THE PENNSYLVANIA RAILROAD COMPANY

ONE HUNDRED AND FOURTH ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 1950

THE PENNSYLVANIA RAILROAD COMPANY

DIRECTORS

Originally Elected		Term Expires in
April 10, 1929	M. W. CLEMENT Chairman of the Board	1952
Dec. 8, 1930	PIERRE S. du PONT Director, E. I. du Pont de Nemours and Company, Wilmington, Del.	1954
Dec. 28, 1932	FRANKLIN D'OLIER Director, The Prudential Insurance Company of America, Newark, N. J.	1954
Jan. 10, 1934	RICHARD K. MELLON Chairman of the Board, Mellon National Bank and Trust Company, Pittsburgh, Pa.	1953
Mar. 24, 1937	ROBERT T. McCRACKEN Montgomery, McCracken, Walker & Rhoads, Philadelphia, Pa.	1954
Oct. 27, 1937	C. JARED INGERSOLL President, Muskogee Company, Philadelphia, Pa.	1952
Feb. 26, 1941	LEONARD T. BEALE Chairman of the Board, The Pennsylvania Salt Manufacturing Co., Philadelphia, Pa.	1953
June 24, 1942	JAMES E. GOWEN Chairman 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.	1954
June 27, 1945	ISAAC W. ROBERTS Manager, 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.	1953
Nov. 10, 1948	JOHN B. HOLLISTER Taft, Stettinius & Hollister, Cincinnati, Ohio	1951

ELECTED BY THE ABOVE-NAMED DIRECTORS FOR THE TERM OF ONE YEAR TO SERVE AS INDICATED, PURSUANT TO THE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA

TERM EXPIRES IN 1951

Dec. 1, 1938	WALTER S. FRANKLIN President and Director
Mar. 11, 1942	J. R. DOWNES Vice-President and Director
Sept. 1, 1943	GEO. H. PABST, JR. Vice-President and Director
Apr. 23, 1947	J. M. SYMES Vice-President and Director

OFFICERS

CHAIRMAN OF THE BOARD	M. W. CLEMENT
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 1950		Comparison with 1949
THE COMPANY EARNED DURING THE YEAR FROM:			
Freight	$685,832,860	I	$66,741,781
Passenger	142,373,976	D	6,867,913
Mail	49,067,061	I	19,247,954
Express	7,104,704	I	928,372
Other	45,762,273	I	1,879,521
	930,140,874	I	81,929,715
TO THIS WAS ADDED (Chiefly dividends and interest on securities owned)	51,279,580	D	3,625,768
Total	981,420,454	I	78,303,947
THE COMPANY HAD TO PROVIDE FOR:			
Operating Expenses	784,527,564	I	55,113,808
Taxes	69,492,054	I	7,683,767
Equipment and Joint Facility Rents	18,247,905	D	1,563,491
Rent for Leased Roads, interest on debt, etc.	70,732,254	D	8,876,187
Total	942,999,777	I	52,357,897
LEAVING A NET INCOME OF	38,420,677	I	25,946,050
THE COMPANY ALSO HAD TO PROVIDE FOR:			
Sinking and Other Funds—Appropriations	1,740,166	I	260,488
Advances to leased and affiliated Companies borne by the Company	5,182,007	D	102,845
Total	6,922,173	I	157,643
LEAVING A BALANCE AVAILABLE FOR DIVIDENDS AND OTHER CORPORATE PURPOSES OF	31,498,504	I	25,788,407
Dividend 2% ($1.00 per share) 1% paid April 12, and November 30, 1950	13,167,754	I	13,167,754*
BALANCE TRANSFERRED TO CREDIT OF PROFIT AND LOSS	18,330,750	I	12,620,653

*Dividend of $9,875,816 (1½%) paid in 1949 charged to Profit and Loss.

PROFIT AND LOSS STATEMENT

AMOUNT TO CREDIT OF PROFIT AND LOSS DECEMBER 31, 1949	$201,433,224
ADD: Balance of income for the year	18,330,750
	219,763,974
DEDUCT: Sundry Net Charges	3,381,825
AMOUNT TO CREDIT OF PROFIT AND LOSS DECEMBER 31, 1950	216,382,149

THE PENNSYLVANIA RAILROAD COMPANY

General Office

BROAD STREET STATION BUILDING

PHILADELPHIA 4, PA., March 14, 1951.

To the Stockholders:

The volume of freight traffic was greater in 1950 than in 1949 but it was not until the last half of 1950 that freight and passenger traffic began to expand toward what might be called a national defense level. Even during the last six months labor difficulties continued, resulting in work stoppages that seriously interfered with volume and earnings. Operating revenues for the first half of 1950 were $411,170,331 and in the second half of the year $518,970,543. The total operating revenues for 1950 were $930,140,874, an increase over 1949 of $81,929,715, or 9.7%.

As a result of the poor showing for the first six months and the greatly expanded maintenance of equipment program, the earnings from operations for the year were disappointing. They were augmented, however, by other income to produce net income for the year of $38,420,677, compared with $12,474,627 in 1949. The balance available for dividends and other corporate purposes was $31,498,504. Dividends aggregating 2% ($1.00 per share), or $13,167,754 were paid in 1950, compared with 1½% (75c per share), or $9,875,816 paid in 1949.

In addition to income from investments, two non-recurring items materially improved 1950's results. There was an adjustment of $17,500,000 through the Income Account of tax reserves applicable to prior years. Additional mail revenue of $19,570,000 was included, resulting from an agreement, between the Government and the railroads, for the payment by the Government of retroactive pay for carrying the mail from February 19, 1947, through 1950.

A maintenance reserve of $8,500,000 was created for freight car repairs, similar to that created in 1949. In addition, a reserve of $1,500,000 was provided for repairs to roadway property damaged in the November storm, making a total maintenance reserve of $10,000,000 charged to operating expenses in 1950.

On August 27, 1950, the Government assumed control of the operation of the railroads after a strike by the conductors and trainmen on certain roads, followed by a threat of a nationwide strike to enforce their demands. Unfortunately, this labor controversy has not yet been settled and the railroads continue under Government operation.

To meet the current and anticipated traffic demands, the equipment program mentioned in previous reports has been enlarged during 1950, so that it now includes 1,036 Diesel locomotives, 450 new passenger cars, and 26,600 new freight cars, as well as 34,000 rehabilitated freight cars. The over-all program involving purchase, lease, and rehabilitation of equipment now totals over $534,000,000, of which equipment costing $331,877,000 has been delivered or rehabilitated as of December 31, 1950.

System debt in the hands of the public increased $24,056,225 or 2.42% during the year, of which $22,488,000 represents the net increase in equipment trust obligations and the remainder is the net result of the issuance and retirement of bonded debt.

The last Congress increased the corporate income tax rates for 1950 and future years and enacted an excess profits tax effective in 1950. There was also enacted legislation to authorize agreements between the railroads and the railroad unions providing for establishment of the union shop and check-off of union dues and assessments through withholdings from wages.

With the increase in the cost of operation resulting from increased material prices and wage increases already made or agreed to, your Company and other railroads are again confronted with the necessity for obtaining greater revenues. To that end a petition has been filed with the Interstate Commerce Commission to increase freight rates to offset these mounting costs. Earnings for 1951 will depend largely on the extent to which increases are permitted and will be adversely affected by the lag between increased costs and the approval of increased rates by the regulatory authorities.

