One Hundred and Second Annual Report

FOR THE YEAR ENDED DEC. 31, 1948

THE PENNSYLVANIA RAILROAD COMPANY

THE PENNSYLVANIA RAILROAD COMPANY

GENERAL OFFICE

M. W. CLEMENT
PRESIDENT

BROAD STREET STATION BUILDING
1617 PENNSYLVANIA BOULEVARD
PHILADELPHIA 4, PA.

March 22, 1949.

To the Employes:

We did better on the Railroad last year, as you will see from the annual report which is sent with this letter. This came about through greater efficiency in operation, to which you all contributed; through the money spent in improving the tools of our craft, such as the acquisition of Diesel-electric locomotives; and through the rate increases that we were allowed to make. The showing for 1948 looks good, however, largely because our results for 1947 and 1946 were so poor.

We haven't had the money to do a lot of maintenance work that was put off during the war. Unlike other businesses, we haven't been allowed to increase our prices sufficiently or fast enough to meet increases in costs as they occurred. If we had, we would be in position to spend even more money than we did during 1948 for improvements on the Railroad. These additional improvements are essential if we are to meet competition, increase our efficiency and, through these things, gradually reduce costs and rates. Only in this way can we retain our share of the volume of business, provide employment and give the kind of service that the public requires.

These are the problems that confront us in 1949. Borrowing money for improvements can't continue indefinitely. With the uncertainties and difficult problems facing us this year, it is essential for our mutual good that we work hand in hand in moving our traffic efficiently and economically and in getting our rates adjusted to the proper levels. Any further increases in the Railroad's costs should be approached with full understanding of the effect that such additional burdens will have on the welfare and future of all of us.

These things are discussed fully in this report for 1948, which deserves a careful and thoughtful reading by each of you in your own best interest.

M W Clement

THE PENNSYLVANIA RAILROAD COMPANY

PHILADELPHIA, PA.

February 16, 1950

TO EMPLOYES OF THE CHICAGO, COLUMBUS, PANHANDLE, PITTSBURGH, MIDDLE PHILADELPHIA AND NEW YORK DIVISIONS.

When CG-8 rolled into Greenville (Jersey City) on the morning of January 29th it was the 365th consecutive day that this remarkable train had reached its destination in time to make the advertised connection with the New Haven Railroad. For a whole year, day after day, this train wrote a new chapter in railroad history and set an example of what we can accomplish with other trains if we put all of our energies into the task.

CG-8 (Chicago-Greenville) is a "perishable" train carrying meats, meat products, fruits and vegetables from the Pacific Coast, the Mountain States, the Midwest and Chicago destined to the New York district and to New England. Most of CG-8's cars are received from western connections or originate in Chicago. After the train leaves Chicago it is lengthened by blocks of cars picked up at Logansport from the Effner gateway and from its Wabash Railroad connection, and at Columbus from the St. Louis gateway. This train also handles cars destined to points on the Norfolk & Western Railway through interchange at Columbus.

CG-8 leaves Chicago at 8:30 P.M. It picks up the Effner connection and departs from Logansport at 1:30 A.M. It completes its setoff and pickup at Columbus by 9:45 A.M., is relayed through Pitcairn at 4:00 P.M. and departs from Altoona at 8:30 P.M. after having set off a few cars. Diesel-electric power which has brought the train from Chicago is replaced by electric motors at Enola. Out of Enola at 1:30 A.M. it reaches Greenville at 7:00 A.M. after having dropped part of the train, just short of Greenville, at Waverly Yard where cars are subsequently distributed to the Newark-Jersey City-New York area.

The portion of the train that goes into Greenville is floated across the Hudson River to connections with the Long Island or the New Haven Railroads. This latter group of cars is of the utmost importance because of the intense competition that exists between the Pennsylvania, the New York Central and the Erie Railroad for New England perishable traffic.

About a year ago it became evident that the only way the Pennsylvania could retain the perishable freight from western connections was to do a better job than the other railroads in making delivery to New York and to New England. The decision was to concentrate our efforts on CG-8. The results have been most gratifying. Again and again we have taken business from competing railroads and from the trucks until it is now commonplace for CG-8 to have enough cars to require its running in two sections on Fridays and Saturdays. It has gradually brought the Pennsylvania to the forefront in this very important "cross country business".

We put our best power in front of this train; our best supervision behind it. But that was as far as management could go. The real job has been done by the men on the firing line, the enginemen and firemen, conductors and brakemen, block operators, inspectors, trackmen and others who have taken an increasing interest in getting this "hot shot" over the railroad. It has become their pride and joy. The conductors are alert to take advantage of every opportunity to keep CG-8 moving and avoid delay. At every curve conductors and brakemen peer ahead for telltale signs of a hot box. Train dispatchers, movement directors and block operators keep themselves posted of the thundering progress of this valuable train and arrange to have a clear track for CG-8. As it pulls into terminals for setoffs, pickups or relaying, the car inspectors are vigilant in their detection of any condition that might result in a mechanical failure somewhere on the road. Trackmen put an extra pull on the wrench to make sure the railroad will be safe for CG-8. Yard masters, signalmen and hostlers do their part. Every crossing watchman knows when CG-8 is due, gets his gates down well in advance and looks for loose rigging or sticking brakes as the train passes his post. He lifts his gate with one hand, waves to the disappearing brakeman with the other. "There she goes, on time again!"

The only way that CG-8 could have put on this outstanding performance has been through the wholehearted interest and enthusiasm of thousands of employes. You can be very proud of CG-8 for it is truly <u>your</u> train. We are confident that you will keep it rolling.

We who are responsible for the operation of the three Regions through which this train passes are taking this means of expressing our appreciation for the hard work and genuine enthusiasm that you fellow-employes have shown in compiling this record for CG-8. It means better service by the Pennsylvania Railroad. That in turn means more business for the Company and more work for more employes. It is a remarkable illustration of what can be accomplished when everyone involved becomes enthusiastic and puts his shoulder to the wheel. You are undertaking an important job and doing it well.

J. P. Newell
General Manager
Chicago, Ill.

W. W. Patchell
General Manager
Pittsburgh, Pa.

H. L. Nancarrow
General Manager
Philadelphia, Pa.

THE PENNSYLVANIA RAILROAD COMPANY

DIRECTORS

Originally Elected		Term Expires in
April 10, 1929	M. W. CLEMENT President, The Pennsylvania Railroad Company, Philadelphia, Pa.	1952
Dec. 8, 1930	PIERRE S. du PONT Director, E. I. du Pont de Nemours and Company, Wilmington, Del.	1950
Dec. 28, 1932	FRANKLIN D'OLIER Director, The Prudential Insurance Company of America, Newark, N. J.	1950
Jan. 10, 1934	RICHARD K. MELLON Chairman of the Board, Mellon National Bank and Trust Company, Pittsburgh, Pa.	1949
Mar. 24, 1937	ROBERT T. McCRACKEN Montgomery, McCracken, Walker & Rhoads, Philadelphia, Pa.	1950
Oct. 27, 1937	C. JARED INGERSOLL President, Muskogee Company, Philadelphia, Pa.	1952
Feb. 26, 1941	LEONARD T. BEALE President, The Pennsylvania Salt Manufacturing Co., Philadelphia, Pa.	1949
June 24, 1942	JAMES E. GOWEN Chairman of the Board, Girard Trust Company, Philadelphia, Pa.	1951
Jan. 24, 1945	PHILIP R. CLARKE President, City National Bank and Trust Company of Chicago, Chicago, Ill.	1950
June 27, 1945	ISAAC W. ROBERTS President, The Philadelphia Saving Fund Society, Philadelphia, Pa.	1951
Dec. 18, 1946	HARRY B. HIGGINS President, Pittsburgh Plate Glass Company, Pittsburgh, Pa.	1952
Oct. 27, 1948	JOHN A. DIEMAND President, Insurance Company of North America, Philadelphia, Pa.	1949
Nov. 10, 1948	JOHN B. HOLLISTER Taft, Stettinius & Hollister Cincinnati Ohio	1951

ELECTED BY THE ABOVE-NAMED DIRECTORS FOR THE TERM OF ONE YEAR AS ADDITIONAL MEMBERS OF THE BOARD TO ACT AS VICE-PRESIDENTS, PURSUANT TO THE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA

TERMS EXPIRE IN 1949—

Dec. 1, 1938	WALTER S. FRANKLIN Vice-President since October 16, 1933
Mar. 11, 1942	J. R. DOWNES Vice-President since January 16, 1939
Sept. 1, 1943	GEO. H. PABST, JR. Vice-President since June 26, 1940
Apr. 23, 1947	J. M. SYMES Vice-President since February 16, 1942

OFFICERS

PRESIDENT	M. W. CLEMENT
EXECUTIVE VICE-PRESIDENT	WALTER S. FRANKLIN
VICE-PRESIDENT IN CHARGE OF OPERATION	J. M. SYMES
VICE-PRESIDENT IN CHARGE OF TRAFFIC	FRED CARPI
VICE-PRESIDENT—ASSISTANT TO PRESIDENT	J. R. DOWNES
VICE-PRESIDENT IN CHARGE OF FINANCE	GEO. H. PABST, JR.
VICE-PRESIDENT IN CHARGE OF REAL ESTATE AND TAXATION	R. C. MORSE
VICE-PRESIDENT IN CHARGE OF PURCHASES, STORES AND INSURANCE	J. C. WHITE
VICE-PRESIDENT—GENERAL COUNSEL	JOHN DICKINSON
VICE-PRESIDENT—NEW YORK	H. H. PEVLER
VICE-PRESIDENT, EASTERN REGION	E. W. SMITH
VICE-PRESIDENT, CENTRAL REGION	J. A. APPLETON
VICE-PRESIDENT, WESTERN REGION	P. E. FEUCHT
SECRETARY	J. TANEY WILLCOX
TREASURER	P. D. FOX
COMPTROLLER	ELMER HART

