

DIRECTORS

	Originally Elected	Term Expi	res in
	April 10, 1929	MARTIN W. CLEMENT Former President, The Pennsylvania Railroad Company.	1956
	Jan. 10, 1934	RICHARD K. MELLON	1957
	Mar. 24, 1937	ROBERT T. McCRACKEN Montgomery, McCracken, Walker & Rhoads.	1958
	Oct. 27, 1937	C. JARED INGERSOLL	1956
	Dec. 1, 1938	WALTER S. FRANKLIN	1958
	Feb. 26, 1941	LEONARD T. BEALE	1957
	June 24, 1942	JAMES E. GOWEN Chairman of the Board, Girard Trust Corn Exchange Bank.	1959
	Jan. 24, 1945	PHILIP R. CLARKE Financial Consultant, Chicago, Illinois.	1958
	June 27, 1945	ISAAC W. ROBERTS	1959
	Dec. 18, 1946	HARRY B. HIGGINS Chairman of the Board, Pittsburgh Plate Glass Company.	1956
	April 23, 1947	JAMES M. SYMES President, The Pennsylvania Railroad Company.	1958
,	Oct. 27, 1948	JOHN A. DIEMAND	1957
	Nov. 10, 1948	JOHN B. HOLLISTER Attorney at Law, Cincinnati, Ohio.	1959
	Dec. 23, 1953	LAMMOT du P. COPELAND Vice President, E. I. du Pont de Nemours and Company.	1958
	Dec. 23, 1953	DONALD DANFORTH	1958
		Vice Presidents elected by the Directors to serve as Directors for the term of one year, pursuant to Pennsylvania law.	
	May 23, 1951	FRED CARPI Vice President, Freight Sales and Services	1956
	May 23, 1951	DAVID C. BEVAN	1956
	April 1, 1953	JAMES P. NEWELL Vice President	1956

THE PENNSYLVANIA RAILROAD COMPANY

ONE HUNDRED AND NINTH



FOR THE YEAR ENDED DECEMBER 31, 1955

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HIGHLIGHTS

THE PENNSYLVANIA RAILROAD COMPANY

OPERATING RESULTS	1955	1954	1953	1952	1951
Operating Revenues	\$934,972,870	\$848,805,154	\$1,034,394,640	\$1,028,750,2 17	\$1,044,387,274
Net Income	\$41,183,533	\$18,552,235	\$38,875,228	\$39,312,2 28	\$28,850,488
Net Income per Dollar of Operating					
Revenues—Cents	4.40	2.19	3.76	3.82	2.76
Operating Ratio	82.16%	83.97%	83.58%	84.17%	85.50%
Transportation Ratio	44.18%	45.26%	41.80%	43.23%	43.84%
Return on Investment in Railroad Property	2.87%	1.96%	2.98%	2.98%	2.45%
FINANCIAL DATA					
Working Capital	\$122,220,347	\$144,601,919	\$143,699,597	\$163,475,901	\$161,877,510
Gross Capital Expenditures — Inc. Leased Lines	\$65,783,975	\$40,995,221	\$72,797,377	\$123,321,217	\$161,853,489
Bonded Debt	\$434,237,000	\$449,584,000	\$463,375,000	\$479,023,000	\$497,268,000
Equipment Obligations	\$303,783,041	\$317,394,325	\$346,001,119	\$350,738,605	\$288,114,800
Net Worth - Book Value	\$1,419,520,623	\$1,408,338,236	\$1,378,341,335	\$1,358,303,987	\$1,335,221,381
ON A PER SHARE BASIS					
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Income Before Taxes	\$7.80 \$4.67	\$5.88 \$4.47	\$8.29 \$5.34	\$8.28 \$5.29	\$7.45 \$5.26
Net Income	\$3.13	\$1.41	\$2.95	\$2.99	\$2.19
Dividends Paid	\$1.50	\$0.75	\$1.50	\$1.00	\$1.00
Net Worth—Book Value	\$107.80	\$106.95	\$104.68	\$103.15	\$101.40
EMPLOYES					
Average Number of Employes	106,195	100,544	126,359	125,924	137,604
Total Salaries and Wages Paid	\$509,484,096	\$467,402,725	\$565,836,051	\$565,585,008	\$580,869,217
OTHER STATISTICS					
Freight Train Miles	35,526,453	31,238,563	36,602,304	35,801,277	38,548,885
Revenue Ton Miles—Thousands	50,134,500	42,356,265	50,241,369	50,101,843	54,825,398
Average Revenue per Ton Mile — Cents	1.433	1.483	1.567	1.532	1.429
Passenger Train Miles	30,154,526	30,803,251	33,088,306	35,513,293	37,303,098
Revenue Passenger Miles — Thousands	3,744,400	3,881,216	4,322,525	4,749,918	4,840,992
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THE PENNSYLVANIA RAILROAD COMPANY

February 23, 1956

TO THE STOCKHOLDERS:

Good progress has been made toward the objectives outlined in our Annual Report for 1954. The results for 1955 can be summarized about as follows:

Net income for the year was a little over 41 million dollars. Earnings were \$3.13 per share—compared with \$1.41 the previous year. The better earnings were the result of increased freight business and improved efficiency as the result of capital expenditures made in previous years and during the year.

We paid dividends of \$1.50 per share on our outstanding stock—48% of net income.

We spent 21 million dollars more for maintenance than we spent in 1954 in our constant effort to improve the property.

Capital expenditures for improvements amounted to 66 million dollars—an increase of 25 million dollars over the previous year.

Outstanding debt in the hands of the public was reduced for the third successive year; by 45½ million dollars in 1955. Annual carrying charges have thereby been reduced during the past three years by nearly four million dollars.

The outlook for 1956 is good insofar as volume of traffic is concerned—but the expected results are confused because of uncertainties. As a regulated industry and part of our free enterprise system, it must be recognized that the success of the railroads depends upon their being able to adjust to inflationary trends in the economy under which we presently live. In other words, like other industries we must increase charges to offset

increased costs. Increases in wages, payroll taxes and material prices occurring since October 1, 1955 amount to 51 million dollars on an annual basis—10 million dollars more than the entire net income for 1955.

To offset partially, at least, these increased costs, we joined other railroads in application to the Interstate Commerce Commission for a general freight rate increase of 7 percent. We expect to apply for comparable increases in our charges for other services. If we receive authority to increase our charges as requested within a reasonable length of time—and providing inflation does not further substantially increase costs, the results for 1956 should be as good and perhaps somewhat better than 1955.

It is recommended that the Annual Report be carefully read—as it will acquaint you with the planning for the future—designed to improve the property, increase earning power, and properly participate in the country's expanding economy during the years ahead.

To our employes, customers, stock-holders and investors in our property, we sincerely thank you for the confidence you have shown in us by making possible the improved results for 1955—the best showing in the last 10 years. We are planning progressively to improve in the future.

President

REVIEW OF 1955

The year was a prosperous one for business generally, and the Pennsylvania Railroad made a substantial recovery from the preceding year. Net income was the best in ten years but the return on investment was only 2.9%. Both were far from satisfactory.

Substantial wage increases were granted during the year, increasing costs for payrolls and payroll taxes by 10 percent. At December's level of employment the Pennsylvania's total payroll costs are more than one-half a billion dollars a year.

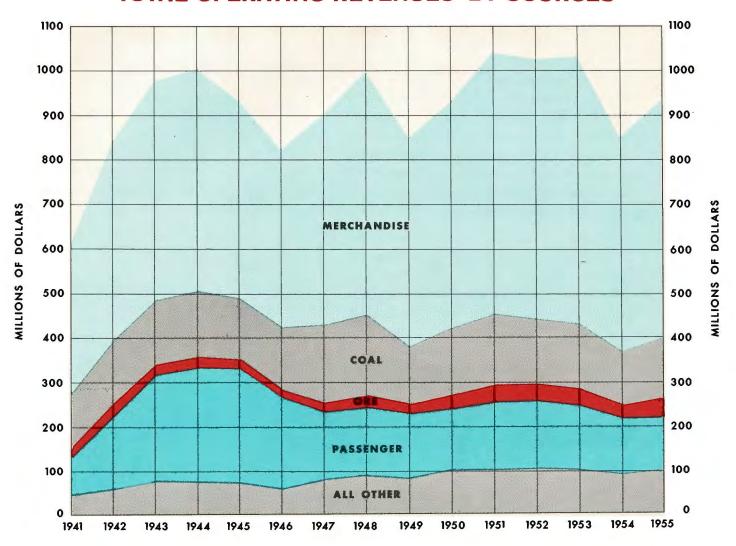
Because of these increased costs, plus increases in the price of materials, your Company joined with other railroads in proposing a prompt 7 percent increase in freight rates.

On November 1, the new plan of organization, developed through a year-long study of the management function of our own and other companies, was put into operation. A brochure which described the reasons for the changes and the gains expected, was mailed to all stockholders in the latter part of October. The Secretary has additional copies of that brochure and will be glad to mail one to new stockholders or others on request.

The initial few months of experience with the new organization has been good. The change-over was orderly. Operations, sales and services are now directed by the officers in charge of the nine Regions, with coordination by new and remodeled System departments.



TOTAL OPERATING REVENUES-BY SOURCES



There is a good basis for confidence that our objectives for increasing volume and bringing "more down to net" will be achieved.

REVENUES UP 10% Operating revenues were \$934,973,000, 10 percent greater than in 1954 but approximately 10 percent less than in each of the preceding three years.

Freight revenues were \$718,492,000, an

increase of \$90,357,000 over those of 1954. The increase in revenues was 14 percent, but freight volume increased 18 percent. The difference in the two percentages is due mainly to increased traffic in commodities such as coal, coke and ore, which move at relatively low freight rates.

Passenger revenues were \$121,157,000, 4 percent less than in 1954, with passenger

mileage down approximately the same percentage. This decline in railroad passenger travel is nationwide.

Mail revenues were \$38,333,000, approximately 4 percent less than in the preceding year. The Post Office Department continued its policy of diverting profitable portions of the mail to other forms of transportation, leaving the railroads decreased revenues from the service but with little opportunity to decrease expenses. Express revenues were \$10,551,000.

expenses up 8%. Operating expenses for 1955 amounted to \$768,201,000, an increase of \$55,455,000 over the preceding year. The operating ratio was 82.16%, which compares with 83.97% for 1954. Stated in dollars, this improvement in the ratio of operating expenses to operating revenues represents a saving of approximately \$17,000,000. The full gains made through improved efficiency were substantially greater, however, as this saving was made in spite of increased costs for wages and materials.

Transportation expenses in 1955 were \$413,066,000, or \$28,926,000 more than the preceding year. The transportation ratio was 44.18%—one point better than in 1954.

Maintenance expenses for roadway amounted to \$101,624,000, an increase of \$4,839,000 over 1954.

The cost of maintaining equipment was \$198,265,000, or \$16,414,000 greater than in 1954, principally due to the extensive freight car repair program undertaken after the upturn of business in the spring of 1955.

Depreciation charges, which are included in Expenses, were \$52,017,000, approximately the same as in 1954.

TAXES HIGHER State and local taxes in 1955 amounted to \$2.39 a share and nearly \$300 per employe, or a total of \$31,465,000. Some reductions in assessments were secured in 1955 but they were more than offset by

increases in tax rates. The most flagrant examples of excessive taxation are property taxes in New Jersey. For some years now they have stood at the point of confiscation.

The discrimination in taxing various forms of transportation—with public subsidies provided for airway, highway and waterway carriers, and extraordinarily heavy taxes levied on railway carriers—is becoming better understood by the taxing authorities and informed people generally. So far, however, such understanding has not produced any appreciable benefit to your Company or to the railroads generally.

