The Early Bird

LEAVES
CHICAGO

10 P.M.

ARRIVES
BUFFALO

1 P.M.

ARRIVES
NEW YORK

4 A.M.

TOTAL RUN—29 HOURS

ON TIME ONE DAY EARLIER

Annual Report ★ 1954

NEW YORK CENTRAL SYSTEM

THE NEW YORK CENTRAL RAILROAD COMPANY

Board of Directors

William P. Feeley	Richard M. Moss	Earl E. T. Smith
R. Walter Graham, Jr., M. D.	Clint W. Murchison	Daniel E. Taylor
Allan P. Kirby	Alfred E. Perlman	Orville Taylor
William H. Landers	Eugene C. Pulliam	Lila Bell Acheson Wallace
Frederick Lewisohn	Sid W. Richardson	Robert R. Young

Dr. Graham and Mr. Smith

Mr. Kirby and Mr. Young

Mr. Perlman, Mr. Orville Taylor, and Mr. Landers

Mr. Moss and Mr. Lewisohn

Mr. Murchison and Mr. Richardson

Mr. Pulliam, Mrs. Wallace, and Mr. Feeley

Mr. Daniel Taylor

Officers

Robert R. Young, *Chairman*
Alfred E. Perlman, *President*
Arthur E. Baylis, *Vice-President—Freight Traffic*
Karl A. Borntrager, *Vice-President—Operations and Maintenance*
Thomas J. Deegan, Jr., *Vice-President—Staff*
Garrard W. Glenn, *Vice-President—Law*
Lawrence W. Horning, *Vice-President—Personnel*
Ernest C. Nickerson, *Vice-President—Passenger Services*
Willard F. Place, *Vice-President—Finance*
Allan L. Prentice, *Vice-President—Purchases*
Dwight A. Fawcett, *Resident Vice-President—Chicago*
Frederick B. Hank, *Resident Vice-President—Boston*
Charles T. Ireland, Jr., *Secretary*
George H. Albach, *Comptroller*
Ernest G. Jerome, *Treasurer*

THE NEW YORK CENTRAL RAILROAD COMPANY

230 PARK AVENUE ★ NEW YORK 17

Annual Report

FOR THE YEAR ENDED DECEMBER 31, 1954

Contents

CENTRAL *Highlights*

		December 31 1954	December 31 1953
FINANCIAL POSITION	Investments in road, equipment and other properties†	$1,382,900,296	$1,395,426,994
	Investments in subsidiary, affiliated and other companies	$403,171,144	$408,455,744
	Current assets	$169,865,062	$172,864,635
	Current liabilities	$124,626,627	$133,726,108
	Net current assets	$45,238,435	$39,138,527
	Bonds and equipment obligations	$768,762,922	$800,181,130

†*After depreciation and amortization.*

		1954			1953
		1st 6 Months	*2nd 6 Months*	*Full Year*	
INCOME AND EXPENSE ITEMS	Operating revenues	$355,647,385	$353,082,577	$708,729,962	$825,348,776
	Operating expenses	313,400,114	282,821,775	596,221,889	683,643,179
	Taxes	27,516,322	28,363,824	55,880,146	60,748,083
	Equipment and joint facility rents-net	11,764,222	11,828,743	23,592,965	17,777,343
	Net railway operating income	2,966,727	30,068,235	33,034,962	63,180,171
	Other income—net	13,898,668	9,579,281	23,477,949	19,975,197
	Fixed charges	23,567,251	23,758,151	47,325,402	49,153,329
	Net income	(6,701,856)D	15,889,365	9,187,509	34,002,039
	Operating ratio	88.12%	80.10%	84.12%	82.83%
	Return (net railway operating income) on depreciated investment	0.3%	1.4%	1.7%	3.1%
FREIGHT AND PASSENGER FIGURES	Revenue freight tons	68,860,501	72,384,824	141,245,325	166,864,874
	Revenue ton-miles	16,425,226,286	16,622,432,640	33,047,658,926	38,009,809,973
	Revenue per ton-mile	1.57¢	1.53¢	1.55¢	1.59¢
	Revenue passengers*	9,044,377	9,749,789	18,794,166	19,504,096
	Revenue passenger-miles*	1,439,438,826	1,601,812,295	3,041,251,121	3,256,923,897
	Revenue per passenger-mile*	3.24¢	3.04¢	3.13¢	3.26¢
EMPLOYEES AND WHAT THEY RECEIVED	Average number of employees	88,934	81,020	84,977	99,698
	Total wages paid employees	$203,057,132	$198,735,275	$401,792,407	$454,654,778
	Retirement and unemployment insurance taxes (employee benefits)	10,873,983	11,361,100	22,235,083	24,401,831

D—*Deficit.*

* *Excluding commutation.*

A MESSAGE FROM THE CHAIRMAN

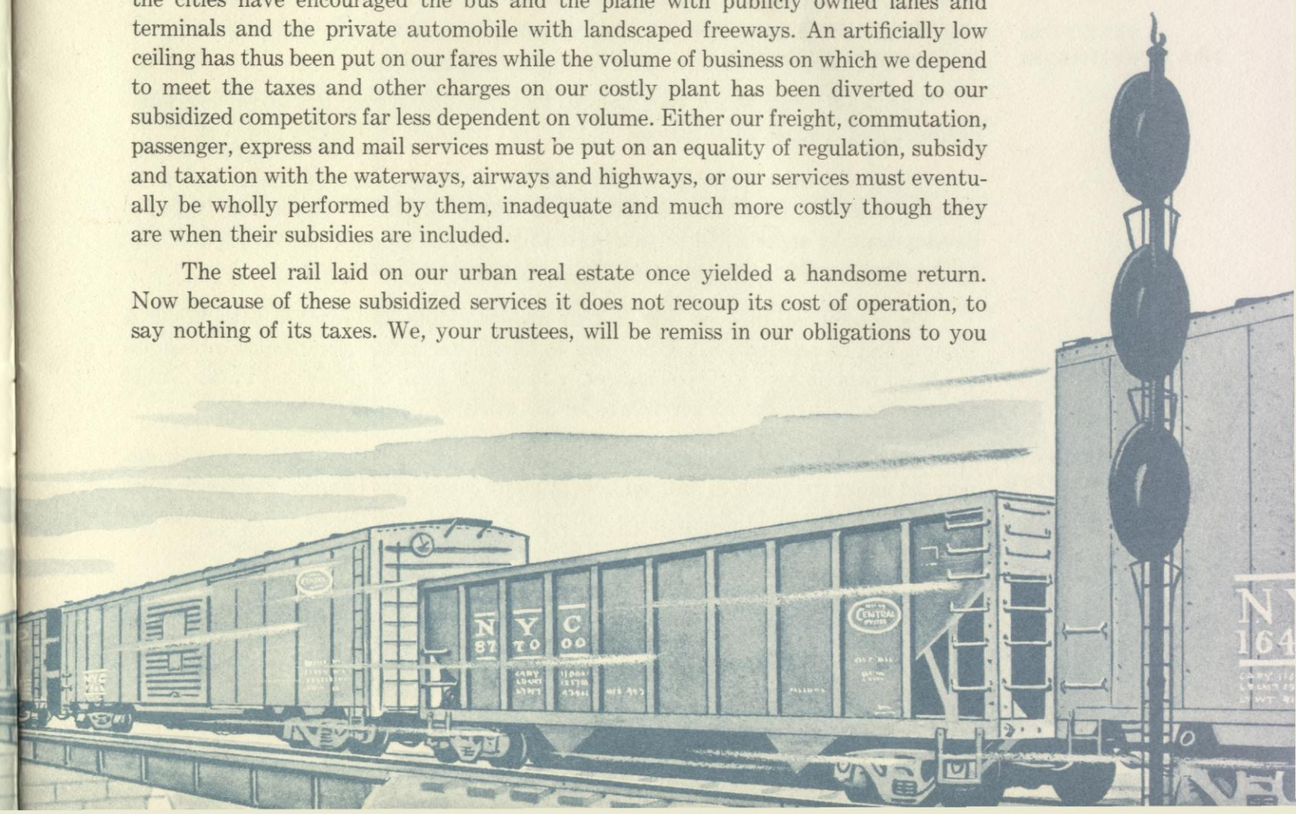
Dear Fellow Shareowner:

AFTER NEARLY A YEAR in the New York Central our optimistic view of its potential is undiminished, its economical water level route running through the industrial heart of the Nation as it does, and serving an area densely populated by almost 80 million people. Details of its physical plant and operations leave much to be desired, but they are susceptible of analysis and correction, tedious and costly though the process may be.

Less easy is it to find the answer to certain intolerable terminal problems, particularly in the East, where the services with which we compete are publicly operated, pampered or subsidized. But studies are well under way and we must find a solution. The Nation's transportation necessities can no longer endure a situation so lopsided that a main line rail operation upon which so many employees, shippers and passengers depend is skimped and sacrificed to the extravagant convenience of a few commuters who have a liberal choice of substitute service.

