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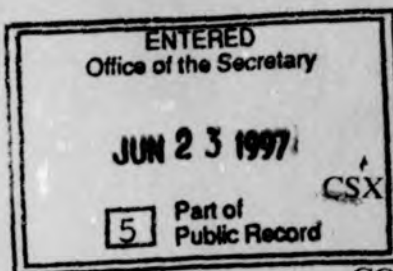
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BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 33088

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

RAILROAD CONTROL APPLICATION

VOLUME 7B OF 8

FORM 10-Ks, FORM S-4s, FORM 14D-1s,
ANNUAL REPORTS, AND CURRENT BALANCE SHEETS
AND INCOME STATEMENTS
(EXHIBITS 6, 7, 9, 20 AND 21)



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FILED

JUN 23 1997

**SURFACE
TRANSPORTATION BOARD**

VOLUME 7

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14D-1

TENDER OFFER STATEMENT

PURSUANT TO
SECTION 14(D) (1) OF THE SECURITIES EXCHANGE ACT OF 1934
AND

SCHEDULE 13D

CONRAIL INC.
(NAME OF SUBJECT COMPANY)
CSX CORPORATION
GREEN ACQUISITION CORP.
(BIDDERS)

COMMON STOCK, PAR VALUE \$1.00 PER SHARE
(TITLE OF CLASS OF SECURITIES)
208368 10 0
(CUSIP NUMBER OF CLASS OF SECURITIES)

SERIES A ESOP CONVERTIBLE JUNIOR
PREFERRED STOCK, WITHOUT PAR VALUE
(TITLE OF CLASS OF SECURITIES)

NOT AVAILABLE
(CUSIP NUMBER OF CLASS OF SECURITIES)

MARK G. ARON
CSX CORPORATION
ONE JAMES CENTER
901 EAST CARY STREET
RICHMOND, VIRGINIA 23219-4031
(NAME, ADDRESS AND TELEPHONE NUMBER OF PERSON
AUTHORIZED TO RECEIVE NOTICES AND COMMUNICATIONS ON BEHALF OF BIDDER)
WITH A COPY TO:

PAMELA S. SEYMON
WACHTELL, LIPTON, ROSEN & KATZ
51 WEST 52ND STREET
NEW YORK, NEW YORK 10019
TELEPHONE: (212) 403-1000

CALCULATION OF FILING FEE

TRANSACTION VALUATION*

AMOUNT OF FILING FEE**

\$1,652,061,470

\$330,413

- * For purposes of calculating the filing fee only. This calculation assumes the purchase of an aggregate of 17,860,124 Shares of Common Stock, par value \$1.00 per share, or Series A ESOP Convertible Junior Preferred Stock, without par value, of Conrail Inc. at \$92.50 net per share in cash.
- ** The amount of the filing fee, calculated in accordance with Rule 0-11(d) of the Securities Exchange Act of 1934, as amended, equals 1/50th of one percent of the aggregate value of cash offered by Green Acquisition Corp. for such number of Shares.

// Check box if any part of the fee is offset as provided by Rule 0-11(a) (2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

Amount Previously Paid:	Not applicable
Form or Registration No.:	Not applicable
Filing Party:	Not applicable
Date Filed:	Not applicable

14D-1

1. NAMES OF REPORTING PERSONS
S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSONS
CSX CORPORATION
2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) / /
(b) /X/
3. SEC USE ONLY
4. SOURCE OF FUNDS
BK, WC
5. CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(e) or 2(f) / /
6. CITIZENSHIP OR PLACE OF ORGANIZATION
VIRGINIA
7. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON
0 See Section 13 of the Offer to Purchase, dated October 16, 1996 filed as Exhibit (a)(1)
hereto
8. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (7) EXCLUDES CERTAIN SHARES / /
9. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (7)
0%
10. TYPE OF REPORTING PERSON
HC and CO

CUSIP NO. 208368 10 0

14D-1

1.	NAMES OF REPORTING PERSONS S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON GREEN ACQUISITION CORP.	
2.	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP	(a) / / (b) /X/
3.	SEC USE ONLY	
4.	SOURCE OF FUNDS AF	
5.	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(e) or 2(f)	/ /
6.	CITIZENSHIP OR PLACE OF ORGANIZATION PENNSYLVANIA	
7.	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 0	
8.	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (7) EXCLUDES CERTAIN SHARES	/ /
9.	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (7) 0%	
10.	REPORTING PERSON CO	

ITEM 1. SECURITY AND SUBJECT COMPANY.

(a) The name of the subject company is Conrail Inc., a Pennsylvania corporation (the "Company"). The address of the Company's principal executive offices is 2001 Market Street, Two Commerce Square, Philadelphia, Pennsylvania 19101-1417.

(b) This Statement on Schedule 14D-1 relates to the offer by Green Acquisition Corp. ("Purchaser"), a Pennsylvania corporation and a wholly owned subsidiary of CSX Corporation, a Virginia corporation ("Parent"), to purchase an aggregate of 17,860,124 shares of (i) Common Stock, par value \$1.00 per share (the "Common Shares"), and (ii) Series A ESOP Convertible Junior Preferred Stock, without par value (the "ESOP Preferred Shares" and, together with the Common Shares, the "Shares"), of the Company, including, in each case, the associated Common Stock Purchase Rights, upon the terms and subject to the conditions set forth in the Offer to Purchase dated October 16, 1996 and in the related Letter of Transmittal (which, together with any amendments or supplements thereto, constitute the "Offer") at a purchase price of \$92.50 per Share, net to the tendering shareholder in cash. At October 10, 1996, 80,178,281 Common Shares and 9,571,086 ESOP Preferred Shares were outstanding. The information set forth under "Introduction" in the Offer to Purchase annexed hereto as Exhibit (a)(1) is incorporated herein by reference.

(c) The information set forth under "Price Range of Shares; Dividends" in the Offer to Purchase is incorporated herein by reference.

ITEM 2. IDENTITY AND BACKGROUND.

(a)-(d); (g) This Statement is being filed by Purchaser and Parent. The information set forth under "Introduction" and "Certain Information Concerning Purchaser and Parent" in the Offer to Purchase and Schedule I thereto is incorporated herein by reference.

(e)-(f) During the last five years, neither Purchaser, Parent nor any persons controlling Purchaser, nor, to the best knowledge of Purchaser or Parent, any of the persons listed on Schedule I to the Offer to Purchase (i) has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or (ii) was a party to a civil proceeding of a judicial or administrative body of competent jurisdiction as a result of which any such person was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting activities subject to, federal or state securities laws or finding any violation of such laws.

ITEM 3. FAST CONTACTS, TRANSACTIONS OR NEGOTIATIONS WITH THE SUBJECT COMPANY.

(a)-(b) The information set forth under "Introduction," "Background of the Offer; Contacts with the Company," "Purpose of the Offer and the Merger; Plans for the Company," "Merger Agreement; Other Agreements," "Certain Information Concerning the Company" and "Certain Information Concerning Purchaser and Parent" in the Offer to Purchase is incorporated herein by reference.

ITEM 4. SOURCE AND AMOUNT OF FUNDS OR OTHER CONSIDERATION.

(a)-(b) The information set forth under "Introduction" and "Source and Amount of Funds" in the Offer to Purchase is incorporated herein by reference.

(c) Not applicable.

ITEM 5. PURPOSE OF THE TENDER OFFER AND PLANS OR PROPOSALS OF THE BIDDER.

(a)-(e) The information set forth under "Introduction," "Background of the Offer; Contacts with the Company," "Purpose of the Offer and the Merger; Plans for the Company" and "Merger Agreement; Other Agreements" in the Offer to Purchase is incorporated herein by reference.

(f)-(g) The information set forth under "Introduction" and "Effect of the Offer on the Market for the Common Shares; Exchange Listing and Exchange Act Registration; Margin Regulations" in the Offer to Purchase is incorporated herein by reference.

ITEM 6. INTEREST IN SECURITIES OF THE SUBJECT COMPANY.

(a)-(b) The information set forth under "Introduction," "Certain Information Concerning Purchaser and Parent" and "Merger Agreement; Other Agreements" in the Offer to Purchase is incorporated herein by reference.

ITEM 7. CONTRACTS, ARRANGEMENTS, UNDERSTANDINGS OR RELATIONSHIPS WITH RESPECT TO THE SUBJECT COMPANY'S SECURITIES.

The information set forth under "Introduction," "Background of the Offer; Contacts with the Company," "Purpose of the Offer and the Merger; Plans for the Company," "Certain Information Concerning Purchaser and Parent," and "Merger Agreement; Other Agreements" in the Offer to Purchase is incorporated herein by reference.

ITEM 8. PERSONS RETAINED, EMPLOYED OR TO BE COMPENSATED.

The information set forth under "Fees and Expenses" in the Offer to Purchase is incorporated herein by reference.

ITEM 9. FINANCIAL STATEMENTS OF CERTAIN BIDDERS.

The information set forth under "Certain Information Concerning Purchaser and Parent" in the Offer to Purchase is incorporated herein by reference.

ITEM 10. ADDITIONAL INFORMATION.

(a) Not applicable.

(b)-(c) The information set forth under "Introduction" and "Certain Legal Matters; Regulatory Approvals" in the Offer to Purchase is incorporated herein by reference.

(d) The information set forth under "Effect of the Offer on the Market for the Common Shares; Exchange Listing and Exchange Act Registration; Margin Regulations" in the Offer to Purchase is incorporated herein by reference.

(e) The information set forth under "Certain Legal Matters; Regulatory Approvals" in the Offer to Purchase is incorporated herein by reference.

(f) The information set forth in the Offer to Purchase and the Letter of Transmittal, copies of which are attached hereto as Exhibits (a)(1) and (a)(2), respectively, is incorporated herein by reference.

ITEM 11. MATERIAL TO BE FILED AS EXHIBITS.

- (a)(1) Offer to Purchase dated October 16, 1996.
- (a)(2) Letter of Transmittal.
- (a)(3) Notice of Guaranteed Delivery.
- (a)(4) Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.
- (a)(5) Letter to Clients for use by Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.
- (a)(6) Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9.
- (a)(7) Text of Press Release issued by Parent on October 15, 1996.
- (a)(8) Form of Summary Advertisement dated October 16, 1996.
- (b) Not applicable.
- (c)(1) Agreement and Plan of Merger, dated as of October 14, 1996, by and among Parent, Purchaser and the Company.
- (c)(2) Company Stock Option Agreement, dated as of October 14, 1996, between Parent and the Company.
- (c)(3) Parent Stock Option Agreement, dated as of October 14, 1996, between Parent and the Company.
- (c)(4) Form of Voting Trust Agreement.
- (d) Not applicable.
- (e) Not applicable.
- (f) Not applicable.

SIGNATURE

After due inquiry and to the best of its knowledge and belief, the undersigned certifies that the information set forth in this statement is true, complete and correct.

CSX CORPORATION

By: /s/ MARK G. ARON

Name: Mark G. AronTitle: Senior Vice President -- Law and
Public Affairs

Dated: October 16, 1996

SIGNATURE

After due inquiry and to the best of its knowledge and belief, the undersigned certifies that the information set forth in this statement is true, complete and correct.

GREEN ACQUISITION CORP.

By: /s/ MARK G. ARON

Name: Mark G. Aron

Title: General Counsel and Secretary

Dated: October 16 , 1996

EXHIBIT INDEX

EXHIBIT
NO.

- (a) (1) Offer to Purchase dated October 16, 1996.
- (a) (2) Letter of Transmittal.
- (a) (3) Notice of Guaranteed Delivery.
- (a) (4) Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.
- (a) (5) Letter to Clients for use by Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.
- (a) (6) Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9.
- (a) (7) Text of Press Release issued by Parent on October 15, 1996.
- (a) (8) Form of Summary Advertisement dated October 16, 1996.
- (b) Not applicable.
- (c) (1) Agreement and Plan of Merger, dated as of October 14, 1996, by and among Parent, Purchaser and the Company.
- (c) (2) Company Stock Option Agreement, dated as of October 14, 1996, between Parent and the Company.
- (c) (3) Parent Stock Option Agreement, dated as of October 14, 1996, between Parent and the Company.
- (c) (4) Form of Voting Trust Agreement.
- (d) Not applicable.
- (e) Not applicable.
- (f) Not applicable.

OFFER TO PURCHASE FOR CASH

AN AGGREGATE OF 17,860,124 SHARES
OF
COMMON STOCK AND SERIES A ESOP CONVERTIBLE JUNIOR PREFERRED STOCK
(INCLUDING, IN EACH CASE, THE ASSOCIATED COMMON STOCK PURCHASE RIGHTS)

OF

CONRAIL INC.
AT

\$92.50 NET PER SHARE
BY

GREEN ACQUISITION CORP.
A WHOLLY OWNED SUBSIDIARY OF

CSX CORPORATION

THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT,
NEW YORK CITY TIME, ON FRIDAY, NOVEMBER 15, 1996, UNLESS THE OFFER IS EXTENDED.

THE OFFER IS CONDITIONED UPON, AMONG OTHER THINGS, (1) THE RECEIPT BY GREEN ACQUISITION CORP. ("PURCHASER"), PRIOR TO THE EXPIRATION OF THE OFFER, OF AN INFORMAL WRITTEN OPINION IN FORM AND SUBSTANCE REASONABLY SATISFACTORY TO PURCHASER FROM THE STAFF OF THE SURFACE TRANSPORTATION BOARD (THE "STB"), WITHOUT THE IMPOSITION OF ANY CONDITIONS UNACCEPTABLE TO PURCHASER, THAT THE USE OF A VOTING TRUST IN SUBSTANTIALLY THE FORM CONTEMPLATED BY THE MERGER AGREEMENT (THE "VOTING TRUST") IS CONSISTENT WITH THE POLICIES OF THE STB AGAINST UNAUTHORIZED ACQUISITIONS OF CONTROL OF A REGULATED CARRIER, (2) THE RECEIPT BY PURCHASER, PRIOR TO THE EXPIRATION OF THE OFFER, OF AN INFORMAL STATEMENT FROM THE PREMERGER NOTIFICATION OFFICE OF THE FEDERAL TRADE COMMISSION THAT THE TRANSACTIONS CONTEMPLATED BY THE OFFER, THE MERGER AGREEMENT AND THE COMPANY STOCK OPTION AGREEMENT (AS SUCH TERMS ARE DEFINED HEREIN) ARE NOT SUBJECT TO, OR ARE EXEMPT FROM, THE HART-SCOTT-RODINO ANTITRUST IMPROVEMENTS ACT OF 1976, AS AMENDED (THE "HSR ACT"), OR IN THE ABSENCE OF THE RECEIPT OF SUCH INFORMAL STATEMENT, ANY APPLICABLE WAITING PERIOD UNDER THE HSR ACT SHALL HAVE EXPIRED OR BEEN TERMINATED PRIOR TO THE EXPIRATION OF THE OFFER, (3) PARENT AND PURCHASER OBTAINING, PRIOR TO THE EXPIRATION OF THE OFFER, SUFFICIENT FINANCING, ON TERMS REASONABLY ACCEPTABLE TO PARENT, TO ENABLE CONSUMMATION OF THE OFFER AND MERGER AND (4) THERE BEING AT LEAST 17,860,124 SHARES (AS DEFINED HEREIN) VALIDLY TENDERED AND NOT PROPERLY WITHDRAWN PRIOR TO THE EXPIRATION OF THE OFFER. SEE SECTION 15.

THE BOARD OF DIRECTORS OF CONRAIL INC. (THE "COMPANY") HAS UNANIMOUSLY APPROVED THE OFFER AND THE MERGER, DETERMINED THAT THE MERGER AGREEMENT AND THE TRANSACTIONS CONTEMPLATED THEREBY (INCLUDING THE OFFER AND THE MERGER) ARE IN THE BEST INTERESTS OF THE COMPANY AND RECOMMENDS THAT SHAREHOLDERS OF THE COMPANY WHO DESIRE TO RECEIVE CASH FOR THEIR SHARES ACCEPT THE OFFER AND TENDER THEIR SHARES PURSUANT TO THE OFFER.

IMPORTANT

Any shareholder desiring to tender all or any portion of such shareholder's Common Shares (as defined herein) or ESOP Preferred Shares (as defined herein, and together with the Common Shares, the "Shares") should either (i) complete and sign the Letter of Transmittal (or a facsimile thereof) in accordance with the instructions in the Letter of Transmittal, have such shareholder's signature thereon guaranteed if required by Instruction 1 to the Letter of Transmittal, mail or deliver the Letter of Transmittal (or such facsimile thereof) and any other required documents to the Depositary and either deliver the certificates for such Shares to the Depositary along with the Letter of Transmittal (or a facsimile thereof) or deliver such Shares pursuant to the procedure for book-entry transfer set forth in Section 3 prior to the expiration of the Offer or (ii) request such shareholder's broker, dealer, commercial bank, trust company or other nominee to effect the transaction for such shareholder. A shareholder having Shares registered in the name of a broker, dealer, commercial bank, trust company or other nominee must contact such broker, dealer, commercial bank, trust company or other nominee if such shareholder desires to tender such Shares.

Any shareholder who desires to tender Shares and whose certificates for such Shares are not immediately available, or who cannot comply with the procedures for book-entry transfer described in this Offer to Purchase on a timely basis, may tender such Shares by following the procedures for guaranteed delivery set forth in Section 3.

Questions and requests for assistance or for additional copies of this Offer to Purchase, the Letter of Transmittal or other tender offer materials, may be directed to the Information Agent (as defined herein) or the Dealer Manager (as defined herein) at their respective addresses and telephone numbers set forth on the back cover of this Offer to Purchase.

The Dealer Manager for the Offer is:
WASSERSTEIN PERELLA & CO., INC.

October 16, 1996

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TO THE HOLDERS OF COMMON STOCK AND SERIES A ESOP CONVERTIBLE
JUNIOR PREFERRED STOCK OF CONRAIL INC.:

INTRODUCTION

Green Acquisition Corp. ("Purchaser"), a Pennsylvania corporation and a wholly owned subsidiary of CSX Corporation, a Virginia corporation ("Parent"), hereby offers to purchase an aggregate of 17,860,124 shares of (i) common stock, par value \$1.00 per share (the "Common Shares"), and (ii) Series A ESOP Convertible Junior Preferred Stock, without par value (the "ESOP Preferred Shares" and, together with the Common Shares, the "Shares"), of Conrail Inc., a Pennsylvania corporation (the "Company"), including, in each case, the associated Common Stock Purchase Rights (the "Rights") issued pursuant to the Rights Agreement, dated as of July 19, 1989, between the Company and First Chicago Trust Company of New York, as Rights Agent (as amended, the "Rights Agreement"), at a price of \$92.50 per Share, net to the seller in cash, without interest thereon (the "Offer Price"), upon the terms and subject to the conditions set forth in this Offer to Purchase and in the related Letter of Transmittal (which, as amended from time to time, together constitute the "Offer"). Unless the context otherwise requires, all references to Common Shares, ESOP Preferred Shares or Shares shall include the associated Rights, and all references to the Rights shall include the benefits that may enure to holders of the Rights pursuant to the Rights Agreement, including the right to receive any payment due upon redemption of the Rights.

Tendering shareholders will not be obligated to pay brokerage fees or commissions or, except as set forth in Instruction 6 of the Letter of Transmittal, stock transfer taxes on the purchase of Shares by Purchaser pursuant to the Offer. Purchaser will pay all charges and expenses of Wasserstein Perella & Co., Inc., as Dealer Manager (in such capacity, the "Dealer Manager"), IBJ Schroder Bank & Trust Company, as Depositary (the "Depositary"), and MacKenzie Partners, Inc., as Information Agent (the "Information Agent"), incurred in connection with the Offer. See Section 17.

Participants in the Company's Matched Savings Plan (the "ESOP") desiring that Fidelity Management Trust Company, as trustee under the ESOP (the "ESOP Trustee"), tender the ESOP Preferred Shares allocated to their accounts, which will be converted into Common Shares upon consummation of the Offer, should so instruct the ESOP Trustee by completing the form that will be provided to participants for that purpose. ESOP participants cannot tender shares allocated to their ESOP accounts by executing the Letter of Transmittal.

THE BOARD OF DIRECTORS OF THE COMPANY (THE "BOARD" OR "BOARD OF DIRECTORS") HAS UNANIMOUSLY APPROVED THE OFFER AND THE MERGER (AS DEFINED BELOW), DETERMINED THAT THE MERGER AGREEMENT AND THE TRANSACTIONS CONTEMPLATED THEREBY (INCLUDING THE OFFER AND THE MERGER) ARE IN THE BEST INTERESTS OF THE COMPANY AND RECOMMENDS THAT SHAREHOLDERS OF THE COMPANY WHO DESIRE TO RECEIVE CASH FOR THEIR SHARES ACCEPT THE OFFER AND TENDER THEIR SHARES PURSUANT TO THE OFFER.

THE OFFER IS CONDITIONED UPON, AMONG OTHER THINGS, (1) THE RECEIPT BY PURCHASER, PRIOR TO THE EXPIRATION OF THE OFFER, OF AN INFORMAL WRITTEN OPINION IN FORM AND SUBSTANCE REASONABLY SATISFACTORY TO PURCHASER FROM THE STAFF OF THE SURFACE TRANSPORTATION BOARD (THE "STB"), WITHOUT THE IMPOSITION OF ANY CONDITIONS UNACCEPTABLE TO PURCHASER, THAT THE USE OF A VOTING TRUST IN SUBSTANTIALLY THE FORM CONTEMPLATED BY THE MERGER AGREEMENT (THE "VOTING TRUST") IS CONSISTENT WITH THE POLICIES OF THE STB AGAINST UNAUTHORIZED ACQUISITIONS OF CONTROL OF A REGULATED CARRIER (SUCH CONDITION, THE "VOTING TRUST CONDITION"), (2) THE RECEIPT BY PURCHASER, PRIOR TO THE EXPIRATION OF THE OFFER, OF AN INFORMAL STATEMENT FROM THE PREMERGER NOTIFICATION OFFICE OF THE FEDERAL TRADE COMMISSION (THE "FTC") THAT THE TRANSACTIONS CONTEMPLATED BY THE OFFER, THE MERGER AGREEMENT AND THE COMPANY STOCK OPTION AGREEMENT (AS SUCH TERMS ARE DEFINED HEREIN) ARE NOT SUBJECT TO, OR ARE EXEMPT FROM, THE HART-SCOTT-RODINO ANTITRUST IMPROVEMENTS ACT OF 1976, AS AMENDED (THE "HSR ACT"), OR, IN THE ABSENCE OF THE RECEIPT OF SUCH INFORMAL STATEMENT, ANY APPLICABLE WAITING PERIOD UNDER THE HSR ACT SHALL HAVE EXPIRED OR BEEN TERMINATED PRIOR TO THE EXPIRATION OF THE OFFER (SUCH CONDITION, THE "HSR CONDITION"), (3) PARENT AND PURCHASER OBTAINING, PRIOR TO THE EXPIRATION OF THE OFFER, SUFFICIENT FINANCING, ON TERMS REASONABLY ACCEPTABLE TO PARENT, TO ENABLE CONSUMMATION OF THE OFFER AND

MERGER AND (4) THERE BEING AT LEAST 17,860,124 SHARES (THE "MINIMUM NUMBER OF SHARES") VALIDLY TENDERED AND NOT PROPERLY WITHDRAWN PRIOR TO THE EXPIRATION OF THE OFFER (THE "MINIMUM CONDITION"). SEE SECTION 15.

The Company has advised Purchaser that each of Lazard Freres & Co. LLC ("Lazard Freres") and Morgan Stanley & Co. Incorporated ("Morgan Stanley") has delivered to the Board its written opinion that as of the date of the Merger Agreement (as defined below) 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. A copy of each such opinion is contained in the Company's Solicitation/Recommendation Statement on Schedule 14D-9 (the "Schedule 14D-9"), which is being mailed to shareholders of the Company herewith, and such shareholders are urged to read the opinion in its entirety for a description of the assumptions made, factors considered, procedures followed by, and certain information concerning, Lazard Freres and Morgan Stanley.

The purpose of the Offer is for Parent, through Purchaser, to acquire a significant equity interest in the Company as the first step in a business combination of Parent and the Company. The Offer is being made pursuant to an Agreement and Plan of Merger, dated as of October 14, 1996 (the "Merger Agreement"), by and among the Company, Parent and Purchaser. The Merger Agreement provides that, following the completion of the Offer and the satisfaction or waiver of certain conditions, the Company will be merged with and into Purchaser (the "Merger"), with Purchaser as the surviving corporation (the "Surviving Corporation"), in accordance with the Pennsylvania Business Corporation Law of 1988, as amended (the "Pennsylvania Law"). As more fully described in Section 13, in the Merger, each outstanding Share (other than Shares held in the treasury of the Company or owned by Parent, Purchaser or any other wholly owned subsidiary of Parent or the Company) will be converted, at the election of the holder of Shares and subject to certain limitations, into the right to receive (i) \$92.50 in cash, without interest, (ii) 1.85619 shares of common stock, par value \$1.00 per share, of Parent (the "Parent Common Stock") or (iii) a combination of such cash and shares of Parent Common Stock. However, the Merger Agreement contains provisions which will ensure that, regardless of the number of Shares for which holders have elected to receive cash or Parent Common Stock, as the case may be, the aggregate number of Shares to be converted into Parent Common Stock pursuant to the Merger shall be equal as nearly as practicable to 60% of all Shares outstanding immediately prior to the Merger on a fully diluted basis (except for Shares issuable or outstanding pursuant to the Company Stock Option, as hereinafter defined), and the aggregate number of Shares to be converted into the right to receive cash pursuant to the Merger, together with the Shares theretofore purchased by Purchaser (other than upon exercise of the Company Stock Option), shall be equal as nearly as practicable to 40% of all such Shares outstanding immediately prior to the Merger. Accordingly, in the case of any particular shareholder, depending on the aggregate number of Shares for which the holders have elected to receive cash or Parent Common Stock, as the case may be, such shareholder may not receive in respect of his or her Shares the amount of cash, Parent Common Stock or combination thereof that such shareholder requested in his or her election. See Section 13. The Surviving Corporation will be a wholly owned subsidiary of Parent. The time at which the Merger is consummated in accordance with the Merger Agreement is hereinafter referred to as the "Effective Time." The Offer and the Merger are sometimes collectively referred to herein as the "Transactions."

THE OFFER DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY PARENT COMMON STOCK. SUCH AN OFFER MAY BE MADE ONLY PURSUANT TO A PROSPECTUS.

In connection with the execution of the Merger Agreement, the Company and Parent entered into an option agreement (the "Company Stock Option Agreement") pursuant to which the Company granted to Parent an option (the "Company Stock Option"), exercisable only in certain events, to purchase 15,955,477 Common Shares at an exercise price of \$92.50 per Common Share, subject to adjustment as set forth therein. Concurrently, Parent and the Company entered into an option agreement (the "Parent Stock Option Agreement" and, together with the Company Stock Option Agreement, the "Option Agreements") pursuant to which Parent granted to the Company an option, exercisable only in certain events, to purchase 43,090,773 shares of Parent Common Stock at an exercise price of \$64.82 per share, subject to adjustment as set forth therein. See Section 13.

Simultaneously with the purchase of Shares pursuant to the Offer, the Shares purchased will be deposited in an independent, irrevocable Voting Trust in accordance with the terms of the proposed Voting Trust Agreement. See Sections 13 and 16. The Offer is conditioned upon satisfaction of the Voting Trust Condition.

Certain other conditions to the consummation of the Offer are described in Section 15. Subject to the terms of the Merger Agreement, Purchaser reserves the right to waive any one or more of the conditions to the Offer.

Under Subchapter E of Chapter 25 of the Pennsylvania Law (the "Pennsylvania Control Transaction Law"), unless a corporation's articles of incorporation or by-laws adopted by the shareholders otherwise provide, after the occurrence of a "control transaction", any holder of voting shares of a "registered corporation" (such as the Company) may make written demand on the "controlling person" for payment of cash in an amount equal to the "fair value" of each voting share as of the date on which the control transaction occurs. A "control transaction" is the acquisition by a "controlling person" -- that is, a person or group of persons acting in concert who have voting power over voting shares of the registered corporation that would entitle the holders thereof to cast at least 20% of the votes that all shareholders would be entitled to cast in an election of directors. See Section 16.

The Company's Articles of Incorporation (the "Company Articles") currently do not contain a provision by which the Company "opts out" of the Pennsylvania Control Transaction Law. Accordingly, unless and until such time as the Company Articles are amended to include such an "opt out" provision, the Pennsylvania Control Transaction Law effectively precludes Purchaser from purchasing more than the Minimum Number of Shares pursuant to the Offer. The Company has filed preliminary proxy materials with the Securities and Exchange Commission (the "SEC") for a special meeting of the Company's shareholders (the "Pennsylvania Special Meeting") expected to be held on November 14, 1996 for the purpose of voting on an amendment to the Company Articles (the "Articles Amendment") to opt out of the Pennsylvania Control Transaction Law. Under the Company Articles and the Pennsylvania Law, the Articles Amendment must be approved by a majority of the votes cast by the holders of outstanding Shares, voting as a single class (the "Pennsylvania Shareholder Approval"). THE OFFER DOES NOT CONSTITUTE A SOLICITATION OF PROXIES FOR THE PENNSYLVANIA SPECIAL MEETING. ANY SUCH SOLICITATION WILL BE MADE ONLY BY THE COMPANY AND PURSUANT TO PROXY MATERIALS COMPLYING WITH THE REQUIREMENTS OF SECTION 14(A) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED (THE "EXCHANGE ACT"), AND THE RULES AND REGULATIONS THEREUNDER.

If the Articles Amendment is approved by the requisite vote of the Company's shareholders at the Pennsylvania Special Meeting prior to the expiration of the Offer, Purchaser may (but is not obligated to) increase the Minimum Number of Shares to an amount equal to 40% of the outstanding Shares on a fully diluted basis (excluding Common Shares issuable upon exercise of the Company Stock Option) and, if Purchaser in its discretion determines to so increase the Minimum Number of Shares and if required under the rules of the SEC, Purchaser shall extend the Offer. See Section 1. Alternatively, if the Pennsylvania Shareholder Approval is obtained (whether or not such approval is obtained prior to the expiration of the Offer), Purchaser may, in its discretion and depending upon the circumstances (but subject to the terms and conditions of the Offer and the Merger Agreement), accept for payment Shares in the Offer and thereafter purchase additional Shares in a later tender offer (the "Second Offer"), pursuant to the Company Stock Option Agreement or otherwise. Such additional Share purchases may be on terms different from the terms of the Offer, provided that in the Merger Agreement Parent and Purchaser have agreed that additional purchases pursuant to the Second Offer shall be at a price not less than \$92.50 and shall be on terms no less favorable to the Company's shareholders than the Offer. In addition, under the terms of the Merger Agreement, at any time following obtaining the Pennsylvania Shareholder Approval, if Parent and its subsidiaries do not already own 40% or more of the outstanding Shares (as determined above), the Company may require Parent to commence the Second Offer. See Sections 1 and 13.

The obligations of Parent and Purchaser to consummate the Merger are conditioned upon, among other things, the STB having issued a final decision approving, exempting or otherwise authorizing consummation of the Merger and all other material transactions contemplated by the Merger Agreement as may require such authorization and which, among other things, does not impose on Parent, the Company or any of their

respective subsidiaries, terms or conditions that materially and adversely affect the long-term benefits expected to be received by Parent from the transactions contemplated by the Merger Agreement. See Section 13.

The Merger is also conditioned upon, among other things, the approval and adoption of the Merger Agreement by the requisite vote of the shareholders of the Company. Under the Company Articles and the Pennsylvania Law, the affirmative vote of the holders of a majority of the votes cast by the outstanding Shares, voting as a single class, is required to approve and adopt the Merger Agreement and the Merger.

Based on information supplied by the Company, as of October 10, 1996, (i) 80,178,281 Common Shares were issued and outstanding and 15,522,547 Common Shares were reserved for issuance pursuant to outstanding employee stock options or upon conversion of the ESOP Preferred Shares and (ii) 9,571,086 ESOP Preferred Shares were issued and outstanding. Pursuant to the Company Articles, each ESOP Preferred Share purchased pursuant to the Offer will automatically be converted into one Common Share upon consummation of the Offer, and each remaining ESOP Preferred Share will be automatically converted into one Common Share immediately prior to the Effective Time.

THIS OFFER TO PURCHASE AND THE LETTER OF TRANSMITTAL CONTAIN IMPORTANT INFORMATION WHICH SHOULD BE READ CAREFULLY BEFORE ANY DECISION IS MADE WITH RESPECT TO THE OFFER.

1. TERMS OF THE OFFER; PRORATION; EXPIRATION DATE. Upon the terms and subject to the conditions of the Offer (including, if the Offer is extended or amended, the terms and conditions of any extension or amendment), Purchaser will accept for payment and pay for an aggregate of 17,860,124 Shares which are validly tendered prior to the Expiration Date (as hereinafter defined) and not properly withdrawn in accordance with Section 4. The term "Expiration Date" means 12:00 Midnight, New York City time, on Friday, November 15, 1996, unless and until Purchaser, in its sole discretion (but subject to the terms of the Merger Agreement), shall have extended the period of time during which the Offer is open, in which event the term "Expiration Date" shall refer to the latest time and date at which the Offer, as so extended by Purchaser, shall expire. The Merger Agreement provides that, in the event all conditions to Purchaser's obligation to purchase Shares under the Offer at any scheduled expiration thereof are satisfied other than the Minimum Condition, Purchaser shall, from time to time, extend the Offer until the earlier of (i) 180 days following the date of the Merger Agreement or (ii) such time as the Minimum Condition is satisfied or waived in accordance with the Merger Agreement. The Merger Agreement provides that, without the consent of the Company, Purchaser will not waive the Minimum Condition.

Subject to Purchaser's right to increase the Minimum Number of Shares (as described below), if more than 17,860,124 Shares are validly tendered prior to the Expiration Date and not properly withdrawn, Purchaser will, upon the terms and subject to the conditions of the Offer, accept for payment and pay for only 17,860,124 Shares, on a pro rata basis, with adjustments to avoid purchases of fractional Shares, based upon the number of Shares validly tendered prior to the Expiration Date and not properly withdrawn. If the Articles Amendment is approved by the requisite vote of the Company's shareholders at the Pennsylvania Special Meeting prior to the Expiration Date, Purchaser may (but is not obligated to) increase the Minimum Number of Shares to an amount equal to 40% of the outstanding Shares on a fully diluted basis (excluding Shares issuable upon exercise of the Company Stock Option) and, if Purchaser in its discretion determines to so increase the Minimum Number of Shares and if such action is required under the rules of the SEC, Purchaser will extend the Offer. Alternatively, if the Pennsylvania Shareholder Approval is obtained (whether or not such approval is obtained prior to the Expiration Date), Purchaser may, in its discretion and depending upon the circumstances (but subject to the terms and conditions of the Offer and the Merger Agreement), accept for payment Shares in the Offer and thereafter purchase additional Shares. See Introduction and Section 13. In any event, the same proration factor will be applied in the Offer to the Common Shares and the ESOP Preferred Shares.

Because of the difficulty of determining precisely the number of Shares validly tendered and not withdrawn, if proration is required, Purchaser would not expect to be able to announce the final results of proration or pay for Shares until at least five New York Stock Exchange, Inc. ("NYSE") trading days after

the Expiration Date. Preliminary results of proration will be announced by press release as promptly as practicable after the Expiration Date. Holders of Shares may obtain such preliminary information from the Information Agent and may also be able to obtain such preliminary information from their brokers.

The Merger Agreement provides that, at any time following the Pennsylvania Shareholder Approval, if Parent and its subsidiaries do not, in the aggregate, own 40% of the Shares outstanding, on a fully diluted basis as of the date of the Merger Agreement (excluding Shares that would be outstanding upon exercise of the Company Stock Option), Parent may, and at the written request of the Company is required to, commence the Second Offer to purchase up to that number of Shares which, when added to the aggregate number of Shares then beneficially owned by Parent (other than pursuant to exercise of the Company Stock Option) equals 40% of such outstanding Shares, at a price not less than \$92.50. The Company has agreed that it shall not make such written request at any time that the Offer is outstanding and the Expiration Date is within 10 business days thereof. The Second Offer, if it occurs, will be on terms no less favorable to the shareholders of the Company than the Offer.

The Offer is conditioned upon, among other things, satisfaction of the Voting Trust Condition. If the Voting Trust Condition is not satisfied or any or all of the other events set forth in Section 15 shall have occurred prior to the Expiration Date, Purchaser reserves the right (but shall not be obligated) to (i) decline to purchase any of the Shares tendered in the Offer and terminate the Offer, and return all tendered Shares to the tendering shareholders, (ii) waive or amend any or all conditions to the Offer to the extent permitted by applicable law and the provisions of the Merger Agreement, and, subject to complying with applicable rules and regulations of the SEC, purchase all Shares validly tendered, or (iii) extend the Offer and, subject to the right of shareholders to withdraw Shares until the Expiration Date, retain the Shares which have been tendered during the period or periods for which the Offer is extended.

Purchaser expressly reserves the right, in its sole discretion (but subject to the terms of the Merger Agreement), at any time and from time to time, to extend for any reason the period of time during which the Offer is open, including the occurrence of any of the events specified in Section 15, by giving oral or written notice of such extension to the Depositary. During any such extension, all Shares previously tendered and not properly withdrawn will remain subject to the Offer, subject to the rights of a tendering shareholder to withdraw its Shares in accordance with the procedures set forth in Section 4.

Subject to the applicable regulations of the SEC, Purchaser also expressly reserves the right, in its sole discretion (but subject to the terms of the Merger Agreement), at any time and from time to time, (i) to delay acceptance for payment of, or, regardless of whether such Shares were theretofore accepted for payment, payment for, any Shares in order to comply in whole or in part with any applicable law and (ii) to waive any condition or otherwise amend the Offer in any respect by giving oral or written notice of such delay, waiver or amendment to the Depositary and by making a public announcement thereof.

The Merger Agreement provides that, without the consent of the Company, Purchaser will not, among other things, decrease the Offer Price, decrease the Minimum Number of Shares, change the form of consideration to be paid pursuant to the Offer, modify any of the conditions to the Offer, impose conditions to the Offer in addition to those set forth in the Merger Agreement, except as set forth in the proviso below, extend the Offer, or amend any term or condition of the Offer in any manner adverse to the holders of Shares, it having been agreed in the Merger Agreement that a waiver by Purchaser of any condition in its discretion shall not be deemed to be adverse to the holders of Shares; provided, however, that the Purchaser shall not waive the Minimum Condition without the consent of the Company; and provided further that, if on any scheduled Expiration Date (as it may be extended in accordance with the terms of the Merger Agreement), all conditions to the Offer shall not have been satisfied or waived, the Offer may be extended from time to time without the consent of the Company for such period of time as is reasonably expected to be necessary to satisfy the unsatisfied conditions. In the Merger Agreement Parent and Purchaser also have agreed that, in the event all conditions to their obligation to purchase Shares under the Offer at any scheduled Expiration Date are satisfied other than the Minimum Condition, Purchaser shall, from time to time, extend the Offer until the earlier of (i) 180 days following the date of the Merger Agreement or (ii) such time as such condition is satisfied or waived in accordance with the terms of the Merger Agreement. In addition, the Merger

Agreement provides that, without the consent of the Company, the Offer Price and the Minimum Number of Shares may be increased, and the Offer may be extended to the extent required by law in connection with such an increase.

Purchaser acknowledges that (i) Rule 14e-1(c) under the Exchange Act requires Purchaser to pay the consideration offered or return the Shares tendered promptly after the termination or withdrawal of the Offer, and (ii) Purchaser may not delay acceptance for payment of, or payment for (except as provided in clause (i) of the first sentence of the second preceding paragraph), any Shares upon the occurrence of any of the conditions specified in Section 15 without extending the period of time during which the Offer is open.

Any such extension, delay, termination, waiver or amendment will be followed as promptly as practicable by public announcement thereof, with such announcement in the case of an extension to be made no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled Expiration Date. Subject to applicable law (including Rules 14d-4(c), 14d-6(d) and 14e-1 under the Exchange Act, which require that material changes be promptly disseminated to shareholders in a manner reasonably designed to inform them of such changes) and without limiting the manner in which Purchaser may choose to make any public announcement, Purchaser shall have no obligation to publish, advertise or otherwise communicate any such public announcement other than by issuing a press release to the Dow Jones News Service.

If Purchaser makes a material change in the terms of the Offer or the information concerning the Offer, or if it waives a material condition of the Offer, Purchaser will disseminate additional tender offer materials and extend the Offer to the extent required by Rules 14d-4(c), 14d-6(d) and 14e-1 under the Exchange Act. The minimum period during which the Offer must remain open following material changes in the terms of the Offer or information concerning the Offer, other than a change in price or a change in percentage of securities sought, will depend upon the facts and circumstances, including the relative materiality of the changed terms or information. In the SEC's view, an offer should generally remain open for a minimum of five business days from the date a material change is first published, sent or given to shareholders. With respect to a change in price or a change in percentage of securities sought (other than an increase in the number of Shares sought not in excess of 2% of the outstanding Shares), a minimum ten business day period is required to allow for adequate dissemination to shareholders and investor response. As used in this Offer to Purchase, "business day" has the meaning set forth in Rule 14d-1 under the Exchange Act. Accordingly, if, prior to the Expiration Date, Purchaser increases or decreases the number of Shares being sought, or increases or decreases the consideration offered pursuant to the Offer, and if the Offer is scheduled to expire at any time earlier than the period ending on the tenth business day from the date that notice of such increase or decrease is first published, sent or given to holders of Shares, except in respect of an increase in the Minimum Number of Shares not in excess of 2% of the outstanding Shares, the Offer will be extended at least until the expiration of such 10 business day period.

As of the date of this Offer to Purchase, the Rights are evidenced by the certificates representing Shares and do not trade separately. Accordingly, by tendering a certificate representing Shares, a shareholder is automatically tendering a similar number of associated Rights. If, however, pursuant to the Rights Agreement or for any other reason, the Rights detach and separate certificates representing rights ("Rights Certificates") are issued, shareholders will be required to tender one Right for each Share tendered in order to effect a valid tender of such Share.

The Company has provided Purchaser with the Company's shareholder list and security position listings for the purpose of disseminating the Offer to holders of Shares. This Offer to Purchase, the related Letter of Transmittal, and other relevant materials will be mailed to record holders of Shares whose names appear on the Company's shareholder list and will be furnished, for subsequent transmittal to beneficial owners of Shares, to brokers, dealers, commercial banks, trust companies and similar persons whose names, or the names of whose nominees, appear on the shareholder list or, if applicable, who are listed as participants in a clearing agency's security position listing.

2. ACCEPTANCE FOR PAYMENT AND PAYMENT FOR SHARES. Upon the terms and subject to the conditions of the Offer (including, if the Offer is extended or amended, the terms and conditions of any such extension or amendment), Purchaser will purchase, by accepting for payment, and will pay for, an

aggregate of 17,860,124 Shares which are validly tendered prior to the Expiration Date (and not properly withdrawn in accordance with Section 4) promptly after the later to occur of (i) the Expiration Date and (ii) the satisfaction or waiver of the conditions set forth in Section 15. Purchaser expressly reserves the right, in its discretion, to delay acceptance for payment of, or, subject to applicable rules of the SEC, payment for, Shares in order to comply in whole or in part with any applicable law.

In all cases, payment for Shares purchased pursuant to the Offer will be made only after timely receipt by the Depositary of (i) the certificates evidencing such Shares (the "Share Certificates") or timely confirmation of a book-entry transfer (a "Book-Entry Confirmation") of such Shares, if such procedure is available, into the Depositary's account at The Depositary Trust Company or the Philadelphia Depositary Trust Company (each a "Book-Entry Transfer Facility" and, collectively, the "Book-Entry Transfer Facilities") pursuant to the procedures set forth in Section 3, (ii) the Letter of Transmittal (or facsimile thereof), properly completed and duly executed, or, in the case of a book-entry transfer, an Agent's Message (as defined below) and (iii) any other documents required by the Letter of Transmittal.

The term "Agent's Message" means a message, transmitted by a Book-Entry Transfer Facility to, and received by, the Depositary and forming a part of a Book-Entry Confirmation, which states that such Book-Entry Transfer Facility has received an express acknowledgment from the participant in such Book-Entry Transfer Facility tendering the Shares, that such participant has received and agrees to be bound by the terms of the Letter of Transmittal and that Purchaser may enforce such agreement against the participant.

For purposes of the Offer, Purchaser will be deemed to have accepted for payment, and thereby purchased, Shares validly tendered and not properly withdrawn if, as and when Purchaser gives oral or written notice to the Depositary of Purchaser's acceptance of such Shares for payment. Payment for Shares accepted pursuant to the Offer will be made by deposit of the purchase price therefor with the Depositary, which will act as agent for tendering shareholders for the purpose of receiving payments from Purchaser and transmitting payments to such tendering shareholders. Under no circumstances will interest on the purchase price for Shares be paid by Purchaser, regardless of any delay in making such payment. Upon the deposit of funds with the Depositary for the purpose of making payments to tendering shareholders, Purchaser's obligation to make such payment shall be satisfied and tendering shareholders must thereafter look solely to the Depositary for payment of amounts owed to them by reason of the acceptance for payment of Shares pursuant to the Offer. Purchaser will pay any stock transfer taxes incident to the transfer to it of validly tendered Shares, except as otherwise provided in Instruction 6 of the Letter of Transmittal, as well as any charges and expenses of the Depositary and the Information Agent.

If any tendered Shares are not accepted for payment for any reason pursuant to the terms and conditions of the Offer (including proration due to tenders of more than 17,860,124 Shares), or if Share Certificates are submitted evidencing more Shares than are tendered, Share Certificates evidencing unpurchased Shares will be returned, without expense to the tendering shareholder (or, in the case of Shares tendered by book-entry transfer into the Depositary's account at a Book-Entry Transfer Facility pursuant to the procedure set forth in Section 3, such Shares will be credited to an account maintained at such Book-Entry Transfer Facility), as promptly as practicable following the expiration or termination of the Offer.

If, prior to the Expiration Date, Purchaser increases the consideration to be paid per Share pursuant to the Offer, Purchaser will pay such increased consideration for all such Shares purchased pursuant to the Offer, whether or not such Shares were tendered prior to such increase in consideration.

Purchaser reserves the right to transfer or assign, in whole at any time, or in part from time to time, to Parent or one or more direct or indirect wholly owned subsidiaries of Parent, the right to purchase all or any portion of the Shares tendered pursuant to the Offer, provided that any such transfer or assignment will not relieve Purchaser of its obligations under the Offer and will in no way prejudice the rights of tendering shareholders to receive payment for Shares validly tendered and accepted for payment pursuant to the Offer.

3. PROCEDURES FOR TENDERING SHARES.

Valid Tender of Shares. In order for Shares to be validly tendered pursuant to the Offer, the Letter of Transmittal (or facsimile thereof), properly completed and duly executed, with any required signature guarantees, or an Agent's Message (in the case of any book-entry transfer) and any other required documents,

must be received by the Depositary at one of its addresses set forth on the back cover of this Offer to Purchase prior to the Expiration Date and either (i) the Share Certificates evidencing tendered Shares must be received by the Depositary at one of such addresses or Shares must be tendered pursuant to the procedure for book-entry transfer described below and a Book-Entry Confirmation must be received by the Depositary, in each case prior to the Expiration Date, or (ii) the tendering shareholder must comply with the guaranteed delivery procedures described below.

THE METHOD OF DELIVERY OF SHARE CERTIFICATES AND ALL OTHER REQUIRED DOCUMENTS, INCLUDING DELIVERY THROUGH ANY BOOK-ENTRY TRANSFER FACILITY, IS AT THE OPTION AND RISK OF THE TENDERING SHAREHOLDER, AND THE DELIVERY WILL BE DEEMED MADE ONLY WHEN ACTUALLY RECEIVED BY THE DEPOSITARY. IF DELIVERY IS BY MAIL, REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, PROPERLY INSURED, IS RECOMMENDED. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ENSURE TIMELY DELIVERY.

Book-Entry Transfer. The Depositary will establish an account with respect to the Shares at each Book-Entry Transfer Facility for purposes of the Offer within two business days after the date of this Offer to Purchase, and any financial institution that is a participant in either of the Book-Entry Transfer Facilities' systems may make book-entry delivery of Shares by causing a Book-Entry Transfer Facility to transfer such Shares into the Depositary's account at a Book-Entry Transfer Facility in accordance with such Book-Entry Transfer Facility's procedures for transfer. However, although delivery of Shares may be effected through book-entry transfer at a Book-Entry Transfer Facility, the Letter of Transmittal (or facsimile thereof), properly completed and duly executed, with any required signature guarantees, or an Agent's Message in connection with a book-entry delivery of Shares, and any other required documents must, in any case, be transmitted to and received by the Depositary at one of its addresses set forth on the back cover of this Offer to Purchase prior to the Expiration Date or the tendering shareholder must comply with the guaranteed delivery procedures described below. DELIVERY OF DOCUMENTS TO A BOOK-ENTRY TRANSFER FACILITY IN ACCORDANCE WITH SUCH BOOK-ENTRY TRANSFER FACILITY'S PROCEDURES DOES NOT CONSTITUTE DELIVERY TO THE DEPOSITARY.

Signature Guarantee. Signatures on all Letters of Transmittal must be guaranteed by a firm which is a bank, broker, dealer, credit union, savings association or other entity that is a member in good standing of the Securities Transfer Agents Medallion Program (each, an "Eligible Institution"), unless the Shares tendered thereby are tendered (i) by a registered holder of Shares who has not completed either the box entitled "Special Delivery Instructions" or the box entitled "Special Payment Instructions" on the Letter of Transmittal or (ii) for the account of an Eligible Institution. See Instruction 1 of the Letter of Transmittal.

If a Share Certificate is registered in the name of a person other than the signer of the Letter of Transmittal, or if payment is to be made, or a Share Certificate not accepted for payment or not tendered is to be returned, to a person other than the registered holder(s), then the Share Certificate must be endorsed or accompanied by appropriate stock powers, in either case signed exactly as the name(s) of the registered holder(s) appear on the Share Certificate, with the signature(s) on such Share Certificate or stock powers guaranteed as described above. See Instructions 1 and 5 of the Letter of Transmittal.

Guaranteed Delivery. If a shareholder desires to tender Shares pursuant to the Offer and such shareholder's Share Certificates are not immediately available or time will not permit all required documents to reach the Depositary prior to the Expiration Date or the procedure for book-entry transfer cannot be completed on a timely basis, such Shares may nevertheless be tendered if all the following conditions are satisfied:

- (i) the tender is made by or through an Eligible Institution;
- (ii) a properly completed and duly executed Notice of Guaranteed Delivery, substantially in the form provided by Purchaser herewith, is received by the Depositary as provided below prior to the Expiration Date; and

(iii) in the case of a guarantee of Shares, the Share Certificates for all tendered Shares, in proper form for transfer, or a Book-Entry Confirmation, together with a properly completed and duly executed Letter of Transmittal (or manually signed facsimile thereof) with any required signature guarantee (or, in the case of a book-entry transfer, an Agent's Message) and any other documents required by such Letter of Transmittal, are received by the Depositary within three NYSE trading days after the date of execution of the Notice of Guaranteed Delivery.

Any Notice of Guaranteed Delivery may be delivered by hand or transmitted by telegram, facsimile transmission or mail to the Depositary and must include a guarantee by an Eligible Institution in the form set forth in the Notice of Guaranteed Delivery.

Notwithstanding any other provision hereof, payment for Shares purchased pursuant to the Offer will, in all cases, be made only after timely receipt by the Depositary of (i) the Share Certificates evidencing such Shares, or a Book-Entry Confirmation of the delivery of such Shares, if available, (ii) a properly completed and duly executed Letter of Transmittal (or manually signed facsimile thereof) (or in the case of a book-entry transfer, an Agent's Message) and (iii) any other documents required by the Letter of Transmittal.

Distribution of Rights. Holders of Shares will be required to tender one Right for each Share tendered to effect a valid tender of such Share. Unless and until the Distribution Date (as defined in Section 8 below) occurs, the Rights are represented by and transferred with the Shares. Accordingly, if the Distribution Date does not occur prior to the Expiration Date of the Offer, a tender of Shares will constitute a tender of the associated Rights. If a Distribution Date has occurred, certificates representing a number of Rights equal to the number of Shares being tendered must be delivered to the Depositary in order for such Shares to be validly tendered. If a Distribution Date has occurred, a tender of Shares without Rights constitutes an agreement by the tendering shareholder to deliver certificates representing a number of Rights equal to the number of Shares tendered pursuant to the Offer to the Depositary within three NYSE trading days after the date such certificates are distributed. Purchaser reserves the right to require that it receive such certificates prior to accepting Shares for payment. Payment for Shares tendered and purchased pursuant to the Offer will be made only after timely receipt by the Depositary of, among other things, such certificates, if such certificates have been distributed to holders of Shares. Purchaser will not pay any additional consideration for the Rights tendered pursuant to the Offer.

