1953

107th Annual Report

THE PENNSYLVANIA RAILROAD COMPANY

DIRECTORS

Originally Elected		*Term Expires in*
April 10, 1929	**MARTIN W. CLEMENT** *Director*	1956
Jan. 10, 1934	**RICHARD K. MELLON** *Chairman of the Board, Mellon National Bank and Trust Company, Pittsburgh, Pa.*	1957
Mar. 24, 1937	**ROBERT T. McCRACKEN** *Montgomery, McCracken, Walker & Rhoads, Philadelphia, Pa.*	1954
Oct. 27, 1937	**C. JARED INGERSOLL** *President, Muskogee Company, Philadelphia, Pa.*	1956
Feb. 26, 1941	**LEONARD T. BEALE** *Chairman of the Board, The Pennsylvania Salt Manufacturing Company, Philadelphia, Pa.*	1957
June 24, 1942	**JAMES E. GOWEN** *Chairman, Executive Committee, Girard Trust Corn Exchange Bank, Philadelphia, Pa.*	1955
Jan. 24, 1945	**PHILIP R. CLARKE** *Chairman of the Board, 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.*	1955
Dec. 18, 1946	**HARRY B. HIGGINS** *President, Pittsburgh Plate Glass Company, Pittsburgh, Pa.*	1956
Oct. 27, 1948	**JOHN A. DIEMAND** *President, Insurance Company of North America, Philadelphia, Pa.*	1957
Nov. 10, 1948	**JOHN B. HOLLISTER** *Taft, Stettinius & Hollister, Cincinnati, Ohio*	1955
Dec. 23, 1953	**LAMMOT du P. COPELAND** *Secretary, E. I. du Pont de Nemours and Company, Wilmington, Del.*	1954
Dec. 23, 1953	**DONALD DANFORTH** *President, Ralston Purina Company, St. Louis, Mo.*	1954

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

Dec. 1, 1938	**WALTER S. FRANKLIN,** *President*	1954
April 23, 1947	**JAMES M. SYMES,** *Executive Vice President*	1954
May 23, 1951	**FRED CARPI,** *Vice President—Traffic*	1954
May 23, 1951	**DAVID C. BEVAN,** *Vice President—Finance*	1954
April 1, 1953	**JAMES P. NEWELL,** *Vice President—Operation*	1954

THE PENNSYLVANIA RAILROAD COMPANY

ONE HUNDRED AND SEVENTH

Annual Report

FOR THE YEAR ENDED DECEMBER 31, 1953

CONTENTS

HIGHLIGHTS

THE PENNSYLVANIA RAILROAD COMPANY

	1953	1952	1951	1950	1949
OPERATING RESULTS					
Operating Revenues	$1,034,394,640	$1,028,750,217	$1,044,387,274	$930,140,874	$848,211,159
Operating Expenses	$864,522,807	$865,885,772	$892,945,690	$784,527,564	$729,413,756
Taxes—*Federal, State and Local*	$70,312,442	$69,729,490	$69,215,766	$69,492,054	$61,808,287
Net Income	$37,036,215	$36,981,364	$26,697,717	$38,420,677	$12,474,627
Return on Investment in Property used in Railway Transportation Service, after Recorded Depreciation—*Includes Material and Supplies, and Cash*	2.98%	2.98%	2.45%	2.50%	1.61%
Net Income per Dollar of Operating Revenues—*Cents*	3.58	3.59	2.56	4.13	1.47
Operating Ratio	83.58%	84.17%	85.50%	84.35%	85.99%
Transportation Ratio	41.80%	43.23%	43.84%	41.79%	45.38%
FINANCIAL DATA					
Working Capital	$143,699,598	$163,475,901	$161,877,510	$154,683,901	$147,189,778
Net Investment in Transportation Property and Equipment	$1,282,982,235	$1,277,207,120	$1,219,659,751	$1,133,815,624	$1,104,733,034
Amount expended for Investment in Road and Equipment, P.R.R. Co. and Leased Lines—*before deductions for retirements*	$72,797,377	$123,321,217	$161,853,489	$87,798,233	$105,770,188
Other Investments—*Stocks, Bonds, Notes and Advances—Book Value*	$877,368,113	$866,835,358	$856,815,826	$849,490,786	$846,160,658
Bonded Debt	$463,375,000	$479,023,000	$497,268,000	$502,008,000	$512,178,500
Equipment Obligations	$346,001,119	$350,738,605	$288,114,800	$204,164,000	$181,168,000
Net Worth—*Book Value*	$1,378,341,335	$1,358,303,987	$1,335,221,381	$1,318,278,941	$1,295,225,473
ON A PER SHARE BASIS					
Income Before Taxes—*Federal, State and Local*	$8.15	$8.10	$7.28	$8.20	$5.64
Taxes—*Federal, State and Local*	$5.34	$5.29	$5.25	$5.28	$4.69
Net Income	$2.81	$2.81	$2.03	$2.92	$0.95
Dividends Paid	$1.50	$1.00	$1.00	$1.00	$0.75
Working Capital	$10.91	$12.41	$12.29	$11.75	$11.18
Net Worth—*Book Value*	$104.68	$103.15	$101.40	$100.11	$98.36
EMPLOYES					
Total Salaries and Wages Paid	$565,836,051	$565,585,008	$580,869,217	$501,876,222	$456,664,605
Average Number of Employes	126,359	125,924	137,604	124,629	116,743
OTHER STATISTICS					
Freight Train Miles	36,602,304	35,801,277	38,548,885	36,278,666	34,695,236
Revenue Ton Miles—*Thousands*	50,241,369	50,101,843	54,825,398	49,887,040	44,867,189
Average Revenue per Ton Mile—*Cents*	1.567	1.532	1.429	1.375	1.380
Passenger Train Miles	33,088,306	35,513,293	37,303,098	37,165,336	40,253,591
Revenue Passenger Miles—*Thousands*	4,322,525	4,749,918	4,840,992	4,367,658	5,049,455
Average Revenue per Passenger Mile—*Cents*	3.287	3.291	3.226	3.260	2.956
Miles of Road Operated at Year End	10,065.97	10,089.67	10,119.53	10,111.50	10,118.09

THE PENNSYLVANIA RAILROAD COMPANY

February 24, 1954

TO THE STOCKHOLDERS:

The successful operation of a railroad requires continuous constructing and rebuilding of structures, track and equipment. The improvement program on your Railroad in recent years was one of the largest we have ever undertaken and will be summarized as a part of this report.

Through the first ten months of 1953 our operating revenues and financial results were the best in the post-war period. Freight revenues for the full year were the highest in our history. Unfortunately, a serious decline in freight traffic started in October and continued at an increasing rate, bringing the earnings for 1953 down to the level of 1952.

The volume of business in the first two months of 1954 indicates that this year's results will not equal 1953, but we expect to obtain our full share of any improvement that may develop as the year progresses.

While we were unable to appropriate as much money towards improvements of the property, both for maintenance of way and maintenance of equipment, as we would have liked, we did, with the aid of greater mechanization, accomplish more with the money that was spent than in previous years. This was particularly true for equipment, both freight and passenger—more cars were given heavy repairs, with a reduction in the cost per car repaired.

Wage settlements already agreed upon and in effect will produce a further increase in the wage level. Negotiations with certain other groups have not been concluded. In 1953 the payment of wages and payroll taxes required 56¢ out of each dollar of operating revenue.

Further progress was made in the control of expenses. The drive to lower the transportation ratio was continued, but we did not reach the objective of bringing the ratio below 40%. However, it did drop 1.43 points to 41.80%, the best since 1944, except for 1950 when it was almost the same.

There has been a reduction in the bonded debt of the System during 1953 of $25,955,000, and for the first time in seven years a reduction in the equipment debt, so that the total debt during last year declined $30,693,000, or 2.75%.

Since 1939 the bonded debt has been reduced $251,133,000, or 25%. Total debt, however, over this 14-year period has increased $32,499,000, or 3%, because of the large increase in equipment obligations during the past six years. Total annual interest charges, by reason of the lower interest rates of these obligations, have been reduced $5,425,000 or 12%.

The railroads have continued to press for what is regarded as essential legislative action, but no real progress has been made in obtaining changes in Federal and State laws to enable the railroads to improve their financial strength through more equitable taxation and fairer competitive conditions in transportation. In spite of the relatively large operating revenues, a return of only 3% was earned on the depreciated investment, and a net income of only 3½¢ per dollar of operating revenue. Again we must emphasize that these results are entirely inadequate to justify the expenditures needed to assure the highest quality of service to the public, and earn a proper return for our stockholders.

We greatly appreciate the continued interest and the support of the investors in our property, our stockholders, and our employes.

By Order of the Board of Directors.

Walter S. Franklin.

President

REVIEW OF 1953

For the first ten months of the year, revenues were the highest in the Company's history, and net earnings were the best since the war years of 1941-1945. Business fell off sharply during the last two months, bringing both total revenues and net earnings for the year down to approximately the level of the preceding year.

Dividends of $1.50 per share on the capital stock were paid, as compared to $1.00 in 1952. Net income for 1953 was $2.81 per share.

REVENUES Total operating revenues were $1,034,395,000, marking the third consecutive year that annual revenues have exceeded one billion dollars, and the fourth year in Pennsylvania Railroad history that the billion dollar figure was surpassed.

Freight revenues increased by 2.6% and passenger revenues decreased approximately 9% compared to the previous year.

Freight revenues were $787,465,000, over $20,000,000 more than in 1952, due largely to the effect of higher freight rates which went into effect in May 1952, and to the new formulas for division of freight rates on through shipments between Eastern railroads and the railroads in the South and Southwest. These new divisions went into effect on July 15, 1953.

Passenger revenues were $142,097,000, approximately $14,200,000 less than in the preceding year.

Mail revenues were $40,128,000, slightly more than in 1952.

Express revenues were $14,551,000—8% greater than in the preceding year. Increased rates for express service became effective on August 20, 1953.

EXPENSES Total operating expenses for the year were $864,523,000, substantially the same as last year. Further increases in wages and in the cost of some materials, plus increased expenditures for the improvement of roadway and structures, offset substantial operating savings which were made during the year.

Expenses for maintenance of way and structures were $141,593,000, or $12,798,000 more than in the preceding year. This rate of annual expenditure is still not sufficient, however, to provide further improvements in roadway and structures which are desirable. The main line tracks are in good condition. Some branch lines are in need of improved track structure and heavier rail.

Expenses for maintenance of equipment were $230,368,000, or $6,000,000 less than in the preceding year. However, 1952 included a charge of $4,000,000 to provide a reserve for deferred maintenance on freight cars, which was spent in 1953. No similar charge was made in 1953.

Despite an increase of more than $6,000,000 in cost of wages in transportation service, total transportation expenses of $432,396,000 represented a decrease of over $12,000,000. With approximately the same volume of business in each of the two years, this reflects a substantial improvement in operating efficiency.

General expenses increased 20%, due principally to increased charges for pensions and higher wage rates. Expenses for miscellaneous operations decreased 9%, due chiefly to reductions in the cost of operating dining cars.

Depreciation charges of $51,234,000 were approximately $900,000 over 1952.

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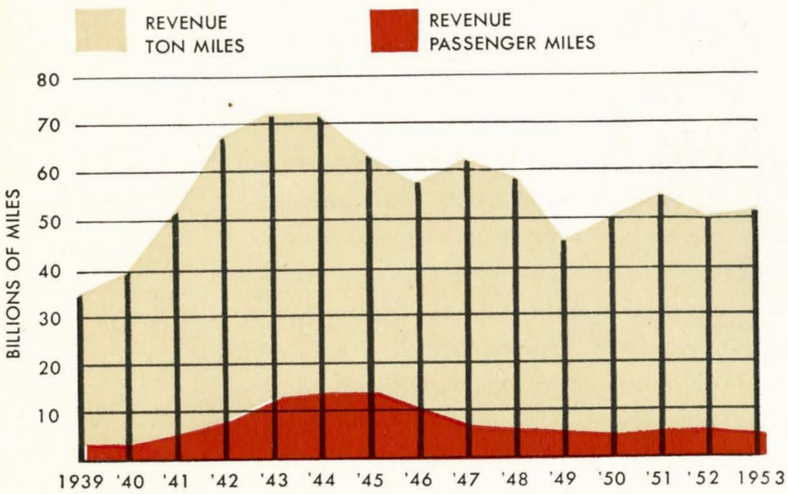
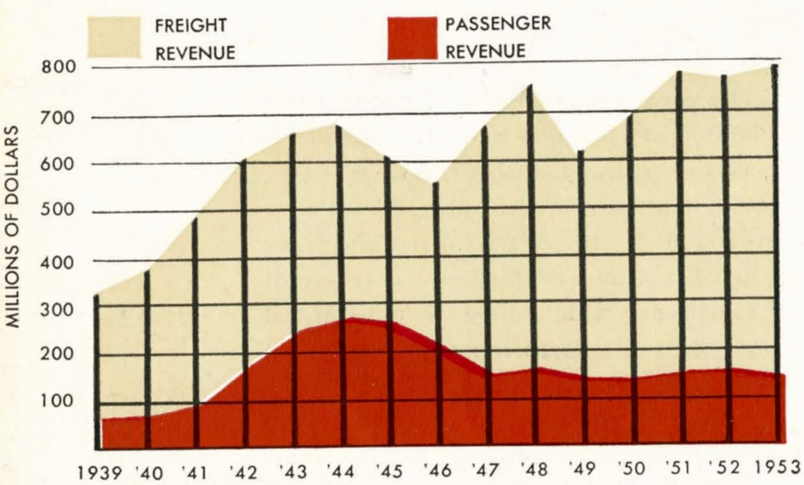
The 100th Anniversary of Horseshoe Curve will be celebrated in 1954. This engineering marvel of its day opened the West to the Pennsylvania Railroad.

TREND OF TRAFFIC VOLUME



Following the peak volume during World War II, freight business has decreased about 29%, but is about 45% above the prewar volume of 1939. Passenger business decreased abruptly after the end of gasoline rationing but is still 37% above the level of 1939 travel.

