
1954

Horseshoe Curve

1854-1954

COURAGE and bold vision served J. Edgar Thomson, then Chief Engineer and later President of the young Pennsylvania Railroad Company, when he stood on a slope of the Alleghenies west of Altoona, Pa., and pointed out to his surveyors the line he wanted the railroad to follow around what is now Horseshoe Curve. With only hand labor, mules and black powder, the Curve was built, linking by rail the ports of Philadelphia and Baltimore and the Ohio Valley. After a century, the Curve, substantially as first conceived, still carries the Pennsylvania's main line, and it is still an engineering marvel.

To celebrate the 100th Anniversary year of the opening of the Curve and the 75th Anniversary of the incandescent lamp, engineers of the Sylvania Electric Products Inc. arranged to take a flashlight picture of the Curve as freight and passenger trains rounded it the night of October 20, 1954. The project to illuminate over 2,000,000 square feet required months of meticulous planning, 31 miles of wiring and more than 6,000 large photoflash bulbs. With a burst of skyrockets lending color to the scene, cameras atop a 150-foot tower recorded the historic flash—the biggest night photograph ever taken.

1954

108TH ANNUAL REPORT

THE PENNSYLVANIA RAILROAD COMPANY

DIRECTORS

Originally Elected		Term Expires in
April 10, 1929	**MARTIN W. CLEMENT** *Retired President, The Pennsylvania Railroad Company.*	1956
Jan. 10, 1934	**RICHARD K. MELLON** *Chairman of the Board, Mellon National Bank and Trust Company.*	1957
Mar. 24, 1937	**ROBERT T. McCRACKEN** *Montgomery, McCracken, Walker & Rhoads.*	1958
Oct. 27, 1937	**C. JARED INGERSOLL** *Chairman of the Board, Muskogee Company.*	1956
Dec. 1, 1938	**WALTER S. FRANKLIN** *Retired President, The Pennsylvania Railroad Company. President, The Long Island Rail Road Company.*	1958
Feb. 26, 1941	**LEONARD T. BEALE** *Chairman of the Board, The Pennsylvania Salt Manufacturing Company.*	1957
June 24, 1942	**JAMES E. GOWEN** *Chairman of the Board, Girard Trust Corn Exchange Bank.*	1955
Jan. 24, 1945	**PHILIP R. CLARKE** *Chairman of the Board, City National Bank and Trust Company of Chicago.*	1958
June 27, 1945	**ISAAC W. ROBERTS** *Manager, The Philadelphia Saving Fund Society.*	1955
Dec. 18, 1946	**HARRY B. HIGGINS** *President, Pittsburgh Plate Glass Company.*	1956
April 23, 1947	**JAMES M. SYMES** *President, The Pennsylvania Railroad Company.*	1958
Oct. 27, 1948	**JOHN A. DIEMAND** *President, Insurance Company of North America.*	1957
Nov. 10, 1948	**JOHN B. HOLLISTER** *Taft, Stettinius & Hollister.*	1955
Dec. 23, 1953	**LAMMOT du P. COPELAND** *Vice President, E. I. du Pont de Nemours and Company.*	1958
Dec. 23, 1953	**DONALD DANFORTH** *President, Ralston Purina Company.*	1958

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

May 23, 1951	**FRED CARPI,** *Vice President in charge of Traffic* *The Pennsylvania Railroad Company.*	1955
May 23, 1951	**DAVID C. BEVAN,** *Vice President in charge of Finance* *The Pennsylvania Railroad Company.*	1955
April 1, 1953	**JAMES P. NEWELL,** *Vice President in charge of Operation* *The Pennsylvania Railroad Company.*	1955

THE PENNSYLVANIA RAILROAD COMPANY

ONE HUNDRED AND EIGHTH

ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 1954

CONTENTS

	Page
Directors	2
Highlights, Five-Year Comparison	4
President's Letter	5
Review of 1954 Results	6
Taxes	8
Earnings	9
New Dividend Policy	9
Debt Reduction	10
Freight Services	12
Property Improvements	14
Passenger Services	15
New Designs for Passenger Trains	16
Map	18
Penn Center	20
Real Estate	21
Employe Relations	22
National Transportation Policy	24
Legislative Developments	25
Number of Stockholders	26
Company Financial Statements	28
Source and Application of Funds	30
Consolidated Financial Statements for the System	31
Notes to Consolidated Statements	34
Executive Officers	36

HIGHLIGHTS

THE PENNSYLVANIA RAILROAD COMPANY

	1954	1953	1952	1951	1950
OPERATING RESULTS					
Operating Revenues	$848,805,154	$1,034,394,640	$1,028,750,217	$1,044,387,274	$930,140,874
Operating Expenses	$712,745,820	$864,522,807	$865,885,772	$892,945,690	$784,527,564
Taxes—*Federal, State and Local*	$58,929,413	$70,312,442	$69,729,490	$69,215,766	$69,492,054
***Net Income**	$18,552,235	$38,875,228	$39,312,228	$28,850,488	$39,959,928
Return on Investment in Property used in Railway Transportation Service, after Recorded Depreciation—*Includes Material and Supplies, and Cash*	1.96%	2.98%	2.98%	2.45%	2.50%
***Net Income per Dollar of Operating Revenues**—*Cents*	2.19	3.76	3.82	2.76	4.30
Operating Ratio	83.97%	83.58%	84.17%	85.50%	84.35%
Transportation Ratio	45.26%	41.80%	43.23%	43.84%	41.79%
FINANCIAL DATA					
Working Capital	$144,601,919	$143,699,597	$163,475,901	$161,877,510	$154,683,901
Net Investment in Transportation Property and Equipment	$1,252,751,961	$1,282,982,236	$1,277,207,120	$1,219,659,751	$1,133,815,624
Amount expended for Investment in Road and Equipment, P.R.R. Co. and Leased Lines—*annually, before deductions for retirements*	$40,995,221	$72,797,377	$123,321,217	$161,853,489	$87,798,233
Other Investments—*Stocks, Bonds, Notes and Advances—Book Value*	$894,799,414	$877,368,113	$866,835,358	$856,815,826	$849,490,786
Bonded Debt	$449,584,000	$463,375,000	$479,023,000	$497,268,000	$502,008,000
Equipment Obligations	$317,394,325	$346,001,119	$350,738,605	$288,114,800	$204,164,000
Net Worth—*Book Value*	$1,408,338,236	$1,378,341,335	$1,358,303,987	$1,335,221,381	$1,318,278,941
ON A PER SHARE BASIS					
***Income Before Taxes**—*Federal, State and Local*	$5.88	$8.29	$8.28	$7.45	$8.31
Taxes—*Federal, State and Local*	$4.47	$5.34	$5.29	$5.26	$5.28
***Net Income**	$1.41	$2.95	$2.99	$2.19	$3.03
Dividends Paid	$0.75	$1.50	$1.00	$1.00	$1.00
Net Worth—*Book Value*	$106.95	$104.68	$103.15	$101.40	$100.11
EMPLOYES					
Total Salaries and Wages Paid	$467,402,725	$565,836,051	$565,585,008	$580,869,217	$501,876,222
Average Number of Employes	100,544	126,359	125,924	137,604	124,629
OTHER STATISTICS					
Freight Train Miles	31,238,563	36,602,304	35,801,277	38,548,885	36,278,666
Revenue Ton Miles—*Thousands*	42,356,265	50,241,369	50,101,843	54,825,398	49,887,040
Average Revenue per Ton Mile—*Cents*	1.483	1.567	1.532	1.429	1.375
Passenger Train Miles	30,803,251	33,088,306	35,513,293	37,303,098	37,165,336
Revenue Passenger Miles—*Thousands*	3,881,216	4,322,525	4,749,918	4,840,992	4,367,658
Average Revenue per Passenger Mile—*Cents*	3.259	3.287	3.291	3.226	3.260
Miles of Road Operated at Year End	10,034	10,066	10,090	10,120	10,112

**For comparative purposes 1950-1953 figures have been restated to reflect changes in accounting adopted in 1954. For explanation see Page 10.*

THE PENNSYLVANIA RAILROAD COMPANY

February 23, 1955

TO THE STOCKHOLDERS OF THE PENNSYLVANIA RAILROAD COMPANY:

The Board of Directors, the officers and employes of the Company regret that they were not able to produce better financial results for the stockholders in 1954. The reasons are explained in the Report. We are more optimistic going into 1955 than at any time in the past eight years because of the following facts:

1—The extraordinary expenditures that were required to rehabilitate the property as a result of overloading and overworking our facilities in World War II are behind us. Instead of a billion-dollar program in a six-year period, our costs for improvements and new equipment will be on a reduced basis and more nearly normal in the years ahead.

2—The business recession that depressed our volume sharply in 1954 has been reversed and the present trend is encouraging.

3—The present administration in Washington has recognized the national need for strengthening common carrier transportation —and the chance for corrective legislation seems better than at any time since the end of World War II.

4—The inflationary spiral of increasing costs has leveled, and there is no indication of any future inflation comparable to that which cut the value of the dollar in half between 1945 and 1953.

5—We have made substantial progress in the economics of our passenger operations, and with new plans for both improving the quality and lowering the costs of passenger cars, the prospects for further advancement are promising.

6—The development of TrucTrain service for the transportation of highway trailers on specially designed railroad flat cars and moved in long-haul, high-speed freight trains offers a new source of revenue that we expect to continue to grow during the next few years until it becomes an important profitable addition to our business.

7—The amount of debt, and the annual charges to support it, both of which were increasing from 1948 to 1952 are now decreasing, and substantial further reductions in both are scheduled each year in the immediate future.

8—Our public relations and employe relations are improving, with resulting better service and courtesies to our customers. The morale of all employe groups is good, with the management teams in each of the cities we serve particularly alert to take advantage of their opportunities to improve the Company's business.

With this outlook we felt justified in placing the stock on a regular quarterly dividend basis.

To our employes, and to stockholders and investors in our property whose support has enabled us to carry these developments forward, we express our appreciation.

By order of the Board of Directors.

President

REVIEW OF 1954

The sharp decline in business which had started during the closing months of 1953, continued during the first four months of 1954 until a level was reached 21% below that of the previous year. After March, operations were profitable through the remainder of the year, but to make them so it was necessary to reduce expenses below desirable limits and to postpone some capital improvements. Business improved during the Fall and as the year ended the trend was upward.

Net income for the year, after overcoming a deficit of nearly $10,000,000 in the first quarter, was $18,552,000, or $1.41 a share. A dividend of 75 cents a share, amounting to $9,876,000, was paid. On a consolidated system basis, net income was $28,260,000, or $2.15 per share.

Expenditures for capital improvements during the year were $40,995,000.

The net reduction in debt during the year for the System amounted to $52,391,000.

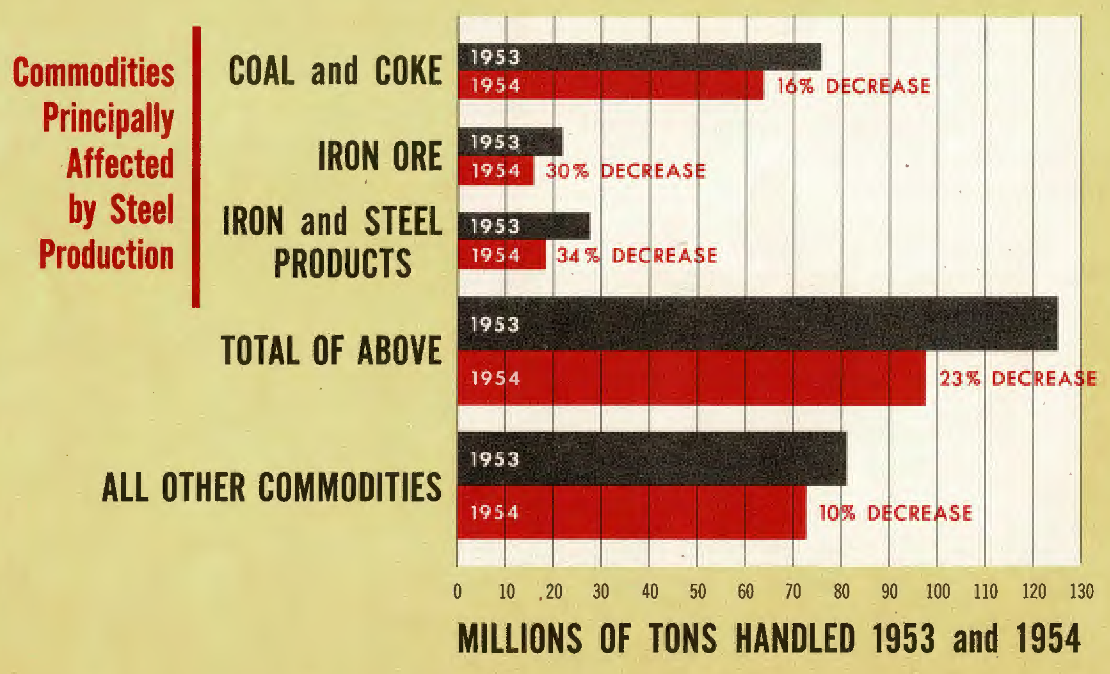
REVENUES Operating revenues were the lowest since 1949—$848,805,000.

Freight revenues were 20% less than in the previous year. In addition to the business recession generally, the sharp drop in steel production was particularly important. The steel industry normally accounts for approximately 30% of the freight revenue of the Pennsylvania Railroad. The decrease in freight revenue was also due in part to reduced rates on certain commodities which were made in order to meet truck competition.

Passenger revenues were down 11%. There was a nationwide decline in railroad passenger travel, particularly military travel.

