1952

106th

Annual Report

THE PENNSYLVANIA RAILROAD COMPANY

DIRECTORS

Originally Elected		Term Expires in
April 10, 1929	**M. W. CLEMENT** *Director*	1956
Dec. 8, 1930	**PIERRE S. du PONT** *Director, E. I. du Pont de Nemours and Company, Wilmington, Del.*	1954
Dec. 28, 1932	**FRANKLIN D'OLIER** *Director, The Prudential Insurance Co. of America, Newark, N. J.*	1954
Jan. 10, 1934	**RICHARD K. MELLON** *Chairman of the Board, Mellon National Bank and Trust Company, Pittsburgh, Pa.*	1953
Mar. 24, 1937	**ROBERT T. McCRACKEN** *Montgomery, McCracken, Walker & Rhoads, Philadelphia, Pa.*	1954
Oct. 27, 1937	**C. JARED INGERSOLL** *President, Muskogee Company, Philadelphia, Pa.*	1956
Feb. 26, 1941	**LEONARD T. BEALE** *Chairman of the Board, The Pennsylvania Salt Manufacturing Co., Philadelphia, Pa.*	1953
June 24, 1942	**JAMES E. GOWEN** *Chairman, Executive Committee, Girard Trust Corn Exchange Bank, Philadelphia, Pa.*	1955
Jan. 24, 1945	**PHILIP R. CLARKE** *Chairman of the Board, City National Bank and Trust Company of Chicago, Chicago, Ill.*	1954
June 27, 1945	**ISAAC W. ROBERTS** *Manager, The Philadelphia Saving Fund Society, Philadelphia, Pa.*	1955
Dec. 18, 1946	**HARRY B. HIGGINS** *President, Pittsburgh Plate Glass Company, Pittsburgh, Pa.*	1956
Oct. 27, 1948	**JOHN A. DIEMAND** *President, Insurance Company of North America, Phila., Pa.*	1953
Nov. 10, 1948	**JOHN B. HOLLISTER** *Taft, Stettinius & Hollister, Cincinnati, Ohio*	1955

Elected by the above-named Directors for the term of one year to serve as indicated, pursuant to the Laws of the Commonwealth of Pennsylvania

Dec. 1, 1938	**WALTER S. FRANKLIN,** *President*	1953
Mar. 11, 1942	**JAMES R. DOWNES,** *Vice-President*	1953
April 23, 1947	**JAMES M. SYMES,** *Vice-President*	1953
May 23, 1951	**FRED CARPI,** *Vice-President*	1953
May 23, 1951	**DAVID C. BEVAN,** *Vice-President*	1953

OFFICERS

WALTER S. FRANKLIN	*President*
JAMES M. SYMES	*Executive Vice-President*
JAMES P. NEWELL	*Vice-President in charge of Operation*
FRED CARPI	*Vice-President in charge of Traffic*
JAMES R. DOWNES	*Vice-President—Assistant to President*
DAVID C. BEVAN	*Vice-President in charge of Finance*
WALTER W. PATCHELL	*Vice-President in charge of Real Estate and Taxation*
JOHN C. WHITE	*Vice-President in charge of Purchases, Stores and Insurance*
RALPH C. CHAMPLIN	*Vice-President in charge of Public Relations*
ETHELBERT W. SMITH	*Vice-President, Eastern Region*
JOHN A. APPLETON	*Vice-President, Central Region*
HERMAN H. PEVLER	*Vice-President, Western Region*
J. TANEY WILLCOX	*Secretary*
PAUL D. FOX	*Assistant Vice-President in charge of Finance, and Treasurer*
ELMER HART	*Comptroller*
JOHN B. PRIZER	*General Counsel*

DECEMBER 31, 1952

THE

PENNSYLVANIA RAILROAD COMPANY

ONE HUNDRED AND SIXTH

Annual Report

FOR THE YEAR ENDED DECEMBER 31, 1952

CONTENTS

HIGHLIGHTS

THE PENNSYLVANIA RAILROAD COMPANY

OPERATING RESULTS

	1952	1951	1950	1949	1948
Operating Revenues	$1,028,750,217	$1,044,387,274	$930,140,874	$848,211,159	$999,982,900
Operating Expenses	$865,885,772	$892,945,690	$784,527,564	$729,413,756	$832,845,977
Taxes—*Federal, State and Local*	$69,729,490	$69,215,766	$69,492,054	$61,808,287	$83,672,134
Net Income	$36,981,364	$26,697,717	$38,420,677	$12,474,627	$34,429,934
Return on Investment in Property used in Railway Transportation Service, after Recorded Depreciation — *Includes Material and Supplies, and Cash*	2.98%	2.45%	2.50%	1.61%	3.00%
Net Income per Dollar of Operating Revenues—*Cents*	3.59	2.56	4.13	1.47	3.44
Operating Ratio	84.17%	85.50%	84.35%	85.99%	83.29%
Transportation Ratio	43.23%	43.84%	41.79%	45.38%	45.21%

FINANCIAL DATA

	1952	1951	1950	1949	1948
Working Capital	$163,475,901	$161,877,510	$154,683,901	$147,189,778	$165,701,418
Net Investment in Transportation Property and Equipment	$1,277,207,120	$1,219,659,751	$1,133,815,624	$1,104,733,034	$1,069,639,220
Amount expended for Investment in Road and Equipment, P.R.R. Co. and Leased Lines—*before deductions for retirements*	$123,321,217	$161,853,489	$87,798,233	$105,770,188	$106,337,192
Other Investments — *Stocks, Bonds, Notes and Advances—Book Value*	$866,835,358	$856,815,826	$849,490,786	$846,160,658	$823,727,047
Bonded Debt	$479,023,000	$497,268,000	$502,008,000	$512,178,500	$514,803,500
Equipment Obligations	$350,738,605	$288,114,800	$204,164,000	$181,168,000	$160,282,000
Net Worth—*Book Value*	$1,358,303,987	$1,335,221,381	$1,318,278,941	$1,295,225,473	$1,291,038,678

ON A PER SHARE BASIS

	1952	1951	1950	1949	1948
Income Before Taxes—*Federal, State and Local*	$8.10	$7.28	$8.20	$5.64	$8.97
Taxes—*Federal, State and Local*	$5.29	$5.25	$5.28	$4.69	$6.36
Net Income	$2.81	$2.03	$2.92	$0.95	$2.61
Dividends Paid	$1.00	$1.00	$1.00	$0.75	$1.00
Working Capital	$12.41	$12.29	$11.75	$11.18	$12.58
Net Worth—*Book Value*	$103.15	$101.40	$100.11	$98.36	$98.05

EMPLOYES

	1952	1951	1950	1949	1948
Total Salaries and Wages Paid	$565,585,008	$580,869,217	$501,876,222	$456,664,605	$521,855,325
Average Number of Employes	125,924	137,604	124,629	116,743	138,020

OTHER STATISTICS

	1952	1951	1950	1949	1948
Freight Train Miles	35,801,277	38,548,885	36,278,666	34,695,236	43,859,270
Revenue Ton Miles—*Thousands*	50,101,843	54,825,398	49,887,040	44,867,189	57,949,967
Average Revenue per Ton Mile—*Cents*	1.532	1.429	1.375	1.380	1.299
Passenger Train Miles	35,513,293	37,303,098	37,165,336	40,253,591	44,217,146
Revenue Passenger Miles—*Thousands*	4,749,918	4,840,992	4,367,658	5,049,455	6,033,767
Average Revenue per Passenger Mile—*Cents*	3.291	3.226	3.260	2.956	2.657
Miles of Road Operated at Year End	10,089.67	10,119.53	10,111.50	10,118.09	10,144.70

THE PENNSYLVANIA RAILROAD COMPANY

General Office

SUBURBAN STATION BUILDING, PHILADELPHIA 4, PA.

March 11, 1953

TO THE STOCKHOLDERS:

The improvements to the property were continued throughout the year 1952. The equipment program is largely completed. Extraordinary expenditures for improvements other than equipment will continue through 1953. However, capital expenditures should be somewhat less in the next few years.

The results for 1952 were better than the previous year and clearly indicate an improvement in our control over expenses. Greater efficiency from the more modern motive power and the new cars is beginning to show in the operating results.

It will be recalled that, due to labor disturbances, the United States Government took over the operation of the railroads on August 27, 1950. This control was discontinued on May 23, 1952.

The steel and coal industries directly and indirectly produce a substantial part of our tonnage and freight revenue. The strike in the steel industry and the coal stoppages were serious handicaps to better net earnings.

While the increased freight rates that became effective during the month of May largely offset the increased costs, they were not sufficient to produce a proper return on the depreciated investment or per dollar of operating revenue. Obviously, a return of 2.98% on investment, or a net income of 3.59¢ per dollar of operating revenue, is entirely inadequate. A program for certain changes in regulations which handicap the railroads and for a modernization of procedures before regulatory Commissions is being progressed.

There was a further reduction of the bonded debt in the hands of the public. However, because of the financing of our equipment program, total debt showed an increase over that at the end of 1951. Future expenditures should not cause any further increases in the total debt.

Provided the present volume of business continues and there are no further serious increases in costs, the results of 1953 operations will be more encouraging. Every effort shall be made to continue to improve the property and to provide better service during 1953.

The continued interest and support of our stockholders are greatly appreciated. The interest of our employes in rendering better service to the public is encouraging and should prove of definite benefit to all concerned.

By Order of the Board of Directors.

Walter S. Franklin

President

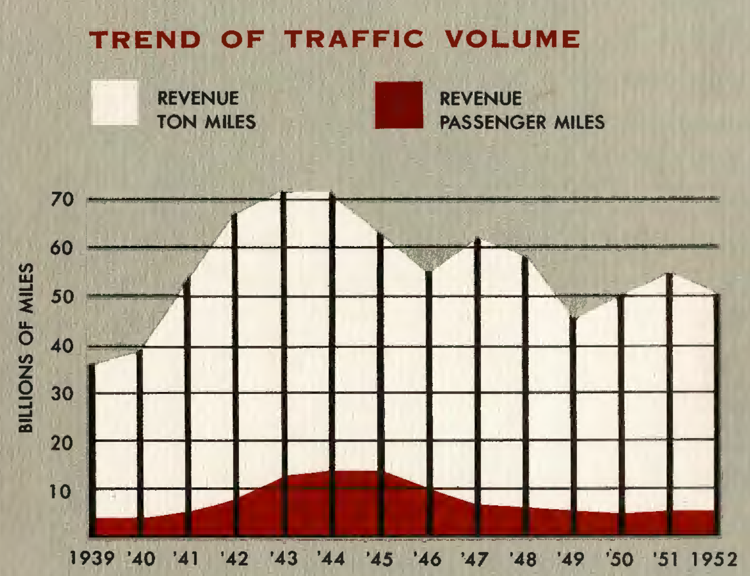
REVIEW OF OPERATIONS

REVENUES Total operating revenues for 1952 were $1,028,750,217. This was slightly less—1½%—than the record revenues of 1951, but larger than for any other year in the history of the Pennsylvania Railroad.

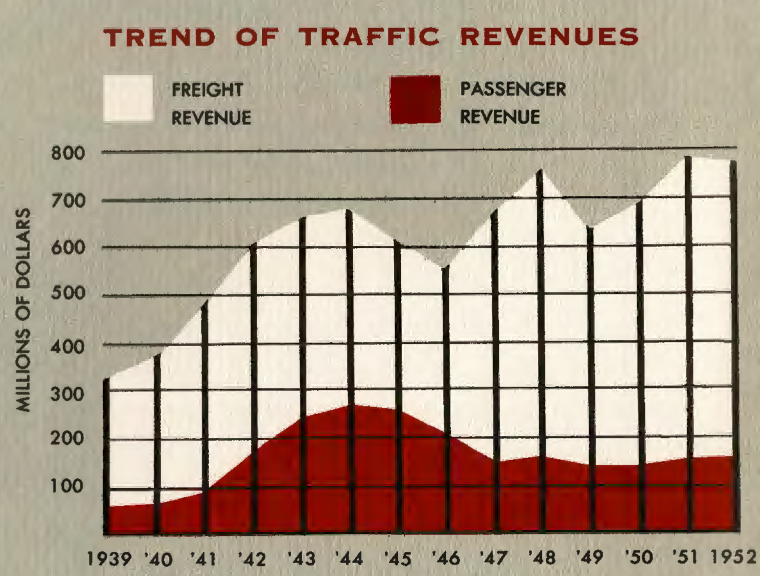
Freight revenues were $16,276,050 less than in 1951—or 2.1%. The decrease in freight volume was substantially greater than these figures indicate, however, as there was a decrease of 8.6% in revenue ton miles. The steel industry strike during June and July, combined with intermittent stoppages of coal production during the year, resulted in a loss of freight revenue of approximately $46,000,000. A general increase in freight rates, which was granted by the Interstate Commerce Commission, became generally effective on May 2, 1952.

Passenger revenues were approximately the same as in 1951. This reflects better patronage of principal trains, however, since an average of 8,816 daily scheduled passenger train miles of lightly patronized service were eliminated in 1952. Since September 1946, a reduction of 55,058 average daily scheduled passenger train miles has been accomplished. Thus, 37% of such train miles have been discontinued in the past six years.