THE PENNSYLVANIA RAILROAD COMPANY

INCOME STATEMENT

	Year 1948		Comparison with 1947
THE COMPANY EARNED DURING THE YEAR FROM:			
Freight	$752,967,854	I	$87,310,729
Passenger	160,304,005	I	976,779
Mail	25,326,769	I	3,944,673
Express	11,138,146	I	1,862,213
Other	50,246,126	I	2,620,417
	999,982,900	I	96,714,811
TO THIS WAS ADDED (chiefly dividends and interest on securities owned)	44,959,899	D	8,672,662
Total	1,044,942,799	I	88,042,149
THE COMPANY HAD TO PROVIDE FOR:			
Operating Expenses	832,845,977	I	42,968,435
Taxes	83,672,134	I	13,701,796
Equipment and Joint Facility Rents	14,171,671	I	3,062,535
Rent for Leased Roads, interest on debt, etc	79,823,083	I	1,164,574
Total	1,010,512,865	I	60,897,340
LEAVING A NET INCOME OF	34,429,934	I	27,144,809
THE COMPANY ALSO HAD TO PROVIDE FOR:			
Sinking and Other Funds—Appropriations	1,724,808	I	276,522
Advances to leased and affiliated Companies borne by the Company	2,727,127	D	507,342
Total	4,451,935	D	230,820
LEAVING A BALANCE AVAILABLE FOR DIVIDENDS AND OTHER CORPORATE PURPOSES	29,977,999	I	27,375,629
Dividend 2% ($1.00 per share)	13,167,754	I	13,167,754*
BALANCE TRANSFERRED TO PROFIT AND LOSS	16,810,245	I	14,207,875

*Dividend of $6,583,877 (1%) paid in 1947 charged to Profit and Loss.

PROFIT AND LOSS STATEMENT

AMOUNT TO CREDIT OF PROFIT AND LOSS DECEMBER 31, 1947		$187.820,878
ADD: Balance of income for the year	$16,810,245	
Sundry Net Credits	1,091,238	17,901,483
AMOUNT TO CREDIT OF PROFIT AND LOSS DECEMBER 31, 1948		205,722,361

ONE HUNDRED AND SECOND ANNUAL REPORT

THE PENNSYLVANIA RAILROAD COMPANY

General Office

BROAD STREET STATION BUILDING

PHILADELPHIA 4, PA., February 16, 1949

TO THE STOCKHOLDERS:

There is submitted herewith the Annual Report for 1948.

RESULTS FOR THE YEAR

The Net Income of The Pennsylvania Railroad Company for 1948, including income from investments, was $34,429,934 as compared with $7,285,125 in 1947, and a deficit of $8,530,317 in 1946. After making provision for sinking and other funds and advances, there remained available for dividends and other corporate purposes in 1948 a balance of $29,977,999, equal to $2.28 per share, in contrast with $2,602,369, or 20c per share in 1947.

In 1948, dividends aggregating 2% ($1.00 per share), or $13,167,754, were paid, compared with 1% (50c per share), or $6,583,877, paid in 1947.

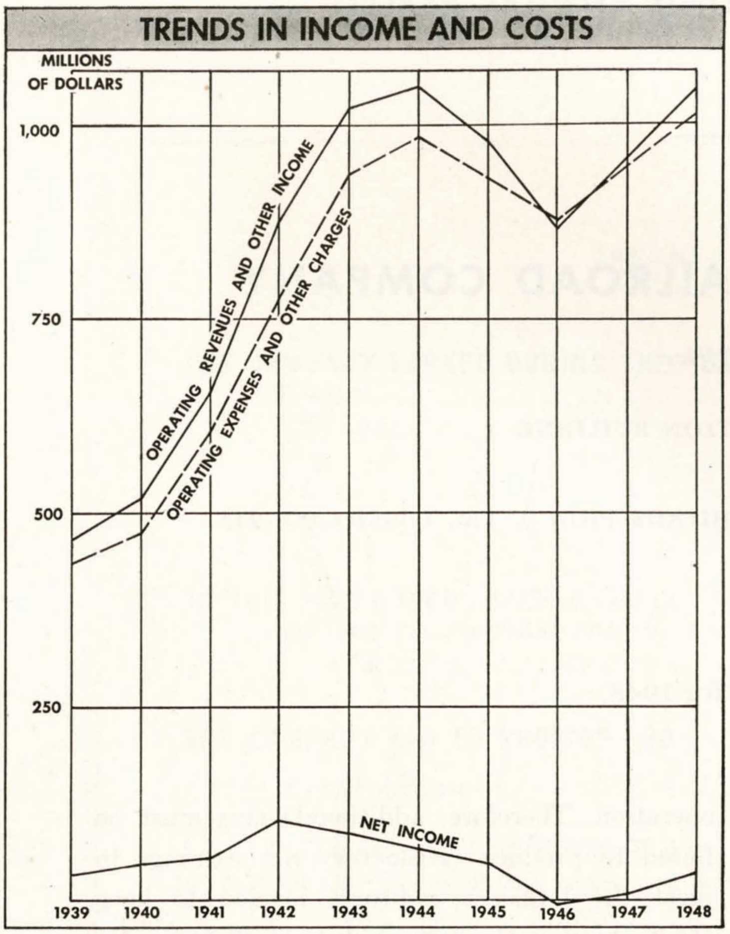
Due to increased freight rates and passenger fares, increased charges for other services and greater economy and efficiency, the results from railroad operations for the year 1948 were much more encouraging than for the year 1947. However, with the largest peacetime revenues in the history of the Company, net earnings were far from satisfactory.

While the large volume of business is producing high gross revenues, they are substantially short of adequately meeting huge increased costs of operation. Therefore, additional ways must be found to produce satisfactory net earnings to meet the large expenditures needed to keep the railroad in the highest state of efficiency for service to the public, and to meet any national emergency.

Your management is fully alive to the necessity of further improving the net results. Every department of the railroad is constantly striving to achieve this goal in the face of repeated increases in wages and costs of materials and supplies. The results in 1948 definitely show that progress is being made.

In addition, there is needed the continued cooperation of the public, the shippers, and the governmental rate bodies. We hope for a better understanding of railroad problems by all interests, and believe improved results will be obtained as the facts are clearly and strongly presented.

If it had been permissible, under regulation, for your Company to have priced its services—its transportation rates—in keeping with the cost of production under ordinary business principles, it would have been a very sound year for the economy of your Company.



FUTURE OUTLOOK

The story of 1948 for The Pennsylvania Railroad Company is, briefly, one of definite progress in improvements of motive power and cars, both passenger and freight, with other technological improvements in roadway, shops, signalling and other appurtenances. But, because of the enormous increases in costs that have occurred in a relatively short period of time, it was not possible with these improvements to bring about satisfactory results, even with the rate increases that became effective during the year, which were below what had been sought.

These improvements and the larger revenues were not sufficiently adequate to offset the higher costs that have occurred since 1939 despite freight rate increases of approximately 46%, as well as some increases in rates for other services during the same period.

The railroad has had to pay for its materials and supplies the higher prices charged by producers in the unregulated industries, while it has been dependent upon subsequent action of the regulatory bodies to increase its own rates. By December 1, 1948, the average price paid for materials and supplies (including fuel) increased 105% over 1939; in other words, the average price has more than doubled.

Further rate increases are necessary and will continue to be necessary if costs continue to mount. There is no other answer.

