Annual Report 1946

THE
NEW YORK CENTRAL RAILROAD COMPANY

230 Park Avenue, New York 17, N. Y.

Proxies for use at the annual meeting of stockholders on May 28, 1947, will be requested when the proxy statement is sent to the stockholders about April 19, 1947.

NEW YORK CENTRAL SYSTEM

Basic in the policy guiding the management of the New York Central

- *Progressively better service to the public at lowest possible cost*
- *Fair pay and good working conditions for employes*
- *A reasonable return upon the money invested in the Company's properties*

DIRECTORS

Harold S. Vanderbilt	New York	Malcolm P. Aldrich	New York
Bertram Cutler	New York	Raymond D. Starbuck	New York
Myron C. Taylor	New York	James A. Farley	New York
Robert F. Loree	New York	Carl P. Dennett	Boston
Edward B. Greene	Cleveland	Lawrence N. Murray	Pittsburgh
George Whitney	New York	Sidney C. Murray	Chicago
William E. Levis	Toledo	Gustav Metzman	New York
	Alexander C. Nagle	New York	

OFFICERS

Gustav Metzman	*President*	New York
Raymond D. Starbuck	*Executive Vice President*	New York
Jacob Aronson	*Vice President and General Counsel*	New York
Martin J. Alger	*Vice President, Traffic*	New York
Richard E. Dougherty	*Vice President, Improvements and Development*	New York
Lawrence W. Horning	*Vice President, Personnel and Public Relations*	New York
Willard F. Place	*Vice President, Finance*	New York
Jesse L. McKee	*Vice President*	Chicago
Alfred H. Wright	*Vice President*	New York
Carl L. Jellinghaus	*Vice President*	Detroit
John J. Brinkworth	*Vice President and General Manager*	Cincinnati
Joseph M. O'Mahoney	*Secretary*	New York
Gustave H. Howe	*Treasurer*	New York
Edward A. Clancy	*Comptroller*	New York

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THE NEW YORK CENTRAL RAILROAD COMPANY

MARCH 31, 1947

REVIEW OF THE YEAR:

The end of the year nineteen hundred and forty-six found the nation striving in the aftermath of war to readjust its economy to a peace time footing. That readjustment is far from complete. While the railroad industry has not had to face the direct problem of reconversion as it has affected so many of our major industries, the many dislocations incident to reconversion are reflected in the results of railroad operations for the year.

For the New York Central the year was one of "profitless prosperity." The volume of our freight traffic exceeded that of any previous peace time year. Passenger traffic was never greater except in the war years 1943, 1944 and 1945. Despite this record of performance, the year's operations resulted in a deficit of $10,449,268. Had we not been able to avail ourselves of "carry-back" tax credits, the amount of this deficit would have been $31,591,568.

We do not have to look far to find the reasons. The rates and fares which we were permitted to charge produced average revenue only 10 per cent above the 1939 level for transporting a ton of freight a distance of one mile, while the average revenue for transporting a passenger a distance of one mile declined almost one per cent. By contrast, the cost of wages, materials and supplies during the same period increased more than 50 per cent.

Throughout the year greatly disturbed labor conditions in most major industries, including the railroads, seriously interrupted the orderly flow of freight traffic, contributing to the difficulty of handling efficiently the great volume which made up the year's business. These same conditions, delaying the delivery of new passenger and freight cars and locomotives, as well as other materials urgently required in the improvement of plant and facilities, retarded the development of high standards planned in New York Central service.

* * * *

As the New York Central is engaged in a vital public service, it is the purpose of this report to present the story of our operations for the year 1946 for the information not only of stockholders, but of employes, security holders and the general public as well. All have an interest in what we do and how we do it. The holders of the stock and other securities and the employes have the more immediate interest in the financial results of our operations, since the stability of their investment or employment is affected. The public shares with them an interest in the policies which guide management. Inside the front cover of this report will be found a statement in this respect.

IN THE PUBLIC SERVICE

To serve the public adequately in the field of transportation is the principal objective of our business. Management recognizes that it must provide progressively better transportation at the lowest possible cost to the public. Our record over the years demonstrates adherence to this aim.

In 1946 the average revenue for transporting a ton of freight a distance of one mile was 1.02 cents, while the average revenue for transporting a passenger a distance of one mile was 2.10 cents.

During the last fifteen years the average revenue per ton mile for movement of freight has varied but slightly from year to year, the average for the full period being 9.24 mills. During this same period the average revenue per passenger mile has shown a downward trend from a high of 2.64 cents in 1932 to 2.10 cents in 1946, the average over the whole period being 2.07 cents. Contrasted with the costs which the public must pay for other things, this record is noteworthy.

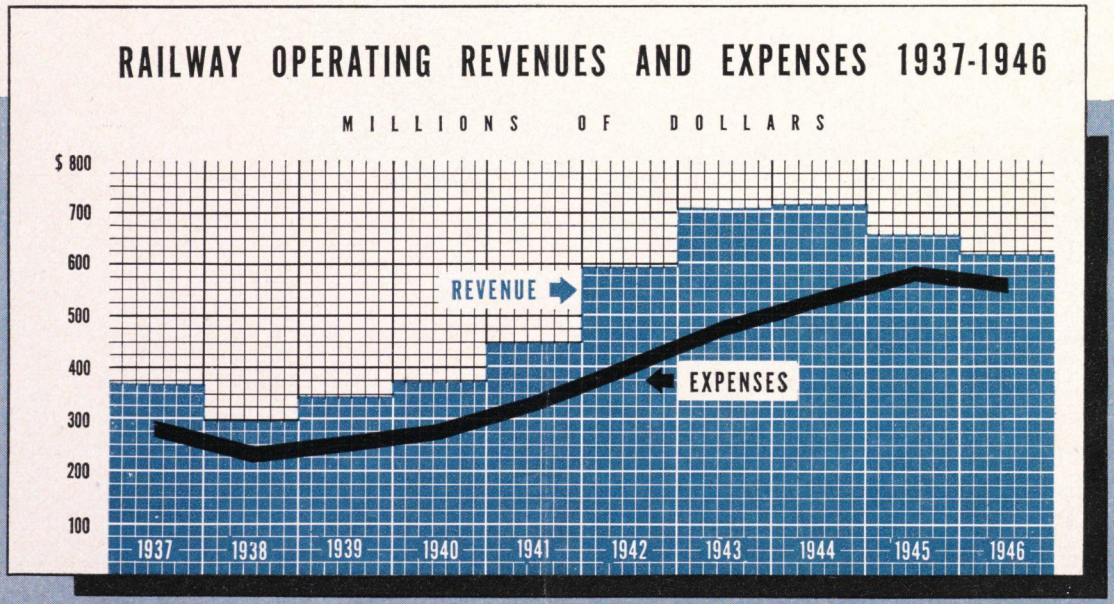
Freight traffic in 1946, measured by the number of tons moved one mile, totaled 40,215,577,150 ton miles, or 9.3 per cent less than in the previous year. Passenger traffic, measured by the number of passengers carried one mile, was 7,046,346,183 passenger miles, or 19.8 per cent less than in 1945.

Total operating revenues were 5.7 per cent lower than in 1945. The decline in freight revenue was 2.3 per cent and in passenger revenue 12.6 per cent. Other operating revenue declined 10.3 per cent.

Railway operating expenses were lower than in 1945 by $22,329,477, or 3.8 per cent. Operating expenses for 1945, however, included abnormally heavy amortization charges. Excluding amortization charges from the accounts for both years, other expenses of operation showed a net increase in 1946 of $33,370,896 after taking into account an increase of approximately $68,000,000 in the cost of labor and materials.

Railway tax accruals totaled $45,095,709, of which $22,801,651 were payroll taxes for retirement and unemployment benefits to employes. Recent amendment of the Federal act imposing these taxes substantially increases the rate payable in 1947. After credit amounting to $21,142,300, which we were enabled to take for a certain proportion of Federal income taxes paid in previous years, the net amount of railway tax accruals for the year was $23,953,409. No further credit in this respect will be available.

