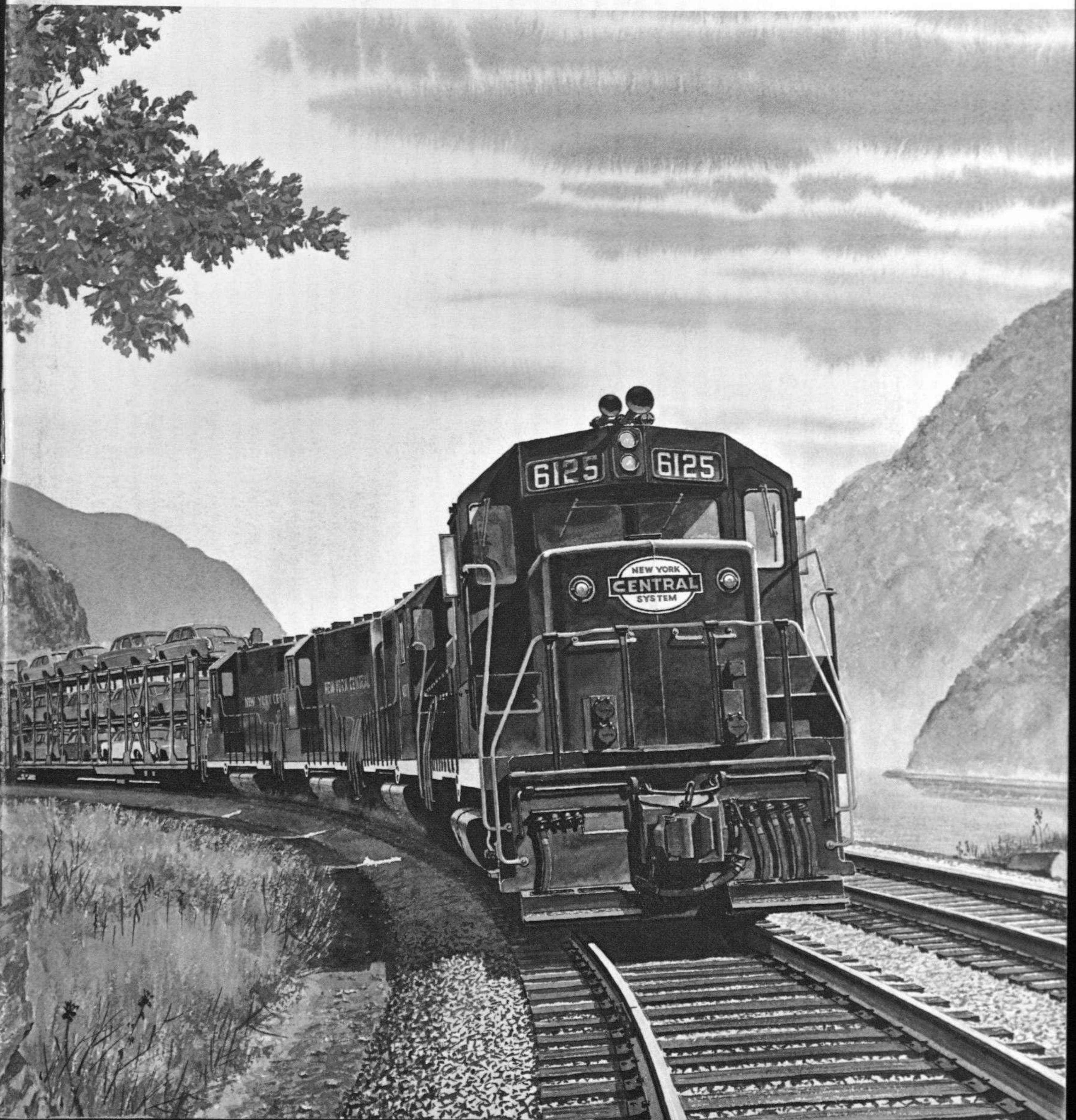
1963 ANNUAL REPORT

NEW YORK CENTRAL SYSTEM



The New York Central Railroad Company · 1963 Annual Report

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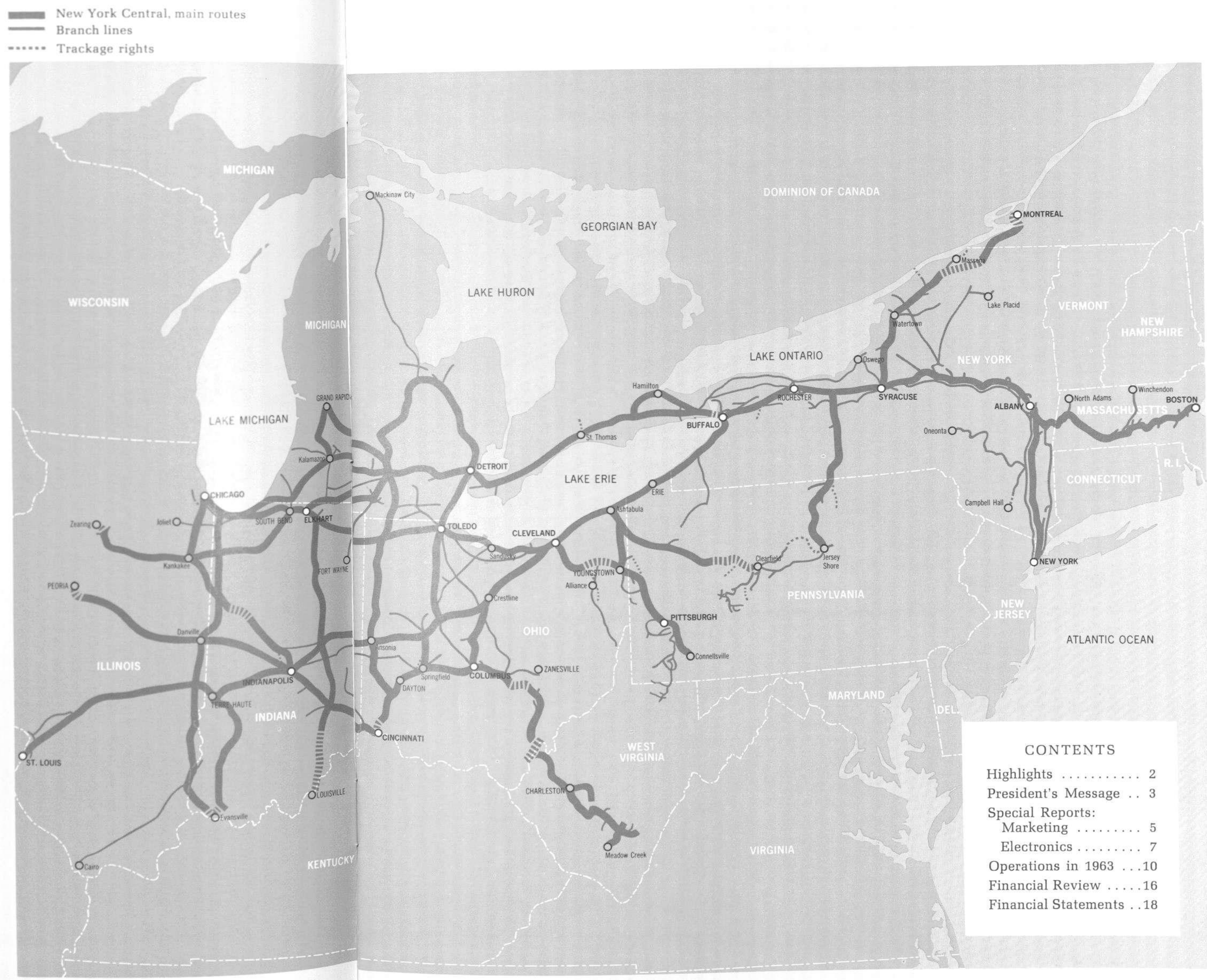
TRANSFER AGENTS

Chemical Bank New York Trust Company, New York, N. Y.
The First National Bank of Chicago, Chicago, Ill.

REGISTRARS

Manufacturers Hanover Trust Company, New York, N. Y.
The Northern Trust Company, Chicago, Ill.

COVER: Multi-level auto train rolls through the scenic Hudson River Valley. A painting by the renowned railroad artist, Howard Fogg.



CONTENTS

	DECEMBER 31	
Financial Position	**1963**	**1962**
Investments in road, equipment and other properties, less accumulated depreciation and amortization	$1,281,217,874	$1,306,714,183
Investments in, and advances to subsidiary, affiliated and other companies	343,080,678	339,422,808
Current assets	123,313,137	130,163,619
Current liabilities	126,204,999	120,337,528
Bonds, equipment and miscellaneous obligations:		
Due within one year	25,514,820	29,443,137
Due after one year	610,165,024	639,894,450
Income and Expense Items		
Operating revenues	$ 623,332,762	$ 622,558,693
Operating expenses	517,526,763	522,468,545
Railway taxes	48,246,821	53,821,614
Equipment and joint facility rents—net debit	37,529,169	34,242,315
Net railway operating income	20,030,009	12,026,219
Other income—net	19,780,099	18,836,037
Fixed charges	32,770,265	34,697,794
Net income (loss)	7,039,843	(3,835,538)
Operating ratio	83.03%	83.92%
Freight and Passenger Figures*		
Revenue tons	132,899,502	128,968,169
Revenue ton-miles	32,410,147,202	31,459,452,056
Revenue per ton-mile	1.47¢	1.51¢
Revenue passengers	9,527,133	10,009,883
Revenue passenger-miles	994,138,215	1,131,242,846
Revenue per passenger-mile	4.41¢	4.20¢
Employees		
Average number of employees	48,527	51,110
Total wages paid employees	$ 344,171,459	$ 352,501,282
Retirement and unemployment insurance taxes	$ 27,206,832	$ 28,507,856
Shareowners		
Number of shareowners of record	29,306	31,378

*Excluding commutation passengers.

A Message from the President

230 Park Avenue, New York, N.Y., 10017