Definite progress has been made towards producing better operating results, although heavy expenditures must continue for some time to complete the program for new equipment and the rehabilitation of freight cars and passenger cars required to meet the demands from an increasing volume of traffic. However, assuming prompt and reasonable action by the regulatory authorities in approving the necessary increases in rates to meet the increased costs of materials and supplies, and the increases in wages, the earnings of your Company should improve during the year. This also assumes a reasonable settlement in the present wage negotiations.

We are glad to report that, in accordance with favorable orders of the Interstate Commerce Commission issued on May 2, 1950 and August 8, 1950, and sustained by the decision of the United States District Court at Cleveland, of February 9, 1951, the Wabash Railroad Company and the Pennsylvania Company, have now acquired the stock of the Detroit, Toledo and Ironton Railroad, pursuant to the agreement described in last year's annual report.

As we prepare this report a national emergency exists. In past emergencies your Company and other railroads have played an important part, making available all of their resources and productive capacity to preserve our national welfare and commercial position. We are again ready and able to meet the demands that may be placed upon us.

It is difficult to express how deeply we regret the tragic accidents at Coshocton, Ohio, on September 11, 1950, and at Woodbridge, N. J., on February 6, 1951. Every effort has been made by the Railroad to provide assistance to the families of those killed, and full medical and hospital attention for those injured. Exhaustive investigations of these accidents have been conducted by Federal, State, and local authorities, in all of which your Company has fully cooperated.

Additional information as to your Company's affairs will be found in the appended pages of this report. A copy of Statistical Statement will be forwarded upon request.

By Order of the Board.

Walter S. Franklin

President.

THE PENNSYLVANIA RAILROAD COMPANY

ONE HUNDRED AND FOURTH ANNUAL REPORT

Road Improvements

Work on the removal of five tunnel restrictions between Pittsburgh, Pa., and Columbus, Ohio, was completed in November, 1950. This will not only attract more business but will also effect considerable economy in operation through the elimination of circuitous routing of excessive dimension loads and cars.

Substantial progress has been made in providing additional platforms and other requisite facilities at Pennsylvania Station—30th Street, Philadelphia, in anticipation of entirely discontinuing the use of old Broad Street Station early in 1952. In addition to reducing operating costs, this will make possible the removal of the elevated approach to the station, known as the "Chinese Wall." The City of Philadelphia has progressed the extension of the Market Street subway beneath the Schuylkill River and passing through 30th Street Station. When completed, this will enable Pennsylvania Railroad passengers to make direct connection between 30th Street Station and the important business and residential portions of the City.

Progress also continues in the reconstruction and modernization of passenger station and yard facilities at Pittsburgh as part of an improvement that will result in more attractive and convenient station facilities and more efficient train operation.

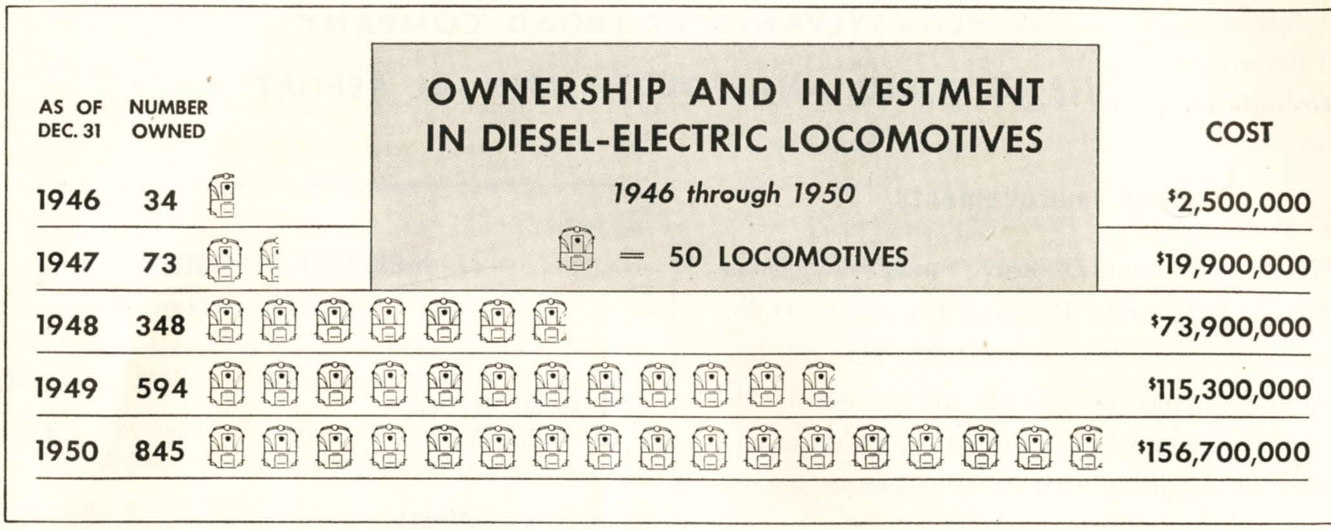
Equipment Program

The equipment program, including diesel servicing facilities, with an over-all value of $534,000,000, is divided 76% for freight operation and 24% for passenger operation.

HIGHLIGHT STATISTICS

1950 COMPARED WITH 1949-1948

	1950	1949	1948
OPERATING REVENUES AND OTHER INCOME *(Millions of Dollars)*	981.4	903.1	1,044.9
OPERATING EXPENSES AND OTHER CHARGES *(Millions of Dollars)*	943.0	890.6	1,010.5
NET INCOME *(Millions of Dollars)*	38.4	12.5	34.4
DIVIDENDS PAID *(Millions of Dollars)*	13.2	9.9	13.2
DIVIDENDS PAID PER SHARE	$1.00	$0.75	$1.00
OPERATING RATIO *(Per cent Operating Expenses to Operating Revenues)*	84.35	85.99	83.29
RETURN ON INVESTMENT	1.92%	1.25%	2.37%
REVENUE TON MILES *(Millions)*	49,887	44,867	57,950
AVERAGE REVENUE PER TON MILE *(Cents)*	1.375	1.380	1.299
PASSENGER MILES *(Millions)*	4,368	5,049	6,034
AVERAGE REVENUE PER PASSENGER MILE *(Cents)*	3.260	2.956	2.657
AVERAGE NUMBER OF EMPLOYES	124,629	116,743	138,020
TOTAL WAGES *(Millions of Dollars)*	502	457	522
AVERAGE ANNUAL WAGE PER EMPLOYE *(Dollars)*	4,027	3,912	3,781



Diesel Power

Program			*Completed to Dec. 31, 1950*	
Locomotives	*Horsepower*	*Estimated Cost*	*Number*	*Cost*
77 road passenger	345,000	$36,631,000	68	$32,112,000
172 road freight	818,700	91,874,000	111	62,077,000
787 switching	800,470	81,031,000	666	62,535,000
1,036	1,964,170	209,536,000	845	156,724,000
Diesel supporting facilities	—	19,027,000	—	14,875,000
Totals	1,964,170	$228,563,000	845	$171,599,000

As a result of this dieselization program, 83% of our passenger train car miles and 56% of our freight gross ton miles will be operated by electric or diesel-electric power.

