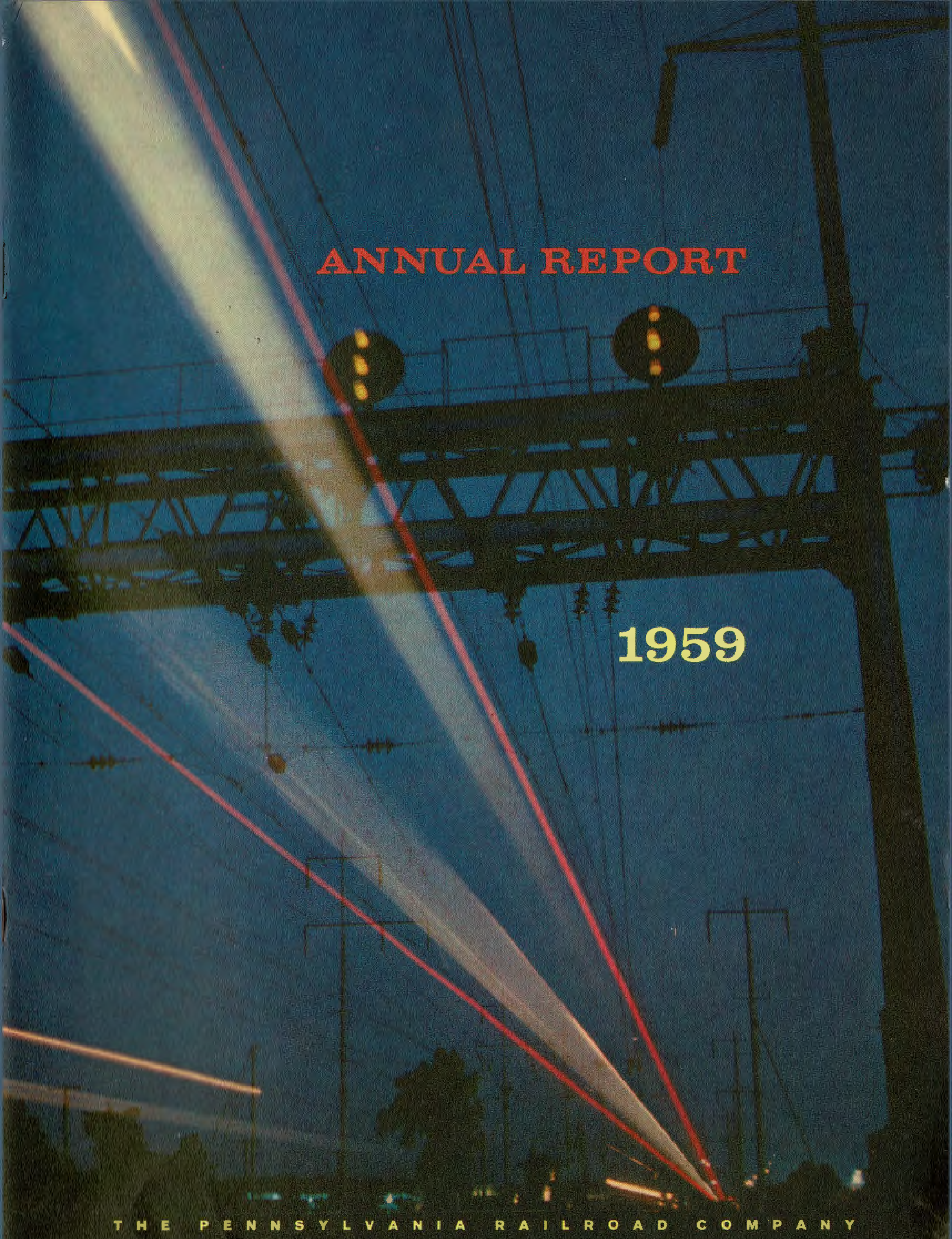
ANNUAL REPORT

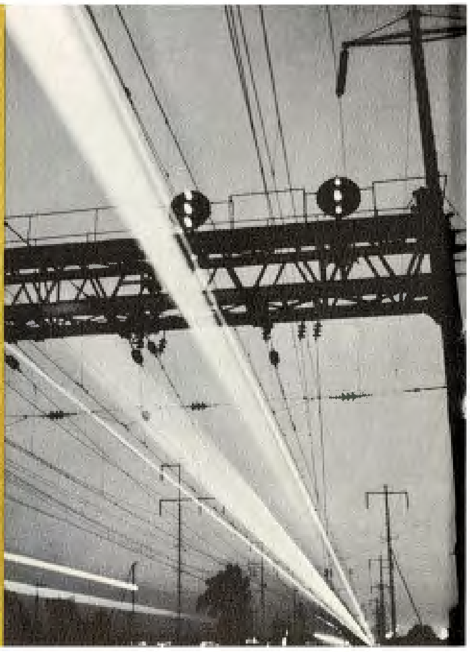
1959



THE PENNSYLVANIA RAILROAD COMPANY

COVER PICTURE: "*Through the Night.*"

The speed and precision of modern railroading are caught in this impressionistic photograph—as the lighted coaches and red "tail-light" markers of a passing train etch its path below a signal bridge along the Pennsylvania's main line between New York and Washington. The short, bright streak at the bottom of the picture and the two streaks at the lower left are the interrupted tracings of the headlight and windows of an oncoming train which were temporarily blotted out by the train on the near track. The picture was taken in a June twilight, using an f/3.5 lens aperture and a time exposure sufficiently long to allow the speeding train to enter and leave the picture.



THE PENNSYLVANIA RAILROAD COMPANY

113th Annual Report

FOR THE YEAR ENDED DECEMBER 31, 1959

CONTENTS

DIRECTORS

RICHARD K. MELLON
Chairman of the Board,
Mellon National Bank and Trust Company

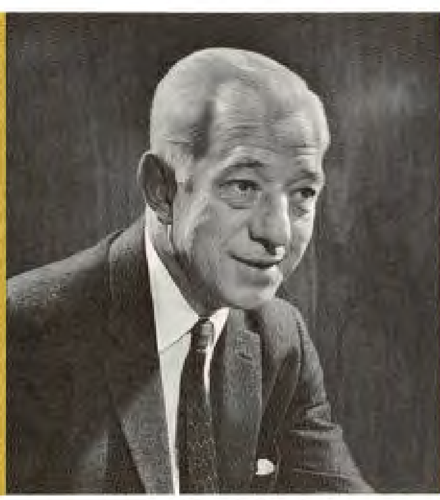
C. JARED INGERSOLL
Chairman of the Board,
Muskogee Company

JAMES E. GOWEN
Chairman of Executive Committee,
Girard Trust Corn Exchange Bank

JOHN B. HOLLISTER
Partner,
Taft, Stettinius & Hollister

JOSEPH H. THOMPSON
President,
The M. A. Hanna Company

R. G. RINCLIFFE
President,
Philadelphia Electric Company



THOMAS L. PERKINS
Partner,
Perkins, Daniels, McCormack & Collins

EDWARD J. HANLEY
President,
Allegheny Ludlum Steel Corporation

ALLEN J. GREENOUGH
President,
The Pennsylvania Railroad Company

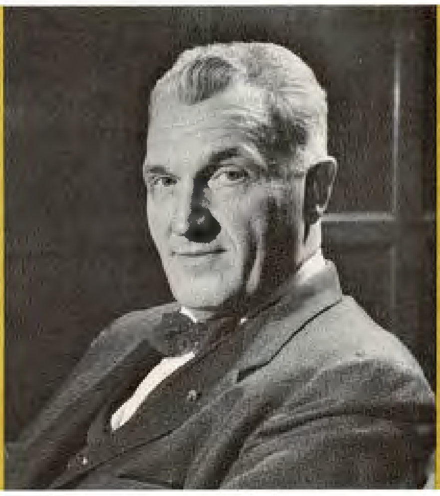
PHILIP R. CLARKE
Chairman of Executive Committee,
Montgomery Ward & Co., Inc.

JAMES M. SYMES
Chairman of the Board,
The Pennsylvania Railroad Company

JOHN A. DIEMAND
President,
Insurance Company of North America

OTTO N. FRENZEL
President,
Merchants National Bank
and Trust Company

WILLIAM L. DAY
Chairman of the Board,
The First Pennsylvania Banking
and Trust Company



GAYLORD P. HARNWELL
President,
University of Pennsylvania

FRED CARPI
Vice President, Sales
The Pennsylvania Railroad Company

DAVID C. BEVAN
Vice President, Finance
The Pennsylvania Railroad Company

JAMES P. NEWELL
Vice President, Operations
The Pennsylvania Railroad Company

HIGHLIGHTS

For The Pennsylvania Railroad Company and Consolidated System

	1959		1958		1957	
	P.R.R. Co.	Consolidated	P.R.R. Co.	Consolidated	P.R.R. Co.	Consolidated
Revenue from Operations	$887,683,858	$902,606,407	$844,232,093	$860,357,920	$987,336,859	$1,004,249,257
Other Income	27,914,316	31,469,188	41,599,339	44,469,043	25,204,292	28,847,908
Gross Income	915,598,174	934,075,595	885,831,432	904,826,963	1,012,541,151	1,033,097,165
Expenses and Other Charges	908,331,039	917,421,141	882,287,359	893,068,544	993,484,266	1,003,712,415
Net Income	7,267,135	16,654,454	3,544,073	11,758,419	19,056,885	29,384,750
★ ★ ★						
Times Fixed Charges Earned	1.17	1.44	1.08	1.30	1.43	1.75
Return on Investment	1.27%	1.35%	0.49%	0.59%	1.80%	1.86%
Depreciation Charges	$53,366,340	$57,536,086	$53,662,456	$57,447,978	$53,465,531	$56,638,042
Working Capital	*80,825,178	*102,326,945	87,049,535	104,070,468	75,787,381	92,734,515
Long Term Debt	659,791,370	882,464,182	684,794,150	912,626,281	699,633,119	934,206,626
Capital Expenditures	45,456,302	51,478,535	47,191,482	54,942,889	59,257,831	75,426,669
★ ★ ★						
PER SHARE OF P.R.R. CO. STOCK						
Net Income	$0.55	$1.26	$0.27	$0.89	$1.45	$2.23
Dividends Paid	$0.25	$0.25	$0.25	$0.25	$1.25	$1.25
Taxes	$5.23	$5.47	$4.77	$5.08	$5.02	$5.24
Net Worth—*Book Value*	$105.37	$133.86	$105.23	$134.47	$105.34	$134.06

**Excludes $8,600,000 of temporary cash investments carried in Special Funds on deposit December 31, 1959 with P.R.R. Co. mortgage trustee which will become a current asset upon retirement of Consolidated Mortgage bonds at maturity on August 1, 1960.*

Consolidated System figures include results for The Pennsylvania Railroad Company, its leased lines, and certain companies whose stock is owned 100%. For complete explanation see Note A, Page 30.

THE PENNSYLVANIA RAILROAD COMPANY

February 24, 1960

TO THE STOCKHOLDERS:

In last year's Report to the Stockholders I stated that any immediate substantial improvement in earnings was doubtful. Unfortunately the results confirm that statement. 1959 was a year of ups and downs. In the first quarter we lost about $6 million, largely due to severe storms and flood damage. During the second quarter the deficit of the first quarter was wiped out, and as of June 30th we had a profit of $6 million. During the third quarter the profit of $6 million earned during the first half disappeared as a result of the 116-day steel strike which cost us about $65 million in gross revenue. The resumption of steel operations resulted in fairly good business during November and December, thereby enabling us to end the year with net income of about $7¼ million—equal to 55¢ per share from which a dividend of 25¢ was paid in December.

As the Report indicates, we were burdened with substantially higher costs as a result of increased wages and by added payroll taxes imposed on us by Government edict.

The present outlook for 1960 is better than for 1958 or 1959 but is still far from satisfactory. Meanwhile, improved earnings are contingent upon a continuation of the present upturn in business and a successful conclusion to the negotiations with the Brotherhoods without any prolonged strike or inflationary wage increases.

For the longer pull I am much more optimistic. My optimism stems from the following:

1. The numerous studies and investigations of transportation that are taking place in many quarters by many groups clearly indicate that the railroads are the backbone of transportation in this country—essential to our peacetime economy and absolutely indispensable in time of war—and that to meet these responsibilities they must have equality of treatment with their competition insofar as subsidy and regulation are concerned. There is now a better understanding of this situation on the part of legislators, the press, and the public in general, which in turn should eventually bring about the needed improvements.

2. The consistent improvement in reducing our huge passenger deficit during the past several years should continue. It will be accomplished by reducing the number of unprofitable trains, by increasing charges to meet inflation, and by improving service and patronage in the densely populated areas, such as between New York and Washington. Additionally, there is now a sympathetic understanding in most metropolitan areas that while continuation of suburban passenger train service is of great value to these communities, such services cannot, in most cases, be made self-supporting. Financial assistance by Federal, state and local governments will be required for their preservation and improvement.

3. The handling of large trucks on railroad flat cars is growing rapidly and will contribute more substantially to railroad earnings.

4. It is hoped that there will be some relief from so-called featherbedding practices in the railroad industry.

5. Proposals for increased divisions of rates on traffic with Southern and Western railroads to more fully compensate Eastern carriers for the cost of providing the service would improve our revenues if adopted. Proceedings for such increases are now before the Interstate Commerce Commission and we are hopeful that favorable decisions will be rendered in the near future.

6. The tremendous freight car program referred to in the Report will put our fleet of freight cars in the best physical condition in many years.