TREND OF TRAFFIC REVENUES



Freight revenues for 1953 were the highest in Company history, despite a sharp drop in the closing two months. Passenger revenues decreased 9% from the preceding year, while train miles decreased 7%. Revenues were over twice those of the prewar year of 1939.

OPERATING RATIO The operating ratio—the percentage of operating revenues required to meet operating expenses—was 83.58% compared with 84.17% in 1952. The transportation ratio, which represents that part of operating revenues required to pay station and yard expenses and train costs for handling and moving traffic—was 41.80% compared to 43.23% in 1952.

TRENDS The long-range trends in volume of business and in revenues from freight traffic and passenger travel are shown by charts at the left. Mail, express and other "head end" business, which are handled as part of passenger train service, are not included in the passenger figures.

The over-all results for 1953 are comparable in volume of business and earnings to the preceding year. The patterns of business in the two years—1952 and 1953—were, however, quite different. 1952 ended with an increasing volume—1953 with a decreasing volume of business.

TAXES Total taxes for the year amounted to $70,312,000—almost double net income. Included were:

Federal Income Taxes........	$10,268,000
Corporate and Property Taxes	29,540,000
Railroad Retirement Taxes...	28,244,000
Unemployment Insurance Taxes....................	2,260,000

The tax rate on real estate has again gone up. The average rate paid in 1953 was $3.15 per hundred dollar assessed value, compared with $3.01 in 1952, an increase of 4.7%. Some reductions in assessments were secured through recognition by tax authorities of the obsolescence of some properties.

Your Company is cooperating with other railroads on a State by State basis in an attempt to reduce the inequitable tax burden on the railroad industry.

Rail loadings of ore at Great Lake ports set new records in 1953. Above, the Pennsylvania's modern ore pier at Cleveland, Ohio, one of the largest docks on the lakes.

At both National and State levels the railroad industry is seeking equality of opportunity with other forms of transportation. At present the airlines, the inland water carriers and highway transportation companies enjoy either direct or indirect subsidies or both. Other taxpayers, including railroads, provide money to help build and maintain airports, airways, waterways, highways and the signal systems and the safety devices they require.

Railroads and pipe lines are the only transportation agencies which pay all the expenses for the facilities they use.

In addition, other forms of transportation use rights-of-way, and often terminals, which are publicly owned and therefore tax exempt. All of these factors lower the costs of their operations, of course, and give them unearned competitive advantages in pricing their services. To bring about equality of opportunity in competitive transportation, either these other transportation agencies must assume more of the full cost of providing their service, or railroads must be relieved of part of their burdens of taxation and unnecessary expense.

LEASED ROAD RENTALS Leased road rentals aggregated \$33,785,000, of which \$19,092,000 was returned to Consolidated System Companies as dividends and interest on securities owned. The Company's share of this latter amount was \$13,989,000.

EARNINGS Net income for 1953 was \$37,036,000—or \$2.81 per share—slightly more than the \$36,981,000 earned in 1952. Two dividends of 75¢ per share were paid, making the total for the year \$1.50 per share or 3% on par value. This compared with \$1.00 per share paid in 1952.

After provision for appropriations to sinking and other funds, advances to leased and affiliated companies, and the payment of \$19,752,000 in dividends, the balance of \$10,138,000 was transferred to earned surplus.

TAX EFFECT ON INCOME Federal income taxes for 1953 reflect an allowance for accelerated amortization on certain

Coal shipments for lake cargo represented one of the largest tonnage movements of recent years. Below, cars for the Pennsylvania's coal pier at Sandusky, Ohio.

new equipment and facilities, which reduced by $11,624,000 the taxes that would have been charged if normal depreciation had been used. Since the amortization charges are made for tax purposes only, whereas normal depreciation is charged to operating expenses, net income is inflated by the amount of the tax reduction. This temporary benefit will be offset in future years, after amortization allowances have been fully used.

RATE OF RETURN The return on net investment in transportation property for the year 1953 was approximately 3%.

SOURCE AND APPLICATION OF FUNDS A detailed statement of cash flow is shown on Page 30; this is included in the annual report this year for the first time.

Working capital at the close of the year showed a decrease of $19,776,000 from that at the close of 1952. The primary reasons for the decline are the substantial capital expenditures for road property which were made during the year without recourse to outside financing, and a net reduction in debt.

INVENTORY Approximately 200,000 separate items must be maintained in inventory so as to be promptly at hand when needed. Every type of material from pins and needles to locomotive parts and steel beams is stocked. During the period of material shortages after the start of the Korean conflict, inventories reached a peak of $91,000,000. Since that time the inventory has been reduced substantially and advantageously—amounting to approximately $69,000,000 at the end of 1953.

PURCHASES The Pennsylvania Railroad is one of the principal buyers and consumers of the nation's products. While a great majority of the purchases are made in the Thirteen States and the District of Columbia which the railroad serves directly, purchases are made in every State of the Union and from approximately 20,000 suppliers. Purchases during the year 1953 amounted to $185,905,000, divided approximately as follows:

Fuel—Coal and Oil	$39,075,000
New Equipment	30,024,000
Steel and Steel Products	25,465,000
Rail and Track Accessories	16,952,000
Electrical and Signal Material	15,237,000
Crossties and Other Forest Products	11,223,000
Glass, Drugs and Chemicals	6,153,000
Diesel Material Other than Electrical	6,137,000
Tools and Machinery	4,725,000
Dining Car Supplies	4,583,000
Stationery and Printing	4,427,000
Grease, Lubricants, etc.	3,775,000
Ballast	3,251,000
Locomotive, Train and Station Supplies	2,703,000
Bridges, Turntables and Structural Steel	2,274,000
Air Brake Material	2,134,000
Passenger Car Material	2,030,000
Rubber and Leather Goods	1,226,000
Ice	1,105,000
Miscellaneous	3,406,000

REAL ESTATE The most important real estate transactions of the year were those made for property and air rights in the Penn Center development in Philadelphia, which is to be built on the site of the former Broad Street Station and the elevated tracks which led to it. Lease and sale arrangements have been negotiated for approximately half of the property in the area surrounding the Penn Center Esplanade, which is to be the unifying feature of this beautiful and practical business development.

Other sales of property which were no longer needed for railroad purposes aggregated $4,104,000.

Purchases of property for industrial development amounted to $2,340,000 for a total of 168 parcels, and sales of property for new plants on our lines or the expansion of present plants aggregated $1,171,000 for 75 properties.

Rent collections from over 28,000 accounts amounted to $12,240,000, an increase of $705,000 over collections in 1952.

CONSOLIDATED STATEMENTS The Condensed Consolidated Income Statement and Balance Sheet for the years 1949-1953 inclusive are shown on Pages 31 to 33. These reflect not only the results for The Pennsylvania Railroad Company but also those of its 100% owned subsidiaries and all leased lines.

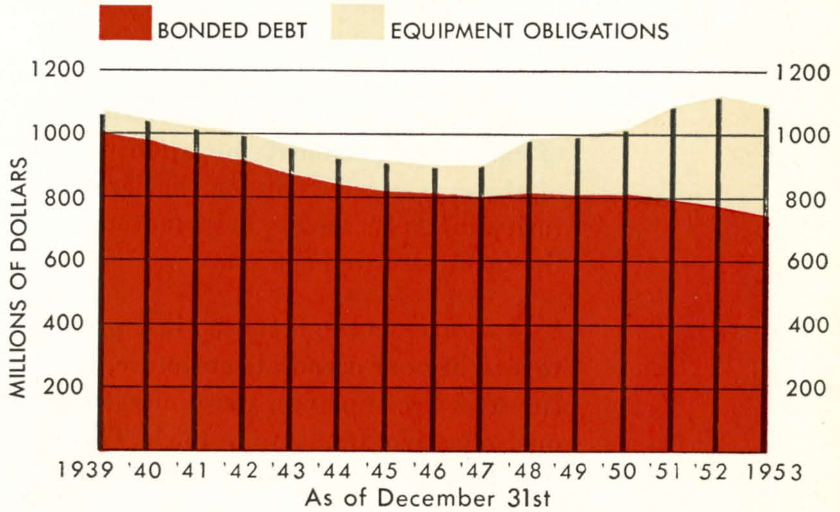
On a consolidated basis, net income for the year amounted to $44,574,000, or $3.39 per share of Pennsylvania Railroad capital stock. Obviously, a portion of the earnings and cash resources of these companies must be retained by them for use in their own operations and therefore is not available to The Pennsylvania Railroad Company.

P.R.R. SYSTEM DEBT—CONSOLIDATED The total amount of equipment obligations outstanding in the hands of the public showed a decline at the end of the year for the first time since 1946. Bonded indebtedness continued downward as it has nearly every year since 1938. The reduction in total funded indebtedness in 1953 amounted to $30,693,000, the largest decrease since 1944, and the first decline in total indebtedness since 1946. As the chart at the upper right shows, 1952 represented a peak in outstanding funded debt. It is anticipated that there will be a further reduction in both bonded indebtedness and equipment obligations during the year 1954.

The chart at the right shows a decline in total interest charges on publicly held debt for the first time since 1947. Average interest rate has decreased from 3.81% in 1947 to 3.61% in 1953.

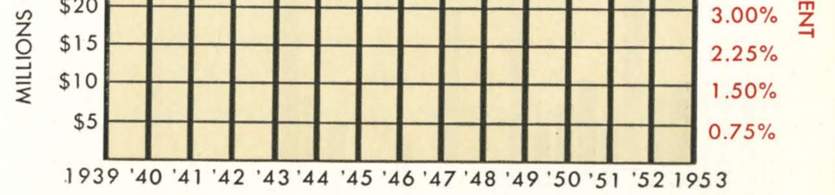
FUNDED DEBT PUBLICLY HELD

CONSOLIDATED BASIS



TOTAL INTEREST CHARGES ON PUBLICLY HELD DEBT AND AVERAGE INTEREST RATE

CONSOLIDATED BASIS



DEBT MATURITIES The chart below indicates future annual maturities of funded debt in the hands of the public.

The major portion of such maturities over the next few years is represented by equipment obligations, and it is anticipated that the amount of annual equipment depreciation charges will exceed that of maturing equipment obligations in each of these years. Except for the large maturity in 1965, indebtedness maturities in the future are well spaced.

MERGERS As the first step in a program to simplify our corporate structure, twelve subsidiary companies were merged into one, effective January 1, 1954. The new company is the PENNDEL Company, a Delaware corporation, owned entirely by The Pennsylvania Railroad Company, which was formed for the purpose of acquiring the properties and franchises of the merged companies.

All of the outstanding stock of the companies which were merged was owned within the Pennsylvania Railroad System. None of the companies had any publicly held debt outstanding.

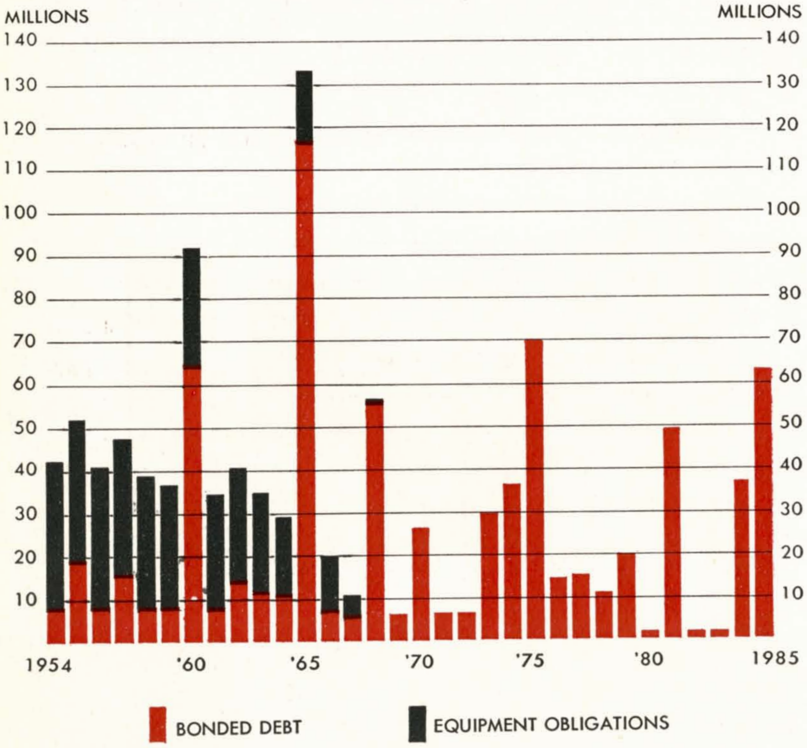
In addition, one inactive subsidiary company was dissolved.

Further progress in this simplification program is anticipated in 1954.

ANNUAL MATURITIES OF PUBLICLY HELD FUNDED DEBT

CONSOLIDATED BASIS

As of December 31, 1953



(Includes annual mandatory sinking fund retirements.)

STOCKHOLDERS Pennsylvania Railroad stockholders reside in every State of the Union and in thirty-eight foreign countries. The management gratefully acknowledges the assistance of stockholders in securing additional business for the railroad. The numerous suggestions made during the past year were most welcome and many were very helpful.

Payments to stockholders have been made each year for 106 years.

On December 31, 1953 the following divisions of ownership were registered:

	Number of Holders	Shares Held
Women	71,537	3,327,127
Men	69,629	3,980,433
Joint Accounts	16,331	992,317
Total Individuals	157,497	8,299,877
Fiduciaries—Trustees, Guardians, etc.	4,883	469,393
Brokers, Nominees, Institutions and others	2,507	4,398,484
Totals	164,887	13,167,754

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A copy of the Statistical Statement will be furnished upon request to the Secretary, Suburban Station, Philadelphia 4, Pa.

ROUNDING OUT A BILLION DOLLAR IMPROVEMENT PROGRAM FOR THE PENNSYLVANIA RAILROAD 1948 – 1953

In the six-year period ending December 1953, the Pennsylvania Railroad has spent and invested over a billion dollars in the largest program of improvement, modernization and rehabilitation it has ever undertaken. It seems fitting therefore at this time to review the magnitude and significance of this program.