The program will be 92% complete by March 31, 1951 and all of the diesel-electrics on order will be delivered by July or August.

Electrified Operations

As mentioned in the 1949 report, in addition to the diesel program, your Company is acquiring, at a cost of $2,940,000, four electric locomotives designed exclusively for freight service and delivery is expected in 1951. Heretofore electric locomotives have been designed so that they may be used interchangeably in freight and passenger service. It is believed that electrical engineers have produced a unit for freight movement substantially more efficient than the present equipment. These will be the first electric engines to be acquired since 1943.

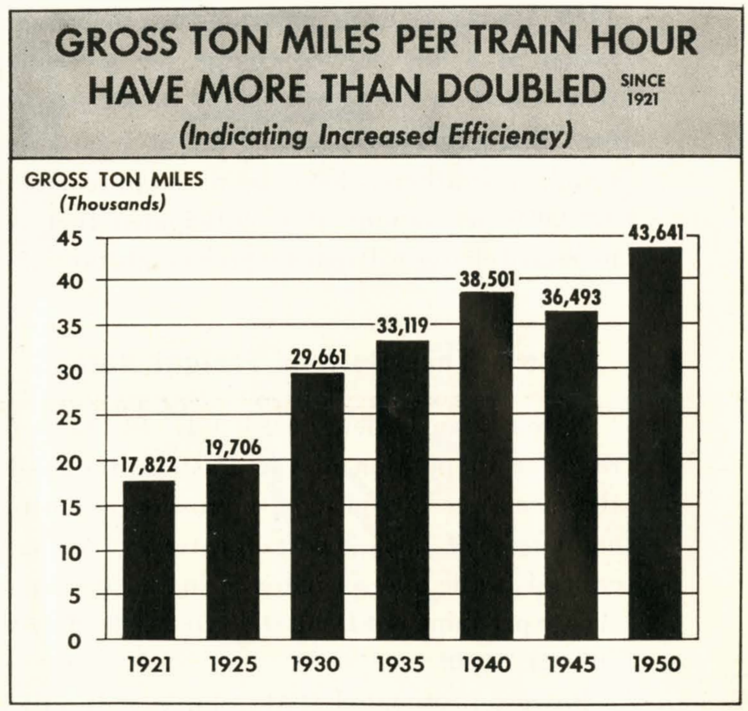
Freight Cars

Since World War II your Company has continued its policy of building new freight cars in its own shops and has carried out a modest rehabilitation program. During 1950 this entire program was revised and 20,000 new freight cars were ordered from the car builders. This program, together with the cars that have been constructed in our own shops, will total over 26,600 new cars, at a cost of over $151,600,000. The new cars include 15,500 gondolas and 10,350 box cars. Over half of these new cars are now in service, and we expect the balance will be delivered well before the end of 1951.

The construction of 26,600 new cars and the rehabilitation of 34,000 cars, a total of 60,600 cars, within three years, at a cost of $217,300,000, will materially help your Company to meet the demands for freight car equipment brought about by the defense effort.

Passenger Cars

It has been decided to buy entirely new equipment, involving a total of 64 cars for two of our most important trains, "The Congressional" operating between New York and Washington and "The Senator" between Boston and Washington. Included will be parlor cars, dining cars and coaches. They will represent the last word in the art of car building. Including sleeping cars, dining cars, coaches and new equipment for "The Congressional" and "The Senator" the Pennsylvania Railroad's new passenger car program comprises 450 units costing $57,172,500, of which 386 have been delivered at a cost of $47,398,000. In the rehabilitation of existing equipment, 192 passenger cars have been completed. When the program is finished, a total of 378 cars will have been fully renovized.



General Freight Rate Increases

The continued increase in material and supply prices and wage demands of labor, to which the railroads are committed, in part, have made it necessary for the railroads to again seek some relief in the form of a general freight rate increase. Since 1940, railroad costs, that is, both wage rates and material price levels have more than doubled while freight rates on the average have been increased only about 57%.

Your Company has joined with the other carriers in filing a petition with the Interstate Commerce Commission for authority to increase freight rates and charges approximately 6%. Hearing in this proceeding before the Commission started on February 19, 1951.

Increases in the above mentioned expenses in excess of those contemplated at the time the petition was filed will make it necessary to seek further relief from the Commission through a greater increase in freight rates and charges.

Passenger Fares

Following the increases in basic passenger fares in 1947, 1948 and 1949, major emphasis in 1950 was directed toward establishing a higher level of commutation fares. In view of the heavy losses resulting from commutation service, your Company's program called for an average increase in these fares of approximately 22%. There had been but one general increase in commutation fares in the past 30 years, an increase averaging about 25% in 1947.

During the year, numerous hearings were conducted by the Interstate Commerce Commission and the State regulatory bodies where cost studies were submitted to show the large deficits incurred in handling commutation traffic. The increases sought have become effective during the year in the New York, Philadelphia, Harrisburg, Pittsburgh and Chicago commutation districts. The entire program is estimated to increase commutation revenues approximately $1,375,000 per annum based upon 1950 volume, which will, however, be insufficient to offset the deficit from handling this class of traffic.

In further recognition of the need for additional revenues, numerous miscellaneous increased charges in connection with the transportation of passengers and baggage were established during

1950. Among the more important was the inauguration of a 25c service charge for redeeming tickets and an increase from 15c to 25c per bag for "Red Cap" service. The deficit from "Red Cap" operations has been approximately $250,000 per annum. It is anticipated that the increased charge will reduce this loss substantially.

Less-Than-Carload Freight Rates

Through an Order, dated July 12, 1950, in response to petition of the Eastern Railroads, the Interstate Commerce Commission permitted an increase of 7.6% in certain rates on less-than-carload traffic and an increase in the minimum charge per shipment from $1.43 to $2.00, effective July 24, 1950.

Based on estimated 1951 volume, it is anticipated that these increases will augment our revenue from less-than-carload traffic by approximately $1,700,000 on an annual basis, which will help to meet the relatively high cost of handling this traffic.

Railway Mail Pay

Application filed with the Interstate Commerce Commission for account of the railroads, including your Company, on February 19, 1947, as supplemented and amended on various subsequent dates, seeking an over-all increase of 95% in rates of compensation for transportation of the United States Mail is still pending before that body. However, considerable progress has been made to the end of effecting a settlement of this case.

An agreement between the Post Office Department and the applicant railroads for compensation covering the period February 19, 1947, to December 31, 1950, was set forth in the form of a stipulation which was executed on October 11, 1950, by counsel for the Post Office Department and counsel for the railroads and filed with the Interstate Commerce Commission. On November 8, 1950, evidence was submitted to the Interstate Commerce Commission supporting the stipulation, and in an Order issued by that body dated December 4, 1950, it found that the increased compensation for transportation of the mail on and after February 19, 1947, to and including December 31, 1950, would be fair and reasonable in an amount of approximately $152,000,000 over and above the 25% interim increase granted in an Order dated December 4, 1947.

It is estimated that your Company will receive about $19,570,000 as its proportion of the retroactive compensation and that amount was included in mail revenue in the accounts for 1950.