There was a time when railroads eagerly sought entrance into urban areas, rich sources of freight and passengers. Now the factories have moved to the country and the cities have encouraged the bus and the plane with publicly owned lanes and terminals and the private automobile with landscaped freeways. An artificially low ceiling has thus been put on our fares while the volume of business on which we depend to meet the taxes and other charges on our costly plant has been diverted to our subsidized competitors far less dependent on volume. Either our freight, commutation, passenger, express and mail services must be put on an equality of regulation, subsidy and taxation with the waterways, airways and highways, or our services must eventually be wholly performed by them, inadequate and much more costly though they are when their subsidies are included.

The steel rail laid on our urban real estate once yielded a handsome return. Now because of these subsidized services it does not recoup its cost of operation, to say nothing of its taxes. We, your trustees, will be remiss in our obligations to you



if we do not find ways to make these choice parcels and rights of way productive, if not in transportation then in some other way. The answer may determine whether we are to continue to live in a truly competitive society or whether industry by industry we are to wither into that sorry state of semi-socialism so common in other parts of the world.

Why is it, when the Federal Government and our States and Cities are struggling with unbalanced budgets to maintain facilities and services, gratis, for barges, planes, trucks, buses and automobiles, so little attention is given to the direct recovery of these costs in user charges?

These long brewing problems of regulation and subsidy as they unequally affect the railroads and their competitors are at last coming to the attention of the Nation's President and its Congress; and well they may, when the ironical contrast is considered that our uncertain allies, recipients of our bountiful relief, to say nothing of our troops, are utterly dependent upon our faithful though anemic rails, consistently leeched. Certainly, some may question the brains if not the sincerity behind our entire defense program so long as this inconsistency continues.

NON-OPERATING REAL ESTATE

The New York Central is more fortunate than most railroads in having valuable real estate other than that used in its operations, mostly concentrated in the Park Avenue area of New York. Some has yet to be fully developed, particularly the long neglected air rights above the Grand Central Terminal itself, a vast area with as high a cubic foot value as any in the world. This presently unproductive site will be fully exploited as quickly as operating and other problems inherent in such a huge undertaking can be worked out.

The three hotels which your Company operates have been put under new management and a substantial increase in their net revenues is in early prospect.

These and other plans give such promise of enhancement of values that postponement of any large scale liquidation is clearly indicated. Rather an intensive development by experts will be substituted for what in the past has been left largely to the afterthought of over-stressed and inexperienced railroad men.

To accomplish this, on March 1 an understanding was reached with Webb & Knapp, and its associate Roger Stevens, to administer as our agent under our supervision all negotiations for development, sale and/or lease of properties in the Grand Central tract, payment for services to be left solely to our discretion.

CORPORATE SIMPLIFICATION

Your more than 50 operating companies and controlled subsidiaries are incorporated under the complex railroad laws of many States and Canada. Failure to more fully consolidate and integrate these vast properties has contributed to many unnecessary tax burdens and operating and administrative duplications and wastes.

To remedy a particularly costly situation, we have already made an offer to the holders of $25,000,000 (par value) of Boston and Albany stock, guaranteed by Central, to exchange for a new issue of New York Central 6% Collateral Trust bonds maturing in 1980.

Not only do the holders of Boston and Albany guaranteed stock substantially benefit through this exchange, but the savings to the Central are so great that it is a pity such action was not taken many years ago to remove so obvious a burden of double taxation.

PROGRESS IN OPERATIONS

Your President, acting under the fullest authority, has virtually lived on the property for many months, giving his concentrated attention to costs. He has displayed extraordinary all around executive qualities in all departments where they have been sadly needed. In his courage, determination and diligence he has uncovered and rooted out long entrenched inefficiencies, thus more than meeting your Board's highest expectations. Far sooner than we had hoped, his attention can be turned to those innumerable details which go to create fine service.

To him alone is due the credit for what will, we believe, one day be recorded as one of the most expeditious jobs of corporate rehabilitation in history. Him we have to thank for the fact that directors so soon considered it sound and conservative to put your stock upon a $2 annual basis when on January 11 they declared a dividend of 50¢ payable on March 10. Not since 1931 has your Company paid a regular quarterly dividend.

EMPLOYEE INCENTIVE PLANS

To recognize and encourage such extraordinary service your directors on October 20, 1954, entered into a contract, subject to your approval, to sell Mr. Perlman 32,000 shares of authorized but unissued stock of the Company at the then market price which he may purchase at his election over a 10 year period provided he remains in the Company's service.

It is planned to make similar arrangements in varying amounts of stock from time to time with many of your key employees, if you approve.

All of this is part of a still broader plan which your directors authorized, again subject to your approval, under which every employee with as many as two years service will be given the opportunity to purchase your Company's stock from time to time through special payroll deductions at the market price when the employee decides to purchase, all as more fully described in the proxy statement which shareowners will soon receive.

The directors have also authorized, again subject to your approval, an incentive bonus plan under which not more than 10% of the Company's net income in excess of $2 per share earnings on your Company's outstanding stock may be set aside each

year for special awards in recognition of extraordinary service. Certain other provisions for your protection surround these plans as you will see from the proxy statement. For example, not more than $50,000 may be awarded to any employee in any one year, nor shall these bonuses be payable unless at least $2 in dividends per share shall also have been paid in the previous year.

For the perpetuation of these plans, funds received from employees for the purchase of stock, which may be issued in an amount not exceeding 10% of your Company's outstanding stock in the first instance, may be used in the open market for the purchase of additional stock, as also may certain sums set aside under the bonus plan.

It is believed that these incentive plans are unique in that they can reach every employee, and are self perpetuating. Your Chairman has observed the beneficent effects of such plans in attracting outstanding personnel, and instilling initiative and pride in workmanship from the days in which they were pioneered by such successful companies as du Pont and General Motors. Your Directors unanimously and strongly urge their adoption in the selfish interest of all shareowners. Our interests parallel yours exactly since the only member of the Board qualified to participate and benefit directly is the President.

Society has never found, nor will it ever find, a substitute for ownership in supplying an incentive to good husbandry.

COMPETITIVE BIDDING

Just as ownership is the best incentive to good husbandry, so is open competition the key to the achievement of the lowest prices for high quality in all those commodities and services which your Company buys in its day to day operations. Nothing is more discouraging to the morale of an organization dedicated to sound operations than to see preferential relationship at the top level between the Company and its bankers, suppliers or concessionaires.

CONCLUSION

In conclusion, we wish to express to you our recognition of the fine way in which our employees generally have cooperated with the President; and for the generous tolerance of our shippers and passengers for our service which leaves much to be desired. To all we pledge our best efforts to make the New York Central the most dynamic unit in a newly expanding railroad industry.

Robert R. Young.

CHAIRMAN

COMMENTS BY THE PRESIDENT

Dear Fellow Shareowner:

In 1954 the new management of the New York Central had responsibility for the direction of your property for only the last six months. This is a brief span in the life of a railroad corporation, and a short time in which to measure accomplishment and progress on any property as large and complex as the Central and its subsidiaries. What follows is a brief account of the Central's situation as we found it on June 14 and of what we have already done and are now doing to improve your railroad and your investment in it.

When your new management took office we faced an emergency situation in the fast deterioration of your Company's cash position. The railroad had started 1954 with cash and temporary investments of $59,940,600. By the end of June this was down to $32,970,500 and the situation was getting worse. With no current cost controls to work with, the prospects of further rapid deterioration demanded immediate and decisive action to control expenses. It was necessary to live out on the railroad to observe first hand its operations and institute new methods wherever inefficiency could be detected. That such actions succeeded is shown by the fact that on December 31, 1954 cash had increased to $62,429,500.

FINANCIAL IMPROVEMENT

On a net income basis, the railroad reported a deficit for the first six months of 1954 of $6,700,000. That was really only half the story of its earnings status; for in the first months of the year, millions had been collected by the Central in dividends from subsidiaries, though normally such dividends have not been paid until the closing months of the year; millions had been spent on maintenance which did not show in the income statement because on the books these expenditures were to be spread out over the remainder of the year; and certain charges and accruals which normally would have been included had not been included.

Largely through speedy control of expenses and improved efficiency the unfavorable earnings trend was reversed. Although railway operating revenues in the last six months of the year were actually less than in the first half, not only was the inherited deficit wiped out, but we ended 1954 with net income of $9,200,000.

I cannot overemphasize the importance of establishing cost controls so that we will have them on a current basis.

We have already made some progress in this direction. When we came in the latest figures on the number of employees were two months old. Now, once a month we receive accurate estimates of the number of employees on the payroll as of 5 days previously.

To help us to establish cost controls and plan for the future, last Fall for the first time in Central's history, all supervisors were called in to construct an annual operating and improvement budget for the coming year, and we are now in the process of making studies which will lead to a five-year improvement budget.

Your Company has had no personnel records worthy of the name. Those it did have lacked the information any company needs if it is to utilize its employees to the best advantage. We are concentrating on the compilation of such records. We have also started wage evaluation studies and we have prepared incentive and bonus plans, the latter explained fully in the proxy statement you will receive. Because the employees of any company are its greatest asset, we are laying plans for an extensive personnel program which will make for better selection and training of our people.

TRAINING FOR THE FUTURE

The departmental organization which has been in effect for so long on your railroad threw up barriers which created confusion and divided responsibility to the point where it was non-existent; it precluded both the proper training of our future executives and a desirable decentralization of authority.