Much remains to be done, and progress on new and partly completed projects continues. But by 1953 we had reached a milepost which provides a convenient perspective of accomplishment — and a vantage point for looking into the future.

During the years 1941-1945 railroads operated at peak or near-peak capacity—moving the men and materials of war in addition to their extraordinary service to industry and to civilian passengers. This was particularly true of the Pennsylvania Railroad, which serves the highly industrialized East and important North Atlantic coast ports. Neither men, materials nor time were available for even ordinary maintenance, repair and replacements—and the resulting "high profits" of those years went largely for taxes.

In the period immediately following the war's end, the railroads faced the inflationary spiral of expense which increased wages and prices of materials without benefit of the freedom of other types of business to raise prices to meet costs. There was a sharp drop in freight business with the end of war traffic, and a precipitate drop in passenger business. Competition from water and highway carriers—enjoying artificially low costs through the use of tax exempt and publicly maintained rights-of-way—took part of the railroads' freight business. The airlines were able to offer low passenger fares because of the help of government subsidies, and so took a larger portion of the railroads' passenger business.

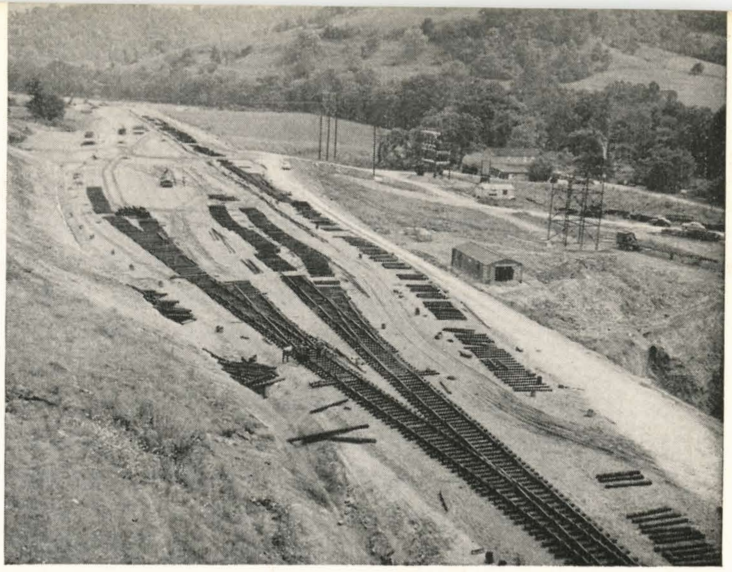
Requests by the railroads for even the moderate freight rate increases proposed in the face of this competition were unduly delayed by regulatory procedures. Their only solution was to cut the expense of railroad operation drastically. For this purpose tremendous investments were needed to acquire diesel locomotives and for the general rehabilitation of the railroad plant.

Obviously such large sums could not be supplied out of the Company's cash resources, so that substantial borrowing was necessary, primarily to finance the equipment purchases.

The climb back has represented a tremendous undertaking. It is not completed yet. But the extraordinary program of improvement which was planned at that time has now been realized to a substantial degree.

For a railroad as big as the Pennsylvania, every decision was of crucial importance and each project was examined and tested to be sure that all money invested would result in substantial savings in expenses.

The following pages present a brief outline of the construction, purchases and investments which have made this program the biggest in the history of the railroad.



New branch under construction along Captina Creek, Ohio will serve coal mines to be opened in 1954 with an eventual capacity of a million tons annual production.

THE PROPERTY

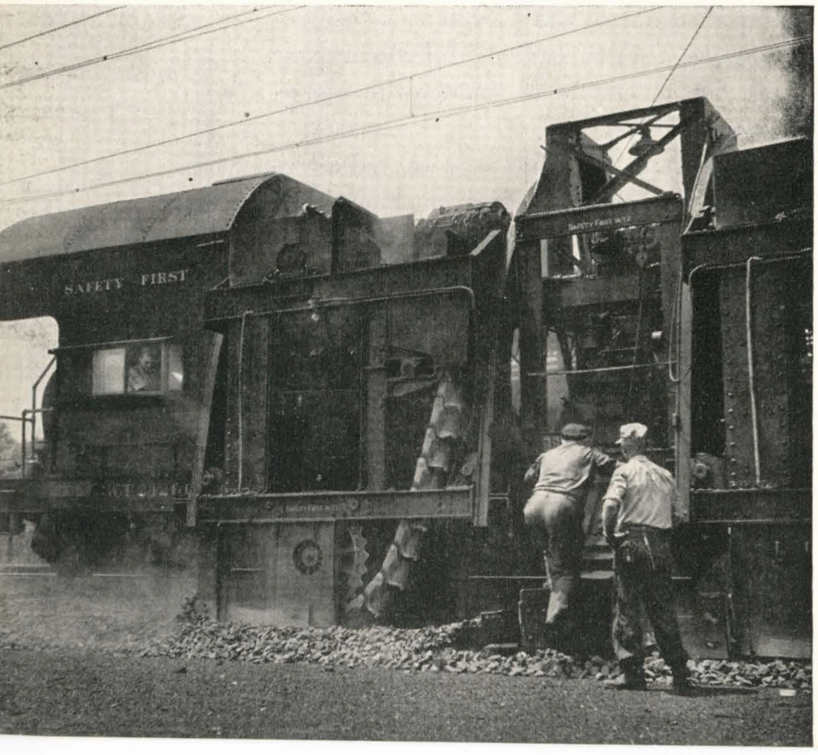
ROADBED Basically, the Pennsylvania Railroad operates its trains over 10,000 miles of right-of-way. The actual miles of road have been changed here and there, but with little difference in total mileage: exact figures are 10,145 miles in 1948 and 10,066 miles in 1953. Seventeen million dollars worth of ballast has been put into this roadbed during this six-year period. Approximately 3,000,000 tons of new stone ballast were used to replace deteriorated stone and cinder and gravel ballast, and over 3,000,000 tons of slag and gravel were used to replace old gravel and cinder ballast.

TRACK On the 10,000 miles of roadbed there are 25,000 miles of track—and again this figure has remained almost constant since 1948. The six-year rehabilitation program here is striking. Of the 25,000 miles, 17,000 miles have been "raised"—that is the tracks lifted, ballast cleaned, replaced or added to, new ties installed as needed, and many miles of rails replaced.

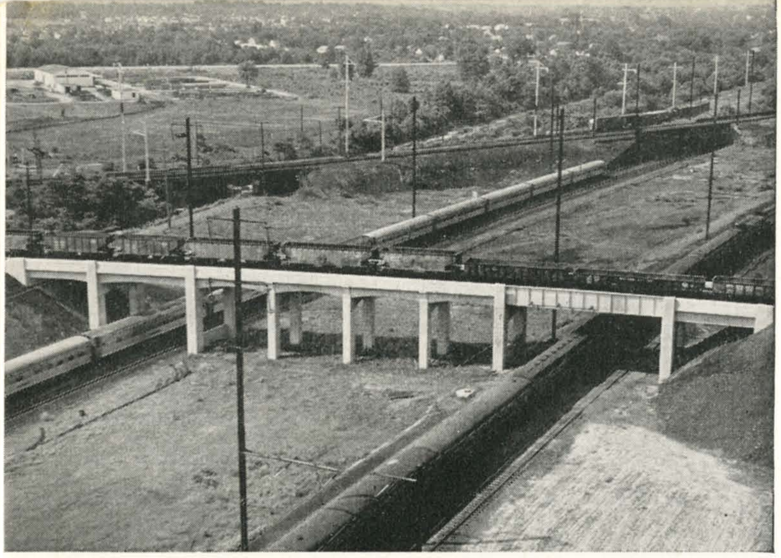
To do this has required 11,500,000 new crossties (at an average installed cost of over $5.00 each), 363,000 tons of new rail (which cost nearly thirty million dollars at the mill) and 475,000 tons of replacement rail. The latter is used rail with the worn ends cut off, reconditioned for satisfactory use in tracks of branch lines and sidings where operations are less strenuous.

BRIDGES Capital expenditures during 1948-1953 for bridges, trestles and culverts have required nearly ten million dollars, with an additional twenty-four million dollars for ordinary repairs, maintenance and painting of existing facilities.

YARDS AND SIDINGS Fourteen million dollars have gone into improved yards and sidings in the six-year period. Work is progressing on other improvements in these facilities which will bring the total to nearly fifty million dollars by the end of 1955.



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



A train load of construction material for the Fairless Steel plant near Morrisville, Pa. on the new bridge, overpasses passenger trains on the main line below.

Chief among the yard improvements are the rebuilt yard at Morrisville, Pa., in the heart of the growing Delaware Valley industrial area; the enlarged passenger coach yard in Philadelphia, made necessary by the demolition of old Broad Street Station; and the giant classification yard at Conway, Pa., west of Pittsburgh, which is now being rebuilt and expanded at an estimated cost of thirty-four million dollars.

SHOPS AND ENGINE HOUSES

Twenty-one million dollars have been spent in the six-year period to provide new diesel locomotive shops and to improve other shops, including the costs of new machinery and tools. The new Samuel Rea Shops at Hollidaysburg, Pa., near Altoona—including the reclamation facilities—will cost an additional fourteen million dollars and when completed in 1955 will be the finest and most efficient shops in the United States for repairing freight cars.

STATIONS AND OFFICE BUILDINGS

Over twenty million dollars have been spent in building, remodelling and modernizing stations and office buildings and other

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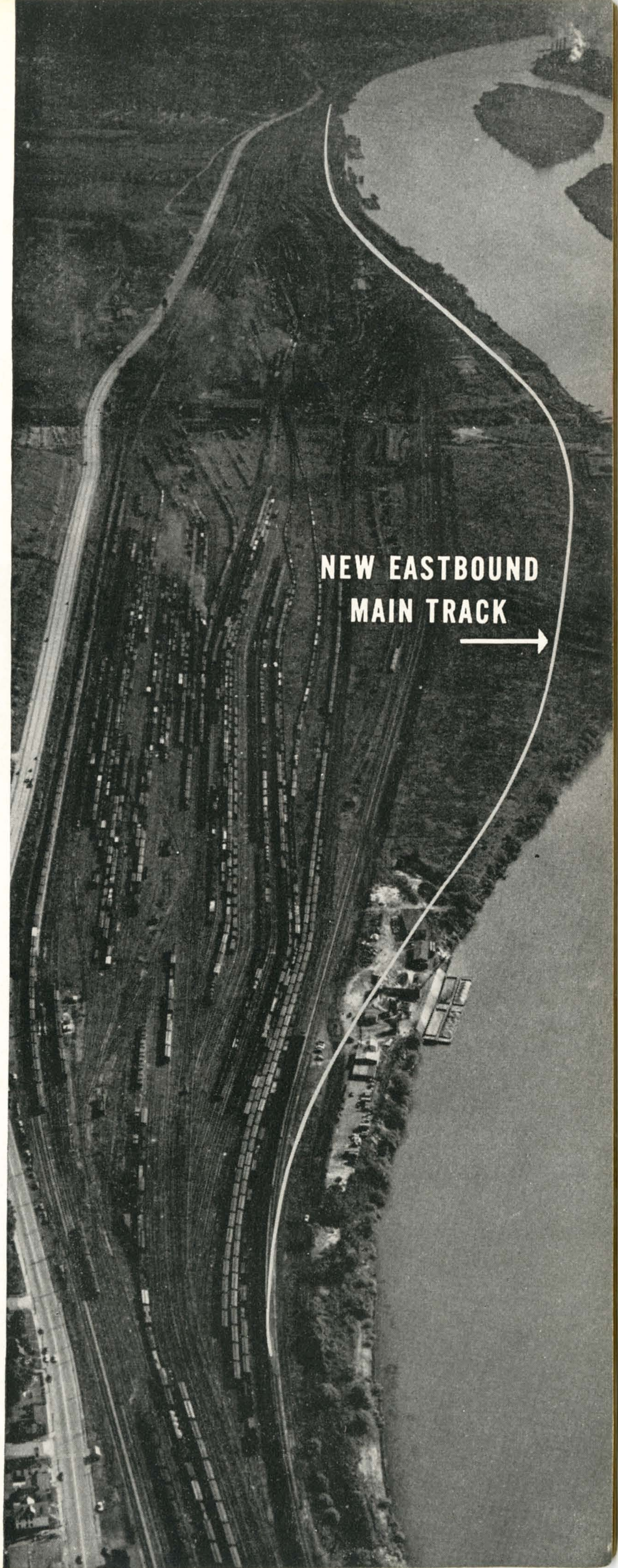
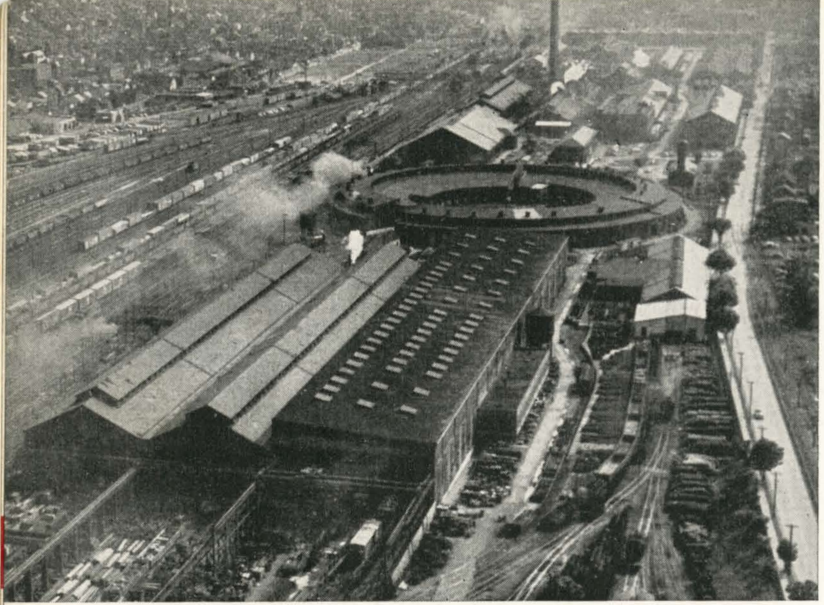
Capacity of the Conway yard, at right, will be 8,000 cars a day when the 34 million dollar expansion and modernization program now under way is completed.