7. Increased earnings and improved credit will enable us to take greater advantage of technological improvements which will in turn further improve service and reduce costs.

Summing up, 1958 and 1959 have been poor years for your Railroad. While 1960 promises only modest improvement, the outlook for the long pull is encouraging.

By order of the Board of Directors

CHAIRMAN

REVIEW OF 1959

Steel strikes have affected the business of your Company adversely each time they have occurred. In 1946, 1949, 1952 and 1956, they reduced our freight revenues substantially but nothing like the $65 million estimated decrease caused by the 116-day strike of 1959. As the chart on the opposite page indicates, our business dropped abruptly toward the end of 1957 and the decline continued through the year 1958. However, the second quarter of 1959 showed a promise of good recovery from this low level and at the end of the first six months profits were a little over $6 million. Then the steel strike, starting in the middle of July, resulted in a loss of over 350,000 carloads of expected business and left much of our equipment idle for its duration. Despite these conditions operations for the last six months were kept slightly in the black through strict cost control.

At the end of the year, 1959 showed only a $43 million improvement in revenue over 1958, instead of an improvement of $100 million or more which could have been expected without the steel strike and its ramifications.

The passenger service deficit was reduced by 15%. Passenger travel continued to decline, dropping 9.5% under 1958. Train-miles were reduced by approximately the same percentage.

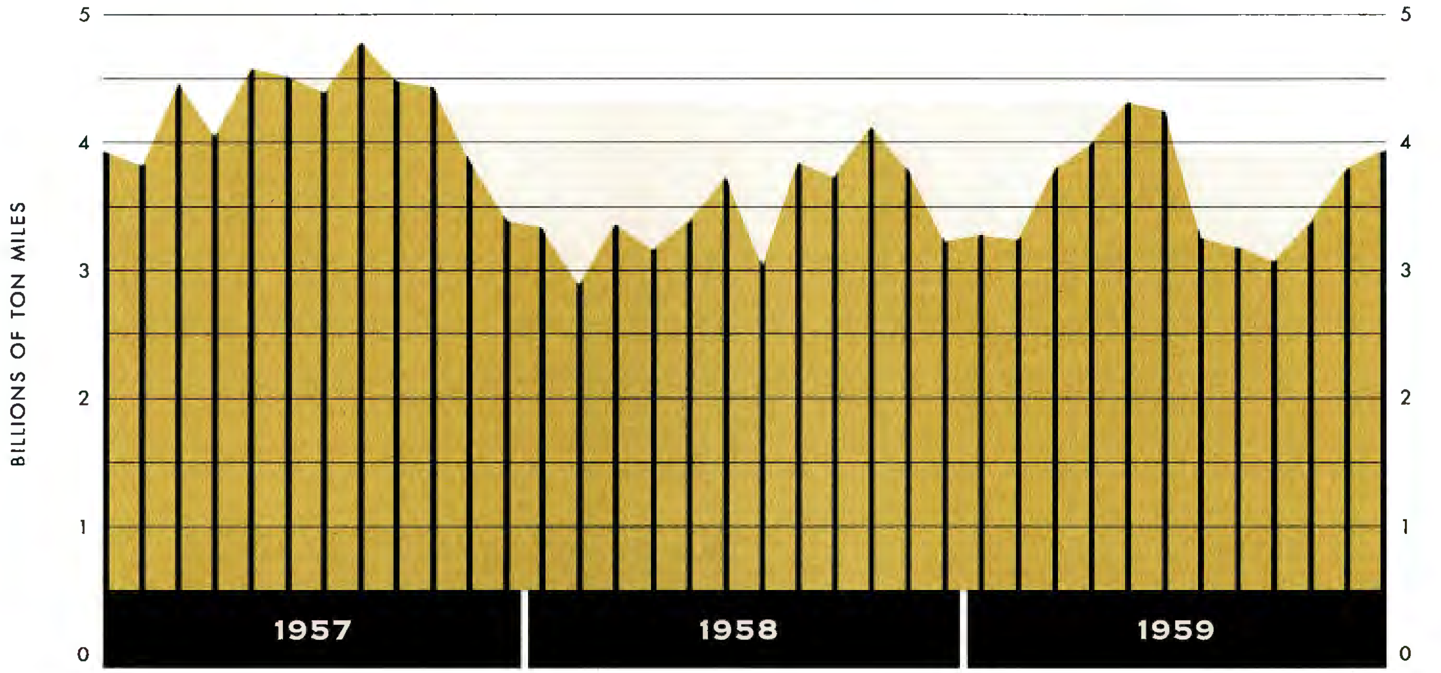
Payroll costs, including wages, retirement, unemployment insurance and cost-of-living escalation increased with unabated inflationary force. Under the terms of the agreement, negotiated nationally in 1956, wages have increased in the 3-year period 24 cents an hour, and cost-of-living escalator increases have added 16 cents an hour. Increased retirement taxes have cost the Company 3 cents an hour, and increased unemployment taxes have added another 5 cents an hour—a total increase of 48 cents an hour. Altogether the various increases in total payroll costs added approximately $24 million in expenses during 1959 over rates prevailing in 1958 and $85 million over what would have been paid under the circumstances existing prior to 1956.

In the face of these adverse conditions, but in anticipation of an improved outlook for the next ten years, assuming more equitable treatment by

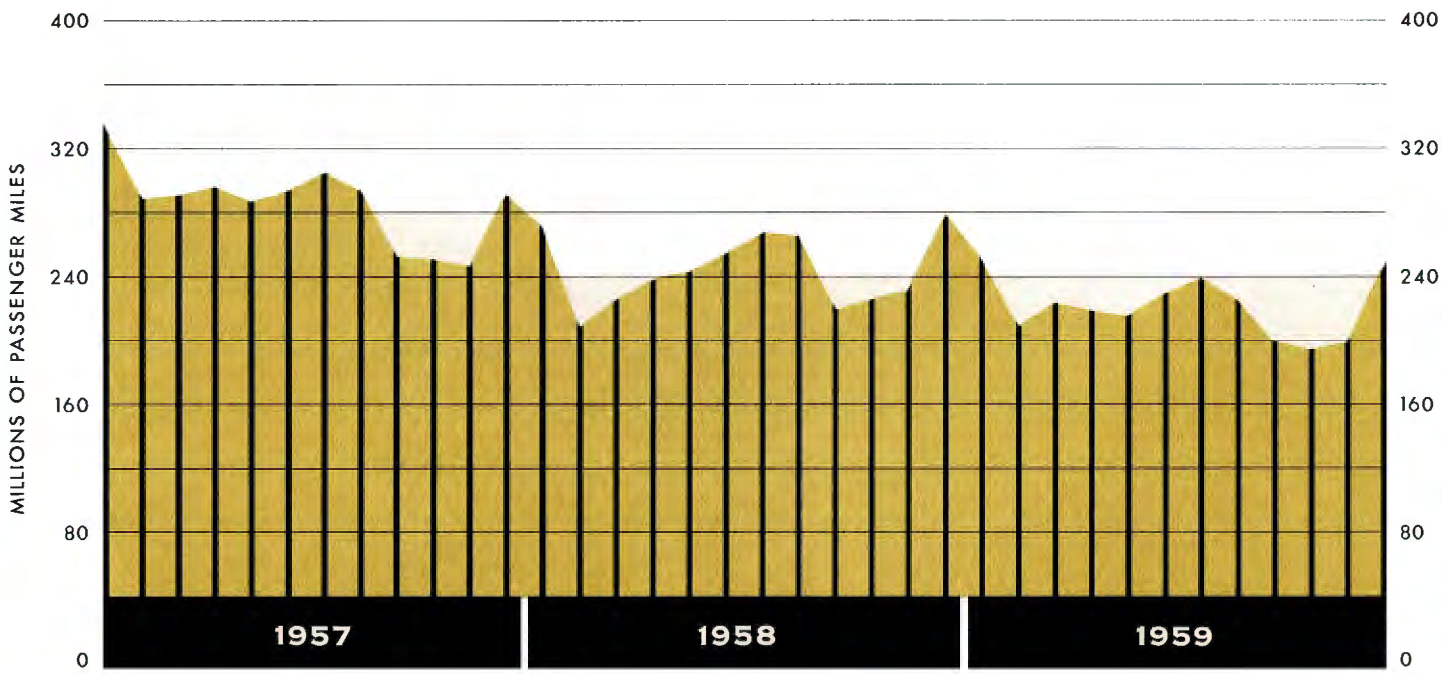
THREE-YEAR SUMMARY OF OPERATING STATISTICS

	1959	1958	1957
RATIOS:			
Operating Ratio	81.95%	84.71%	84.97%
Maintenance of Way & Structures Ratio	9.80%	10.55%	11.60%
Maintenance of Equipment Ratio	19.78%	19.30%	20.78%
Transportation Ratio	45.38%	47.37%	45.68%
EMPLOYES:			
Average Number of Employes	79,516	80,727	98,853
Total Salaries and Wages Paid	$488,443,307	$474,149,060	$549,626,480
Total Payroll Taxes	$35,405,485	$29,830,725	$34,045,891
FREIGHT:			
Freight Train Miles	30,235,500	29,468,346	34,959,898
Revenue Ton Miles—*Thousands*	43,419,348	41,484,758	50,651,414
Average Revenue per Ton Mile—*Cents*	1.549	1.530	1.511
PASSENGER:			
Passenger Train Miles	20,809,501	23,035,723	26,350,012
Revenue Passenger Miles—*Thousands*	2,649,569	2,928,127	3,429,732
Average Revenue per Passenger Mile—*Cents*	3.923	3.693	3.550

TREND OF FREIGHT VOLUME BY MONTHS



TREND OF PASSENGER TRAVEL BY MONTHS



Federal, state and local governments, the Company moved forward with the largest equipment program ever undertaken by any railroad.

Other important developments included a substantial increase in TrucTrain business; the continued installation of mechanized office and clerical procedures; further progress in the orderly debt-reduction program; a continuation of the major abandonment program of track and facilities not required with modern mechanization; and an improvement in the public and official attitude toward railroad needs, particularly in the area of suburban services in metropolitan areas.

Also during the year, railroad management decided that a renewed effort should be made to revise obsolete featherbedding work rules—which require pay for work not needed or not done. Advances in technology have increasingly highlighted the adverse effects of such rules, practices and interpretations of labor agreements, which have developed during the past 40 years. Proposals for revision of certain of these rules were presented to the Operating Brotherhoods on November 2, 1959 and are now in negotiation.

FINANCIAL SUMMARY

REVENUES were $887 million, an increase of $43 million, 5% over 1958, but $100 million less than in 1957. Freight revenue accounted for $38 million of the increase, all due to the improving business that developed in the first six months. The last six months, which included the steel strike, showed freight revenue $11 million under the corresponding period of the preceding year. Mail revenue of $47½ million increased over one million. Express revenue of nearly $14 million was $4 million better than the preceding year. Other operating revenue increased $4 million, in line with the general increase in freight revenue. Passenger revenue was $104 million, a decrease of $4 million. Volume, as measured by passenger-miles, was down 9.5%, while revenue was only 3.9% less than in 1958, because of the higher fares which became effective November 1, 1958.

EXPENSES increased $12 million compared with an increase of $43 million in revenues. The principal reason for the increase in expenses—other than the increase in wages and benefits previously mentioned—was an increase of $12½ million in the cost of maintenance of equipment, attributable to the repair program for freight cars and locomotives and for passenger car modernization. Transportation expenses, in spite of higher wages, increased only 7/10ths of one percent. A stringent cost-control program in all phases of the Company's operations was necessitated by the steel strike. Approximately 11,600 employes were furloughed after July, of whom about 7,000 had been called back to work by the end of the year.

DEPRECIATION CHARGES were over $53 million, about the same as in 1958.

TAXES by state and local governments exceeded $32 million, equal to $2.45 per share of stock.

PAYROLL TAXES were $35½ million, an increase of $5½ million over 1958. The wage tax base for railroad retirement and unemployment insurance was increased, effective June 1, 1959, from $350 a month to $400. The rate for retirement taxes was increased from 6¼% to 6¾% at the same time, while the rate for unemployment insurance was increased from 3% to 3¾%, following an increase from 2½% to 3% on January 1, 1959. It is estimated that these changes added $6 million to our payroll costs in 1959 and will cost about $10 million on an annual basis.

OTHER INCOME was $28 million. The comparable figure for 1958, after excluding mail pay received in that year, but earned in 1956 and 1957, would be nearly the same. Other Income includes dividends from our subsidiary, the Pennsylvania Company, and from other investments.

NET INCOME was $7,267,000—equivalent to 55 cents a share. A dividend of 25 cents a share was paid in December.

CONSOLIDATED EARNINGS for the Pennsylvania Railroad, its leased lines and certain companies whose stock is owned 100%, were $16,654,000 or $1.26 per share.

The Consolidated Income Account and Balance Sheet are shown on Pages 27, 28 and 29.

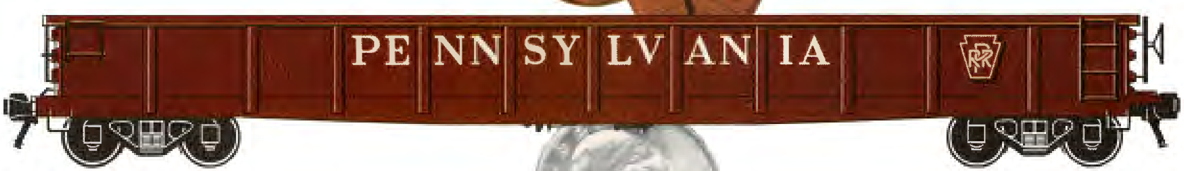
THE PRR 1959 INCOME DOLLAR

73.5¢ from Freight Revenue

11.4¢ from Passenger Revenue

12.1¢ from Mail, Express, and Other Revenue

3.0¢ from Dividends and Other Income



51.0¢ for Wages

AND ITS DISTRIBUTION...