To meet this situation we have sent our top management group back to school, to study the principles of corporate organization under the American Management Association. And we have called in consultants at our own staff meetings to advise on the complete reorganization of the old departmental set-up in order to achieve that decentralization of authority now practiced by the most progressive industries, and to place responsibility where it belongs.

Physical communications on your railroad have been sadly lacking. One of our early moves was to lease teletype equipment for yard-to-yard communications. This speeds up our knowledge of where cars are, speeds up their movement, saves us time and money, and enables us to let the shipper know currently where his shipment is located. Such equipment has been completely installed in all our major yards. At the same time, equipment is being installed which will permit records from yard offices to flow into the Auditor of Car Accounts' office on punch cards, greatly reducing time and labor and giving us better control over our per diem charges and our services to our customers.

PHYSICAL INTEGRATION

Central's yards and terminals, even its newest ones, are out of date, and there has been wasteful duplication of both yards and shops. Just as your Company's complex corporate structure has never been integrated, neither has its physical plant. We have started the process of consolidation. Many yards have been closed down and the jobs they performed absorbed by others. All are under study. The railroad had too many shop facilities, a heritage based on the old concept of railroad operations by steam power—a concept made obsolete by the modern diesel locomotive. We have closed down many of these shops and are studying the situation further in the search for more economies. With fewer shops we require fewer stores and have been able to reduce our inventory to the lowest level in eight years.

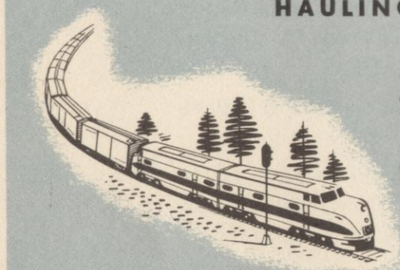
We have undertaken a cooperative study with Carnegie Institute of Technology to determine the best location for our principal classification yards. When this is resolved we intend to make them the most modern in the country.

Electronic signalling is making it possible for us to reduce our track mileage with substantial savings in maintenance and taxes and we have already started this program. Yet we will be able to handle just as much business on a two-track modern railroad as we now do on four tracks.

The diesel locomotive is a wonderfully productive and economic tool — if properly used. When we came on the property, Central's freight diesels were being used only about half the time. We have increased the availability of our freight diesels 25 per cent, and we have in service only 301 of our old steam locomotives. This means that our investment in motive power is working harder and is doing a better job for us.

Sources OF NEW YORK CENTRAL'S INCOME FOR 1954 AND ITS *Disposition*

HAULING FREIGHT 69.8%



	1954	1953
	Millions of Dollars	
Coal, ore, and other products of mines	136.3	166.2
Manufactures and miscellaneous	284.8	343.4
Wheat, grain, flour and other products of agriculture	42.3	44.5
Lumber and other products of forests	14.7	15.9
Livestock and other products of animals	31.3	32.1
L.C.L. (less than carload lots)	25.8	31.9
Total Gross Freight Revenue	535.2	634.0
Less: Items of absorbed switching, pickup and delivery etc.	24.1	28.4
Total Net Freight Revenue	511.1	605.6

CARRYING PASSENGERS 14.6%

	1954	1953
	Millions of Dollars	
Coach (except commutation)	54.2	59.4
Pullman	41.1	46.6
Commutation	11.3	11.1
Total Passenger Revenue	106.6	117.1

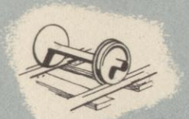
ALL OTHER 15.6%

1954	1953
Millions of Dollars	
114.5	122.6

EMPLOYMENT COSTS 57.0%

	1954	1953
	Millions of Dollars	
Wages and Salaries	391.0	440.9
Pensions	4.4	4.6
Payroll Taxes	22.2	24.4
Total	417.6	469.9

MATERIALS AND SERVICES 25.1%



1954	1953
Millions of Dollars	
184.1	216.0

	1954	1953
DEPRECIATION 5.5%	40.3	40.0
TAXES (Excluding Payroll) 4.6%	33.6	36.3
INTEREST AND RENTALS 6.5%	47.4	49.1
NET INCOME 1.3%	9.2	34.0

The passenger service deficit has plagued your railroad, as well as the rest of the industry, ever since the end of the war and we are studying every phase of our passenger service to improve the revenues and reduce exorbitant costs. At the same time, one of our first moves was to start a cooperative study with five other railroads of new equipment based on modern concepts taking advantage of the most recent technological developments. As a result, several new trains are now being produced that will substantially reduce the weight and cost of passenger carrying equipment per seat with a resultant reduction in both the first cost of these new trains and costs of operation. We are doing this so that the railroads can get back into the mass handling of passengers on an economical basis.

We have made good progress, and we still have much to do. The New York Central has great assets in the area it serves, its water level route, and the loyal and dedicated people who work for it. We will strive in the months and years to come to develop them faithfully.

Alfred E. Perlman

PRESIDENT

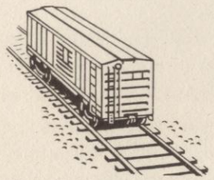
CONVERTIBLE AUTO, efficient and economical, with retractable flanged wheels to guide it on rails, carries President Perlman on inspection trips. With steel wheels up, it is quickly converted to use on highway.

REPORT OF PROGRESS

SERVING A TERRITORY which produces approximately two-thirds of the industrial output of the United States and includes nearly half of its population, New York Central's operations naturally swing with the nation's economy. This was clearly illustrated in the past year. There was a decline in general business which resulted in a reduction in the Central's operating revenues of $116,600,000 for the year as a whole.

Despite this sharp decline in revenues, the Company ended the year with a profit of $9,187,509 largely because of decisive steps taken in the last six months to increase operating efficiency and control costs. While our operating ratio (per cent of operating expenses to operating revenues) for the full year was 84.12%, for the last two months it was below 77%, the best operating efficiency the Central has known for many years.

Your new management's program, which embraces every single phase of Central's operations, and which is as yet only in its early stages will be continued and intensified.



Freight Service

ON NOVEMBER 17, 1954, fast freight service was introduced, now called the "Early Bird" Fleet, in a major move to bring diverted traffic back on our lines and to attract new business. Two new daily stepped-up freight schedules from Chicago to New York were the first to be established toward the end of 1954, and cut one day off the fastest previous delivery time. These new arrival times enable shippers to deliver their products at the opening of food markets a whole day ahead of Central's former freight schedule and are bettering the fastest time made by trucks, the chief competition for this type of traffic.

The outstanding success of this new service has led to its installation on other runs between major points on the system. A fleet of six through freight trains are now being operated, two from Chicago to New York, one from

QUICK CHANGE of crews completed at Collinwood Yard, near Cleveland, and big diesel is ready to speed east at the head end of Chicago-Buffalo unit of Central's "Early Bird" fleet.

TRYING OUT first installation of NYC's new yard-to-yard communications network in Englewood Yard office, General Yardmaster Thomas Costello watches Yard Clerk James Brann as he transfers data from waybills to punch cards to be used in transmitter.

Chicago to Buffalo, one from Detroit to New York, one from Detroit to Boston, and one from St. Louis to New York, including cars either originating or received at Cincinnati, Peoria, Indianapolis, Toledo, and Cleveland. Besides providing far more satisfactory service to our customers and attracting new business, this fleet is contributing materially to the reduction in our freight car rentals. Furthermore, the faster turn around of equipment is giving the Company a much greater utilization of locomotives as well.

Putting this new fleet in operation was the first of a number of steps planned to speed up Central's freight service and make it the best available. A new control system is now being installed which will enable the Company to plan in advance the arrival of trains for speedier handling through intermediate terminals; and to inform shippers and receivers of the movement of goods in transit.

Supplementing these new services and methods are the Company's intensive efforts to improve existing operations. These include consolidation and modernization of our yards, highly improved communications, consolidation or elimination of unprofitable trains, increased utilization of equipment already owned, acquisition of new equipment, and installation of modern tools for mechanized maintenance of way operations.

The effectiveness of these efforts is indicated in certain significant freight service yardsticks. The average freight train loading (gross tons per train), for example, was increased from an average of 2,878 tons in 1953 to 2,907 tons in 1954. Gross ton-miles per train-hour also increased—from 48,972 in 1953 to 50,328; and the average number of cars per train rose from 65.8 to 68.0. Indicating our improved equipment utilization is the greater use of diesel locomotives in freight service. In January, 1954, 83.4% of the total freight train miles were operated by diesel. By December, 1954, diesel power accounted for 92.4% of the total despite the fact that no new freight diesel locomotives were acquired during the year. In January, 1954, diesel road freight power was producing 225 miles per unit per day, while in December this performance had improved to 239 miles.

The Central serves the most highly-industrialized area in the United States and one that is still growing. In 1954, many new industries were located along our lines and there was substantial expansion of existing plants. By providing the best possible service, properly priced, Central will be equipped to take full advantage of the vast potential of its strategic location.

Passenger Sales and Service

PROGRESS was also made in 1954 compared with 1953 in reducing the deficit which arose from the handling of mail, baggage, and express as well as passengers. Despite a drop in total passenger service revenues of $16,435,339, or 8.6%, the deficit from passenger service operations was reduced $13,632,833, or 26%.