Throughout the years the aim of the New York Central has been toward ever higher standards of service to the public. The accomplishment of the huge wartime job of the railroads necessitated, however, some inconvenience



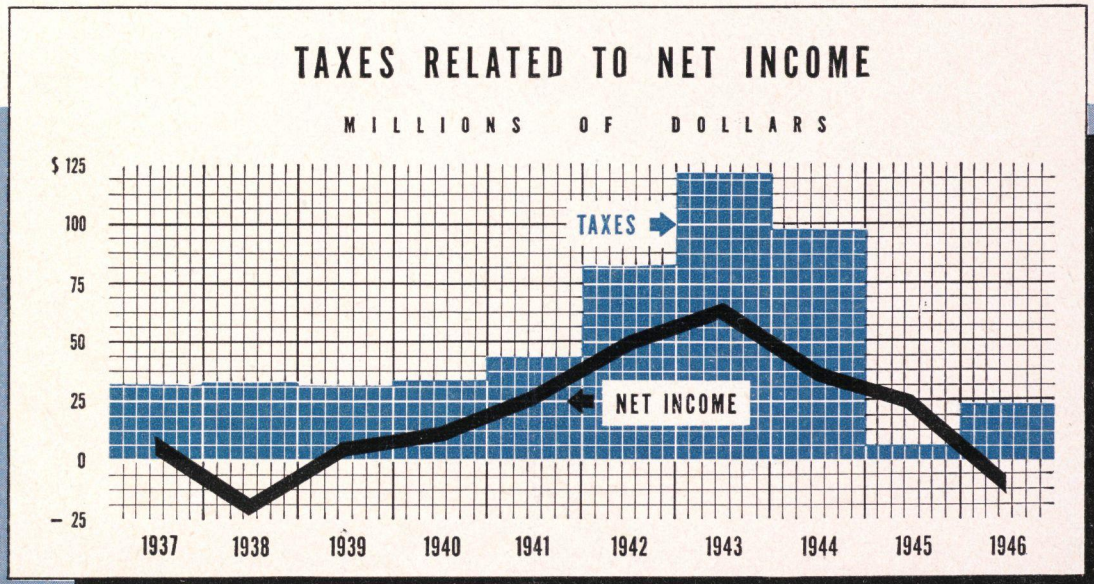
to the public and we are appreciative of the tolerance with which this was accepted.

Our plans are again pointed to newer and higher standards of public service. Following comprehensive studies of the situation, the New York Central as far back as 1944 began placing orders with manufacturers for new passenger train cars in its program to modernize its great fleet of passenger trains. Orders placed then and subsequently call for a total of 720 new cars, enough completely to re-equip 52 trains, at an estimated cost of $59,000,000. Included are sleeping cars, coaches, dining cars, lounge cars and baggage cars, all designed to give superior modern service. At the end of the year, 196 of these new coaches and 29 baggage cars had been received and placed in service.

Freight train cars available include many thousands of modern design and construction. Since the end of 1941, 14,027 new cars, costing $42,120,689 and having an aggregate carrying capacity of 814,584 tons, have been placed in service. Among these are boxcars equipped with high-speed trucks and brakes, loading devices and other features for expediting freight service, and hopper cars with protective covering for the economical movement in bulk of cement and other commodities usually packaged for shipment. At the end of 1946 we had on order with manufacturers 2,000 additional freight train cars, estimated to cost $8,740,000.

Important also to our higher standards in both passenger and freight service is our new modern motive power. During the last five years we have acquired 92 new steam road locomotives, 77 of which are designed for use in either high-speed passenger service or heavy-duty freight service; 131 Diesel-electric switching locomotives; 10 Diesel-electric locomotive units for road freight service and 12 for road passenger service, all at a total cost of $30,551,691. At the end of the year, we had on order 66 Diesel-electric road locomotive units for use in passenger and freight service and 1 Diesel-electric switching locomotive, estimated to cost $11,189,500.

In freight service, conditions beyond our control operated to prevent the most efficient utilization of cars available. The prolonged coal strike during the spring, followed by another late in the year, rendered idle for considerable periods of time cars ordinarily employed in the transportation of coal. Subsequent to these strikes we were called upon to move coal in abnormal volume. The strikes of marine and dock workers, which prevented the unloading of cars in port cities, tied up many units of equipment for a considerable period of time. Strikes in other industries likewise adversely affected the utilization of cars, as did the slowdown of loading and unloading incident to the more or less general adoption of the five-day week in industry. The movement of a bumper grain crop taxed the railroad's boxcar supply. Because of lack of sufficient elevator storage capacity to care for the increase in the size of the crop, this movement had to be accelerated.



MAKING THE WHEELS GO ROUND

The men and women who make up its organization give vitality to the New York Central. The Company's acceptance of the principle of collective bargaining dates back to 1875. It looks for mutual respect in the observance of obligations arrived at as a result of such bargaining and for the exercise of responsibility on both sides.

Only through understanding based on facts can the fullest benefits of collective bargaining be realized. It is our purpose, therefore, to present through reports such as this and other publications, information which will contribute to such understanding on the part of the 119,844 employes of the Company. We seek to bring to them a knowledge of our organization, its plant, equipment and other facilities, its capital structure, the financial results of its operations, the problems presented by public policy and the policies which guide management, and other pertinent information.

Many activities have been initiated by the Company to serve the interest of the men and women of the organization and for the betterment of its service. It has inaugurated training programs for new employes and to advance the skills of others. For training in specialized mechanical crafts apprenticeship courses are available at principal New York Central shops. Valuable in connection with the training of new locomotive firemen and in the solution of problems encountered by experienced firemen is a manual developed by technical experts to promote the most efficient firing of modern steam locomotive power. Other training courses sponsored by the Company include foremanship and supervisory training, telegraphy, ticket-selling methods, traffic and transportation control, air conditioning, and office management. To the end of 1946, more than 18,000 employes had availed themselves of these training courses.

FREIGHT TRAFFIC

	TONS 1946	TONS 1945
Coal, ore and other products of mines	91,733,283	93,340,427
Manufactures and miscellaneous	54,935,773	62,027,720
Wheat, grain, flour, and other products of agriculture	13,537,408	14,979,088
Lumber and other products of forests	4,511,654	3,725,373
Livestock and products of animals	3,711,965	3,862,422
LCL (Less-than-carload lots)	3,502,010	2,887,770
Total	171,932,093	180,822,800

PASSENGER TRAFFIC

	NUMBER 1946	NUMBER 1945
Coach	35,640,836	39,595,753
Pullman	4,385,110	4,664,318
Commutation	37,615,796	34,617,738
Total Passengers Carried	77,641,742	78,877,809
Total number of meals served	6,516,648	7,165,676

Another significant activity in recent years has been the establishment and expansion of public relations training in which employes have voluntarily participated in increasing and encouraging numbers. These discussion groups under the guidance of trained leaders seek to develop better understanding on the part of employes in their relations with one another, with the Company, and with the public we serve.

Well-equipped Young Men's Christian Association buildings have been provided at important points on the System where food and lodging at reasonable prices and recreational facilities are available to railroad people away from home.

The monthly publication, the Central Headlight, reports happenings on the railroad which concern employes individually or as groups. It publishes, also, informative articles about the Company's property and business.