18.3¢ for Materials

11.8¢ for Other Expenses, Equipment Rents, etc.

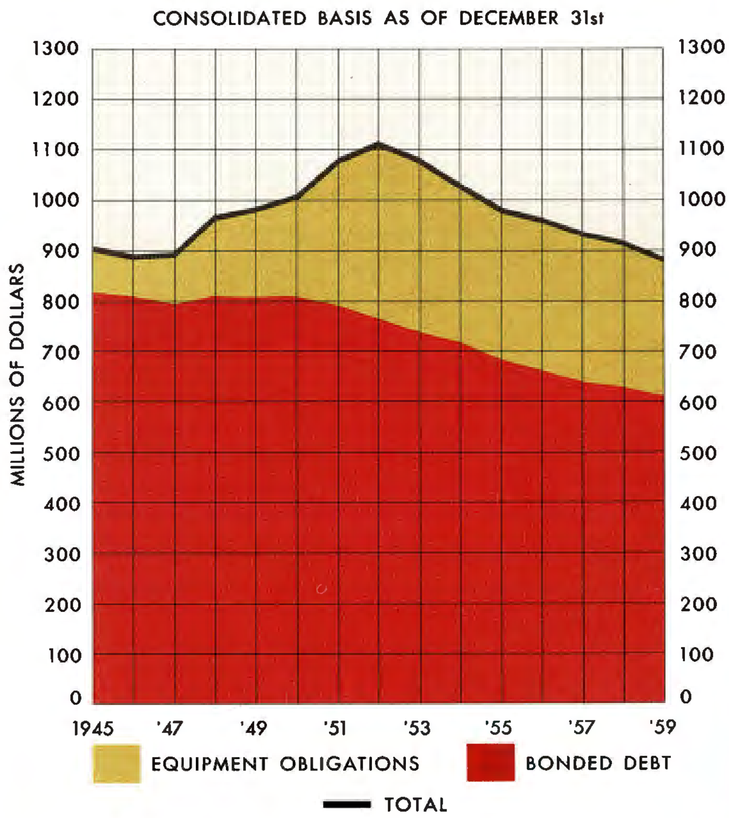
7.6¢ for Taxes

5.8¢ for Depreciation

4.7¢ for Interest and Rentals

0.8¢ Net Income

FUNDED DEBT PUBLICLY HELD



FUNDED DEBT was reduced by $30 million. This continued the orderly program of debt reduction illustrated above. Total debt in 1952 was $1,116,000,000. Since then it has been decreased by $234 million and now stands at $882 million. This debt reduction program was designed to reduce large, relatively near-term maturities to manageable proportions and it has resulted in reducing the issue of Consolidated Mortgage Bonds due in 1960 from $49 million outstanding in 1952 to $35 million. Plans to refinance this maturity contemplate the sale of bonds of Pennsylvania Company, a wholly-owned subsidiary. Also, as part of the program, the General Mortgage Bonds due in 1965 have been reduced from $125 million a few years ago to less than $70 million and efforts will be continued to reduce these bonds further so that by maturity they can be readily refinanced.

The debt reduction has also, of course, decreased our annual interest charges and has maintained the Company's sound credit position which enabled us to finance the important equipment program described in the following paragraphs.

EXPENDITURES FOR EQUIPMENT programmed during the year totaled $262 million. This is the largest equipment program ever undertaken by any railroad at one time and involves the acquisition of 23,500 freight cars, 50 diesel locomotives, 66 electric locomotives and 7 tugboats.

$39 million of the total was financed through conditional sales agreements for freight cars and diesel locomotives.

$3 million cash was spent for improvements to existing equipment.

$220 million was provided for freight cars, electric locomotives and tugboats which are being financed through equipment leases. Your Company is not unmindful of obligations incurred under long-term leases which are not included in its financial statements as part of its funded debt and there has been virtually no change in the amount of such obligations in recent years; however the lease equipment program committed for in 1959 will increase this type of obligation substantially. A more detailed explanation of commitments under leases is contained in Note O on Page 31.

ADDITIONS TO ROADWAY amounted to $17½ million, of which $15 million was expended in cash and the balance was accomplished under lease arrangements.

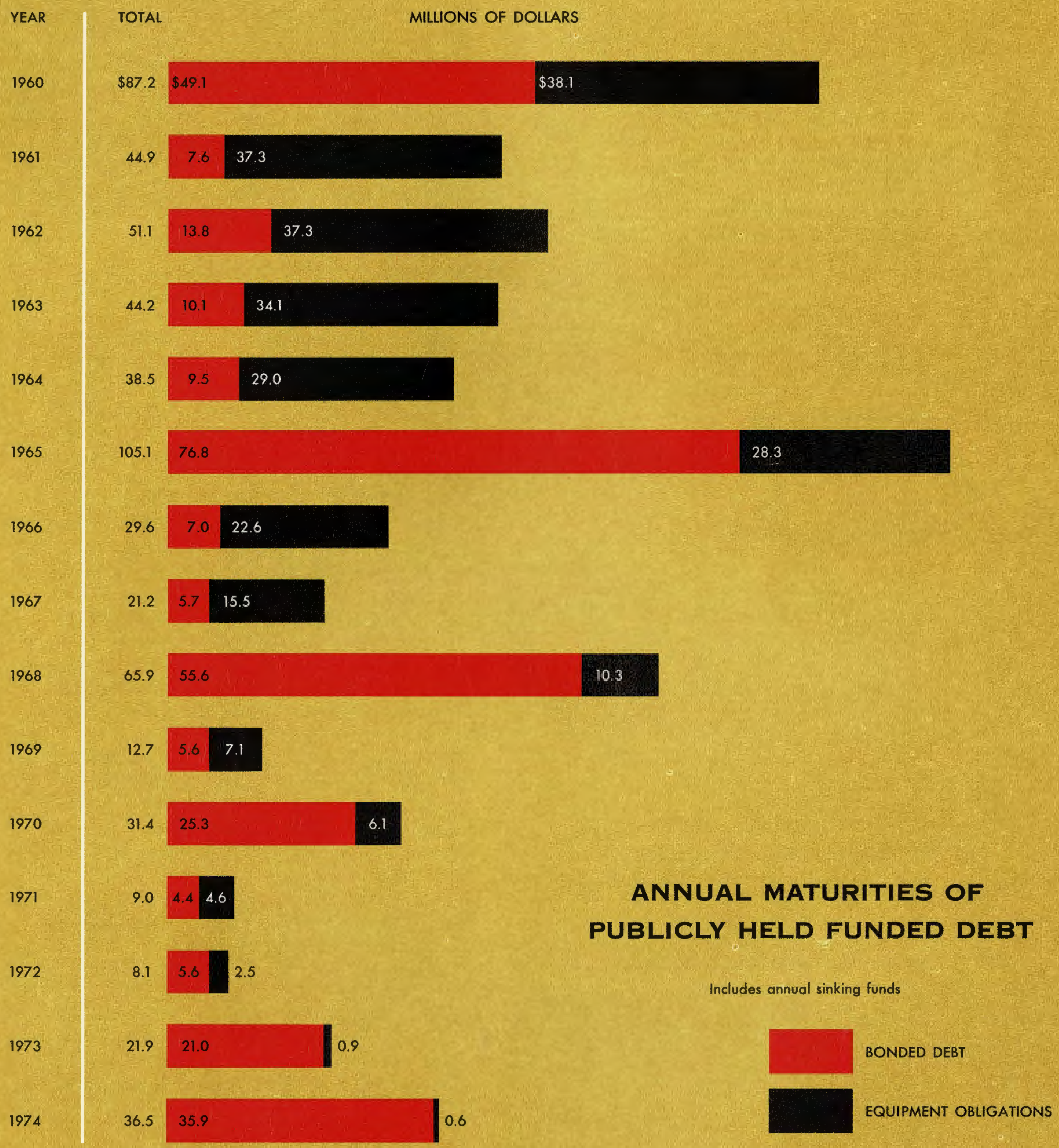
WORKING CAPITAL decreased $6 million to $81 million at the close of 1959. This should be sufficient on the basis of present estimates of traffic volume. However, as we have for the past six years, we are maintaining stand-by bank credit of $50 million as a reserve for emergencies.

A cash flow chart showing the major sources and applications of funds during the year 1959 is shown on Page 26.

PURCHASES OF MATERIALS AND SUPPLIES amounted to $166 million compared with $120 million in the preceding year. This increase was due in large part to the equipment program inaugurated in 1959.

Inventory at year-end amounted to $52 million compared to $54 million at the close of 1958.

INCOME FROM RENTALS, station concessions and parking lots was $14 million, an increase of nearly a million dollars over 1958.



ANNUAL MATURITIES OF PUBLICLY HELD FUNDED DEBT

Includes annual sinking funds

CONSOLIDATED BASIS AS OF DECEMBER 31, 1959

IMPROVEMENTS TO PROPERTY

CENTRALIZED TRAFFIC CONTROL, or the installation of two-way signaling in some locations, allows the removal of one main-line track, with consequent savings in future maintenance, and the recovery of used rail and cross ties for use in switching yards and industrial sidings. The Pennsylvania now has 1,272 miles of track with centralized traffic control. The only remaining project which is justified economically at the present time is that between Harrisburg and Buffalo, now being installed.

AUTOMATIC INTERLOCKINGS were installed at two additional locations, bringing the number of such modern installations on the System to 29.

AUTOMATIC HIGHWAY PROTECTION for crossings was installed at 40 locations, bringing the number of such installations to 2,478.

AUTOMATIC HOT BOX DETECTORS were installed in 20 places. These devices, parts of which were developed by our research engineers in cooperation with the Servo Corporation, tie in the usual function of hot box detection, as used on other railroads, with automatic signaling, thereby making them much more effective.

RADIO "WALKIE-TALKIE" COMMUNICATIONS were provided for six more yards: Long Island City; Newark, N. J.; Enola, Pa.; Perryville, Md.; Altoona, Pa.; and Crestline, Ohio. A closed-circuit television system was installed at Erie, Pa., to facilitate the coal-dumping operations at that point.

Oil storage capacity is being increased to 87 million gallons to allow purchase of more diesel fuel in the summer.

TUNNEL CLEARANCES were increased at Baltimore and Washington, D. C., and a gauntlet track placed in one of the Baltimore tunnels to allow TrucTrain movements North and South.

NEW TRUCTRAIN TERMINALS were built at Baltimore and Richmond, Ind.; those at Kearny, N. J., Philadelphia and Chicago were enlarged.

NEW RAIL was laid in 33 miles of main track, including 8.3 miles of continuous welded rail, and 742,000 new cross ties were installed. Reclaimed rail was laid in 116 miles, including 16.6 miles of continuous welded rail. 124,000 cross ties, recovered in the abandonment program, were installed.

MECHANIZATION OF TRACK WORK was expanded with the acquisition of 197 more pieces of equipment for track reconstruction. During the year our mechanized gangs performed heavy maintenance work on 2,900 miles of track, and resurfaced and realigned an additional 1,200 miles. Forty-nine pieces of special machinery for mechanizing work on bridges and structures were also added to maintenance equipment.

CONSTRUCTION PROJECTS included tracks to serve the Baltimore Gas and Electric Company's new plant at Chase, Md.; the Philadelphia Electric Company's plant at Essington, Pa.; expanded facilities and a new dock at Calumet Harbor, Chicago; a siding and trestle for handling bulk flour at Harsimus Cove, N. J.; and new or expanded yard office facilities at Lancaster, Pa.; Weirton, W. Va.; Thomson, Pa.; and Hunter Street, Newark, N. J.

MODERN "ONE-SPOT" CAR-REPAIR SHOPS are being constructed at Conway Yard for minor repairs to cars in transit, replacing the "shop tracks" where repairmen moved from car to car.

FREIGHT SERVICES

GROSS TON-MILES per freight train hour, a major measure of efficiency, averaged 55,770 in 1959 compared to 55,967 in 1958 and 53,685 in 1957. The average number of cars per freight train was 70.8—which while slightly below the record figure of 71.3 achieved in 1958—is still an excellent performance.

FREIGHT SCHEDULES WERE IMPROVED and elapsed time between a number of terminals was reduced; specifically between the East and Youngstown, Columbus, Chicago and St. Louis; between Cleveland and Detroit; between the Lehigh District and the South; and between Chicago and the South via Louisville. TrucTrain schedules between New York and Chicago were shortened by an hour. PRR gives the fastest service between these two major cities.

THE LARGE EQUIPMENT PROGRAM, plus an accelerated repair program, plus the retirement of old cars, has greatly improved the physical condition of our freight car fleet. Over half of the 23,500 cars described on the following pages had been received by December 31st, of which 8,759 were produced at Altoona Works and 4,000 were from commercial car builders. In addition 19,148 cars received heavy repairs at Altoona Works and other Company shops. These 31,907 cars replaced 35,901 bad order cars—with approximately the same total capacity.