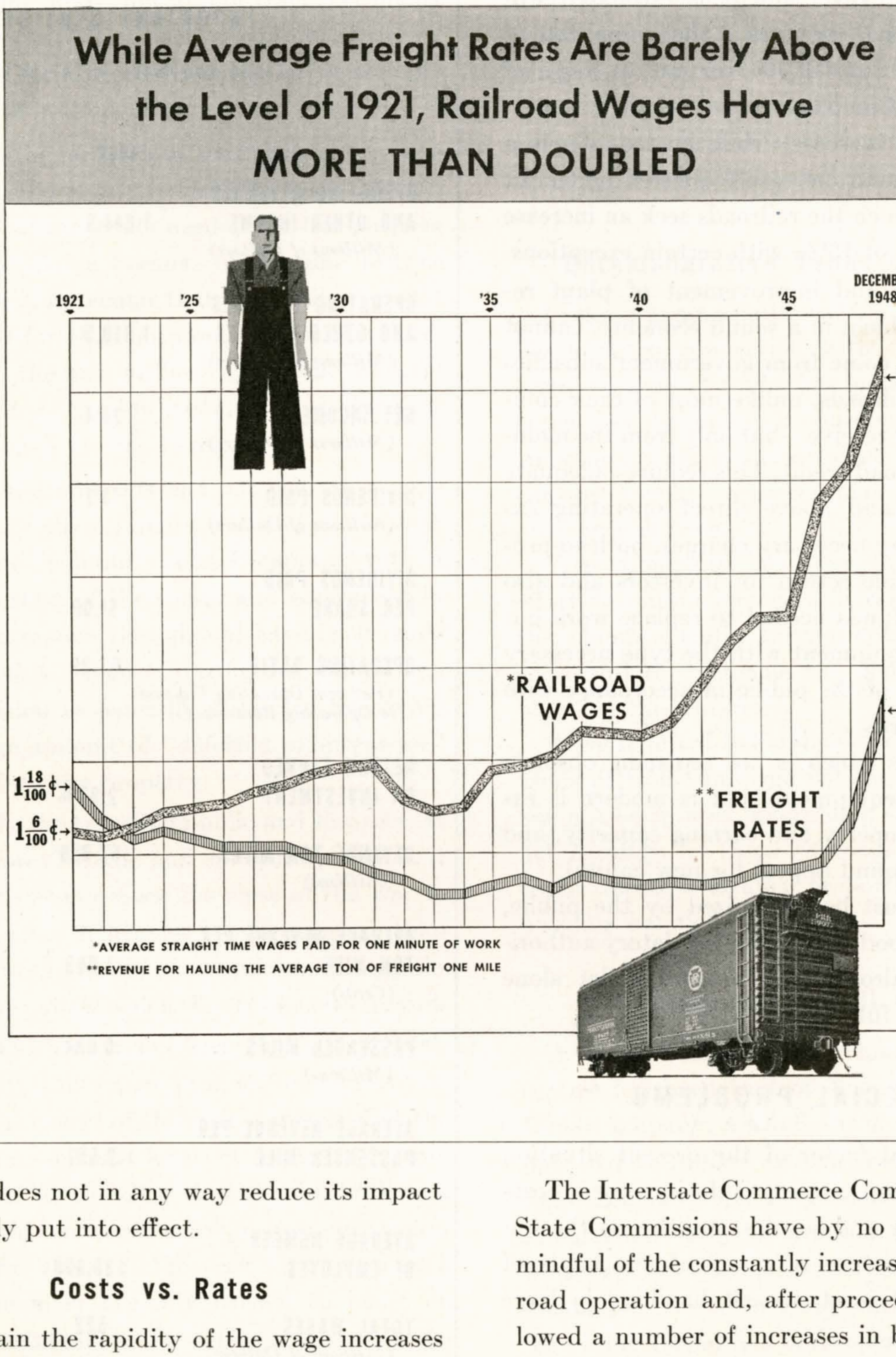
Rising Wage Costs

In addition to the mounting costs of materials and supplies, the railroads were again confronted during 1948 with demands from their employes for further increases in wages over and above those which had been put into effect in 1946 and 1947. Effective October 16, 1948, the operating employes were granted an increase of 10c per hour. The total of all these increases up to and including that of October 16, 1948, represented an increase of about 70% over the 1939 wage level.

During the closing days of the year, an Emergency Board appointed by the President of the United States recommended an increase in wages to the non-operating employes of 7c per hour effective October 1, 1948, which, together with the previous increases, will bring the wage level 77% higher than 1939.

The average of all of these increases—materials and supplies and wages—since 1939 is 84.3%. In contrast, the increase in transportation rates, including increases in freight and express rates effective in 1949, is but 53.0%. In addition, the Board also made a further most serious recommendation of a 40-hour week for the non-operating employes, effective September 1, 1949, with the same pay as now being paid for 48 hours, which would add another large increase to the operating costs of your Company.

While the Emergency Board proposes that the 40-hour week should become effective September 1, 1949, the intervening time only postpones the



blow and does not in any way reduce its impact when finally put into effect.

Costs vs. Rates

Here again the rapidity of the wage increases granted by Emergency Boards and their enormous size preclude any possibility of these cost increases being completely absorbed. They must again be offset largely by increases in freight rates and passenger fares. It is most unfortunate that there is no alternative open to the railroads.

The Interstate Commerce Commission and the State Commissions have by no means been unmindful of the constantly increasing costs of railroad operation and, after proceedings, have allowed a number of increases in both freight and passenger rates in recent years.

The most recent action by the Interstate Commerce Commission and certain State Commissions permitted an interim increase, under what is known as Ex Parte 168, of 6% for the Eastern roads on freight traffic generally, with certain maximums applied on fruits and vegetables, lumber and sugar. This increase became effective on January 11, 1949, and it is estimated will produce additional revenues at the annual rate of approximately $42,619,000, or an average of 5.8% for your Company.

This interim increase, while inadequate, is a part of the general increase requested under Ex Parte 168 in which the railroads seek an increase in freight rates of 13%, with certain exceptions.

Maintenance and improvement of plant require money which, in a sound economy, cannot be expected to come from government subsidies —which the railroads, unlike most of their competitors, do not receive—but only from the maintenance of railroad credit. This requires adequate earnings over and above direct operating expenses and other necessary charges, both to provide a reasonable return for investors and also to supply the funds needed to replace worn out and obsolete equipment with the type necessary for the service of the public in accordance with current standards.

Any business which is not replacing obsolete facilities with equipment that is modern is exhausting its property and earning capacity, and can make no sound appeal for new capital.

This fact must be recognized by the public, the legislative bodies, and the regulatory authorities, if the railroads are to survive, let alone prosper, in the future.

SPECIAL PROBLEMS

An important factor of the present situation confronting your Company is the increase in costs of maintenance and repairs. Another is the unremunerative nature of many of the kinds of traffic which it is at present handling in large volume.

Deferred Maintenance and Inadequate Depreciation Charges

During the war most of the railroad equipment of the country, including that belonging to your

IMPORTANT STATISTICS

1948 COMPARED WITH 1947-1946

	1948	1947	1946
OPERATING REVENUES AND OTHER INCOME *(Millions of Dollars)*	1,044.9	956.9	866.9
OPERATING EXPENSES AND OTHER CHARGES *(Millions of Dollars)*	1,010.5	949.6	875.4
NET INCOME *(Millions of Dollars)*	34.4	7.3	(Deficit) 8.5
DIVIDENDS PAID *(Millions of Dollars)*	13.2	6.6	19.8
DIVIDENDS PAID PER SHARE	$1.00	$0.50	$1.50
OPERATING RATIO *(Per cent Operating Expenses to Operating Revenues)*	83.29	87.45	90.71
RETURN EARNED ON INVESTMENT	2.37%	1.13%	0.91%
REVENUE TON MILES *(Millions)*	57,950	61,382	56,741
AVERAGE REVENUE PER TON MILE *(Cents)*	1.299	1.084	0.972
PASSENGER MILES *(Millions)*	6,034	6,784	9,695
AVERAGE REVENUE PER PASSENGER MILE *(Cents)*	2.657	2.349	2.135
AVERAGE NUMBER OF EMPLOYES	138,020	148,521	151,161
TOTAL WAGES *(Millions of Dollars)*	522	493	480
AVERAGE ANNUAL WAGE PER EMPLOYE *(Dollars)*	3,781	3,321	3,173

Company, underwent an exceptional amount of heavy strain and hard usage. This was true not only of rolling stock, but also of track, terminals and roadway facilities. Such exceptionally heavy usage called for a proportionately larger amount of repair and upkeep.

Although the railroads at that time had income which could have amply paid for such repairs, the labor and materials needed for the purpose were not available because of wartime restrictions. As a result, income that was available could not be used for that purpose. It was, therefore, treated by the tax authorities of the Federal Government as taxable income and drained off largely through income taxes.

Because the railroads had not been in a position to make these repairs, the end of the war found them, including your Company, with a large proportion of their road and equipment in need of the repairs that should have been made and charged to expenses during the war period. This condition is generally described by saying that a large amount of "deferred maintenance" has crept into the property.

To satisfy the traveling public and shippers, as well as to provide safe and efficient operation, it has been necessary since the close of the war to carry out a much heavier repair program than otherwise would have been required. Meanwhile, much of the money which should have been available for this purpose had been paid out in taxes. Accordingly, this repair program has had to be paid from earnings of the post-war period at the greatly increased cost levels of recent years. Repairs which, at the time they should have been made, would have cost a dollar, now cost nearer two dollars. Thus, at the very time when such repairs are most urgently needed to make up deferred maintenance, as well as to maintain the property currently, the amount of maintenance which can be paid for out of current earnings is greatly curtailed.

During the past year, your Company has had to reduce very substantially the repair and maintenance program which it should have carried out because the necessary money was not available.

The railroads, of course, set aside a portion of their annual earnings as a depreciation reserve, which is an item of expense, and covers the consumption of capital not provided for in repairs. Because of the rise in costs, depreciation charges go only about half as far as formerly in providing funds for new facilities and equipment.

Unremunerative Types of Service

Under present conditions, the cost of performing work in connection with the handling of certain classes of traffic has increased to such an extent as to make it unremunerative. Outstanding examples are short-haul less-than-carload freight, express, mail and commuter passenger service.

Your Company has been making a special effort to obtain increases in rates and fares on these kinds of traffic, but has not been sufficiently successful to overcome the deficits incurred in handling this business.

Being required to handle these unremunerative kinds of traffic in large volume, your Company has not been in as favorable a situation to show net earnings as those railroads on which such traffic forms a smaller proportion of the total business handled.

Long Island Rail Road

A special instance of unremunerative railroad service has been that of The Long Island Rail Road Company, a wholly-owned, but separately operated subsidiary of The Pennsylvania Railroad Company. The Long Island is predominantly a passenger-carrying railroad and 60% of its passenger business consists in providing suburban commuter service to and from New York City. The Long Island has been operating at a deficit for a number of years. In 1948 this deficit amounted to $6,016,680.