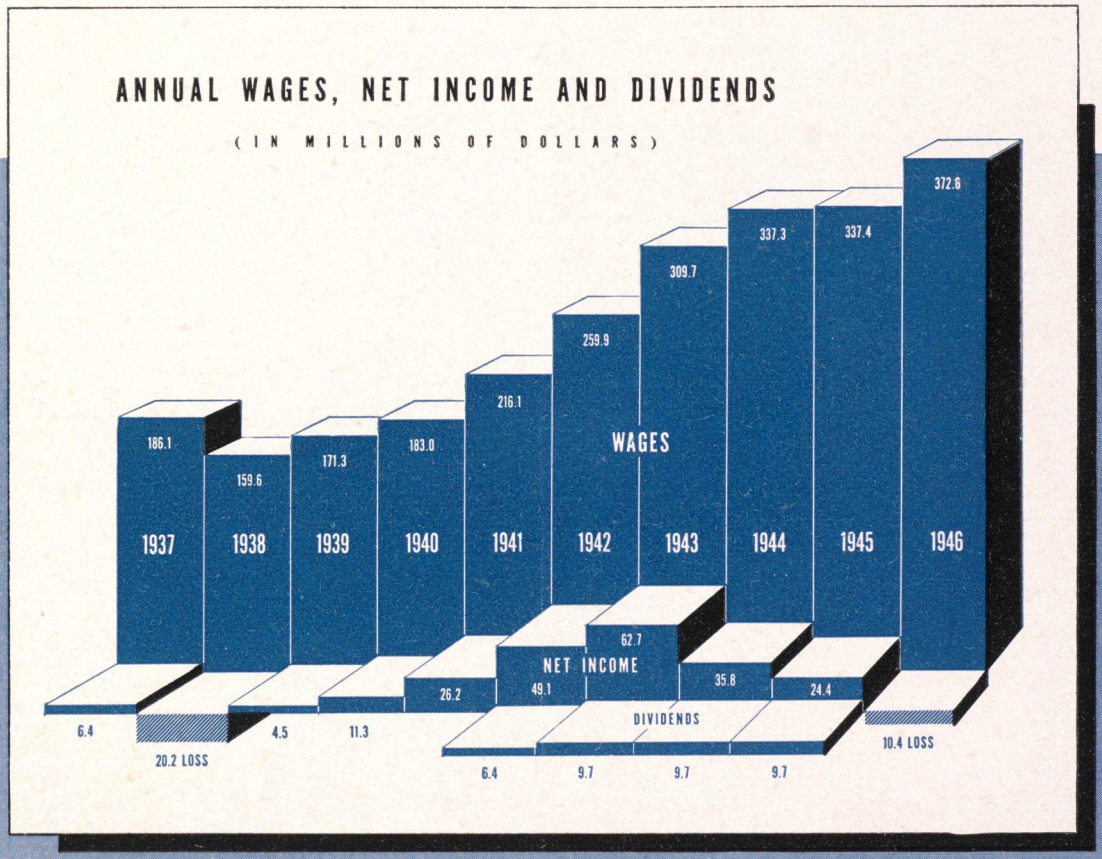
It is the practice of the Company to honor employes who in the course of their work display outstanding heroism. Valor medals were awarded during 1946 to three who, at the risk of their own lives, saved others:

Joseph A. Baccomo
Section Laborer, Beacon, N. Y.

Charles H. Frederick
Marine Fireman, Congers, N. Y.

Rocco Romeo
Floatman, Union City, N. J.

The employe's stake in the Company's business is a large one. This is reflected in the fact that in 1946 he received 57.3 cents of each dollar of its gross income. In addition, out of each such dollar, 3.6 cents were expended to meet payroll taxes for retirement and unemployment insurance benefits and to provide for supplemental pensions. Altogether the amounts paid to employes, to the Government for such benefits, and to provide for pensions absorbed 60.9 cents of every dollar of gross income.



NEW RETIREMENT PLAN

During the year the New York Central System Funded Contributory Retirement Plan for Salaried Employes and Officers, described in the Proxy Statement sent to the Stockholders under date of April 22, 1946, was put into effect, with certain modifications required to qualify the Plan under the Internal Revenue Code and Regulations.

November 1, 1946, was fixed as the date for commencement of member contributions under the Plan. Of approximately 6,500 officers and employes of the Company eligible to participate in the Plan, 6,022 have elected to become members. Under the Plan the former retirement age of 70 years is reduced, beginning in 1947, by half a year each year, so that in 1956, and thereafter, the retirement age will be 65 years.

The Plan is supplementary to the Federal Railroad Retirement System established by Act of Congress in 1937, which is based, as to computation of contributions and benefits, on compensation not in excess of $300 per month. Officers and salaried employes of the Company and of System companies electing to participate in the Plan receiving salaries in excess of $300 per month are eligible to participate in the new Plan and their contributions and benefits thereunder are based on the excess of their salaries over $300 per month. From November, 1946, to December, 1948, inclusive, their contributions will be at the rate of 3½ per cent of such excess and thereafter at the rate of 3¾ per cent thereof. The monthly retirement allowance payable under the Plan will be the sum of the following: 1 per cent of the member's average monthly compensation in excess of $300 for the ten years next preceding retirement, multiplied by his years of creditable service, plus 0.35 per cent of his monthly compensation in excess of $300 for each year of membership service in 1946, 1947 and 1948, plus 0.375 per cent thereof for each year of membership service thereafter. A disability allowance, similarly computed, is provided for totally incapacitated members having not less than 30 years of continuous service.

The costs of the Plan not provided for by the contributions of members are to be borne by the Company and other System companies participating therein. During the year 1946 the Company remitted to the trustee of the pension fund the sum of $13,000,000 on account of prior service accruals. This remittance, as well as the Company's normal annual contribution for the year 1946 heretofore estimated at the sum of $414,259, was based on 1945 statistics, which did not include the general salary increases which became effective during the year 1946.

So much of the retirement allowances under this Funded Retirement Plan as is attributable to Company contributions is substantially the same as would have accrued under the Company's unfunded voluntary pension system that has been in effect over a long period of years. That unfunded voluntary pension system is being continued with appropriate conforming amendments for employes not qualifying for or not joining the Funded Plan, subject to the Company's reserved right of modification and termination.

OUR GENERATOR— INVESTED CAPITAL

It is the money invested over the years by thousands of stockholders and bondholders that has paid for the plant and facilities which we know as the New York Central. Obviously, then, management must recognize that this money was invested with the expectation that it would earn a return for the investors.

The properties included in the operations of the New York Central Railroad represent a total investment of more than two billion dollars. This money has come from more than 50,000 holders of bonds, equipment trust certificates and similar obligations, who lent their money upon the promise of a fixed interest return, and from our 62,717 stockholders, who look for dividends upon their investment to be paid out of any net income remaining after all charges of the business are paid.

A return in the form of interest on money borrowed, represented by bonds, equipment trust certificates and similar securities, is an imperative obligation. An adequate return in the form of dividends to the stockholders is essential to preserve a credit standing which will encourage the further investment required from time to time to provide for the improvement and modernization of our properties.

The New York Central has always fully discharged its obligations to those investors from whom it borrowed money. The rates of interest paid for the use of this money have not been high. Currently the average annual

interest on our borrowings is at the rate of 3.7 per cent.

The steady reduction of the outstanding debt of the Company and its lessor companies continued in 1946, despite the necessity of financing sizable acquisitions of new equipment and further expenditures in connection with the grade crossing elimination program in New York State. The gross reduction during the year in bonds, equipment trust certificates and other capital obligations in the hands of the public and in amounts payable to the State of New York on account of grade crossing elimination, totaled $24,583,195. Partially offsetting this reduction were the issue and sale of $17,700,000 of equipment trust certificates, representing a part of the purchase price of new equipment, and further advances of $691,730 by New York State in connection with elimination of grade crossings. Thus, at the year's end, total debt represented by capital obligations outstanding of the Company and its lessor companies, was $849,222,067, compared with $855,406,532 at the end of 1945, a net reduction of $6,184,465.