Mail revenues showed a decrease, due principally to the diversion of shipments from parcel post to railway express. This resulted



After decreasing from World War II peak to the 1949 postwar low, freight volume rose through 1951, then dropped 8.6%, due in large part to the steel strike and coal stoppages.



Freight revenues are currently near the highest level in Company history, reached in 1951. Passenger revenues continue at approximately twice the 1939-to-1941 level.

from an Act of Congress restricting the size and weight of parcel post packages. The shift of short-haul mail shipments to truck transportation was also a factor in this decrease. Increases in mail pay which have been authorized so far have reduced the mail service deficit, but further increases are needed if this service is to pay its way.

Express revenues increased 90%, due to increased volume, increased rates and improved efficiency of railway express operations. Payments received from the Railway Express Agency are still substantially short of meeting the over-all expenses for handling this traffic.

The trend in volume of traffic and in revenues received from freight and passenger business during the period since 1939 are shown by the charts on the opposite page.

EXPENSES Total operating expenses were $865,885,772, a decrease of $27,059,918 compared to 1951. This is not explained simply by decreased freight volume, as increases in wage rates and material prices more than offset the reductions in operating expenses brought about by lower volume of freight traffic. Substantial operating improvements were effected during the year, but the overall decrease in operating expenses was achieved mostly by curtailment in the roadway and equipment programs as a result of the steel strike during June and July.

Transportation expenses were $13,156,944 less than in 1951, due to the lower volume of freight traffic and to improvements in operating efficiency.

Expenses for maintenance of equipment were $17,520,080 less than in 1951. This was due to the necessity for curtailing expenses during the steel strike, as well as the savings in cost of maintenance of new diesel power as compared with older steam locomotives.

At the end of the year, freight cars in need of repair were 9.5% of total ownership. Locomotives in need of repair were 17.9% of ownership. It is expected that these percentages will be reduced during the current year.

Expenses for 1952 include a charge of $4,000,000 to provide a reserve for deferred maintenance on freight cars to be spent in 1953. This is the same amount that was set aside in 1951 and expended during 1952 for this purpose.

Expenses for maintenance of way were approximately the same as in 1951. In both years additional expenditures would have been desirable had earnings been adequate.

General expenses increased 11%. Traffic expenses and those for miscellaneous operations were approximately the same as in 1951.

Charges for depreciation were $50,315,827, compared with $47,694,430 in 1951.

OPERATING RATIO The operating ratio—or the percentage of operating revenues required to meet operating expenses—was 84.17%. This is an improvement over 1951, when it was 85.50%. It is still unsatisfactory and a further and substantial reduction is a major objective of management. Success in achieving this objective is dependent upon a number of factors, most of which are discussed in this report.

TAXES Total taxes for the year aggregated $69,729,490—nearly twice the net income after taxes. Included were:

Federal Income Taxes	$ 9,779,647
Corporate and Property Taxes	29,322,535
Railroad Retirement Taxes	28,358,184
Unemployment Insurance Taxes	2,269,124

Taxes on real estate have increased as a result of increased tax rates. Since 1946, total assessed values have been reduced from $832,000,000 to $785,000,000 by the action of various taxing authorities in recognition of the obsolescence of some parts of our property. Further reductions are fully justified and are being applied for. The average tax rate rose, however, from $2.42 per $100 value in 1946 to $3.01 in 1952—an increase of 24%. The net result of both changes has been an increase of 10% in our real estate taxes during this period.

LEASED ROAD RENTALS Leased road rentals aggregated $33,926,934, of which $18,855,888 was returned to Consolidated System Companies as dividends and interest on securities owned.

FINANCIAL REVIEW

NET INCOME Net income for the year 1952 amounted to $36,981,364 as compared with $26,697,717 in 1951. After providing $6,553,777 for appropriations to sinking and other funds, and for advances to leased and affiliated companies, and dividends of $13,167,754, the balance of $17,259,833 was transferred to Earned Surplus. Two dividends of 50¢ per share, or $1.00—2%, were paid.

EFFECT OF TAXES Federal income taxes were reduced by $8,792,000 resulting from accelerated amortization charges for income tax purposes against equipment and road facilities, and net income is proportionately greater than if normal depreciation had been charged. Consequently, in approximately five years, when accelerated amortization charges have been fully taken, depreciation charges for tax purposes will be reduced, with a resulting adverse effect on taxes at that time.

RETURN ON INVESTMENT Although showing an improvement, the return realized on the net investment in transportation property, as measured by net railway operating income (operating revenues less operating expenses, equipment and joint facility rents and taxes), was far from satisfactory. For the year 1952 the return was 2.98%, as against 2.45% in the year 1951.

CASH POSITION The Company showed a small increase in working capital as of the end of the year. Current assets amounted to $310,657,480, with current liabilities of $147,181,579 (exclusive of funded debt maturing in 1953 and sinking fund requirements), and working capital, representing the difference of $163,475,901 between the two, reflected an increase of $1,598,391 over last year. Liquid assets, consisting of cash, short term Governments and other short term investments maturing in one year or less, showed a substantial increase over those held at the 1951 year-end. At the end of 1952, they amounted to $172,045,000 as against

$149,937,000 at the end of 1951. The increase of $22,108,000 was largely due to a reduction of $20,963,000 in inventories, with a corresponding increase in liquid assets.

Capital expenditures for road and equipment, including expenditures on Leased Lines property, totaled $123,321,217.

CONSOLIDATED STATEMENTS In an effort to give our stockholders all pertinent information, we have included financial statements on a consolidated basis, with similar statements for the four previous years included for comparative purposes. These reflect not only the operations of The Pennsylvania Railroad Company, but also those of its 100% owned subsidiaries and all leased lines. Neither all of the earnings of these companies nor all their cash resources are actually available to The Pennsylvania Railroad Company, of course, since a certain portion of both these must be retained in their respective businesses if their operations are to be continued in a successful manner.

SYSTEM DEBT—CONSOLIDATED BASIS Funded debt in the hands of the public at the end of the year amounted to $1,116,005,200 represented by $765,266,600 of bonded debt and $350,738,600 of equipment obligations. Although the total debt was higher than at the end of last year it will be noted that bonded debt continued to decrease, with $27,201,500 less in the hands of the public at the end of 1952 than at the end of 1951. Equipment debt reached an all-time high of $350,738,600 as had been expected because of the Company's postwar equipment program. Outstanding equipment debt should decline each year for the next several years since it is expected that annual maturities will be met out of cash resources.

The charts on the following pages show the outstanding debt, on a consolidated basis, over the past 14 years. In spite of the increase in total debt, the annual interest charges on debt have decreased from $44,600,000 in 1939 to $39,200,000 in 1952. The equipment debt which has been issued during this period bears a lower interest rate than the bonded debt which was retired or refinanced. As a result, the average interest rate has declined from 4.24% to 3.51%.

OWNERSHIP OF STOCK At the year's end, the 13,167,754 shares of stock of the Company were held by 170,836 registered stockholders. Represented were every State in the Union and forty-four foreign countries. As the following table indicates, women slightly outnumber men as stockholders, though the men hold somewhat more shares. The large number of individual stockholders is supplemented by brokers and nominees holding stock for thousands of other individuals, and by many schools, colleges, churches, charitable organizations and business firms that own our stock.

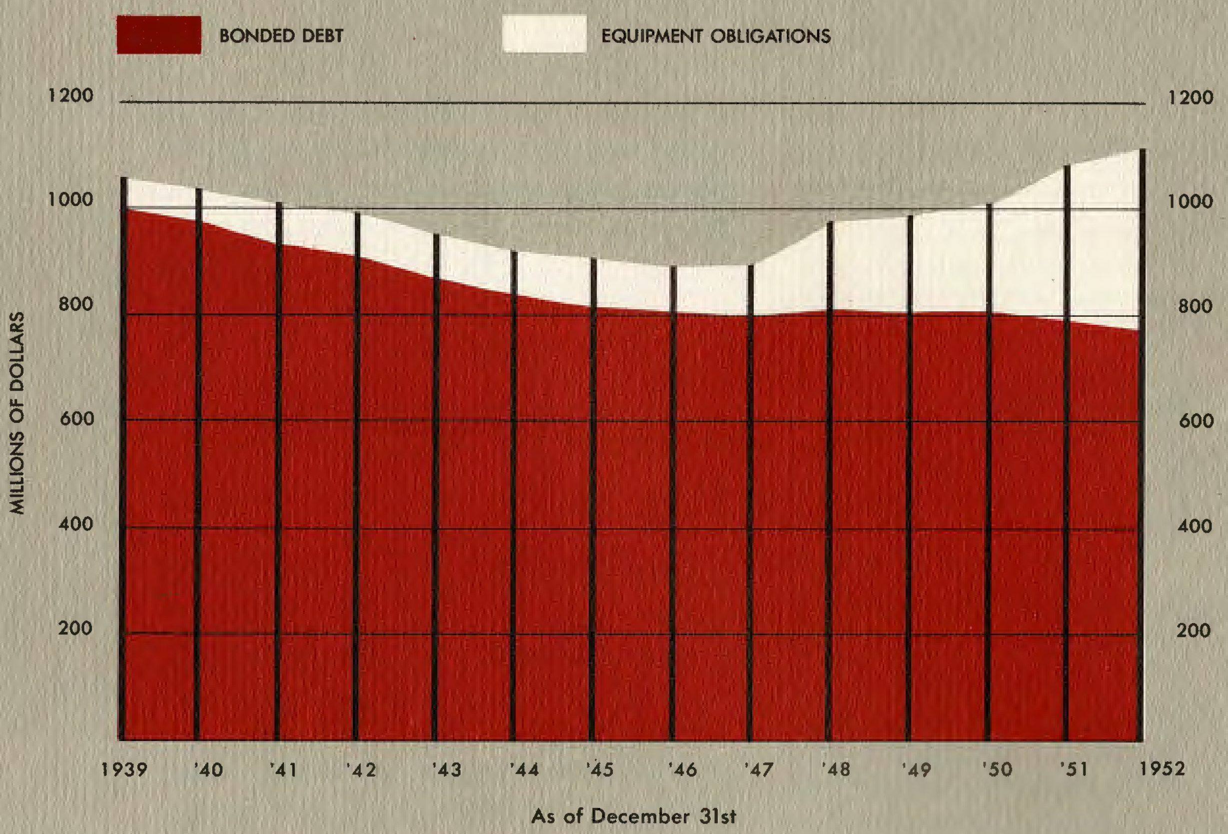
Payments to stockholders have been made in every year for 105 years.

On December 31, 1952 the following ownership was registered:

	Number of Holders	Shares Held
Women	74,032	3,420,936
Men	70,419	4,028,531
Joint Accounts	18,576	1,032,198
Total Individual	163,027	8,481,665
Fiduciaries—Trustees, Guardians, etc.	5,159	500,887
Brokers, Nominees, Institutions and others	2,650	4,185,202
Totals	170,836	13,167,754