Mail revenue was practically the same as in 1953. The 10% increase in mail rates, retroactively effective October 1, 1953, offset the decrease in volume due to the lower level of business activity and the continued diversion of mail to other forms of transportation by the Post Office Department.

EFFECT OF REDUCED STEEL PRODUCTION ON PRR FREIGHT VOLUME



Express revenues were 19% less than in the preceding year, reflecting the decrease in the volume of business handled.

EXPENSES Operating expenses were 18% under 1953. Approximately one-third of this reduction was due to the lower volume of business.

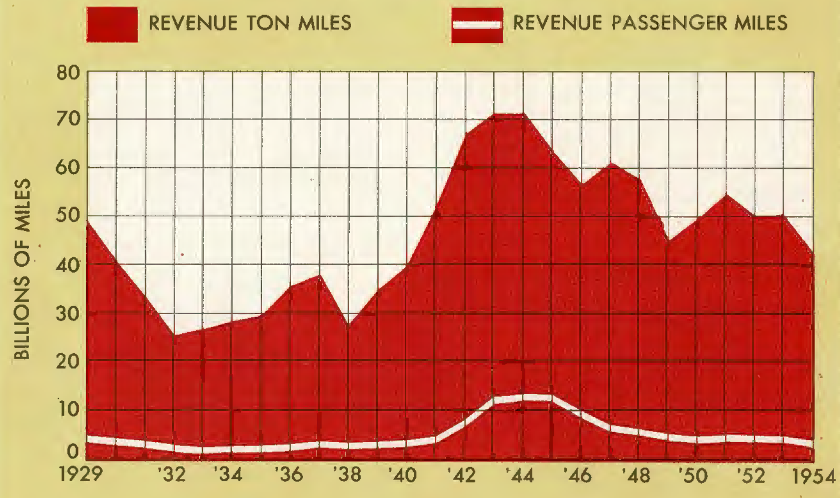
Wage increases, amounting to a million dollars a month, offset a substantial portion of the reduced costs of operations effected through the decline in traffic volume. Expenses for wages and payroll taxes required 56.7 cents of each revenue dollar in 1954, compared to exactly 56 cents in 1953.

Further improvement in operating efficiency provided substantial savings.

Transportation expenses in 1954 were $384,140,000, or $48,256,000 less than in 1953. Maintenance expenses for roadway and equipment were $93,324,000 less than in 1953. General expenses were reduced 26%.

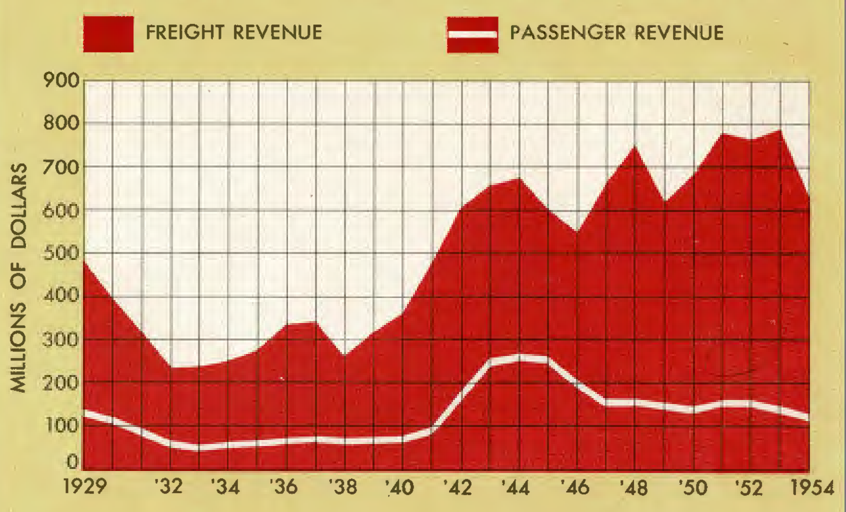
Because of the need for holding expenditures for maintenance and operation in line with reduced volume of traffic, the cost of materials, supplies and equipment purchased amounted to $111,926,000 in 1954 — a decrease of $73,979,000 compared to 1953. Inventories at the end of the year were $63,851,000—$5,240,000 less than for 1953.

TREND OF TRAFFIC VOLUME



Both freight and passenger volume were the lowest since the beginning of World War II. At current levels operations are approximately 40% below the peak traffic of 1944.

TREND OF TRAFFIC REVENUES



Total revenues were 18 percent below the previous year, representing a decrease of $159,300,000 freight revenue and a decrease of $15,600,000 in passenger revenue.

NET INCOME BEFORE TAXES

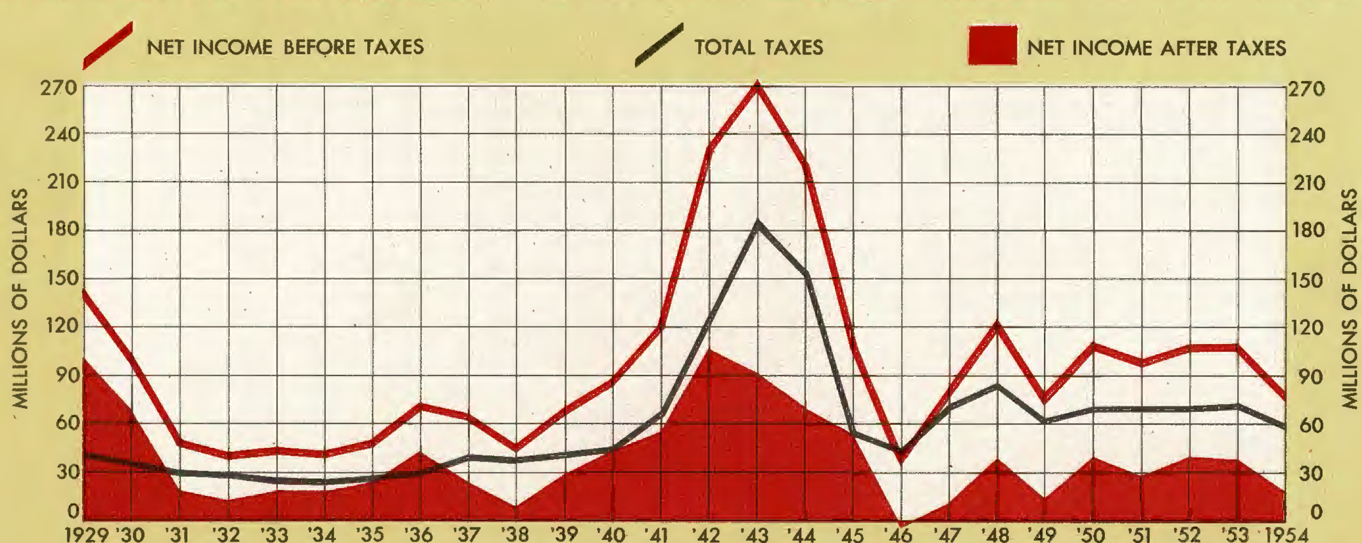
	1929	1934	1939	1944	1949	1954
NET INCOME BEFORE TAXES	$141,243,009	$42,200,594	$69,376,892	$222,462,333	$75,526,943	$77,481,648
TAXES	$40,518,596	$23,731,426	$40,095,847	$152,838,408	$61,808,287	$58,929,413
NET INCOME AFTER TAXES	$100,724,413	$18,469,168	$29,281,045	$69,623,925	$13,718,656	$18,552,235

TAXES The heavy burden of taxes continued unabated. Total taxes were $58,929,000, even with reduced earnings and tax credits eliminating most of the federal income tax.

Taxes in 1954 were over three times net income. Railroad taxes help to build public schools and highways and help to support fire and police departments and other local government services, but the railroad investors' satisfaction in making such contributions to public welfare is lessened, to say the least, by the competitive advantage thus given to other transportation agencies. Airlines, buses and trucks contribute little or nothing to support the general services of state and local government; and by thus escaping the costly tax burden borne by railroads, and by virtue of other artificial advantages, they often are able to price their services at rates which take business from the railroads.

Federal income taxes take the same portion of earnings of the railroads as they do for all business, *but regardless of the volume of business done or the amount of profit earned*, the Pennsylvania Railroad pays over two dollars a share each year for corporate and property

INCREASING TAX BURDEN TAKES EVER LARGER SHARE OF EARNINGS



taxes to the states and communities it serves. The emphasis on real estate taxes in some states places an undue burden on the railroads, which of necessity must own large amounts of land. Reductions in assessments granted, because of the obsolescence and abandonment of branch lines and other facilities, have been more than offset by increases in local tax rates in recent years.

Also, the Federal Government imposes far higher payroll taxes on railroads and their employes than on most companies and employes in general industry which are covered by other Government-managed retirement pension plans.

Under the Railroad Retirement Act, the Company and the employe each contribute 6¼ cents for each dollar of wages paid up to $4,200 a year—a total of 12½ cents. For companies under the Social Security Act, the wage taxes are at the rate of 2 cents each—a total of 4 cents per dollar. Railroad employes receive better pensions from the Government upon retirement than do workers covered by Social Security, but the difference is slight compared to the difference in taxes paid.

The Pennsylvania Railroad and its employes together contributed nearly $49,000,000 in 1954 to the Railroad Retirement Fund.

Unequal tax burdens are, of course, only a part of the outmoded laws which discriminate against railroad earnings. To establish competitive equality, and thus assure a sound development of all forms of transport and an over-all transportation system adequate to meet the needs of national defense, either other transportation agencies must assume more of the full cost of providing their services, and also pay taxes that contribute to the general welfare, or railroads must be given relief from the unfair burdens of taxation, as well as many other inequitable expenses now being imposed on them.

EARNINGS Net income for the year 1954 was $18,552,000, or $1.41 per share. Monthly earnings for November and December exceeded those for the corresponding months of 1953, for the first favorable comparisons since the start of the business recession.

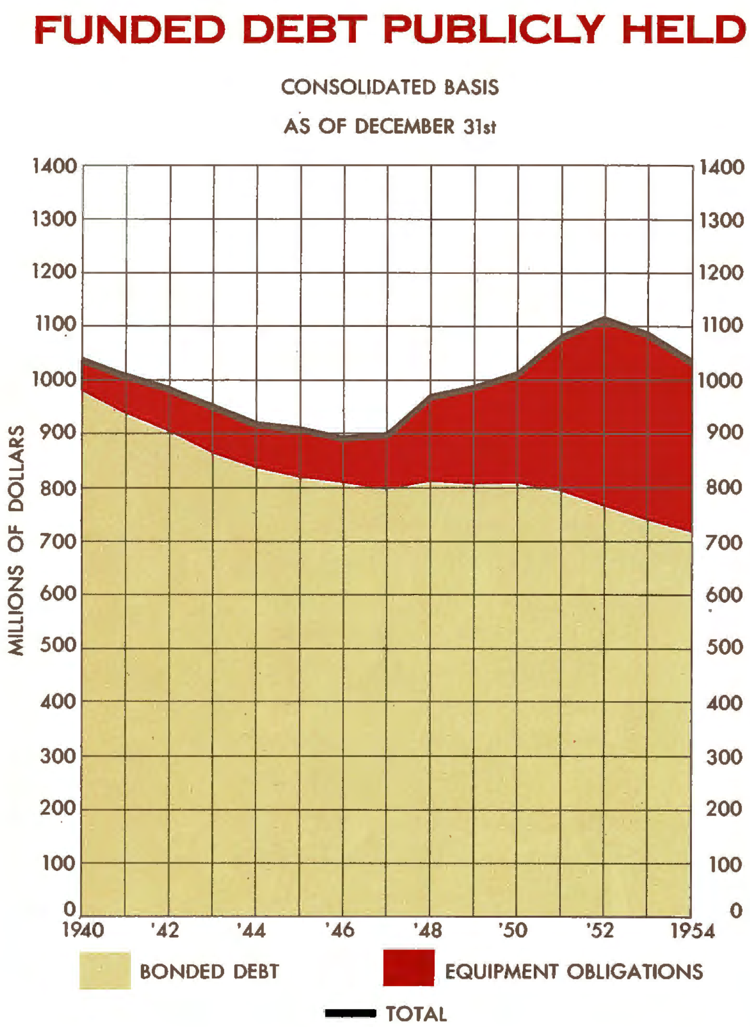
An allowance for accelerated amortization on certain new equipment and facilities reduced the Company's federal income taxes for 1954 by $6,718,000, and System taxes by $11,783,000, from the amount that would have been paid under normal depreciation. Since this amortization is solely for tax purposes, and normal depreciation is charged to operating expenses, net income is inflated by the amount of the tax reduction. The benefit is temporary and will be offset in the future when such amortization allowances are fully used.

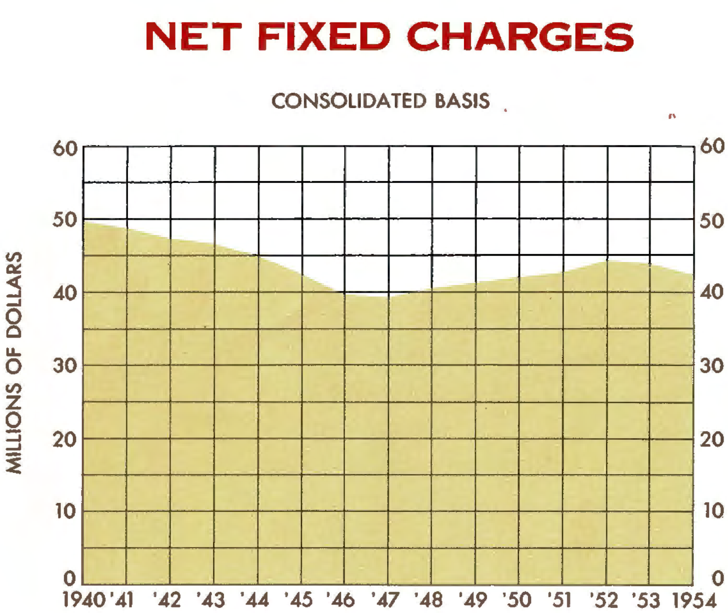
CONSOLIDATED RESULTS The Condensed Consolidated Income Statements and Balance Sheets for the years 1950-1954 on pages 31 to 33 reflect the results for not only The Pennsylvania Railroad Company but also those of its 100% owned subsidiaries and all leased lines.