Altoona Works—already the world's largest railroad shops—now being expanded by the addition of Samuel Rea Shops and a scrap plant at nearby Hollidaysburg.

Extensive improvements have been made to the passenger coach yard at Chicago where Pennsylvania's daily fleet of eastbound trains are cleaned, inspected and assembled.

New main line, in cut through the hills near Cadiz, Ohio. The entrance to the old tunnel, with its restrictions on the size of freight car shipments, is in side of hill at left.

New telephone services between locomotives and cabin cars of moving trains and tower and office staffs produce more efficient operation, as well as greater safety.

station facilities. The twenty-seven million dollar rebuilding program for the passenger station at Pittsburgh, Pa. is scheduled for completion in 1955. Construction work which has been completed includes new passenger stations at Alliance, Ohio, Curtis Park, Pa., Paoli, Pa. and Levittown, Pa. Many other stations have been remodelled. A new freight station adjacent to Frankford Junction Yard has been completed and many others equipped with modern improvements for handling freight mechanically.

Old Broad Street Station has been removed and the "Chinese Wall" leveled part of the way to the Schuylkill River. New facilities at Pennsylvania Station and Suburban Station, Philadelphia, to take care of the passengers who formerly used old Broad Street Station, are nearly complete. New facilities for the Railway Express Agency in Philadelphia were completed in February 1954. This allows removal of the remaining portion of the "Chinese Wall," thereby making all property in the Penn Center area available for redevelopment.

Suburban Station Building in Philadelphia, one of the largest office buildings in the city, will be fully air-conditioned to keep it competitive with other modernized and new buildings nearby. Three-fourths of the building is occupied by tenants, the remainder by the Company's system offices.

TUNNELS Five tunnels between Pittsburgh, Pa. and Columbus, Ohio were eliminated in order to allow passage of large box cars and other oversized loads which formerly had to be routed around them. The total cost of this project was nearly nine million dollars.

PIERS The new Ore Pier at Greenwich Point, Philadelphia, built at a cost of over ten million dollars, is being put into service in March 1954. Other piers at New York, Philadelphia, Baltimore and Cleveland have been improved at a total cost of approximately two million dollars.

SIGNALS AND SPEED CONTROL FACILITIES

Over nineteen million dollars have gone into the program for expanded signal facilities and new train communication to improve safety and operating efficiency. The program includes adding speed control to the existing cab signal systems, and adding new facilities for telephone communication between locomotives, cabin cars, and wayside towers and railroad offices.

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New Ore Pier on the Delaware River, completed this Spring, is shown on the left—the Coal Pier is on the right. Hopper cars bringing coal to the boats can be emptied and switched to the Ore Pier for loading.

EQUIPMENT

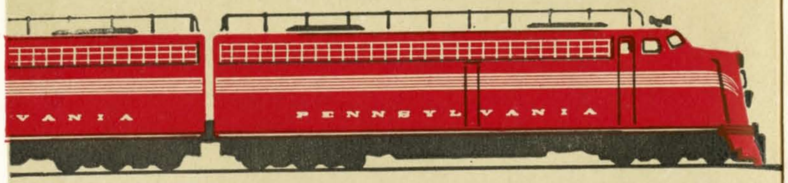
Under the illustrations at the right, the numbers show the Pennsylvania Railroad's ownership of the three types of motive power and the principal types of passenger equipment. The figures include leased equipment. A substantial portion of the equipment is new. Most of the remainder has been given heavy repairs or reconditioning in the past six years.

Practically all of the diesel locomotives, representing an investment of over $300,000,000, were acquired during this period. At the start of 1948 only 73 diesel locomotives were in service. At the end of 1953, 1,404 diesel-electric locomotives were in service.

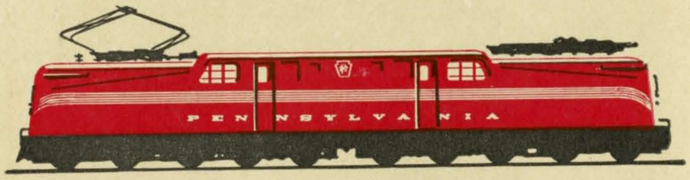
Little change in ownership of electric locomotives occurred during these years. Ten electric locomotives were retired and five electric locomotives were purchased. During the six years all electric locomotives were reconditioned by heavy repairs.

At the beginning of 1948 the Pennsylvania was largely a steam railroad, using over 4,100 steam locomotives with a total tractive power of over 250 million pounds. In the next six years approximately 2,700 of these steam locomotives were retired, mostly for scrap. Of the remaining fleet of 1,391 steam locomotives, a number are stored in good order and approximately two to three hundred others probably will be scrapped.

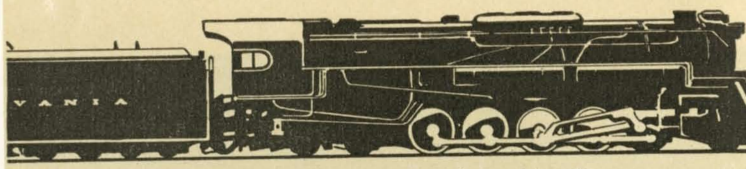
This remaining ownership of steam locomotives allows a flexibility of operation that is economical. When the business volume is low, only the steam locomotives are idle—thus avoiding loss of the earning potential of the diesels in which such a large investment has been made. When business volume is higher, some or all of the steam locomotives are put into service.



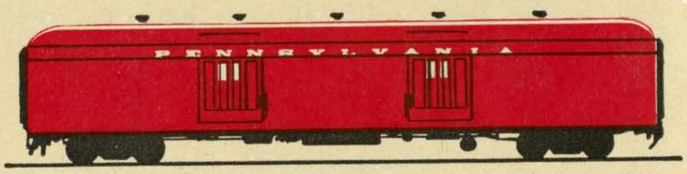
1,404 diesel-electric locomotives—1,962 units—with total tractive power of over 116 million pounds.



272 electric locomotives with total tractive power of approximately 17½ million pounds.

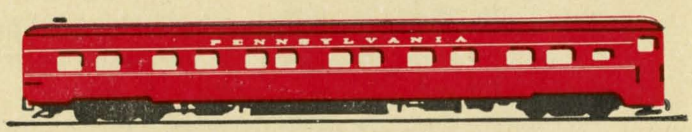


1,391 steam locomotives with total tractive power of approximately 92 million pounds.



2,395 baggage, express and mail and other "head end" passenger train cars.

2,166 passenger coaches, including 547 self-powered coaches for commuting services.



910 sleeping cars and parlor cars—totaling with above coaches—capacity for 175,000 passengers.

224 dining cars and cafe cars.

Nearly 6,000 passenger train cars were in service at the beginning of 1948, including cars for baggage, baggage and mail, baggage and express, refrigerator and express, postal service, etc. During the period 1948-1953 over a thousand of the older cars were scrapped and 794 additional cars acquired. Of these, 328 were newly built for the Pennsylvania, and 466 were existing sleeping and parlor cars that were transferred to our ownership from The Pullman Company. In the passenger equipment program, 3,150 cars were repaired or reconditioned and 50 of the old style suburban type coaches were rebuilt into modern electric passenger coaches.

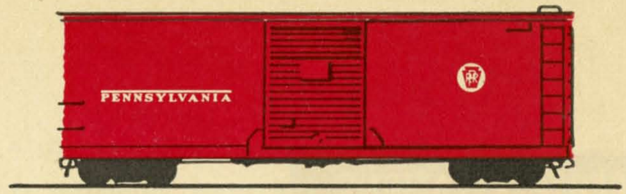
As of the end of 1953, this gave the Pennsylvania Railroad a fleet of 3,300 passenger cars with capacity for more than 175,000 passengers, and 2,395 other cars in passenger train service for baggage, mail, express and similar uses.

Approximate totals of various types of freight cars, marine equipment, and pick-up and delivery trucks available for service at the beginning of 1954 are shown under the illustrations at the right.

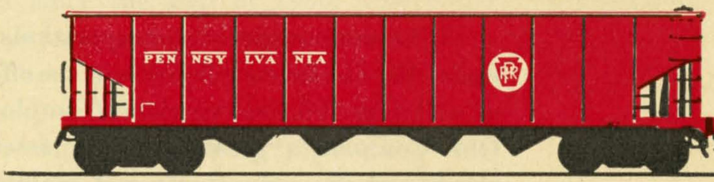
At the beginning of 1948 the Pennsylvania Railroad operated a freight car fleet of approximately 225,000 cars, with a total capacity of over 12 million tons. During the six years, 1948-1953, over 30,000 new cars were added to this fleet and 143,000 cars were given class repairs. Approximately 65,000 freight cars were retired during this period. The present freight car fleet has a capacity of 11¼ million tons.

Marine equipment decreased slightly during the period; one steamboat, three ferry boats and eighteen other obsolete units were retired. Ten new lighters and six new car floats were acquired and two new tug boats ordered during 1953.

Most of the trucks used for pick-up and delivery are operated under contract.



67,000 box cars.



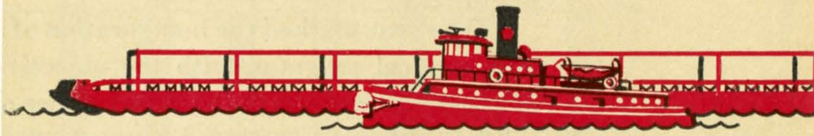
75,000 hopper cars.

44,000 gondola cars.

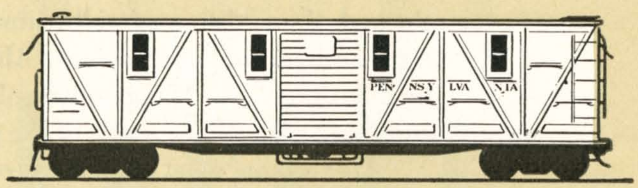
2,800 flat cars.

1,300 livestock cars.

2,200 cabin cars.



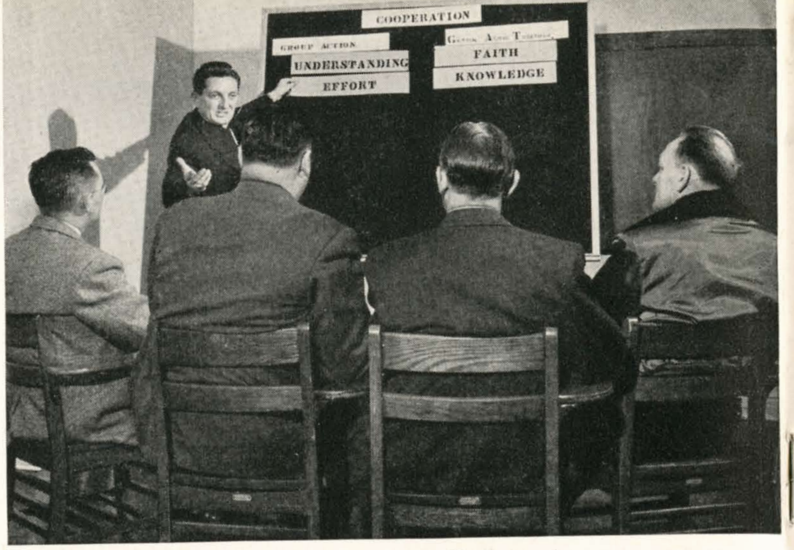
37 tug boats and 320 barges, car floats, lighters and other marine units.



5,000 work cars and other work units.

6,000 trucks owned or under contract.

EMPLOYE RELATIONS



Better service through better-trained personnel is the goal of week-long courses for yardmasters, held at Ogontz Center of Penn State (above) and at Purdue University.

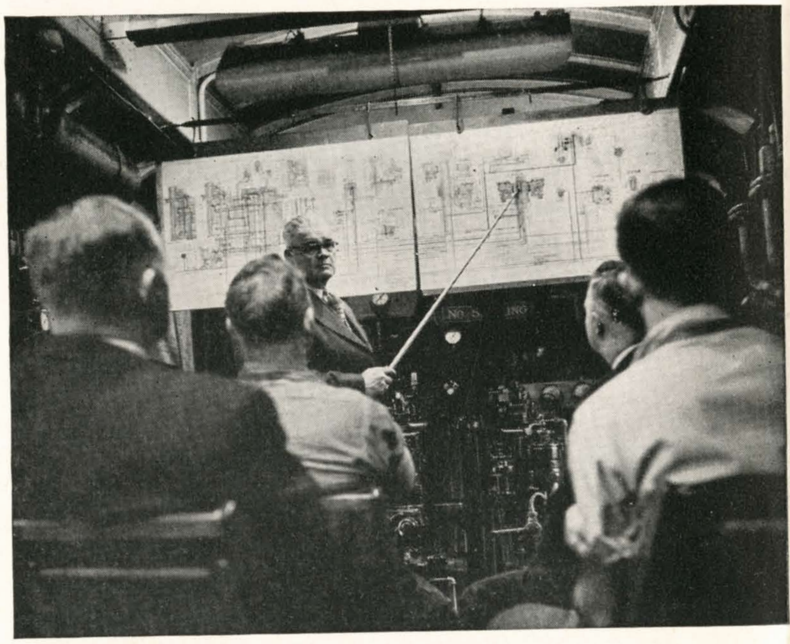
The magnitude of our operations requires the careful coordination of the efforts of well over 100,000 experienced employes. Our Company's greatest single asset is the knowledge, expertness and teamwork of our employes, developed through experience and fortified by their interest in rendering superior service to the public. Nearly 40% of the Pennsylvania's men and women have twenty years' service or more; 80% have over five years' service.

Cooperative educational courses have been established on subjects of customer and community relations and "Job Responsibilities" for station agents, passenger trainmen, yardmasters and certain others who are in close contact with the public. Each of these courses is receiving enthusiastic support from all concerned.