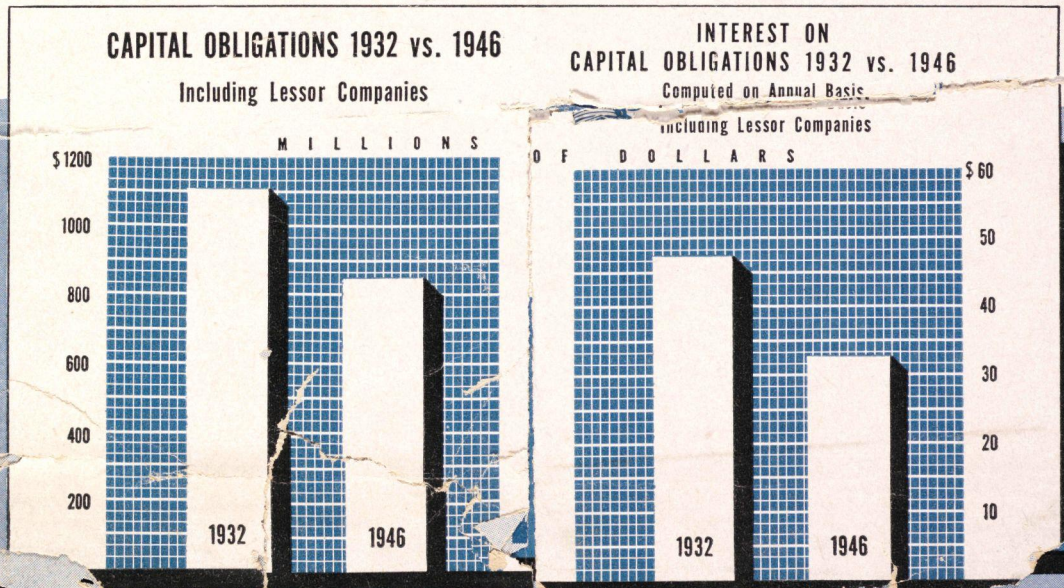
Since the end of 1932 there has been a net reduction of $259,585,886, or 23.4 per cent, in the total outstanding amount of capital obligations of the Company and its lessor companies. Interest, computed on an annual basis, on such obligations outstanding at the end of 1946, was $14,584,895 less than on those outstanding at the end of 1932, a reduction of 30.8 per cent.

The stockholders of the Company in many years have failed to receive any dividends whatever. The total amount paid to them in dividends since 1931 would be equal to a return of only three-tenths of one per cent per annum upon the investment in capital stock plus the accumulated surplus which has been retained in the business.

It is quite apparent from the record that the benefits growing out of the large sum of money invested in the New York Central have accrued largely to the public in low-cost transportation and to employes in better wages and working conditions. On the other hand, the meagre return to the stockholders suggests strongly the need for a better balance in this respect. Public policy largely governs this situation.

OUR PLANT AND TOOLS

Management recognizes that it is essential that road, equipment and all other facilities must be developed progressively to meet modern standards. In pursuance of this policy it has in the past inaugurated and carried out successive programs of improvement. Since 1920, following the end of Federal control after World War, more than a billion dollars has been spent for improvements. A further program now under way and contemplated calls for a substantial expenditure for improve-




Duluth
Superior
St. Paul
Minneapolis
MINN.
WISCONSIN
Eau Claire
Marshfield
Green Bay
Oshkosh
Lake Winnebago
Fond du Lac
La Crosse
Elroy
Madison
Milwaukee
Racine
Janesville
Dubuque
E. Dubuque
Rockford
IOWA
Clinton
E. Clinton
Davenport
Rock Island
Zearing
Ladd
Churchill
Depue
Granville
Seneca
Galesburg
Lostant
Streator
Dwight
Reddick
Kankakee
Mombence
Peoria
Pekin
Bloomington
Farmer City
Champaign
Urbana
Springfield
ILLINOIS
Danville
Sheldon
Sheff
Fowler
Chrisman
Paris
Charleston
Mattoon
Shelbyville
Pana
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Alton
Warrenton
Granite City
E. St. Louis
St. Louis
Labadie
Cuba
Bismarck
Missouri R.
Mississippi River
Cairo
Kentucky Res.
Harco
Sahara
Eldorado
Harrisburg
Parker
Norris City
Carmi
Grayville
Mount Carmel
St. Francisville
Lawrenceville
Vincennes
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Petersburg
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Cincinnati
Covington
Newport
Aurora
Lawrenceburg
Westport
Greensburg
Harrison
Valley Jc.
Brookville
Connersville
Beeson
Carlisle
Rushville
Shelbyville
Bates-ville
Trafalgar
Fairland
Indianapolis
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Clay City
Greencastle
Crawfordsville
Lebanon
Anderson
Alexandria
Muncie
New Castle
Shirley
Lewisburg
Savona
Lynn
Greenville
Arcanum
Troy
Urbana
Marysville
Kenton
Ridgeway
Delaware
Centerburg
Mount Gilead
Edison
Marion
Martel
Carey
Ohio City
St. Marys
Celina
Bellefontaine
Sidney
Union City
Anna
Van Wert
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Eaton Rapids
Owosso
Lapeer
Saginaw
Vassar
Bay City
Denmark Jc.
Bach
Saginaw Bay
Midland
Pinconning
Big Rapids
Baldwin
Cadillac
Gladwin
Houghton Lake
West Branch
Rasmus
Frederic
Grayling
Traverse City
Gaylord
Alpena
Boyne City
Boyne Falls
Petoskey
Indian River
Cheboygan
Mackinaw City
St. Ignace
Mackinac I.
Lake Michigan
Lake Huron
Georgian Bay
Lake Erie
Detroit
Windsor
Ann Arbor
Ypsilanti
Manchester
Cement City
Lenawee Jc.
Monroe
Toledo
Mileboro Jc.
Port Clinton
Sandusky
Clyde
Green Springs
Fostoria
Findlay
Tiffin
Berwick
Norwalk
Oberlin
Elyria
Berea
Cleveland
S. Lorain
Painesville
Ashtabula
Conneaut
Erie
Westfield
Wauseon
Bowling Green
Van Lue
Shelby
Crestline
Galion
Mount Gilead
Centerburg
Essex
Amherstburg
Comber
Sea Cliff Park
St. Thomas
Aylmer
Waterford
London
Petrolia
Oil City
Eddys
Courtright
Kitchener
Toronto
Beeton
Maitland R.
Port Maitland
Port Colborne
Niagara Falls
Tonawanda
Buffalo
Lake Ontario
Collinwood
Marcy
Newton Falls
Ferrona
Sharon
Youngstown
Alliance
Minerva
Wampum
Beaver Falls
Beaver
Aliquippa
Pittsburgh
Kobola
Coraopolis
Smithfield
Monongahela
Fayette City
Brownsville
Morgantown
Fairmont
Dillonvale
Wheeling
Ravenna
Wellington
Andover
Franklin
Polk
Belmar
West Middlesex
New Castle
Ellwood City
Pymatuning Res.
Titusville
Oil City
Latimer
Deighton
Phalanx
Ohio River
WEST VIRGINIA
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Johnstown
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Jeter
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Deepwater Bridge
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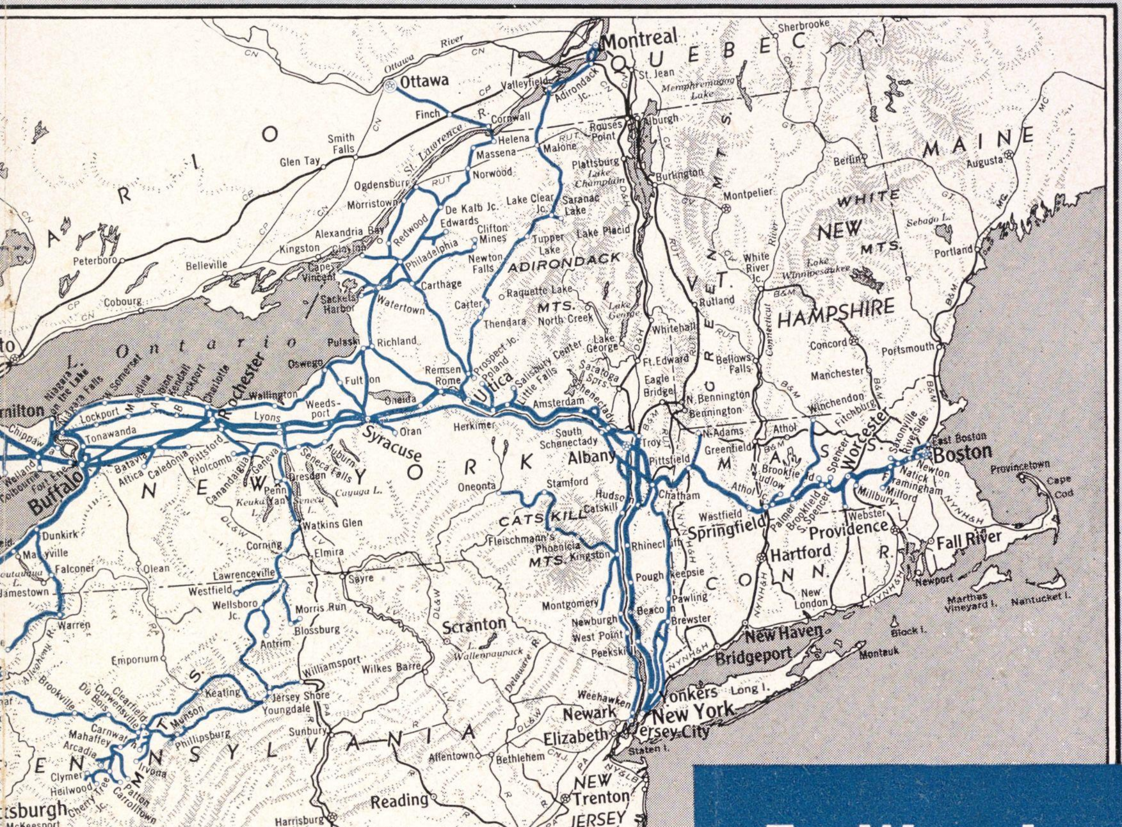