Determination of Validity. All questions as to the validity, form, eligibility (including time of receipt) and acceptance for payment of any tendered Shares pursuant to any of the procedures described above will be determined by Purchaser in its sole discretion, whose determination will be final and binding on all parties. Purchaser reserves the absolute right to reject any or all tenders of any Shares determined by it not to be in proper form or if the acceptance for payment of, or payment for, such Shares may, in the opinion of Purchaser's counsel, be unlawful. Purchaser also reserves the absolute right, in its sole discretion, to waive any of the conditions of the Offer (subject to the terms of the Merger Agreement) or any defect or irregularity in any tender with respect to Shares of any particular shareholder, whether or not similar defects or irregularities are waived in the case of other shareholders. No tender of Shares will be deemed to have been validly made until all defects and irregularities have been cured or waived.

Purchaser's interpretation of the terms and conditions of the Offer (including the Letter of Transmittal and the instructions thereto) will be final and binding. None of Parent, Purchaser, the Company, the Depositary, the Information Agent or any other person will be under any duty to give notification of any defects or irregularities in tenders or will incur any liability for failure to give any such notification.

Appointment as Proxy. By executing a Letter of Transmittal as set forth above, a tendering shareholder irrevocably appoints designees of Purchaser as such shareholder's proxies, each with full power of substitution, to the full extent of such shareholder's rights with respect to the Shares tendered by such shareholder and accepted for payment by Purchaser (and any and all noncash dividends, distributions, rights, other Shares, or other securities issued or issuable in respect of such Shares on or after the date of the Merger Agreement). All such proxies shall be considered coupled with an interest in the tendered Shares. This appointment will be effective if, when, and only to the extent that, Purchaser accepts such Shares for payment pursuant to the Offer. Upon such acceptance for payment, all prior proxies given by such shareholder with respect to such

Shares and other securities will, without further action, be revoked, and no subsequent proxies may be given. The designees of Purchaser will, with respect to the Shares and other securities for which the appointment is effective, be empowered (subject to the Voting Trust so long as it shall be in effect with respect to the Shares) to exercise all voting and other rights of such shareholder as they in their sole discretion may deem proper at any annual, special, adjourned or postponed meeting of the Company's shareholders, by written consent or otherwise, and Purchaser reserves the right to require that, in order for Shares or other securities to be deemed validly tendered, immediately upon Purchaser's acceptance for payment of such Shares, Purchaser (including through the Voting Trust) must be able to exercise full voting rights with respect to such Shares.

TO PREVENT BACKUP FEDERAL INCOME TAX WITHHOLDING WITH RESPECT TO PAYMENT TO CERTAIN SHAREHOLDERS OF THE PURCHASE PRICE FOR SHARES PURCHASED PURSUANT TO THE OFFER, EACH SUCH SHAREHOLDER MUST PROVIDE THE DEPOSITARY WITH SUCH SHAREHOLDER'S CORRECT TAXPAYER IDENTIFICATION NUMBER AND CERTIFY THAT SUCH SHAREHOLDER IS NOT SUBJECT TO BACKUP FEDERAL INCOME TAX WITHHOLDING BY COMPLETING THE SUBSTITUTE FORM W-9 IN THE LETTER OF TRANSMITTAL. IF BACKUP WITHHOLDING APPLIES WITH RESPECT TO A SHAREHOLDER, THE DEPOSITARY IS REQUIRED TO WITHHOLD 31% OF ANY PAYMENTS MADE TO SUCH SHAREHOLDER. SEE INSTRUCTION 9 OF THE LETTER OF TRANSMITTAL.

ESOP Preferred Shares. According to documents filed by the Company with the SEC, all outstanding ESOP Preferred Shares are owned of record by the ESOP Trustee and, accordingly, only the ESOP Trustee can effect a valid tender of such shares. The ESOP Trustee is required to request instructions from each participant in the ESOP as to whether ESOP Preferred Shares allocated to such participant's account should be tendered pursuant to the Offer, and to tender such shares in accordance with such instructions. Pursuant to the organizational documents of the ESOP, the ESOP Trustee may not tender allocated ESOP Preferred Shares as to which no instructions are received. Unallocated shares are required to be tendered or not tendered in the same proportion as allocated shares for which instructions from participants are received.

Purchaser's acceptance for payment of Shares tendered pursuant to the Offer will constitute a binding agreement between the tendering shareholder and Purchaser upon the terms and subject to the conditions of the Offer.

4. WITHDRAWAL RIGHTS. Tenders of Shares made pursuant to the Offer are irrevocable except that such Shares may be withdrawn at any time prior to the Expiration Date and, unless theretofore accepted for payment by Purchaser pursuant to the Offer, may also be withdrawn at any time after December 14, 1996.

If Purchaser extends the Offer, is delayed in its acceptance for payment of Shares or is unable to accept Shares for payment pursuant to the Offer for any reason, then, without prejudice to Purchaser's rights under the Offer, the Depositary may, nevertheless, on behalf of Purchaser, retain tendered Shares, and such Shares may not be withdrawn except to the extent that tendering shareholders are entitled to withdrawal rights as described in this Section 4. Any such delay will be by an extension of the Offer to the extent required by law.

For a withdrawal to be effective, a written, telegraphic or facsimile transmission notice of withdrawal must be timely received by the Depositary at one of its addresses set forth on the back cover of this Offer to Purchase. Any such notice of withdrawal must specify the name of the person who tendered the Shares to be withdrawn, the number of Shares to be withdrawn and the name of the registered holder, if different from that of the person who tendered such Shares. If Share Certificates evidencing Shares to be withdrawn have been delivered or otherwise identified to the Depositary, then, prior to the physical release of such Share Certificates, the serial numbers shown on such Share Certificates must be submitted to the Depositary and the signature(s) on the notice of withdrawal must be guaranteed by an Eligible Institution, unless such Shares have been tendered for the account of an Eligible Institution. If Shares have been tendered pursuant to the procedure for book-entry transfer as set forth in Section 3, any notice of withdrawal must also specify the name and number of the account at the Book-Entry Transfer Facility to be credited with the withdrawn Shares.

All questions as to the form and validity (including time of receipt) of notices of withdrawal will be determined by Purchaser, in its sole discretion, whose determination will be final and binding. None of Parent, Purchaser, the Company, the Depositary, the Information Agent or any other person will be under any duty to give notification of any defects or irregularities in any notice of withdrawal or incur any liability for failure to give any such notification.

Any Shares properly withdrawn will thereafter be deemed not to have been validly tendered for purposes of the Offer. However, withdrawn Shares may be retendered at any time prior to the Expiration Date by following the procedures described in Section 3.

5. CERTAIN FEDERAL INCOME TAX CONSEQUENCES. The following discussion is a summary of the material federal income tax consequences of the Offer and Merger to holders of Shares who hold the Shares as capital assets. The discussion set forth below is for general information only and may not apply to certain categories of holders of Shares subject to special treatment under the Internal Revenue Code of 1986, as amended (the "Code"), such as foreign holders and holders who acquired such Shares pursuant to the exercise of employee stock options or otherwise as compensation. This summary is based upon laws, regulations, rulings and decisions currently in effect, all of which are subject to change, retroactively or prospectively, and to possibly differing interpretations.

Tax Consequences of the Offer and the Merger Generally. It is unclear whether the Offer and the Merger should be treated as a single integrated transaction for federal income tax purposes. If the Offer and the Merger are so treated and the Merger is in the form of a merger of the Company into Purchaser, the Offer and the Merger should, in the aggregate, qualify as a reorganization pursuant to Sections 368(a)(1)(A) and 368(a)(2)(D) of the Code. In such event, generally (i) no gain or loss will be recognized by Parent, Purchaser or the Company pursuant to the Offer and the Merger, (ii) gain or loss will be recognized by a shareholder of the Company who receives solely cash in exchange for Shares pursuant to the Offer and/or the Merger, (iii) no gain or loss will be recognized by a shareholder of the Company who does not exchange any Shares pursuant to the Offer and who receives solely Parent Common Stock in exchange for Shares pursuant to the Merger, and (iv) a shareholder of the Company who receives a combination of cash and Parent Common Stock in exchange for such shareholder's Shares, pursuant to the Offer and/or the Merger, will not recognize loss but will recognize gain, if any, to the extent of the lesser of (i) the cash received and (ii) the excess of the sum of the fair market value of the Parent Common Stock and the amount of cash received over a shareholder's tax basis in the Shares exchanged. If so integrated, the federal income tax consequences to a shareholder may be, depending on such shareholder's particular circumstances, less favorable than the federal income tax consequences to such shareholder if the Offer and the Merger are not treated as integrated. Although it is currently anticipated that counsel to the Company and Parent will each render an opinion that the Merger constitutes a reorganization within the meaning of Section 368 of the Code, in the event that counsel to the Company or Parent is unable to render such opinion either because (1) the amount of cash received in the Offer, as a percentage of the total consideration received by holders of Common Shares and ESOP Preferred Shares, will be an amount that does not satisfy certain "continuity of shareholder interests" requirements or (2) for any other reason, then, pursuant to the Merger Agreement the form of the Merger will be changed to a merger of Purchaser into the Company. In such case the Offer and the Merger will not constitute a reorganization, and will be taxable to shareholders of the Company who will recognize gain or loss equal to the difference between the fair market value of the Parent Common Stock and cash received and the shareholder's tax basis in the Shares exchanged.

If the Offer and the Merger were not treated as a single integrated transaction for federal income tax purposes, the receipt of cash pursuant to the Offer would be a sale or exchange, while the Merger should still qualify as a reorganization pursuant to Sections 368(a)(1)(A) and 368(a)(2)(D) of the Code, if the Merger is in the form of the Company into Purchaser.

TAX CONSEQUENCES IF THE OFFER AND THE MERGER ARE TREATED AS A SINGLE INTEGRATED TRANSACTION
AND AS A REORGANIZATION

Exchange of Shares Solely for Cash. In general, a shareholder of the Company who, pursuant to the Offer and/or the Merger, exchanges all of the Shares actually and constructively owned by such shareholder solely for cash will recognize capital gain or loss equal to the difference between the amount of cash received and such shareholder's adjusted tax basis in the Shares surrendered. The gain or loss will be long-term capital gain or loss if, as of the date of the exchange, the holder thereof has held such Shares for more than one year. Gain or loss will be calculated separately for each identifiable block of Shares surrendered pursuant to the Offer and/ or the Merger.

Exchange of Shares Solely for Parent Common Stock. A shareholder of the Company who, pursuant to the Merger, exchanges all of the Shares actually owned by such shareholder solely for shares of Parent Common Stock (and who did not exchange any Shares for cash in the Offer) will not recognize any gain or loss upon such exchange. Such shareholder may recognize gain or loss, however, to the extent cash is received in lieu of a fractional share of Parent Common Stock, as discussed below. The aggregate adjusted tax basis of the shares of Parent Common Stock received in such exchange will be equal to the aggregate adjusted tax basis of the Shares surrendered therefor, and the holding period of Parent Common Stock will include the period during which the Shares surrendered in exchange therefor were held.

Exchange of Shares for Parent Common Stock and Cash. A shareholder of the Company who, pursuant to the Offer and/or the Merger, exchanges all of the Shares actually owned by such shareholder for a combination of shares of Parent Common Stock and cash will not recognize any loss on such exchange. Such shareholder will realize gain equal to the excess, if any, of the cash and the aggregate fair market value of Parent Common Stock received pursuant to the Offer and/or the Merger over such shareholder's adjusted tax basis in the Shares exchanged therefor, but will recognize any realized gain only to the extent of the cash received.

Any gain recognized by a shareholder of the Company who receives a combination of Parent Common Stock and cash pursuant to the Offer and/or the Merger will be treated as capital gain unless the receipt of the cash has the effect of the distribution of a dividend for federal income tax purposes, in which case such recognized gain will be treated as ordinary dividend income to the extent of such shareholder's ratable share of the Company's accumulated earnings and profits.

For purposes of determining whether the cash received pursuant to the Offer and/or the Merger will be treated as a dividend for federal income tax purposes, a shareholder of the Company will be treated as if such shareholder first exchanged all of such shareholder's Shares solely for Parent Common Stock and then Parent immediately redeemed a portion of such Parent Common Stock in exchange for the cash such shareholder actually received.

In general, the determination as to whether the cash received will be treated as received pursuant to a sale or exchange (generating capital gain) or a dividend distribution (generating ordinary income) depends upon whether and to what extent there is a reduction in the shareholder's deemed percentage stock ownership of Parent. A shareholder of the Company who exchanges such shareholder's Shares for a combination of Parent Common Stock and cash will recognize capital gain rather than dividend income if the deemed redemption by Parent (described in the preceding paragraph) is "not essentially equivalent to a dividend" or is "substantially disproportionate" with respect to such shareholder.

Whether the deemed exchange and subsequent redemption transaction are "not essentially equivalent to a dividend" with respect to a Company shareholder will depend upon such shareholder's particular circumstances. In order to reach such conclusion, it must be determined that the transaction results in a "meaningful reduction" in such Company shareholder's deemed percentage stock ownership of Parent. In determining whether a reduction in a Company shareholder's deemed percentage stock ownership has occurred, (i) the percentage of the outstanding stock of Parent that such Company shareholder is deemed actually and constructively to have owned immediately before the deemed redemption by Parent should be compared to (ii) the percentage of the outstanding stock of Parent actually and constructively owned by such

shareholder immediately after the deemed redemption by Parent as a result of the Offer, Merger or otherwise. The relevant constructive ownership rules treat shareholders as owning stock held indirectly (through partnerships, estates, trusts and corporations) and, under certain circumstances, treat persons as owning stock owned by their partners, beneficiaries and shareholders. Shareholders will also be treated as owning stock that could be acquired by virtue of the exercise of any option to acquire stock, and individual shareholders are treated as owning any stock owned by their family.

A Company shareholder will comply with the "substantially disproportionate" rule if the percentage described in (ii) above is less than 80 percent of the percentage described in (i) above. Even if a Company shareholder does not qualify under such test, the Internal Revenue Service has ruled that a minority shareholder in a publicly held corporation whose relative stock interest is minimal and who exercises no control with respect to corporate affairs is considered to have a "meaningful reduction" if such shareholder has a reduction in such shareholder's percentage stock ownership. In most circumstances, therefore, gain recognized by a shareholder of the Company who exchanges such shareholder's Shares for a combination of Parent Common Stock and cash will be capital gain, which will constitute long-term capital gain if the holding period for such Shares was greater than one year as of the date of the exchange.

The aggregate tax basis of Parent Common Stock received by a Company shareholder who, pursuant to the Offer and/or the Merger, exchanges such shareholder's Shares for a combination of Parent Common Stock and cash will be the same as the aggregate tax basis of the Shares surrendered therefor, decreased by the cash received and increased by the amount of gain recognized, if any (including any portion of such gain that is treated as a dividend). The holding period of Parent Common Stock will include the holding period of the Shares surrendered therefor.

Cash Received in Lieu of a Fractional Interest of Parent Common Stock. Cash received in lieu of a fractional share of Parent Common Stock will generally (subject to the discussion above) be treated as received in redemption of such fractional interest and gain or loss will be recognized, measured by the difference between the amount of cash received and the portion of the basis of the Shares allocable to such fractional interest. Such gain or loss will constitute capital gain or loss, and will generally be long-term capital gain or loss if the holding period for such Shares was greater than one year as of the date of the exchange.

TAX CONSEQUENCES IF THE OFFER AND THE MERGER ARE TREATED AS SEPARATE TRANSACTIONS AND THE MERGER IS TREATED AS A REORGANIZATION

If the Offer and the Merger were treated as separate transactions for federal income tax purposes, the receipt of cash pursuant to the Offer would be a taxable transaction, while the Merger should still qualify as a reorganization pursuant to Sections 368(a)(1)(A) and 368(a)(2)(D) of the Code, if the Merger is a merger of the Company into Purchaser. Accordingly, a shareholder of the Company who receives cash pursuant to the Offer would recognize gain or loss equal to the difference between the amount of cash received and the shareholder's adjusted tax basis in the Shares surrendered. The gain or loss would be long-term capital gain or loss if, as of the date of the exchange, such shareholder had held such stock for more than one year.

A shareholder of the Company who receives Parent Common Stock and/or cash pursuant to the Merger would be subject to the federal income tax rules concerning reorganizations discussed above under "Tax Consequences if the Offer and the Merger are Treated as a Single Integrated Transaction" (but without regard to the cash received, and Shares exchanged, in the Offer).

TAX CONSEQUENCES IF FORM OF MERGER IS A MERGER OF PURCHASER INTO THE COMPANY

If counsel to Parent or the Company are unable to render opinions that such transaction would constitute a reorganization within the meaning of Section 368 of the Code because the "continuity of shareholder interests" requirements would not be met or for any such reason, the Merger will be changed in form to a merger of Purchaser into the Company (the "Reverse Merger"). In such a case, the transaction would not constitute a reorganization within the meaning of Section 368 of the Code. This result would occur if the value of the Parent Common Stock at the time of the Merger had declined significantly in value from its value as of the date hereof.

In the event of a Reverse Merger, a shareholder would recognize gain or loss equal to the fair market value of the Parent Common Stock and cash received over the shareholder's tax basis in the Shares exchanged, calculated separately as to each block of Shares exchanged. The character of such gain or loss would be determined as described above.

WITHHOLDING

Unless a shareholder complies with certain reporting and/or certification procedures or is an exempt recipient under applicable provisions of the Code and Treasury Regulations promulgated thereunder, such shareholder may be subject to withholding tax of 31% with respect to any cash payments received pursuant to the Offer and Merger. Shareholders should consult their brokers or the Depositary to ensure compliance with such procedures. Foreign shareholders should consult with their own tax advisors regarding withholding taxes in general.

THE ABOVE DISCUSSION MAY NOT APPLY TO CERTAIN CATEGORIES OF SHAREHOLDERS SUBJECT TO SPECIAL TREATMENT UNDER THE CODE, SUCH AS FOREIGN SHAREHOLDERS AND SHAREHOLDERS WHOSE SHARES WERE ACQUIRED PURSUANT TO THE EXERCISE OF AN EMPLOYEE STOCK OPTION OR OTHERWISE AS COMPENSATION. SHAREHOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS TO DETERMINE THE SPECIFIC TAX CONSEQUENCES OF THE OFFER AND THE MERGER, INCLUDING ANY FEDERAL, STATE, LOCAL OR OTHER TAX CONSEQUENCES (INCLUDING ANY TAX RETURN FILING OR OTHER TAX REPORTING REQUIREMENTS) OF THE OFFER AND THE MERGER.

6. PRICE RANGE OF SHARES; DIVIDENDS. According to the Company's Annual Report on Form 10-K for the year ended December 31, 1995 (the "Company Form 10-K"), the Common Shares are listed and principally traded on the NYSE, and are also listed and traded on the Philadelphia Stock Exchange, and quoted under the symbol "CRR". The following table sets forth, for the quarters indicated, the high and low sales prices per Common Share on the NYSE and the amount of cash dividends paid per Common Share, as reported in the Company Form 10-K for periods in 1994 and 1995, and as reported by published financial sources with respect to periods in 1996:

	HIGH	LOW	CASH DIVIDENDS
YEAR ENDED DECEMBER 31, 1994:			
First Quarter.....	\$69 1/4	\$56 1/2	\$.325
Second Quarter.....	59 1/8	50 3/8	.325
Third Quarter.....	58 1/8	48 3/8	.375
Fourth Quarter.....	55 1/4	48 1/8	.375
YEAR ENDED DECEMBER 31, 1995:			
First Quarter.....	57 5/8	50 1/2	.375
Second Quarter.....	56 1/4	51 1/8	.375
Third Quarter.....	70 1/4	55 1/8	.425
Fourth Quarter.....	74 3/8	65 1/2	.425
YEAR ENDED DECEMBER 31, 1996:			
First Quarter.....	77 1/4	67 5/8	.425
Second Quarter.....	73	66 1/4	.425
Third Quarter.....	74 5/8	63 3/4	.475
Fourth Quarter (through October 15, 1996).....	88	68 1/2	N.A.

On October 14, 1996, the last trading day prior to the date of the public announcement of the execution of the Merger Agreement, the reported closing sales price of the Common Shares on the NYSE Composite Tape was \$71 per Share. On October 15, 1996, the last full trading day prior to the date of this Offer to Purchase, the reported closing sales price of the Common Shares on the NYSE Composite Tape was \$85 1/8 per Common Share. SHAREHOLDERS ARE URGED TO OBTAIN A CURRENT MARKET QUOTATION FOR THE COMMON SHARES.

All of the outstanding ESOP Preferred Shares are held of record by the ESOP Trustee. There is no trading market for the ESOP Preferred Shares. Since issuance of the ESOP Preferred Shares, the Company has paid quarterly cash dividends on the ESOP Preferred Shares of \$5.4125 per share. Each ESOP Preferred Share is convertible under certain circumstances into one Common Share.

7. EFFECT OF THE OFFER ON THE MARKET FOR THE COMMON SHARES; EXCHANGE LISTING AND EXCHANGE ACT REGISTRATION; MARGIN REGULATIONS. The purchase of Common Shares pursuant to the Offer will reduce the number of Common Shares that might otherwise trade publicly and could reduce the number of holders of Common Shares, which could adversely affect the liquidity and market value of the remaining Common Shares held by the public. Following the Offer, a large percentage of the outstanding Common Shares will be owned by Purchaser.

According to the NYSE's published guidelines, the NYSE would consider delisting the Common Shares if, among other things, the number of record holders of at least 100 Common Shares should fall below 1,200, the number of publicly held Common Shares (exclusive of holdings of officers, directors and their families and other concentrated holdings of 10% or more ("NYSE Excluded Holdings")) should fall below 600,000 or the aggregate market value of publicly held Common Shares (exclusive of NYSE Excluded Holdings) should fall below \$5,000,000. If, as a result of the purchase of Common Shares pursuant to the Offer or otherwise, the Common Shares no longer meet the requirements of the NYSE for continued listing and the listing of the Common Shares is discontinued, the market for the Common Shares could be adversely affected.

If the NYSE were to delist the Common Shares, it is possible that the Common Shares would continue to trade on another securities exchange or in the over-the-counter market and that price or other quotations would be reported by such exchange or through the National Association of Securities Dealers Automated Quotation System ("NASDAQ") or other sources. The extent of the public market therefor and the availability of such quotations would depend, however, upon such factors as the number of shareholders and/or the aggregate market value of such securities remaining at such time, the interest in maintaining a market in the Shares on the part of securities firms, the possible termination of registration under the Exchange Act as described below and other factors. Purchaser cannot predict whether the reduction in the number of Common Shares that might otherwise trade publicly would have an adverse or beneficial effect on the market price for or marketability of the Common Shares or whether it would cause future market prices to be greater or less than the Offer Price.

The Common Shares are currently registered under the Exchange Act. Such registration may be terminated upon application by the Company to the SEC if the Common Shares are not listed on a national securities exchange and there are fewer than 300 record holders of the Common Shares. The termination of registration of the Common Shares under the Exchange Act would substantially reduce the information required to be furnished by the Company to holders of Common Shares and to the SEC and would make certain provisions of the Exchange Act, such as the short-swing profit recovery provisions of Section 16(b), the requirement of furnishing a proxy statement in connection with shareholders' meetings pursuant to Section 14(a), and the requirements of Rule 13e-3 under the Exchange Act with respect to "going private" transactions, no longer applicable to the Common Shares. In addition, "affiliates" of the Company and persons holding "restricted securities" of the Company may be deprived of the ability to dispose of such securities pursuant to Rule 144 promulgated under the Securities Act of 1933, as amended (the "Securities Act").

If registration of the Common Shares under the Exchange Act were terminated, the Common Shares would no longer be eligible for NASDAQ reporting.

8. CERTAIN INFORMATION CONCERNING THE COMPANY. Except as otherwise noted below, the information concerning the Company contained in this Offer to Purchase, including financial information, has been taken from or based upon the Company Form 10-K and other publicly available documents and records on file with the SEC and other public sources. Neither Parent nor Purchaser assumes any responsibility for the accuracy or completeness of the information concerning the Company contained in such documents and records or for any failure by the Company to disclose events which may have occurred or may affect the significance or accuracy of any such information but which are unknown to Parent or Purchaser.

The Company is a Pennsylvania corporation whose principal executive offices are located at 2001 Market Street, Two Commerce Square, Philadelphia, Pennsylvania 19101. Through its wholly-owned subsidiary, Consolidated Rail Corporation ("CRC"), a Pennsylvania corporation, the Company provides freight transportation services within the northeast and midwest United States. The Company interchanges freight with other United States and Canadian railroads for transport to destinations within and outside the Company's service region. As of December 31, 1995, CRC (excluding its subsidiaries) maintained 17,715 miles of track on its 10,701 mile route system. Of total route miles, 8,860 are owned, 100 are leased or operated under contract and 1,741 are operated under trackage rights, including approximately 300 miles operated pursuant to an easement over Amtrak's Northeast Corridor. Also as of December 31, 1995, the Company had (owned or subject to capital lease) 2,023 locomotives and 51,404 freight cars (including 21,948 subject to operating leases), excluding locomotives and freight cars held by subsidiaries other than CRC, which have an immaterial number of locomotives and freight cars. The Company operates no significant line of business other than the freight railroad business and does not provide common carrier passenger or commuter train service.

The Company serves a heavily industrial region that is marked by dense population centers which constitute a substantial market for consumer durable and non-durable goods, and a market for raw materials used in manufacturing and by electric utilities.

Financial Information. Set forth below is certain selected consolidated financial information relating to the Company and its subsidiaries which has been excerpted or derived from the financial statements contained in (i) the Company Form 10-K, (ii) the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1996 (the "Company Form 10-Q") and (iii) the Company's Annual Report on Form 10-K for the year ended December 31, 1994. More comprehensive financial information is included in the Company Form 10-K and the Company Form 10-Q and other documents filed by the Company with the SEC. The financial information that follows is qualified in its entirety by reference to the Company Form 10-K and the Company Form 10-Q and other documents, including the financial statements and related notes contained therein. The Company Form 10-K and the Company Form 10-Q and other documents may be examined and copies may be obtained from the offices of the SEC in the manner set forth below.

CONRAIL INC.

SELECTED CONSOLIDATED FINANCIAL INFORMATION
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,		
	1996	1995	1995	1994	1993
INCOME STATEMENT DATA:					
Revenues.....	\$1,838	\$1,812	\$3,686	\$3,733	\$3,453
Operating expenses.....	1,715	1,518	3,230	3,127	2,862
Operating income.....	123	294	456	606	591
Net income to common shareholders.....	57	178	264	324	160
INCOME PER COMMON SHARE INFORMATION:					
Net earnings per Common Share before the cumulative effect of changes in accounting principles					
Primary.....	\$ 0.66	\$ 2.17	\$ 3.19	\$ 3.90	\$ 2.74
Fully diluted.....	0.64	1.98	2.94	3.56	2.51
Net per Common Share cumulative effect of changes in accounting principles(1)					
Primary.....	--	--	--	--	(.92)
Fully diluted.....	--	--	--	--	(.81)
Net earnings per Common Share					
Primary.....	0.66	2.17	3.19	3.90	1.82
Fully diluted.....	0.64	1.98	2.94	3.56	1.70

	AT JUNE 30,		AT DECEMBER 31,		
	1996	1995	1995	1994	1993
BALANCE SHEET DATA:					
Current assets.....	\$1,223	\$1,124	\$1,206	\$1,125	\$1,062
Property and equipment (net).....	6,446	6,660	6,408	6,498	6,313
Total assets.....	8,341	8,609	8,424	8,322	7,948
Current liabilities.....	1,213	1,250	1,170	1,201	1,075
Long-term debt, excluding current portion.....	1,887	2,068	1,911	1,940	1,959
Total shareholders' equity.....	2,899	3,007	2,977	2,925	2,784

- (1) Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" and SFAS 109, "Accounting for Income Taxes."

The Company is subject to the information and reporting requirements of the Exchange Act and is required to file reports and other information with the SEC relating to its business, financial condition and other matters. Information, as of particular dates, concerning the Company's directors and officers, their remuneration, stock options granted to them, the principal holders of the Company's securities, any material interests of such persons in transactions with the Company and other matters is required to be disclosed in proxy statements distributed to the Company's shareholders and filed with the SEC. These reports, proxy statements and other information should be available for inspection at the public reference facilities of the SEC located in Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and also should be available for inspection and copying at prescribed rates at the following regional offices of the SEC: Seven World Trade Center, New York, New York 10048; and 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of this material may also be obtained by mail, upon payment of the SEC's customary fees, from the SEC's principal office at 450 Fifth Street, N.W., Washington, D.C. 20549. The SEC also maintains an Internet web site at <http://www.sec.gov> that contains reports, proxy statements and other information. Reports, proxy statements and other information concerning the Company should also be available for inspection at the offices of the NYSE, 20 Broad Street, New York, New York 10005.

Certain Projected Financial Information. In the course of its discussions with Parent described in Section 11, the Company provided Parent and its financial advisors with certain business and financial information which Parent believes was not publicly available. Such information included, among other things, certain financial projections for 1996 through 1999 (the "Company Projections") prepared by management of the Company as a long-range plan. The Company Projections do not take into account any of the potential effects of the transactions contemplated by the Offer and the Merger. The Company does not as a matter of course publicly disclose internal projections as to future revenues, earnings or financial condition.

The Company Projections indicated the following income statement and cash flow data: (i) projected net cash provided by operating activities for each of the years ended December 31, 1996 through December 31, 1999 were \$3,762 million, \$3,874 million, \$3,988 million and \$4,149 million, respectively; (ii) projected operating expenses for each of such years were \$2,987 million, \$3,026 million, \$3,043 million and \$3,112 million, respectively; (iii) projected operating income for each of such years was \$775 million, \$848 million, \$945 million and \$1,037 million, respectively; (iv) projected net income for each of such years was \$438 million, \$485 million, \$542 million and \$599 million, respectively; (v) projected net cash provided by operating activities for each of such years was \$855 million, \$822 million, \$890 million and \$975 million, respectively; (vi) projected capital expenditures for each of such years was \$492 million, \$510 million, \$550 million and \$550 million, respectively; (vii) projected net internally generated funds (defined as net cash provided by operating activities less capital expenditures) for each of such years were \$363 million, \$312 million, \$340 million and \$425 million, respectively; (viii) projected debt issuance net of debt retirement for each of such years was \$(49) million, \$7 million, \$(11) million and \$(85) million, respectively; and (ix) projected net change in cash for each of such years was \$43 million, \$0, \$0 and \$0, respectively.

In connection with the Company Projections, the Company also furnished Parent with projected balance sheets of the Company for the years 1996 through 1999. Such balance sheets projected total assets of the Company increasing from \$8,660 million in 1996 to \$9,656 million in 1999, total long-term debt (excluding

current portion) decreasing from \$1,862 million in 1996 to \$1,773 million in 1999 and total shareholders' equity increasing from \$3,057 million in 1996 to \$3,725 million in 1999.

THE COMPANY PROJECTIONS WERE NOT PREPARED WITH A VIEW TO PUBLIC DISCLOSURE OR COMPLIANCE WITH PUBLISHED GUIDELINES OF THE SEC OR THE GUIDELINES ESTABLISHED BY THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS. THE PROJECTIONS ARE INCLUDED IN THIS OFFER TO PURCHASE ONLY BECAUSE SUCH INFORMATION WAS PROVIDED TO PARENT. NONE OF PARENT, PURCHASER OR ANY PARTY TO WHOM THE PROJECTIONS WERE PROVIDED ASSUMES ANY RESPONSIBILITY FOR THE ACCURACY OF SUCH INFORMATION. WHILE PRESENTED WITH NUMERICAL SPECIFICITY, THESE PROJECTIONS ARE BASED UPON A VARIETY OF ASSUMPTIONS RELATING TO THE BUSINESSES OF THE COMPANY WHICH, THOUGH PARENT HAS BEEN ADVISED WERE CONSIDERED REASONABLE BY THE COMPANY AT THE TIME THEY WERE FURNISHED TO PARENT, MAY NOT BE REALIZED AND ARE SUBJECT TO SIGNIFICANT UNCERTAINTIES AND CONTINGENCIES, MANY OF WHICH ARE BEYOND THE CONTROL OF THE COMPANY. THERE CAN BE NO ASSURANCE THAT THE PROJECTIONS WILL BE REALIZED, AND ACTUAL RESULTS MAY VARY MATERIALLY FROM THOSE SHOWN. THE PROJECTIONS HAVE NOT BEEN EXAMINED OR COMPILED BY THE COMPANY'S INDEPENDENT PUBLIC ACCOUNTANTS. FOR THESE REASONS, AS WELL AS THE BASES ON WHICH SUCH PROJECTIONS WERE COMPILED, THERE CAN BE NO ASSURANCE THAT SUCH PROJECTIONS WILL BE REALIZED, OR THAT ACTUAL RESULTS WILL NOT BE HIGHER OR LOWER THAN THOSE ESTIMATED. THE INCLUSION OF SUCH PROJECTIONS HEREIN SHOULD NOT BE REGARDED AS AN INDICATION THAT PARENT, PURCHASER OR ANY OTHER PARTY WHO RECEIVED SUCH INFORMATION CONSIDERS IT AN ACCURATE PREDICTION OF FUTURE EVENTS.

Certain Operating Relationships. Various subsidiaries of each of Parent, on the one hand, and the Company, on the other hand, have operating relationships with each other. Approximately 6%, 6%, and 7% of the Company's total loads in 1993, 1994 and 1995, respectively, were interchanged with Parent. Major interchange locations between Parent and the Company include Cincinnati, Ohio; Alexandria, Virginia; Philadelphia, Pennsylvania; and Toledo, Ohio.

In connection with interchanges, either or both railroads of Parent and the Company may be the party billing the shipper of such interchange freight, and in cases where one of the parties bills for the entire shipment, such party will periodically remit to the other party the net amount of the proceeds due to such other carrier in accordance with standard industry practice. In addition, Parent and the Company often, together with other railroads, cooperate in terminal switching operations at certain major locations including Chicago, Illinois and East St. Louis, Illinois. Parent and the Company also have proprietary interests in various terminal companies in their service territories, including the Belt Railway of Chicago and The Lakefront Dock, Railroad Terminal Company.

In addition to the foregoing, Parent and the Company are parties to various trackage rights agreements pursuant to which each carrier operates over the other carrier's track.

The Rights. The following is based upon the Form 8-K dated July 31, 1989 filed by CRC, which is the Company's current operating subsidiary and which prior to the Company's adoption of the holding company structure on February 17, 1993 operated on a stand alone basis (the "July 1989 Form 8-K"), the Company's Form 8-B dated as of September 25, 1995 and other amendments to the Rights Agreement filed with the SEC.

On July 19, 1989, the Board of Directors of CRC declared a dividend distribution of one Common Stock Purchase Right (a "Right") for each share of common stock of CRC and executed the Rights Agreement. Upon adoption by the Company of a holding company structure on February 17, 1993, CRC assigned all of CRC's title and interest under the Rights Agreement, as amended, to the Company (the "Assignment"). On October 2, 1995, one Right was distributed with respect to each outstanding ESOP Preferred Share. Under

the Rights Agreement, as amended, each Right entitles the holder to purchase one Common Share at an exercise price of \$205.00, subject to adjustment.

Under the Rights Agreement, as amended, until the close of business on the Distribution Date (which is defined as the earlier of (i) 10 days following a public announcement that a person or group of affiliated or associated persons (the "Acquiring Person") has acquired, or obtained the right to acquire, beneficial ownership of 10% or more of the outstanding Shares and (ii) 10 business days (or such later date as the Board of Directors of the Company shall determine) following the commencement of a tender offer or exchange offer which would result in a person or group beneficially owning 10% or more of the outstanding Shares), the Rights will be evidenced by the Share Certificates and will be transferred with and only with such share certificates. As soon as practicable after the Distribution Date, Rights Certificates will be mailed to holders of record of the Shares as of the close of business on the Distribution Date, and thereafter the separate Rights Certificates alone will evidence the Rights.

The Rights are not exercisable until the Distribution Date. The Rights will expire at the close of business on July 19, 1999 unless earlier redeemed by the Company as described below.

In the event that the Company is acquired in a merger or consolidation in which the Company is not the surviving corporation or 50% or more of the Company's consolidated assets or earning power is sold or transferred, each holder of a Right will thereafter have the right to receive, upon the exercise thereof at then current exercise price of the Right, that number of shares of common stock of the acquiring company which at the time of such transaction will have a value equal to two times the exercise price of the Right.

In the event that an Acquiring Person becomes the beneficial owner of 10% or more of the outstanding Shares, each holder of a Right will thereafter have the right to receive, upon exercise, Common Shares (or, in certain circumstances, cash, property or other securities of the Company), having a value equal to two times the exercise price of the Right.

At any time prior to the announcement by the Company or an Acquiring Person that an Acquiring Person has become such, the Company may redeem the Rights in whole, but not in part, at a price of \$.01 per Right (the "Redemption Price"). Immediately upon the action of the Board of Directors of the Company ordering redemption of the Rights, the Rights will terminate, and the only right to which the holders of Rights will be entitled will be the right to receive the Redemption Price.

Until a Right is exercised, the holder thereof, as such, will have no rights as a shareholder of the Company, including without limitation, the right to vote or to receive dividends.

The terms of the Rights may be amended by the Board of Directors of the Company without the consent of the holders of the Rights in order to cure any ambiguity, to correct or supplement any provision which is defective or inconsistent with other provisions, or to make any other provision with respect to the Rights which the Company may deem desirable; provided that from and after such time an Acquiring Person becomes such, the Rights may not be amended in any manner which would adversely affect the interests of holders of Rights.

The foregoing summary of the Rights Agreement does not purport to be complete and is qualified in its entirety by reference to the July 1989 Form 8-K, the text of the Rights Agreement as an exhibit thereto filed with the SEC, the Assignment, and subsequent amendments to the Rights Agreement as filed with the SEC. Copies of these documents may be obtained in the manner set forth above.

In conjunction with the execution of the Merger Agreement, the Board of Directors of the Company amended the Rights Agreement to (i) render the Rights Agreement inapplicable to the Merger and the other transactions contemplated by the Merger Agreement and the Company Stock Option Agreement and (ii) ensure that (a) neither Parent nor any of its wholly owned subsidiaries is an Acquiring Person pursuant to the Rights Agreement and (b) a Shares Acquisition Date, Distribution Date or Trigger Event (in each case as defined in the Rights Agreement) does not occur by reason of the approval, execution or delivery of the Merger Agreement and the Company Stock Option Agreement, the consummation of the Merger, or the other transactions contemplated by the Merger Agreement or the Company Stock Option Agreement and the Rights Agreement may not be further amended by the Company without the prior consent of Parent in its sole

discretion. The Company has also agreed to take any further action necessary to render the Rights Agreement inapplicable to the Transactions.

Shareholders are required to tender one associated Right for each Share tendered in order to effect a valid tender of such Share. If the Distribution Date does not occur prior to the Expiration Date, a tender of Shares will automatically constitute a tender of the associated Rights. See Section 3.

9. CERTAIN INFORMATION CONCERNING PURCHASER AND PARENT.

Purchaser. Purchaser is a Pennsylvania corporation organized in October 1996 and has not carried on any significant activities other than activities undertaken in connection with the Offer and the Merger. The principal offices of Purchaser are located at One James Center, 901 East Cary Street, Richmond, Virginia 23219. Purchaser is a wholly owned subsidiary of Parent. Until immediately prior to the time that Purchaser will purchase Shares pursuant to the Offer, it is not expected that Purchaser will have any significant assets or liabilities or engage in activities other than those incident to the transactions contemplated by the Offer and the Merger.

Parent. Parent is a Virginia corporation with its principal executive offices located at One James Center, 901 East Cary Street, Richmond, Virginia 23219.

Parent provides rail, intermodal, ocean container-shipping, barging, trucking, and contract logistics services worldwide. Through its subsidiary CSX Transportation ("CSXT"), Parent provides rail freight transportation and distribution services over approximately 18,500 route miles in 20 states in the United States east, midwest and south; and in Ontario, Canada. CSXT interchanges freight with western railroads at key gateways in Chicago, East St. Louis, Memphis and New Orleans. CSXT's service territory includes 26 port cities for international transport. In 1995, the principal commodities hauled by CSXT were coal, chemicals, automotive parts, finished vehicles, agricultural products, forest products (including paper, paper products, and lumber products), minerals, fertilizers, and metals.

Parent also transports freight through subsidiaries conducting container-shipping, intermodal, and barge operations. Its subsidiary, Sea-Land Service Inc. ("Sea-Land"), is the largest container-shipping line in the United States and one of the three largest container-shipping companies in the world. Sea-Land operates more than 100 container ships and nearly 200,000 containers throughout the world. Parent's subsidiary, American Commercial Lines Inc., is the largest and most diversified barge transportation firm in both North and South America. CSX Intermodal provides shippers with nationwide intermodal service for moving domestic and international freight in trailers, domestic containers and international steamship containers, often in close alignment with CSXT and Sea-Land.

Parent is subject to the information and reporting requirements of the Exchange Act and is required to file reports and other information with the SEC relating to its business, financial condition and other matters. Information, as of particular dates, concerning Parent's directors and officers, their remuneration, stock options granted to them, the principal holders of Parent's securities, any material interests of such persons in transactions with Parent and other matters is required to be disclosed in proxy statements distributed to Parent's shareholders and filed with the SEC. These reports, proxy statements and other information should be available for inspection and copies may be obtained in the same manner as set forth for the Company in Section 8. The shares of Parent common stock are listed on the NYSE, and reports, proxy statements and other information concerning Parent should also be available for inspection at the offices of the NYSE, 20 Broad Street, New York, New York 10005.

The name, citizenship, business address, principal occupation or employment and five-year employment history for each of the directors and executive officers of Parent and Purchaser are set forth in Schedule I hereto.

Except as set forth in this Offer to Purchase, neither Parent nor Purchaser, nor, to the best knowledge of Parent or Purchaser, any of the persons listed in Schedule I hereto, or any associate or majority-owned subsidiary of such persons, beneficially owns any equity security of the Company, and neither Parent nor Purchaser, nor, to the best knowledge of Parent or Purchaser, any of the other persons referred to above, or

any of the respective directors, executive officers or subsidiaries of any of the foregoing, has effected any transaction in any equity security of the Company during the past 60 days. Mr. John Hall, a director of Parent, owns 50 Common Shares through an asset management fund, and Mr. Mark Aron, an executive officer of Parent and Purchaser and a director of Purchaser, owns not more than 800 Common Shares. In addition, Mr. Robert Burrus, a director of Parent, in his capacity as a trustee of a trust, sold 650 Common Shares on September 5, 1996 at a price of \$70 per share.

Except as set forth in this Offer to Purchase, neither Parent nor Purchaser, nor, to the best knowledge of Parent or Purchaser, any of the persons listed in Schedule I hereto has any contract, arrangement, understanding or relationship with any other person with respect to any securities of the Company, including, without limitation, any contract, arrangement, understanding or relationship concerning the transfer or the voting of any securities of the Company, joint ventures, loan or option arrangements, puts or calls, guaranties of loans, guaranties against loss or the giving or withholding of proxies. Except as set forth in this Offer to Purchase, neither Parent nor Purchaser, nor, to the best knowledge of Parent or Purchaser, any of the persons listed in Schedule I hereto has had any transactions with the Company, or any of its executive officers, directors or affiliates that would require reporting under the rules of the SEC.

Except as set forth in this Offer to Purchase, there have been no contacts, negotiations or transactions between Parent or Purchaser, or their respective subsidiaries, or, to the best knowledge of Parent or Purchaser, any of the persons listed in Schedule I hereto, on the one hand, and the Company or its executive officers, directors or affiliates, on the other hand, concerning a merger, consolidation or acquisition, tender offer or other acquisition of securities, election of directors, or a sale or other transfer of a material amount of assets.

Financial Information. Set forth below is certain selected consolidated financial information relating to Parent and its subsidiaries which has been excerpted or derived from the financial statements contained in Parent's Annual Reports on Form 10-K for the fiscal years ended December 29, 1995 and December 30, 1994 (the "Parent Form 10-Ks") and in Parent's Quarterly Report on Form 10-Q for the fiscal quarter ended June 28, 1996 (the "Parent Form 10-Q"). More comprehensive financial information is included in the Parent Form 10-K and the Parent Form 10-Q and other documents filed by Parent with the SEC. The financial information that follows is qualified in its entirety by reference to the Parent Form 10-K and the Parent Form 10-Q and other documents including the financial statements and related notes contained therein. The Parent Form 10-Ks and the Parent Form 10-Q and other documents may be examined and copies may be obtained from the offices of the SEC in the manner set forth above.

CSX CORPORATION

SELECTED CONSOLIDATED FINANCIAL INFORMATION (IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	SIX MONTHS ENDED(2)		YEAR ENDED		
	JUNE 28, 1996	JUNE 30, 1995	DECEMBER 29, 1995	DECEMBER 30, 1994	DECEMBER 31, 1993
INCOME STATEMENT DATA:					
Operating revenue.....	\$ 5,186	\$ 4,993	\$ 10,504	\$ 9,608	\$ 8,940
Operating expense.....	4,482	4,633	9,332	8,376	8,027
Operating income.....	704	360	1,172	1,232	913
Net earnings.....	380	140	618	652	359
PER SHARE INFORMATION:					
Earnings per share(1).....	\$ 1.80	\$ 0.67	\$ 2.94	\$ 3.12	\$ 1.73

	AT		AT		
	JUNE 28, 1996	JUNE 30, 1995	DECEMBER 29, 1995	DECEMBER 30, 1994	DECEMBER 31, 1993
BALANCE SHEET DATA:					
Current assets.....	\$ 1,979	\$ 1,752	\$ 1,935	\$ 1,665	\$ 1,571
Properties -- net.....	11,568	11,119	11,297	11,044	10,788
Total assets.....	14,531	13,894	14,282	13,724	13,420
Long-term debt, current portion.....	395	397	486	312	146
Total current liabilities.....	2,834	2,699	2,991	2,505	2,275
Long-term debt, excluding current portion.....	2,271	2,577	2,222	2,618	3,133
Total shareholders' equity	4,567	3,821	4,242	3,731	3,180

- (1) Adjusted for two-for-one stock split distributed December 21, 1995.
 (2) For the six month periods ended June 28, 1996 and June 30, 1995, Parent changed its financial presentation to exclude non-transportation activities from operating revenue, operating expense, and operating income.

10. SOURCE AND AMOUNT OF FUNDS. Purchaser estimates that the total amount of funds required to purchase Shares pursuant to the Offer, to pay the cash portion of the consideration in the Merger and to pay all related costs and expenses will be approximately \$3.5 billion. See "Fees and Expenses."

Purchaser plans to obtain the necessary funds through capital contributions or advances by Parent. Parent plans to obtain the funds for such capital contributions or advances from its available cash and working capital, and either through the issuance of long- or short-term debt securities (including, without limitation, commercial paper notes) or pursuant to a credit facility that Parent will seek to obtain from one or more commercial banks.

Parent's commercial paper program involves the private placement of unsecured, commercial paper notes with maturities of up to 270 days. The commercial paper generally has an effective interest rate approximating the then market rate of interest for commercial paper of similar rating, currently approximately 5.45%. Parent may refinance any commercial paper borrowings used to finance the purchase of Shares pursuant to the Offer through private placements of additional commercial paper, borrowings under the credit facility referred to above or, depending on market or business conditions, through such other financing as Parent may deem appropriate.

It is anticipated that the indebtedness incurred by Parent in connection with the transactions contemplated by the Merger Agreement will be repaid from funds generated internally by Parent and its subsidiaries (including, after the Merger, if consummated, dividends paid by the Surviving Corporation and its subsidiaries), through additional borrowings, through application of proceeds of dispositions or through a combination of two or more such sources. No final decisions have been made concerning the method Parent will employ to repay such indebtedness. Such decisions, when made, will be based on Parent's review from time to time of the advisability of particular actions, as well as on prevailing interest rates and financial and other economic conditions.

11. BACKGROUND OF THE OFFER; CONTACTS WITH THE COMPANY.

In the ordinary course of Parent's long-term strategic review process, Parent and its subsidiaries routinely analyze potential combinations with various railroad companies. In recent years, Parent has placed particular emphasis on studies of the Company, considering it to be an ideal candidate for such a combination.

From time to time since August 1994, Parent has conveyed to senior managers of the Company Parent's continuing interest in discussing a business combination and Parent's views as to the desirability of such a transaction. These contacts by Parent led to a discussion in July 1996 between David M. LeVan, Chairman, President and Chief Executive Officer of the Company, and John W. Snow, Chairman, President and Chief Executive Officer of Parent, generally regarding the consolidation in the railroad industry and the regulatory environment with respect to such consolidation. Following such discussion, each of the parties independently analyzed its strategic opportunities, including potential business combination transactions. Shortly following preliminary discussions between Mr. Snow and Mr. LeVan, on October 6, 1996, Mr. Snow and Mr. LeVan met to discuss the possibility for and the terms of a business combination between Parent and the Company.

Following that meeting, senior management of both companies, together with their financial and legal advisors, independently undertook to examine a possible transaction and to conduct detailed business reviews. On October 8, 1996, Parent and the Company entered into a confidentiality agreement in connection with their discussions. Such discussions led to the negotiation of the Merger Agreement and the Option Agreements, which were executed on October 14, 1996.

On October 16, 1996, Parent and Purchaser commenced the Offer.

12. PURPOSE OF THE OFFER AND THE MERGER; PLANS FOR THE COMPANY. The purpose of the Offer is for Parent, through Purchaser, to acquire a significant equity interest in the Company as a first step in consummating a business combination between Parent and the Company. The purpose of the Merger is for Parent to acquire all Shares not purchased pursuant to the Offer and thereby accomplish the business combination transaction.

Upon consummation of the Merger, Parent intends to continue to review the combined company and its assets, businesses, operations, properties, policies, corporate structure, capitalization and management and consider if any changes would be desirable in light of the circumstances then existing. Upon consummation of the Merger, Parent also intends to continue to identify synergies and cost savings, including its freight traffic arrangements with the Company.

Based upon discussions with the Company, Parent believes that total quantifiable benefits from the Merger will be approximately \$550 million annually, based on the realization of cost savings from operating efficiencies, facility consolidations, overhead rationalization and other activities, and new traffic volumes earned by enhanced service. Parent intends that the combined company will make investments to support revenue growth, and will create a streamlined organization that incorporates the best of Parent's and the Company's organizations, while combining facilities and realizing economies of scale. Parent expects that there will be some job losses as a result of consolidations and the elimination of redundancies, but that these will be offset substantially over time by new employment opportunities resulting from growth of the business. Parent has not yet developed specific plans to implement the foregoing. THE FOREGOING ESTIMATES OF COST SAVINGS AND SYNERGIES ARE INHERENTLY SUBJECT TO SIGNIFICANT UNCERTAINTIES AND CONTINGENCIES, MANY OF WHICH ARE BEYOND THE CONTROL OF PARENT. THERE CAN BE NO ASSURANCE THAT THEY WILL BE ACHIEVED AND ACTUAL SAVINGS AND SYNERGIES MAY VARY MATERIALLY FROM THOSE ESTIMATED. THE INCLUSION OF SUCH ESTIMATES HEREIN SHOULD NOT BE REGARDED AS AN INDICATION THAT PARENT, PURCHASER OR ANY OTHER PARTY CONSIDERS SUCH ESTIMATES AN ACCURATE PREDICTION OF FUTURE EVENTS.

The Merger Agreement provides that, following the consummation of the Merger, Parent and the Company shall cause the corporate headquarters of Parent to be located in Philadelphia, Pennsylvania. Except as noted in this Offer to Purchase, neither Parent nor Purchaser has any present plans or proposals that would result in an extraordinary corporate transaction, such as a reorganization, liquidation, relocation of operations, or sale or transfer of assets, involving the Company or any of its subsidiaries, or any material changes in the Company's corporate structure, business or composition of its board of directors, management or personnel.

13. MERGER AGREEMENT; OTHER AGREEMENTS.

MERGER AGREEMENT

THE FOLLOWING IS A SUMMARY OF CERTAIN PROVISIONS OF THE MERGER AGREEMENT. THE SUMMARY IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE MERGER AGREEMENT WHICH IS INCORPORATED HEREIN BY REFERENCE. TERMS NOT OTHERWISE DEFINED HEREIN OR IN THE FOLLOWING SUMMARY SHALL HAVE THE MEANINGS SET FORTH IN THE MERGER AGREEMENT.

The Offer. The Merger Agreement provides that Purchaser will commence the Offer and that, on the terms and subject to the prior satisfaction or waiver of the conditions to the Offer, Purchaser will purchase all Shares validly tendered pursuant to the Offer as soon as practicable after the later of the satisfaction of the

conditions of the Offer and the expiration of the Offer, except that Purchaser will not purchase the Shares until after calculation of proration. The Merger Agreement provides that, without the written consent of the Company, Purchaser will not decrease the Offer Price, decrease the number of Shares sought in the Offer, change the form of consideration to be paid pursuant to the Offer, impose additional conditions to the Offer or amend any other term or any condition of the Offer in any manner adverse to the holders of Shares, except that if on the initially scheduled expiration date of the Offer (as it may be extended in accordance with the terms of the Merger Agreement), all conditions to the Offer are not satisfied or waived, the Offer may be extended from time to time without the consent of the Company for a time reasonably expected to be necessary to satisfy the unsatisfied conditions. The Company, Parent and Purchaser have agreed that no waiver by Purchaser of any of the conditions to the Offer will be deemed adverse to the holders of Shares, except that Purchaser may not waive the Minimum Condition without the Company's consent. If all conditions to the Offer are satisfied as of the Expiration Date except for the Minimum Condition, Purchaser will extend the Offer from time to time until 180 days after the date of the Merger Agreement or, if earlier, such time as the Minimum Condition is satisfied or validly waived under the Merger Agreement. In addition, the Merger Agreement provides that, without the Company's consent, the Offer Price may be increased and the Offer may be extended to the extent required by law in connection with the increase.