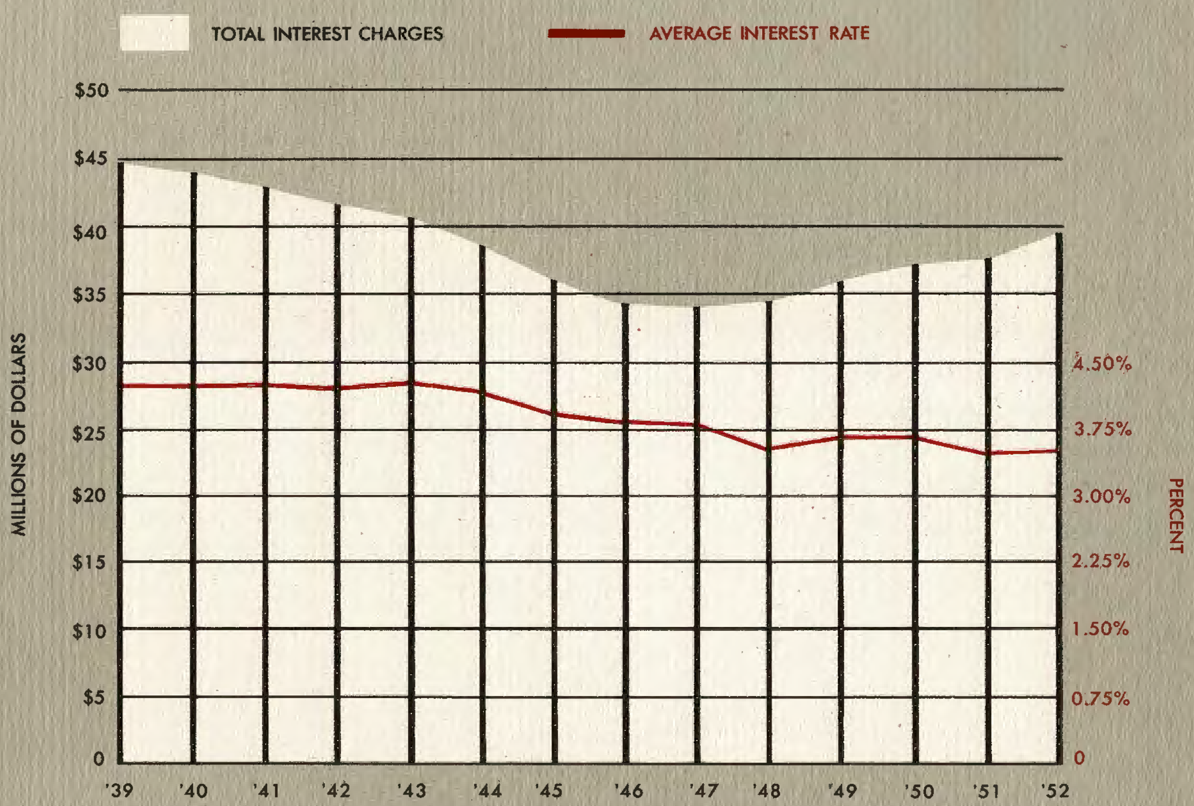
FUNDED DEBT PUBLICLY HELD

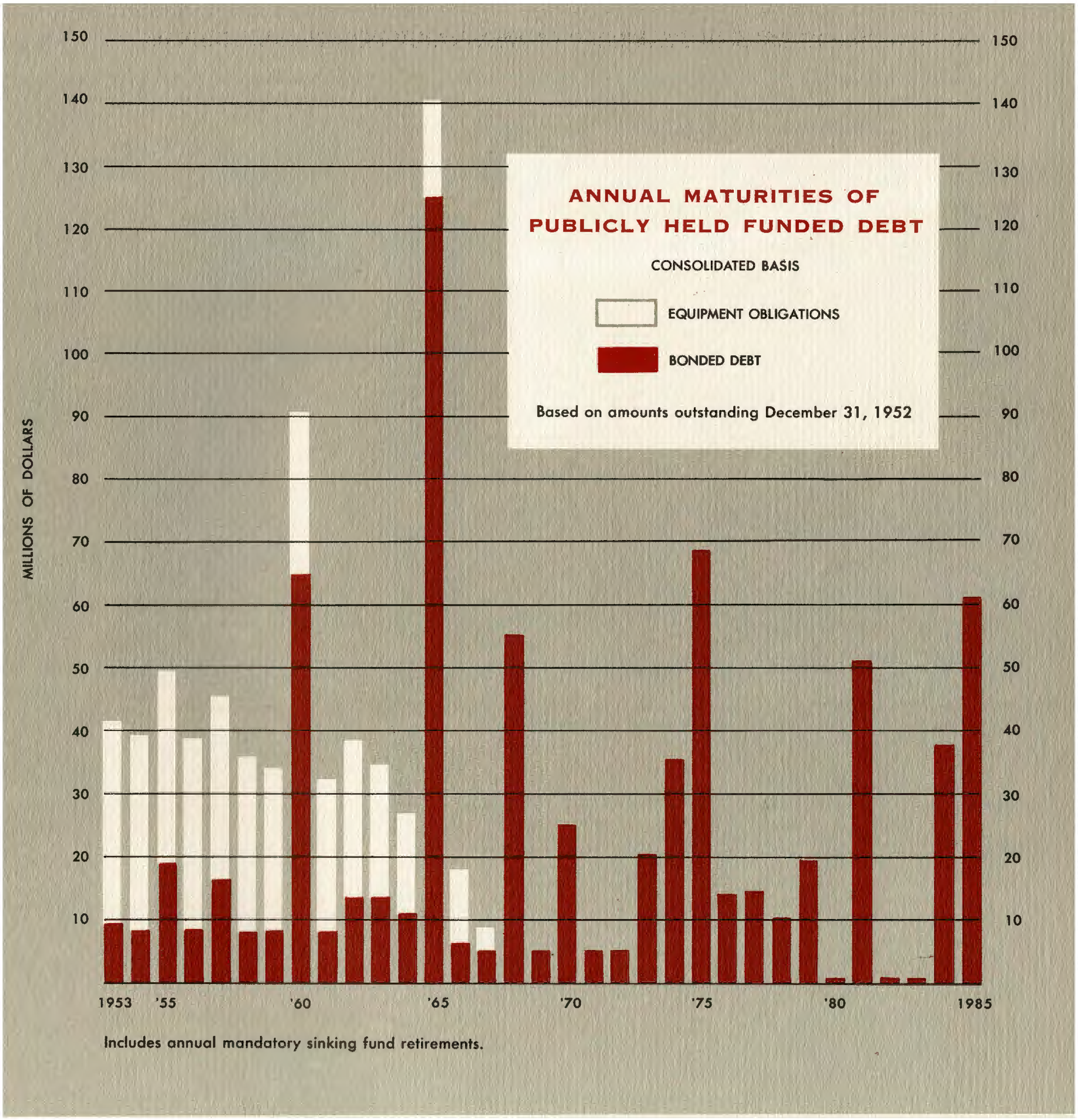
CONSOLIDATED BASIS



TOTAL INTEREST CHARGES ON PUBLICLY HELD DEBT AND AVERAGE INTEREST RATE

CONSOLIDATED BASIS





The change in composition of indebtedness is shown by the chart at the top of the opposite page. Equipment obligations have increased substantially while there has been a steady decline in bonded debt outstanding. The chart at the bottom of the opposite page shows the effect of these changes on annual interest charges. The chart above shows the amount of System indebtedness maturing each year in the future, which is well spaced with the exception of large maturities in the years 1960 and 1965.

CONDENSED INCOME STATEMENT

	Year 1952	Year 1951	Increase or Decrease 1952 compared with 1951
THE COMPANY HAD OPERATING REVENUES FROM:			
Transportation of Freight	$ 767,358,561	$ 783,634,611	D $16,276,050
Transportation of Passengers	156,316,370	156,148,680	I 167,690
Handling of Mail	39,977,854	42,890,984	D 2,913,130
Handling of Express	13,488,105	7,084,707	I 6,403,398
Other Operations	51,609,327	54,628,292	D 3,018,965
	1,028,750,217	1,044,387,274	D 15,637,057
THERE WAS DEDUCTED:			
Operating Expenses (*See Note D, page 28*)	865,885,772	892,945,690	D 27,059,918
Federal Income Taxes (*See Note E, page 28*)	9,779,647	9,139,054	I 640,593
Other Taxes	59,949,843	60,076,712	D 126,869
Equipment and Joint Facility Rents	18,204,620	22,705,832	D 4,501,212
	953,819,882	984,867,288	D 31,047,406
LEAVING NET RAILWAY OPERATING INCOME OF	74,930,335	59,519,986	I 15,410,349
THE COMPANY HAD OTHER INCOME (*from Dividends, Interest on Securities owned, etc.*)	33,474,168	35,995,728	D 2,521,560
Less Income from Leased Lines Securities held (*eliminated from Leased Lines Rental below*)	13,767,172	13,634,463	I 132,709
	19,706,996	22,361,265	D 2,654,269
Total	94,637,331	81,881,251	I 12,756,080
OTHER MISCELLANEOUS CHARGES WERE	1,801,024	1,171,189	I 629,835
LEAVING A BALANCE FOR FIXED CHARGES AND OTHER CORPORATE PURPOSES OF*	92,836,307	80,710,062	I 12,126,245
FIXED CHARGES:*			
Leased Lines Rental (*after deducting Income from Leased Lines Securities held*)	19,917,557	20,050,387	D 132,830
Interest on Funded Debt	28,522,336	26,573,009	I 1,949,327
Amortization of Discount on Funded Debt, and Interest on Unfunded Debt	259,759	333,586	D 73,827
Total Fixed Charges	48,699,652	46,956,982	I 1,742,670
Balance after Fixed Charges	44,136,655	33,753,080	I 10,383,575
Deduct—Accretions of Trust of 1878 (*See footnote*)	7,155,291	7,055,363	I 99,928
LEAVING A NET INCOME OF	36,981,364	26,697,717	I 10,283,647
THE COMPANY ALSO HAD TO PROVIDE FOR:			
Appropriations for Sinking and Other Reserve Funds	1,729,350	1,625,731	I 103,619
Other Appropriations, principally advances to Pennsylvania-Reading Seashore Lines, to cover Operating Deficits	4,824,427	4,902,592	D 78,165
Total	6,553,777	6,528,323	I 25,454
LEAVING AVAILABLE FOR Dividends and Other Corporate Purposes	30,427,587	20,169,394	I 10,258,193
DIVIDEND 2% (*$1.00 per share*)—1% paid April 21, and 1% on December 1, 1952	13,167,754	13,167,754	
TRANSFERRED TO EARNED SURPLUS	17,259,833	7,001,640	I 10,258,193
*Times Fixed Charges Earned:			
Before Federal Income Taxes	2.11	1.91	
After Federal Income Taxes	1.91	1.72	

CONDENSED STATEMENT OF EARNED SURPLUS

	Year 1952	Year 1951	Increase or Decrease
BALANCE, JANUARY 1,	$ 666,308,864	$ 649,381,226	I $16,927,638
Add: Balance of Income for the year	17,259,833	7,001,640	I 10,258,193
Accretions of Trust of 1878 (*see footnote*)	7,155,291	7,055,363	I 99,928
Funded Debt Retired Through Income	1,422,469	1,422,127	I 342
Miscellaneous Credits	1,995,209	1,812,624	I 182,585
	694,141,666	666,672,980	I 27,468,686
Deduct: Miscellaneous Debits	4,751,459	364,116	I 4,387,343
BALANCE, DECEMBER 31,	689,390,207	666,308,864	I 23,081,343

The Trust of 1878 is a Fund created for the acquisition of securities with respect to which The Pennsylvania Railroad Company, or its subsidiary, Pennsylvania Company, is obligated, either directly or by guarantee of payment of dividends, interest or principal. Obligations of these Companies purchased for the Fund out of its income may, at the direction of the Board of Directors of The Pennsylvania Railroad Company, be cancelled without payment to the "Managers" having custody of the Fund. The income on investments of the Fund is deducted in accordance with Interstate Commerce Commission Accounting Instructions as "Accretions of Trust of 1878", before arriving at Net Income, and transferred to Earned Surplus—Appropriated. The amount for the year 1952 was $7,155,291.

CONDENSED BALANCE SHEET

ASSETS

	December 31, 1952	December 31, 1951	Increase or Decrease 1952 compared with 1951
CURRENT ASSETS:			
(*Cash, temporary cash investments, material and supplies, accounts receivable, etc.*)	$ 310,657,480	$ 318,900,399	D $ 8,242,919
INVESTMENTS:			
In Transportation Property and Equipment	1,942,384,997	1,890,214,060	I 52,170,937
Less: Depreciation	594,457,275	598,607,741	D 4,150,466
Amortization of Defense Projects	70,720,602	71,946,568	D 1,225,966
Total	665,177,877	670,554,309	D 5,376,432
Net Investment in Transportation Property and Equipment	1,277,207,120	1,219,659,751	I 57,547,369
In Miscellaneous Physical Property	14,650,312	22,646,077	D 7,995,765
In Affiliated Companies* (*stocks, bonds, notes and advances*)	681,632,290	674,010,449	I 7,621,841
In Non-Affiliated Companies* (*stocks, bonds, notes and advances*)	29,154,998	29,156,704	D 1,706
OTHER ASSETS:			
Investments—Trust of 1878, Insurance and Other Funds	156,048,070	153,648,673	I 2,399,397
Sinking and Other Reserve Funds	15,165,669	15,921,571	D 755,902
Other Assets, including items in process of adjustment	20,024,032	19,432,210	I 591,822
Total Assets	2,504,539,971	2,453,375,834	I 51,164,137

**Of these investments, $54,492,750.00 par value of stocks, $2,240,000.00 par value of bonds and $17,263,295.71 face value of Note, are pledged under various Mortgages and Trust Indentures.*

See Page 23 regarding investment in Long Island Rail Road Company and Note I, Page 28.

LIABILITIES

	December 31, 1952	December 31, 1951	Increase or Decrease 1952 compared with 1951
CURRENT LIABILITIES:**			
(*Traffic balances, wages, taxes, interest, other accounts payable, etc.*)	$ 147,181,579	$ 157,022,889	D $ 9,841,310
LONG-TERM DEBT:			
Bonded Debt	479,023,000	497,268,000	D 18,245,000
Equipment Obligations	350,738,605	288,114,800	I 62,623,805
OTHER LIABILITIES:			
Deferred Liabilities	2,884,147	2,785,794	I 98,353
Accrued Depreciation—Leased Property	135,856,163	132,210,541	I 3,645,622
Unadjusted Credits (*Casualty reserves, maintenance reserves, etc.*)	29,716,099	39,793,097	D 10,076,998
Other Miscellaneous Liabilities	836,391	959,332	D 122,941
STOCKHOLDERS' EQUITY:			
Capital Stock (par value $50 per share)	658,387,700	658,387,700	—
Surplus:			
Earned—Appropriated—(*Additions to Property, Funded Debt Retired, Sinking and Miscellaneous Fund Reserves*)	451,648,199	441,687,028	I 9,961,171
Unappropriated	237,742,008	224,621,836	I 13,120,172
Total Earned Surplus	689,390,207	666,308,864	I 23,081,343
Unearned	377,851	376,588	I 1,263
Premium on Capital Stock	10,148,229	10,148,229	—
Total Stockholders' Equity	1,358,303,987	1,335,221,381	I 23,082,606
Total Liabilities	2,504,539,971	2,453,375,834	I 51,164,137
***Exclusive of equipment obligations and bonded debt maturing within one year, and sinking fund requirements (pursuant to ICC regulations)*	*$35,084,180*	*$37,504,200*	

The Company has assumed contingent liabilities aggregating $519,499,577, as of December 31, 1952, by endorsement as guarantor or otherwise (not included as liabilities in the foregoing condensed balance sheet) in respect of the principal of obligations issued by companies, including terminal companies, owning railroad properties in which the Company has an interest. Liabilities in respect to $172,398,000 thereof, have been assumed jointly and severally with other railroad companies. Of obligations in respect of which such liabilities have not been assumed jointly and severally with other railroad companies, $78,433,577 are owned by the Pennsylvania Railroad System. For other contingent liabilities, see Note N, Page 29.