Payroll taxes for railroad retirement and unemployment were \$28,832,000, or 10 percent more than in 1954.

The unemployment tax rate is based on the adequacy of the reserve fund to meet the needs of the following year. Substantial withdrawals, due to the nationwide decline in railroad employment in 1954 and certain increased benefits, reduced the balance in this fund below the required level. This resulted in an increase in the tax rate from ½ percent to 1½ percent, effective January 1, 1956. In consequence, these taxes in 1956 will be increased by approximately \$4,000,000.

Total taxes of \$61,583,000 represented an increase of \$2,654,000 over 1954.

EARNINGS BETTER Net income for the year was \$41,184,000, or \$3.13 per share. Of this amount \$19,752,000 was paid in dividends. The balance, together with other funds, was used for capital improvements.

This year's net income reflects federal income tax deductions as a result of accelerated amortization on certain new equipment and facilities and charge-offs for retirements of track and other roadway structures. These deductions reduced the Company's federal income taxes for 1955 by \$16,483,000, and System taxes by \$19,922,000.

THE PRR DOLLAR

INCOME

FREIGHT REVENUE 75°C









OUTGO





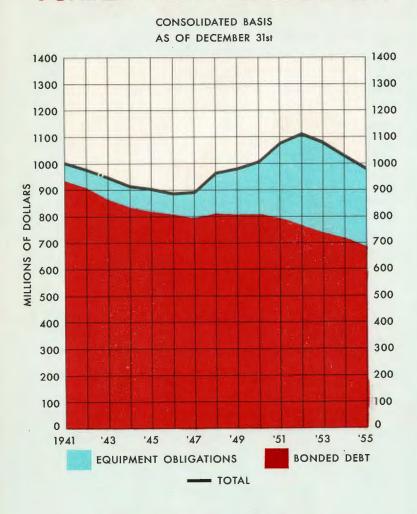




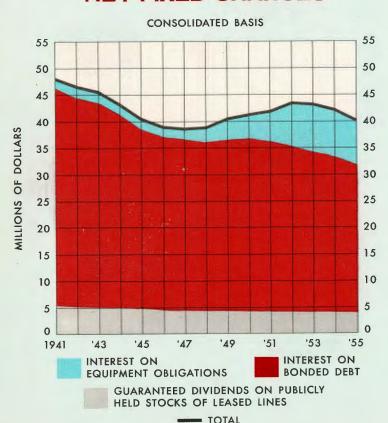




FUNDED DEBT PUBLICLY HELD



NET FIXED CHARGES



Allowances for accelerated amortization for tax purposes were \$24,000,000 more than normal depreciation. Although these deductions inflate net income during amortization periods, the benefits are temporary. When the deductions have been fully used, net income will be affected adversely because normal depreciation then charged to expenses will exceed the amounts allowable for tax purposes.

Regular quarterly dividends of 25 cents a share were paid in March, June, September and December, with an extra dividend of 50 cents in December, making \$1.50 per share for the year.

Over the past ten years dividends have amounted to 57 percent of net income as compared to 42 percent for all Class I railroads.

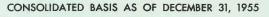
consolidated Earnings The Consolidated Income and Earned Surplus Statements and Balance Sheets for the years 1951-1955 on pages 31 to 33, reflect the results not only for The Pennsylvania Railroad Company, but also those of its 100% owned subsidiaries and all leased lines.

On a consolidated basis, net income for the year amounted to \$50,209,000, or \$3.81 a share, compared with consolidated earnings of \$2.15 per share in 1954.

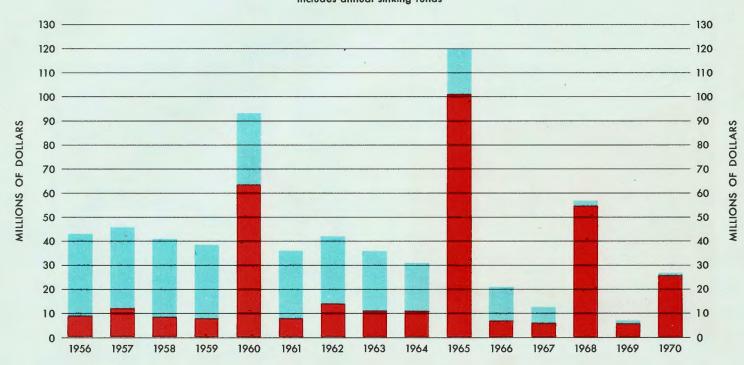
debt was reduced \$45,452,000. This brought net reduction in total debt during the last three years to \$128,537,000, which is 11½ percent below the total on December 31, 1952. Reducing System debt by this amount produces savings in interest amounting to \$4,000,000 annually, equal to approximately 30 cents per share of capital stock.

\$20,580,000 was borrowed to finance part of the price of equipment purchased during the year. The average cost of interest on this financing was 3.02 percent. The equipment obligations paid amounted to

ANNUAL MATURITIES OF PUBLICLY HELD FUNDED DEBT







\$33,561,000, so there was a net reduction in equipment debt of \$12,981,000.

Bonded debt was reduced by \$32,471,000. Of the original issue of \$125,000,000 Pennsylvania Railroad General Mortgage, Series "A," $4\frac{1}{2}\%$ Bonds due in 1965, \$31,000,000 have been reacquired and cancelled. The amount outstanding on December 31, 1955 was slightly under \$94,000,000.

Although a large amount of debt has been retired in the last three years, maturities over the next five years average \$51,700,000 a year, the major portion of which is equipment debt.

IMPORTANT SALES OF PROPERTIES

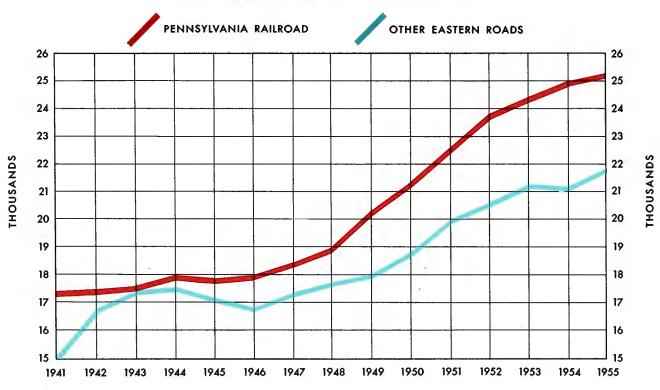
Nine water companies, acquired originally to

insure good water for steam locomotives, were sold. Also, an agreement is being negotiated to sell the Company's interest in the Virginia Ferry Corporation and its subsidiary, the Kiptopeke Beach Land Corporation. It is anticipated that approximately \$12,000,000 will be realized from the sale of the properties in these two transactions.

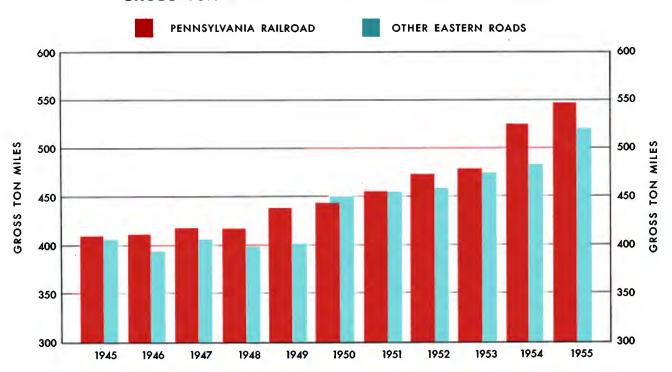
corporate simplification As a result of sales, mergers and dissolutions, the number of subsidiary and affiliated companies has been reduced from 171 at the beginning of 1953 to 115 at the end of 1955. The program to simplify our corporate structure by reducing the number of companies in the System will be continued.

IMPROVING EFFICIENCY OF PRR OPERATION EXCEEDS AVERAGE OF OTHER EASTERN ROADS

NET TON MILES PER TRAIN HOUR



GROSS TON MILES PER MAN HOUR (FREIGHT and PASSENGER)



FREIGHT SERVICE IMPROVEMENTS

Two key indices to efficient over-theroad train operation are the net ton miles per train hour and the number of gross ton miles produced per man hour. By both of these criteria, the record of the Pennsylvania compares favorably with the average performance of other railroads operating in its territory.

The general effort to improve freight services was given new impetus with the new plan of management organization—placing responsibility for both sales and services in each Region under one manager—and as close to the customer as possible.

The new ore pier at Greenwich Point in Philadelphia, which was placed in service in the spring of 1954, produced an increase of approximately 20 percent in our ore business in 1955, or \$4,000,000 additional revenue. A third unloading machine was installed during 1955 and the prospect for additional business justified a fourth machine, which has been ordered and should be in service this fall.

With the opening of the eastbound half of the new Conway Yard a number of trains which formerly were reclassified at Enola are now being classified at Conway and operated straight through to principal cities in the East, with improved service to our patrons.

Through service from Chicago to the Philadelphia — New York area for livestock was established on a fast schedule. This has increased business and eliminated the delay for feeding in Pittsburgh. Loss of weight of livestock enroute is less than before.

Following the cut-back of freight car repair programs by nearly all railroads in the rail recession year of 1954, a shortage of freight car equipment developed in March 1955 and reached a peak in October. However, with a substantially increased freight car repair program, together with new equipment now on order, the number of serviceable cars available for customers in 1956 will be greater.

To secure better utilization of freight cars, a campaign for employes was built around the slogan "Don't Stand Me Still." A special team of officers has been assigned to check performance and keep freight cars moving.

FREIGHT RATE INCREASE On December 30, 1955 a master tariff, to become effective February 25, 1956, was filed providing for a general freight rate increase of 7 percent.

At the urgent request of the railroads, the Interstate Commerce Commission adopted special rules of procedure which are designed to lessen the disastrous time lag that has cost the railroads so many millions of dollars in previous general rate cases.

with other eastern railroads, filed a complaint with the Interstate Commerce Commission on April 2, 1954, asking for higher divisions of rates with western and southern railroads on transcontinental traffic. Hearings on this complaint are being held from time to time. Substantial additional revenue would accrue to your Company from the relief requested.

TRUCTRAIN The TrucTrain service which moves our own highway trailers has been expanded to serve Cleveland, Youngstown, Akron, Columbus, Dayton, Cincinnati, Indianapolis and Louisville. This service was inaugurated in July 1954, serving New York, Philadelphia, Pittsburgh and Chicago.

The common-carrier TrucTrain service—where the railroad hauls the trailers of trucking companies, and which started in March 1955 with service for New York, Philadelphia and Chicago—was expanded to

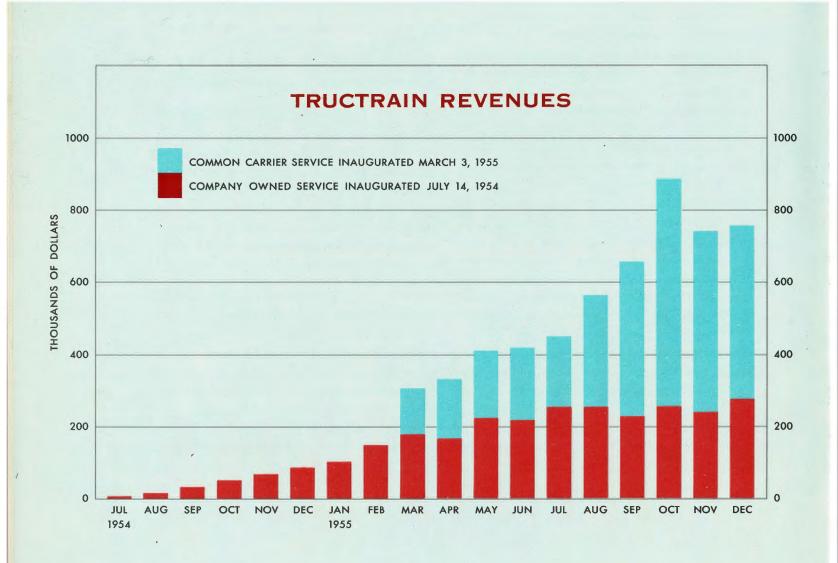
provide service for Pittsburgh and St. Louis. A new service with the Norfolk & Western Railway was established between New York, Philadelphia, Roanoke and Bristol, Va.