The Merger Agreement provides that, at any time following Pennsylvania Shareholder Approval, if Parent and its subsidiaries do not own at such time 40% of the Shares outstanding as of the date of the Merger Agreement (excluding Shares that would be outstanding upon exercise of the Company Stock Option), Parent may, and at the written request of the Company (which request may not be made within the 10-day period before the then-scheduled Expiration Date) is required to, commence the Second Offer to purchase up to that number of Shares which, when added to the aggregate number of Shares then beneficially owned by Parent (other than pursuant to the Company Option Agreement) equals 40% of such outstanding Shares, at a price not less than \$92.50. The Second Offer, if it occurs, will be on terms no less favorable to the shareholders of the Company than the Offer.

The Merger. The Merger Agreement provides that, subject to the terms and conditions thereof and in accordance with the Pennsylvania Law, at the Effective Time, the Company will be merged with and into Purchaser, the separate corporate existence of the Company will cease, and Purchaser will be the surviving corporation in the Merger and will continue to be governed by the laws of the State of Pennsylvania. Pursuant to the Merger, the Articles of Incorporation of Purchaser will be the Articles of Incorporation of the Surviving Corporation until thereafter amended (except that the Articles of Incorporation of the Surviving Corporation will provide that the Surviving Corporation will be named Conrail Inc.), and the By-laws of Purchaser will be the By-laws of the Surviving Corporation until thereafter amended. The Merger will have the effects set forth in the Pennsylvania Law.

Conversion of Shares. The Merger Agreement provides that as of the Effective Time, each issued and outstanding Share (other than Shares owned by the Company as treasury stock and Shares owned by Parent, the Company or any of their respective subsidiaries, which will be cancelled and retired) will be converted into the right to receive either (i) \$92.50 (the "Per Share Cash Consideration") without interest, (ii) shares of Parent Common Stock or (iii) a combination of the foregoing. Pursuant to the Merger Agreement, each of the issued and outstanding shares of common stock, par value \$1.00 per share, of Purchaser will be converted at the Effective Time into a fully paid and non-assessable share of common stock of the Surviving Corporation.

Unless, prior to the Effective Time, at least 40% of the outstanding Shares have been purchased by Purchaser (other than upon exercise of the Company Stock Option), in which case each Share will be converted into 1.85619 shares of Parent Common Stock as provided in the second succeeding paragraph, each holder of Shares, as more fully set forth in the Merger Agreement (other than holders of Shares to be cancelled) will have the right to submit a request (an "Election") specifying the number of Shares that the holder desires to have converted into 1.85619 shares of Parent Common Stock per Share in the Merger (a "Stock Election") and the number of Shares that the holder desires to have converted into the right to receive the Per Share Cash Consideration in the Merger (a "Cash Election").

The aggregate number of Shares to be converted into Parent Common Stock will be equal as nearly as practicable to 60% of all outstanding Shares; and the number of Shares to be converted into the right to receive the Per Share Cash Consideration, together with the Shares acquired by Purchaser pursuant to the Offer or otherwise (other than upon exercise of the Company Stock Option) (the "Tendered Shares"), will be equal as nearly as practicable to 40% of all outstanding Shares.

If Stock Elections are received for a number of Shares that is 60% or less of the outstanding Shares, each Share covered by a Stock Election will be converted in the Merger into 1.85619 shares of Parent Common Stock (the "Conversion Ratio"). If, between the date of the Merger Agreement and the Effective Time, the issued and outstanding shares of Parent Common Stock have been changed into a different number of shares or a different class of shares due to a stock split, reverse stock split, stock dividend, spin-off, extraordinary dividend, recapitalization, reclassification or other similar transaction with a record date within such period, the Conversion Ratio will be appropriately adjusted.

If Stock Elections are received for more than 60% of the outstanding Shares, each Share as to which an Election is not in effect (or deemed not to be in effect pursuant to the Merger Agreement) on the last day on which an Election may be made under the Merger Agreement (other than Tendered Shares) (a "Non-Electing Share"), and each Share for which a Cash Election has been received, will be converted into the right to receive the Per Share Cash Consideration in the Merger, and Shares for which Stock Elections have been received will be converted into Parent Common Stock and the right to receive the Per Share Cash Consideration in the following manner:

(1) There will be distributed with respect to such Shares a number of shares of Parent Common Stock equal to the Conversion Ratio with respect to a fraction of such Shares, the numerator of which fraction will be 60% of the number of outstanding Shares and the denominator of which will be the aggregate number of Shares covered by Stock Elections; and

(2) Such Shares not fully converted into the right to receive Parent Common Stock as set forth in clause (1) above will be converted in the Merger into the right to receive the Per Share Cash Consideration for each Share so converted.

If the number of Tendered Shares and Shares for which Cash Elections are received in the aggregate is 40% or less of the outstanding Shares, each Share covered by a Cash Election will be converted in the Merger into the right to receive the Per Share Cash Consideration.

If the number of Tendered Shares and Shares for which Cash Elections are received in the aggregate is more than 40% of the outstanding Shares, each Non-Electing Share and each Share for which a Stock Election has been received will be converted in the Merger into a number of shares of Parent Common Stock equal to the Conversion Ratio, and the Shares for which Cash Elections have been received will be converted into the right to receive the Per Share Cash Consideration and Parent Common Stock in the following manner:

(1) There will be distributed with respect to such Shares the Per Share Cash Consideration with respect to a fraction of such Shares, the numerator of which fraction will be 40% of the number of outstanding Shares minus the number of Tendered Shares and the denominator of which will be the aggregate number of Shares covered by Cash Elections; and

(2) Such Shares not fully converted into the right to receive the Cash Consideration as set forth in clause (1) above will be converted in the Merger into the right to receive a number of shares of Parent Common Stock equal to the Conversion Ratio for each Share so converted.

The Merger Agreement provides that if Stock Elections are not received for more than 60% of the outstanding Shares, or if the number of Tendered Shares and Shares for which Cash Elections are received together is not more than 40% of the outstanding Shares, there will be distributed with respect to each Non-Electing Share the Per Share Cash Consideration with respect to a fraction of such Non-Electing Share, where such fraction is calculated in a manner that will result in the sum of (i) the number of Shares converted into cash pursuant to this paragraph, (ii) the number of Shares for which Cash Elections have been received

and (iii) the number of Shares purchased pursuant to the Offer being as close as practicable to 40% of the outstanding Shares. Each Non-Electing Share not converted into the right to receive the Per Share Cash Consideration as set forth in the preceding sentence will be converted in the Merger into the right to receive a number of Shares of Parent Common Stock equal to the Conversion Ratio for each Non-Electing Share so converted.

In lieu of any fractional share of Parent Common Stock, Parent will pay to each former shareholder of the Company who otherwise would be entitled to receive such a fractional share an amount in cash equal to (i) the average closing sales price of a share of Parent Common Stock as reported on the NYSE Composite Tape, calculated in the manner set forth in the Merger Agreement, on the date on which the Effective Time occurs times (ii) the fractional interest in a share of Parent Common Stock to which such holder would otherwise be entitled.

For purposes of this section, "outstanding" shares means all Common Shares outstanding immediately prior to the Effective Time on a fully diluted basis (including Common Shares issuable upon conversion of ESOP Preferred Shares), except for Common Shares outstanding or issuable upon exercise of the Company Stock Option.

Board of Directors; Officers. The Merger Agreement provides that, until their respective resignation or removal or until their respective successors are duly elected and qualified and subject to the terms of the Merger Agreement, from and after the Effective Time the current Chairmen of the Boards of the Company and Parent will serve as members of the Board of Directors of Parent. The Board of Directors of Parent will additionally consist of an even number of outside directors to be agreed upon. Each of the Company and Parent are permitted under the Merger Agreement to designate half of such outside directors. Pursuant to the Merger Agreement, the Company and Parent have also agreed to establish certain committees of the Board of Directors of Parent from and after the Effective Time, and each of the Company and Parent shall have the right to appoint 50% of each committee.

The Merger Agreement provides that, unless altered by a vote of 75% of the directors of Parent after the Effective Time, during the two-year period after the Effective Time the current Chairman and Chief Executive Officer of Parent will be Chairman and Chief Executive Officer of Parent and the current Chairman and Chief Executive Officer of the Company will be President and Chief Operating Officer of Parent and President and Chief Executive Officer of each of Parent's railroad subsidiaries. Following the two-year period, the current Chairman and Chief Executive Officer of Parent will continue as Chairman of Parent for an additional two-year period and Chairman Emeritus for a one-year period thereafter and the current Chairman and Chief Executive Officer of the Company will be elected to the additional office of Chief Executive Officer of Parent on the second anniversary of the Effective Time, and will succeed as Chairman of Parent at the end of such additional two-year period.

Shareholders' Meetings. Pursuant to the Merger Agreement, the Company and Parent will prepare and file with the SEC a registration statement on Form S-4 relating to the shares of Parent Common Stock to be issued in the Merger in which the joint proxy statement/prospectus (the "Proxy Statement") will be included as a prospectus, and will use all reasonable efforts to have such registration statement declared effective under the Securities Act as promptly as possible and to have the Proxy Statement mailed as promptly as possible to their respective shareholders. Further, the Company has filed with the SEC preliminary proxy materials and has agreed to use reasonable efforts to clear such materials and thereafter call and hold the Pennsylvania Special Meeting for the purpose of obtaining the Pennsylvania Shareholder Approval to amend the Company Articles to make inapplicable Subchapter E (Control Transactions) of Chapter 25 of the Pennsylvania Law to the Company, and after any such approval will take all necessary or advisable action to cause such amendment to become effective (but not until immediately prior to a transaction that would cause Parent to own 20% or more of the outstanding voting power of the Company). As soon as practicable following the date of the Merger Agreement, the Company will call and hold a meeting of its shareholders (the "Company Merger Meeting" and, together with the Pennsylvania Special Meeting, the "Company Shareholders Meetings") for the purpose of obtaining the approval of the shareholders of the Company (the "Company Merger Approval") with respect to the Merger. Subject to the terms of the Merger Agreement described under "-- No

Solicitation," the Merger Agreement provides that the Company's obligations pursuant to the foregoing sentence are not affected by the commencement, public proposal, public disclosure or communication to the Company of any Takeover Proposal (as defined) in respect of the Company. The Company has agreed, through its Board of Directors, to recommend to its shareholders the approval and adoption of the Offer and the matters to be considered at the Company Shareholders Meetings, except to the extent that the Board of Directors of the Company shall have withdrawn or modified its approval or recommendation of the Offer or such matters and terminated the Merger Agreement in accordance with the provisions of the Merger Agreement described under "-- No Solicitation." Pursuant to the Merger Agreement and subject to the Voting Trust Agreement, Parent will cause all Shares acquired by it or its wholly owned subsidiaries pursuant to the Offer or otherwise to be voted in favor of the matters to be considered at the Company Merger Meeting.

The Merger Agreement requires Parent, as soon as practicable following the date of the Merger Agreement, to duly call and hold a meeting of its shareholders (the "Parent Shareholders Meeting") to obtain the approval of the shareholders of Parent (the "Parent Shareholder Approval") with respect to an amendment of the Articles of Incorporation of Parent as described in the Merger Agreement (and after any such approval to take all necessary or advisable action to cause the amendment to become effective) and with respect to the issuance of Parent Common Stock in the merger for purposes of the rules of the NYSE. As more fully described in the Merger Agreement, the amendment to the Parent Articles of Incorporation to be voted upon at the Parent Shareholders Meeting is intended to increase the number of shares of Purchaser Common Stock authorized under the Parent Articles of Incorporation and to authorize the issuance of Parent Common Stock in the Merger, to change the name of Parent to a new, neutral name and to effect certain other changes. Subject to the provisions of the Merger Agreement described under "-- No Solicitation," Parent has agreed that its obligations pursuant to the foregoing sentence are not affected by the commencement, public proposal, public disclosure or communication to Parent of any Takeover Proposal in respect of Parent. Parent has agreed, through its Board of Directors, to recommend to its shareholders the approval and adoption of the matters to be considered at the Parent Shareholders Meeting, except to the extent that the Board of Directors of Parent shall have withdrawn or modified its recommendation of such matters and terminated this Agreement in accordance with the provisions of the Merger Agreement described under "-- No Solicitation."

Parent and the Company have agreed to use reasonable efforts to hold the Company Merger Meeting and the Parent Shareholders Meeting on the same date as soon as practicable after the date of the Merger Agreement.

Voting Trust. The parties to the Merger Agreement have agreed that simultaneously with the purchase of Shares pursuant to the Offer, the Company Stock Option Agreement or otherwise, such Shares will be deposited in the Voting Trust. The Voting Trust may not be modified or amended without the prior written approval of the Company as to voting rights with respect to, or transfer restrictions on, such Shares, or otherwise unless such modification or amendment is not inconsistent with the Merger Agreement and is not adverse to the Company or its shareholders. See "-- Voting Trust Agreement" and Section 16.

Interim Operations of the Company and Parent. Except as otherwise set forth in the Merger Agreement, Parent and the Company have agreed that, from the date of the Merger Agreement to the Effective Time, each of them will, and will cause their respective subsidiaries to, carry on their respective businesses in the ordinary course consistent with past practice and in compliance in all material respects with all applicable laws and regulations and, to the extent consistent therewith, will use all reasonable efforts to preserve intact their current business organizations, use reasonable efforts to keep available the services of their current officers and other key employees as a group and preserve their relationships with those persons having business dealings with them to the end that their goodwill and ongoing businesses will be unimpaired at the Effective Time. Except as contemplated by or as otherwise set forth in the Merger Agreement, without limiting the generality of the foregoing, from the date of the Merger Agreement to the Effective Time, and

without the consent of the other except in certain circumstances specified therein, neither the Company nor Parent will, or permit any of its respective subsidiaries to:

- (a) other than dividends and distributions (including liquidating distributions) by a direct or indirect wholly owned subsidiary of the Company or Parent, as applicable, to its parent, or by a subsidiary that is partially owned by the Company or Parent, as applicable, or any of their respective subsidiaries, provided that the Company or Parent, as applicable, or any such subsidiary receives or is to receive its proportionate share thereof, and other than the regular quarterly dividends of \$.475 per share with respect to Common Shares, regular quarterly dividends of \$.51125 per share with respect to ESOP Preferred Shares in accordance with their terms and regular quarterly dividends of \$.26 per share with respect to Parent Common Stock (plus increases of no more than 20% per year), (x) declare, set aside or pay any dividends on, or make any other distributions in respect of, any of its capital stock, (y) split, combine or reclassify any of its capital stock or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock, or (z) except in connection with the funding of employee benefit plans, purchase, redeem, retire or otherwise acquire any shares of its capital stock or of any of its subsidiaries that would constitute a "significant subsidiary" within the meaning of Rule 1-02 of Regulation S-X of the SEC or any other securities thereof or any rights, warrants or options to acquire any such shares or other securities;
- (b) issue, deliver, sell, pledge or otherwise encumber any shares of its capital stock, any other voting securities or any securities convertible into, or any rights, warrants or options to acquire, any such shares, voting securities or convertible securities (other than (v) in accordance with the Rights Agreement, or the Rights Agreement, dated as of June 8, 1988, as amended (the "Parent Rights Agreement"), relating to rights ("Parent Rights") to purchase shares of Junior Participating Preferred Stock Series B, without par value, of Parent, (w) the issuance of Shares or Parent Common Stock upon (1) the exercise of the Company Employee Stock Options or Parent Employee Stock Options, respectively, listed in the disclosure schedules to the Merger Agreement and outstanding on the date of the Merger Agreement, in accordance with their present terms or (2) pursuant to a grant existing as of the date of the Merger Agreement or otherwise permitted by the provisions of the Merger Agreement described in this section under any Employee Benefit Plan (x) the grant or award of Company Employee Stock Options or Parent Employee Stock Options (or the issuance of Shares or Parent Common Stock upon exercise thereof) consistent with past practice in amounts not to exceed, in any 12-month period, 110% of the amount issued in the prior 12-month period, and, in the case of Parent, target bonus awards under Parent's long-term incentive plans consistent with past practice in amounts not to exceed, in any 12-month period, 110% of the amounts of the aggregate target bonus awards issued in the prior 12-month period, (y) the issuance of Shares upon conversion of ESOP Preferred Shares in accordance with their terms and (z) the issuance of Shares or Parent Common Stock pursuant to the Option Agreements);
- (c) in the case of the Company or Parent, adopt, propose or agree to any amendment to its articles of incorporation, by-laws or other comparable organizational documents, except for such amendments as are contemplated hereby, and, in the case of any subsidiary, adopt, propose or agree to any amendment to its certificate of incorporation, by-laws or other comparable organizational documents other than in the ordinary course in a manner which does not have a material adverse effect;
- (d) sell, lease, license, mortgage or otherwise encumber or subject to any lien or otherwise dispose of any of its properties or assets, other than (x) transactions in the ordinary course of business consistent with past practice and (y) transactions involving assets which do not individually or in the aggregate exceed \$50,000,000 in any 12-month period;
- (e) make or agree to make any acquisition (other than of inventory) or capital expenditure;
- (f) except in the ordinary course consistent with past practice, make any tax election that could reasonably be expected to have a material adverse effect on the Company or Parent, as applicable or settle or compromise any material income tax liability;

- (g) pay, discharge, settle or satisfy any material claims, liabilities or obligations (whether absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge, settlement or satisfaction, in the ordinary course of business consistent with past practice or in accordance with their terms, of liabilities (x) reflected or reserved against in, or contemplated by, the most recent consolidated financial statements (or the notes thereto) of the Company or of Parent included in any report, schedule, form, statement or other document (including any exhibits, schedules and documents incorporated by reference) required to be filed with the SEC since January 1, 1995 by the Company or Purchaser, as applicable, (y) incurred since the date of such financial statements in the ordinary course of business consistent with past practice or (z) which do not in the aggregate have a material adverse effect on the Company or Parent, as applicable;
- (h) except in the ordinary course of business or except as would not reasonably be expected to have a material adverse effect on the Company or Parent, as applicable, modify, amend or terminate any material contract or agreement to which the Company or Parent, as applicable, or any of their respective subsidiaries, is a party or waive, release or assign any material rights or claims thereunder;
- (i) make any material change to its accounting methods, principles or practices, except as may be required by generally accepted accounting principles;
- (j) except as required by law or contemplated hereby, (and except for rail labor agreements negotiated in the ordinary course) enter into, adopt or amend in any material respect or terminate any collective bargaining agreement or any bonus, pension, profit sharing, deferred compensation, incentive compensation, stock ownership, stock purchase, stock option, phantom stock, retirement, vacation, severance, disability, death benefit, hospitalization, medical or other plan, arrangement or understanding providing benefits to any current or former employee, officer or director of the Company or Purchaser, as the case may be, or of any of their respective wholly owned subsidiaries ("Employee Benefit Plans"), or any other agreement, plan or policy involving the Company or Parent, as applicable, or any of their respective subsidiaries, and one or more of their directors, officers or employees, or materially change any actuarial or other assumption used to calculate funding obligations with respect to any pension plans, or change the manner in which contributions to any pension plan are made or the basis on which such contributions are determined;
- (k) except for normal increases in the ordinary course of business consistent with past practice that, in the aggregate, do not materially increase benefits or compensation expenses of the Company or Parent, as applicable, or their respective subsidiaries, or as contemplated hereby or by the terms of any contract the existence of which does not constitute a violation of the Merger Agreement, increase the compensation of any director, executive officer or other key employee or pay any benefit or amount not required by a plan or arrangement as in effect on the date of this Agreement to any such person;
- (l) enter into any agreement containing any provision or covenant (x) limiting in any material respect its ability to compete with any person which would bind the other party to the Merger Agreement or its operations after the Effective Time or (y) granting concessions to any railroad (whether through divestiture of lines or the grant of trackage rights) other than in the ordinary course of business; or
- (m) authorize, or commit or agree to take, any of the foregoing actions.

The Merger Agreement provides that Parent and the Company will coordinate with one another regarding the declaration and payment of dividends in respect of Parent Common Stock and Shares and the record dates and payment dates relating thereto such that any holder of Shares will not receive two dividends, or fail to receive one dividend, for any single calendar quarter with respect to its Shares and/or any shares of Parent Common Stock any such holder receives in exchange therefor pursuant to the Merger.

Pursuant to the Merger Agreement, except as required by law, the Company and Parent have agreed that they will not, and will not permit any of their respective subsidiaries to, voluntarily take any action that would, or that could reasonably be expected to, result in (1) any of the representations and warranties of such party

set forth in the Merger Agreement or the Option Agreements that are qualified as to materiality becoming untrue, (2) any of such representations and warranties that are not so qualified becoming untrue in any material respect, (3) any of the conditions to the consummation of the transactions contemplated hereby not being satisfied or (4) any material impairment or delay of STB approval.

No Solicitation. Under the terms of the Merger Agreement, neither the Company nor Parent may, nor may it permit any of its subsidiaries, officers, directors, employees or representatives to, directly or indirectly through another person, (i) solicit, initiate or encourage (including by way of furnishing information), or take any other action designed to facilitate, directly or indirectly, any inquiries or the making of any proposal which constitutes any Takeover Proposal or (ii) participate in any discussions or negotiations regarding any Takeover Proposal; provided, however, that if, at any time prior to the earlier of (x) the consummation of the Offer and (y) the obtaining of the Company Merger Approval, in the case of the Company, or the Parent Shareholder Approval, in the case of Parent, or after 180 days from the date of the Merger Agreement and prior to the Approval Date (as defined in the next paragraph), the Board of Directors of the Company or Parent, as applicable, determines in good faith, based on the advice of outside counsel, that it is necessary to do so to avoid a breach of its fiduciary duties to the Company under applicable law, the Company or Parent, as applicable, may, in response to a Takeover Proposal which was not solicited by it or which did not otherwise result from a breach of the terms of the Merger Agreement described in this paragraph, and subject to compliance with certain notice provisions of the Merger Agreement, (x) furnish information with respect to it and its subsidiaries to any person pursuant to a customary confidentiality agreement (as determined by the party receiving such Takeover Proposal after consultation with its outside counsel) the benefits of the terms of which, if more favorable to the other party to such confidentiality agreement than those in place with the other party to the Merger Agreement, shall be extended to the other party to the Merger Agreement, and (y) participate in negotiations regarding such Takeover Proposal. For purposes of the Merger Agreement, "Takeover Proposal" in respect of the Company or Parent, as applicable, means any proposal or offer from any person for the acquisition or purchase of more than 50% of the assets of such party and its subsidiaries or more than 50% of the equity securities of such party entitled to vote generally in the election of directors, any tender offer or exchange offer that if consummated would result in any person beneficially owning more than 50% of the equity securities of such party entitled to vote generally in the election of directors, or any merger, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction involving such party, other than the transactions contemplated by the Merger Agreement or the Option Agreements.

Except as permitted by the Merger Agreement, the Company and Parent have agreed that neither the Board of Directors of the Company or Parent, as applicable, nor any committee thereof will (i) withdraw or modify (or propose publicly to do so), in a manner adverse to the other party, its approval or recommendation of the Offer or its adoption and approval of the matters to be considered at the respective shareholders meetings of the Company or Parent, (ii) approve or recommend (or propose publicly to do so), any Takeover Proposal, or (iii) cause the Company or Parent, as applicable, to enter into any agreement (an "Acquisition Agreement") related to a Takeover Proposal. However, the Merger Agreement provides that if at any time following 180 days after the date of the Merger Agreement and prior to the earlier of (a) the time that at least 40% of the outstanding Shares on a fully diluted basis have been deposited in the Voting Trust and (b) the obtaining of Company Merger Approval (in the case of the Company) or Parent Shareholder Approval (in the case of Parent) (such earlier date referred to in clause (x) or (y) being the "Approval Date") there exists a Superior Proposal, and such Board of Directors determines that (x) in the case of the Board of Directors of the Company, there is no substantial probability that Parent will succeed in acquiring 40% of the Shares in the Offer and/or the Second Offer or otherwise (or if the Pennsylvania Shareholder Approval has not been obtained, there is no substantial probability that the Company Merger Approval will be obtained), in either case due to the existence of such Superior Proposal with respect to the Company or (y) in the case of the Board of Directors of Parent, there is no substantial probability that the Parent Shareholder Approval will be obtained due to the existence of such Superior Proposal with respect to Parent, the Board of Directors of the Company or Parent, as applicable, may (subject to this and the following sentences) withdraw or modify its approval or recommendation of the Offer, the Merger or the adoption and approval of the matters to be considered at their respective shareholder meetings and approve or recommend such Superior Proposal or terminate the Merger Agreement (and concurrently, if it so chooses, cause the Company or Parent, as

applicable, to enter into an Acquisition Agreement with respect to such Superior Proposal), but only after giving the notice required by the Merger Agreement. As used in the Merger Agreement, a "Superior Proposal" means any proposal made by a third party to acquire, directly or indirectly, for consideration consisting of cash and/or securities, more than 50% of the voting equity securities of the Company or Parent, as the case may be, or all or substantially all the assets of the Company or Parent, as the case may be, and otherwise on terms which the Board of Directors of such party determines in its good faith judgment (x) (based on the written opinion of a nationally recognized financial advisor) to be more favorable from a financial point of view to its shareholders than the Transactions and for which any required financing is then committed and (y) to be more favorable to such party than the Transactions after taking into account all constituencies (including shareholders) and pertinent factors permitted under the Pennsylvania Law or applicable Virginia law.

In addition to the obligations of the parties set forth in the two immediately preceding paragraphs, the Merger Agreement provides that any party that has received a Takeover Proposal must immediately advise the other orally and in writing of any request for information or of any Takeover Proposal, the material terms and conditions of such request or Takeover Proposal and the identity of the person making such request or Takeover Proposal. Any party that has received a Takeover Proposal is required to keep the other reasonably informed of the status and details (including amendments or proposed amendments) of any such request or Takeover Proposal.

The Merger Agreement provides that nothing contained in the provisions described in this subsection prohibits Parent or the Company from taking and disclosing to its shareholders a position contemplated by Rule 14e-2(a) promulgated under the Exchange Act or from making any disclosure to its shareholders if, in the good faith judgment of its Board of Directors, based on the advice of outside counsel, failure so to disclose would result in a violation of applicable law; however, neither Parent nor the Company nor their respective Board of Directors nor any committee thereof may, except as permitted by the provisions of the Merger Agreement described in the second preceding paragraph, withdraw or modify, or propose publicly to withdraw or modify, its position with respect to the Offer or the matters to be considered at the Company Shareholders Meetings or the Parent Shareholders Meeting, as applicable, or approve or recommend, or propose publicly to approve or recommend, a Takeover Proposal.

Reasonable Efforts; Regulatory Approval. Each of the parties to the Merger Agreement has agreed to use all reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate with the other parties in doing, all things necessary, proper or advisable to consummate and make effective, in the most expeditious manner practicable, the Merger and the other transactions contemplated by the Merger Agreement and the Option Agreements, including (i) the obtaining of all necessary actions or nonactions, waivers, consents and approvals from third parties and Governmental Entities (as defined in the Merger Agreement) and the making of all necessary registrations and filings and the taking of all reasonable steps as may be necessary to obtain an approval or waiver from, or to avoid an action or proceeding by, any Governmental Entity, (ii) the defending of any lawsuits or any other legal proceedings challenging the Merger Agreement or the Option Agreements or the consummation of the transactions contemplated thereby, and (iii) the execution and delivery of any additional instruments necessary to consummate the transactions contemplated by, and to fully carry out the purposes of, the Merger Agreement and the Option Agreements.

Pursuant to the Merger Agreement, each of the parties will make and cause its respective subsidiaries to make all necessary filings, as soon as practicable, including those required with the STB and applicable transportation regulations and laws in order to facilitate prompt consummation of the Offer, the Merger and the transactions contemplated by the Merger Agreement and by the Option Agreements; will use reasonable efforts to provide such information and communications to Governmental Entities as may be reasonably requested; and will provide to the other party copies of all applications made pursuant to the foregoing, subject to the terms set forth in the Merger Agreement.

The Company and Parent have agreed, and each has agreed to cause each of its subsidiaries, to take all such actions as are necessary to (i) cooperate with one another to prepare and present to the STB as soon as

practicable all filings and other presentations in connection with seeking any STB approval, exemption or other authorization necessary to consummate the transactions contemplated by the Merger Agreement and the Option Agreements, (iii) prosecute such filings and other presentations with diligence, (iii) diligently oppose any objections to, appeals from or petitions to reconsider or reopen any such STB approval by persons not party to the Merger Agreement, and (iv) take all such further action as reasonably may be necessary to obtain a final order or orders of the STB approving such transactions consistent with the Merger Agreement and the Option Agreements.

Anti-Takeover Laws. The Merger Agreement provides that the Company and Parent will take all action necessary to ensure that no state anti-takeover statute or similar statute or regulation is or becomes operative with respect to the Offer, the Merger, the Merger Agreement, the Option Agreements or any of the other transactions contemplated by the Merger Agreement or the Option Agreements, and if any state anti-takeover statute or similar statute or regulation becomes so operative, take all action necessary to ensure that the Offer, the Merger and the other transactions contemplated by the Merger Agreement and the Option Agreements may be consummated as promptly as practicable.

Directors' and Officers' Insurance and Indemnification. Under the Merger Agreement, Parent has agreed that all rights to indemnification and exculpation from liabilities for acts or omissions occurring at or prior to the Effective Time existing as of the date of the Merger Agreement in favor of the current or former directors or officers of the Company and its subsidiaries, the existence of which does not constitute a breach of the Merger Agreement, will be assumed by the Surviving Corporation in the Merger as of the Effective Time and will survive the Merger and continue in full force and effect in accordance with their terms. The Merger Agreement also provides that, from and after the Effective Time, directors and officers of the Company who become directors or officers of Parent will be entitled to the same indemnity rights and protections as are afforded to other directors and officers of Parent.

Pursuant to the Merger Agreement, in the event that Parent or any of its successors or assigns consolidates with or merges into any other person and is not the continuing or surviving corporation or entity of such consolidation or merger or transfers or conveys all or substantially all of its properties and assets to any person, then proper provision will be made so that the successors and assigns of Parent assume the obligations under the Merger Agreement described in this section.

The Company and Parent have agreed that, for three years after the Effective Time, Parent is to provide, if available on commercially reasonable terms, officers' and directors' liability insurance in respect of acts or omissions occurring prior to the Effective Time, including the transactions contemplated by the Merger Agreement, covering each person covered by the Company's officers' and directors' liability insurance policy as of the date of the Merger Agreement, or who becomes so covered before the Effective Time, on terms with respect to coverage and amount no less favorable than those of such policy in effect on the date of the Merger Agreement, provided that in satisfying the foregoing obligation Parent is not required to pay premiums in excess of 150% of the amount per annum the Company paid in its last full fiscal year ending prior to the date of the Merger Agreement, and provided further that Parent is nevertheless obligated to provide such coverage as may be obtained for such amount.

Compensation and Benefits; Stock Options. The Merger Agreement provides that, following the Effective Time, Parent will cause the Surviving Corporation to honor all obligations under employment agreements, employee benefit plans, programs, policies and arrangements of the Company or Parent the existence of which does not constitute a violation of the Merger Agreement in accordance with the terms thereof, and Parent will provide employees of the Company with benefits no less favorable in the aggregate than those provided to similarly situated Parent employees. For two years after the Effective Time, Parent or the Surviving Corporation will provide severance and termination benefits to all non-union employees of the Company and Parent terminated as a result of or in connection with the Merger, which benefits shall be determined consistent with industry standards and taking into account those benefits provided in recent similar transactions in the industry.

The Merger Agreement also provides that, as soon as practicable following the date of such Agreement, the Board of Directors of the Company (or, if appropriate, any administering committee) will take such action

as may be required to (a) adjust the terms of all outstanding employee stock options or other rights ("Company Employee Stock Options") to purchase or receive Shares granted under the Company employee stock plans set forth in the disclosure schedules to the Merger Agreement (the "Company Stock Plans"), whether vested or unvested, as necessary to provide that, at the Effective Time, each Company Employee Stock Option outstanding immediately prior to such time will be deemed to constitute an option to acquire, on the same terms and conditions as were applicable under the Company Employee Stock Option, the same number of shares of Parent Common Stock as the holder of the Company Employee Stock Option would have been entitled to receive pursuant to the Merger had that holder exercised the Company Employee Stock Option in full immediately prior to the Effective Time, at a price per share of Parent Common Stock equal to (A) the aggregate exercise price for the Shares otherwise purchasable pursuant to the Company Employee Stock Option divided by (B) the aggregate number of shares of Parent Common Stock deemed purchasable pursuant to the Company Employee Stock Option (each, as so adjusted, an "Adjusted Option"); except that in the case of any qualified stock option (as defined in the Merger Agreement), the option price, the number of shares purchasable pursuant to such option and the terms and conditions of exercise of such option will be determined in order to comply with Section 424 of the Code; and (b) make such other changes to the Company Stock Plans as the Company and Parent may agree are appropriate to give effect to the Merger.

Pursuant to the Merger Agreement, Parent will deliver to the holders of Company Employee Stock Options as soon as practicable after the Effective Time appropriate notices setting forth the holders' rights under the respective Company Stock Plans and the agreements evidencing the grants of the Company Employee Stock Options. The notices will also state that the Company Employee Stock Options and agreements will be assumed by Parent and will continue in effect on the same terms and conditions (subject to the adjustments described in the immediately preceding paragraph). Parent will comply with the terms of the Company Stock Plans and ensure, to the extent required by, and subject to the provisions of, such Company Stock Plans, that the Company Employee Stock Options which qualified as qualified stock options prior to the Effective Time continue to qualify as qualified stock options after the Effective Time.

Under the Merger Agreement, Parent has agreed to take such actions as are reasonably necessary for the assumption of the Company Stock Plans described in the first paragraph of this section, including the reservation, issuance and listing of Parent Common Stock as is necessary to effectuate the transactions contemplated therein. As soon as reasonably practicable after the Effective Time, Parent will prepare and file with the SEC one or more registration statements on Form S-8 or other appropriate form with respect to shares of Parent Common Stock subject to Company Employee Stock Options issued under the Company Stock Plans and will use all reasonable efforts to maintain the effectiveness of a registration statement or registration statements covering the Company Employee Stock Options (and maintain the current status of the prospectus or prospectuses contained therein) for so long as the Company Employee Stock Options remain outstanding. With respect to those individuals, if any, who subsequent to the Effective Time will be subject to the reporting requirements under Section 16(a) of the Exchange Act, where applicable, Parent has agreed to use all reasonable efforts to administer the Company Stock Plans assumed pursuant to the Merger Agreement in a manner that complies with Rule 16b-3 promulgated under the Exchange Act to the extent the applicable Company Stock Plan complied with such rule prior to the Merger.

Pursuant to the Merger Agreement, a holder of an Adjusted Option may exercise that Adjusted Option in whole or in part in accordance with its terms by delivering a properly executed notice of exercise to Parent, together with the consideration therefor and the federal withholding tax information, if any, required in accordance with the related Company Stock Plan.

Except as otherwise contemplated by the provisions of the Merger Agreement described in this section or required by the terms of the Company Employee Stock Options, all restrictions or limitations on transfer and vesting with respect to Company Employee Stock Options awarded under the Company Stock Plans or any other plan, program or arrangement of the Company or any of its subsidiaries, to the extent that such restrictions or limitations shall not have already lapsed, will remain in full force and effect with respect to those options after giving effect to the Merger and the assumption by Parent as described above.

Tax-Free Reorganization. The Merger Agreement provides that neither the Company or Parent or any affiliate thereof will take any action that would cause the Merger not to qualify as a tax-free reorganization under Sections 368(a)(1)(A) and 368(a)(2)(D) of the Code.

Representations and Warranties. In the Merger Agreement, the Company has made customary representations and warranties to Parent and Purchaser with respect to, among other things, its organization, subsidiaries, qualification, authorization, capital structure, public filings, employee benefit plans, defaults, information in the Proxy Statement and other documents filed with the SEC in connection with the Transactions, compliance with laws, consents and approvals, brokers' fees, undisclosed liabilities, shareholder voting requirements and the absence of certain events. In the Merger Agreement, Parent and Purchaser have made customary representations and warranties to the Company with respect to, among other things, organization, subsidiaries, authorization, capital structure, public filings, employee benefit plans, information in the Proxy Statement, compliance with laws, consents and approvals, brokers' fees, undisclosed liabilities, shareholder voting requirements and the absence of certain events.

Conditions to the Merger. The respective obligations of the Company, on the one hand, and Parent and Purchaser, on the other, to effect the Merger is subject to the satisfaction or waiver on or prior to the Closing Date (as defined in the Merger Agreement) of the following conditions: (a) each of the Company Merger Approval and the Parent Shareholder Approval shall have been obtained; (b) any applicable waiting period (and any extension thereof) under the HSR Act shall have been terminated or shall have expired; (c) no judgment, order, decree, statute, law, ordinance, rule, regulation, temporary restraining order, preliminary or permanent injunction or other order enacted, entered, promulgated, enforced or issued by any court of competent jurisdiction or other Governmental Entity or other legal restraint or prohibition (collectively, "Restraints") preventing the consummation of the Merger may be in effect, provided the party asserting this condition shall have used reasonable efforts to prevent the entry of any such Restraints and to appeal as promptly as possible any such Restraints that may be entered, and there shall not be any Restraint enacted, entered, enforced or promulgated that is reasonably likely to result in a material adverse effect on the Company and Parent on a combined basis; and (d) the shares of Parent Common Stock issuable to the Company's shareholders pursuant to the Merger Agreement and under the Company Stock Plans shall have been approved for listing on the NYSE, subject to official notice of issuance.

The obligation of Parent to effect the Merger is further subject to satisfaction or waiver of the following conditions: (a) the Company shall not have breached or failed to observe or perform in any material respect any of its covenants or agreements under the Merger Agreement to be performed by it at or prior to the Closing Date (as defined in the Merger Agreement), and the representations and warranties of the Company in the Merger Agreement shall be true and accurate both when made and at and as of the Closing Date, as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such date), except where the failure of such representations and warranties to be so true and correct (without giving effect to any limitation as to "materiality" or "material adverse effect" set forth therein), does not have, and is not likely to have, individually or in the aggregate, a material adverse effect on the Company; (b) at any time after the date of the Merger Agreement there will not have occurred any material adverse change relating to the Company; (c) Purchaser shall have purchased the Shares in the Offer or, if not, Parent and Purchaser shall have obtained sufficient financing, on terms reasonably acceptable to Parent, to enable consummation of the Merger; (d) the STB will have issued a decision (which decision will not have been stayed or enjoined) that (A) constitutes a final order approving, exempting or otherwise authorizing consummation of the Merger and all other material transactions contemplated by the Merger Agreement (or subsequently presented to the STB by agreement of the Company and Parent) as may require such authorization and (B) does not (1) change or disapprove of the consideration to be given in the Merger or other material provisions of Article II of the Merger Agreement or (2) impose on Parent, the Company or any of their respective subsidiaries any other terms or conditions (including, without limitation, labor protective provisions but excluding conditions heretofore imposed by the Interstate Commerce Commission in New York Dock Railway -- Control -- Brooklyn Eastern District, 360 I.C.C. 60 (1979)) that materially and adversely affect the long-term benefits expected to be received by Parent from the transactions contemplated by the Merger Agreement; and (e) all actions by or in respect of or filings with any Governmental Entity required to permit the consummation of the

Merger (other than approval of the STB, which is addressed in clause (d) above) will have been obtained, excluding any consent, approval, clearance or confirmation the failure to obtain which would not have a material adverse effect on Parent, the Company or, after the Effective Time, the Surviving Corporation.

The obligation of the Company to effect the Merger is further subject to satisfaction or waiver of the following conditions: (a) Parent shall not have breached or failed to observe or perform in any material respect any of its covenants or agreements under the Merger Agreement to be performed by it at or prior to the Closing Date, and the representations and warranties of Parent in the Merger Agreement shall be true and accurate both when made and at and as of the Closing Date, as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such date), except where the failure of such representations and warranties to be so true and correct (without giving effect to any limitation as to "materiality" or "material adverse effect" set forth therein), does not have, and is not likely to have, individually or in the aggregate, a material adverse effect on Parent; (b) at any time after the date of the Merger Agreement there will not have occurred any material adverse change relating to Parent; (c) the STB will have issued a decision (which decision will not have been stayed or enjoined) that (i) constitutes a final order approving, exempting or otherwise authorizing consummation of the Merger and all other material transactions contemplated thereby or subsequently presented to the STB by agreement of Parent and the Company as may require such authorization and (ii) does not change or disapprove of the consideration to be given in the Merger or other material provisions of Article II of the Merger Agreement.

Neither Parent nor the Company are permitted under the Merger Agreement to rely on the failure of any condition described in the three immediately preceding paragraphs, as the case may be, to be satisfied if such failure was caused by such party's failure to use reasonable efforts to consummate the Merger and the other transactions contemplated by the Merger Agreement, as required by and subject to the provisions of the Merger Agreement described under "--- Reasonable Efforts."

Termination. The Merger Agreement may be terminated at any time prior to the Effective Time, whether before or after the Pennsylvania Shareholder Approval, the Company Merger Approval or the Parent Shareholder Approval, only as provided below:

(a) by mutual written consent of Parent and the Company;

(b) by either Parent or the Company: (i) if the Merger has not been consummated by December 31, 1998; except that the right to terminate the Merger Agreement pursuant to this provision will not be available to any party whose failure to perform any of its obligations under the Merger Agreement results in the failure of the Merger to be consummated by such time; (ii) if, at a Company Merger Meeting duly convened therefor or at any adjournment or postponement thereof, the Company Merger Approval is not obtained; (iii) if, at a Parent Shareholders Meeting duly convened therefor or at any adjournment or postponement thereof, the Parent Shareholder Approval is not obtained; or (iv) if any Governmental Entity has issued a Restraint or taken any other action permanently enjoining, restraining or otherwise prohibiting the consummation of the Merger or any of the other transactions contemplated by the Merger Agreement and such Restraint or other action has become final and nonappealable; except that the party seeking to terminate the Merger Agreement pursuant to this clause (iv) must have used all reasonable efforts to prevent the entry of and to remove such Restraint or other action;

(c) by Parent, if the Company has breached or failed to perform in any material respect any of its representations, warranties, covenants or other agreements contained in the Merger Agreement, which breach or failure to perform (A) would constitute the failure of the condition to the Merger described in clause (a) of the second paragraph under "--- Conditions to the Merger," and (B) cannot be or has not been cured within 30 days after the giving of written notice to the Company of such breach (as long as Parent is not then in material breach of any representation, warranty, covenant or other agreement contained in the Merger Agreement and provided that, if such breach is curable through the exercise of the Company's best efforts, the Merger Agreement may not be terminated for so long as the Company is using its best efforts to cure such breach);

(d) by Parent in accordance with the terms of the Merger Agreement described under "-- No Solicitation," as long as Parent has complied with all such terms, including the notice provisions therein, and as long as Parent complies with applicable requirements of the terms of the Merger Agreement described under "-- Certain Fees and Expenses";

(e) by Parent if (i) the Board of Directors of the Company or, if applicable, any committee thereof, has withdrawn or modified in a manner adverse to Parent its approval or recommendation of the Offer or the Merger or the matters to be considered at the Company Shareholders Meetings or failed to reconfirm its recommendation within 15 business days after a written request to do so, or approved or recommended any Takeover Proposal in respect of the Company or (ii) the Board of Directors of the Company or any committee thereof has resolved to take any of the foregoing actions;

(f) by Parent, if the Company or any of its officers, directors, employees, representatives or agents take any of the actions that would be proscribed by the terms of the Merger Agreement described under "-- No Solicitation" but for the exceptions therein allowing certain actions to be taken pursuant to the proviso in the first sentence of such section or the second sentence of the second paragraph of such section;

(g) by the Company, if Parent has breached or failed to perform in any material respect any of its representations, warranties, covenants or other agreements contained in the Merger Agreement, which breach or failure to perform (A) would constitute the failure of a condition to the Merger, as described under "-- Conditions to the Merger," and (B) cannot be or has not been cured within 30 days after the giving of written notice to Parent of such breach (as long as the Company is not then in material breach of any representation, warranty, covenant or other agreement contained in the Merger Agreement and provided that, if such breach is curable through the exercise of Parent's best efforts, the Merger Agreement may not be terminated pursuant to this provision of the Merger Agreement for so long as Parent is so using its best efforts to cure such breach);

(h) by the Company in accordance with the provisions of the Merger Agreement described in the second paragraph under "-- No Solicitation," as long as Parent has complied with all such provisions, including the notice provisions therein, and complies with applicable requirements of the provisions of the Merger Agreement described under "-- Certain Fees and Expenses";

(i) by the Company if (i) the Board of Directors of Parent or, if applicable, any committee thereof has withdrawn or modified in a manner adverse to the Company its approval or recommendation of the matters to be considered at the Parent Shareholders Meeting, or failed to reconfirm its recommendation within 15 business days after a written request to do so, or approved or recommended any Takeover Proposal in respect of Parent or (ii) the Board of Directors of Parent or any committee thereof has resolved to take any of the foregoing actions; or

(j) by the Company, if Parent or any of its officers, directors, employees, representatives or agents takes any of the actions that would be proscribed by the terms of the Merger Agreement described under "-- No Solicitation" but for the exceptions therein allowing certain actions to be taken pursuant to the proviso in the first sentence of such section or the second sentence of the second paragraph of such section.

Certain Fees and Expenses. The Merger Agreement provides that, in the event that (i) a Takeover Proposal in respect of the Company shall have been made known to the Company or any of its subsidiaries or has been made directly to its shareholders generally or any person shall have publicly announced an intention (whether or not conditional) to make such a Takeover Proposal and thereafter the Merger Agreement is terminated by either Parent or the Company pursuant to clauses (i) or (ii) of paragraph (b) under "-- Termination," or (ii) the Merger Agreement is terminated (x) by the Company pursuant to paragraph (h) under "-- Termination," or (y) by Parent pursuant to paragraph (e) under "-- Termination," then the Company will (A) promptly, but in no event later than two days after the date of the termination, pay Parent a fee equal to \$300 million (the "Termination Fee") (except that no Termination Fee will be payable pursuant to clause (i) of this sentence unless and until within 24 months of such termination the Company or

any of its subsidiaries enters into an Acquisition Agreement or consummates a Takeover Proposal). The Company has agreed that, if it fails promptly to pay the amount due pursuant to the foregoing provision, and, in order to obtain such payment, Parent commences a suit which results in a judgment against the Company for such fee, the Company will pay to Parent its costs and expenses (including attorneys' fees and expenses) in connection with such suit, together with interest on the amount of the fee.

The Merger Agreement also provides that, in the event that (i) a Takeover Proposal in respect of Parent shall have been made known to Parent or any of its subsidiaries or has been made directly to its shareholders generally or any person shall have publicly announced an intention (whether or not conditional) to make such a Takeover Proposal and thereafter the Merger Agreement is terminated by either Parent or the Company pursuant to clause (i) or (iii) of paragraph (b) under "-- Termination," or (ii) the Merger Agreement is terminated (x) by Parent pursuant to paragraph (d) under "-- Termination" or (y) by the Company pursuant to paragraph (i) under "-- Termination," Parent is required to (A) promptly, but in no event later than two days after the date of the termination, pay the Company the Termination Fee (except that no Termination Fee shall be payable pursuant to clause (i) of this sentence unless and until within 24 months of such termination Parent or any of its subsidiaries enters into an Acquisition Agreement or consummates a Takeover Proposal). If Parent fails promptly to pay the amount due pursuant to the foregoing provision, and, in order to obtain such payment, the Company commences a suit which results in a judgment against Parent for the fee set forth in the foregoing provision, Parent is required to pay to the Company its costs and expenses (including attorneys' fees and expenses) in connection with such suit, together with interest on the amount of the fee.

Parent or Purchaser will pay any sales, transfer or similar tax arising as a result of the consummation of the Transactions and imposed on shareholders of the Company.

Amendment. The Merger Agreement may be amended by the parties, by an instrument in writing signed on behalf of each party, at any time before or after the Pennsylvania Shareholder Approval, the Company Merger Approval or the Parent Shareholder Approval. However, after any such approval, the Merger Agreement does not permit the parties to make any amendment that by law requires further approval by the shareholders of the Company or Parent without the further approval of such shareholders.

Registration Rights. Under the terms of the Merger Agreement, the Company or Parent, as applicable (the "issuing party") will, if requested by the other party to the Merger Agreement (the "requesting party") within three years after the termination of the Merger Agreement, as expeditiously as possible prepare and file up to three registration statements under the Securities Act if necessary to permit the sale or other disposition of any or all securities deposited in the Voting Trust, in the case of Parent, or acquired through exercise of the Parent Stock Option Agreement, in the case of the Company, in accordance with the intended method of sale or other disposition stated by the requesting party. The issuing party will also use its best efforts to qualify such securities under applicable state securities laws and will take certain steps to cause any sale or other disposition pursuant to such registration statement to be effected on a widely distributed basis. The issuing party will use reasonable efforts to cause each such registration statement to become effective, to obtain any or all required consents or waivers, and to keep such registration statement effective for such period not in excess of 180 calendar days as is reasonably necessary to effect such sale or other disposition. The foregoing obligations of the issuing party may be suspended for certain limited periods if the Board of Directors of the issuing party determines that carrying out such obligations during such periods would require disclosure of nonpublic information that would materially and adversely affect the issuing party. The Merger Agreement provides that if the issuing party effects a registration under the Securities Act of the issuing party's securities for its own account or for any of its shareholders, then with certain exceptions the other party to the Merger Agreement will have the right to participate in such registration without affecting the obligation of the issuing party to effect demand registration statements for the requesting party as described above, subject to certain reductions if the managing underwriters of such registration advise the issuing party that the number of securities requested to be included in such offering exceed the number that can be sold.

Listing. Parent has agreed to use reasonable efforts to cause the shares of Parent Common Stock to be issued in the Merger, under the Company Stock Plans and pursuant to the Parent Stock Option Agreement,

and the Company has agreed to use reasonable efforts to cause Shares to be issued pursuant to the Company Stock Option Agreement to be approved for listing on the NYSE prior to the Closing Date.

Rights Agreements. The Board of Directors of the Company will take all further action, if any, reasonably requested in writing by Parent (including redeeming the Rights immediately prior to the Effective Time or amending the Rights Agreement) in order to render the Rights inapplicable to the transactions contemplated by the Merger Agreement and the Company Stock Option Agreement. Except for the foregoing, the Board of Directors of the Company will not amend or take any action with respect to the Rights Agreement, including a redemption of the Rights or any action to facilitate a Takeover Proposal in respect of the Company.

The Board of Directors of Parent will take all further action, if any, reasonably requested in writing by the Company in order to render the Parent Rights inapplicable to the Parent Stock Option Agreement. The Board of Directors of Parent will not otherwise amend or take any action with respect to the Parent Rights Agreement to facilitate a Takeover Proposal in respect of Parent.

DISSENTERS' RIGHTS

In accordance with the United States Supreme Court decision, *Schwabacher v. United States*, 334 U.S. 182 (1948), shareholders of the Company will not have any dissenters' rights under state law, unless the STB or a court of competent jurisdiction determines that state-law dissenters' rights are available to holders of Shares. Parent considers it unlikely that the STB or a court will determine that state-law dissenters' rights are available to holders of Shares. As part of the approval of the Merger, Parent and the Company intend to seek a determination of the STB that the terms of the Merger are just and reasonable. It is Parent's and the Company's understanding that upon the issuance of such a determination, dissenters' rights under state law will be preempted. Shareholders of the Company will have an opportunity to participate in this STB proceeding.

If dissenters' rights are available to holders of Shares, such rights will be provided in accordance with Section 1571 et seq. of the Pennsylvania Law. In such event, any issued and outstanding Shares held by persons who object to the Merger and comply with all the provisions of the Pennsylvania Law concerning the right of holders of Shares to dissent from the Merger and require valuation of their Shares (a "Dissenting Shareholder") will not be converted into the right to receive the Offer Price, without interest, pursuant to the Merger Agreement but will become the right to receive payment of the "fair value" of their Shares at the Effective Time (exclusive of any element of appreciation or depreciation in anticipation of the Merger); provided, however, that the Shares outstanding immediately prior to the Effective Time and held by a Dissenting Shareholder who will, after the Effective Time, withdraw his demand for payment or lose his right to dissent, in either case pursuant to the Pennsylvania Law, will be deemed to be converted as of the Effective Time into the right to receive the Offer Price, payable to the holder thereof, without interest.

Dissenters' rights cannot be exercised at this time. Shareholders who will be entitled to dissenters' rights, if any, in connection with the Merger (or similar business combination) will receive additional information concerning any available dissenters' rights and the procedures to be followed in connection therewith before such shareholders have to take any action relating thereto.