On a consolidated basis, net income for the year amounted to $28,260,000, or $2.15 per share, compared to consolidated earnings of $3.59 per share in 1953.

NEW DIVIDEND POLICY In October, at the time the dividend of 75 cents a share paid in December was voted, the Board of Directors announced plans to place Pennsylvania Railroad stock on a regular quarterly dividend basis, with payments of 25 cents a share in March, June, September and December, as permitted by earnings.

While earnings in the past ten years have been far from satisfactory, dividend payments during this period have amounted to 60% of net income, as compared to the average of 43% for all Class I Railroads.



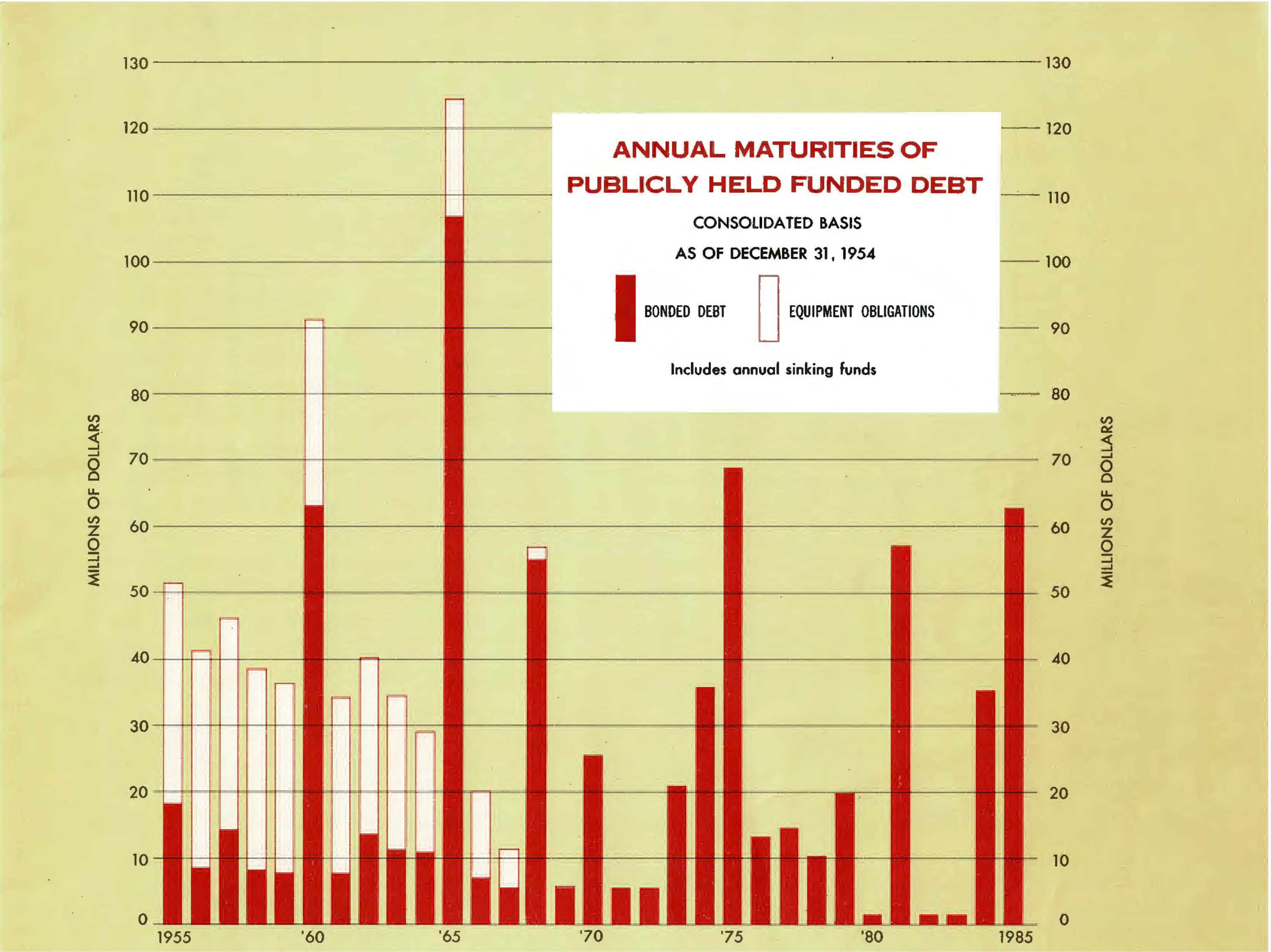


CHANGE IN ACCOUNTING PRACTICES In order to reflect current financial results more clearly, several changes in accounting practices were made. The losses of subsidiary companies which the Company is obligated to pay—principally its share of the deficits of the Pennsylvania-Reading Seashore Lines, formerly deducted after net income—are now being deducted before arriving at net income. Accretions of the Trust of 1878, formerly charged out before arriving at net income, are now considered to be appropriations of income and deducted after net income. Dividends from the Pennsylvania Company, formerly credited to income in December will, beginning in January 1955, be anticipated on a conservative basis and accrued monthly.

DEBT REDUCTION During 1954, the debt of the System was reduced by $52,391,000. In 1953 the reduction was $30,693,000. These two years mark a significant reversal of the increases in debt during the earlier post-war period which accompanied the billion-dollar improvement program described in detail in last year's Annual Report. Funds for this reduction were obtained primarily from two sources—depreciation cash and proceeds from the sale of property and other assets. The largest item in the latter was the sale of our stock interest in Pennsylvania Greyhound Lines, Inc. The net reduction in debt in the last two years, amounting to approximately $83,000,000, will result in reducing fixed charges by more than $2,500,000 annually.

The only trust certificates issued were Series "BB" for $5,265,000 sold under competitive bidding at 2¾% interest. Proceeds provided 75% of the cost of 33 diesel-electric locomotives and 320 freight cars.

A total of $33,908,000 of equipment obligations was paid or reacquired, resulting in a net reduction in equipment debt of $28,531,000. Bonded debt paid or reacquired



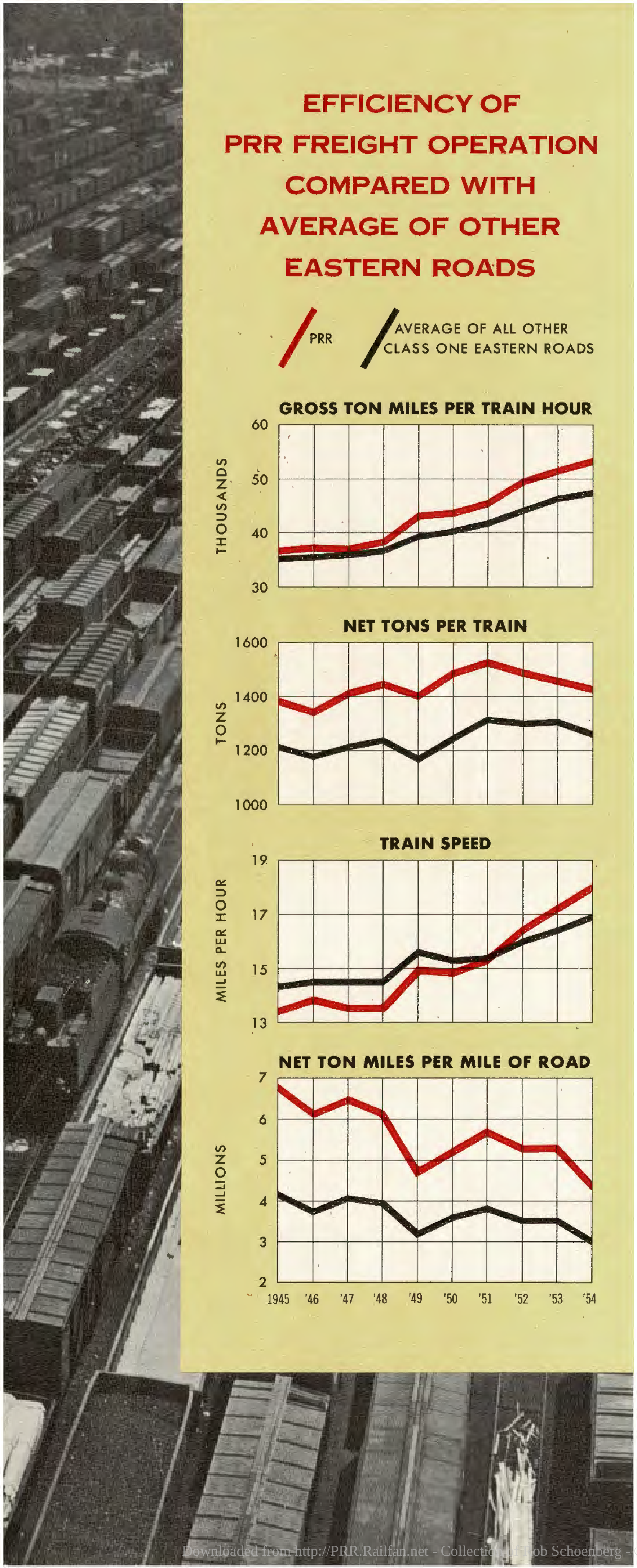
during the year amounted to $23,860,000.

Over the next five years, debt maturities will average $43,000,000 a year. The major portion of these maturities is represented by equipment obligations. Cash generated by equipment depreciation charges, which amounted to $35,482,000 in 1954, will exceed existing equipment maturities each year. In 1960, payment of $49,000,000 Pennsylvania Railroad Consolidated Mortgage, 4½% Bonds is due.

The outstanding amount of Pennsylvania Railroad General Mortgage, Series "A", 4½% Bonds due in 1965 has been reduced from $125,000,000 to less than $100,000,000.

REVOLVING BANK CREDIT As insurance against any temporary financial emergency, arrangements were made with a small group of banks for a two-year revolving bank credit of $50,000,000. To date no funds have been borrowed under this arrangement, and no immediate use of the credit is contemplated.

CORPORATE SIMPLIFICATION The program to consolidate or eliminate many of the subsidiary companies in which the Company has sole or substantial ownership made progress. During the last two years the number of companies has been reduced from 171 to 126.



FREIGHT SERVICES

New records were set in gross and net ton-miles per train hour, and in cars per engine hour in yard operations. By each of the four yardsticks for measuring the efficiency of freight operations, shown in the charts at the left, the Pennsylvania is substantially better than the average of other Eastern railroads.

Elapsed time was reduced for a number of scheduled freight trains, particularly in through East-West services between New York and Chicago and St. Louis. Terminal operations were improved by revising classifications and train make-up to allow "overheading" certain yards. The most important innovation of the year, however, was the inauguration of Pennsylvania TrucTrain service for highway trailers, which is commonly called "piggy back."

TRUCTRAIN The business of hauling truck trailers by railroads on flat cars offers many opportunities for both railroad and trucking companies, and experiments in various types of service are under way in all parts of the country. The Pennsylvania Railroad has studied this type of transportation for several years, and has now introduced it on a broader scale than any other railroad. "TrucTrain" has been adopted as our trade name for both types of service now being offered.

The first type of trailer transportation, introduced on July 14, 1954, is being handled entirely by the Pennsylvania Railroad, using its own trucks and trailers or those of subsidiary companies. The loaded trailers are picked up at the shipper's door and delivered at destination to the consignee.

During the latter part of the year, arrangements were made for handling the trailers of common-carrier trucking companies operating between Chicago and New York or Philadelphia. This service is scheduled to start on March 3, 1955 with solid trainloads of common-carrier trailers operating on fast schedules each week-day night in both directions.

TrucTrain combines the flexibility of motor truck service with fast rail schedules to afford railroad participation in traffic which previously moved entirely by highways.

In addition to the Pennsylvania's fleet of converted flat cars, similar to those being used by most of the other railroads for this purpose, two hundred specially equipped flat cars are now available. These are of most modern design, each capable of holding two large truck trailers, and provide equipment for a trainload of 100 trailers each night in each direction between these cities.

FREIGHT RATES New low rates for certain commodities which were being shipped in large part by truck, have been established and have resulted in a return of some of this business to the railroads. While the effect has been to lower the unit level of charges, profitable traffic has been recaptured which is contributing to the Company's earnings. The general increase in freight rates approved by the Interstate Commerce Commission in 1952 was granted on a temporary basis and unless corrective action is taken will expire December 31, 1955. As any such general cut in the level of railroad rates would be disastrous to revenues in 1956, the railroads will petition for the incorporation of these increases into the permanent rate structure.

INDUSTRIAL DEVELOPMENTS Research and technological improvements by industry in the development of new products and the new uses of raw products and other materials have greatly broadened the work of the Industrial Department. Through its ability to furnish this type of information, as well as facts relating to taxes, labor supply, utilities, and similar basic data, the Company's department for industrial development has materially increased its usefulness to those seeking plant locations.

The results of the work in 1954 were gratifying: 229 new industrial plants were located on the railroad with side track connections, and 63 existing plants with sidings were expanded. The new plants are estimated to produce $12,300,000 additional gross freight revenue annually for the Company and the expanded existing operations are expected to increase our revenue by $5,700,000 a year, a total increase of approximately $18,000,000 a year.