TRUCTRAIN TRAFFIC, as represented by trailers carried, increased by 53% over 1958. Revenues were $16 million, an increase of $5 million over 1958. Service was inaugurated to and from New England and to the South by new routes. This expanded the scope and improved the outlook for future development of TrucTrain services.

Four types of shipments are now being handled: Plan 1, for common-carrier trucking companies, where the trucking company delivers the trailer to the TrucTrain terminal and picks it up at destination; Plan 2, for individual shippers, where Pennsylvania Railroad trucking companies place the empty trailer, pick it up when loaded, and deliver it to the door in the destination city; Plan 3, where a shipper delivers his own trailer to the terminal and picks it up at the terminal in the destination city; Plan 4, where the shipper, or forwarder, furnishes both the trailers and the flat cars for his shipments.

In addition, the Company uses this service for some of its own less-than-carload freight shipments and also uses the equipment for transporting new vehicles from assembly plants to destination.

CAR SUPPLY FOR TRUCTRAIN SERVICE has been greatly improved by PRR participation, with 22 other railroads and one forwarding company, in Trailer Train Company. This company now owns 2,659 flat cars, with 1,500 more on order. These cars are pooled for use by all member roads, and routed where necessary over member and nonmember lines, for maximum utilization. The average mileage per car on the Pennsylvania during 1959 was approximately 200 miles per day.

FREIGHT RATES were reduced on a number of selected commodities to meet competition, particularly grain and coal. Because of the price competition of import oil, rates were reduced on incremental tonnages of coal as an incentive to public utilities for increasing volume movements. Effective June 18, 1959, substantial reductions were made on export grain rates to meet St. Lawrence Seaway competition. Action on rates covering many other commodities has been deferred pending stabilization of rates and services via the Seaway.

SALES TRAINING was intensified. Nearly all of our agents have completed the basic course and are ready for the advanced course which will follow. Sales and prospective sales personnel are also engaged in coordinated training programs.

Five million tons of import ore were stored on the ground during the steel strike. This is now moving to the mills.

THE LARGEST EQUIPMENT PROGRAM IN RAILROAD HISTORY

During 1959 the Pennsylvania arranged to acquire 23,500 modern freight cars, valued at $214 million, and 116 new locomotives, valued at $42 million. In addition, seven diesel tugboats were ordered at a cost of $3 million. Delivery of some of the cars was delayed by steel shortages but all of them are expected to be in service by the middle of 1960.

50 DIESEL LOCOMOTIVES

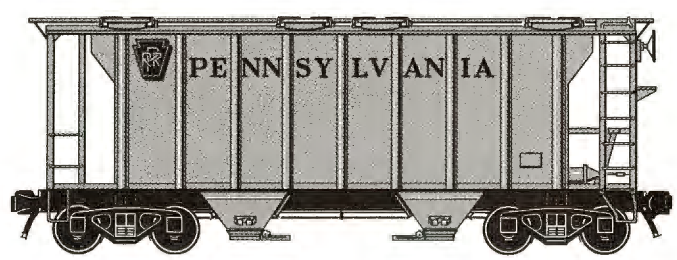
Each 1,750-horsepower, general purpose freight unit can be operated singly or in multiples in heavy road service. They are valued at $10 million. Delivery was completed in December and brings the Pennsylvania's fleet of freight, passenger, and switching diesels to 2,465 units.

450 COVERED GONDOLA CARS

This order gives the PRR the largest fleet of covered gondolas in the Nation. Built in two classes, some (illustrated) are equipped with skids and insulated covers to handle steel coils. Others, designed for flat sheets, palleted tinplate coils and similar loads, have higher sides and a full-length removable roof.

500 COVERED HOPPER CARS

Covered hoppers are specially designed to transport cement, lime, sand, soda ash, salt, feed and other dry bulk commodities. Welded construction provides a smooth, easily cleaned interior. Eight round hatches are provided in the roof for easy loading, and four sliding-gate bottom outlets for unloading.



4,900 BOX CARS

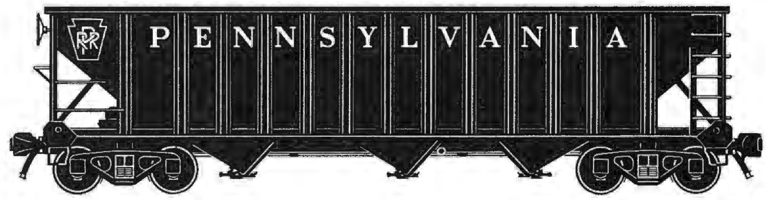
These "workhorse" cars come in eight varieties, 40 and 50 feet long. All have new softer springs and other truck features designed for a smoother ride. Wide doors easily accommodate mechanical loading equipment. Many have the latest load restraining devices for easy bulkheading of packaged products.

300 FLAT CARS

These cars, 53½ feet long, are especially suited for shipping farm equipment, auto frames, steel beams, electrical equipment and a variety of other odd-size products. Special cast steel underframe permits extra-heavy load concentration at the center of the car.

10,800 HOPPER CARS

These seventy-ton, three-pocket hopper cars for carrying coal, ore, and other bulk materials are the first production models of a new design which has been adopted as standard by the Pennsylvania and several other large hopper-owning railroads. Extended-life design, utilizing rust-resisting steels, should enable these cars to give 16 years of service before heavy repairs.

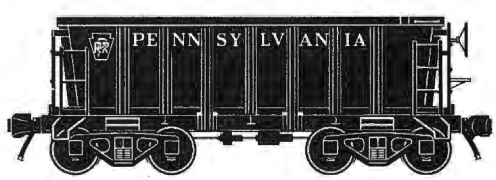


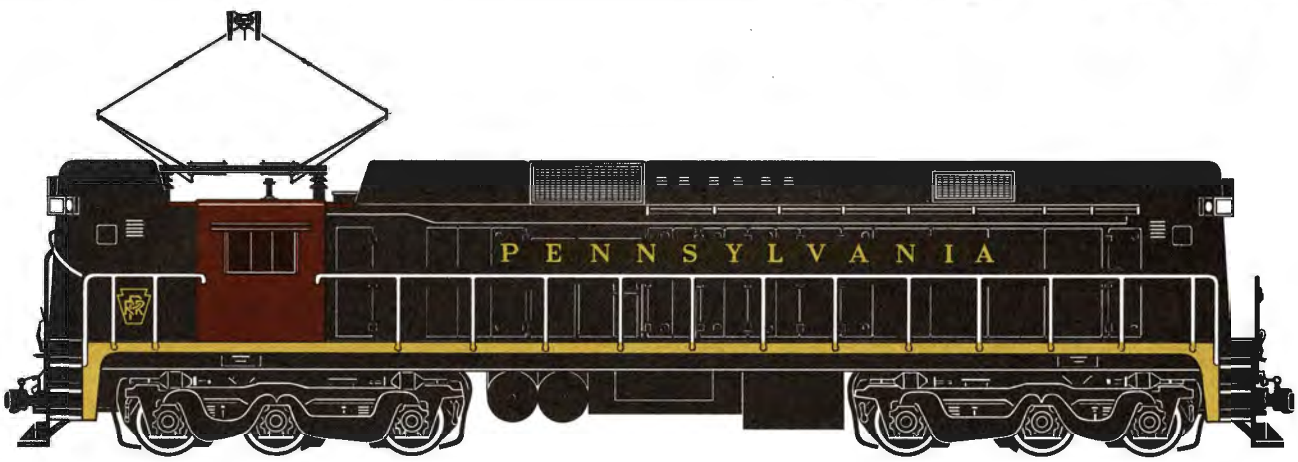
5,550 GONDOLA CARS

Widely used for steel, pipe, lumber, bulk sand, stone, etc., these seventy-ton cars feature a unique economical floor structure designed to take a concentrated loading at any location in the car. All are 52½ feet long with 3½ foot sides, and have easier-riding trucks.

1,000 ORE JENNIES

Designed exclusively for hauling iron ore, these are the first of their type to be added to the PRR fleet. They are the shortest freight cars in use on the Pennsylvania, with an inside length of only 21½ feet, but because of the high density of ore and extensive use of high-tensile steels in the car design they have a capacity of 83 tons. Each car has 32 openings in its sides which permit insertion of steam "lances" to thaw the cargo in freezing weather.





66 ELECTRIC LOCOMOTIVES These 4,400-horsepower, rectifier-type electric locomotives, because of their greater power, will replace 90 old electric locomotives. They are valued at $32 million. Delivery will begin late in 1960.

7 DIESEL TUGBOATS

These 1,200-horsepower, diesel-driven tugs are replacing the last coal-fired steam tugs in our New York harbor fleet, completing a modernization program designed to improve the speed and efficiency of car float operations. Delivery of the order will be completed early in 1960.

PASSENGER SERVICES

THE PASSENGER DEFICIT was reduced to $37.7 million, compared to $44.4 million in 1958.

PASSENGER TRAIN-MILES were reduced by an average of 6,000 miles a day, or 9.7%—about the same percentage as the loss of passenger-miles traveled. Because of the continuing decline in the number of passengers using Pullman service, a substantial reduction was also made in the number of sleeping cars operated.

NEW YORK-WASHINGTON SERVICE is an exception, as the decline there was far less than the average. We are studying all possibilities for improving service and increasing patronage and revenue in this densely populated area.

SUBURBAN PASSENGER SERVICE, particularly in the New York and Philadelphia areas, presents one of the most difficult problems facing this Railroad and the officials of those cities and the adjacent states. Essentially, the problem arises from the fact that, while the service is necessary to alleviate or prevent highway traffic chaos in these metropolitan areas, it is used at capacity only about twenty hours a week. The cost of maintaining the service is determined by these peak hours, and equipment and crews are idle much of the remaining 148 hours of the week. Fares sufficient to meet total costs would decrease patronage and increase automobile traffic to the point where highways would be nearly impassable and downtown parking impossible. Your management is cooperating with government officials in these areas in seeking the best solution to the problems.

A proposal for alleviation of losses from commuter service in the State of New Jersey unfortunately was rejected by the voters in the November elections. State officials in New York and New Jersey are searching for other means of assisting the railroads in maintaining the service.

An experimental "Operation Northwest"—in which the Pennsylvania and Reading Railroads cooperated with the City of Philadelphia—emphasized rather than solved the problem. While the operation succeeded in diverting many people from congested streets and highways, the increased patronage was not sufficient to overcome revenue losses from reduced fares. From this experience, early in 1960, there evolved the City-sponsored Passenger Service Improvement Corporation for the purpose of contracting with the railroads for the operation of suburban services on certain lines within the City, and arranging for the action necessary to obtain funds to pay for their continued operation and improvement.

At the suggestion of Philadelphia's Mayor Dilworth and your Chairman, a joint committee of railroad officers and the mayors of large cities was formed to study the subject. The committee developed a four-point program which was approved by the American Municipal Congress in Denver in December. The program proposed:

1. That a national policy should be established by Congress for a balanced and coordinated transportation system.

2. That the Federal, state, and local governments be asked to develop rational tax policies for the railroads.

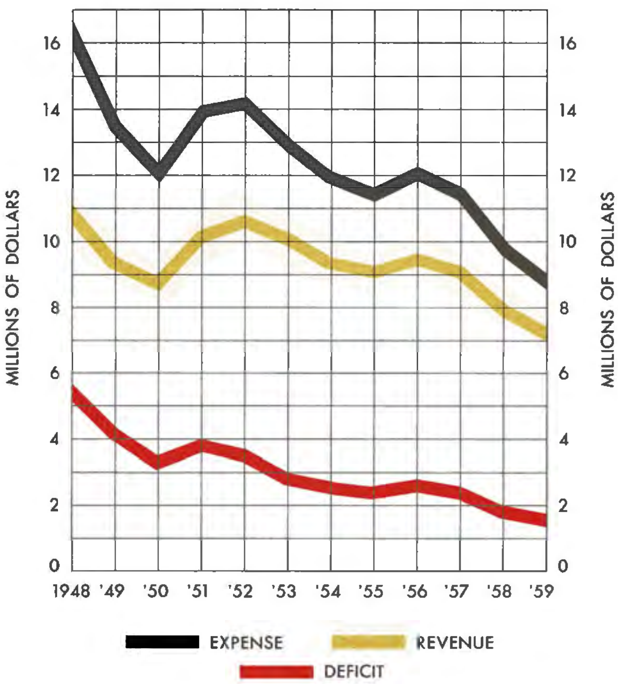
3. That Federal loans be made available where necessary to municipalities or publicly constituted bodies for new commuter equipment and improved facilities and for the improvement of intra-city mass transportation facilities; these to be long-term, low-interest loans.

4. That a study be made of grants-in-aid by the Federal government to communities or duly constituted public bodies which have a sound plan for the permanent improvement of commutation or other intra-city transportation facilities; this to be modeled on the present urban renewal program.

MAIL REVENUES increased one million to $47½ million, or 2.8% over 1958. Approximately $10 million of this revenue was due to increases in mail pay rates granted Eastern railroads by the Interstate Commerce Commission in June, 1958.

EXPRESS REVENUES amounted to nearly $14 million, compared with less than $10 million in 1958, an increase of 40.8%. This substantial improvement was due to three factors: the improved efficiency in operations of the Express Agency, general increases in express rates, and, starting in September, 1959, a more equitable distribution of revenues. Express revenues in the future are expected to be much more satisfactory.

DINING CAR DEFICIT REDUCED



DINING CAR OPERATIONS were reduced and financial results were better, in spite of increased wages, as illustrated by the chart above.

