust to the marketplace. Among other things, Staggers encouraged rail consolidations, and during the 1980s, most of the rail industry restructured into large, inter-regional systems In the eastern U.S., Chessie merged with Seaboard Coast Line to form CSX in 1980, and in 1982, N&W and Southern formed Norfolk Southern.

The Staggers Act and these early 1980s mergers were followed by legislation permitting CR to restructure its routes, its labor contracts, and its passenger obligations.

E. Norfolk Southern Interest in Conrail

Spurred by legislative reforms and led by a focused management, CR's financial affairs improved, as did its appeal to solvent carriers. When Conrail privatization was proposed by the Reagan Administration in 1984, Norfolk Southern offered to acquire Conrail.

The NS proposal, while endorsed by DOT and the Department of Justice, was fought vigorously by both CR management and CSX, as well as by many state officials. After a two year effort, NS conceded defeat. On March 25, 1987, CR was privatized in what was at that time the largest public stock offering ever.

CR was and is one of NS's most important connections, but north-south traffic always has been more important to NS than to CR. Beginning in the early 1990s, NS sought to strengthen its access to the Northeast through a series of joint projects with CR. Several such projects were identified and executed, including creation of a doublestack cleared route from Atlanta and the Southeast via Harrisburg, Pennsylvania, to Newark; organization of an improved joint automotive network; acquisition by Conrail of half interest in NS's bi-modal Triple Crown Services, Inc., subsidiary (TCS) along with extension of TCS service to the New York metropolitan area; and other lesser projects. Most of these projects were initiated by NS, and it gradually became clear to NS that its interest in working with Conrail was one-sided. NS's interest in CR never waned, but hopes of an expanding alliance were clearly misplaced.

The CSX/CR merger announcement on October 15, 1996, was NS's worst nightmare come true. Not only had our preferred partner (and second largest interline connection) rebuffed us, but it had chosen our archrival as its merger mate. That announcement posed a substantial threat to Norfolk Southern and, in our view, also endangered the future of competitive rail transportation in the eastern United States.

F. Confrontation and Negotiation

Already facing a larger CSX in the Southeast, NS was threatened with almost total domination as well as loss of much of its northeastern access. Several responses were considered, but each led to the same conclusion: without a substantial northeastern network, NS would be seriously disadvantaged. Northeastern access was of critical strategic importance and left NS with no choice but to fight to acquire Conrail.

III. DESIGNING THE PLAN

A. Public Interest Goals

NS's decision to fight was followed by a prolonged battle, and then protracted and continuing hard bargaining. We knew that the outcome had to achieve both customer and regulatory acceptance; certain broad public interest goals always were part of this difficult process.

Generally, the new rail system builds on the success of the two-carrier competitive structure in the Southeast, extending it into the Northeast. This structure has been successful in achieving multiple and often conflicting goals. Competition between CSX and NS, and earlier among their respective predecessor companies, has been vigorous. Both rail systems are efficient, with the necessary traffic density to provide quality service and achieve low costs. Both systems are financially successful, and generate the cash flow required to maintain and improve fixed plant and equipment. With this balanced system as the model, certain complementary objectives were pursued in designing the New NS and the New CSX:

Balance of historical revenues and market share. If one resulting carrier were substantially larger than the other, the larger one would be able to use its superior market and cost position to overwhelm its competitor over time. Balance creates the opportunity for sustained competition.

Broad geographic coverage. Single system service has clear advantages over two-carrier service, both in terms of cost and quality. Further, customers increasingly desire bundled contracts covering prices and services to multiple markets. A carrier without broad geographic coverage is at a substantial disadvantage.

Balanced "portfolio" of routes and terminal facilities. Not only must a carrier reach a market; it must have a reasonably good route and terminal facilities at the end points if it is to compete. If one carrier has a high capacity, direct route and the other carrier only a circuitous or low capacity route, imbalance results. Of the two factors -- alignment and capacity -- alignment is the more critical. Capacity can be added, albeit often at great cost. Changing alignment is almost always prohibitively costly, and, today, faces huge environmental challenges. Equal terminal facilities are equally important for balanced competition.

Balanced traffic density. Railroading is a volume business. Traffic density adequate to assure both frequency of service and efficient train size is essential if a rail carrier is to be competitive. Traffic density is important in producing the net income required for reinvestment.

Long term financial viability. Railroads require large investments of capital. Competition is of little long term value if the participating rail carriers do not have the opportunity to generate the profits needed for continuous modernization of track, terminals and equipment, expansion of services, and service innovation.

Minimize disruption. Customers want vigorous competition, but they also want certainty about future services. They often desire new services at lower cost while also seeking to minimize change in existing transportation patterns and structure. Changes necessary for competitive balance must be considered in light of existing traffic flows on Conrail and other carriers and preserving those flows to the extent possible.

B. Assigning the Routes

With these goals in mind, the design of the new NS and CSX systems started with assignment of Conrail's principal routes to be operated by each of them:

East-west routes. There are two high capacity, high speed routes out of the Northeast toward the Midwest, and Conrail owns them both. No deal acceptable to both CSX and NS could leave both routes with one carrier.

One of those principal CR routes (the PRR Line) runs parallel with CSX's Baltimore and Ohio line east of Cleveland. To avoid creation of a multitude of "2 to 1" competitive outcomes, operation of the PRR Line was assigned to NS, and operation of the other principal CR route (the

NYC Line) went to CSX. Operation of CR's lower capacity Southern Tier Route, a former EL line, was assigned to NS to balance the two new systems. Thus, both NS and CSX end up with two major Northeast-Midwest routes.

From Cleveland west, CR has a mainline to Chicago and one to St. Louis. CSX and NS also have existing routes from Ohio to both Chicago and St. Louis, although none have the capacity of the CR routes, and the CSX route to St. Louis is circuitous. The solution was to assign operation of CR's St. Louis line to CSX and operation of CR's Cleveland-Chicago line to Norfolk Southern.

To address a potential imbalance in capacity between Chicago and Ohio, NS will transfer to Conrail (which in turn will assign the right to operate to CSX) one of NS's two existing lines east from Chicago (a line that was acquired from Conrail in 1995) to connect with an existing CR line between Ft. Wayne, Indiana, and Crestline, Ohio, also to be operated by CSX. As a result, both carriers will operate two routes from Ohio to Chicago. NS will operate one double track and one single track route, and CSX will operate two single track routes, one of which it already is upgrading to double track capacity.

North-south routes. CSX currently reaches northeastern markets via its Baltimore and Ohio line between Washington, DC, and Philadelphia, where connection with Conrail's mainline to Newark is made. NS connects with Conrail at Hagerstown, Maryland, and from there a CR secondary mainline reaches CR's east-west PRR Line at Harrisburg, Pennsylvania, for access to Philadelphia, Northern New Jersey and New England. The logical assignment was made, allocating operation of the Philadelphia-Newark route to CSX and operation of the routes via Harrisburg to NS.

Operation of midwestern north-south routes was assigned to achieve balance and to avoid anti-competitive results. Hence, NS will operate CR's Cincinnati-Columbus line, which it now uses under trackage rights as part of its principal route between Cleveland and the Southeast. Operation of CR's West Virginia Secondary between Charleston, West Virginia, and Columbus, Ohio, also was assigned to NS, to preserve rail competition at Charleston. Operation of the CR lines in Michigan was assigned to NS to provide more balanced competition in Michigan.

Other routes. Operation of other trackage was allocated between NS and CSX to preserve the integrity of both networks. For example, CR's lines to Montreal and Boston both connect with the NYC Line to be operated by CSX, and CR's Buffalo-Harrisburg and Philadelphia-Harrisburg lines fit with the PRR Line to be operated by NS.

Every effort was made to maintain the natural connectivity of the Conrail system and to minimize disruption to service patterns and customers. Thus, operation of line segments that naturally "attach" to a CR principal route was assigned to either NS or CSX along with operation of each such CR route.

A few exceptions were made to this general rule. For example, the Popes' Creek Branch in southern Maryland is largely isolated from CR's main routes and in fact is closer to a CSX mainline. The principal terminating traffic on this branch, which serves two coal burning utility plants, generally originates at mines on CSX. The branch is a better operational and commercial fit with CSX than with NS, and the assignment of operations was made accordingly.

Shared Assets Areas. In some major areas -- Northern New Jersey, Southern New Jersey, most of Philadelphia and the CR lines in Detroit -- separation of trackage between NS and CSX was not feasible or was not acceptable to NS or CSX. Therefore, these markets will be in Shared Assets Areas, with both CSX and NS having access to all customers within each. The Monongahela coal region in southwestern Pennsylvania presents a similar situation. Because virtually all Monongahela traffic is coal moving in full trainloads, under NS operation with full CSX access via trackage rights, both will serve all customers directly, in a position of equality.

C. Meeting the Goals

The division of Conrail's operations between NS and CSX is the most pro-competitive plan ever offered in a rail control proceeding. By assuring two carrier presence in most important markets, NS and CSX are creating a framework for even more competition as additional investments are made in intermodal facilities, in multi-modal facilities (such as auto ramps), and even in new industry trackage.

The pro-competitive benefits of this Plan can be measured in a number of ways, best reflected in light of our public interest goals:

Balanced of historical revenues and market share. CSX now is the largest of the three major eastern railroads. Of these carriers' total 1995 revenues (QCS basis), CSX accounted for 40.6% vs. 31.6% for Norfolk Southern and 27.8% for Conrail. The Plan substantially closes the current difference in market shares. Using 1995 QCS revenues as the base, and adding the revenue gains from restructuring Conrail and rail diversions (see verified statement of John H. Williams), revenue shares are projected to be 49% for NS and 51% for CSX in Year 3 after implementation of the Plan, as shown by Figure JWM-1. In no case will one carrier or the other have more than 60% of the revenue share for a major commodity group.

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Figure JWM-1
NS and CSX Market Shares
($-Millions)

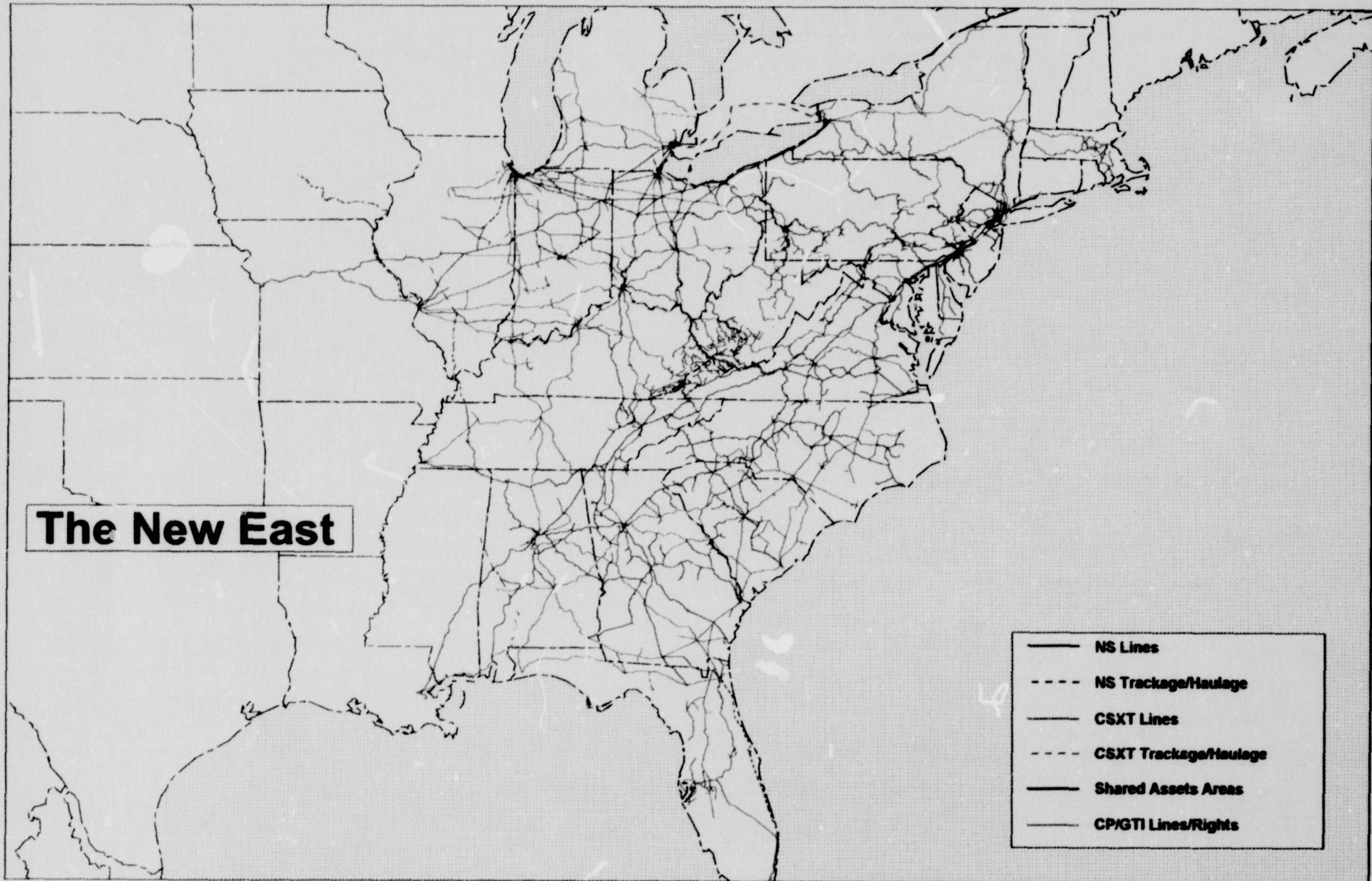
Commodity	**Total Revenue** NS	CSX	**Market Shares** NS	CSX
Agriculture & Consumer	$ 621.3	$ 719.5	46.3%	53.7%
Coal, Coke & Iron Ore	1,892.6	1,872.6	50.3	49.7
Paper, Clay & Lumber	774.7	789.7	49.5	50.5
Chemicals	840.1	1,201.1	41.2	58.8
Metals & Construction	766.4	844.0	47.6	52.4
Automotive	841.7	796.8	51.4	48.6
Intermodal	712.7	580.2	55.1	44.9
Total	$6,449.5	$6,803.9	48.7%	51.3%

Source: 1995 QCS Report and Rail Traffic Diversion Study (see verified statement of John H. Williams)

These shares will change over time as each carrier tries to outdo the other for business. But the starting point is remarkably close and gives each carrier a good traffic base as the "competitive gun" goes off.

Broad geographic coverage. As shown on the map in Figure JWM-2, the Plan will result in two carriers with broad geographic coverage of the eastern United States. Now, as shown by Figure JWM-3, between major Standard Metropolitan Statistical Areas (SMSA) in the eastern U.S., less than half the SMSA pairs have competitive single system rail service. In contrast, Figure JWM-4 shows that under the Plan, New York gains dual single system rail competition to western gateways and southeastern markets, while the major markets of Philadelphia, Baltimore, Pittsburgh, and Buffalo gain competition from two railroads to southeastern markets.

The only major SMSAs in the East that will not be served by both NS and CSX are Boston, Miami and Tampa. NS will establish coordinated competitive services to Boston and New England through partnerships with Canadian Pacific and its St. Lawrence and Hudson



NS and CSXT Systems Post-Transaction

Figure JWM-2

Figure JWM-3

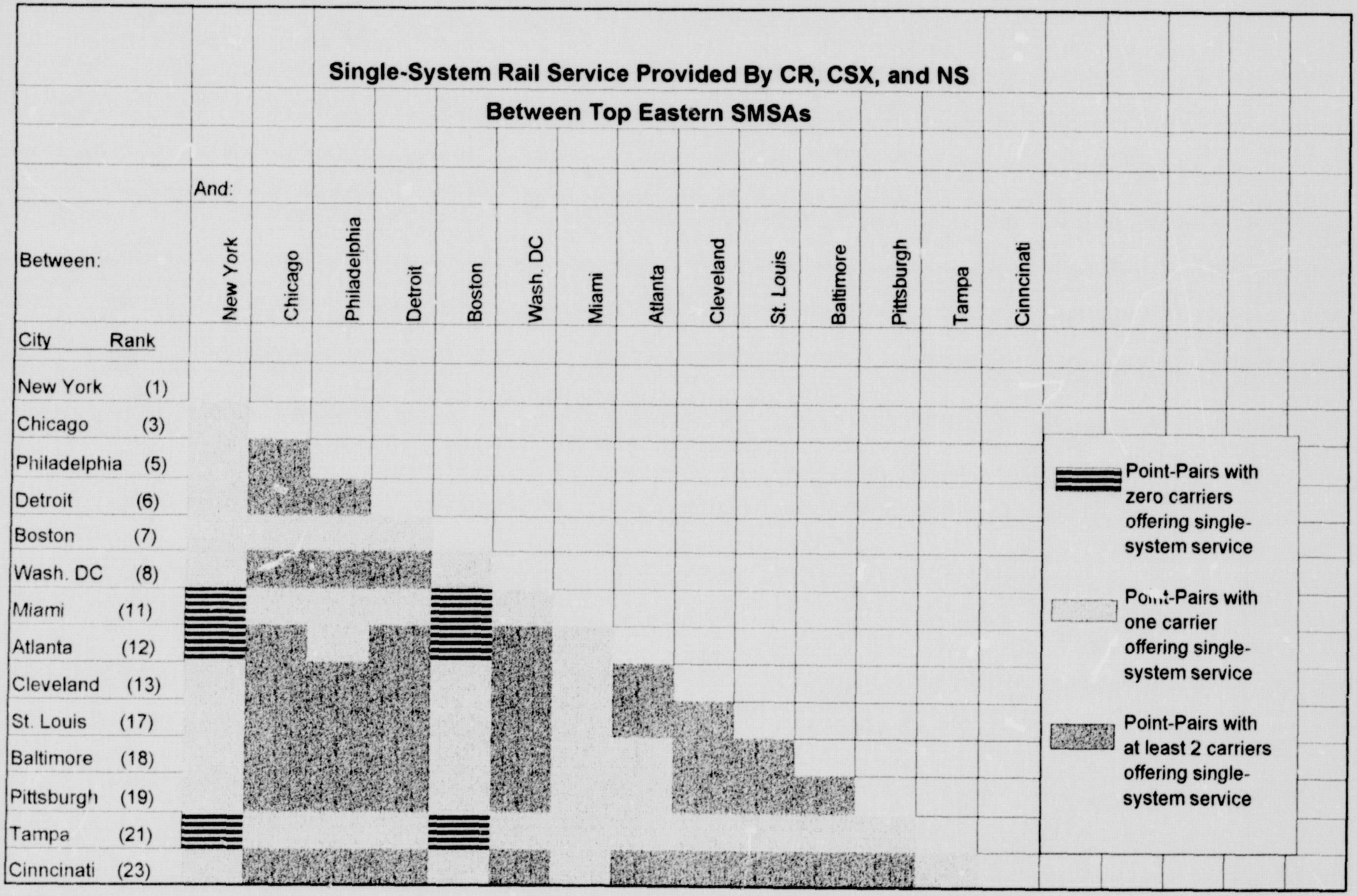


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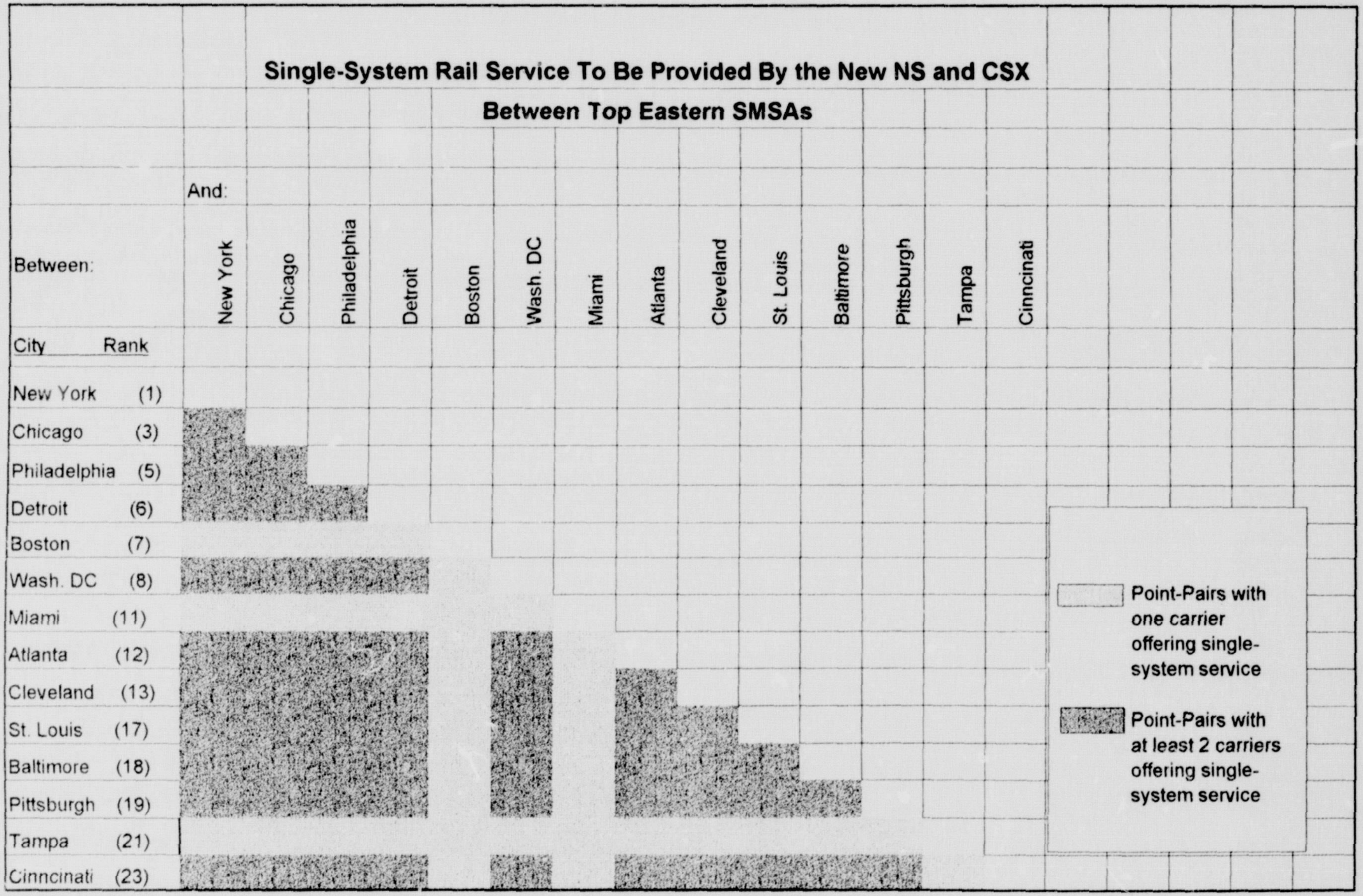
Figure JWM-4



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subsidiary (CP/ST.L & H) and Guilford Transportation (GTI) to compete with CSX. NS already competes effectively with CSX in South Florida through a long standing partnership with Florida East Coast Railway Company. Tampa has been served solely by CSX and its predecessors for over thirty years and will remain solely-served under this Plan.