Shareholders who sell shares in the Offer will not be entitled to exercise any dissenters' rights with respect to Shares purchased but, rather, will receive the Offer Price.

OPTION AGREEMENTS

Concurrently with the Merger Agreement, the parties have entered into the Option Agreements, granting each other the right to purchase certain shares of their common stock under certain circumstances.

Pursuant to the Company Stock Option Agreement, the Company granted Parent an option to purchase 15,955,477 Common Shares at a price of \$92.50 per share, subject to adjustment for changes in the Company's capitalization as described in the Company Stock Option Agreement (the "Purchase Price"), payable in cash. Such option becomes exercisable, in whole but not in part, after the first to occur of (i) any

event which entitles Parent to receive the Termination Fee and (ii) the consummation of the Offer (the first such occurrence being a "Purchase Event"). The option terminates upon the first to occur of (i) the Effective Date, (ii) 18 months after the first occurrence of a Purchase Event, and (iii) the termination of the Merger Agreement (unless Parent is entitled to the Termination Fee, in which case the option shall not terminate until the later of (a) six months following the time the Termination Fee becomes payable and (b) the expiration of the period in which Parent has the right to receive the Termination Fee). Any purchase of Common Shares under the Company Stock Option Agreement is subject to the Voting Trust Condition, and any Common Shares so purchased will be delivered immediately to the trustee thereunder.

If, during the time that the option under the Company Stock Option Agreement is exercisable, the Company enters into an agreement pursuant to which all outstanding Common Shares are to be purchased for or converted into, in whole or in part, cash (other than in respect of fractional shares), then such agreement will make proper provision so that, upon consummation of the transaction (which will be the date of acceptance for payment in the case of a transaction involving a tender offer), in exchange for cancellation of the option, Parent shall receive an amount in cash equal to the difference (if positive) between the closing market price per Common Share on the day immediately prior to the consummation of such transaction and the Purchase Price. In the event (i) the Company enters into an agreement to consolidate with, merge into, or sell substantially all of the Company's assets to any person, other than Parent, Purchaser or a direct or indirect subsidiary thereof, and the Company is not the surviving corporation, or (ii) the Company allows any person, other than Parent, Purchaser or a direct or indirect subsidiary thereof, to merge into or consolidate with the Company in a series of transactions in which the Common Shares or other securities of the Company represent less than 50% of the outstanding voting securities of the merged corporation, then such agreement will make proper provision so that the option will be adjusted, exchanged, or converted into an option with identical terms as those described in the Company Stock Option Agreement, appropriately adjusted for such transaction. Parent may require the Company to register Common Shares purchased under the option pursuant to the Securities Act of 1933 on the terms set forth in the Merger Agreement. The Common Shares purchased under the option may not be transferred or otherwise disposed of except as provided in the Voting Trust Agreement.

Pursuant to the Parent Stock Option Agreement, Parent granted the Company an option to purchase 43,090,773 million shares of Parent Common Stock, at a price of \$64.82 per share, subject to adjustments substantially the same as those in the Company Stock Option Agreement. Such option becomes exercisable, in whole but not in part, after any event which entitles the Company to receive the Termination Fee (a "Purchase Event"). The option terminates upon the earlier of (i) the Merger, (ii) 18 months after the first occurrence of a Purchase Event, and (iii) the termination of the Merger Agreement (unless the Company is entitled to a Termination Fee, in which case the option shall not terminate until the later of (a) six months following the time such Termination Fee becomes payable and (b) the expiration of the period in which the Company has the right to receive a Termination Fee). Any purchase of shares of Parent Common Stock under the Parent Stock Option Agreement is subject to the conditions set forth therein, and any Parent Common Stock so purchased will be delivered immediately to the trustee of the applicable voting trust. The Parent Stock Option Agreement also provides for adjustments for certain business combinations on substantially the same terms as those of the Company Stock Option Agreement.

The foregoing description of the Merger Agreement and the Option Agreements is qualified in its entirety by reference to the texts of such Agreements, copies of which have been filed by Parent as exhibits to the Schedule 14D-1 filed by Parent with the SEC.

VOTING TRUST AGREEMENT

Pursuant to a proposed Voting Trust Agreement (the "Voting Trust Agreement") to be entered into by and among Parent, Purchaser and a voting trustee that is expected to be a banking corporation (the "Trustee"), the Trustee will agree to act as trustee in respect of the Voting Trust. In such capacity, the Trustee will vote all Shares (the "Trust Stock") acquired by Purchaser in the Offer, the Second Offer or pursuant to the Company Stock Option Agreement or otherwise to approve the Merger, in favor of any proposal necessary to effectuate Parent's acquisition of the Company pursuant to the Merger Agreement, and,

so long as the Merger Agreement is in effect (subject to certain exceptions), against any other proposed merger, business combination or similar transaction involving the Company. On other matters (including the election or removal of directors), the Trustee will vote the Trust Stock in the same proportion as all other Shares are voted with respect to such matters.

Pending the termination of the Voting Trust, the Trustee will pay over to Purchaser all cash dividends and cash distributions paid on the Trust Stock.

The Voting Trust Agreement will provide that Parent at any time may not sell or make any other disposition of the whole or any part of the Trust Stock, whether or not the Merger or a similar transaction has been approved by the STB or is otherwise permitted, unless and until the Merger Agreement has been terminated or as otherwise consented to by the Company. The Trustee shall take all actions reasonably requested by the Parent with respect to any proposed sale or other disposition of the whole or any part of the Trust Stock by Purchaser or Parent, including in connection with the exercise by Parent of any rights under the Merger Agreement, provided that such disposition of the Trust Stock must be made pursuant to one or more broadly distributed public offerings and subject to all necessary regulatory approvals, if any, or as otherwise directed by Parent with the prior written consent of the Company.

The Voting Trust Agreement also will provide that, in the event the STB approves or exempts the Merger or a similar transaction, or in the event that the law is amended to allow Purchaser, Parent or their affiliates to acquire control of the Company without obtaining STB or other governmental approval (and upon delivery of an opinion of independent counsel that no order of the STB or other governmental authority is required), the Trustee, with the prior written consent of the Company, will either transfer the Trust Stock to the Purchaser, or if shareholder approval has not previously been obtained, vote the Trust Stock in favor of the Merger.

It is anticipated that the Voting Trust Agreement will provide that, in the event that the Merger Agreement terminates in accordance with its terms, Parent will use its best efforts to sell the Trust Stock in the manner described above during the succeeding two-year period. Any such disposition shall be subject to any jurisdiction of the STB to oversee Parent's divestiture of Trust Stock. In connection with such an event, the Trustee would continue to perform its duties under the Voting Trust Agreement and, if Parent fails to so sell or distribute the Trust Stock, the Trustee will as soon as practicable sell the Trust Stock for cash to one or more eligible purchasers in the manner described above for such price as the Trustee in its discretion shall deem reasonable after consultation with Parent. An "eligible purchaser" is a person or entity not affiliated with Parent and that has all necessary regulatory authority, if any, to purchase the Trust Stock. Pursuant to the Voting Trust Agreement, Parent will agree to cooperate with the Trustee in so disposing of the Trust Stock and the Trustee has agreed to act in accordance with any direction made by Parent as to any specific terms or method of disposition, to the extent not inconsistent with any of the terms of the Voting Trust Agreement and with the requirements of the terms of any STB or court order. The proceeds of the sale would be distributed to Parent.

The Voting Trust Agreement provides that the Trustee shall receive reasonable and customary compensation and indemnification from Parent and Purchaser.

Pursuant to the Merger Agreement, the Voting Trust may not be modified or amended without the prior written approval of the Company, which is an express third party beneficiary of the Voting Trust Agreement, unless such modification or amendment is not inconsistent with the Merger Agreement or the Option Agreements and is not adverse to the Company or its shareholders (and Parent and the Company have agreed in the Merger Agreement that any change to the terms of the Voting Trust Agreement relating to voting rights or rights and restrictions relating to the transfer of Trust Stock shall in any event require the prior approval of the Company), and no power of Parent or Purchaser provided for in the Voting Trust Agreement may be exercised so as to violate the Merger Agreement.

Upon execution of the Voting Trust Agreement, Parent will request the staff of the STB to render an informal written opinion that the use of the Voting Trust is consistent with the policies of the STB. See Section 16.

EMPLOYMENT AGREEMENTS

Snow Employment Agreement. Parent and John W. Snow have entered into an employment agreement dated as of October 14, 1996 (the "Snow Employment Agreement"), which will be effective for a five-year period beginning at the Effective Time (the "Employment Period"). The Snow Employment Agreement provides that Mr. Snow will serve as Chairman of the Board and Chief Executive Officer of Parent for two years following the Merger (the "First Employment Segment"); as Chairman of the Board during the subsequent two years (the "Second Employment Segment"); and as Chairman Emeritus during the following year (the "Third Employment Segment"). The Employment Agreement further provides that during the First Employment Segment Mr. Snow will receive base compensation at least equal to the base compensation he received in the year prior to the Merger, and that during the Second and Third Employment Segments Mr. Snow will receive base compensation in an amount no less than that received by the Chief Executive Officer of Parent during the Second Employment Segment.

If, during the Employment Period, Parent terminates Mr. Snow's employment for a reason other than Cause or Disability (as defined in the Snow Employment Agreement), or Mr. Snow terminates employment for Good Reason (as defined in the Employment Agreement), Mr. Snow will be entitled to the following:

- (1) a lump-sum payment aggregating (a) accrued obligations to Mr. Snow, such as unpaid or deferred compensation, (b) the greater of (i) the amount Mr. Snow would receive in compensation (including bonus) during the remainder of the Employment Period and (ii) the amount equal to three times Mr. Snow's most recent annual compensation (including bonus), and (c) an amount equal to the excess of (i) the actuarial equivalent of the benefit under Parent's retirement plans which Mr. Snow would receive assuming he continued employment with Parent for the longer of three years and the time remaining in the Employment Period over (ii) the actuarial equivalent of Mr. Snow's actual benefit under Parent's retirement plans;
- (2) a payment in an amount such that after the payment of all income and excise taxes, Mr. Snow will be in the same after-tax position as if no excise tax under Section 4999 of the Code had been imposed;
- (3) continued employee welfare benefits for the longer of three years and the number of years remaining in the Employment Period; and
- (4) the immediate vesting of outstanding stock-based awards.

The Snow Employment Agreement provides that the Merger will not constitute a Change of Control for the purpose of the Severance Agreement between Mr. Snow and Parent dated as of February 1, 1995.

LeVan Employment Agreement. Parent, the Company, and David M. LeVan have entered into an employment agreement dated as of October 14, 1996 (the "LeVan Employment Agreement"), which will be effective for a period equal to the Employment Period. The LeVan Employment Agreement provides that Mr. LeVan will serve as Chief Operating Officer and President of Parent, and as Chief Executive Officer and President of the railroad businesses of the Company and Parent, from the Effective Time until the second anniversary of such date or, if earlier, the termination of Mr. Snow's employment or of his status as Chief Executive Officer of Parent (the "First Employment Segment"). Additionally, Mr. LeVan will serve as Chief Executive Officer of Parent during the period beginning immediately after the First Employment Segment and ending on the fourth anniversary of the Effective Time or, if earlier, upon the termination of Mr. Snow's employment or of his status as Chairman of the Board (the "Second Employment Segment"). During the period commencing immediately after the Second Employment Segment, or, if earlier, upon the termination of Mr. Snow's status as Chairman of the Board (the "Third Employment Segment"), Mr. LeVan will additionally serve as Chairman of the Board of Parent. The LeVan Employment Agreement further provides that during the First Employment Segment Mr. LeVan shall receive annual base compensation at least equal to 90% of the amount received by the Chief Executive Officer of Parent, but not less than \$810,000, and bonus and other incentive compensation at least equal to 90% of the amount received by the Chief Executive Officer of Parent, and that during the Second and Third Employment Segments Mr. LeVan will receive compensation

in an amount no less than that received by the Chief Executive Officer during the First Employment Segment, but not less than \$900,000.

If, during the Employment Period, Parent terminates Mr. LeVan's employment for a reason other than Cause or Disability (as defined in the LeVan Employment Agreement), or Mr. LeVan terminates employment for Good Reason (as defined in the LeVan Employment Agreement), Mr. LeVan will be entitled to the following:

- (1) a lump-sum payment aggregating (a) accrued obligations to Mr. LeVan, such as unpaid or deferred compensation, (b) the greater of (i) the amount Mr. LeVan would have received in compensation (including bonus) during the remainder of the Employment Period, assuming an annual base salary and bonus during the Second and Third Segments equal to the greater of Mr. LeVan's base salary and bonus and that of Mr. Snow during the First Employment Segment and (ii) the amount equal to three times Mr. LeVan's most recent annual compensation (including bonus), and (c) an amount equal to the excess of (i) the actuarial equivalent of the benefit under Parent's retirement plans which Mr. LeVan would receive assuming he continued employment with Parent for the longer of three years and the time remaining in the Employment Period over (ii) the actuarial equivalent of Mr. LeVan's actual benefit under Parent's retirement plans;
- (2) a payment in an amount such that after the payment of all income and excise taxes, Mr. LeVan will be in the same after-tax position as if no excise tax under Section 4999 of the Code had been imposed;
- (3) continued employee welfare benefits for the longer of three years and the number of years remaining in the Employment Period; and
- (4) the immediate vesting of outstanding stock-based awards.

The Employment Agreement provides that it supersedes, at the Effective Time, the severance agreement between Mr. LeVan and the Company dated as of August 1, 1995.

14. DIVIDENDS AND DISTRIBUTIONS. If, on or after the date of the Merger Agreement, the Company should (i) split, combine or otherwise change the Shares or its capitalization, (ii) issue or sell any additional securities of the Company or otherwise cause an increase in the number of outstanding securities of the Company or (iii) acquire currently outstanding Shares or otherwise cause a reduction in the number of outstanding Shares, then, without prejudice to Purchaser's rights under Sections 1 and 15, Purchaser, in its sole discretion, may make such adjustments as it deems appropriate in the purchase price and other terms of the Offer and the Merger, including, without limitation, the amount and type of securities offered to be purchased.

If, on or after the date of the Merger Agreement, the Company should declare or pay any dividend on the Shares, other than regular quarterly dividends, or make any distribution (including, without limitation, the issuance of additional Shares pursuant to a stock dividend or stock split, the issuance of other securities or the issuance of rights for the purchase of any securities) with respect to the Shares that is payable or distributable to shareholders of record on a date prior to the transfer to the name of Purchaser or its nominee or transferee on the Company's stock transfer records of the Shares purchased pursuant to the Offer, then, without prejudice to Purchaser's rights under Sections 1 and 15, (i) the purchase price per Share payable by Purchaser pursuant to the Offer will be reduced by the amount of any such cash dividend or cash distribution and (ii) any such non-cash dividend, distribution or right to be received by the tendering shareholders will be received and held by such tendering shareholders for the account of Purchaser and will be required to be promptly remitted and transferred by each such tendering shareholder to the Depositary for the account of Purchaser, accompanied by appropriate documentation of transfer. Pending such remittance and subject to applicable law, Purchaser will be entitled to all rights and privileges as owner of any such non-cash dividend, distribution or right and may withhold the entire purchase price or deduct from the purchase price the amount of value thereof, as determined by Purchaser in its sole discretion.

The Company has agreed in the Merger Agreement that it will not pay any dividends, other than regular quarterly dividends, on its capital stock, including the Shares, prior to the Effective Time without the consent of Parent. The Company has also agreed that, without the consent of Parent, it will not (a) take certain actions that would change the number of shares of its capital stock outstanding or result in the reclassification of any of its capital stock, or (b) purchase, retire or otherwise acquire any shares of its capital stock, or (c) issue, pledge or otherwise encumber its capital stock or any securities convertible into or representing the right to acquire its capital stock, with certain exceptions set forth in the Merger Agreement. See "Merger Agreement; Other Agreements -- Merger Agreement -- Interim Operations of the Company and Parent."

15. CONDITIONS OF THE OFFER. Notwithstanding any other provisions of the Offer, and in addition to (and not in limitation of) Purchaser's rights to extend and amend the Offer at any time in its sole discretion (subject to the provisions of the Merger Agreement), Purchaser shall not be required to accept for payment or, subject to any applicable rules and regulations of the SEC, including Rule 14e-1(c) under the Exchange Act (relating to Purchaser's obligation to pay for or return tendered Shares promptly after termination or withdrawal of the Offer), pay for, and may delay the acceptance for payment of or, subject to the restriction referred to above, the payment for, any tendered Shares, and may terminate the Offer as to any Shares not then paid for, if (1) (i) Purchaser does not receive prior to the expiration of the Offer an informal written opinion in form and substance reasonably satisfactory to Purchaser from the staff of the STB, without the imposition of any conditions unacceptable to Purchaser, that the use of the Voting Trust is consistent with the policies of the STB against unauthorized acquisitions of control of a regulated carrier, or (ii) Purchaser does not receive prior to the expiration of the Offer an informal statement from the Premerger Notification Office of the FTC that the transactions contemplated by the Offer, the Merger Agreement and the Company Stock Option Agreement are not subject to, or are exempt from, the HSR Act, or in the absence of the receipt of such informal statement, any applicable waiting period under the HSR Act shall have expired or been terminated prior to the expiration of the Offer (see Section 16), or (2) at any time on or after October 14, 1996 and prior to the acceptance for payment of Shares, any of the following events shall occur (defined terms used below shall have the meanings ascribed in the Merger Agreement):

(a) there shall be instituted or pending any action or proceeding by any government or governmental authority or agency, domestic or foreign, (i) challenging or seeking to make illegal, to delay materially or otherwise directly or indirectly to restrain or prohibit the making of the Offer, the acceptance for payment of or payment for some of or all the Shares by Parent or Purchaser or the consummation by Parent or Purchaser of the Merger, seeking to obtain material damages relating to the Merger Agreement, the Option Agreements or any of the transactions contemplated thereby or otherwise seeking to prohibit directly or indirectly the transactions contemplated by the Offer or the Merger Agreement, or challenging or seeking to make illegal the transactions contemplated by the Option Agreements or otherwise directly or indirectly to restrain, prohibit or delay the transactions contemplated by the Option Agreements, (ii) except for the Voting Trust, seeking to restrain, prohibit or delay Parent's, Purchaser's or any of their subsidiaries' ownership or operation of all or any material portion of the business or assets of the Company and its subsidiaries, taken as a whole, or to compel Parent or any of its subsidiaries to dispose of or hold separate all or any material portion of the business or assets of the Company and its subsidiaries, taken as a whole, (iii) except for the Voting Trust, seeking to impose or confirm material limitations on the ability of Parent, Purchaser or any of their subsidiaries or affiliates effectively to exercise full rights of ownership of the Common Shares, including, without limitation, the right to vote any Common Shares acquired or owned by Parent, Purchaser or any of their subsidiaries on all matters properly presented to the Company's shareholders, or (iv) seeking to require divestiture by Parent or Purchaser or any of their subsidiaries of any Common Shares, in the case of any of (i) through (iv) above, which actions or proceedings are reasonably likely to have a material adverse effect on Parent; or

(b) there shall be any action taken, or any statute, rule, regulation, injunction, order or decree enacted, enforced, promulgated, issued or deemed applicable to the transactions contemplated by the Offer or the Merger Agreement, by or before any court, government or governmental authority or agency, domestic or foreign, that, directly or indirectly, results in any of the consequences referred to in paragraph (a) above; or

(c) prior to the expiration of the Offer there shall not have been validly tendered and not withdrawn an aggregate of at least 17,860,124 Shares; or

(d) the Board of Directors of the Company shall have withdrawn, modified or changed in a manner adverse to Parent or Purchaser its approval or recommendation of the Offer or the matters to be considered at the Company Shareholders Meetings or shall have recommended a Takeover Proposal (as defined in the Merger Agreement) or other business combination, or the Company shall have entered into an agreement in principle (or similar agreement) or definitive agreement providing for a Takeover Proposal or other business combination with a person or entity other than Parent or Purchaser (or the Board of Directors of the Company resolves to do any of the foregoing); or

(e) the Company shall have breached or failed to observe or perform in any material respect any of its covenants or agreements under the Merger Agreement, or any of the representations and warranties of the Company set forth in the Merger Agreement shall not be true and accurate both when made and as of the date of consummation of the Offer, as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such date), except where the breach or failure to observe or perform such covenants or agreements, or the failure of such representations and warranties to be so true and correct (without giving effect to any limitation as to "materiality" or "material adverse effect" set forth therein), does not have, and is not likely to have, individually or in the aggregate, a material adverse effect on the Company; or

(f) the Merger Agreement shall have been terminated in accordance with its terms; or

(g) Parent or Purchaser shall not have obtained sufficient financing, on terms reasonably acceptable to Parent, to enable consummation of the Offer and the Merger;

which, in the reasonable judgment of Parent or Purchaser in any such case, and regardless of the circumstances (including any action or omission by Parent or Purchaser not inconsistent with the terms of the Merger Agreement) giving rise to any such condition, makes it inadvisable to proceed with such acceptance for payment or payment.

The foregoing conditions are for the sole benefit of Parent and Purchaser and may be asserted by Parent or Purchaser regardless of the circumstances giving rise to any such condition (including any action or omission by Parent or Purchaser not inconsistent with the terms of the Merger Agreement) or may be waived by Parent or Purchaser in whole or in part at any time and from time to time in their reasonable discretion (subject to Section 1.1(a) of the Merger Agreement -- see Section 1). The failure by Parent or Purchaser at any time to exercise any of the foregoing rights shall not be deemed a waiver of any such right; the waiver of any such right with respect to particular facts and other circumstances shall not be deemed a waiver with respect to any other facts and circumstances; and each such right shall be deemed an ongoing right that may be asserted at any time and from time to time.

16. CERTAIN LEGAL MATTERS; REGULATORY APPROVALS.

General. Except as otherwise disclosed herein, based on representations and warranties made by the Company in the Merger Agreement and a review of publicly available information by the Company with the SEC, neither Purchaser nor Parent is aware of (i) any license or regulatory permit that appears to be material to the business of the Company and its subsidiaries, taken as a whole, that might be adversely affected by the acquisition of Shares by Parent or Purchaser pursuant to the Offer or the Merger, respectively, or (ii) any approval or other action by any governmental, administrative or regulatory agency or authority, domestic or foreign, that would be required for the acquisition or ownership of Shares by Parent or Purchaser as contemplated herein. Should any such approval or other action be required, Parent and Purchaser currently contemplate that such approval or action would be sought. While Purchaser does not currently intend to delay the acceptance for payment of Shares tendered pursuant to the Offer pending the outcome of any such matter, there can be no assurance that any such approval or action, if needed, would be obtained or would be obtained without substantial conditions or that adverse consequences might not result to the business of the Company, Purchaser or Parent or that certain parts of the businesses of the Company, Purchaser or Parent might not have to be disposed of in the event that such approvals were not obtained or any other actions were not taken.

Purchaser's obligation under the Offer to accept for payment and pay for Shares is subject to certain conditions. See Section 15.

Antitrust. Under the HSR Act and the rules that have been promulgated thereunder by the FTC, certain acquisition transactions may not be consummated unless certain information has been furnished to the Antitrust Division of the Department of Justice (the "Antitrust Division") and the FTC and certain waiting period requirements have been satisfied. The notice and waiting period requirements of the HSR Act do not apply to the Merger, provided that information and documentary material filed with the STB in connection with the seeking of STB approval of the Merger are contemporaneously filed with the Antitrust Division and the FTC. Parent intends to comply with these contemporaneous filing requirements and therefore believes that the notice and waiting period requirements do not apply to the Merger. Parent and Purchaser believe that the Offer, the Merger and the Company Option Agreement are not subject to, or are exempt from, the HSR Act. Parent and Purchaser will request the Premerger Notification Office of the FTC to confirm this understanding. See Section 15.

STB Matters; The Voting Trust. Certain activities of subsidiaries of the Company are regulated by the STB. Provisions of subtitle IV, title 49 of the United States Code require approval of, or the granting of an exemption from approval by, the STB for the acquisition of control of two or more carriers subject to the jurisdiction of the STB ("Carriers") by a person that is not a Carrier and for the acquisition or control of a Carrier by a person that is not a Carrier but that controls any number of Carriers. STB approval or exemption is required for, among other things, Purchaser's acquisition of control of the Company. Parent and Purchaser do not believe that the grant of the Company Option by the Company to the Purchaser, whether or not Purchaser acquires Shares pursuant to the Offer, would give Parent and its affiliates control of the Company. Parent and Purchaser do not believe that either the STB or its predecessor has ruled on whether the grant of an option can in any circumstance confer control of the issuer. There can be no assurance, however, that the STB would not find that the grant of the Company Option would give Parent and its affiliates control of the Company. Parent and Purchaser do not believe that ownership by Purchaser of the Shares to be purchased pursuant to the Offer or the Company Option Agreement would give Parent and its affiliates control of the Company and its affiliates. Nonetheless, Purchaser intends, simultaneously with the acquisition of the Shares pursuant to the Offer and the Company Option Agreement, to deposit the Shares purchased pursuant to the Offer and the Option Agreement in the Voting Trust in order to ensure that Parent and its affiliates do not acquire and directly or indirectly exercise control over the Company and its affiliates prior to obtaining necessary STB approvals or exemptions. STB approval of the proposed Merger is not a condition to the Offer. The Offer is conditioned upon the issuance by the staff of the STB of an informal, nonbinding opinion, without the imposition of any conditions unacceptable to Purchaser, that the use of the Voting Trust is consistent with the policies of the STB against unauthorized acquisitions of control of a regulated carrier. Parent will request the staff of the STB to issue such an opinion. Under STB regulations that have been in effect since 1979, the STB staff has the power to issue such opinions. The proposed Voting Trust Agreement is modeled closely upon voting trust agreements that have been approved by the STB. However, there can be no assurance that the STB will not seek changes in, or request public comment regarding, the Voting Trust Agreement. See "The Merger Agreement; Other Agreements -- Voting Trust Agreement."

It is possible that the Department of Justice or railroad competitors of Parent and the Company, or others, may argue that Purchaser should not be permitted to use the voting trust mechanism to acquire Shares prior to final STB approval of the acquisition of control of the Company. Purchaser believes it is unlikely that such arguments would prevail, but there can be no assurance in this regard, nor can there be any assurance that if such arguments are made, it will not cause delay in obtaining a favorable STB staff opinion regarding the Voting Trust Agreement.

Pursuant to the terms of the Voting Trust Agreement, it is expected that the Trustee would hold such Shares until (i) the receipt of STB approval or (ii) the Shares are disposed of. The Voting Trust Agreement that has been submitted to the staff of the STB for approval provides that Trustee will have sole power to vote the Shares in the Trust, will vote those Shares in favor of the Merger and, so long as the Merger Agreement is in effect, against any other acquisition transaction, will vote the Shares in favor of any permitted disposition of the Shares and, on all other matters, will vote the Shares in proportion to the vote of all other shareholders of

the Company. The Voting Trust Agreement contains certain other terms and conditions designed to ensure that neither Purchaser nor Parent will control the Company during the pendency of the STB proceedings. In addition, the Voting Trust Agreement provides that Purchaser or its successor in interest will be entitled to receive any such dividend paid by the Company.

STB Matters; Acquisition of Control. Set forth below is information relating to approval by the STB of the acquisition of control over the Company by Parent and Purchaser. On or before March 1, 1997 (but not before January 15, 1997), Parent, the Company and various of their affiliates plan to file an application (the "STB Application") seeking approval of the STB for the acquisition of control over the Company and its affiliates by Parent and its affiliates, the Merger, and related transactions. Under applicable law and regulations, the STB will hold a public hearing on such application, unless it determines that a public hearing is not necessary in the public interest. In ruling on the STB Application, it is expected that the STB will consider at least the following: (a) the effect of the proposed control transaction on the adequacy of transportation to the public; (b) the effect on the public interest of including, or failing to include, other rail carriers in the area involved in the proposed transaction; (c) the total fixed charges that result from the proposed transaction; (d) the interest of rail carrier employees affected by the proposed transaction; and (e) whether the proposed transaction would have an adverse effect on competition among rail carriers in the affected region or in the national rail system. The STB has the authority to impose conditions on its approval of a control transaction to alleviate competitive or other concerns. If such conditions are imposed, the applicants can elect to consummate the control transaction subject to the conditions or can elect not to consummate the transaction. Parent has indicated a willingness to agree to conditions to preserve rail competition where Parent and the Company are the only rail competitors. The obligations of Parent and Purchaser to consummate the Merger are conditioned upon, among other things, the issuance by the STB of a decision (which decision shall not have been stayed or enjoined) that (A) constitutes a final order approving, exempting or otherwise authorizing consummation of the Merger and all other transactions contemplated by the Merger Agreement and the Option Agreements (or subsequently presented to the STB by agreement of Parent and the Company) as may require such authorization and (B) does not (1) change or disapprove of the consideration to be given in the Merger or other material provisions of Article II of the Merger Agreement or (2) impose on Parent, the Company or any of their respective Subsidiaries (as defined in the Merger Agreement) any other terms or conditions (including, without limitation, labor protective provisions but excluding conditions heretofore imposed by the Interstate Commerce Commission in New York Dock Railway -- Control -- Brooklyn Eastern District, 360 I.C.C. 60 (1979)) that materially and adversely affect the long-term benefits expected to be received by Parent from the transactions contemplated by the Merger Agreement or the Company Option Agreement. There is no assurance that STB approval will be obtained or obtained on terms that would be acceptable to Parent. See "-- Merger Agreement -- Conditions to the Merger" in Section 13.

Three of the five factors listed above are, in Parent's view, unlikely to affect whether the STB Application is approved by the STB. As to factor (b) -- inclusion of other carriers -- the STB disfavors this remedy, it has rarely been requested, and Parent believes it is unlikely to be requested by any railroad in a Parent/Company proceeding. As to factor (c) -- effect on fixed charges -- the capital structure of the resulting company will be sufficiently strong that this factor is unlikely, in Parent's view, to be given weight by the STB in deciding whether to approve a combination of the Company and Parent. As to factor (d) -- the interest of affected carrier employees -- the STB has adopted a standard set of labor protective conditions -- the New York Dock conditions referred to above -- which it imposes in rail merger and control transactions, and Parent expects that those conditions would be imposed upon a merger of Purchaser and the Company and that this would not affect approval of the transaction.

The remaining two factors -- factor (a) -- effect on the adequacy of transportation -- and factor (e) -- effect on rail competition -- are reflected in the public interest balancing test that the STB applies in reviewing railroad mergers like the proposed combination of Parent and the Company. On the one hand, the STB considers the public benefits of the transaction in terms of better service to shippers, efficiencies, cost savings and the like. On the other hand, the STB considers any public harms from the transaction. The principal harm of concern to the STB, and the principal issue that is likely to be raised by parties opposing

approval of a merger of Purchaser and the Company or seeking the imposition of conditions thereto, is reduction in competition. In applying the public interest balancing test, the STB is guided by Congress' intent to encourage mergers, consolidations, and joint use of facilities that tend to rationalize and improve the Nation's rail system.

In light of the policies of the STB expressed in its recent decision relating to the combination of the Union Pacific and Southern Pacific Railroads, in connection with the Merger and upon its consummation, Parent and the Company are willing to provide competitive access to another railroad in those situations where Parent and the Company now are the only rail competitors. Such access may take the form of grant of trackage rights over rail properties, or other forms, any of which could diminish the value to Parent or the Surviving Corporation of its rail properties. The identity of the railroad or railroads that will be provided such competitive access, the forms it will take, and the terms and conditions that would apply thereto have not been determined and will be subject to negotiations. The STB may impose and enforce those arrangements, when reached, as conditions to its approval of the Merger and may require the modification of such arrangements or require other arrangements regarding rail competition or other aspects of the public interest, which could be more burdensome, as conditions to its approval of the Merger.

Parent and the Company intend to present to the STB their case that the acquisition of control of the Company by Parent satisfies the public interest balancing test. First, Parent and the Company will seek to show that a combination of the Company and Parent has significant public benefits. Second, Parent and the Company will seek to show that a combination of the Company and Parent, especially with competition-preserving conditions that Parent is prepared to agree to, will have no significant adverse effect on rail competition, and indeed will strengthen such competition. While Parent and the Company will seek to present a highly persuasive case, there can be no assurance that the STB Application will not be denied, or will not be granted subject to conditions that are so onerous that the Merger is not consummated.

Under existing law, the STB is required to enter a final order with respect to the STB Application within approximately 15 months after such application is accepted. However, the STB can process such cases more quickly. Parent, the Company and various of their affiliates plan to ask the STB to adopt a more expedited schedule. Under existing law, other railroads and other interested parties may seek to intervene to oppose the STB Application or to seek protective conditions in the event approval by the STB is granted. In addition, any appeals from the STB final order might not be resolved for a substantial period of time after the entry of such order by the STB.

Pending receipt of the STB approval, it is expected that the business and operations of the Company will be conducted in the usual and ordinary course of business, and the Company's employees and management will continue in their present positions.

State Takeover Statutes. A number of states throughout the United States have enacted takeover statutes that purport, in varying degrees, to be applicable to attempts to acquire securities of corporations that are incorporated or have assets, shareholders, executive offices or places of business in such states. In *Edgar v. Mite Corp.*, the Supreme Court of the United States held that the Illinois Business Takeover Act, which involved state securities laws that made the takeover of certain corporations more difficult, imposed a substantial burden on interstate commerce and therefore was unconstitutional. In *CTS Corp. v. Dynamics Corp. of America*, however, the Supreme Court of the United States held that a state may, as a matter of corporate law and, in particular, those laws concerning corporate governance, constitutionally disqualify a potential acquiror from voting on the affairs of a target corporation without prior approval of the remaining shareholders, provided that such laws were applicable only under certain conditions.

The Pennsylvania Takeover Disclosure Law ("PTDL") purports to regulate certain attempts to acquire a corporation which (1) is organized under the laws of Pennsylvania or (2) has its principal place of business and substantial assets located in Pennsylvania. The PTDL requires, among other things, that the offeror, 20 days prior to any takeover offer, file a registration statement for the takeover offer with the Pennsylvania Securities Commission (the "PSC") and publicly disclose the offering price of the disclosed offer. However, in *Crane Co. v. Lam*, 509 F. Supp. 782 (E.D. Pa. 1981), the United States District Court for the Eastern District of Pennsylvania preliminarily enjoined, on grounds arising under the United States Constitution,

enforcement of at least the portion of the PTDL involving the pre-offer waiting period thereunder. Section 8(a) of the PTDL provides an exemption for any offer to purchase securities as to which the board of directors of the target company recommends acceptance to its shareholders, if at the time such recommendation is first communicated to shareholders the offeror files with the PSC a copy of the Schedule 14D-1 and certain other information and materials, including an undertaking to notify security holders of the target company that a notice has been filed with the PSC which contains substantial additional information about the offer and which is available for inspection at the PSC's principal office during business hours. While reserving and not waiving its right to challenge the constitutionality or validity of the PTDL, its applicability to the Offer or the jurisdiction of the PSC, Purchaser is making such a filing with the PSC in order to qualify for such exemption from the PTDL. Additional information about the Offer has been filed with the Pennsylvania Securities Commission pursuant to the PTDL and is available for inspection at the Pennsylvania Securities Commission's office at Eastgate Office Building, Second Floor, 1010 North 7th Street, Harrisburg, PA 17102-1410, during business hours.

Chapter 25 of the Pennsylvania Law contains other provisions relating generally to takeovers and acquisitions of certain publicly owned Pennsylvania corporations such as the Company that have a class or series of shares entitled to vote generally in the election of directors registered under the Exchange Act (a "registered corporation"). The following discussion is a general and highly abbreviated summary of certain features of such chapter, is not intended to be complete or to completely address potentially applicable exceptions or exemptions, and is qualified in its entirety by reference to the full text of Chapter 25 of the Pennsylvania Law.

In addition to other provisions not applicable to the Offer or the Merger, Subchapter 25D of the Pennsylvania Law includes provisions requiring approval of a merger of a registered corporation with an "interested shareholder" in which the "interested shareholder" is treated differently from other shareholders, by the affirmative vote of the shareholders entitled to cast at least a majority of the votes that all shareholders other than the interested shareholder are entitled to cast with respect to the transaction without counting the votes of the interested shareholders. This disinterested shareholder approval requirement is not applicable to a transaction (i) approved by a vote of the board of directors, without counting the votes of directors who are directors or officers of, or who have a material equity interest in, the interested shareholder, (ii) in which the consideration to be received by shareholders is not less than the highest amount paid by the interested shareholder in acquiring his shares, or (iii) effected without submitting the Merger to a vote of shareholders as permitted in Section 1924(b)(1)(ii) of the Pennsylvania Law. Purchaser believes that the disinterested shareholder approval requirement of Subchapter 25D will not be applicable to the contemplated Merger because of prior disinterested Company Board approval.

Subchapter 25E of the Pennsylvania Law, which addresses "control transactions," requires under certain circumstances any person who acquires at least 20% of the voting power of a registered corporation, upon written demand from any shareholder, to purchase for cash up to the balance of the voting shares of the corporation at the price determined under the statute, which may not be less than the highest price per share paid by the controlling person or group at any time during the 90-day period ending on and including the date of the control transaction, plus, to the extent not reflected in such price, an increment representing a proportion of any value payable for acquisition of control of the corporation. A "control transaction" would occur if, without the Pennsylvania Shareholder Approval, Purchaser were to acquire voting power over 20% or more of the Shares pursuant to the Offer, the Company Stock Option Agreement or otherwise (except in the Merger). Because Purchaser intends to acquire less than 20% of the voting power of the Company until such time as the Pennsylvania Shareholder Approval is obtained, Subchapter 25E would not be applicable. See Section 13.

Subchapter 25F of the Pennsylvania Law prohibits under certain circumstances certain "business combinations," including mergers and sales or pledges of significant assets, of a registered corporation with an "interested shareholder" for a period of five years. Subchapter 25F exempts, among other things, business combinations approved by the board or directors prior to a shareholder becoming an interested shareholder. Since the Board of Directors of the Company approved the Merger prior to such time as Parent and Purchaser

may be deemed to have become an interested shareholder, Purchaser believes that Subchapter 25F is not applicable to the contemplated Merger.

Subchapter 25G of the Pennsylvania Law, relating to "control-share acquisitions," prevents under certain circumstances the owner of a control-share block of shares of a registered corporation from voting such shares unless a majority of the "disinterested" shares approve such voting rights. Failure to obtain such approval may result in a forced sale by the control-share owner of the control-share block to the corporation at a possible loss. The Company Articles specifically provide that Subchapter 25G does not apply to the Company.

Subchapter 25H of the Pennsylvania Law, relating to disgorgement by certain controlling shareholders of a registered corporation, provides that under certain circumstances any profit realized by a controlling person from the disposition of shares of the corporation to any person (including to the corporation under Subchapter 25G or otherwise) will be recoverable by the corporation. The Company Articles specifically provide that Subchapter 25H does not apply to the Company.

Subchapter 25I of the Pennsylvania Law entitles "eligible employees" of a registered corporation to a lump sum payment of severance compensation under certain circumstances if the employee is terminated, other than for willful misconduct, within two years after voting rights lost as a result of a control-share acquisition are restored by a vote of disinterested shareholders ("Control-share Approval") or, in the event the termination was accomplished pursuant to an agreement, arrangement or understanding with the acquiring person, within 90 days prior to Control-share Approval. Subchapter 25J of Pennsylvania Law provides protection against termination or impairment under certain circumstances of "covered labor contracts" of a registered corporation as a result of a "business combination" transaction if the business operation to which the covered labor contract relates was owned by the registered corporation at the time voting rights are restored by shareholder vote after a control-share acquisition. Subchapters I and J apply only in the event of a "control-share acquisition" specified in Subchapter G. The Company Articles specifically provide that Subchapter G does not apply to the Company.

Section 2504 of the Pennsylvania Law provides that the applicability of Chapter 25 of the Pennsylvania Law to a registered corporation having a class or series of shares entitled to vote generally in the election of directors registered under the Exchange Act or otherwise satisfying the definition of a registered corporation under Section 2502(1) of the Pennsylvania Law shall terminate immediately upon the termination of the status of the corporation as a registered corporation. Purchaser intends to seek to cause the Company to terminate the registration of the Shares under the Exchange Act as soon after consummation of the Merger as the requirements for termination of the registration of the Common Shares are met.

Except for the filing pursuant to Section 8(a) of the PTDL described above, neither Purchaser nor Parent has currently complied with any state takeover statute or regulation. Purchaser reserves the right to challenge the applicability or validity of any state law purportedly applicable to the Offer or the Merger and nothing in this Offer to Purchaser or any action taken in connection with the Offer or the Merger is intended as a waiver of such right. If it is asserted that any state takeover statute is applicable to the Offer or the Merger and an appropriate court does not determine that it is inapplicable or invalid as applied to the Offer or the Merger, Purchaser might be required to file certain information with, or to receive approvals from, the relevant state authorities, and Purchaser might be unable to accept for payment or pay for Shares tendered pursuant to the Offer, or be delayed in consummating the Offer or the Merger. In such case, Purchaser may not be obliged to accept for payment or pay for any Shares tendered pursuant to the Offer.

A number of other states have adopted laws and regulations applicable to attempts to acquire securities of corporations which are incorporated, or have substantial assets, shareholders, principal executive offices or principal places of business, or whose business operations otherwise have substantial economic effects, in such states. In 1982, in *Edgar v. MITE Corp.*, the Supreme Court of the United States invalidated on constitutional grounds the Illinois Business Takeover Statute, which, as a matter of state securities law, made takeovers of corporations meeting certain requirements more difficult. However, in 1987 in *CTS Corp. v. Dynamics Corp. of America*, the Supreme Court held that the State of Indiana may, as a matter of corporate law, and, in particular, with respect to those aspects of corporate law concerning corporate governance, constitutionally disqualify a potential acquirer from voting on the affairs of a target corporation without the prior approval of

the remaining shareholders. The state law before the Supreme Court was by its terms applicable only to corporations that had a substantial number of shareholders in the state and were incorporated there.

The Company, directly or through subsidiaries, conducts business in a number of states throughout the United States, some of which have enacted takeover laws. Purchaser does not know whether any of these laws will, by their terms, apply to the Offer and has not complied with any such laws. Should any person seek to apply any state takeover law, Purchaser will take such action as then appears desirable, which may include challenging the validity or applicability of any such statute in appropriate court proceedings. In the event it is asserted that one or more state takeover laws are applicable to the Transaction, and an appropriate court does not determine that such law is, or such laws are inapplicable or invalid as applied to the Offer, Purchaser might be required to file certain information with, or receive approvals from, the relevant state authorities. In addition, if enjoined, Purchaser might be unable to accept for payment any Shares tendered pursuant to the Offer, or be delayed in continuing or consummating the Offer. In such case, Purchaser may not be obligated to accept for payment any Shares tendered. See Section 15.

17. FEES AND EXPENSES. Wasserstein Perella & Co., Inc. ("Wasserstein Perella") is acting as the Dealer Manager in connection with the Offer and is acting as financial advisor to Parent in connection with its acquisition of the Company. Parent has agreed to pay Wasserstein Perella for its services in conjunction with the Offer and other transactions contemplated by the Merger Agreement an aggregate fee (the "Transaction Fee") of \$19 million. The first \$2.85 million of the Transaction Fee was payable upon the public announcement that the Company and Parent had entered into the Merger Agreement. An additional \$2.85 million of the Transaction Fee and an additional \$5.7 million of the Transaction Fee are payable upon completion of certain events with respect to the Transactions. The remaining unpaid balance of the Transaction Fee is payable upon the closing of the Merger. If the Merger Agreement is terminated or abandoned prior to the consummation of an acquisition transaction, and Parent or Purchaser receives a termination fee in connection with such termination or abandonment, then, immediately following Parent's receipt of such termination fee, Wasserstein Perella will receive an additional fee of \$5 million; provided that such additional fee shall have credited against it certain prior payments. Parent has agreed to reimburse Wasserstein Perella for its out-of-pocket expenses, including the fees and expenses of its legal counsel, incurred in connection with its engagement, and to indemnify Wasserstein Perella and certain related persons against certain liabilities and expenses in connection with its engagement, including certain liabilities under the federal securities laws.

Wasserstein Perella has rendered various investment banking and other advisory services to Parent and its affiliates in the past and is expected to continue to render such services, for which it has received and will continue to receive customary compensation from Parent and its affiliates. In the ordinary course of business, Wasserstein Perella and its affiliates may actively trade the debt and equity securities of Parent and its affiliates and the Company for their own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

Purchaser has retained MacKenzie Partners, Inc. to act as the Information Agent in connection with the Offer. The Information Agent may contact holders of Shares by mail, telephone, facsimile, telegraph and personal interviews and may request brokers, dealers and other nominee shareholders to forward materials relating to the Offer to beneficial owners of Shares. The Information Agent will receive reasonable and customary compensation for its services, will be reimbursed for certain reasonable out-of-pocket expenses and will be indemnified against certain liabilities and expenses in connection therewith, including certain liabilities under the federal securities laws.

In addition, IBJ Schroder Bank & Trust Company has been retained as the Depositary. The Depositary has not been retained to make solicitations or recommendations in its role as Depositary. The Depositary will receive reasonable and customary compensation for its services, will be reimbursed for certain reasonable out-of-pocket expenses and will be indemnified against certain liabilities and expenses in connection therewith, including certain liabilities under the federal securities laws.

Except as set forth above, Purchaser will not pay any fees or commissions to any broker or dealer or any other person for soliciting tenders of Shares pursuant to the Offer. Brokers, dealers, commercial banks and

trust companies will, upon request only, be reimbursed by Purchaser for customary mailing and handling expenses incurred by them in forwarding material to their customers.

18. MISCELLANEOUS. Purchaser is not aware of any jurisdiction where the making of the Offer is prohibited by any administrative or judicial action pursuant to any valid state statute. If Purchaser becomes aware of any valid state statute prohibiting the making of the Offer or the acceptance of the Shares pursuant thereto, Purchaser will make a good faith effort to comply with such state statute. If, after such good faith effort, Purchaser cannot comply with any such state statute, the Offer will not be made to (nor will tenders be accepted from or on behalf of) the holders of Shares in such state. In any jurisdiction where the securities, blue sky or other laws require the Offer to be made by a licensed broker or dealer, the Offer shall be deemed to be made on behalf of Purchaser by one or more registered brokers or dealers which are licensed under the laws of such jurisdiction.

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION ON BEHALF OF PARENT OR PURCHASER NOT CONTAINED IN THIS OFFER TO PURCHASE OR IN THE LETTER OF TRANSMITTAL AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED.

Parent and Purchaser have filed with the SEC the Schedule 14D-1, together with exhibits, pursuant to Rule 14d-3 of the General Rules and Regulations under the Exchange Act, furnishing certain additional information with respect to the Offer. The Schedule 14D-1, and any amendments thereto, may be inspected at, and copies may be obtained from, the same places and in the same manner as set forth in Section 8 (except that they will not be available at the regional offices of the SEC).

GREEN ACQUISITION CORP.

October 16, 1996

SCHEDULE I

INFORMATION CONCERNING DIRECTORS AND EXECUTIVE
OFFICERS OF PARENT AND PURCHASER

1. Directors and Executive Officers of Parent. The following table sets forth the name, business address, present principal occupation, and employment and material occupations, positions, offices, or employments for the past five years of each director and executive officer of Parent. The principal business address of each executive officer of Parent is One James Center, 901 East Cary Street, Richmond, VA 23219. Unless otherwise indicated, each occupation set forth opposite an individual's name refers to employment with Parent. Where no date is given for the commencement of the indicated office or position, such office or position was assumed prior to October 16, 1991. Directors are indicated by an asterisk. Each director and executive officer listed below is a citizen of the United States.

NAME AND CURRENT BUSINESS ADDRESS	PRINCIPAL OCCUPATION OR EMPLOYMENT; MATERIAL POSITIONS HELD DURING THE PAST FIVE YEARS
John Q. Anderson.....	Executive Vice President, Sales and Marketing, CSX Transportation, Inc. ("CSXT") since May 1996. Prior thereto, Senior Vice President -- Coal, Metals and Minerals Business of Burlington Northern Santa Fe Corporation.
Mark G. Aron.....	Executive Vice President -- Law and Public Affairs since April 1995. Prior thereto, Senior Vice President -- Law and Public Affairs.
Elizabeth E. Bailey*..... 3620 Spruce Street Philadelphia, PA 19104	John C. Hower Professor of Public Policy and Management, The Wharton School of the University of Pennsylvania. Director of Honeywell, Inc. and Philip Morris Companies, Inc. Director of Parent since November 1989.
Robert L. Burrus, Jr.*..... One James Center 901 East Cary Street Richmond, VA 23219	Partner in and Chairman of McGuire, Woods, Battle & Boothe, a law firm. Director of Concepts Direct, Inc.; Heilig-Meyers Company; O'Sullivan Corporation; S&K Famous Brands, Inc. and Smithfield Foods, Inc.; Director of Parent since April 1993.
Alvin R. Carpenter.....	President, CSXT since January 1992. Prior thereto, President of CSX Distribution Services, Inc.
John P. Clancey.....	President and Chief Executive Officer, Sea-Land Service Inc. ("Sea-Land").
Donald D. Davis.....	Senior Vice President -- Employee Relations, CSXT since April 1992. Prior thereto, Senior Vice President -- Human Resources.
James Ermer.....	Executive Vice President -- Corporate Planning and Development since April 1995. Prior thereto, Senior Vice President -- Finance.
Andrew B. Fogarty.....	Senior Vice President -- Finance & Planning, Sea-Land since June 1996. Vice President -- Audit and Advisory Services from February 1995 to June 1996. Vice President -- Executive Department.
Paul R. Goodwin.....	Executive Vice President -- Finance and Chief Financial Officer since April 1995. From February 1995 to April 1995, Executive Vice President -- Finance and Administration, CSXT. Prior thereto, Senior Vice President -- Finance, CSXT.
Bruce C. Gottwald*..... 330 South Forth Street P.O. Box 2189 Richmond, VA 23219	Chairman and Chief Executive Officer of Ethyl Corporation, a worldwide producer of petroleum additives. Director of Albemarle Corporation; First Colony Corporation; First Colony Life Insurance Co.; James River Corporation and Tredegar Industries, Inc. Director of Parent since April 1988.

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NAME AND CURRENT BUSINESS ADDRESS	PRINCIPAL OCCUPATION OR EMPLOYMENT; MATERIAL POSITIONS HELD DURING THE PAST FIVE YEARS
Robert J. Gross.....	Senior Vice President -- Atlantic-AME since June 1996. Prior thereto, Senior Vice President -- Finance and Planning.
Michael C. Hagan.....	President and Chief Executive Officer, American Commercial Lines, Inc. since May 1992. Prior thereto, President and Chief Operating Officer of American Commercial Lines.
John R. Hall*..... 100 Ashland Dr. Russell, KY 41169	Chairman and Chief Executive Officer of Ashland Inc. Director of Banc One Corporation; The Canada Life Assurance Company; Humana Inc.; Reynolds Metals Company and UCAR International Inc. Director of Parent since May 1994.
Richard H. Klem.....	Vice President -- Corporate Strategy since May 1992. Prior thereto, Vice President -- Economic Analysis and Corporate Strategy.
Robert D. Kunisch*..... 11333 McCormick Rd. Hunt Valley, MD 21031	Chairman, President and Chief Executive Officer of PHH Corporation, provider of value added business services, including vehicle management services, real estate services, and mortgage banking services. Director of Mercantile Bankshares Corporation and GenCorp. Director of Parent since October 1990.
Hugh L. McCall Jr.*..... NationsBank Corporate Center Charlotte, NC 28255	Chairman and Chief Executive Officer of NationsBank Corporation, a bank holding company. Prior thereto, Chairman and Chief Executive Officer of NCNB Corporation, a predecessor of NationsBank Corporation. Director of Jefferson-Pilot Corporation; Jefferson-Pilot Life Insurance Company; Ruddick Corporation and Sonoco Products Co. Director of Parent since February 1992.
James W. McGlothlin*..... P.O. Box 1280 Bristol, VA 24203	Chairman and Chief Executive Officer of The United Company, a diversified energy company. Director of Basset Furniture Industries, Inc. Director of Parent since November 1989.
Southwood J. Morcott*..... 4500 Dorr Street Toledo, OH 43615	Chairman and Chief Executive Officer of Dana Corporation, a manufacturer of automotive and truck parts and provider of commercial credit. Previously, Chairman, President and Chief Executive Officer of Dana Corporation. Director of Johnson Controls, Inc. and Phelps Dodge Corporation. Director of Parent since July 1990.
Jesse R. Mohorovic.....	Vice President -- Executive Department since February 1995. From April 1994 to February 1995, Vice President -- Corporate Communications of CTX. Prior thereto, Vice President -- Corporate Communications of Sea-Land.
Richard E. Murphy.....	Senior Vice President -- Corporate Marketing since 1996. From 1995 to 1996, Senior Vice President -- Atlantic AME; Vice President -- Pacific Services, from 1993-1995; prior thereto, Vice President -- Pacific Services, Sea-Land.
Gerald L. Nichols.....	Executive Vice President and Chief Operating Officer, CSXT since February 1995. Prior thereto, Senior Vice President -- Administration of CSXT
M. McNeil Porter.....	Chairman, CSX Intermodal, Inc. since January 1996. Prior thereto, President and CEO of CSX Intermodal, Inc.
Charles G. Raymond.....	Senior Vice President -- Operations, Sea-Land.
Charles E. Rice*..... 50 North Laura Street Jacksonville, FL 32202	Chairman and Chief Executive Officer of Barnett Banks, Inc., a bank holding company. Director of Spring Corporation. Director of Parent since April 1990.