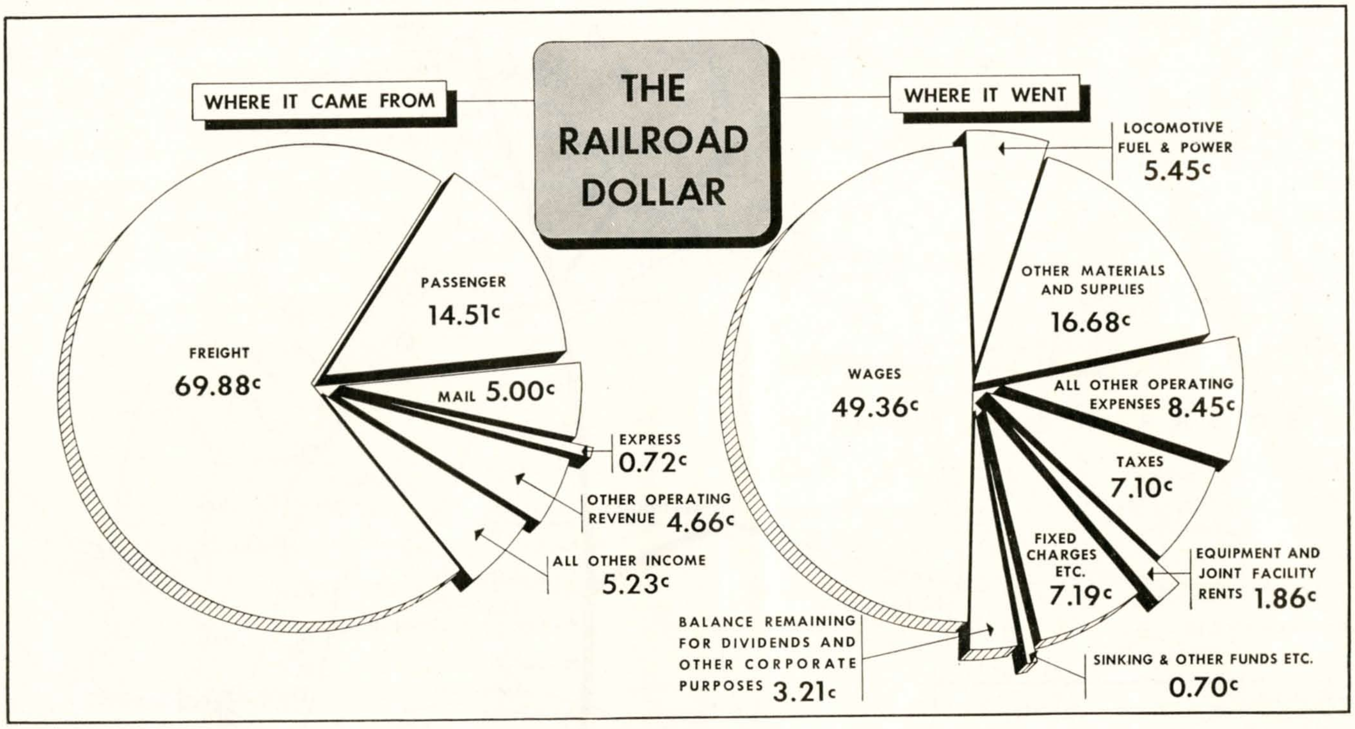
Certain principles to govern a new rate structure for mail traffic were also agreed upon and set forth in the stipulation between the Post Office Department and the applicant railroads, to become effective January 1, 1951. However, the rates and charges to be applied in connection therewith are still to be determined by the Interstate Commerce Commission but will apply retroactively from January 1, 1951.

Division of Through Rates on Freight Traffic

The division of through freight rates on traffic moving between the Southern Railroads and the Eastern Railroads and between the Southwestern Railroads and Eastern Railroads, as prescribed by the Interstate Commerce Commission, is considered by the Eastern Railroads to be extremely unfavorable to them.

This is due generally to the greater relative growth of traffic in the South and Southwest because of changing economic conditions favorable to the Southern and Southwestern Railroads and the greater relative increase in the costs of the Eastern Railroads, which provide numerous and expensive terminals serving the principal markets of the country. The Eastern Railroads petitioned the Interstate Commerce Commission in 1947 to prescribe a revision of the division of through rates as between the different groups of carriers that would fairly and properly bring a larger share of the through rate to the Eastern Railroads.

Extensive hearings were held during the year and have now been completed.



Revenues and Expenses

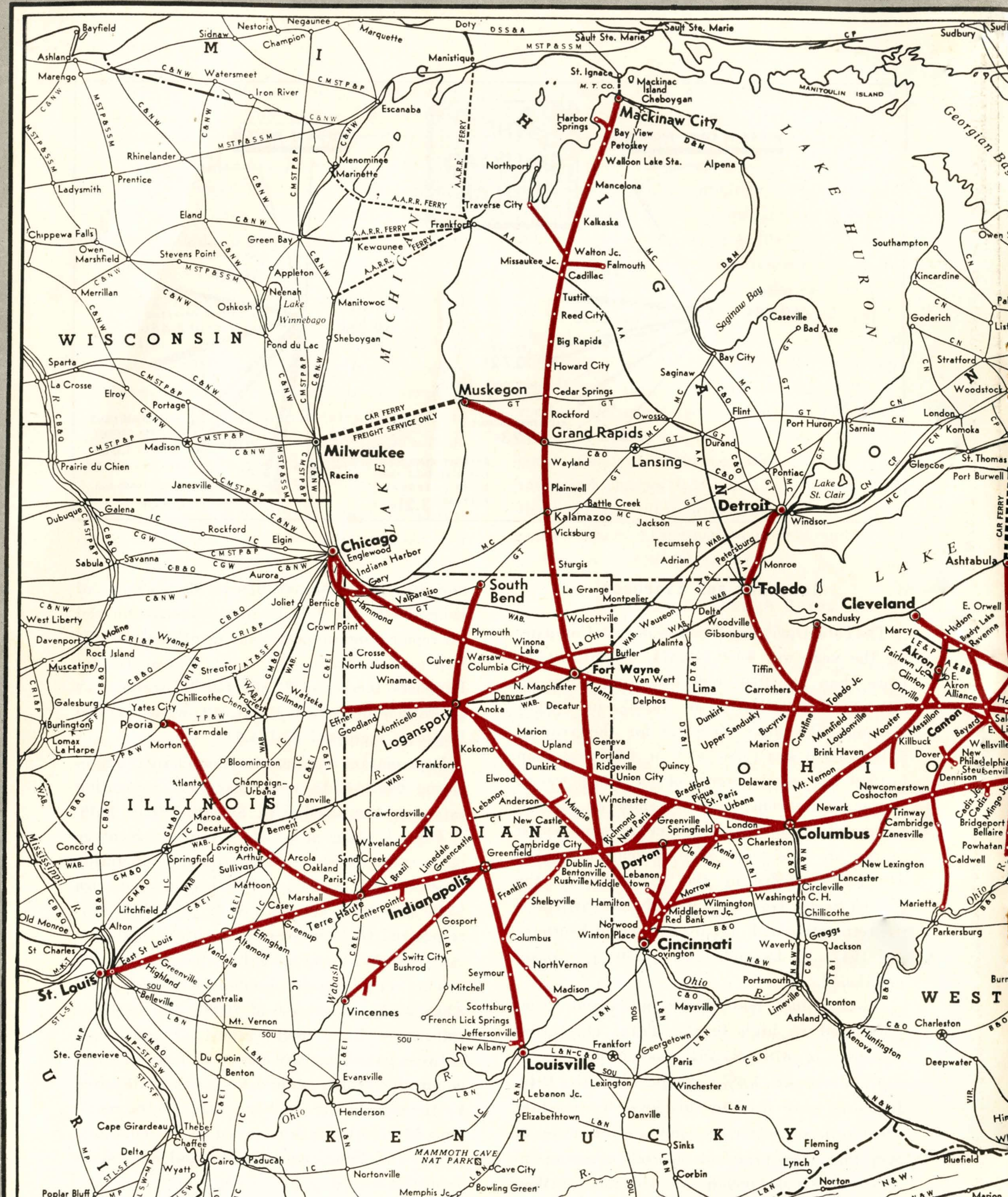
The Total Operating Revenue of your Company for the year was $930,140,874, or $81,929,715 more than in 1949, reflecting principally an increase of $66,741,781, or 10.8%, in Freight Revenue. Passenger Revenue for the year of $142,373,976 was $6,867,913, or 4.6% less than in 1949. In the later months of the year, however, Passenger Revenue began to show an upward trend and an improvement over the same period in the previous year. Mail Revenue increased $19,247,954, reflecting the settlement by the United States Government with the carriers of the retroactive mail pay for the period February 19, 1947, to December 31, 1950, previously mentioned.