Despite repeated applications to the regulatory authorities, it did not receive any increase in commutation fares between 1918 and 1947, when an interim increase of 20% in such fares was allowed by the New York Public Service Commission. One year later this increase was made 25%, but still is on a temporary basis. This increase is not anywhere near sufficient to meet the increase in operating costs, or to bring commuter fares on the Long Island up to the level of fares in effect on other railroads in the New York suburban area.

Accordingly, the Long Island again applied to the Commission in 1948 for a further interim increase, pending the completion by it of a cost study which the Commission is requiring it to make at an expense of approximately one million dollars.

At present rates of wages and prices of supplies, it is certain that the operation, under present circumstances, will result in larger annual deficits. Even if it obtains all the rate and fare increases it is now requesting, future annual deficits are still to be anticipated under regulation, and it is difficult, therefore, to see how this railroad can make both ends meet.

The Pennsylvania Railroad Company, in the interest of its owners and security-holders and in fairness to its patrons in other parts of the country, is facing this critical situation and earnestly seeking a solution. Announcement has been made that the American Contract and Trust Company, a wholly-owned subsidiary of your Company, will stand ready to buy the Long Island obligations maturing March 1 and on which The Pennsylvania Railroad Company is committed by its guarantee.

In view of the circumstances, The Pennsylvania Railroad Company will no longer support The Long Island Rail Road Company by making advances to cover its deficits, and the Long Island—not being self-supporting—may have no recourse but to apply for legal relief in the courts.

ROAD AND EQUIPMENT PROPERTY

Road

Three major betterments in fixed properties are under way.

Extension by the City of Philadelphia of the subway system so as to serve Pennsylvania Station—30th Street, Philadelphia, which involves the building by your Company of station platforms and tracks to accommodate some of the trains now being handled at old Broad Street Station. This long deferred change will ultimately permit the abandonment of old Broad Street Station and the so-called "Chinese Wall," which will make possible civic betterments in the heart of Philadelphia.

Modernization of the passenger station and its supporting facilities in Pittsburgh, Pa. The immense canopy over the station tracks has been replaced by intertrack shelters.

There are five tunnels west of Pittsburgh, Pa., on the line to Columbus, Ohio, whose dimensions preclude the passage of thousands of large box cars which now are routed around these tunnels. The elimination of these restricting facilities is scheduled for completion in 1950. The annual saving will approximate $1,200,000.

New Equipment and Improved Equipment Program

A most impressive advance has been made by your Company in modernizing its motive power.

Of 590 diesel-electric locomotives of all types that have been authorized, delivery has been taken on 352, or 60%. The program of dieselizing the principal freight and passenger services has progressed to a point where practically all our most important through East-West passenger trains are regularly powered by diesel-electric locomotives west of Harrisburg.

Our initial acquisition of 49 of these locomotives, all now in service, will be supplemented by 9 additional units, scheduled for April, 1949, delivery, which will bring the Pennsylvania's ownership to 58 passenger diesel-electric locomotives. This will permit more tributary and secondary passenger trains to be operated by diesels. Approximately 65% of your Company's passenger service is now handled in trains propelled by electric power derived from diesel motors or overhead direct wires.

At the end of 1948, there were 245 diesel-electric switching engines in service, with an additional 204 on order. Your Company thus has 55% of its proposed ownership of 449 diesel switching locomotives now functioning in yard and industrial switching operations.

The unit efficiency of these engines, stemming largely from their almost continuous availability, has contributed materially to the lowered freight operating ratio of your Company and further benefits will accrue when those units now on order will have been delivered during the next seven or eight months.

To the 7 road freight diesel-electric locomotives acquired late in 1947, there have been added 47 during the past year, bringing the total in service to 54, or 65% of the 83 authorized. The 54 locomotives include 41 in road freight service and 13 in helper service.

The ton-miles of service per locomotive-hour produced by these engines so far surpasses the performance of any previous type of motive power that consideration is being given to the purchase of additional units to broaden the scope of operating savings and bettered service.

At the end of the year, 20 of our most important East-West freight trains were regularly powered by diesel-electrics between Chicago, St. Louis and other western cities and Enola, Pa., the western terminus of the electrified lines.

After a disappointing succession of delivery postponements, which contract car builders were forced to make by reason of material shortages, new sleeping cars are now being received in a fairly steady flow. Most of our orders were placed on January 22, 1946, and the last delivery on this lot of cars will be in August, 1949. A total of 41 of the 212 ordered are now in service.

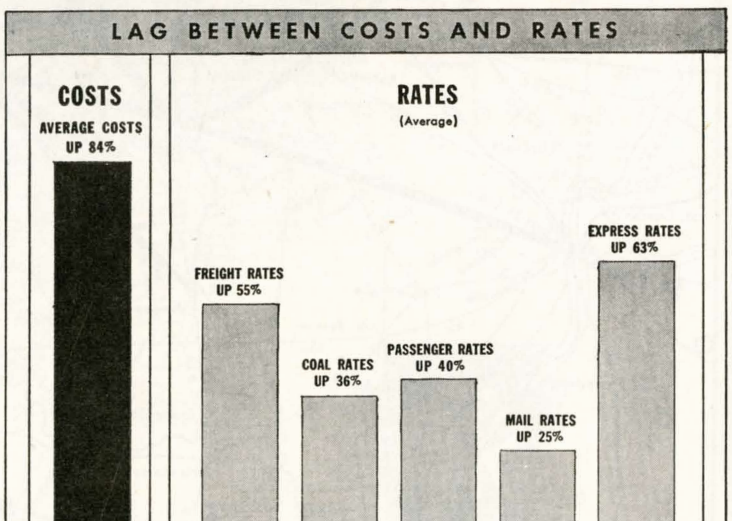
The Broadway Limited, The Trail Blazer (New York-Chicago) and The Jeffersonian (New York-St. Louis) are now composed of new equipment from locomotives to observation cars. By the close of 1949, new equipment will be available to re-equip fully The General, the Liberty Limited, the Spirit of St. Louis, The Pittsburgher, The Golden Triangle, the Cincinnati Limited and The Penn Texas. All of the new sleeping cars are of the room type, for which there is increasing demand.

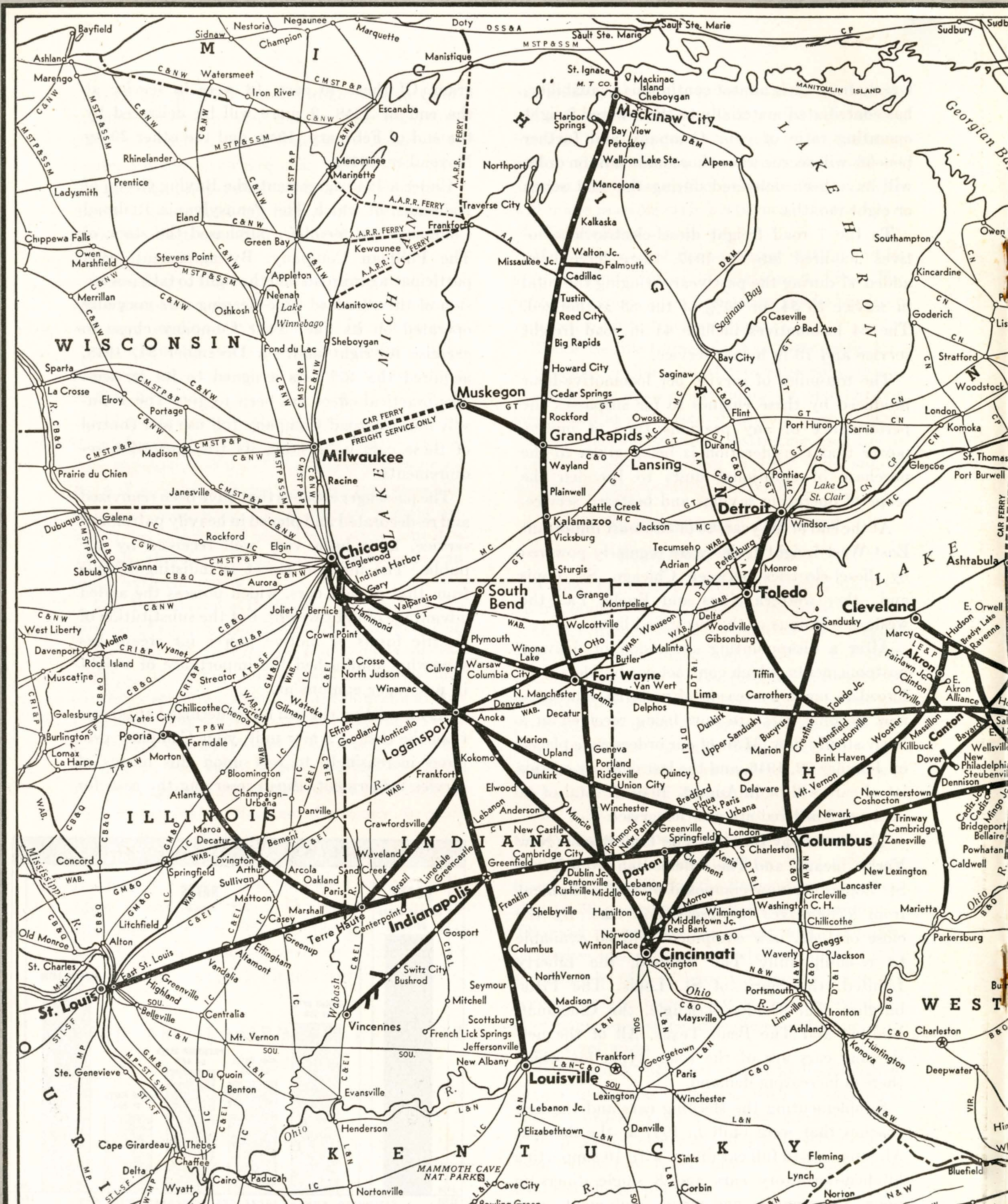
Supplementing the sleeping cars and the new coaches that were built in 1947 at the shops at Altoona, are 16 full car diners with 16 supporting kitchen-dormitory cars and 8 single diners in your Company's passenger equipment program. Of these 40 cars, 12 were in service at the end of 1948, 8 more will be delivered by the end of February, 1949, and the other 20 by November, 1949.

