

CONRAIL



Dear Conrail ESOP Participant:

Under the Internal Revenue Code (the "Code"), a distribution to a participant from a tax-qualified plan, such as the Consolidated Rail Corporation Employee Stock Ownership Plan (the "Conrail ESOP"), generally, must be included in the participant's income for the year in which it is received. Section 402 of the Code, however, contains some very complex, special rules relating to the taxation of the distribution you will receive from the Conrail ESOP. This notice merely summarizes these rules and is not meant to provide you with personal tax guidance. You should promptly consult a tax advisor in deciding what course of action is best for you with respect to the distribution.

ROLLOVERS

If you are the employee who participated in a tax-qualified plan, the Code permits you to avoid current taxation on any portion of the taxable amount of an eligible distribution by rolling over that portion into another tax-qualified plan that accepts rollover contributions or into an individual retirement arrangement (an "IRA"). If you are the surviving spouse of such an employee, the Code permits you to avoid current taxation on any portion of the taxable amount of an eligible distribution by rolling over that portion into an IRA. A tax-free rollover is accomplished by transferring the amount you are rolling over to the new plan or IRA not later than 60 days after you receive the distribution, and notifying the trustee or issuer of the new plan or IRA that you are making a rollover contribution.

Not all plan distributions are eligible to be rolled over. A "qualified total distribution" is one type of distribution that may be rolled over. In general, a qualified total distribution is either a "lump sum distribution" or a distribution because of a plan termination. A lump sum distribution is the payment of the total balance to the credit of the participant under a plan because of death or other separation from service or after the participant reaches the age of 59½.

Recently, you received a letter from Merrill Lynch, Pierce, Fenner, and Smith ("Merrill Lynch") describing the voluntary rollover program offered by Merrill Lynch to Conrail ESOP participants and explaining how you can roll your distribution into a Merrill Lynch BlueprintSM IRA. Additional information about the Merrill Lynch program is included with these election materials. Of course, IRAs also should be available from other financial institutions, and neither Conrail nor the Conrail ESOP administrators can make any recommendations about what you should do with your distribution.

INCOME AVERAGING

If your distribution is a lump-sum distribution, and no part of your distribution is rolled over, you may be able to elect special five-year averaging rules that may reduce the amount of income tax you will be required to pay on account of the distribution. You must have attained age 59½ at the time of the distribution and you may elect five-year averaging treatment only once. In order to qualify for five-year averaging treatment, you must have participated in the Conrail ESOP for five or more years before the year of the distribution. This five-year requirement does not apply with respect to a distribution made to a participant's beneficiary on account of the participant's death.

There is an exception to the rule that special tax treatment for a lump-sum distribution is only available to those who have reached age 59½. Individuals who reached age 50 before January 1, 1986 may, generally, elect to use the special five-year averaging provisions (using the tax rates in effect in the year of distribution) or special ten-year averaging provisions (using 1986 tax rates). An individual may make only one election and, if made, it eliminates the ability to elect special averaging after age 59½.

UNREALIZED APPRECIATION

Participants who receive stock of a participant's employer in a lump sum distribution may elect to exclude from their income any net increase in the value of the stock while it was held in the plan, called "net unrealized appreciation". This net unrealized appreciation may be taxed to the extent that it is recognized in a subsequent transaction, such as the sale of the stock.

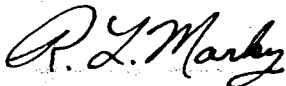
EARLY DISTRIBUTION TAX

In general, a distribution is subject to an additional tax equal to 10% of the portion of the distribution includible in gross income. However, there are several types of distributions that are not subject to the additional 10% tax, including (1) distributions to a beneficiary on or after the participant's death; (2) distributions to an employee after separation from service, if separation occurs during or after the calendar year in which the employee attains age 55; and (3) distributions on or after the employee attains age 59½.

You should discuss with your tax advisor the technical requirements of the Code that must be satisfied in order for your distribution to be eligible for the rollover and special tax treatment, as well as the consequences of any of the elections you may make.

As a reminder, no one in Conrail, including myself, is in a position to give individual tax advice.

Sincerely,



Ronald L. Marky
Administrator-ESOP Administrative Committee

CONRAIL EMPLOYEE STOCK OWNERSHIP PLAN

Distribution Information

August, 1987

The distribution of your interest in the Conrail Employee Stock Ownership Plan (the ESOP) will take place on or about October 1, 1987.

ENCLOSED MATERIALS

In order to assist you and to ensure that an accurate and timely distribution is made, this letter is accompanied by three items which should have your close attention.

These items are:

- The required information relating to the tax consequences of the ESOP distribution.
- A Conrail ESOP Election Card which you must complete and return in the envelope also enclosed.
- Various materials relating to the Merrill Lynch BlueprintSM IRA, including a Merrill Lynch IRA Adoption Agreement form and a prospectus for Merrill Lynch Retirement Reserves Money Fund, a money market mutual fund.

THE ESOP DISTRIBUTION—WHAT YOU WILL RECEIVE

Pursuant to the Conrail Privatization Act, you are entitled to the full shares of Conrail common stock and a check for any fractional share of Conrail stock held for your account in the ESOP.