Increased operating efficiency, cost controls, and new marketing and sales programs were responsible for the net income of $7,039,843 last year. Revenue ton-miles reached the highest level in six years, expenses were cut nearly $5 million, and the operating ratio of 83.03 was the lowest since 1956.

Vigorous marketing and revitalized sales efforts have begun to recapture traffic lost to other modes. Automobiles, once handled almost entirely by highway carriers, are now rolling in Central's new multi-level cars in ever increasing numbers. Coal traffic is also returning to the Central, primarily as a result of the new unit trains and incentive rates.

New markets for Flexi-Van, the most versatile freight container ever devised, are being rapidly developed, too. Expanded use of Flexi-Van in U. S. Mail service was accomplished in 1963. We are now pushing ahead with plans to use Flexi-Van in the development of promising new business potential in the European Common Market.

At the same time, we are actively applying marketing techniques in a number of other areas where significant traffic increases can be achieved.

The technology of modern electronics, from closed-circuit TV to analog computers, is being used as a normal part of our daily operations to increase our productivity and to improve our service to shippers.

The Company passed a milestone of the Second Industrial Revolution last year when it completed the railroad industry's first fully automatic electronic message center. Now, new data processing and communications systems are being installed which will serve as the foundation for the new science of cybernetics on the Central.

The development of new types of freight cars to serve Space Age transportation needs is a primary goal of the Central. Right now we are working intensively on new designs which will carry greater volume and will fill the special transportation requirements of major industrial customers.

The railroad industry's largest research laboratory, the Central's Cleveland Technical Center, continues to find new solutions to basic problems. Among its accomplishments in 1963 was the development of a less expensive car-retarder, which can be used to automate a number of small yards.

Revenue from the redevelopment of the Park Avenue real estate in New York City reached an all-time high of $6.9 million last year.