NEW AND IMPROVED EQUIPMENT

DIESEL POWER During 1952, 246 new diesel-electric locomotives were placed in service, adding 333 units and over 500,000 horsepower to the railroad's diesel power. By the first of April, the delivery of eighteen additional switching diesels will complete the program previously announced. At the close of the year, the Pennsylvania Railroad owned 1,330 diesel-electric locomotives, comprising 1,888 units, with a combined horsepower of 2,588,570, making it the largest owner of diesel power as well as the largest owner of electric locomotives of any railroad.

ELECTRIC AND STEAM POWER At the end of 1952 the Pennsylvania Railroad owned 271 electric and 1,721 steam locomotives. During the year, 66 electric and 182 steam locomotives received heavy classified repairs. As the new diesel-electric locomotives were placed in service during the year, 434 steam locomotives were retired.

FREIGHT CARS During 1952, 3,438 freight cars were built, of which 3,095 were gondolas. Scheduled for delivery during 1953 are 3,682 new freight cars. These include 2,212 gondolas, 1,070 box cars, 200 covered hopper cars and 200 flat cars. There was only one flat car built during 1952, but it was the world's largest and strongest. The car is of heavy-duty depressed platform type, able to carry 250 tons. It supplements the 9 flat cars of 150-ton capacity each, built in 1951. Fully loaded with a typical unit of giant industrial equipment, the new car weighs more than a million pounds.

During 1952, 46,687 revenue freight cars were given repairs other than running repairs.

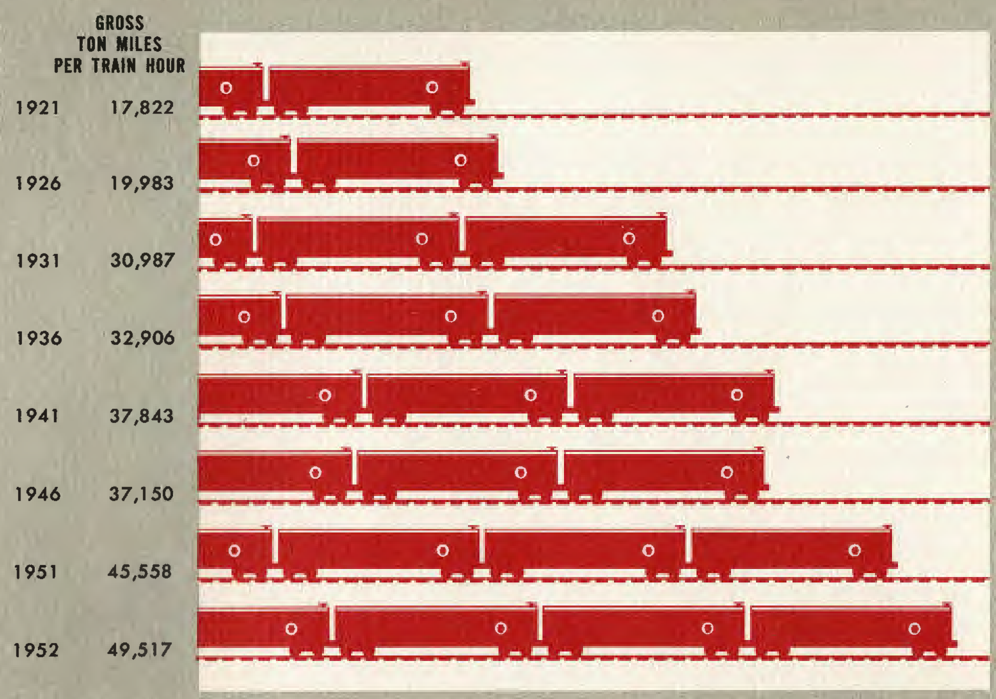
The building and repair program permitted the retirement of 10,509 cars.

INCREASE IN DIESEL OWNERSHIP

LOCOMOTIVES OWNED	AS OF DEC. 31st	COST
34	1946	$2,500,000
73	1947	19,900,000
348	1948	73,900,000
594	1949	115,300,000
845	1950	156,700,000
1,084	1951	221,300,000
1,330	1952	277,700,000

Completion of our present diesel-electric program means sufficient diesel and electric power to move 96% of passenger traffic, 82% of freight traffic and perform 91% of switching operations.

RESULTS FROM IMPROVED POWER AND EQUIPMENT



A key measure of railroad efficiency is the increase in gross ton miles per train hour. The above chart shows progress achieved through dieselization and other improvements.

PASSENGER CARS Sixty-four new cars for The Morning and The Afternoon Congressionals and The Senator, the most modern trains for daytime travel in the nation, went into service March 17, 1952. They were built at a cost of $10,500,000.

Public reception has been very favorable and fully justifies the expenditure for this new equipment. Nearly all trips are well patronized and show a substantial profit.

Heavy classified repairs were completed on 662 cars for passenger service. These included passenger coaches, diners, baggage, mail and express cars.

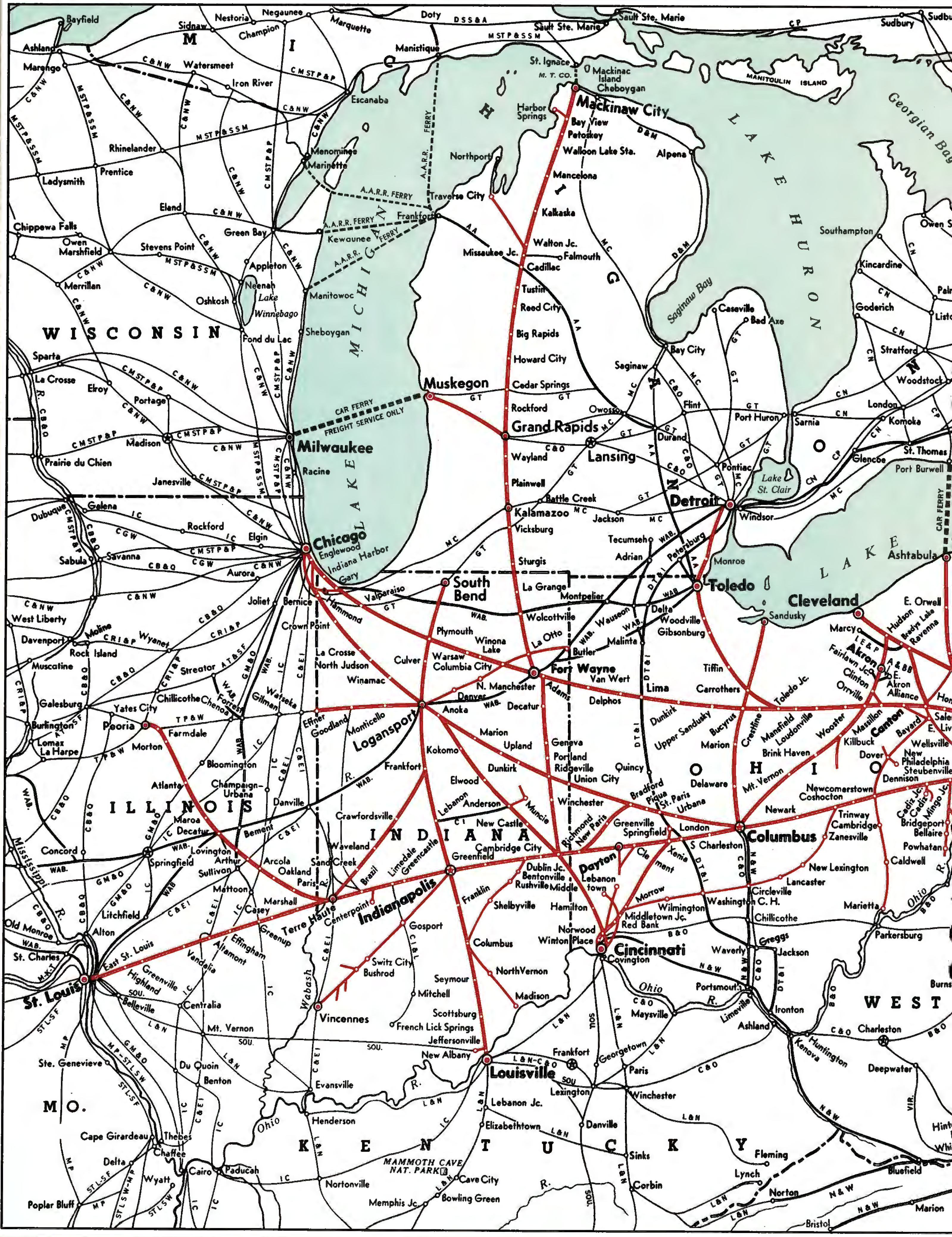
A total of 463 cars which were formerly used for passenger and related services were retired during the year.

TRAIN TELEPHONES Since the development of the inductive train telephone in 1942, this communication system—which supplements but does not displace other signal systems and devices—has been extended gradually throughout the System. At the end of 1952, 1,036 locomotives and 230 cabin cars were equipped and 139 fixed stations were in operation, providing coverage of 3,499 track miles. So far, over $9,000,000 has been spent on this new communication system to improve safety and better passenger, freight, and yard switching services.

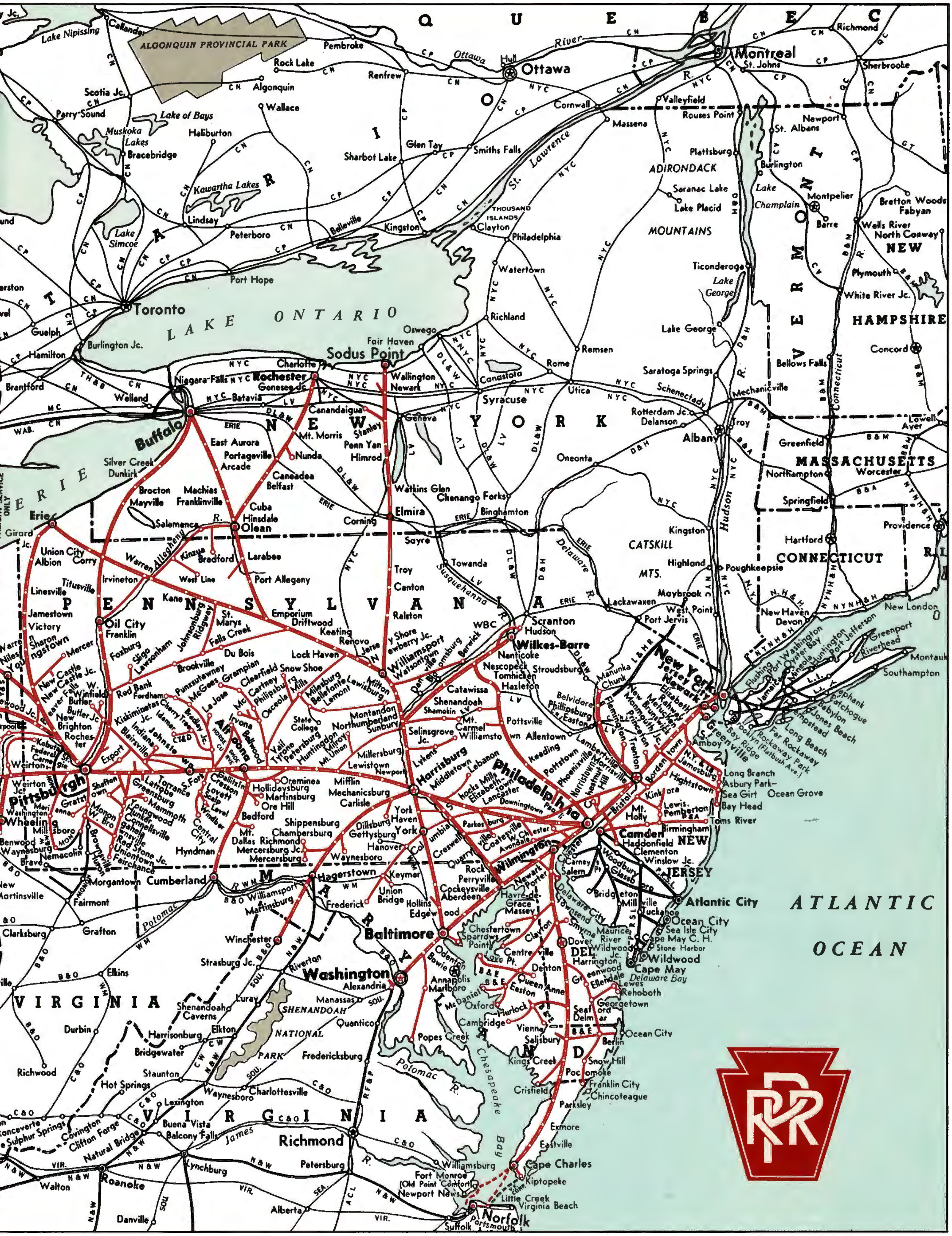
Telephone service is available to passengers on a number of important trains in the New York-Washington area, and on the Broadway Limited in New Jersey and Pennsylvania.