Costs of fuel, materials, supplies and wages continued at high levels. Total Operating Expenses of $784,527,564 was an increase of $55,113,808, or 7.6%, compared with 1949. Expenses were held to this level by constant effort toward greater economy and efficiency of operation. The principal changes were: an increase of $10,642,069 in Maintenance of Way and Structures; $41,655,349 in Maintenance of Equipment, due largely to an increase in the car repair program previously mentioned. Traffic Expenses decreased $1,503,371. Transportation Expenses increased $3,806,440. Miscellaneous Operations decreased $1,621,319, while General Expenses increased $2,134,640.

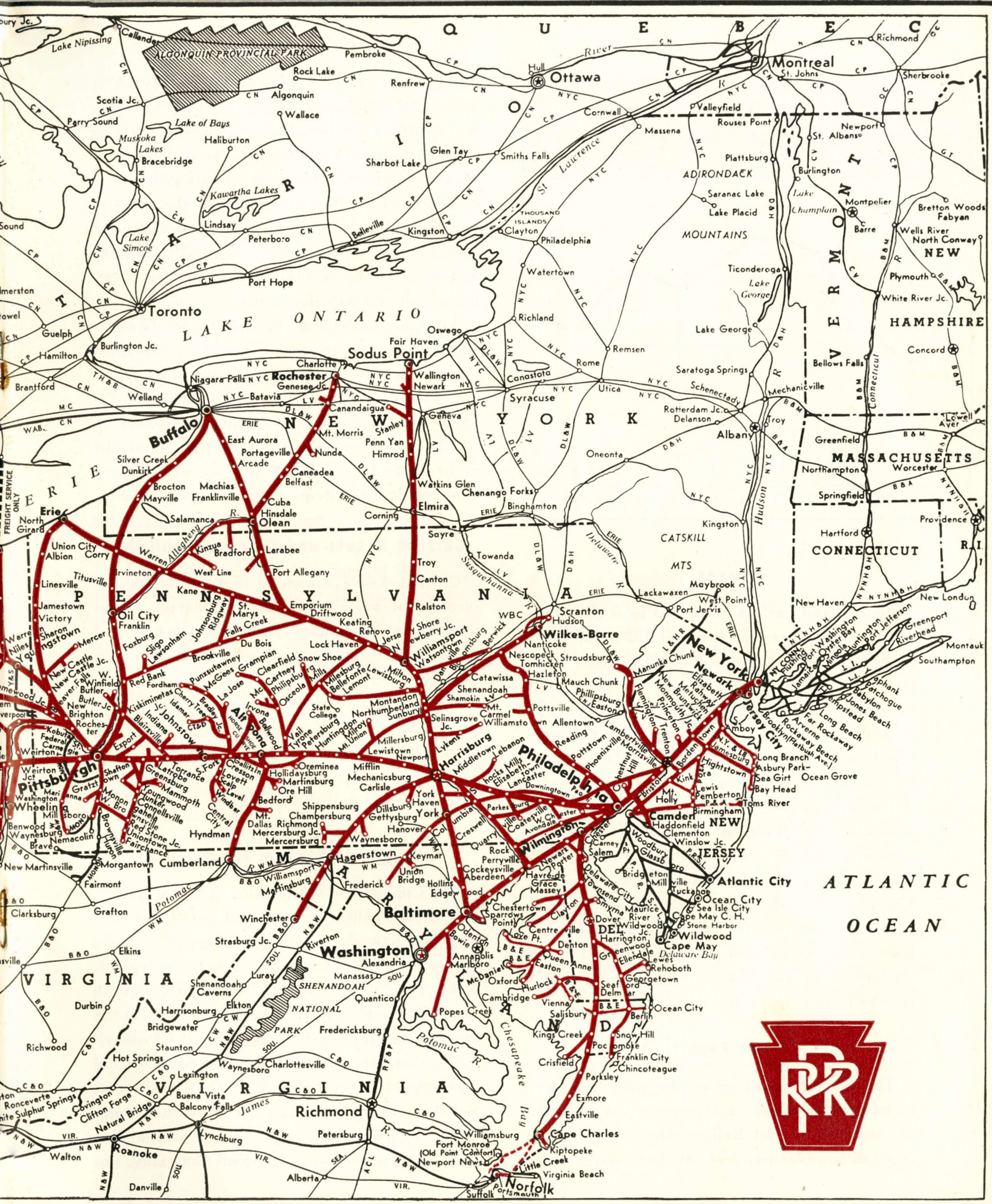
Depreciation and amortization charges aggregating $45,411,318 were charged to operating expenses, compared with $44,948,770 in 1949.

The operating ratio, which is the percentage of operating revenues required to pay operating expenses, was 84.35% in 1950, compared with 85.99% in 1949, and with 83.29% in 1948. It is recognized that the operating ratio is high and every effort is being made to reduce it.