Net debt reduction in 1963 amounted to $36.7 million. One-fourth of our fixed debt has been paid off during the last six years, an amount equivalent to approximately $40 per share of common stock.

Interstate Commerce Commission hearings on our merger with the Pennsylvania Railroad were completed last year. We expect a favorable examiner's report during the coming fall. Our merger, which will provide savings of more than $80 million a year, is essential to the preservation of healthy rail service in the East.

The $423 million investment in physical improvements accomplished since 1954 has given the Central the ability to produce mass transportation more efficiently. The Company is now in a favorable position to produce greater net income from increased tonnage.

To secure additional profitable business, and to handle it effectively, will be the continuing aim of every one of the Central's 48,500 employees, whose dedication and loyalty have made our recent progress possible.

Alfred E. Perlman

PRESIDENT

Total autos shipped up 38%...coal handled more efficiently

New unloading terminals, such as this one at Ridgefield, N. J., enable the Central to handle volume shipments of new autos. **(Below)** Two unit coal trains, on their way to major utilities, pass each other along the Hudson River.

SPECIAL REPORT Marketing: A New Philosophy

If the American economy is to continue to expand, an extra $3 to $7 trillion worth of goods and services must be produced and consumed during the next three decades, according to recent estimates. To accomplish this staggering task, American industry must use the new techniques of marketing to identify new needs and develop new products.

Marketing considers the customer's real needs and attempts to develop a product to satisfy them, whereas selling is concerned primarily with an existing product which must be sold.

Today, railroad sales activities are being augmented by the marketing practices which have been so successful for other industries. The Central, an industry leader in this trend, established its Marketing Department in the fall of 1960.

This Department studies our customers' business and analyzes the place of transportation in their total production and distribution activities. It uses this information for the development of new services, equipment, and prices to satisfy the customer's transportation needs more efficiently at a lower cost.

The marketing organization acts as a gathering point for ideas and an expediter of what might otherwise be uncoordinated and unrelated efforts.

One marketing group makes detailed studies of the transportation requirements of major industries and individual shippers. Other groups work on market research, equipment planning and utilization, service planning and performance, and pricing.

One of the first full-scale marketing programs was aimed at recapturing a profitable traffic lost to highway competitors — the transportation of assembled automobiles.

The entire automobile market and the individual needs of major shippers were investigated thoroughly. Ideas through which the Central could offer improved service were developed in discussions with potential customers.

One key problem was the design, procurement, and allocation of new auto-transporting equipment which would be within the clearance limits of Central's main line in the East. This problem required the cooperation of the Central's equipment and service experts, railroad car builders, leasing companies, and the Association of American Railroads.

Initial test runs of specially designed multi-level rail cars — which can carry 15 autos, 11 more than a box car — were made in late 1960. Adjustments in freight schedules were made, and attractive and profitable rates were established. New terminals and trucking services were set up. The following year, Central grossed more than $10 million in this new market.

Today, the Central has 1,338 multi-level auto cars, worth more than $31 million. There are four modern auto-terminal yards, constructed at a cost of $5 million. And every day of the week two *all-auto* trains haul cars from the Detroit area to the East and the South. Each operates at passenger train speeds, carrying as many as 1,800 new cars.

Last year, the Central transported more than 725,000 new autos, for a gross revenue of nearly $18 million. Thus, in just three years, the Company has become the largest auto carrier in the world.

Marketing techniques are also helping to increase the coal tonnage handled by the Central.

More competitive coal rates have been devised, based on new incentives and increased efficiency for volume movements.

Operations have been revised, too. Experiments disclosed that operating costs could be reduced up to 30 per cent by running trains directly back and forth between the mines and utilities, without intermediate switching, weighing, or classification of cars, and with rapid loading and unloading at each end of the journey.

Railroads using the unit train concept have overcome a number of competitive threats in the coal market. For example, the efficiencies of unit train movements and improved rates permitted the only operating coal pipeline in the nation to be closed without financial loss to its owners. In this one operation, railroads will gain approximately 40 million tons of coal traffic in the next decade.

More than 250 unit trains, loaded at mines on the Central's lines, transported 1.5 million tons of coal last year.

A new unit train operation, to begin this year, will save a Chicago utility $1 million a year—savings that will result from the greater efficiency of steady volume, rapid turn-around, high capacity, and, in this case, shipper-owned equipment. This is a real step forward in rail operations, providing economic benefits to the utility, the mine, and the railroad.

The Central's Marketing Department is actively investigating the possibility for unit trains in the transportation of a number of other bulk commodities, particularly grain.

In addition, we are developing new services, unheard of before in the industry. Last year, the Central and Flying Tiger Lines started the first joint rail-air freight service ever established.

Early in 1964, the Central purchased 25 specially designed, high-capacity hopper cars, which will be used in the establishment of a new concept in the bulk shipment of such commodities as chemicals, cement, flour, and sugar—a concept which combines the inherent advantages of rail and highway.

Formal marketing programs are already under way for the automobile, agriculture, food, chemical, coal, and metal industries. Similar programs will be established for the paper, building material, and consumer goods industries in the near future.

We have tapped huge, new markets, bringing in $65 million worth of new business. It is certain, now, that the Central's marketing techniques will reverse the traffic erosion experienced during the past several decades.

A new philosophy of rail transportation has been developed—a philosophy based upon the concepts and techniques of marketing. Combined with technological advances and revitalized sales programs, marketing will play a major role in making railroads the surprise growth industry of the next decade.

SPECIAL REPORT Electronics: A New Technology

Central and **Flying Tiger** Lines provide joint rail-air freight service. **(Below)** Flexi-Van mail service continues to expand.

The New York Central produces an enormous amount of transportation. Approximately 800 freight trains, involving about 50,000 cars, are moved every day — more than a quarter million trains and 18 million cars a year. More than 110,000 freight cars are on the System at any one time.

The Central is striving to achieve better control over these vast operations. The fundamental objective is to produce improved transportation at a lower cost.