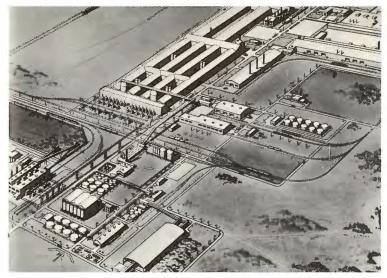
Scheduled time for several trains in this service have been improved to allow later hours for loading. The schedule between New York and Chicago is now 27 hours.

Revenues from both types of service in 1955 were \$5,700,000 and it is anticipated that they will be more than double this amount in 1956.

TRAILER TRAIN COMPANY A company

by this name was formed to provide special freight cars for transporting trailers in local and interchange service on a national basis. Your Company is part owner, together with Rail Trailer Company of Chicago, and it is expected that a number of other railroads also will take part ownership. The type of service will be much the same as that offered by companies which provide pools of special types of freight cars for transporting other commodities such as perishables over several railroads. Operations have been started with a fleet of 500 seventy-five foot flatcars.





Plan for Olin Mathieson Chemical Corporation's new \$120 million aluminum plant to be built at Omal near Clarington, Ohio on the river.



This Ford Motor Company parts manufacturing plant is being built at Sandusky, Ohio on property purchased from the Pennsylvania Railroad.



Construction is well advanced on General Motors-Fisher Body Division stamping plant on the Pennsylvania at Marion, Indiana.

Chrysler Corporation's stamping plant at Twinsburg, Ohio in the Akron area will add thousands of carloads of new business.



INDUSTRIAL DEVELOPMENT

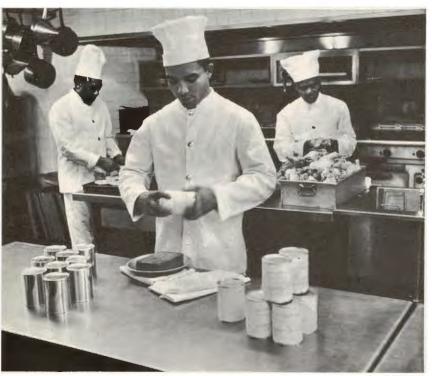
1955 was our most successful year for industrial development. Locations for 260 new plants were selected along the tracks of the Pennsylvania Railroad by industrial companies and 89 existing plants on our lines were expanded. When all these plants are in full operation they will produce approximately \$40,000,000 additional freight business annually for the Company.

The growth of industry on sidings served by the Pennsylvania Railroad is extremely important to the future expansion and stability of our business, both as a source of new revenue and as a means of further diversifying the types of traffic handled.

Sales of real estate for new industrial plants or expansion of existing plants aggregated \$4,558,000 for 88 parcels. Purchases of 61 parcels of real estate for industrial development cost \$4,596,000.

The Company now owns 10,000 acres of desirable land for industrial development adjacent to its tracks. These properties have been selected for their strategic location and other natural advantages, and to insure their availability for industrial production.

Electronic machines such as this new "Ticketeer" for printing tickets now save time and improve service for PRR passengers,



Advance preparation in commissaries improves taste and quality of many dishes served in dining cars—and also saves money.

PASSENGER SERVICE DEVELOPMENTS

Passenger revenues continued to decline as fewer people used rail passenger service. Our revenues were \$5,347,000 less than in 1954, \$20,940,000 less than in 1953 and \$35,160,000 less than in 1952. Increases in wages and the prices of materials added to the cost of providing the service and our overall passenger deficit increased \$6,276,000 over that of 1954—from \$43,691,000 to \$49,967,000 on a full cost basis.

A number of branch line trains were discontinued and some main line trains were combined—with an average saving of 1,380 passenger train miles a day.

However, the experiment with increased service for local commuting lines, particularly in midday hours, was extended and 953 train miles daily were added to the local services in northern New Jersey.

Despite higher wages in the dining car department, and a decrease in patronage, the net out-of-pocket loss from this service was \$208,000 less than in 1954. The dining car operating ratio of 126% is a post-war low. Improvements in the commissary at Sunnyside, Long Island City, N.Y., including the modern kitchens and bake shops which were completed early in the year, contributed to the reduction in expenses.

The new ticket sales and reservation system, developed at Pittsburgh in 1953, was extended to Philadelphia, and the new bureau was opened there in January 1955. Further developments, including use of closed-circuit television, have equipped it to handle the volume of business in New York City and the new bureau there will be opened this fall. As at Pittsburgh and Philadelphia, the telephone,



New ticket-reservation center in Pennsylvania Station, New York, will be the world's finest and fastest.

information, reservation and ticket office functions will be combined, and modern electronic devices will speed our service to customers and reduce chances of error.

We are increasing the speed of our ticketselling operations at several other locations, and giving better service to customers, by the use of "Ticketeer" machines.

New arrangements have been made for credit cards for rail travel, with about 50 railroads joining in the plan. Over 220,000 cards were issued in 1955. The cooperative program with "Hertz Rent-A-Car System" is producing an increase in the sale of tickets for combination rail-auto travel.

As another means of advertising and merchandising railroad passenger service, special round-trip fares for ladies have been inaugurated for Wednesday trains into New York and Philadelphia. The response has been enthusiastic and most of the passengers represent new business. The operation is only on a break-even basis, but the public relations and advertising values make it worthwhile.

1956 will be marked by the introduction of new types of passenger equipment by several railroads. The first of these to appear was the General Motors "Aerotrain," which is shown on the cover of this report. It is now in experimental service on your railroad. Others, including Pennsylvania's new tubular train being built by The Budd Company, are going into service in the next few months. All of these trains have been designed with the objective of lowering the cost of equipment and of maintenance expenses, while at the same time enabling the railroads to offer passengers attractive service.

The tax on common carrier transportation continues to be a burden to the users of railroad passenger services and it handicaps the restoration of this service to a profitable basis. The original intention for this tax was to discourage personal travel in World War II when the railroads were overcrowded and gasoline rationing was in effect. Its purpose disappeared over ten years ago, but the tax remains—and so does its effect.



Two cargoes of import ore being unloaded simultaneously at the new Greenwich Point Ore Pier, in Philadelphia.

PLANT AND EQUIPMENT

A major program of modernization to consolidate or retire unnecessary tracks and facilities, and to add facilities where traffic density is expected to increase, has been undertaken. The change to diesel motive power eliminated the need for many coal and water facilities and also reduced requirements for engine houses. The advances that have been made in signal controls, particularly Centralized Traffic Control, permit handling sufficient trains to serve present and future traffic with fewer tracks.

The new eastbound classification yard and attendant facilities at Conway was placed in service in November. The westbound yard will be completed late in 1956.

The Samuel Rea shops at Hollidaysburg started pilot-scale operations in November. At the end of the year 14 cars a day were being given heavy repairs. When both production lines are in operation—scheduled for July 1956—50 cars a day can be torn down, completely rehabilitated and assembled.

A third unloading machine was installed at Greenwich Ore Pier in Philadelphia.

The Pittsburgh passenger station project is now 75 percent complete.

New and reconditioned rail was laid in 202 miles of main line track. Heavy repairs were made to 1550 miles of track and an additional 810 miles were surfaced and realigned.

Maintenance of Way forces were further mechanized during the year. The experimental machinery for tie renewals proved very successful and 15 additional gangs will be so equipped in 1956.

Seventy-one new diesel locomotive units have been added to the fleet, bringing System ownership to 2,055 units, with total horse-power of 2,849,370. 2,272 new freight cars were placed in service and at the end of the year 9,529 were on order. 2,181 old box cars were rebuilt.

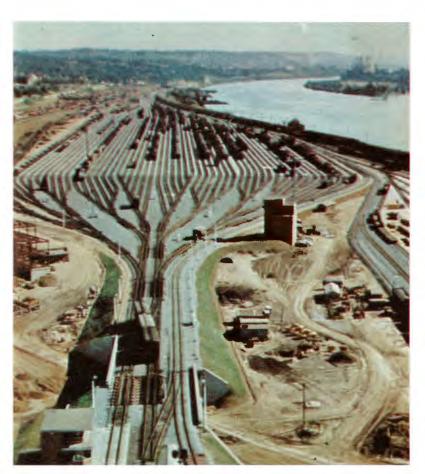
Two new tugboats were placed in service.
One of the three electronic data processing machines on order was delivered. The further mechanization of clerical functions offers substantial opportunity for savings.

PURCHASES The materials, supplies and equipment purchased during the year cost \$149,259,000, which was \$37,333,000 more than in the preceding year.

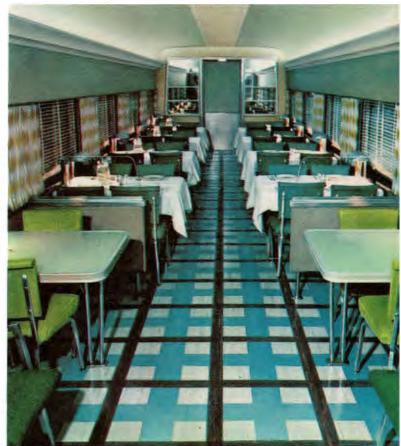
Inventories at the end of the year amounted to \$56,000,000 as compared with \$64,000,000 at the close of 1954.



Interior of Samuel Rea—world's largest freight car repair shop—now in partial operation.