Under a 1945 agreement, the Buying Group of Railroads, of which The Pennsylvania Railroad Company is a member, purchased the stock of The Pullman Company. By agreement, each participating railroad had the right to take possession of the standard type sleeping cars normally operated on its line. Your Company chose to exercise its right and, on December 31, 1948, acquired the 465 cars assigned to its services. The practical effect has been to give The Pennsylvania Railroad Company full use and control of these cars in meeting its transportation requirements.

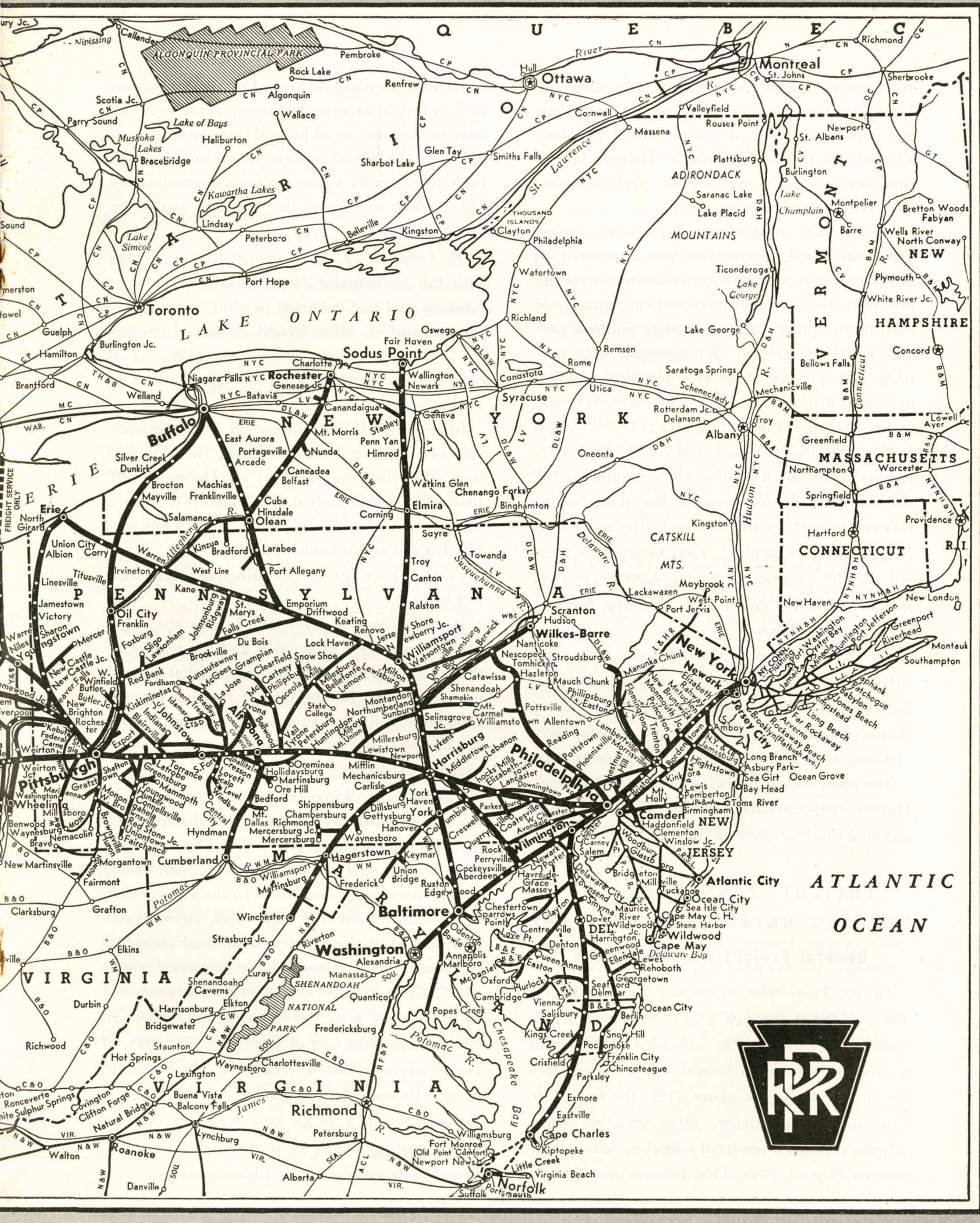
The passenger coaches that have been renovized and re-decorated and placed in heavily patronized service, have been very well received by the public. The interior aspect is indistinguishable from that of new cars, which possess the added advantage of light weight, but the substitution of electric forms of motive power for steam has somewhat diminished the importance of weight in passenger equipment.

As an existing car can be modernized at far less than the cost of a new unit, your Company proposes increasingly to rely upon this means of service betterment, thus preserving the cash for





PENNSYLVANIA RAILRO



OAD AND CONNECTIONS

other requirements. Accordingly, the shops at Altoona have virtually completed the renovizing and air-conditioning of 100 standard coaches. This will be followed by similar changes in 119 cars used primarily in the New York-Philadelphia-Washington service.

Additionally, 50 suburban type steam coaches will be motored, modernized and converted to multiple unit cars for commuter service where the flow of travel continues to exceed the capacity of existing equipment. Fifty suburban multiple unit cars will be renovized and equipped with new propulsion motors. Fans and amplified lighting are being installed in all electric commuter cars.

The shortage of freight cars, that had its origin in the intensified utilization of rolling stock during and after the war, and which compelled the deferment of major repairs, has disappeared, relieved in part by the decline in the volume of freight business handled. Your Company's present freight program includes 4,000 new steel gondolas and 200 cabin cars, all being built at the shops at Altoona.

The special steel box cars, built last year, fitted with folding decks and compartments for handling less-than-carload freight, have more than doubled the tons handled per car and have virtually eliminated damage to lading in transit.

Ten open deck lighters for service in New York Harbor, four carfloats, one barge and one ballast cleaning machine were acquired during 1948.

FREIGHT, PASSENGER AND EXPRESS RATES, AND MAIL PAY

General Freight Rate Increases

In Ex Parte 166, Increased Freight Rates, 1947, initiated through a petition filed July 3, 1947, and subsequently amended, seeking an aggregate increase in freight rates and charges for your Company of about 31%, the Interstate Commerce Commission, after granting three interim increases, rendered a final decision in the case on July 27, 1948. This decision provided for an average increase for your Company of about 23% in freight rates and charges, inclusive of the interim increases, or additional revenue of approximately $140,000,000 a year, based on estimated 1949 freight traffic volume. This is approximately $42,000,000 less than the amount sought in this proceeding.

On October 12, 1948, a petition was filed with the Commission for authority to increase rates on coal and coke 40c per ton, iron ore 35c per ton and all other freight rates and charges by 13%, with certain limited exceptions. This case has been docketed by the Commission as Ex Parte 168.

In response to an application for an interim increase pending a final decision, the Commission authorized an increase on December 29, 1948, of approximately 5.8%, which is estimated to increase the revenues of your Company $42,619,000 on an annual basis.

Further hearings on the principal application will be held.

If the petition is granted in full by the Interstate Commerce Commission and the respective State Commissions, it is anticipated that on estimated 1949 traffic the annual revenue of your Company will be increased by approximately $95,042,000, or 12.9%, inclusive of the interim increase above mentioned.

The revenue of your Company resulting from the higher rates and fares authorized since 1939, including the increase granted on December 29, 1948, is estimated to have increased about 53.0% on an annual basis since 1939. In the same period, as a result of increased wage rates, payroll taxes and material prices alone, the annual operating costs of your Company have increased about 84.3%. This includes the effect for the year 1949 of the 10c per hour for operating employes and the recommendations of December 17, 1948, of the Emergency Board, created by the President of the United States pursuant to the Railway Labor Act, for a 7c an hour wage increase for non-operating employes, but excludes any additional costs involved in a 40-hour week.

Less-Than-Carload Freight Rates

The petition of the eastern railroads filed May 29, 1947, seeking substantial increases in their less-than-carload rates to help meet the greatly increased cost of handling this class of traffic, was, by a decision announced October 19, 1948, most unfortunately denied by the Interstate Commerce Commission.

What further steps can be taken by the eastern railroads to alleviate the burden of rising costs incident to handling this class of traffic is under consideration.

Passenger Fares

In the effort being made partially to meet rising costs by increasing rates and fares, your Company joined with other eastern railroads in filing a petition with the Commission on April 6, 1948, to increase basic one-way coach fares 20%, from 2.5 cents to 3.0 cents per mile, and one-way first-class fares 14.3%, from 3.5 cents to 4.0 cents per mile, with 20% increase in round-trip coach fares and 16.13% increase in round-trip first-class fares. It was further sought to extend the area, beyond which round-trip fares are authorized, from 200 miles to 225 miles one-way distance.