THE WATER LEVEL ROUTE

The New York Central System operates 11,000 miles of railroad in eleven states and Canada in the great commercial and industrial area between the Atlantic Seaboard and the Mississippi Valley, providing the highest type of passenger and freight service.

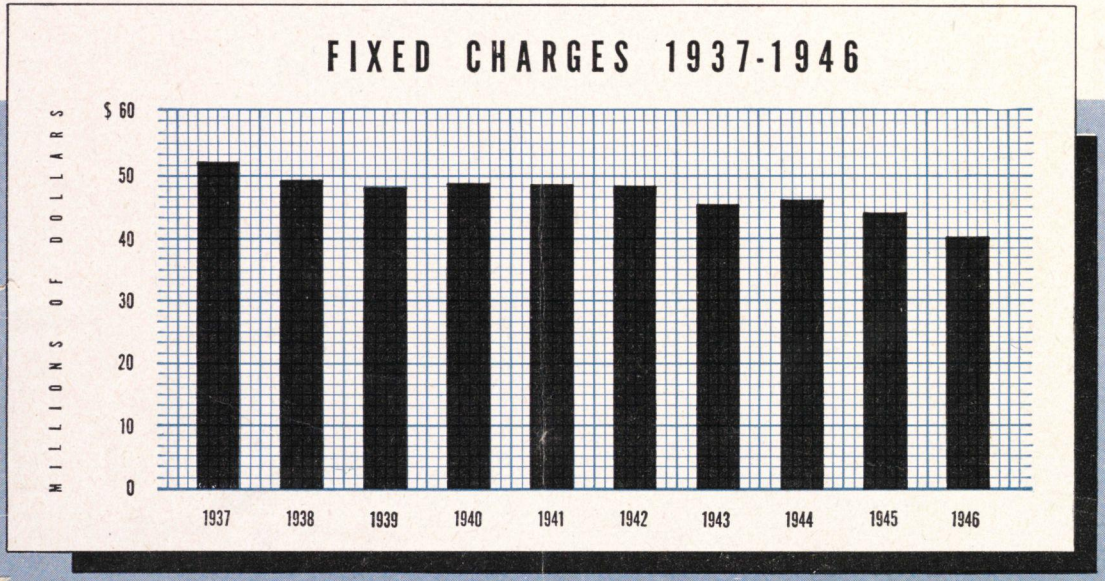
NEW YORK CENTRAL • MICHIGAN CENTRAL

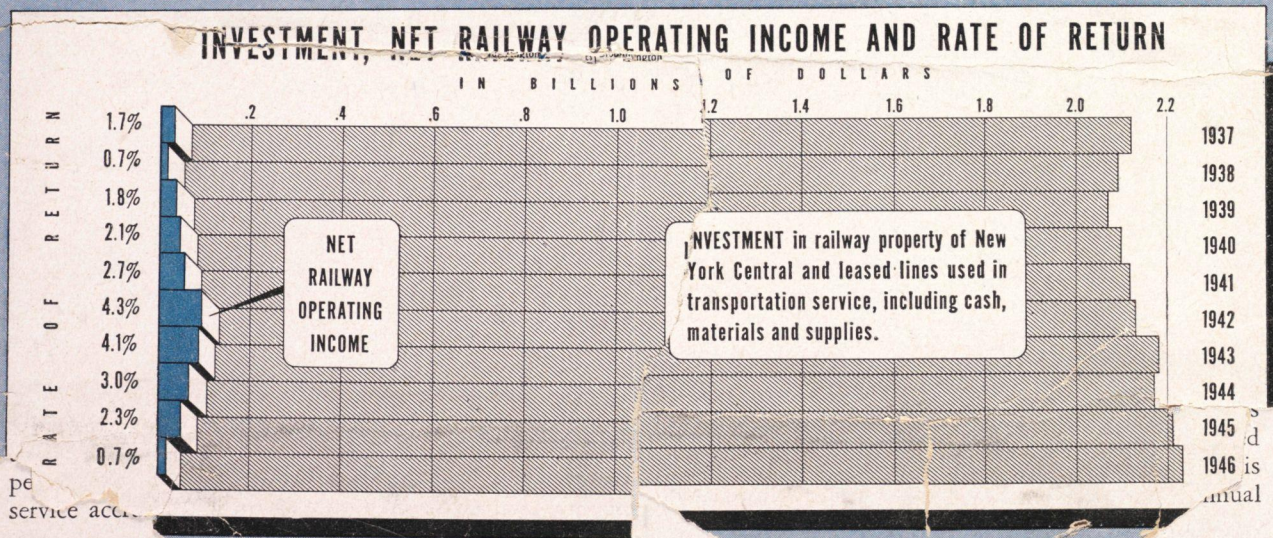
BOSTON & ALBANY • BIG FOUR

PITTSBURGH & LAKE ERIE

NEW YORK CENTRAL SYSTEM

ments, including extensive additions of modern passenger and freight train cars and motive power, as well as important improvements of roadway and structures, such as the elimination of curves and other "bottlenecks" on the railroad, important bridge reconstruction, improved coal and ore facilities at Toledo, Ohio, and other improvements designed to promote efficiency and modernization.

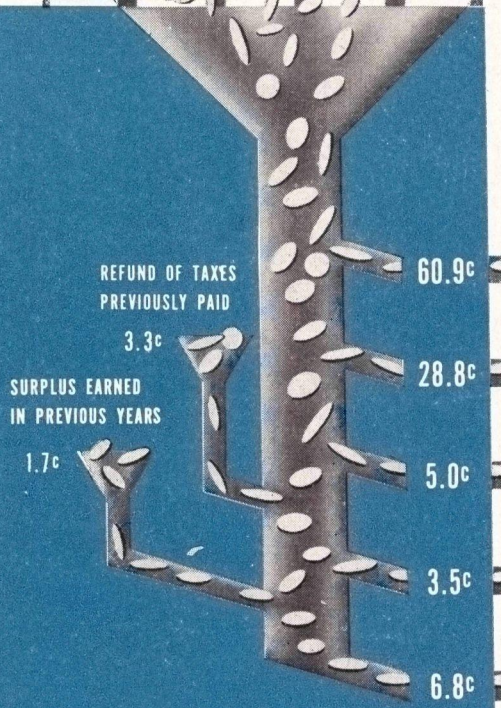




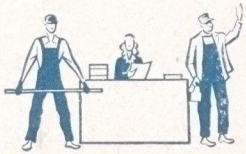
THE YEAR'S BUSINESS AT A GLANCE

INCOME DOLLAR

FREIGHT	PASSENGER	OTHER OPERATIONS	INVESTMENTS
64.6c	23.3c	9.4c	2.7c



COSTS

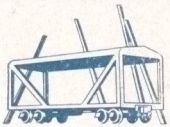


COST OF HUMAN ENERGY
(Wages, salaries, pensions and payroll taxes)

60.9c

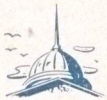
COST OF MATERIALS AND SERVICES
(Bought from others)

28.8c



COST OF TOOLS WEARING OUT
(Depreciation and amortization)

5.0c



COST OF PAYMENTS ORDERED BY GOVERNMENT
(Taxes, excluding payroll taxes)

3.5c

COST OF USING THE TOOLS
(Interest and leased line rentals, etc.)