To reach this goal as rapidly as possible, the Central is applying the marvels of 20th Century electronics to railroading. Today, advanced electronic machines and techniques are providing management with more accurate and timely information concerning all of the Company's complex and far-flung daily operations. This information — collected, communicated, and processed faster than ever before possible — is essential to the more rational management decisions that are improving the Central's performance.

Our first computers were put to work, in 1955, to handle the heavy daily work-load involved in routine accounting functions, such as payroll, disbursements, revenues, and freight car per diem.

Modern electronic techniques were extended to new areas, and separate communications networks were established for administration, car reporting, locomotive distribution, and payroll.

Soon, the need for faster, more accurate and reliable communications became apparent. A way had to be found to apply high-speed computers not only to data processing but to data communications, too.

The problem was solved by Central and Collins Radio Company engineers, who designed and built a revolutionary new facility which combines all data communications in one network. It serves all users and permits full interchange of information between all departments.

Known as Data Central, this new $1.4 million facility is the railroad industry's first fully automatic electronic message center. Situated in New York City, it went into operation late last year.

Data Central does much more than merely relay messages from one point to another. It can process, record, and retrieve information, and it can even detect errors and edit messages.

Receiving information from a variety of sources, including teletypewriters, punched cards, magnetic tape, and eventually even telephones, Data Central provides a common source of information for all of Central's 250 message stations, which are connected by 57,000 miles of circuits.

Data Central supplies car movement information to another centralized computer facility, the Transportation Computer Center. This facility's memory units can store 112 million code characters.

The transportation computer's current record of almost all freight cars on Central lines provides management with a readily accessible picture of freight operations, a picture which is the foundation for a new freight transportation control system.

It can provide management with information on the daily location of specially assigned and specially equipped cars; with daily inventories, by

Electronics improves Central's operating efficiency . . .

type and location, of all cars on Central lines; with daily summaries of all trains operated, of car loadings, and of cars interchanged with other roads; with an automatic check of cars failing to move within a specified time; and with daily summaries of empty cars moving to specific destinations compared with outstanding car orders.

Until now, no large railroad has been able to collect all this information on a timely basis at one central location. Only a modern, high-speed computer can handle so large a volume.

For example, the transportation computer's memory units record 60,000 to 80,000 car movements a day. This number will increase at least 50 per cent within a year. Merely to prepare the incoming teletype transmissions for the memory units requires from 1,000 to 3,000 basic machine operations for each car movement.

Even more sophisticated operations are planned for the future. The transportation computer will develop forecasts of traffic movements and of empty equipment requirements. It will maintain a continuous check on the movement of priority traffic and will automatically furnish advice of impending service failures in time for corrective action. It will provide a continuous review of service performance and cost, thus permitting adjustments in operations wherever necessary.

Computers will also permit strategic decisions to be made on the allocation of terminal work and the operation of trains — decisions based upon rapid, accurate information never before available.

In another area, a computer is enabling the Central to establish the railroad industry's most modern inventory control system, which will provide a perpetual inventory on more than 90,000 parts and stores items.

Of course, the Central's use of electronics extends to many areas. Our four electronic yards, for example, utilize such things as radar, closed-circuit TV, computers, and memory units.

In 1963, the Central announced the development of an electronic device that automatically translates data from punch card codes to teletypewriter codes and vice versa, eliminating human error during this process. On the Central, data transmissions that previously required more than 120,000 machine-hours per day will now be done in less than half the time — providing annual savings of $300,000 a year in the cost of transmitting more than 700,000 messages.

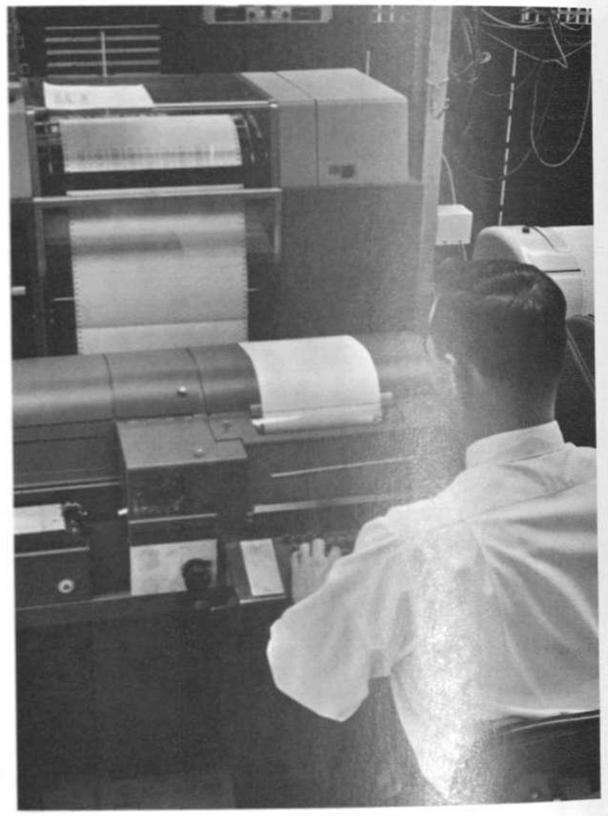
In June of 1964, all of the Company's 9,500 telephones will be linked in a direct-dial network, which will greatly facilitate person-to-person communications.