The General Chairmen of 14 of the operating and non-operating labor organizations published a pamphlet entitled "Insuring Your Prosperity—A Message from the Association of General Chairmen, Pennsylvania Railroad System." Their message urged all employes to cooperate in performing their individual tasks in a conscientious and workmanlike manner, and to exert themselves in the solicitation of business for their Company.

The year marked the inauguration of a new medical program, with the objective of assisting employes in the maintenance of good health, and increased over-all effectiveness of the Company's medical services. The medical staff has been augmented through the addition of well-trained physicians, nurses and technicians. All medical installations are being modernized and equipped to meet the needs of the program.

One of our most important objectives has been the development of younger men



Intensive instruction in latest technical developments keeps employes abreast of rapid progress in the industry. Here a Central Region group studies the airbrake.

The major emphasis is put on customer relations in classes for passenger train personnel, attended by groups such as the one below meeting at Logansport, Indiana.

for managerial responsibility. Our program has given a number of these men a wide variety of assignments, and many of them have shown good judgment and meritorious ability in each position. Thus we have a younger group of officers, with mature judgment and experience, available for further promotion.

Our magazine, "The Pennsy," has proved its value in giving the employes a better understanding of the Company's problems, policies and operations, and in reporting the interesting details of various railroad jobs to those working in other parts of the business.

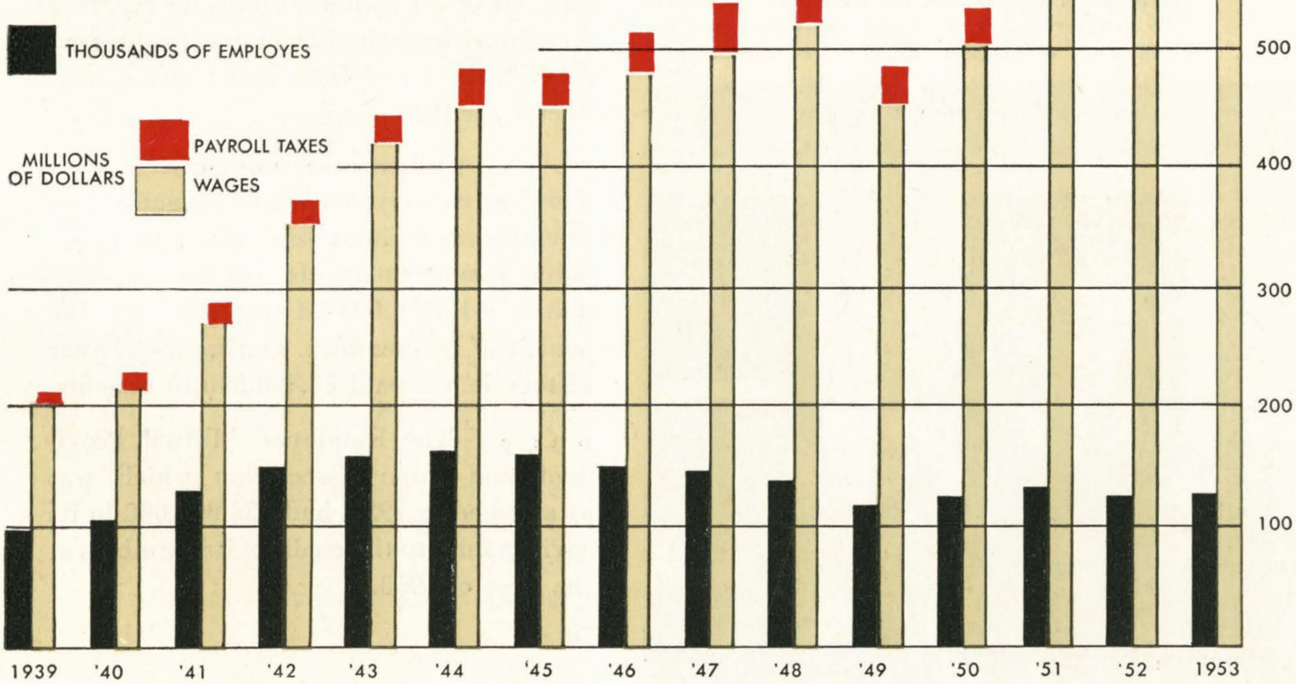
Two motion pictures were completed during the year. One covers employe safety and loss and damage in the Station Department; the other deals with employe safety in Train and Engine service. These films, together with one completed in 1952, have received recognition from several sources as outstanding industrial films.

WAGES AND WORKING CONDITIONS

Agreements providing wage adjustments based on cost-of-living index have been in effect since the Fall of 1950. Under the "escalator clause" in these agreements wages have been increased, and occasionally decreased, with a net increase of 13¢ an hour. Each cent per hour represents nearly $3,000,000 annually to the Pennsylvania Railroad. For the year 1953, the effect of the accumulated cost-of-living adjustments represented a total cost of $33,500,000.

In July 1952, requests for so-called annual improvement wage increases, based upon productivity increase in the national economy, were presented to the railroads. After several months of negotiations, Dr. Paul N. Guthrie was appointed referee and in his decision on March 18, 1953 he granted the so-called "Guthrie Award"—an increase of 4 cents per hour, retroactive to December 1, 1952. However, his decision rejected the annual improvement factor

AVERAGE NUMBER OF EMPLOYES AND TOTAL PAYROLL COSTS

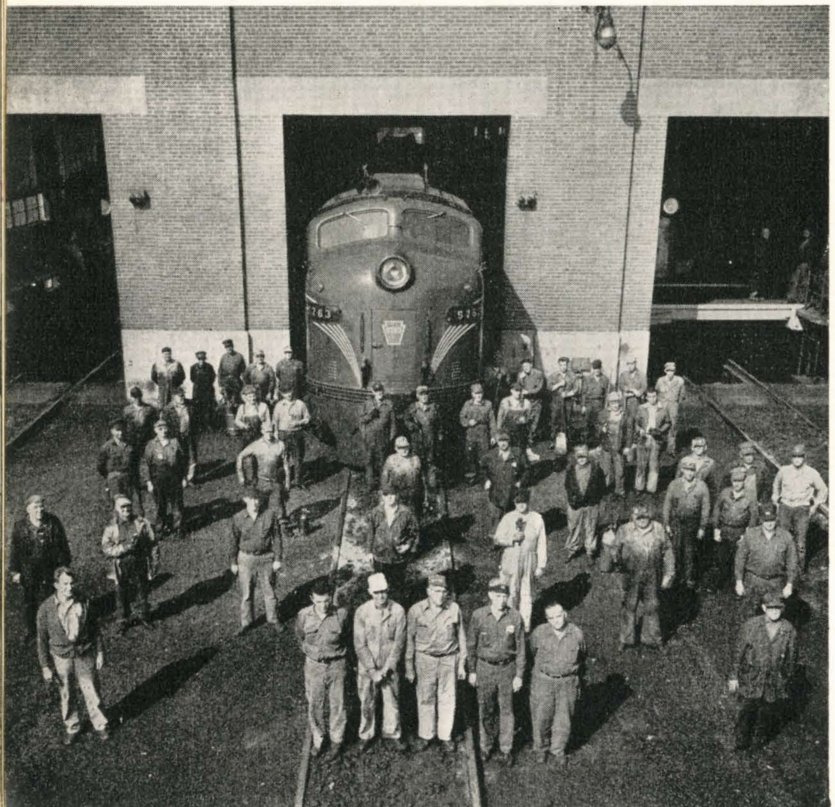


and productivity theories. The increases that resulted from this award added approximately $13,000,000 to wage costs during the year 1953.

With the expiration of the moratorium clause included in agreements at the time the cost-of-living escalator clause was agreed upon, nearly all unions presented new requests for wage increases or rules changes, or both.

Agreements have been reached with the Brotherhood of Railroad Trainmen, Brotherhood of Locomotive Firemen and Enginemen, and with Shop Craft employes represented by The United Railroad Workers of America (CIO), satisfying their separate requests. The settlements provided for five cents per hour wage increase and a third week of vacation after fifteen years' service. They also provided for elimination of the cost-of-living escalator clause and made all wage increases accumulated under the clause (13 cents an hour) part of the basic rates. In each case the provisions were made effective December 16, 1953.

Each man in this group is a specialist in one particular job of diesel maintenance. The number of locomotives (176 units) serviced at Harrisburg allows production-line maintenance with resulting economies of specialization.



The organizations representing most of the groups of non-operating employes presented demands for additional vacation allowances, premium pay for Sundays and holidays, health and welfare benefits and more extensive pass privileges. The negotiations which followed were not conclusive and the matter was referred to a Presidential Emergency Board.

The Brotherhood of Locomotive Engineers presented a request for a general wage increase of 30 per cent. Negotiations with this employe group failed to reach an agreement and the case was referred to the National Mediation Board.

RELIEF DEPARTMENT The Pennsylvania Railroad Voluntary Relief Department had a membership of over 159,000 active, disabled and retired employes on December 31, 1953, and distributed $4,702,000 in payment of death and disability benefits during the year. Its operating expenses are paid by the Pennsylvania Railroad and associated companies.

WOMEN'S AID This is an organization of Pennsylvania Railroad employes' families which assists railroad people in time of need. Its activities during the year covered all parts of the System. Funds for carrying on its work are raised from dues, voluntary contributions and from social affairs conducted for that purpose.

MUTUAL BENEFICIAL ASSOCIATION
This is an entirely independent organization of employes without supervision by Company management. It carries approximately $10,583,000 of insurance for the benefit of its members. During its 39-year history it has paid $4,498,000 in benefits.

P. & L. A. The Employes' Mutual Provident and Loan Association which was established in 1923, had $23,862,000 in its savings fund to the credit of its members at the close of 1953.

PUBLIC RELATIONS

Public opinion of the Pennsylvania Railroad and the service it provides was carefully studied in 1953 through personal interview surveys with 3,343 men and women.

During the year more emphasis was given to that part of the program designed to improve the Company's relations with the many communities it serves. The Pennsylvania Railroad's efforts are being supplemented by a similar program of the Eastern Railroad Presidents Conference, with which we are cooperating. This joint program is designed to bring about a broader public understanding of the railroads' economic position and the importance to each community of removing the obstacles, legislative and otherwise, to the progress of the competitive rail transportation system which serves them. Your Company also cooperates actively in the public relations program of the Association of American Railroads which, on a National level, keeps the public informed on railroad progress and service to the public.

To measure the public's opinion of the Pennsylvania Railroad analytically, two surveys were made in 1953. In May a poll of both regular commuters and occasional passengers on a typical suburban branch was conducted.

In November, an extensive survey of general public opinion in ten towns and cities, selected to be representative, gave us a broad viewpoint of the opinions and attitudes of people in these communities.

The survey indicated our weaknesses as well as our positions of strength in public opinion, and clearly marked opportunities for improving our customer relations and public relations.

The findings of the survey confirm the effect of our efforts to improve the opinions and attitudes of the general public—as well as that part of the public which uses our passenger and freight transportation services. The responses show that a majority of people have a substantially favorable opinion toward the Pennsylvania Railroad.

A particularly encouraging result is that eighty-four per cent of the people questioned rate the attitude of Pennsylvania train personnel in dealing with their passengers as "good" or "very good."

The public relations program of your Company includes the efforts of all departments to improve the opinions of the general public, as well as all of the specific groups whose influences are particularly important to the welfare of our business.

To support our direct efforts for better public understanding, our employe relations program is being directed to the encouragement of every railroad employe to learn, and be able to tell, the facts about conditions that are interfering with our progress. At the same time this program is designed to demonstrate the self-satisfaction, as well as the company benefit, from making every public contact a new opportunity to win friends for the Pennsylvania Railroad.

PASSENGER SERVICE

Making a commercial success of railway passenger service is even more important to the Pennsylvania than to most other railroads. About 14% of all railroad passenger travel is by our railroad. The possibilities of increasing our current 200 million dollar revenues from passenger train operations by only a fraction—or, conversely, lowering our even greater expenses—demand at the same time the very best in salesmanship and the most vigorous cost control.

We have the dual problem of making rail travel as attractive as possible and reducing costs. Because of the large size of Pennsylvania's passenger business, we cannot afford loss ratios in operations which railroads with relatively little passenger service might tolerate.

In justice to all our patrons and to our stockholders it is essential that the Pennsylvania reduce the unfavorable gap between costs and revenues from passenger services. In addition to the usual supervision and control, a Vice President has been placed in charge of this problem, to the exclusion of all other duties. A firm of engineering and management consultants has been engaged in making studies and recommendations on every phase of the passenger business.

Our objective is to increase travel and revenues wherever it is reasonable to

expect a profit, and to abandon hopelessly unprofitable service, especially where other transportation can serve people satisfactorily. Progress is being made. In the face of substantially higher costs in the past year, an improvement of approximately four million dollars was made in "closing the gap."

If Congress would repeal the tax on passenger tickets—which was increased to 15% in the days of gasoline rationing to discourage travel, and which it is still doing effectively so far as the railroads are concerned—that would be a great help. Meanwhile, everything possible will be done to make passenger travel on the Pennsylvania Railroad convenient, comfortable, enjoyable—and profitable.

During the past six years the average number of passenger train miles per month has been reduced 28%. Nearly 5,000 scheduled train miles per day on lightly patronized runs were eliminated in 1953.

Total passenger traffic during the year was 9% less than in 1952; military travel was 17% lower.

In suburban service, where the valleys between peaks of commuting travel cause heavy expense with relatively low revenue, an experiment was launched on two selected lines during the year to determine whether increased frequency of service, coupled with "Shoppers Tickets" at reduced fares during off-peak hours would increase revenue substantially with only a small increase in expense. To support this program a new position, Manager of Suburban Service, was established.

Dining car operating results continued to improve, with the ratio of expenses to revenue declining from 141% in 1951 to 135% in 1952 and to 128% in 1953.