Balanced "portfolio" of routes and terminal facilities. As the map in Figure JWM-5 shows, the current CR system can be described as a "X", linking New England with St. Louis and Middle Atlantic points with Chicago. Under this Plan, both CSX and NS will operate routes that create a new dual "X", with both systems crossing in Ohio, as shown on the map in Figure JWM-6. Mileages between major east-west markets will be competitive, as Figure JWM-7 demonstrates:

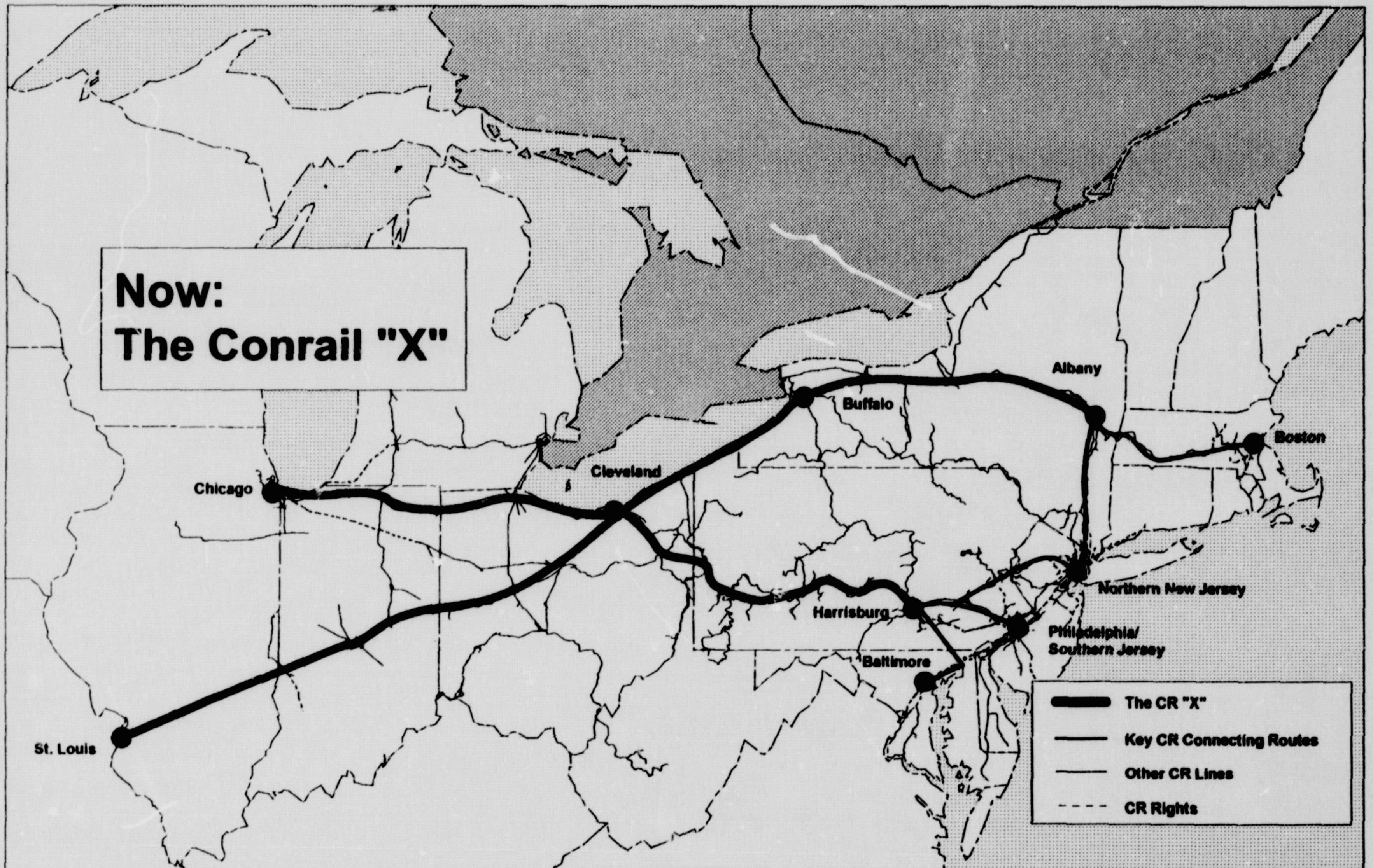
Figure JWM-7
Mileages Between Major Markets

Point Pair	NS Mileage	CSX Mileage
Newark-Chicago	921	975
Philadelphia-Chicago	850	910
Baltimore-Chicago	844	811
Boston-Chicago	1071*	1026

* via NS, CP/St. L & H/GTI

In no case will one carrier or the other be precluded from competing in these major markets due to excessive circuity.

The Plan carefully assigns terminal capacity so that each carrier will be able to use and operate adequate terminal capacity wherever possible. Consideration was given to existing CSX and NS terminals in that process. For example, because NS has an existing, adequate intermodal terminal in Columbus, Ohio, and CSX does not, CSX was assigned operation of the CR



The Conrail "X"

Figure JWM-5

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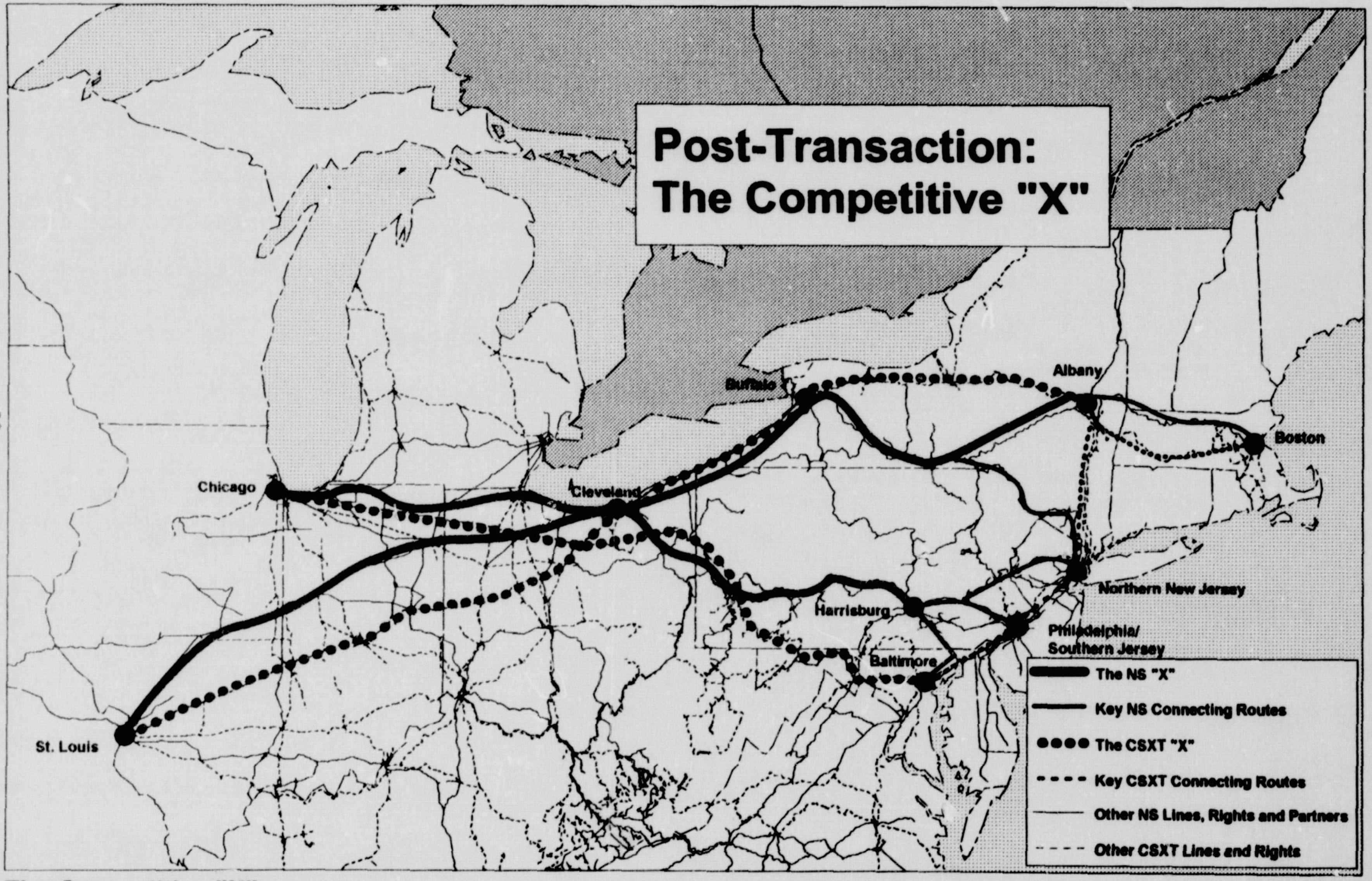


The Competitive "X"

Figure JWM-6

intermodal terminal in Columbus. To enhance competition, some terminals must be shared, and some new terminal capacity will be added. Wherever possible, the Plan also allocates to each carrier trackage under its control to reach terminal facilities.

Balanced Traffic Density. Rail efficiency improves with density, so revenue per route mile is a key determinant of a carrier's ability to operate efficiently. Under the Plan, as shown by Figure JWM-8, the two competing systems will be well matched:

Figure JWM-8
Revenue Density Per Route Mile

	Estimated Route Miles*	Revenue/Route Mile (thousands)
CSX	23,100	$294.5
NS	21,400	301.4

* Includes approximately 700 miles in Shared Assets Areas

Source: 1995 QCS Report and Rail Traffic Diversion Study (see verified statement of John H. Williams)

Long term financial viability. As shown by the pro forma financial statements in this joint Application, the Plan results in two systems that have adequate cash flow. Both NS and CSX are projected to be able to repay the debt incurred to finance the Conrail purchase and to make the capital investments necessary to offer competitive service.

Minimize Disruption. Any change as sweeping as the Plan's division of CR operations will result in some disruption. To minimize operational and service disruption, operation of routes was assigned to assure that both CSX and NS will have the capacity needed to compete soon after conveyance. Operating as a single system, Conrail eliminated duplicative capacity over the years. Some of that capacity will have to be restored, either on former CR lines or on existing lines of NS and CSX. Capacity will be added as soon as feasible to minimize disruption.

D. Obstacles to Improved Rail Service

The preceding discussion outlines how we got to the Plan presented in this Application. I will now discuss the service disabilities of the current Eastern rail structure and the substantial changes NS plans in service with the approval of this Plan.

Eastern Markets are Difficult. Railroads function best when large volumes can be loaded at point A and directly taken to a distant point B. As length of haul declines and as traffic becomes more fragmented, the comparative advantage of rail over truck declines. While rail movements do enjoy a cost advantage over truck for longer distances, and rail intermodal enjoys a cost advantage for most movements of over 400 to 500 miles, motor carriers usually enjoy a service advantage. Given this, customers shipping shorter distances tend to prefer truck over rail, as the following Figure JWM-9 shows:

Figure JWM-9
Eastern U.S. Truck vs. Rail Modal Shares

Mileage Block	Rail Tons* (millions)	Truck Tons* (millions)	Truck %
less than 100	18	262	94%
100-199	76	636	89%
200-299	75	408	84%
300-399	49	202	80%
400-499	38	86	69%
500-599	33	60	65%
600-699	36	45	56%
700-799	27	29	52%
800-899	18	19	51%
900-999	10	15	60%
1000-1099	6	11	65%
1100-1199	7	8	53%
1200-1299	4	5	56%

* excludes coal tonnage
Source: The Kingsley Group, Transsearch Data

Eastern railroads face a challenge, because most hauls are short and traffic is fragmented. Dense, long haul lanes that favor railroads, such as Chicago-Los Angeles and Chicago-Seattle, are relatively rare in the East.

Alternative Market Strategies. Given this challenge, eastern railroads have two fundamental choices: (1) carve out certain niche markets (long haul traffic, heavy loading traffic, trainload movements) that best fit rail technology and economics, or (2) choose to attack the larger and broader market where success is harder to achieve. The latter approach requires almost faultless execution and an iron grip on costs, as there simply is no margin for poor performance or high costs.

CR, which has long-haul east-west routes and access to some truly huge markets (New York, especially), has chosen a niche strategy. Coming out of its predecessors' bankruptcies, it had to focus on those markets that were most favorable for rail technology. And it had to focus on those markets that best fit its linear, east-west route structure, to the detriment of its north-south routes.

Norfolk Southern has not been disadvantaged either by past bankruptcy or shortage of capital. However, given its location and lack of long haul routes, NS had no choice but to tackle the short haul, fragmented markets. We learned certain skills in the process that will be invaluable in implementing the Plan.

Given its significant financial resources but limited geographic reach, NS has pursued a dual strategy of developing its existing markets while reaching beyond its borders wherever possible to enter new markets. However, traffic of interest to NS often is not of interest to a potential rail partner. In recent years NS has been willing to invest in facilities beyond our own system to serve as an incentive to potential partners. For example, we have successful arrangements with St.L&H, FEC, and Conrail that provide those interline connections with additional incentives to handle traffic of significant interest to NS.

Conrail has loomed largest in our efforts, but with only mixed success. Many substantial markets on CR are in close proximity -- in most cases less than 450 miles and often less than 100 miles -- to the NS system, as Figure JWM-10 shows:

Figure JWM-10
Proximity of Major Markets to NS System

SMSA	**Population** (millions)	**Rail Miles to NS System** From West	From South
New York Metro	18.11	436	246
Philadelphia	4.95	432	167
Baltimore	2.65	427	54
Pittsburgh	2.40	145	200

As already noted, CR acquired half interest in TCS. NS was willing to share TCS in order to obtain TCS access to the New York market and to get Conrail's commitment to invest in doublestack container clearances on the joint north-south lane via Hagerstown.

More often than not, our overtures were rebuffed by CR, as preferred to focus its attention on its own core, long haul east-west lanes. For north-south traffic, Conrail often found its relatively short haul would not be profitable. This was a reasonable strategy, no matter how much it frustrated NS.

No Rail Alternatives to Conrail. There is no feasible way to "route around" Conrail to the Northeast. NS's efforts to date with several smaller carriers east of Buffalo have yielded only modest results when compared to the overall market potential, largely because of the dependence of those carriers on Conrail for market access.

Trucking beyond the gateways is not an alternative in most instances. NS's rail hauls to the Northeastern gateways are not long enough to offset the costs of drayage beyond. Simply put, NS has no rail alternatives to Conrail.

IV. BENEFITS OF THE PLAN

The Plan will eliminate most of the obstacles discussed above and improve service and reduce costs for present and future rail customers. End-to-end rail transactions are about eliminating institutional, financial and operational barriers that inhibit service to customers. In the case of markets in the Northeast and Southeast, the potential benefits are huge. Some 56 million people live to the east and north of the current NS system, and the flow of goods between these regions will be improved by this transaction.

Rail customers and potential rail customers throughout the eastern United States are denied the efficiencies of single line service by the current structure of the region's rail system. Barriers in the rail system force substantial volumes of freight from the rail system onto an overburdened highway system.

A. New Strategies for New Norfolk Southern

With our extended routes, Norfolk Southern's strategic options expand and change dramatically. Atlanta and New York are about 800 miles apart by highway, about the same distance as New York and Chicago. Columbus, Ohio, to New York will be as attractive as Columbus to Atlanta, a profitable route for NS. Investment capital and service can flow to almost all markets in the East, unchecked by artificial barriers of corporate boundaries and the restrictions of divergent corporate strategies.

Today's routes will be maintained and improved; many new routes will be introduced. The result for NS and its customers will be almost a "go everywhere" eastern system.

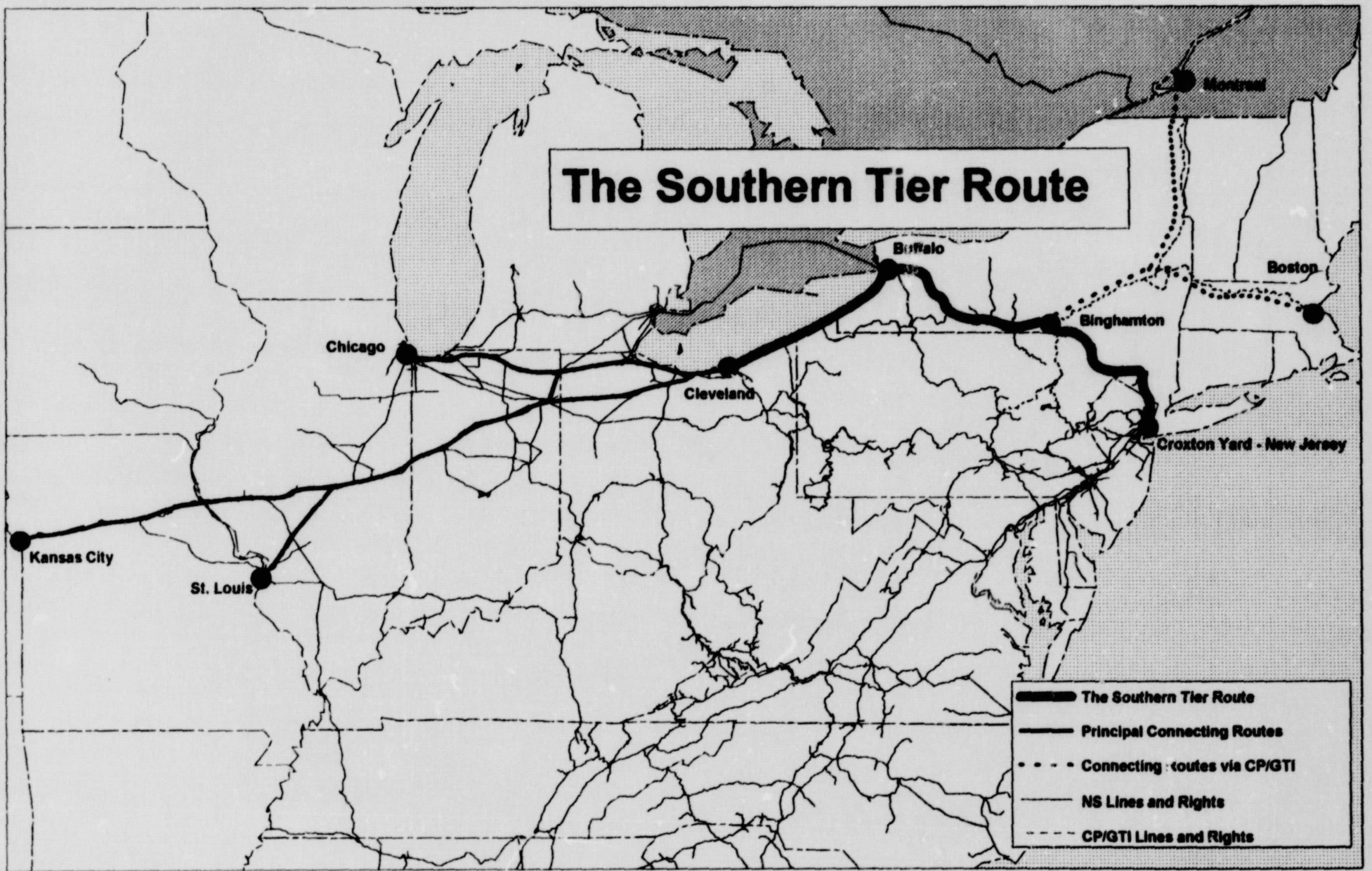
Where NS tracks do not reach, we will continue to form alliances with other carriers. In the past, alliances with carriers such as CP/St.L.&H and GTI were always tentative; if NS were too aggressive, it risked its relationship with Conrail, its second largest interline partner. One significant advantage of the New NS is that NS will enjoy long haul opportunities on new north-south routes into the Northeast and New England, in direct cooperation with CP/St.L&H and GTI, as well as on Conrail's existing east-west routes.

B. New Service Routes

At the heart of New Norfolk Southern will be a series of route and terminal improvements targeted at creating a free flowing network between the CR routes it operates and existing Norfolk Southern lines. This integration of routes, which also is being carried out by CSX, is the key to meeting both carriers' promise of more competition coupled with more single system service.

The eight principal routes for New Norfolk Southern are discussed below:

The **Southern Tier Route** (Figure JWM-11) will integrate CR's Southern Tier Line with NS's existing Buffalo-Cleveland route at Buffalo. Two currently "dead end" mainlines will be connected into a viable through route. At Cleveland, the Southern Tier Route will connect with the Penn Route and the Southwest Gateway Route. At Binghamton, the route connects with the CP/St.L&H for traffic to and from New England and Canada.



The Southern Tier Route and Connecting Routes

Figure JWM-11

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Although the Water Level Route was preferred by Conrail, the Southern Tier in the past was a route competitive with the NYC "Water Level" route via Albany, New York. For example, Conrail predecessors handled "premium" UPS intermodal traffic over much of the Southern Tier. This route will be a principal NS route to the New York market as well as to New England.

The eastern anchor for this route is Croxton Yard in Jersey City, New Jersey, which will handle both international and domestic intermodal traffic. Investments will be made at Croxton, in added track capacity along the route, in new connections in Buffalo, and in a by-pass of the current NS operation through the streets of Erie, Pennsylvania.

Traffic on the Southern Tier Route will consist mainly of intermodal and automotive traffic. The NS operating plan projects eight through trains a day on this route. CP/St.L&H and NYS&W traffic via existing overhead and haulage rights on the Southern Tier will be in addition to these NS train counts.

Part of the Southern Tier Route also will be the sole NS access to New England. The New England connection will be formed through cooperative efforts with CP/St.L&H and GTI. A haulage agreement with CP/St.L&H already has been negotiated covering movement of freight destined to GTI between Sunbury-Binghamton and Albany.

The main competition for this route will be CR's "Water Level Route" via Albany, Buffalo and Cleveland, to be operated by CSX, as well as Interstate Highways 80 and 90.

The **Penn Route** (Figure JWM-12) is one of CR's two principal routes between the Northeast and the Midwest. The route has three eastern anchors: Northern New Jersey, Philadelphia/Southern New Jersey and Wilmington/Baltimore/Washington. Traffic from all three areas will move through Harrisburg, where connections will be made to Buffalo, to the Bridge Route, and to the Shenandoah and Piedmont Routes. At Cleveland, the Penn Route will connect

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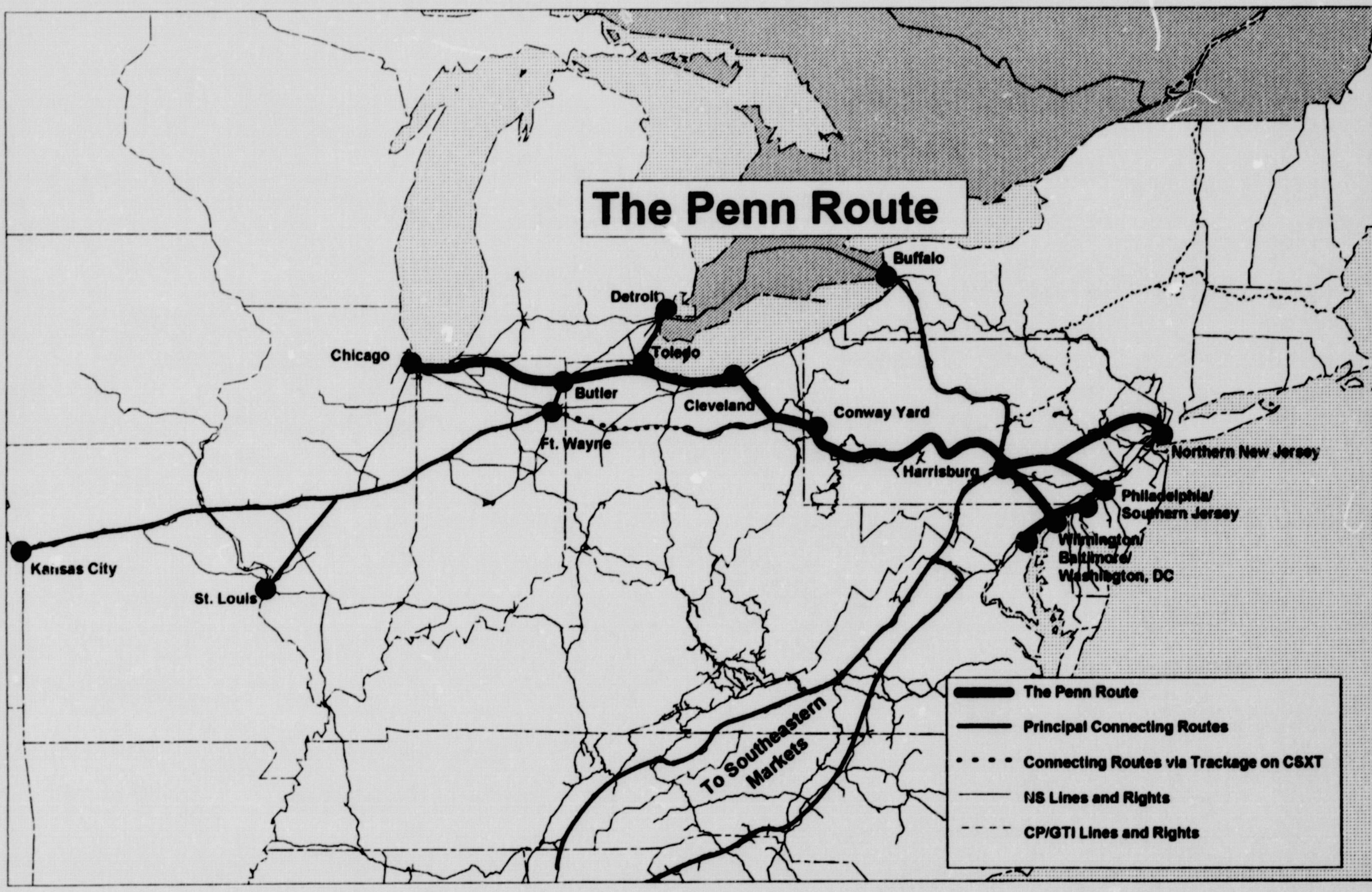

The Penn Route and Connecting Routes

Figure JWM-12

with the Southern Tier Route; at Toledo, the route will connect to Detroit; at Butler, Indiana, with the Southwest Gateway Route; and at Chicago with western carriers. It is the shortest rail route between northern New Jersey and Chicago.