In addition to our own efforts outlined below we are cooperating with other roads to find further solutions to the passenger deficit problem. For example, pooling of services to eliminate duplication may offer opportunities for future economies. The latest major cooperative development, however, was an announcement early in 1955 by six of the nation's largest railroads—including the Central—that experimental resources are being pooled for a joint study of new, high-speed passenger train equipment. Orders are to be placed by four of these roads, of which the Central is one, for passenger trains of startlingly different design. When this new equipment is in use, the cooperating railroads will share all information regarding the engineering and economic results in addition to passenger acceptance. General Motors and other builders not formerly in the railway passenger equipment field are also developing lightweight trains which offer great promise.

The Central has indicated its willingness to purchase from several manufacturers on a competitive basis completely integrated trains similar to the design known as "Train X." It is expected that these trains will have only one fourth the weight and cost per passenger of the conventional train and will cost not more than one half as much to operate. It is hoped that several of these trains will be on the rails next year. These trains should restore dynamic growth to the passenger operation.

Most of the major reasons for the deficits from passenger service are common to all railroads—high original cost and maintenance of equipment; loss of traffic to private automobiles and airlines; the inability to discontinue unprofitable trains except after long drawn-out official hearings; the high cost of dining car, express and mail operations; and duplication of service by competing lines. Some reasons are unique to a few roads like the Central with a heavy volume of commuter traffic and high taxes on property in heavily populated areas, such as New York City.

TO BUILD TRAFFIC

During 1954, Central vigorously attacked each of these problems. To increase traffic, many travel bargains were offered. Our All Expense Tours were greatly expanded. These "travel packages", which include meals, entertainment and hotel accommodations, all attractively priced, became increasingly popular. The Family Fare Plan was enlarged to include Pullman class travel. We also carried on our experimental lower round trip coach fares in certain territories.

In addition, we are studying and testing new developments to make it easier for the public to buy transportation. These include automatic ticket selling devices and completely

ELECTRONIC ticket distribution speeds sales in Cleveland Union Terminal. Mrs. Hazel Snyder operates Ticketfax which flashes facsimile tickets directly to suburban ticket offices and offers same service to offices of large firms in Cleveland area.

modern ticket and reservation procedures including a new system for the transmission of Pullman tickets and reservations directly to business and industrial firms.

As in freight service, every effort was made during the year to obtain the greatest possible utilization of our passenger equipment. The per cent of diesel and electric train miles to total train miles rose from 80.5% in January to 88.7% in December. Passenger diesel miles per unit per day increased from 583 to 603 in the same period. This improvement was accomplished without purchasing new diesel locomotives although four were leased from a subsidiary company.

At the same time, considerable progress was made in reducing the heavy burden of unprofitable trains and services. On an annual basis, 2,410,323 less passenger train miles were operated in 1954 than in 1953. To help lower the cost of dining car service, we extended our thrift grill car operation which not only permits a lower price of meals for our passengers but also reduces our cost of operation. At the year-end, the Company had installed this more economical service on 28 trains. Finally, to improve the unsatisfactory results in recent years of Railway Express traffic, a study of this operation by an outside consultant was begun in October.

A similar approach was applied to our unprofitable commuter traffic—increase the number of passengers wherever possible, cut operating costs and eliminate unprofitable mileage. Some of our bargain plans, for instance, were designed to increase travel on commuter lines in off hours. However, the most important step to reduce our commuter deficit was taken in December when the Company petitioned the Interstate Commerce Commission and the New Jersey and New York Public Service Commissions for permission to discontinue all passenger operation on the West Shore Railroad and the ferry service operating between Weehawken, N. J. and Manhattan. The Central has lost millions of dollars on this

NEW YORK CENTRAL SYSTEM

The Water Level Route

Your New York Central System . . . 10,700 miles of road serving the industrial heart of America . . .

Its famous Water Level Route links the Eastern Seaboard to the great centers of the Midwest . . .

No railroad has a greater potential . . . None is more dedicated to the making the most of its natural advantages . . . to find and apply economical methods of operation which will provide speed, comfort and safety for its passengers, fast, dependable, modern service for its shippers.

NEW YORK CENTRAL
MICHIGAN CENTRAL
BIG FOUR • BOSTON & ALBANY
PITTSBURGH & LAKE ERIE

service—over $500 a year for each average regular West Shore rail-ferry commuter. Since other means of transportation are readily available in the area served by the West Shore, the Central firmly believes that it should no longer be required to continue this money losing operation.

Our passenger terminals also came under close scrutiny during the year to determine where our service could be improved while at the same time reducing costs. Many projects have already been started—more economical mail and baggage handling, new ticket and reservation techniques and increased mechanization of facilities. Other studies are in process on office methods and procedures where it is expected that substantial savings can be made through the use of the latest electrical and electronic business machines.

Studies with other railroads on the operation of joint passenger terminals are also being conducted. As an example of the results which may be anticipated, a joint study with three railroads at our Springfield, Mass., passenger station indicates that the present operating cost may be cut nearly in half while giving better service. Numerous other terminals offer similar opportunities.

Road and Equipment

Most of Central's increased operating efficiency in 1954 was due to better use of the Company's road and equipment. A complete overhauling of techniques and an expanded use of modern machinery made the major contributions to our substantially improved maintenance operations.

The greater utilization of diesel power in both freight and passenger service has already been discussed. This was largely made possible by the adoption of new maintenance methods. For example, diesels now go into repair shops only once every 30 days instead of once every 15 days as formerly practiced. As a result, steam locomotives in service were reduced from 525 at mid-year to 301 at the end of 1954.

RECLAIMING usable parts like these wheels from otherwise worn out equipment saved NYC $2.9 million in 1954. Last year, 9,863 freight cars were demolished in the Central's scrap and reclamation program. Over $16 million worth of scrap was sold.

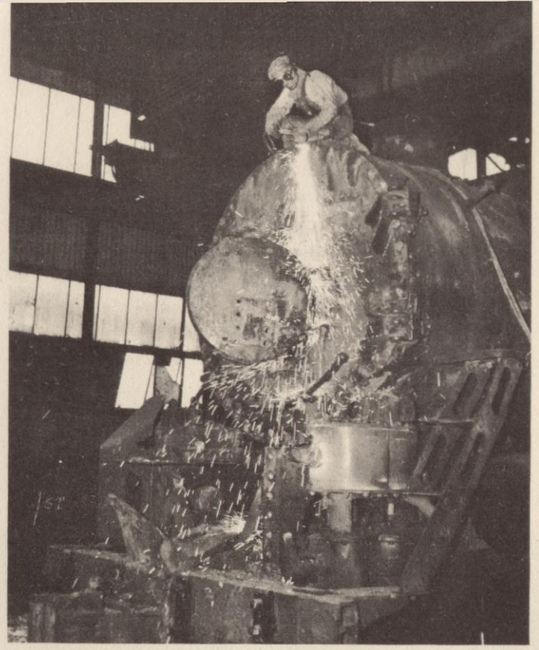
During the year, 1,447 new 50′6″ box cars were received on an order of 2,500. The balance will be delivered in the first half of 1955. Improvements to existing rolling stock included the allocation of nearly $2,000,000 to equip approximately 1,000 freight cars for handling miscellaneous auto parts, plasterboard, glass and other types of shipments. New equipment expected to be acquired in 1955 includes 200 70-ton covered hopper cars and 1,200 drop-bottom all steel containers for handling bulk commodities.

STREAMLINING

A system-wide reorganization and consolidation of the Company's car and locomotive repair facilities was also begun during the year. The Mechanical Department divided the System into two regions and relocated division of its territories for greater efficiency. Several repair shops were closed and several repair tracks discontinued. The annual savings resulting from these measures are estimated at approximately $817,000. Our efforts are now being concentrated on further reducing the number of steam locomotives in service, lowering the out-of-service time of our diesel power and continuing to improve the condition of our locomotives and cars.

In addition, we scrapped 9,863 obsolete cars, 7,065 during the last six months of the year. Dismantling of this equipment, besides ridding the Company of cars which were of no use and tracks to store them on, resulted in a total of $16,256,372 of scrap sold and the reclamation of usable parts with a net value of $2,851,071.

Paralleling this improvement in our equipment picture was the progress made toward more efficient track maintenance. To place our track work on a production line basis,



UNDER THE TORCH, final value is extracted from old cars and steam locomotives. At the Central's Ashtabula, O., reclamation shop, worn out equipment is cut up to be sold as scrap metal.

$2,000,000 was expended in 1954 for new maintenance machinery. This permitted a substantial reduction in labor costs. More track work was done in 1954 than in previous years at considerably less cost. Illustrating the Central's increasing mechanization, 2,586 miles of track were surfaced with mechanical tampers in the past year compared with 1,906 miles in 1953 and 905 miles in 1952. Still further mechanization of maintenance of way will be realized.

We are equipping a laboratory at Cleveland for technical research. One of the dramatic highlights of the year was the recent installation in this laboratory of an RCA electron microscope and a direct reading spectrometer. The use of these modern devices foretells great future savings in the purchase of fuel and lubricating oil.