Besides the many services offered by our Industrial Department, which are essential in helping industry find the right sites, there are many natural and economic reasons for the location of plants in the thirteen States and the District of Columbia served by the railroad. About half of the population and over half of the Nation's income is found in this area. Here also are the greatest reservoirs of skilled labor and the largest consuming markets of the Nation.

Company interests have about two and a half billion tons of coal reserves, which are available for development by industry. In one of the reserve areas, mining operations have started and negotiations are under way for the opening of additional mines.

Ready access to coal, and other natural resources, an adequate water supply, as well as proximity to large diversified markets, are of tremendous importance to those seeking industrial locations. A plant located in any of the more than 3,000 communities served by the railroad will enjoy these advantages.

PROPERTY IMPROVEMENTS

The new ore pier at Greenwich Point in Philadelphia was placed in service March 19, 1954, and over a million tons of ore were handled during the remainder of the year. During 1955 a third unloading machine will be installed, which will increase the investment from $10,200,000 to $11,350,000 and increase capacity to 8,000,000 tons annually.

The construction of Conway Yard proceeded on a restricted basis. Completion of the eastbound classification yard is anticipated in September 1955, and partial savings on this project will be realized thereafter. Completion of the entire yard is scheduled in December 1956.

Construction of the Samuel Rea Shops for freight car repairs, at Hollidaysburg, Pa., was also placed on an extended schedule. The north half is expected to be in service by September 1, 1955.

The Pittsburgh Passenger Station project is now 60% completed and most of the remaining work will be finished in 1955.

New freight stations were opened in Chicago, at 51st Street, and in Philadelphia, at Butler Street. Space was also provided at Cincinnati and Indianapolis freight stations for handling forwarder freight formerly classified at separate facilities in those cities.

Modern cab signalling installed between Columbus and New Paris, Ohio, completes the facilities for continuous cab signal protection from New York to Indianapolis, Ind.

Main line track sections have been lengthened to permit most of the section gangs to be equipped with mechanized track tools. This results in greater value from our maintenance dollars through increased production and permits maintenance of good riding track despite substantial reductions in expenditures in this department—since these modern tools produce a more uniform and longer lasting finished track structure.

More than half of all work on track maintenance is now done mechanically, with substantial economies. This Brownhoist ballast cleaner is operated by only eight men.

During the year, new rail was laid in 48 miles of main line track. Reconditioned rail was laid in 152 miles of main line freight track, branch lines and sidings. Heavy repairs, including raising, tie renewal and ballasting, were given to 1420 miles of track. In addition, 950 miles of main track were surfaced and realigned.

EQUIPMENT Twenty-two additional diesel-electric locomotives were placed in service during 1954, producing further economies in both yard and road operations.

An average of 19,000 serviceable freight cars were stored during the year because of the reduced volume of business.

PASSENGER SERVICES

A major improvement in the financial results of passenger operations was evident in the reduction of $12,900,000 in the passenger deficit, in spite of increased wages and other costs.

According to the Interstate Commerce Commission formula the passenger deficit for the Pennsylvania Railroad was $43,700,000 in 1954, compared to $56,600,000 in the relatively more prosperous year of 1953. This formula allocates an increasing share of overhead and other joint expenses to passenger operations when freight business decreases disproportionately.

A comparison of expenses to revenues for 1954 produces a passenger operating ratio of 114%, one of the lowest for any major passenger railroad. Further improvement in this passenger operating ratio is expected in 1955.

Continuing efforts to reduce or eliminate lightly patronized trains succeeded last year in reducing scheduled train miles by 3,283 miles per day. An additional reduction of about 3,000 train miles per day resulted from the operation of fewer extra trains, due to the lower volume of traffic. Total train miles for the year were decreased by 7%.

NEW LOW FARES While regular railroad passenger tickets are one of the few things now sold at approximately the same prices as 25 years ago, the competitive level of prices for travel by subsidized airlines and the popular misconception of the cost of travel by private automobile have led to further experiments with reduced fares. Several such passenger fare bargains are being tried in an effort to increase volume enough to increase total revenues: family fares, where the wife and children pay reduced fares; group fares; special round-trip discounts; and one-day excursions.

DINING CAR SERVICES Notwithstanding increased wage costs and declining revenues from lower traffic volume, the net result of dining car services was better than in any recent year. A high standard of service was maintained, with the net loss approximately $230,000 below 1953.

SALES AND RESERVATION SERVICES The new system for expediting the sale of reserved space and giving information regarding available space, which was developed at Pittsburgh in 1953, has been expanded and improved with new methods and new electronic devices. A new ticket and reservation bureau incorporating these developments was opened in Philadelphia on January 23, 1955. The time required to sell reserved space to customers has been cut by one-half on the average. A study of the application of this new sales method to other cities is continuing.

Electronic machines and other newly-invented automatic devices save time and avoid errors in this new ticket and reservation bureau which handles about 10,000 transactions a day.

MAIL DIVERSION The program of the Post Office Department for shipping selected portions of first-class mail by airplane and increasing the use of trucks for all mail has been growing. Most shipments thus diverted from the railroads could be handled at lower cost than the general average, so the railroads are left with a greater proportion of higher unit-cost shipments.

First-class mail being shipped by air is offered to the airlines on a "space available" basis, thus giving them added revenue when they have capacity to spare, while requiring railroads to furnish stand-by service when the planes are grounded by bad weather or fully loaded with more profitable cargo. Also, much of the terminal service in handling mail shipped by rail is at railroad expense, whereas the Post Office Department performs most of these terminal services for other forms of transportation.

This Company's loss of gross revenues by diversion of mail is now at the rate of about a million dollars a year. New proposals for further diversions would double this, resulting in further increases in the average cost of handling the mail which would remain on the railroad.

RESTRICTION OF FREE TRANSPORTATION

Traditionally, from the early days of the railroads, each railroad employe has been granted limited use of free transportation on his own and other railroads, graduated according to length of service and position held. For most railroaders this gratuity has been confined largely to free transportation during vacation periods, since any traveling they did during working hours was generally a part of the operations of their own railroad. A number of railroad employes, particularly officers, however, are required to travel in the performance of their duties to cities not served by passenger service on their own railroad. Such persons customarily have been given "courtesy" passes on railroads serving those cities.

The Pennsylvania Railroad has been particularly burdened by such free transportation of the employes of other railroads. Therefore, on October 1, 1954, notices were given to all railroads that after December 31st of that year, employes and officers of the Pennsylvania Railroad would pay full fares when traveling on other railroads on business and passes for free transportation on the Pennsylvania would not be issued under similar circumstances. Free transportation during vacation periods will, generally, not be affected.

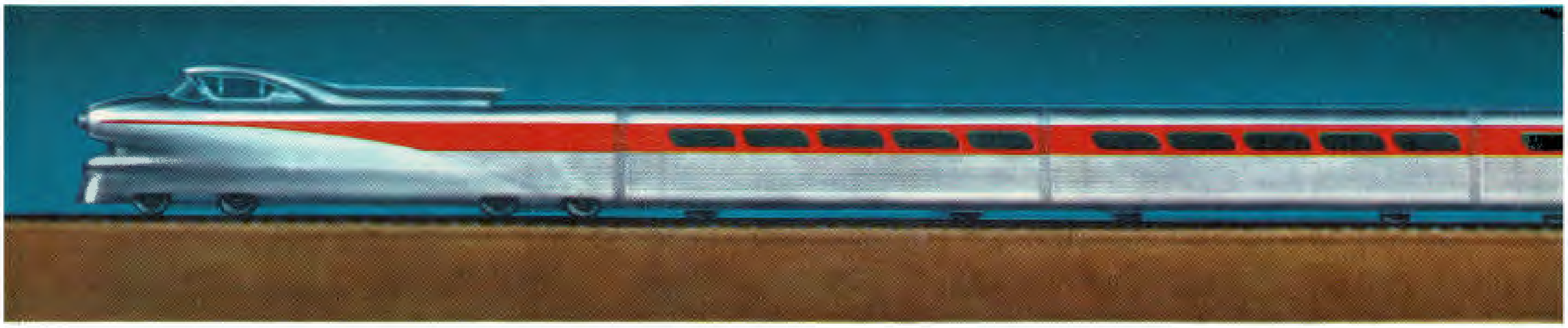
NEW TRAINS

Passenger equipment of revolutionary new design is now being built and the first of these trains will be tested on the Pennsylvania Railroad in 1955.

To improve results of passenger operations at present levels of railroad passenger fares, capital investments and maintenance and transportation costs of passenger equipment must be reduced substantially. To achieve such reductions and still offer improved comfort, speed and attractiveness, with undiminished safety, is an engineering challenge to the railroads and to the car-building industry.

A committee of engineers, representing six of the large passenger railroads, was appointed to study every type of existing and proposed passenger coach, both here and abroad, and to submit recommendations for achieving the objectives mentioned above. The reports of this committee have been of great value and several car builders are now separately and competitively trying to design trains of generally similar types to achieve the desired objectives.

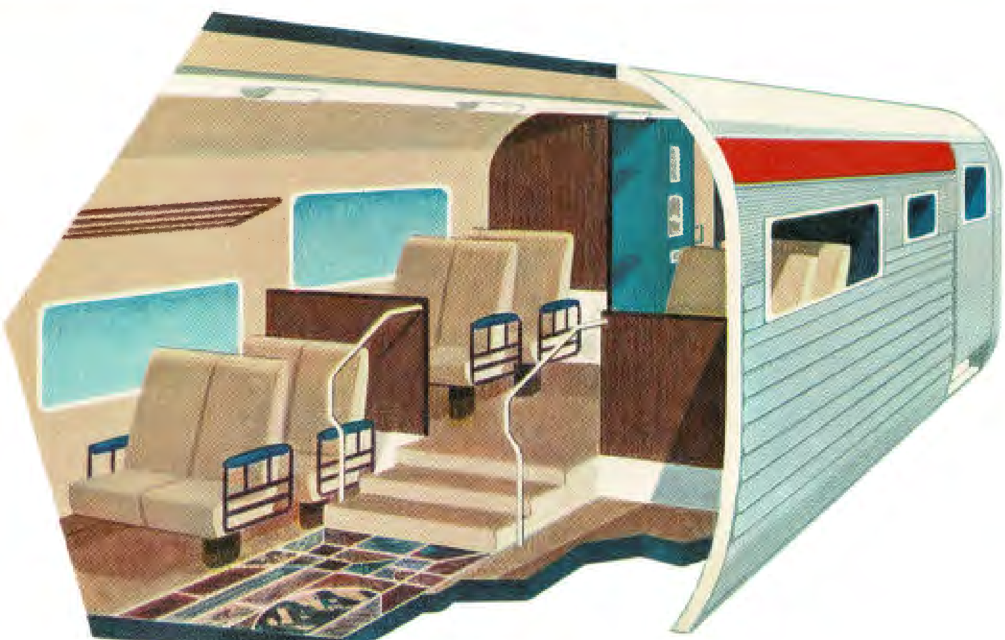
PREVIEW OF NEW DESIGNS FOR PASSENGER TRAINS



Above and below—artist's rendering based on engineering plans for an integrated high-speed coach train with special diesel locomotive.

New, tubular GLIDER design for coach and Pullman cars allows their use with existing diesel and electric locomotives.

Interior view of one of the GLIDER coaches as visualized by The Budd Company. The low center of gravity insures comfort on curves at higher speeds while the height of the end platforms allow easy entrance and exit at existing metropolitan stations on the Pennsylvania Railroad.




MONTANA
WOOL
WYOMING
NORTH DAKOTA
SOUTH DAKOTA
IDAHO
WOOL
WASHINGTON
OREGON
CALIFORNIA
NEVADA
WOOL
UTAH
COLORADO
ARIZONA
NEW MEXICO
WOOL
TEXAS
OKLAHOMA
KANSAS
ARKANSAS
RICE
PENNSYLVAN
Serves All
Products of mines, forests, far
state in the Union move to m
Some of most typical sh
WISCONSIN
PAPER
MACKINAW CITY
TRAVERSE CITY
LAKE MICHIGAN
MUSKEGON
GRAND RAPIDS
DETROIT
CHICAGO
SOUTH BEND
TOLEDO
LAKE ERI
CLEVELAND
SANDUSKY
FORT WAYNE
AKRON
ILLINOIS
EFFNER
LOGANSPORT
PEORIA
OHIO
INDIANA
DAYTON
COLUMBUS
INDIANAPOLIS
TERRE HAUTE
MARIETTA
CINCINNATI
ST. LOUIS
MADISON
VINCENNES
WEST
LOUISVILLE
MO.
KENTUCKY
GRAIN


NEBRASKA
IOWA
MINNESOTA
PAPER
MAINE
PAPER
NEW HAMPSHIRE
PAPER
VERMONT
PAPER
MASSACHUSETTS
PAPER
RHODE ISLAND
CONNECTICUT
NORTH CAROLINA
PAPER
SOUTH CAROLINA
PAPER
ALABAMA
GEORGIA
CLAY
TENNESSEE
MISSISSIPPI
PAPER
LOUISIANA
RICE
FLORIDA
IA RAILROAD
America
rms and factories from every
arket on the Pennsylvania.
hipments are indicated
PAPER
CANADA
LAKE ONTARIO
SODUS POINT
ROCHESTER
BUFFALO
NEW YORK
VT.
N.H.
MASS.
CONN.
ERIE
WILKES-BARRE
WILLIAMSPORT
NEW YORK
PENNSYLVANIA
ALTOONA
HARRISBURG
TRENTON
PITTSBURGH
PHILADELPHIA
NEW JERSEY
WILMINGTON
CAMDEN
WHEELING
ATLANTIC OCEAN
5-10-5
CUMBERLAND
BALTIMORE
ATLANTIC CITY
MARYLAND
WINCHESTER
WASHINGTON
DEL.
VIRGINIA
VIRGINIA
CAPE CHARLES
NORFOLK

REAL ESTATE

PENN CENTER The valuable property in the heart of Philadelphia that was made available by the removal of Broad Street Station and the elevated tracks that led to it, is being developed into what will be one of the show places of the Nation.