REAL ESTATE

IMPORTANT TRANSACTIONS included the sale to the City of Philadelphia of the old Broad Street Station site; in Pittsburgh, the former Greyhound terminal property at Liberty and Grant Streets, sold to the General Services Administration; in Cleveland, Lakeside Avenue property, sold to Dow Jones & Company for the site of a printing plant; and land near Freedom, Indiana, sold for a gypsum mine and mill. The deposits under this land were explored by geologists of the Industrial Development Department and their development will produce substantial freight revenue in the future.

SALES FOR PLANT SITES and the development of new or expanded industries "on line" are very important for the generation of additional business. During the year your Company sold 1,298 acres to industries for new plants and additions. Our present reserves of industrial properties comprise approximately 12,550 acres. As property is sold we attempt to replenish the reserve with equivalent properties that will stimulate the growth of other industries. While a great deal of development takes place along our lines on property owned by others, railroad ownership gives us an advantage in attracting the type of industry which will produce railroad traffic. The Industrial Development Department expects approximately $23 million in freight revenue from new industries and expansions made in 1959. Inquiries are being received at an increasing pace for 1960.

PENN CENTER development continued satisfactorily. The ultimate realization from this real estate will be greater than previously estimated.

COAL LAND RESERVES were leased to several operators, which when developed, will produce additional traffic.

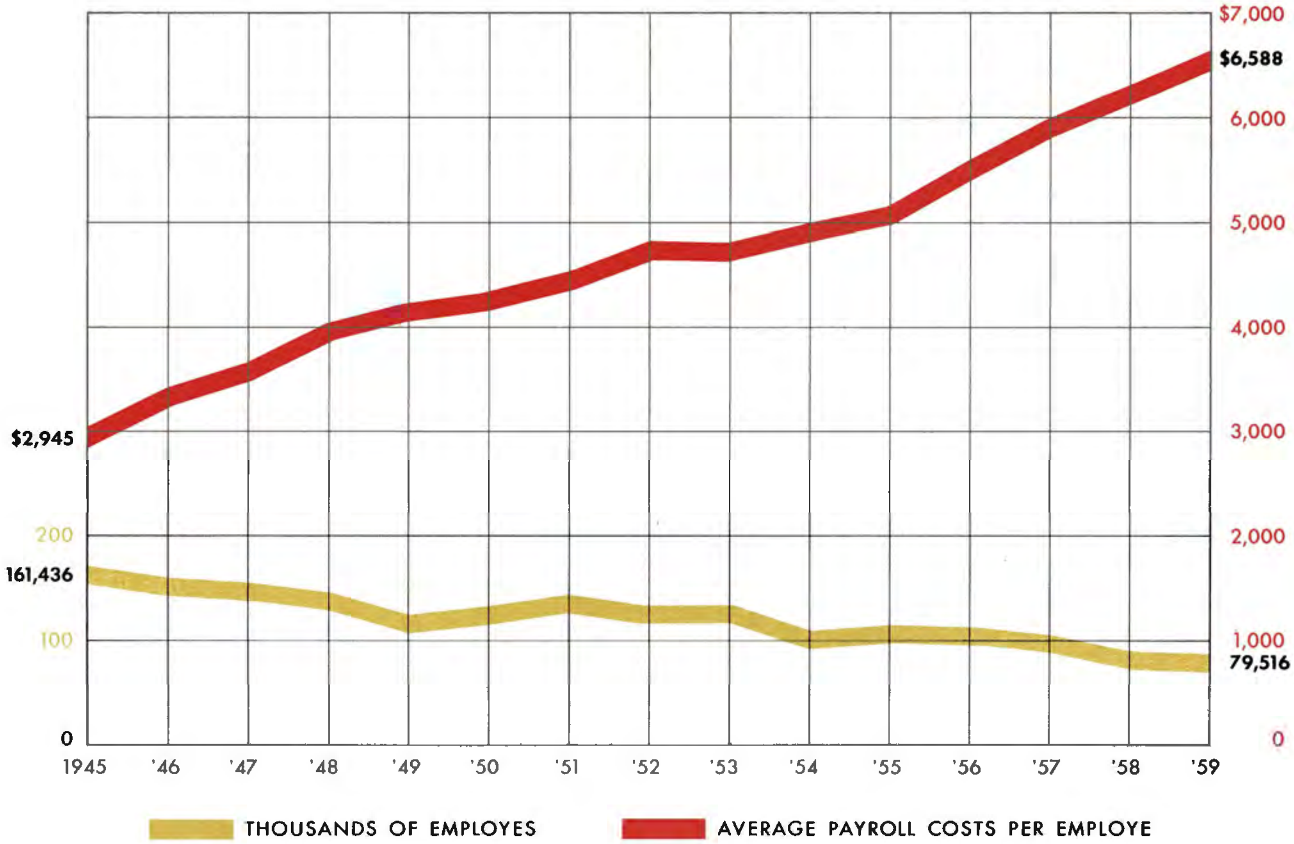
MERGERS

The change in public and official attitude toward railroad mergers was demonstrated by the fact that the merger of the Norfolk and Western, in which your Company has a substantial interest, and the Virginian Railway was virtually unopposed. The speed of accomplishment was likewise impressive; less than eight months elapsed between the filing of the application with the Interstate Commerce Commission and the initial operation of the two carriers as one company.

Hearings on the proposed merger of the Erie and the Lackawanna were concluded and a decision by the Commission is pending. Your Chairman appeared as a witness in support of this merger.

Logic dictates the ultimate consolidation of the Nation's railroads into well-integrated systems to effect important economies and improve service. Your management favors any soundly conceived steps in this direction. We are studying carefully the patterns that may evolve from proposed mergers and consolidations, with respect to our Company's interest, although no specific mergers involving the Pennsylvania Railroad are under active consideration at the present time.

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



EMPLOYE RELATIONS

FEATHERBEDDING can no longer be considered as just a fringe benefit for the operating employes of the railroads. The cost for work not done or not needed has grown to such an enormous sum that the welfare of the industry—and therefore of these very employes—is dependent upon removing a large part of the expense of unproductive wages and penalties. These artificial costs seriously handicap us in competing with trucks with one driver and with airplanes flying 3,000 miles with a single crew.

The need to correct this situation is becoming widely recognized. The recent action of the Public Service Commission of New York is particularly encouraging. At the direction of the State Legislature, the Commission studied the laws which require employment of additional crew members and recommended that they be repealed. They found no reasonable relationship between such laws and the safety of railroad operations.

On November 2, 1959, all railroads joined in proposals to the Operating Brotherhoods to change a number of obsolete work rules.

These proposals would (1) adjust 40-year-old pay formulas for road crews to conform with improved train speeds and technology; (2) permit longer crew runs, in keeping with the ability of locomotives and crews to cover more territory; (3) remove artificial barriers which prevent the use of road crews to work in the yards or yard crews to work on the road; (4) give the railroads the right to determine whether firemen should be used on diesel or other non-steam locomotives in freight and yard service; (5) eliminate rules which require the use of unneeded crew members on trains, and on various pieces of equipment such as that used in track maintenance. At the end of 1959 these proposals had not reached the stage of collective bargaining on a national basis.

CURRENT WAGE NEGOTIATIONS followed the expiration of three-year moratorium clauses on October 31, 1959. All labor organizations had previously submitted requests for wage increases ranging upward from 25¢ per hour, in addition to other benefits. Your Company served proposals on these organizations for a 15¢ per hour wage reduction in order to attempt to bring railroad wages in line with prevailing wages in other industries. National wage negotiations with the major unions have reached the stage of mediation—and in the case of the Locomotive Engineers, both parties have agreed to binding arbitration if a satisfactory arbitration agreement can be reached.

SAFETY PERFORMANCE improved. There were fewer personal injuries in 1959 than in 1958, even though man-hours worked increased slightly. Following the successful "Vital Moment" training program of 1958, this year's program was based on "Safety in Specific Operations."

The National Safety Council, for the second consecutive year, selected the Pennsylvania Railroad for its Public Safety Activities Award.

A SUPERVISORY APPRAISAL PROGRAM has continued as a valuable management aid. It permits prompt identification of training needs, and has improved the selection of supervisors and officers.

MANUALS ON EFFECTIVE CUSTOMER RELATIONS to improve passenger service and courtesy of employes who have personal contact with the public were prepared for each group of employes as a basic text for class discussions. Manuals to guide employes in passenger service on when and how to inform customers and the public about train delays and other events were also issued.

THE MEDICAL DEPARTMENT earned added recognition for its leadership in industrial medicine. In 1959 it pioneered in the railroad industry with modern audiometric testing for prospective employes. The industrial hygiene section made substantial contributions to the safer working environments which have reduced personal injuries.

LEGAL DEVELOPMENTS

PROXY SUITS—Randolph Phillips and two associated stockholders have been completely unsuccessful in all their litigation against this Company. The Federal Court of Appeals at Philadelphia, on June 24, 1959, affirmed dismissal by the District Court of the two lawsuits brought by these stockholders. They sought a review of this decision against them by the United States Supreme Court, but that court, on November 23, 1959, determined that the decisions of the lower courts should stand.

TRUCKERS' SUIT—On December 10, 1959 the Circuit Court of Appeals in Philadelphia by a 2 to 1 vote affirmed the decree of the District Court against the Eastern railroads awarding damages and counsel fees amounting to $850,000 to the Pennsylvania Motor Truck Association and nominal damages of 18 cents to the plaintiff trucking companies. This was a most disappointing result but the disappointment was tempered somewhat by the dissenting opinion of Chief Judge Biggs. He would have reversed the lower court, and expressed the opinion that the railroads' program was essentially a broad-scale effort to secure legislative relief from competitive inequities created by the state legislatures. As such, he concluded that the railroads' actions were not in violation of the antitrust laws but rather were within the constitutional protections for freedom of speech and the right to petition the legislature.

The railroads will ask the Supreme Court of the United States to review the Circuit Court's decision on the ground that it involves major constitutional questions which deeply concern the right of American industries to promote and stimulate public opinion in support of legislation to bring about improved competitive opportunities.

RISS SUIT—Riss and Company, one of the Nation's largest motor carriers, filed a suit against most of the Nation's railroads including your Company, on September 22, 1954, alleging that they entered into a conspiracy in violation of the antitrust laws to destroy Riss as a competitor in hauling freight, principally explosives.

The trial began on January 5, 1960 in the Federal District Court at Washington, D. C.

AIR COACH SUIT—This antitrust case was brought in 1957 against 42 railroads, including your Company, by a group of irregularly scheduled airlines. In last year's Report, it was noted that the Interstate Commerce Commission had agreed to decide whether joint quotations by the railroads for United States military traffic are covered by agreements previously approved by the Commission. Since then the District Court also issued an order asking the Commission to decide whether the intent and effect of these quotations was for the purpose of destroying air carrier competition. This order was affirmed by the Federal Circuit Court on an appeal taken by the air carriers, and a petition for certiorari which was filed by them with the Supreme Court of the United States was denied. The proceeding is now before the Interstate Commerce Commission for further handling.

IMPORT ORE RATES—In last year's Report it was noted that this litigation, involving rate relationships on iron ore imported through major East Coast ports, had been returned to the Interstate Commerce Commission by the Federal Courts for more detailed findings. Hearings before the Interstate Commerce Commission have been concluded and the matter is now awaiting the filing of an Examiner's proposed report.

DIVISIONS CASES—Two proceedings are now pending before the Interstate Commerce Commission in which your Company, together with other Eastern lines, is seeking increased shares of freight rates on traffic between the East and the far West, and the East and South. Hearings have been completed in the Western case and they have been partially completed in the Southern proceeding. Favorable decisions in these cases would substantially improve your Company's revenues.

PURCHASE OF THE T. P. & W.—On December 14, 1959, the Supreme Court of the United States affirmed the judgment of the Federal Court at Minneapolis in upholding approval by the Interstate Commerce Commission of the purchase of the Toledo, Peoria and Western Railroad by the Santa Fe Railway Company and the Pennsylvania Company.

PARKING PROPERTY SUIT—The litigation which The R. A. McCormick Company brought against the Pennsylvania Railroad has been terminated by agreement. As a part of the settlement, the Railroad leased several parking properties to the McCormick Company, and that company agreed to account to the Railroad for occupancy of certain premises.

LEGISLATIVE DEVELOPMENTS

The 1959 session of Congress enacted legislation which places added financial burdens on your Company and the railroad industry. This law increased unreasonably the benefits payable under the Railroad Retirement and Unemployment Insurance systems, with accompanying increases in the tax rates levied on payrolls to finance those systems. Retirement benefits were increased by about 10% and unemployment benefits by 20%, and the unemployment benefit period was substantially extended. Payroll taxes to finance the retirement benefits will increase to a total of 18% by 1969 with the Company and the employe paying 9% each of earnings up to $400 a month per employe. The payroll tax for unemployment purposes, which is paid entirely by the Company, was increased to 3¾% on the first $400 of each employe's monthly earnings.

It is estimated that retirement taxes to be paid by the railroads will increase immediately by $59 million a year and ultimately by $185 million annually. The increase in the unemployment taxes payable by the railroads will approximate $62 million a year. These new provisions were added to the law on May 19, 1959 when the President approved a bill passed by Congress. This legislation is definitely inflationary and also is discriminatory since our competitors operate under the substantially lower rates of the Social Security Act.