By use of the spectrometer it will no longer be necessary arbitrarily to dump lubricating

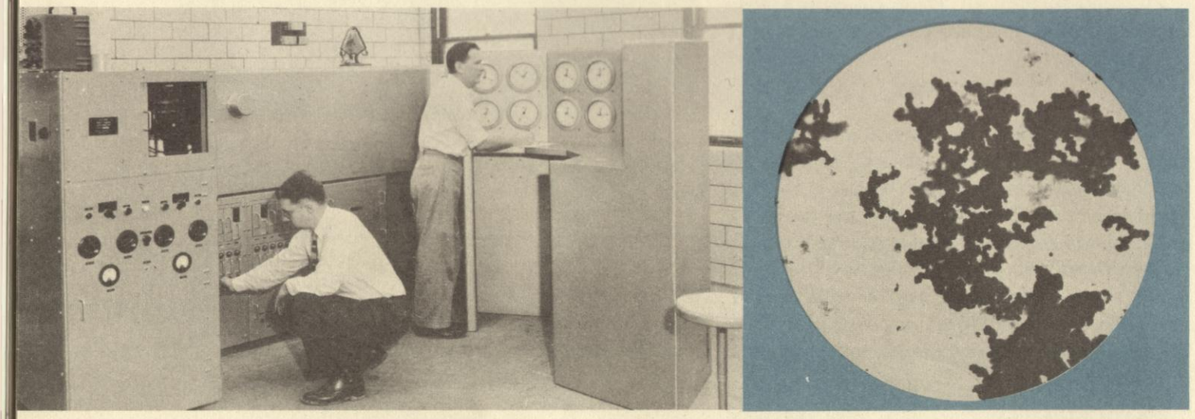
oil when a locomotive has covered a fixed number of miles, but the oil may be used until tests indicate impurities. The spectrometer will tell when there are impurities, just what they are, and what repairs are needed. The savings in cost of lubricating oil and filters amounts to over $1,000,000 annually. It will save much more than this in decreased locomotive maintenance.

The electron microscope will enable us to purchase less expensive grades of fuel oil by determining in advance whether the cheaper brand meets satisfactory standards and, if not, what additives may be required. When it is appreciated that the System purchases on an average 243,000,000 gallons of fuel oil per year, the significance of even a half cent cheaper price per gallon is easily apparent. And we are already saving a substantial amount on every gallon of fuel purchased compared to the cost of the specification fuel used earlier in the year. This lower cost fuel gives increased power.

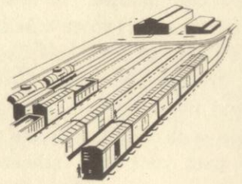
Conforming to this new pattern of maintenance operation, a mechanized inventory control system was installed in 1954. In addition, through this closer control and consolidation of shops, a smaller inventory of materials is required. Inventories were reduced from $58,660,742 on June 30, 1954 to $48,657,940 at the end of the year 1954.

Considerable emphasis was also placed during the year on the abandonment of unnecessary trackage and other fixed property. This will mean a continuing savings in maintenance and taxes in future years. Moreover, as this program progresses, it will also make available reclaimable material for maintenance work on remaining facilities at greatly reduced costs.

There is a tremendous potential of future savings through continued abandonment of excess trackage. For instance, on December 31, 1954, System track miles aggregated 23,575.41 compared with total road miles of only 10,710.44. The installation of modern signal equipment such as Centralized Traffic Control, the increased use of up-to-date communication systems, faster freight schedules and other measures now being instituted on the Central will make possible a substantial reduction of unnecessary trackage.



SPECTROMETER (*left*) indicates the presence of bearing metals in diesel crankcase lubricating oil. At right is photo taken through electron microscope, showing colloids in fuel oil. Installed at Collinwood, O., diesel shop, spectrometer gives advance warning of needed engine care; microscope indicates fuel oil quality.

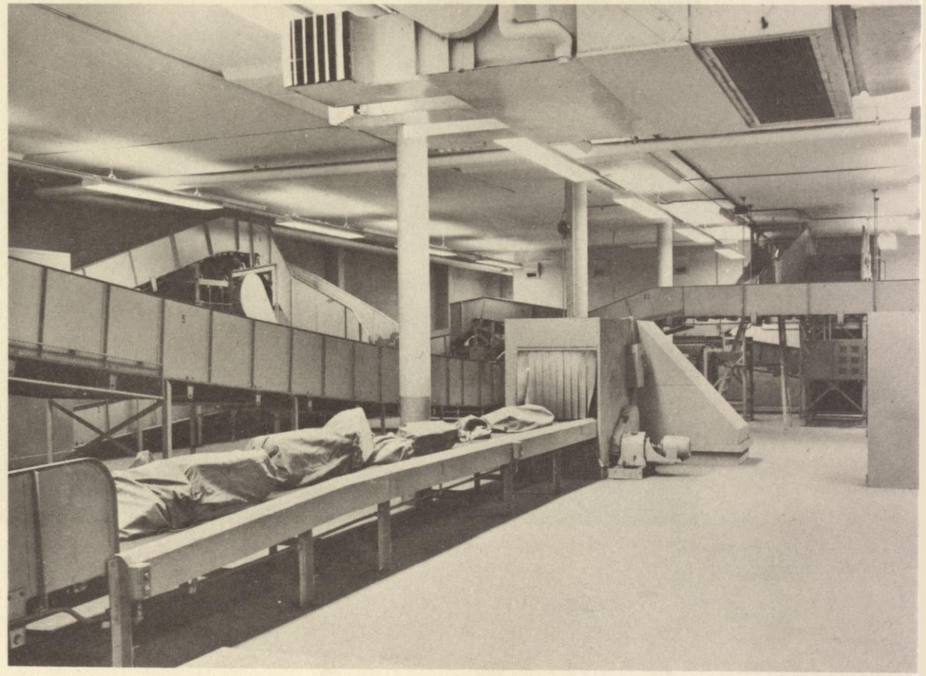


Yards and Terminals

"BETTER SERVICE" in railroading usually means "Faster service", at least in so far as freight traffic is concerned. Since a great deal of time is spent in yards—making up trains, switching cars, loading and unloading—speeded-up yard service offers the greatest opportunity for shortening the total elapsed time of shipments and reduces operating costs.

In 1954, a good beginning was made toward eventual complete modernization of Central's yards. The installation of our new, modern communication system between yards, helped considerably to improve operating efficiency. Modern communications within the yards themselves—such as two-way radio between engine crews and yardmasters—also brought faster and more efficient handling at lower cost.

These improvements, together with our increased mechanization of facilities, made possible the elimination of many excess yards with a resultant large saving in maintenance, taxes and labor costs. Numerous expensive L.C.L. transfer points were also eliminated. Motor freight service was inaugurated, wherever permissible, between points where the volume of traffic did not permit economic operation by



MECHANIZATION makes handling of U.S. Mail by the Central more efficient as well as speedier. NYC built new $8 million mail depot in Cleveland, leased it to Post Office.

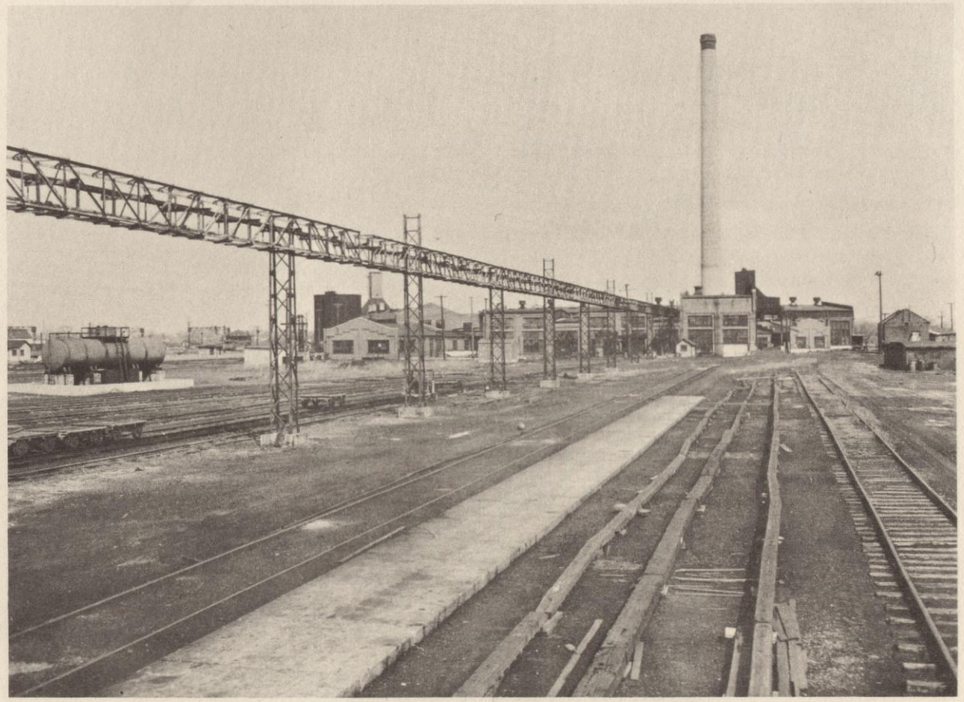
rail. Joint studies were instigated toward the consolidation of facilities with other rail carriers. All of these measures will materially contribute to more efficiency at lower operating costs in the future.