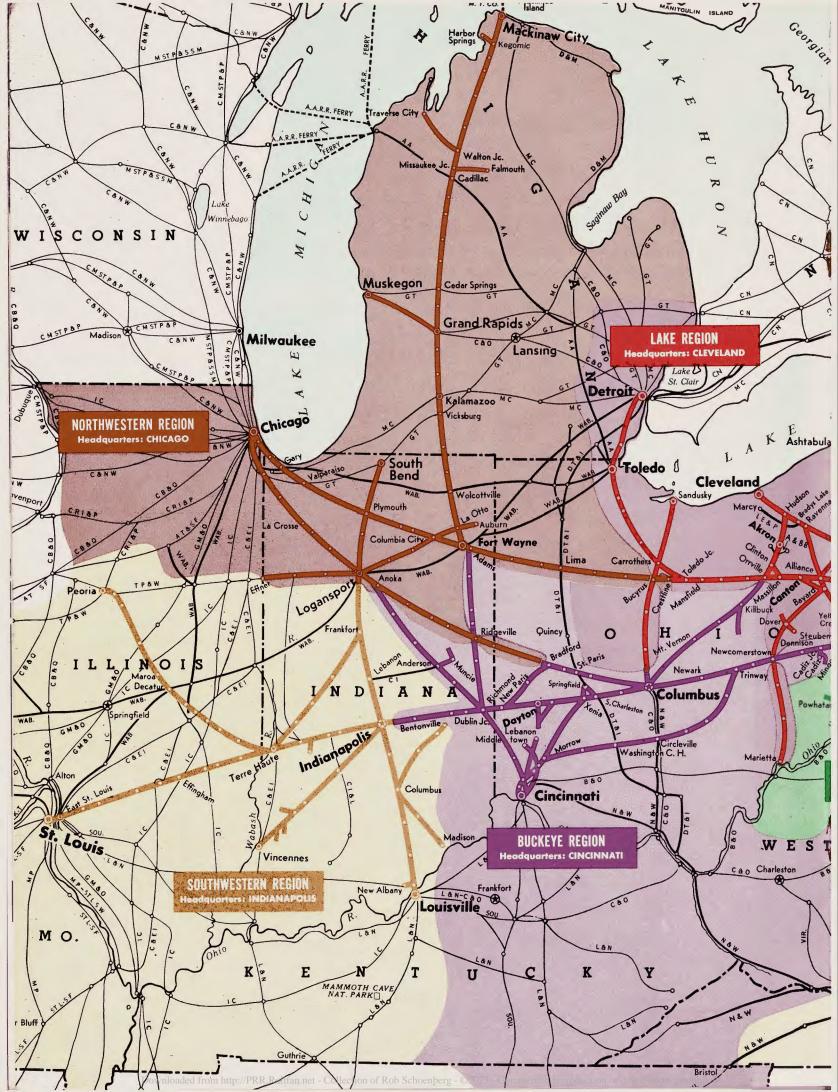
Eastbound classification tracks of the new Conway Yard, west of Pittsburgh, which were placed in service on November 15.

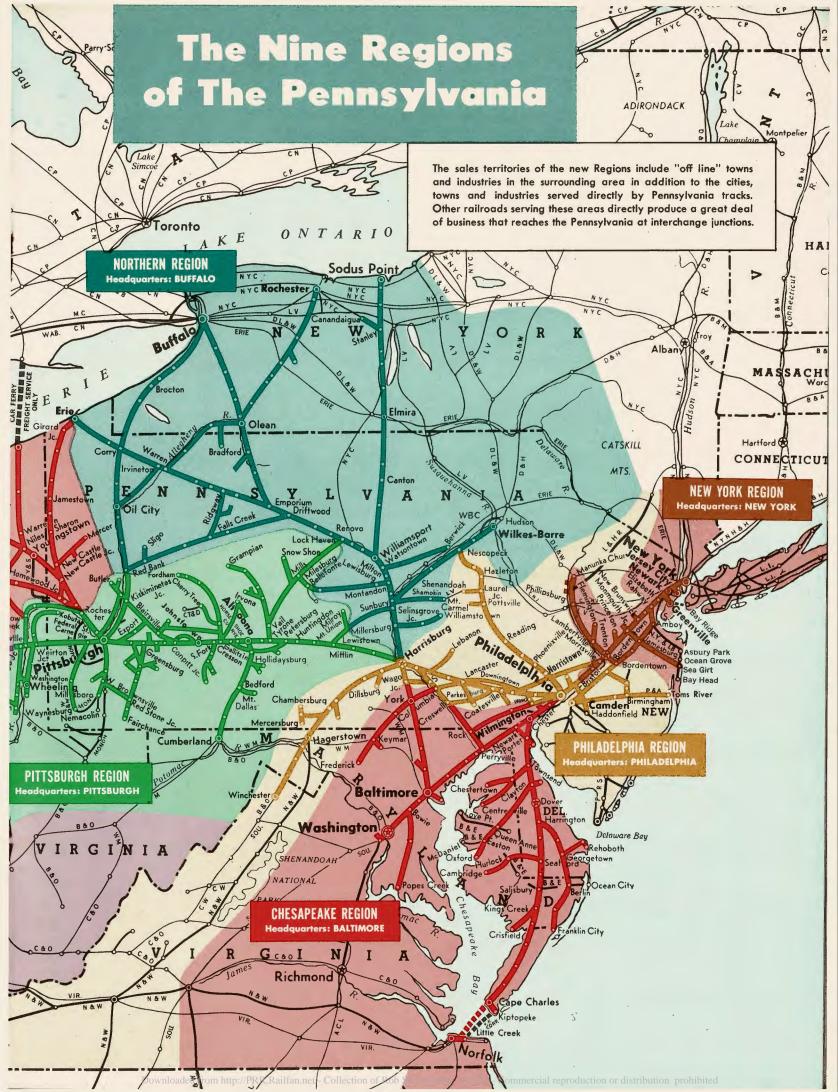


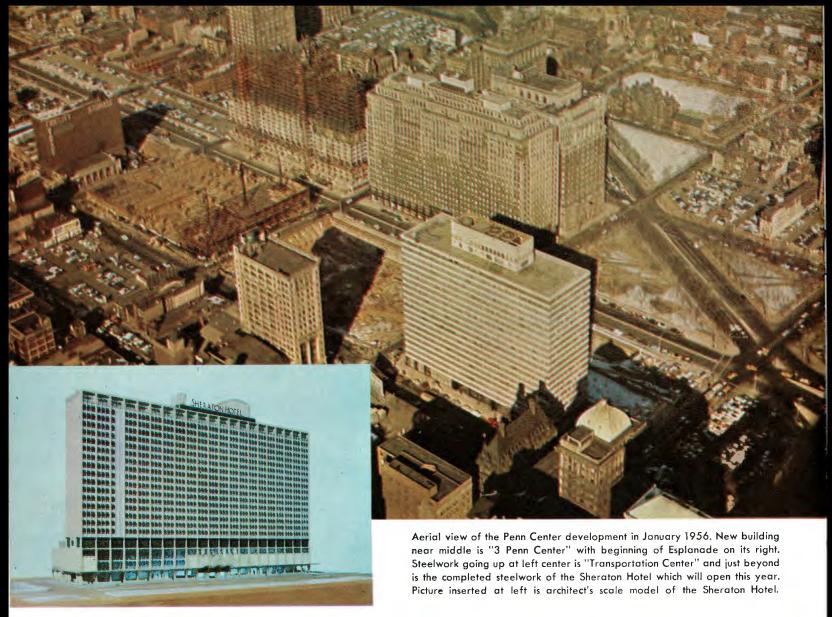
Rebuilt diner with the first all-plastic interior has beauty, acoustical improvements and will require less maintenance expense.

 $This new \ light weight "Tubular" \ train \ will soon be in service \ between \ New \ York \ and \ Washington.$









TrucTrain with 95 highway trailers aboard travels from New York to Chicago in 27 hours.



PUTTING MORE REAL ESTATE TO WORK

PENN CENTER The sale and development of the valuable property in the heart of Philadelphia, which was made available by removal of Broad Street Station and the elevated tracks which led to it, has continued satisfactorily, and the project is well on its way to becoming one of the urban show places of the Nation.

The first office building, Uris Brothers' "3 Penn Center Plaza" is completed and fully occupied. This is on the south side of the Esplanade between 15th and 16th Streets. Plans call for construction of a similar building on the opposite side.

The block between 16th and 17th Streets has been excavated to allow completion of the shop-lined concourse which will underlie Penn Center. The air-rights above are available for sale or lease, with foundations for 20-story buildings already in place.

On the block between 17th and 18th Streets, McCloskey & Company's Transportation Center will be completed late in 1956. A bus terminal, airlines terminal and a parking garage will occupy the lower portion of the building. Above will be an 18-story office building, part of which will be leased for the Pennsylvania Railroad's headquarters offices.

Across the street, on the north side of Pennsylvania Boulevard, the Sheraton Corporation is building a modern 21-story hotel which will be ready for occupancy this fall.

Several important parcels of land in Penn Center remain for sale—offering opportunities to locate in one of the most dramatic urban developments of recent times.

NEW YORK CITY Plans for developing the space over Pennsylvania Station have not



Above: Architects' rendering of the new Transportation Center when completed. View is looking west on Pennsylvania Boulevard.



This modern office building with parking garages underneath is being constructed over Fourth Avenue station in Pittsburgh.

yet materialized, but the air-rights over the station are still under option. The air-rights over our tracks between 9th and 10th Avenues have been sold.

GENERAL The Company has participated constructively in the efforts of several cities to ease traffic congestion by the creation of commercial parking facilities. In each case this has been accomplished without cost to the Company.

Cash from sales of real estate no longer needed for railroad purposes amounted to \$6,966,000 in 1955.

Income from all rentals and concessions amounted to \$11,922,000.

IMPROVING EMPLOYE RELATIONS

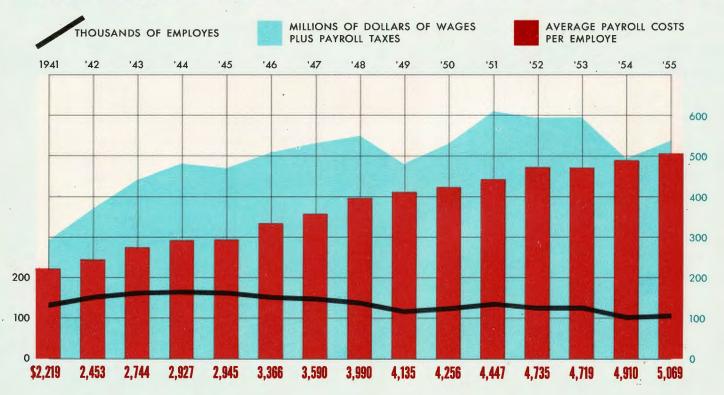
The year 1955 was a year of wage increases throughout industry generally. Settlements with railroad brotherhoods and unions came mostly in the later months of the year. These generally provided an average increase of 15 cents an hour. Added costs for wages, payroll taxes and employes' benefits incurred in 1955 added \$8,000,000 to expenses for the year and represent \$47,000,000 on an annual basis.

It was also a year of improving employment opportunities and improving employe relations. Since the new plan of organization went into effect, the will to do a better job has been much more evident throughout the railroad.

There are now 27 "Pennsy Family Clubs" in communities where larger groups of employes reside. All are working toward better teamwork, sales promotion, better customer service and better relations between the railroad and the communities it serves.

The Company's employe medical services continued to improve. A new study of preemployment physical standards is designed to lead to better selection of employes, and the preventive medical program is expected to maintain a healthier, safer and more stable

AVERAGE NUMBER OF EMPLOYES, TOTAL PAYROLL COSTS AND AVERAGE ANNUAL PAYROLL COSTS PER EMPLOYE





Modern equipment in new Medical Center includes this versatile X-ray unit for both fluoroscopy and rapid-fire photography.

body of employes. A modern Medical Center at Pennsylvania Station-30th St., Philadelphia has been opened, and plans are being developed for such facilities at other key points. An Industrial Hygiene Section was established to study toxic or hazardous exposures.

New safety methods and procedures were adopted to give supervisors greater incentive to seek out and eliminate the causes of injuries. Emphasis is placed upon prompt and adequate treatment, even in the most minor injury cases. Safety training has been accelerated by a new program of rule examinations and educational films.

"The Pennsy" magazine continues to be an outstanding example of good communication between Company and employes. A special edition was issued to tell the important story of the new management organization.

Courses in supervisory methods and customer relations have been completed for all station agents, and similar courses are in progress for other groups, including assistant train masters, yard masters and yard clerks. Courses for passenger and freight station personnel will be provided this year.

Many employes have voluntarily joined in group studies of the President's Cabinet Committee Report on National Transportation Policy, participating in the efforts of the industry to gain public endorsement for its objectives and for legislative action.

All of the large Brotherhoods and most of the other employe organizations have endorsed the principal parts of the Report and will support the industry's efforts for remedial legislation.