The last Congress passed a measure to reduce the excise tax on passenger fares from the present level of 10% to 5% on July 1, 1960. However, President Eisenhower in his January budget message to Congress urged that the scheduled reduction in this tax be postponed by new legislation. This tax, imposed in World War II, still discourages travel by the most economical forms of transportation and should be eliminated. In addition to the loss in passenger revenue caused by it, the carriers must also bear the expense of collecting it for the Government. Such an imposition on the deficit operations of railroad passenger services is indefensible.

At the Federal level there were a number of studies initiated during the year designed to investigate problems in the field of national transportation policy. Senate Resolution 244 would continue a previous authorization for the Senate Committee on Interstate and Foreign Commerce to make a complete study of transportation policy and related matters. In July, 1959 the Senate Committee announced the formation of a transportation study group to undertake the investigation authorized by Senate Resolution 29. Meanwhile the Department of Commerce at the direction of President Eisenhower has likewise been conducting a study in the same general field. During the 1960 session of Congress, reports and recommendations may be forthcoming as a result of these inquiries.

During 1959 a special Subcommittee of the House Armed Services Committee conducted hearings and submitted a report dealing with the adequacy of transportation systems for defense and mobilization purposes. The Subcommittee report emphasized the vital role played by the railroads in defense and mobilization matters generally. It recommended further study and consideration of several steps to improve railroad preparedness, including methods of financing the purchase of new equipment, the correction of inequities resulting from subsidies to other forms of transportation, and the elimination of burdensome taxes on railroad passenger facilities.

In 1959 the New York State Legislature, realizing the inequitable tax burden of the railroads, passed a law designed to grant some tax relief to railroads whose earnings were substandard. This act recognizes another important fact, namely, that both the municipality and the state should bear a portion of the responsibility for granting the railroads the relief to which they are entitled by providing that the state will reimburse the municipality for one-half of its revenue loss. Because of the complex mechanics of administration, it is impossible at this time to determine the exact savings which will result from the passage of this act. Eventually, however, the savings are expected to be helpful, in varying degrees, to the railroads operating in New York.

TRANSPORTATION POLICY OBJECTIVES

Your Company believes that important changes must be made in transportation policy to enable railroads to provide the type of service the public is entitled to receive, and to perform the function in our economy and in national defense which they alone can best do. These include:

1. Assumption by state and local governments of responsibilities in the improvement and expansion of suburban rail services in important metropolitan areas.

2. Establishment of a Federal agency to finance the purchase of new railroad equipment by leasing such equipment at rentals repaying full cost to the Government plus a return on its investment.

3. Encouragement of railroad mergers.

4. Elimination of inequities existing between rail, motor, air and water transportation by requiring all carriers to pay adequate user charges, and permitting railroads to engage in other forms of transportation.

5. The elimination of property taxes on railroad rights-of-way on the basis that they constitute "highways of commerce" in the same way that roads, waterways and airways are public highways which are not subject to property taxes.

6. Exemption of railroad passenger facilities and stations from taxation in order to help the continuation and improvement of this vital—but unprofitable—form of railroad service.

7. In the matter of rail-highway grade crossings and grade separation projects, a substantial reduction should be made in many states of the portion of the expense of construction and maintenance which railroads are required to pay.

8. Creation of a Federal Department of Transportation to be headed by a Cabinet officer.

Stockholders who wish to give support to these objectives when talking with friends, business associates or members of legislative bodies, will be helping to protect their investment.

ORGANIZATION CHANGES

James M. Symes was elected Chairman of the Board effective November 1, 1959, and Allen J. Greenough, formerly Vice President, Transportation & Maintenance, was elected President, the fourteenth in the history of the Company. Mr. Symes, as Chairman, continues as chief executive officer and has general supervision and direction of the overall conduct and management of the affairs of the Company. Mr. Greenough is the chief administrative officer and aids in the formulation of Company policy and is responsible for carrying it into effect.

Coincident with his election as President, Mr. Greenough was elected a Director to fill the vacancy resulting from the resignation of Lammot duPont Copeland. At the same time Edward J. Hanley, President, Allegheny Ludlum Steel Corporation, Pittsburgh, was elected a Director to succeed Donald Danforth who resigned. Pursuant to Pennsylvania law, the two positions of Director now occupied by Mr. Greenough and Mr. Hanley were transferred from the class expiring in 1962 to the classes expiring in 1960 and 1961, respectively.

On May 25, 1959, Walter S. Franklin, former President of this Company, retired as a Director after 21 years of service on the Board and 35 years with the Company. His varied railroad career was one of unusual dedication and achievement. Thomas L. Perkins, a partner in the law firm of Perkins, Daniels, McCormack & Collins, New York City, was elected to succeed Mr. Franklin.

John A. Schwab became Vice President, Baltimore-Washington on March 1, 1959, and John D. Morris was appointed Regional Manager, Chesapeake Region. At the same time, Christy G. Magruder was appointed Regional Manager, Northern Region, to succeed Paul W. Neff, who was granted a leave of absence because of illness after 42 years of faithful service. Mr. Neff died on April 15, 1959. Harold H. Vaughn succeeded Mr. Magruder as Regional Manager, Southwestern Region.

Effective July 1, 1959, Henry W. Large was appointed Vice President and Regional Manager, Northwestern Region, to succeed Herman H. Pevler, who became President of the Wabash Railroad Company. I. Theodore Marine was appointed Assistant Vice President, Freight Sales, to succeed Mr. Large, and William K. Chapman became General Manager, Freight Sales, succeeding Mr. Marine.

Park M. Roeper was appointed Vice President, Transportation and Maintenance, effective November 1, 1959. A. Mosby Harris succeeded Mr. Roeper as General Manager, Transportation, and Howard C. Kohout became Regional Manager of the Buckeye Region, succeeding Mr. Harris.

Samuel R. Hursh, former Chief Engineer, retired as Assistant Vice President on April 1, 1959, after 43 years of loyal and outstanding service to the Company.

★ ★ ★

THE ANNUAL MEETING of the stockholders will be held in the Sheraton Hotel, 1725 Pennsylvania Boulevard, Philadelphia, Pa., on Tuesday morning, May 10, 1960, at eleven o'clock, Daylight Saving Time. It is hoped that as many stockholders as possible will attend.

★ ★ ★

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, The Pennsylvania Railroad Company, Six Penn Center Plaza, Philadelphia 4, Pa.

GENERAL OFFICES—Transportation Center, Six Penn Center Plaza, Philadelphia 4, Pa.

STOCK TRANSFER OFFICES—

PHILADELPHIA:	NEW YORK CITY:	CHICAGO:	BOSTON:	LONDON:
1808 Transportation Center Six Penn Center Plaza	Pennsylvania Station 380 Seventh Avenue	Continental Illinois National Bank & Trust Company of Chicago 231 South LaSalle Street	The First National Bank of Boston 45 Milk Street	Midland Bank Ltd. Poultry & Princes Streets

Jones and Laughlin Steel Corporation located this new steel warehouse at Maple Heights, Ohio, in the Cleveland area.

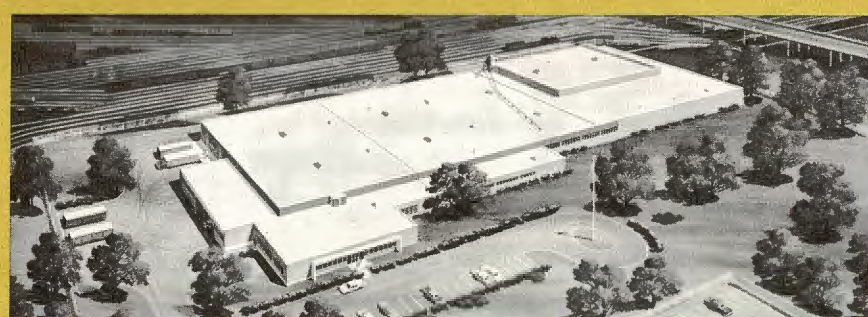
This new plant of Corning Glass Company near Martinsburg, West Virginia, will produce pyroceram glassware and tableware.

NOTABLE INDUSTRIAL DEVELOPMENTS ON THE PRR IN 1959

Edgar's Warehouses, Incorporated, constructed this new warehouse at Fort Wayne, Indiana, to be used largely for storage in transit.

Sperry and Hutchinson Company will use this new facility at Sharonville, Ohio, for a warehouse, distribution and redemption center.

Industrial Container Corporation, a subsidiary of MannKraft Corporation, located this new plant at Newark, New Jersey.



General Foods Corporation located this large new sales, service and food distribution warehouse at Newark, Delaware.

New grocery warehouse of Weis Markets, Incorporated, at Sunbury, Pennsylvania, serves its 40 supermarkets in the area.

CONDENSED INCOME STATEMENT

	Year 1959	Year 1958		Increase or Decrease
THE COMPANY HAD OPERATING REVENUES FROM:				
Transportation of Freight	$672,760,193	$634,742,358	I	$38,017,835
Transportation of Passengers	103,952,598	108,139,738	D	4,187,140
Handling of Mail	47,557,508	46,283,473	I	1,274,035
Handling of Express	13,731,585	9,754,618	I	3,976,967
Other Operations	49,681,974	45,311,906	I	4,370,068
	887,683,858	844,232,093	I	43,451,765
THERE WAS DEDUCTED:				
Operating Expenses	727,472,686	715,185,930	I	12,286,756
Federal Income Taxes (*Note B*)	1,101,573	1,119,074	D	17,501
Payroll Taxes	35,405,485	29,830,725	I	5,574,760
Other Taxes	32,302,959	31,891,926	I	411,033
Equipment and Joint Facility Rents	61,566,270	54,466,427	I	7,099,843
	857,848,973	832,494,082	I	25,354,891
LEAVING NET RAILWAY OPERATING INCOME OF	29,834,885	11,738,011	I	18,096,874
THE COMPANY HAD OTHER INCOME (*from Dividends, Interest on Securities owned, etc.*)—(*Note C*)	29,993,441	43,632,639	D	13,639,198
Less Income from Leased Lines Securities held (*eliminated from Leased Lines Rental below*)	2,079,125	2,033,300	I	45,825
	27,914,316	41,599,339	D	13,685,023
	57,749,201	53,337,350	I	4,411,851
MISCELLANEOUS CHARGES WERE	7,548,854	6,403,275	I	1,145,579
LEAVING A BALANCE FOR FIXED CHARGES AND OTHER CORPORATE PURPOSES OF	50,200,347	46,934,075	I	3,266,272
FIXED CHARGES:				
Leased Lines Rental (*after deducting Income from Leased Lines Securities held*)	17,575,863	17,770,515	D	194,652
Interest on Funded Debt	25,168,182	25,391,124	D	222,942
Other	189,167	228,363	D	39,196
	42,933,212	43,390,002	D	456,790
LEAVING A NET INCOME OF	7,267,135	3,544,073	I	3,723,062
Times Fixed Charges Earned:				
Before Federal Income Taxes	*1.19*	*1.11*		
After Federal Income Taxes	*1.17*	*1.08*		
NET INCOME PER SHARE OF STOCK	*$0.55*	*$0.27*		

CONDENSED STATEMENT OF RETAINED INCOME

	Year 1959	Year 1958		Increase or Decrease
BALANCE, JANUARY 1	$716,628,668	$718,143,465	D	$1,514,797
Add: Net Income for the Year	7,267,135	3,544,073	I	3,723,062
Other Credits (*Note D*)	18,951,442	—	I	18,951,442
	742,847,245	721,687,538	I	21,159,707
Deduct: Dividends Paid	3,291,939	3,291,939		
Other Debits (*Note E*)	21,060,347	1,766,931	I	19,293,416
	24,352,286	5,058,870	I	19,293,416
BALANCE, DECEMBER 31	718,494,959	716,628,668	I	1,866,291

See notes, Pages 30 and 31

CONDENSED BALANCE SHEET

ASSETS

	December 31, 1959	December 31, 1958	Increase or Decrease	
CURRENT ASSETS:				
(*cash, temporary cash investments, material and supplies, accounts receivable, etc.*)	*$211,545,709	$216,872,534	D	$5,326,825
SPECIAL FUNDS:				
(*insurance, sinking and other funds*)	27,851,043	33,302,170	D	5,451,127
INVESTMENTS: (*Note H*)				
In Affiliated Companies (*stocks, bonds, notes and advances*)	895,646,086	868,208,612	I	27,437,474
In Other Companies (*stocks, bonds, notes and advances*)	20,552,245	23,869,835	D	3,317,590
	916,198,331	892,078,447	I	24,119,884
PROPERTIES:				
Transportation Property and Equipment	1,915,162,062	1,953,908,172	D	38,746,110
Less: Accrued Depreciation	679,779,125	674,371,771	I	5,407,354
Accrued Amortization of Defense Projects	48,055,053	52,948,909	D	4,893,856
	727,834,178	727,320,680	I	513,498
Net Investment in Transportation Property and Equipment	1,187,327,884	1,226,587,492	D	39,259,608
Miscellaneous Physical Property	9,700,785	15,233,481	D	5,532,696
	1,197,028,669	1,241,820,973	D	44,792,304
OTHER ASSETS:				
(*including items in process of adjustment*)	32,771,110	19,567,874	I	13,203,236
Total	2,385,394,862	2,403,641,998	D	18,247,136

**Excludes $8,600,000 of temporary cash investments carried in Special Funds on deposit December 31, 1959 with P.R.R. Co. mortgage trustee which will become a current asset upon retirement of Consolidated Mortgage bonds at maturity on August 1, 1960.*