As in freight and passenger service, the use of diesel power in yard service was greatly increased in 1954. While no new yard diesels were acquired during the year, 48 were leased from subsidiaries. This additional equipment, plus an intensive campaign for greater utilization, accelerated the dieselization of our yards. In January, diesels accounted for 75.6% of total switch engine hours; by December, they were doing 88.9% of the work.

Additional studies are now in progress on mechanization and more efficient operation of such facilities as mail and baggage handling, L.C.L. freight operations (less than carload lots) and plant layout and methods. Studies on three such major projects were completed in the past year and indicate an estimated annual saving of over $600,000.

The task of tightening up and improving our yards and terminals is vast but potentially very rewarding. The mere existence of the System's many yards and passenger terminals emphasizes the magnitude not only of the tremendous study involved but also of the results which can be achieved.

UNNEEDED duplication of work was trimmed during 1954. Linndale, O., car shop was closed when its work of building loading equipment for auto parts was concentrated at West Detroit shop.



MEETING OF OFFICIALS from all parts of NYC System was held in New York in November to map plans and budget for ensuing year. At same time men from all departments began enrolling in short courses to keep them abreast of latest techniques in business management.

Personnel

DURING 1954, a study of improving our methods of selection of personnel was initiated and at the year-end was nearing completion. It is being adopted in 1955, and from then on Central's future will be placed in the hands of men selected as best qualified.

The second phase of the program is directed toward enlarging and intensifying the Company's training procedures. In the future, promotions in the Central will be based on thorough training of understudies for every position.

The new emphasis on training in the New York Central carries right to top management levels. In order to improve and develop the managerial ability of the Company's management team, a program of frequent management meetings was initiated in the fall of 1954 and participation in the activities of the American Management Association increased. The development of highly trained managers will be the best assurance that the progressive policies which have been inaugurated on the Central will be continued in the coming years.

During the year, a training program for employees who contact the public, begun in 1953, was greatly extended. With the theme of "Pleasing Our Customers", this course includes conference discussions supplemented by modern educational aids. It is a continuation and extension of the conference and correspondence courses in supervision and public relations conducted for employees and supervisors in recent years.

A training course for first-line supervisors entitled "Productivity and Costs" was also completed in 1954 with the assistance of the Universities of Chicago and Buffalo. In addition, the program of diesel instruction at the plants of locomotive builders was continued and intensified. As the Central moves toward complete dieselization, a thorough knowledge

of this equipment in many departments of the railroad becomes increasingly important.

In the Accounting Department, a new course to train supervisors and employees in electronic processing of paper work has been instituted. Numerous survey teams in methods and procedures simplification were actively engaged at the year-end in the study of various other operations.

The increased importance placed on training has brought a plainly evident and measurable increase in morale of all our employees.

The importance to our stockholders of a properly conducted training program is clearly evident when it is realized that personnel is one of the Central's biggest investments. Total wages charged to operating expenses in 1954, including payroll taxes, were $412,476,041, or 58.20% of our total revenues.

There were no strikes on the System during the year and our relations with the 30 labor organizations representing our employees continued to be good. Only 23 disputes were submitted to the National Railroad Adjustment Board under the Railway Labor Act in 1954. There has been an improvement in operating efficiency which we expect will continue mainly because of the rising interest on the part of our employees in all the Company's operations. To intensify this interest through part-ownership of the business, a stock purchase plan is proposed. This plan will make stock available to employees if they choose through payroll deductions. It will be submitted for stockholder approval at the Annual Meeting on May 26 together with an incentive bonus plan and a stock purchase plan for key employees.

New labor agreements, which increased rates of pay and established or improved so-called "fringe" benefits, were made during the year and added approximately $13,750,000 annually to our labor costs. An agreement providing for certain insurance benefits for substantially all non-operating employees became effective February 1, 1955. The expense of this plan will be borne equally by the employees and the Company. The additional cost to the Central will be approximately $2,000,000 per year. An amendment to the Railroad Retirement and Unemployment Insurance Acts, increasing the taxable compensation from $300 to $350 per month, which became effective July 1, added approximately $2,000,000 annually to our costs.

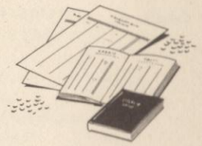
These additional labor costs are not unique to the Central but are the result of industry-wide agreements for all Class I railroads.

Labor demands of three unions pending at the end of 1954, are now being negotiated on an industry-wide basis. If granted in full, they would add approximately $9,000,000 to our annual labor expenses.

Obviously, major efforts must be made and are being made to offset these already high and constantly increasing labor costs. Largely because of the many measures taken in 1954 to increase the Company's efficiency, it was possible to reduce substantially the number of employees required to run the railroad. At the year-end, there were 76,733 Central employees compared with 96,262 in December 1953, a reduction of 19,529. When it is considered that the average annual wage on the Central is $4,722, the magnitude of the tremendous savings which this reduction represents is readily apparent.

Modern techniques, equipment and training have enabled us to handle the same volume of business efficiently with considerably fewer people than previously thought necessary. Our employees know they can do the job because they have been doing it and doing it well. Central's employees—always proud of being railroaders—are becoming prouder still of railroading on the New York Central.

EMPLOYEE TRAINING includes course in "Pleasing Our Customers," in which discussion groups concentrate on improving NYC service through better human relations. Conductor George Papandrea leads fellow employees in this class.



Financial Position

THE NOTEWORTHY PROGRESS which has so far been achieved in tightening up and improving Central's operations is already bringing rewards in terms of dollars. Further improvement of the Company's earning power and financial strength is expected since the coming years will present many opportunities for important progress from a financial standpoint.

During 1954, the Company's long-term debt was reduced by a net amount of $24,201,133 represented principally by payment at maturity of equipment obligations of $32,934,208, offset in part by an increase of $8,393,750 for other long-term debt which arose in connection with the completion of the new Post Office facility at Cleveland, Ohio.

At the present time, the Company is charging approximately $43,000,000 to depreciation, an amount which substantially exceeds the projected long-term maturities of the Company and its lessor companies over the next ten years as shown on Page 30.

This anticipated gradual reduction in equipment and other obligations will steadily lower the Company's annual interest charges. For the year 1954 these charges amounted to $28,865,315 or $227,118 less and total fixed charges to $47,325,402 or $1,827,928 less than in the previous year. Lessening the impact of these charges on railway operating earnings is the System's substantial income from non-operating sources. In the past five years, income from these investments has averaged $22,395,348 per year, approximately 47% of the Company's total fixed charges.

In the meantime, the Company's cash position, which is steadily improving, should continue to build up. The excess of depreciation charges over equipment trust maturities has already been mentioned. In addition, substantial cash is expected to be realized from the sale of scrap obtained from the dismantling of old locomotives and freight cars, and from rail, ties and other materials recovered from the abandonment of excess trackage, yards and shops. Improved earnings will also make additional cash available to the Company.

Balance Sheet

THE NEW YORK CENTRAL RAILROAD COMPANY

ASSETS

	DEC. 31, 1954	DEC. 31, 1953
Current assets (note B):		
Cash and United States government securities	$ 62,429,501	$ 59,940,570
Accounts receivable and unbilled revenue	58,777,621	51,309,710
Materials and supplies	48,657,940	61,614,355
	169,865,062	172,864,635
Properties and capital funds, less depreciation and amortization (see detail on page 30) (note C)	1,383,974,248	1,396,772,194
Investments and advances, at or below cost:		
Subsidiary companies	318,344,841	325,248,851
Affiliated companies	37,909,115	41,757,809
Other companies	46,917,188	41,449,084
	403,171,144	408,455,744
Other assets:		
Insurance deposits and working fund advances	2,252,283	2,264,426
Estimated salvage recoverable on equipment and road property retired	7,827,734	5,001,890
Miscellaneous receivables, claims, prepayments and unadjusted items in suspense	7,063,695	7,009,415
	17,143,712	14,275,731
	$1,974,154,166	$1,992,368,304

LIABILITIES

Current liabilities (notes B and D)	$ 124,626,627	$ 133,726,108
Other liabilities:		
Employees' vacation pay	15,283,740	—
Injury and damage claims	14,743,359	12,378,331
Self insurance provision	4,795,972	5,123,042
Subsidiary, affiliated and lessor companies	60,148,796	40,686,809
Accrued depreciation on leased property	34,842,716	34,658,886
Other liabilities and unadjusted items in suspense	9,175,561	7,820,390
	138,990,144	100,667,458
Long-term debt (see detail on page 30)	800,641,118	824,842,251
Shareowners' equity:		
Capital stock, authorized, 10,000,000 shares without par value, issued and outstanding, 6,447,410 shares (note F)	562,332,426	562,332,426
Retained earnings	347,563,851	370,800,061
	909,896,277	933,132,487
Contingent liabilities (note G)		
	$1,974,154,166	$1,992,368,304

See notes page 31.