The first office building—3 Penn Center Plaza—between 15th and 16th streets, is about to open. Plans for a twin building, across the Esplanade on the Pennsylvania Boulevard side of the block, are being prepared and construction may start later in the year.

The block between 17th and 18th streets has been sold as the site of a transportation center. Construction will start soon, with the Pennsylvania Railroad taking a long-term lease for office space which will be constructed as the tower of the building. A bus terminal, airlines terminal and ticket offices, and a parking garage will occupy the lower, main portion of the building. The office building over Suburban Station, where the Company's general offices are now located, was sold as a part of this transaction.

The world's most modern metropolitan hotel will be built over the tracks that lead to Suburban Station between 17th and 18th streets. The foundations for this building were laid in 1929 when this Station was built, so there should be no interference with train service during this construction.

Property between 18th and 19th streets on the south side of Pennsylvania Boulevard is being sold for an apartment house site. The land between City Hall and 15th street, between 16th and 17th streets, and numerous parcels beyond 19th street, remain for sale.

Penn Center will offer a convenience of access to the thousands who come and go each day that will be the best in the Nation. The city's two main subway lines border two sides, and our Suburban Station tracks another side. Philadelphia's three broadest boulevards will converge there. With a bus terminal, an airlines terminal and a large parking garage in the Transportation Center, all forms of vehicular transportation will be conveniently available. Pedestrians will have the broad Esplanade and the giant shop-lined concourse completely to themselves.

Trucks making deliveries to the various buildings will go underground on the same ramp that serves the bus terminal and deliver their merchandise at platforms below the concourse level.

NEW YORK CITY Options have been granted for the sale of air rights over Pennsylvania Station and over the tracks between 9th and 10th avenues. Plans for the development of these properties provide for a complete modernization of this, the world's busiest railroad passenger station, with substantial financial advantages to the Company, and the construction of a large building above the street level for other uses. While these plans are not complete at this time, prospects for successful development of both these properties are promising.

Total sales of real estate and properties no longer needed for railroad purposes amounted to $14,917,000, of which $8,670,000 is covered by mortgages payable in future years.

Purchases of property for industrial development amounted to $1,884,000 for a total of 24 parcels, and sales of property for new plants or expansion of present plants aggregated $1,757,000 for 106 properties.

Rental collections from various accounts and concessions amounted to $11,925,000, a decrease of $315,000 under collections in 1953.

←

Looking west down the Esplanade of Penn Center, with suggested buildings in the unsold 16th-17th street block (center). Plans for all other buildings shown are definite.

EMPLOYE RELATIONS

Better channels of communication have been established with all groups of employes, and there has been a noticeable improvement in "teamwork."

Immediately after Mr. Symes was elected president, he met with 700 general and local chairmen of employe organizations and 400 railroad officers in Pittsburgh to discuss the problems and plans of the Company. A major portion of the meeting was devoted to questions by officers of the Brotherhoods and other employe organizations which were answered by Mr. Symes and other officers.

One development of the meeting was a decision to stimulate the organization of "Pennsy Family Clubs" in those cities where substantial numbers of employes live. These Clubs are designed "to encourage teamwork, promote sales, improve service and public relations, and to help foster warm personal relations among Pennsylvania people." They are directed entirely by employe members.

Partly as a result of the educational courses in customer and community relations which the Company has conducted during the past three years, there was an increase also in existing types of autonomous clubs of employes, such as those of station agents and yardmasters, which combine social activities with business. Some of these clubs sponsor their own evening schools to improve job knowledge and prepare for advancement.

In regular courses conducted by the Company, approximately 10,000 supervisors and employes who work in close contact with the public, have received instruction in supervisory methods and the art of winning friends and business for the Pennsylvania Railroad.

"The Pennsy" magazine, now in its third year, continues to enjoy interested readership and the confidence of employes. It is the prime source of information for employes, most of whom are separated one from another by hundreds of miles.

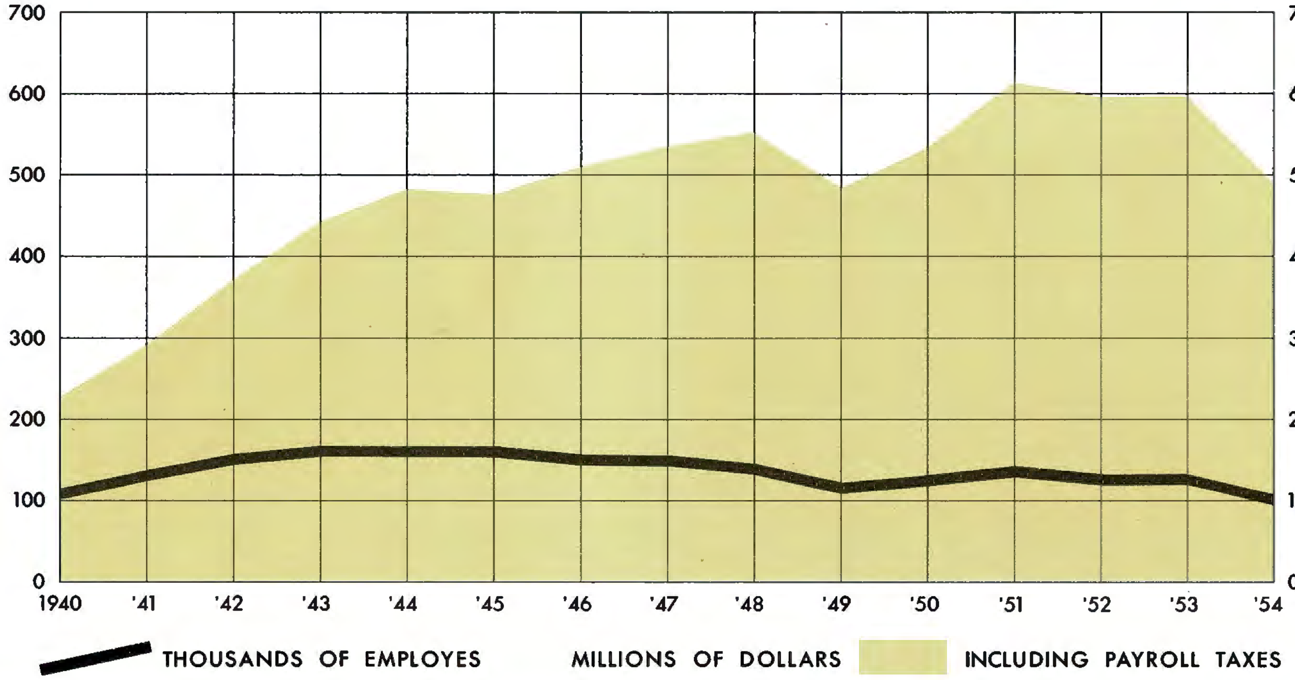
The Company's medical services were expanded. An essential goal of this service is preventive, in order to promote health among the Company's personnel. Experience has proved that a healthy employe is more likely to be present at work, more productive, less likely to be injured, and generally to be more satisfied and efficient.

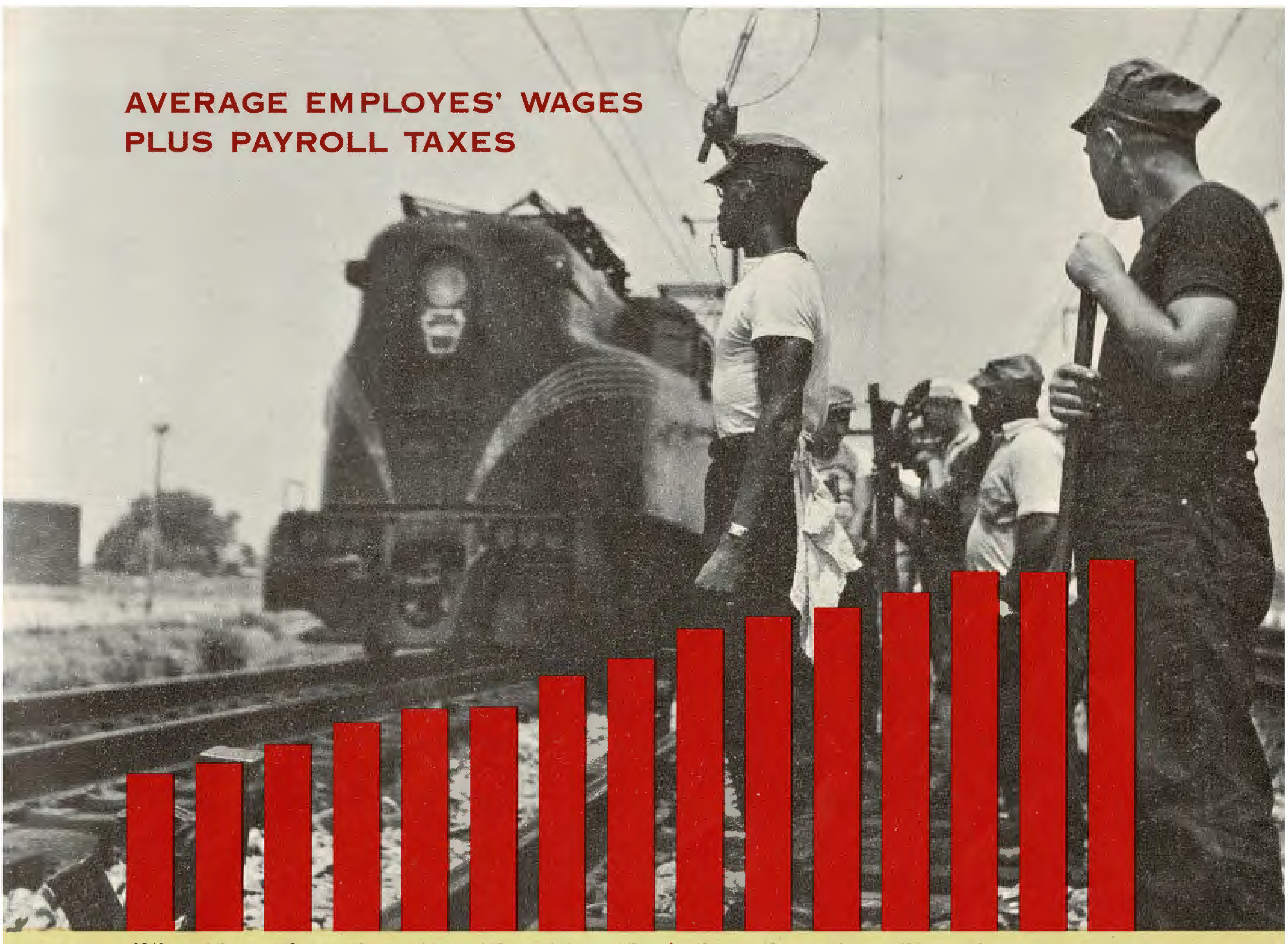
The safety campaign to reduce injuries showed significant progress. Fatal injuries were the lowest for any year in the Company's history. Time-losing injuries were approximately 30% below 1953. The educational motion pictures produced as a part of the safety program won new awards for excellence.

A national "package" settlement of wage demands with the Brotherhood of Railroad Trainmen on December 16, 1953, became the basis for pay increases during the year for most operating employes. Thirteen cents an hour in cost-of-living increases previously granted under the so-called "escalator clause" were incorporated into the basic wage structure, plus an increase of 5 cents an hour. Vacations with pay were increased from 2 weeks to 3 weeks for all employes with 15 years of continuous service.

Some of the non-operating organizations requested improvements in benefits other than salaries and wages. Following a Presidential Emergency Board recommendation, an agreement for a health and welfare program with hospital, medical and surgical benefits to be financed by equal contributions of $3.40 per month by employe and Company, paid holidays, and a third week of vacation after 15 years of continuous service was signed. Here also, the 13 cents cost-of-living adjustments

AVERAGE NUMBER OF EMPLOYES AND TOTAL PAYROLL COSTS





1940	'41	'42	'43	'44	'45	'46	'47	'48	'49	'50	'51	'52	'53	'54
$2,076	2,219	2,453	2,744	2,927	2,945	3,366	3,590	3,990	4,135	4,256	4,447	4,735	4,719	4,910

For the daring rescue of 3-year-old Gail Ann Olinger from the path of an oncoming freight train at Kittanning, Pa., Brakeman Paul A. Dudek was awarded the Pennsylvania Railroad Heroic Service Medal by the Board of Directors.

previously granted were incorporated into basic rates of pay.

With a reduction in the number of employes approximately 20% below the average employment in 1953, a number of problems remain and many loyal employes who would like to return to the Pennsylvania's payroll are still on furlough. This situation is particularly acute in towns where a major portion of total employment has been provided by Pennsylvania Railroad shops and there are limited opportunities for employment in other industries. The revival of major repairs for equipment, as justified by improvement in business conditions, will ameliorate these unhappy conditions to some extent.

NATIONAL TRANSPORTATION POLICY

Although the need for legislation to relieve railroads from competitive inequalities remains urgent, no legislation toward that end was adopted in the last session of Congress.

On July 12, 1954, the President of the United States established a Cabinet Committee on Transport Policy and Organization, under the chairmanship of the Secretary of Commerce. The President's instructions to the Committee were to undertake a comprehensive review of transportation policies and to submit recommendations for legislation to assure consistent governmental programs affecting all branches of the transportation industry. It is hoped that the recommendations of this Committee and of the President will offer a fresh opportunity to bring the laws governing transportation more nearly in line with modern economic realities.