RESEARCH AND DEVELOPMENT

The Department of Research and Development was established November 1 and is rapidly taking over the duties and purposes for which it was created.

Your railroad has always maintained an intensive program of technical research and development; therefore, these activities are not new but the way in which they are now coordinated is new. Purely technical research, and localized projects will be handled as they have been in the past, but where studies call for the skills and cooperation of several departments or are of concern to the entire System, the new department will coordinate these efforts.

Typical of such pooling of skills is the study of the future potential and economics of TrucTrain service. This involves the cooperative efforts of experts in most aspects of railroading, including engineering, transportation, equipment design, sales and services, and regulatory as well as competitive features. Qualified men from various departments are working as a team for the study.

Similar work is being scheduled for such forward-looking projects as the new light-weight passenger trains. The department will soon be moving forward with long-term business research, and following developments in atomic energy to evaluate its role in future operations of the railroad.

OUR PART IN THE EXPANDING ECONOMY

Businessmen and economists seem generally convinced that the ten years ahead will see a large expansion in the national economy.

It is estimated that by the year 1965 our population will have increased to about 190 million, the gross national product to about \$535 billion, and intercity freight traffic to about one trillion 550 billion ton miles.

At present the railroads handle about one-half the total freight ton-miles. If they maintain that participation over the next decade, in 1965 they will do about 40 percent more business than they did in 1955. With very little increase in their percentage, they could do over half again as much business as they are now doing.

To maintain the position of the Pennsylvania Railroad in transportation—and to make any extension of it—three interrelated conditions must be met:

- 1. We must, as a self-supporting business in the highly competitive transportation field, with several partly-subsidized rivals, obtain a greater measure of equality in how we are regulated and taxed.
- 2. We must continue to improve in our salesmanship and in the performance of service. During the last few years we have made a number of changes in our business methods, aimed at obtaining more business and handling it more efficiently. The most significant of these changes was the new plan of management organization.
- 3. Finally, in our determination to share fully in the expanding economy, we must constantly recognize that we are a "growth" company in a "growth" industry. Companies and industries cannot grow without spending

money to do so. In the ten years since the end of the war we spent over a billion dollars to restore, rebuild and renew our railroad. To realize our full potential in the years ahead, we should make further extensive capital expenditures.

Our ability to make the earnings needed for (3) depends very much on accomplishing (1) and (2)—our being granted the freedom to earn our way among our competitors and our skill at seizing the opportunity.

We feel sure we can provide the skill; the freedom to use it must come from changes in legislation. Following is a brief summary of a promise of such freedom, with an indication of the interest of the general public and the stockholder in helping to see that it is granted by their elected representatives.

A NEW NATIONAL POLICY FOR TRANSPORTATION

From the standpoint of your Company and the railroad industry generally, the public endorsement by President Eisenhower of a Report on Transport Policy submitted by members of his Cabinet was one of the most significant events of 1955.

The Report, recommending twelve distinct changes in present regulatory laws, was made public on April 18, 1955. At a press conference in the following month, President Eisenhower said:

"The Transportation Report is a brilliant piece of work in its analysis of our difficulties and in the purposes it announces that it wants to achieve...the basic principles are commendable... Certainly I approve of them perfectly."

While the Report deals with a complex and technical subject, the proposals, which were unanimously approved by the members of the Committee, can be summarized briefly. The Committee found two situations under present law which must be corrected if the railroads and other forms of common-carrier transportation are to be in position to serve the public properly in times of peace and war.

These defects are: present government regulation of freight rates does not permit sufficient freedom to the several carriers for pricing transportation services on a competitive basis; and, the present laws discriminate against those transportation companies which serve the public generally—the so-called "common carriers," including all railroads, many trucking companies and some water carriers—and favors those carriers which are largely free from regulation and which give special service to a few selected shippers.

The Report asserts that the public and national interest requires changes in the law, placing greater reliance on ordinary competition in freight rate making, and strengthening the competitive position of common carriers.

Your management is convinced that the proposals made by President Eisenhower's Cabinet Committee are in the interest of the public as well as the entire railroad industry. The share of freight business handled by the railroads has fallen off sharply in recent years and that situation is largely due to the outmoded laws which have denied to the railroads a fair opportunity to compete with other forms of transportation. Your Company does not seek any rights which will not be available to all other forms of transportation. It urges only that our industry be freed from restrictions from which most of our competitors are already free.

Without exception, those who speak for the public's interest in this problem have strongly endorsed the recommendations of the Cabinet Committee. They point out that the public stands to gain if real competition in the making of freight rates is restored and the essential common carriers are given a better opportunity to compete with unregulated and specialized carriers.

The most vocal opposition to these recommendations has come from some spokesmen for the trucking associations and the domestic water carriers. They oppose real competition in freight rates because that would enable the railroads to regain a part of the traffic which has been lost in recent years. That argument, of course, ignores the public interest in a sound transport policy and emphasizes the interest of certain forms of transportation in continuing the present unfair system of regulation.

Some of the arguments against the Committee's recommendations have been geared to the theme that the Report is really a study made by and for the railroads of the country. That charge is false—as anyone can see from the background of the Cabinet officers who signed the Report. None of these men have any reason to consider anything but the public interest in proposing changes in federal transportation policies.

This Congress is expected to consider bills which would bring about one or more of the changes in present law urged by the Committee. While safeguarding the public interest against unreasonably high rates and below-cost rate reductions, these bills would alter the Commission's present powers to fix exact rates and to control the distribution of traffic among different forms of transport.

Many shareholders may wish to express their views on this important legislation by speaking or writing to their Senators and Congressmen. In doing so, they will be serving not only their own interest as owners in the railroad industry, but, more importantly, the public interest in better transportation. western railroad Your Company has joined with the Atchison, Topeka & Santa Fe Railway Company in a proposal to acquire the Toledo, Peoria & Western Railroad at a price of \$135 per share. The Pennsylvania Railroad's share of the cost would be approximately \$6,000,000. This proposal has been accepted by the holders of nearly all of the outstanding stock of that Company. The approval of the Interstate Commerce Commission must be secured to complete the transaction. Some other railroads are opposing it.

The T. P. & W. constitutes a strategic property connecting our lines with the Santa Fe and other railroads that serve the West. It provides an important additional gateway for through east-west freight service.

LONG ISLAND RAIL ROAD The legal actions brought by the City of New York were terminated satisfactorily and the Long Island Rail Road has become firmly established in its new status under the State law.

Excellent progress has been made on the \$60,000,000 improvement program. 144 new passenger cars have been delivered and 157 passenger cars have been rehabilitated. By the end of April 1956, a total of 222 new passenger cars will have been delivered.

To provide funds for financing the equipment, the Pennsylvania Railroad purchased \$3,540,000 Long Island General Mortgage, Series "A," 5% Bonds. A commitment to purchase an additional \$1,900,000 of these Bonds is a part of the rehabilitation plan.

Due to increased costs for wages and materials the Long Island raised its passenger fares on December 6, 1955 by 5 cents per ride. LEGAL DEVELOPMENTS The War Materials Reparations Cases were dismissed by the Interstate Commerce Commission and the Commission has denied the Government's request to reconsider.

The anti-trust suit by Seatrain Lines, Inc. against several railroads, including your Company, was dismissed by agreement between the parties.

The anti-trust suit brought by the Pennsylvania Motor Truck Association, after lying dormant for over a year, was reactivated by the plaintiffs. The Court tentatively set the case for trial in October 1956.

A complaint by three stockholders was filed in the Federal District Court at Philadelphia against your Company and its directors seeking to end classification of directors according to terms of office, which was established by action of the stockholders in 1901. The Court heard arguments on preliminary motions in September but has not rendered its decision.

Meeting of the Stockholders will be held in the Bellevue-Stratford Hotel, Philadelphia, on Tuesday, May 8, 1956, at 11:00 o'clock, daylight time.

Your officers are looking forward to the opportunity of becoming better acquainted with many stockholders on that occasion, and are making arrangements for a morning which it is hoped will be both pleasant and informative.

The management welcomes communications from stockholders and will continue to give conscientious consideration to every comment and suggestion.



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.



Your Company's Annual Report for 1954 received The Financial World's "Gold Trophy" award as the best annual report of the year.

CONDENSED INCOME STATEMENT			
	Year 1955	Year 1954	Increase or Decrease
THE COMPANY HAD OPERATING REVENUES FROM:			
Transportation of Freight	\$718,492,327	\$628,135,316	\$90,357,011
Transportation of Passengers	121,156,635	126,503,784	D 5,347,149
Handling of Mail	38,332,566	40,103,836	D 1,771,270
Handling of Express	10,551,106	11,839,661	D 1,288,555
Other Operations	46,440,236	42,222,557	i 4,217,679
Other Operations	934,972,870	848,805,154	86,167,716
HERE WAS DEDUCTED:	001,072,070	0.0,000,101	
Operating Expenses	768,201,214	712,745,820	55,455,394
Federal Income Taxes (See Note D, Page 34)	1,286,601	1,506,208	D 219,607
Other Taxes	60,296,691	57,423,205	2,873,486
Equipment and Joint Facility Rents	36,221,761	29,068,740	7,153,021
	866,006,267	800,743,973	65,262,294
EAVING NET RAILWAY OPERATING INCOME OF HE COMPANY HAD OTHER INCOME (from Dividends,	68,966,603	48,061,181	20,905,422
Interest on Securities owned, etc.) Less Income from Leased Lines Securities held (eliminated	25,319,525	25,385,856	D 66,331
from Leased Lines Rental below)	2,333,686	2,566,196	D 232,510
	22,985,839	22,819,660	166,179
Total	91,952,442	70,880,841	21,071,601
THER MISCELLANEOUS CHARGES WEREEAVING A BALANCE FOR FIXED CHARGES AND OTHER	5,913,962	5,456,462	457,500
CORPORATE PURPOSES OF	86,038,480	65,424,379	20,614,101
Leased Lines Rental (after deducting Income from Leased Lines Securities held)	10.064.260	40 704 400	627 120
Interest on Funded Debt	18,064,362	18,701,492	b 637,130
	26,633,426	27,972,516	D 1,339,090
Other	157,159	198,136	<u>D</u> 40,977
Total Fixed Charges	44,854,947	46,872,144	D 2,017,197
LEAVING A NET INCOME OF	41,183,533	18,552,235	22,631,298
Times Fixed Charges Earned:			
Before Federal Income Taxes	1.95	1.43	
After Federal Income Taxes	1.92	1.40	
NET INCOME PER SHARE OF STOCK	\$3.13	\$1.41	
CONDENSED STATEMENT OF EARNED S	URPLUS	E	
BALANCE, JANUARY 1	\$739,416,516	\$709,421,584	\$29,994,932
	41,183,533	18,552,235	I 22,631,298
Western New York & Pennsylvania Ry. Co. Stocks Restored to Cost (Account merger into Penndel Co.)	_	24,984,264	D 24,984,264
Miscellaneous Credits	0.245.166	•	i 6,678,205
AZZOCCHMICOMO CICCIOS	9,345,166	2,666,961	
educt: Dividends Paid	789,945,215	755,625,044	34,320,171
	19,751,631	9,875,815	9,875,816
Miscellaneous Debits	*19,607,781	6,332,713	13,275,068
	39,359,412	16,208,528	23,150,884
ALANCE, DECEMBER 31* *Includes Retirements of Roadway Property of \$17,049,390	750,585,803	739,416,516	11,169,287