This route consists entirely of Conrail trackage, and NS plans to make substantial improvements in added capacity. Sidings will be added between Newark and Allentown, Pennsylvania. The Pattenburg tunnel on the New Jersey-Pennsylvania line will be cleared for doublestacks. The line between Perryville, Maryland, and Baltimore will be cleared for high-cube domestic doublestacks. Automotive terminals will be provided in the Philadelphia and Baltimore areas using reopened facilities, existing non-rail owned facilities, or new facilities. Intermodal terminals will be expanded and/or improved at E-Rail (Northern New Jersey), Harrisburg, Baltimore and Pittsburgh. When this work is completed, the Penn Route will be a high capacity, doublestack route between Chicago and Newark, Philadelphia and Baltimore. Total investment will be over $300 million in the first three years.

The traffic mix will be diverse, consisting of intermodal, automotive, chemicals, steel, other general merchandise and (east of Pittsburgh) coal and ore traffic. Traffic density will be 49 trains a day between Reading and Harrisburg, and 47 trains a day between Harrisburg and Pittsburgh.

Competition for this route will include the "Water Level Route" to be operated by CSX and CSX's Baltimore & Ohio routes as well as Interstates 70 and 80.

The **Bridge Route** (Figure JWM-13) will connect the Southeast with Upstate New York, Canada and New England through Harrisburg. Much of this route will consist of NS haulage rights over CP/St.L&H from Sunbury, Pennsylvania to Albany through Binghamton, New York, where there also will be a connection with the Southern Tier Route for Midwest points. From Albany, the CP line proceeds north to Montreal, and GTI proceeds eastward to Boston and

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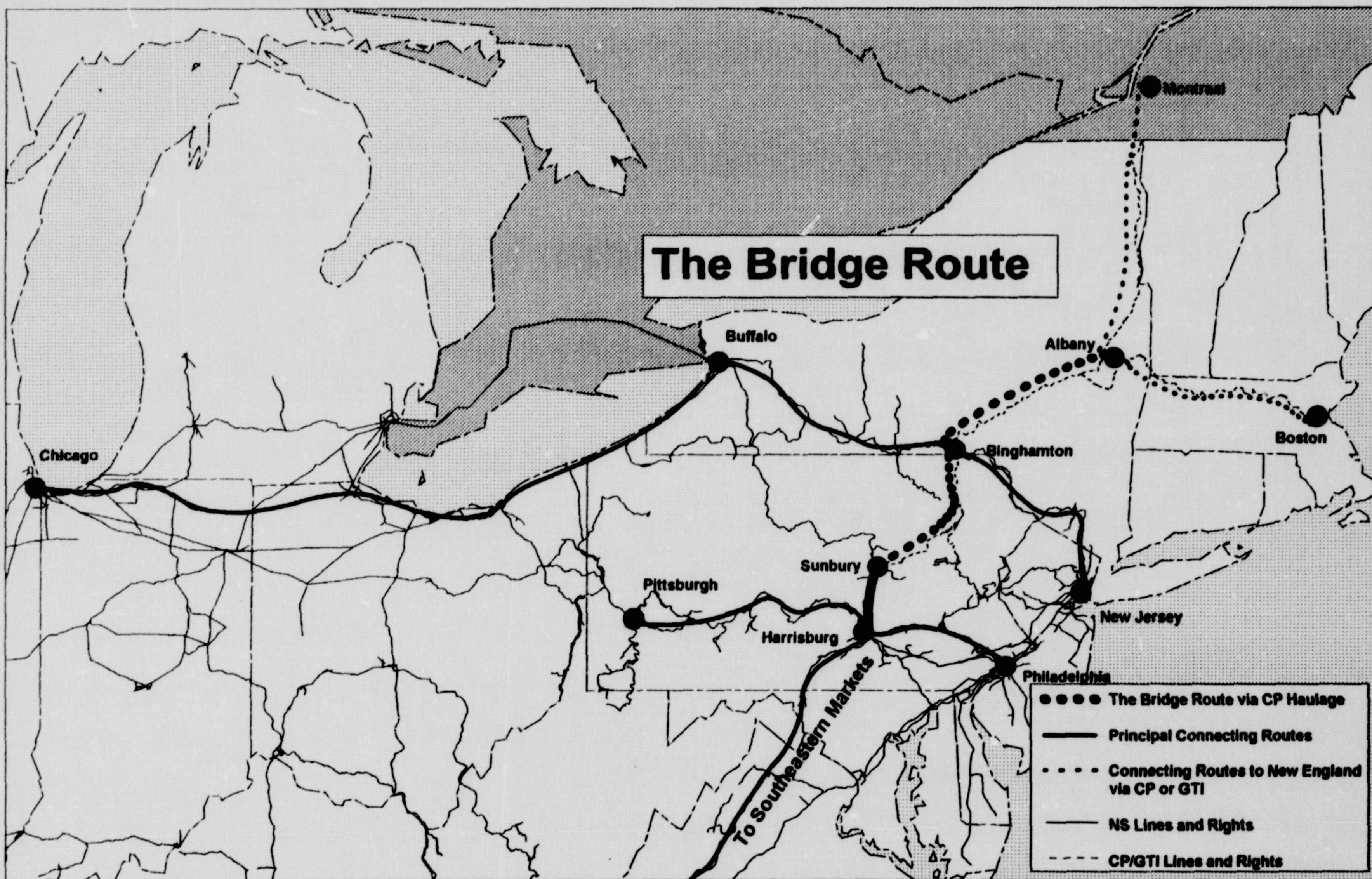

The Bridge Route and Connecting Routes

Figure JWM-13

northern New England, including connections to New England regional carriers. The Bridge Route will connect at Harrisburg with the Shenandoah Route and the Piedmont Route for access to the Southeast and with the Penn Route to the West.

While single system service will not be provided on this entire route, there is an alignment of commercial interests between NS and CP/St.L&H and NS and GTI that will assure high quality service. The NS traffic represents a significant increase in volume and will improve the economics of the CP/St.L&H line, and GTI will receive its maximum haul to/from the Albany interchange. The commercial and financial interests of the partners are thus "in synch."

Shared investments will be made in the Sunbury line by NS and CP/St.L&H. The CP/St.L&H route will be improved to handle domestic doublestacks and heavy loading cars. Discussions are underway between GTI and NS concerning investments needed to improve the GTI route for taller cars and heavier loads.

Principal commodities will consist of paper, clay, and intermodal traffic. Two to four NS trains a day will operate between Harrisburg and Albany, and additional east-west trains will operate between Binghamton and Albany.

Rail competition will be provided by CSX single system service. Truck competition will operate on Interstates 90 and 80 (east-west) and 81, 82, and 95 (north-south).

The **Southwest Gateway Route** (Figure JWM-14) will be created by joining the NS line from Kansas City with existing CR routes at Vermillion, Ohio (for traffic being yarded at Bellevue, Ohio), and at Butler, Indiana (with the Penn Route). In the vicinity of Decatur, Illinois, the route will connect with NS lines to St. Louis and Peoria. At Kansas City, connections exist with the main routes of Union Pacific, F rlington Northern Santa Fe and Kansas City Southern.

This route will by-pass the congested Chicago and St. Louis gateways. Investments will be made in additional track capacity as well as intermodal terminals. Most of the investment will

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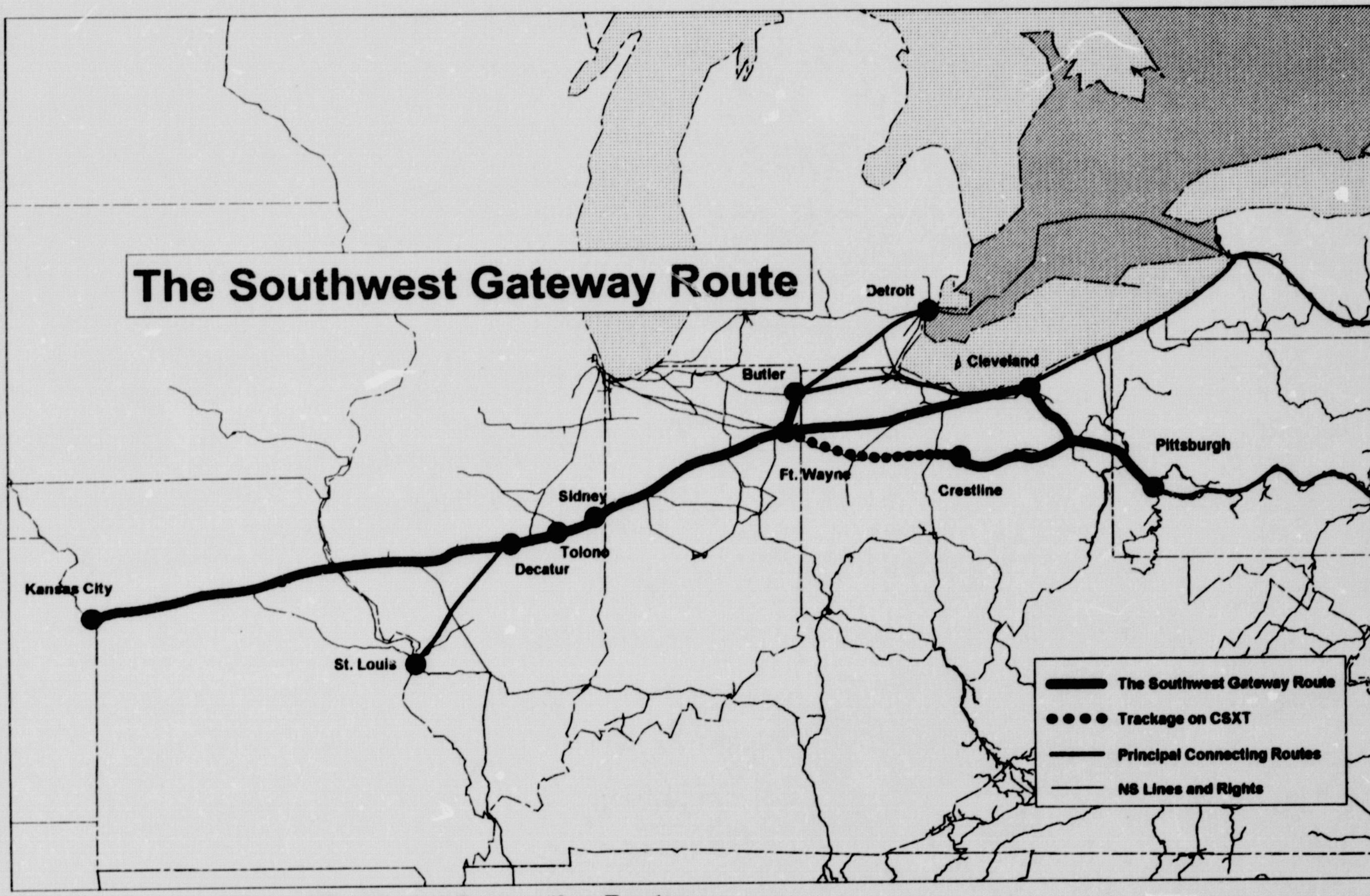


The Southwest Gateway Route and Connecting Routes

Figure JWM-14

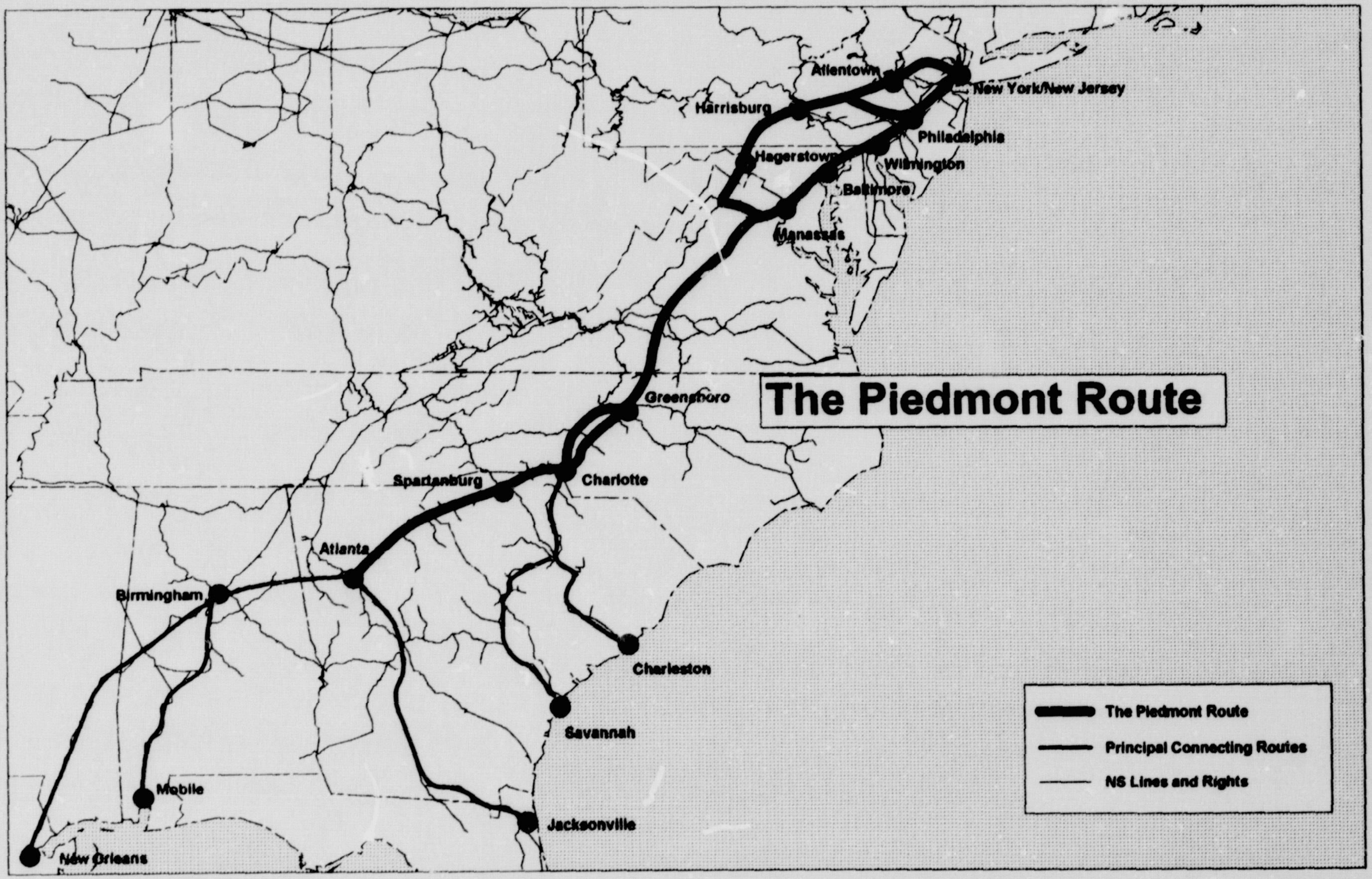
be between Ft. Wayne and Decatur, which today is a single track line and a potential bottleneck. A new connection will be made at Sidney, Illinois, for chemical and other traffic interlined with Union Pacific, and a new connection at Tolono, Illinois, will be made for traffic interlined with Illinois Central. Sidney and Tolono will be NS's alternatives to existing Conrail gateways at St. Elmo and Effingham, Illinois.

Intermodal, automotive, and general merchandise will dominate flows on this line. There will be 38 trains a day between Ft. Wayne and Sidney/Tolono, and 31 trains a day into Kansas City.

The principal rail competition for this route will be CSX and western carriers using the Chicago and St. Louis gateways and Interstate Highways 70 and 80.

The **Piedmont Route** (Figure JWM-15) will connect the Southeast and Northeast via two routes north of Manassas, Virginia. One route, through Hagerstown, Harrisburg and Allentown, will be used for traffic destined to Philadelphia and northern New Jersey as well as for all doublestack and multi-level automobile traffic. At Harrisburg, connections with other CR routes to be operated by NS will be made for traffic to/from Pittsburgh, Buffalo and New England. A second route will use the Northeast Corridor for direct access to Baltimore, Wilmington and Philadelphia for traffic (other than multi-level and doublestack) to/from Wilmington and Baltimore and the Southeast as well as for TCS's RoadRailer® service.

South of Manassas, the route will serve Greensboro and Charlotte, North Carolina, Spartanburg, South Carolina, and Atlanta, with connections to eastern North Carolina, Charleston, South Carolina, and Savannah Georgia. Currently, NS, as lessee, and North Carolina Railroad (NCRR), as lessor, are in a dispute concerning future lease payments. NCRR owns the trackage on the Piedmont Route between Greensboro and Charlotte. If this matter is not successfully resolved, NS will upgrade a parallel route through Barber, North Carolina. In



The Piedmont Route **Figure JWM-15**

addition, more trains can be routed using the Shenandoah Route via Roanoke and Knoxville. Thus, more than adequate capacity exists, or can be easily created, and an impasse on NCRR does not impact the Plan.

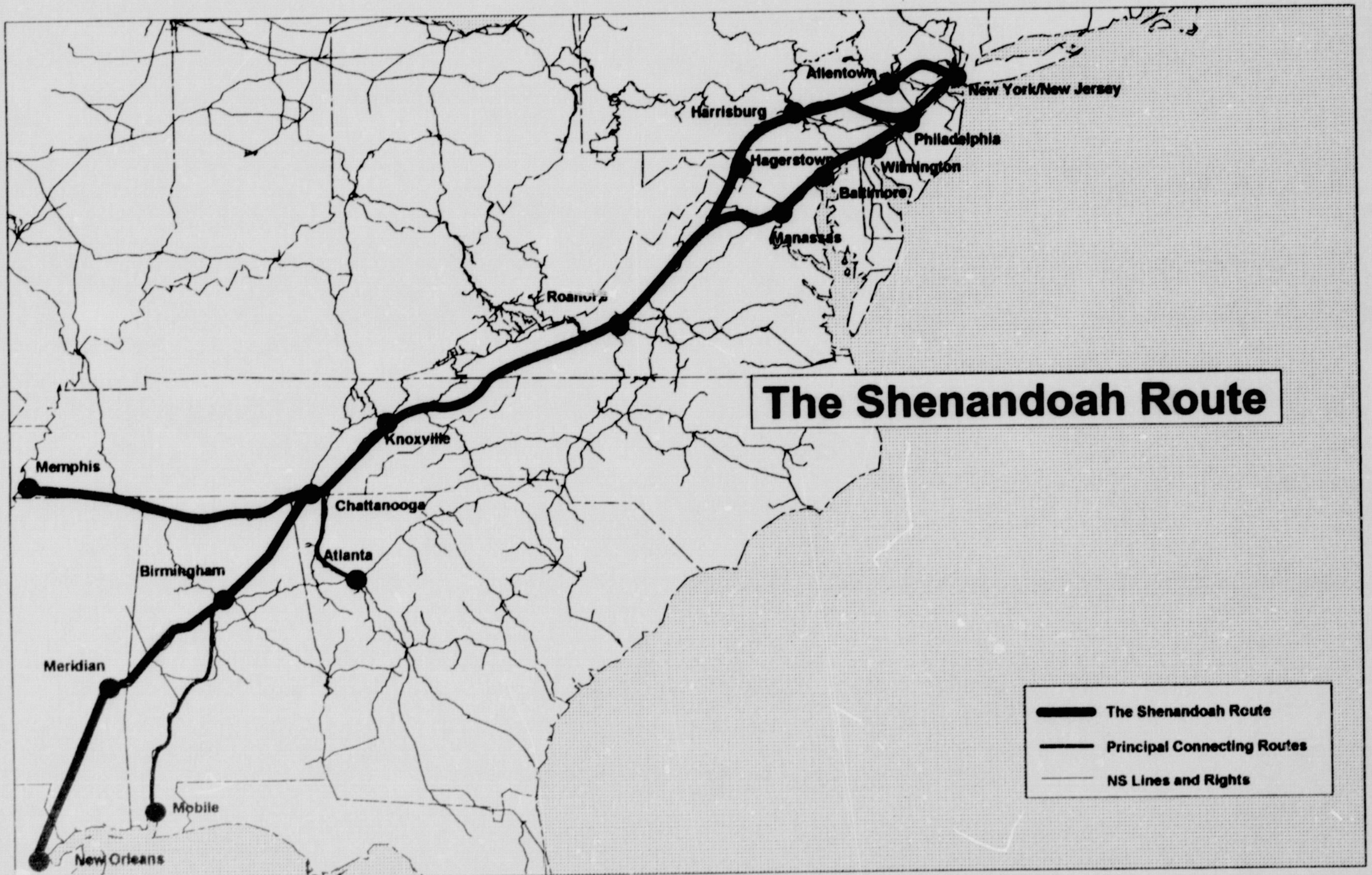
This route (via Harrisburg) is already cleared for domestic doublestack service. New terminals will be built in Baltimore and the Philadelphia area for TCS and at Harrisburg for intermodal traffic.

Principal commodities will be intermodal, automotive, and general merchandise. This route can handle enclosed tri-levels and thus will make an efficient automotive lane, connecting nine assembly plants along the route (four in the Northeast and five in the Southeast) with their markets.

The principal competition for the Piedmont Route will be CSX routes between the Northeast and Atlanta and the Northeast and Florida as well as Interstate Highways 85 and 95.

The **Shenandoah Route** (Figure JWM-16) will connect the Northeast with the Southeast via Harrisburg, Roanoke, Knoxville and Chattanooga. At Harrisburg, it will connect with the Penn Route to Northern Jersey and Pittsburgh and with the Bridge Route to New England. At Chattanooga, NS connecting lines will reach Memphis, Atlanta, Birmingham, Meridian and New Orleans.

Some traffic now routed on the Piedmont Route will be rerouted onto the Shenandoah Route. This has been a goal of NS since its own consolidation, but it was impossible to make the required capital investment until we could predict future traffic growth with greater certainty. The Plan gives us the confidence to go forward. Investments in this route will include additional siding capacity as well as doublestack clearances between Riverton Jct., VA, and Roanoke, the only segment on the route not already cleared.



The Shenandoah Route

Figure JWM-16

Traffic on this route will consist of general merchandise, intermodal, and coal north of Roanoke. Between Riverton Jct. and Roanoke, 12 trains a day will be operated.

CSX does not have a directly parallel route, but it will have competing routes serving many of the same origin-destination pairs. Furthermore, the Shenandoah Route is adjacent to Interstate 81, one of the most heavily traveled truck routes in the nation.

The **Mid-South Route** (Figure JWM-17) is already highly developed by NS, but CR routes and markets will strengthen it. Under the Plan, this route will extend from Pittsburgh, Cleveland, Detroit and Chicago to the Southeast via Cincinnati. At Cleveland, a connection will be made with the Southern Tier Route and with the Penn Route, and a connection with the Penn Route also will be made at Bucyrus, Ohio. At Alexandria, Indiana a new connection will be made with the CR line to Goshen, Indiana (and thence to Elkhart Yard via the Penn Route).