In a decision dated July 7, 1948, the Commission granted the increases sought by the eastern roads and the new bases of fares generally became effective July 19, 1948, which added approximately $7,800,000 to the passenger revenue of your Company for the remainder of the year 1948 and is estimated to add $18,800,000 to the anticipated 1949 revenue.

Railway Express Rates

The Railway Express Agency on September 3, 1948, in response to report and order of the Interstate Commerce Commission of September 23, 1947, requiring formulation and submission of a single nation-wide express rate scale, submitted such a proposal to the Commission.

Hearings on this proposal were concluded on September 21, 1948, and the Commission, in a decision dated December 29, 1948, granted the proposal, which is estimated on basis of anticipated 1949 traffic, to produce additional express revenue of $1,200,000 for your Company on an annual basis.

Railway Mail Pay

The application filed for account of most of the railroads on February 19, 1947, for an increase in rates of compensation for the transportation of United States Mail, is still pending before the Interstate Commerce Commission.

In the original petition they sought an increase of 45%. On June 24, 1948, due to the continued rising costs of handling the mail, a supplemental petition was filed for an additional increase of 20%, making an over-all increase of 65% now being sought.

In a decision on December 4, 1947, the Commission granted an interim increase of 25% retroactive to February 19, 1947. This case is continuing before the Commission.

REVENUES AND EXPENSES

The operating revenues of your Company in 1948 were $96,714,811 better than in 1947, due to increases of $87,310,729 in freight revenue, $976,779 in passenger revenue, $3,944,673 in mail revenue, $1,862,213 in express revenue and $2,620,417 in other operating revenues.

Due chiefly to higher unit costs of fuel, materials and supplies, and higher wage levels, operating expenses amounted to $832,845,977, exceeding those of 1947 by $42,968,435. The principal increases were $10,415,254 in Maintenance of Way and Structures' expenses; $9,306,613 in Maintenance of Equipment expenses, and $19,212,873 in Transportation expenses.

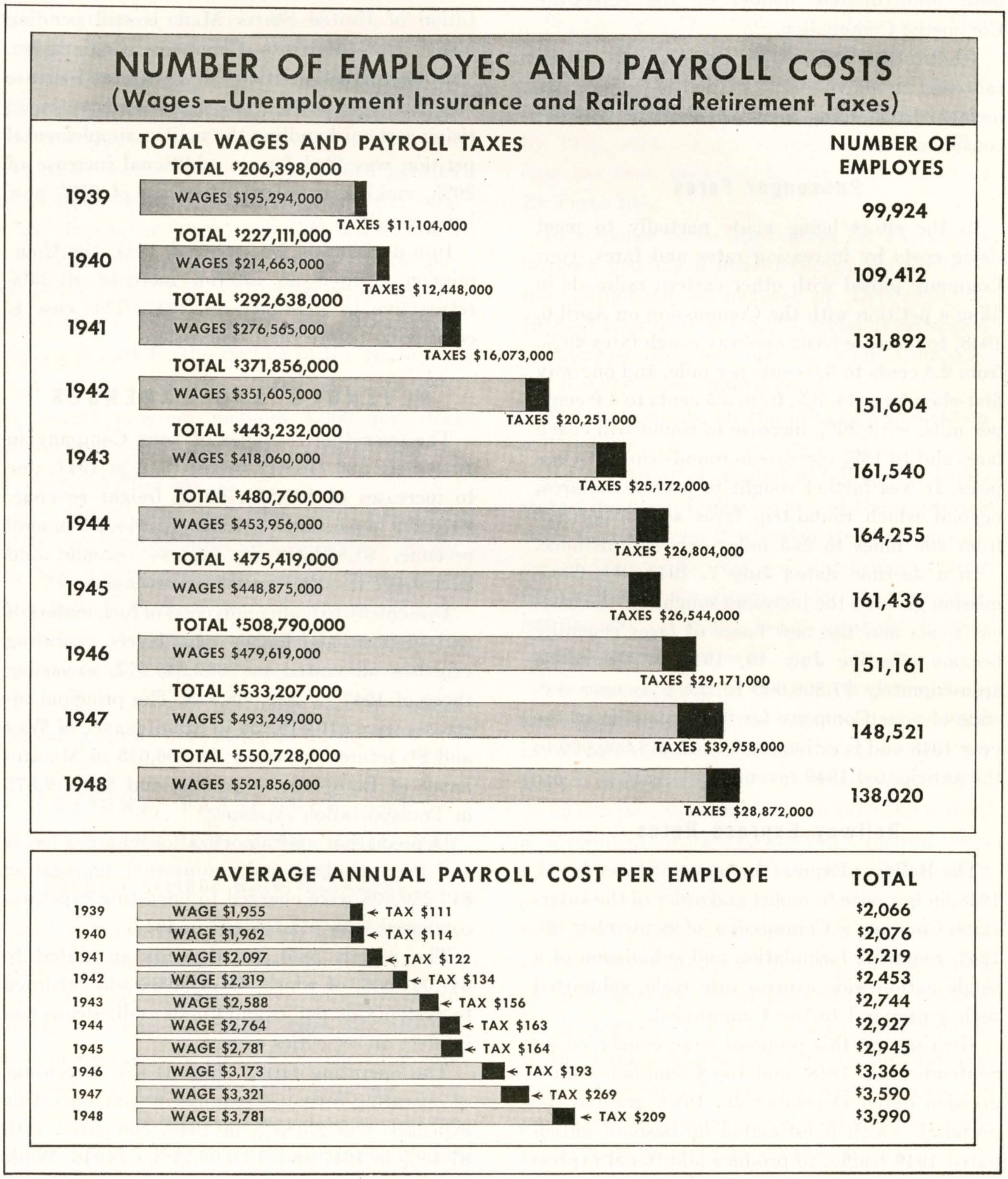
Depreciation and amortization charges (wear and tear on plant and equipment) aggregating $43,250,408 were charged to operating expenses, compared with $41,569,492 in 1947.

The rentals paid leased roads amounted to $47,001,596, of which $31,859,082 was returned to System Companies and Funds as dividends and interest on securities owned.

The operating ratio, which is the percentage of operating revenues required to pay operating expenses, was 83.29% in 1948, compared with 87.45% in 1947 and with 90.71% in 1946. While the operating ratio for 1948 represents some improvement over the two preceding years, it should not exceed 70% if sufficient margin is to be available for an adequate return to the stockholders and to insure the sound financial strength so essential for continued development.

TAXES

Taxes absorbed a substantial part of your Company's 1948 revenues. Federal and various state and local corporate and property taxes amounted to $54,799,865, an increase of $24,787,584



over 1947. This increase was due principally to larger taxable income and, in part, to the fact that in 1947 your Company had the benefit of carryback tax credits amounting to $5,395,000.

Unemployment Insurance taxes decreased $11,418,542, as a result of the legislation referred to elsewhere in this report, reflecting a reduction from three per cent. to one-half of one per cent. effective January 1, 1948, in the rate of Unemployment Insurance payroll taxes, paid entirely by the railroads. Railroad Retirement taxes increased $332,754, due to the higher wage levels.

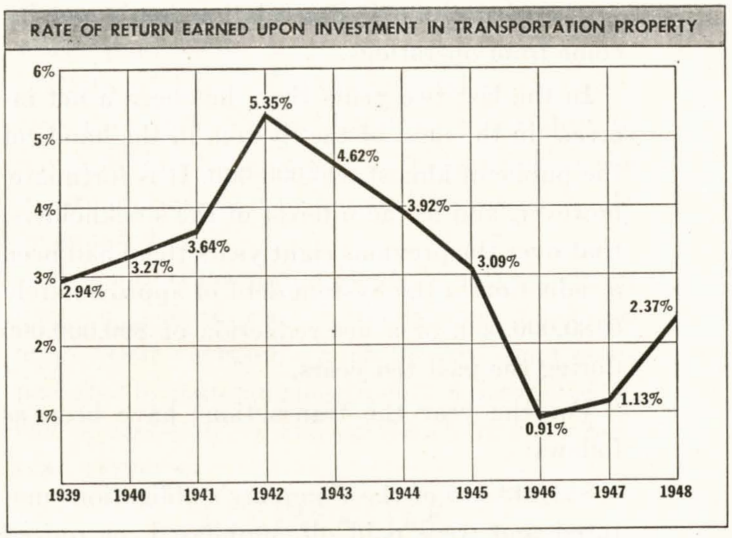
Railway taxes, plus Unemployment Insurance and Railroad Retirement taxes aggregated $83,672,134, and were equal to $6.35 a share upon the capital stock.

As was mentioned in last year's report, a new Constitution became effective in New Jersey on January 1, 1948, under which, in the absence of remedial legislation, the overburden of taxes upon the railroads of that State would have been further increased. As a result of a broad educational program, State officials, tax committees and members of the Legislature recognized the unfairness of further increasing railroad taxes and a new tax act was adopted which, in general, continued such taxes at the level of preceding years.

NET RESULT

The percentage of return earned upon your Company's investment in transportation property as measured by Net Railway Operating Income (operating revenues, less amounts required to pay operating expenses, taxes, equipment and joint facility rents) was 2.37% in 1948, compared with 1.13% in 1947. The return earned upon the investment in transportation property has been entirely inadequate for many years, having exceeded 5% in only one year (1942—5.35%) since 1929, and was less than 1% in 1946.