LIABILITIES

	December 31, 1959	December 31, 1958	Increase or Decrease	
CURRENT LIABILITIES:**				
(*traffic balances, wages, taxes, interest, other accounts payable, etc.*)	$130,720,531	$129,822,999	I	$897,532
LONG-TERM DEBT:				
Bonded Debt	385,966,378	399,528,378	D	13,562,000
Equipment Trusts	106,453,000	125,785,000	D	19,332,000
Equipment—Conditional Sale Agreements	167,371,992	159,480,772	I	7,891,220
	659,791,370	684,794,150	D	25,002,780
RESERVES:				
(*insurance reserves and employes vacation pay*)	38,228,842	39,484,318	D	1,255,476
OTHER LIABILITIES:				
(*accrued depreciation—leased property, deferred credits and items in process of adjustment*)	169,204,909	163,959,854	I	5,245,055
SHAREHOLDERS' EQUITY				
Capital Stock (*13,167,754 shares par value $10 per share*)—(*Note F*)	131,677,540	131,677,540		
Capital Surplus (*paid-in, premium on capital stock, other*)—(*Note F*)	537,276,711	537,274,469	I	2,242
Retained Income:				
Appropriated (*funded debt retired, and sinking fund reserves*)	23,258,000	21,836,000	I	1,422,000
Unappropriated	695,236,959	694,792,668	I	444,291
Retained Income	718,494,959	716,628,668	I	1,866,291
Shareholders' Equity	1,387,449,210	1,385,580,677	I	1,868,533
Total	2,385,394,862	2,403,641,998	D	18,247,136
***Exclusive of equipment obligations and bonded debt maturing within one year, and sinking fund requirements.*	*$75,393,675*	*$39,471,103*		

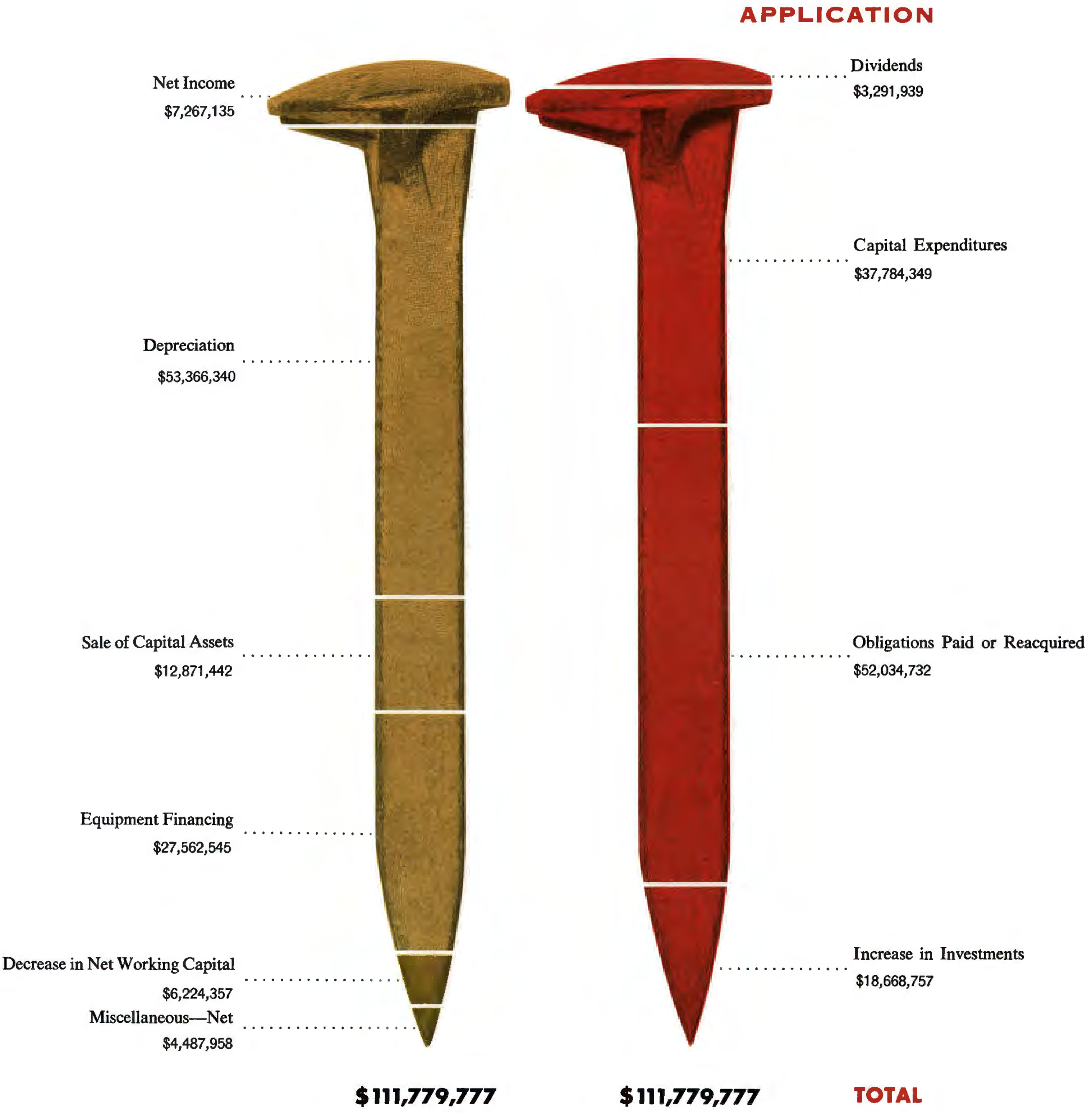
Your Company has contingent liabilities (not included as liabilities in the foregoing balance sheet) aggregating $477,900,635 as of December 31, 1959 by endorsement as guarantor or by agreement, including agreements to make advances, in respect of the principal of obligations, and of interest thereon, of companies in which your Company has an interest. $185,511,125 of these contingent obligations have been entered into jointly or jointly and severally with other companies. Pennsylvania Railroad System owns $67,012,010 of obligations for which it has sole contingent liability. (See Note N.)

See notes, Pages 30 and 31

THE PENNSYLVANIA RAILROAD COMPANY

SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR 1959



PENNSYLVANIA RAILROAD SYSTEM

CONDENSED CONSOLIDATED INCOME STATEMENT *(Note A)*

	1959	1958	1957	1956	1955
Income:					
Railway operating revenues	$888,198,422	$844,778,988	$988,389,740	$992,363,535	$936,098,340
Revenues from miscellaneous operations	14,407,985	15,578,932	15,859,517	15,930,269	15,518,164
Dividend income	18,964,974	18,065,033	20,402,236	21,519,887	19,090,889
Other (*Note C*)	12,504,214	26,404,010	8,445,672	8,883,478	7,338,154
	934,075,595	904,826,963	1,033,097,165	1,038,697,169	978,045,547
Operating Charges and Other Deductions:					
Railway operating expenses	730,106,337	717,482,900	841,001,363	818,241,978	769,900,260
Equipment and joint facility rents (*net*)	58,029,537	50,848,464	36,442,522	33,339,303	35,019,212
Expenses of miscellaneous operations and other deductions	19,032,853	19,122,569	17,984,330	17,089,234	16,838,547
Provision for taxes:					
Federal income (*Note B*)	1,106,898	1,122,639	Cr 2,181,235	8,955,029	1,608,047
Payroll Taxes	35,726,978	30,095,070	34,341,501	33,598,299	29,110,403
Other Taxes	35,242,753	35,686,653	36,794,363	34,803,736	34,565,891
	879,245,356	854,358,295	964,382,844	946,027,579	887,042,360
Income available for fixed charges and other corporate purposes	54,830,239	50,468,668	68,714,321	92,669,590	91,003,187
Fixed Charges:					
Leased Lines Rental (*after deducting income from leased lines securities held*)—(*Note G*)	13,187,039	13,312,996	13,513,597	13,714,058	13,905,638
Interest on funded debt (*other than included in leased lines rental*)	24,716,500	25,085,249	25,513,896	26,174,146	26,646,608
Other	272,246	312,004	302,078	261,498	242,085
	38,175,785	38,710,249	39,329,571	40,149,702	40,794,331
NET INCOME	16,654,454	11,758,419	29,384,750	52,519,888	50,208,856
Times Fixed Charges Earned:					
Before Federal income taxes	*1.47*	*1.33*	*1.69*	*2.53*	*2.27*
After Federal income taxes	*1.44*	*1.30*	*1.75*	*2.31*	*2.23*
NET INCOME PER SHARE OF PRR CO. STOCK	*$1.26*	*$0.89*	*$2.23*	*$3.99*	*$3.81*

CONDENSED CONSOLIDATED STATEMENT OF RETAINED INCOME *(Note A)*

	1959	1958	1957	1956	1955
BALANCE, JANUARY 1	$1,008,237,135	$1,003,669,134	$998,293,170	$1,003,257,925	$995,677,164
Add: Net Income for the Year	16,654,454	11,758,419	29,384,750	52,519,888	50,208,856
Other Credits	1,942,755	3,713,353	3,811,108	6,852,821	11,084,934
	1,026,834,344	1,019,140,906	1,031,489,028	1,062,630,634	1,056,970,954
Deduct: Dividends Paid	3,291,939	3,291,939	16,459,693	20,410,019	19,751,631
Provision in 1956 for Employes Vacation Pay	—	—	—	24,274,303	—
Other Debits (*Note E*)	23,419,508	7,611,832	11,360,201	19,653,142	33,961,398
	26,711,447	10,903,771	27,819,894	64,337,464	53,713,029
BALANCE, DECEMBER 31	1,000,122,897	1,008,237,135	1,003,669,134	998,293,170	1,003,257,925

See notes, Pages 30 and 31

ASSETS

	1959	1958	1957	1956	1955
CURRENT ASSETS:					
Cash	$87,169,091	$73,725,548	$51,561,136	$58,971,391	$65,211,118
Temporary cash investments (*principally at cost*)	21,530,279	32,394,002	34,650,752	58,345,866	73,347,493
Accounts receivable	41,623,012	44,773,500	44,250,368	40,748,448	42,915,628
Material and supplies	52,052,770	53,788,857	59,137,367	67,306,001	56,501,948
Other	33,308,542	30,272,763	30,504,068	28,705,282	33,751,036
	*235,683,694	234,954,670	220,103,691	254,076,988	271,727,223
SPECIAL FUNDS:					
Capital and sinking funds	10,697,958	11,683,180	2,326,805	3,188,059	6,914,029
Other	10,484,021	11,184,271	10,762,866	11,008,769	9,709,752
	21,181,979	22,867,451	13,089,671	14,196,828	16,623,781
INVESTMENTS AND ADVANCES (*at cost or less*): (*Note H*)					
Affiliated Companies (*Note I*)					
Investments	174,914,105	170,875,179	172,362,780	172,678,561	172,101,778
Advances	18,114,026	20,873,039	20,980,086	21,108,445	21,765,356
	193,028,131	191,748,218	193,342,866	193,787,006	193,867,134
Other Companies (*Note J*)	112,844,576	112,693,282	116,566,912	123,758,213	123,771,244
	305,872,707	304,441,500	309,909,778	317,545,219	317,638,378
PROPERTIES:					
Railway transportation property	3,185,498,479	3,225,399,736	3,224,267,722	3,194,150,304	3,180,726,732
Other property	87,041,040	89,039,158	100,164,917	92,868,872	79,218,627
	3,272,539,519	3,314,438,894	3,324,432,639	3,287,019,176	3,259,945,359
LESS:					
Accrued depreciation, amortization and depletion:					
Railway transportation property	935,128,647	925,006,652	903,339,449	868,176,814	853,965,744
Other property	12,625,776	11,144,784	14,500,650	13,184,487	11,574,130
	947,754,423	936,151,436	917,840,099	881,361,301	865,539,874
Net investment in property and equipment	2,324,785,096	2,378,287,458	2,406,592,540	2,405,657,875	2,394,405,485
OTHER ASSETS (*including items in process of adjustment*)	35,629,471	22,481,080	21,242,710	19,092,608	19,887,036
TOTAL	2,923,152,947	2,963,032,159	2,970,938,390	3,010,569,518	3,020,281,903

**Excludes $8,600,000 of temporary cash investments carried in Special Funds on deposit December 31, 1959 with P.R.R. Co. mortgage trustee which will become a current asset upon retirement of Consolidated Mortgage bonds at maturity on August 1, 1960.*