SPEED CONTROL At the end of the year, 337 locomotives had been equipped with automatic speed control. Application of this latest safety development is authorized for 135 additional locomotives.

MARINE EQUIPMENT Orders were placed for 10 open-deck lighters and 6 steel car floats for service in New York harbor. They are scheduled for delivery in 1953.



WISCONSIN
MICHIGAN
ILLINOIS
INDIANA
OHIO
KENTUCKY
MO.
WEST
LAKE MICHIGAN
LAKE HURON
LAKE
Georgian Bay
Saginaw Bay
Lake St. Clair
Lake Winnebago
MANITOULIN ISLAND
Mackinac Island
CAR FERRY FREIGHT SERVICE ONLY
A.A.R.R. FERRY
CAR FERRY
MAMMOTH CAVE NAT. PARK
Bayfield
Ashland
Marengo
Sidnaw
Nestoria
Negaunee
Champion
Marquette
Doty
Sault Ste. Marie
Sudbury
Watersmeet
Iron River
Manistique
Escanaba
St. Ignace
Cheboygan
Mackinaw City
Harbor Springs
Bay View
Petoskey
Walloon Lake Sta.
Alpena
Mancelona
Northport
Traverse City
Kalkaska
Rhinelander
Prentice
Ladysmith
Menominee
Marinette
Eland
Chippewa Falls
Owen
Marshfield
Stevens Point
Green Bay
Kewaunee
Frankfort
Missaukee Jc.
Walton Jc.
Falmouth
Cadillac
Tustin
Reed City
Big Rapids
Howard City
Cedar Springs
Rockford
Muskegon
Grand Rapids
Appleton
Neenah
Merrillan
Oshkosh
Manitowoc
Sheboygan
Fond du Lac
Sparta
La Crosse
Elroy
Portage
Madison
Milwaukee
Racine
Prairie du Chien
Janesville
Galena
Dubuque
Rockford
Elgin
Savanna
Sabula
Aurora
Chicago
Englewood
Indiana Harbor
Gary
Joliet
Bernice
Hammond
Crown Point
Valparaiso
South Bend
Plymouth
Winona Lake
Warsaw
Columbia City
Fort Wayne
Van Wert
Delphos
Lima
Toledo
Detroit
Windsor
Monroe
Sandusky
Cleveland
Tiffin
Carrothers
Crestline
Mansfield
Wooster
Massillon
Canton
Akron
Alliance
Orrville
Bucyrus
Upper Sandusky
Marion
Delaware
Columbus
Newark
Zanesville
Cambridge
Dennison
Steubenville
Logansport
Kokomo
Anderson
Muncie
Richmond
New Paris
Dayton
Xenia
London
Springfield
Indianapolis
Terre Haute
Vincennes
Effingham
St. Louis
East St. Louis
Peoria
Galesburg
Bloomington
Champaign-Urbana
Danville
Decatur
Springfield
Cincinnati
Covington
Louisville
New Albany
Jeffersonville
Madison
North Vernon
Columbus
Seymour
Lansing
Owosso
Flint
Saginaw
Bay City
Durand
Pontiac
Port Huron
Sarnia
London
Kalamazoo
Battle Creek
Jackson
Plainwell
Wayland
Vicksburg
Sturgis
La Grange
Montpelier
Wolcottville
Butler
Adrian
Tecumseh
Ashtabula
Portsmouth
Ohio R.
Ashland
Huntington
Kenova
Charleston
Parkersburg
Marietta
Lexington
Frankfort
Evansville
Henderson
Paducah
Cairo
Bowling Green
Memphis Jc.
Bristol
Bluefield
Norton
Cape Girardeau
Ste. Genevieve
Poplar Bluff



QUEBEC
ALGONQUIN PROVINCIAL PARK
Lake Nipissing
Montreal
Ottawa
ONTARIO
LAKE ONTARIO
Toronto
Hamilton
Burlington Jc.
Niagara Falls
Buffalo
Rochester
Sodus Point
Syracuse
Utica
Rome
Albany
Schenectady
Kingston
St. Lawrence
THOUSAND ISLANDS
ADIRONDACK MOUNTAINS
Lake Champlain
VERMONT
NEW HAMPSHIRE
MASSACHUSETTS
CONNECTICUT
NEW YORK
CATSKILL MTS.
Hudson
Springfield
Hartford
Providence
New Haven
New London
Worcester
Concord
Montpelier
Burlington
Plattsburg
Lake George
Saratoga Springs
Poughkeepsie
Binghamton
Elmira
Olean
Erie
Corning
Sayre
Scranton
Wilkes-Barre
PENNSYLVANIA
Oil City
Pittsburgh
Altoona
Harrisburg
Williamsport
Philadelphia
Lancaster
Reading
Allentown
Trenton
New York
Jersey City
Newark
Camden
NEW JERSEY
Atlantic City
Ocean City
Cape May
Long Branch
Asbury Park
Ocean Grove
Montauk
Southampton
Riverhead
Greenport
L.I.
Wilmington
DEL.
Dover
Lewes
Rehoboth
Baltimore
MARYLAND
Washington
Alexandria
Annapolis
Hagerstown
Cumberland
Wheeling
Morgantown
VIRGINIA
SHENANDOAH NATIONAL PARK
Richmond
Fredericksburg
Charlottesville
Staunton
Lynchburg
Roanoke
Petersburg
Norfolk
Portsmouth
Virginia Beach
Cape Charles
Chesapeake Bay
Potomac R.
ATLANTIC OCEAN
Salisbury
Cambridge
Crisfield
Easton
Delaware Bay

IMPROVEMENTS TO PROPERTY

Work was completed or advanced on engineering projects started prior to 1952, which represent an aggregate authorized expenditure of approximately $121,363,000.

During the year, in addition, new projects estimated to cost $63,387,000 were started or authorized.

Following are the more important:

1. The new ore pier at Greenwich Point, Philadelphia, is now approximately one-half completed. Upon completion, scheduled for early 1954, at a final cost estimated at $9,064,000, a substantial volume of import iron ore is expected to move over this pier.

2. Reconstruction of the freight yard at Morrisville, Pennsylvania, will be completed during 1953, at a final cost expected to be $9,377,000. This will provide greatly enlarged and modernized facilities to serve the rapidly growing industries in this area of the Delaware River Valley.

3. New platforms, tracks, station facilities and supporting shop and yard facilities for enlarging the capacity of Pennsylvania Station, Philadelphia, are nearly completed, at a total cost of $11,329,000.

4. The demolition of old Broad Street Station in Philadelphia is near completion, at a cost of approximately $850,000. The structure which carried the elevated tracks into the station will soon be leveled as far west as 17th Street. This frees over five acres for immediate commercial development, representing the first part of a total of 22 acres in the heart of the city that is being made available by this program of improvements.

5. Extension of facilities at Suburban Station, Philadelphia, started in 1952, will be completed in 1953 at an estimated total cost of $3,250,000.

6. The reconstruction of Pittsburgh passenger station and its attendant facilities, started in 1948, is now approximately 50% finished, with completion scheduled for 1955. Total cost will be approximately $27,500,000.

7. Wayside cab signalling apparatus is being installed between New Paris and Columbus, Ohio at an estimated total cost of $1,698,000. Installation has been completed to Dayton. The balance, from Dayton to Columbus, will be completed in 1953.

8. Broadway Station, Camden, New Jersey, has been rebuilt at a cost to the railroad of $780,000. As a result, the Philadelphia-Camden Ferry was discontinued with average annual savings approximating $300,000.

9. The Susquehanna Connection at Jersey City, New Jersey, was re-established to provide direct interchange between the Pennsylvania Railroad and the New York, Susquehanna and Western Railroad. The facilities, authorized in 1948 at a cost of $1,556,000, were placed in service January 1, 1953.

10. The new Roxburg Branch, including a new railroad bridge across the Delaware River, north of Martin's Creek, New Jersey, was constructed at an estimated cost to the railroad of $1,044,000. Together with new yards and sidings, this project, placed in service

December 26, 1952, will serve a new power plant being built on the Pennsylvania side of the river. The initial installation by the power company will generate 125,000 kilowatts.

11. A new freight station, adjacent to Frankford Junction Yard, Philadelphia, is nearing completion. It has separate inbound and outbound freight houses, with supporting yards and sidings. Estimated cost of the complete project is $1,960,000.

12. Construction has started on 8 miles of track, to serve a new coal area opening along Captina Creek in Belmont County, Ohio. The Captina spur, estimated to cost $3,440,000, will tap a field containing an estimated 30,000,000 tons of high-grade coal. One mine, now in the process of development, will have an initial production estimated at 400,000 tons annually, increasing to 1,000,000 tons in three or four years.

13. A new $47,000,000 program of freight service improvements was announced at Pittsburgh, on November 12, 1952, after a Board meeting there—the first meeting of the Board of Directors ever held outside of Philadelphia. This project will provide better service to industries through faster freight schedules, and increased capacity and savings to the railroad, through greater efficiency in operations and in car repairs. Expenditures will be met from the Company's own resources over the next three years. No additional financing is contemplated.

The program includes two major projects:

a. The entire yard at Conway, Pennsylvania, 22 miles west of Pittsburgh, will be modernized and enlarged, to become the largest classification yard on the Pennsylvania.

Savings of from two to twelve hours in the schedules of many freight trains are expected as a result of faster classification, and therefore this improvement will benefit the entire System. The cost, including track and signal changes nearby in Ohio and Pennsylvania, will be approximately $34,200,000.

b. A new freight car repair shop, to be the largest and finest in the nation, is being built at Hollidaysburg, Pennsylvania, eight miles south of Altoona. It will be known as the Samuel Rea Shop, in honor of the ninth president of the Pennsylvania Railroad, who was born in Hollidaysburg and went to work for the railroad there at the age of 16. Three assembly lines will turn out 50 repaired cars a day. Cost of the project will be approximately $12,800,000.

TRACK During the year new rail was laid in 230 miles of main line tracks. Reconditioned rail was laid in 386 miles of main line freight tracks, main tracks of branch lines, yards and sidings. A total of 2,860 miles of track, including the above, were given heavy repairs, including raising, tie renewals and reballasting. This work required the use of approximately 2,000,000 crossties.

The Maintenance of Way Department is highly mechanized and the above work was done, in large measure, by special equipment. The economies achieved by this equipment as compared to hand labor are substantial.

PASSENGER SERVICE DEVELOPMENTS

During 1952, intensive studies were undertaken of every phase of passenger train operation and service. The objective of this continuing program is twofold:

1. To reduce the over-all deficit from passenger operations by eliminating unnecessary and lightly patronized trains.

2. To increase the revenue from other trains through improved service and sales methods.

Substantial progress is anticipated from this program, as well as from efforts to improve efficiency in yard and repair operations for passenger cars.

To improve over-all service and attract increased patronage on principal "name trains", a Supervisor of Service has been placed in charge of each. He is generally responsible for its cleaning, preparation, dining service and operating conditions. Much favorable comment on the improved service and comfort is being received.

A new experimental system to expedite Pullman and reserved seat coach reservations and ticket sales was developed in 1952 and is being placed in operation in Pittsburgh during March 1953.

Losses from dining car operation were reduced in spite of further increases in the costs of food and wages. At the same time, service was improved and the highest standards of food quality were maintained. Economical management and better housekeeping reduced the over-all operating ratio of the service from 141% in 1951 to 135% in 1952. Our diners are among America's best restaurants and we intend to keep them so.

The "Coffee Shop" cars on The Morning and Afternoon Congressionals are proving popular and are showing a small profit.

FREIGHT SERVICE DEVELOPMENTS

By rearrangement of freight train service during the year, considerable progress was made in the elimination or curtailment of yard switching at a number of freight terminals. This has resulted in better freight service and important operating economies.

Additional operating economies have been realized from the additions made to the fleet of diesel-electric road freight and yard switching locomotives received during the year. Increased use of diesel power has also improved the quality of freight service.

Expedited freight service was inaugurated in connection with Southern railroads to provide more rapid transportation of Florida perishable traffic to important Eastern markets. The through East-West arranged freight service was improved in many details to better serve shippers and receivers. An expanded program of rehabilitation has greatly improved the condition of the Company's ownership of freight cars for the transportation of many commodities.