Correction of competitive inequalities now imposed on the railroads would greatly strengthen the national defense program and bolster peacetime prosperity. At present the railroads are not in a position to absorb the vast volume of increased traffic which would inevitably come to them in the event of a serious national emergency. It is therefore essential that America's railroads be strengthened by prompt modernization of the antiquated regulatory laws under which they operate, and that other discriminatory handicaps, which burden them far more than competing forms of transportation, be removed.

To restore competitive equality between the various forms of transportation, and thus open the door for the essential progress and development of an adequate over-all transportation system to meet the needs of national defense, either the transportation agencies competing with the railroads must assume more of the full cost of providing their services, or the railroads must be given assistance and relief from the present burdens of taxation and unreasonable expense, as well as of regulation, now imposed upon them.

LEGISLATIVE DEVELOPMENTS During the past year, Congress enacted the Internal Revenue Code of 1954, the first comprehensive revision of the Internal Revenue laws in this century. Significant parts of the new Code which are beneficial to your Company are: elimination of the 2% penalty on income of regulated public utility companies included in consolidated returns, reduction of stock ownership requirements for inclusion in consolidated returns from 95% to 80%, removal of the requirement that lessors' federal income taxes paid by lessees under long-term leases be included in taxable income of lessors, a provision permitting deduction of estimated accruals of expenses, and possible increased depreciation allowances.

In the Excise Tax Reduction Act of 1954, the tax on passenger transportation was reduced from 15% to 10%. No change was made in the 3% excise tax on freight shipments.

The St. Lawrence Seaway project was authorized in part. The Federal Government will spend $105,000,000 for this step in the construction and dredging of a St. Lawrence passage to the Great Lakes.

The Railroad Retirement Act and the Railroad Unemployment Insurance Act were amended, increasing the benefits under both laws. Tax rates were made applicable to the first $350 of monthly wages, beginning on July 1, 1954. This caused increases up to 16⅔% in the taxes paid by the Company and by most employes for retirement, and a similar increase in the cost of unemployment benefits which is paid entirely by the Company.

LONG ISLAND RAIL ROAD On August 12, 1954, The Long Island Rail Road Company's bankruptcy was ended and the Company was established as a railroad redevelopment corporation under New York law. In this status, which can continue for 12 years, unless the Company elects otherwise, it is exempt from all state and local taxes, except real estate taxes, for 9 years. The real estate taxes are fixed during the 9-year period at approximately half the former amount, but still constitute a heavy burden, even far beyond that imposed on most other railroads.

The plan, which was sponsored by the Long Island Transit Authority, embodies a rehabilitation program totaling $60,000,000 for the purchase of 184 new passenger cars, the rebuilding of 696 passenger cars, improvement of electrical distribution facilities, modernization of shops, and other improvements. As required by the plan, The Pennsylvania Railroad Company agreed to lend The Long Island Rail Road Company $5,500,000, to be repaid during the 12-year period.

The City of New York contested the constitutionality of the legislation passed by the State legislature and instigated two other legal actions designed to upset the reorganization of the Long Island Rail Road as a railroad redevelopment corporation and the rehabilitation program which that makes possible. In February of this year the Supreme Court of New York declared the enabling legislation to be constitutional. Decisions on the other cases are expected in the near future.

IMPORTANT LITIGATION There have been no significant developments in the anti-trust suit brought by the Pennsylvania Motor Truck Association and others against the Eastern Railroad Presidents Conference, individual railroads and their presidents.

In the reparations cases, brought by the Justice Department, the Government seeks large amounts of reparation on shipments comprising a substantial portion of the government freight during World War II.

Examiners of the Interstate Commerce Commission issued a proposed report recommending dismissal of all of the cases. The Justice Department filed exceptions to the report, and the cases were argued before the Commission during November 1954.

STOCKHOLDERS In the past rather difficult year, many stockholders have written to the management. These letters are greatly appreciated, whether commendatory, critical, or merely requesting information. Pennsylvania Railroad stockholders live in every State of the Union and in many foreign countries, and the letters received present many different approaches and fresh viewpoints. Suggestions that helped the Company sell more freight or passenger service were particularly appreciated.

It will be beneficial to the interests of all stockholders if those who are in a position to do so, would help convince their State and Federal legislators of the urgent need for giving the railroads a more nearly equal competitive opportunity in the field of transportation. The benefits to the general public from such reasonable legislation would be substantial. Such improvements in existing legislation would surely enhance the value of all investments in the Pennsylvania Railroad.

The Annual Meeting of the Company will be held this year on Tuesday, May 10th, in the Ball Room of the Bellevue-Stratford Hotel, Philadelphia. It is hoped that as many of our stockholders as can do so conveniently will join us that day.

On December 31, 1954, the following divisions of ownership were registered:

	Number of Holders	Shares Held
Women	66,542	3,084,380
Men	63,499	3,890,179
Joint Accounts	17,779	1,074,658
Total Individuals	147,820	8,049,217
Fiduciaries, Trustees, Guardians, etc.	4,311	392,165
Brokers, Nominees, Institutions and others	2,267	4,726,372
Totals	154,398	13,167,754

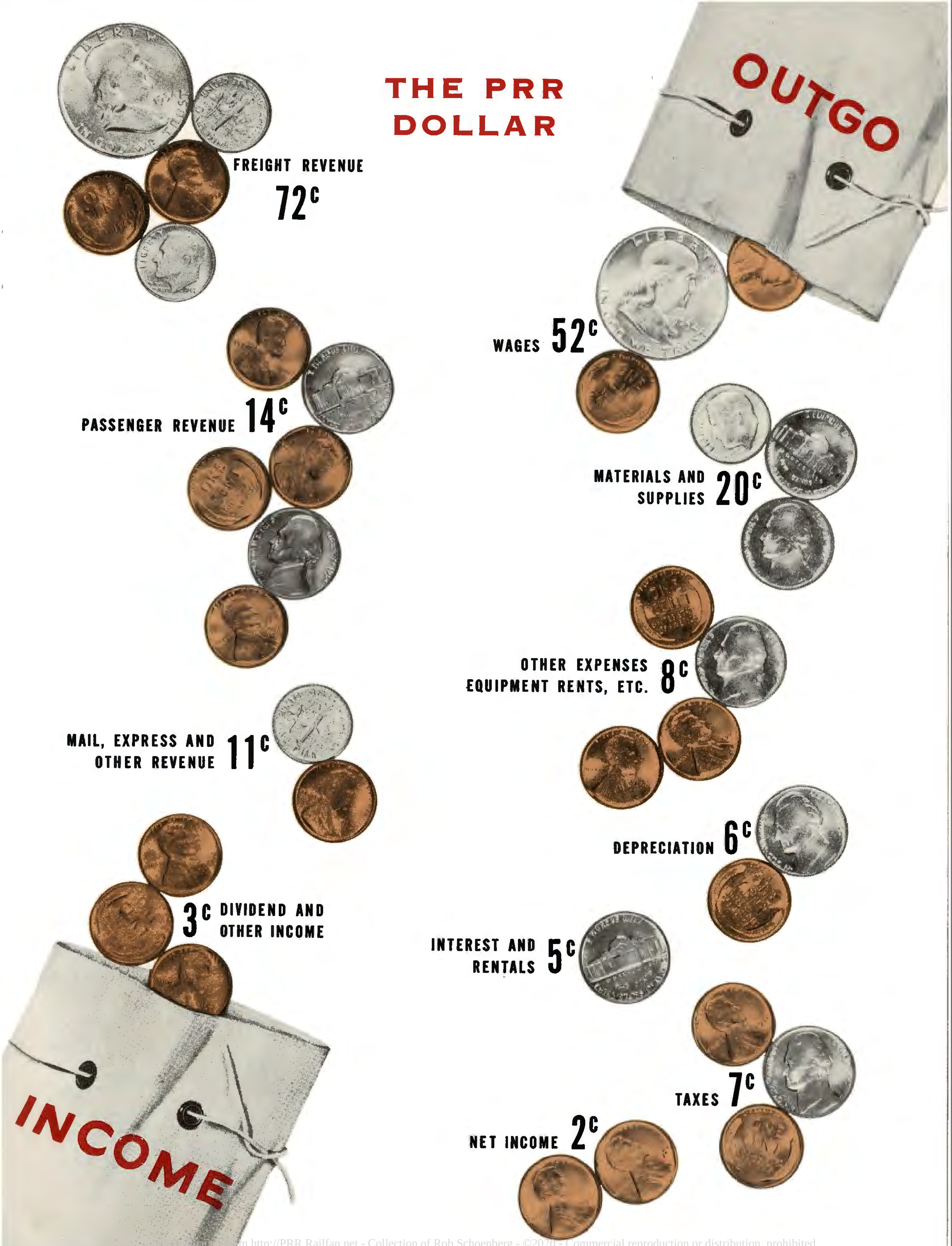
ORGANIZATION CHANGES Walter S. Franklin, president since June 16, 1949, retired May 31, 1954. During his administration the Company faced and constructively solved problems of great magnitude, including a complete regeneration of the Company's motive power and a renovation of many of its important facilities. Prior to his election as president, Mr. Franklin had been executive vice president, which office he reached following a noteworthy career in the Traffic Department of the Company. During the course of his 39 years of service to the Pennsylvania Railroad and its affiliates, he was president of the Detroit, Toledo and Ironton Railroad and president of the Wabash Railroad. After his retirement he agreed to continue to serve the interests of Pennsylvania stockholders by taking the presidency of the newly reorganized Long Island Rail Road Company, to watch over the rehabilitation program which is designed to improve the service and restore the earning power of that railroad.

James M. Symes was elected president to succeed Mr. Franklin on June 1, 1954.

★ ★ ★

The complete Annual Report of the Company includes a series of statistical tables which are not included in this copy. If you wish a copy of that report, please address your request to the Secretary, Suburban Station Building, Philadelphia 4, Pa.

THE PRR DOLLAR



CONDENSED INCOME STATEMENT

	Year 1954	Year 1953*	Increase or Decrease 1954 compared with 1953
THE COMPANY HAD OPERATING REVENUES FROM:			
Transportation of Freight	$628,135,316	$787,464,550	D $159,329,234
Transportation of Passengers	126,503,784	142,097,087	D 15,593,303
Handling of Mail	40,103,836	40,128,440	D 24,604
Handling of Express	11,839,661	14,550,568	D 2,710,907
Other Operations	42,222,557	50,153,995	D 7,931,438
	848,805,154	1,034,394,640	D 185,589,486
THERE WAS DEDUCTED:			
Operating Expenses (*See Note D, Page 34*)	712,745,820	864,522,807	D 151,776,987
Federal Income Taxes (*See Note E, Page 34*)	1,506,208	10,268,531	D 8,762,323
Other Taxes	57,423,205	60,043,911	D 2,620,706
Equipment and Joint Facility Rents	29,068,740	24,762,978	I 4,305,762
	800,743,973	959,598,227	D 158,854,254
LEAVING NET RAILWAY OPERATING INCOME OF	48,061,181	74,796,413	D 26,735,232
THE COMPANY HAD OTHER INCOME (*from Dividends, Interest on Securities owned, etc.*)	25,385,856	34,152,327	D 8,766,471
Less Income from Leased Lines Securities held (*eliminated from Leased Lines Rental below*)	2,566,196	13,988,789	D 11,422,593
	22,819,660	20,163,538	I 2,656,122
Total	70,880,841	94,959,951	D 24,079,110
OTHER MISCELLANEOUS CHARGES WERE	5,456,462	7,111,022	D 1,654,560
LEAVING A BALANCE FOR FIXED CHARGES AND OTHER CORPORATE PURPOSES OF	65,424,379	87,848,929	D 22,424,550
FIXED CHARGES:			
Leased Lines Rental (*after deducting Income from Leased Lines Securities held*)	18,701,492	19,951,453	D 1,249,961
Interest on Funded Debt	27,972,516	28,800,361	D 827,845
Amortization of Discount on Funded Debt, and Interest on Unfunded Debt	198,136	221,887	D 23,751
Total Fixed Charges	46,872,144	48,973,701	D 2,101,557
LEAVING A NET INCOME OF	18,552,235	38,875,228	D 20,322,993
Times Fixed Charges Earned:			
Before Federal Income Taxes	1.43	2.00	
After Federal Income Taxes	1.40	1.79	
Appropriations to Trust of 1878 (*See footnote*)	*$7,469,751*	*$7,563,473*	

CONDENSED STATEMENT OF EARNED SURPLUS

	Year 1954	Year 1953*	Increase or Decrease
BALANCE, JANUARY 1	$709,421,584	$689,390,208	I $20,031,376
Add: Net Income for the Year	18,552,235	38,875,228	D 20,322,993
Western New York & Pennsylvania Ry. Co. Stocks Restored to Cost (*Account merger into Penndel Co.*)	24,984,264	—	I 24,984,264
Miscellaneous Credits	2,666,961	1,918,988	I 747,973
	755,625,044	730,184,424	I 25,440,620
Deduct: Dividends Paid	9,875,815	19,751,631	D 9,875,816
Miscellaneous Debits	6,332,713	1,011,209	I 5,321,504
	16,208,528	20,762,840	D 4,554,312
BALANCE, DECEMBER 31	739,416,516	709,421,584	I 29,994,932

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 now treated as an appropriation of Net Income and transferred to Earned Surplus—Appropriated.