The balance available for dividends and other corporate purposes after meeting charges of $1,724,808 on account of appropriations to sinking and other funds and $2,727,127 advanced to leased and affiliated companies, was $29,977,999. After the payment of dividends aggregating



$13,167,754 (2%), the balance of $16,810,245 was transferred to the credit of Profit and Loss, and that account was also credited with sundry items aggregating $1,091,238.

CURRENT ASSETS AND CURRENT LIABILITIES

Current Assets amounted to $359,241,987, an increase of $105,614,470, due mainly to increase in Cash and Temporary Cash Investments, reflecting principally the proceeds from sale of assets.

Current Liabilities amounted to $193,540,569, an increase of $26,771,986, due principally to an increase in tax liability and other current accounts.

CHANGES IN SYSTEM FUNDED DEBT

In the end the world-wide economic upheaval after World War II will be much greater than that after World War I, and the expenditures necessary to revamp and modernize the rail transportation systems will be tremendous. Not only does the deferred maintenance of the war period—against which no reserves were allowed to be created—have to be made up, but the renewing and improving of the road and equipment to meet the needs of the public must continue.

In 1948, over $115,000,000 was spent on road and equipment improvements, and, as now planned, large expenditures will be required over the next several years—expenditures that should be financed through depreciation funds and income from operations.

In the last two years there has been a net increase in the debt of the System in the hands of the public of almost $90,000,000. It is fortunate, however, and in the interest of the stockholders, that over the previous eight years there had been a reduction in the System debt of approximately $180,000,000, or a net reduction of $90,000,000 during the past ten years.

For the year the transactions have been as follows:

$51,243,410 of the Company's obligations matured and were paid off, purchased, or retired through sinking fund operations. In addition, $10,601,456 of bonds of other companies in the System matured and were paid, purchased, or retired through sinking funds, making a total retirement of System funded indebtedness of $61,844,866. Of this latter amount, $11,471,640 had been acquired by System companies prior to 1948, so that the net retirement in publicly held funded debt for the year was $50,373,226.

This retirement in funded debt was more than offset by the issuance and sale during the year of equipment trust obligations to finance in part the cost of replacing existing equipment with more modern motive power and passenger and freight cars not obtainable during the war period. It was offset further by the sale—in order to improve the cash position of the Company—of bonds of the Company held in the treasury and bonds of leased line companies which had been issued in reimbursement of expenditures made on such leased properties and to meet maturing obligations.

The equipment trust obligations of the Company issued and sold aggregated $70,050,000 and bear interest at $2\frac{3}{8}\%$ and $2\frac{1}{2}\%$, the average cost of the new money being 2.53%. In addition, The Long Island Rail Road Company issued and sold $9,480,000 of equipment trust obligations to finance in part the cost of additional equipment for that road, which are guaranteed both as to principal and interest by your Company.

The bonds sold amounted to $52,594,000 and consisted of $14,019,000 of your Company's Convertible Debenture and General Mortgage Bonds, $17,570,000 of General Mortgage Bonds of The Philadelphia, Baltimore and Washington Railroad Company, $6,487,000 General Mortgage Bonds of The United New Jersey Railroad and Canal Company, and $14,518,000 First Mortgage Bonds of The New York Bay Railroad Company, these three roads being under long term lease to your Company.

The final effect of the foregoing changes in the System funded debt held by the public for the year 1948 was a net increase of $81,750,774, of which $68,510,000 represents equipment trust obligations.

MODIFICATION OF FUND KNOWN AS "TRUST OF 1878"

In last year's annual report, reference was made to the intention of your Board of Directors to place before the stockholders at the 1948 annual meeting a proposal to modify the Fund known as the "Trust of 1878." As explained in that report, this fund was designed primarily to make possible the acquisition of the stock of those leased lines as to which your Company had assumed a guaranty obligation; and, in view of changes in circumstances over the years, it was proposed to modify the regulations governing the administration of this fund so as to permit it also to operate as a sinking fund for the gradual reduction not merely of some but of all the various types of financial obligations with respect to which either your Company or its wholly-owned subsidiary, the Pennsylvania Company, is liable. This proposal was placed before the stockholders at the 1948 annual meeting, and was referred by them at that meeting to the annual election for a stock vote. As a result of that stock vote, the proposed modification was approved, and has been placed in effect.

PASSENGER SERVICE

An improvement was made in the performance of your Company's principal passenger trains during the year 1948, a greater percentage operating on time than in any year since 1941. This betterment is partially due to the reliability of the diesel-electric locomotives now used on all of our through passenger trains west of Harrisburg.

Notwithstanding this improved performance and the added comfort and convenience brought about by the inclusion of new and renovized equipment in our complement of passenger cars, decline in the volume of passenger travel continued through 1948.

During the war, an excise tax of 15% was established by the Government on the transportation of persons. One of the purposes of that tax was to reduce the volume of passenger travel during the war period. The necessity of curtailing travel is long past but the tax is still in effect, and is a factor in limiting the present volume of railroad passenger business.

In an effort to minimize the losses in passenger operation your Company has continued its policy of eliminating unprofitable train mileage which is largely confined to branch lines, and in effecting operating economies by consolidation of trains on our through routes. Since the autumn of 1946, your Company has eliminated trains which ran a total of 29,488 miles per day, or 20% of its passenger train miles.

LABOR

One wave of wage increases after another has promptly reflected itself in the price structure, not only from the standpoint of the effect of labor and production costs, but also from the standpoint of the demand for things short in supply, and the result has been a continual spiral of inflation.

Railroad labor was completing its so-called "third round" wage increase at the end of the year, following the lead of industrial labor generally in pressing its demands.

The greatest cost confronting the railroads—a 24-hour day, 7-day-week industry—is the recommendation of the Presidential Emergency Board for establishment of a 40-hour week for the non-operating employes.

It is an unsound philosophy that places the entire burden of these tremendously increased costs on the industry without some measure of contribution on the part of the employes in the form of greater productivity for each hour of wages paid.

Railroad labor traditionally takes the position that the industry's ability or inability to pay additional wages has no bearing upon the question of whether or not such increases should be granted.

It is unfortunate that the tribunals chosen to pass on railroad wage increases have begun to accept that viewpoint. Such increases, not compensated by matching increments of productivity, can be met only by raising the charges for railroad services.

LEGISLATION

In the annual reports for the last three years, reference was made to the then pending legislation known as the Bulwinkle Bill, designed to establish beyond doubt the lawfulness of cooperation among railroads in their rate conferences, under Interstate Commerce Commission approval. This proposed legislation finally became law on June 17, 1948. Applications seeking approval of the railroads' rate conference procedures, in accordance with this new statute, are now pending with the Interstate Commerce Commission.

Reference was also made in the annual reports for 1946 and 1947 to the burdensome Crosser Amendments to the Railroad Retirement and Unemployment Insurance laws, and the desirability of legislation which would provide some relief to the railroad industry from this burden.

Some progress in this direction was made with the enactment on June 23, 1948, of a statute placing the unemployment insurance taxes borne by the railroads on a "sliding scale." The result is to reduce substantially the present tax burden on the railroads for unemployment insurance purposes, and to keep that burden reduced so long as the funds available for unemployment insurance benefits remain at prescribed levels.

Certain technical provisions of the Federal Income Tax laws result in imposing tax burdens on your Company which are inequitable. This is true particularly with respect to the provisions governing depreciation of physical property, creating double taxation of intercorporate dividends, and otherwise governing transactions and relations between your Company and its leased lines and affiliated companies.

Legislation which would eliminate these tax inequities would be highly desirable from the standpoint of your Company and would deserve the active support of its stockholders.

LITIGATION

The antitrust suits referred to in the 1946 and 1947 annual reports, brought by the State of Georgia and by the Federal Government, are still pending. In the Georgia suit, the report of the special master appointed by the Supreme Court is still awaited. In the Government's suit against the western railroads and the Association of American Railroads and its directors, trial has not yet been reached, although additional preliminary developments have taken place during the year.

Attention is called to the series of complaints filed by the Federal Government with the Interstate Commerce Commission against the railroads of the country, which are known as the "Government Reparations cases." In these cases the Government seeks to compel them to refund large sums of money representing alleged excessive freight charges made by the railroads for transporting Government freight during the war.

The railroads' position in these cases is that the freight rates charged the Government were no more, and were in many instances substantially less, than the corresponding freight rates charged to private shippers.

Furthermore, the Government if successful in establishing its claims in these cases would place an impossible burden upon the railroads which would seriously impair their ability to provide adequate transportation service or even to continue in private ownership. Accordingly, they are resisting these claims with the utmost vigor, and your Company is participating therein to the full extent of its interests.

A class of litigation which has become particularly troublesome to your Company in recent years is that growing out of personal injuries and deaths of employes occurring in the operation of the railroad.

The verdicts rendered by juries in cases of this kind are much larger than they formerly were, and amendments adopted by Congress in 1939 to the governing Federal law have deprived the railroads of most of their legal defenses to personal injury claims by employes. As a result, these cases have now reached the point where they are costing your Company many millions of dollars a year.

Every effort is being made to prevent the accidents which give rise to these claims, and to defend the Company's interests against the claims to the extent that they may be fraudulent or unreasonable or otherwise unjustified.

In the last analysis, however, safety and the prevention of injuries lies largely with the employes themselves, who must learn to perform their duties with safety; and your Company's employes are being encouraged and instructed in every way toward this end.