RAILROAD COMPANY

CONDENSED BALANCE SHEET	December 31.	December 31,		Increase
ASSETS	1955	1954	_ •	r Decrease
CURRENT ASSETS:				
(Cash, temporary cash investments, material and supplies,				
accounts receivable, etc.)	\$267,309,202	\$265,551,355	ı	\$1,757,847
SPECIAL FUNDS:				
(Trust of 1878, insurance, sinking and other funds)	* 171,494,860	179,333,868	D	7,839,008
NVESTMENTS:				
In Transportation Property and Equipment	1,916,034,298	1,937,234,915	D	21,200,617
Less: Accrued Depreciation	620,935,888	619,790,845	1	1,145,043
Accrued Amortization of Defense Projects	60,214,633	64,692,109	D	4,477,470
Total	681,150,521	684,482,954	D	3,332,433
Net Investment in Transportation Property and				
Equipment	1,234,883,777	1,252,751,961	D	17,868,184
In Miscellaneous Physical Property	15,152,363	10,916,956		4,235,40
In Affiliated Companies (stocks, bonds, notes and advances) In Other Companies (stocks, bonds, notes and advances)	* 727,695,648	712,014,610		15,681,038
Total Investments less recorded Depreciation and	26,024,587	20,057,569	-	5,967,018
Amortization	2,003,756,375	1,995,741,096		8,015,279
			-	0,010,270
OTHER ASSETS: (Working fund advances, prepayments, and items in process				
of adjustment)	21,778,227	14,921,669	1	6,856,55
Total	2,464,338,664	2,455,547,988		8,790,67
*Of these investments, \$57,607,500 par value of stocks, \$1,766,000 par v \$4,000,000 par value of mortgages, are pledged under various Mortgages ar See Page 26 Regarding Investment in Long Island Rail Road Company, and	d Trust Indentures.			
\$4,000,000 par value of mortgages, are pledged under various Mortgages ar	d Trust Indentures.			
\$4,000,000 par value of mortgages, are pledged under various Mortgages an See Page 26 Regarding Investment in Long Island Rail Road Company, and	d Trust Indentures.			
\$4,000,000 par value of mortgages, are pledged under various Mortgages and See Page 26 Regarding Investment in Long Island Rail Road Company, and LIABILITIES CURRENT LIABILITIES:** (Traffic balances, wages, taxes, interest, other accounts	d Trust Indentures. Note G, Page 34.			
\$4,000,000 par value of mortgages, are pledged under various Mortgages and See Page 26 Regarding Investment in Long Island Rail Road Company, and LIABILITIES CURRENT LIABILITIES:** (Traffic balances, wages, taxes, interest, other accounts payable, etc.)	d Trust Indentures.	\$120,949,436	r	\$24,139,419
\$4,000,000 par value of mortgages, are pledged under various Mortgages and See Page 26 Regarding Investment in Long Island Rail Road Company, and LIABILITIES CURRENT LIABILITIES:** (Traffic balances, wages, taxes, interest, other accounts payable, etc.)	d Trust Indentures. Note G, Page 34. \$145,088,855			
\$4,000,000 par value of mortgages, are pledged under various Mortgages and See Page 26 Regarding Investment in Long Island Rail Road Company, and LIABILITIES CURRENT LIABILITIES:** (Traffic balances, wages, taxes, interest, other accounts payable, etc.)	A Trust Indentures. Note G, Page 34. \$145,088,855 434,237,000	449,584,000	D	15,347,000
\$4,000,000 par value of mortgages, are pledged under various Mortgages and See Page 26 Regarding Investment in Long Island Rail Road Company, and LIABILITIES CURRENT LIABILITIES:** (Traffic balances, wages, taxes, interest, other accounts payable, etc.) LONG-TERM DEBT: Bonded Debt	\$145,088,855 434,237,000 303,783,041	449,584,000 317,394,325		15,347,000
See Page 26 Regarding Investment in Long Island Rail Road Company, and Company	A Trust Indentures. Note G, Page 34. \$145,088,855 434,237,000	449,584,000	D	15,347,00
\$4,000,000 par value of mortgages, are pledged under various Mortgages and See Page 26 Regarding Investment in Long Island Rail Road Company, and LIABILITIES CURRENT LIABILITIES:** (Traffic balances, wages, taxes, interest, other accounts payable, etc.) LONG-TERM DEBT: Bonded Debt Equipment Obligations Mortgages and Ground Rents.	\$145,088,855 434,237,000 303,783,041 53,045	449,584,000 317,394,325 53,045	D D	15,347,000 13,611,284 —
See Page 26 Regarding Investment in Long Island Rail Road Company, and Company	\$145,088,855 434,237,000 303,783,041	449,584,000 317,394,325	D	15,347,000 13,611,284 —
See Page 26 Regarding Investment in Long Island Rail Road Company, and LIABILITIES CURRENT LIABILITIES: (Traffic balances, wages, taxes, interest, other accounts payable, etc.) LONG-TERM DEBT: Bonded Debt Equipment Obligations Mortgages and Ground Rents OTHER LIABILITIES: (Deferred Credits and items in process of adjustment) RESERVES:	\$145,088,855 434,237,000 303,783,041 53,045	449,584,000 317,394,325 53,045	D D	15,347,000 13,611,284 —
See Page 26 Regarding Investment in Long Island Rail Road Company, and See Page 26 Regarding Investment in Long Island Rail Road Company, and LIABILITIES CURRENT LIABILITIES: (Traffic balances, wages, taxes, interest, other accounts payable, etc.) LONG-TERM DEBT: Bonded Debt Equipment Obligations Mortgages and Ground Rents OTHER LIABILITIES: (Deferred Credits and items in process of adjustment) RESERVES: (Accrued depreciation—leased property, injuries to persons,	\$145,088,855 \$145,088,855 \$33,783,041 \$3,045 \$15,902,850	449,584,000 317,394,325 53,045 11,610,523	D D	15,347,000 13,611,284 — 4,292,32
See Page 26 Regarding Investment in Long Island Rail Road Company, and See Page 26 Regarding Investment in Long Island Rail Road Company, and LIABILITIES CURRENT LIABILITIES: (Traffic balances, wages, taxes, interest, other accounts payable, etc.) LONG-TERM DEBT: Bonded Debt. Equipment Obligations. Mortgages and Ground Rents. OTHER LIABILITIES: (Deferred Credits and items in process of adjustment) RESERVES: (Accrued depreciation—leased property, injuries to persons, loss and damage—freight)	\$145,088,855 434,237,000 303,783,041 53,045	449,584,000 317,394,325 53,045	D D	15,347,000 13,611,284 — 4,292,32
See Page 26 Regarding Investment in Long Island Rail Road Company, and See Page 26 Regarding Investment in Long Island Rail Road Company, and LIABILITIES CURRENT LIABILITIES: (Traffic balances, wages, taxes, interest, other accounts payable, etc.) LONG-TERM DEBT: Bonded Debt	\$145,088,855 434,237,000 303,783,041 53,045 15,902,850	449,584,000 317,394,325 53,045 11,610,523 147,618,423	D D	15,347,000 13,611,284 — 4,292,32
A,000,000 par value of mortgages, are pledged under various Mortgages and See Page 26 Regarding Investment in Long Island Rail Road Company, and LIABILITIES CURRENT LIABILITIES: (Traffic balances, wages, taxes, interest, other accounts payable, etc.) CONG-TERM DEBT: Bonded Debt Equipment Obligations Mortgages and Ground Rents OTHER LIABILITIES: (Deferred Credits and items in process of adjustment) RESERVES: (Accrued depreciation—leased property, injuries to persons, loss and damage—freight) STOCKHOLDERS' EQUITY: Capital Stock (13,167,754 shares par value \$50. per share)	\$145,088,855 \$145,088,855 \$33,783,041 \$3,045 \$15,902,850	449,584,000 317,394,325 53,045 11,610,523	D D	15,347,000 13,611,284 — 4,292,32
4,000,000 par value of mortgages, are pledged under various Mortgages and See Page 26 Regarding Investment in Long Island Rail Road Company, and LIABILITIES CURRENT LIABILITIES: (Traffic balances, wages, taxes, interest, other accounts payable, etc.) ONG-TERM DEBT: Bonded Debt Equipment Obligations Mortgages and Ground Rents OTHER LIABILITIES: (Deferred Credits and items in process of adjustment) RESERVES: (Accrued depreciation—leased property, injuries to persons, loss and damage—freight) CTOCKHOLDERS' EQUITY: Capital Stock (13,167,754 shares par value \$50. per share) Surplus:	\$145,088,855 \$145,088,855 434,237,000 303,783,041 53,045 15,902,850 145,753,250 658,387,700	449,584,000 317,394,325 53,045 11,610,523 147,618,423 658,387,700	D D	15,347,00 13,611,28 — 4,292,32 1,865,173
A4,000,000 par value of mortgages, are pledged under various Mortgages and See Page 26 Regarding Investment in Long Island Rail Road Company, and LIABILITIES CURRENT LIABILITIES: (Traffic balances, wages, taxes, interest, other accounts payable, etc.) LONG-TERM DEBT: Bonded Debt Equipment Obligations Mortgages and Ground Rents OTHER LIABILITIES: (Deferred Credits and items in process of adjustment) RESERVES: (Accrued depreciation—leased property, injuries to persons, loss and damage—freight) STOCKHOLDERS' EQUITY: Capital Stock (13,167,754 shares par value \$50. per share) Surplus: Earned—Appropriated (Additions to Property, Funded Debt Retired, Sinking and Miscellaneous Fund Reserves)	\$145,088,855 \$145,088,855 434,237,000 303,783,041 53,045 15,902,850 145,753,250 658,387,700 480,819,561	449,584,000 317,394,325 53,045 11,610,523 147,618,423 658,387,700 470,943,246	D D	15,347,00 13,611,28 — 4,292,32 1,865,173 — 9,876,31
A,000,000 par value of mortgages, are pledged under various Mortgages and See Page 26 Regarding Investment in Long Island Rail Road Company, and LIABILITIES CURRENT LIABILITIES: (Traffic balances, wages, taxes, interest, other accounts payable, etc.) CONG-TERM DEBT: Bonded Debt Equipment Obligations Mortgages and Ground Rents OTHER LIABILITIES: (Deferred Credits and items in process of adjustment) RESERVES: (Accrued depreciation—leased property, injuries to persons, loss and damage—freight) STOCKHOLDERS' EQUITY: Capital Stock (13,167,754 shares par value \$50. per share) Surplus: Earned—Appropriated (Additions to Property, Funded Debt Retired, Sinking and Miscellaneous Fund Reserves) Unappropriated	\$145,088,855 \$145,088,855 434,237,000 303,783,041 53,045 15,902,850 145,753,250 658,387,700 480,819,561 269,766,242	449,584,000 317,394,325 53,045 11,610,523 147,618,423 658,387,700 470,943,246 268,473,270	D D	15,347,000 13,611,284 — 4,292,323 1,865,173 — 9,876,318 1,292,975
A4,000,000 par value of mortgages, are pledged under various Mortgages and See Page 26 Regarding Investment in Long Island Rail Road Company, and Current Liabilities: Current Liabilities: (Traffic balances, wages, taxes, interest, other accounts payable, etc.) CONG-TERM DEBT: Bonded Debt Equipment Obligations Mortgages and Ground Rents OTHER LIABILITIES: (Deferred Credits and items in process of adjustment) RESERVES: (Accrued depreciation—leased property, injuries to persons, loss and damage—freight) STOCKHOLDERS' EQUITY: Capital Stock (13,167,754 shares par value \$50. per share) Surplus: Earned—Appropriated (Additions to Property, Funded Debt Retired, Sinking and Miscellaneous Fund Reserves) Unappropriated Total Earned Surplus.	\$145,088,855 \$145,088,855 434,237,000 303,783,041 53,045 15,902,850 145,753,250 658,387,700 480,819,561 269,766,242 750,585,803	449,584,000 317,394,325 53,045 11,610,523 147,618,423 658,387,700 470,943,246 268,473,270 739,416,516	D D	15,347,000 13,611,284 — 4,292,323 1,865,173 — 9,876,318 1,292,973 11,169,283
See Page 26 Regarding Investment in Long Island Rail Road Company, and See Page 26 Regarding Investment in Long Island Rail Road Company, and LIABILITIES CURRENT LIABILITIES: (Traffic balances, wages, taxes, interest, other accounts payable, etc.) LONG-TERM DEBT: Bonded Debt	\$145,088,855 \$145,088,855 434,237,000 303,783,041 53,045 15,902,850 145,753,250 658,387,700 480,819,561 269,766,242 750,585,803 398,891	449,584,000 317,394,325 53,045 11,610,523 147,618,423 658,387,700 470,943,246 268,473,270 739,416,516 385,791		15,347,000 13,611,284 4,292,327 1,865,173 9,876,318 1,292,977 11,169,287
See Page 26 Regarding Investment in Long Island Rail Road Company, and See Page 26 Regarding Investment in Long Island Rail Road Company, and LIABILITIES CURRENT LIABILITIES: (Traffic balances, wages, taxes, interest, other accounts payable, etc.) LONG-TERM DEBT: Bonded Debt. Equipment Obligations. Mortgages and Ground Rents. OTHER LIABILITIES: (Deferred Credits and items in process of adjustment) RESERVES: (Accrued depreciation—leased property, injuries to persons, loss and damage—freight) STOCKHOLDERS' EQUITY: Capital Stock (13,167,754 shares par value \$50. per share) Surplus: Earned—Appropriated (Additions to Property, Funded Debt Retired, Sinking and Miscellaneous Fund Reserves) Unappropriated Total Earned Surplus Unearned Premium on Capital Stock	\$145,088,855 \$145,088,855 434,237,000 303,783,041 53,045 15,902,850 145,753,250 658,387,700 480,819,561 269,766,242 750,585,803 398,891 10,148,229	449,584,000 317,394,325 53,045 11,610,523 147,618,423 658,387,700 470,943,246 268,473,270 739,416,516 385,791 10,148,229		15,347,000 13,611,284 4,292,327 1,865,173 9,876,318 1,292,972 11,169,287 13,100
See Page 26 Regarding Investment in Long Island Rail Road Company, and See Page 26 Regarding Investment in Long Island Rail Road Company, and Current Liabilities: Current Liabilities: Current Debt: Cong-term Debt: Bonded Debt. Equipment Obligations. Mortgages and Ground Rents. Other Liabilities: (Accrued depreciation—leased property, injuries to persons, loss and damage—freight). Stockholders' Equity: Capital Stock (13,167,754 shares par value \$50. per share). Surplus: Earned—Appropriated (Additions to Property, Funded Debt Retired, Sinking and Miscellaneous Fund Reserves) Unappropriated. Total Earned Surplus. Unearned. Premium on Capital Stock. Total Stockholders' Equity.	\$145,088,855 \$145,088,855 434,237,000 303,783,041 53,045 15,902,850 145,753,250 658,387,700 480,819,561 269,766,242 750,585,803 398,891 10,148,229 1,419,520,623	449,584,000 317,394,325 53,045 11,610,523 147,618,423 658,387,700 470,943,246 268,473,270 739,416,516 385,791 10,148,229 1,408,338,236		\$24,139,415 15,347,000 13,611,284 4,292,325 1,865,173 1,292,975 11,169,285 13,100 11,182,387 8,790,676
See Page 26 Regarding Investment in Long Island Rail Road Company, and See Page 26 Regarding Investment in Long Island Rail Road Company, and LIABILITIES CURRENT LIABILITIES: (Traffic balances, wages, taxes, interest, other accounts payable, etc.) LONG-TERM DEBT: Bonded Debt	\$145,088,855 \$145,088,855 434,237,000 303,783,041 53,045 15,902,850 145,753,250 658,387,700 480,819,561 269,766,242 750,585,803 398,891 10,148,229	449,584,000 317,394,325 53,045 11,610,523 147,618,423 658,387,700 470,943,246 268,473,270 739,416,516 385,791 10,148,229		15,347,000 13,611,284 4,292,327 1,865,173 9,876,318 1,292,972 11,169,287 13,100