**For comparative purposes 1953 figures have been restated to reflect changes in accounting adopted in 1954. For explanation see Page 10.*

CONDENSED BALANCE SHEET

ASSETS

	December 31, 1954	December 31, 1953	Increase or Decrease 1954 compared with 1953
CURRENT ASSETS:			
(*Cash, temporary cash investments, material and supplies, accounts receivable, etc.*)	$265,551,355	$283,927,398	D $18,376,043
SPECIAL FUNDS:			
(*Trust of 1878, insurance, sinking and other funds*)	179,333,868	173,910,054	I 5,423,814
INVESTMENTS:			
In Transportation Property and Equipment	1,937,234,915	1,948,606,406	D 11,371,491
Less: Accrued Depreciation	619,790,845	600,496,490	I 19,294,355
Accrued Amortization of Defense Projects	64,692,109	65,127,680	D 435,571
Total	684,482,954	665,624,170	I 18,858,784
Net Investment in Transportation Property and Equipment	1,252,751,961	1,282,982,236	D 30,230,275
In Miscellaneous Physical Property	10,916,956	16,654,306	D 5,737,350
In Affiliated Companies* (*stocks, bonds, notes and advances*)	712,014,610	688,716,980	I 23,297,630
In Other Companies* (*stocks, bonds, notes and advances*)	20,057,569	28,263,248	D 8,205,679
Total Investments less recorded Depreciation and Amortization	1,995,741,096	2,016,616,770	D 20,875,674
OTHER ASSETS:			
(*Working fund advances, prepayments, and items in process of adjustment*)	14,921,669	19,344,220	D 4,422,551
Total Assets	2,455,547,988	2,493,798,442	D 38,250,454

**Of these investments, $58,853,200 par value of stocks, $1,924,000 par value of bonds and $7,350,000 par value of mortgages, are pledged under various Mortgages and Trust Indentures.*

See Page 25 regarding investment in Long Island Rail Road Company and Note H, Page 34.

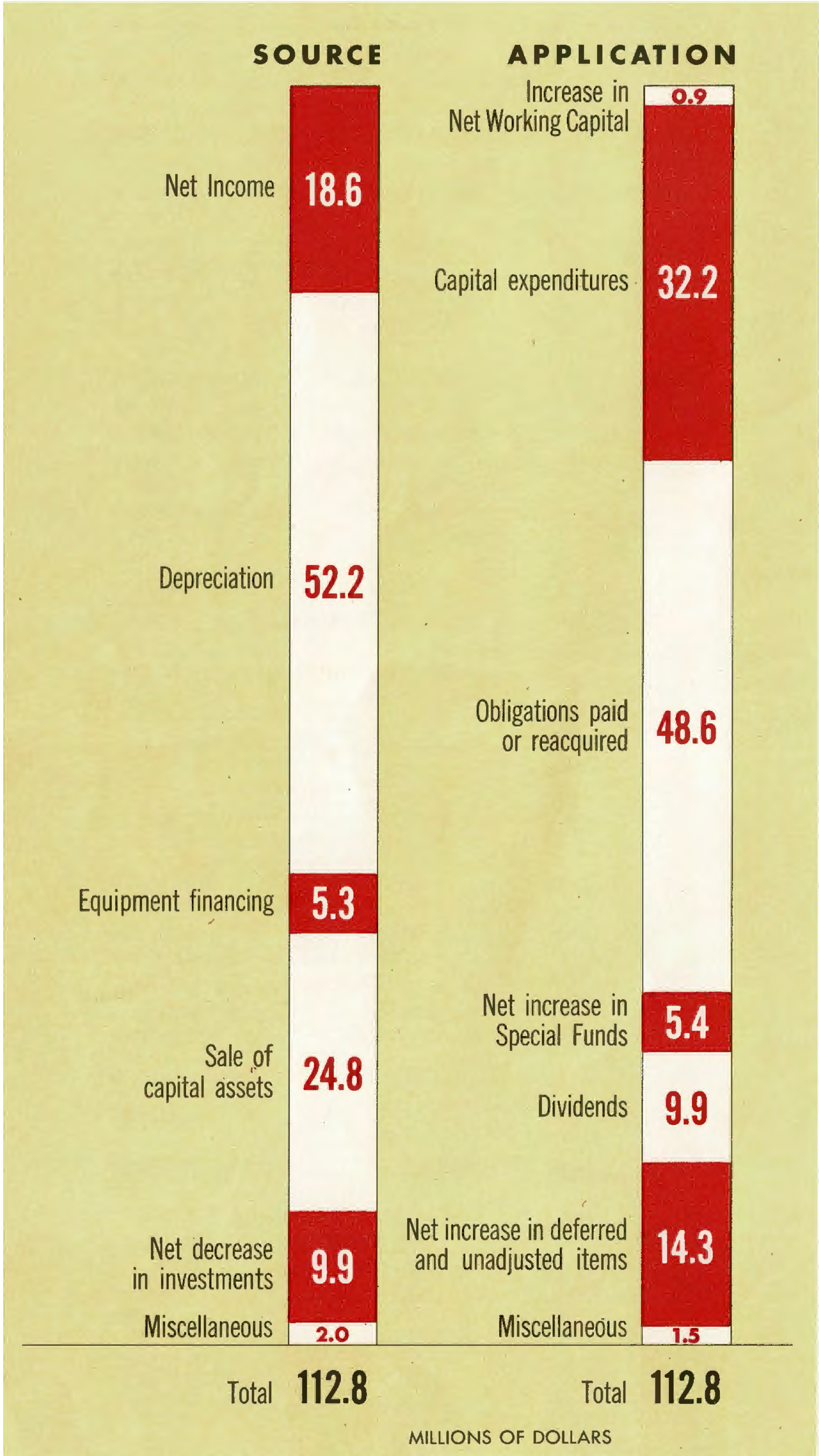
LIABILITIES

	December 31, 1954	December 31, 1953	Increase or Decrease 1954 compared with 1953
CURRENT LIABILITIES:**			
(*Traffic balances, wages, taxes, interest, other accounts payable, etc.*)	$120,949,436	$140,227,801	D $19,278,365
LONG-TERM DEBT:			
Bonded Debt	449,584,000	463,375,000	D 13,791,000
Equipment Obligations	317,394,325	346,001,119	D 28,606,794
Mortgages and Ground Rents	53,045	53,045	—
OTHER LIABILITIES:			
(*Deferred Credits and items in process of adjustment*)	11,610,523	16,618,070	D 5,007,547
RESERVES:			
(*Accrued depreciation—leased property, injuries to persons, loss and damage—freight*)	147,618,423	149,182,072	D 1,563,649
STOCKHOLDERS' EQUITY:			
Capital Stock (*13,167,754 shares 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*)	470,943,246	461,823,426	I 9,119,820
Unappropriated	268,473,270	247,598,158	I 20,875,112
Total Earned Surplus	739,416,516	709,421,584	I 29,994,932
Unearned	385,791	383,822	I 1,969
Premium on Capital Stock	10,148,229	10,148,229	—
Total Stockholders' Equity	1,408,338,236	1,378,341,335	I 29,996,901
Total Liabilities	2,455,547,988	2,493,798,442	D 38,250,454
***Exclusive of equipment obligations and bonded debt maturing within one year, and sinking fund requirements (pursuant to ICC regulations)*	*$37,516,780*	*$36,431,780*	

The Company has assumed contingent liabilities aggregating $496,915,077, as of December 31, 1954, 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 $166,511,000 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, $76,570,577 are owned by the Pennsylvania Railroad System. For other contingent liabilities, see Note M, Page 35.

THE PENNSYLVANIA RAILROAD COMPANY

SOURCE AND APPLICATION OF FUNDS FOR THE YEAR 1954



SOURCE

Net Income	$18,552,235
Depreciation	52,245,008
Equipment financing	5,301,000
Sale of capital assets	24,765,776
Net decrease in investments, principally non-affiliated companies	9,897,921
Miscellaneous	2,020,320
	112,782,260

APPLICATION

Increase in Net Working Capital	902,322
Capital expenditures	32,251,562
Obligations Paid or Reacquired	48,617,432
Net Increase in Special Funds (Trust of 1878, Insurance, and other Funds)	5,423,814
Dividends	9,875,815
Net Increase in Deferred and Unadjusted Items	14,254,440
Miscellaneous	1,456,875
	112,782,260

CONDENSED CONSOLIDATED INCOME STATEMENT *(Note A)*

	1954	1953*	1952*	1951*	1950*
Income:					
Railway operating revenues (*Note B*)	$849,796,028	$1,035,505,430	$1,030,417,415	$1,046,587,798	$932,148,222
Revenues from miscellaneous operations	13,314,552	13,255,025	13,570,408	13,772,748	12,299,774
Dividend income	17,795,437	15,275,116	13,886,840	13,614,978	13,251,465
Other (*Note C*)	8,863,031	8,417,317	7,127,210	8,738,204	24,237,314
Total income	889,769,048	1,072,452,888	1,065,001,873	1,082,713,728	981,936,775
Operating Charges and Other Deductions:					
Railway operating expenses (*Note D*)	713,878,410	865,789,303	867,747,283	895,427,478	787,002,000
Equipment and joint facility rents (*net*)	28,036,742	24,485,992	18,230,149	22,736,011	18,283,046
Expenses of miscellaneous operations and other deductions	14,919,161	16,768,181	15,387,485	15,099,953	14,517,592
Provision for taxes:					
Federal income (*Note E*)	1,462,328	11,160,732	10,499,206	10,561,920	15,000,386
Other	60,375,346	62,996,844	62,486,079	62,608,344	58,645,249
	818,671,987	981,201,052	974,350,202	1,006,433,706	893,448,273
Income available for fixed charges and other corporate purposes	71,097,061	91,251,836	90,651,671	76,280,022	88,488,502
Fixed Charges:					
Leased lines rental (*Note F*)	21,655,965	33,785,462	33,926,934	34,109,582	37,186,361
Deduct: Income from leased lines securities owned (*Note F*)	7,191,950	19,092,175	18,855,888	18,744,912	21,558,021
Net rental (*Note F*)	14,464,015	14,693,287	15,071,046	15,364,670	15,628,340
Interest on funded debt (*other than included in leased lines rental*)	28,077,708	28,970,699	28,763,028	26,905,775	25,956,716
Other	295,819	333,186	422,355	504,012	431,229
Total fixed charges	42,837,542	43,997,172	44,256,429	42,774,457	42,016,285
NET INCOME	28,259,519	47,254,664	46,395,242	33,505,565	46,472,217
Times Fixed Charges Earned:					
Before Federal income taxes	1.69	2.33	2.29	2.03	2.46
After Federal income taxes	1.66	2.07	2.05	1.78	2.11
NET INCOME PER SHARE OF PRR CO. STOCK	$2.15	$3.59	$3.52	$2.54	$3.53
Appropriations to Trust of 1878 (See Note Page 28)	*$7,469,751*	*$7,563,473*	*$7,462,640*	*$7,259,094*	*$7,039,425*

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

	1954	1953*	1952*	1951*	1950*
BALANCE, JANUARY 1	$999,737,447	$969,983,704	$937,849,192	$915,064,583	$884,876,827
Add: Net Income for the Year	28,259,519	47,254,664	46,395,242	33,505,565	46,472,217
Miscellaneous Credits	11,992,393	3,989,610	4,185,251	3,727,134	2,108,832
	1,039,989,359	1,021,227,978	988,429,685	952,297,282	933,457,876
Deduct: Dividends Paid	9,875,815	19,751,631	13,167,754	13,167,754	13,167,754
Miscellaneous Debits	18,641,500	1,738,900	5,278,227	1,280,336	5,225,539
	28,517,315	21,490,531	18,445,981	14,448,090	18,393,293
BALANCE, DECEMBER 31	1,011,472,044	999,737,447	969,983,704	937,849,192	915,064,583

See notes, Pages 34 and 35

For comparative purposes 1950-1953 figures have been restated to reflect changes in accounting adopted in 1954. For explanation see Page 10.