6.8c

TOTAL COSTS $1.05

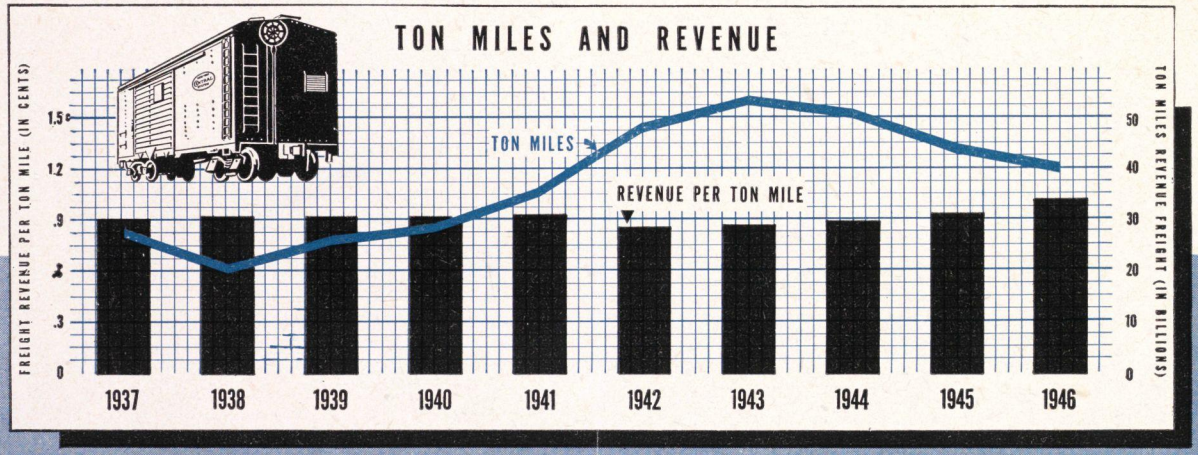
NOTE: "Cost of Using the Tools" makes no provision for any return upon the large investment of stockholders—in fact, money earned for their account in former years was drawn upon to the extent of more than ten million dollars to pay the cost of conducting the business in 1946.

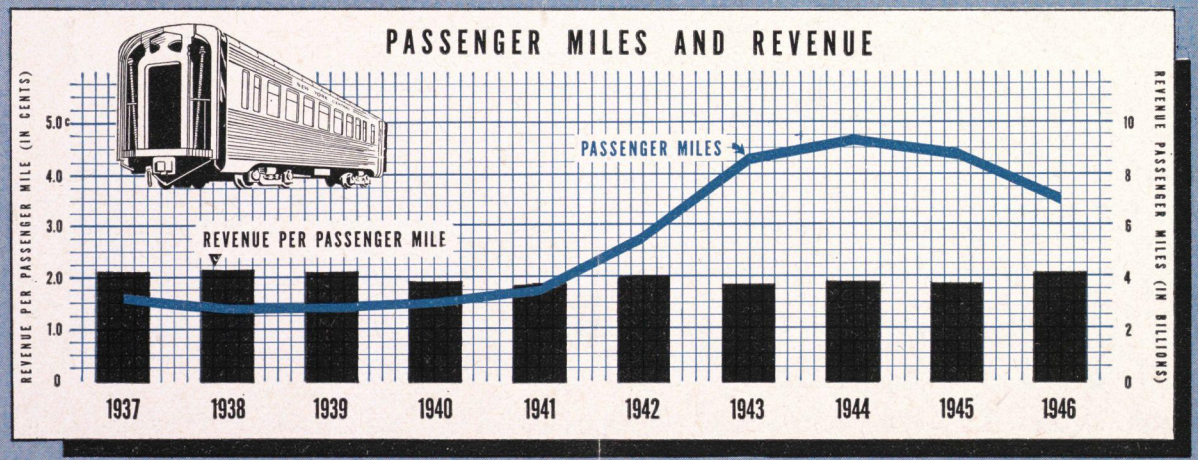
PUBLIC POLICY IN TRANSPORTATION

There is perhaps no other single factor affecting railroad operations as important at this time as public policy.

The rates and fares which we may charge for services are controlled by governmental authority. Wages, which absorb more than 50 per cent of our total revenues, are in effect controlled in much the same way, though by different governmental agencies. In many other ways what we do and how we do it is a matter of governmental regulation. This results often in the requirement that we continue operations that are economically unsound.

What we need, above all else, is equality of treatment for all forms of transportation in all respects. In other words, it is essential that Congress take appropriate action to effectuate the national transportation policy as expressed by it in 1940, so as to permit the railroads to compete on a basis of equality with other forms of transportation which are very substantially subsidized with public funds. The right-of-way, structures, equipment and all other facilities employed in the operation of our railroad were provided by private capital. We pay the full cost of operating our property, including compensatory rentals for properties we do not own. We pay taxes for the support of municipal and state governments as well as federal income taxes. In short, we pay our way. On the other hand, with the single exception of pipelines, other forms of transportation with which we must compete pay only a part of the cost of facilities required for their operation and do not pay compensatory





BALANCE SHEET AT A GLANCE

ASSETS

ROAD AND EQUIPMENT AND OTHER PROPERTIES
(after allowance for wear and use)

$1,003,730,724

INVESTMENTS IN AFFILIATED AND OTHER COMPANIES

$454,388,556

CURRENT ASSETS

$216,041,460

ALL OTHER ASSETS

$24,329,821

WE OWN: $1,698,490,561

LIABILITIES

BONDS
(mortgage and debenture)

$485,072,000

EQUIPMENT OBLIGATIONS

$71,629,561

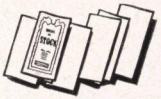
CURRENT LIABILITIES

$114,028,710

ALL OTHER LIABILITIES
(including due affiliated companies)

$193,806,143

CAPITAL STOCK



$562,332,426

SURPLUS

$271,621,721

WE OWE: $864,536,414

CAPITAL STOCK AND SURPLUS **$833,954,147**

charges for the use of such facilities, nor do they pay comparable taxes for the support of general state and municipal governments. What they do not pay is provided by the other taxpayers, including the railroads. We do not ask to be relieved of any proper costs or charges. We contend, however, that equality of opportunity, in the American tradition, requires that our competitors should assume all the elements of cost that enter into the services they provide.

In the last Congress a resolution introduced by Honorable Clarence F. Lea, Chairman of the Committee on Interstate and Foreign Commerce of the House of Representatives, initiated a national transportation inquiry to develop information looking to the formulation of effective national policy to equalize competitive conditions in the transportation field. It is expected that the inquiry thus initiated will be carried forward in the present Congress, and we strongly urge that all who have an interest in the railroads—employes, stockholders and bondholders—inform and actively interest themselves in this important investigation.

Other important matters affecting the railroads, which will undoubtedly have consideration in the present Congress, include legislative action to confirm the right of the railroads to maintain cooperative organizations and arrangements for the joint handling of matters of common concern. This necessity has long been recognized by governmental authorities, particularly the Interstate Commerce Commission, as well as by shippers and carriers. Recently it has been contended by the Anti-Trust Division of the Department of Justice that acts and arrangements which long have been considered necessary and lawful under the Interstate Commerce Act are unlawful under the anti-trust laws. A bill to clarify this situation was introduced in the last Congress and approved by the House of Representatives, but failed to reach a vote in the Senate. A similar bill has been introduced and is under consideration in the present Congress.

Passed in the closing days of the last Congress, the so-called Crosser bill, making fundamental and far-reaching changes in the railroad retirement and unemployment insurance systems, was signed by the President and became law July 31, 1946. On the basis of anticipated employment in 1947, New York Central's payroll taxes are increased in excess of $7,500,000 by the provisions of this Act, to a total of approximately $30,000,000. The annual burden of these taxes is equal to about 75 per cent of the Company's fixed charges. It is more than double the total amount of reduction in annual interest charges resulting since 1932 from the Company's program of debt reduction.