NAME AND CURRENT BUSINESS ADDRESS	PRINCIPAL OCCUPATION OR EMPLOYMENT; MATERIAL POSITIONS HELD DURING THE PAST FIVE YEARS
William C. Richardson*..... 1 Michigan Avenue Battle Creek, MI 49017	President and Chief Executive Officer of the W.K. Kellogg Foundation, a major philanthropic institution, since 1995. Prior thereto, President of The Johns Hopkins University. Director of Mercantile Bankshares Corporation and Mercantile Safe Deposit & Trust Company. Director of Parent since December 1992.
James L. Ross.....	Vice President and Controller, since October 1995. Prior thereto, Audit Partner, Ernst Young, LLP.
Frank S. Royal*..... 1122 North 25th Street Richmond, VA 23223	Physician. Director of Columbia/HCA Healthcare Corporation; Crestar Financial Corporation; Chesapeake Corporation and Dominion Resources, Inc. Director of Parent since January 1994.
John W. Snow*.....	Chairman of the Board, President and Chief Executive Officer of Parent. Director of Circuit City Stores, Inc.; NationsBank Corporation; Bassett Furniture Industries, Inc.; Textron, Inc. and USX Corporation. Director of Parent since April 1988.
Ronald T. Sorrow.....	President and Chief Executive Officer of CSX Intermodal, Inc. since January 1996. Prior thereto, Vice President -- Sales and Marketing of CSX Intermodal, Inc.
William H. Sparrow.....	Vice President -- Financial Planning since February 1996. From May 1994 to February 1996, Vice President -- Capital Budgeting. Prior thereto, Vice President & Treasurer.
Michael J. Ward.....	Executive Vice President, CSXT from May 1996. Senior Vice President -- Finance, CSXT from April 1995 to May 1996. Prior thereto, General Manager -- C&O Business Unit, from 1994 to April 1995, and Vice President -- Coal of CSXT.
Gregory W. Weber.....	Vice President and Treasurer

2. Directors and Executive Officers of Purchaser. Set forth below are the name and position with Purchaser of each director and executive officer of Purchaser. The principal address of Purchaser and the current business address of each individual listed below is One James Center, 901 East Cary Street, Richmond, VA 23219. Each such person is a citizen of the United States. The present principal occupation or employment (in addition to the position with Purchaser indicated below), and material occupations, positions, offices or employments for the past five years of each person is set forth in Part 1 above (except for Alan A. Rudnick whose principal occupation since May, 1991 is Vice President -- General Counsel and Corporate Secretary). Directors are indicated by an asterisk.

NAME	PRESENT POSITION WITH THE PURCHASER
Mark G. Aron*.....	General Counsel and Secretary
Paul R. Goodwin*.....	Chief Financial Officer and Treasurer
Alan A. Rudnick.....	Assistant Secretary
John W. Snow*.....	Chief Executive Officer

Facsimile copies of the Letter of Transmittal, properly completed and duly signed, will be accepted. The Letter of Transmittal, certificates for the Shares and any other required documents should be sent by each shareholder of the Company or his broker, dealer, commercial bank, trust company or other nominee to the Depositary at one of its addresses set forth below:

The Depositary for the Offer is:

IBJ SCHRODER BANK & TRUST COMPANY

By Mail:

P.O. Box 84
Bowling Green Station
New York, New York 10274-0084
Attn: Reorganization
Operations Department

By Facsimile Transmission:

(212) 858-2611
Attn: Reorganization
Operations Department

Confirm Facsimile by Telephone:
(212) 858-2103

By Hand or
Overnight Delivery:

One State Street
New York, New York 10004
Attn: Securities
Processing Window,
Subcellar One

Any questions or requests for assistance or additional copies of the Offer to Purchase, the Letter of Transmittal and the Notice of Guaranteed Delivery may be directed to the Information Agent or the Dealer Manager at their respective telephone numbers and locations listed below. You may also contact your broker, dealer, commercial bank or trust company or other nominee for assistance concerning the Offer.

The Information Agent for the Offer is:

MACKENZIE PARTNERS, INC.

156 Fifth Avenue
New York, New York 10010
(212) 929-5500 (call collect)
or
CALL TOLL FREE (800) 322-2885

The Dealer Manager for the Offer is:

WASSERSTEIN PERELLA & CO., INC.

31 West 52nd Street
New York, New York 10019
Call Collect:
(212) 969-2700

LETTER OF TRANSMITTAL
TO TENDER SHARES OF COMMON STOCK AND SERIES A ESOP CONVERTIBLE JUNIOR PREFERRED
STOCK
(INCLUDING, IN EACH CASE, THE ASSOCIATED COMMON STOCK PURCHASE RIGHTS)

OF
CONRAIL INC.
PURSUANT TO THE OFFER TO PURCHASE
DATED OCTOBER 16, 1996
BY

GREEN ACQUISITION CORP.
A WHOLLY OWNED SUBSIDIARY
OF
CSX CORPORATION

THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT,
NEW YORK CITY TIME, ON FRIDAY, NOVEMBER 15, 1996, UNLESS THE OFFER IS EXTENDED.

The Depositary for the Offer is:
IBJ SCHRODER BANK & TRUST COMPANY

By Mail:
P.O. Box 84
Bowling Green Station
New York, New York 10274-0084
Attn: Reorganization Operations
Department

By Hand or Overnight Delivery:
One State Street
New York, New York 10004
Attn: Securities Processing
Window,
Subcellar One

By Facsimile Transmission:

(212) 858-2611
Attn: Reorganization Operations Department

Confirm Facsimile by telephone:

(212) 858-2103

DELIVERY OF THIS LETTER OF TRANSMITTAL TO AN ADDRESS OTHER THAN AS SET
FORTH ABOVE OR TRANSMISSION OF INSTRUCTIONS VIA FACSIMILE OR TELEX TRANSMISSION
OTHER THAN AS SET FORTH ABOVE WILL NOT CONSTITUTE A VALID DELIVERY. YOU MUST
SIGN THIS LETTER OF TRANSMITTAL WHERE INDICATED BELOW AND COMPLETE THE
SUBSTITUTE FORM W-9 PROVIDED BELOW.

THE INSTRUCTIONS ACCOMPANYING THIS LETTER OF TRANSMITTAL SHOULD BE READ
CAREFULLY BEFORE THIS LETTER OF TRANSMITTAL IS COMPLETED.

This Letter of Transmittal is to be completed by shareholders of Conrail
Inc. either if certificates ("Share Certificates") evidencing shares of common
stock, par value \$1.00 per share (the "Common Shares") or shares of Series A
ESOP Convertible Junior Preferred Stock, without par value (the "ESOP Preferred
Shares" and, together with the Common Shares, the "Shares") are to be forwarded
herewith or if delivery of Shares is to be made by book-entry transfer to the
Depositary's account at The Depositary Trust Company or the Philadelphia
Depositary Trust Company (each, a "Book-Entry Transfer Facility" and
collectively, the "Book-Entry Transfer Facilities") pursuant to the book-entry
transfer procedure described in "Procedures for Tendering Shares" of the Offer
to Purchase (as defined below). Delivery of documents to a Book-Entry Transfer
Facility in accordance with such Book-Entry Transfer Facility's procedures does
not constitute delivery to the Depositary.

Holders of Shares will be required to tender one Right for each Share tendered to effect a valid tender of such Share. Until the Distribution Date (as defined in the Offer to Purchase) occurs, the Rights are represented by and transferred with the Shares. Accordingly, if the Distribution Date does not occur prior to the Expiration Date (as defined in the Offer to Purchase), a tender of Shares will constitute a tender of the associated Rights. If a Distribution Date has occurred, certificates representing a number of Rights equal to the number of Shares being tendered must be delivered to the Depositary in order for such Shares to be validly tendered. If a Distribution Date has occurred, a tender of Shares without Rights constitutes an agreement by the tendering shareholder to deliver certificates representing a number of Rights equal to the number of Shares tendered pursuant to the Offer to the Depositary within three New York Stock Exchange, Inc. trading days after the date such certificates are distributed. Purchaser (as defined in the Offer to Purchase) reserves the right to require that it receive such certificates prior to accepting Shares for payment. Payment for Shares tendered and purchased pursuant to the Offer will be made only after timely receipt by the Depositary of, among other things, such certificates, if such certificates have been distributed to holders of Shares. Purchaser will not pay any additional consideration for the Rights tendered pursuant to the Offer.

Shareholders whose Share Certificates are not immediately available or who cannot deliver their Share Certificates and all other documents required hereby to the Depositary prior to the Expiration Date (as defined in "Terms of the Offer; Proration; Expiration Date" of the Offer to Purchase) or who cannot complete the procedure for delivery by book-entry transfer on a timely basis and who wish to tender their Shares must do so pursuant to the guaranteed delivery procedure described in "Procedures for Tendering Shares" of the Offer to Purchase. See Instruction 2.

// CHECK HERE IF SHARES ARE BEING DELIVERED BY BOOK-ENTRY TRANSFER TO THE DEPOSITARY'S ACCOUNT AT ONE OF THE BOOK-ENTRY TRANSFER FACILITIES AND COMPLETE THE FOLLOWING:

Name of Tendering Institution:

Check Box of Applicable Book-Entry Transfer Facility:

// The Depositary Trust Company
// Philadelphia Depositary Trust Company

Account Number _____ Transaction Code Number _____

// CHECK HERE IF SHARES ARE BEING TENDERED PURSUANT TO A NOTICE OF GUARANTEED DELIVERY PREVIOUSLY SENT TO THE DEPOSITARY AND COMPLETE THE FOLLOWING:

Name(s) of Registered Holder(s):

Window Ticket No. (if any):

Date of Execution of Notice of Guaranteed Delivery:

Name of Institution which Guaranteed Delivery:

If Delivered by Book-Entry Transfer, Check Box of Book-Entry Transfer Facility:

// The Depositary Trust Company
// Philadelphia Depositary Trust Company

Account Number _____ Transaction Code Number _____

DESCRIPTION OF SHARES TENDERED

NAME(S) AND ADDRESS(ES) OF REGISTERED HOLDER(S)
(PLEASE FILL IN, IF BLANK)

SHARE CERTIFICATE(S) TENDERED
(ATTACH ADDITIONAL LIST IF NECESSARY)

CERTIFICATE NUMBER(S)*	TOTAL NUMBER OF SHARES REPRESENTED BY CERTIFICATE(S)	NUMBER OF SHARES TENDERED**
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TOTAL SHARES

* Need not be completed by shareholders tendering by book-entry transfer.

** Unless otherwise indicated, it will be assumed that all Shares being delivered to the Depositary are being tendered. See Instruction 4.

NOTE: SIGNATURES MUST BE PROVIDED BELOW.
PLEASE READ THE INSTRUCTIONS SET FORTH IN THIS
LETTER OF TRANSMITTAL CAREFULLY.

Ladies and Gentlemen:

The undersigned hereby tenders to Green Acquisition Corp., a Pennsylvania corporation ("Purchaser") and a wholly owned subsidiary of CSX Corporation, a Virginia corporation, the above-described shares of common stock, par value \$1.00 per share (the "Common Shares") or shares of Series A ESOP Convertible Junior Preferred Stock, without par value (the "ESOP Preferred Shares" and, together with the Common Shares, the "Shares"), of Conrail Inc., a Pennsylvania corporation (the "Company"), including, in each case, the associated Common Stock Purchase Rights (the "Rights") issued pursuant to the Rights Agreement dated as of July 19, 1989, between the Company and First Chicago Trust Company of New York, as Rights Agent (as amended, the "Rights Agreement"), pursuant to Purchaser's offer to purchase an aggregate of 17,860,124 Shares, including, in each case, the associated Rights, at a price of \$92.50 per Share, net to the seller in cash, upon the terms and subject to the conditions set forth in the Offer to Purchase, dated October 16, 1996 (the "Offer to Purchase"), receipt of which is hereby acknowledged, and in this Letter of Transmittal (which, as amended from time to time, together constitute the "Offer"). All references herein to the Common Shares, ESOP Preferred Shares or Shares includes the associated Rights.

The undersigned understands that Purchaser reserves the right to transfer or assign, in whole at any time, or in part from time to time, to one or more of its affiliates, the right to purchase all or any portion of the Shares tendered pursuant to the Offer, but any such transfer or assignment will not relieve Purchaser of its obligations under the Offer and will in no way prejudice the rights of tendering shareholders to receive payment for Shares validly tendered and accepted for payment pursuant to the Offer.

Subject to, and effective upon, acceptance for payment of the Shares tendered herewith, in accordance with the terms of the Offer (including, if the Offer is extended or amended, the terms and conditions of any such extension or amendment), the undersigned hereby sells, assigns and transfers to, or upon the order of, Purchaser all right, title and interest in and to all the Shares that are being tendered hereby (and any and all non-cash dividends, distributions, rights, other Shares or other securities issued or issuable in respect of such Shares or declared, paid or distributed in respect of such Shares on or after October 14, 1996 (collectively, "Distributions")), and irrevocably appoints the Depository the true and lawful agent and attorney-in-fact of the undersigned with respect to such Shares and all Distributions, with full power of substitution (such power of attorney being deemed to be an irrevocable power coupled with an interest), to (i) deliver certificates for such Shares (individually, a "Share Certificate") and all Distributions, or transfer ownership of such Shares and all Distributions on the account books maintained by a Book-Entry Transfer Facility, together, in either case, with all accompanying evidence of transfer and authenticity to, or upon the order of Purchaser, (ii) present such Shares and all Distributions for transfer on the books of the Company and (iii) receive all benefits and otherwise exercise all rights of beneficial ownership of such Shares and all Distributions, all in accordance with the terms of the Offer.

If, on or after October 14, 1996, the Company should declare or pay any cash or stock dividend, other than regular quarterly cash dividends, or make any distribution with respect to the Shares that is payable or distributable to stockholders of record on a date prior to the transfer to the name of Purchaser or its nominee or transferee on the Company's stock transfer records of the Shares accepted for payment pursuant to the Offer, then, subject to the provisions of Section 14 of the Offer to Purchase, (i) the purchase price per Share payable by Purchaser pursuant to the Offer will be reduced by the amount of any such cash dividend or cash distribution and (ii) any such non-cash dividend, distribution or right to be received by the tendering shareholder will be received and held by such tendering shareholder for the account of Purchaser and will be required to be promptly remitted and transferred by each such tendering shareholder to the Depository for the account of Purchaser, accompanied by appropriate documentation of transfer. Pending such remittance, Purchaser will be entitled to all rights and privileges as owner of any such non-cash dividend, distribution or right and may withhold the entire purchase price or deduct from the purchase price the amount of value thereof, as determined by Purchaser in its sole discretion.

By executing this Letter of Transmittal, the undersigned irrevocably appoints John W. Snow, Mark G. Aron and Alan A. Rudnick as proxies of the undersigned, each with full power of substitution, to the full extent of the undersigned's rights with respect to the Shares tendered by the undersigned and accepted for payment by Purchaser (and any and all Distributions). All such proxies shall be considered coupled with an interest in the tendered Shares. This appointment will be effective if, when, and only to the extent that, Purchaser accepts such Shares for payment pursuant to the Offer. Upon such acceptance for payment, all prior proxies given by the undersigned with respect to such Shares, Distributions and other securities will, without further action, be revoked, and no subsequent proxies may be given. The individuals named above as proxies will, with respect to the Shares, Distributions and other securities for which the appointment is effective, be empowered (subject to the terms of the Voting Trust Agreement (as defined in the Offer to Purchase) so long as it shall be in effect with respect to the Shares) to exercise all voting and other rights of the undersigned as they in their sole discretion may deem proper at any annual, special, adjourned or postponed meeting of the Company's shareholders, by written consent or otherwise, and Purchaser reserves the right to require that, in order for Shares, Distributions or other securities to be deemed validly tendered, immediately upon Purchaser's acceptance for payment of such Shares Purchaser must be able to exercise full voting rights with respect to such Shares.

The undersigned hereby represents and warrants that the undersigned has full power and authority to tender, sell, assign and transfer the Shares tendered hereby and all Distributions, that the undersigned own(s) the Shares tendered hereby within the meaning of Rule 14e-4 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that such tender of Shares complies with Rule 14e-4 under the Exchange Act, and that when such Shares are accepted for payment by Purchaser, Purchaser will acquire good, marketable and unencumbered title thereto and to all Distributions, free and clear of all liens, restrictions, charges and encumbrances, and that none of such Shares and Distributions will be subject to any adverse claim. The undersigned, upon request, shall execute and deliver all additional documents deemed by the Depositary or Purchaser to be necessary or desirable to complete the sale, assignment and transfer of the Shares tendered hereby and all Distributions. In addition, the undersigned shall remit and transfer promptly to the Depositary for the account of Purchaser all Distributions in respect of the Shares tendered hereby, accompanied by appropriate documentation of transfer, and, pending such remittance and transfer or appropriate assurance thereof, Purchaser shall be entitled to all rights and privileges as owner of each such Distribution and may withhold the entire purchase price of the Shares tendered hereby or deduct from such purchase price, the amount or value of such Distribution as determined by Purchaser in its sole discretion.

No authority herein conferred or agreed to be conferred shall be affected by, and all such authority shall survive, the death or incapacity of the undersigned. All obligations of the undersigned hereunder shall be binding upon the heirs, personal representatives, successors and assigns of the undersigned. Except as stated in the Offer to Purchase, this tender is irrevocable.

The undersigned understands that tenders of Shares pursuant to any one of the procedures described in "Procedures for Tendering Shares" of the Offer to Purchase and in the Instructions hereto will constitute the undersigned's acceptance of the terms and conditions of the Offer. Purchaser's acceptance for payment of Shares tendered pursuant to the Offer will constitute a binding agreement between the undersigned and Purchaser upon the terms and subject to the conditions of the Offer. The undersigned recognizes that under certain circumstances set forth in the Offer to Purchase, Purchaser may not be required to accept for payment any of the Shares tendered hereby.

Unless otherwise indicated herein in the box entitled "Special Payment Instructions," please issue the check for the purchase price of all Shares purchased, and return all Share Certificates evidencing Shares not purchased or not tendered, in the name(s) of the registered holder(s) appearing above under "Description of Shares Tendered." Similarly, unless otherwise indicated in the box entitled "Special Delivery Instructions," please mail the check for the purchase price of all Shares purchased and all Share Certificates evidencing Shares not tendered or not purchased (and accompanying documents, as appropriate) to the address(es) of the registered holder(s) appearing above under "Description of Shares Tendered." In the event that the boxes entitled "Special Payment Instructions" and "Special Delivery Instructions" are both completed, please issue the check for the purchase price of all Shares purchased and return all Share Certificates evidencing Shares not purchased or not tendered in the name(s) of, and mail such check and Share Certificates to, the person(s) so indicated. Unless otherwise indicated herein in the box entitled "Special Payment Instructions," please credit any Shares tendered hereby and delivered by book-entry transfer, but which are not purchased, by crediting the account at the Book-Entry Transfer Facility designated above. The undersigned recognizes that Purchaser has no obligation, pursuant to the Special Payment Instructions, to transfer any Shares from the name of the registered holder(s) thereof if Purchaser does not accept for payment any of the Shares tendered hereby.

SPECIAL PAYMENT INSTRUCTIONS
(SEE INSTRUCTIONS 1, 5, 6 AND 7 OF
THIS LETTER OF TRANSMITTAL)

To be completed ONLY if certificates for Shares not tendered or not purchased and/or the check for the purchase price of Shares purchased are to be issued in the name of someone other than the undersigned, or if Shares delivered by book-entry transfer which are not purchased are to be returned by credit to an account maintained at a Book-Entry Transfer Facility other than that designated above.

Issue check and/or certificates to:

Name

(PLEASE PRINT)

Address

(ZIP CODE)

(TAXPAYER IDENTIFICATION OR SOCIAL SECURITY NUMBER)

(ALSO COMPLETE SUBSTITUTE FORM W-9 BELOW)

// Credit unpurchased Shares delivered by book-entry transfer to the Book-Entry Transfer Facility account set forth below:

Check appropriate box:

// The Depository Trust Company
// Philadelphia Depository Trust Company

(ACCOUNT NUMBER)

SPECIAL DELIVERY INSTRUCTIONS
(SEE INSTRUCTIONS 1, 5, 6 AND 7
OF THIS LETTER OF TRANSMITTAL)

To be completed ONLY if certificates for Shares not tendered or not purchased and/or the check for the purchase price of Shares purchased are to be sent to someone other than the undersigned, or to the undersigned at an address other than that shown above.

Mail check and/or certificates to:

Name

(PLEASE PRINT)

Address

(ZIP CODE)

SIGN HERE
(COMPLETE SUBSTITUTE FORM W-9 ON REVERSE)

X

X

(SIGNATURE(S) OF HOLDER(S))

Date , 1996

(Must be signed by registered holder(s) exactly as name(s) appear(s) on common or preferred stock certificate(s) or on a security position listing or by person(s) authorized to become registered holder(s) by certificates and documents transmitted herewith. If signature is by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, please provide the following information. See Instruction 5 of this Letter of Transmittal.)

Name(s) (PLEASE PRINT)

Capacity (Full Title)
Address

(INCLUDE ZIP CODE)

Area Code and Telephone Number

Tax Identification or Social Security No.

(COMPLETE SUBSTITUTE FORM W-9 ON REVERSE)

GUARANTEE OF SIGNATURE(S)

(SEE INSTRUCTIONS 1 AND 5 OF THIS LETTER OF TRANSMITTAL)

Authorized Signature
Name

(PLEASE PRINT)

Title
Name of Firm
Address

(INCLUDE ZIP CODE)

Area Code and Telephone Number

Date , 1996

INSTRUCTIONS

FORMING PART OF THE TERMS AND CONDITIONS OF THE OFFER

1. Guarantee of Signatures. Except as otherwise provided below, all signatures on this Letter of Transmittal must be guaranteed by a firm which is a bank, broker, dealer, credit union, savings association, or other entity that is a member in good standing of the Securities Transfer Agent's Medallion Program (each, an "Eligible Institution"). No signature guarantee is required on this Letter of Transmittal (a) if this Letter of Transmittal is signed by the registered holder(s) (which term, for purposes of this document, shall include any participant in a Book-Entry Transfer Facility whose name appears on a security position listing as the owner of Shares) of Shares tendered herewith, unless such holder(s) has completed either the box entitled "Special Delivery Instructions" or the box entitled "Special Payment Instructions" on the reverse hereof, or (b) if such Shares are tendered for the account of an Eligible Institution. See Instruction 5. If a Share Certificate is registered in the name of a person other than the signer of this Letter of Transmittal, or if payment is to be made, or a Share Certificate not accepted for payment or not tendered is to be returned, to a person other than the registered holder(s), then the Share Certificate must be endorsed or accompanied by appropriate stock powers, in either case signed exactly as the name(s) of the registered holder(s) appear(s) on the Share Certificate, with the signature(s) on such Share Certificate or stock powers guaranteed as described above. See Instruction 5.

2. Delivery of Letter of Transmittal and Share Certificates. This Letter of Transmittal is to be used either if Share Certificates are to be forwarded herewith or if Shares are to be delivered by book-entry transfer pursuant to the procedure set forth in "Procedures for Tendering Shares" of the Offer to Purchase. Share Certificates evidencing all tendered Shares, or confirmation of a book-entry transfer of such Shares, if such procedure is available, into the Depository's account at one of the Book-Entry Transfer Facilities pursuant to the procedures set forth in "Procedures for Tendering Shares" of the Offer to Purchase, together with a properly completed and duly executed Letter of Transmittal (or facsimile thereof) with any required signature guarantees (or, in the case of a book-entry transfer, an Agent's Message, as defined below) and any other documents required by this Letter of Transmittal, must be received by the Depository at one of its addresses set forth on the reverse hereof prior to the Expiration Date (as defined in "Terms of the Offer" or "Expiration Date" of the Offer to Purchase). If Share Certificates are forwarded to the Depository in multiple deliveries, a properly completed and duly executed Letter of Transmittal must accompany each such delivery. Stockholders whose Share Certificates are not immediately available, who cannot deliver their Share Certificates and all other required documents to the Depository prior to the Expiration Date or who cannot complete the procedure for delivery by book-entry transfer on a timely basis may tender their Shares pursuant to the guaranteed delivery procedure described in "Procedures for Tendering Shares" of the Offer to Purchase. Pursuant to such procedure: (i) such tender must be made by or through an Eligible Institution; (ii) a properly completed and duly executed Notice of Guaranteed Delivery, substantially in the form provided by Purchaser herewith, must be received by the Depository prior to the Expiration Date; and (iii) in the case of a guarantee of Shares, the Share Certificates, in proper form for transfer, or a confirmation of a book-entry transfer of such Shares, if such procedure is available, into the Depository's account at one of the Book-Entry Transfer Facilities, together with a properly completed and duly executed Letter of Transmittal (or manually signed facsimile thereof) with any required signature guarantees (or, in the case of a book-entry transfer, an Agent's Message), and any other documents required by this Letter of Transmittal, must be received by the Depository within three New York Stock Exchange, Inc. trading days after the date of execution of the Notice of Guaranteed Delivery, all as described in "Procedures for Tendering Shares" of the Offer to Purchase. The term "Agent's Message" means a message, transmitted by a Book-Entry Transfer Facility to, and received by the Depository and forming a part of a Book-Entry Confirmation, which states that such Book-Entry Transfer Facility has received an express acknowledgment from the participant in such Book-Entry Transfer Facility tendering the Shares, that such participant has received and agrees to be bound by the terms of this Letter of Transmittal and that the Purchaser may enforce such agreement against the participant.

THE METHOD OF DELIVERY OF THIS LETTER OF TRANSMITTAL, SHARE CERTIFICATES AND ALL OTHER REQUIRED DOCUMENTS, INCLUDING DELIVERY THROUGH ANY BOOK-ENTRY TRANSFER FACILITY, IS AT THE OPTION AND RISK OF THE TENDERING STOCKHOLDER, AND THE DELIVERY WILL BE DEEMED MADE ONLY WHEN ACTUALLY RECEIVED BY THE DEPOSITARY. IF DELIVERY IS BY MAIL, REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, PROPERLY INSURED, IS RECOMMENDED. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ENSURE TIMELY DELIVERY.

No alternative, conditional or contingent tenders will be accepted and no fractional Shares will be purchased. By execution of this Letter of Transmittal (or a facsimile hereof), all tendering stockholders waive any right to receive any notice of the acceptance of their Shares for payment.

3. Inadequate Space. If the space provided herein under "Description of Shares Tendered" is inadequate, the Share Certificate numbers, the number of Shares evidenced by such Share Certificates and the number of Shares tendered should be listed on a separate schedule and attached hereto.

4. Partial Tenders. (Not applicable to stockholders who tender by book-entry transfer.) If fewer than all the Shares evidenced by any Share Certificate delivered to the Depository herewith are to be tendered hereby, fill in the number of Shares which are to be tendered in the box entitled "Number of Shares Tendered." In such cases, new Share Certificate(s) evidencing the remainder of the Shares that were evidenced by the Share Certificates delivered to the Depository herewith will be sent to the person(s) signing this Letter of Transmittal, unless otherwise provided in the box entitled "Special Delivery Instructions," as soon as practicable after the expiration or termination of the Offer. All Shares evidenced by Share Certificates delivered to the Depository will be deemed to have been tendered unless otherwise indicated.

5. Signatures on Letter of Transmittal; Stock Powers and Endorsements. If this Letter of Transmittal is signed by the registered holder(s) of the Shares tendered hereby, the signature(s) must correspond with the name(s) as written on the face of the Share Certificates evidencing such Shares without alteration, enlargement or any other change whatsoever.

If any Share tendered hereby is owned of record by two or more persons, all such persons must sign this Letter of Transmittal.

If any of the Shares tendered hereby are registered in the names of different holders, it will be necessary to complete, sign and submit as many separate Letters of Transmittal as there are different registrations of such certificates.

If this Letter of Transmittal is signed by the registered holder(s) of the Shares tendered hereby, no endorsements of Share Certificates or separate stock powers are required, unless payment is to be made to, or Share Certificates evidencing Shares not tendered or not purchased are to be issued in the name of, a person other than the registered holder(s), in which case, the Share Certificate(s) evidencing the Shares tendered hereby must be endorsed or accompanied by appropriate stock powers, in either case signed exactly as the name(s) of the registered holder(s) appear(s) on such Share Certificate(s). Signatures on such Share Certificate(s) and stock powers must be guaranteed by an Eligible Institution.

If this Letter of Transmittal is signed by a person other than the registered holder(s) of the Shares tendered hereby, the Share Certificate(s) evidencing the Shares tendered hereby must be endorsed or accompanied by appropriate stock powers, in either case signed exactly as the name(s) of the registered holder(s) appear(s) on such Share Certificate(s). Signatures on such Share Certificate(s) and stock powers must be guaranteed by an Eligible Institution.

If this Letter of Transmittal or any Share Certificate(s) or stock power is signed by a trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation or other person acting in a fiduciary or representative capacity, such person should so indicate when signing, and proper evidence satisfactory to Purchaser of such person's authority so to act must be submitted.

6. Stock Transfer Taxes. Except as otherwise provided in this Instruction 6, Purchaser will pay all stock transfer taxes with respect to the sale and transfer of any Shares to it or its order pursuant to the Offer. If, however, payment of the purchase price of any Shares purchased is to be made to, or Share Certificate(s) evidencing Shares not tendered or not purchased are to be issued in the name of, a person other than the registered holder(s), the amount of any stock transfer taxes (whether imposed on the registered holder(s), such other person or otherwise) payable on account of the transfer to such other person will be deducted from the purchase price of such Shares purchased, unless evidence satisfactory to Purchaser of the payment of such taxes, or exemption therefrom, is submitted.

EXCEPT AS PROVIDED IN THIS INSTRUCTION 6, IT WILL NOT BE NECESSARY FOR TRANSFER TAX STAMPS TO BE AFFIXED TO THE SHARE CERTIFICATE(S) EVIDENCING THE SHARES TENDERED HEREBY.

7. Special Payment and Delivery Instructions. If a check for the purchase price of any Shares tendered hereby is to be issued, or Share Certificate(s) evidencing Shares not tendered or not purchased are to be issued, in the name of a person other than the person(s) signing this Letter of Transmittal or if such check or any such Share Certificate is to be sent to someone other than the person(s) signing this Letter of Transmittal or to the person(s) signing this Letter of Transmittal but at an address other than that shown in the box entitled "Description of Shares Tendered," the appropriate boxes on this Letter of Transmittal must be completed. Shares tendered hereby by book-entry transfer may request that Shares not purchased be credited to such account maintained at a Book-Entry Transfer Facility as such stockholder may designate in the box entitled "Special Payment Instructions" on the reverse hereof. If no such instructions are given, all such Shares not purchased will be returned by

crediting the account at the Book-Entry Transfer Facility designated on the reverse hereof as the account from which such Shares were delivered.

8. Requests for Assistance or Additional Copies. Requests for assistance may be directed to the Information Agent or Dealer Manager at their respective addresses or telephone numbers set forth below. Additional copies of the Offer to Purchase, this Letter of Transmittal, the Notice of Guaranteed Delivery and the Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9 may be obtained from the Information Agent or the Dealer Manager or from brokers, dealers, commercial banks or trust companies.

9. Substitute Form W-9. Each tendering shareholder is required to provide the Depositary with a correct Taxpayer Identification Number ("TIN") on the Substitute Form W-9 which is provided under "Important Tax Information" below, and to certify, under penalties of perjury, that such number is correct and that such shareholder is not subject to backup withholding of federal income tax. If a tendering shareholder has been notified by the Internal Revenue Service that such shareholder is subject to backup withholding, such shareholder must cross out item (2) of the Certification box of the Substitute Form W-9, unless such shareholder has since been notified by the Internal Revenue Service that such shareholder is no longer subject to backup withholding. Failure to provide the information on the Substitute Form W-9 may subject the tendering shareholder to 31% federal income tax withholding on the payment of the purchase price of all Shares purchased from such shareholder. If the tendering shareholder has not been issued a TIN and has applied for one or intends to apply for one in the near future, such shareholder should write "Applied For" in the space provided for the TIN in Part I of the Substitute Form W-9, and sign and date the Substitute Form W-9. If "Applied For" is written in Part I and the Depositary is not provided with a TIN within 60 days, the Depositary will withhold 31% on all payments of the purchase price to such stockholder until a TIN is provided to the Depositary.

10. Lost, Destroyed or Stolen Certificates. If any certificate(s) representing Shares has been lost, destroyed or stolen, the shareholder should promptly notify the Depositary. The shareholder will then be instructed as to the steps that must be taken in order to replace the certificate(s). This Letter of Transmittal and related documents cannot be processed until the procedures for replacing lost or destroyed certificates have been followed.

IMPORTANT: THIS LETTER OF TRANSMITTAL (OR FACSIMILE HEREOF), PROPERLY COMPLETED AND DULY EXECUTED, WITH ANY REQUIRED SIGNATURE GUARANTEES, OR AN AGENT'S MESSAGE (TOGETHER WITH SHARE CERTIFICATES OR CONFIRMATION OF BOOK-ENTRY TRANSFER AND ALL OTHER REQUIRED DOCUMENTS) OR A PROPERLY COMPLETED AND DULY EXECUTED NOTICE OF GUARANTEED DELIVERY MUST BE RECEIVED BY THE DEPOSITARY PRIOR TO THE EXPIRATION DATE (AS DEFINED IN THE OFFER TO PURCHASE).

IMPORTANT TAX INFORMATION

Under the federal income tax law, a shareholder whose tendered Shares are accepted for payment is required by law to provide the Depositary (as payer) with such shareholder's correct TIN on Substitute Form W-9 below. If such shareholder is an individual, the TIN is such shareholder's social security number. If the Depositary is not provided with the correct TIN, the shareholder may be subject to a \$50 penalty imposed by the Internal Revenue Service. In addition, payments that are made to such shareholder with respect to Shares and Rights purchased pursuant to the Offer may be subject to backup withholding of 31%.

Certain shareholders (including, among others, all corporations and certain foreign individuals) are not subject to these backup withholding and reporting requirements. In order for a foreign individual to qualify as an exempt recipient, such individual must submit a statement, signed under penalties of perjury, attesting to such individual's exempt status. Forms of such statements can be obtained from the Depositary. See the enclosed Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9 for additional instructions.

If backup withholding applies with respect to a shareholder, the Depositary is required to withhold 31% of any payments made to such shareholder. Backup withholding is not an additional tax. Rather, the tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund may be obtained from the Internal Revenue Service.

PURPOSE OF SUBSTITUTE FORM W-9

To prevent backup withholding on payments that are made to a shareholder with respect to Shares purchased pursuant to the Offer, the shareholder is required to notify the Depositary of such shareholder's correct TIN by completing the form below certifying (a) that the TIN provided on Substitute Form W-9 is correct (or that such shareholder is awaiting a TIN), and (b) that (i) such shareholder has not been notified by the Internal Revenue Service that such shareholder is subject to backup withholding as a result of a failure to report all interest or dividends or (ii) the Internal Revenue Service has notified such shareholder that such shareholder is no longer subject to backup withholding.

WHAT NUMBER TO GIVE THE DEPOSITARY

The shareholder is required to give the Depositary the social security number or employer identification number of the record holder of the Shares tendered hereby. If the Shares are in more than one name or are not in the name of the actual owner, consult the enclosed Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9 for additional guidance on which number to report. If the tendering shareholder has not been issued a TIN and has applied for a number or intends to apply for a number in the near future, the shareholder should write "Applied For" in the space provided for the TIN in Part I, and sign and date the Substitute Form W-9. If "Applied For" is written in Part I and the Depositary is not provided with a TIN within 60 days, the Depositary will withhold 31% of all payments of the purchase price to such stockholder until a TIN is provided to the Depositary.

PAYER'S NAME: IBJ SCHRODER BANK & TRUST COMPANY, AS DEPOSITARY

PART I -- PLEASE PROVIDE YOUR TIN IN THE Social Security Number OR
BOX AT RIGHT AND CERTIFY BY SIGNING AND / /
DATING BELOW.

Employer Identification Number
(If omitting TIN write "Applied For")

PART II -- For Payees Exempt From Backup Withholding, see the enclosed Guidelines and complete as instructed therein. CERTIFICATION -- Under penalties of perjury, I certify that:

- (1) The number shown on this form is my correct Taxpayer Identification Number (or a Taxpayer Identification Number has not been issued to me and either (a) I have mailed or delivered an application to receive a Taxpayer Identification Number to the appropriate Internal Revenue Service ("IRS") or Social Security Administration office or (b) I intend to mail or deliver an application in the near future. I understand that if I do not provide a Taxpayer Identification Number within sixty (60) days, 31% of all reportable payments made to me thereafter will be withheld until I provide a number), and
- (2) I am not subject to backup withholding either because I have not been notified by the IRS that I am subject to backup withholding as a result of failure to report all interest or dividends, or the IRS has notified me that I am no longer subject to backup withholding.

CERTIFICATE INSTRUCTIONS -- You must cross out item (2) above if you have been notified by the IRS that you are subject to backup withholding because of underreporting interest or dividends on your tax return. However, if after being notified by the IRS that you were subject to backup withholding you received another notification from the IRS that you are no longer subject to backup withholding, do not cross out item (2).

(Also see instructions in the enclosed Guidelines.)

DATE _____, 1996

SIGNATURE _____

NOTE: FAILURE TO COMPLETE AND RETURN THIS FORM MAY RESULT IN BACKUP WITHHOLDING OF 31% OF ANY PAYMENTS MADE TO YOU PURSUANT TO THE OFFER. PLEASE REVIEW THE ENCLOSED GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION NUMBER ON SUBSTITUTE FORM W-9 FOR ADDITIONAL DETAILS.

Questions and requests for assistance or additional copies of the Offer to Purchase, Letter of Transmittal and other tender offer materials may be directed to the Information Agent or the Dealer Manager as set forth below:

The Information Agent for the Offer is:

MACKENZIE PARTNERS, INC.

156 Fifth Avenue
New York, New York 10010
(212) 929-5500 (call collect)
or
CALL TOLL FREE (800) 322-2885

The Dealer Manager for the Offer is:

WASSERSTEIN PERELLA & CO., INC.

31 West 52nd Street
New York, New York 10019
Call Collect:
(212) 969-2700

SUBSTITUTE
FORM W-9
DEPARTMENT OF
THE TREASURY
INTERNAL
REVENUE SERVICE
PAYER'S REQUEST
FOR TAXPAYER
IDENTIFICATION
NUMBER (TIN)

NOTICE OF GUARANTEED DELIVERY
FOR
TENDER OF SHARES OF COMMON STOCK AND SERIES A ESOP CONVERTIBLE JUNIOR PREFERRED
STOCK
(INCLUDING, IN EACH CASE, THE ASSOCIATED COMMON STOCK PURCHASE RIGHTS)

OF
CONRAIL INC.
TO

GREEN ACQUISITION CORP.
A WHOLLY OWNED SUBSIDIARY OF
CSX CORPORATION
(NOT TO BE USED FOR SIGNATURE GUARANTEES)

This Notice of Guaranteed Delivery, or one substantially in the form hereof, must be used to accept the Offer (as defined below) if (i) certificates ("Share Certificates") evidencing shares of common stock, par value \$1.00 per share (the "Common Shares") or shares of Series A ESOP Convertible Junior Preferred Stock, without par value (the "ESOP Preferred Shares" and, together with the Common Shares, the "Shares"), of Conrail Inc., a Pennsylvania corporation (the "Company"), including the associated Common Stock Purchase Rights (the "Rights") issued pursuant to the Rights Agreement, dated July 19, 1989, between the Company and First Chicago Trust Company of New York, as Rights Agent (as amended, the "Rights Agreement"), are not immediately available, (ii) time will not permit all required documents to reach IBJ Schroder Bank and Trust Company, as Depositary (the "Depositary"), prior to the Expiration Date (as defined in "Terms of the Offer; Proration; Expiration Date" of the Offer to Purchase (as defined below)) or (iii) the procedure for book-entry transfer cannot be completed on a timely basis. All references herein to the Common Shares, ESOP Preferred Shares or Shares include the associated Rights. This Notice of Guaranteed Delivery may be delivered by hand or transmitted by telegram, facsimile transmission or mail to the Depositary. See "Procedures for Tendering Shares" of the Offer to Purchase.

The Depositary for the Offer is:

IBJ SCHRODER BANK & TRUST COMPANY

By Mail:

Bowling Green Station
P.O. Box 84
New York, New York 10274-0084
Attn: Reorganization
Operations Department

By Facsimile Transmission:

(212) 858-2611
Attn: Reorganization
Operations Department

By Hand or
Overnight Delivery:

One State Street
New York, New York 10004
Attn: Securities Processing
Window,
Subcellar One

Confirm Facsimile by Telephone:
(212) 858-2103

DELIVERY OF THIS NOTICE OF GUARANTEED DELIVERY TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE, OR TRANSMISSION OF INSTRUCTIONS VIA FACSIMILE TRANSMISSION OTHER THAN AS SET FORTH ABOVE, WILL NOT CONSTITUTE A VALID DELIVERY.

THIS FORM IS NOT TO BE USED TO GUARANTEE SIGNATURES. IF A SIGNATURE ON A LETTER OF TRANSMITTAL IS REQUIRED TO BE GUARANTEED BY AN "ELIGIBLE INSTITUTION" UNDER THE INSTRUCTIONS THERETO, SUCH SIGNATURE GUARANTEE MUST APPEAR IN THE APPLICABLE SPACE PROVIDED IN THE SIGNATURE BOX ON THE LETTER OF TRANSMITTAL.

Ladies and Gentlemen:

The undersigned hereby tenders to Green Acquisition Corp., a Pennsylvania corporation and a wholly owned subsidiary of CSX Corporation, a Virginia corporation, upon the terms and subject to the conditions set forth in the Offer to Purchase, dated October 16, 1996 (the "Offer to Purchase"), and the related Letter of Transmittal (which, as amended from time to time, together constitute the "Offer"), receipt of each of which is hereby acknowledged, the number of Shares specified below pursuant to the guaranteed delivery procedures described in "Procedures for Tendering Shares" of the Offer to Purchase.

Number of Shares: _____	Name(s) of Record Holder(s): _____
Certificate Nos. (if available): _____	_____
	PLEASE PRINT
Check ONE box if Shares will be tendered by book-entry transfer: / / The Depository Trust Company	Address(es): _____
/ / Philadelphia Depository Trust Company	ZIP CODE _____
Account Number: _____	Area Code and Tel. No.: _____
Dated: , 1996	_____

GUARANTEE
(NOT TO BE USED FOR SIGNATURE GUARANTEES)

The undersigned, a member firm of a registered national securities exchange, a member of the National Association of Securities Dealers, Inc. or a commercial bank or trust company having an office or correspondent in the United States, hereby (a) represents that the tender of Shares effected hereby complies with Rule 14e-4 of the Securities Exchange Act of 1934, as amended, and (b) guarantees delivery to the Depository, at one of its addresses set forth above, of certificates evidencing the Shares tendered hereby in proper form for transfer, or confirmation of book-entry transfer of such Shares into the Depository's accounts at The Depository Trust Company or the Philadelphia Depository Trust Company, in each case with delivery of a properly completed and duly executed Letter of Transmittal (or facsimile thereof) with any required signature guarantees, or an Agent's Message (as defined in "Acceptance for Payment and Payment for Shares" of the Offer to Purchase), and any other documents required by the Letter of Transmittal, (a) in the case of Shares, within three New York Stock Exchange, Inc. trading days after the date of execution of this Notice of Guaranteed Delivery, or (b) in the case of Rights, a period ending the latter of (i) three New York Stock Exchange, Inc. trading days after the date of execution of this Notice of Guaranteed Delivery or (ii) three business days after the date Right Certificates are distributed to stockholders.

The Eligible Institution that completes this form must communicate the guarantee to the Depository and must deliver the Letter of Transmittal and certificates for Shares to the Depository within the time period shown herein. Failure to do so could result in financial loss to such Eligible Institution.

NAME OF FIRM _____	AUTHORIZED SIGNATURE _____
ADDRESS _____	TITLE _____
ZIP CODE _____	Name: _____
Area Code and Tel. No.: _____	PLEASE PRINT _____
	Date: , 1996

NOTE: DO NOT SEND CERTIFICATES FOR SHARES WITH THIS NOTICE.
SHARE CERTIFICATES SHOULD BE SENT WITH YOUR LETTER OF TRANSMITTAL.

Wasserstein logo

Wasserstein, Perella & Co., Inc.
31 West 52nd Street
New York, New York 10019
Tel: (212) 969-2700

OFFER TO PURCHASE FOR CASH
AN AGGREGATE OF 17,860,124 SHARES OF
COMMON STOCK
AND
SERIES A ESOP CONVERTIBLE JUNIOR PREFERRED STOCK
(INCLUDING, IN EACH CASE, THE ASSOCIATED COMMON STOCK PURCHASE RIGHTS)
OF
CONRAIL INC.
AT
\$92.50 NET PER SHARE
BY
GREEN ACQUISITION CORP.
A WHOLLY OWNED SUBSIDIARY OF
CSX CORPORATION

THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON FRIDAY, NOVEMBER 15, 1996, UNLESS THE OFFER IS EXTENDED.

October 16, 1996

To Brokers, Dealers, Commercial Banks,
Trust Companies and Other Nominees:

We have been appointed by Green Acquisition Corp., a Pennsylvania corporation ("Purchaser") and a wholly owned subsidiary of CSX Corporation, a Virginia corporation ("Parent"), to act as Dealer Manager in connection with the Purchaser's offer to purchase an aggregate of 17,860,124 shares of (i) common stock, par value \$1.00 per share (the "Common Shares"), and (ii) Series A ESOP Convertible Junior Preferred Stock, without par value (the "ESOP Preferred Shares" and, together with the Common Shares, the "Shares"), of Conrail Inc., a Pennsylvania corporation (the "Company"), including in each case, the associated Common Stock Purchase Rights (the "Rights") issued pursuant to the Rights Agreement, dated July 19, 1989, by and between the Company and First Chicago Trust Company of New York, as Rights Agent (as amended, the "Rights Agreement") at a price of \$92.50 per Share, net to the seller in cash, upon the terms and subject to the conditions set forth in the Offer to Purchase dated October 16, 1996 (the "Offer to Purchase"), and the related Letter of Transmittal (which, as amended from time to time, together constitute the "Offer") enclosed herewith. All references herein to the Common Shares, ESOP Preferred Shares or Shares shall include the associated Rights.

THE OFFER IS CONDITIONED UPON, AMONG OTHER THINGS, (1) THE RECEIPT BY PURCHASER, PRIOR TO THE EXPIRATION OF THE OFFER, OF AN INFORMAL WRITTEN OPINION IN FORM AND SUBSTANCE REASONABLY SATISFACTORY TO PURCHASER FROM THE STAFF OF THE SURFACE TRANSPORTATION BOARD (THE "STB"), WITHOUT THE IMPOSITION OF ANY CONDITIONS UNACCEPTABLE TO PURCHASER, THAT THE USE OF A VOTING TRUST (THE "VOTING TRUST") IN SUBSTANTIALLY THE FORM CONTEMPLATED BY THE MERGER AGREEMENT IS CONSISTENT WITH THE POLICIES OF THE STB AGAINST UNAUTHORIZED ACQUISITIONS OF CONTROL OF A REGULATED CARRIER (SUCH CONDITION, THE "VOTING TRUST CONDITION"), (2) THE RECEIPT BY PURCHASER, PRIOR TO THE EXPIRATION OF THE OFFER, OF AN INFORMAL STATEMENT FROM THE PREMERGER NOTIFICATION OFFICE OF THE FEDERAL TRADE COMMISSION THAT THE TRANSACTIONS CONTEMPLATED BY THE OFFER, THE MERGER AGREEMENT AND THE COMPANY STOCK OPTION AGREEMENT (AS DEFINED IN THE OFFER TO PURCHASE) ARE NOT SUBJECT TO, OR ARE EXEMPT FROM, THE HART-SCOTT-RODINO ANTITRUST IMPROVEMENTS ACT OF 1976, AS AMENDED (THE "HSR ACT"), OR IN THE ABSENCE OF THE RECEIPT OF SUCH INFORMAL STATEMENT, ANY APPLICABLE WAITING PERIOD UNDER THE HSR ACT SHALL HAVE EXPIRED OR BEEN TERMINATED, (3) PARENT AND PURCHASER OBTAINING, PRIOR TO THE EXPIRATION OF THE OFFER, SUFFICIENT FINANCING, ON TERMS REASONABLY ACCEPTABLE TO PARENT, TO ENABLE CONSUMMATION OF THE OFFER AND THE MERGER AND (4) THERE BEING AT LEAST 17,860,124 SHARES VALIDLY TENDERED AND NOT WITHDRAWN PRIOR TO THE EXPIRATION OF THE OFFER.

For your information and for forwarding to your clients for whom you hold Shares registered in your name or in the name of your nominee, or who hold Shares registered in their own names, we are enclosing the following documents:

1. Offer to Purchase, dated October 16, 1996;
2. Letter of Transmittal to be used by holders of Shares in accepting the Offer and tendering Shares;
3. Notice of Guaranteed Delivery to be used to accept the Offer if the certificates evidencing such Shares (the "Share Certificates") are not immediately available or time will not permit all required documents to reach IBJ Schroder Bank & Trust Company (the "Depository") prior to the Expiration Date (as defined in the Offer to Purchase) or the procedure for book-entry transfer cannot be completed on a timely basis;
4. A letter to shareholders of the Company from David M. LeVan, Chairman, President and Chief Executive Officer, together with a Solicitation/Recommendation Statement on Schedule 14D-9 filed with the Securities and Exchange Commission by the Company;
5. A letter which may be sent to your clients for whose accounts you hold Shares registered in your name or in the name of your nominee, with space provided for obtaining such clients' instructions with regard to the Offer;
6. Guidelines of the Internal Revenue Service for Certification of Taxpayer Identification Number on Substitute Form W-9; and
7. Return envelope addressed to the Depository.

Upon the terms and subject to the conditions of the Offer (including, if the Offer is extended or amended, the terms and conditions of any such extension or amendment), Purchaser will purchase, by accepting for payment, and will pay for, an aggregate of 17,860,124 Shares validly tendered prior to the Expiration Date promptly after the later to occur of (i) the Expiration Date and (ii) the satisfaction or waiver of the conditions set forth in "Conditions of the Offer" of the Offer to Purchase. For purposes of the Offer, Purchaser will be deemed to have accepted for payment, and thereby purchased, tendered Shares if, as and when Purchaser gives oral or written notice to the Depository of Purchaser's acceptance of such Shares for payment. In all cases, payment for Shares purchased pursuant to the Offer will be made only after timely receipt by the Depository of (i) the Share Certificates or timely confirmation of a book-entry transfer of such Shares, if such procedure is available, into the Depository's account at The Depository Trust Company or the Philadelphia Depository Trust Company pursuant to the procedures set forth in "Procedures for Tendering Shares" of the Offer to Purchase, (ii) the Letter of Transmittal (or facsimile thereof), properly completed and duly executed, or an Agent's Message (as defined in "Acceptance for Payment and Payment for Shares" of the Offer to Purchase) and (iii) any other documents required by the Letter of Transmittal.

Purchaser will not pay any fees or commissions to any broker or dealer or any other person (other than the Dealer Manager and the Information Agent as described in "Fees and Expenses" of the Offer to Purchase) in connection with the solicitation of tenders of Shares pursuant to the Offer. Purchaser will, however, upon request, reimburse you for customary mailing and handling expenses incurred by you in forwarding the enclosed materials to your clients.

Purchaser will pay any stock transfer taxes incident to the transfer to it of validly tendered Shares, except as otherwise provided in Instruction 6 of the Letter of Transmittal.

YOUR PROMPT ACTION IS REQUESTED. WE URGE YOU TO CONTACT YOUR CLIENTS AS PROMPTLY AS POSSIBLE. THE OFFER, PROXIMATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON FRIDAY, NOVEMBER 15, 1996, UNLESS THE OFFER IS EXTENDED.

In order to take advantage of the Offer, a duly executed and properly completed Letter of Transmittal (or facsimile thereof), with any required signature guarantees and any other required documents, should be sent to the Depository, and certificates evidencing the tendered Shares should be delivered or such Shares should be tendered by book-entry transfer, all in accordance with the instructions set forth in the Letter of Transmittal and the Offer to Purchase.

If holders of Shares wish to tender Shares, but it is impracticable for them to forward their certificates or other required documents prior to the Expiration Date, a tender may be effected by following the guaranteed delivery procedures specified under "Procedures for Tendering Shares" of the Offer to Purchase.

Any inquiries you may have with respect to the Offer should be addressed to the Dealer Manager or the Information Agent at their respective addresses and telephone numbers set forth on the back cover page of the Offer to Purchase.

Additional copies of the enclosed materials may be obtained from the undersigned, at Wasserstein Perella & Co., Inc., telephone (212) 969-2700 (Collect) or by calling the Information Agent, MacKenzie Partners, Inc., telephone 1-800-322-2885 (Toll Free), or from brokers, dealers, commercial banks or trust companies.