INDUSTRIAL DEVELOPMENT

The location of new industries along the Pennsylvania Railroad, and the expansion of existing industries, is one of the most important factors in developing our business.

To receive the maximum benefit of the tremendous national growth of industry, commencing before World War II, your management has intensified its efforts to promote this important work. The large number of new industries located on our line has substantially increased our sources of business and will continue to contribute materially to future gross revenue.

RATES AND FARES

GENERAL FREIGHT RATES The general increase in freight rates which the railroads sought in an amended petition filed with the Interstate Commerce Commission in March 1951, less than half of which was granted in August of that year, was reconsidered by the Commission upon request of the carriers and substantially the full increase sought a year earlier was allowed. This further increase became generally effective on May 2, 1952, and produced approximately $27,000,000 in additional freight revenue during the balance of the year. Under the Commission's decision, however, the full increase granted under this petition will expire February 28, 1954, unless sooner modified or terminated, making necessary a further order by the Commission if the increase is to be retained.

The imposition of an expiration date to this increase creates instability and is most unfortunate. No similar condition has been imposed on other industries by price-regulating agencies.

DIVISION OF THROUGH RATES In decisions announced on January 30, 1953, the Interstate Commerce Commission prescribed new formulae for dividing through freight rates between the South and the East and between the Southwest and the East. When effective, the new divisions are calculated to increase measurably the revenue of the Eastern railroads.

The revision of these divisions had been pending before the Commission on petitions of the Eastern railroads since 1947.

FARES AND CHARGES In decisions rendered by the Interstate Commerce Commission and State regulatory authorities in February 1952, increases in commutation fares were granted averaging 14%, as against increases of 20% originally sought. Petition for reconsideration of a modified proposal was filed with the Interstate Commerce Commission and decision of the Commission is awaited. The increases already granted will produce approximately $1,200,000 in additional revenue on an annual basis and favorable action on the petition will represent an additional $300,000 in increased revenue.

The Pullman Company filed tariffs to become effective January 1, 1952, increasing sleeping car space charges for short-haul overnight runs. Tariffs were suspended by the Interstate Commerce Commission and hearings were held. As a result, the increased charges were allowed and became effective August 1, 1952. The increases are expected to yield The Pullman Company $700,000 a year on the short-haul sleeping car lines operated by The Pullman Company on the Pennsylvania Railroad. Your Company will benefit from this additional revenue.

As a means of reducing to some extent the substantial deficit from handling checked baggage, the Pennsylvania Railroad and other roads in the East and South filed tariffs to become effective July 1, 1952, establishing a checking service charge in baggage rooms of 25¢ per piece for hand baggage and 50¢ for trunks. Tariffs were suspended by the Interstate Commerce Commission and a hearing was held October 10, 1952. Decision of the Commission is awaited. It is estimated this service charge, if permitted, will produce about $400,000 additional revenue annually for your Company, but this amount will still not be enough to eliminate the deficit.

EMPLOYE RELATIONS

Substantial progress has been made in the comprehensive employe relations program adopted late in 1951. Its aim is to bring about better working relationships throughout the organization and thus improve service, increase business and provide greater job security. An employe magazine, "The Pennsy", is now published each month. Employe group activities have been increased. New cooperative training courses on the subject of customer relations have been established for groups such as station agents and trainmen, who are in front-line contact with the public. Studies are underway to determine better methods of hiring new employes and selecting men for promotion. Improvement is evident in the ability of supervisors and employes to dispose of differences more promptly.

The steel strike in June and July made it necessary to furlough many of our employes until normal operations could be resumed. The spirit in which our employes recognized and accepted the necessity for this action, in a situation beyond our control, was most gratifying. The management appreciates the support and loyalty the employes have demonstrated throughout the year.

SAFETY One of the most satisfying achievements of the year was the progress in safety practices as shown by the reduction in employe injuries. The Company's record for 1952 is the best since 1940.

The Safety Department, which was reorganized in 1951, completed a new type of safety motion picture for maintenance of way employes which, in addition to its effectiveness with our own employes, has received acclaim nationally. Two more training films are being produced for particular application to other railroad safety practices.

WAGES AND WORKING CONDITIONS

Cost-of-Living Adjustments (Operating and Non-Operating Employes). Cost-of-living wage adjustments, under the formula described in the Annual Report for 1951, produced a net increase to our employes of 7¢ per hour during 1952. For the calendar year 1952 the effect of these adjustments represented an additional cost of $18,684,941 as compared to 1951 wage costs.

Productivity Factor In July 1952, operating and non-operating employes presented national requests for so-called annual improvement wage increases based upon the increasing productivity of the national economy. Hearings began on January 5, 1953 and were concluded on January 23. Representatives for the railroad companies appeared and introduced voluminous testimony to show why such types of wage adjustment should not be applicable to the railroad industry.

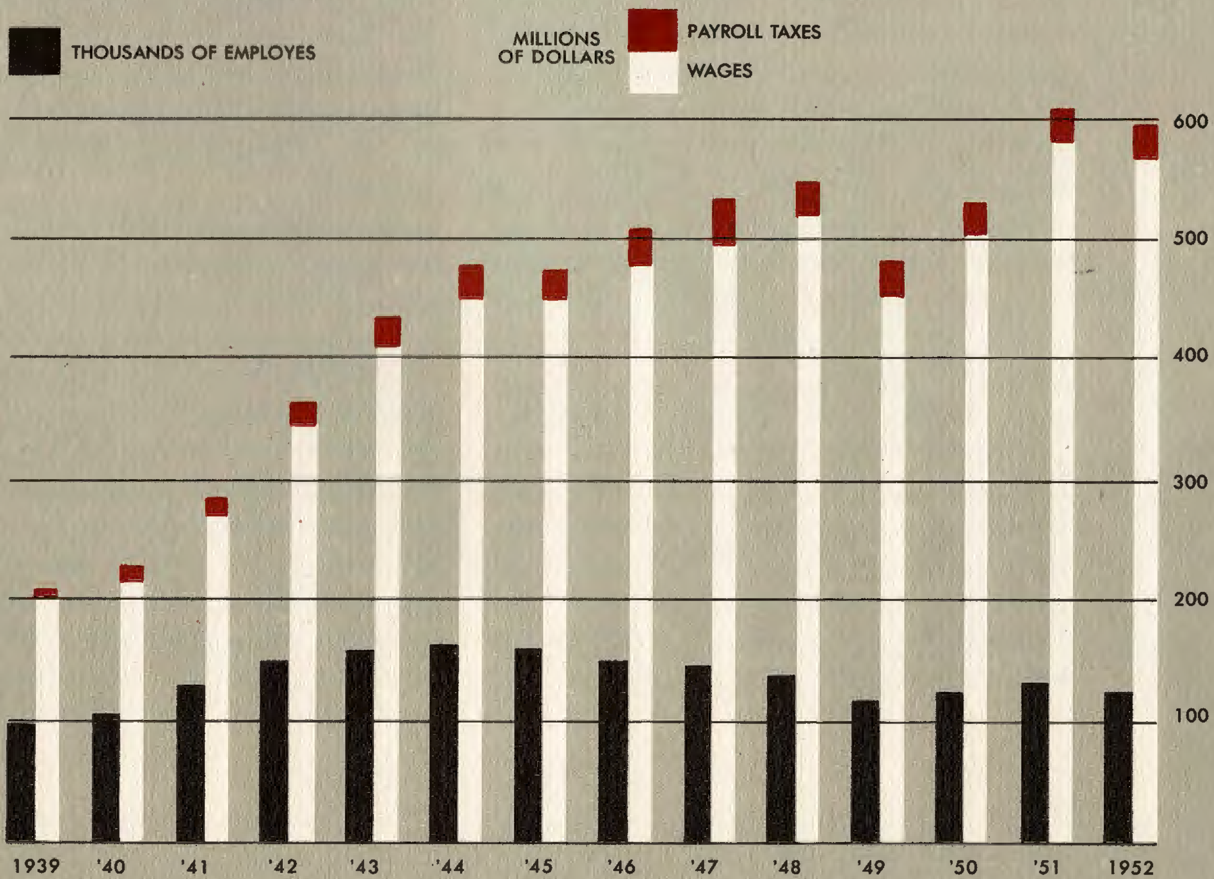
Operating Employes On May 23, 1952, the railroads of the country reached an agreement with the Brotherhood of Locomotive Engineers, the Brotherhood of Locomotive Firemen and Enginemen, and the Order of Railway Conductors, in a dispute which had been pending for more than two years. The dispute involved changes in both wages and working conditions, including institution of a 5-day work week for engineers and firemen engaged in yard service. The 5-day week for yard firemen became effective

January 1, 1953. Yard engineers have not indicated any desire to exercise their option to go to the 5-day week.

Union Shop An amendment to the Railway Labor Act, permitting railroads and the unions to agree on a union shop, was signed by the President of the United States on January 10, 1951. Within that year, a number of major railroads, including some in the East, entered into such agreements. The majority of roads did not do so. Following the failure of mediation to settle the national request of the non-operating employes for a union shop agreement, a Presidential Emergency Board was appointed to investigate the case. That Board submitted its report on February 14, 1952, recommending that the carriers establish the union shop and dues check-off on the basis of the pattern created by agreements in effect on other railroads.

Those Eastern railroads, including the Pennsylvania Railroad, that had not yet signed union shop agreements formed a Carriers' Conference Committee and entered into further negotiations with the non-operating organizations. After protracted negotiations, a union shop agreement with those organizations was signed on August 29, 1952. The check-off of union dues was not made effective under this agreement. The agreement excludes certain groups of employes from its coverage and provides protection for the Company against liability that might arise from the operation of the agreement. Similar union shop agreements also have been signed with the operating labor organizations on the Pennsylvania Railroad.

AVERAGE NUMBER OF EMPLOYES AND TOTAL PAYROLL COSTS



As compared to 1939, average number of employes has increased 26%.
However, as the above chart indicates, total payroll costs have nearly tripled.

LEGAL DEVELOPMENTS

NATIONAL TRANSPORTATION POLICY During 1952, a number of bills which would have helped the railroad industry were introduced in Congress but none was enacted. New bills embodying the most important features of the previous bills have been or are expected to be introduced in the present Congress, and represent the present best hope for correcting some of the evils of obsolete regulation.

Five desirable changes proposed are:

1. Elimination of most of the "time-lag" in general freight rate increases when they are needed to offset increases in operating costs. Since the end of World War II, the increases in rates, fares and charges actually approved by the Interstate Commerce Commission and put into effect would have produced approximately $200,000,000 more revenue for the Pennsylvania Railroad had they gone into effect 30 days after the increase was requested. Actually, the average time between the final request and the effective date for the new rates in the four general freight rate cases was 304 days. The revenue lost by these delays is not recoverable and it is most important that the Interstate Commerce Act be changed to prevent such losses in the future.

2. Changes in the "rule of rate making"—Interstate Commerce Act (Section 15a)—that will (1) state clearly the intention of Congress that rates shall be set to produce a level of earnings necessary to attract equity capital to the railroads; and (2) remove the consideration of the effect of rates on the movement of traffic from the power of the Interstate Commerce Commission and restore it to private management, which has the responsibility for the success or failure of pricing policies.

3. Provision for more prompt and effective appeal from failure of State Commissions to approve intrastate rate increases conforming to interstate increases allowed by the Interstate Commerce Commission. Local pressures and interests sometimes bring about delays or denials by State authorities in acting upon requests for increases in intrastate rates. The Interstate Commerce Commission should be given power to correct a situation of this kind, without the delays and burdens imposed by the present procedure.

4. Provision for appeal from unfavorable decisions of State regulating authorities in train abandonment cases. Since local pride sometimes distorts decisions in railroad applications for relief from hopelessly unprofitable operation, the opportunity for appeal to the Interstate Commerce Commission is needed.

5. Measures that will clearly endorse the principle of reducing and eliminating government subsidies to all forms of transportation insofar as possible, and as rapidly as possible, without injury to the public interest. Each form of transportation should pay its fair share of the cost of all publicly owned and supported facilities which it uses in its commercial operations.

GENERAL The last Congress passed legislation increasing the benefits under the Railroad Retirement and Unemployment Insurance Acts without increasing the railroads' taxes. A concurrent resolution created a joint committee to study the Retirement Act and its related problems.

The St. Lawrence Seaway and Power Project was again before the last Congress, and again by a close vote it was recommitted to the Senate Committee on Foreign Relations for further study. Your Company and other railroads have repeatedly called attention to the basic fact that this project would mean a further extension of government subsidy in the transportation business and that it cannot be justified on economic grounds.

The anti-trust suit in the Federal Court at Lincoln, Nebraska, brought by the United States Government in 1944 against the Western railroads and the Association of American Railroads, was dismissed on a motion by the Department of Justice.

During the past year, briefs were filed by all parties in the "Government Reparations Cases" now pending before the Interstate Commerce Commission. In these cases the Federal Government is seeking rebates on certain Government traffic handled by the railroads during World War II.