The Company has assumed contingent liabilities aggregating \$473,265,077, as of December 31, 1955, 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 \$161,775,000 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, \$71,574,577 are owned by the Pennsylvania Railroad System. For other contingent liabilities, see Note L, Page 35.

THE PENNSYLVANIA RAILROAD COMPANY

SOURCE AND APPLICATION OF FUNDS FOR THE YEAR 1955

SOURCE

SOURCE			APPLICATION
Decrease in Net Working Capital	\$22,381,572	\$19,75 1,631	Dividends
Net Income	\$4 1,183, <i>5</i> 33	\$55,410,692	
Depreciation	\$52,016,708	\$49,418,967	Obligations Paid or Reacquired
Sale of Capital Assets	\$22,503,776	\$21,548,057	Net Increase in Investments
Equipment Financing	\$19,907,160	\$16,152,807	
Net Decrease in Special Funds	\$7,839,008 \$1,432,475	\$4,982,078	Miscellaneous
TOTAL		\$167,264,232	TOTAL

PENNSYLVANIA RAILROAD SYSTEM

CONDENSED CONSOLIDATED INCOME STATEMENT (Note A)

	1955	1954	1953	1952	1951
Income:					
Railway operating revenues (Note B)	\$936,098,340	\$849,796,028	\$1,035,505,430	\$1,030,417,415	\$1,046,587,798
Revenues from miscellaneous operations	15,518,164	13,314,552	13,255,025	13,570,408	13,772,748
Dividend income	19,090,889	17,795,437	15,275,116	13,886,840	13,614,978
Other	7,338,154	8,863,031	8,417,317	7,127,210	8,738,204
Total	978,045,547	889,769,048	1,072,452,888	1,065,001,873	1,082,713,728
Ļ				<u> </u>	~
Operating Charges and Other Deductions:		-2.			
Railway operating expenses (Note C)	769,900,260	713,878,410	865,789,303	867,747,283	895,427,47
Equipment and joint facility rents (net)	35,019,212	28,036,742	24,485,992	18,230,149	22,736,01
Expenses of miscellaneous operations and other deductions	16,838,547	14,919,161	16,768,181	15,387,485	15,099,95
Provision for taxes:					
Federal income (Note D)	1,608,047	1,462,328	11,160,732	10,499,206	10,561,920
Other	63,676,294	60,375,346	62,996,844	62,486,079	62,608,34
Total	887,042,360	818,671,987	981,201,052	974,350,202	1,006,433,70
Income available for fixed charges and other corporate purposes	91,003,187	71,097,061	91,251,836	90,651,671	76,280,02
Fixed Charges:					
Leased Lines Rental (after deducting Income from Leased Lines Securities held) (Note E).	13,905,638	14,464,015	14,693,287	15,071,046	15,364,67
Interest on funded debt (other than included in					
leased lines rental)	26,646,608	28,077,708	28,970,699	28,763,028	26,905,77
Other	242,085	295,819	333,186	422,355	504,01
Total	40,794,331	42,837,542	43,997,172	44,256,429	42,774,45
NET INCOME	50,208,856	28,259,519	47,254,664	46,395,242	33,505,56
Times Fixed Charges Earned:					
Before Federal income taxes	2.27	1.69	2.33	2.29	2.0
After Federal income taxes	2.23	1.66	2.07	2.05	1.7
NET INCOME PER SHARE OF PRR CO. STOCK	\$3.81	\$2.15	\$3.59	\$3.52	\$2.5

CONDENSED CONSOLIDATED STATEMENT OF EARNED SURPLUS (Note A)

\$1,011,472,044	\$999,737,447	\$969,983,704	\$937,849,192	\$915,064,583
50,208,856	28,259,519	47,254,664	46,395,242	33,505,565
11,084,934	11,992,393	3,989,610	4,185,251	3,727,134
1,072,765,834	1,039,989,359	1,021,227,978	988,429,685	952,297,282
19,751,631	9,875,815	19,751,631	13,167,754	13,167,754
*33,230,074	18,641,500	1,738,900	5,278,227	1,280,336
52,981,705	28,517,315	21,490,531	18,445,981	14,448,090
1,019,784,129	1,011,472,044	999,737,447	969,983,704	937,849,192
032				
	50,208,856 11,084,934 1,072,765,834 19,751,631 *33,230,074 52,981,705	50,208,856 28,259,519 11,084,934 11,992,393 1,072,765,834 1,039,989,359 19,751,631 9,875,815 *33,230,074 18,641,500 52,981,705 28,517,315 1,019,784,129 1,011,472,044	50,208,856 28,259,519 47,254,664 11,084,934 11,992,393 3,989,610 1,072,765,834 1,039,989,359 1,021,227,978 19,751,631 9,875,815 19,751,631 *33,230,074 18,641,500 1,738,900 52,981,705 28,517,315 21,490,531 1,019,784,129 1,011,472,044 999,737,447	50,208,856 28,259,519 47,254,664 46,395,242 11,084,934 11,992,393 3,989,610 4,185,251 1,072,765,834 1,039,989,359 1,021,227,978 988,429,685 19,751,631 9,875,815 19,751,631 13,167,754 *33,230,074 18,641,500 1,738,900 5,278,227 52,981,705 28,517,315 21,490,531 18,445,981 1,019,784,129 1,011,472,044 999,737,447 969,983,704

See notes, Pages 34 and 35

PENNSYLVANIA

CONDENSED CONSOLIDATED

	1955	1954	1953	1952	1951
ASSETS					
CURRENT ASSETS:				-	
Cash	\$82,267,199	\$85,908,711	\$93,147,743	\$105,364,955	\$101,604,885
Temporary cash investments (principally at cost)	73,347,493	75,129,001	71,610,472	83,533,636	59,573,624
Accounts receivable	42,915,628	35,480,776	42,233,605	45,971,861	55,513,585
Material and supplies (at cost or less)	56,501,948	64,099,959	69,354,156	68,882,626	89,886,612
Other	30,258,474	17,088,907	18,839,361	24,718,780	22,157,477
	285,290,742	277,707,354	295,185,337	328,471,858	328,736,183
SPECIAL FUNDS:					
Capital and sinking funds	6,914,029	9,423,456	7,407,837	7,549,369	11,260,517
Maintenance funds	-			4,000,000	4,000,000
Other	9,709,752	9,122,527	9,250,021	8,037,330	6,782,934
·	16,623,781	18,545,983	16,657,858	19,586,699	22,043,451
INVESTMENT IN PROPERTY AND					
EQUIPMENT:					
Railway transportation property	3,180,726,732	3,206,649,561	3,220,982,526	3,209,531,712	3,151,581,700
Other property	79,218,627	82,132,864	86,347,230	79,752,490	79,989,839
	3,259,945,359	3,288,782,425	3,307,329,756	3,289,284,202	3,231,571,539
LESS:		- 4		_	
Accrued depreciation, amortization and depletion:			0.00		
Railway transportation property	853,965,744	854,377,108	831,572,406	830,852,950	826,877,282
Other property	11,574,130	16,726,555	16,089,051	15,158,761	15,556,047
	865,539,874	871,103,663	847,661,457	846,011,711	842,433,329
Net investment in property and equipment	2,394,405,485	2,417,678,762	2,459,668,299	2,443,272,491	2,389,138,210
INVESTMENTS AND ADVANCES					
(at cost or less): (Note F)					
Affiliated Companies—(Note G)		A			
Investments	172,101,778	167,011,485	156,289,128	159,319,685	157,254,194
Advances	21,765,356	21,773,459	27,566,909	26,429,653	26,976,696
0.1 0 (N	193,867,134	188,784,944	183,856,037	185,749,338	184,230,890
Other Companies—(Note H)	123,771,244	120,203,321	130,300,619	127,065,993	132,599,964
	317,638,378	308,988,265	314,156,656	312,815,331	316,830,854
		1			
OTHER ASSETS (principally prepayments,					
working fund advances and deferred assets)	23,379,598	17,153,985	33,193,171	28,728,727	25,524,946
TOTAL	3,037,337,984	3,040,074,349	3,118,861,321	3,132,875,106	3,082,273,644