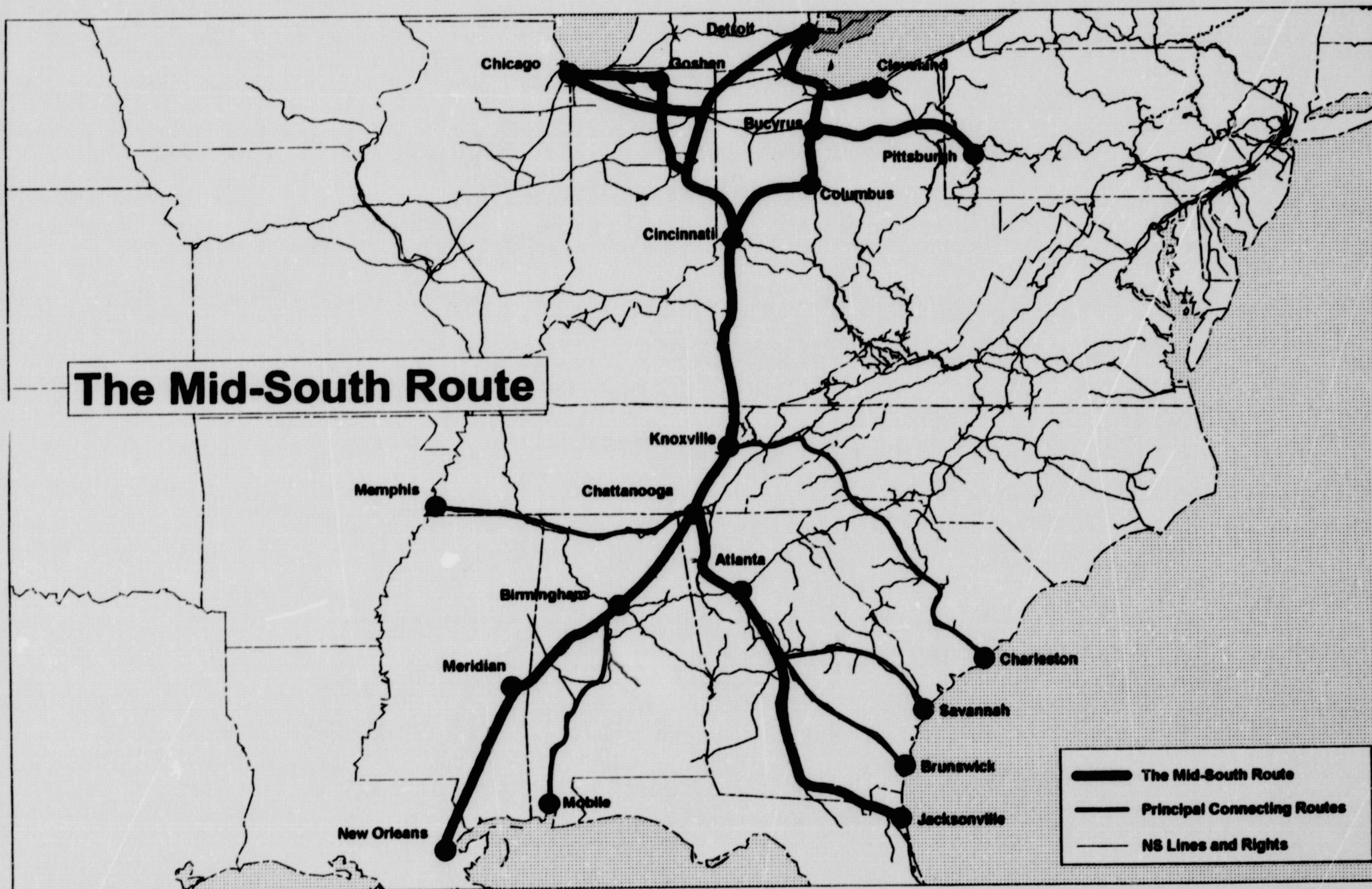
At Columbus, Ohio, a connection will be made with the NS mainline from Bellevue to improve traffic flows to Cincinnati and the Southeast. The principal yards on the route will be Bellevue, Ohio; Buckeye (Columbus), Ohio; Elkhart, Indiana, and Chattanooga, Tennessee.

Most of the route already is cleared for domestic doublestacks. The exception is the CR line between Columbus and Cincinnati, which will be cleared. In addition, sidings will be added, and new connections built at Bucyrus, Ohio, and Alexandria, Indiana.

Traffic will consist of general merchandise, automotive, and intermodal. CR's former Columbus-Cincinnati mainline will see 18 trains a day.

Rail competition will be provided by multiple north-south CSX routes and by trucks on Interstates 75 and 65.

The **Butler Cut-Off** (Figure JWM-18) will provide a connection between the existing NS route between Detroit and Ft. Wayne, and the Penn Route at Butler, Indiana. The new, combined route will be the shortest route between Detroit and Chicago. Investments will be made in a new



The Mid-South Route

Figure JWM-17

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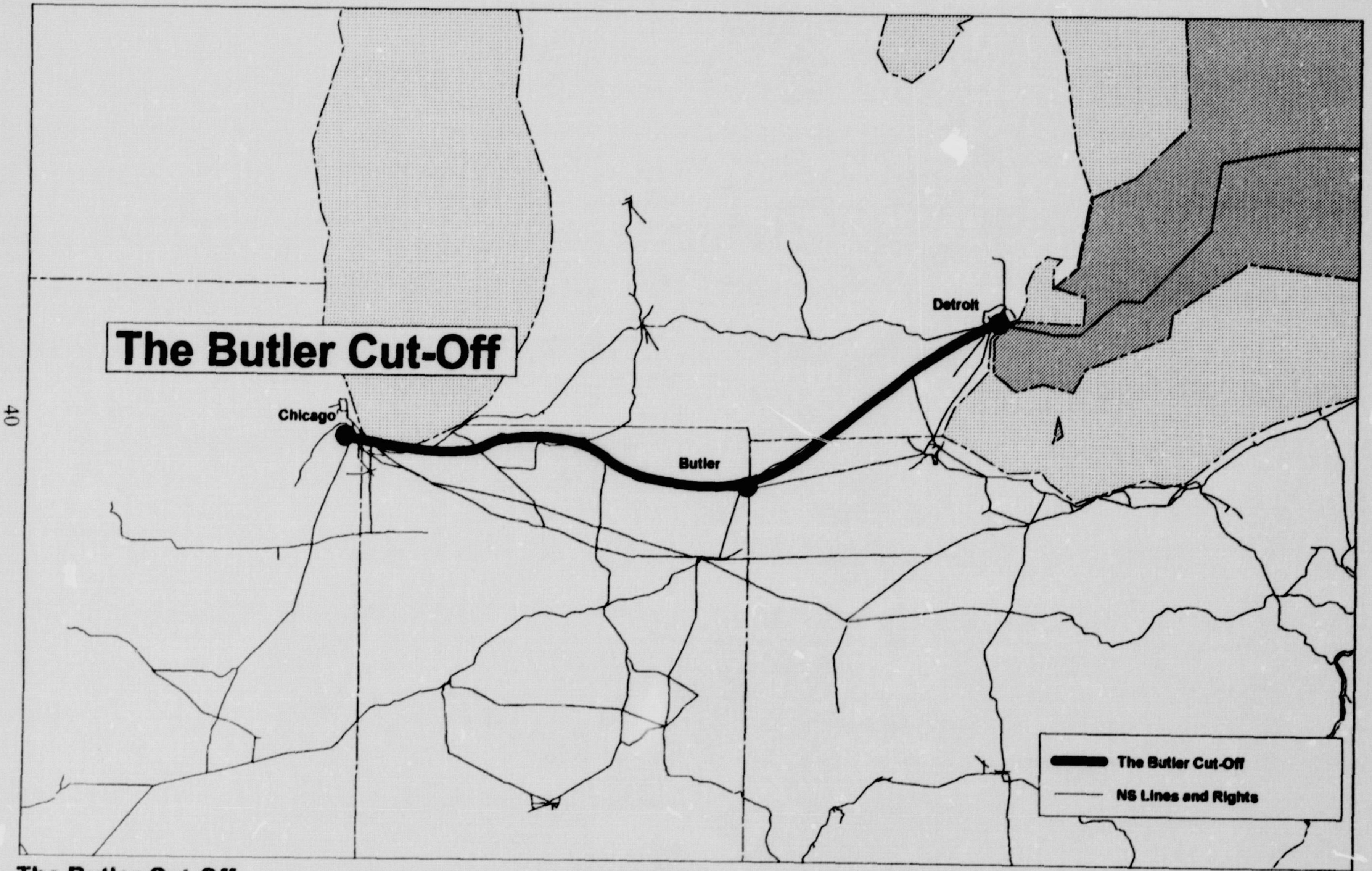

The Butler Cut-Off

Figure JWM-18

connection at Butler and in added capacity between Detroit and Butler. The route will handle general merchandise and automotive traffic. Competition will be provided by CP, CSX, and Grand Trunk Western lines of Canadian National, and by Interstates 80 and 90.

C. Major Hubs

These new and improved routes will not perform in isolation. Traffic flows do not move in nice, neat, linear corridors; modern commerce is fragmented and will become more so in the future. So the key to maximizing the benefits and efficiencies of the Plan is melding the various routes together into a network, where traffic can be assembled and disassembled into trains to and from many terminals.

As shown in Figure JWM-19 below, the principal hubs for the new NS network will be as follows:

Figure JWM-19
New NS -- Principal Hubs

General Merchandise	Automotive	Intermodal	Triple Crown
Pittsburgh, PA	Bellevue, OH	Atlanta, GA	Atlanta, GA
Bellevue, OH	Chicago, IL*	Toledo, OH	Ft. Wayne, IN
Buckeye Yard, OH (Columbus)	Fostoria, OH*	Harrisburg, PA	Harrisburg, PA
Elkhart, IN	Shelbyville, KY*		
Roanoke, VA	Kansas City, MO*		
Linwood, NC			
Knoxville, TN			
Chattanooga, TN			
Macon, GA			
Birmingham, AL			

* vehicle mixing centers under construction

The overall strategy for the New Norfolk Southern is to upgrade key routes and hubs to create a high capacity network that serves virtually the entire eastern U.S. Where NS tracks do not reach markets, NS will pursue arrangements, such as the one with CP/St.L&H that will get NS into New England, to extend services and upgrade facilities to meet NS standards. This NS network will be matched by an equally extensive CSX network, giving customers a far higher level of both single system service and competitive alternatives than they ever had before.

V. ADDRESSING CONFLICTING INTERESTS

Realistically, the Plan cannot benefit all carriers or all customers equally. Some smaller carriers will have fewer traffic opportunities; a few customers that are now served by two carriers will find themselves on only one carrier in the future; and some customers that now enjoy Conrail single system service will receive two system service in the future. The next sections deal with these specific issues.

A. Impacts on Smaller Railroads

The impact of the Plan on smaller carriers varies widely. Because some competitive routes that have languished since CR's formation will be revitalized to provide new or improved services, certain carriers that now function as friendly connections for NS or CSX into CR markets will assume different roles. The creation of CR had negative impacts on certain carriers and created opportunities for others; this Plan will cause similar changes. NS will consider reasonable steps to minimize negative impacts on these carriers, but the clear benefits of broadly based two-carrier competition offering services almost everywhere in the East is a much greater public benefit and should not be diminished by conditions, unless necessary to preserve essential services.

The Plan also will greatly enhance the role of CP/St.L&H and GTI (former Boston and Maine) in the New England market. Before formation of CR, these carriers and EL formed a competitive alternative to Penn Central between New England and the Midwest. When EL was made part of CR and D&H (now St.L&H) was left only with trackage rights on CR, this competitive alternative route began to fade. Under the Plan, the former D&H/B&M route will see substantial increases in traffic and will be reestablished as a competitive alternative.

Conversely, both New York, Susquehanna & Western (NYS&W) and Wheeling & Lake Erie (WE) will see competitive Class 1 service restored to certain markets they serve. Thus, their role as a "friendly" connection to CSX or NS or both (it varies on a customer by customer basis) will change. NS will work with these carriers as appropriate, but does not believe that they should be insulated from the impacts of change.

B. <u>Competition for "2 to 1" Customers</u>

Of the hundreds of geographic markets served by the new NS and new CSX systems, only ten will go from current two carrier service to single carrier service. This lack of adverse "2 to 1" effects reflects the overall competitive balance that will be achieved by the Plan. Some customers at the following locations would lose two carrier service without corrective action, but the Plan provides a remedy except in those few situations in which single carrier service makes more operational and commercial sense:

Figure JWM-20

"2-to-1" Customers

	Location	Population
CSX/CR	Indianapolis, IN	731,327
	Crawfordsville, IN	13,584
	Upper Sandusky, OH	5,906
	Sidney, OH	18,710
NS/CR	Avon Lake, OH	15,066
	Fairlane(Lorain), OH	71,245
	Sandusky, OH	29,764
	Red Key, IN	1,383
	Alexandria, IN	5,709
	Normal, IL	40,023

* Source: US Census Bureau - 1990

Two NS/CR points -- Red Key and Alexandria, Indiana -- do not, in our judgment, require a competitive solution:

Dissatisfied with CR service, the major customer at **Red Key, Indiana,** sought direct access to NS before this transaction began, and was willing to acquire the line from Conrail to gain direct NS service. The customer on this low density line wants good service, and NS will provide it directly by operating the line.

Alexandria, Indiana, has too little traffic to justify competitive service. Except for one car handled by NS, all of the traffic is on Conrail, and the new NS will continue to provide service for that traffic.

At the points of **Avon Lake**, **Fairlane,** and **Sandusky, Ohio,** and **Normal, Illinois,** served by the New NS, two carrier competitive service will be preserved through haulage and trackage rights agreements between NS and CSX:

The joint Ford Motor Co. and Nissan Motor Co. auto plant at **Avon Lake, Ohio,** is served by both CR and NS today. NS serves the plant directly, while CR reaches it by reciprocal switch. CSX will have access to the market under a haulage and trackage rights agreement, with cost-based charges, to and from Cleveland, 27 miles from Avon Lake via the CR Chicago line. As CSX will have access to all Ford and Nissan traffic at this location, competition actually will increase substantially.

The Ford Motor Co. auto plant at **Fairlane, Ohio,** is served by CR and NS today. CSX will handle Fairlane traffic from Cleveland under the same type of haulage and trackage arrangement that covers Avon Lake.

At **Sandusky, Ohio,** NS's traffic consists primarily of Lake coal transloaded to water; Conrail does not serve this NS-owned facility. Lake coal customers will continue to have ample competitive alternatives (CSX at Toledo; NS and CSX at Ashtabula; Bessemer and Lake Erie at Conneaut). There are, however, three "2 to 1" shippers that are served by CR and NS. By far the largest is Ford Motor Company parts traffic. This traffic at "2 to 1" customers will be handled under a trackage rights and haulage agreement with CSX. The terms of that agreement will be on the same cost basis as CSX's rights on NS to Fairlane and Avon Lake, Ohio.

Normal, Illinois, is located on NS's Gibson City - Peoria line. There is only one "2 to 1" customer at Normal. NS now serves the customer directly, while CR reaches it via a haulage agreement with NS from Lafayette, Indiana. To solve this "2 to 1" issue, CSX will replace CR under a haulage arrangement.

Two carrier competition at all CSX "2 to 1" points also will be preserved by haulage and trackage rights agreements between NS and CSX; such agreements apply to **Indianapolis** and **Crawfordsville, Indiana,** and to **Upper Sandusky** and **Sidney, Ohio**:

Indianapolis is by far the largest "2 to 1" point created by this transaction. It is located on CR's Cleveland-E. St. Louis mainline and on CSX's owned line from Cincinnati. CSX also has access via trackage rights from Crawfordsville, Indiana, over a CR line that CSX will operate. Indianapolis has a broad base of "2 to 1" customers and commodities, including coal and automobile parts. Traffic at "2 to 1" customers was substantial. NS will serve "2 to 1" customers in Indianapolis using trackage rights over CSX from both Muncie, Indiana (54 miles to the east and located on NS's Chicago-Atlanta mainline), and Lafayette, Indiana (85 miles northwest, on NS's line to Decatur, Illinois). NS will occupy Conrail's tracks at Hawthorne Yard and will bring trains directly into and out of that facility and switch its trains at that point. CSX will switch the "2 to 1" industries for NS. Charges to NS will be based on standard, existing trackage rights fees in effect between NS and CSX for over-the-road movements, plus a cost based operating fee for Indianapolis switching services, at this "2 to 1" point.

Crawfordsville, Indiana, is located 47 miles northwest of Indianapolis, on CR's Indianapolis-Lafayette line over which NS will have trackage rights to reach Indianapolis. Under the Plan, CSX will be assigned the CR tracks and assume CR service, and NS will become the competitive alternative carrier for all "2 to 1" customers at Crawfordsville. Nucor Steel, one of the "2 to 1" customers at Crawfordsville, built a mini-mill in 1988 and has two-carrier rail service; CSX serves the mill using trackage rights on CR. NS will serve the Nucor plant under haulage and trackage rights, and CSX will perform the actual switching under a joint operating agreement comparable to CSX's haulage and trackage arrangement on NS to Fairlane and Avon Lake, Ohio.

Upper Sandusky, Ohio, is on CSX's Columbus - Toledo line and on CR's Crestline - Ft. Wayne line. All "2 to 1" traffic consists of grain. NS will serve Upper Sandusky under a haulage and trackage rights agreement. The terms of that agreement will be on the same cost basis as CSX's haulage and trackage rights on NS to Fairlane and Avon Lake, Ohio.

Sidney, Ohio, is on CR's Cleveland - St. Louis line and on CSX's Cincinnati - Toledo line. Traffic at the two major "2 to 1" customers consists of grain related products. NS will serve all "2 to 1" customers at Sidney via a haulage and trackage agreement on CSX from Lima, OH.

NS is generally skeptical of trackage rights and haulage arrangements to solve competitive problems, and the overall arrangement with CSX makes minimal use of such rights. However, in the case of these "2 to 1" markets, the mileages are relatively short, and because NS and CSX will be exchanging haulage and trackage rights, each will hold reciprocal power over the other.

C. Loss of Single System Service

The Plan creates huge increases in New NS single system service, as shown in the following Figure JWM-21, although the division of CR, which is absolutely essential for creating two balanced competitive systems, inevitably will cause some traffic now flowing in single system service on CR to become two carrier movements:

Figure JWM-21
Increases/Reductions in Single System Service
(Units)

Commodity	Single System Moves Increases	Single System Moves Reductions	Ratio
Agricultural, Food	20,708	6,329	3.3-1
Coal, Iron Ore	28,286	18,838	1.5-1
Paper, Lumber, Clay	41,503	2,114	19.6-1
Chemicals, etc.	27,925	2,982	9.4-1
Construction, Metals	17,239	6,068	2.8-1
Automotive	60,783	3,698	16.4-1
Intermodal	81,437	2,795	29.1-1
Other	13,301	2,842	4.7-1
Total	291,182	45,666	6.4-1

Source: Rail Traffic Diversion Study (see verified statement of John H. Williams)

The operating plans of both carriers assume that traffic that is now routed single line CR today, but which will be joint line in the future, will be rerouted using a joint line service over an efficient interchange point. The needs of each customer impacted by the loss of single system CR service will be addressed specifically in the months ahead in order to minimize adverse effects to the greatest extent possible.

VI. TRANSITION PLANNING

Division of Conrail operations between the NS and CSX systems and creation of the Shared Assets Areas is a unique transaction in the annals of American railroading, in terms of both complexity and geographic scope. Norfolk Southern is aware of the complexity of the Plan and the high expectations of customers and local communities for continuous safe and reliable rail service in the Northeast and Midwest, without noticeable disruptions, and for rapid realization of the service benefits of the Plan.

We will plan and implement carefully to assure that the transition to the New Norfolk Southern is as smooth as possible for our customers, our employees, and the communities we serve. We already are identifying critical transition tasks and implementation projects and assembling teams to develop and execute the most appropriate transition methodology for each task, particularly those that will directly affect our customers. Customer-focused teams already underway include service reliability and customer billing, and of critical importance to CR employees who will come to work for NS, two payroll conversion teams are already active.

Some of these teams will be cross-functional, requiring participation by multiple NS departments. Many of them will be working with their counterparts at Conrail and CSX.

Systems support will be critical to a successful transition, and NS will invest approximately $25 million during years 1-3 to assure that success. To permit orderly conversion of Conrail operations and territories to NS information systems, some temporary parallel operation will be necessary. After the Control Date, NS people will have the necessary real time access to Conrail systems. For instance, a data link will be established for Norfolk Southern's National Customer Service Center in Atlanta to access Conrail car movement records through existing PCs to answer car location inquiries from New NS (former Conrail) customers.

NS's transition planning will escalate and become more detailed as this proceeding draws to a close. However, everyone at NS is mindful of the distinction between planning and implementation and that Conrail remains independent until after the Control Date.

VII. CONCLUSIONS

In conclusion, based on my direct involvement, at various levels, in the major structural changes in northeastern railroading during the past thirty years, I offer the following observations:

First, the Penn Central was born out of desperation. Many, myself included, thought it to be a bad merger when it was done, but it was justified at the time by the gravity of the northeastern rail crisis. In the end, neither rail competition nor financial viability were served by that joining of failing partners.

Second, there was another chance to set things right with the creation of Conrail. The Federal Government started out by recommending a structure that, while it would not reverse the competitive damage done by Penn Central, at least would do no more harm; Penn Central was to become Conrail, and the other bankrupt carriers were to be joined with solvent eastern carriers. That plan failed, and the Northeast was left with a rail carrier even more dominant than Penn Central. For better or for worse, more and more of the northeastern rail "eggs" were put into the Conrail basket. Although competition might not have been enhanced, at least financial viability was achieved, although only after the expenditure of billions in taxpayer dollars and the loss of tens of thousands of jobs and thousands of miles of track.

Third, Conrail was returned to private ownership. NS sought to acquire Conrail but was thwarted. Throughout the next decade, Conrail and its future were never far from the thoughts of railroaders in Norfolk or Jacksonville. Eventually, Conrail came to the conclusion that it could not prevail as a stand-alone company.

Fourth, and (hopefully) finally, we have come to a restructuring of eastern railroading that meets the long time goals of both competition and financial viability. It will provide broad, two-carrier rail competition between most of the important rail markets in the eastern United States. It will significantly reduce the cost of rail transportation by achieving substantial long term efficiencies as well as by assuring that competitive benefits are passed on to customers.

It is a solution that was forged in the private sector, but one that recognizes that the public interest ultimately must be served if the Plan is to proceed and succeed. If approved, this Plan will become the most pro-competitive restructuring in railroad history. The combination of enlightened government action (the Staggers Act, for example) and private sector initiative will finally produce the outcome that eluded the Federal government, the rail industry, and rail customers for three decades: a viable, competitive and stable eastern rail system. It is an opportunity that should be seized.

mcclel2.mst 6-12-97

VERIFICATION

I, James W. McClellan, verify under penalty of perjury that I am Vice President - Strategic Planning of Norfolk Southern Corporation, that I have read the foregoing document and know its contents, and that the same is true and correct to the best of my knowledge and belief.

Executed on June 19th, 1997.

James W. McClellan

VERIFICATION

I, James W. McClellan, verify under penalty of perjury that I am Vice President - Strategic Planning of Norfolk Southern Corporation, that I have read the foregoing document and know its contents, and that the same is true and correct to the best of my knowledge and belief.

Executed on June 19th, 1997.

James W. McClellan

BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 33388

CSX CORPORATION AND CSX TRANSPORTATION, INC. AND
NORFOLK SOUTHERN CORPORATION AND
NORFOLK SOUTHERN RAILWAY COMPANY
--CONTROL AND OPERATING LEASES/AGREEMENTS--
CONRAIL INC. AND CONSOLIDATED RAIL CORPORATION

VERIFIED STATEMENT OF JACK LEVY

VERIFIED STATEMENT

OF

JACK LEVY

I. INTRODUCTION

My name is Jack Levy. I am a Managing Director of Merrill Lynch & Co., located at 250 Vesey Street, World Financial Center, New York, New York, and a co-head of the Merrill Lynch Mergers and Acquisitions Group. Merrill Lynch is a financial advisor to Norfolk Southern Corporation with respect to the joint acquisition of the stock of Conrail, Inc. by CSX Corporation and Norfolk Southern Corporation.

Merrill Lynch & Co., Inc., a Delaware corporation formed in 1973, is a holding company that, through its subsidiaries and affiliates, provides investment, financing, insurance, and related services on a global basis. Such services include securities brokering, trading, and underwriting; investment banking, strategic services, and other corporate finance advisory activities, including loan syndication; asset management and other investment advisory and record-keeping services; trading of foreign exchange instruments, futures, commodities, and derivatives; securities clearance services; banking, trust, and lending services including mortgage lending and related services; and insurance sales and underwriting services. Merrill Lynch's subsidiaries and affiliates, which are organized and managed under a structure consisting of four business sectors--U.S. Private Client Group, International Private Client Group, Asset Management Group, and Corporate and Institutional Client Group--provide these services to a wide array of clients, including individual investors, small businesses, corporations, governments and governmental agencies, and financial institutions. Merrill Lynch regularly performs financial and valuation analyses of businesses and securities in connection with mergers and acquisitions ("M&A"), leveraged buyouts, restructurings, underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes.