A new system for handling reservations and ticket sales was developed and has been tested at our Pittsburgh passenger station since April 1953. Marked improvement in speed and service to customers has

Feature of the new ticket and reservation bureau at Pittsburgh is the "ready sale board" which shows at a glance all accommodations available for the coming week.

been accomplished at no greater cost. A study of the application of this type of sales service to other cities is under way.

FREIGHT SERVICE DEVELOPMENTS

Important additions were made to "arranged freight service trains," which afford improved service between certain producing and marketing areas, placing your Company in a better competitive position with other agencies of transportation. Over-all freight train performance improved during the year.

Additional diesel-electric locomotives acquired and placed in service have produced substantial economies in both yard and road operations.

A Terminal Committee was appointed December 1, 1953 to study methods to improve the movement of freight traffic through yards and terminals, and to reduce terminal handling costs. The Committee will devote full time to the work of

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Pennsylvania Station, New York, the world's busiest. This room would easily accommodate a football field and the train concourse, past the waiting rooms at the left, is even larger.

integrating and supervising the railroad's effort for improvements and economies in this vital phase of freight operation.

INDUSTRIAL DEVELOPMENT The surest guarantees for the Company's future freight business are the industrial plants and natural resources bordering its tracks. As industries and mining expand and look for new locations, the industrial development section of the Traffic Department seeks to find advantageous locations on this railroad for them. With a large number of possibilities, because of the very size of the area, your industrial development representatives furnish information about the mineral possibilities, soil and foundation conditions, the water supply, labor conditions, taxes and other details for each location. Aided by this service, many companies each year are attracted by conditions which fit their business needs, purchase land along our tracks, and become new customers for the Pennsylvania.

RATES AND FARES

The revision of formulas for dividing the rates on through shipments between Eastern railroads and roads in the South and Southwest—which had been proposed in 1947 and had been before the Interstate Commerce Commission since then—was made effective July 15, 1953. This was of substantial benefit to your Company.

A Division of the Interstate Commerce Commission, approved our application to equalize iron ore rates from Philadelphia to points west of Pittsburgh with those from Baltimore, and the rates placing Philadelphia on a parity with Baltimore became effective February 19, 1954. This action is very important to the profitable operation of our new Ore Pier at Greenwich Point, Philadelphia.

"Always couple at less than four miles an hour" is the slogan of the brakemen in Pennsylvania's careful handling campaign to reduce claims for damage to freight.

Small increases in commutation fares for distances under 13 miles; in the maximum charge for redeeming tickets from 25¢ to 50¢; and an authorization for service charges on baggage and trunks, were secured. Together, these three changes will increase the Company's revenues over half a million dollars annually.

EXPRESS Increases in rates for handling express shipments, granted to the Railway Express Agency, effective August 20, 1953, will yield about $4,000,000 in revenues annually to the Pennsylvania Railroad. A new contract between the railroads and the Railway Express Agency was negotiated and will become effective March 1, 1954. While generally similar to the old contract, the new one contains several improvements from the viewpoint of your Company.

MAIL In June 1953, the railroads applied to the Interstate Commerce Commission for an increase in mail pay. After discussions with the Post Office Department, in an effort to prevent drawn-out proceedings and delays, the representatives of the railroads and postal officials agreed to jointly apply to the Interstate Commerce Commission for a 10% increase, retroactive to October 1, 1953. If this increase is granted it will represent approximately $3,900,000 additional revenues to the Pennsylvania on an annual basis.

The policy of postal authorities to increase the use of trucks and airplanes to carry ordinary mail between terminal cities threatens to lower the volume handled by the railroads.

LEGAL DEVELOPMENTS

NATIONAL TRANSPORTATION POLICY

During 1953, the Senate Committee on Interstate and Foreign Commerce reported favorably, under the designation S.1461, a bill to relieve the railroad industry of the excessive "time-lag" in general rate cases. It is hoped that the present session will see this needed legislation adopted. Another measure which should be introduced and acted upon is a bill to change the "rule of rate making"—Section 15a of the Interstate Commerce Act—so as to clarify the Commission's obligation to (1) allow railroad revenues adequate to preserve the financial integrity of the industry and (2) restore to private management the responsibility of determining the effect of rates on the movement of railroad traffic.

GENERAL LEGISLATIVE DEVELOPMENTS

During the 1954 session, Congress will consider a new government revenue bill. It is most important to your Company and to the entire railroad industry that this bill include the repeal or modification of the excise taxes imposed on public transportation.

The Senate authorized the construction and operation, in cooperation with the Canadian Government, of the St. Lawrence Seaway project. The House of Representatives had not acted at the time this report was written. Since the contemplated toll charges for the use of this waterway would be totally inadequate to finance this project, it would add another to the numerous situations already existing where transportation services that compete with the privately financed railroads are subsidized out of the public treasury.

In the 1953 session, the House passed a bill (H.R. 3203) limiting the Interstate Commerce Commission's power to regulate the so-called "trip-leasing" of equipment by independent truck owners to large motor carriers for a single haul. This practice in the trucking industry has led to serious abuses and has given some motor carriers improper competitive advantages over the railroads. To control this situation the Commission issued rules regulating these practices and its power to do so was sustained by the United States Supreme Court. The House bill to reverse this decision is pending in the Senate, but it is hoped that certain modifications which the Commission has proposed in its trip-leasing rules will serve to avoid enactment of this bill.

IMPORTANT LITIGATION DEVELOPMENTS

The anti-trust suit brought by the Pennsylvania Motor Truck Association and others against the Eastern Railroad Presidents Conference, individual railroads and their presidents, is still pending before the Federal District Court in Philadelphia. During 1953 both sides engaged in taking pre-trial testimony and that activity probably will continue during coming months.

In the "Government Reparations Cases," the Department of Justice some time ago charged that the railroads imposed excessive rates on certain Government shipments during World War II. On June 23, 1953, Examiners for the Interstate Commerce Commission recommended that the complaints be dismissed. The Department of Justice may file exceptions with the Commission.

Seatrain Lines, Inc. appealed from the decision of the Federal Court in Trenton, N. J. dismissing its anti-trust suit against a number of railroads, including your Company. The Court of Appeals sustained the most important part of this decision but granted Seatrain the right to amend its complaint in certain respects. Meanwhile, a proceeding brought by your Company and other roads, before the Interstate Commerce Commission, seeks an over-all solution to the Seatrain controversy.

LONG ISLAND RAIL ROAD DEVELOPMENTS

In the pending Federal bankruptcy reorganization of the Long Island Rail Road, in which your Company owns substantially all of the stock, and has a total investment of over $100,000,000, further hearings were held during the year before the Interstate Commerce Commission. These hearings ended on December 18, and the parties were given additional time to file briefs. The Trustee succeeded in reaching a satisfactory adjustment of taxes owed to the City of New York, which should relieve the property of part of this tax burden in the future. Following this settlement, the plan of the Long Island Transit Authority to take over the road without any substantial compensation to the owners was withdrawn by the Authority as no longer practicable. At the same time, your Company amended its plan of reorganization with respect to certain tax provisions, and proposed an extensive passenger improvement program conditioned upon the Commission's approval of provisions in the plan designed to give the Long Island the opportunity to adjust fares and service so as to preserve that road as a sound, self-supporting private enterprise. Toward the close of the year, in a proceeding brought by your Company, an Examiner for the Interstate Commerce Commission recommended that the commutation fares of the Long Island be increased by 25 per cent. Final action by the Commission in this case should be forthcoming early in 1954.

ORGANIZATION CHANGES

Owing to the pressure of other duties and responsibilities, Pierre S. du Pont resigned as a Director of the Company, effective November 25, 1953. He was elected to the Board on December 8, 1930. Possessing innate qualities of leadership, a wholesome sense of moral values, and business judgment of the highest order, he gave of himself unstintingly to the interests of the Company and its advancement in the critical years during which he was a member of its Board of Directors.

Lammot du P. Copeland, Secretary of E. I. du Pont de Nemours & Co., with offices in Wilmington, Del., was elected to the Board December 23, 1953, succeeding Mr. du Pont.

Colonel Franklin D'Olier, who had been a Director of the Company since December 28, 1932, died on December 10, 1953. A man of outstanding business ability, with faith in railroad transportation and its continuing essential role in the nation's economic structure, Colonel D'Olier gave generously of his time and talents in furtherance of the success of the Company.

Donald Danforth, President of the Ralston Purina Company, St. Louis, Mo., was elected to the Board December 23, 1953, succeeding Colonel D'Olier.

Walter W. Patchell, Vice President, was assigned on March 1, 1953, to the duty of analyzing the passenger transportation services of the Company in the interest of more economical operation.

J. Benton Jones was appointed Vice President in charge of Real Estate and Taxation, to succeed Mr. Patchell.

James R. Downes, Vice President—Assistant to the President, retired on October 31, 1953, upon reaching the age of 70, having completed over 50 years of unusually able and conspicuous service in the Operating and Executive Departments.

Allen J. Greenough was appointed Vice President, Eastern Region, as of April 1, 1953, succeeding Ethelbert W. Smith, who is retiring after many years of distinguished service.

Elmer Hart, Comptroller, retired on October 31, 1953. His lifetime of able service left an indelible imprint not only on the accounting practices of this Company but on the railroad industry generally. To succeed him, Hugh J. Ward was appointed Comptroller.

J. Taney Willcox, Secretary of the Company since December 1, 1929, retired on December 31, 1953. During the intervening years, he discharged with marked ability and integrity the responsibilities of that important office. Bayard H. Roberts was elected Secretary of the Company, effective January 1, 1954.

John L. Gressitt, who has filled with distinction the exacting position of Chief Engineer of the Company since February 1, 1943, retired on December 31, 1953. Samuel R. Hursh was appointed Chief Engineer effective January 1, 1954.

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

James L. Cranwell, Vice President—New York • James W. Oram, Assistant Vice President in charge of Operation-Personnel Henry W. Large, Assistant Vice President in charge of Traffic • John T. Ridgely, Assistant Vice President in charge of Real Estate & Taxation • Morton S. Smith, General Manager, Central Region • John D. Morris, General Manager, Western Region.

←

Preliminary sketch of plans for the new Penn Center, looking west from the site of old Broad Street Station. The first building on the left of the Esplanade, to be known as 3 Penn Center is already under construction by Uris Brothers, who also leased land for building at right. All buildings will be connected with PRR Suburban Station by lower-level concourse.

CONDENSED INCOME STATEMENT

	Year 1953	Year 1952	Increase or Decrease 1953 compared with 1952
THE COMPANY HAD OPERATING REVENUES FROM:			
Transportation of Freight	$787,464,550	$767,358,561	I $20,105,989
Transportation of Passengers	142,097,087	156,316,370	D 14,219,283
Handling of Mail	40,128,440	39,977,854	I 150,586
Handling of Express	14,550,568	13,488,105	I 1,062,463
Other Operations	50,153,995	51,609,327	D 1,455,332
	1,034,394,640	1,028,750,217	I 5,644,423
THERE WAS DEDUCTED:			
Operating Expenses (*See Note D, Page 34*)	864,522,807	865,885,772	D 1,362,965
Federal Income Taxes (*See Note E, Page 34*)	10,268,531	9,779,647	I 488,884
Other Taxes	60,043,911	59,949,843	I 94,068
Equipment and Joint Facility Rents	24,762,978	18,204,620	I 6,558,358
	959,598,227	953,819,882	I 5,778,345
LEAVING NET RAILWAY OPERATING INCOME OF	74,796,413	74,930,335	D 133,922
THE COMPANY HAD OTHER INCOME (*from Dividends, Interest on Securities owned, etc.*)	34,152,327	33,474,168	I 678,159
Less Income from Leased Lines Securities held (*eliminated from Leased Lines Rental below*)	13,988,789	13,767,172	I 221,617
	20,163,538	19,706,996	I 456,542
Total	94,959,951	94,637,331	I 322,620
OTHER MISCELLANEOUS CHARGES WERE	1,688,479	1,801,024	D 112,545
LEAVING A BALANCE FOR FIXED CHARGES AND OTHER CORPORATE PURPOSES OF*	93,271,472	92,836,307	I 435,165
FIXED CHARGES:*			
Leased Lines Rental (*after deducting Income from Leased Lines Securities held*)	19,951,453	19,917,557	I 33,896
Interest on Funded Debt	28,800,361	28,522,336	I 278,025
Amortization of Discount on Funded Debt, and Interest on Unfunded Debt	221,887	259,759	D 37,872
Total Fixed Charges	48,973,701	48,699,652	I 274,049
Balance after Fixed Charges	44,297,771	44,136,655	I 161,116
Deduct—Accretions of Trust of 1878 (*See footnote*)	7,261,556	7,155,291	I 106,265
LEAVING A NET INCOME OF	37,036,215	36,981,364	I 54,851
THE COMPANY ALSO HAD TO PROVIDE FOR:			
Appropriations for Sinking and Other Reserve Funds	1,723,917	1,729,350	D 5,433
Other Appropriations, principally advances to Pennsylvania-Reading Seashore Lines, to cover Operating Deficits	5,422,543	4,824,427	I 598,116
Total	7,146,460	6,553,777	I 592,683
LEAVING AVAILABLE FOR Dividends and Other Corporate Purposes	29,889,755	30,427,587	D 537,832
DIVIDEND 3% (*$1.50 per share*)—1½% paid April 23, and 1½% on December 7, 1953	19,751,631	13,167,754	I 6,583,877
TRANSFERRED TO EARNED SURPLUS	10,138,124	17,259,833	D 7,121,709
*Times Fixed Charges Earned:			
Before Federal Income Taxes	2.11	2.11	
After Federal Income Taxes	1.90	1.91	

CONDENSED STATEMENT OF EARNED SURPLUS

	Year 1953	Year 1952	Increase or Decrease
BALANCE, JANUARY 1,	$689,390,207	$666,308,864	I $23,081,343
Add: Balance of Income for the year	10,138,124	17,259,833	D 7,121,709
Accretions of Trust of 1878 (*see footnote*)	7,261,556	7,155,291	I 106,265
Funded Debt Retired Through Income	1,421,336	1,422,469	D 1,133
Miscellaneous Credits	2,220,905	1,995,209	I 225,696
	710,432,128	694,141,666	I 16,290,462
Deduct: Miscellaneous Debits	1,010,544	4,751,459	D 3,740,915
BALANCE, DECEMBER 31,	709,421,584	689,390,207	I 20,031,377

The Trust of 1878 is a Fund created for the acquisition of securities with respect to which The Pennsylvania Railroad Company, or its subsidiary, Pennsylvania Company, is obligated, either directly or by guarantee of payment of dividends, interest or principal. Obligations of these Companies purchased for the Fund out of its income may, at the direction of the Board of Directors of The Pennsylvania Railroad Company, be cancelled without payment to the "Managers" having custody of the Fund. The income on investments of the Fund is deducted in accordance with Interstate Commerce Commission Accounting Instructions as "Accretions of Trust of 1878", before arriving at Net Income, and transferred to Earned Surplus—Appropriated. The amount for the year 1953 was $7,261,556; 1952 was $7,155,291.