On January 17, 1953, the Pennsylvania Motor Truck Association and 37 individual trucking companies filed a suit against the Eastern Railroad Presidents Conference, 31 Eastern railroads, including your Company, and 35 individuals, among whom are the presidents of the railroads named. Also named as defendants are Carl Byoir and Associates, a public relations firm engaged by the Conference. Complaint alleges that the defendants combined, in violation of the anti-trust laws, to injure the truckers as competitors in the hauling of freight. Specifically mentioned is Governor Fine's veto of the so-called "big truck" bill in Pennsylvania. An injunction against continuance of the alleged activities, and damages of $250,000,000 are asked.

The charges made in this suit are entirely unjustified, and your Company, along with the other defendants, is prepared to disprove them.

The anti-trust suit filed by Seatrain Lines, Inc., in the Federal District Court of Trenton, New Jersey, was dismissed by that Court. As this suit was only one of a long series of proceedings involving the railroads and Seatrain that have gone on for about twenty years, a number of railroads, including your Company, have filed a complaint with the Interstate Commerce Commission seeking an over-all solution for the difficulties between Seatrain and the railroads.

LONG ISLAND RAIL ROAD DEVELOPMENTS

The Interstate Commerce Commission began hearings on December 1, 1952, on two plans for reorganizing the Long Island Rail Road. The plan which The Pennsylvania Railroad Company joined in submitting on November 19, 1951, and a plan submitted by the Long Island Transit Authority on August 14, 1952, are the only two proposals before the Interstate Commerce Commission for hearing.

The Long Island Transit Authority's plan proposes that the property be turned over to the Authority, and that your Company's entire interest in the Long Island Rail Road —representing a total investment of over $100,000,000—be surrendered upon issuance of $20,000,000 in Authority bonds bearing interest at 3%, secured by a mortgage on the Bay Ridge Branch of the debtor.

The plan advocated by the Pennsylvania Railroad, as previously reported, would give the reorganized company sufficient protection from obstructionist regulation and excessive taxation to allow it to succeed as a privately owned and operated railroad. Your Company will make every effort to secure a reorganization based on sound economics and the principles of free enterprise.

EMPLOYE ACTIVITIES

RELIEF DEPARTMENT The Pennsylvania Railroad Voluntary Relief Department, which embraces employes of your Company, as well as those of affiliated companies, had a membership of 168,522 active, disabled and retired employes on December 31, 1952, and distributed $4,776,204 in death and disability benefits during the year. Operating expenses of this Department are paid by the member companies.

MUTUAL BENEFICIAL ASSOCIATION

The Mutual Beneficial Association carries approximately $10,350,000 of insurance for the benefit of its members and their families. Since its organization in 1914, benefits exceeding $4,200,000 have been paid.

PROVIDENT & LOAN ASSOCIATION

At the close of 1952, the Employes Mutual Provident & Loan Association had $23,400,000 in its savings fund to the credit of members.

WOMEN'S AID This organization of the families of Pennsylvania Railroad employes assists railroad people in time of need. Established many years ago, its efforts have spread to all parts of the railroad. The funds used in carrying on the work are raised by dues, voluntary contributions and social affairs held for that purpose.

EMPLOYES IN ARMED SERVICES

Thirty-three Pennsylvania Railroad employes have given their lives in military service since fighting began in Korea. There were 8,156 employes on military leave at the end of 1952. In addition, 3,079 employes who have seen military service in this war have been released and 83% of this group have reentered the Company's service.

ORGANIZATION CHANGES

John Dickinson, Vice-President—General Counsel, died on April 9, 1952. His distinguished career in the legal profession was one of exceptional scope and achievement. His leadership and wise counsel made his death a great loss to the Company and to his profession.

At a meeting of the Board of Directors on April 23, 1952, the appointment of John B. Prizer as General Counsel was confirmed.

Effective April 1, 1952, T. K. Warner, Jr., was appointed Chief Tax Counsel.

Effective July 1, 1952, P. D. Fox, Treasurer, was appointed Assistant Vice-President in charge of Finance. He continues to serve as Treasurer of the Company. Howard W. Schotter, Treasurer for many years, and later Assistant Vice-President in charge of Finance, retired December 1, 1952, after 46 years of loyal and outstanding service.

Following the relinquishment of Army control of the railroads, Brigadier General A. F. McIntyre returned to his civilian post with the Company as Chief of Freight Transportation. He had been on leave of absence to serve as Assistant Chief of Transportation for Railroad Operation, Department of the Army. Upon General McIntyre's return, A. F. McSweeney was appointed Assistant Chief of Freight Transportation, and assigned exclusively to the work of improving and coordinating freight yard and terminal activities.

The appointment of Dr. Norbert J. Roberts as Chief Medical Officer, to direct a more efficient and modern medical program for employes, was made effective August 1, 1952.

A copy of the Statistical Statement will be furnished upon request to the Secretary.

PENNSYLVANIA RAILROAD SYSTEM

CONDENSED CONSOLIDATED INCOME STATEMENT (*Note A*)

	1952	1951	1950	1949	1948
Income:					
Railway operating revenues (*Note B*)	$1,030,417,415	$1,046,587,798	$932,148,222	$850,087,747	$1,002,048,357
Revenues from miscellaneous operations	13,570,408	13,772,748	12,299,774	12,304,415	14,890,997
Dividend income	13,886,840	13,614,978	13,251,465	13,930,609	14,167,429
Other (*Note C*)	7,127,210	8,738,204	24,237,314	6,752,880	6,107,726
Total income	1,065,001,873	1,082,713,728	981,936,775	883,075,651	1,037,214,509
Operating Charges and Other Deductions:					
Railway operating expenses (*Note D*)	867,747,283	895,427,478	787,002,000	732,014,754	835,602,177
Equipment and joint facility rents (*net*)	18,230,149	22,736,011	18,283,046	19,847,570	14,214,405
Expenses of miscellaneous operations and other deductions	12,187,485	11,799,953	10,517,592	10,936,042	11,930,861
Provision for taxes:					
Federal income (*Note E*)	10,499,206	10,561,920	15,000,386	8,511,555	24,897,556
Other	62,486,079	62,608,344	58,645,249	55,770,216	62,906,059
	971,150,202	1,003,133,706	889,448,273	827,080,137	949,551,058
Income available for fixed charges and other corporate purposes*	93,851,671	79,580,022	92,488,502	55,995,514	87,663,451
Fixed Charges:*					
Leased lines rental (*Note F*)	33,926,934	34,109,582	37,186,361	47,105,016	47,044,671
Deduct: Income from leased lines securities owned (*Note F*)	18,855,888	18,744,912	21,558,021	31,332,361	32,027,928
Net rental (*Note F*)	15,071,046	15,364,670	15,628,340	15,772,655	15,016,743
Interest on funded debt (*other than included in leased lines rental*)	28,763,028	26,905,775	25,956,716	25,030,959	24,169,526
Other	422,355	504,012	431,229	372,542	1,214,279
Total fixed charges	44,256,429	42,774,457	42,016,285	41,176,156	40,400,548
Balance after fixed charges	49,595,242	36,805,565	50,472,217	14,819,358	47,262,903
Accretions of Trust of 1878 (*See footnote, Page 10*)	7,155,291	7,055,363	6,721,258	6,528,881	6,400,645
NET INCOME	42,439,951	29,750,202	43,750,959	8,290,477	40,862,258
DISPOSITION OF NET INCOME:					
Appropriations for sinking and other reserve funds	1,729,349	1,625,731	1,740,167	1,479,678	1,724,808
Appropriations for dividends (*Note G*)	13,167,754	13,167,754	13,167,754	9,875,815	13,167,754
Other appropriations, principally advances to Pennsylvania-Reading Seashore Lines to cover operating deficits	3,200,000	3,300,000	4,000,000	3,938,610	1,678,000
	18,097,103	18,093,485	18,907,921	15,294,103	16,570,562
BALANCE OF INCOME TRANSFERRED TO SURPLUS	24,342,848	11,656,717	24,843,038	Def. 7,003,626	24,291,696
*Times Fixed Charges Earned:					
Before Federal income taxes	2.36	2.11	2.56	1.57	2.79
After Federal income taxes	2.12	1.86	2.20	1.36	2.17
NET INCOME PER SHARE OF PRR CO. STOCK	$3.22	$2.26	$3.32	$0.63	$3.10

CONDENSED CONSOLIDATED STATEMENT OF EARNED SURPLUS (*Note A*)

	1952	1951	1950	1949	1948
BALANCE, JANUARY 1,	$937,849,192	$915,064,583	$884,876,827	$914,332,384	$879,989,182
Add: Balance of Income for the year	24,342,848	11,656,717	24,843,038	Def. 7,003,626	24,291,696
Accretions of Trust of 1878 (*See note, Page 10*)	7,155,291	7,055,363	6,721,258	6,528,881	6,400,645
Funded Debt Retired Through Income	1,422,469	1,422,127	1,421,238	1,421,920	1,421,835
Miscellaneous Credits	4,492,131	3,930,738	2,426,999	4,593,975	9,520,748
	975,261,931	939,129,528	920,289,360	919,873,534	921,624,106
Deduct: Amounts transferred to Unearned Surplus	—	—	—	32,453,551	3,130,454
Miscellaneous Debits	5,278,227	1,280,336	5,224,777	2,543,156	4,161,268
	5,278,227	1,280,336	5,224,777	34,996,707	7,291,722
BALANCE, DECEMBER 31,	969,983,704	937,849,192	915,064,583	884,876,827	914,332,384

Def. signifies Deficit

See notes, Pages 28 and 29

ASSETS	1952	1951	1950	1949	1948
CURRENT ASSETS:					
Cash	$ 105,364,955	$ 101,604,885	$ 119,991,840	$ 130,472,949	$ 147,554,022
Temporary cash investments (*principally at cost*)	83,533,636	59,573,624	73,812,465	38,116,262	99,722,187
Accounts receivable	45,971,861	55,513,585	64,357,542	40,706,907	43,678,703
Material and supplies (*at cost or less*)	68,882,626	89,886,612	66,088,616	68,794,136	69,636,474
Other	24,718,780	22,157,477	21,513,272	17,023,414	17,237,851
	328,471,858	328,736,183	345,763,735	295,113,668	377,829,237
SPECIAL FUNDS:					
Maintenance funds	4,000,000	4,000,000	10,000,000	8,000,000	—
Capital and sinking funds	7,549,369	11,260,517	13,116,783	12,629,551	30,755,598
Other	8,037,330	6,782,934	7,382,457	6,797,669	5,315,604
	19,586,699	22,043,451	30,499,240	27,427,220	36,071,202
INVESTMENTS AND ADVANCES (*at cost or less*): (*Note H*)					
Affiliated Companies—(*Note I*)					
Investments	159,319,685	157,254,194	135,226,969	138,479,607	104,447,716
Advances	27,073,033	27,579,486	26,407,283	26,652,285	25,729,854
	186,392,718	184,833,680	161,634,252	165,131,892	130,177,570
Other Companies—(*Note J*)	127,065,993	132,599,964	131,820,019	130,389,844	130,767,348
	313,458,711	317,433,644	293,454,271	295,521,736	260,944,918
INVESTMENT IN PROPERTY AND EQUIPMENT:					
Railway transportation property	3,209,531,712	3,151,581,700	3,040,315,069	2,994,359,946	2,959,822,369
Other property	79,752,490	79,989,839	54,789,354	54,158,433	52,393,163
	3,289,284,202	3,231,571,539	3,095,104,423	3,048,518,379	3,012,215,532
Accrued depreciation, amortization and depletion:					
Railway transportation property	Cr. 830,852,950	Cr. 826,877,282	Cr. 794,984,538	Cr. 777,924,310	Cr. 777,195,603
Other property	Cr. 15,158,761	Cr. 15,556,047	Cr. 14,776,801	Cr. 13,767,726	Cr. 13,023,963
	Cr. 846,011,711	Cr. 842,433,329	Cr. 809,761,339	Cr. 791,692,036	Cr. 790,219,566
Net investment in property and equipment	2,443,272,491	2,389,138,210	2,285,343,084	2,256,826,343	2,221,995,966
OTHER ASSETS (*principally prepayments, working fund advances and deferred assets*)	28,728,727	25,524,946	27,677,744	20,720,914	18,722,676
TOTAL	3,133,518,486	3,082,876,434	2,982,738,074	2,895,609,881	2,915,563,999