Merrill Lynch has been a leading underwriter, both global and domestic, of debt and equity for the last eight years. In 1996, Merrill Lynch was ranked #3 in Worldwide M&A completed transactions and #2 for U. S. M&A completed transactions, as ranked by dollar volume of transactions according to Securities Data Company.

II. QUALIFICATIONS AND EXPERIENCE

I received a Bachelor of Arts from Hamilton College in 1975 and a Masters in Business Administration from Stanford University in 1978, and I joined Merrill Lynch in 1978 as an associate in its Mergers and Acquisitions Group. I was promoted to Vice President in 1982 and Managing Director in 1985. I have been the co-head of the Mergers and Acquisitions Group since 1990.

During my time at Merrill Lynch, I have worked on a broad range of financial transactions for public and private corporations, including mergers and acquisitions, spin-offs, restructurings, recapitalizations, and the raising of debt and equity capital, both in the United States and abroad. These transactions have involved companies in a wide variety of industries. Some of the Merrill Lynch clients that I have advised include Office Depot in its pending acquisition by Staples; Bally Entertainment in its acquisition by Hilton Hotels; R.H. Macy in its sale to Federated Department Stores; Ingersoll-Rand in its acquisition of Clark Equipment; Nine West Group in its acquisition

STB FD 33388 6-23-97 A 180274 COVER LETTER

180274

ARNOLD & PORTER
555 TWELFTH STREET, N.W.
WASHINGTON, D.C. 20004-1206
(202) 942-5000
FACSIMILE (202) 942-5999

NEW YORK
DENVER
LOS ANGELES
LONDON

DENNIS G. LYONS
(202) 942-5856

June 23, 1997

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I.C.C.

BY HAND DELIVERY

The Honorable Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, N.W.
Washington, D.C. 20423

Re: *Finance Docket No. 33388, CSX Corporation and CSX Transportation, Inc., Norfolk Southern Corporation and Norfolk Southern Railway Company -- Control and Operating Leases/ Agreements -- Conrail Inc. and Consolidated Rail Corporation*

Dear Secretary Williams:

Presented herewith for filing, on behalf of our clients, CSX Corporation and CSX Transportation, Inc., are an original and 25 copies of CSX/NS-18 through CSX/NS-25 inclusive, containing the Primary Application in this proceeding, including the Environmental Report and the various agreements entered into among the parties, executed by our clients and the other Applicants referred to therein. Also presented are 25 unbound copies of the Exhibit 1 maps (49 C.F.R. § 1180.6(a)(6)), and 25 copies of overlay maps (as required by Decision No. 2). Diskettes formatted in WordPerfect 5.1 (or other formats readable under or convertible into WordPerfect 7.0), containing the text of the Application, will be furnished in approximately a day.

In addition, as required by 49 C.F.R. 1180.4(c)(2)(vi), included as Volume 5 of the Application are all directly Related Applications, numbered as F.D. No. 33388 Sub-Docket Nos. 1-34, AB-167 (Sub-No. 1181X), AB-55 (Sub-No. 551X), and AB-290 (Sub-Nos. 194X-197X). Two unbound copies of each of these filings are also presented. Accompanying the Related Applications are 20 unbound maps for Sub-Docket Nos. 23-34 and the filing fees for Sub-Docket numbers 1-4, 8-11, 26, 28-29, 31, 34, AB-55 (Sub-No. 551X) and AB-167 (Sub-No. 1181X), detailed on the attached list. The filing fees for the remaining Related Applications will be submitted under separate cover by counsel for Norfolk Southern Corporation and Norfolk Southern Railway Company. The filing fees for the Primary Application were submitted earlier by Norfolk Southern Corporation's counsel by letter of May 16, 1997, and by the undersigned's letter of May 29, 1997, for CSX Corporation.

ENTERED
Office of the Secretary
JUN 23 1997
5 Part of Public Record

FILED
JUN 23 1997
SURFACE TRANSPORTATION BOARD

Pursuant to Decision No. 7 in this matter, we also present ten copies of the operating timetables for CSX Transportation, Inc. and for Consolidated Rail Corporation. The operating timetables for Norfolk Southern Railway Company are being submitted under separate cover by its counsel.

The labor impacts presentations in the Application are based on full-year figures, as required by Decision No. 7, but the most recent available year, 1996, has been employed inasmuch as full-year figures for 1995 were not immediately available. A labor impact statement based on full-year 1995 figures will be supplementally submitted on or about July 1, 1997.

Pursuant to Decision No. 9, and as indicated by our clients in CSX-1, separate applications are being submitted later today for the construction aspects of the matters dealt with in Sub-Docket Nos. 1-4. Separate covering letters for those construction applications will accompany them.

The Application is being served on the parties required to be served under the Board's regulations. Pursuant to a request by the Section of Environmental Analysis, Applicants have also served Volume 6 of the Application, containing the Environmental Report, on 1800 federal, state and local agencies, in addition to those parties on whom service of the entire Application is being effected.

Respectfully yours,

ARNOLD & PORTER

By: ______________________
Dennis G. Lyons
Counsel for CSX Corporation and CSX Transportation, Inc.

Attachment:
Schedule of Fees Paid

ATTACHMENT

List of Checks for Related Applications

Sub-No. 1	$ 1,100.00
Sub-No. 2	$44,500.00
Sub-No. 3	$44,500.00
Sub-No. 4	$44,500.00
Sub-No. 8	$ 1,100.00
Sub-No. 9	$ 1,100.00
Sub-No. 10	$44,500.00
Sub-No. 11	$ 1,100.00
Sub-No. 28	$ 750.00
Sub-No. 29	$ 750.00
Sub-No. 26	$ 4,700.00
Sub-No. 31	$ 3,900.00
Sub-No. 34	$ 750.00
AB-167(Sub-No. 1181X)	$ 2,200.00
AB-55(Sub-No. 551X)	$ 2,200.00

180274

ENTERED
Office of the Secretary

JUN 23 1997

5 Part of Public Record

LAW OFFICES

ZUCKERT, SCOUTT & RASENBERGER, L.L.P.

888 SEVENTEENTH STREET, N.W.

WASHINGTON, D.C. 20006-3939

TELEPHONE : (202) 298-8660

FACSIMILES: (202) 342-0683

(202) 342-1316

RICHARD A. ALLEN

FILED

JUN 23 1997

SURFACE TRANSPORTATION BOARD

RECEIVED JUN 23 1997 MAIL MANAGEMENT I.C.C. 7

June 23, 1997

Via Hand Delivery

Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, N.W.
Washington, D.C. 20423-0001

Re: CSX Corporation and CSX Transportation, Inc., Norfolk Southern Corporation and Norfolk Southern Railway Company -- Control and Operating Leases/Agreements -- Conrail Inc. and Consolidated Rail Corporation -- Finance Docket No. 33388

Dear Secretary Williams:

I am transmitting herewith an original and 25 copies of a railroad control application (CSX/NS-18 through -25) in the above-referenced proceeding, together with related petitions and notices of exemption. Diskettes will be submitted tomorrow. I also enclose a check for $383,750 as filing fees for the related petitions and notices of exemption listed on the attachment to this letter. A filing fee of $889,500 for the primary control application was submitted under separate cover.

In addition, as required by 49 C.F.R. 1180.4(c)(2)(vi), included as Volume 5 of the Application are all directly related applications, numbered as Finance Docket No. 33388 Sub-Docket numbers 1-34, AB-167 (Sub No. 551X) and AB-290 (Sub-Nos. 194X-197X). Two unbound copies of each of these filings are also enclosed. Along with the related applications, I am enclosing 20 unbound maps for Sub-Docket numbers 23-34 and the filing fees for Sub-Docket numbers 5-7, 12-25, 27, 30, 32-33, and AB-290 Sub-Nos. 194X-197X as shown on the attached list. The filing fees for the remaining related applications will be submitted under separate cover by counsel for CSX Corporation and CSX Transportation, Inc.

Pursuant to No. 7 in this matter, we also present ten copies of the operating timetables for Norfolk Southern Railway Company. The operating timetables for CSX Transportation, Inc. and for Consolidated Rail Corporation are being submitted under separate cover by counsel CSX Corporation and CSX Transportation, Inc.

The Application is being served on the parties required to be served under the Board's regulations. Pursuant to a request by the Section of Environmental Analysis, Applicants have also served Volume 6 of the Application, containing the Environmental Report, on 1800 federal, state and local agencies, in addition to the parties who are being served with the entire Application.

Should you have any questions regarding this, please call.

Sincerely,

Richard A. Allen

Richard A. Allen

Counsel for Norfolk Southern Corporation and Norfolk Southern Railway Company

Enclosures

Attachment to Transmittal Letter to Vernon A. Williams
Dated June 23, 1997
Page One

FD 33388 (Sub No. 5) Petition for Exemption - Construction and Operation -	$ 44,500
FD 33388 (Sub No. 6) Petition for Exemption - Construction and Operation -	$ 44,500
FD 33388 (Sub No. 7) Petition for Exemption - Construction and Operation -	$ 44,500
FD 33388 (Sub No. 12) Petition for Exemption - Construction and Operation -	$ 44,500
FD 33388 (Sub No. 13) Verified Notice of Exemption - Construction and Operation Exemption -	$ 1,100
FD 33388 (Sub No. 14) Petition for Exemption - Construction and Operation Exemption -	$ 44,500
FD 33388 (Sub No. 15) Verified Notice of Exemption - Construction and Operation Exemption -	$ 1,100
FD 33388 (Sub No. 16) Verified Notice of Exemption - Construction and Operation Exemption -	$ 1,100
FD 33388 (Sub No. 17) Verified Notice of Exemption - Construction and Operation Exemption -	$ 1,100
FD 33388 (Sub No. 18) Petition for Exemption - Construction and Operation Exemption	$ 44,500
FD 33388 (Sub No. 19) Verified Notice of Exemption - Construction and Operation Exemption	$ 1,100

FD 33388 (Sub No. 20) Verified Notice of Exemption - Construction and Operation Exemption	$ 1,100
FD 33388 (Sub No. 21) Petition for Exemption - Construction and Operation Exemption	$ 44,500
FD 33388 (Sub No. 22) Petition for Exemption - Construction and Operation Exemption	$ 44,500
FD 33388 (Sub No. 23) Verified Notice of Exemption Joint Relocation Project - under 49 CFR 1180.2(d)(5)	$ 1,500
FD 33388 (Sub No. 24) Petition for Exemption - Acquisition of Line -	$ 3,900
FD 33388 (Sub No. 25) Notice of Exemption - Trackage Rights -	$ 750
FD 33388 (Sub No. 27) Notice of Exemption - Trackage Rights -	$ 750
FD 33388 (Sub No. 30) Notice of Exemption - Trackage Rights -	$ 750
FD 33388 (Sub No. 32) Notice of Exemption - Trackage Rights -	$ 750
FD 33388 (Sub No. 33) Notice of Exemption - Trackage Rights -	$ 750

Attachment to Transmittal Letter to Vernon A. Williams
Dated June 23, 1997
Page Three

Docket No. AB-290 (Sub-No. 194X) **Notice of Exemption - Abandonment**	**$ 2,200**
Docket No. AB-290 (Sub-No. 195X) **Petition for Exemption - Abandonment**	**$ 3,800**
Docket No. AB-290 (Sub-No. 196X) **Petition for Exemption - Abandonment**	**$ 3,800**
Docket No. AB-290 (Sub-No. 197X) **Notice of Exemption - Abandonment**	**$ 2,200**

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of the Footwear Business of U.S. Shoe Corporation; and Kmart Corp. in the sale of Pay Less Drug Stores Northwest.

Merrill Lynch has extensive experience both as a financial advisor and as an underwriter or a placement agent of debt and equity securities for the railroad industry. Since 1986, Merrill Lynch has raised over $20 billion in capital for rail issuers. In 1996, Merrill Lynch was a global leader in public debt and equity offerings for railroads, raising over $4.1 billion as lead or co-manager, and the number one trader of railroad stocks as we participated in transactions involving over 59.3 million railroad shares.

Additionally, Merrill Lynch has acted as financial advisor to railroads and other transportation companies, including the following railroad transactions:

• Canadian Pacific Limited	Restructured through the separation of its non-rail and rail businesses
• Alleghany Corporation	Advised on its investment in Burlington Northern/Santa Fe Pacific Corporation common stock
• Government of the United Kingdom	Advised on the split off of Railtrack plc
• Illinois Central Transportation Co.	Advised in its sale to The Prospect Group via a tender offer
• Transportation Ferroviaria Mexicana (joint venture group including Kansas City Southern)	Pending acquisition financing of the concession to operate the assets of the Ferrocarril del Noreste from the Mexican Government

III. MERRILL LYNCH'S RELATIONSHIP WITH NORFOLK SOUTHERN

Merrill Lynch has raised debt financing for NS for many years, including serving as the lead manager for a $100 million note issuance in September 1996 and co-manager for another

$100 million note issuance in September 1996. Most recently, Merrill Lynch was the joint bookrunner and co-lead manager of $4.3 billion long-term debt issuances for the cost of acquiring NS's 58% portion of Conrail shares, as discussed below in "Terms of the Transaction."

The Merrill Lynch and NS relationship dates back to 1988, but became more strategically focused in mid-1995. The relationship has provided us with the opportunity to become very familiar with NS, its operations, its financial performance, its capital structure and its prospects.

IV. MERRILL LYNCH'S ENGAGEMENT BY NORFOLK SOUTHERN

Merrill Lynch was formally retained by NS through a letter agreement dated October 21, 1996 (the "Engagement Letter"), to act as financial advisor to NS with respect to a possible acquisition of the stock of Conrail, Inc. ("CRI"). This came after CSX and Conrail announced their initial merger agreement on October 15, 1996. Under the terms of the Engagement Letter, we assisted NS in analyzing, structuring, negotiating and effecting an acquisition transaction involving Conrail, and were retained to serve as a dealer manager in the event of a tender or an exchange offer for securities of Conrail. We also assisted in the arrangement of financing for a possible acquisition.

In the above capacities as financial advisor, dealer manager and arrangement of financing for a possible acquisition, Merrill Lynch acted jointly with J.P. Morgan & Co. It is important to note that Merrill Lynch rendered its fairness opinion to NS independently from J. P. Morgan & Co.

I oversaw the work of the Merrill Lynch M&A team in its analysis of the value and structure of various proposals considered. In addition to myself, several other investment bankers of Merrill Lynch were instrumental to the NS transaction team. They included Richard P.

Johnson, Managing Director; L.W. "Rusty" Mather, Jr., formerly a Managing Director and now a consultant to the firm; William S. Susman, Director; Michael V. DeFelice, Vice President; Jack C. MacDonald, Associate; and Scott W. Rostan, Analyst. Messrs. Johnson, DeFelice, MacDonald and Rostan conducted the bulk of our valuation analysis. All of the above persons, including myself, participated in strategy sessions and meetings with NS senior management.

V. TERMS OF THE TRANSACTION

The terms of the Letter Agreement dated as of April 8, 1997("Letter Agreement"), between CSX and NS were reached after a month of negotiations between CSX and NS.

To summarize, the Letter Agreement calls for a joint acquisition of the stock of CRI by CSX and NS, whereby the two companies formed a jointly owned entity to acquire all outstanding shares of CRI for $115 in cash per share. Including amounts previously spent to acquire shares of CRI, NS will contribute $5.7 billion for its share of the acquisition and CSX will contribute $4.2 billion for its share.

NS will operate about 58 percent of Conrail and CSX about 42 percent, based on the revenues generated by Conrail's lines and facilities in 1995. In arriving at the proposed division, the companies focused on producing the best fit with their existing systems and optimizing service to customers.

Merrill Lynch delivered a written fairness opinion letter dated April 8, 1997, stating that the financial terms of the Letter Agreement were fair from a financial point of view to Norfolk Southern.

VI. ANALYSES CONDUCTED BY MERRILL LYNCH

In arriving at our opinion, Merrill Lynch:

1. reviewed certain publicly available business and financial information relating to Conrail and NS;

2. reviewed certain financial forecasts relating to the financial condition, business, earnings, cash flow, assets, liabilities, and prospects of (a) NS furnished to us by Norfolk Southern's management and (b) Conrail based on publicly available information and information furnished to us by NS and consultants engaged by NS;

3. compared the proposed financial terms of the transactions contemplated by the Letter Agreement with the financial terms of certain other mergers and acquisitions that we deemed to be relevant;

4. reviewed certain information furnished us by NS with respect to the estimated amount and timing of the projected cost savings, the related expenses required to achieve such cost savings, capital expenditures reductions and revenue enhancements expected to result from the operation of certain Conrail assets by NS (the "Expected Synergies");

5. considered the pro forma impact of the operation of certain Conrail assets by NS on the income statement, balance sheet and cash flows of NS, based upon the information referred to in items (1), (2) and (4) above;

6. reviewed the Letter Agreement dated April 8, 1997; and

7. reviewed such other financial studies and analyses and performed such other investigations and took into account such other matters as we deemed necessary.

In preparing our opinion, with Norfolk Southern's consent, Merrill Lynch assumed and relied on the accuracy and completeness of all information supplied or otherwise made available to us, and we did not assume responsibility for independently verifying such information or undertake an independent evaluation or appraisal of Conrail or any of its assets or operations, nor were we furnished any such evaluation or appraisal. In addition, Merrill Lynch did not conduct any physical inspection of the properties or facilities of Conrail. We were advised that no separate financial statements exist with respect to the Conrail assets to be operated by NS. NS also instructed us to assume, and we assumed without independent investigation, that the Conrail assets to be operated by NS represent at least 58% of the historical and forecasted total assets, liabilities, revenues, cash flows and net income of Conrail and, accordingly, our analysis was premised on applying that percentage to the financial information furnished to us with respect to Conrail. With respect to the financial forecasts (including the Expected Synergies), with NS's consent, we assumed that these forecasts were reasonably prepared and reflected the best currently available estimates and judgments of the management of NS as to the future financial performance of NS or Conrail, as the case may be. At the time of delivering our opinion, Merrill Lynch understood that the structure and terms of division of use and operation of Conrail's assets and division of liabilities of Conrail between NS and CSX had not been finally determined. We assumed that no material tax liability would be imposed upon Norfolk Southern or Conrail as a result of the consummation of the transactions contemplated by the Letter Agreement. In addition, we did not perform due diligence with respect to the Acquired Business.

In order to reach our conclusions and to present our opinion to the NS board of directors, we performed the following analyses:

A. Comparable Company Analysis

Comparable company analysis examines a company's operating performance relative to a group of publicly traded peers. Merrill Lynch analyzed the operating performance of Conrail relative to four other American railroad companies: Burlington Northern, Inc., Illinois Central Corp., Norfolk Southern Corp., and Union Pacific Corp. (collectively, the "Comparable Companies"). Historical financial information with respect to the Comparable Companies was compiled from the most recent financial statements publicly available for each company.

Merrill Lynch analyzed the relative performance and value of Conrail by comparing certain market trading statistics of the Comparable Companies. Among the market trading information we considered in the valuation analysis were (1) market price to earnings per share ("EPS") estimates for 1997 and 1998, which were based on estimates supplied by the Institutional Brokers Estimate System ("IBES"), an organization that compiles average EPS estimates of participating equity research analysts, and (2) the market capitalization (market value of the equity plus debt and minus cash) to latest twelve-month earnings before interest, taxes, depreciation and amortization ("EBITDA"), a relative measure of operating cash flow. Generally, Merrill Lynch also noted that multiples from Comparable Companies did not reflect premiums paid in acquisition transactions.

Naturally, none of the Comparable Companies were identical to Conrail. Accordingly, our competitive analysis required that we make a number of judgments and considerations in order to take account of the differences between Conrail and the other Comparable Companies. Such judgments included, among other things, differences in financial and operational characteristics of Conrail and other factors that could affect the public trading value of the Comparable Companies or the company to which Conrail was being compared. Because a direct comparison did not exist, simple mathematical analysis (such as determining the average or median) was not in itself a meaningful method of using comparable company data.

B. Comparable Acquisition Analysis

Merrill Lynch also performed an analysis of previous transactions involving North American railroad companies in order to determine another valuation comparison for the amount to be paid by NS under the Letter Agreement. In the analysis, we compared (1) multiples of the transaction value (the fully diluted equity value of the offer plus any debt assumed less cash and option proceeds) paid by NS under the Letter Agreement to Conrail's revenues, EBITDA and earnings before interest and taxes ("EBIT") with the corresponding revenue, EBITDA and EBIT multiples paid in selected merger and acquisition transactions involving railroads from September 1992 through September 1996, and (2) the multiple of the offer value (the fully diluted equity value of the offer) paid by NS under the Letter Agreement to Conrail's net income with the corresponding net income multiples paid in the selected railroad transactions.

Our comparison included five transactions: Union Pacific Corp. and Southern Pacific Rail Corp.; Union Pacific Corp. and Chicago and North Western Transportation; Burlington Northern, Inc. and Santa Fe Pacific Corp.; Illinois Central Corp. and Kansas City Southern Railroad (terminated before closing); and Kansas City Southern Industries, Inc. and MidSouth Corp.

In evaluating these transactions, Merrill Lynch made certain judgments and considerations concerning differences in financial and operating characteristics of Conrail, including the impact on NS if all of Conrail were acquired by a third party, and other factors that could affect the acquisition value of the companies to which they were compared.

C. Discounted Cash Flow Analysis

Merrill Lynch also performed a customary discounted cash flow ("DCF") analysis as a means of valuing the per share equity value of Conrail. We calculated a present value of the unlevered free cash flows[1] that would be generated if Conrail performed in accordance with financial projections based on information furnished to us by NS and consultants engaged by NS, and on publicly available information.

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[1] Unlevered free cash flows were defined as the after-tax operating earnings of Conrail, plus depreciation and amortization and other non-cash items, plus (or minus) net changes in non-cash working capital, plus (or minus) net changes in other long-term assets and liabilities, minus projected capital expenditures.

To calculate the value of Conrail based on the estimated free cash flows, we discounted the projected unlevered free cash flows over a ten-year period ending with the calendar year 2007 using a range of discount rates of 9.5% to 11.5% based upon Merrill Lynch's estimation of Conrail's projected weighted average cost of capital. We then added to the present values of the cash flows the terminal value of Conrail in 2007 and discounted the terminal value back using the same range of discount rates. We calculated the terminal value using the EBITDA multiple method, applying ranges of 7.5x to 8.5x, as is the case with the publicly traded Comparable Companies. We then deducted the estimated outstanding net debt of Conrail as of December 31, 1997.

To evaluate the estimates of certain potential benefits of the proposed transaction as supplied by NS management, we also performed a discounted cash flow analysis assuming realization of these potential benefits. We calculated the after-tax cash flows from revenue enhancements and expense savings, and then deducted/added the after-tax costs incurred/saved due to the transaction (such as labor protection charges and capital investments incurred or avoided). The ten-year projected after-tax cash flows from potential benefits were discounted using the same range of discount rates noted above. The terminal value was calculated based on the perpetuity method, assuming growth rates of 2.75% to 3.25%.

Based on the Comparable Company, Comparable Acquisition, and Discounted Cash Flow (with and without potential benefits of the proposed transaction) Analyses outlined above, the utilization of all of the data available to Merrill Lynch, and the consideration of the unique elements of Conrail and this transaction, the consideration to be paid by NS in accordance with the Agreement was within the range of per share value for Conrail.

D. Pro Forma Consequences

Merrill Lynch also estimated the pro forma impact to NS of the transaction according to the Letter Agreement. Certain purchase accounting adjustments were assumed, most notably the write-ups of the property, plant and equipment ("PP&E") of Conrail to fair market value. As guidance for the PP&E write-ups, Merrill Lynch used a preliminary fair value analysis performed by Conrail's external auditors and the PP&E write-ups based on publicly available information in the Union Pacific/Southern Pacific merger and the Burlington Northern/Santa Fe merger. Assuming the Expected Synergies of the transaction as supplied by NS management, Merrill Lynch estimated the business combination would be slightly accretive to NS in 1999 and substantially accretive thereafter. Based on our estimations, NS would also remain an investment grade credit for debt purposes. Based on the projected operating results, including the free cash flows generated by the NS/Conrail System according to the Letter Agreement and the projected investment grade balance sheet, NS will have alternative means to amortize the acquisition debt, including refinancings and an equity issuance.