CONDENSED BALANCE SHEET

ASSETS

	December 31, 1953	December 31, 1952	Increase or Decrease 1953 compared with 1952	
CURRENT ASSETS:				
(*Cash, temporary cash investments, material and supplies, accounts receivable, etc.*)	$283,927,399	$310,657,480	D	$26,730,081
SPECIAL FUNDS:				
(*Trust of 1878, insurance, sinking and other funds*)	173,910,054	173,244,241	I	665,813
INVESTMENTS:				
In Transportation Property and Equipment	1,948,606,406	1,942,384,997	I	6,221,409
Less: Depreciation	600,496,490	594,457,275	I	6,039,215
Amortization of Defense Projects	65,127,681	70,720,602	D	5,592,921
Total	665,624,171	665,177,877	I	446,294
Net Investment in Transportation Property and Equipment	1,282,982,235	1,277,207,120	I	5,775,115
In Miscellaneous Physical Property	16,654,307	14,650,312	I	2,003,995
In Affiliated Companies* (*stocks, bonds, notes and advances*)	688,716,980	681,632,290	I	7,084,690
In Other Companies* (*stocks, bonds, notes and advances*)	28,263,248	29,154,998	D	891,750
Total Investments less recorded Depreciation and Amortization	2,016,616,770	2,002,644,720	I	13,972,050
OTHER ASSETS:				
(*Working fund advances, prepayments, and items in process of adjustment*)	19,344,219	17,993,530	I	1,350,689
Total Assets	2,493,798,442	2,504,539,971	D	10,741,529

**Of these investments, $53,698,250.00 par value of stocks, $2,082,000.00 par value of bonds and $17,263,295.71 face value of Note, are pledged under various Mortgages and Trust Indentures.*

See Page 26 regarding investment in Long Island Rail Road Company and Note I, Page 34.

LIABILITIES

	December 31, 1953	December 31, 1952	Increase or Decrease 1953 compared with 1952	
CURRENT LIABILITIES:**				
(*Traffic balances, wages, taxes, interest, other accounts payable, etc.*)	$140,227,801	$147,181,579	D	$6,953,778
LONG-TERM DEBT:				
Bonded Debt	463,375,000	479,023,000	D	15,648,000
Equipment Obligations	346,001,119	350,738,605	D	4,737,486
Mortgages and Ground Rents	53,045	54,700	D	1,655
OTHER LIABILITIES:				
(*Deferred Credits and items in process of adjustment*)	16,618,070	15,135,917	I	1,482,153
RESERVES:				
(*Accrued depreciation—leased property, injuries to persons, loss and damage—freight*)	149,182,072	154,102,183	D	4,920,111
STOCKHOLDERS' EQUITY:				
Capital Stock (*13,167,754 shares par value $50. per share*)	658,387,700	658,387,700		—
Surplus:				
Earned—Appropriated (*Additions to Property, Funded Debt Retired, Sinking and Miscellaneous Fund Reserves*)	461,823,426	451,648,199	I	10,175,227
Unappropriated	247,598,158	237,742,008	I	9,856,150
Total Earned Surplus	709,421,584	689,390,207	I	20,031,377
Unearned	383,822	377,851	I	5,971
Premium on Capital Stock	10,148,229	10,148,229		—
Total Stockholders' Equity	1,378,341,335	1,358,303,987	I	20,037,348
Total Liabilities	2,493,798,442	2,504,539,971	D	10,741,529
***Exclusive of equipment obligations and bonded debt maturing within one year, and sinking fund requirements (pursuant to ICC regulations)*	*$36,431,780*	*$35,084,180*		

The Company has assumed contingent liabilities aggregating $503,620,077, as of December 31, 1953, by endorsement as guarantor or otherwise (not included as liabilities in the foregoing condensed balance sheet) in respect of the principal of obligations issued by companies, including terminal companies, owning railroad properties in which the Company has an interest. Liabilities in respect to $171,165,000 thereof, have been assumed jointly and severally with other railroad companies. Of obligations in respect of which such liabilities have not been assumed jointly and severally with other railroad companies, $73,059,077 are owned by the Pennsylvania Railroad System. For other contingent liabilities, see Note N, Page 35.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR 1953

SOURCE OF FUNDS

Net Income	$37,036,215
Depreciation	51,233,843
Accretions of Trust of 1878	7,261,556
Proceeds from sale of property	10,456,085
Proceeds of equipment financing	28,981,200
Net decrease in Sinking and Other Reserve Funds	2,832,110
Miscellaneous other sources	3,522,310
	141,323,319

APPLICATION OF FUNDS

Expenditures for improvements to transportation property	59,663,873
Net increase in investments, principally in affiliated companies	6,249,480
Obligations paid or reacquired:	
Equipment obligations	33,712,014
Bonds	15,832,164
Dividends	19,751,631
Appropriations, principally advances to Pennsylvania-Reading Seashore Lines, to cover operating deficits	5,422,543
Expenditures charged to Maintenance Reserves	4,000,000
Net decrease in Deferred and Unadjusted items	9,432,849
Miscellaneous other applications	7,035,068
	161,099,622
Net Decrease in Working Capital	19,776,303

PENNSYLVANIA RAILROAD SYSTEM

CONDENSED CONSOLIDATED INCOME STATEMENT *(Note A)*

	1953	1952	1951	1950	1949
Income:					
Railway operating revenues (*Note B*)	$1,035,505,430	$1,030,417,415	$1,046,587,798	$932,148,222	$850,087,747
Revenues from miscellaneous operations	13,255,025	13,570,408	13,772,748	12,299,774	12,304,415
Dividend income	15,275,116	13,886,840	13,614,978	13,251,465	13,930,609
Other (*Note C*)	8,417,317	7,127,210	8,738,204	24,237,314	6,752,880
Total income	1,072,452,888	1,065,001,873	1,082,713,728	981,936,775	883,075,651
Operating Charges and Other Deductions:					
Railway operating expenses (*Note D*)	865,789,303	867,747,283	895,427,478	787,002,000	732,014,754
Equipment and joint facility rents (*net*)	24,485,992	18,230,149	22,736,011	18,283,046	19,847,570
Expenses of miscellaneous operations and other deductions	12,187,486	12,187,485	11,799,953	10,517,592	10,936,042
Provision for taxes:					
Federal income (*Note E*)	11,160,732	10,499,206	10,561,920	15,000,386	8,511,555
Other	62,996,844	62,486,079	62,608,344	58,645,249	55,770,216
	976,620,357	971,150,202	1,003,133,706	889,448,273	827,080,137
Income available for fixed charges and other corporate purposes*	95,832,531	93,851,671	79,580,022	92,488,502	55,995,514
Fixed Charges:*					
Leased lines rental (*Note F*)	33,785,462	33,926,934	34,109,582	37,186,361	47,105,016
Deduct: Income from leased lines securities owned (*Note F*)	19,092,175	18,855,888	18,744,912	21,558,021	31,332,361
Net rental (*Note F*)	14,693,287	15,071,046	15,364,670	15,628,340	15,772,655
Interest on funded debt (*other than included in leased lines rental*)	28,970,699	28,763,028	26,905,775	25,956,716	25,030,959
Other	333,186	422,355	504,012	431,229	372,542
Total fixed charges	43,997,172	44,256,429	42,774,457	42,016,285	41,176,156
Balance after fixed charges	51,835,359	49,595,242	36,805,565	50,472,217	14,819,358
Accretions of Trust of 1878 (*See note, Page 28*)	7,261,556	7,155,291	7,055,363	6,721,258	6,528,881
NET INCOME	44,573,803	42,439,951	29,750,202	43,750,959	8,290,477
DISPOSITION OF NET INCOME:					
Appropriations for sinking and other reserve funds	1,723,917	1,729,349	1,625,731	1,740,167	1,479,678
Appropriations for dividends (*Note G*)	19,751,631	13,167,754	13,167,754	13,167,754	9,875,815
Other appropriations, principally advances to Pennsylvania-Reading Seashore Lines to cover operating deficits	4,580,695	3,200,000	3,300,000	4,000,000	3,938,610
	26,056,243	18,097,103	18,093,485	18,907,921	15,294,103
BALANCE OF INCOME TRANSFERRED TO SURPLUS	18,517,560	24,342,848	11,656,717	24,843,038	Def. 7,003,626
*Times Fixed Charges Earned:					
Before Federal income taxes	2.43	2.36	2.11	2.56	1.57
After Federal income taxes	2.18	2.12	1.86	2.20	1.36
NET INCOME PER SHARE OF PRR CO. STOCK	$3.39	$3.22	$2.26	$3.32	$0.63

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

	1953	1952	1951	1950	1949
BALANCE, JANUARY 1	$969,983,704	$937,849,192	$915,064,583	$884,876,827	$914,332,384
Add: Balance of Income for the year	18,517,560	24,342,848	11,656,717	24,843,038	Def. 7,003,626
Accretions of Trust of 1878 (*See note, Page 28*)	7,261,556	7,155,291	7,055,363	6,721,258	6,528,881
Funded Debt Retired Through Income	1,421,336	1,422,469	1,422,127	1,421,238	1,421,920
Miscellaneous Credits	4,291,527	4,492,131	3,930,738	2,426,999	4,593,975
	1,001,475,683	975,261,931	939,129,528	920,289,360	919,873,534
Deduct: Amounts transferred to Unearned Surplus	—	—	—	—	32,453,551
Miscellaneous Debits	1,738,236	5,278,227	1,280,336	5,224,777	2,543,156
	1,738,236	5,278,227	1,280,336	5,224,777	34,996,707
BALANCE, DECEMBER 31	999,737,447	969,983,704	937,849,192	915,064,583	884,876,827

Def. signifies Deficit

See notes, Pages 34 and 35

	1953	1952	1951	1950	1949
ASSETS					
CURRENT ASSETS:					
Cash	$93,147,743	$105,364,955	$101,604,885	$119,991,840	$130,472,949
Temporary cash investments (*principally at cost*)	71,610,472	83,533,636	59,573,624	73,812,465	38,116,262
Accounts receivable	42,233,605	45,971,861	55,513,585	64,357,542	40,706,907
Material and supplies (*at cost or less*)	69,354,156	68,882,626	89,886,612	66,088,616	68,794,136
Other	18,839,361	24,718,780	22,157,477	21,513,272	17,023,414
	295,185,337	328,471,858	328,736,183	345,763,735	295,113,668
SPECIAL FUNDS:					
Capital and sinking funds	7,407,837	7,549,369	11,260,517	13,116,783	12,629,551
Maintenance funds	—	4,000,000	4,000,000	10,000,000	8,000,000
Other	9,250,021	8,037,330	6,782,934	7,382,457	6,797,669
	16,657,858	19,586,699	22,043,451	30,499,240	27,427,220
INVESTMENT IN PROPERTY AND EQUIPMENT:					
Railway transportation property	3,220,982,526	3,209,531,712	3,151,581,700	3,040,315,069	2,994,359,946
Other property	86,347,230	79,752,490	79,989,839	54,789,354	54,158,433
	3,307,329,756	3,289,284,202	3,231,571,539	3,095,104,423	3,048,518,379
Accrued depreciation, amortization and depletion:					
Railway transportation property	Cr. 831,572,406	Cr. 830,852,950	Cr. 826,877,282	Cr. 794,984,538	Cr. 777,924,310
Other property	Cr. 16,089,051	Cr. 15,158,761	Cr. 15,556,047	Cr. 14,776,801	Cr. 13,767,726
	Cr. 847,661,457	Cr. 846,011,711	Cr. 842,433,329	Cr. 809,761,339	Cr. 791,692,036
Net investment in property and equipment	2,459,668,299	2,443,272,491	2,389,138,210	2,285,343,084	2,256,826,343
INVESTMENTS AND ADVANCES (*at cost or less*): (*Note H*)					
Affiliated Companies—(*Note I*)					
Investments	156,289,128	159,319,685	157,254,194	135,226,969	138,479,607
Advances	28,250,809	27,073,033	27,579,486	26,407,283	26,652,285
	184,539,937	186,392,718	184,833,680	161,634,252	165,131,892
Other Companies—(*Note J*)	130,300,619	127,065,993	132,599,964	131,820,019	130,389,844
	314,840,556	313,458,711	317,433,644	293,454,271	295,521,736
OTHER ASSETS (*principally prepayments, working fund advances and deferred assets*)	33,193,171	28,728,727	25,524,946	27,677,744	20,720,914
TOTAL	3,119,545,221	3,133,518,486	3,082,876,434	2,982,738,074	2,895,609,881