See notes, Pages 30 and 31

RAILROAD SYSTEM

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

	1959	1958	1957	1956	1955
LIABILITIES					
CURRENT LIABILITIES:					
(excluding long-term debt maturing within one year and sinking fund requirements)—(Note K):					
Accounts and wages payable	$64,198,432	$61,402,884	$65,763,051	$75,183,721	$82,136,129
Tax liabilities	43,132,913	39,410,934	39,286,376	41,481,253	36,961,484
Other	26,025,404	30,070,384	22,319,749	26,132,624	26,646,831
	133,356,749	130,884,202	127,369,176	142,797,598	145,744,444
LONG-TERM DEBT:					
Pennsylvania Railroad Company:					
Bonds *(including assumed debt)*	335,487,378	348,482,378	355,290,378	368,059,045	382,785,045
Equipment Trusts	106,453,000	125,785,000	145,721,000	145,940,000	138,238,000
Equipment—Conditional sale agreements	167,371,992	159,480,772	147,424,741	153,529,230	165,545,041
	609,312,370	633,748,150	648,436,119	667,528,275	686,568,086
Bonds of leased lines	225,673,737	229,072,337	230,920,562	236,089,662	237,693,663
Subsidiary companies *(other than leased lines)*	47,478,075	49,805,794	54,849,945	58,526,145	63,206,890
	882,464,182	912,626,281	934,206,626	962,144,082	987,468,639
DEFERRED LIABILITIES AND UNADJUSTED CREDITS *(principally employes vacation pay, and insurance reserves)*	60,039,730	63,351,982	58,408,118	60,141,077	34,825,782
PUBLICLY HELD INTERESTS IN EQUITY OF CONSOLIDATED COMPANIES OTHER THAN THE PENNSYLVANIA RAILROAD COMPANY:					
Preferred stock	23,869,451	24,030,501	24,065,451	24,354,151	24,755,801
Common stock	31,877,244	32,367,644	32,639,194	33,054,644	34,157,876
Retained Income and Capital Surplus	28,865,143	29,092,546	28,965,046	26,566,263	25,819,274
	84,611,838	85,490,691	85,669,691	83,975,058	84,732,951
PENNSYLVANIA RAILROAD CO. SHAREHOLDERS' EQUITY:					
Capital Stock *(13,167,754 shares par value $10 per share)—(Note F)*	131,677,540	131,677,540	131,677,540	658,387,700	658,387,700
Capital Surplus *(paid-in, premium on capital stock, other)—(Note F)*	579,730,613	579,609,028	579,037,829	53,839,572	48,963,394
Retained Income:					
Appropriated *(funded debt retired, and sinking fund reserves)*	24,309,130	22,851,887	21,421,755	19,991,610	18,547,797
Unappropriated	975,813,767	985,385,248	982,247,379	978,301,560	984,710,128
Retained Income	1,000,122,897	1,008,237,135	1,003,669,134	998,293,170	1,003,257,925
Net amount by which System equity in net assets *(at date of acquisition)* of companies consolidated exceeds the related investment therein	51,149,398	51,155,300	50,900,276	50,991,261	56,901,068
Shareholders' Equity	1,762,680,448	1,770,679,003	1,765,284,779	1,761,511,703	1,767,510,087
TOTAL	2,923,152,947	2,963,032,159	2,970,938,390	3,010,569,518	3,020,281,903

For Contingent Items—*see Note N.*

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

The Pennsylvania Railroad Company.

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

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: Federal income tax accruals for the years 1958 and 1959 represent the portion of leased lines rentals allocable to Federal income taxes of those lessor companies for which separate income tax returns are required. No income taxes were accrued for The Pennsylvania Railroad Company in the years 1958 or 1959.

For the year 1957 an excess of deductions over income produced a loss more than sufficient to recoup all refundable 1956 Federal income tax payments ($1,350,000 for the Company and $3,314,000 for the System). The amounts refunded were included in the 1957 accounts resulting in the credits shown on the Income Statements.

During 1955, 1956 and 1957 deductions for accelerated amortization of emergency facilities (principally equipment) under certificates of necessity, were made in computing Federal income tax liability. These deductions had the effect of reducing the current provisions for Federal income taxes of The Pennsylvania Railroad Company by $4,357,000, $11,654,000 and $771,000 for the respective years ($7,418,000, $13,008,000 and $2,171,000 for the System). During 1958 the major portion of such deductions was terminated. To the extent that such deductions accrued in 1958 prior to termination or were continued in 1958 and 1959, there was no current reduction in Federal income tax accruals.

In 1955 and 1956, losses on extraordinary retirements of roadway facilities charged to Retained Income were used as deductions in computing Federal income tax liability. Tax benefits for the respective years related to such deductions amounted to $12,126,000 and $4,700,000 for the Company and $12,504,000 and $4,751,000 for the System. For the year 1955, the resulting tax benefit was credited to income; for the year 1956, pursuant to instructions from the Interstate Commerce Commission, tax credits on such losses were credited to Retained Income. Such retirements were not a material tax factor in 1957, 1958 and 1959.

Note C: Other Income for 1958 includes $13,493,197 retroactive credit adjustment of U.S. Mail Pay for the period July 3, 1956 to December 31, 1957 and $3,181,882 adjustment in Rental account reduction of Federal income taxes of certain lessor companies for prior years.

Note D: Pennsylvania Railroad Company sold 214,954 shares of Norfolk & Western Railway Company common stock to a wholly owned subsidiary, the Pennsylvania Company, resulting in a credit to Retained Income in 1959 of $18,951,442.

Note E: Other Debits to Retained Income in 1959 include $11,664,200 book value of securities deposited in the Supplemental Pension Fund and $9,403,660 account of sale and retirement of property for the Company and $10,169,922 for the System.

Note F: Par value of capital stock reduced from $50 to $10 per share, effective June 21, 1957 and amount of $526,710,160 was transferred to Paid-in Surplus (Capital Surplus).

Under the Restricted Stock Option Plan for key employes of the Company and its subsidiaries, approved by the stockholders at the 1957 Annual Meeting, on January 1, 1959, there were 426,000 shares issuable under outstanding options and 232,387 unoptioned shares available for the granting of options. During 1959, options for a total of 7,800 shares expired and, therefore, on December 31, 1959, there were 418,200 shares issuable under outstanding options and 240,187 unoptioned shares available for the granting of options. No options were either granted or exercised in 1959 and there was no change in the exercise price, viz., $21.00 per share under all options, except one for 1,000 shares as to which the exercise price was $19.00 per share.

Note G: Summary of Rentals Paid to Public Interests:

Rental:	1959	1958	1957	1956	1955
Dividends on stocks of leased lines..........	$ 7,280,914	$ 7,325,988	$ 7,373,322	$ 7,441,937	$ 7,501,258
Interest on funded debt of leased lines....	12,279,796	12,381,637	12,682,345	12,809,435	13,141,786
Other..........	94,278	96,189	104,316	171,587	161,271
	19,654,988	19,803,814	20,159,983	20,422,959	20,804,315
Deduct—Income from leased lines securities owned:					
Dividends.....	3,254,585	3,255,434	3,285,280	3,298,599	3,299,515
Interest	3,213,364	3,235,384	3,361,106	3,410,302	3,599,162
	6,467,949	6,490,818	6,646,386	6,708,901	6,898,677
Net rental paid to publicly held interests........	13,187,039	13,312,996	13,513,597	13,714,058	13,905,638

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 H: $44,274,000 par value Pennsylvania Railroad Company investments are pledged under indentures. $35,620,700 par value of investments of other system companies are so pledged. Of the aggregate par value of $79,894,700 of investments pledged, $50,233,700 represent system securities which have been eliminated in consolidated figures. See also Notes I and J concerning pledged securities.

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

The Long Island Rail Road Company

The Long Island Rail Road Company (the capital stock of which is owned 100 per cent. by the System) 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 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 $47,639,171. No dividends were received from The Long Island Rail Road Company since 1933. The operation of the railroad during the years 1955-1959 resulted in Net Income as follows:

1959...........	$ 333,545	1956...........	$ 815,558
1958...........	$ 868,504	1955...........	$ 636,323
1957...........	$1,239,133		

The System purchased during years 1955 and 1956 from The Long Island Rail Road Company $5,500,000 par value Long Island Rail Road Company General Mortgage 5% Serial Bonds, Series A and B, maturing January 1, 1958 to 1966 inclusive, in connection with its Equipment Program under the Redevelopment Corporation Plan. $1,222,000 par value was repaid to December 31, 1959.

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 $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.

As a result of the adjustments of indebtedness of The Long Island Rail Road Company, the System received, in payment of unpaid balance of advances $6,000,000, 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 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 cent. 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, is represented by slightly more than 99 per cent. interest in common stock at December 31 of each year and 56.07 per cent. interest in preferred stock at December 31, 1955, and by 62.12 per cent. at December 31 in subsequent years. The stocks are included in Investments at approximately $13,100,000 in the aggregate at December 31, 1955, and at $14,500,000 at December 31 in subsequent years.

68,363 shares of preferred stock were pledged at December 31, 1959 with Trustee of a collateral trust indenture of Pennsylvania Company. (See Notes L and M.)

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 is included in System investments at cost of $21,100,000 at December 31, of each year.

78,538 shares of stock were pledged at December 31, 1959 with Trustee of a collateral trust indenture of Pennsylvania Company. The Wabash Railroad Company also owned $4,532,900 par value Detroit, Toledo and Ironton Railroad Company capital stock, representing 18.47 per cent. of the outstanding stock at December 31, of each year. (See Notes L and M.)

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

Lehigh Valley Railroad Company

The System investment in capital stock of Lehigh Valley Railroad Company is represented by 25.22 per cent. interest in 1955, 25.16 per cent. interest in 1956, 26.15 per cent. interest in 1957, 25.15 per cent. interest in 1958 and 25.16 per cent. interest in 1959. The stock is included in Investments at $24,984,550 at December 31, 1955 and 1956, $25,213,699 at December 31, 1957, $21,669,329 at December 31, 1958 and $20,535,971 at December 31, 1959. 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 in principal amount of $3,482,000, at a cost of $957,165, was owned by the System at December 31, of each year.

The Wabash Railroad Company also has an investment in the stock of Lehigh Valley Railroad Company which is represented by 17.62 per cent. in 1955, and 17.58 per cent. in 1956, 1957 and 1958, and 17.57 per cent. interest in 1959. Under agreement dated January 1, 1941, 265,469 shares are held and voted by Marine Midland Trust Company of New York. (See Notes L and M.)

Norfolk and Western Railway Company

The System investment in Norfolk and Western Railway Company is represented by 57.96 per cent. interest in 4% preferred stock at December 31 of each year, and 42.61 per cent. interest in common stock at December 31, 1955 to December 31, 1958, inclusive, and by 32.62 per cent. at December 31, 1959, due to the merger of the Virginian Railway Company into Norfolk and Western Railway Company, effective December 1, 1959. The stocks are included in Investments at a cost of $10,490,439 and $62,987,317, respectively, at each December 31.

570,836 shares of common stock were pledged at December 31, 1959 with Trustee of collateral trust indentures of Pennsylvania Company. (See Notes L and M.)

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
1960	$87,151,395
1959	44,777,208
1958	44,715,316
1957	47,582,118
1956	43,513,400

Note L: 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:

	1959	1958	1957	1956	1955
Wabash	$2,949,023	$3,751,157	$5,859,690	$7,913,778	$5,834,337
D. T. & I.	2,930,000	2,300,000	2,500,000	2,000,000	2,200,000
L. V.	—	—	346,500	456,000	522,356
N. & W.	11,794,402	10,116,304	10,116,304	9,516,983	9,516,983

Note M: 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

	1959	1958	1957	1956	1955
Wabash	Deficit	Deficit	$ .18	$ .12	$ .68
D. T. & I.	$ .02	Deficit	.13	.22	.22
L. V.	Deficit	Deficit	Deficit	.05	.07
N. & W.	.60	$ .64	.68	.65	.52

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

	1959	1958	1957	1956	1955
Wabash	$12.62	$12.66	$12.53	$12.35	$12.07
D. T. & I.	3.28	3.28	3.24	3.11	3.02
L. V.	2.20	2.24	2.40	2.39	2.34
N. & W.	17.84	19.54	18.94	18.30	17.69

Note N: The System has contingent liabilities (not included as liabilities in the Balance Sheet) aggregating $192,610,125 as of December 31, 1959, in respect of the principal of obligations issued by non-consolidated companies, including terminal companies, in which the System has an interest. $190,082,125 of these contingent obligations have been entered into jointly or jointly and severally with other 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.

Note O: Obligations for lease rentals had been incurred by the System, as of December 31, 1959, for equipment valued at $134,300,000 on which rentals were paid in 1959 aggregating $14,300,000. Included in the foregoing was equipment valued at $79,000,000 which was leased during 1959 on which rentals of $4,400,000 were paid in that year.

Lease agreements have been entered into by the System covering additional equipment valued at $141,000,000, the greater part of which will be received in 1960.

OFFICERS

System Officers

JAMES M. SYMES
Chairman of the Board

ALLEN J. GREENOUGH
President

JAMES P. NEWELL
Vice President, Operations

FRED CARPI
Vice President, Sales

RALPH C. CHAMPLIN
Vice President,
Public Relations

JAMES W. ORAM
Vice President, Personnel

PARK M. ROEPER
Vice President,
Transportation & Maintenance

JOHN A. SCHWAB
Vice President,
Baltimore-Washington

Regional Officers

NATHAN L. FLECKENSTINE
Regional Manager,
New York Region

GEORGE C. VAUGHAN
Regional Manager,
Philadelphia Region

JOHN D. MORRIS
Regional Manager,
Chesapeake Region

CHRISTY G. MAGRUDER
Regional Manager,
Northern Region

DAVID C. BEVAN
Vice President, Finance

WALTER W. PATCHELL
*Vice President,
Special Services*

J. BENTON JONES
*Vice President,
Purchases and Real Estate*

JOHN B. PRIZER
*Vice President
and General Counsel*

JAMES L. CRANWELL
Vice President, New York

BAYARD H. ROBERTS
Secretary

WILLIAM R. GERSTNECKER
Treasurer

HUGH J. WARD
Comptroller

MORTON S. SMITH
*Vice President
and Regional Manager,
Pittsburgh Region*

HERBERT M. PHILLIPS
*Regional Manager,
Lake Region*

HOWARD C. KOHOUT
*Regional Manager,
Buckeye Region*

HENRY W. LARGE
*Vice President
and Regional Manager,
Northwestern Region*

HAROLD H. VAUGHN
*Regional Manager,
Southwestern Region*