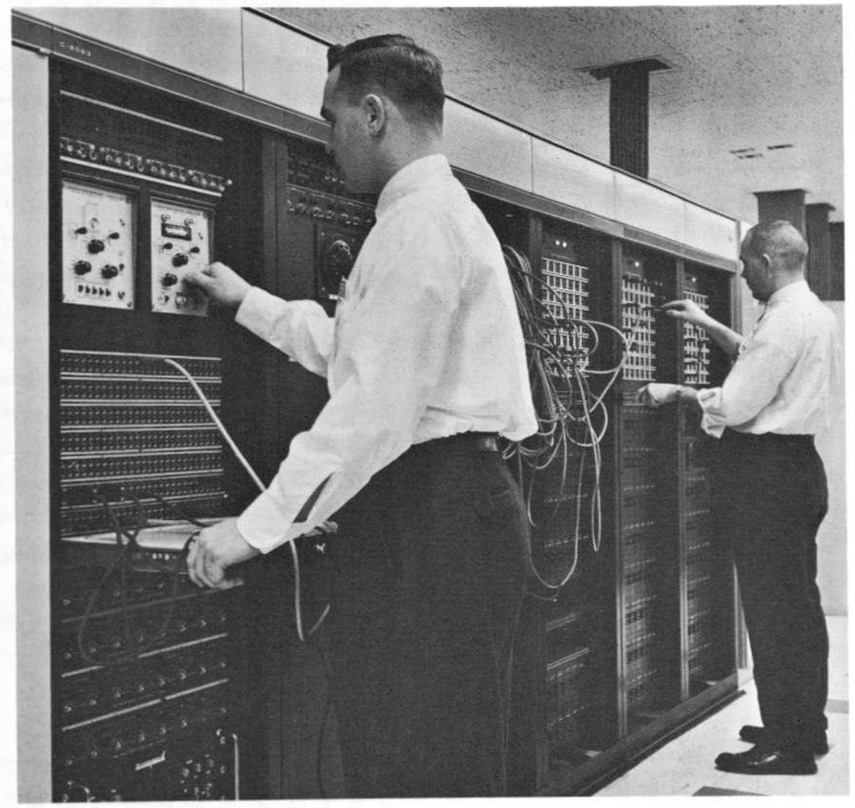
There are now more than 2,100 two-way radio sets installed in yards and trains. Electronic eyes are used to make sure that loaded freight is within the clearance limits of main line tracks. Electronic heat detectors automatically report over-heated wheel journal boxes on moving trains.

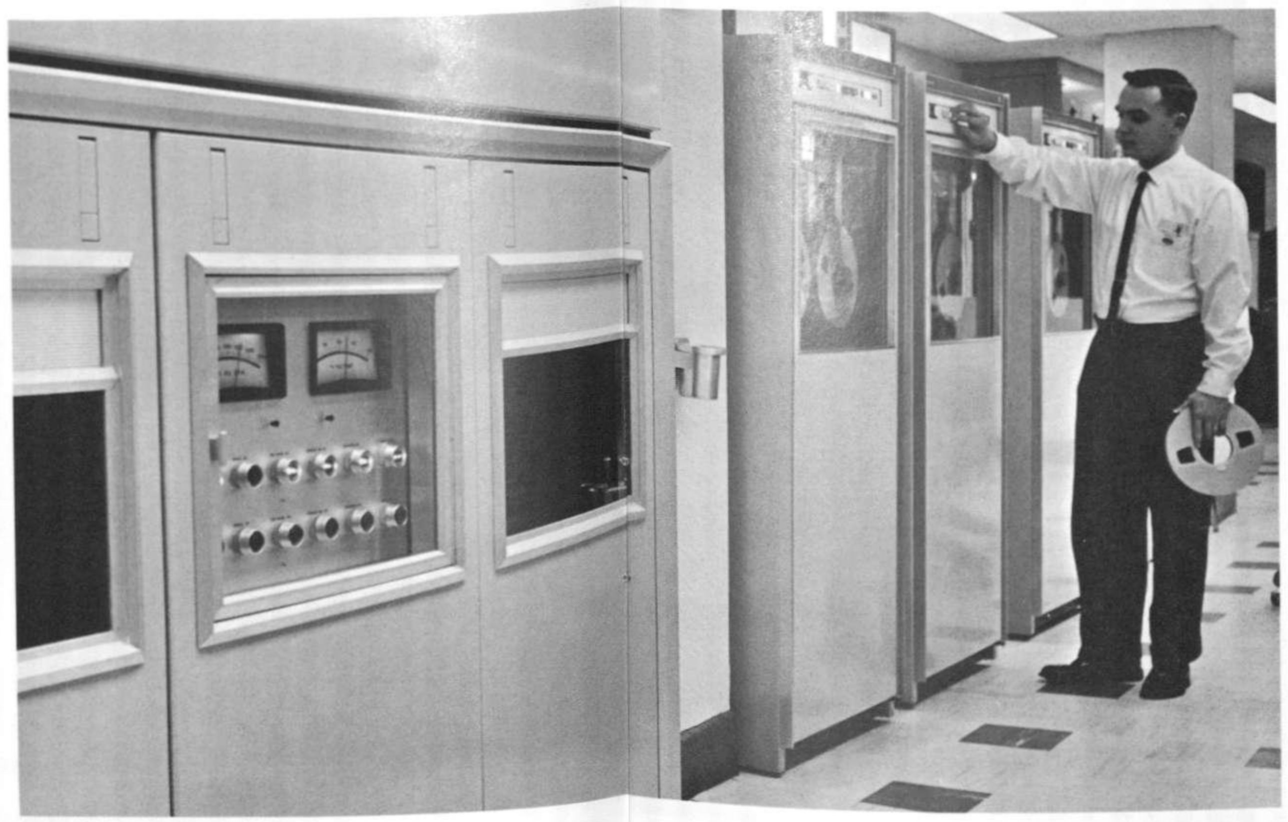
Thus, in many ways, the technology of electronics is opening the way for a complete transformation of railroad operations. These advancements will permit the Central to achieve many of the benefits of the Second Industrial Revolution.

Data Central . . . automatic electronic message center speeds vital rail traffic information . . .

This new facility, incorporating revolutionary concepts in modern communications, is now the primary information center for the entire railroad. The most advanced electronic machines and techniques are employed 24 hours a day to provide management and customers with more accurate information at a speed never before possible.







Review of 1963 operations

The Central worked successfully in 1963 to increase its traffic and efficiency and to earn a greater profit. Total revenue ton miles increased more than three per cent, and gross ton miles per freight train hour, an accurate index of productivity, reached a new high of 62,716 last year.