Cr. signifies Credit

See notes, Pages 34 and 35

RAILROAD SYSTEM

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

LIABILITIES	1953	1952	1951	1950	1949
CURRENT LIABILITIES: *(excluding long-term debt maturing within one year and sinking fund requirements)—(Note M):*					
Accounts and wages payable	$75,191,470	$80,347,115	$90,688,166	$84,617,596	$61,350,090
Tax liabilities	39,452,178	35,091,405	37,735,709	45,521,912	51,607,237
Other	22,799,157	28,425,240	23,644,869	24,407,710	18,751,023
	137,442,805	143,863,760	152,068,744	154,547,218	131,708,350
LONG-TERM DEBT:					
Pennsylvania Railroad Company:					
Bonds *(including assumed debt)*	410,530,045	425,588,700	443,202,700	447,769,700	501,912,850
Equipment Trusts	154,938,000	165,028,000	184,713,000	204,164,000	181,168,000
Equipment—Conditional sale agreements	191,063,119	185,710,605	103,401,800	—	—
	756,531,164	776,327,305	731,317,500	651,933,700	683,080,850
Bonds of leased lines	255,943,032	262,741,032	268,389,032	272,516,032	275,304,657
Bonds of subsidiary companies *(other than leased lines)*	72,838,000	76,936,880	80,876,331	84,630,000	26,161,000
Other	683,900	643,380	602,790	561,590	519,250
	1,085,996,096	1,116,648,597	1,081,185,653	1,009,641,322	985,065,757
DEFERRED LIABILITIES AND UNADJUSTED CREDITS *(principally casualty and maintenance reserves)*	43,757,889	45,789,448	53,169,344	43,182,510	32,245,360
PUBLICLY HELD INTERESTS IN EQUITY OF CONSOLIDATED COMPANIES OTHER THAN THE PENNSYLVANIA RAILROAD COMPANY:					
Preferred stock	25,227,000	25,732,850	25,770,500	25,776,500	25,776,500
Common stock	35,646,694	37,239,599	37,697,424	38,223,624	38,597,224
Surplus	26,705,916	28,514,783	29,044,740	29,966,508	30,848,685
	87,579,610	91,487,232	92,512,664	93,966,632	95,222,409
PENNSYLVANIA RAILROAD COMPANY STOCKHOLDERS' EQUITY:					
Capital Stock *(13,167,754 shares par value $50 per share)*	658,387,700	658,387,700	658,387,700	658,387,700	658,387,700
Surplus:					
Earned—Appropriated *(additions to Property, Funded Debt Retired, Sinking and Miscellaneous Fund Reserves)*	542,216,518	535,112,052	524,866,163	515,603,455	506,910,534
Unappropriated	457,520,929	434,871,652	412,983,029	399,461,128	377,966,293
Total Earned Surplus	999,737,447	969,983,704	937,849,192	915,064,583	884,876,827
Unearned	38,646,781	38,583,535	38,578,307	38,425,735	38,235,893
Premium on Capital Stock	10,148,229	10,148,229	10,148,229	10,148,229	10,148,229
Net amount by which System equity in net assets *(at date of acquisition)* of companies consolidated exceeds the related investment therein	57,848,664	58,626,281	58,976,601	59,374,145	59,719,356
	1,764,768,821	1,735,729,449	1,703,940,029	1,681,400,392	1,651,368,005
TOTAL	3,119,545,221	3,133,518,486	3,082,876,434	2,982,738,074	2,895,609,881

For Contingent Items—*see Note N.*

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

The Pennsylvania Railroad Company.

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

Companies operated under agreements, principally long term leases, and West Jersey and Seashore Railroad Company, the lease of which was assigned to the Pennsylvania-Reading Seashore Lines in 1933 with a guarantee of rental.

In all instances where the term System is mentioned in the following notes, it indicates the group of Companies set forth above.

Note B: Railway operating revenues for 1950 include a retroactive adjustment of U. S. Mail pay of which approximately $5,514,000 applied to the year 1949, and $8,547,000 to prior years.

Note C: Other income for 1950 includes $17,500,000 covering adjustment of accruals of Federal income and excess profits taxes for years prior to 1948.

Note D: Railway operating expenses include charges of The Pennsylvania Railroad Company for deferred maintenance for years 1949, 1950, 1951 and 1952, in the amounts of $8,000,000, $10,000,000, $4,000,000 and $4,000,000, respectively, the actual expenditures being made in next succeeding year.

Note E: During 1951, 1952 and 1953, deductions for accelerated amortization of emergency facilities (principally equipment) under certificates of necessity, were made in computing Federal income tax liabilities. If these deductions had not been made, provision for Federal income taxes of The Pennsylvania Railroad Company would have been approximately $3,522,000, $8,792,000 and $11,624,000 greater for the respective years ($4,111,000, $10,386,000 and $13,506,000 for the System) and Net Income correspondingly less.

Note F:	*1953	*1952	*1951	*1950	1949
Rental:					
Dividends on stocks of leased lines........	$19,870,395	$19,909,323	$19,913,721	$22,799,463	$32,642,097
Interest on funded debt of leased lines...	13,786,926	13,916,062	14,076,431	14,305,028	14,367,436
Other........	128,141	101,549	119,430	81,870	95,483
	33,785,462	33,926,934	34,109,582	37,186,361	47,105,016
Deduct—Income from leased lines securities owned:					
Dividends....	15,524,297	15 426,839	15,412,643	18,230,697	28,040,964
Interest.....	3,567,878	3,429,049	3,332,269	3,327,324	3,291,397
	19,092,175	18,855,888	18,744,912	21,558,021	31,332,361
Net rental paid to publicly held interests......	14,693,287	15,071,046	15,364,670	15,628,340	15,772,655

*The payments of dividend rental and the equivalent amount of dividends returnable to The Pennsylvania Railroad Company on stocks owned or held by it as lessee, were waived effective at various dates in 1950, pursuant to modification of leases with companies listed as follows:

Cleveland and Pittsburgh Railroad Company
Erie and Pittsburgh Railroad Company
New York Bay Railroad Company
Northern Central Railway Company
Pittsburgh, Fort Wayne and Chicago Railway Company
Pittsburgh, Youngstown & Ashtabula Railway Company
Union Railroad Company of Baltimore

Note G: Dividend appropriation, $9,875,815, charged to Surplus in 1949, was restated for comparative purposes.

Note H: Certain investments of the System of a par value of $102,677,446 in the aggregate, which have been eliminated in consolidation, were pledged at December 31, 1953 under various mortgages and trust indentures. Pledges of other investments are referred to in Notes I and J.

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

The Long Island Rail Road Company

The Long Island Rail Road Company (the capital stock of which was owned 100 per cent. by the System from February 25, 1930 until January 19, 1950, and owned 94.54 per cent. thereafter) filed, on March 2, 1949, a petition in the United States District Court for the Eastern District of New York, for the purpose of effecting re-organization pursuant to the provisions of Section 77 of the Bankruptcy Act. Since April 11, 1949, the railroad has been operated by Trustees appointed by the Court and ratified by the Interstate Commerce Commission. See page 26 of this report as to present status. The stock is included in Investments at $50,581,235 at December 31, 1949, and at $47,587,071 thereafter. No dividends were received from The Long Island Rail Road Company since 1933. The operation of the railroad during the years 1949-1953 resulted in deficits as follows:

1953	$2,704,590	1950	$4,604,712
1952	5,009,658	1949	5,208,289
1951	8,491,093		

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

	Principal Amount	*Cost*
December 31, 1953	$39,930,500	$39,457,745
December 31, 1952	39,930,500	39,457,745
December 31, 1951	39,929,500	39,456,744
December 31, 1950	39,924,500	39,451,742
December 31, 1949	39,898,500	39,425,729

Included in Advances for each year is an amount of $6,000,000, representing unpaid balance of advances.

In addition to other claims, the System has a claim aggregating $12,479,845 at December 31, 1953 (not recorded as income), for unpaid interest since December 31, 1948 (at a rate of 3 per cent. per annum) on advances, and for unpaid interest (at a rate of 6 per cent. per annum) on the above mentioned bonds since their date of maturity.

NOTES TO CONSOLIDATED STATEMENTS

Wabash Railroad Company

The System investment in Wabash Railroad Company, represented by slightly more than 99 per cent. interest in common stock and 56.07 per cent. interest in preferred stock, is included in Investments at approximately $13,100,000 in the aggregate at December 31, of each year.

141,998 shares of preferred stock were pledged at December 31, 1953 with Trustee of a collateral trust indenture of Pennsylvania Company. (See Notes K and L.)

Detroit, Toledo and Ironton Railroad Company

Detroit, Toledo and Ironton Railroad Company capital stock, of a par value of $20,000,000, representing 81.52 per cent. ownership, was purchased February 28, 1951, and is included in System investments at cost of $21,100,000.

163,136 shares of stock were pledged at December 31, 1953 with Trustee of a collateral trust indenture of Pennsylvania Company.

The Wabash Railroad Company also acquired, on February 28, 1951, $4,532,900 par value Detroit, Toledo and Ironton Railroad Company capital stock, representing 18.47 per cent. of the outstanding stock. (See Notes K and L.)

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

Lehigh Valley Railroad Company

The System investment in capital stock of Lehigh Valley Railroad Company is represented by 25.38 per cent. interest in 1949, 1950, 1951 and 1952, and by 28.45 per cent. interest in 1953. The stock is included in Investments at $43,478,000 at December 31, 1949, 1950, 1951 and 1952, and at $44,248,788 at December 31, 1953. Under a Trust Agreement dated June 22, 1942, and supplement dated June 2, 1953 such stock is held and voted by Fidelity-Philadelphia Trust Company, Philadelphia, Pa.

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

	Principal Amount	*Cost*
December 31, 1953	$3,482,000	$ 957,165
December 31, 1952	3,482,000	957,165
December 31, 1951	4,557,000	1,575,809
December 31, 1950	5,291,000	2,138,326
December 31, 1949	5,291,000	2,138,326

The Wabash Railroad Company also has an investment in the stock of Lehigh Valley Railroad Company which is represented by 17.30 per cent. interest in 1949 and 1950 and 17.73 per cent. interest in 1951, 1952 and 1953. Under agreement dated January 1, 1941, 265,469 shares are held and voted by Marine Midland Trust Company of New York. (See Notes K and L.)

Norfolk and Western Railway Company

The System investment in Norfolk and Western Railway Company is represented by 59.93 per cent. interest in preferred stock and 42.61 per cent. interest in common stock, and is included in Investments at a cost of $10,490,439 and $62,987,317, respectively, at each December 31.

1,244,987 shares of common stock were pledged with Trustee of collateral trust indentures of Pennsylvania Company. (See Notes K and L.)

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

	1953	1952	1951	1950	1949
Wabash	$3,457,570	$2,566,635	$2,269,478	$2,566,093	$ 2,268,810
D. T. & I.	1,000,000	800,000	800,000	(Stock purchased in 1951)	
L. V.	*127,784	—	—	—	—
N. & W.	8,917,662	8,917,662	8,917,662	8,917,662	10,116,304

**Received January 20, 1954.*

Note L: Equity in undistributed Net Income and Net Assets of the Wabash Railroad Company; Detroit, Toledo and Ironton Railroad Company; Lehigh Valley Railroad Company and Norfolk and Western Railway Company, as indicated by the financial reports of those Companies, is summarized as follows:

Equity in Undistributed Net Income Per Share of P.R.R. Co. Stock

	1953	1952	1951	1950	1949
Wabash	$ .50	$ .58	$ .42	$ .45	$ .18
D. T. & I.	.10	.08	.05	(Stock purchased in 1951)	
L. V.	.14	.14	.11	.07	.003
N. & W.	.23	.24	.28	.23	*

**Dividends exceeded Net Income.*

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

	1953	1952	1951	1950	1949
Wabash	$11.08	$10.55	$ 9.94	$ 9.47	$ 8.87
D. T. & I.	2.72	2.62	2.54	(Stock purchased in 1951)	
L. V.	2.52	2.14	2.04	1.88	1.68
N. & W.	17.15	16.96	16.68	16.39	16.21

Note M: Excludes long term debt and sinking fund requirements maturing within one year from the date of the balance sheet (pursuant to I.C.C. regulations), as follows:

Maturing In	Amount
1954	$42,017,030
1953	42,214,540
1952	43,657,560
1951	49,546,360
1950	25,307,360

Note N: The System has assumed contingent liabilities aggregating $184,302,000 as of December 31, 1953 by endorsement as guarantor or otherwise (not included as liabilities in the condensed consolidated Balance Sheet), in respect of the principal of obligations, issued by non-consolidated companies, including terminal companies, in which the System has an interest. Liabilities in respect of $177,982,000 thereof, have been assumed jointly and severally with other railroad companies.

In addition there are other contingent liabilities, indeterminate in amount, of the System companies, in respect of taxes, personal injuries and property damage, and other matters.

See comments on page 25 under heading of Legal Developments —Important Litigation Developments.

OFFICERS

WALTER S. FRANKLIN	*President*
JAMES M. SYMES	*Executive Vice President*
JAMES P. NEWELL	*Vice President in charge of Operation*
FRED CARPI	*Vice President in charge of Traffic*
DAVID C. BEVAN	*Vice President in charge of Finance*
WALTER W. PATCHELL	*Vice President*
J. BENTON JONES	*Vice President in charge of Real Estate and Taxation*
JOHN C. WHITE	*Vice President in charge of Purchases, Stores and Insurance*
RALPH C. CHAMPLIN	*Vice President in charge of Public Relations*
ALLEN J. GREENOUGH	*Vice President, Eastern Region, Philadelphia, Pa.*
JOHN A. APPLETON	*Vice President, Central Region, Pittsburgh, Pa.*
HERMAN H. PEVLER	*Vice President, Western Region, Chicago, Ill.*
JAMES L. CRANWELL	*Vice President, New York, N. Y.*
BAYARD H. ROBERTS	*Secretary*
PAUL D. FOX	*Assistant Vice President in charge of Finance and Treasurer*
HUGH J. WARD	*Comptroller*
JOHN B. PRIZER	*General Counsel*

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Flagman on steps of modern all-steel cabin car flashes clear signal to engineman of the Southwesterner as the Pennsylvania's fast through freight starts westward at 6:45 P.M. from Enola yard near Harrisburg, Pa., with traffic for second morning delivery at Indianapolis and St. Louis, and for connecting trains to the West and Southwest. The Southwesterner (which is symbolized SW-1) is typical of the more than 400 through daily freight trains in scheduled service, supported by hundreds more in divisional runs, that provide fast dependable transportation to Pennsylvania's freight customers.

PRR