See notes, Pages 34 and 35

RAILROAD SYSTEM

BALANCE SHEET AS OF DECEMBER 31 $(Note\ A)$

LIABILITIES	1955	1954	1953	1952	1951
CURRENT LIABILITIES:					
(excluding long-term debt maturing within one year and sinking fund requirements)—(Note K):					
Accounts and wages payable	\$85,305,594	\$59,398,885	\$75,191,470	\$80,347,115	\$90,688,166
Tax liabilities	36,961,484	34,887,853	39,452,178	35,091,405	37,735,709
Other	27,705,846	26,490,064	22,799,157	28,425,240	23,644,86
	149,972,924	120,776,802	137,442,805	143,863,760	152,068,74
LONG-TERM DEBT:					
Pennsylvania Railroad Company:					
Bonds (including assumed debt)	382,785,045	397,316,045	410,530,045	425,588,700	443,202,70
Equipment Trusts	138,238,000	141,625,000	154,938,000	165,028,000	184,713,00
Equipment—Conditional sale agreements	165,545,041	175,769,325	191,063,119	185,710,605	103,401,80
	686,568,086	714,710,370	756,531,164	776,327,305	731,317,50
Bonds of leased lines	237,693,663	250,999,212	255,943,032	262,741,032	268,389,03
Subsidiary companies (other than					·
leased lines)	63,206,890	67,211,297	72,838,000	76,936,880	80,876,33
	987,468,639	1,032,920,879	1,085,312,196	1,116,005,217	1,080,582,86
DEFERRED LIABILITIES AND UNADJUSTED					
CREDITS (principally casualty and	04 407 470		40 757 000	45 700 440	
maintenance reserves)	31,127,179	24,683,150	43,757,889	45,789,448	53,169,34
PUBLICLY HELD INTERESTS IN EQUITY OF					
CONSOLIDATED COMPANIES OTHER THAN THE PENNSYLVANIA RAILROAD COMPANY:		= -			
Preferred stock	24,755,801	25,052,601	25,227,000	25,732,850	25,770,50
Common stock	34,157,876	34,706,699	35,646,694	37,239,599	37,697,42
Surplus	25,819,274	26,117,664	26,705,916	28,514,783	29,044,74
our plus	84,732,951	85,876,964	87,579,610	91,487,232	92,512,66
PENNSYLVANIA RAILROAD COMPANY	01,702,001				
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	658,387,70
Surplus:					
Earned—Appropriated (additions to Property,					
Funded Debt Retired, Sinking and					
Miscellaneous Fund Reserves)	561,377,882	551,494,994	542,216,518	535,112,052	524,866,16
Unappropriated	458,406,247	459,977,050	457,520,929	434,871,652	412,983,02
m 15 10 1	1,019,784,129	1,011,472,044	999,737,447	969,983,704	937,849,19
Total Earned Surplus	1,0.0,.0.,.20		00 040 504	20 500 505	00 550 00
Total Earned Surplus	38,815,165	38,721,604	38,646,781	38,583,535	38,578,30
_		38,721,604 10,148,229	38,646,781 10,148,229	10,148,229	
Unearned	38,815,165				
Unearned	38,815,165		10,148,229	10,148,229	10,148,22
Unearned Premium on Capital Stock Net amount by which System equity in net assets	38,815,165				38,578,30° 10,148,22° 58,976,60
Unearned Premium on Capital Stock Net amount by which System equity in net assets (at date of acquisition) of companies consoli-	38,815,165 10,148,229	10,148,229	10,148,229	10,148,229	10,148,22

For Contingent Items—see Note L

PENNSYLVANIA RAILROAD SYSTEM -

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 G) 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, to December 31, 1953.

Note C: Railway operating expenses include charges of The Pennsylvania Railroad Company for deferred maintenance for years 1951 and 1952, in the amount of \$4,000,000 for each year, the actual expenditures being made in next succeeding year.

Note D: 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.

In 1955 retirement of roadway facilities charged to Surplus were used as deductions in computing Federal Income Tax liability. It is estimated that these deductions reduced Federal Income Taxes of the Company by \$12,126,000 and System taxes by \$12,504,000. Deductions for accelerated amortization of emergency facilities in 1955 further reduced Federal Income Taxes of the Company by \$4,357,000 and System taxes by \$7,418,000.

Note E:

Summary of Rentals Paid to Public Interests:

Rental: Dividends on	<u>1955</u>	1954	<u>1953</u>	<u>1952</u>	<u>1951</u>
stocks of leased lines	\$ 7,501,258	\$ 7,918,414	\$19,870,395	\$19,909,323	\$19,913,721
Interest on funded debt of					
leased lines	13,141,786	13,609,864	13,786,926	13,916,062	14,076,431
Other	161,271	127,687	128,141	101,549	119,430
	20,804,315	21,655,965	33,785,462	33,926,934	34,109,582
Deduct-Income					
from leased					
lines securities owned:					
Dividends	3,299,515	3,640,823	15,524,297	15,426,839	15,412,643
Interest	3,599,162		3,567,878	3,429,049	
	6,898,677	7,191,950	19,092,175	18,855,888	18,744,912
Net rental paid to publicly held					
interests	13,905,638	14,464,015	14,693,287	15,071,046	15,364,670

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 F: Certain investments of the System of a par value of \$83,859,450 in the aggregate, which have been eliminated in

consolidation, were pledged at December 31, 1955 under various mortgages and trust indentures. Pledges of other investments are referred to in Notes G and H.

Note G: 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. The stock is included in Investments at \$47,587,071 at December 31, 1950 to December 31, 1953, inclusive, \$47,637,071 at December 31, 1954, and at \$47,639,171 at December 31, 1955. No dividends were received from The Long Island Rail Road Company since 1933. The operation of the railroad during the years 1951-1955 resulted as follows:

1955 \$ 636,323 1954 Deficit \$3,542,934 1953 Deficit \$2,704,590

1952 Deficit \$5,009,658 1951 Deficit \$8,491,093

The System purchased during year 1955 from The Long Island Rail Road Company \$3,540,000 par value Long Island Rail Road Company General Mortgage 5% Serial Bonds, Series A, maturing January 1, 1958 to 1966 inclusive, in connection with its Equipment Program under the Redevelopment Corporation Plan.

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:

 December 31, 1953
 \$39,930,500
 \$39,457,745

 December 31, 1952
 39,930,500
 39,457,745

 December 31, 1951
 39,920,500
 39,457,745

 30,930,500
 39,457,745
 39,457,745

 30,930,500
 39,457,745
 39,457,745

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. 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 1951 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, 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.

NOTES TO CONSOLIDATED STATEMENTS

During the redevelopment period interest on this note accrues at the rate of 11/2 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 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.

116,202 shares of preferred stock were pledged at December 31, 1955 with Trustee of a collateral trust indenture of Pennsylvania Company. (See Notes I and J.)

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.

133,498 shares of stock were pledged at December 31, 1955 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 I and J.)

Note H: In addition to the investments discussed in Note G 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 1951 and 1952, 28.45 per cent. interest in 1953, 25.15 per cent. interest in 1954 and 25.22 per cent. interest in 1955. The stock is included in Investments at \$43,478,000 at December 31, 1951 and 1952, \$44,248,788 at December 31, 1953, \$32,382,517 at December 31, 1954, and \$24,984,550 at December 31, 1955. Under a Trust Agreement dated June 22, 1942, and supplement dated June 2, 1953 such stock is held in trust for voting purposes by Fidelity-Philadelphia Trust Company, Philadelphia, Pa., and Colby M. Chester, New York, N. Y.

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

	Principal Amount	Cost
December 31, 1955	\$3,482,000	\$ 957,165
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

The Wabash Railroad Company also has an investment in the stock of Lehigh Valley Railroad Company which is represented by 17.73 per cent. interest in 1951, 1952, 1953 and 1954 and 17.62 per cent. in 1955. Under agreement dated January 1, 1941, 265,469 shares are held and voted by Marine Midland Trust Company of New York. (See Notes I and J.)

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, 1951, 1952 and 1953, and by 57.96 per cent. interest at December 31, 1954 and 1955 (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.

1,040,529 shares of common stock were pledged at December 31, 1955 with Trustee of collateral trust indentures of Pennsylvania Company. (See Notes I and J.)

Note I: 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:

	1955	1954	1953	1952	1951
Wabash	\$5,834,337	\$5,061,289	\$3,457,570	\$2,566,635	\$2,269,478
D. T. & I.	2,200,000	1,650,000	1,000,000	800,000	800,000
L. V.	522,356	397,512	127,784		
N. & W.	9.516.983	8.917.662	8.917.662	8.917.662	8.917.662

Note J: 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:

		in Undistribu Share of P.R.	ted Net Income R. Co. Stock	,	
	1955	1954	1953	1952	1951
Wabash	\$.68	\$.29	\$.50	\$.58	\$.42
D. T. & I.	.22	.11	.10	.08	.05
L. V. N. & W.	.07 .52	.02 .17	.14 .23	.14 .24	.11 .28
u	.02	,	.20		.20
	_	Equity in Ne	t Assets		
	_	Share of P.R.			
	<u>1955</u>	<u>1954</u>	1953	1952	<u> 1951</u>
Wabash	\$12.07	\$11.09	\$11.08	\$10.55	\$ 9.94
D. T. & I.	3.02	2.80	2.72	2.62	2.54
L. V. N. & W.	2.34 17.69	2.29 17.19	2.52 17.15	2.14 16.96	2.04 16.68
11. O. 11.	17.05	17.13	17.13	10.30	10.00

Note K: 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
1956	\$43,513,400
1955	51,389,613
1954	42,017,030
1953	42,214,540
1952	43,657,560

Note L: The System has contingent liabilities aggregating \$172,882,000 as of December 31, 1955 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 \$167,826,000 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.

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GEORGE C. VAUGHAN



JOHN A. SCHWAB



PAUL W. NEFF



MORTON S. SMITH



HERBERT M. PHILLIPS



A. MOSBY HARRIS



HERMAN H. PEVLER



CHRISTY G. MAGRUDER

OFFICERS

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Vice President
Vice President, Freight Sales and Services FRED CARPI
Vice President, Finance
Vice President, Research and Development
Vice President, Passenger Sales and Services J. BENTON JONES
Vice President, Purchases, Stores and Insurance JOHN C. WHITE
Vice President and General Counsel JOHN B. PRIZER
Vice President, Public Relations
Vice President, Personnel JAMES W. ORAM
Vice President, Transportation and Maintenance ALLEN J. GREENOUGH
Secretary
Treasurer
Comptroller
Director, Real Estate
Resident Vice Presidents
Resident Vice Presidents Vice President, New York
Vice President, New York
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