VII. CONCLUSION

Each of the analyses that we utilized in connection with this transaction is frequently utilized by Merrill Lynch's Mergers and Acquisitions Group for advisory assignments involving large, publicly traded companies. We conducted a wide variety of analyses to support our fairness opinion delivered to the NS Board of Directors and dated April 8, 1997. Since every company and transaction evaluated by Merrill Lynch has certain unique elements and considerations, Merrill Lynch believes that these analyses must be considered as a whole. Selecting portions of these analyses, without considering the entirety of the analyses, would create an incomplete view of the process underlying our opinion. We also found it necessary, due to the specifics of this transaction, to give various analyses and assumptions more or less weight than other analyses.

For the reasons described above, the range of valuations resulting for any particular analysis applied by Merrill Lynch were not taken by Merrill Lynch as the actual value for Conrail. We utilized instead all of the data available to us including the data derived from each of the analyses performed by us in connection with this transaction to determine the fairness to NS of the financial terms of the Letter Agreement. From our review of all such information and analyses, we concluded in our April 8, 1997, opinion to the NS Board of Directors that the financial terms of the Letter Agreement were fair from a financial point of view to NS. Nothing in the information subsequently provided to us by NS or available publicly changes that opinion.

<u>**Verification**</u>

State of New York)
) ss.
County of New York)

I, JACK LEVY, verify under penalty of perjury that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this Verified Statement. Executed on June 3, 1997.

JACK LEVY

Sworn to and signed before me this 3 day of June, 1997

Gayle H. Serra
Notary Public

My Commission Expires: GAYLE H. SERRA
NOTARY PUBLIC, State of New York
No. 01SE5019359
Qualified in Richmond County
Commission Expires Oct. 18, 1997

Verification

State of New York)
) ss.
County of New York)

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My Commission Expires: GAYLE H. SERRA
NOTARY PUBLIC, State of New York
No. 01SE5019359
Qualified in Richmond County
Commission Expires Oct. 18, 1997

BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 33388

CSX CORPORATION AND CSX TRANSPORTATION, INC. AND
NORFOLK SOUTHERN CORPORATION AND
NORFOLK SOUTHERN RAILWAY COMPANY
--CONTROL AND OPERATING LEASES/AGREEMENTS--
CONRAIL INC. AND CONSOLIDATED RAIL CORPORATION

VERIFIED STATEMENT OF JAMES L. HAMILTON

VERIFIED STATEMENT

OF

JAMES L. HAMILTON

I. INTRODUCTION

My name is James L. Hamilton. I am a Managing Director of J.P. Morgan & Co. Incorporated ("J.P. Morgan"), located at 60 Wall Street, New York, New York.

J.P. Morgan is a global firm providing through its operating subsidiaries financial services to corporations, governments, financial institutions and individual investors. J.P. Morgan's businesses include securities underwriting, distribution and trading; merger, acquisition, restructuring, real estate, project finance, credit products, and other corporate finance advisory activities; brokerage and research services; asset management and merchant banking; the trading of foreign exchange and other commodities as well as structured financial products on a broad range of asset categories.

II. QUALIFICATIONS AND EXPERIENCE

I received a Bachelor of Science degree from the United States Merchant Marine Academy in 1977 and a Master's Degree in Business Administration from New York University in 1985. From 1977 to 1982, I was an officer in the U.S. Merchant Marine for Gulf Oil Corporation. I joined J.P. Morgan's Financial Advisory Department in October 1985. In 1990, I was promoted to the position of Vice President and in 1996 to the position of Managing Director. Since 1995, I have been the head of J.P. Morgan's Transportation Investment Banking practice.

During my tenure with J.P. Morgan, I have worked on a broad range of financial transactions for public and private corporations, including mergers and acquisitions, spin-offs, restructurings, recapitalizations and the raising of debt and equity capital, both in the United States and abroad. While these transactions have involved companies in many industries, the focus of my work has been, and continues to be, transportation companies. Most recently, I have acted as advisor to APL, Union Pacific Corporation, J.B. Hunt, Consolidated Freightways and Ryder System.

J.P. Morgan has extensive experience both as an advisor and as underwriter or placement agent of debt and equity securities for railroad and other transportation companies. Since 1991, J.P. Morgan has lead- or co-managed approximately $12.4 billion of offerings of North American rail and rail-related debt and equity securities. I was involved personally in each of these offerings, as well as a number of private placements managed by J.P. Morgan. In addition, since 1991, J.P. Morgan has lead- or co-managed $12.6 billion of offerings of European and over $1.5 billion of Far East rail and rail-related securities. Moreover, J.P. Morgan has lead- or co-arranged over $31 billion in rail and rail-related bank financings since 1988, the majority of which I was involved in personally.

In addition, I have participated in many transactions in which J.P. Morgan acted as financial advisor to railroad, shipping, trucking and logistics companies, including the following:

Segment	J.P. Morgan client	J.P. Morgan role
Railroads	Union Pacific	Advisor on bid for privatization of N. E. Mexican Railway
Shipping	APL Ltd.	Advisor on sale of APL Ltd. to Neptune Orient Lines
	Tenneco / Newport News	Advisor on spin-off of Newport News Shipbuilding and Drydock Co.
Logistics	APL Ltd.	Advisor on sale of domestic intermodal marketing company
	J.B. Hunt	Strategic advisor to Autorack
	CNF	Advisor on ground alliance with international cargo line

III. J.P. MORGAN'S RELATIONSHIP WITH NORFOLK SOUTHERN

Since 1985, J.P. Morgan has worked closely with Norfolk Southern Corporation ("NS" or the "Company") and accordingly has become very familiar with NS, its performance, its financial structure, and its prospects.

Over this time period, J.P. Morgan has performed numerous advisory and financing assignments relating to NS. Recent services rendered by J.P. Morgan to NS include serving as lead arranger of the $13.0 billion bank facility for the initial Conrail bid and lead manager for $200 million of medium-term senior notes issued in 1996.

In addition, J.P. Morgan has advised NS on several completed and proposed transactions.

IV. J.P. MORGAN'S ENGAGEMENT BY NORFOLK SOUTHERN

J.P. Morgan was retained by NS through a letter agreement dated October 23, 1996 (the "Engagement Letter"), to act as financial advisor to NS with respect to its consideration of an acquisition of Conrail, Inc. Under the Engagement Letter, we advised NS on structuring its bid for Conrail and on the financial terms of the letter agreement dated April 8, 1997, between NS and CSX. NS also retained Merrill Lynch & Co. as financial advisor with respect to its consideration of an acquisition of Conrail.

Having responsibility for all analyses performed by J.P. Morgan in connection with this engagement, I oversaw the work of J.P. Morgan's Mergers and Acquisitions team in its analysis of the value and structure of various proposals considered during the transaction (the "Transaction"). J.P. Morgan's mergers and acquisition team included Roberto Mendoza, Vice Chairman, Shane Wallace, Vice President, and Henry Gosebruch, Analyst. All of the above persons, including myself, participated in strategy sessions and meetings with NS Senior Management.

V. TERMS OF THE TRANSACTION

The basic terms of the Transaction are set forth in the letter agreement dated April 8, 1997, between CSX Corporation and Norfolk Southern Corporation (the "Letter Agreement"). Pursuant to the Letter Agreement, (1) NS and its wholly-owned subsidiary, Atlantic Acquisition Corporation, contributed their rights to and interests in the shares of Conrail Inc. common stock purchased by NS or its subsidiaries and held in a voting trust to a newly formed limited liability company ("CSX/NS Acquisition Sub") that is owned jointly by NS and CSX, (2) CSX contributed all of the stock of Green Acquisition Corp., its wholly-owned subsidiary, which held all of CSX's rights to and interest in CRI shares purchased by CSX and held in a voting trust, to CSX/NS Acquisition Sub, and (3) all CRI shares contributed by CSX or its subsidiaries were valued at $110 per share and all CRI shares contributed by NS or its subsidiaries were valued at $115 per share. Thereupon, a subsidiary of CSX/NS Acquisition Sub offered to purchase the outstanding capital stock (the "Stock") of CRI not already beneficially owned by NS or CSX in exchange for consideration payable to CRI shareholders equal to $115 per share of Stock or equivalents thereof.

The Letter Agreement contemplated that NS would fund approximately 58 percent of the cost to acquire the Stock. In addition, the Letter Agreement provided that, upon consummation of the acquisition of the Stock and completion of the second-step merger specified in the Letter Agreement, and subject to regulatory approval, specified assets and liabilities of Conrail, including specified employee related costs, will be made available for use by NS and CSX pursuant to leasing, operating, partnership or other arrangements, and the remaining assets and liabilities of Conrail will be pooled together and made available for use by NS and CSX on a ratable basis in accordance with the percentage of the total consideration paid (including liabilities assumed) by NS and CSX, respectively.

On May 23, 1997, a wholly owned subsidiary of CSX/NS Acquisition Sub successfully completed the joint tender offer for CRI shares. On June 3, 1997, the second-step merger occurred. All Stock acquired in the tender offer and second-step merger is being held in a voting trust pending approval by the Surface Transportation Board of the acquisition of control by NS and CSX.

In connection with the Transaction, J.P. Morgan rendered an opinion to the NS Board of Directors that, subject to the conditions set forth in such opinion, the cash tender offer consideration (the "Consideration") to be paid by NS pursuant to the tender offer was fair from a financial point of view.

VI. ANALYSIS CONDUCTED BY J.P. MORGAN

In arriving at our opinion, we have reviewed: (1) the Letter Agreement; (2) certain publicly available information concerning the business of Conrail and of certain other companies engaged in businesses comparable to those of Conrail, and the reported market prices for certain other companies' securities deemed comparable; (3) publicly available terms of certain transactions involving companies comparable to Conrail and the consideration received for such companies; (4) current and historical market prices for the common shares of Conrail (the "Shares"); (5) the audited financial statements of NS and Conrail for the fiscal year ended December 31, 1996; (6) certain agreements with respect to outstanding indebtedness or obligations of NS; (7) certain internal financial analyses and forecasts prepared by and for NS and its management; and (8) the terms of other business combinations that we deemed relevant.

As is our practice, J.P. Morgan examined and relied upon, without independent verification, the accuracy and completeness of the information we reviewed for purposes of our opinion. We also assumed that the financial projections made by NS management were reasonably prepared on bases reflecting the best currently available estimates and judgments of the future financial performance of Conrail. In arriving at our opinion, J.P. Morgan was not authorized to solicit, and did not solicit, alternative acquisition opportunities.

In order to reach our conclusions and to present our opinion to the NS Board of Directors, we performed a number of financial analyses as described below. In performing these analyses, we were advised that no separate financial statements existed with respect to the assets and liabilities to be made available for use by NS pursuant to the Letter Agreement (the "Leased Business"). NS instructed us to assume, and we assumed without independent investigation, that the Leased Business represented at least 58 percent of the historical and forecasted total assets, liabilities, revenues, cash flows, and net income of Conrail. Accordingly, our analyses were premised on applying that percentage to the financial information furnished to us with respect to Conrail. We assumed that no material tax liability would be imposed upon NS or Conrail as a result of the consummation of the transaction. Our opinion was also subject to a number of other customary assumptions and limitations.

A. Conrail Common Stock Performance

J.P. Morgan analyzed the performance of the common shares of Conrail (the "Shares") by conducting a historical review of (1) closing prices and trading volumes of the Shares from January 1, 1995, to October 14, 1996, the day prior to merger announcement between CRI and CSX; (2) indexed price performance of the Shares from January 1, 1995, to October 14, 1996, relative to the S&P 400 and relative to a share price index, which included Union Pacific Corp., Burlington Northern, Inc., Canadian Pacific, Ltd., CSX Corp. and Norfolk Southern Corp. ("Comparable Index"); and (3) the high and low prices of the Shares in the 12 months ended October 14, 1996.

We found that the Shares moved closely in relation to both the Comparable Index and the S&P 400 until early 1996 and thereafter underperformed both the Comparable Index and the S&P 400. In the 12 months ended October 14, 1996, the Shares reached a high of $77.125 and a low of $64.375 per share. J.P. Morgan also noted that the closing price of the Shares on October 14, 1996, was $71, which was just slightly higher than the mean of the high and low reached in the prior 12 months.

B. Comparable Company Analysis

Comparable company analysis examines a company's operating performance relative to a group of publicly traded peers. J.P. Morgan analyzed the operating performance of Conrail relative to four other North American railroad companies: Burlington Northern, Inc., Canadian Pacific, Ltd., CSX Corp., and Norfolk Southern Corp. (These four companies constitute the "Comparable Companies.") In selecting the Comparable Companies, J.P. Morgan examined the financial and operational characteristics of a broad universe of publicly traded North American railroad companies. Historical financial information with respect to the Comparable Companies was compiled from the financial statements for the year ended December 31, 1996, for each company.

J.P. Morgan analyzed certain trading statistics of the Comparable Companies using market information as of April 7, 1997. Among the market trading information we considered in the valuation analysis were market price to earnings per share ("EPS") estimates for 1997 and 1998, which were based on estimates provided by the Institutional Brokers Estimate System ("IBES"), an organization that compiles average EPS estimates of participating equity research analysts. We also considered firm value[1] as a multiple of each Comparable Company's revenues, earnings before interest, taxes, depreciation and amortization ("EBITDA"), and earnings before interest and taxes ("EBIT").

Of course, none of the other Comparable Companies is identical to Conrail. Accordingly, our comparative analysis required that we make a number of judgments to take account of the differences between Conrail and the other Comparable Companies. These judgments considered among other things, differences in financial and operational characteristics and other factors that could affect the public trading value of the Comparable Companies or Company to which Conrail was being compared. Simple mathematical analysis (such as determining the average or median) is not in itself a meaningful method of using comparable company data because it assumes a direct comparability that does not exist.

C. Comparable Transaction Analysis

J.P. Morgan also performed an analysis of previous transactions involving North American railroad companies in order to map a valuation range for the Shares based upon selected merger and acquisition transactions. In this analysis, we compared (1) multiples of aggregate value (the fully diluted equity value of the offer plus any debt assumed less cash and option proceeds) to be received by the stockholders of CRI to Conrail's revenue, to Conrail's EBITDA, and to Conrail's EBIT with (2) the corresponding revenue, EBITDA and EBIT multiples paid in selected merger and acquisition transactions involving North American railroad companies from June 1989 through July 1996.

[1] Firm value was defined as equity market value plus total debt and preferred stock less cash and cash equivalents.

Our comparison included seven transactions selected from a broad range of recent North American railroad transactions: CNW and Blackstone Capital Partners L.P. and others; Soo Line Corp. (CP Ltd.) and Canadian Pacific Ltd.; Fox River Valley Railroad Co. (Itel Rail Corp. / Itel Corp.) and Wisconsin Central Transportation Corp.; MidSouth Corp. and Kansas City Southern Industries; Santa Fe Pacific Corp. and Burlington Northern Inc.; Chicago and North Western Transportation Company and Union Pacific Corporation; and Southern Pacific Rail Corp. and Union Pacific Corporation. Our analysis focused in particular on the Santa Fe Pacific Corp. and Burlington Northern Inc. and the Southern Pacific Rail Corp. and Union Pacific Corporation transactions, as we deemed these as most comparable.

Based on an analysis of those transactions, and after making certain judgments and considerations concerning differences in financial and operating characteristics of Conrail and other factors that could affect the acquisition value of the companies to which it was compared, we derived and applied an appropriate range of multiples to Conrail's 1996 revenue, EBITDA and EBIT.

As with the analysis of Comparable Companies described above, such analysis of comparable transactions is not entirely a mathematical exercise; it also requires complex considerations and judgments concerning a variety of factors, including differences in financial and operating characteristics of the companies involved that could affect the acquisition, public trading or other values of the companies and transactions being compared. In our judgment, the comparable transactions described herein do not provide truly comparable situations to the Conrail acquisition and were therefore less important than other valuation methodologies in arriving at our opinion.

D. Discounted Cash Flow Analysis

In addition, J.P. Morgan performed a customary discounted cash flow analysis as a means of evaluating per share equity values for Conrail. As part of that analysis, we calculated a present value of the unleveraged free cash flows[2] that Conrail would independently generate if it performed in accordance with projections furnished to us by NS management ("the Conrail Projected Cash Flows"). Based upon NS management forecasts, J.P. Morgan also performed a discounted cash flow analysis of the projected net revenue enhancements, cost savings and capital expenditure savings, net of additional capital expenditures and labor protection costs (collectively the "Synergies"), taking into account the anticipated costs of implementing programs to realize such Synergies.

To arrive at valuations of the Conrail Projected Cash Flows, we discounted the estimated unleveraged free cash flows over a ten-year period ending with the calendar year 2006 using a range of discount rates based upon J.P. Morgan's estimation of Conrail's long-term weighted average cost of capital. J.P. Morgan added to the present values of the cash flows the terminal value of Conrail in the year 2006, and discounted the terminal value back using the same range of discount rates. We calculated the terminal value by applying a range of terminal value EBITDA exit multiples we deemed appropriate to year 2006 EBITDA and applying a range of terminal value growth rates to the terminal period unleveraged free cash flow based on year 2006 unleveraged free cash flow. We advised the management of NS that such discounted cash flow analyses represent the most applicable valuation methodology.

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[2] Unleveraged free cash flows were calculated as the after tax operating earnings of Conrail, plus depreciation and amortization and other non-cash items, plus (or minus) net changes in non-cash working capital, minus projected capital expenditures.

E. Merger Consequences Analysis

Based upon projections for NS provided to us by NS, the Conrail Projected Cash Flows and the Synergies, J.P. Morgan also analyzed certain pro forma effects resulting from the Transaction, including, among other things, the impact of the Transaction on the projected EPS for NS for the fiscal years 1997 through 2001. The analysis indicated that the Transaction would, according to such projections, augment NS' EPS for the fiscal years ending 1999 through 2001.

VII. CONCLUSION

Each of the analyses that we utilized in connection with this Transaction are frequently utilized by J.P. Morgan's Mergers and Acquisitions Department for advisory assignments involving combinations of large, publicly traded companies. As I have described, J.P. Morgan conducted a wide range of analyses with respect to Conrail in support of our fairness opinion delivered to the NS Board of Directors. Since every company and transaction evaluated by J.P. Morgan has certain unique elements and considerations, including the companies and Transaction at hand, J.P. Morgan believes that these analyses must be considered as a whole and that selecting portions of its analyses, without considering the entirety of the analyses, would create an incomplete view of the process underlying our opinion. Moreover, we find it necessary to give various analyses and assumptions more or less weight than other analyses and assumptions in accordance with the particulars of the situation.

No particular analysis was considered by J.P. Morgan as the dispositive analysis in giving its opinion. Instead, we utilized all of the data available to us, including the data derived from each of the analyses performed by us in connection with this Transaction, to determine the fairness of the consideration to be paid by NS. Based upon our review of all such analyses and information, we concluded in our Apı , 1997 opinion to the NS Board of Directors that subject to the limitations set forth in such opinion, the consideration to be paid by NS in the Transaction was fair, from a financial point of view to NS. Subject to the same assumptions and limitations as were set forth in our opinion, nothing in the information subsequently provided to us by NS or subsequently available publicly changes that opinion.

VERIFICATION

State of New York)
)
County of New York)

I, James L. Hamilton, verify under penalty of perjury that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this Verified Statement.

Executed on June 6th, 1997.

James L. Hamilton

Sworn to and signed before
me this 6 day of June, 1997

Kathleen M. Hartmann
Notary Public

KATHLEEN M. HARTMANN
Notary Public, State of New York
No. 434798245
Qualified in Richmond County
Certificate Filed in New York County
Commission Expires March 30, 1999

My Commission Expires: March 30 1999

VERIFICATION

State of New York)
)
County of New York)

I, James L. Hamilton, verify under penalty of perjury that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this Verified Statement.

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James L. Hamilton

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Kathleen M. Hartmann

Notary Public

KATHLEEN M. HARTMANN
Notary Public, State of New York
No. 43-4798245
Qualified in Richmond County
Certificate Filed in New York County
Commission Expires March 30, 1999

My Commission Expires: March 30 1999

BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 33388

CSX CORPORATION AND CSX TRANSPORTATION, INC. AND
NORFOLK SOUTHERN CORPORATION AND
NORFOLK SOUTHERN RAILWAY COMPANY
--CONTROL AND OPERATING LEASES/AGREEMENTS--
CONRAIL INC. AND CONSOLIDATED RAIL CORPORATION

VERIFIED STATEMENT OF WILLIAM E. INGRAM

VERIFIED STATEMENT

OF

WILLIAM E. INGRAM

I. QUALIFICATIONS

My name is William E. Ingram, and I am Director Strategic Planning of Norfolk Southern Corporation. My office is at Norfolk Southern headquarters, Three Commercial Place, Norfolk, Virginia, 23510.

I graduated with a Bachelor of Arts Degree from Lafayette College in 1968, and earned a Master of Business Administration Degree from the University of Virginia Graduate School of Business Administration in 1970. I began my transportation career in 1970 with Norfolk & Western Railway Company, and served in its Research Department and Engineering Department. In the early 1980's, I had a series of special assignments, including coordinating many of Norfolk & Western's studies leading to the N&W-Southern Railway consolidation application. After the consolidation, I joined Norfolk Southern's Corporate Planning and Development Department. I was named Director Corporate Planning in 1985 and Director Strategic Planning in 1992.

I have worked extensively in long-range planning activities and in coordinating various acquisition efforts and line dispositions for Norfolk Southern. I coordinated studies leading to Norfolk Southern's acquisition of the Haleyville, Alabama-Fulton, Kentucky line from the Illinois Central Gulf (Finance Docket 31088), the sale of lines that are now the Wheeling & Lake Erie, and various short line transactions.

For Norfolk Southern's acquisition of joint control (with CSX) and operation of parts of Conrail (the Plan), I coordinated the assembling of the related benefits and costs, and supervised the preparation of the Summary of Benefits (Appendix B in Volume 1). The purpose of this statement is to describe the components of NS's Summary of Benefits and how they were determined.

II. OVERVIEW

Like all rail consolidations, the Plan will reduce general and administrative costs. Reduction in overhead costs simply means that relatively more of the corporation's efforts and costs can be focused on producing a valuable service for customers.

But the real story is the new routes and new services that will be created for the future. Creation of new and improved routes and the new services provided on them are the keys to the public benefits. As explained in several other verified statements, faster, less expensive service lanes will be created, saving time and operating costs. Improvements in these routes (and associated terminals) will provide the New NS with high capacity, doublestack-cleared routes between almost every important market in the eastern United States. This improved network will give NS the ability to compete with motor carriers in virtually all eastern markets and to do so for the most part with facilities that are, or will be, superior in terms of both clearances and track loadings. Investments can be made from a long-term perspective.

This network will produce two major benefits: lower costs and improved services. Costs will be reduced through more direct routings, the elimination of interchanges, better control of motive power and other equipment, and lower general and administrative expenses. The network will make possible the offering of improved services, the key to competing successfully with both motor carriers and other rail carriers.

The Summary of Benefits Statement is for a three-year period; it is assumed that the efficiencies will be achieved, and the one-time costs incurred, in the first three years after approval of the transaction.

III. FORMAT AND DEVELOPMENT OF THE SUMMARY OF BENEFITS

The format of the Summary of Benefits is modeled after comparable exhibits in recent Interstate Commerce Commission and Surface Transportation Board rail consolidation proceedings. Cost changes of a certain type or based on a particular methodology are included together in one place on the Summary, and are shown on a net basis. For instance, the "incremental operating costs" applied to the gross revenue gains are non-labor, non-G&A cost changes calculated in accordance with the URCS cost system, and are the net result of cost increases due to new traffic and longer hauls of existing traffic, offset partially by savings from internal reroutes of traffic over the more direct routes created by the Plan.

Operating Benefits include net changes in other cost elements developed by teams studying the various functional areas of the two companies. While a few of these cost changes were based on URCS, most reflect estimates of the impacts of specific operating changes. Again, these are net changes in costs including both savings from operating efficiencies due to the transaction and additional costs due to additional traffic and longer hauls. Non-labor impacts were assembled by each team; the labor needs for the New NS system and the labor impacts of the NS portion of the transaction were similarly developed, but then consolidated in the Labor Impact Exhibit in Volume 3 before being furnished for inclusion in the Summary of Benefits.