Statement of Income

THE NEW YORK CENTRAL RAILROAD COMPANY

	Year ended Dec. 31. 1954	1953
Railway operating revenues:		
Freight	$511,159,556	$605,610,742
Passenger	106,568,158	117,117,505
Mail	38,418,392	40,254,004
Express	14,043,823	16,943,031
Other	38,540,033	45,423,494
TOTAL	708,729,962	825,348,776
Railway operating expenses:		
Maintenance of way and structures	93,711,315	113,564,899
Maintenance of equipment	130,064,874	165,920,599
Traffic	12,340,357	13,229,004
Transportation	321,194,558	350,117,493
General and other	38,910,785	40,811,184
TOTAL	596,221,889	683,643,179
Net revenue from railway operations	112,508,073	141,705,597
Railway tax accruals:		
United States and Canadian income taxes, principally lessor companies (note D)	1,380,955	5,321,580
Other taxes	54,499,191	55,426,503
Equipment and joint facility rents—net	23,592,965	17,777,343
TOTAL	79,473,111	78,525,426
Net railway operating income	33,034,962	63,180,171
Other income:		
Dividends:		
Subsidiary companies	7,823,639	6,514,513
Affiliated and other companies	1,944,229	2,023,775
Interest:		
Subsidiary companies	3,526,437	3,528,985
Other	1,012,334	1,267,946
Miscellaneous rent, less expenses	8,706,743	8,344,166
Net profit from separately operated properties	605,555	1,868,680
Special charges—Cleveland Union Terminals	—	(3,727,756)
Miscellaneous (net)	(140,988)	154,888
	56,512,911	83,155,368
Fixed charges:		
Rent for leased roads and equipment	17,555,051	19,145,548
Interest on funded debt, including amortization of discount	28,865,315	29,092,433
Other interest	905,036	915,348
TOTAL	47,325,402	49,153,329
Net income	$ 9,187,509	$ 34,002,039

STATEMENT OF RETAINED EARNINGS

Balance at December 31, 1953		$370,800,061
Net income for year 1954		9,187,509
		$379,987,570
Deduct:		
Extraordinary charges:		
Employees' vacation pay earned in 1954	$ 15,367,794	
Losses resulting from extraordinary retirements of road property and equipment	8,996,128	
Provision for additional Federal income taxes for prior years	4,000,000	
Adjustment of depreciation arising from a revaluation as of January 1, 1954 of certain equipment received from an affiliated company in 1948 ($1,291,838) and of depreciation on leased road property necessitated by extraordinary retirements during recent years ($2,177,061)	3,468,899	
	31,832,821	
Other charges (net)	590,898	32,423,719
Balance at December 31, 1954		$347,563,851

See notes page 31.

Consolidated Balance Sheet

THE NEW YORK CENTRAL RAILROAD COMPANY and Subsidiary Companies

(See note A for principles of consolidation)

ASSETS

	DEC. 31, 1954	DEC. 31, 1953
Current assets (note B):		
Cash and government securities	$ 106,800,360	$ 119,213,581
Accounts receivable and unbilled revenue	61,816,585	56,281,208
Materials and supplies	58,255,357	74,851,704
	226,872,302	250,346,493
Properties and capital funds, less depreciation and amortization (note C):		
Owned (see detail on page 30)	2,191,487,530	2,220,296,345
Leased from noncontrolled lessor companies (contra)	78,768,389	78,978,631
	2,270,255,919	2,299,274,976
Investments and advances, at or below cost:		
Affiliated companies	42,005,555	45,852,850
Other companies	49,185,955	43,604,912
	91,191,510	89,457,762
Other assets:		
Insurance deposits and working fund advances	2,491,826	2,543,947
Estimated salvage recoverable on equipment and road property retired	8,134,631	5,397,557
Miscellaneous receivables, claims, prepayments and unadjusted items in suspense	8,936,515	9,019,466
	19,562,972	16,960,970
	$2,607,882,703	$2,656,040,201

LIABILITIES

Current liabilities (notes B and D)	$ 123,916,861	$ 148,793,209
Other liabilities:		
Employees' vacation pay	17,756,468	—
Injury and damage claims	16,043,763	13,810,363
Self insurance provision	5,482,981	5,764,316
Affiliated and lessor companies	10,647,149	10,046,546
Accrued depreciation on leased property	4,897,003	3,144,552
Other liabilities and unadjusted items in suspense	10,243,328	8,471,482
	65,070,692	41,237,259
Long-term debt (see detail on page 30) (note E)	1,083,331,443	1,114,026,437
Properties leased from noncontrolled lessor companies (contra)	78,768,389	78,978,631
Less mortgage bonds guaranteed by New York Central (note E)	16,165,200	16,165,200
	62,603,189	62,813,431
Equity of minority shareowners in consolidated subsidiaries:		
Preferred stock	1,940,142	2,058,592
Common stock	38,712,267	39,141,267
Retained earnings	48,902,829	47,863,150
	89,555,238	89,063,009
Equity of New York Central shareowners:		
Capital stock, authorized, 10,000,000 shares without par value, issued and outstanding, 6,447,410 shares (note F)	562,332,426	562,332,426
Excess of net assets (at acquisition) of consolidated subsidiaries over carrying value of investment (after deducting $22,928,732 for deficits acquired)	38,872,839	38,778,557
Retained earnings	582,200,015	598,995,873
	1,183,405,280	1,200,106,856
Contingent liabilities (note G)		
	$2,607,882,703	$2,656,040,201

See notes page 31.

Statement of Consolidated Income

THE NEW YORK CENTRAL RAILROAD COMPANY and Subsidiary Companies

(See note A for principles of consolidation)

	Year ended Dec. 31. 1954	1953
Railway operating revenues:		
Freight	$546,148,990	$656,973,979
Passenger	107,809,796	118,441,277
Mail	38,765,514	40,573,458
Express	14,227,593	17,172,462
Other	78,197,062	92,631,271
TOTAL	785,148,955	925,792,447
Railway operating expenses:		
Maintenance of way and structures	103,320,215	125,537,178
Maintenance of equipment	154,294,248	193,094,206
Traffic	13,542,499	14,392,172
Transportation	356,368,852	389,621,021
General and other	43,427,339	45,488,338
TOTAL	670,953,153	768,132,915
Net revenue from railway operations	114,195,802	157,659,532
Railway tax accruals:		
United States and Canadian income taxes (note D)	3,595,880	17,152,671
Other taxes	61,343,588	62,836,623
Equipment and joint facility rents—net	(2,388,511)	(9,245,628)
TOTAL	62,550,957	70,743,666
Net railway operating income	51,644,845	86,915,866
Other income:		
Dividends from affiliated and other companies	2,768,871	2,762,731
Interest	1,346,861	1,786,940
Miscellaneous rent income, less expenses	9,054,059	8,584,137
Subsidiary's net profit from car construction and repairs (1953 includes tax credit, $2,175,000, for prior year)	1,280,012	3,720,545
Special charges—Cleveland Union Terminals	—	(3,727,756)
Miscellaneous (net)	(109,313)	(143,502)
	65,985,335	99,898,961
Fixed charges:		
Rent for leased roads and equipment	5,446,545	5,422,904
Interest on funded debt, including amortization of discount	39,957,438	40,136,232
Other interest	873,573	879,146
	46,277,556	46,438,282
	19,707,779	53,460,679
Portion of net income of consolidated subsidiaries applicable to stocks held by minority interest	6,039,201	8,684,272
Net income (note D)	$ 13,668,578	$ 44,776,407

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

Balance at December 31, 1953		$598,995,873
Net income for year 1954		13,668,578
		612,664,451
Deduct:		
Extraordinary charges:		
Employees' vacation pay earned in 1954	$ 17,657,827	
Losses resulting from extraordinary retirements of road property and equipment	9,058,219	
Provision for additional Federal income taxes for prior years (net)	2,430,000	
Adjustment of depreciation arising from a revaluation as of January 1, 1954 of certain equipment received from an affiliated company in 1948 ($1,291,838) and of depreciation on leased road property necessitated by extraordinary retirements during recent years $2,177,061)	3,468,899	
Sales or retirement of properties and other property adjustments	(2,064,658)	
Other charges	910,536	
	31,460,823	
Less portion of above items (excluding additional taxes and depreciation adjustments) allocated to minority interests	996,387	30,464,436
Balance at December 31, 1954		$582,200,015

See notes page 31.

Balance Sheet Detail

THE NEW YORK CENTRAL RAILROAD COMPANY and Subsidiary Companies

(See note A for Principles of Consolidation)

PROPERTIES AND CAPITAL FUNDS

	New York Central		Consolidated	
	Dec. 31, 1954	Dec. 31, 1953	Dec. 31, 1954	Dec. 31, 1953
Owned:				
Road and roadway structures	$ 886,050,898	$ 877,607,663	$1,668,733,759	$1,659,159,402
Depreciation and amortization	(122,400,047)	(115,061,921)	(188,434,573)	(175,814,070)
Equipment	752,072,943	794,179,852	1,150,673,901	1,201,203,398
Depreciation and amortization	(275,876,436)	(301,299,641)	(523,526,202)	(550,461,653)
Improvements on leased property	111,914,046	107,505,136	4,692,516	4,780,879
Miscellaneous physical property	56,681,467	56,820,720	114,528,759	115,545,395
Depreciation, depletion and amortization	(25,542,575)	(24,324,815)	(36,677,778)	(35,991,373)
Funds segregated for investment in property or retirement of debt	1,073,952	1,345,200	1,497,148	1,874,367
	$1,383,974,248	$1,396,772,194	$2,191,487,530	$2,220,296,345

LONG-TERM DEBT

(including maturities in 1955—note B)