Very truly yours,

Wasserstein Perella & Co., Inc.

NOTHING CONTAINED HEREIN OR IN THE ENCLOSED DOCUMENTS SHALL CONSTITUTE YOU OR ANY OTHER PERSON AS AN AGENT OF PARENT, PURCHASER, THE DEPOSITARY, THE INFORMATION AGENT OR THE DEALER MANAGER, OR ANY AFFILIATE OF ANY OF THE FOREGOING, OR AUTHORIZE YOU OR ANY OTHER PERSON TO USE ANY DOCUMENT OR MAKE ANY STATEMENT ON BEHALF OF ANY OF THEM IN CONNECTION WITH THE OFFER OTHER THAN THE DOCUMENTS ENCLOSED AND THE STATEMENTS CONTAINED THEREIN.

OFFER TO PURCHASE FOR CASH

AN AGGREGATE OF 17,860,124 SHARES OF
COMMON STOCK
AND
SERIES A ESOP CONVERTIBLE JUNIOR PREFERRED STOCK
(INCLUDING, IN EACH CASE, THE ASSOCIATED COMMON STOCK PURCHASE RIGHTS)

OF
CONRAIL INC.
AT

\$92.50 NET PER SHARE
BY

GREEN ACQUISITION CORP.
A WHOLLY OWNED SUBSIDIARY OF
CSX CORPORATION

THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT,
NEW YORK CITY TIME, ON FRIDAY, NOVEMBER 15, 1996 UNLESS THE OFFER IS EXTENDED.

October 16, 1996

To Our Clients:

Enclosed for your consideration is an Offer to Purchase, dated October 16, 1996 (the "Offer to Purchase"), and the related Letter of Transmittal (which, as amended from time to time, together constitute the "Offer") in connection with the Offer by Green Acquisition Corp., a Pennsylvania corporation ("Purchaser") and a wholly owned subsidiary of CSX Corporation, a Virginia corporation ("Parent"), to purchase an aggregate of 17,860,124 shares of (i) common stock, par value \$1.00 per share (the "Common Shares"), and (ii) Series A ESOP Convertible Junior Preferred Stock, no par value (the "ESOP Preferred Shares") and, together with the Common Shares, the "Shares"), of Conrail Inc., a Pennsylvania corporation (the "Company"), including, in each case, the associated Common Stock Purchase Rights (the "Rights") issued pursuant to the Rights Agreement, dated as of July 19, 1989, between the Company and First Chicago Trust Company of New York, as Rights Agent (as amended, the "Rights Agreement") at a price of \$92.50 per share, net to the seller in cash, upon the terms and subject to the conditions set forth in the Offer. All references herein to the Common Shares, ESOP Preferred Shares, or Shares shall include the associated Rights.

Shareholders whose certificates evidencing Shares ("Share Certificates") are not immediately available or who cannot deliver their Share Certificates and all other documents required by the Letter of Transmittal to the Depository prior to the Expiration Date (as defined in "Terms of the Offer; Proration; Expiration Date" of the Offer to Purchase) or who cannot complete the procedure for delivery by book-entry transfer to the Depository's account at a Book-Entry Transfer Facility (as defined in "Acceptance for Payment and Payment for Common Shares" of the Offer to Purchase) on a timely basis and who wish to tender their Shares must do so pursuant to the guaranteed delivery procedure described in "Procedures for Tendering Shares" of the Offer to Purchase. See Instruction 2 of the Letter of Transmittal. Delivery of documents to a Book-Entry Transfer Facility in accordance with the Book-Entry Transfer Facility's procedures does not constitute delivery to the Depository.

THE MATERIAL IS BEING SENT TO YOU AS THE BENEFICIAL OWNER OF SHARES HELD BY US FOR YOUR ACCOUNT BUT NOT REGISTERED IN YOUR NAME. WE ARE THE HOLDER OF RECORD OF SHARES HELD BY US FOR YOUR ACCOUNT. A TENDER OF SUCH SHARES CAN BE MADE ONLY BY US AS THE HOLDER OF RECORD AND PURSUANT TO YOUR INSTRUCTIONS. THE LETTER OF TRANSMITTAL IS FURNISHED TO YOU FOR YOUR INFORMATION ONLY AND CANNOT BE USED BY YOU TO TENDER SHARES HELD BY US FOR YOUR ACCOUNT.

We request instructions as to whether you wish to have us tender on your behalf any or all of the Shares held by us for your account, upon the terms and subject to the conditions set forth in the Offer.

Your attention is invited to the following:

1. The tender price is \$92.50 per Share, net to the seller in cash.
2. The Offer, proration period and withdrawal rights will expire at 12:00 Midnight, New York City time, on Friday, November 15, 1996, unless the Offer is extended.
3. The Offer is being made for an aggregate of 17,860,124 Shares.

4. The Board of Directors of the Company has unanimously approved the Offer and the Merger (as defined in the Offer to Purchase), has determined that the Merger Agreement and the transactions contemplated thereby (including the Offer and the Merger) are in the best interests of the Company and recommends that shareholders of the Company who desire to receive cash for their Shares accept the Offer and tender their Shares pursuant to the Offer.

5. The Offer is conditioned upon, among other things, (a) the receipt by Purchaser, prior to the expiration of the Offer, of an informal written opinion in form and substance reasonably satisfactory to Purchaser from the staff of the Surface Transportation Board (the "STB"), without the imposition of any conditions unacceptable to Purchaser, that the use of a voting trust in substantially the form contemplated by the Merger Agreement is consistent with the policies of the STB against unauthorized acquisitions of control of a regulated carrier, (b) the receipt by Purchaser, prior to the expiration of the Offer, of an informal statement from the Premerger Notification Office of the Federal Trade Commission that the transactions contemplated by the Offer, the Merger Agreement and the Company Stock Option Agreement (as such terms are defined in the Offer to Purchase) are not subject to, or are exempt from, the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), or, in the absence of the receipt of such informal statement, any applicable waiting period under the HSR Act shall have expired or been terminated, (c) Parent and Purchaser obtaining, prior to the expiration of the Offer, sufficient financing, on terms reasonably acceptable to Parent, to enable consummation of the Offer and the Merger and (d) there being at least 17,860,124 Shares validly tendered and not properly withdrawn prior to the expiration of the Offer.

6. Tendering shareholders will not be obligated to pay brokerage fees or commissions or, except as set forth in Instruction 6 of the Letter of Transmittal, stock transfer taxes on the purchase of Shares by Purchaser pursuant to the Offer.

The Offer is made solely by the Offer to Purchase and the related Letter of Transmittal and is being made to all holders of Shares. Purchaser is not aware of any state where the making of the Offer is prohibited by administrative or judicial action pursuant to any valid state statute. If Purchaser becomes aware of any valid state statute prohibiting the making of the Offer or the acceptance of Shares pursuant thereto, Purchaser will make a good faith effort to comply with such state statute. If, after such good faith effort, Purchaser cannot comply with such state statute, the Offer will not be made to (nor will tenders be accepted from or on behalf of) the holders of Shares in such state. In any jurisdiction where the securities, blue sky or other laws require the Offer to be made by a licensed broker or dealer, the Offer shall be deemed to be made on behalf of Purchaser by the Dealer Manager or one or more registered brokers or dealers licensed under the laws of such jurisdiction.

If you wish to have us tender any or all of your Shares, please so instruct us by completing, executing and returning to us the instruction form contained in this letter. An envelope in which to return your instructions to us is enclosed. If you authorize the tender of your Shares, all such Shares will be tendered unless otherwise specified on the instruction form set forth in this letter. YOUR INSTRUCTIONS SHOULD BE FORWARDED TO US IN AMPLE TIME TO PERMIT US TO SUBMIT A TENDER ON YOUR BEHALF PRIOR TO THE EXPIRATION OF THE OFFER.

INSTRUCTIONS
 WITH RESPECT TO THE OFFER TO PURCHASE FOR CASH
 AN AGGREGATE OF 17,860,124 SHARES OF
 COMMON STOCK AND SERIES A ESOP CONVERTIBLE JUNIOR PREFERRED STOCK
 OF CONRAIL INC.

The undersigned acknowledge(s) receipt of your letter and the enclosed Offer to Purchase, dated October 16, 1996, and the related Letter of Transmittal (which, as amended from time to time, together constitute the "Offer"), in connection with the offer by Green Acquisition Corp., a Pennsylvania corporation ("Purchaser") and a wholly owned subsidiary of CSX Corporation, a Virginia corporation ("Parent"), to purchase an aggregate of 17,860,124 shares of (i) common stock, par value \$1.00 per share (the "Common Shares") and (ii) Series A ESOP Convertible Junior Preferred Stock, no par value (the "ESOP Preferred Shares" and, together with the Common Shares, the "Shares"), of Conrail Inc., a Pennsylvania corporation (the "Company") including, in each case, the associated Common Stock Purchase Rights (the "Rights") issued pursuant to the Rights Agreement, dated July 19, 1989, between the Company and First Chicago Trust Company of New York, as Rights Agent (as the "Rights Agreement"). All references herein to the Common Shares, ESOP Preferred Shares or Shares shall include the associated Rights.

This will instruct you to tender to Purchaser the number of Shares indicated below (or, if no number is indicated in either appropriate space below, all Shares) held by you for the account of the undersigned, upon the terms and subject to the conditions set forth in the Offer.

Number of Shares to be Tendered*:
 Shares
 Account Number:
 Dated: , 1996

SIGN HERE

SIGNATURE(S)
 PLEASE TYPE OR PRINT NAME(S) HERE
 PLEASE TYPE OR PRINT ADDRESS(ES) HERE
 AREA CODE AND TELEPHONE NUMBER
 TAXPAYER IDENTIFICATION OR SOCIAL SECURITY
 NUMBER(S)

 * Unless otherwise indicated, it will be assumed that all Shares held by us for your account are to be tendered.

**GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION
NUMBER ON SUBSTITUTE FORM W-9**

GUIDELINES FOR DETERMINING THE PROPER IDENTIFICATION NUMBER TO GIVE THE PAYER. -- Social Security numbers have nine digits separated by two hyphens: i.e. 000-00-0000. Employer identification numbers have nine digits separated by only one hyphen: i.e. 00-0000000. The table below will help determine the number to give the payer.

FOR THIS TYPE OF ACCOUNT:	GIVE THE TAXPAYER IDENTIFICATION NUMBER OF --
1. An individual's account	The individual
2. Two or more individuals (joint account)	The actual owner of the account or, if combined funds, any one of the individuals(1)
3. Husband and wife (joint account)	The actual owner of the account or, if joint funds, either person(1)
4. Custodian account of a minor (Uniform Gift to Minors Act)	The minor(2)
5. Adult and minor (joint account)	The adult or, if the minor is the only contributor, the minor(1)
6. Account in the name of guardian or committee for a designated ward, minor, or incompetent person	The ward, minor, or incompetent person(3)
7. a. The usual revocable savings trust account (grantor is also trustee)	The grantor-trustee(1)
b. So-called trust account that is not legal or valid trust under State law	The actual owner(1)
8. Sole proprietorship account	The owner(4)

FOR THIS TYPE OF ACCOUNT:	GIVE THE TAXPAYER IDENTIFICATION NUMBER OF --
9. A valid trust, estate or pension trust	The Legal entity (Do not furnish the identifying number of the personal representative or trustee unless the legal entity itself is not designated in the account title.) (5)
10. Corporate account	The corporation
11. Religious, charitable, or educational organization account	The organization
12. Partnership account held in the name of the business	The partnership
13. Association, club, or other tax-exempt organization	The organization
14. A broker or registered nominee	The broker or nominee
15. Account with the Department of Agriculture in the name of a public entity (such as a State or local government, school district, or prison) that receives agricultural program payments	The public entity

- (1) List first and circle the name of the person whose number you furnish.
- (2) Circle the minor's name and furnish the minor's social security number.
- (3) Circle the ward's, minor's or incompetent person's name and furnish such person's social security number.
- (4) Show the name of the owner.
- (5) List first and circle the name of the legal trust, estate, or pension trust.

NOTE: If no name is circled when there is more than one name, the number will be considered to be that of the first name listed.

GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION
NUMBER ON SUBSTITUTE FORM W-9
PAGE 2

OBTAINING A NUMBER

If you do not have a taxpayer identification number or you do not know your number, obtain Form SS-5, Application for a Social Security Number Card, or Form SS-4, Application for Employer Identification Number, at the local office of the Social Security Administration or the Internal Revenue Service and apply for a number.

PAYEES EXEMPT FROM BACKUP WITHHOLDING

Payees specifically exempted from backup withholding on ALL payments include the following:

- A corporation.
- A financial institution.
- An organization exempt from tax under section 501(a), or an individual retirement plan.
- The United States or any agency or instrumentality thereof.
- A State, the District of Columbia, a possession of the United States, or any subdivision or instrumentality thereof.
- A foreign government, a political subdivision of a foreign government, or any agency or instrumentality thereof.
- An international organization or any agency, or instrumentality thereof.
- A registered dealer in securities or commodities registered in the U.S. or a possession of the U.S.
- A real estate investment trust.
- A common trust fund operated by a bank under section 584(a).
- An exempt charitable remainder trust, or a non-exempt trust described in section 4947(a)(1).
- An entity registered at all times under the Investment Company Act of 1940.
- A foreign central bank of issue.

Payments of dividends and patronage dividends not generally subject to backup withholding include the following:

- Payments to nonresident aliens subject to withholding under section 1441.
- Payments to partnerships not engaged in a trade or business in the U.S. and which have at least one nonresident partner.
- Payments of patronage dividends where the amount received is not paid in money.
- Payments made by certain foreign organizations.
- Payments made to a nominee.

Payments of interest generally subject to backup withholding include the following:

- Payments of interest on obligations issued by individuals. Note: You may be subject to backup withholding if this interest is \$600 or more and is paid in the course of the payer's trade or business and you have not provided your correct taxpayer identification number to the payer.
- Payments of tax-exempt interest (including exempt-interest dividends under section 852).
- Payments described in section 6049(b)(5) to nonresident aliens.
- Payments on tax-free covenant bonds under section 1451.
- Payments made by certain foreign organizations.
- Payments made to a nominee.

Exempt payees described above should file Form W-9 to avoid possible erroneous backup withholding. FILE THIS FORM WITH THE PAYER. FURNISH YOUR TAXPAYER IDENTIFICATION NUMBER, WRITE "EXEMPT" ON THE FACE OF THE FORM, AND RETURN IT TO THE PAYER. IF THE PAYMENTS ARE INTEREST, DIVIDENDS, OR PATRONAGE DIVIDENDS, ALSO SIGN AND DATE THE FORM.

Certain payments other than interest, dividends, and patronage dividends, that are not subject to information reporting are also not subject to backup

withholding. For details, see the regulations under sections 6041, 6041A(a), 6045, and 6050A.

PRIVACY ACT NOTICE. -- Section 6109 requires most recipients of dividend, interest, or other payments to give taxpayer identification numbers to payers who must report the payments to the IRS. The IRS uses the numbers for identification purposes. Payers must be given the numbers whether or not recipients are required to file a tax return. Payers must generally withhold 31% of taxable interest, dividend, and certain other payments to a payee who does not furnish a taxpayer identification number to a payer. Certain penalties may also apply.

PENALTIES

(1) **PENALTY FOR FAILURE TO FURNISH TAXPAYER IDENTIFICATION NUMBER.** -- If you fail to furnish your taxpayer identification number to a payer, you are subject to a penalty of \$50 for each such failure unless your failure is due to reasonable cause and not to willful neglect.

(2) **FAILURE TO REPORT CERTAIN DIVIDEND AND INTEREST PAYMENTS.** -- If you fail to include any portion of an includible payment for interest, dividends, or patronage dividends in gross income, such failure will be treated as being due to negligence and will be subject to a penalty of 20% on any portion of an underpayment attributable to that failure unless there is clear and convincing evidence to the contrary.

(3) **CIVIL PENALTY FOR FALSE INFORMATION WITH RESPECT TO WITHHOLDING.** -- if you make a false statement with no reasonable basis which results in no imposition of backup withholding, you are subject to a penalty of \$500.

(4) **CRIMINAL PENALTY FOR FALSIFYING INFORMATION.** -- Falsifying certifications or affirmations may subject you to criminal penalties including fines and/or imprisonment.

**FOR ADDITIONAL INFORMATION CONTACT YOUR TAX
CONSULTANT OR THE INTERNAL REVENUE SERVICE**

CONTACTS: CSX Corporation
Thomas E. Hoppin
(804) 782-1450

Conrail Inc.
Craig R. MacQueen
(215) 209-4594

FOR IMMEDIATE RELEASE

CSX AND CONRAIL TO COMBINE
IN PRO-COMPETITIVE, STRATEGIC MERGER

RICHMOND AND PHILADELPHIA -- Oct. 15, 1996 -- CSX Corporation (CSX) (NYSE: CSX) and Conrail Inc. (Conrail) (NYSE: CRR), leading transportation companies with complementary eastern rail routes, announced today they have agreed to a strategic merger. The merger agreement calls for Conrail shareholders to receive a combination of cash and CSX shares valued at approximately \$8.4 billion, or \$92.50 per Conrail share, based on the recent trading prices for CSX's common stock. The parties will propose a schedule that contemplates completion of the transaction in late 1997.

The merger will create the leading freight transportation and logistics company in the world with annual revenues of more than \$14 billion, offering domestic and international customers rail, container-shipping, barge, intermodal and contract logistics services. The newly created transportation system will offer much more extensive single-line rail service opportunities to shippers and receivers in 22 states and will have a 29,645 mile system, covering a territory from Chicago, Boston and New York to Miami and New Orleans.

John W. Snow, chairman, president and chief executive officer of CSX, said, "This merger of equals represents a strategic combination that will provide excellent value for our customers and our shareholders, and is consistent with sound public policy. This is the right merger at the right time between the right companies.

"This dynamic combination is a 'win-win' transaction for the shareholders of both companies, our customers and the communities we both serve. We will have the financial strength to make substantial infrastructure investments and service improvements. The transaction will have an immediate, positive effect on cash flow and will be accretive to earnings per share in the second year. Together, the companies will have stronger revenue, cash flow and earnings growth than they would have had on their own. The merged company will be the premier freight transportation company in North America and, as such, we should command a premium price/earnings multiple -- thus creating greater value for our shareholders," Snow said.

"Our new company will provide new single-line rail service to major markets east of the Mississippi and will greatly benefit shippers, the communities served and the nation as a whole. The merger will extend our customers' market reach, speeding service and enhancing their competitive positions at home and abroad. It makes the most efficient use of existing transportation infrastructure, thereby lowering the total cost of transporting American products," Snow said.

"Moreover," Snow said, "this transaction offers an opportunity to improve passenger safety and service and to begin to address the need to separate freight and passenger service in high-density commuter and Amtrak corridors, including Philadelphia, Baltimore and Washington, D.C. We hope to consolidate much of our freight service on the CSX line between Philadelphia and Washington, thereby reducing freight operations on Amtrak's northeast corridor south of Philadelphia. Additionally, the contemplated ability to reroute some freight trains from other routes should free up capacity on other CSX lines, such as the Harper's Ferry-Washington line used by Maryland commuter trains. Such improvements can be addressed only through this transaction."

"We are delighted to be merging with our ideal partner," said David M. LeVan, Conrail's chairman, president, and chief executive officer. "Conrail today is a strong railroad, but recent changes in industry structure and in U.S. patterns of distribution require a broader market reach. The new company we are creating will be more competitive with trucks and other modes of transportation. Where new, single-line services are possible, we will provide our customers one point of contact, and eliminate the costs and delays now layered over every step in the service process."

"Our customers will enjoy significantly improved, more competitive freight transportation service that will result in greater service innovation and competitive pricing. The merger will allow us to build on the coal, merchandise, intermodal and logistics strengths of both companies. Importantly, our companies share an uncompromising commitment to safety, operating excellence and superior service and have compatible cultures that will expedite realization of the benefits of the merger," LeVan said.

Under the terms of the transaction, 40 percent of the fully diluted shares of Conrail's common stock and ESOP preferred stock will be acquired for cash at \$92.50 per share, and the remaining 60 percent will be acquired for stock at an exchange ratio of 1.85619 CSX shares for each Conrail share.

CSX will promptly commence a cash tender offer at \$92.50 per Conrail share for an aggregate of about 17.9 million shares of Conrail common stock and ESOP preferred stock, or approximately 19.9 percent of the Conrail outstanding voting stock. The offer will be subject to the usual conditions, including Surface Transportation Board (STB) informal approval of a customary voting trust and obtaining the necessary financing.

A Pennsylvania statute effectively precludes CSX from acquiring 20 percent or more of Conrail's voting shares in the tender offer, unless the Conrail shareholders vote to opt-out of the statute by a majority of the Conrail shares voting at a meeting. A meeting to vote on the opt-out is expected to be held prior to the expiration of the tender offer. Following approval, the Merger Agreement effectively provides that an aggregate of 40 percent of the fully diluted shares will be purchased for cash in this tender offer or in another offer that may be made. If approval is not obtained, the cash not paid in the offer would be paid in the subsequent merger.

The companies also have granted each other an option to purchase 19.9 percent of the other's common shares under certain conditions. The 19.9 percent option held by CSX also would be exercisable if it purchases shares in the offer.

Following STB approval of the merger, and after other conditions have been met, the companies will complete their merger through an expected tax-free exchange of stock at an exchange ratio of 1.85619 CSX shares for each remaining Conrail share. The application for STB approval of the transaction is expected to be filed in early 1997, and the parties will propose a schedule that contemplates a decision toward that year's end. Pending STB review, the shares purchased will be placed in the voting trust.

Total benefits from the merger will be about \$550 million annually, based on the realization of cost savings from operating efficiencies, facility consolidations, overhead rationalization, and other activities, and new traffic volumes earned by enhanced service. The combined company will make investments to support revenue growth, and will create a streamlined organization that incorporates the best of both companies while combining facilities and realizing economies of scale. The companies stated they expect there will be some job losses as a result of consolidations and the elimination of redundancies, but these will be offset over time by new employment opportunities resulting from growth of the business.

The merger will yield new, competitive services that neither railroad can now offer on its own. The new system will have faster schedules, more frequent and reliable service, with shorter routes and improved equipment supply and utilization. The new system will create major, new single-line service routes between north-south markets. Moreover, the creation of a single-line route along the Atlantic corridor will provide a much needed, cost-effective and environmentally superior intermodal alternative to truck traffic now being hauled over I-95 and other north-south interstate highways. Many shippers will be attracted from the heavily congested highways and urban centers by the quality of service offered by the combined company.

"The ability to compete more effectively for truck traffic is an exciting growth opportunity that offers significant public benefits including the reduction of highway traffic, improved environmental conditions and greater safety," LeVan said.

In rail corridors where CSX and Conrail both have routes, there will be significant operating benefits and, in many cases, major reductions in length of haul. Where their routes are end to end, there will be extensive new single-line service for shippers. Integrating the entire network, moreover, will produce significant additional benefits in traffic handling and marketing, and in facility and equipment utilization.

As a result of these many service and efficiency benefits, competition will be enhanced. Where CSX and Conrail are now the only rail competitors, the merger partners are willing to agree to grant competitive access. There, shippers will continue to enjoy two-railroad competition, and will receive the competitive benefits of a more efficient CSX/Conrail system and single-line routes to many new destinations.

Snow will become chairman and chief executive officer of the new holding company. LeVan will become the new holding company's president and chief operating officer. The board of directors will be composed of an equal number of members from the boards of CSX and Conrail. Upon consummation of the transaction, LeVan will be president and chief executive officer of the two railroads. LeVan will succeed Snow as chief executive officer of the new company two years after consummation of the merger, and Snow will serve as chairman of the corporation for the two years thereafter.

The new holding company will be headquartered in Philadelphia, with a significant presence in Richmond. Operating headquarters for the two railroads will remain in Philadelphia and Jacksonville for the foreseeable future. A new name for the combined company will be announced at a later time.

The transaction has been unanimously approved by the boards of directors of both companies. It is subject to the approval of shareholders of both companies and STB approval. Under the terms of the agreement, CSX or Conrail is each entitled, under certain circumstances, to receive a termination fee of \$300 million from the other in the event the merger is not completed because of a competing offer for the other company.

CSX is being advised on the transaction by Wasserstein Perella & Co., which has also provided a fairness opinion. Salomon Brothers Inc. has also been retained to advise CSX on post-transaction financing matters. Conrail is being advised by and has received fairness opinions from Lazard Freres & Co. LLC and Morgan Stanley Incorporated.

CSX Corporation, headquartered in Richmond, VA, is an International transportation company offering a variety of rail, container-shipping, intermodal, trucking, barge, and contract logistics services.

Conrail, with corporate headquarters in Philadelphia, PA, operates an 11,000-mile rail freight network in 12 northeastern and midwestern states, the District of Columbia, and the Province of Quebec.

Additional information regarding this announcement can be found on the companies' Web sites on the Internet. CSX's home page can be reached at <http://www.CSX.com>. Conrail's home page can be reached at <http://www.CONRAIL.com>.

NOTE TO BROADCAST EDITORS:

A live satellite feed of B-roll from both CSX and Conrail will be available:

Tuesday, October 15 from 10:00 a.m. to 10:30 a.m. (EDT) -- coordinates are C-Band Telstar 401, Transponder 5

Tuesday, October 15 from 1:30 p.m. to 2:00 p.m. (EDT) -- coordinates are C-Band Telstar 402, Transponder 18

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This announcement is neither an offer to purchase nor a solicitation of an offer to sell Shares. The Offer is made solely by the Offer to Purchase dated October 16, 1996 and the related Letter of Transmittal and is being made to all holders of Shares. The Offer is not being made to (nor will tenders be accepted from or on behalf of) holders of Shares in any jurisdiction in which the making of the Offer or the acceptance thereof would not be in compliance with the laws of such jurisdiction. In those jurisdictions where securities, blue sky or other laws require the Offer to be made by a licensed broker or dealer, the Offer shall be deemed to be made on behalf of Green Acquisition Corp. by Wasserstein Perella & Co., Inc. or one or more registered brokers or dealers licensed under the laws of of such jurisdiction.

Notice of Offer to Purchase for Cash
An Aggregate of 17,860,124 Shares
of Common Stock

and

Series A ESOP Convertible Junior Preferred Stock
(including, in each case, the associated Common Stock Purchase Rights)

of

Conrail Inc.

at

\$92.50 Net Per Share

by

Green Acquisition Corp.,
a wholly owned subsidiary of

CSX Corporation

Green Acquisition Corp. ("Purchaser"), a Pennsylvania corporation and a wholly owned subsidiary of CSX Corporation, a Virginia corporation ("Parent"), hereby offers to purchase an aggregate of 17,860,124 shares of (i) common stock, par value \$1.00 per share (the "Common Shares"), and (ii) Series A ESOP Convertible Junior Preferred Stock, without par value (the "ESOP Preferred Shares" and, together with the Common Shares, the "Shares"), of Conrail Inc., a Pennsylvania corporation (the "Company"), including, in each case, the associated Common Stock Purchase Rights (the "Rights") issued pursuant to the Rights Agreement, dated as of July 19, 1989, between the Company and First Chicago Trust Company of New York, as Rights Agent (as amended, the "Rights Agreement"), at a price of \$92.50 per Share, net to the seller in cash, without interest thereon (the "Offer Price"), upon the terms and subject to the conditions set forth in the Offer to Purchase dated October 16, 1996 (the "Offer to Purchase") and in the related Letter of Transmittal (which, as amended from time to time, together constitute the "Offer"). Unless the context otherwise requires, all references to Common Shares, ESOP Preferred Shares or Shares shall include the associated Rights, and all references to the Rights shall include the benefits that may enure to holders of the Rights pursuant to the Rights Agreement, including the right to receive any payment due upon redemption of the rights.

If, prior to the expiration of the Offer, the shareholders of the Company approve an

amendment to the Company's Articles of Incorporation to opt out of the provisions of Chapter 25, Subchapter E of the Pennsylvania Business Corporation Law (related to "control transactions"), Purchaser may, depending on the circumstances, increase the number of Shares that will be accepted in the Offer to 40% of the outstanding Shares on a fully diluted basis as of October 14, 1996 (excluding Shares issuable pursuant to the Company Stock Option Agreement (as defined in the Offer to Purchase)). The Company has agreed in the Merger Agreement (as defined below) to seek such approval as soon as practicable after execution of the Merger Agreement.

THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON FRIDAY, NOVEMBER 15, 1996, UNLESS THE OFFER IS EXTENDED.

The Offer is conditioned upon, among other things, prior to the expiration of the Offer, (1) the receipt by Purchaser of an informal written opinion in form and substance reasonably satisfactory to Purchaser from the staff of the Surface Transportation Board (the "STB"), without the imposition of any conditions unacceptable to Purchaser, that the use of a Voting Trust in substantially the form contemplated by the Merger Agreement is consistent with the policies of the STB against unauthorized acquisitions of control of a regulated carrier, (2) the receipt by Purchaser of an informal statement from the Premerger Notification Office of the Federal Trade Commission that the transactions contemplated by the Offer, the Merger Agreement and the Company Stock Option Agreement are not subject to, or are exempt from, the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), or, in the absence of the receipt of such informal statement, any applicable waiting period under the HSR Act shall have expired or been terminated, (3) Parent and Purchaser having obtained, on terms reasonably acceptable to Parent, sufficient financing to enable consummation of the Offer and the Merger and (4) there being at least 17,860,124 Shares validly tendered and not withdrawn.

The Board of Directors of the Company has unanimously approved the Offer and the Merger, determined that the Merger Agreement and the transactions contemplated thereby (including the Offer and the Merger) are in the best interests of the Company and recommends that shareholders of the Company who desire to receive cash for their Shares accept the Offer and tender their Shares pursuant to the Offer.

The Offer is being made pursuant to an Agreement and Plan of Merger, dated as of October 14, 1996 (the "Merger Agreement"), by and among the Company, Parent and Purchaser. The Merger Agreement provides, among other things, that subject to the satisfaction or waiver of certain conditions set forth in the Merger Agreement (including approval of the Merger by the STB), the Company will merge (the "Merger") with and into Purchaser, with Purchaser continuing as the surviving corporation. In the Merger, each outstanding Share (other than Shares held in the treasury of the Company or owned by Parent, Purchaser or any other wholly owned subsidiary of Parent or the Company) will be converted, at the election of the holder of Shares,

subject to certain terms and conditions, into the right to receive \$92.50 in cash, 1.85619 shares of common stock, par value \$1.00 per share ("Parent Common Stock"), of Parent, or a combination of such cash and shares of Parent Common Stock. The Merger Agreement provides that the aggregate number of Shares to be converted into Parent Common Stock pursuant to the Merger shall be equal as nearly as practicable to 60% of all outstanding Shares (excluding Shares outstanding pursuant to the Company Stock Option Agreement), and that the aggregate number of Shares to be converted into the right to receive \$92.50 in cash per Share pursuant to the Merger, together with the Shares acquired by Purchaser (other than pursuant to the Company Stock Option Agreement), shall be equal as nearly as practicable to 40% of such outstanding Shares. Simultaneously with the execution of the Merger Agreement, Parent and the Company also entered into the Parent Stock Option Agreement (as defined in the Offer to Purchase) and the Company Stock Option Agreement, each of which is described in Section 13 of the Offer to Purchase.

Purchaser expressly reserves the right, in its sole judgment and subject to the terms of the Merger Agreement, at any time and from time to time and regardless of whether any of the events set forth in Section 15 of the Offer to Purchase shall have occurred or shall have been determined by Purchaser to have occurred, (i) to extend the period of time during which the Offer is open and thereby delay acceptance for payment of, and the payment for, any Shares, by giving oral or written notice of such extension to the Depositary (as defined in the Offer to Purchase) and (ii) to amend the Offer in any respect by giving oral or written notice of such amendment to the Depositary. Any such extension or amendment will be followed as promptly as practicable by a public announcement thereof, such announcement in the case of an extension, to be issued not later than 9:00 a.m., New York City time, on the next business day after the previously scheduled Expiration Date (as defined in the Offer to Purchase). During any such extension, all Shares previously tendered and not withdrawn will remain subject to the Offer, subject to the right of a tendering shareholder to withdraw such shareholder's Shares.

Purchaser will, upon the terms and subject to the conditions of the Offer, purchase an aggregate of 17,860,124 Shares on a pro rata basis (with adjustments to avoid purchase of fractional Shares) based upon the number of Shares properly tendered on or prior to the Expiration Date and not withdrawn. Due to the difficulty of determining the precise number of Shares properly tendered and not withdrawn, if proration is required, Purchaser does not expect to announce the final results of proration or pay for Shares until at least five New York Stock Exchange trading days after the Expiration Date. Preliminary results of proration will be announced by press release as promptly as practicable after the Expiration Date. Holders of Shares may obtain such preliminary information when it becomes available from the Information Agent and may be able to obtain such information from their brokers.

For purposes of the Offer, Purchaser will be deemed to have accepted for payment, and thereby purchased, Shares validly tendered and not properly withdrawn as, if and when Purchaser gives oral or written notice to the Depositary of Purchaser's

acceptance of such Shares for payment pursuant to the Offer. In all cases, upon the terms and subject to the conditions of the Offer, payment for Shares purchased pursuant to the Offer will be made by deposit of the purchase price therefor with the Depositary, which will act as agent for tendering shareholders for the purpose of receiving payment from Purchaser and transmitting payment to validly tendering shareholders. Under no circumstances will interest on the purchase price for Shares be paid by Purchaser by reason of any delay in making such payment. In all cases, payment for Shares purchased pursuant to the Offer will be made only after timely receipt by the Depositary of (a) certificates for such Shares ("Certificates") or a book-entry confirmation of the book-entry transfer of such Shares into the Depositary's account at The Depositary Trust Company or the Philadelphia Depositary Trust Company (collectively, the "Book-Entry Transfer Facilities"), pursuant to the procedures set forth in Section 3 of the Offer to Purchase, (b) the Letter of Transmittal (or facsimile thereof) properly completed and duly executed, with any required signature guarantees, or an Agent's Message (as defined in the Offer to Purchase) in connection with a book-entry transfer, and (c) any other documents required by the Letter of Transmittal.

If, for any reason whatsoever, acceptance for payment of any Shares tendered pursuant to the Offer is delayed, or if Purchaser is unable to accept for payment or pay for Shares tendered pursuant to the Offer, then, without prejudice to Purchaser's rights set forth in the Offer to Purchase, the Depositary may, nevertheless, on behalf of Purchaser, retain tendered Shares and such Shares may not be withdrawn except to the extent that the tendering shareholder is entitled to and duly exercises withdrawal rights as described in Section 4 of the Offer to Purchase. Any such delay will be followed by an extension of the Offer to the extent required by law.

If any tendered Shares are not accepted for payment for any reason pursuant to the terms and conditions of the Offer (including proration due to tenders of more than 17,860,124 Shares), or if Share Certificates are submitted evidencing more Shares than are tendered, Share Certificates evidencing unpurchased Shares will be returned, without expense to the tendering shareholder (or, in the case of Shares tendered by book-entry transfer into the Depositary's account at a Book-Entry Transfer Facility pursuant to the procedure set forth in Section 3, such Shares will be credited to an account maintained at such Book-Entry Transfer Facility), as promptly as practicable following the expiration or termination of the Offer.

Except as otherwise provided in Section 4 of the Offer to Purchase, tenders of Shares made pursuant to the Offer are irrevocable. Shares tendered pursuant to the Offer may be withdrawn at any time prior to 12:00 Midnight, New York City time, on Friday, November 15, 1996 (or if Purchaser shall have extended the period of time for which the Offer is open, at the latest time and date at which the Offer, as so extended by Purchaser, shall expire) and unless theretofore accepted for payment and paid for by Purchaser pursuant to the Offer, may also be withdrawn at any time after December 14, 1996. In order for a withdrawal to be effective, a written, telegraphic or facsimile transmission notice of withdrawal must be timely received by the

Depository at one of its addresses set forth on the back cover of the Offer to Purchase. Any notice of withdrawal must specify the name of the person who tendered the Shares to be withdrawn, the number of Shares to be withdrawn, and, if Certificates for Shares have been tendered, the name of the registered holder of the Shares as set forth in the tendered Certificate, if different from that of the person who tendered such Shares. If Certificates for Shares to be withdrawn have been delivered or otherwise identified to the Depository, then prior to the physical release of such Certificates, the serial numbers shown on such Certificates evidencing the Shares to be withdrawn must be submitted to the Depository and the signature on the notice of withdrawal must be guaranteed by a firm which is a bank, broker, dealer, credit union, savings association or other entity that is a member in good standing of the Securities Transfer Agent's Medallion Program (an "Eligible Institution"), unless such Shares have been tendered for the account of an Eligible Institution. If Shares have been tendered pursuant to the procedures for book-entry transfer set forth in Section 3 of the Offer to Purchase, any notice of withdrawal must also specify the name and number of the account at the appropriate Book-Entry Transfer Facility to be credited with the withdrawn Shares and otherwise comply with such Book-Entry Transfer Facility's procedures. Withdrawal of tenders of Shares may not be rescinded, and any Shares properly withdrawn will be deemed not to be validly tendered for purposes of the Offer. Withdrawn Shares may, however, be retendered by repeating one of the procedures set forth in Section 3 of the Offer to Purchase at any time before the Expiration Date. Purchaser, in its sole judgment, will determine all questions as to the form and validity (including time of receipt) of notices of withdrawal, and such determination will be final and binding.

The information required to be disclosed by Rule 14d-6(e)(1)(vii) of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended, is contained in the Offer to Purchase and is incorporated herein by reference.

The Company has provided Purchaser with the Company's shareholder list and security position listings for the purpose of disseminating the Offer to holders of Shares. The Offer to Purchase, the related Letter of Transmittal and other relevant materials will be mailed to record holders of Shares and will be furnished to brokers, dealers, commercial banks, trust companies and similar persons whose names, or the names of whose nominees, appear on the shareholder list, or, if applicable, who are listed as participants in a clearing agency's security position listing for subsequent transmittal to beneficial owners of Shares.

The Offer to Purchase and the related Letter of Transmittal contain important information which should be read carefully before any decision is made with respect to the Offer.

Questions and requests for assistance or for additional copies of the Offer to Purchase, the Letter of Transmittal or other tender offer materials may be directed to the Information Agent or the Dealer Manager at their respective addresses and telephone numbers as set forth below, and copies will be furnished promptly at Purchaser's expense. No fees or commissions will be paid to brokers, dealers or other

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persons (other than the Information Agent and the Dealer Manager) for
soliciting tenders of Shares pursuant to the Offer.

The Information Agent for the Offer is:

MACKENZIE PARTNERS, INC.

156 Fifth Avenue
New York, New York 10010
(212) 929-5500 (Call Collect)

or

CALL TOLL-FREE (800) 322-2885

The Dealer Manager for the Offer is:

WASSERSTEIN PERELLA & CO., INC.

31 West 52nd Street
New York, New York 10019
(212) 969-2700 (Call Collect)

October 16, 1996

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Exhibit (c) (1)

Agreement & Plan of Merger, dated
as of October 14, 1996, by and among
CSX, Tender Sub, and CRI

See Volume 8

GREEN STOCK OPTION AGREEMENT

GREEN STOCK OPTION AGREEMENT, dated as of October 14, 1996 (the "Agreement"), by and between Conrail Inc., a Pennsylvania corporation ("Issuer"), and CSX Corporation, a Virginia corporation ("Grantee").

RECITALS

A. Issuer and Grantee have entered into an Agreement and Plan of Merger, dated as of the date hereof (the "Merger Agreement"), providing for, among other things, the merger of Issuer with and into a subsidiary of Grantee with such subsidiary as the surviving corporation in the Merger.

B. As a condition and inducement to Grantee's willingness to enter into the Merger Agreement and the White Stock Option Agreement, Grantee has requested that Issuer agree, and Issuer has agreed, to grant Grantee the Option.

C. As a condition and inducement to Issuer's willingness to enter into the Merger Agreement and this Agreement, Issuer has requested that Grantee agree, and Grantee has agreed, to grant Issuer an option to purchase shares of Grantee's common stock on substantially the same terms as the Option.

D. Terms not defined herein shall have the meanings set forth in the Merger Agreement.

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth herein Issuer and Grantee agree as follows:

1. Grant of Option. Subject to the terms and conditions set forth herein, Issuer hereby grants to Grantee an irrevocable option (the "Option") to purchase up to 15,955,477 (as adjusted as set forth herein) shares (the "Option Shares") of Common Stock, par value \$1.00 per share ("Issuer Common Stock"), of Issuer at a purchase price of \$92.50 (as adjusted as set forth herein) per Option Share (the "Purchase Price").

2. Exercise of Option. (a) Subject to any applicable requirements of law, Grantee may exercise the Option, in whole but not in part, at any one

time after the first to occur of (x) any event as a result of which the Grantee is entitled to receive the Termination Fee pursuant to the Merger Agreement and (y) the consummation of the Offer (the first of such events to occur, a "Purchase Event"); provided, however, that except as provided in the last sentence of this Section 2(a), the Option shall terminate and be of no further force and effect upon the earliest to occur of (A) the Effective Time, (B) 18 months after the first occurrence of a Purchase Event and (C) termination of the Merger Agreement in accordance with its terms prior to the occurrence of a Purchase Event, unless the Grantee has the right to receive a Termination Fee following such termination upon the occurrence of certain events, in which case the Option shall not terminate until the later of (x) six months following the time such Termination Fee becomes payable and (y) the expiration of the period in which the Grantee has such right to receive a Termination Fee. Notwithstanding the termination of the Option, Grantee shall be entitled to purchase the Option Shares if it has exercised the Option in accordance with the terms hereof prior to the termination of the Option and the termination of the Option shall not affect any rights hereunder which by their terms do not terminate or expire prior to or as of such termination.

(b) In the event that Grantee wishes to exercise the Option, it shall send to Issuer a written notice (the date of which being herein referred to as the "Notice Date") to that effect which notice also specifies a date not earlier than three business days nor later than 20 business days from the Notice Date for the closing of such purchase (the "Option Closing Date"); provided, however, that (i) if the closing of the purchase and sale pursuant to the Option (the "Option Closing") cannot be consummated by reason of any applicable judgment, decree, order, law or regulation, the period of time that otherwise would run pursuant to this sentence shall run instead from the date on which such restriction on consummation has expired or been terminated and (ii) without limiting the foregoing, if prior notification to or approval of any regulatory authority is required in connection with such purchase, Grantee and Issuer shall promptly file the required notice or application for approval and shall cooperate in the expeditious filing of such notice or application, and the period of time that otherwise would run pursuant to this sentence shall run instead from the date on which, as the case may be, (A) any required notification period has expired or been terminated or (B) any required approval has been obtained, and in either event, any requisite waiting period has expired or been terminated. The place of the Option Closing shall be at the offices of Cravath, Swaine & Moore, 825 Eighth Avenue, New York, New York, and the time of the Option Closing shall be 10:00 a.m. (Eastern Time) on the Option Closing Date.

3. Payment and Delivery of Certificates. (a) At the Option Closing, Grantee shall pay to Issuer in immediately available funds by wire transfer to a bank account designated in writing by Issuer an amount equal to the Purchase Price multiplied by the number of Option Shares.

(b) At the Option Closing, simultaneously with the delivery of immediately available funds as provided in Section 3(a), Issuer shall deliver to the trustee under the Voting Trust a certificate or certificates representing the Option Shares to be purchased at the Option Closing, which Option Shares shall be free and clear of all liens, claims, charges and encumbrances of any kind whatsoever. If at the time of issuance of the Option

Shares pursuant to the exercise of the Option hereunder, Issuer shall not have redeemed the Green Rights, or shall have issued any similar securities, then each Option Share issued pursuant to such exercise shall also represent a corresponding Green Right or new rights with terms substantially the same as and at least as favorable to Grantee as are provided under the Green Rights Agreement or any similar agreement then in effect.

(c) Certificates for the Option Shares delivered at the Option Closing shall have typed or printed thereon a restrictive legend which shall read substantially as follows:

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY BE REOFFERED OR SOLD ONLY IF SO REGISTERED OR IF AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE. SUCH SECURITIES ARE ALSO SUBJECT TO ADDITIONAL RESTRICTIONS ON TRANSFER AS SET FORTH IN THE STOCK OPTION AGREEMENT, DATED AS OF OCTOBER 14, 1996, A COPY OF WHICH MAY BE OBTAINED FROM THE SECRETARY OF GREEN CORPORATION AT ITS PRINCIPAL EXECUTIVE OFFICES."

It is understood and agreed that the reference to restrictions arising under the Securities Act in the above legend shall be removed by delivery of substitute certificate(s) without such reference upon the sale of the Option Shares pursuant to the registration rights under the Merger Agreement.

4. Representations and Warranties of Issuer. Issuer hereby represents and warrants to Grantee as follows:

(a) Due Authorization. Issuer has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by Issuer and the consummation by Issuer of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Issuer. This Agreement has been duly executed and delivered by Issuer and constitutes a legal, valid and binding obligation of Issuer, enforceable against Issuer in accordance with its terms.

(b) Authorized Stock. Issuer's representations and warranties in Section 3.1(c) of the Merger Agreement are incorporated herein by reference. Without limiting the generality or effect of the foregoing, Issuer has taken all necessary corporate and other action to authorize and reserve and, to permit it to issue, and, at all times from the date hereof until the obligation to deliver Option Shares upon the exercise of the Option terminates,

shall have reserved for issuance, upon exercise of the Option, shares of Issuer Common Stock necessary for Grantee to exercise the Option, and Issuer shall take all necessary corporate action to authorize and reserve for issuance all additional shares of Issuer Common Stock or other securities which may be issued pursuant to Section 6 upon exercise of the Option. The shares of Issuer Common Stock to be issued upon due exercise of the Option, including all additional shares of Issuer Common Stock or other securities which may be issuable upon exercise of the Option or any Substitute Option pursuant to Section 6, upon issuance pursuant hereto, shall be duly and validly issued, fully paid and nonassessable, and shall be delivered free and clear of all liens, claims, charges and encumbrances of any kind or nature whatsoever, including without limitation any preemptive rights of any stockholder of Issuer.

(c) No Conflicts. The execution and delivery of this Agreement does not, and the consummation of the transactions contemplated by this Agreement and compliance with the provisions of this Agreement shall not, conflict with, or result in any violation of, or default (with or without notice or lapse of time or both) under, or give rise to a right of termination, cancellation, or acceleration of any obligation or loss of a material benefit under, or result in the creation of any Lien upon any of the properties or assets of Issuer or any of its Significant Subsidiaries under, (i) the certificate of incorporation or by-laws of Issuer or the comparable organizational documents of any Significant Subsidiary of Issuer, (ii) any loan or credit agreement, note, bond, mortgage, indenture, lease or other agreement, instrument, permit, concession, franchise, or license applicable to Issuer or any Significant Subsidiary of Issuer or their respective properties or assets, or (iii) subject to approval of the STB of the Voting Trust to the extent contemplated by Exhibit D to the Merger Agreement, any judgment, order, decree, statute, law, ordinance, rule, or regulation applicable to Issuer or any of its Significant Subsidiaries or their respective properties or assets, other than, in the case of clauses (ii) and (iii), any such conflicts, violations, defaults, rights, losses, or Liens that individually or in the aggregate would not (x) have a material adverse effect on Issuer, (y) impair the ability of Issuer to perform its obligations under this Agreement or the Merger Agreement or (z) prevent or materially delay the consummation of any of the transactions contemplated by this Agreement.

(d) State Takeover Statutes. Assuming that Grantee, together with its affiliates, does not have voting power with respect to such number of shares of Issuer capital stock as would represent, together with the Option Shares, 20% or more of the votes that all Issuer shareholders would be entitled to cast in an election of directors as of the date of exercise of the Option, the Board of Directors of Issuer has taken all action necessary or advisable so as to render inoperative with respect to the transactions contemplated hereby all applicable state anti-takeover statutes.

(e) **Issuer Rights Amendment.** The Green Rights Agreement has been amended as set forth in the Merger Agreement, and such amendment, insofar as it relates to the transactions contemplated by this Agreement, shall not be further amended or revoked (including by adopting another rights (or similar) agreement without any such amendment) without the prior consent of Grantee in its sole discretion.

5. **Representations and Warranties of Grantee.** Grantee hereby represents and warrants to Issuer that:

(a) **Due Authorization.** Grantee has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by Grantee and the consummation by Grantee of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Grantee. This Agreement has been duly executed and delivered by Grantee and constitutes a legal, valid and binding obligation of Grantee, enforceable against Grantee in accordance with its terms.

(b) **No Conflicts.** The execution and delivery of this Agreement does not, and the consummation of the transactions contemplated by this Agreement and compliance with the provisions of this Agreement hereby shall not, conflict with or result in any violation of, or default (with or without notice or lapse of time or both) under, or give rise to a right of termination, cancellation, or acceleration of any obligation or loss of a material benefit under, or result in the creation of any Lien upon any of the properties or assets of Grantee or any of its Significant Subsidiaries under, (i) the certificate of incorporation or by-laws of Grantee or the comparable organizational documents of any Significant Subsidiary of Grantee, (ii) any loan or credit agreement, note, bond, mortgage, indenture, lease or other agreement, instrument, permit, concession, franchise, or license applicable to Grantee or any Significant Subsidiary of Grantee or their respective properties or assets, or (iii) assuming approval by the STB of the Voting Trust to the extent contemplated by Exhibit D to the Merger Agreement, any judgment, order, decree, statute, law, ordinance, rule, or regulation applicable to Grantee or any of its Significant Subsidiaries or their respective properties or assets, other than, in the case of clauses (ii) and (iii), any such conflicts, violations, defaults, rights, losses, or Liens that individually or in the aggregate would not (x) have a material adverse effect on Grantee, (y) impair the ability of Grantee to perform its obligations under this Agreement or the Merger Agreement or (z) prevent or materially delay the consummation of any of the transactions contemplated by this Agreement.

(c) **Purchase Not for Distribution.** Any Option Shares or other securities acquired by Grantee upon exercise of the Option shall not be transferred or otherwise disposed of except in a

transaction registered, or exempt from registration, under the Securities Act.

6. Adjustment upon Changes in Capitalization, Etc. (a) In the event of any change in Issuer Common Stock by reason of a stock dividend, split-up, merger, recapitalization, combination, exchange of shares, or similar transaction, the type and number of shares or securities subject to the Option, and the Purchase Price therefor, shall be adjusted appropriately, and proper provision shall be made in the agreements governing such transaction, so that Grantee shall receive upon exercise of the Option the number and class of shares or other securities or property that Grantee would have received in respect of Issuer Common Stock if the Option had been exercised immediately prior to such event or the record date therefor, as applicable. Subject to Section 1, and without limiting the parties' relative rights and obligations under the Merger Agreement, if any additional shares of Issuer Common Stock are issued after the date of this Agreement (other than pursuant to an event described in the first sentence of this Section 6(a)), the number of shares of Issuer Common Stock subject to the Option shall be adjusted so that, after such issuance, it equals 19.9% of the number of shares of Issuer Common Stock then issued and outstanding, without giving effect to any shares subject to or issued pursuant to the Option.

(b) Without limiting the parties' relative rights and obligations under the Merger Agreement, in the event that Issuer enters into an agreement (i) to consolidate with or merge into any person, other than Grantee or one of its subsidiaries, and Issuer shall not be the continuing or surviving corporation in such consolidation or merger, (ii) to permit any person, other than Grantee or one of its subsidiaries, to merge into Issuer and Issuer shall be the continuing or surviving corporation, but in connection with such merger, the shares of Issuer Common Stock outstanding immediately prior to the consummation of such merger shall be changed into or exchanged for stock or other securities of Issuer or any other person or cash or any other property, or the shares of Issuer Common Stock outstanding immediately prior to the consummation of such merger shall, after such merger, represent less than 50% of the outstanding voting securities of the merged company, or (iii) to sell or otherwise transfer all or substantially all of its assets to any person, other than Grantee or one of its subsidiaries, then, and in each such case, the agreement governing such transaction shall make proper provision so that the Option shall, upon the consummation of any such transaction and upon the terms and conditions set forth herein, be converted into, or exchanged for, an option with identical terms appropriately adjusted to acquire the number and class of shares or other securities or property that Grantee would have received in respect of Issuer Common Stock if the Option had been exercised immediately prior to such consolidation, merger, sale, or transfer, or the record date therefor, as applicable.

(c) If, prior to the termination of the Option in accordance with Section 2 or the Notice Date, Issuer enters into any agreement pursuant to which all outstanding shares of Issuer Common Stock are to be purchased for, or converted into the right to receive in whole or in part (other than in respect of fractional shares) cash (a "Transaction"),

Issuer covenants that proper provision shall be made in such agreement to provide that, if the Option shall not theretofore have been exercised, then upon the consummation of the Transaction (which in the case of a Transaction involving a tender offer shall be when shares of Issuer Common Stock are accepted for payment), Grantee shall receive in exchange for the cancellation of the Option an amount in cash equal to the Cash Consideration. For purposes of this Agreement, the term "Cash Consideration" means the number of Option Shares multiplied by the difference between (A) the closing market price per share of Issuer Common Stock on the day immediately prior to the consummation of such Transaction and (B) the Purchase Price.