The starting point for calculating the Summary of Benefits is the division of CR into portions to be operated by NS and CSX in the 1995 base year of the pro forma financial statements. Conrail's revenues, expenses, assets, liabilities and cash flows are assigned 58 percent to NS and 42 percent to CSX. This was in accordance with the estimates of the revenues and other components of overall value accruing to NS and CSX from this transaction, and the agreement of NS and CSX on splitting the purchase price.

To this starting point, the items in the Summary of Benefits are added. In addition to the traffic gains and cost savings, discussed below, several other adjustments were made. The first adjustment was to increase expenses to reflect the inclusion of all of the locomotive and car shops at Altoona and Hollidaysburg, PA, and not just NS's pro rata 58 percent share, and to reflect the car and locomotive repair work to be done by NS for CSX. The second adjustment was to reflect the starting point for the traffic studies conducted by Mr. Williams, which included a revenue allocation to NS below the agreed-upon 58 percent base, and the starting point for the costing studies, which reflected an allocation of an additional 0.2 percent of Conrail expenses to NS. The effects of all of these adjustments were to reduce the NS portion of CR revenues by \$66.3 million, or by 1.8 percent, and operating expenses by \$36.7 million, or by 1.2 percent, respectively in the first year. Both adjustments were coordinated with CSX, so that the base traffic and expenses and the labor savings and other operating benefits, were all counted, but only once.

IV. NET GAINS IN REVENUES TO THE NEW NS

Existing rail carload traffic data are based on the Rail Traffic Diversion Study performed by John H. Williams, of The Woodside Consulting Group. As explained in Mr. Williams' Verified Statement, his study projected that the New NS would gain \$252.9 million in revenue from traffic diverted from other railroads, but would lose \$62.3 million in revenue from traffic diverted from NS to CSX, and thus would have a net revenue gain from rail traffic diversions of \$190.6 million, annually. These diversions include both existing rail carload and existing rail intermodal business.

Most of the diversions will be the result of improved single system service by NS, including route extensions to Kansas City, as well as the linking of the existing NS system in the Midwest and Southeast to those portions of CR that are being operated by NS. The traffic diversions away from NS come mainly from improved single system service created by CSX as it integrates CSX and the CR routes to be operated by CSX. The overall balance of diversions between NS and CSX is in favor of NS because NS will extend its single system service into markets where CSX already has single system service, including Wilmington, Baltimore and Philadelphia, whereas CSX will not extend to as many current single system NS markets.

In addition, the Coal Department performed a special study of the expected impact of the transaction on NS's coal, coke, and iron ore traffic and revenue; see the Verified Statement of John William Fox, NS's Vice President-Coal Marketing. That study concluded that the New NS will gain $101 million, annually in coal, coke and iron ore traffic over and above the revenue gains included in Mr. Williams' rail traffic diversion study and from revenues on the Conrail routes to be operated by NS. This additional revenue is from traffic projected to come to NS from greater use of coal reserves served by the New NS, and as a result of additional competition created by the New NS, for traffic to both our electric utility and steel industry customers.

Diversions of existing highway traffic to either NS intermodal or NS carload service are $269.0 million, as discussed in the Verified Statements of Patrick J. Krick, of The Kingsley Group, and Thomas L. Finkbiner, NS's Vice President-Intermodal. Of that total, $240.4 million is diversion to intermodal service, both conventional and RoadRailer® service provided by Triple Crown Services Company. Of the total revenue, 56% is generated by new single system service and the remainder is projected from NS's plans to develop new intermodal services on the CR lines to be operated by NS.

After adjustment, the gross revenue gains from the above traffic are projected to be $494 million in year three and remaining at that level beyond; after competitive effects (see Section VII, below), the revenue gain is $412 million per year. The traffic is phased in over a three-year period: 30% the first year, 50% the second year and 20% the third year.

The NS gains in net revenues (gross revenues of $412.3 million less full variable costs of $283.3 million) are $129 million in the third year. The cost calculations were performed by a team of NS consultants from Snavely King Majoros O'Connor & Lee, Inc., and Rail-Ways. Inc., and led by Joseph Plaistow. Considering only the Incremental Operating Costs (i.e., excluding labor-related and G&A variable costs) the NS gains in net revenues (gross revenues of $412.3 million less incremental costs of $112.7 million) are $299.6 million, by the third year, as shown by the Summary of Benefits.

V. OPERATING BENEFITS

Operating benefits are divided into two basic groups: net Labor Savings and net Non-Labor Benefits. Net Labor Savings are projected to be $82 million in the third year; these savings are derived from the labor impacts shown in the Labor Impact Exhibit in Volume 3 and described in the Verified Statement of Paul N. Austin, NS's Vice President-Personnel, and the Joint Verified Statement of Kenneth L. Peifer and Robert S. Spenski, Vice President-Labor Relations of CSX and NS, respectively. Unless otherwise specified by the study teams, operating savings are phased in 30% in year 1, 50% in year 2 and 20% in year 3. The most important reductions in employment costs comes from efficiency gains in corporate overhead functions. There are also reductions in mechanical employees as shop functions are streamlined, but less reductions in system maintenance of way costs, reflecting that there are virtually no track abandonments proposed and that a substantial number of track improvement projects will be undertaken. Train and engine crews increase in total number, largely driven by highway traffic diversions. There will be cutbacks in T&E employees at a handful of common terminal points, but the reductions are small.

Net Non-Labor Benefits are a total of $171.5 million in the third year, and include improvements in equipment utilization ($20 million), savings in general and administrative costs that are not directly labor related ($76 million), and all other net Non-Labor Benefits ($75 million). The components of these net Non-Labor Benefits are described in the following paragraphs. The derivation of the net savings is included in the Verified Statement of D. Michael Mohan, of The Kingsley Group, and in the Operating Plan.

Net Non-Labor Benefits improvements in equipment utilization will account for a $20 million net savings by year three. There will be savings in the number of cars needed and car miles, which will reduce New NS capital costs and will also reduce payments for foreign and private cars. Details of these savings are contained in Mr. Mohan's Verified Statement and in the Operating Plan, both in Volume 3, Part B. While some of the gains come from shorter routes, improved blocking is an even larger source of improvements; improved blocking permits traffic to be carried farther before it is "resorted." Improved utilization of road locomotives will result from use of shorter, more efficient routes, a better ability to match locomotive capabilities with particular service requirements, greater ability to triangulate locomotive movements, reduced terminal times due to greater service frequency, and improved locomotive maintenance and servicing facilities.

Net Non-Labor Benefits are savings in general and administrative costs that are not directly labor related. They include such items as combining information and computer systems, reducing employee liability claims, and improving efficiency in the purchase of material and supplies. The savings total $76 million in the third year.

All other net Non-Labor Benefits and other adjustments amount to $75 million in the third year. The savings consist of such things as reduced fuel costs, savings from abandonments (which are minor), reduced interchange delays, elimination of various fees and trackage rights charges, and savings at common points served by both carriers (exclusive of labor costs at such areas).

The gross operating savings in the Plan are $424.1 million for NS and the Conrail lines it will operate in the normal year. Because the Summary of Benefits table presents the operating benefits on a net benefits basis, all of the variable costs of the additional traffic must be removed from the Net Operating Benefits in order to present the gross operating savings. In order to do so, total full variable costs of $283.3 million, less the incremental costs of $112.8 million shown on the Summary of Benefits, or $170.5 million, were added to the recurring annual Operating Benefits of $253.6 million, in order to provide gross operating savings of $424.1 million.

VI. ONE-TIME COSTS

The labor and operating benefits cannot be achieved without certain one time expenditures. Some rail employees will be relocated to new work locations and will receive reimbursement for relocation expenses. Other employees will qualify for labor protection. The relocation and labor protective costs are projected to be $317 million over a three-year period. For further information, see the Joint Verified Statement of Messrs. Peifer and Spenski, and Mr. Austin's Verified Statement.

Significant capital investments and one-time expenses will be incurred to weave NS and NS's parts of CR to be operated by NS into a single, smooth functioning system. The new terminals, connections and additional capacity planned are discussed earlier in the Operating Plan and in Mr. Mohan's Verified Statement. Other costs include those for new computer systems, for new freight equipment, and for facility investments. The cost of these expenditures over a three-year period is $729 million in total capital additions, partially offset by other capital expenditure reductions of $258 million, resulting in $471 million for net capital additions; as well as $55 million of net one-time operating expenses.

VII. PUBLIC BENEFITS

The quantifiable public benefits of the transaction include at least four components: (1) the Net Operating Benefits, described earlier; (2) shipper logistics benefits; (3) rate-related competitive effects, and (4) reduced highway maintenance costs. As discussed below, these quantifiable public benefits from NS's portion of the transaction, which will be recurring annual benefits after the transaction has been fully implemented, will total $473 million.

Before discussing these quantifiable public benefits, I would also note that the transaction will have perhaps even greater public benefits that we have not attempted to quantify. These include the benefits to shippers from the enormous expansion of single-line service routings described in the verified statements of James McClellan, Vice President-Strategic Planning, L.I. (Ike) Prillaman, Executive Vice President-Marketing, Mr. Williams, and others, and the significant service and pricing advantages these routings will provide. They also include the $471 million in net capital investments that NS intends to make on the expanded NS system over and above what Conrail and NS had planned prior to this transaction. In addition, the operating and other cost savings will result in a financially stronger rail system with more resources to invest in its plant and a greater ability to compete with other transportation modes. Finally, the enhanced efficiencies together with the tremendous new rail competition the transaction will bring to vital areas of the country will help to strengthen and promote the economies of the communities we serve in ways that can scarcely be predicted.

A. Net Operating Benefits

As discussed above, the Net Operating Benefits of NS's part of the transaction will be $253.6 million in the normal year.

B. Shipper Logistics Benefits

As the STB recognized in its decision approving the UP/SP merger,[1] shipper logistics savings are another quantifiable public benefit of the increased efficiencies resulting from a rail consolidation. In this case, those savings will be very substantial because the transaction will greatly increase the level of competition in the Eastern United States and the transportation choices available to customers. That new competition will come not only from enhanced rail-to-rail competition, but also from heightened competition between modes. The planned changes in rail intermodal services, for example, not only will attract substantial truck traffic to the railroad, but also will spur competing truckers into making improvements in their own over-the-road operations.

Reduced transit times mean not only direct cost savings to the railroad, but also a reduction in total shipper logistics costs, including direct transportation costs. In his Verified Statement, Professor Thomas M. Corsi estimates that these savings will amount to $92.1 million annually by the third year. The unquantifiable logistics benefits may be even greater. Logistics costs will change in ways that we cannot begin to describe at this time. As the total cost of transportation declines, service becomes more reliable and service offerings increase. These results can change the entire supply chain. Completely new markets or areas of supply can open up to shippers and to buyers. For example, one of the principal traffic gains made as a result of

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[1] Finance Docket No. 32760, *Union Pacific Corp., Union Pacific Railroad Co., and Missouri Pacific Railroad Co. -- Control and Merger -- Southern Pacific Rail Corp., Southern Pacific Transp. Co., St. Louis Southwestern Railway Co., SPCSL Corp., and The Denver and Rio Grande Western Railroad Co.*, Decision No. 44 (served August 12, 1996) at 108-109.

the consolidation of Norfolk & Western and Southern has been the movement of grain from the Midwest to the Southeast, for consumption by the poultry industry. It was a business that could be only dimly foreseen at the time that NS was formed. However, as the barriers between the Midwest and the Southeast were removed (by CSX as well as by NS), the capability for large scale movement of grain in efficient unit train service from a grain surplus area to a grain deficit area facilitated significant development of the poultry growing industry in the Southeast. This generated an entirely new business for the rail industry, as well as substantial new economic activity for the Southeast.

As with many previous mergers, the public benefits will grow as the marketplace takes advantage of the new services and lower costs resulting from the Plan.

C. **Competitive Effects on Rates**

As discussed in the verified statements of Mr. McClellan, economist Barry C. Harris and others, this transaction differs markedly from previous rail consolidations in the enormous amount of new rail competition it will bring. Mr. Harris, for example, estimates that $779 million in 1995 freight revenues from movements that are now served only by Conrail at origin or destination (defined in terms of four-digit SPLC codes) will have two independent and competitive rail routings between origin and destination after the transaction is implemented.

This unprecedented amount of new rail competition will put a significant downward pressure on rates that has not been seen or quantified in prior consolidations. In his statement, Mr. Williams estimates that this pressure will reduce NS's revenues by $82 million per year from what they otherwise would have been without the transaction. This projected reduction is clearly a public benefit of the transaction.

D. Avoided Highway Maintenance Costs

As Mr. Krick explains in his verified statement, diversion of freight from highway to the New Norfolk Southern will eliminate a significant volume of truck miles per year from the highway system in the eastern half of the United States. The reduction in truck activity will result in a significant public benefit in terms of reducing highway maintenance costs that the public would otherwise incur.

A net highway maintenance savings of $0.12 per loaded unit mile was applied to the loaded truck miles; in the interest of consistency, this factor was adopted from the Verified Statement of Mr. Darius Gaskins submitted as part of the CSX portion of the Application. This process resulted in an estimate of public benefits totaling over $45 million per year, as shown by Attachment WEI-1.

<u>VERIFICATION</u>

I, William E. Ingram, verify under penalty of perjury that I am Director Strategic Planning, that I have read the foregoing document and know its contents, and that the same is true and correct to the best of my knowledge and belief.

Executed on June 12, 1997.

William E. Ingram

William E. Ingram

VERIFICATION

I, William E. Ingram, verify under penalty of perjury that I am Director Strategic Planning, that I have read the foregoing document and know its contents, and that the same is true and correct to the best of my knowledge and belief.

Executed on June 12, 1997.

William E. Ingram

William E. Ingram

Highway Damage Avoided as a Result of NS Truck-to-Rail Diversions

State	% of Total	Restated Truck Miles Diverted	Restated Total Highway Damage Avoided
Totals	100%	379,198,372	$45,503,805
PA	25%	95,003,970	11,400,476
VA	15%	58,450,983	7,014,118
OH	14%	53,716,594	6,445,991
TN	6%	23,704,699	2,844,564
NC	5%	18,767,740	2,252,129
GA	4%	15,961,885	1,915,426
IN	4%	15,668,053	1,880,166
SC	4%	15,400,315	1,848,038
NJ	4%	15,149,988	1,817,999
MD	3%	10,986,386	1,318,366
WV	3%	10,623,448	1,274,814
AL	2%	8,388,575	1,006,629
KY	2%	7,626,660	915,199
IL	2%	7,236,764	868,412
IA	1%	5,383,471	646,016
FL	1%	4,836,745	580,409
MO	1%	4,063,135	487,576
MI	1%	2,977,067	357,248
MS	1%	2,131,838	255,821
DE	0%	1,063,532	127,624
LA	0%	978,474	117,417
NE	0%	858,574	103,029
NY	0%	219,476	26,337

BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 33388

CSX CORPORATION AND CSX TRANSPORTATION, INC. AND
NORFOLK SOUTHERN CORPORATION AND
NORFOLK SOUTHERN RAILWAY COMPANY
--CONTROL AND OPERATING LEASES/AGREEMENTS--
CONRAIL INC. AND CONSOLIDATED RAIL CORPORATION

**JOINT VERIFIED STATEMENT OF
PAUL R. GOODWIN AND HENRY C. WOLF**

BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 33388

CSX CORPORATION AND CSX TRANSPORTATION, INC. AND
NORFOLK SOUTHERN CORPORATION AND
NORFOLK SOUTHERN RAILWAY COMPANY
-- CONTROL AND OPERATING LEASES/AGREEMENTS --
CONRAIL INC. AND CONSOLIDATED RAIL CORPORATION

JOINT VERIFIED STATEMENT OF PAUL R. GOODWIN AND HENRY C. WOLF

My name is Paul R. Goodwin. I am Executive Vice President, Finance and Chief Financial Officer of CSX Corporation. My qualifications and experience are set forth in a separate Verified Statement which has been filed in Volume I of this Application.

My name is Henry C. Wolf. I am Executive Vice President-Finance of Norfolk Southern Corporation, headquartered in Norfolk, Virginia. My qualifications and experience are set forth in a separate Verified Statement which has been filed in Volume I of this Application.

This Joint Verified Statement is submitted for the purposes of (i) setting forth a brief chronology of the subscription by Conrail shareholders to the tender offers by CSX and NS for shares of Conrail Common Stock ("CRI Common Stock") and Conrail Series A ESOP Convertible Junior Preferred Stock as hereinafter described, and (ii) summarizing certain fairness opinions issued by Lazard Freres & Co. LLC ("Lazard Freres") and Morgan Stanley & Co., Incorporated ("Morgan Stanley") on November 5, 1996 and

March 7, 1997 to the Board of Directors of Conrail, both of which are pertinent to the fairness of the offers and subsequent merger to the Conrail shareholders.

CSX and NS have acquired beneficial ownership of 100 percent of the Conrail stock in a series of transactions that included separate tender offers that were consummated by CSX on November 20, 1996 ("CSX First Offer") and by NS on February 4, 1997 ("NS First Offer"), a joint CSX/NS tender offer that was consummated on May 23, 1997 ("Joint Offer"), and a subsequent merger of Conrail Inc. with Green Merger Corp., a Pennsylvania corporation, that was indirectly jointly owned by CSX and NS (the "Merger") that was consummated on June 2, 1997.[1]

An abbreviated chronology of these transactions follows:

1. On October 14, 1996, CSX and Conrail announced that they had entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which Conrail shareholders were to receive a combination of cash and CSX shares valued at the time of announcement at approximately $8.4 billion, or $92.50 per Conrail share, based on the recent trading prices for CSX's and Conrail's common stock. The Merger Agreement contemplated a multi-step transaction whereby CSX would acquire 19.9 percent of Conrail shares in a tender offer for $92.50 per share, followed possibly by a further tender offer for an additional approximately 20% of Conrail shares at the same price, in turn followed by a merger in which the remaining Conrail shares each would be exchanged for 1.85619 CSX shares.

2. The price initially offered by CSX for CRI Common Stock was substantially in excess of the $71 per share price at which CRI Common Stock was

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[1] All the shares of the surviving company in the merger (named Conrail Inc.) are beneficially owned by Green Acquisition Corp. (a corporation indirectly jointly owned by CSX and NS) and are held in a joint voting trust pending STB approval of the proposed transaction.

trading as of October 11, 1996, the last day of trading prior to the announcement on October 14, 1996 of the Merger Agreement. In the 12 months ended October 14, 1996, the market price of CRI Common Stock ranged from a low of $64.375 per share and a high of $77.125 per share.

3. On October 23, 1996, NS announced that it was commencing a tender offer for all outstanding Conrail shares at a price of $100 per share in cash, subject to the satisfaction of certain conditions.

4. On November 5, 1996, CSX and Conrail entered into the First Amendment to the Merger Agreement (the "First Amendment") which provided, inter alia, for an increase in CSX's tender offer price for 19.9 percent of the Conrail shares to $110 per share in cash. The First Amendment also provided for a tender offer for an additional approximately 20 percent of the Conrail shares, also for $110 per share followed by a merger in which the remaining Conrail shares would be exchanged for CSX shares.

5. On November 8, 1996, NS announced that it had increased its offer for all Conrail shares to $110 per share in cash, subject to the satisfaction of certain conditions.

6. On November 20, 1996, the CSX First Offer was consummated. Approximately 19.9 percent of the outstanding CRI Common Stock, on a fully diluted basis, was acquired by CSX for $110 per share in cash. The CSX First Offer was substantially oversubscribed. CSX, through Green Acquisition Corp., a wholly-owned subsidiary, accepted for payment 17,860,124 shares, representing a proration factor of approximately 23.45 percent for all shares tendered by Conrail shareholders pursuant to the CSX First Offer.

7. On December 19, 1996, NS announced an increase in the price it would offer to Conrail shareholders to $115 per share in cash. On January 22, 1997, NS announced that it was amending its existing tender offer in order to purchase 8,200,000 shares of CRI Common Stock (approximately 9.9 percent of the CRI Common Stock on a

fully diluted basis) at $115 per share in cash.

8. The NS First Offer was consummated on February 4, 1997. NS, through Atlantic Acquisition Corp., a wholly-owned subsidiary, purchased 8,200,000 Conrail shares for $115 per share. The NS first offer was substantially oversubscribed and the proration factor was approximately 12.26 percent.

9. On March 7, 1997, a Third Amendment to the Merger Agreement was executed by CSX and Conrail contemplating an all-cash tender offer by CSX for the remaining shares of Conrail at $115 per share to be followed by a second-step merger and permitting CSX to negotiate with NS a joint acquisition of Conrail. On April 8, 1997, a Letter Agreement was entered into between CSX and NS pursuant to which, among other things, CSX's pending tender offer for the remaining Conrail shares was amended to include NS as a party making the tender offer.

10. The Joint Offer was consummated on May 23, 1997, when CSX and NS, through a jointly controlled subsidiary, accepted for payment 57,407,389 shares, or approximately 94 percent of the remaining CRI Common Stock on a fully diluted basis not previously held by them, for $115 per share in cash. The remaining shares of Conrail not held by the jointly owned subsidiary of CSX and NS or affiliates of NS or CSX were converted into the right to receive $115 per share pursuant to the subsequent merger on June 2, 1997.

11. The aggregate cost to CSX and NS of Conrail shares pursuant to the CSX First Offer, NS First Offer, Joint Offer, and subsequent merger was approximately $9.9 billion.

Attached to this Joint Verified Statement as Exhibit A and Exhibit B are the fairness opinions issued on November 5, 1996 by Lazard Freres and Morgan Stanley to the Board of Directors of Conrail and which were filed with the Securities and Exchange Commission as an exhibit to Schedule 14D-9, which stated that, in the opinion of those firms, as of the date thereof, the "Consideration to be received by the holders of Shares pursuant to the [CSX] Offer and the Merger [defined with reference to the Merger Agreement, as amended on November 5, 1996], when taken together, is fair from a financial point of view to such holders (other than CSX, Acquisition Sub or any other subsidiary of CSX)." The November 5, 1996 letters from Lazard Freres and Morgan Stanley address the proposed transaction described in ¶ 4 above. The steps of that proposed transaction following the CSX First Offer were superseded by subsequent amendments to the Merger Agreement, and were not consummated.

Attached as Exhibit C and D are the fairness opinions issued on March 7, 1997 by Lazard Freres and Morgan Stanley to the Board of Directors of Conrail and which were filed with the Securities and Exchange Commission as an exhibit to Schedule 14D-9 both of which stated that, in the opinions of those firms, as of the date thereof, the "Consideration to be received by the holders of Shares pursuant to the Offer and the [Merger (defined with reference to the Merger Agreement, as amended through March 7, 1997], taken together, is fair to such holders (other than CSX, Tender Sub or any other subsidiary of CSX), from a financial point of view."

VERIFICATION

I, Paul R. Goodwin, declare under penalty of perjury that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this verified statement. Executed on the 13th day of June, 1997.

Paul R. Goodwin

Paul R. Goodwin

VERIFICATION

I, Paul R. Goodwin, declare under penalty of perjury that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this verified statement. Executed on the 13th day of June, 1997.

Paul R Goodwin

Paul R. Goodwin

VERIFICATION

I, Henry C. Wolf, verify under penalty of perjury that I am Executive Vice President-Finance, that I have read the foregoing document and know its contents, and that the same is true and correct to the best of my knowledge and belief.

Executed on June 7, 1997.