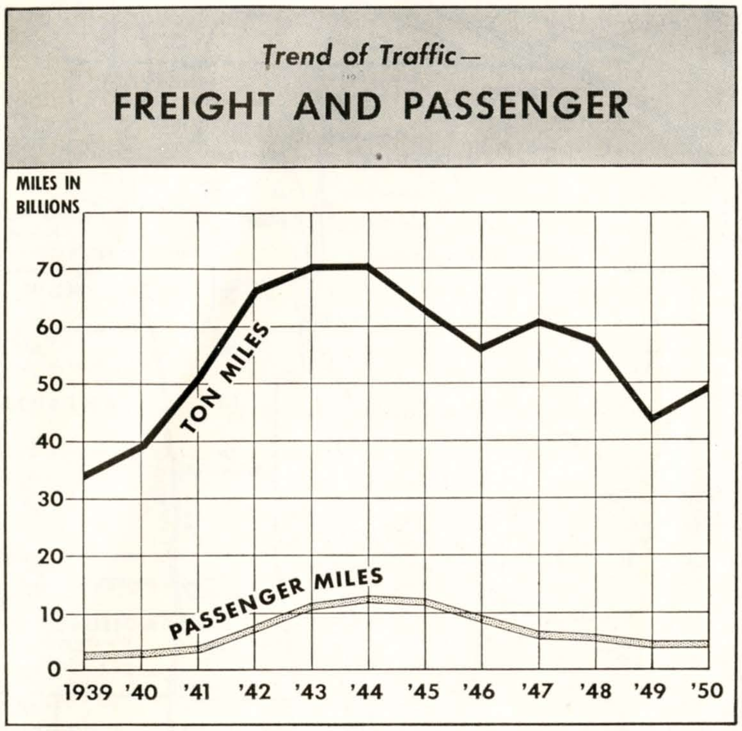
The rental paid leased roads aggregated $36,865,263, a decrease of $9,902,775, resulting principally from modifications of the leases between your Company and seven lessor railroad companies, which modifications were authorized by the stockholders in May, 1950. Of the rental paid $20,730,153 was returned to System Companies and Funds as dividends and interest on securities owned.



PENNSYLVANIA RAILRO



AD AND CONNECTIONS



Taxes

Federal and various State and local corporate and property taxes for the year 1950 amounted to $40,934,772, an increase of $5,151,088, compared with 1949. The increase is due principally to an increase in Federal income taxes as a result of increased taxable income and higher tax rates offset, in part, by credit adjustments of $4,879,884 on account of settlement of prior years' taxes.

Unemployment Insurance taxes increased $201,218 and Railroad Retirement taxes increased $2,331,461, due to increased employment.

Included in the non-operating income of the Company for the year 1950 is an item of $17,500,000 representing an adjustment of a tax reserve accrued in prior years. As a result of the settlement of the taxes for those years this reserve is no longer required.

Net Result

The percentage of return to your Company upon its investment in transportation property as measured by Net Railway Operating Income (operating revenues, less amounts required to pay operating expenses, taxes, joint facility and equipment rents) was 1.92% in 1950. However, in computing this return, back mail pay applicable to period February 19, 1947 to December 31, 1949 has been included. Eliminating the effect of this inclusion the percentage of return would be reduced to 1.65%. The amount earned in 1949 was only 1.25%, compared with 2.37% in 1948 and with 1.13% in 1947. The return has been entirely inadequate for many years.

After meeting charges of $1,740,166 for appropriations to sinking and other funds, $5,182,007 of advances to leased and affiliated Companies, and $13,167,754 representing dividends of 2% ($1.00 per share), there remained a balance of $18,330,750, which was transferred to the credit of Profit and Loss. That account was charged with sundry net items aggregating $3,381,825.

Current Assets and Current Liabilities

Current Assets amounted to $311,041,166, an increase of $27,839,947, due principally to an increase in Temporary Cash Investments and Miscellaneous Accounts Receivable offset, in part, by a decrease in Cash.

Current Liabilities amounted to $156,357,265, an increase of $20,345,825, due largely to increases in Audited Accounts and Wages Payable and Miscellaneous Accounts Payable offset, in part, by a reduction in Tax Liability.

Changes in System Funded Debt

The Company in anticipation of heavy maturities in 1952 called for redemption on October 1, 1950, $52,635,500 of its outstanding publicly held Convertible Debenture 3¼% Bonds due April 1, 1952. The funds to accomplish this redemption were obtained largely through the sale at an average interest cost of 3.946% by Pennsylvania Company, a wholly owned subsidiary, of $60,000,000 Twenty-Five Year Collateral Trust Serial Bonds bearing interest at various rates from 2½% to 4½%, and the purchase at par from the Pennsylvania Railroad Company, out of the proceeds of such sale, of $44,000,000 of its General Mortgage, Series H, 4¼% Bonds, due April 1, 1986. The balance of the proceeds has been applied by Pennsylvania Company towards the purchase of stock of the Detroit, Toledo and Ironton Railroad Company as mentioned elsewhere in this report.

During the year, the Company partially financed its equipment program through the sale of $40,935,000 of equipment trust obligations at an average interest cost of 2.42%, and paid at maturity $18,447,000 of previously issued equipment certificates. Obligation with respect to $1,200,000 of bonds was assumed and bonded debt matured, purchased or redeemed through Sinking Funds totaled $6,996,275.

All of the foregoing transactions resulted in an increase in the total System debt in the hands of the public during 1950 of $24,056,225.

The Company is ever mindful of its Funded Debt obligations, and while outstanding equipment trust certificates over the past ten-year period 1941 to 1950, inclusive, have increased $146,956,000, or 225%, the Bonded Debt of the System has decreased $204,404,141, or 20%, a net decrease in the total System debt in the hands of the public during the ten years of $57,448,141, or 5%. In the same period the annual interest charges on System debt in the hands of the public have been reduced $8,305,694, or 18%. The average interest rate decreased from 4.23% in 1941 to 3.65% in 1950.

During the year, the Company entered into several Fifteen-Year Conditional Sale Agreements to finance 100% of the cost of acquiring diesel-electric locomotives and freight cars estimated to cost approximately $115,000,000. The average interest cost to the Company under these Conditional Sale Agreements will be approximately 2.92%. Payment for this equipment will not commence until the present year, and deliveries are scheduled to be completed in the first quarter of 1952. Under these Agreements the Company will be obligated to repay amounts due semi-annually in the years 1951 to 1967, inclusive, in an average annual amount of approximately $7,700,000.

In August, 1950, your Company entered into agreements to lease 10,000 freight cars on a per diem basis. These lease agreements run for a period of fifteen years with certain renewal rights, and provide for annual rentals ranging from $5,800,000 to $1,800,000 over the fifteen-year term. While the rental payments are in the nature of a fixed annual obligation, they are accounted for as equipment rents, and, therefore, are not included in the Company's interest charges or capital obligations.

Passenger Service

The traveling public has responded favorably to the new and renovized equipment that has been furnished in your Company's passenger service. This includes not only the cars mentioned elsewhere in this report, but also the renovation of suburban electric cars which has bettered the general level of equipment in this phase of our operations.

Your Company has been continuously studying various safety and signal appliances. It was not until 1950 that we became satisfied that the speed control development had reached a point where it should be adopted for use on the Pennsylvania Railroad. This system will utilize the cab signal system now so extensively used on your railroad in the areas where dense passenger train service is operated. This is an automatic, electronically-operated method of applying the air brake to control speed in event of human failure. As a result of these studies, your Board has now approved the installation of this speed control system, as rapidly as materials are available, for all electric, diesel-electric, and some steam passenger locomotives operating in cab signal territory.

Our passenger service continues to be burdened both physically and economically by a tremendous volume of mail. Physically, because trains are frequently delayed at various stations while mail is being transferred to and from cars in such volume as to make these delays inevitable. Economically, because this traffic is handled at a loss.