Funded debt (note E):				
Mortgage bonds	$ 522,269,500	$ 522,447,500	$733,096,325	$ 736,663,825
Debenture bonds	5,500,000	5,500,000	5,500,000	5,500,000
Collateral trust bonds	—	—	5,730,000	5,900,000
Equipment obligations	240,993,422	272,233,630	304,382,882	337,966,778
Other	—	—	2,744,040	3,334,713
	768,762,922	800,181,130	1,051,453,247	1,089,365,316
New York State—grade crossing eliminations	21,942,185	22,513,748	21,942,185	22,513,748
For acquisition of Cleveland mail terminal	8,393,750	—	8,393,750	—
Other	1,542,261	2,147,373	1,542,261	2,147,373
	$ 800,641,118	$ 824,842,251	$1,083,331,443	$1,114,026,437

Maturities during the next 10 years of the long-term debt of the New York Central and of its lessor companies guaranteed by the New York Central under leases (see note G) are as follows:

	1955	1956	1957	1958	1959
Equipment obligations	$31,537,846	$29,660,191	$25,923,240	$22,397,568	$17,996,494
Bonds, etc.	1,810,033	14,642,589	3,063,484	1,205,053	15,876,070
	$33,347,879	$44,302,780	$28,986,724	$23,602,621	$33,872,564

	1960	1961	1962	1963	1964
Equipment obligations	$17,821,394	$17,821,462	$17,821,666	$17,821,346	$15,685,770
Bonds, etc.	13,633,955	30,915,087	30,350,087	4,701,526	1,030,233
	$31,455,349	$48,736,549	$48,171,753	$22,522,872	$16,716,003

See notes page 31.

Notes to Financial Statements

(A) Principles of consolidation:

The accompanying consolidated financial statements include the accounts of The New York Central Railroad Company and subsidiary companies of which the Central controls, directly or indirectly, in excess of 50% of the equity stock. The consolidated balance sheet also includes properties of noncontrolled lessor companies which are operated by the Central under lease arrangements as well as the related funded debt guaranteed by the Central.

(B) Current assets and current liabilities:

Railroad companies do not include in current assets salvage recoverable, insurance deposits, working fund advances, etc. (approximately $11,500,000 for the Central and $12,800,000 consolidated) nor do they include in current liabilities accruals for vacation pay, injury and damage claims, long-term debt and certain other items payable for the most part in the following year (approximately $67,000,000 for the Central and $82,000,000 consolidated).

(C) Depreciation and amortization:

Accrued depreciation includes approximately $64,500,000 representing adjustments to record, in part, depreciation for the period prior to January 1, 1942 on road property on which regular annual depreciation has been provided only since that date in accordance with the regulations of the Interstate Commerce Commission. Of this amount approximately $4,500,000 was recorded during the year as a result of adjustments arising from the merger of several subsidiary companies into the Central in 1952.

Charges for depreciation and depletion in 1954 included in the accompanying statements of income amounted to $42,897,418 for the Central and $52,171,298 consolidated. The comparative figures for 1953 were $42,723,593 and $51,695,330 respectively.

At December 31, 1954 the Central and its subsidiaries had certificates of necessity covering certain equipment and other facilities which permit election to amortize approximately $166,000,000 of the cost over a sixty month period for Federal income tax purposes. During the year an election was made effective May 1, 1954 to discontinue amortization on certain equipment deliveries to the extent of approximately $63,000,000. In accordance with the accounting regulations of the Interstate Commerce Commission, only normal depreciation computed at prescribed rates has been included in the accompanying statements of income. An excess of amortization over recorded depreciation amounting to $28,381,000 was deducted by the several companies in determining taxable income for the year 1953 and it is presently estimated that a similar excess of approximately $30,000,000 will be deducted for the year 1954.

(D) Federal income taxes:

The companies' tax liabilities for 1941 and subsequent years have not been finally determined by the Treasury Department.

As mentioned in note (C) the excess of amortization for tax purposes over recorded depreciation amounts to approximately $30,000,000 for 1954. Since it is not permitted by the Interstate Commerce Commission no provision has been made for the possible effect on income taxes after the expiration of the amortization period. Because of reduced profits of the companies to be included in the consolidated tax return for 1954 (Central and all subsidiaries owned 80% or more) the additional amortization which will be claimed will have no material effect on the income taxes of these companies for 1954, though the loss carry-forward to future years will be increased. However, in the case of other subsidiaries the rapid amortization together with the deduction of charges made to retained earnings has resulted in a lower tax provision with a corresponding increase in consolidated net income for the year 1954 of approximately $2,200,000.

(E) Long-term debt:

Consolidated funded debt includes $16,165,200 (less $6,838,200 owned by the Central) of mortgage bonds of noncontrolled lessor companies guaranteed as to both principal and interest by the Central. It also includes a subsidiary company's obligation in the amount of $3,251,200 guaranteed by the Central only as to interest, and obligations in the amount of $64,994,608 which are not guaranteed as to either principal or interest.

(F) Stock purchase:

An agreement has been entered into with the President under the terms of which he has been granted the right to purchase (subject to stockholders' and I.C.C. approval) at various intervals over a period of eight years from October 20, 1956, 32,000 shares of capital stock of the company at $19⅞ per share, being the highest market price at date of agreement, October 20, 1954.

(G) Contingent liabilities:

The balance sheet of the Central does not include the company's contingent liability as guarantor under leases with respect to the obligations of its lessor companies, $172,923,500 outstanding at December 31, 1954, or its contingent liability jointly with other companies, with respect to obligations amounting to $99,563,308. Of the total contingent liabilities $206,167,368 is included in funded debt in the consolidated balance sheet. A similar contingent liability of a consolidated subsidiary company amounted to $9,295,000.

In addition to claims for loss, injury and damage for which adequate provision has been made in the accounts, the Central and certain of its subsidiaries are co-defendants in proceedings involving claims for large amounts for alleged violation of the anti-trust laws and for reparation on government traffic moving during World War II. No provision therefore has been made in the accompanying statements because in the opinion of the company's counsel no material recoveries against the Central or its subsidiaries are expected. Other pending litigation is of the type commonly encountered by railroad companies and unusual recoveries are not anticipated.

Independent Accountants' Report

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
SEVENTY PINE STREET
NEW YORK 5, N.Y.

NEW YORK
ATLANTA
BALTIMORE
BILLINGS
BOSTON
BUFFALO
CHARLOTTE
CHICAGO
CINCINNATI
CLEVELAND
COLUMBUS
DALLAS
DENVER
DETROIT
GREENSBORO
HOUSTON
INDIANAPOLIS
KANSAS CITY
LINCOLN
LOS ANGELES
LOUISVILLE
MEMPHIS
MILWAUKEE
MINNEAPOLIS
NASHVILLE
NEWARK
NEW ORLEANS
OKLAHOMA CITY
OMAHA
PHILADELPHIA
PITTSBURGH
PORTLAND
RICHMOND
ST. LOUIS
SAN FRANCISCO
SAN JOSE
SEATTLE
SHREVEPORT
TULSA
WASHINGTON
WATERBURY

AFRICA
AUSTRALIA
CANADA
CONTINENTAL EUROPE
CUBA
GREAT BRITAIN
HONG KONG
INDIA
JAPAN
MEXICO
SOUTH AMERICA

To the Board of Directors and Shareowners of
THE NEW YORK CENTRAL RAILROAD COMPANY:

We have examined the accompanying financial statements of The New York Central Railroad Company and of the company and its subsidiaries consolidated so far as they relate to the year ended December 31, 1954. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position at December 31, 1954 and the results of operations for the year then ended of The New York Central Railroad Company and of the company and its subsidiaries consolidated, in conformity with principles and methods of accounting prescribed by the Interstate Commerce Commission and applied on a basis consistent with that of the preceding year except for the charges to retained earnings which have been authorized by the Commission because they are extraordinary in nature and or in amount.

Peat, Marwick, Mitchell & Co.

March 2, 1955.

PRINTED IN U.S.A.

Glossary of Terms

A Shareowner reading this Annual Report and its forthcoming statistical supplement may find the following definitions of some common railroad terms helpful in achieving a better understanding of his property.

Operating Ratio — Relation of railway operating expenses to railway operating revenues.

Transportation Ratio — Relation of total transportation expenses to railway operating revenues.

Gross ton-mile — The transportation of one ton of gross weight of train equipment and contents one mile.

Ton-mile — The transportation of one ton of freight one mile.

Passenger-mile — The transportation of one passenger one mile.

L. C. L. — Less than car load.

Net revenue from railway operations — What is left from railway operating revenues after deduction of operating expenses including maintenance and depreciation.

Net railway operating income — The amount left from railway operating revenues after all expenses, including taxes, and equipment and joint facility rents.

Net Income — The amount that may be applied to the payment of dividends or retained for reinvestment in the business.

Named the *"Early Bird"* — and living up to its name — is New York Central's new fleet of fast, through freight trains. Running into New York City, Buffalo and Boston from the Middle West, the "Early Bird" trains have slashed as much as 24 hours off old freight schedules — Chicago to New York City in 29 hours! — giving customers what they want — finer, faster service at no extra cost.

The name for the new fleet was chosen in a contest among Central employees and their families. More than 20,000 entries were received. The winner: Mr. Harold J. Porter, Jr., Central Telegrapher of Cleveland, Ohio.