Coal, Coke and Ore The volume of coal, coke and ore handled by the Central was favorably affected by strong industrial activity, particularly in steel and electric utilities.

A total of 873,942 carloads of coal were transported in 1963, an increase of 14,738 carloads over 1962.

Coke transported last year increased 13 per cent. A total of 61,639 cars were handled by the Central, 6,998 more than in 1962. Intensive sales efforts and close supervision of service provided good results in the transportation of this commodity.

The Central also handled 126,542 carloads of ore in 1963, an increase of 4,494 carloads over the prior year.

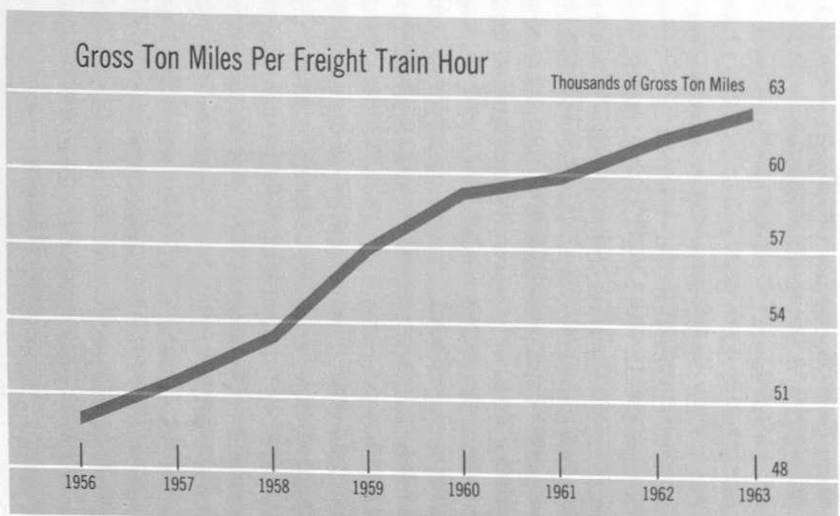
Automobiles The Central is continuing to use aggressive sales and marketing programs to expand its automobile traffic.

Central's efforts, coupled with a high level of auto production, resulted in a 38 per cent increase in the number of assembled autos shipped over Central lines last year.

Flexi-Van Flexi-Van service continued its phenomenal growth, increasing 24 per cent over the year before. A total of 94,600 Flexi-Vans were handled, producing a gross revenue of $28,468,305, an increase of 29 per cent over 1962 gross revenue.

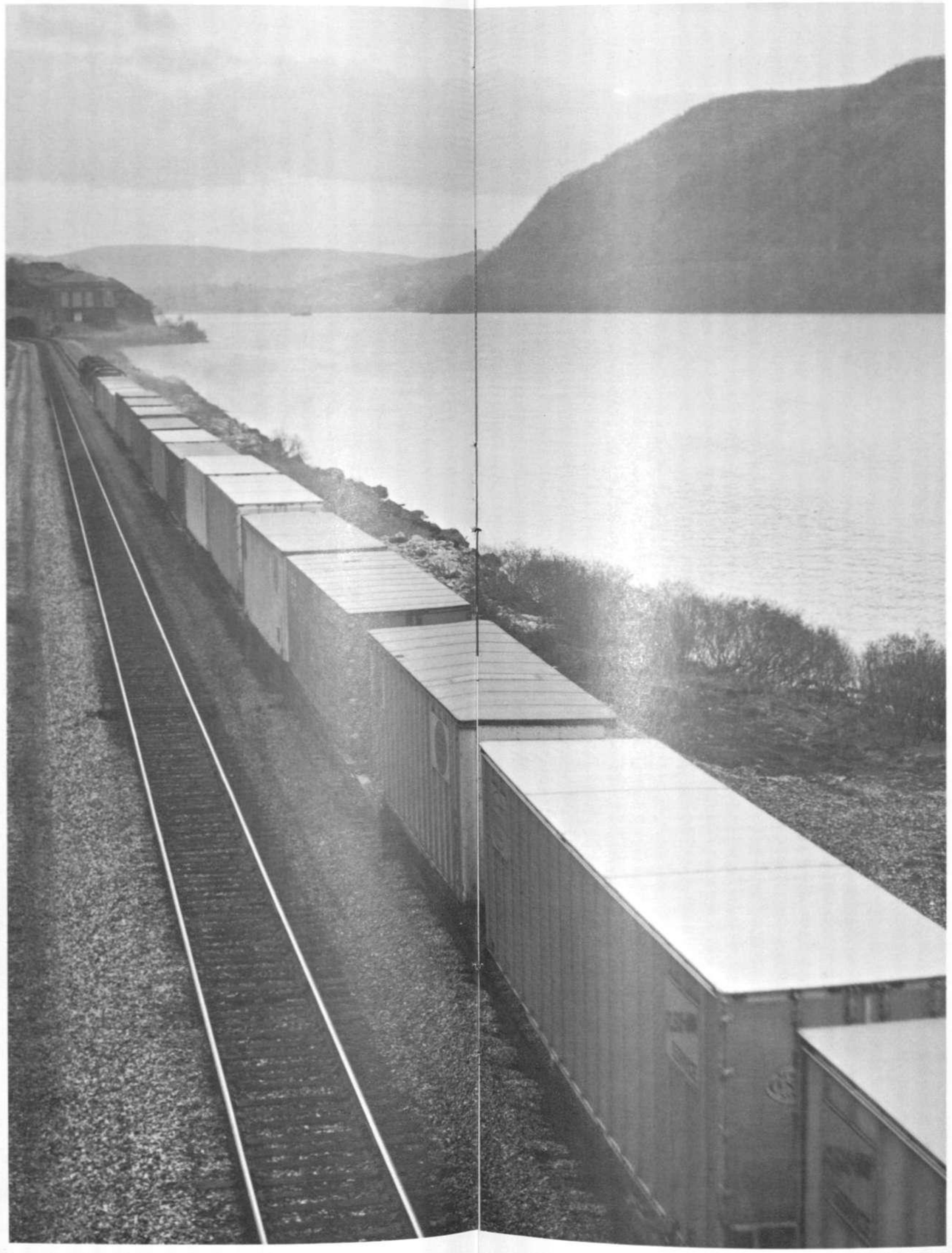
To meet the increasing demand for Flexi-Van, 170 rail cars and 775 vans were added to the fleet last year. An additional 150 cars and 750 vans will be added during 1964, bringing the fleet totals to 939 rail cars and 3,245 vans.