Henry C. Wolf

Henry C. Wolf

EXHIBIT A

1

(a)(14)

{LETTERHEAD OF LAZARD FRERES}

November 5, 1996

The Board of Directors
Conrail Inc.
2001 Market Street
Philadelphia, PA 19103

Dear Members of the Board:

You have requested our opinion as to the fairness, from a financial point of view, to the holders of shares of Common Stock, par value $1 per share ("Common Stock"), and of Series A ESOP Convertible Preferred Stock (such Preferred Stock together with the Common Stock is referred to as the "Shares") of Conrail Inc. (the "Company") of the consideration to be received in a series of transactions (collectively, the "Transactions") pursuant to the Agreement and Plan of Merger among the Company, CSX Corporation ("CSX") and Green Acquisition Corp. ("Tender Sub"), dated as of October 14, 1996, as amended as of November 5, 1996 (the "Merger Agreement"). The terms of the Merger Agreement provide, among other things, that (i) Tender Sub promptly will offer to purchase (the "Offer") up to 19.9% of the outstanding Shares at a price of $110.00 per share net in cash (the "Offer Consideration"); provided that if certain conditions are satisfied, the Offer would be increased to up to a number of Shares (the "Designated Number") equal to 40% of the fully diluted Shares excluding the Option Shares referred to below (the "Fully Diluted Shares") and (ii) following the consummation of the Offer, subject to, among other things, the favorable required vote of holders of Shares, Tender Sub will merge (the "Merger") with the Company, and each remaining outstanding Share (other than Shares owned by the Company as treasury stock or owned by CSX, Tender Sub or any other subsidiary of CSX and other than Shares held by holders who properly exercise and perfect dissenter's rights, if any) will be converted into the right to receive (the "Merger Consideration") 1.85619 shares (the "Exchange Shares") of Common Stock of CSX, par value $1.00 per share ("CSX Common Stock"); provided that if less than the Designated Number of Shares is purchased pursuant to the Offer, the Merger Consideration will be adjusted so that when taken together with the Offer, 60 percent of the Fully Diluted Shares will each have been converted into the right to receive the Exchange Shares and 40 percent of the Fully Diluted Shares

<u>VERIFICATION</u>

I, Henry C. Wolf, verify under penalty of perjury that I am Executive Vice President-Finance, that I have read the foregoing document and know its contents, and that the same is true and correct to the best of my knowledge and belief.

Executed on June 7, 1997.

Henry C. Wolf

Henry C. Wolf

will have received or been converted into the right to receive an amount of cash equal to the Offer Consideration. The Offer Consideration and the Merger Consideration are collectively referred to herein as the "Consideration."

In connection with the rendering of this opinion, we have:

(i) Reviewed the terms and conditions of the Merger Agreement and the financial terms of the Transactions, all as set forth in the Merger Agreement, and the option agreement between Company and CSX pursuant to which CSX shall be granted the right to purchase shares of Common Stock (the "Option Shares") and the option agreement between CSX and the Company pursuant to which the Company shall be granted the right to purchase shares of CSX Common Stock, each dated October 14, 1996 (collectively, the "Option Agreements");

(ii) Analyzed certain historical business and financial information relating to the Company and CSX;

(iii) Reviewed certain financial forecasts and other data provided to us by the Company and CSX relating to the businesses of the Company and CSX, respectively, including the most recent business plan for the Company prepared by the Company's senior management, in the form furnished to us;

(iv) Conducted discussions with members of the senior managements of the Company and CSX with respect to the businesses and prospects of the Company and CSX, respectively, the strategic objectives of each and possible benefits which might be realized following the Merger;

(v) Reviewed public information with respect to certain other companies in the lines of businesses we believe to be generally comparable in whole or in part to the businesses of the Company and CSX and reviewed the financial terms of certain other business combinations involving companies in lines of businesses we believe to be generally comparable in whole or in part to the businesses of the Company and CSX that have recently been effected;

(vi) Reviewed the historical stock prices and trading volumes of Common Stock and CSX Common Stock; and

(vii) Conducted such other financial studies, analyses and investigations as we deemed appropriate.

We have relied upon the accuracy and completeness of the foregoing financial and other information and have not assumed any responsibility for independent verification of such information or any independent valuation or appraisal of any of the assets of the Company or CSX nor have we been furnished with any such appraisals. With respect to financial forecasts, we have assumed that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments of managements of the Company and CSX as to the future financial performance of the Company and CSX, respectively. We assume no responsibility for and express no view as to such forecasts or the assumptions on which they are based.

Our opinion is necessarily based on economic, monetary, market and other conditions as in effect on, and the information made available to us as of, the date hereof.

In rendering our opinion, we have assumed that (i) the Transactions will be consummated substantially on the terms described in the Merger Agreement, without any waiver of any material terms or conditions by any party thereto, and that obtaining the necessary regulatory approvals for the Transactions will not have an adverse effect on CSX or the Company or on the trading value of CSX Common Stock and (ii) the Merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended. We were not requested to, and did not, solicit third party offers to acquire all or any part of the Company.

We are acting as financial advisor to the Company's Board of Directors in connection with the Transactions and will receive fees for such services, a substantial portion of which fees are contingent upon the consummation of the Transactions. Our Firm has in the past provided and is currently providing investment banking and financial advisory services to the Company and has received customary fees for rendering such services. Our Firm has in the past also provided investment banking and financial advisory services to CSX and has received customary fees for rendering such services.

Our engagement and the opinion expressed herein are for the benefit of the Company's Board of Directors and our opinion is rendered in connection with its consideration of the Transactions. This opinion is not intended to and does not constitute a recommendation to any holder of Shares as to whether such holder should tender Shares pursuant to the Offer or vote to approve the Merger Agreement and the transactions contemplated thereby. It is understood that, except for inclusion of this letter in its entirety in a proxy statement or tender offer recommendation statement on Schedule 14D-9 from the Company to holders of Shares relating to the Transactions, this letter may not be disclosed or otherwise referred to without our prior written consent, except as may otherwise be required by law or by a court of competent jurisdiction.

As you know, on October 24, 1996, Norfolk Southern Corporation commenced a tender offer (the "NSC Offer") for all of the outstanding Shares at a price per Share of $100 net in cash. Counsel to the Company has advised the Company's Board of Directors that the fact that the NSC Offer is subject to, among other conditions, the termination of the Merger Agreement and that the Company is currently contractually prohibited from terminating the Merger Agreement creates significant legal uncertainty relating to the consummation of the NSC Offer. Counsel to the Company has further advised the Company's Board of Directors that, under Pennsylvania law, in considering a proposed business combination, the Company's Board of Directors is empowered to take into account the long-term interests of the Company and all of its constituencies, not solely the highest price for the Company's Shares. Accordingly, at your request, in rendering our opinion, we did not address the relative merits of the Transactions, the NSC Offer and any alternative potential transactions.

Based on and subject to the foregoing, we are of the opinion that, as of the date hereof, the Consideration to be received by the holders of Shares pursuant to the Offer and the Merger, when taken together, is fair to such holders (other than CSX, Tender Sub or any other subsidiary of CSX), from a financial point of view.

Very truly yours,

LAZARD FRERES & CO. LLC

By /s/ J. Robert Lovejoy

Managing Director

EXHIBIT B

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(a)(15)

{MORGAN STANLEY LETTERHEAD}

November 5, 1996

Board of Directors
Conrail Inc.
2001 Market Street
Philadelphia, PA 19101-1422

Gentlemen and Mesdames:

We understand that Conrail Inc. (the "Company"), CSX Corporation ("CSX") and Green Acquisition Corp., a wholly owned subsidiary of CSX ("Acquisition Sub"), have entered into an Agreement and Plan of Merger, dated as of October 14, 1996 as amended as of November 5, 1996 (the "Merger Agreement"), which provides, among other things, for (i) the commencement by Acquisition Sub of a tender offer (the "Offer") for 19.9% of the issued and outstanding shares of common stock, par value $1 per share (the "Company Common Stock"), and Series A ESOP Convertible Junior Preferred Stock (together with the Company Common Stock, the "Shares") of the Company, for $110.00 per share net to the seller in cash (the "Offer Consideration"), provided that if certain conditions are satisfied, the Offer would be increased to up to a number of Shares (the "Designated Number") equal to 40% of the fully diluted Shares, excluding the Option Shares referred to below (the "Fully Diluted Shares") and (ii) upon the receipt of certain shareholder and regulatory approvals, the subsequent merger (the "Merger" and together with the Offer, the "Transactions") of the Company with and into Acquisition Sub. Pursuant to the Merger, the Company will become a wholly owned subsidiary of CSX and each outstanding share of the Company Common Stock, other than shares held in treasury or held by CSX or its subsidiaries, will be converted into the right to receive 1.85619 shares of common stock, par value $1.00 per share (the "CSX Common Stock") of CSX (the "Stock Consideration" and together with the Offer Consideration, the "Consideration"), provided that if less than the Designated Number of Shares are purchased pursuant to the Offer, the Merger Consideration will be adjusted so that when taken together with the Offer, 60% of the Fully Diluted Shares will each have been converted into the right to receive the Stock Consideration and 40% of the Fully Diluted Shares will have received or been converted into the right to receive an amount of cash equal to the Offer Consideration. The terms and conditions of the Offer and the Merger are more fully set forth in the Merger Agreement.

You have asked for our opinion as to whether the Consideration to be received by the holders of Shares pursuant to the Offer and the Merger, taken together, is fair from a financial point of view to such holders.

For purposes of the opinion set forth herein, we have:

(i) reviewed certain publicly available financial statements and other information of the Company and CSX, respectively;

(ii) reviewed certain internal financial statements and other financial and operating data concerning the Company and CSX prepared by the managements of the Company and CSX, respectively;

(iii) reviewed certain financial projections for CSX prepared by the management of CSX;

(iv) reviewed certain financial projections, including estimates of certain potential benefits of the proposed business combination, prepared by the management of the Company;

(v) discussed, on a limited basis, the past and current operations and financial condition and the prospects of the Company and CSX with senior executives of the Company and CSX, respectively;

(vi) reviewed the reported prices and trading activity for the Company Common Stock and the CSX Common Stock;

(vii) compared the financial performance of the Company and CSX and the prices and trading activity of the Company Common Stock and the CSX Common Stock with that of certain other comparable publicly-traded companies and their securities;

(viii) reviewed the financial terms, to the extent publicly available, of certain comparable acquisition transactions;

(ix) participated in discussions among representatives of the Company, CSX and their financial and legal advisors;

(x) reviewed the Merger Agreement and certain related documents; and

(xi) performed such other analyses and considered such other factors as we have deemed appropriate.

We have assumed and relied upon without independent verification the accuracy and completeness of the information reviewed by us for the purposes of this opinion. With respect to the financial projections, including estimates of certain potential benefits of the proposed business combination, we have assumed that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the future financial performance of the Company and CSX, respectively. We have not made any independent valuation or appraisal of the assets or liabilities of the Company or CSX, nor have we been furnished with any such appraisals. In arriving at our opinion, we have assumed (i) that the

Merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended and (ii) that obtaining all the necessary regulatory and governmental approvals for the Merger will not have an adverse effect on the Company, CSX or on the trading value of the CSX Common Stock. We have assumed that the Offer and the Merger will be consummated substantially in accordance with the terms set forth in the Merger Agreement, without any waiver of any material terms or conditions by any party thereto. Our opinion is necessarily based on economic, market and other conditions as in effect on, and the information made available to us as of, the date hereof. In arriving at our opinion, we were not authorized to solicit, and did not solicit, interest from any party with respect to the acquisition of the Company or any of its assets.

We have been engaged to provide this opinion to the Board of Directors of the Company in connection with this transaction and will receive a fee for our services. In the past, Morgan Stanley & Co. Incorporated and its affiliates have provided financial advisory and financing services for the Company and CSX and have received fees for the rendering of these services.

It is understood that this letter is for the information of the Board of Directors of the Company and may not be used for any other purpose without our prior written consent, except that this opinion may be included in its entirety in any filing made by the Company with the Securities and Exchange Commission with respect to the Offer and the Merger. In addition, we express no opinion and make no recommendation as to whether the holders of the Company Common Stock should tender such shares pursuant to the Offer or vote at the stockholders' meeting held in connection with the Merger.

As you know, on October 24, 1996, Norfolk Southern Corporation commenced a tender offer (the "NSC Offer") for all of the outstanding Shares at a price per Share of $100 net in cash. Counsel to the Company has advised the Company's Board of Directors that the fact that the NSC Offer is subject to, among other conditions, the termination of the Merger Agreement and that the Company is currently contractually prohibited from terminating the Merger Agreement creates significant legal uncertainty relating to the consummation of the NSC Offer. Counsel to the Company has further advised the Company's Board of Directors that, under Pennsylvania law, in considering a proposed business combination, the Company's Board of Directors is empowered to take into account the long-term interests of the Company and all of its constituencies, not solely the highest price for the Company's Shares. Accordingly, at your request, in rendering our opinion, we did not address the relative merits of the Transactions, the NSC Offer and any alternative potential transactions.

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Based on the foregoing, we are of the opinion on the date hereof that the Consideration to be received by the holders of Shares pursuant to the Offer and the Merger, taken together, is fair from a financial point of view to such holders (other than CSX, Acquisition Sub or any other subsidiary of CSX).

Very truly yours,

MORGAN STANLEY & CO. INCORPORATED

By: /s/ Mahmoud A. Mamdani

Mahmoud A. Mamdani
Managing Director

Exhibit (a)(33)

LAZARD FRÈRES & CO. LLC
30 ROCKEFELLER PLAZA
NEW YORK, N.Y. 10020

TELEPHONE (212) 632-6000
FACSIMILE (212) 632-6060

NEW YORK

March 7, 1997

The Board of Directors
Conrail Inc.
2001 Market Street
Philadelphia, PA 19103

Dear Members of the Board:

You have requested our opinion as to the fairness, from a financial point of view, to the holders of shares of Common Stock, par value $1 per share ("Common Stock"), and of Series A ESOP Convertible Preferred Stock (such Preferred Stock together with the Common Stock is referred to as the "Shares") of Conrail Inc. (the "Company") of the consideration to be received in a series of transactions (collectively, the "Transactions") pursuant to the Agreement and Plan of Merger among the Company, CSX Corporation ("CSX") and Green Acquisition Corp. ("Tender Sub"), dated as of October 14, 1996, as amended as of November 5, 1996 and as of December 18, 1996 and as further amended as of March 7, 1997 (collectively the "Merger Agreement"). Pursuant to the Merger Agreement, on November 21, 1996, Tender Sub accepted for payment pursuant to an offer to purchase 19.9% of the outstanding Shares at a price of $110.00 per share net in cash. The terms of the Merger Agreement provide, among other things, that (i) Tender Sub will offer to purchase (the "Offer") and, if certain conditions are satisfied, accept for payment, each outstanding Share at a price of $115.00 per share net in cash (the "Offer Consideration") and (ii) following consummation of the Offer, subject to, among other things, the favorable required vote of holders of Shares (if necessary), pursuant to the Merger (as defined in the Merger Agreement), each remaining outstanding Share (other than Shares owned by the Company as treasury stock or owned by CSX, Tender Sub or any other subsidiary of CSX and other than Shares held by holders who properly exercise and perfect dissenter's rights, if any) will be converted into the right to receive $115.00 per share net in cash (the "Merger Consideration" and, together with the Offer Consideration, the "Consideration").

In connection with the rendering of this opinion, we have:

(i) Reviewed the terms and conditions of the Merger Agreement and the financial terms of the Transactions, all as set forth in the Merger Agreement, and the option agreement dated October 14, 1996 between Company and CSX (the "Option Agreement") pursuant to which CSX was granted the right to purchase shares of Common Stock (the "Option Shares");

(ii) Analyzed certain historical business and financial information relating to the Company and CSX;

(iii) Reviewed certain financial forecasts and other data provided to us by the Company and CSX relating to the businesses of the Company and CSX, respectively, including the most recent business plan for the Company prepared by the Company's senior management, in the form furnished to us;

(iv) Conducted discussions with members of the senior managements of the Company and CSX with respect to the businesses and prospects of the Company and CSX, respectively, the strategic objectives of each and possible benefits which might be realized following the Merger;

(v) Reviewed public information with respect to certain other companies in the lines of businesses we believe to be generally comparable in whole or in part to the businesses of the Company and CSX and reviewed the financial terms of certain other business combinations involving companies in lines of businesses we believe to be generally comparable in whole or in part to the businesses of the Company and CSX that have recently been effected;

(vi) Reviewed the historical stock prices and trading volumes of Common Stock and CSX Common Stock; and

(vii) Conducted such other financial studies, analyses and investigations as we deemed appropriate.

We have relied upon the accuracy and completeness of the foregoing financial and other information and have not assumed any responsibility for independent verification of such information or any independent valuation or appraisal of any of the assets of the Company or CSX nor have we been furnished with any such appraisals. With respect to financial forecasts, we have assumed that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments of managements of the Company and CSX as to the future financial performance of the Company and CSX, respectively. We assume no responsibility for and express no view as to such forecasts or the assumptions on which they are based.

Our opinion is necessarily based on economic, monetary, market and other conditions as in effect on, and the information made available to us as of, the date hereof. In rendering our opinion, we have assumed that the Transactions will be consummated substantially on the terms described in the Merger Agreement, without any waiver of any material terms or conditions by any party thereto. We were not requested to, and did not, solicit third party offers to acquire all or any part of the Company.

We are acting as financial advisor to the Company's Board of Directors in connection with the Transactions and will receive fees for such services, a substantial portion of which fees are contingent upon the consummation of the Transactions. Our Firm has in the past provided and is currently providing investment banking and financial advisory services to the Company and has received customary fees for rendering such services. Our Firm has in the past also provided investment banking and financial advisory services to CSX and has received customary fees for rendering such services.

Our engagement and the opinion expressed herein are for the benefit of the Company's Board of Directors and our opinion is rendered in connection with its consideration of the Transactions. This opinion is not intended to and does not constitute a recommendation to any holder of Shares as to whether such holder should tender Shares pursuant to the Offer or vote to approve the Merger Agreement and the transactions contemplated thereby. It is understood that, except for inclusion of this letter in its entirety in a proxy statement or tender offer recommendation statement on Schedule 14D-9 from the Company to holders of Shares relating to the Transactions, this letter may not be disclosed or otherwise referred to without our prior written consent, except as may otherwise be required by law or by a court of competent jurisdiction.

As you know, on February 12, 1997, Norfolk Southern Corporation commenced a tender offer (the "NSC Offer") for all of the outstanding Shares at a price per Share of $115 net in cash. Counsel to the Company has advised the Company's Board of Directors that the fact that the NSC Offer is subject to, among other conditions, the termination of the Merger Agreement and that the Company is currently contractually prohibited from terminating the Merger Agreement pursuant to Section 4.2(b) thereof creates significant legal uncertainty relating to the consummation of the NSC Offer. Accordingly, at your request, in rendering our opinion, we did not address the relative merits of the Transactions, including said Section 4.2(b), the NSC Offer and any alternative potential transactions.

Based on and subject to the foregoing, we are of the opinion that, as of the date hereof, the Consideration to be received by the holders of Shares pursuant to the Offer and the Merger, when taken together, is fair to such holders (other than CSX, Tender Sub or any other subsidiary of CSX), from a financial point of view.

Very truly yours,

LAZARD FRÈRES & CO. LLC

By: /s/ J. ROBERT LOVEJOY

Managing Director

MORGAN STANLEY

Exhibit (a)(34)

MORGAN STANLEY & CO
INCORPORATED
1585 BROADWAY
NEW YORK, NEW YORK 10036
(212) 761-4000

March 7, 1997

Board of Directors
Conrail Inc.
2001 Market Street
Philadelphia, PA 19101-1422

Gentlemen and Mesdames:

We understand that Conrail Inc. (the "Company"), CSX Corporation ("CSX") and Green Acquisition Corp., a wholly-owned subsidiary of CSX ("Acquisition Sub"), have entered into an Agreement and Plan of Merger, dated as of October 14, 1996 as amended as of November 5, 1996, and as of December 18, 1996 and as further amended as of March 7, 1997 (collectively, the "Merger Agreement"). Pursuant to the Merger Agreement, on November 21, 1996, Acquisition Sub accepted for payment pursuant to an offer to purchase 19.9% of the issued and outstanding shares of common stock, par value $1 per share (the "Company Common Stock"), and Series A ESOP Convertible Junior Preferred Stock (together with the Company Common Stock, the "Shares") of the Company, for $110.00 per share net to the seller in cash. The terms of the Merger Agreement provide, among other things, that: (i) Acquisition Sub will offer to purchase (the "Offer") and, if certain conditions are satisfied, accept for payment each outstanding Share at a price of $115.00 per share net in cash (the "Offer Consideration"); and (ii) following consummation of the Offer, upon the receipt of certain shareholder approvals (if necessary) and satisfaction of other conditions thereto, pursuant to the Merger (as defined in the Merger Agreement and the "Merger" together with the Offer, the "Transaction"), each outstanding share of the Company Common Stock, other than shares held in treasury or held by CSX or its subsidiaries, will be converted into the right to receive $115.00 per share net in cash (the "Merger Consideration," and the Merger Consideration, together with the Offer Consideration, the "Consideration").

You have asked for our opinion as to whether the Consideration to be received by the holders of Shares pursuant to the Offer and the Merger, taken together, is fair from a financial point of view to such holders.

For purposes of the opinion set forth herein, we have:

(i) reviewed certain publicly-available financial statements and other information of the Company and CSX, respectively;

(ii) reviewed certain internal financial statements and other financial and operating data concerning the Company and CSX prepared by the managements of the Company and CSX, respectively;

(iii) reviewed certain financial projections for CSX prepared by the management of CSX;

(iv) reviewed certain financial projections, including estimates of certain potential benefits of the proposed business combination, prepared by the management of the Company;

(v) discussed, on a limited basis, the past and current operations and financial condition and the prospects of the Company and CSX with senior executives of the Company and CSX, respectively;

(vi) reviewed the reported prices and trading activity for the Company Common Stock and the CSX Common Stock;

(vii) compared the financial performance of the Company and CSX and the prices and trading activity of the Company Common Stock and the CSX Common Stock with that of certain other comparable, publicly-traded companies and their securities;

(viii) reviewed the financial terms, to the extent publicly available, of certain comparable acquisition transactions;

(ix) participated in discussions among representatives of the Company, CSX and their financial and legal advisors;

(x) reviewed the Merger Agreement and certain related documents; and

(xi) performed such other analyses and considered such other factors as we have deemed appropriate.

We have assumed and relied upon without independent verification the accuracy and completeness of the information reviewed by us for the purposes of this opinion. With respect to the financial projections, including estimates of certain potential benefits of the proposed business combination, we have assumed that they have been reasonably prepared on bases reflecting the best currently-available estimates and judgment of the future financial performance of the Company and CSX, respectively. We have not made any independent valuation or appraisal of the assets or liabilities of the Company or CSX, nor have we been furnished with any such appraisals. We have assumed that the Offer and the Merger will be consummated substantially in accordance with the terms set forth in the Merger Agreement, without any waiver of any material terms or conditions by any party thereto. Our opinion is necessarily based on economic, market and other conditions in effect on, and the information made available to us as of, the date thereof. In arriving at our opinion, we were not authorized to solicit, and did not solicit, interest from any party with respect to the acquisition of the Company or any of its assets.

We have been engaged to provide this opinion to the Board of Directors of the Company in connection with this transaction and will receive a fee for our services. In the past, Morgan Stanley & Co. Incorporated and its affiliates have provided financial advisory and financing services for the Company and CSX and have received fees for the rendering of these services.

It is understood that this letter is for the information of the Board of Directors of the Company and may not be used for any other purpose without our prior written consent, except that this opinion may be included in its entirety in any filing made by the Company with the Securities and Exchange Commission with respect to the Offer and the Merger. In addition, we express no opinion and make no recommendation as to whether the holders of the Company Common Stock should tender such shares pursuant to the Offer or vote at any shareholders' meeting held in connection with the Merger. As you know, on February 12, 1997, Norfolk Southern Corporation commenced a tender offer (the "NSC Offer") for all of the outstanding Shares at a price per Share of $115 net in cash. Counsel to the Company has advised the Company's Board of Directors that the fact that the NSC Offer is subject to, among other conditions, the termination of the Merger Agreement, and that the Company is currently contractually prohibited from terminating the Merger Agreement pursuant to Section 4.2(b) thereof creates significant legal uncertainty relating to the consummation of the NSC Offer. Accordingly, at your request, in rendering our opinion, we did not address the relative merits of the Transaction, including said Section 4.2(b), the NSC Offer and any alternative potential transaction.

Based on the foregoing, we are of the opinion on the date thereof that the Consideration to be received by the holders of Shares pursuant to the Offer and the Merger, taken together, is fair from a financial point of view to such holders (other than CSX, Acquisition Sub or any other subsidiary of CSX).

Very truly yours,

MORGAN STANLEY & CO. INCORPORATED

By: /s/ MAHMOUD A. MAMDANI

Mahmoud A. Mamdani
Managing Director