7. Registration Rights. The registration rights under the Merger Agreement shall be applicable to the Option Shares.

8. Transfers; Exercise; Voting Trust. The Option Shares may not be sold, assigned, transferred, or otherwise disposed of except as provided in the Voting Trust Agreement. The Option may not be exercised except under, and in all respects subject to the terms of, the Voting Trust Agreement.

9. Listing. If Issuer Common Stock or any other securities to be acquired upon exercise of the Option are then listed on the NYSE (or any other national securities exchange or national securities quotation system), Issuer, upon the request of Grantee, shall promptly file an application to list the shares of Issuer Common Stock or other securities to be acquired upon exercise of the Option on the NYSE (and any such other national securities exchange or national securities quotation system) and shall use reasonable efforts to obtain approval of such listing as promptly as practicable.

10. Loss or Mutilation. Upon receipt by Issuer of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Agreement, and (in the case of loss, theft or destruction) of reasonably satisfactory indemnification, and upon surrender and cancellation of this Agreement, if mutilated, Issuer shall execute and deliver a new Agreement of like tenor and date. Any such new Agreement executed and delivered shall constitute an additional contractual obligation on the part of Issuer, whether or not the Agreement so lost, stolen, destroyed, or mutilated shall at any time be enforceable by anyone.

11. Miscellaneous.

(a) Expenses. Except as otherwise provided in the Merger Agreement, each of the parties hereto shall bear and pay all costs and expenses incurred by it or on its behalf in connection with the transactions contemplated hereunder, including fees and expenses of its own financial consultants, investment bankers, accountants and counsel.

(b) Amendment. This Agreement may not be amended, except by an instrument in writing signed on behalf of each of the parties.

(c) Extension; Waiver. Any agreement on the part of a party to waive any provision of this Agreement, or to extend the time for performance, shall be valid only if set forth in an instrument in writing signed on behalf of such party. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of such rights.

(d) Entire Agreement; No Third-Party Beneficiaries. This Agreement, the Merger Agreement (including the documents and instruments referred to therein) and the Confidentiality Agreement (i) constitute the entire agreement, and supersede all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter of this Agreement, and (ii) except as provided in Section 8.6 of the Merger Agreement, are not intended to confer upon any person other than the parties any rights or remedies.

(e) GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, REGARDLESS OF THE LAWS THAT MIGHT OTHERWISE GOVERN UNDER APPLICABLE PRINCIPLES OF CONFLICT OF LAWS THEREOF; PROVIDED, HOWEVER, THAT THE LAWS OF THE RESPECTIVE STATES OF INCORPORATION OF EACH OF THE PARTIES HERETO SHALL GOVERN THE RELATIVE RIGHTS, OBLIGATIONS, POWERS, DUTIES AND OTHER INTERNAL AFFAIRS OF SUCH PARTY AND ITS BOARD OF DIRECTORS.

(f) Notices. All notices, requests, claims, demands, and other communications under this Agreement must be in writing and shall be deemed given if delivered personally, telecopied (which is confirmed), or sent by overnight courier (providing proof of delivery) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(i) if to Grantee, to

CSX Corporation
One James Center
901 East Cary Street
Richmond, VA 23219

Telecopy No.: (804) 783-1380

Attention: Mark Aron

with copies to:

CSX Corporation
One James Center
901 East Cary Street
Richmond, VA 23219

Telecopy No.: (804) 783-1355

Attention: Peter Shudtz

Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, New York 10019

Telecopy No.: (212) 403-2000

Attention: Pamela S. Seymour, Esq.; and

(ii) if to Issuer, to

Conrail Inc.
2001 Market Street
Philadelphia, PA 19103

Telecopy No.: (215) 209-4068

Attention: Bruce B. Wilson
Senior Vice President - Law

with a copy to:

Cravath, Swaine & Moore
Worldwide Plaza
825 Eighth Avenue
New York, New York 10019

Telecopy No.: (212) 474-3700

Attention: Robert A. Kindler, Esq.

(g) Assignment. Neither this Agreement nor any of the rights, interests, or obligations under this Agreement may be assigned or

delegated, in whole or in part, by operation of law or otherwise, by Issuer or Grantee without the prior written consent of the other. Any assignment or delegation in violation of the preceding sentence shall be void.

(h) Further Assurances. In the event of any exercise of the Option by Grantee, Issuer and Grantee shall execute and deliver all other documents and instruments and take all other Section that may be reasonably necessary in order to consummate the transactions provided for by such exercise.

(i) ENFORCEMENT. THE PARTIES AGREE THAT IRREPARABLE DAMAGE WOULD OCCUR AND THAT THE PARTIES WOULD NOT HAVE ANY ADEQUATE REMEDY AT LAW IN THE EVENT THAT ANY OF THE PROVISIONS OF THIS AGREEMENT WERE NOT PERFORMED IN ACCORDANCE WITH THEIR SPECIFIC TERMS OR WERE OTHERWISE BREACHED. IT IS ACCORDINGLY AGREED THAT THE PARTIES SHALL BE ENTITLED TO AN INJUNCTION OR INJUNCTIONS TO PREVENT BREACHES OF THIS AGREEMENT AND TO ENFORCE SPECIFICALLY THE TERMS AND PROVISIONS OF THIS AGREEMENT IN ANY FEDERAL COURT LOCATED IN THE STATE OF NEW YORK OR IN NEW YORK STATE COURT, THE FOREGOING BEING IN ADDITION TO ANY OTHER REMEDY TO WHICH THEY ARE ENTITLED AT LAW OR IN EQUITY. IN ADDITION, EACH OF THE PARTIES HERETO (I) CONSENTS TO SUBMIT ITSELF TO THE PERSONAL JURISDICTION OF ANY FEDERAL COURT LOCATED IN THE STATE OF NEW YORK OR ANY NEW YORK STATE COURT IN THE EVENT ANY DISPUTE ARISES OUT OF THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT, (II) AGREES THAT IT SHALL NOT ATTEMPT TO DENY OR DEFEAT SUCH PERSONAL JURISDICTION BY MOTION OR OTHER REQUEST FOR LEAVE FROM ANY SUCH COURT, AND (III) AGREES THAT IT SHALL NOT BRING ANY ACTION RELATING TO THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT IN ANY COURT OTHER THAN A FEDERAL COURT SITTING IN THE STATE OF NEW YORK OR A NEW YORK STATE COURT.

IN WITNESS WHEREOF, Issuer and Grantee have caused this Agreement to be signed by their respective officers thereunto duly authorized as of the day and year first written above.

CONRAIL INC.

By: /s/

Name:
Title:

CSX CORPORATION

By: /s/

Name:
Title:

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WHITE STOCK OPTION AGREEMENT

WHITE STOCK OPTION AGREEMENT, dated as of October 14, 1996 (the "Agreement"), by and between Conrail Inc., a Pennsylvania corporation ("Grantee"), and CSX Corporation, a Virginia corporation ("Issuer").

RECITALS

A. Issuer and Grantee have entered into an Agreement and Plan of Merger, dated as of the date hereof (the "Merger Agreement"), providing for, among other things, the merger of Grantee with and into a subsidiary of Issuer with such subsidiary as the surviving corporation in the Merger.

B. As a condition and inducement to Grantee's willingness to enter into the Merger Agreement and the Green Stock Option Agreement, Grantee has requested that Issuer agree, and Issuer has agreed, to grant Grantee the Option.

C. As a condition and inducement to Issuer's willingness to enter into the Merger Agreement and this Agreement, Issuer has requested that Grantee agree, and Grantee has agreed, to grant Issuer an option to purchase shares of Grantee's common stock on substantially the same terms as the Option.

D. Terms not defined herein shall have the meanings set forth in the Merger Agreement.

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth herein Issuer and Grantee agree as follows:

1. Grant of Option. Subject to the terms and conditions set forth herein, Issuer hereby grants to Grantee an irrevocable option (the "Option") to purchase up to 43,090,773 (as adjusted as set forth herein) shares (the "Option Shares") of Common Stock, par value \$1.00 per share ("Issuer Common Stock"), of Issuer at a purchase price of \$64.82 (as adjusted as set forth herein) per Option Share (the "Purchase Price").

2. Exercise of Option. (a) Subject to any applicable requirements of law including, without limitation, the establish-

ment of a voting trust (the "Voting Trust") substantially in the form of Exhibit E to the Merger Agreement as may be required under applicable transportation law, Grantee may exercise the Option, in whole but not in part, at any one time after any event as a result of which the Grantee is entitled to receive the Termination Fee pursuant to the Merger Agreement (a "Purchase Event"); provided, however, that except as provided in the last sentence of this Section 2(a), the Option shall terminate and be of no further force and effect upon the earliest to occur of (A) the Effective Time, (B) 18 months after the first occurrence of a Purchase Event and (C) termination of the Merger Agreement in accordance with its terms prior to the occurrence of a Purchase Event, unless the Grantee has the right to receive a Termination Fee following such termination upon the occurrence of certain events, in which case the Option shall not terminate until the later of (x) six months following the time such Termination Fee becomes payable and (y) the expiration of the period in which the Grantee has such right to receive a Termination Fee. Notwithstanding the termination of the Option, Grantee shall be entitled to purchase the Option Shares if it has exercised the Option in accordance with the terms hereof prior to the termination of the Option and the termination of the Option shall not affect any rights hereunder which by their terms do not terminate or expire prior to or as of such termination.

(b) In the event that Grantee wishes to exercise the Option, it shall send to Issuer a written notice (the date of which being herein referred to as the "Notice Date") to that effect which notice also specifies a date not earlier than three business days nor later than 20 business days from the Notice Date for the closing of such purchase (the "Option Closing Date"); provided, however, that (i) if the closing of the purchase and sale pursuant to the Option (the "Option Closing") cannot be consummated by reason of any applicable judgment, decree, order, law or regulation, the period of time that otherwise would run pursuant to this sentence shall run instead from the date on which such restriction on consummation has expired or been terminated and (ii) without limiting the foregoing, if prior notification to or approval of any regulatory authority is required in connection with such purchase, Grantee and Issuer shall promptly file the required notice or application for approval and shall cooperate in

the expeditious filing of such notice or application, and the period of time that otherwise would run pursuant to this sentence shall run instead from the date on which, as the case may be, (A) any required notification period has expired or been terminated or (B) any required approval has been obtained, and in either event, any requisite waiting period has expired or been terminated. The place of the Option Closing shall be at the offices of Cravath, Swaine & Moore, 825 Eighth Avenue, New York, New York, and the time of the Option Closing shall be 10:00 a.m. (Eastern Time) on the Option Closing Date.

3. Payment and Delivery of Certificates. (a) At the Option Closing, Grantee shall pay to Issuer in immediately available funds by wire transfer to a bank account designated in writing by Issuer an amount equal to the Purchase Price multiplied by the number of Option Shares.

(b) At the Option Closing, simultaneously with the delivery of immediately available funds as provided in Section 3(a), Issuer shall deliver to the trustee under the Voting Trust a certificate or certificates representing the Option Shares to be purchased at the Option Closing, which Option Shares shall be free and clear of all liens, claims, charges and encumbrances of any kind whatsoever. If at the time of issuance of the Option Shares pursuant to the exercise of the Option hereunder, Issuer shall not have redeemed the Green Rights, or shall have issued any similar securities, then each Option Share issued pursuant to such exercise shall also represent a corresponding Green Right or new rights with terms substantially the same as and at least as favorable to Grantee as are provided under the Green Rights Agreement or any similar agreement then in effect.

(c) Certificates for the Option Shares delivered at the Option Closing shall have typed or printed thereon a restrictive legend which shall read substantially as follows:

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY BE REOFFERED

OR SOLD ONLY IF SO REGISTERED OR IF AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE. SUCH SECURITIES ARE ALSO SUBJECT TO ADDITIONAL RESTRICTIONS ON TRANSFER AS SET FORTH IN THE STOCK OPTION AGREEMENT, DATED AS OF OCTOBER 14, 1996, A COPY OF WHICH MAY BE OBTAINED FROM THE SECRETARY OF GREEN CORPORATION AT ITS PRINCIPAL EXECUTIVE OFFICES."

It is understood and agreed that the reference to restrictions arising under the Securities Act in the above legend shall be removed by delivery of substitute certificate(s) without such reference upon the sale of the Option Shares pursuant to the registration rights under the Merger Agreement.

4. Representations and Warranties of Issuer. Issuer hereby represents and warrants to Grantee as follows:

(a) Due Authorization. Issuer has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by Issuer and the consummation by Issuer of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Issuer. This Agreement has been duly executed and delivered by Issuer and constitutes a legal, valid and binding obligation of Issuer, enforceable against Issuer in accordance with its terms.

(b) Authorized Stock. Issuer's representations and warranties in Section 3.2(c) of the Merger Agreement are incorporated herein by reference. Without limiting the generality or effect of the foregoing, Issuer has taken all necessary corporate and other action to authorize and reserve and, to permit it to issue, and, at all times from the date hereof until the obligation to deliver Option Shares upon the exercise of the Option terminates, shall have reserved for issuance, upon exercise of the Option, shares of Issuer Common Stock necessary for Grantee to exercise the Option, and Issuer shall take all

necessary corporate action to authorize and reserve for issuance all additional shares of Issuer Common Stock or other securities which may be issued pursuant to Section 6 upon exercise of the Option. The shares of Issuer Common Stock to be issued upon due exercise of the Option, including all additional shares of Issuer Common Stock or other securities which may be issuable upon exercise of the Option or any Substitute Option pursuant to Section 6, upon issuance pursuant hereto, shall be duly and validly issued, fully paid and nonassessable, and shall be delivered free and clear of all liens, claims, charges and encumbrances of any kind or nature whatsoever, including without limitation any preemptive rights of any stockholder of Issuer.

(c) No Conflicts. The execution and delivery of this Agreement does not, and the consummation of the transactions contemplated by this Agreement and compliance with the provisions of this Agreement shall not, conflict with, or result in any violation of, or default (with or without notice or lapse of time or both) under, or give rise to a right of termination, cancellation, or acceleration of any obligation or loss of a material benefit under, or result in the creation of any Lien upon any of the properties or assets of Issuer or any of its Significant Subsidiaries under, (i) the certificate of incorporation or by-laws of Issuer or the comparable organizational documents of any Significant Subsidiary of Issuer, (ii) any loan or credit agreement, note, bond, mortgage, indenture, lease or other agreement, instrument, permit, concession, franchise, or license applicable to Issuer or any Significant Subsidiary of Issuer or their respective properties or assets, or (iii) subject to approval of the STB of the Voting Trust to the extent contemplated by Exhibit D to the Merger Agreement, any judgment, order, decree, statute, law, ordinance, rule, or regulation applicable to Issuer or any of its Significant Subsidiaries or their respective properties or assets, other than, in the case

of clauses (ii) and (iii), any such conflicts, violations, defaults, rights, losses, or Liens that individually or in the aggregate would not (x) have a material adverse effect on Issuer, (y) impair the ability of Issuer to perform its obligations under this Agreement or the Merger Agreement or (z) prevent or materially delay the consummation of any of the transactions contemplated by this Agreement.

(d) State Takeover Statutes. Assuming that Grantee, together with its affiliates, does not have voting power with respect to such number of shares of Issuer capital stock as would represent more than 10% of any class of outstanding voting shares of the Issuer as of the date hereof, the Board of Directors of Issuer has taken all action necessary or advisable so as to render inoperative with respect to the transactions contemplated hereby all applicable state anti-takeover statutes.

(e) Issuer Rights Amendment. The White Rights Agreement has been amended as set forth in the Merger Agreement, and such amendment, insofar as it relates to the transactions contemplated by this Agreement, shall not be further amended or revoked (including by adopting another rights (or similar) agreement without any such amendment) without the prior consent of Grantee in its sole discretion.

5. Representations and Warranties of Grantee. Grantee hereby represents and warrants to Issuer that:

(a) Due Authorization. Grantee has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by Grantee and the consummation by Grantee of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Grantee. This Agreement has been duly executed and delivered by Grantee and constitutes a legal, valid and binding

obligation of Grantee, enforceable against Grantee in accordance with its terms.

(b) No Conflicts. The execution and delivery of this Agreement does not, and the consummation of the transactions contemplated by this Agreement and compliance with the provisions of this Agreement hereby shall not, conflict with or result in any violation of, or default (with or without notice or lapse of time or both) under, or give rise to a right of termination, cancellation, or acceleration of any obligation or loss of a material benefit under, or result in the creation of any Lien upon any of the properties or assets of Grantee or any of its Significant Subsidiaries under, (i) the certificate of incorporation or by-laws of Grantee or the comparable organizational documents of any Significant Subsidiary of Grantee, (ii) any loan or credit agreement, note, bond, mortgage, indenture, lease or other agreement, instrument, permit, concession, franchise, or license applicable to Grantee or any Significant Subsidiary of Grantee or their respective properties or assets, or (iii) assuming approval by the STB of the Voting Trust to the extent contemplated by Exhibit D to the Merger Agreement, any judgment, order, decree, statute, law, ordinance, rule, or regulation applicable to Grantee or any of its Significant Subsidiaries or their respective properties or assets, other than, in the case of clauses (ii) and (iii), any such conflicts, violations, defaults, rights, losses, or Liens that individually or in the aggregate would not (x) have a material adverse effect on Grantee, (y) impair the ability of Grantee to perform its obligations under this Agreement or the Merger Agreement or (z) prevent or materially delay the consummation of any of the transactions contemplated by this Agreement.

(c) Purchase Not for Distribution. Any Option Shares or other securities acquired by Grantee upon exercise of the Option shall not be transferred or otherwise

disposed of except in a transaction registered, or exempt from registration, under the Securities Act.

6. Adjustment upon Changes in Capitalization, Etc. (a) In the event of any change in Issuer Common Stock by reason of a stock dividend, split-up, merger, recapitalization, combination, exchange of shares, or similar transaction, the type and number of shares or securities subject to the Option, and the Purchase Price therefor, shall be adjusted appropriately, and proper provision shall be made in the agreements governing such transaction, so that Grantee shall receive upon exercise of the Option the number and class of shares or other securities or property that Grantee would have received in respect of Issuer Common Stock if the Option had been exercised immediately prior to such event or the record date therefor, as applicable. Subject to Section 1, and without limiting the parties' relative rights and obligations under the Merger Agreement, if any additional shares of Issuer Common Stock are issued after the date of this Agreement (other than pursuant to an event described in the first sentence of this Section 6(a)), the number of shares of Issuer Common Stock subject to the Option shall be adjusted so that, after such issuance, it equals 19.9% of the number of shares of Issuer Common Stock then issued and outstanding, without giving effect to any shares subject to or issued pursuant to the Option.

(b) Without limiting the parties' relative rights and obligations under the Merger Agreement, in the event that Issuer enters into an agreement (i) to consolidate with or merge into any person, other than Grantee or one of its subsidiaries, and Issuer shall not be the continuing or surviving corporation in such consolidation or merger, (ii) to permit any person, other than Grantee or one of its subsidiaries, to merge into Issuer and Issuer shall be the continuing or surviving corporation, but in connection with such merger, the shares of Issuer Common Stock outstanding immediately prior to the consummation of such merger shall be changed into or exchanged for stock or other securities of Issuer or any other person or cash or any other property, or the shares of Issuer Common Stock outstanding immediately prior to the consummation of such merger shall, after such merger, represent less than 50% of the outstanding voting securities of the merged company, or (iii) to sell or otherwise transfer all or substantially all of its assets to any person, other than Grantee or one of its subsidiaries, then, and in

each such case, the agreement governing such transaction shall make proper provision so that the Option shall, upon the consummation of any such transaction and upon the terms and conditions set forth herein, be converted into, or exchanged for, an option with identical terms appropriately adjusted to acquire the number and class of shares or other securities or property that Grantee would have received in respect of Issuer Common Stock if the Option had been exercised immediately prior to such consolidation, merger, sale, or transfer, or the record date therefor, as applicable.

(c) If, prior to the termination of the Option in accordance with Section 2 or the Notice Date, Issuer enters into any agreement pursuant to which all outstanding shares of Issuer Common Stock are to be purchased for, or converted into the right to receive in whole or in part (other than in respect of fractional shares) cash (a "Transaction"), Issuer covenants that proper provision shall be made in such agreement to provide that, if the Option shall not theretofore have been exercised, then upon the consummation of the Transaction (which in the case of a Transaction involving a tender offer shall be when shares of Issuer Common Stock are accepted for payment), Grantee shall receive in exchange for the cancellation of the Option an amount in cash equal to the Cash Consideration. For purposes of this Agreement, the term "Cash Consideration" means the number of Option Shares multiplied by the difference between (A) the closing market price per share of Issuer Common Stock on the day immediately prior to the consummation of such Transaction and (B) the Purchase Price.

7. Registration Rights. The registration rights under the Merger Agreement shall be applicable to the Option Shares.

8. Transfers; Exercise; Voting Trust. The Option Shares may not be sold, assigned, transferred, or otherwise disposed of except as provided in the Voting Trust Agreement. The Option may not be exercised except under, and is in all respects subject to the terms of, the Voting Trust Agreement.

9. Listing. If Issuer Common Stock or any other securities to be acquired upon exercise of the Option are then listed

on the NYSE (or any other national securities exchange or national securities quotation system), Issuer, upon the request of Grantee, shall promptly file an application to list the shares of Issuer Common Stock or other securities to be acquired upon exercise of the Option on the NYSE (and any such other national securities exchange or national securities quotation system) and shall use reasonable efforts to obtain approval of such listing as promptly as practicable.

10. Loss or Mutilation. Upon receipt by Issuer of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Agreement, and (in the case of loss, theft or destruction) of reasonably satisfactory indemnification, and upon surrender and cancellation of this Agreement, if mutilated, Issuer shall execute and deliver a new Agreement of like tenor and date. Any such new Agreement executed and delivered shall constitute an additional contractual obligation on the part of Issuer, whether or not the Agreement so lost, stolen, destroyed, or mutilated shall at any time be enforceable by anyone.

11. Miscellaneous.

(a) Expenses. Except as otherwise provided in the Merger Agreement, each of the parties hereto shall bear and pay all costs and expenses incurred by it or on its behalf in connection with the transactions contemplated hereunder, including fees and expenses of its own financial consultants, investment bankers, accountants and counsel.

(b) Amendment. This Agreement may not be amended, except by an instrument in writing signed on behalf of each of the parties.

(c) Extension; Waiver. Any agreement on the part of a party to waive any provision of this Agreement, or to extend the time for performance, shall be valid only if set forth in an instrument in writing signed on behalf of such party. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of such rights.

(d) Entire Agreement; No Third-Party Beneficiaries. This Agreement, the Merger Agreement (including the documents and

instruments referred to therein) and the Confidentiality Agreement (i) constitute the entire agreement, and supersede all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter of this Agreement, and (ii) except as provided in Section 8.6 of the Merger Agreement, are not intended to confer upon any person other than the parties any rights or remedies.

(e) GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, REGARDLESS OF THE LAWS THAT MIGHT OTHERWISE GOVERN UNDER APPLICABLE PRINCIPLES OF CONFLICT OF LAWS THEREOF; PROVIDED, HOWEVER, THAT THE LAWS OF THE RESPECTIVE STATES OF INCORPORATION OF EACH OF THE PARTIES HERETO SHALL GOVERN THE RELATIVE RIGHTS, OBLIGATIONS, POWERS, DUTIES AND OTHER INTERNAL AFFAIRS OF SUCH PARTY AND ITS BOARD OF DIRECTORS.

(f) Notices. All notices, requests, claims, demands, and other communications under this Agreement must be in writing and shall be deemed given if delivered personally, telecopied (which is confirmed), or sent by overnight courier (providing proof of delivery) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(i) if to Issuer, to

CSX Corporation
One James Center
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Telecopy No.: (804) 783-1380

Attention: Mark Aron

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New York, New York 10019

Telecopy No.: (212) 403-2000

Attention: Pamela S. Seymon, Esq.; and

(ii) if to Grantee, to

Conrail Inc.
2001 Market Street
Philadelphia, PA 19103

Telecopy No.: (215) 209-4068

Attention: Bruce B. Wilson
Senior Vice President - Law

with a copy to:

Cravath, Swaine & Moore
Worldwide Plaza
825 Eighth Avenue
New York, New York 10019

Telecopy No.: (212) 474-3700

Attention: Robert A. Kindler, Esq.

(g) Assignment. Neither this Agreement nor any of the rights, interests, or obligations under this Agreement may be assigned or delegated, in whole or in part, by operation of law or otherwise, by Issuer or Grantee without the prior written consent of

the other. Any assignment or delegation in violation of the preceding sentence shall be void.

(h) Further Assurances. In the event of any exercise of the Option by Grantee, Issuer and Grantee shall execute and deliver all other documents and instruments and take all other Section that may be reasonably necessary in order to consummate the transactions provided for by such exercise.

(i) ENFORCEMENT. THE PARTIES AGREE THAT IRREPARABLE DAMAGE WOULD OCCUR AND THAT THE PARTIES WOULD NOT HAVE ANY ADEQUATE REMEDY AT LAW IN THE EVENT THAT ANY OF THE PROVISIONS OF THIS AGREEMENT WERE NOT PERFORMED IN ACCORDANCE WITH THEIR SPECIFIC TERMS OR WERE OTHERWISE BREACHED. IT IS ACCORDINGLY AGREED THAT THE PARTIES SHALL BE ENTITLED TO AN INJUNCTION OR INJUNCTIONS TO PREVENT BREACHES OF THIS AGREEMENT AND TO ENFORCE SPECIFICALLY THE TERMS AND PROVISIONS OF THIS AGREEMENT IN ANY FEDERAL COURT LOCATED IN THE STATE OF NEW YORK OR IN NEW YORK STATE COURT, THE FOREGOING BEING IN ADDITION TO ANY OTHER REMEDY TO WHICH THEY ARE ENTITLED AT LAW OR IN EQUITY. IN ADDITION, EACH OF THE PARTIES HERETO (I) CONSENTS TO SUBMIT ITSELF TO THE PERSONAL JURISDICTION OF ANY FEDERAL COURT LOCATED IN THE STATE OF NEW YORK OR ANY NEW YORK STATE COURT IN THE EVENT ANY DISPUTE ARISES OUT OF THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT, (II) AGREES THAT IT SHALL NOT ATTEMPT TO DENY OR DEFEAT SUCH PERSONAL JURISDICTION BY MOTION OR OTHER REQUEST FOR LEAVE FROM ANY SUCH COURT, AND (III) AGREES THAT IT SHALL NOT BRING ANY ACTION RELATING TO THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT IN ANY COURT OTHER THAN A FEDERAL COURT SITTING IN THE STATE OF NEW YORK OR A NEW YORK STATE COURT.

IN WITNESS WHEREOF, Issuer and Grantee have caused this Agreement to be signed by their respective officers thereunto duly authorized as of the day and year first written above.

CONRAIL, INC.

By: /s/

Name:

Title:

CSX CORPORATION

By: /s/

Name:

Title:

Exhibit (c) (4)

Form of Voting Trust Agreement

See Volume 8

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14D-1

Tender Offer Statement

Pursuant to
Section 14(d) (1) of the Securities Exchange Act of 1934
and
Schedule 13D

(Amendment No. 1)

Conrail Inc.
(Name of Subject Company)

CSX Corporation
Green Acquisition Corp.
(Bidders)

Common Stock, Par Value \$1.00 Per Share
(Title of Class of Securities)

208368 10 0
(CUSIP Number of Class of Securities)

Series A ESOP Convertible Junior
Preferred Stock, Without Par Value
(Title of Class of Securities)

Not Available
(CUSIP Number of Class of Securities)

Mark G. Aron
CSX Corporation
One James Center
901 East Cary Street
Richmond, Virginia 23219-4031
Telephone: (804) 782-1400

(Names, Addresses and Telephone Numbers of Persons Authorized
to Receive Notices and Communications on Behalf of Bidder)

With a copy to:

Pamela S. Seymon
Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, New York 10019
Telephone: (212) 403-1000

STB

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6-23-97

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This Statement amends and supplements the Tender Offer Statement on Schedule 14D-1 filed with the Securities and Exchange Commission on October 16, 1996 (the "Schedule 14D-1") by Green Acquisition Corp. ("Purchaser"), a Pennsylvania corporation and a wholly owned subsidiary of CSX Corporation, a Virginia corporation ("Parent"), to purchase an aggregate of 17,860,124 shares of (i) Common Stock, par value \$1.00 per share (the "Common Shares"), and (ii) Series A ESOP Convertible Junior Preferred Stock, without par value (together with the Common Shares, the "Shares"), of Conrail Inc., a Pennsylvania corporation (the "Company"), including, in each case, the associated Common Stock Purchase Rights, upon the terms and subject to the conditions set forth in the Offer to Purchase, dated October 16, 1996 (the "Offer to Purchase"), and in the related Letter of Transmittal (which, together with any amendments or supplements thereto, constitute the "Offer") at a purchase price of \$92.50 per Share, net to the tendering shareholder in cash. Capitalized terms used and not defined herein shall have the meanings assigned such terms in the Offer to Purchase and the Schedule 14D-1.

Item 4. Source and Amount of Funds or Other Consideration.

(a)-(b) (i) The words "a credit facility that Parent will seek to obtain from one or more commercial banks" in the second sentence of the second paragraph under Section 10 of the Offer to Purchase are hereby deleted and replaced with the words "the credit facility (the "Facility") contemplated by the Commitment Letter, as described below".

(ii) Section 10 is hereby further amended and supplemented by adding the following text after the second paragraph:

The Commitment Letter. In connection with the Offer and the Merger, Parent has entered into a commitment letter, dated October 21, 1996 (the "Commitment Letter"), with Bank of America National Trust and Savings Association, BA Securities, Inc., The Bank of Nova Scotia, The Chase Manhattan Bank, Chase Securities Inc., NationsBank, N.A. and NationsBank Capital Markets, Inc., pursuant to which, upon the terms and subject to the conditions set forth therein and in the Term Sheet (as defined below), Bank of America National Trust and Savings Association, The Bank of Nova Scotia, The Chase Manhattan Bank and NationsBank, N.A. (collectively, "Principal Agents") have agreed to provide a competitive advance and revolving credit facility in an aggregate principal amount of \$4,800,000,000 (the "Facility"), and each Principal Agent has committed to provide \$1,200,000,000 of this amount. Proceeds of the Facility will be used to finance purchase of Shares pursuant to one or more all cash tender offers, exercise of the Company Stock Option or otherwise and the

Merger, to replace existing credit facilities used for commercial paper backup and, following the Merger, to provide working capital and for other general corporate purposes. The Commitment Letter includes an attachment (the "Term Sheet") which sets forth the terms contemplated to be included in the definitive documentation with respect to the Facility (the "Credit Agreement"). Under the Commitment Letter, each Principal Agent has reserved the right to syndicate a portion of its commitment to one or more financial institutions acceptable to Parent, and, in connection therewith, Chase Securities Inc., BA Securities, Inc., NationsBanc Capital Markets, Inc. and The Bank of Nova Scotia (collectively, the "Arrangers" and, together with the Principal Agents, the "Agents") have agreed to act as co-arrangers for the Facility and intend to commence syndication efforts immediately.

Under the Facility, two borrowing options will be available: (i) a competitive advance option (the "CAF"), which will be provided on an uncommitted competitive advance basis through a competitive bid auction mechanism, and (ii) a revolving credit option (the "Revolving Credit"), which will be provided on a committed basis. Under each option, amounts borrowed and repaid may be reborrowed subject to availability under the Facility. Up to the full amount of the remaining commitments may be borrowed under either of the two borrowing options, so long as the total borrowed amount outstanding under the Facility does not exceed the amount of the Facility at any time. Each borrowing will be conditioned upon the delivery of a borrowing notice, the accuracy of representations and warranties and the absence of defaults. Events of default will include a material breach of representations or warranties, failure to pay principal or interest, breach of covenants, cross acceleration, material judgments and bankruptcy, subject to customary notice and cure periods.

Under the Facility, interest rates per annum for the outstanding loans will be determined as follows: (i) interest rates for the CAF will be obtained from bids selected by Parent and (ii) interest rates for the Revolving Credit will be based upon either LIBOR or an alternate base rate ("ABR") that will be the higher of The Chase Manhattan Bank's prime rate and the federal funds effective rate plus 1/2 of 1%, as selected by Parent. No spread will be charged on ABR

loans. The interest rate applicable to each LIBOR loan will be equal to LIBOR for the interest period applicable to such loan plus a margin, ranging from 14.0 to 35.0 basis points per annum, determined based upon Parent's credit ratings.

Under the Facility, interest periods for outstanding loans will be determined as follows:

(i) interest periods for the CAF will be determined per market availability, with fixed-rate auction advances being for periods ranging from seven to 360 days; and (ii) under the Revolving Credit, the interest period on ABR loans will be three months, and the interest period on LIBOR loans will be either one, two, three or six months, at Parent's option. Interest will be payable at the end of the relevant interest period, but not less often than quarterly. Interest will be calculated on the basis of the actual number of days elapsed over a 365/366-day year for ABR loans based on The Chase Manhattan Bank's prime rate, and over a 360-day year for all other loans.

Under the Facility, prepayments of ABR loans will be permitted at any time without penalty. LIBOR Revolving Credit loans may be prepaid in whole or in part at any time, subject to compensation in respect of any redeployment costs if prepayment occurs other than at the end of an interest period. CAF loans will not be subject to prepayment.

Under the Facility, mandatory commitment reduction will occur in the event that any required governmental approval is denied or in the event that Parent elects to abandon the Offer and the Merger. Upon the occurrence of such event, the commitments would be reduced to the amount of loans outstanding at such time reduced by the amount of net proceeds from sales of the Shares, if any. Parent may opt to reduce the commitments under the Facility by giving notice thereof, provided that the aggregate Facility commitments at any time may in no event be less than the aggregate amount of the CAF advances and loans outstanding at such time.

In the Commitment Letter, Parent has made certain representations and warranties regarding information made available to the Agents. In addition, the Credit Agreement will include certain representations and warranties regarding, among other things,

organization and powers, authority and enforceability, no conflicts, financial information, absence of material adverse change, absence of material litigation, compliance with laws and regulations and agreements, inapplicability of certain laws, taxes, ERTISA and absence of material misstatements. In addition, the Credit Agreement will include certain covenants regarding, among other things, maintenance of corporate existence, maintenance of ownership of railroad subsidiaries, maintenance of insurance, payment of taxes, delivery of financial statements and reports, compliance with laws, use of proceeds, and certain limitations on debt, including limitations on indebtedness in excess of \$4,000,000,000 for the purchase of Shares, limitations on additional unsecured indebtedness at subsidiaries (subject to appropriate thresholds and other customary terms) and a limitation on total debt (other than indebtedness incurred to finance the exercise of the Company Stock Option) as a percentage of total capitalization to a maximum of 65% prior to the Merger and 55% at or after the Merger. The Credit Agreement will also include certain covenants regarding limitations on mergers or sales of all or substantially all assets and limitations on liens and sale/leaseback transactions.

The Agents' commitments and agreements in the Commitment Letter are subject to (i) the reasonable satisfaction of the Agents with any material changes in the structure or terms of the Offer and the Merger prior to the execution of the Credit Agreement and all legal, tax and accounting matters relating thereto, (ii) the absence of any material adverse change since December 31, 1995, in or affecting the business, assets or condition (financial or otherwise) of Parent and its subsidiaries and the Company and its subsidiaries, taken as a whole, (iii) the absence of a material disruption of or material adverse change in financial, banking or capital market conditions that, in the Arrangers' reasonable judgment, would be likely to materially impair the syndication of the Facility, (iv) the negotiation, execution and delivery on or before November 30, 1996 of the definitive Credit Agreement in form satisfactory to the Agents and their counsel, (v) the Agents' satisfaction that, prior to and during the syndication of the Facility, there shall be no competing issues of debt securities or commercial bank facilities of Parent or the Company or any of their respective subsidiaries being offered, placed or arranged and (vi)

certain other conditions set forth in the Term Sheet. In addition, the Credit Agreement will include usual and customary cost and yield provisions.

The Credit Agreement also include conditions to effectiveness including, but not limited to, the absence of pending litigation or administrative proceedings or other legal or regulatory developments that, in the reasonable judgment of at least three Agents, would be reasonably likely to prohibit the transactions contemplated by the Offer and the Merger or to result in a material adverse change in the business, assets or condition of Parent, the termination of existing credit facilities of Parent used for the purpose of commercial paper backup, the consummation of the Offer and other customary conditions to effectiveness for facilities and transactions of such type.

In connection with the Commitment Letter, Parent has agreed to pay the Agents certain fees, to reimburse the Agents for certain expenses and to provide certain indemnities, as is customary for commitments of the type described herein. The Credit Agreement will include an agreement by Parent to pay a facility fee to each lender under the Facility based on the aggregate amount of such lender's commitment under the Facility, whether used or unused, at a rate, ranging from 6.0 to 15.0 basis points per annum, determined based upon Parent's credit ratings.

Assuming that the funds contemplated by the Commitment Letter and Facility described above are made available in accordance with the terms thereof, Purchaser expects that the condition set forth in subsection (g) of Section 15 of the Offer to Purchase will be satisfied.

The Commitment Letter is attached hereto as Exhibit (b) (1), and the foregoing summary description is qualified in its entirety by reference to such exhibit.

(iii) On October 22, 1996, Parent issued a press release in which it announced that a group of banks had committed to lend up to an aggregate of \$4.8 billion to Parent to buy Shares pursuant to the Offer and to consummate the Merger. A copy of the press release is attached hereto as Exhibit (a) (9), and the foregoing summary description is qualified in its entirety by reference to such exhibit.

Item 9. Financial Statements of Certain Bidders.

The words "cash provided by operating activities" in clause (i) of the first sentence of the second paragraph under "Certain Projected Financial Information" in Section 8 of the Offer to Purchase are hereby deleted and replaced with the word "revenues".

Item 10. Additional Information.

(b)-(c), (e)

(i) Section 16 of the Offer to Purchase is hereby amended and supplemented by changing the date "January 15, 1997" to "January 18, 1997" in the second sentence of the first paragraph of the subsection entitled "STB Matters; Acquisition of Control".

(ii) Section 16 is hereby further amended and supplemented by adding the following text after the first sentence of the first paragraph of the subsection entitled "STB Matters; Acquisition of Control":

On October 18, 1996, Parent and the Company filed with the STB a Notice of Intent to File Railroad Control Application, a Petition for Protective Order and a Petition to Establish Procedural Schedule.

(iii) Section 16 is hereby further amended and supplemented by changing the words "plan to ask" to "have asked" in the third sentence of the sixth paragraph of the subsection entitled "STB Matters; Acquisition of Control".

(iv) Section 16 is hereby further amended and supplemented by adding the following text to the end of the third sentence of the sixth paragraph of the subsection entitled "STB Matters; Acquisition of Control":

contemplating a final order by the STB within 255 days of the filing of an application with the STB seeking approval of the Merger.

(v) Section 16 is hereby further amended and supplemented by changing the word "such" to "cash" in the fourth sentence of the third paragraph of the subsection entitled "STB Matters; The Voting Trust".

Item 11. Material to be Filed as Exhibits.

- (a) (1) -- Offer to Purchase, dated October 16, 1996.*
- (a) (2) -- Letter of Transmittal.*
- (a) (3) -- Notice of Guaranteed Delivery.*
- (a) (4) -- Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.*
- (a) (5) -- Letter to Clients for use by Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.*
- (a) (6) -- Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9.*
- (a) (7) -- Text of Press Release issued by Parent on October 15, 1996.*
- (a) (8) -- Form of Summary Advertisement dated October 16, 1996.*
- (a) (9) -- Text of Press Release issued by Parent on October 22, 1996.
- (b) (1) -- Commitment Letter, dated October 21, 1996.
- (c) (1) -- Agreement and Plan of Merger, dated as of October 14, 1996, by and among Parent, Purchaser and the Company.*
- (c) (2) -- Company Stock Option Agreement, dated as of October 14, 1996, between Parent and the Company.*
- (c) (3) -- Parent Stock Option Agreement, dated as of October 14, 1996, between Parent and the Company.*
- (c) (4) -- Form of Voting Trust Agreement.*

* Previously filed.

SIGNATURE

After due inquiry and to the best of my knowledge and belief, the undersigned certifies that the information set forth in this statement is true, complete and correct.

CSX CORPORATION

By: /s/ MARK G. ARON

Name: Mark G. Aron

Title: Senior Vice President
Law and Public Affairs

Dated: October 23, 1996

SIGNATURE

After due inquiry and to the best of my knowledge and belief, the undersigned certifies that the information set forth in this statement is true, complete and correct.

GREEN ACQUISITION CORP.

By:/s/ MARK G. ARON
Name: Mark G. Aron
Title: General Counsel
and Secretary

Dated: October 23, 1996

EXHIBIT INDEX

Exhibit No.	Description
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* Previously filed.

[CSX Corporation Letterhead]

CSX Receives \$4.8 Billion Financing Commitment in Connection
With Conrail Merger

RICHMOND, Va., Oct. 22 /PR Newswire/ -- CSX Corporation (CSX) (NYSE: CSX) today announced it has marked another important milestone in its proposed merger with Conrail Inc. (Conrail) (NYSE: CRR), completing arrangements for a 5-year, \$4.8 billion bank facility in connection with the merger. Underwriters of the financing are NationsBank, BankAmerica, the Bank of Nova Scotia and Chase Manhattan Bank. Chase Securities Inc. has been selected as administrative agent.

Each of the banks has agreed to commit \$1.2 billion of the \$4.8 billion financing with syndication to a consortium of leading financial institutions.

John W. Snow, chairman and chief executive officer of CSX, said, "Completing this arrangement clearly underscores our commitment to the merger. We remain very excited about the prospects this combination offers to our customers, our shareholders and the public.

"We are very encouraged by the early response we are getting from key constituents, including shippers and public officials. We are anxious to work with other carriers in the region, and so far have reached out in that regard to Norfolk Southern as the other leading carrier in the area. We are intent on reaching agreements with Norfolk Southern and other carriers and having them completed prior to filing our application with the Surface Transportation Board. We firmly believe this merger will vastly improve rail service east of the Mississippi," Snow said.

CSX and Conrail last week announced their agreement to combine in a strategic merger. The merger will create the leading freight transportation and logistics company in the world with annual revenues of more than \$14 billion, offering domestic and international customers rail, container-shipping, barge, intermodal and contract logistics services. The newly created transportation system will offer much more extensive single-line rail service opportunities to shippers and receivers in 22 states and will have a 29,645-mile system, covering territory from Chicago, Boston and New York to Miami and New Orleans.

CSX Corporation, headquartered in Richmond, Va., is an international transportation company offering a variety of

rail, container-shipping, intermodal, trucking, barge and contract logistics services.

CSX's Internet address is <http://www.csx.com>

CSX press releases available through Company News On-
Call by fax, 800-758-5804, ext. 219563, or at [http://
www.prnewswire.com/](http://www.prnewswire.com/)

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION
BA SECURITIES, INC.
THE BANK OF NOVA SCOTIA
THE CHASE MANHATTAN BANK
CHASE SECURITIES INC.
NATIONSBANK, N.A.
NATIONSBANC CAPITAL MARKETS, INC.

October 21, 1996

CSX Corporation
Commitment Letter

CSX Corporation
One James Center
901 E. Cary Street
Richmond, VA 23219

Ladies and Gentlemen:

We understand that CSX Corporation ("CSX") proposes to acquire all the issued and outstanding shares (the "Shares") of common stock and Series A ESOP Junior Convertible Preferred Stock of Conrail Inc. ("Conrail") pursuant to a merger agreement (the "Merger Agreement") providing for Shares to be purchased by CSX by means of one or more all cash tender offers (the "Tender Offers"), exercise of a stock option granted by Conrail (the "Conrail Stock Option") or otherwise for 40% of the Shares (on a fully diluted basis (excluding Shares that would be outstanding or issuable upon the exercise of the Conrail Stock Option)) followed by a merger in which all the remaining Shares will be converted to the right to receive shares of common stock of CSX and (to the extent that 40% of the Shares as calculated above have not theretofore been purchased) cash (the "Merger"; the Tender Offers, the Merger and any exercise of the Conrail Stock Option being collectively called the "Acquisition"). You have advised us that CSX will require a Competitive Advance and Revolving Credit Facility (the "Facility") in an aggregate principal amount of \$4,800,000,000 to finance the Acquisition and to replace existing credit facilities used for the purpose of commercial paper backup and, following the Merger, for working capital and for other general corporate purposes of CSX. It is contemplated that the terms of the Facility will be as set forth in the Summary of Terms

October 21, 1996

and Conditions attached as Exhibit A hereto and made a part hereof (the "Term Sheet").

Each of Bank of America National Trust and Savings Association, The Bank of Nova Scotia, The Chase Manhattan Bank and NationsBank, N.A. (collectively, the "Principal Agents") is pleased to advise you of its commitment to provide severally \$1,200,000,000 of the Facility upon the terms and subject to the conditions set forth or referred to herein and in the Term Sheet.

You hereby appoint BA Securities, Inc., The Bank of Nova Scotia, Chase Securities Inc. and NationsBank Capital Markets, Inc. (collectively, the "Arrangers", and together with the Principal Agents, the "Agents"), and the Arrangers hereby agree to act, as co-arrangers for the Facility. You hereby appoint the Principal Agents and the Principal Agents hereby agree to act in the capacities with respect to the Facility specified for each Principal Agent in the Term Sheet. Each Principal Agent and Arranger will perform all functions and exercise all authority customarily performed and exercised by it in such roles.

Each Principal Agent reserves the right, prior to and after the execution of definitive credit documentation, to syndicate a portion of its commitment to one or more financial institutions reasonably acceptable to you which will become parties to such documentation pursuant to a syndication to be managed by the Arrangers (the Principal Agents and the financial institutions becoming parties to such documentation being called the "Lenders").

The Arrangers intend to commence syndication efforts immediately, and you agree actively to assist the Arrangers in completing a syndication satisfactory to them. You represent that (a) all information made available by you or your authorized representatives is and will be complete and correct in all material respects and does not and will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein not materially misleading in light of the circumstances under which such statements are made and (b) all financial projections prepared by you or on your behalf and that have been or will be made available have been and will be prepared in good faith based upon assumptions believed by you to be reasonable. In arranging and syndicating the Facility, we will be using and relying primarily on such information and projections without independent verification thereof.

As consideration for the agreements of the Agents hereunder, you agree to pay the fees provided for in the Term Sheet and the Fee Letter dated the date hereof and delivered herewith (the "Fee Letter").

Each Principal Agent's commitment hereunder and the Arrangers' agreements to perform the services described herein are subject to (a) the reasonable satisfaction of the Agents with any material changes in the structure or terms of the Acquisition prior to the execution of definitive documentation with respect to the Facility, and all legal, tax and accounting matters relating thereto, (b) the absence of any material adverse change since December 31, 1995, in or affecting the business, assets or condition (financial or otherwise) of CSX and its subsidiaries and Conrail and its subsidiaries, taken as a whole, (c) the absence of a material disruption of or material adverse change in financial, banking or capital market conditions that, in the Arrangers' reasonable judgment, would be likely materially to impair the syndication of the Facility, (d) the negotiation, execution and delivery on or before November 30, 1996, of definitive documentation with respect to the Facility satisfactory to the Agents and their counsel, (e) the Agents' satisfaction that, prior to and during the syndication of the Facility, there shall be no competing issues of debt securities or commercial bank facilities of CSX or Conrail or any of their respective subsidiaries being offered, placed or arranged and (f) the other conditions set forth or referred to in the Term Sheet.

CSX agrees (a) to indemnify and hold harmless each Agent and each of its affiliates and their respective officers, directors, employees, agent and advisors from and against any and all losses, claims, damages, liabilities and expenses arising out of or in connection with this Commitment Letter or the transactions contemplated hereby; provided, however, that the foregoing indemnity will not, as to any indemnified party, apply to losses, claims, damages, liabilities or expenses to the extent they have resulted from the wilful misconduct or gross negligence of such indemnified party and (b) to reimburse the Agents and their affiliates for all reasonable out-of-pocket expenses (including, without limitations reasonable syndication expenses and the reasonable fees, disbursements and other charges of counsel) incurred in connection with the arrangement of the Facility, the preparation of this Commitment Letter, the Fee Letter and the definitive documentation for the Facility or the other transactions contemplated hereby. No indemnified person shall be liable for any indirect or consequential damages in connection with its activities related to the Facility.

October 21, 1996

This Commitment Letter is delivered to you on the understanding that neither this Commitment Letter, the Term Sheet nor any of their terms or substance shall be disclosed, directly or indirectly, to any other person, provided, that the foregoing restrictions shall cease to apply after this Commitment Letter has been accepted by you in accordance with the terms hereof.

The reimbursement, indemnification and confidentiality provisions contained herein and in the Fee Letter shall remain in full force and effect regardless of whether definitive financing documentation shall be executed and delivered and notwithstanding the termination of the Commitment Letter or the Principal Agents' commitments hereunder. This Commitment Letter and the Fee Letter are the only agreements that have been entered into among us with respect to the Facility and set forth the entire understanding of the parties with respect thereto. This Commitment Letter agreement may be executed in any number of counterparts (including by facsimile transmission), each of which shall be an original, and all of which, when taken together, shall constitute one agreement. This Commitment Letter shall be governed by, and construed in accordance with, the laws of the State of New York. This Commitment Letter supersedes in full the Commitment Letter dated October 16, 1996 from The Chase Manhattan Bank and Chase Securities Inc. to you.

October 21, 1996

If the foregoing correctly sets forth our agreement, please indicate your acceptance of the terms hereof and of the Term Sheet and the Fee Letter by returning to us executed counterparts hereof and of the Fee Letter not later than 8:00 p.m., New York City time, on October 21, 1996, failing which the Principal Agents' commitments and the Arrangers' agreements herein will expire.

Each of the undersigned is extremely pleased to have the opportunity to assist you in connection with this important financing.

Very truly yours,

BANK OF AMERICA NATIONAL
TRUST AND SAVINGS ASSOCIATION

By: /s/ Mark N. Hurley
Title: Managing Director

BA SECURITIES, INC.

By: /s/ Mark S. Lies
Title: Managing Director

THE BANK OF NOVA SCOTIA

By: /s/ James R. Trimble
Title: Senior Relationship
Manager

October 21, 1996

THE CHASE MANHATTAN BANK

By: /s/ J.M. Long
Title: Vice President

CHASE SECURITIES INC.

By: /s/ Elizabeth P. Hughes
Title: Managing Director

NATIONSBANK, N.A.

By: /s/ E. Turner Coggin
Title: Senior Vice President

NATIONSBANC CAPITAL MARKETS, INC.

By: /s/ John N. Gregg, Jr.
Title: Director

Accepted and agreed to as of
the date first above written:

CSX CORPORATION

By: /s/ G.R. Weber
Title: Vice President and
Treasurer

CSX CORPORATION

Competitive Advance and Revolving Credit Facility
Summary of Terms and Conditions

Borrower: CSX Corporation (the "Borrower")

Acquisition: The Borrower will acquire all the issued and outstanding shares (the "Shares") of common stock and Series A ESOP Convertible Junior Preferred Stock of Conrail Inc. ("Conrail") pursuant to a merger agreement (as amended from time to time, the "Merger Agreement") providing for Shares to be purchased by the Borrower by means of one or more all cash tender offers (the "Tender Offers") exercise of a stock option granted by Conrail (the "Conrail Stock Option") or otherwise for 40% of the Shares (on a fully diluted basis (excluding Shares that would be outstanding or issuable upon the exercise of the Conrail Stock Option)) followed by a merger in which all the remaining Shares will be converted to the right to receive shares of common stock of the Borrower and (to the extent that 40% of the Shares as calculated above have not theretofore been purchased) cash (the "Merger"; the Tender Offers, the Merger and any exercise of the Conrail Stock Option being collectively called the "Acquisition").

Arrangers: BA Securities, Inc., The Bank of Nova Scotia, Chase Securities Inc. and NationsBanc Capital Markets, Inc. (collectively, the "Arrangers").

Administrative Agent: The Chase Manhattan Bank ("Chase") will act as sole administrative agent

(in such capacity, the "Administrative Agent") for a syndicate of lenders arranged by the Arrangers (collectively, the "Lenders").

Documentation Agent: The Bank of Nova Scotia (in such capacity, the "Documentation Agent").

Co-Syndication Agents: Bank of America National Trust and Savings Association and NationsBank, N.A. (in such capacities, the "Co-Syndication Agents"; and together with the Arrangers, the Documentation Agent and the Administrative Agent, the "Agents").

Facility: Competitive advance and revolving credit facility in an aggregate principal amount of \$4,800,000,000 (the "Facility"). The Borrower will have the right to request the Arrangers to arrange an increase in the Facility for the purposes described below on terms and conditions to be agreed.

Borrowing Options: Two borrowing options will be available under the Facility: (i) a competitive advance option (the "CAF") and (ii) a revolving credit option (the "Revolving Credit"). The CAF will be provided on an uncommitted competitive advance basis through an auction mechanism. The Revolving Credit will be provided on it committed basis. Under each option amounts borrowed and repaid may be reborrowed subject to availability under the Facility.

Purpose: The proceeds of the Facility will be used to finance the Acquisition and to replace existing credit facilities used for the purpose of commercial paper backup. In addition, following the Merger the proceeds of the Facility may be used for working capital and for other general corporate purposes.