The total number of shares to which you are entitled appears on the election card. This card also shows the number of shares you were allocated between 1980-1986, the number of shares allocated to you for 1987, and the number of shares allocated to you for the years 1988 and 1989.

Any fractional share check to which you are entitled is based on the average of the closing prices of Conrail common stock for the ten (10) business days immediately preceding the actual distribution date.

If you are entitled to less than one (1) share, you will receive a check for that fractional share.

HOW THE DISTRIBUTION WILL BE MADE

Morgan Shareholder Services Trust Company, 30 West Broadway, New York, NY 10007-2192, is handling the distribution of the Conrail ESOP. As noted later, you will use the Conrail ESOP Election Card to give instructions with regard to your distribution. Morgan Shareholder Services Trust Company will follow your instructions with respect to the distribution.

TAX INFORMATION LETTER

Under current law the Conrail ESOP Administrator is required to provide the attached tax information letter. As stated in the letter, Conrail cannot provide individual tax advice to ESOP participants. You are urged to seek competent tax advice should you feel that you require assistance.

MERRILL LYNCH BLUEPRINTSM IRA

Recently, you received a letter from Merrill Lynch offering a Merrill Lynch BlueprintSM IRA that would allow you to roll your Conrail ESOP shares and any fractional share check into that IRA. If you make this election, your distribution will be sent directly to Merrill Lynch, Pierce, Fenner & Smith, Inc., who will hold it as a custodian for your IRA.

If you select the Merrill Lynch BlueprintSM IRA option, Merrill Lynch will establish your IRA promptly upon receipt of the Merrill Lynch BlueprintSM IRA Adoption Agreement which you must complete and return with your election card. This form must be filled out and mailed and in the hands of Morgan Shareholder Services Trust Company by September 15, 1987 or your shares cannot be rolled over directly into the Merrill Lynch BlueprintSM IRA. If you do not return the adoption agreement form with the Conrail ESOP Election Card by this date, your shares and any fractional share check will be sent to you when the distribution takes place.

As indicated in other materials made available to you, it is possible for you to roll your distribution into an IRA other than that offered by Merrill Lynch. To do so requires that you receive your stock certificate and fractional share check, if any, and complete the rollover within sixty (60) days of your receipt of this distribution.

Beneficiaries of a deceased ESOP participant cannot roll the Conrail ESOP distribution into an IRA, unless they are the participant's surviving spouse.

CONRAIL ESOP ELECTION CARD

You will find the Conrail ESOP Election Card in the "pouch" in this envelope. This election card must be in the hands of Conrail's agent, Morgan Shareholder Services Trust Company, by September 15, 1987. In order to ensure that the election card is received in time to carry out your instructions, it must be mailed no later than September 10, 1987.

You have two options. They are:

- Direct that your distribution be rolled into the Merrill Lynch BlueprintSM IRA. In order to make sure this occurs, you must complete the Merrill Lynch BlueprintSM IRA adoption agreement form and return it with your election card.
- Direct that your shares and fractional share check be sent to you. If you select this option, you must also decide if you want Federal Income Tax withheld from your distribution. Information about the tax withholding is found on the reverse side of the Conrail ESOP Election Card.

Please note: A decision on tax withholding is required only if you direct that your shares and check be sent to you directly. If you direct that they be enrolled into the Merrill Lynch BlueprintSM IRA, you should not make this election.

DEADLINE

In order to comply with your instructions, it is necessary to receive your election card by September 15, 1987. This means that you should

put your Conrail ESOP Election Card in the mail no later than September 10, 1987. Morgan Shareholder Services Trust Company has been engaged to handle the ESOP distribution. The direction you give on your Conrail ESOP Election Card will determine what occurs with your shares and check.

If you direct that your shares and check be included in the Merrill Lynch BlueprintSM IRA, your shares and check will be sent directly to Merrill Lynch. You will receive periodic statements from Merrill Lynch with reference to your IRA account.

If you direct that your shares and check be sent to you, you will receive them shortly after October 1, 1987.

IMPORTANT: IF YOUR CONRAIL ESOP ELECTION CARD HAS NOT BEEN RECEIVED BY MORGAN SHAREHOLDER SERVICES TRUST COMPANY BY SEPTEMBER 15, 1987, YOUR SHARES AND CHECK WILL BE SENT TO YOU DIRECTLY AND TAX WITHHOLDING WILL BE MADE.

OTHER INFORMATION

Questions about the Merrill Lynch BlueprintSM IRA should be addressed to Merrill Lynch. Merrill Lynch has installed a special toll-free 800 telephone number to respond to questions about the Merrill Lynch BlueprintSM IRA. The Merrill Lynch telephone number is: 1-800-221-5631.

Questions about the ESOP distribution, except those relating to the Merrill Lynch BlueprintSM IRA, will be handled by Morgan Shareholder Services Trust Company. A toll-free 800 number for that purpose has also been installed. The Morgan Shareholder Services Trust Company number is 1-800-445-5802.

Morgan Shareholder Services Trust Company will attempt to answer your questions; however, they will not give any individual tax advice. Questions about the tax impact on individuals will not be answered by Morgan Shareholder Services Trust Company or by Conrail. If you need tax advice, you should contact your own tax advisor.