Cr. signifies Credit

See notes, Pages 28 and 29

RAILROAD SYSTEM

BALANCE SHEET AS OF DECEMBER 31 *(Note A)*

LIABILITIES	1952	1951	1950	1949	1948
CURRENT LIABILITIES:					
(excluding long-term debt maturing within one year and sinking fund requirements)—(Note M):					
Accounts and wages payable	$ 80,347,115	$ 90,688,166	$ 84,617,596	$ 61,350,090	$ 83,497,462
Tax liabilities	35,091,405	37,735,709	45,521,912	51,607,237	71,115,159
Other	28,425,240	23,644,869	24,407,710	18,751,023	22,341,955
	143,863,760	152,068,744	154,547,218	131,708,350	176,954,576
DEFERRED LIABILITIES AND UNADJUSTED CREDITS *(principally casualty and maintenance reserves)*	45,789,448	53,169,344	43,182,510	32,245,360	21,731,075
LONG-TERM DEBT:					
Pennsylvania Railroad Company:					
Bonds *(including assumed debt)*	425,588,700	443,202,700	447,769,700	501,912,850	504,650,267
Equipment Trusts	165,028,000	184,713,000	204,164,000	181,168,000	160,282,000
Equipment—Conditional sale agreements	185,710,605	103,401,800	—	—	—
	776,327,305	731,317,500	651,933,700	683,080,850	664,932,267
Bonds of leased lines	262,741,032	268,389,032	272,516,032	275,304,657	277,300,657
Bonds of subsidiary companies *(other than leased lines)*	76,936,880	80,876,331	84,630,000	26,161,000	27,684,000
Other	643,380	602,790	561,590	519,250	476,320
	1,116,648,597	1,081,185,653	1,009,641,322	985,065,757	970,393,244
PUBLICLY HELD INTERESTS IN EQUITY OF CONSOLIDATED COMPANIES OTHER THAN THE PENNSYLVANIA RAILROAD COMPANY:					
Preferred stock	25,732,850	25,770,500	25,776,500	25,776,500	25,776,500
Common stock	37,239,599	37,697,424	38,223,624	38,597,224	39,072,374
Surplus	28,514,783	29,044,740	29,966,508	30,848,685	31,753,588
	91,487,232	92,512,664	93,966,632	95,222,409	96,602,462
PENNSYLVANIA RAILROAD COMPANY STOCKHOLDERS' EQUITY:					
Capital Stock	658,387,700	658,387,700	658,387,700	658,387,700	658,387,700
Surplus:					
Earned—Appropriated *(additions to Property, Funded Debt Retired, Sinking and Miscellaneous Fund Reserves)*	535,112,052	524,866,163	515,603,455	506,910,534	498,084,997
Unappropriated	434,871,652	412,983,029	399,461,128	377,966,293	416,247,387
Total Earned Surplus	969,983,704	937,849,192	915,064,583	884,876,827	914,332,384
Unearned	38,583,535	38,578,307	38,425,735	38,235,893	5,550,573
Premium on Capital Stock	10,148,229	10,148,229	10,148,229	10,148,229	10,148,229
Net amount by which System equity in net assets *(at date of acquisition)* of companies consolidated exceeds the related investment therein	58,626,281	58,976,601	59,374,145	59,719,356	61,463,756
	1,735,729,449	1,703,940,029	1,681,400,392	1,651,368,005	1,649,882,642
TOTAL	3,133,518,486	3,082,876,434	2,982,738,074	2,895,609,881	2,915,563,999

For Contingent Items—*see Note N.*

Note A: The condensed consolidated financial statements include financial statements of:

The Pennsylvania Railroad Company.

Companies, the common and preferred stocks of which are 100 per cent. owned, directly or indirectly, except The Long Island Rail Road Company (see Note I) and companies which are inactive.

Companies operated under agreements, principally long term leases, and West Jersey and Seashore Railroad Company, the lease of which was assigned to the Pennsylvania-Reading Seashore Lines in 1933 with a guarantee of rental.

In all instances where the term System is mentioned in the following notes, it indicates the group of Companies set forth above.

Note B: Railway operating revenues for 1950 include a retroactive adjustment of U. S. Mail pay of which approximately $5,514,000 applied to the year 1949, $4,949,000 to 1948, and $3,598,000 to 1947.

Note C: Other income for 1950 includes $17,500,000 covering adjustment of accruals of Federal income and excess profits taxes for years prior to 1948.

Note D: Railway operating expenses include charges of The Pennsylvania Railroad Company for deferred maintenance for years 1949, 1950, 1951 and 1952, in the amounts of $8,000,000, $10,000,000, $4,000,000 and $4,000,000, respectively, the actual expenditures being made in next succeeding year.

Note E: During 1951 and 1952, deductions for accelerated amortization of emergency facilities (principally equipment) under certificates of necessity, were made in computing Federal income tax liabilities. If these deductions had not been made, provision for Federal income taxes of The Pennsylvania Railroad Company would have been approximately $3,522,000 and $8,792,000 greater for the respective years ($4,111,000 and $10,386,000 for the System) and Net Income correspondingly less.

Note F:	*1952	*1951	*1950	1949	1948
Rental:					
Dividends on stocks of leased lines........	$19,909,323	$19,913,721	$22,799,463	$32,642,097	$32,642,097
Interest on funded debt of leased lines...	13,916,062	14,076,431	14,305,028	14,367,436	14,268,265
Other..........	101,549	119,430	81,870	95,483	134,309
	33,926,934	34,109,582	37,186,361	47,105,016	47,044,671
Deduct—Income from leased lines securities owned:					
Dividends....	15,426,839	15,412,643	18,230,697	28,040,964	27,972,379
Interest.......	3,429,049	3,332,269	3,327,324	3,291,397	4,055,549
	18,855,888	18,744,912	21,558,021	31,332,361	32,027,928
Net rental paid to publicly held interests......	15,071,046	15,364,670	15,628,340	15,772,655	15,016,743

*The payments of dividend rental and the equivalent amount of dividends returnable to The Pennsylvania Railroad Company on stocks owned or held by it as lessee, were waived effective at various dates in 1950, pursuant to modification of leases with companies listed as follows:

Cleveland and Pittsburgh Railroad Company
Erie and Pittsburgh Railroad Company
New York Bay Railroad Company
Northern Central Railway Company
Pittsburgh, Fort Wayne and Chicago Railway Company
Pittsburgh, Youngstown & Ashtabula Railway Company
Union Railroad Company of Baltimore

Note G: Dividend appropriation, $9,875,815, charged to Surplus in 1949, was restated for comparative purposes.

Note H: Certain investments of the System of a par value of $104,739,396 in the aggregate, which have been eliminated in consolidation, were pledged at December 31, 1952 under various mortgages and trust indentures. Pledges of other investments are referred to in Notes I and J.

Note I: The amounts shown in the condensed consolidated Balance Sheet for Investments and Advances—Affiliated Companies, include the following investments in companies whose properties are operated by their own organizations:

The Long Island Rail Road Company

The Long Island Rail Road Company (the capital stock of which was owned 100 per cent. by the System from February 25, 1930 until January 19, 1950, and owned 94.54 per cent. thereafter) filed, on March 2, 1949, a petition in the United States District Court for the Eastern District of New York, for the purpose of effecting re-organization pursuant to the provisions of Section 77 of the Bankruptcy Act. Since April 11, 1949, the railroad has been operated by Trustees appointed by the Court and ratified by the Interstate Commerce Commission. See page 23 of this report as to present status. The stock is included in Investments at $50,581,235 at December 31, 1948 and December 31, 1949, respectively, and at $47,587,071 thereafter. No dividends were received from The Long Island Rail Road Company since 1933. The operation of the railroad during the years 1948-1952 resulted in deficits as follows:

1952	$5,009,658	1949	$5,208,289
1951	8,491,093	1948	6,016,680
1950	4,604,712		

The System also owned Long Island Rail Road Company Refunding Mortgage 4% Bonds and Unified Mortgage 4% Bonds, which matured March 1, 1949 and are included in Investments, at their cost, as follows:

	Principal Amount	Cost
December 31, 1952	$39,930,500	$39,457,745
December 31, 1951	39,929,500	39,456,744
December 31, 1950	39,924,500	39,451,742
December 31, 1949	39,898,500	39,425,729
December 31, 1948	7,474,000	6,981,279

Included in Advances for each year is an amount of $6,000,000, representing unpaid balance of advances.

In addition to other claims, the System has a claim aggregating $9,904,015 at December 31, 1952 (not recorded as income), for unpaid interest since December 31, 1948 (at a rate of 3 per cent. per annum) on advances, and for unpaid interest (at a rate of 6 per cent. per annum) on the above mentioned bonds since their date of maturity.

Wabash Railroad Company

The System investment in Wabash Railroad Company, represented by slightly more than 99 per cent. interest in common stock and 56.07 per cent. interest in preferred stock, is included in Investments at approximately $13,100,000 in the aggregate at December 31, of each year.

147,501 shares of preferred stock were pledged at December 31. 1952 with Trustee of a collateral trust indenture of Pennsylvania Company. (See Notes K and L.)

Detroit, Toledo and Ironton Railroad Company

Detroit, Toledo and Ironton Railroad Company capital stock, of a par value of $20,000,000, representing 81.52 per cent. ownership, was purchased February 28, 1951, and is included in System investments at cost of $21,100,000.

169,541 shares of stock were pledged at December 31, 1952 with Trustee of a collateral trust indenture of Pennsylvania Company.

The Wabash Railroad Company also acquired, on February 28, 1951, $4,532,900 par value Detroit, Toledo and Ironton Railroad Company capital stock, representing 18.47 per cent. of the outstanding stock. (See Notes K and L.)

Note J: In addition to the investments discussed in Note I, the System has substantial investments in the companies listed below, whose properties are operated by their own organizations. The amounts of such investments are included in the condensed consolidated Balance Sheet under the caption Investments and Advances—Other Companies.

Lehigh Valley Railroad Company

The System investment in capital stock of Lehigh Valley Railroad Company is represented by 30.09 per cent. interest in 1948, and 25.38 per cent. interest in 1949, and thereafter. The stock is included in Investments at $43,429,358 at December 31, 1948 and $43,478,000 at each December 31 thereafter. Under a Trust Agreement dated June 22, 1942, such stock is held and voted by Fidelity-Philadelphia Trust Company, Philadelphia, Pa.

Funded debt of Lehigh Valley Railroad Company was owned by the System, as follows:

	Principal Amount	*Cost*
December 31, 1952	$3,482,000	$ 957,165
December 31, 1951	4,557,000	1,575,809
December 31, 1950	5,291,000	2,138,326
December 31, 1949	5,291,000	2,138,326
December 31, 1948	4,144,000	1,811,346

The Wabash Railroad Company also has an investment in the stock of Lehigh Valley Railroad Company which is represented by 21.40 per cent. interest in 1948, 17.30 per cent. interest in 1949 and 1950 and 17.73 per cent. interest in 1951 and 1952. Under agreement dated January 1, 1941, 258,929 shares are held and voted by Marine Midland Trust Company of New York. (See Notes K and L.)

Norfolk and Western Railway Company

The System investment in Norfolk and Western Railway Company is represented by 59.93 per cent. interest in preferred stock and 42.61 per cent. interest in common stock, and is included in Investments at a cost of $10,490,439 and $62,987,317, respectively, at each December 31.

1,323,191 shares of common stock were pledged with Trustee of collateral trust indentures of Pennsylvania Company. (See Notes K and L.)

Note K: Dividend Income of the System includes amounts received from the Wabash Railroad Company, Detroit, Toledo and Ironton Railroad Company and Norfolk and Western Railway Company, as follows:

	1952	1951	1950	1949	1948
Wabash	$2,566,635	$2,269,478	$2,566,093	$ 2,268,810	$ 2,267,556
D. T. & I.	800,000	800,000	(Stock purchased in 1951)		
N. & W.	8,917,662	8,917,662	8,917,662	10,116,304	10,116,304

(No dividends received from Lehigh Valley R. R. Co. during the period shown.)

Note L: Equity in undistributed Net Income and Net Assets of the Wabash Railroad Company; Detroit, Toledo and Ironton Railroad Company; Lehigh Valley Railroad Company and Norfolk and Western Railway Company, as indicated by the financial reports of those Companies, is summarized as follows:

	Equity in Undistributed Net Income Per Share of P.R.R. Co. Stock				
	1952	1951	1950	1949	1948
Wabash	$ .58	$ .42	$ .45	$ .18	$ .57
D. T. & I.	.08	.05	(Stock purchased in 1951)		
L. V.	.14	.11	.07	.003	.06
N. & W.	.24	.28	.23	*	.40

**Dividends exceeded Net Income.*

	Equity in Net Assets Per Share of P.R.R. Co. Stock				
	1952	1951	1950	1949	1948
Wabash	$10.55	$ 9.94	$ 9.47	$ 8.87	$ 8.66
D. T. & I.	2.62	2.54	(Stock purchased in 1951)		
L. V.	2.14	2.04	1.88	1.68	1.48
N. & W.	16.96	16.68	16.39	16.21	16.29

Note M: Excludes long term debt and sinking fund requirements maturing within one year from the date of the balance sheet (pursuant to I.C.C. regulations), as follows:

Maturing In	Amount
1953	$42,214,540
1952	43,657,560
1951	49,546,360
1950	25,307,360
1949	22,270,143

Note N: The System has assumed contingent liabilities aggregating $179,650,000 as of December 31, 1952 by endorsement as guarantor or otherwise (not included as liabilities in the condensed consolidated Balance Sheet), in respect of the principal of obligations, issued by non-consolidated companies, including terminal companies, in which the System has an interest. Liabilities in respect to $172,398,000 thereof, have been assumed jointly and severally with other railroad companies.

In addition there are other contingent liabilities, indeterminate in amount, of the System companies, in respect of taxes, personal injuries and property damage, and other matters.

See comments on page 22 under heading of Legal Developments—General.

Printed in U.S.A.