Commitment Termination
and Final Maturity:

Five years from the date of execution
of definitive credit documentation
(the "Closing Date").

Availability:

Subject to the second succeeding sentence, under the CAF, up to the full amount of the remaining commitments (less any amounts outstanding under the Revolving Credit) may be borrowed, repaid and reborrowed at the discretion of the Lenders, which may elect to bid in accordance with the Administrative Agent's standard procedures for competitive advance facilities. Subject to the next succeeding sentence, under the Revolving Credit, up to the full amount of the remaining commitments (less any amount outstanding under the CAF) may be borrowed, repaid and reborrowed subject only to applicable conditions to borrowing. Availability under each option will be reduced by usage under the other option on a dollar-for-dollar basis. Total outstandings under the Facility may not exceed the amount of the Facility at any time.

Fees and Interest Rates: As per attached Annex I.

Interest Periods:

CAF -- per market availability:

Fixed Rate Auction Advances:
7-360 days.

Revolving Credit -- at the Borrower's option:

LIBOR Loans: 1, 2, 3 or 6 months.

Alternative Base Rate ("ABR") Loans:
3 months.

Interest will be payable at the end of each interest period, but not less often than every three months.

Mandatory Commitment
Reduction:

In the event that any governmental approval required for the Acquisition shall be finally denied, or in the

event the Borrower shall elect to abandon the Acquisition, the commitments under the Facility shall be reduced to an amount equal to the sum at such time of the aggregate principal amount of loans outstanding under the Facility and the aggregate face amount of commercial paper outstanding and supported by commitments under the Facility. In the event that the Borrower sells any of the Shares, the Facility shall be reduced by the amount of the net proceeds of any such sales.

**Optional Commitment
Reductions:**

Upon at least three business days' prior irrevocable written notice to the Administrative Agent, the Borrower may at any time in whole permanently terminate or from time to time in part permanently terminate, the commitments under the Facility; provided, that the aggregate commitments of all Lenders may in no event be less than the aggregate amount of the CAF advances and loans outstanding.

Optional Prepayments:

LIBOR Revolving Credit Loans may be prepaid in whole or in part at any time at the Borrower's option, subject, if prepayment occurs other than at the end of an applicable interest period, to compensation in respect of any redeployment costs. ABR loans may be prepaid at any time without penalty. CAF advances will not be subject to prepayment.

Documentation:

A credit agreement (the "Credit Agreement") for the Facility incorporating the terms provided for herein and other customary non-economic terms and provisions as the Agents may reasonably specify in the context of the transactions contemplated hereby.

**Conditions to
Effectiveness:**

Usual for facilities and transactions of this type, those specified below and others to be reasonably specified

by the Agents, including but not limited to definitive documentation with respect to the Facility satisfactory in all respects to the Lenders, satisfactory legal opinions, delivery of financial statements and projections, accuracy of representations and warranties, absence of defaults, delivery of borrowing certificates, evidence of authority and compliance with applicable laws and regulations.

The initial Tender Offer shall have been or shall simultaneously be consummated in accordance with applicable law and the Merger Agreement.

There shall be no pending litigation or administrative proceedings or other legal or regulatory developments that, in the reasonable judgment of at least three of the Agents, would be reasonably likely to prohibit the Acquisition or to result in a material adverse change in the business, assets or condition (financial or otherwise) of the Borrower, it being understood that the proposal for or the pendency of proceedings for approval of the Acquisition before the Surface Transportation Board, or any administrative, judicial or other contest with respect to such approval process at the Surface Transportation Board, shall not violate this condition.

The existing credit facilities of the Borrower used for the purpose of commercial paper backup shall have been terminated.

Conditions to Each
Borrowing:

Delivery of borrowing notice,
accuracy of representations and warranties and absence of defaults.

Representations and
Warranties:

To include organization and powers,
authority and enforceability, no conflicts, financial information, absence of material adverse change,

absence of material litigation, compliance with laws and regulations (including Federal Reserve margin regulations) and agreements, inapplicability of Investment Company Act of 1940 and Public Utility Holding Company Act of 1931 taxes ERISA and absence of material misstatements.

Financial Covenant:

Total Debt (other than indebtedness the proceeds of which are used to purchase Shares pursuant to the Conrail Stock Option) shall not exceed (a) at any time prior to the Merger, 65% of Total Capitalization (to be defined as Total Debt plus Total Shareholders' Equity) and (b) at any time on or after the consummation of the Merger, 55% of Total Capitalization. "Total Debt" will be defined as all short-term and long-term indebtedness reflected on a consolidated balance sheet of the Borrower in accordance with GAAP. "Total Shareholders' Equity" will be defined as the amounts included under shareholders' equity on a consolidated balance sheet of the Borrower in accordance with GAAP.

Affirmative and Negative Covenants:

To include maintenance of corporate existence, maintenance of ownership of railroad subsidiaries, maintenance of insurance, payment of taxes, delivery of financial statements and reports, maintenance of records, compliance with laws, use of proceeds, limitation on indebtedness in excess of \$4,000,000,000 for the purchase of Shares, limitations on additional unsecured indebtedness at subsidiaries (subject to appropriate thresholds and other customary terms), limitations on mergers and sales of all or substantially all assets, and limitations on liens and sale-lease-back transactions (which shall not apply to margin stock to the extent it exceeds 25% of the assets subject to such limitation and which will

permit the Borrower and its subsidiaries to continue to utilize methods of railroad equipment financing as and to the extent customarily used by them.)

Events of Defaults:

To include material breach of representation or warranty, failure to pay principal or interest, breach of covenants, cross acceleration, material judgments and voluntary or involuntary bankruptcy, subject to customary notice and cure periods.

Cost and Yield Protection:

Usual and customary, including but not limited to protection with respect to redeployment costs, changes in capital requirements or their interpretation, changes in circumstances, reserves, illegality and taxes (including, without limitation, withholding tax gross-ups).

Assignments and Participations:

Lenders will be permitted to assign loans and commitments with the prior written consent of the Borrower (not to be unreasonably withheld), except that consent will not be required for assignments to another Lender or an affiliate of a Lender. Assignments will be in a minimum amount to be agreed (or the remaining amount of a Lender's commitment). Assignments will be by novation, such that the assignee will succeed to the rights and obligations of the assignor Lender. Assignments to any Federal Reserve Bank will be permitted without consent. Participations will be without restriction and participants will be entitled to yield and increased cost protection to the same extent as (but not more than) the participating Lender. Voting rights of participants will be limited to changes in amounts, rates, fees and maturity.

Expenses and Indemnification:

All reasonable out-of-pocket expenses of the Agents associated with (i) the

syndication of the Facility and (ii) the preparation, execution and delivery and amendment, waiver, administration and enforcement of the loan documentation (including reasonable fees, charges and disbursements of counsel for the Agents and, in the case of enforcement, the Lenders) are to be paid by the Borrower.

The Borrower will indemnify the Agents and the Lenders against, and hold them harmless from, all costs, expenses (including reasonable fees, charges and disbursements of counsel) and liabilities including those resulting from any litigation or other proceedings (regardless of whether the Agents or any Lender is a party thereto), related to or arising out of the Facility, the use of proceeds thereof or any other transactions contemplated hereby, except to the extent such costs, expenses and liabilities have resulted from the willful misconduct or gross negligence of the party seeking indemnification.

Governing Law:

New York.

Counsel for the Agents:

Simpson Thacher & Bartlett.

Facility Fee:

A Facility Fee will accrue for the account of each Lender on the aggregate amount of such Lender's commitment under the Facility, whether used or unused, and will be payable quarterly in arrears based on the actual number of days elapsed over a 365/366-day year. The Facility Fee will commence to accrue on the Closing Date and will cease to accrue on the final maturity of the Facility or any earlier date on which the commitments are terminated.

The Facility Fee will accrue at the rates set forth in the applicable table below based upon the Borrower's senior unsecured non-credit-enhanced long-term debt ratings ("Ratings") by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies Inc. ("S&P") and Moody's Investor Services, Inc. ("Moody's").

Interest Rates:

Interest will be payable on the outstanding loans at the following rates per annum:

(A) CAF: The rates obtained from bids selected by the Borrower; and

(B) Revolving Credit: Rates based upon LIBOR or ABR, as selected by the Borrower.

No spread will be charged on ABR Loans.

The interest rate applicable to each LIBOR Loan will be equal to LIBOR for the interest period applicable to such Loan plus a Margin determined based upon the Borrower's Ratings by S&P and Moody's in effect from time to time, as set forth in the table below.

Interest on LIBOR Loans will be payable at the ends of the relevant interest periods (but not less often

than quarterly). Interest shall be calculated on the basis of the actual number of days elapsed over a 365/366-day year for ABR Loans based on the Administrative Agent's Prime Rate, and over a 360-day year for all other Loans.

As used herein, (a) LIBOR means the London interbank offered rate for U.S. Dollars, adjusted for statutory reserves and (b) Alternate Base Rate, or ABR, means the higher of (i) the Administrative Agent's Prime Rate and (ii) the Federal Funds Effective Rate plus 1/2 of 1%.

	Ratings (S&P/ Moody's) *	Facility Fee (basis points per annum)	LIBOR Margin (basis points per annum)	All-in Drawn Costs (basis points per annum)
Category 1	A/A2 or	6.0	14.0	20.0
Category 2	higher	7.0	13.0	20.0
Category 3	A-/A3	8.5	16.5	25.0
Category 4	BBB+/Baa1	10.0	20.0	30.0
Category 5	BBB/Baa2	12.5	22.5	35.0
Category 6	BBB-/Baa3	15.0	35.0	50.0

* In the event of a split rating, the higher of the two Ratings will apply for purposes of determining the relevant Category unless the Ratings differ by two or more levels, in which case a Rating one level below the higher Rating will apply for purposes of determining the relevant Category.

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14D-1

Tender Offer Statement

Pursuant to
Section 14(d)(1) of the Securities Exchange Act of 1934
and
Schedule 13D

(Amendment No. 2)

Conrail Inc.
(Name of Subject Company)

CSX Corporation
Green Acquisition Corp.
(Bidders)

Common Stock, Par Value \$1.00 Per Share
(Title of Class of Securities)

208368 10 0
(CUSIP Number of Class of Securities)

Series A ESOP Convertible Junior
Preferred Stock, Without Par Value
(Title of Class of Securities)

Not Available
(CUSIP Number of Class of Securities)

Mark G. Aron
CSX Corporation
One James Center
901 East Cary Street
Richmond, Virginia 23219-4031
Telephone: (804) 782-1400
(Names, Addresses and Telephone Numbers of Persons Authorized
to Receive Notices and Communications on Behalf of Bidder)

With a copy to:

Pamela S. Seymon
Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, New York 10019
Telephone: (212) 403-1000

This Statement amends and supplements the Tender Offer Statement on Schedule 14D-1 filed with the Securities and Exchange Commission (the "Commission") on October 16, 1996, as previously amended and supplemented (the "Schedule 14D-1"), by Green Acquisition Corp. ("Purchaser"), a Pennsylvania corporation and a wholly owned subsidiary of CSX Corporation, a Virginia corporation ("Parent"), to purchase an aggregate of 17,860,124 shares of (i) Common Stock, par value \$1.00 per share (the "Common Shares"), and (ii) Series A ESOP Convertible Junior Preferred Stock, without par value (together with the Common Shares, the "Shares"), of Conrail Inc., a Pennsylvania corporation (the "Company"), including, in each case, the associated Common Stock Purchase Rights, upon the terms and subject to the conditions set forth in the Offer to Purchase, dated October 16, 1996 (the "Offer to Purchase"), and in the related Letter of Transmittal (which, together with any amendments or supplements thereto, constitute the "Offer") at a purchase price of \$92.50 per Share, net to the tendering shareholder in cash. Capitalized terms used and not defined herein shall have the meanings assigned such terms in the Offer to Purchase and the Schedule 14D-1.

Item 10. Additional Information.

(e) Section 16 of the Offer to Purchase is hereby amended and supplemented by adding the following text at the end thereof:

Norfolk Southern Litigation. On October 23, 1996, Norfolk Southern Corporation ("NSC") filed a Complaint for Declaratory and Injunctive Relief in the United States District Court for the Eastern District of Pennsylvania, naming the Company, Parent and certain others as defendants, alleging, among other things, violations of fiduciary duty, of the Company's Articles of Incorporation and By-Laws, of the Pennsylvania Law and of disclosure provisions of the federal securities laws, relating to tender offers and proxy solicitations, and requesting preliminary and permanent injunctive and declaratory relief including, without limitation, an injunction from commencing or continuing a tender offer (such as the Offer) for Company securities, seeking approval of the Articles Amendment or taking steps to make the Articles Amendment effective, taking any action to redeem the Rights or render the Rights inapplicable to any offer with respect to the Company by Parent without, at the same time, rendering the Rights inapplicable with respect to NSC's proposed tender offer with respect to the Company, taking any action to enforce certain provisions of the Merger Agreement, failing to take action to exempt NSC's proposal to acquire the Company from certain

provisions of the Pennsylvania Law and holding the Pennsylvania Special Meeting. On October 24, 1996, a hearing was scheduled for November 12, 1996 on the preliminary injunction being sought by NSC to enjoin, among other things, the Pennsylvania Special Meeting and consummation of the Offer.

Among other things, the NSC complaint alleges, in pertinent part, that (capitalized terms used and not defined in the following quoted paragraphs shall have the meanings assigned such terms in the above-described complaint):

"48. Conrail's Preliminary Proxy Statement contains the following misrepresentations of fact:

(a) Conrail states that "certain provisions of Pennsylvania law effectively preclude...CSX from purchasing 20% or more" of Conrail's shares in the CSX Offer "or in any other manner (except the [CSX] Merger." This statement is false. The provisions of Pennsylvania law to which Conrail is referring are those of Subchapter 25E of the Pennsylvania Business Corporation law. This law does not "effectively preclude" CSX from purchasing 20% or more of Conrail's stock other than through the CSX Merger. Rather, it simply requires a purchaser of 20% or more of Conrail's voting stock to pay a fair price in cash, on demand, to the holders of the remaining 80% of the shares. The real reason that CSX will not purchase 20% or more of Conrail's voting stock absent the Charter Amendment is that, unlike NS, CSX is unable or unwilling to pay a fair price in cash for 100% of Conrail's stock.

(b) Conrail states that its "Board of Directors believes that Conrail shareholders should have the opportunity to receive cash in the nearterm for 40% of [Conrail's] shares," and that "[t]he Board of Directors believes it is in the best interests of shareholders that they have the opportunity to receive cash for 40% of their shares in the near term." These statements are false. First of all, the Conrail Board believes that Conrail shareholders should have the opportunity to receive cash in the near-term for 40% of Conrail's shares only if such transaction will swiftly deliver effective control of Conrail to CSX. Second, the Conrail Board of Directors does not believe that such swift transfer of control to CSX is in the best interests of Conrail shareholders;

rather, the Conrail Board of Directors believes that swift transfer of effective control over Conrail to CSX through the CSX Offer will lock-up the CSX Transaction and preclude Conrail shareholders from any opportunity to receive the highest reasonably available price in a sale of control of Conrail.

49. CSX's Schedule 14D-1 contains the following misrepresentations of fact:

(a) CSX states that the "purpose of the [CSX] Offer is for [CSX] . . . to acquire a significant equity interest in [Conrail] as the first step in a business combination of [CSX] and [Conrail]." This statement is false. The purpose of the CSX Offer is to swiftly transfer effective control over Conrail to CSX in order to lock up the CSX Transaction and foreclose the acquisition of Conrail by any competing higher bidder.

(b) CSX states that "the Pennsylvania Control Transaction Law effectively precludes [CSX, through its acquisition subsidiary] from purchasing 20% or more of Conrail's shares pursuant to the [CSX] Offer." This statement is false. The provisions of Pennsylvania law to which Conrail is referring are those of Subchapter 25E of the Pennsylvania Business Corporation law. This law does not "effectively preclude" CSX from purchasing 20% or more of Conrail's stock other than through the CSX Merger. Rather, it simply requires a purchaser of 20% or more of Conrail's voting stock to pay a fair price in cash, on demand, to the holders of the remaining 80% of the shares. The real reason that CSX will not purchase 20% or more of Conrail's voting stock absent the Charter Amendment is that, unlike NS, CSX is unable or unwilling to pay a fair price in cash for 100% of Conrail's stock.

50. Conrail's Schedule 14D-9 states that "the [CSX Transaction]...is being structured as a true merger-of-equals transaction." This statement is false. The CSX Transaction is being structured as a rapid, locked-up sale of control of Conrail to CSX involving a significant, albeit inadequate, control premium.

51. Each of the Conrail Preliminary Proxy Statement, the CSX Schedule 14D-1, and the Conrail Schedule 14D-9 omit to disclose the following material facts, the

disclosure of which are necessary to make the statements made in such documents not misleading:

(a) That both Conrail (and its senior management) and CSX (and its senior management) knew (i) that NS was keenly interested in acquiring Conrail, (ii) that NS has the financial capacity and resources to pay a higher price for Conrail than CSX could, and (iii) that a financially superior competing bid for Conrail by NS was inevitable.

(b) That Conrail management led NS to believe that if and when the Conrail Board determined to sell Conrail, it would do so through a process in which NS would be given the opportunity to bid, and that in the several weeks prior to the announcement of the CSX Transaction, defendant LeVan on two occasions prevented Mr. Goode from presenting an acquisition proposal to Conrail by stating to him that making such a proposal would be unnecessary and that Mr. LeVan would contact Mr. Goode concerning NS's interest in acquiring Conrail following (i) the Conrail Board's strategic planning meeting scheduled for September 1996 and (ii) a meeting of the Conrail Board purportedly scheduled for October 16, 1996.

(c) That in September of 1994, NS had proposed a stock-for-stock acquisition of Conrail at an exchange ratio of 1.1 shares of NS stock for each share of Conrail stock, which ratio, if applied to the price of NS stock on the day before announcement of the CSX Transaction, October 14, 1996, implied a bid by NS worth over \$101 per Conrail share.

(d) That the CSX Transaction was structured to swiftly transfer effective, if not absolute voting control over Conrail to CSX, and to prevent any other bidders from acquiring Conrail for a higher price.

(e) That although Conrail obtained opinions from Morgan Stanley and Lazard Freres that the consideration to be received by Conrail stockholders in the CSX Transaction was "fair" to such shareholders from a financial point of view, Conrail's Board did not ask its investment bankers whether the CSX Transaction consideration was adequate, from a financial point of view, in the context of a sale of control of Conrail such as the CSX Transaction.

(f) That although in arriving at their "fairness" opinions, both Morgan Stanley and Lazard Freres purport to have considered the level of consideration paid in comparable transactions, both investment bankers failed to consider the most closely comparable transaction -- NS's September 1994 merger proposal, which as noted above, would imply a price per Conrail share in excess of \$101.

(g) That, if asked to do so, Conrail's investment bankers would be unable to opine in good faith that the consideration offered in the CSX Transaction is adequate to Conrail's shareholders from a financial point of view.

(h) That Conrail's Board failed to seek a fairness opinion from its investment bankers concerning the \$300 million break-up fee included in the CSX Transaction.

(i) That Conrail's Board failed to seek a fairness opinion from its investment bankers concerning the Stock Option Agreement granted by Conrail to CSX in connection with the CSX Transaction.

(j) That the Stock Option Agreement is structured so as to impose increasingly severe dilution costs on a competing bidder for control of Conrail for progressively higher acquisition bids.

(k) That the Conrail Board intends to withhold the filing of the Charter Amendment following its approval by Conrail's stockholders if the effectiveness of such amendment would facilitate any bid for Conrail other than the CSX Transaction.

(l) That the Charter Amendment and/or its submission to a vote of the Conrail shareholders is illegal and ultra vires under Pennsylvania law.

(m) That the Conrail Board's discriminatory (i) use of the Charter Amendment, (ii) amendment of the Conrail Poison Pill and (iii) action exempting the CSX Transaction from Pennsylvania's Business Combination Statute, all to facilitate the CSX Transaction and to preclude competing financially superior offers for control of Conrail, constitute a breach of the defendant directors' fiduciary duty of loyalty.

(n) That Conrail's Board failed to conduct a reasonable, good faith investigation of all reasonably available material information prior to approving the CSX transaction and related agreements, including the lock-up Stock Option Agreement.

(o) That in recommending that Conrail's shareholders tender their shares to CSX in the CSX Offer, Conrail's Board did not conclude that doing so would be in the best interests of Conrail's shareholders.

(p) That in recommending that Conrail's shareholders approve the Charter Amendment, the Conrail Board did not conclude that doing so would be in the best interests of Conrail's shareholders.

(q) That in recommending that Conrail shareholders tender their shares to CSX in the CSX Offer, primary weight was given by the Conrail Board to interests of persons and/or groups other than Conrail's shareholders.

(r) That in recommending that Conrail shareholders tender their shares to CSX in the CSX Offer, primary weight was given to the personal interests of defendant LeVan in increasing his compensation and succeeding Mr. Snow as Chairman and Chief Executive Officer of the combined CSX/Conrail company.

(s) That the Continuing Director Requirement in Conrail's Poison Pill (described below in paragraphs 54 through 60, adopted by Conrail's board in September 1995 and publicly disclosed at that time, is illegal and ultra vires under Pennsylvania law and therefore is void and unenforceable."

A copy of the above-described complaint is attached hereto as Exhibit (c)(5), and the foregoing summary description is qualified in its entirety by reference to such exhibit.

(f) On October 23, 1996, NSC announced its intention to commence a tender offer for the Shares, and Parent issued a press release with respect thereto.

A copy of the press release is attached hereto as Exhibit (a)(10), and the foregoing summary description is qualified in its entirety by reference to such exhibit.

Item 11. Material to be Filed as Exhibits.

- (a) (1) -- Offer to Purchase, dated October 16, 1996.*
- (a) (2) -- Letter of Transmittal.*
- (a) (3) -- Notice of Guaranteed Delivery.*
- (a) (4) -- Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.*
- (a) (5) -- Letter to Clients for use by Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.*
- (a) (6) -- Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9.*
- (a) (7) -- Text of Press Release issued by Parent on October 15, 1996.*
- (a) (8) -- Form of Summary Advertisement, dated October 16, 1996.*
- (a) (9) -- Text of Press Release issued by Parent on October 22, 1996.*
- (a) (10) -- Text of Press Release issued by Parent on October 23, 1996.
- (b) (1) -- Commitment Letter, dated October 21, 1996.*
- (c) (1) -- Agreement and Plan of Merger, dated as of October 14, 1995, by and among Parent, Purchaser and the Company.*
- (c) (2) -- Company Stock Option Agreement, dated as of October 14, 1996, between Parent and the Company.*
- (c) (3) -- Parent Stock Option Agreement, dated as of October 14, 1996, between Parent and the Company.*
- (c) (4) -- Form of Voting Trust Agreement.*

* Previously filed.

(c) (5) -- Complaint in Norfolk Southern Corporation, et
al. v. Conrail Inc., et al., No. 96-CV-7167,
filed on October 23, 1996.

-8-

SIGNATURE

After due inquiry and to the best of my knowledge and belief, the undersigned certifies that the information set forth in this statement is true, complete and correct.

CSX CORPORATION

By:/s/ MARK G. ARON

Name: Mark G. Aron

Title: Executive Vice President-
Law and Public Affairs

Dated: October 25, 1996

SIGNATURE

After due inquiry and to the best of my knowledge and belief, the undersigned certifies that the information set forth in this statement is true, complete and correct.

GREEN ACQUISITION CORP.

By: /s/ MARK G. ARON

Name: Mark G. Aron

Title: General Counsel
and Secretary

Dated: October 25, 1996

EXHIBIT INDEX

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al. v. Conrail Inc., et al., No. 96-CV-7167,
filed on October 23, 1996.

NEWS

Corporate Communications
P.O. Box C-32222
Richmond, Virginia 23261

**CSX Dismisses Norfolk Southern's Announcement as a
'Confusing Non-Bid'**

RICHMOND, Va., Oct. 23 /PRNewswire/ -- In response to the Norfolk Southern (NYSE: NSC) (NSC) announcement of its hostile tender offer for Conrail, CSX (NYSE: CSX) issued the following statement:

"Norfolk Southern's hostile offer comes as no surprise. It simply does not provide the same long-term value as the strategic CSX-Conrail partnership, which offers Conrail shareholders tax-free equity and the substantial upside potential that only comes from the benefits derived from the merger of CSX and Conrail.

"Furthermore, Norfolk Southern's highly conditional non-bid would inevitably face serious delay and could not in any event be consummated without the approval of the Conrail board. Specifically, the provisions of the CSX-Conrail merger agreement effectively preclude the Conrail board of directors' approval of any competing offers prior to mid-April 1997. In contrast, the CSX cash tender offer would close in November 1996. The certain delays involved in the Norfolk Southern non-bid severely and negatively impact the present value of its proposal. Using a customary discount rate of 2 percent per month, the Norfolk Southern non-bid is worth less than \$90 per Conrail share, far less than Norfolk Southern would have Conrail shareholders believe.

"The fact is that the merger of CSX and Conrail will result in service, efficiency and competitive benefits that cannot be achieved by any combination of the Norfolk Southern and Conrail systems.

"By every measure, the CSX-Conrail merger is superior in economic, operational and public policy terms to the Norfolk Southern non-bid."

CSX Corporation, headquartered in Richmond, Va., is an international transportation company offering a variety of rail, container-shipping, intermodal, trucking, barge and contract logistics services.

CSX's Internet address is <http://www.csx.com>.

CSX press releases available through Company News On-Call by fax, 800-758-5804, ext. 219563, or at <http://www.prnewswire.com>.

SOURCE CSX Corporation

-0-

10/23/96

/CONTACT: Thomas E. Hoppin of CSX, 804-782-1450/
(CSX NSC)

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

-----x
NORFOLK SOUTHERN CORPORATION, a
Virginia corporation,
Three Commercial Place
Norfolk, VA 23510-2191,

New Acquisition Corporation
Three Commercial Place
Norfolk, VA 23510-2191,

and

Kathryn B. McQuade
5114 Hunting Hills Drive
Roanoke, VA 24014,

Plaintiffs,

-against-

C.A. No. _____

Conrail Inc., a Pennsylvania
corporation,
Two Commerce Square
2001 Market Street
Philadelphia, PA 19101,

96-CV-7167

David M. LeVan
245 Pine Street
Philadelphia, PA 19103-7044,

H. Furlong Baldwin
4000 N. Charles Street
Baltimore, MD 21218-1756,

Daniel B. Burke
Capital Cities/ABC Inc.
77 W. 66th Street
New York, NY 10023-6201,

(Caption continued on next page)

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Roger S. Hillas
Two Commerce Square
2001 Market Street
Philadelphia, PA 19101,

Claude S. Brinegar

1574 Michael Lane
Pacific Palisades, CA 90272-2026,

Kathleen Foley Feldstein
147 Clifton Street
Belmont, MA 02176-2603,

David B. Lewis
1755 Burns Street
Detroit, MI 48214-2848,

John C. Marcus
109 White Gate Road
Pittsburgh, PA 15238,

David H. Swanson
Countrymark Inc.
950 N. Meridian Street
Indianapolis, IN 46204-3909,

E. Bradley Jones
2775 Lander Road
Pepper Pike, OH 44124-4808,

Raymond T. Schuler
Two Commerce Square
2001 Market Street
Philadelphia, PA 19101,

and

CSX Corporation
One James Center
901 East Carey Street
Richmond, VA 23219,

Defendants.

-----x

COMPLAINT FOR DECLARATORY AND INJUNCTIVE RELIEF

Plaintiffs, by their undersigned attorneys, as and
for their complaint, allege upon knowledge with respect to
themselves and their own acts, and upon information and
belief as to all other matters, as follows:

Nature of the Action

1. This action arises from the attempt by
defendants Conrail, Inc. ("Conrail"), its directors, and CSX
Corporation ("CSX") to coerce, mislead, and fraudulently
manipulate Conrail's shareholders to swiftly deliver control

of Conrail to CSX and to forestall any competing higher bid for Conrail by plaintiff Norfolk Southern Corporation ("NS"). Defendants' actions are in violation of the federal securities laws governing proxy solicitations and tender offers. Further, several of defendants' actions are illegal and ultra vires under Pennsylvania statutory law. Finally, defendants' actions are in plain breach of the defendant Conrail directors' fiduciary duties of care and loyalty.

2. In a surprise move on October 15, 1996, defendants Conrail and CSX announced a deal to rapidly transfer control of Conrail to CSX and foreclose any

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other bids for Conrail (the "CSX Transaction"). The CSX Transaction is to be accomplished through a complicated multi-tier structure involving a coercive front-end loaded cash tender offer, a lock-up stock option and, following required regulatory approvals or exemptions, a back-end merger in which Conrail shareholders will receive stock and, under certain circumstances, cash. According to the October 16, 1996 Wall Street Journal, the blended value of the CSX Transaction was \$89 per Conrail share. Integral to this deal are executive succession and compensation guarantees for Conrail management and board composition covenants effectively ensuring Conrail directors of continued board seats.

3. Because plaintiff NS believes that a business combination between Conrail and NS would yield benefits to both companies and their constituencies far superior to any benefits offered by the proposed Conrail/CSX combination, NS is today announcing its intention to commence, through its

wholly-owned subsidiary, plaintiff NEW ACQUISITION CORPORATION ("NAC") a cash tender offer (the "NS Offer") for any and all shares of Conrail stock at \$100 per share, to be followed by a cash merger at the same price (the "Proposed Merger," and together with the NS Offer, the "NS Proposal").

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4. By this action, plaintiffs NS, NAC, and Kathryn B. McQuade, a Conrail shareholder, seek emergency relief against defendants' illegal attempt to lock-up the rapid sale of control of Conrail to CSX through their scheme of coercion, deception and fraudulent manipulation. Specifically, plaintiffs seek:

- Injunctive relief with respect to defendants' violations of the federal securities laws, including preliminary injunctive relief enjoining the special meeting of Conrail's shareholders scheduled for November 14, 1996 and enjoining the consummation of CSX's tender offer until corrective disclosures are made and adequately disseminated.
- Declaratory and injunctive relief with respect to illegal and ultra vires acts by Conrail and its directors, including a proposed amendment to Conrail's charter and the September 1995 amendment of Conrail's Poison Pill Plan to include a "Continuing Director" limitation on amendment and redemption.
- Declaratory and injunctive relief concerning breach of the Conrail directors' fiduciary duties of loyalty and care in attempting to lock up the sale of control of Conrail to CSX.

In addition, to facilitate the NS Proposal, plaintiffs seek certain declaratory relief with respect to replacement of Conrail's Board of Directors at Conrail's next annual meeting of shareholders.

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Jurisdiction and Venue

5. This Court has jurisdiction over this complaint pursuant to 28 U.S.C. Sections 1331 and 1367.

6. Venue is proper in this District pursuant to 28 U.S.C. Section 1391.

The Parties

7. Plaintiff NS is a Virginia corporation with its principal place of business in Norfolk, Virginia. NS is a holding company operating rail and motor transportation services through its subsidiaries. As of December 31, 1995, NS' railroads operated more than 14,500 miles of road in the states of Alabama, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maryland, Michigan, Mississippi, Missouri, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia and West Virginia, and the Province of Ontario, Canada. The lines of NS' railroads reach most of the larger industrial and trading centers in the Southeast and Midwest, with the exception of those in Central and Southern Florida. In the fiscal year ended December 31, 1995, NS had net income of \$712.7 million on total transportation operating revenues of \$4.668 billion. According to the New York Times, NS "is considered by many analysts to be the nation's best-run

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railroad." NS is the beneficial owner of 100 shares of common stock of Conrail.

8. Plaintiff NAC is a Pennsylvania corporation. The entire equity interest in NAC is owned by NS. NAC was organized by NS for the purpose of acquiring the entire equity interest in Conrail.

9. Plaintiff Kathryn B. McQuade is and has been, at all times relevant to this action, the owner of Conrail common stock.

10. Defendant Conrail is a Pennsylvania corporation with its principal place of business in Philadelphia, Pennsylvania. Conrail is the major freight railroad serving America's Northeast-Midwest region, operating over a rail network of approximately 11,000 route miles. Conrail's common stock is widely held and trades on the New York Stock Exchange. During the year ended December 31, 1995, Conrail had net income of \$264 million on revenues of \$3.68 billion. On the day prior to announcement of the CSX Transaction, the closing per share price of Conrail common stock was \$71.

11. Defendant David M. LeVan is President, Chief Executive Officer, and Chairman of Conrail's Board of Directors. Defendants H. Furlong Baldwin, Daniel B. Burke, Roger S. Hillas, Claude S. Brinegar, Kathleen

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Foley Feldstein, David B. Lewis, John C. Marous, David H. Swanson, E. Bradley Jones, and Raymond T. Schuler are the remaining directors of Conrail. The foregoing individual defendant directors of Conrail (collectively, the "Defendant Directors") owe fiduciary duties to Conrail and its stockholders, including plaintiffs.

12. Defendant CSX is a Virginia corporation with its principal place of business in Richmond, Virginia. CSX is a transportation company providing rail, intermodal, ocean container-shipping, barging, trucking and contract logistic services. CSX's rail transportation operations

serve the southeastern and midwestern United States.

Factual Background

The Offer

13. In response to the surprise October 15 announcement of the CSX Transaction, on October 23, 1996, NS announced its intention to commence a public tender offer for any and all shares of Conrail common stock at a price of \$100 in cash per share. NS further announced that it intends, as soon as practicable following the closing of the Offer, to acquire the entire equity interest in Conrail by causing it to merge with NAC in the Proposed Merger. In the Proposed Merger, Conrail

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common stock not tendered and accepted in the Offer would be converted into the right to receive \$100 in cash per share. The Offer and the Proposed Merger represent a 40.8% premium over the closing market price of Conrail stock on October 14, 1996, the day prior to announcement of the CSX Transaction.

14. In a letter to be delivered on October 23, 1996 to the Defendant Directors, NS states that it is flexible as to all aspects of the NS proposal and expresses its eagerness to negotiate a friendly merger with Conrail. The letter indicates, in particular, that while the NS Proposal is a proposal to acquire the entire equity interest in Conrail for cash, NS is willing to discuss, if the Conrail board so desires, including a substantial equity component to the consideration to be paid in a negotiated

transaction so that current Conrail shareholders could have a continuing interest in the combined NS/Conrail enterprise.

The Current Crisis: In A Surprise Move
Intended To Foreclose Competing Bids,
Conrail and CSX Announce On October 15
That Conrail Has Essentially Granted
CSX A Lock-Up Over Control Of The Company, And
Conrail Schedules A Special Meeting Of Its
Shareholders On Short Notice To Approve A
Discriminatory Charter Amendment Designed To
Facilitate Completion Of The Lock-Up Deal

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15. After many months of maintaining that Conrail was not for sale, on October 16, 1996 the Conrail Board announced an abrupt about face: Conrail would be sold to CSX in a multiple-step transaction designed to swiftly transfer effective, if not absolute, voting control over Conrail to a voting trustee who would be contractually required to vote to approve CSX's acquisition of the entire equity interest in Conrail through a follow-up stock merger.

16. Indeed, if the relief requested herein is not granted, the fate of Conrail could be effectively determined on November 14, 1996, just 23 business days after announcement of the CSX transaction. That is when Conrail shareholders will be called upon to vote on a proposed amendment to Conrail's certificate of incorporation designed to facilitate the swift transfer of control in favor of CSX, and only CSX. If they approve the Charter Amendment, and then, in the misinformed belief that the NS Proposal does not present a viable and superior alternative, tender 40% of Conrail's stock to CSX, Conrail's shareholders will have been coerced by defendants' fraudulent and manipulative tactics to sell Conrail to the low bidder.

Defendants Were Well Aware That
A Superior Competing Acquisition
Proposal By NS was Inevitable

17. For a number of years, certain members of senior management of NS, including David R. Goode, Chairman and Chief Executive Officer of Norfolk Southern, have spoken numerous times with senior management of Conrail, including former Conrail Chairman and CEO, James A. Hagen and current Conrail Chairman and CEO, defendant David W. LeVan concerning a possible business combination between NS and Conrail. Ultimately, Conrail management encouraged such discussions prior to Mr. Hagen's retirement as Chief Executive Officer of Conrail. Conrail discontinued such discussions in September 1994, when the Conrail Board elected Mr. LeVan as Conrail's President and Chief Operating Officer as a step toward ultimately installing him as Chief Executive Officer and Chairman upon Mr. Hagen's departure.

18. Prior to 1994, senior management of NS and Conrail discussed, from time to time, opportunities for business cooperation between the companies, and, in some of those discussions, the general concept of a business combination. While the companies determined to proceed with certain business cooperation opportunities, including the Triple Crown Services joint venture, no

decisions were reached concerning a business combination at that time.

19. In March of 1994, Mr. Hagen approached Mr. Goode to suggest that under the current regulatory

environment, Conrail management now believed that a business combination between Conrail and NS could be accomplished, and that the companies should commence discussion of such a transaction. Mr. Goode agreed to schedule a meeting between legal counsel for NS and Conrail for the purpose of discussing regulatory issues. Following that meeting, Mr. Goode met with Mr. Hagen to discuss in general terms an acquisition of Conrail by NS. Thereafter, during the period from April through August 1994, management and senior financial advisors of the respective companies met on numerous occasions to negotiate the terms of a combination of Conrail and NS. The parties entered into a confidentiality agreement on August 17, 1994. During these discussions, Mr. Hagen and other representatives of Conrail pressed for a premium price to reflect the acquisition of control over Conrail by NS. Initially, NS pressed instead for a stock-for-stock merger of equals in which no control premium would be paid to Conrail shareholders. Conrail management insisted on a control premium, however, and ultimately

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the negotiations turned toward a premium stock-for-stock acquisition of Conrail.

20. By early September 1994, the negotiations were in an advanced stage. NS had proposed an exchange ratio of 1-to-1, but Conrail management was still pressing for a higher premium. In a meeting in Philadelphia on September 23, 1994, Mr. Goode increased the proposed exchange ratio to 1.1-to-1, and left the door open to an

even higher ratio. Mr. Hagen then told Mr. Goode that they could not reach agreement because the Conrail board had determined to remain independent and to pursue a stand alone policy. The meeting then concluded.

21. The 1.1 to 1 exchange ratio proposed by Mr. Goode in September of 1994 reflected a substantial premium over the market price of Conrail stock at that time. If one applies that ratio to NS's stock price on October 14, 1996 -- the day the Conrail Board approved the CSX Transaction -- it implies a per share acquisition price for Conrail of over \$101. Thus, there can be no question that Mr. LeVan, if not Conrail's Board, was well aware that NS would likely be willing and able to offer more -- to Conrail's shareholders, rather than management, that is -- than CSX could offer for an acquisition of Conrail.

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Defendant LeVan Actively Misleads NS
Management In Order To Permit Him To
Lock Up The Sale of Conrail to CSX

22. During the period following September of 1994, Mr. Goode from time to time had conversations with Mr. LeVan. During virtually all of these conversations, Mr. Goode expressed NS's strong interest in negotiating an acquisition of Conrail. Mr. LeVan responded that Conrail wished to remain independent. Nonetheless, Mr. Goode was led to believe that if and when the Conrail Board determined to pursue a sale of the company, it would do so through a process in which NS would have an opportunity to bid.

23. At its September 24, 1996 meeting, the NS Board reviewed its strategic alternatives and determined

that NS should press for an acquisition of Conrail. Accordingly, Mr. Goode again contacted Mr. LeVan to (i) reiterate NS's strong interest in acquiring Conrail and (ii) request a meeting at which he could present a concrete proposal. Mr. LeVan responded that the Conrail board would be holding a strategic planning meeting that month and that he and Mr. Goode would be back in contact after that meeting. Mr. Goode emphasized that he wished to communicate NS's position so that Conrail's Board would be aware of it during the strategic planning

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meeting. Mr. LeVan stated that it was unnecessary for Mr. Goode to do so. At that point, the conversation concluded.

24. Following September 24, Mr. LeVan did not contact Mr. Goode. Finally, on Friday, October 4, 1996, Mr. Goode telephoned Mr. LeVan. Mr. Goode again reiterated NS's strong interest in making a proposal to acquire Conrail. Mr. LeVan responded that the Conrail Board would be meeting on October 16, 1996, and assumed that he and Mr. Hagen would contact Mr. Goode following that meeting. Mr. Goode again stated that NS wanted to make a proposal so that the Conrail Board would be aware of it. Mr. LeVan stated that it was unnecessary to do so.

On the Day Before the Purportedly
Scheduled Meeting of Conrail's Board,
Defendants Announce the CSX Transaction

25. To NS's surprise and dismay, on October 15, 1996, Conrail and CSX announced that they had entered into a definitive merger agreement (the "CSX Merger Agreement") pursuant to which control of Conrail would be swiftly sold

to CSX and then a merger would be consummated following required regulatory approvals (the "CSX Transaction"). The Wall Street Journal reported on October 16, 1996 that the CSX Transaction, in which

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Conrail shareholders would receive cash and stock consideration, was valued at \$89 per Conrail share. The CSX Transaction includes a break-up fee of \$300 million and a lock-up stock option agreement threatening substantial dilution to any rival bidder for control of Conrail. Integral to the CSX Transaction are covenants substantially increasing Mr. LeVan's compensation and guaranteeing that he will succeed John W. Snow, CSX's Chairman and Chief Executive Officer, as the combined company's CEO and Chairman.

CSX's Snow Implies That the CSX Transaction
Is a Fait Accompli and States That Conrail's
Directors Have Almost No Fiduciary Duties

26. On October 16, 1996, Mr. Goode met in Washington, D.C. with Mr. Snow to discuss the CSX Transaction and certain regulatory issues that its consummation would raise. Mr. Snow advised Mr. Goode during that meeting that Conrail's counsel and investment bankers had ensured that the CSX Transaction would be "bulletproof," implying that the sale of control of Conrail to CSX is now a fait accompli. Mr. Snow added that the "Pennsylvania statute," referring to Pennsylvania's Business Corporation Law, was "great," and that Conrail's directors have almost no fiduciary duties. Mr. Snow's comments were intended to discourage NS from

making a competing offer for control of Conrail and to suggest that NS had no choice but to negotiate with CSX for access to such portions of Conrail's rail system as would be necessary to address the regulatory concerns that would be raised by consummation of the CSX Transaction. After Mr. Snow told Mr. Goode what CSX was willing to offer to NS in this regard, the meeting concluded.

NS Responds With a Superior Offer for Conrail

27. On October 22, the NS Board met to review its strategic options in light of announcement of the CSX Transaction. Because the NS Board believes that a combination of NS and Conrail would offer compelling benefits to both companies, their shareholders, and their other constituencies, it determined that NS should make a competing bid for Conrail. On October 23, 1996, the date of this Complaint, NS is publicly announcing its intention to commence a cash tender offer for any and all shares of Conrail stock for \$100 per share, to be followed, after required regulatory approvals, by a cash merger at the same price.

The CSX Transaction

Rapid Transfer of Control

28. The CSX transaction is structured to include (i) a first step cash tender offer for up to 19.9% of Conrail's stock, (ii) an amendment to Conrail's charter to opt out of coverage under Subchapter 25E of Pennsylvania's

Business Corporation Law (the "Charter Amendment"), which requires any person acquiring control over 20% or more of the corporation's voting power to acquire all other shares of the corporation for a "fair price," as defined in the statute, in cash, (iii) following such amendment, an acquisition of additional shares which, in combination with other shares already acquired, would constitute at least 40% and up to approximately 50% of Conrail's stock, and (iv) following required regulatory approvals, consummation of a follow-up stock-for-stock merger.

29. Thus, once the Charter Amendment is approved, CSX will be in a position to acquire either effective or absolute control over Conrail. Conrail admits that the CSX Transaction contemplates a sale of control of Conrail. In its preliminary proxy materials filed with the SEC, Conrail stated that if CSX acquires 40% of Conrail's stock, approval of the merger will be

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"virtually certain." CSX could do so either by increasing the number of shares it will purchase by tender offer, or, if tenders are insufficient, by accepting all tendered shares and exercising the Stock Option. CSX could obtain "approximately 50 percent" of Conrail's shares by purchasing 40% pursuant to tender offer and by exercising the Stock Option, in which event shareholder approval of the CSX Merger will be, according to Conrail's preliminary proxy statement, "certain."

30. The swiftness with which the CSX Transaction is designed to transfer control over Conrail to CSX can only be viewed as an attempt to lock up the CSX Transaction and

benefits it provides to Conrail management, despite the fact that a better deal, financially and otherwise, is available for Conrail, its shareholders, and its other legitimate constituencies.

The Charter Amendment

31. Conrail's Preliminary Proxy Materials for the November 14, 1996 Special Meeting set forth the resolution to be voted upon by Conrail's shareholders as follows:

An amendment (the "Amendment") of the Articles of Incorporation of Conrail is hereby approved and adopted, by which, upon the effectiveness of such amendment Article Ten thereof will be amended and restated in its entirety as

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follows: Subchapter E, Subchapter G and Subchapter H of Chapter 25 of the Pennsylvania Business Corporation Law of 1988, as amended, shall not be applicable to the Corporation; and further, that the Board of Directors of Conrail, in its discretion, shall be authorized to direct certain executive officers of Conrail to file or not to file the Articles of Amendment to Conrail's Articles of Incorporation reflecting such Amendment or to terminate the Articles of Amendment prior to their effective date, if the Board determines such action to be in the best interests of Conrail.

32. Further, the preliminary proxy materials state that

Pursuant to the Merger Agreement and in order to facilitate the transactions contemplated thereby, if the [Charter Amendment] is approved, Conrail would be required to file the Amendment with the Pennsylvania Department of State so as to permit the acquisition by CSX of in excess of 20% of the shares, such filing to be made and effective immediately prior to such acquisition. If CSX is not in a position to make such acquisition (because, for example, shares have not been tendered to CSX, Conrail is not required to make such filing, (although approval of the [Charter Amendment] will authorize Conrail to do so) and Conrail does not currently intend to make such filing unless it is required under the Merger Agreement to permit CSX to acquire in excess of

20% of the Shares.

33. Thus, if Conrail shareholders fail to tender sufficient shares to CSX to permit CSX to acquire in excess of 20% of the shares, for example, because they wish to instead accept the superior NS Proposal, the Defendant Directors are actually asking Conrail

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shareholders to grant them the authority to discriminatorily withhold the filing of the Charter Amendment, and thereby attempt to prevent consummation of the NS Proposal.

LeVan's Deal

34. As an integral part of the CSX Transaction, CSX, Conrail, and defendant LeVan have entered into an employment agreement dated as of October 14, 1996 (the "LeVan Employment Agreement"), covering a period of five-years from the effective date of any merger between CSX and Conrail. The LeVan Employment Agreement provides that Mr. LeVan will serve as Chief Operating Officer and President of the combined CSX/Conrail company, and as Chief Executive Office and President of the railroad businesses of Conrail and CSX, for two years from the effective date of a merger between CSX and Conrail (the "First Employment Segment"). Additionally, Mr. LeVan will serve as Chief Executive Officer of the combined CSX/Conrail company for a period of two years beginning immediately after the First Employment Segment (the "Second Employment Segment"). During the period commencing immediately after the Second Employment Segment, or, if earlier, upon the termination of Mr. Snow's status as Chairman of the Board (the "Third

Employment Segment"), Mr. LeVan will additionally serve as Chairman of the Board of the combined CSX/Conrail company.

35. Defendant LeVan received a base salary from Conrail of \$514,519 and a bonus of \$24,759 during 1995. The LeVan Employment Agreement ensures substantially enhanced compensation for defendant LeVan. It provides that during the First Employment Segment, Mr. LeVan shall receive annual base compensation at least equal to 90% of the amount received by the Chief Executive Officer of CSX, but not less than \$810,000, together with bonus and other incentive compensation at least equal to 90% of the amount received by the Chief Executive Officer of CSX. During 1995, Mr. Snow received a base salary of \$895,698 and a bonus having a cash value of \$1,687,500. Thus, if Mr. Snow's salary and bonus were to equal Mr. Snow's 1995 salary and bonus, the LeVan Employment Agreement would provide LeVan with a salary of \$810,000 and a bonus of \$1,518,750 in the First Employment Period. During the Second and Third Employment Segments, Mr. LeVan will receive compensation in an amount no less than that received by the Chief Executive Officer during the First Employment Segment, but not less than \$900,000.

36. If CSX terminates Mr. LeVan's employment for a reason other than cause or disability or Mr. LeVan terminates employment for good reason (as those terms are defined in the LeVan Employment Agreement), Mr. LeVan will be entitled to significant lump sum cash payments based on his compensation during the five year term of the employment

agreement, continued employee welfare benefits for the longer of three years or the number of years remaining in the employment agreement; and the immediate vesting of outstanding stock-based awards.

The \$300 Million Break-Up Fee

37. The CSX Merger Agreement provides for a \$300 million break-up fee. This fee would be triggered if the CSX Merger Agreement were terminated following a competing takeover proposal.

38. This breakup fee is disproportionately large, constituting over 3.5% of the aggregate value of the CSX Transaction. The breakup fee unreasonably tilts the playing field in favor of the CSX Transaction -- a transaction that the defendant directors knew, or reasonably should have known, at the time they approved the CSX Transaction, provided less value and other benefits to Conrail and its constituencies than would a transaction with NS.

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The Lock-Up Stock Option

39. Concurrently with the Merger Agreement, Conrail and CSX entered into an option agreement (the "Stock Option Agreement") pursuant to which Conrail granted to CSX an option, exercisable in certain events, to purchase 15,955,477 Shares of Conrail common stock at an exercise price of \$92.50 per share, subject to adjustment.

40. If, during the time that the option under the Stock Option Agreement is exercisable, Conrail enters into an agreement pursuant to which all of its outstanding common

shares are to be purchased for or converted into, in whole or in part, cash, in exchange for cancellation of the Option, CSX shall receive an amount in cash equal to the difference (if positive) between the closing market price per Conrail Common Share on the day immediately prior to the consummation of such transaction and the purchase price. In the event (i) Conrail enters into an agreement to consolidate with, merge into, or sell substantially all of its assets to any person, other than CSX or a direct or indirect subsidiary thereof, and Conrail is not the surviving corporation, or (ii) Conrail allows any person, other than CSX or a direct or indirect subsidiary thereof, to

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merge into or consolidate with Conrail in a series of transactions in which the Conrail Common Shares or other securities of Conrail represent less than 50% of the outstanding voting securities of the merged corporation, then the option will be adjusted, exchanged, or converted into options with identical terms as those described in the Stock Option Agreement, appropriately adjusted for such transaction.

41. CSX and Conrail also entered into a similar option agreement, pursuant to which CSX granted to Conrail an option, exercisable only in certain events, to purchase 43,090,773 shares of CSX Common Stock at an exercise price of \$64.82 per share.

42. The exercise price of the option under the Stock Option Agreement is \$92.50 per share. The Stock Option Agreement contemplates that 15,955,477 authorized but

unissued Conrail shares would be issued upon its exercise. Thus, for each dollar above \$92.50 that is offered by a competing bidder for Conrail, such as NS, the competing acquiror would suffer \$15,955,477 in dilution. Moreover, there is no cap to the potential dilution. At NS's offer of \$100 per share, the dilution attributable to the Stock Option would be \$119,666,077.50. At a hypothetical offering price of

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\$101 per share, the dilution would total \$135,621,554.50. This lock-up structure serves no legitimate corporate purpose, as it imposes increasingly severe dilution penalties the higher the competing bid!

43. At the current \$100 per share level of NS's bid, the sum of the \$300 million break-up fee and Stock Option dilution of \$119,666,077.50 constitutes nearly 5.2% of the CSX Transaction's \$8.1 billion value. This is an unreasonable impediment to NS's offer. Moreover, because these provisions were not necessary to induce an offer that is in Conrail's best interests, but rather were adopted to lock up a deal providing Conrail's management with personal benefits while selling Conrail to the low bidder, their adoption constituted a plain breach of the defendant directors' fiduciary duty of loyalty.

Selective Discriminatory Treatment of Competing Bids

44. Finally, the Conrail board has breached its fiduciary duties by selectively (i) rendering Conrail's poison pill rights plan inapplicable to the CSX Transaction, (ii) approving the CSX Transaction and thus exempting it

from the 5-year merger moratorium under Pennsylvania's Business Combination Statute, and (iii),

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as noted above, purporting to approve the Charter Amendment in favor of CSX only.

45. While Pennsylvania law does not require directors to amend or redeem poison pill rights or to take action rendering anti-takeover provisions inapplicable, the law is silent with respect to the duties of directors once they have determined to do so. Once directors have determined to render poison pill rights and anti-takeover statutes inapplicable to a change of control transaction, their fundamental fiduciary duties of care and loyalty require them to take such actions fairly and equitably, in good faith, after due investigation and deliberation, and only for the purpose of fostering the best interests of the corporation, and not to protect selfish personal interests of management.

46. Thus, Conrail's directors are required to act evenhandedly, redeeming the poison pill rights and rendering anti-takeover statutes inapplicable only to permit the best competing control transaction to prevail. Directors cannot take such selective and discriminatory defensive action to favor corporate executives' personal interests over those of the corporation, its shareholders, and other legitimate constituencies.

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Defendants' Campaign Of Misinformation