In 1950, your Company incurred a deficit of $48,895,000 in passenger service operations. As has been true in recent years, much of this deficit was from the handling of commuter passengers, express and United States mail. Your management continues its efforts to reduce this deficit by eliminating unprofitable passenger train miles. Reduction of such services in 1950 amounted to an average of 2,600 passenger train miles daily.

There is still an Excise Tax of 15% paid by passengers utilizing railroads and certain other modes of transportation. It will be recalled that the principal purpose of this Tax was to discourage people from riding trains during the Second World War when there was an inadequacy of equipment. This has doubtless been a contributing factor in the reduction of travel by rail.

Employe Relations

The year 1950 brought a steady improvement in railroad employment, resulting from generally increased business, and the Management is duly appreciative of the loyalty and cooperation of the employes.

The year was marred, however, by several labor disputes, which led to strikes and finally Government seizure of the railroads on August 27, 1950. Three times in the course of the year there were serious interruptions of railroad service arising from labor difficulties.

In May, the Firemen's Brotherhood called a strike on selected railroads, including the Pennsylvania Railroad west of Harrisburg, in an effort to enforce their demands, principally for a second fireman on diesel-electric multiple-unit engines in road service. Two Presidential Fact-Finding Boards had found no merit in the demands. In this effort they were unsuccessful, and after a six-day interruption, the firemen returned to work.

In August, the Government was forced to take over the operation of the railroads after the Conductors and Trainmen struck on certain railroads and threatened a nationwide strike to enforce their demands for a 40-hour week in yard service with pay for a full 48 hours. A Presidential Fact-Finding Board had recommended substantial concessions for the yardmen, and the railroads accepted such recommendations. At the suggestion of the Government acting through Dr. John R. Steelman, Assistant to the President of the United States, the railroads indicated, although reluctantly, their willingness to go even further than was recommended by the Board. The labor organizations, however, refused to accept anything less than their full demands.

In December, a strike again occurred on this issue among yard trainmen on a number of railroads, including the Pennsylvania Railroad, and it was terminated only after the Government had obtained injunctions and the President of the United States publicly called upon the men to go back to work.

On December 21, 1950, the presidents of the four Operating Brotherhoods and representatives of the Railroads signed an agreement at Washington, providing for an increase for yard service employes of 23 cents per hour effective October 1, 1950, with 2 cents per hour additional on January 1, 1951 (and another 4 cents per hour if and when the 40-hour work week went into effect), and providing for a total increase of 10 cents per hour (5 cents effective October 1, 1950, and 5 cents additional effective January 1, 1951), for road men. This agreement also provided for a cost-of-living factor. The agreement, however, was later rejected by the labor organizations and beginning January 29, 1951, certain operating employes at many important terminals throughout the country, including a number on the Pennsylvania, did not report for work.

This refusal to work was finally terminated by the Army's General Order No. 2, issued February 8, 1951, requiring the employes to return to duty and remain at work under penalty of dismissal with loss of seniority. The Army's Order also provided for an interim wage increase of 5 cents per hour for road men and 12½ cents per hour for yard men retroactive to October 1, 1950; and stated that unless the parties make a formal settlement of the dispute within a reasonable time the Army would recommend legislation.

The railroads have always accepted the recommendations of Presidential Fact-Finding Boards in these labor disputes, whether they agreed with them or not. This is the spirit and intent of the Railway Labor Act, which was enacted through the cooperation of union and management representatives with the confident expectation that impartial review and reason would be substituted for strikes in labor disputes.

It is to be hoped that in the future, organizations representing railroad employes, in recognition of their responsibility, will exercise restraint in keeping with their power and position in our national life, so that we may work together for our national good and security, and preserve the soundness of the railroad industry which occupies so important a place in the economy of the Country.

On October 25, 1950, the fifteen Non-Operating groups initiated a concerted effort to secure an increase of 25 cents per hour. These demands culminated in an Agreement signed on March 1, 1951, providing for an increase of 12½ cents per hour to all our Non-Operating Employes, effective February 1, 1951. This Agreement further provided for periodic cost-of-living increases in rates of pay, using the Bureau of Labor Statistics' index of 178 as a base, with one cent per hour increase for each point the index rises above the base figure of 178. The cost-of-living adjustment is to be made commencing April 1, 1951, with adjustments each three months thereafter. The Agreement also stipulated that no proposals for changes in rates of pay may be initiated by the Employes against the Company or by the Company against the Employes prior to October 1, 1953, provided, however, that if the Government wage stabilization policy permits so-called annual improvement wage increases, the parties may on or after July 1, 1952 discuss whether or not further wage adjustments on the basis of increased productivity are justified. If the parties are unable to agree on this matter, the question will be subject to arbitration.

Long Island Rail Road

Throughout the past year, the Long Island Rail Road continued in reorganization under the jurisdiction of the United States District Court for the Eastern District of New York, pursuant to the proceedings instituted in 1949. The operation of the Road since its bankruptcy has been entirely under the jurisdiction of Trustees appointed by the Federal Court and has not been subject to any control on the part of your Company. In December, 1950, General William H. Draper, Jr., was appointed sole Trustee by the Court, and ratified by the Interstate Commerce Commission to succeed the former Trustees who resigned. Your Company's interests in the Long Island Rail Road Company, as principal creditor and stockholder, will continue to receive the closest attention.

Legislation

Reference was made in last year's annual report to the investigation instituted by the Senate Committee on Interstate and Foreign Commerce, under the authority of Senate Resolution 50, and involving the many problems confronting the railroads and other forms of transportation. During the past year the Senate Committee held extensive hearings on the subject. Since the problems of the railroad industry are of vital concern to your Company, its representatives contributed substantially to the preparation and presentation of a great volume of evidence at the Senate Committee hearings. Particular emphasis was placed upon the competitive situation facing the railroads, which has become most unfair because of the continuing government subsidies to other forms of transportation, such as water carriers, highway motor vehicles and air transportation, together with comparative freedom for those competitors from the type of government regula-

RELIEF DEPARTMENT

The Pennsylvania Railroad Voluntary Relief Department had a membership of 172,899 active, disabled and retired employes on December 31, 1950, and distributed $4,751,696 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, which has been in existence since 1914. Over $10,500,000 of Insurance is carried in the Association for the benefit of its members and their families, and over $3,821,000 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 Mutual Provident and Loan Association, which was established in 1923. The amount in its saving fund to the credit of its members was over $22,400,000 on December 31, 1950.

WOMEN'S AID

This is an organization composed of the families of employes of the Pennsylvania Railroad, and was 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.

SERVICE BUTTONS

Fifty-year Service Gold Buttons were awarded during the year to 227 employes in recognition of a lifetime of service with the Company. Since 1928, when this practice was established, the fifty-year button has been awarded to 4,072 employes.

In addition, a new plan was inaugurated during 1949, by awarding silver or bronze buttons to all employes who have twenty-five or more years in the service of your railroad, similar in form to the Fifty-year Service Gold Buttons. The presentation of these buttons was made during the year to 6,138 employes.

More than 64,000 service buttons have been distributed since 1928.

Your Company is proud of the many employes who have served the railroad so faithfully for so many years.

tions and restrictions which apply to the railroads. The hearings were concluded during the month of July, 1950, and it is expected that the committee will submit a report to the Senate in the near future.