	1954	1953	1952	1951	1950
ASSETS					
CURRENT ASSETS:					
Cash	$85,908,711	$93,147,743	$105,364,955	$101,604,885	$119,991,840
Temporary cash investments (*principally at cost*)	75,129,001	71,610,472	83,533,636	59,573,624	73,812,465
Accounts receivable	35,480,776	42,233,605	45,971,861	55,513,585	64,357,542
Material and supplies (*at cost or less*)	64,099,959	69,354,156	68,882,626	89,886,612	66,088,616
Other	17,088,907	18,839,361	24,718,780	22,157,477	21,513,272
	277,707,354	295,185,337	328,471,858	328,736,183	345,763,735
SPECIAL FUNDS:					
Capital and sinking funds	9,423,456	7,407,837	7,549,369	11,260,517	13,116,783
Maintenance funds	—	—	4,000,000	4,000,000	10,000,000
Other	9,122,527	9,250,021	8,037,330	6,782,934	7,382,457
	18,545,983	16,657,858	19,586,699	22,043,451	30,499,240
INVESTMENT IN PROPERTY AND EQUIPMENT:					
Railway transportation property	3,206,649,561	3,220,982,526	3,209,531,712	3,151,581,700	3,040,315,069
Other property	82,132,864	86,347,230	79,752,490	79,989,839	54,789,354
	3,288,782,425	3,307,329,756	3,289,284,202	3,231,571,539	3,095,104,423
LESS:					
Accrued depreciation, amortization and depletion:					
Railway transportation property	854,377,108	831,572,406	830,852,950	826,877,282	794,984,538
Other property	16,726,555	16,089,051	15,158,761	15,556,047	14,776,801
	871,103,663	847,661,457	846,011,711	842,433,329	809,761,339
Net investment in property and equipment	2,417,678,762	2,459,668,299	2,443,272,491	2,389,138,210	2,285,343,084
INVESTMENTS AND ADVANCES (*at cost or less*): (*Note G*)					
Affiliated Companies—(*Note H*)					
Investments	167,011,485	156,289,128	159,319,685	157,254,194	135,226,969
Advances	21,773,459	27,566,909	26,429,653	26,976,696	25,845,693
	188,784,944	183,856,037	185,749,338	184,230,890	161,072,662
Other Companies—(*Note I*)	120,203,321	130,300,619	127,065,993	132,599,964	131,820,019
	308,988,265	314,156,656	312,815,331	316,830,854	292,892,681
OTHER ASSETS (*principally prepayments, working fund advances and deferred assets*)	17,153,985	33,193,171	28,728,727	25,524,946	27,677,744
TOTAL	3,040,074,349	3,118,861,321	3,132,875,106	3,082,273,644	2,982,176,484

See notes, Pages 34 and 35

RAILROAD SYSTEM

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

LIABILITIES	1954	1953	1952	1951	1950
CURRENT LIABILITIES:					
(*excluding long-term debt maturing within one year and sinking fund requirements*)—(*Note L*):					
Accounts and wages payable	$59,398,885	$75,191,470	$80,347,115	$90,688,166	$84,617,596
Tax liabilities	34,887,853	39,452,178	35,091,405	37,735,709	45,521,912
Other	26,490,064	22,799,157	28,425,240	23,644,869	24,407,710
	120,776,802	137,442,805	143,863,760	152,068,744	154,547,218
LONG-TERM DEBT:					
Pennsylvania Railroad Company:					
Bonds (*including assumed debt*)	397,316,045	410,530,045	425,588,700	443,202,700	447,769,700
Equipment Trusts	141,625,000	154,938,000	165,028,000	184,713,000	204,164,000
Equipment—Conditional sale agreements	175,769,325	191,063,119	185,710,605	103,401,800	—
	714,710,370	756,531,164	776,327,305	731,317,500	651,933,700
Bonds of leased lines	250,999,212	255,943,032	262,741,032	268,389,032	272,516,032
Subsidiary companies (*other than leased lines*)	67,211,297	72,838,000	76,936,880	80,876,331	84,630,000
	1,032,920,879	1,085,312,196	1,116,005,217	1,080,582,863	1,009,079,732
DEFERRED LIABILITIES AND UNADJUSTED CREDITS (*principally casualty and maintenance reserves*)	24,683,150	43,757,889	45,789,448	53,169,344	43,182,510
PUBLICLY HELD INTERESTS IN EQUITY OF CONSOLIDATED COMPANIES OTHER THAN THE PENNSYLVANIA RAILROAD COMPANY:					
Preferred stock	25,052,601	25,227,000	25,732,850	25,770,500	25,776,500
Common stock	34,706,699	35,646,694	37,239,599	37,697,424	38,223,624
Surplus	26,117,664	26,705,916	28,514,783	29,044,740	29,966,508
	85,876,964	87,579,610	91,487,232	92,512,664	93,966,632
PENNSYLVANIA RAILROAD COMPANY STOCKHOLDERS' EQUITY:					
Capital Stock (*13,167,754 shares par value $50 per share*)	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*)	551,494,994	542,216,518	535,112,052	524,866,163	515,603,455
Unappropriated	459,977,050	457,520,929	434,871,652	412,983,029	399,461,128
Total Earned Surplus	1,011,472,044	999,737,447	969,983,704	937,849,192	915,064,583
Unearned	38,721,604	38,646,781	38,583,535	38,578,307	38,425,735
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	57,086,977	57,848,664	58,626,281	58,976,601	59,374,145
	1,775,816,554	1,764,768,821	1,735,729,449	1,703,940,029	1,681,400,392
TOTAL	3,040,074,349	3,118,861,321	3,132,875,106	3,082,273,644	2,982,176,484

For Contingent Items—*see Note M*

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 H) 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 1954 include approximately $1,102,000 account retroactive credit adjustment of U.S. Mail Pay for the period October 1, 1953 to December 31, 1953; 1950 includes approximately $14,061,000 applicable to prior years.

Note C: Other income for 1950 includes $17,500,000 covering credit 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 1950, 1951 and 1952, in the amounts of $10,000,000, $4,000,000 and $4,000,000, respectively, the actual expenditures being made in next succeeding year.

Note E: During 1951, 1952, 1953 and 1954, 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, $8,792,000, $11,624,000 and $6,718,000 greater for the respective years ($4,111,000, $10,386,000, $13,506,000 and $11,783,000 for the System) and Net Income correspondingly less.

Note F:

Summary of Rentals Paid to Public Interests:

Rental:	*1954	*1953	*1952	*1951	*1950
Dividends on stocks of leased lines	$ 7,918,414	$19,870,395	$19,909,323	$19,913,721	$22,799,463
Interest on funded debt of leased lines...	13,609,864	13,786,926	13,916,062	14,076,431	14,305,028
Other	127,687	128,141	101,549	119,430	81,870
	21,655,965	33,785,462	33,926,934	34,109,582	37,186,361
Deduct—Income from leased lines securities owned:					
Dividends....	3,640,823	15,524,297	15,426,839	15,412,643	18,230,697
Interest	3,551,127	3,567,878	3,429,049	3,332,269	3,327,324
	7,191,950	19,092,175	18,855,888	18,744,912	21,558,021
Net rental paid to publicly held interests......	14,464,015	14,693,287	15,071,046	15,364,670	15,628,340

*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 and 1954, pursuant to modification of leases.

Note G: Certain investments of the System of a par value of $90,411,100 in the aggregate, which have been eliminated in consolidation, were pledged at December 31, 1954 under various mortgages and trust indentures. Pledges of other investments are referred to in Notes H and I.

Note H: 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, owned 94.54 per cent. to December 19, 1954, and owned 100 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. From April 11, 1949 to August 11, 1954, the railroad was operated by Trustees appointed by the Court and ratified by the Interstate Commerce Commission. On June 18, 1954, The Long Island Rail Road Company filed a petition in the United States District Court for the Eastern District of New York, in which it proposed that the re-organization proceeding should terminate upon its qualification as a railroad redevelopment corporation and adjustments of its indebtedness. On August 12, 1954, this Company qualified as a railroad redevelopment corporation under Chapter 824 of the laws of New York of 1954, indebtedness was adjusted, and the trusteeship terminated. See page 25 of this report as to present status. The stock is included in Investments at $47,587,071 at December 31, 1950 to December 31, 1953, inclusive, and at $47,637,071 at December 31, 1954. No dividends were received from The Long Island Rail Road Company since 1933. The operation of the railroad during the years 1950-1954 resulted in deficits as follows:

1954	$3,542,934	1951	$8,491,093
1953	2,704,590	1950	4,604,712
1952	5,009,658		

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

	Principal Amount	*Cost*
December 31, 1953	$39,930,500	$39,457,745
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

As a result of the adjustments of indebtedness of The Long Island Rail Road Company, the System received on August 12, 1954, $39,930,000 principal amount Long Island Rail Road Company General Mortgage 4% Bonds, Series D, due August 12, 2004, in exchange for the $39,930,500 principal amount of Refunding Mortgage and Unified Mortgage 4% Bonds, which matured March 1, 1949. During the 12-year redevelopment period interest on these bonds accrues at the rate of 2 per cent., payable thereafter in 24 equal annual installments, if earned, until maturity. On August 12, 1954, the System also received $6,298,000 principal amount Long Island Rail Road Company General Mortgage 5% Bonds, Series C, to mature in 12 annual installments commencing in 1968 and ending in 1979. These bonds represent unpaid traffic balances. Interest accruing during the redevelopment period is payable thereafter, if earned, until maturity.

Advances for years 1950 to 1953, inclusive, included an amount of $6,000,000, representing unpaid balance. As a result of the adjustments of indebtedness of The Long Island Rail Road Company, the System received on August 12, 1954, in payment of the advances, a Note in the principal amount of $6,000,000, payable in annual installments from year 1968 to 1979, inclusive, with interest at 3 per cent. per annum, out of available Net Income, if earned. During the redevelopment period interest on this note accrues at the rate of 1½ per cent., payable thereafter, together with the current 3 per cent. interest, both if earned, until 1979, after which any interest obligation ceases. In addition to other claims, the System had a claim aggregating $14,061,118 at August 11, 1954 (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 Refunding Mortgage and Unified Mortgage bonds since their date of maturity. As a result of the adjustments of indebtedness of The Long Island Rail Road Company, the System received on August 12, 1954, a non-interest bearing Interest Certificate, for $9,507,482, payable in annual installments from year 1980 to 2003, inclusive, out of available Net Income, if earned, until maturity of last installment, after which the obligation ceases. The Certificate represents interest at 4% per annum from March 1, 1949 to August 11, 1954, inclusive, on the Refunding Mortgage and Unified Mortgage Bonds, $8,700,412, and unpaid coupons and registered interest due March 1, 1949, and prior thereto, held by the System, $807,070. No provision was made in the adjustments of indebtedness covering unpaid interest on the advances.

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.

141,998 shares of preferred stock were pledged at December 31, 1954 with Trustee of a collateral trust indenture of Pennsylvania Company. (See Notes J and K.)

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.

163,136 shares of stock were pledged at December 31, 1954 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 J and K.)

Note I: In addition to the investments discussed in Note H, 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 25.38 per cent. interest in 1950, 1951 and 1952, 28.45 per cent. interest in 1953, and 25.15 per cent. interest in 1954. The stock is included in Investments at $43,478,000 at December 31, 1950, 1951 and 1952, $44,248,788 at December 31, 1953, and at $32,382,517 at December 31, 1954. Under a Trust Agreement dated June 22, 1942, and supplement dated June 2, 1953 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, 1954	$3,482,000	$ 957,165
December 31, 1953	3,482,000	957,165
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

The Wabash Railroad Company also has an investment in the stock of Lehigh Valley Railroad Company which is represented by 17.30 per cent. interest in 1950 and 17.73 per cent. interest in 1951, 1952, 1953 and 1954. Under agreement dated January 1, 1941, 265,469 shares are held and voted by Marine Midland Trust Company of New York. (See Notes J and K.)

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 at December 31, 1950, 1951, 1952 and 1953, and by 57.96 per cent. interest at December 31, 1954 (the change being due to the Company issuing $750,000 par value of Treasury stock in 1954), and 42.61 per cent. interest in common stock at December 31 of each year. The stocks are included in Investments at a cost of $10,490,439 and $62,987,317, respectively, at each December 31.

1,184,987 shares of common stock were pledged with Trustee of collateral trust indentures of Pennsylvania Company. (See Notes J and K.)

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

	1954	1953	1952	1951	1950
Wabash	$5,061,289	$3,457,570	$2,566,635	$2,269,478	$2,566,093
D. T. & I.	1,650,000	1,000,000	800,000	800,000	*
L. V.	397,512	127,784	—	—	—
N. & W.	8,917,662	8,917,662	8,917,662	8,917,662	8,917,662

**Stock purchased in 1951*

Note K: 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

	1954	1953	1952	1951	1950
Wabash	$ .29	$ .50	$ .58	$ .42	$ .45
D. T. & I.	.11	.10	.08	.05	*
L. V.	.02	.14	.14	.11	.07
N. & W.	.17	.23	.24	.28	.23

**Stock purchased in 1951*

Equity in Net Assets Per Share of P.R.R. Co. Stock

	1954	1953	1952	1951	1950
Wabash	$11.09	$11.08	$10.55	$ 9.94	$ 9.47
D. T. & I.	2.80	2.72	2.62	2.54	*
L. V.	2.29	2.52	2.14	2.04	1.88
N. & W.	17.19	17.15	16.96	16.68	16.39

**Stock purchased in 1951*

Note L: 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
1955	$51,389,613
1954	42,017,030
1953	42,214,540
1952	43,657,560
1951	49,546,360

Note M: The System has contingent liabilities aggregating $178,606,000 as of December 31, 1954 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 of $172,918,000 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 25—Important Litigation.

EXECUTIVE OFFICERS

James P. Newell
Vice President in charge of Operation

Fred Carpi
Vice President in charge of Traffic

James M. Symes
President

John C. White
Vice President in charge of Purchases, Stores and Insurance

Ralph C. Champlin
Vice President in charge of Public Relations

James L. Cranwell
Vice President, New York, N. Y.

Bayard H. Roberts
Secretary

David C. Bevan
Vice President in charge of Finance

Walter W. Patchell
Vice President

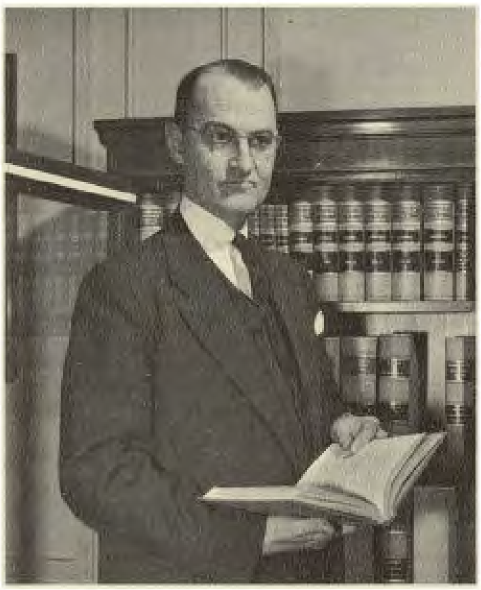
J. Benton Jones
Vice President in charge of Real Estate and Taxation

Allen J. Greenough
Vice President, Eastern Region, Philadelphia, Pa.

John A. Appleton
Vice President, Central Region, Pittsburgh, Pa.

Herman H. Pevler
Vice President, Western Region, Chicago, Ill.

Paul D. Fox
Treasurer and Assistant Vice President in charge of Finance



John B. Prizer
General Counsel

Hugh J. Ward
Comptroller