THE FUTURE

Traffic prospects for 1947 are good. It is expected that the volume of freight traffic will continue at about the same high level experienced in 1946, with some decline, however, in passenger traffic. Revenues will be favorably influenced by the 17.9 per cent increase in freight rates which became effective January 1, 1947, and the continuance of the 10 per cent increase in passenger fares.

With new motive power and equipment, with improvements to plant and with new efficiencies, our whole organization is prepared to provide modern service which will, we believe, commend itself to the public.

During the year 1946 locations on the lines of the Company and its affiliated railroads were selected for 546 additional industrial plants. Many of these industries have constructed or plan to construct new plants, while others have acquired existing facilities heretofore idle. These new industrial plants, large and small, will constitute important sources of future traffic, estimated at approximately 205,000 cars annually.

Anticipated further stabilization of the economy of the country as a whole should be conducive to a normal, orderly flow of traffic over the railroads and thus contribute to more efficient, economical conduct of the business.

In the competitive field we are still faced with the disadvantage to the railroads arising from the continued subsidization of other transport agencies. The opportunity of the railroads to earn a reasonable return, even with the high level of traffic anticipated, is seriously impaired by continuance of these subsidies.

Governmental action to equalize competitive conditions in the transportation field is urgently needed. There appears to be a growing awareness on the part of the public of the importance of dealing with this situation constructively and it is hoped that corrective action will not be long deferred.

G Metzman

PRESIDENT

INCOME ACCOUNT

THE NEW YORK CENTRAL RAILROAD COMPANY

	1946	1945
RAILWAY OPERATING REVENUES:		
Freight	$409,199,396	$418,643,637
Passenger	148,109,502	169,444,180
Mail	15,150,635	14,506,546
Express	2,924,923	12,362,952
All Other	41,400,299	39,406,484
Total	$616,784,755	$654,363,799
RAILWAY OPERATING EXPENSES:		
Maintenance of Way and Structures (Note A)	$ 92,676,937	$107,722,599
Maintenance of Equipment (Note B)	132,566,900	175,072,390
Traffic	10,456,569	9,054,871
Transportation	290,364,318	260,458,406
General and All Other	32,286,769	28,372,704
Total	$558,351,493	$580,680,970
NET REVENUE FROM RAILWAY OPERATIONS	$ 58,433,262	$ 73,682,829
Operating Ratio	90.53	88.74
Railway Tax Accruals	23,953,409	6,423,158
Net Debits for Equipment and Joint Facility Rents	19,032,634	17,315,350
NET RAILWAY OPERATING INCOME	$ 15,447,219	$ 49,944,321
Other Income: (Note C)		
Miscellaneous Rent Income	$ 4,086,857	$ 4,495,427
Separately Operated Properties	2,493	516,530
Dividend Income	4,056,573	4,630,969
Income from Funded Securities	4,164,294	4,743,028
Miscellaneous	4,719,740	5,920,104
Total	$ 17,029,957	$ 20,306,058
TOTAL INCOME	$ 32,477,176	$ 70,250,379
Miscellaneous Deductions from Income	1,967,705	1,762,019
Income Available for Fixed Charges	$ 30,509,471	$ 68,488,360
Fixed Charges:		
Rent for Leased Roads and Equipment (Note C)	$ 18,998,372	$ 19,741,893
Interest on Funded Debt	21,273,929	21,838,397
Interest on Unfunded Debt	618,889	2,455,119
Amortization of Discount on Funded Debt	67,549	40,426
Total	$ 40,958,739	$ 44,075,835
NET DEFICIT TRANSFERRED TO EARNED SURPLUS	$ 10,449,268	$ 24,412,525*

Note A—Includes amortization and depreciation on roadway property.	$ 10,146,560	$ 13,015,668
Note B—Includes amortization and depreciation of equipment.	$ 20,464,425	$ 71,783,213
Also includes depreciation of power-plant machinery.	$ 860,008	$ 840,935
Note C—Included in other income and rent for leased roads are certain inter-company transactions representing credits and corresponding debits amounting to	$ 3,070,482	$ 3,225,57[illegible]
Other income also includes items representing interest and dividends amounting to received on securities of and advances to terminal and other railroad companies whose properties are jointly used by this Company, as to the major portion of which a like amount was paid to those companies as rental and included in joint facility rents.	$ 1,455,980	$ 1,459,[illegible],246

*Income

CONDENSED GENERAL BALANCE SHEET

THE NEW YORK CENTRAL RAILROAD COMPANY

December 31, 1946 and 1945

ASSETS

	1946	1945
INVESTMENTS:		
Road	$ 715,213,430	$ 709,012,198
Equipment	483,355,897	462,774,799
Improvements on Leased Property	128,001,102	127,227,310
Acquisition Adjustment, Donations and Grants	Cr. 8,598,938	Cr. 8,045,262
Depreciation and Amortization Defense Projects	Cr. 348,838,130	Cr. 335,882,943
Capital and Other Reserves	7,359,457	3,376,490
Miscellaneous Physical Property Less Depreciation	34,597,363	36,556,418
Affiliated Companies: (Stocks, Bonds, Notes and Advances)	407,130,940	403,166,778
Other Investments: (Stocks, Bonds, Notes and Advances)	47,257,616	47,597,920
Total	$1,465,478,737	$1,445,783,708
CURRENT ASSETS:		
Cash, Special Deposits and Temporary Investments	$ 124,176,744	$ 175,670,612
Materials and Supplies	41,726,568	39,979,055
Other Current Assets	50,138,148	57,565,722
Total	$ 216,041,460	$ 273,215,389
DEFERRED ASSETS AND UNADJUSTED DEBITS	$ 16,970,364	$ 15,710,224
Total	$1,698,490,561	$1,734,709,321

LIABILITIES

Capital Stock, Outstanding (6,447,410 Shares without Par Value)	$ 562,332,426	$ 562,332,486
Mortgage Bonds	479,572,000	488,806,000
Debenture Bonds	5,500,000	5,500,000
Equipment Obligations	71,629,561	62,993,281
Amounts Payable to Affiliated Companies (Note A)	45,416,529	46,636,927
Current Liabilities (Note B)	114,028,710	123,430,747
Deferred Liabilities and Other Unadjusted Credits	142,449,362	139,930,852
Insurance Reserves	5,940,252	5,855,425
Unearned Surplus	25,838	7,124
Earned Surplus Appropriated	8,565,143	8,429,545
Earned Surplus Unappropriated (Note C)	263,030,740	290,786,934
Total	$1,698,490,561	$1,734,709,321

Note A—Comprises liability to lessor companies for which the New York Central is obligated to make settlement.

Note B—After deduction in 1946 of $23,254,712 and in 1945 of $17,417,756, representing estimated refunds of Federal taxes paid in prior years.

Note C—Includes $29,405,935 transferred from earned surplus accounts of companies consolidated January 1, 1915.

This balance sheet does not include the assets or liabilities of lessor, affiliated, terminal or other companies, nor the liability of The New York Central Railroad Company as guarantor or under leases or otherwise with respect to the securities or obligations of other companies.

EARNED SURPLUS ACCOUNT

THE NEW YORK CENTRAL RAILROAD COMPANY

BALANCE TO CREDIT OF EARNED SURPLUS JANUARY 1, 1946		$290,786,934
ADDITIONS:		
Excess Over Cost of Principal Amount of Bonds Acquired	$ 901,157	
Profit from Sale of Property	885,332	
Sundry Items	225,756	2,012,245
		$292,799,179
DEDUCTIONS:		
Net Deficit for the Year 1946	$10,449,268	
Surplus Appropriated for Investment in Physical Property	131,515	
Prior Service Accrual-Funded Contributory Retirement Plan	18,000,000*	
Retirement of Road Property	874,351	
Service Loss on Leased Equipment Not Covered by Depreciation	154,712	
Sundry Items	158,593	29,768,439
BALANCE TO CREDIT OF EARNED SURPLUS DECEMBER 31, 1946		$263,030,740

*Of this amount $13,000,000 was paid to Trustee in 1946.

Of the total funded debt of The New York Central Railroad Company and its lessor companies outstanding on December 31, 1946, the following amounts, including amounts due the State of New York in connection with certain grade crossing eliminations, mature within the succeeding ten years.