A new Flexi-Van facility has been completed at West Detroit; a greatly enlarged Flexi-Van site is under construction at Beacon Park Yard, in Boston; and the Flexi-Van area at the Selkirk, N.Y., yard is being expanded.



Central averaged 62,716 gross ton miles per freight train hour in 1963.

One of the Central's fleet of Super-Van trains rolls along the main line toward New York City, carrying freight from the Midwest at passenger train speeds.



Flexi-Vans, which are now being seriously considered by the European Common Market nations, are a familiar sight in many world ports. In addition to the marine vans owned by rail and steamship companies, there are 400 Flexi-Vans offered by an independent leasing firm for use in international transportation.

In October, the Central expanded the use of specially equipped Flexi-Vans for the transportation of U. S. Mail. The Company acquired 250 Flexi-Vans and adapted 100 Flexi-Van rail cars for the transportation of mail in high-speed passenger and Super-Van trains. The new service is speeding deliveries and protecting valuable mail business which might otherwise have been lost.

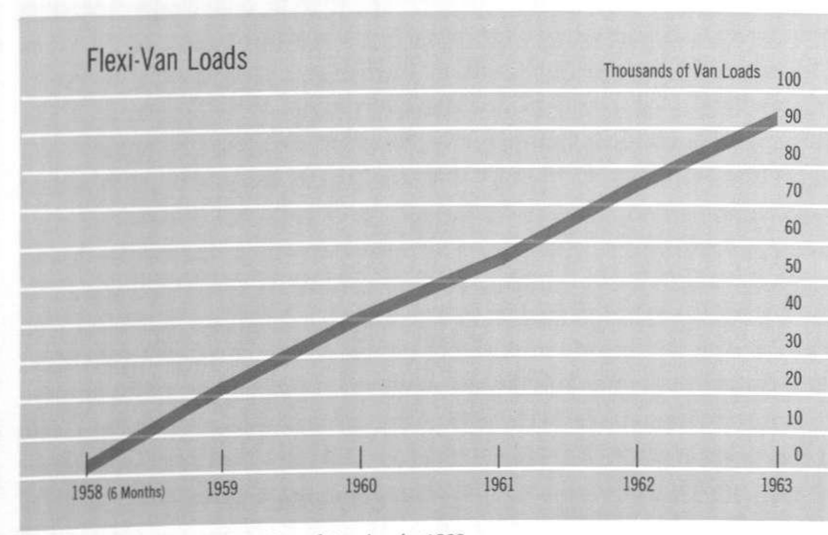
New Emphasis on Sales Many diverse and complex activities are necessary to expand the Central's business. Existing service must be improved. New services must be developed to fill new needs. Special equipment must be designed and acquired. Concurrently, the Central must sell its product in a highly competitive market.

A special five-part Proposal Selling program was instituted last year. It is designed to develop salesmen with the ability to discover customer needs and to present logically and convincingly the advantages of Central's services.

The sales force was taught how to prepare and use a formal sales proposal. Other training sessions covered such areas as marketing, equipment utilization, industrial development, Flexi-Van, foreign freight, and pricing. The highly technical area of rate legislation and pricing was covered in a series of intensive workshop sessions.

Industrial Development The many activities associated with industrial development, such as marketing, industry planning, advertising, and liaison with communities and industrial organizations, continued at a brisk pace throughout the year. New brochures describing potential industrial sites were prepared and distributed in each territory served by the Central.

The Industrial Development Department assisted in the location or



Flexi-Van shipments continued to rise in 1963.

expansion of 323 industries on the Central's lines during 1963. In addition, it helped to locate 61 temporary industries in Central's territory.

Several large industrial expansions adjacent to our lines have contributed to the increase in Central's tonnage. The Ford Motor Company's plant at Fairlane, Ohio, has increased its production. Since 1959, the Central has more than doubled the loaded cars to and from this plant.

Construction has started on the Bethlehem Steel Company's Burns Harbor Plant, at Portage, Indiana. Production from the cold roll mill of this plant is scheduled to begin in the latter part of the year. Traffic will be further increased in 1965, when a hot roll mill begins operations.

Eventually, the Central will construct a 45-track yard, with a 4,000-car capacity, to serve Bethlehem, Midwest Steel, and other industries in the growing Burns Harbor industrial complex.

Additions to the Fleet The Central purchased 367 new freight cars in 1963. In addition, construction was started on 560 cars in the Central's own car shops. A total of 327 freight cars, including 298 multi-level automobile cars, were newly leased during 1963.

To provide the special equipment needed to carry out the Company's new marketing programs, more than $50 million will be spent during 1964, the largest equipment acquisition program since 1957. Planned purchases for the coming year include 33 new diesel locomotives and 1,765 new freight cars.

Operating Improvements Operating improvements were made in many areas. A caboose-pooling program eliminated the custom of providing what amounted to private cabooses for every division and between all important terminals. It has permitted a 50 per cent reduction in the number of cabooses in through-freight service. At the same time, terminal delays are being reduced as much as 30 minutes, since it is no longer necessary to change cabooses.

In order to counteract the rise in costs and the consequent squeeze on profits affecting all business activity today, the Central has embarked upon an intensive industrial engineering program aimed at increasing productivity and decreasing expenses wherever possible.