PUBLIC RELATIONS

In any business, good public relations are dependent primarily on selling a good product or rendering a good service. This is particularly true in the instance of a railroad like the Pennsylvania, which, in addition to its freight traffic, has a large passenger business. There the service touches great numbers of people in a direct and personal way.

Recognizing this fact, the management is endeavoring to foster its public relations in the most basic way, by establishing and maintaining high standards of service—both freight and passenger—and by effecting improvements wherever it is economically feasible to do so.

These aims are substantially furthered by the new passenger and freight equipment which is being placed in service and by encouraging and stimulating courtesy and helpfulness to the public on the part of the employes. The service is now better than at any time since the war.

In the interest of bringing about better knowledge and understanding of current railroad problems generally, and facts about The Pennsylvania Railroad Company's operations and services in particular, information on these subjects is disseminated from time to time to stockholders, employes, and the public generally through the press, radio and other avenues of public communication.

STOCKHOLDERS

On December 31, 1948, the stock of the Company (13,167,754 shares) was owned by 206,931 stockholders, who come from all walks of life, residing in every State in the Union, and in 42 foreign countries. The average holding was 63.6 shares.

During the year, your Company continued to receive many valuable communications from its stockholders. To them, appreciation and thanks are due for their cooperation and enthusiasm that assist so greatly in progressing the mutual objectives of both stockholders and management.

The management has a continuing obligation to the stockholders, which it will always endeavor to fulfill in their best interest. It is earnestly hoped they will continue their constructive assistance in furthering recognition by the public of the necessity that fair and equitable treatment be accorded the railroad industry.

EMPLOYE RELATIONS

The annual report for 1947 noted an increasing awareness of individual responsibility exhibited by the average employe. That trend continued through the past year and played an important role in bettering train performance, decreasing loss and damage, train accidents and personal injuries.

Our patron relationship has improved to a notable degree largely by reason of the efficiency and courtesy manifested by the employes with whom the shippers and passengers make contact. The new motive power and cars and other me-

RELIEF DEPARTMENT

The Pennsylvania Railroad Voluntary Relief Department had a membership of 171,725 active, disabled and retired employes on December 31, 1948, and distributed $4,804,423 during the year in payment of death and disability benefits.

The operating expenses of the Department have been paid by the Company since its inception.

EMPLOYE COOPERATIVE ASSOCIATIONS

There are two cooperative associations managed by and for the benefit of the employes.

1. The Mutual Beneficial Association has been in existence since 1914. Over $10,543,000 of insurance is carried in the Association for the benefit of its members and their families, and over $3,400,000 have been paid in benefits since its organization.

The Mutual Magazine, a monthly publication of interest to the employes, is published by this Association.

2. The Employes Provident and Loan Association was established in 1923, and the amount in its saving fund to the credit of the members was nearly $22,900,000 on December 31, 1948.

WOMEN'S AID

This is an organization composed of the families of employes of the Pennsylvania Railroad, established many years ago to assist railroad people in time of need.

Its activities extend to all parts of the System, the funds required for carrying on the work being raised by dues, voluntary contributions and social affairs conducted for that purpose.

FIFTY-YEAR SERVICE BUTTONS

Fifty-year Service Gold Buttons were awarded during the year to 140 employes in recognition of a lifetime of service with the Company. This practice was established in 1928, since which time the fifty-year button has been awarded to 3,635 employes.

chanical advances have become sources of new pride and enthusiasm for many of our employes which is reflected in a revitalizing of individual effort.

This heightening of employe interest in the affairs of your Company has facilitated the reaching of agreement on rules, wages and working conditions. It is manifested also on a national basis.

Joint labor-management effort brought about changes in the Railroad Retirement and Unemployment Insurance laws resulting in increased pensions and annuities for retired employes without raising the retirement tax rate on employes or employers, and in lowering the rate of Unemployment Insurance taxes.

Your officers are endeavoring to give permanence to this healthful feeling of mutual interest and interdependence of employe and management. The Board gratefully acknowledges the employe interest and devotion to duty.

ORGANIZATION CHANGES

The Board records, with sorrow, the death on April 8, 1948, of Thomas S. Gates, a Director of your Company since October 8, 1930. He had served as Chairman of the Finance Committee for six years and as Chairman of the Road Committee for five years, continuing in that office until his death. He was the senior member of the Board. Mr. Gates was a native of Philadelphia, and a product of its educational institutions and of its legal, financial and business life. For the eleven years immediately preceding his death he was chosen by the stockholders as chairman of their annual meetings, presiding always with dignity and simplicity in a fair and equitable manner.

The Board also records, with sorrow, the death on October 1, 1948, of Richard D. Wood, a Director of your Company since May 26, 1943, who had also served on the Boards of two subsidiaries of the Company for over 20 years. Pre-eminent in his chosen field in the cotton business, he was also a Director or Manager of a number of financial institutions.

In the passing of these two Directors the Board lost men of outstanding ability who brought to its deliberations a wealth of knowledge and wisdom gleaned in many fields, and who gave unsparingly of their time and energies in the performance of their duties.

To fill the respective vacancies, John A. Diemand, of Philadelphia, Pa., and John B. Hollister, of Cincinnati, Ohio, were elected Directors.

The following officers were retired during the year:

On March 31, J. F. Deasy, Vice-President—Assistant to President, after 47 years of service.

On May 31, C. D. Young, Vice-President in charge of Purchases, Stores and Insurance, after 48 years of service.

Effective June 16, 1948, Walter S. Franklin, Executive Vice-President and Vice-President in charge of Traffic, was appointed Executive Vice-President, to assist the President in the general supervision and administration of the Company's affairs, and Fred Carpi, Assistant General Traffic Manager, succeeded Mr. Franklin as Vice-President in charge of Traffic. Effective June 1, 1948, J. C. White was appointed Vice-President in charge of Purchases, Stores and Insurance, H. H. Pevler succeeding him as Vice-President—New York.

As a result of other organization changes and to fill vacancies, the following appointments were also made:

J. B. Jones, General Manager, New York Zone; W. W. Patchell, General Manager, Central Region; J. P. Newell, General Manager, Western Region; A. F. McIntyre, Chief of Freight Transportation; C. I. Clugh, Works Manager; H. W. Large, General Coal Traffic Manager; Edwin A. Lucas, General Solicitor; Guy W. Knight, General Attorney; E. A. Kaier, Director of Public Relations.

Copy of Statistical Statement will be furnished upon request.

By Order of the Board.

M W Clement

President

GENERAL BALANCE SHEET OF

The Pennsylvania Railroad Company

	December 31, 1948		Comparison with December 31, 1947	
ASSETS				
Investments:				
Investment in Road and Equipment Property		$1,567,043,755	I	$55,398,747
Improvements on Leased Property		150,526,822	D	507,350
Donations and Grants	Cr.	2,650,259	D Cr.	27,569
Investment in Transportation Property		1,714,920,318	I	54,918,966
Accrued Depreciation—Road and Equipment	Cr.	574,633,560	I Cr.	5,447,146
Accrued Amortization of Defense Projects	Cr.	70,647,538	I Cr.	553,668
Investment in Transportation Property less recorded depreciation and amortization		1,069,639,220	I	48,918,152
Sinking Funds		635	I	165
Pittsburgh, Cincinnati, Chicago & St. Louis Railroad Company Cons. Mtg. Sinking Fund Reserve		6,580,611	I	509,052
Capital and Other Reserve Funds		23,673,496	I	14,815,949
Miscellaneous Physical Property		4,242,913	I	744,626
Investments in Affiliated Companies (Stocks, bonds, notes and advances)		642,085,657	D	30,823,001
Other Investments (Stocks, bonds, notes and advances)		31,537,288	D	34,132,096
Current Assets (Cash, fund for taxes and contingencies, material and supplies, accounts receivable, etc.)		359,241,987	I	105,614,470
Deferred Assets (Insurance and other funds, etc.)		154,634,920	D	17,244,579
Unadjusted Debits (Miscellaneous items in process of adjustment)		13,942,026	D	3,421,873
Total		2,305,578,753	I	84,980,865
LIABILITIES				
Capital Stock (par value $50. per share)		658,387,700		
Premium realized on capital stock from January 1, 1909		10,148,229		
Funded Debt of The Pennsylvania Railroad Company		503,406,500	D	21,078,770
Funded Debt of Acquired Companies Assumed by The Pennsylvania Railroad Company		3,578,000		
Other Funded Debt Assumed		7,819,000		
Guaranteed Stock Trust Certificates			D	5,156,000
Equipment Trust Obligations		160,282,000	I	59,365,000
Mortgages and Ground Rents Payable		174,767		
Current Liabilities (Traffic balances, wages, taxes, interest, other accounts payable, etc.)		193,540,569	I	26,771,986
Deferred Liabilities		1,564,706	I	177,314
Leased and Affiliated Companies—Construction		1,015,926	D	33,115
Accrued Depreciation—Leased Property		125,417,327	I	8,415,836
Unadjusted Credits (Casualty reserves, etc.)		17,741,280	D	6,310,670
Surplus:				
Additions to Property and Funded Debt Retired Through Income and Surplus		266,122,820	I	9,073,692
Sinking and Miscellaneous Fund Reserves		150,657,568	D	4,145,891
Profit and Loss		205,722,361	I	17,901,483
Total		2,305,578,753	I	84,980,865

PRINTED IN U.S.A. 3-49