Year	*Equipment Obligations*	*Bonds and Miscellaneous*	*Total*	*Year*	*Equipment Obligations*	*Bonds and Miscellaneous*	*Total*
1947	$10,672,622	$ 558,372	$11,230,994	1953	$ 5,564,640	$ 3,553,372	$ 9,118,012
1948	10,605,825	558,372	11,164,197	1954	4,950,000	558,372	5,508,372
1949	10,571,825	558,372	11,130,197	1955	3,400,000	558,372	3,958,372
1950	9,634,089	5,150,372	14,784,461	1956	1,770,000	18,808,372	20,578,372
1951	8,525,280	6,010,372	14,535,652	*Total*	$71,629,561	$51,882,720	$123,512,281
1952	5,935,280	15,568,372	21,503,652				

(Left) Inside one of Central's new streamlined, air-conditioned coaches . . . part of world's largest fleet of post-war luxury coaches. *(Below)* One of the new passenger Diesel locomotives on the head end of the 20th Century Limited, LaSalle Street Station, Chicago.

THE following editorial is reprinted from the March, 1947, issue of the "Central Headlight," a newspaper published monthly for the men and women of the New York Central Railroad Company:

Post-war Contrasts, 1922-1946

TO do the transportation job that the future demands, the railroads must continue to modernize their lines, including equipment. This will require funds.

In our system of private enterprise these funds must come from investors who feel that they will get a reasonable return for use of their cash. Such investor confidence must depend to a large extent upon the governmental attitude toward industry.

For a century the railroads have been and are today the backbone of the nations' transportation system. Under private management they have expanded steadily and in recent years have reached new peaks of efficiency in handling the huge commerce of the United States.

However, the railroads have been caught in the backwash of conflicting political ideologies growing in part out of World War II, which the roads did so much to win.

Lack of active public and governmental recognition of the essential need of a fair return on the capital invested in our railroads is leading private capital to become wary of rail investments. For this reason the progress of the roads in the immediate future is endangered. The situation calls for speedy correction.

Expansion Based on Transport

Great expansion of the industry and commerce of the United States in the next several years is expected. This expansion will depend largely upon efficient and cheap transportation, both of which the railroads can provide if funds are made available to them for improvements.

A program of modernization would be in the interest of the entire nation, including the railroad employes. In the long run it would mean increased wages and cheaper rates and a higher standard of living. In addition, World War II indicated that an efficiently operated railroad sytsem is essential for national security.

The railroad managements during the war period made plans for improved track and modern freight and passenger cars and more efficient power units. So far as possible, these plans are being carried out. Their full fruition depends upon the ability of the roads to obtain the necessary funds.

Help After World War I

The period shortly after World War I is a good guide to the value of railroad improvement to a country. Emerging from that conflict, the roads, under federal government control, were in poor condition. Their inability to move expanding commerce efficiently was threatening the nation's economy. The federal government realized this and in 1920 turned the railroads back to their owners.

Released from government control, rail management soon set in motion the greatest modernization program ever undertaken by this or any other country. The executives were encouraged by government authorities, who did what they could to re-establish the faith of investors in railroad securities.

The Interstate Commerce Commission ordered an increase in both passenger and freight rates. The Transportation Act of 1920, fixing the return on investment as 5¾ per cent and permitting consolidations, was enacted.

While the 5¾ per cent return never was realized, the action of the public authorities was definitely helpful to the railroads. Within a few years they obtained from private capital about ten billion dollars for rehabilitation.

The added capital enabled the roads to handle efficiently the huge traffic of World War II. This achievement was registered without aid from the United Sates Treasury. In fact, during the war the railroads paid in federal taxes more than four billion dollars.

Second War Brings Change

Emerging from the latest conflict, the lines found the attitude of public authorities quite different from that after World War I. Pursuant to the procedure of the Railway Labor Act, large wage increases, retroactive for five months, became effective.

To compensate for this added expense and other higher costs of operation, the lines asked for a rise in freight rates. Except for some measure of intermediate relief effective during the last six months of 1946, the increased freight rates authorized were not made effective until January 1, 1947, or a year after the higher wage scale.

The Congress that sat in 1946 also passed the Crosser Act. That measure increased from 3½ per cent to 5¾ per cent the tax payable by employer and employe alike on rail payrolls for social security of employes. It continued, in addition, a tax of 3 per cent upon the employer alone for unemployment insurance. For the same purposes other industries are taxed at sharply lower rates.

Growth of the New York Central

An important part of the nation's transportation network is the New York Central Railroad. Its progress in the last twenty-four years resulted largely from a modernization program after World War I. That work brought considerable benefits to employes and the public, as a brief analysis will make apparent.

At the end of 1922 the New York Central, as then constituted, had invested in road and equipment $1,152,688,220, or an average of $12,828 for each employe. By the end of 1946, including the capital investment of its leased properties, the total investment in the properties operated by the New York Central had almost doubled. The total was $2,161,415,781, or $18,035 an employe.

Of this increased investment in the intervening twenty-four years more than $650,000,000 was new funds. The expanded operations brought a rise in the average number of employes from 89,860 to 119,844. The amount paid to each moved up from an average of $1,764 in 1922 to $3,109 last year, with $190 additional per employe for payroll taxes paid by the Company in 1946. Furthermore, through the availability of improved equipment and facilities provided by this new capital, the number of hours worked each week by an employe was reduced sharply.

Public Benefit

The public benefited from the expansion program through lower freight and passenger rates. In 1922 the railroad received an average of 1.13 cents for each ton of freight carried a mile; in 1946 an average of 1.02 cents a ton-mile. The average revenue for carrying a passenger a mile declined from 3.08 cents in 1922 to 2.10 cents in 1946.

The increased investment in the twenty-four years benefited employes, shippers and travelers. The road's stockholders, however, did not fare so well. Right here is the difficulty in financing any future expansion program except from revenues obtained by the railroad from its services.

Part of the increased investment in the New York Central Railroad in the twenty-four years resulted from the sale of additional stock. Last year not only were no dividends declared from the 1946 operations; after all charges were paid there was a deficit from operations applicable to the stock.

In 1922 the shares received in dividends 3.36 cents out of each dollar taken in, and 2.00 cents additional was transferred to surplus. In contrast, last year surplus was drawn upon to the extent of 1.6 cents for each dollar received, to make up the deficit from operations.

National Policy

Under a sound national policy that would give capital a reasonable chance of receiving a proper return for its hire, the railroad industry might duplicate or exceed its performance so far this century. A policy of starving capital, which under private enterprise must provide funds for the large and small tools of industry, cannot produce healthy progress in railroad operation or any other business.

In the present absence of a national policy conducive to railroad strength, the only likely source of funds is revenue from services. Even with the recent rise in freight rates, service revenue will provide comparatively little for modernization.

Achievement of modern and efficient rail transportation calls for restoration of the confidence of investors in railroad securities. This requires reasonably fair treatment of the roads by government authorities. They will speed such treatment if the people of the country get a full understanding of the necessity of a vital and progressive railroad system.

Transportation must be adequate and up-to-date if the nation is to have a sound economy. Development of railroads certainly will be to the advantage of the public and the employes, as in the past. Experience has shown that a nation progresses in proportion to its transportation facilities.

Foreign Countries Aided

This is borne out by the eagerness of foreign countries to obtain American locomotives and other railroad equipment, so that exchange of goods may be resumed and stricken areas rebuilt. A large part of the export flow for rail use has been on long-term credit, or by outright gift from the United States.

President Truman said in his recent Report on the State of the Union that, "We have shipped more supplies to the hungry peoples of the world since the end of the war than have all other countries combined." These supplies were gathered from all parts of the nation by the railroads of America.

No one here has begrudged necessary taxation to keep the world from chaos. But if America is to act as a balance wheel, or as a leader in world progress, its present facilities of production and transport must be maintained and improved.

Forgetfulness of the need to keep the domestic machine at a high state of efficiency may cause a crash in the delicate global system of which we are a part. In more humble terms, if the goose that lays the golden egg gets inadequate feed, everybody goes hungry.