There were introduced during the last Congress substantially identical bills known as H.R. 7789 and S. 3295, which would authorize agreements between the railroads and the railroad unions providing for the establishment of the union shop and the check-off of union dues and assessments through withholdings from wages by the companies. It has been the position of your Company, together with the other railroads, that the enactment of these bills would be highly detrimental to harmonious labor relations throughout the industry and would unnecessarily interfere with the personal freedoms of the railroad employes. Consequently, testimony in opposition to this proposed legislation was presented before the appropriate committees in the Senate and the House. Nevertheless, S. 3295 was passed by the Senate and House in the closing days of the 81st Congress and was subsequently signed by the President.

The last Congress also enacted revenue laws increasing the corporate income tax rates and establishing an excess profits tax. The first change made in the Federal income tax laws increased the combined normal tax and surtax rates on corporations from 38% to 42% for 1950 and to 45% for 1951. During the closing days of the last Congress there was enacted a further revenue law increasing these rates to 47%, beginning with the year 1951. At the same time an excess profits tax law was enacted in a form which is not expected to increase materially your Company's tax burden at this time.

Bills known as H.R. 378 and S. 238, which were mentioned in the last annual report and which would have the effect of enlarging the powers of the Interstate Commerce Commission to include the prescribing of operating rules for the railroads, did not receive any consideration during the second session of the 81st Congress.

Litigation

An important development occurred during the past year in connection with the anti-trust suits which have been pending against certain railroads for several years and which have been described in previous annual reports. The suit brought by the State of Georgia against the Northern and Southern railroads was dismissed by the Supreme Court of the United States on November 27, 1950, following a report by the Special Master, appointed by that Court, which found in substance that the State of Georgia had failed to sustain its charges against the defendant railroads. In the Federal government suit against the Western railroads and the Association of American Railroads, a trial on the merits of the case has been indefinitely postponed until the completion of proceedings now pending before the Interstate Commerce Commission which involve applications for approval by the Commission of rate conference procedures under the Reed-Bulwinkle Act.

In connection with the complaints filed by the Federal government against the railroads — the so-called "Government Reparations Cases"— which have been mentioned in previous annual reports, hearings have been substantially completed and decisions by the Interstate Commerce Commission should follow in due course.

Detroit, Toledo and Ironton Railroad Company

In the annual report for last year reference was made to the proposed purchase of stock of the Detroit, Toledo and Ironton Railroad Company by your Company's wholly owned subsidiary, the Pennsylvania Company, in conjunction with the Wabash Railroad Company, the majority of whose stock is owned by the Pennsylvania Company. At that time there was pending before the Interstate Commerce Commission a proceeding seeking the approval by that Agency of the proposed stock acquisition. On May 2, 1950, the Commission issued its report and order approving the proposed purchase. The New York, Chicago and St. Louis, New York Central and the Baltimore & Ohio Railroad Companies instituted proceedings in the Federal District Court at Cleveland to set aside the order of the Commission. On February 9, 1951, that Court dismissed such proceedings and the purchase of the stock was consummated as of March 1, 1951. The Detroit, Toledo and Ironton Railroad serves an important portion of the Detroit industrial area, as well as Toledo, Ironton and intermediate points in Ohio. Its ownership by your Company and the Wabash is advantageous in view of the substantial volume of traffic which it interchanges with your Company and the Wabash Railroad and the fact that it is an important source of traffic for both railroads.

Public Relations

In its public relations, the Pennsylvania Railroad concentrates on the fundamental objective of seeking to perform such high quality service to its shippers and passengers as will deserve and retain public good-will. Every effort is made to make its physical facilities and services safe, up-to-date, adequate and efficient, and to enlist the willing interest on the part of its employes in performing the service the way that people like to have it.

The management is continually carrying on educational and training programs looking toward higher standards both in performing the service itself and dealing with the people that the railroad serves.

The Pennsylvania Railroad also carries on its own publicity and advertising operations through system and regional offices and it supports the joint public relations efforts of the Association of American Railroads and the Eastern Railroad Presidents Conference.

Stockholders

The stock of the Company (13,167,754 shares) was owned on December 31, 1950, by 189,776 stockholders, residing in every State in the Nation and in 39 foreign countries. The average holding was 69.4 shares.

Many helpful communications were received by the Company from its stockholders during the year, for which we are most appreciative. We hope for a continuance of such interest in the Company's problems and support of the management's efforts to advance the best interests of the stockholders during the troublesome period through which we are passing.

GENERAL BALANCE SHEET OF

The Pennsylvania Railroad Company

		December 31, 1950		Comparison with December 31, 1949
ASSETS				
Investments:				
Investment in Road and Equipment Property		$1,635,525,037	I	$37,501,830
Improvements on Leased Property		149,673,380	I	233,283
Donations and Grants	Cr.	2,647,789	I Cr.	3,767
Investment in Transportation Property		1,782,550,628	I	37,731,346
Accrued Depreciation—Road and Equipment	Cr.	576,671,537	I Cr.	8,019,763
Accrued Amortization of Defense Projects	Cr.	72,063,467	I Cr.	628,993
Investment in Transportation Property less recorded depreciation and amortization		1,133,815,624	I	29,082,590
Sinking Funds		1,477	I	763
Pittsburgh, Cincinnati, Chicago & St. Louis Railroad Company Consolidated Mortgage Sinking Fund Reserve		8,231,039	I	626,076
Capital and Other Reserve Funds		4,477,027	D	37,807
Maintenance Funds		10,000,000	I	2,000,000
Miscellaneous Physical Property		4,524,057	D	4,009
Investments in Affiliated Companies (Stocks, bonds, notes and advances)		664,602,954	I	1,446,337
Other Investments (Stocks, bonds, notes and advances)		31,537,055	D	432,021
Current Assets (Cash, fund for taxes and contingencies, material and supplies, accounts receivable, etc.)		311,041,166	I	27,839,947
Deferred Assets (Insurance and other funds, etc.)		167,159,318	I	4,348,720
Unadjusted Debits (Miscellaneous items in process of adjustment)		10,075,390	I	1,022,113
Total		2,345,465,107	I	65,892,709
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		489,471,000	D	11,310,500
Funded Debt of Acquired Companies Assumed by The Pennsylvania Railroad Company		3,578,000		
Other Funded Debt Assumed		8,959,000	I	1,140,000
Equipment Trust Obligations		204,164,000	I	22,996,000
Mortgages and Ground Rents Payable		60,700	D	3,650
Current Liabilities (Traffic balances, wages, taxes, interest, other accounts payable, etc.)		156,357,265	I	20,345,825
Deferred Liabilities		2,209,060	I	156,645
Leased and Affiliated Companies—Construction		952,553	D	181,055
Accrued Depreciation—Leased Property		128,445,623	I	2,305,653
Unadjusted Credits (Casualty reserves, maintenance reserves, etc.)		32,988,965	I	7,390,323
Surplus:				
Additions to Property and Funded Debt Retired Through Income and Surplus		279,261,191	I	6,451,333
Sinking and Miscellaneous Fund Reserves		154,099,672	I	1,653,210
Profit and Loss		216,382,149	I	14,948,925
Total		2,345,465,107	I	65,892,709

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