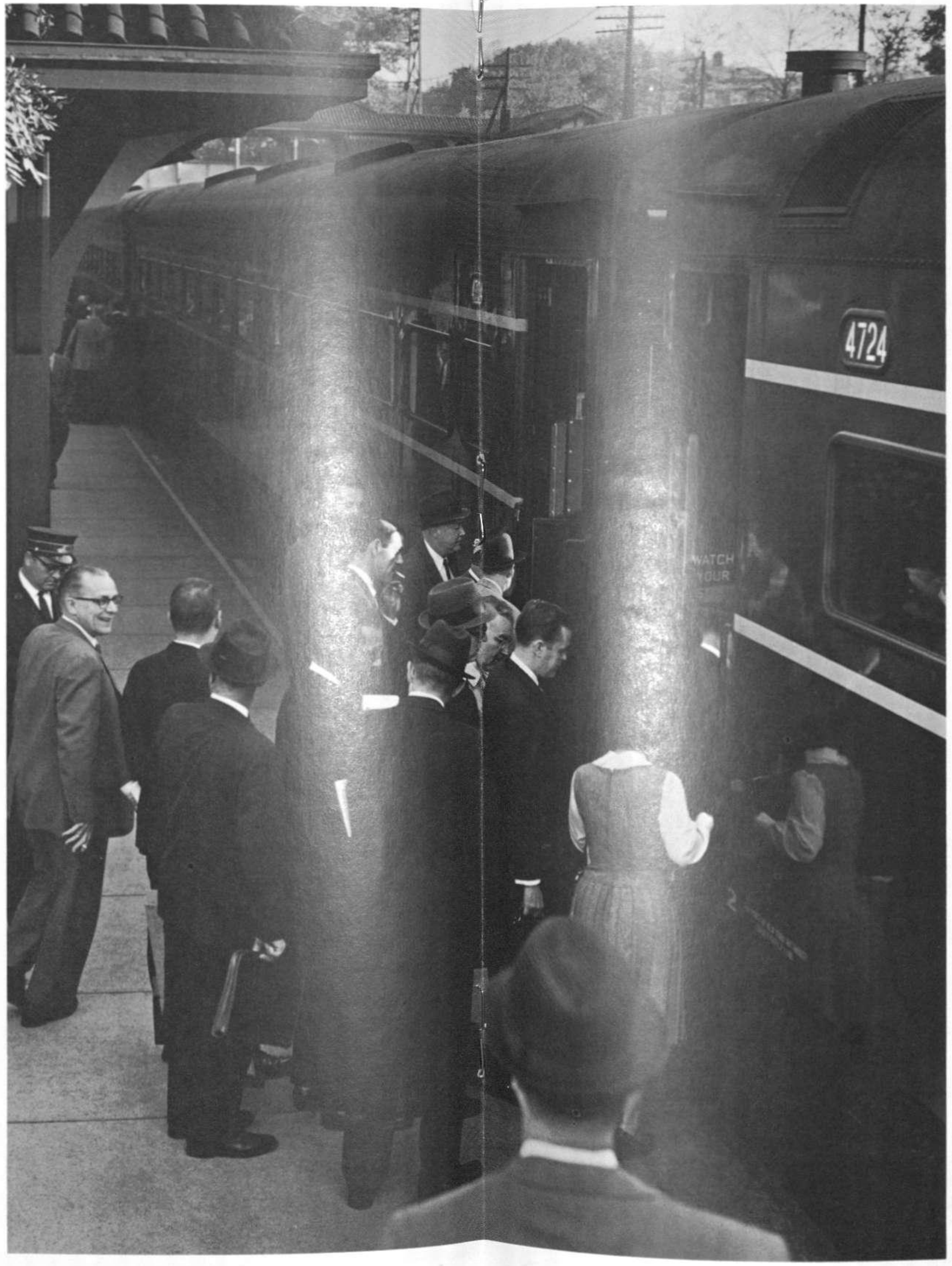
Considerable savings in payroll, maintenance, and operating costs are being realized as a result of an $833,600 project at Collinwood, Ohio, which combined all locomotive fueling, sanding, and running repair work. The savings will amount to more than the cost of the project within two years.

Improved utilization of yard engines, made possible by increased productivity at servicing and repair facilities, permitted the retirement of 38 older locomotives during the last two years.

The Central is working intensively on the design and development of freight cars with greater volume and new types of cars to fill special transportation requirements.

Inventories of materials and supplies are maintained at levels appropriate to our improvement and maintenance programs. Our inventory investment was turned over 4.4 times in 1963.

New coaches are making commuter service in the New York City area more attractive for passengers and more efficient for the Central.



Property Improvements Various track improvement projects moved toward completion in 1963. The major ones were: construction and realignment of 10 miles of line in the Boston area to permit extension of the Massachusetts Turnpike into Boston; relocation of 13 miles of line required by a Federal flood control project in the Curwensville, Pa., region; relocation of 10 miles of main line to eliminate grade crossings in the Canastota-Oneida, N. Y., area; and relocation of over 10 miles of line, including reconstruction of Suspension Bridge Yard, in connection with a grade-crossing elimination project at Niagara Falls.

An additional 129 miles of line were placed under electronic centralized traffic control during the year. The New York Central now has 1,653 miles operated under this modern control, more than any other railroad in the East.

There were 49 grade-separation projects under construction during 1963.

Low density lines are kept under constant review, and, when they are no longer profitable, the Company seeks Interstate Commerce Commission approval for abandonment. During 1963, and this year to date, we have received permission to abandon 70 miles of line and have received favorable Interstate Commerce Commission examiners' reports for an additional 10 miles. These abandonments will result in net annual savings of $175,000 and net salvage value of $470,000.

In addition, there are eight applications now before the I.C.C. involving 286 miles of road with annual net savings of $490,000 and net salvage value of $3,550,000.

Passenger Services The Central is doing everything it can to provide a profitable rail passenger service. The success of these efforts is shown by the post-war low of $14,264,592 in passenger losses, 5.6 per cent below 1962.

Passenger train miles were reduced 3 per cent in 1963.

A well-planned excursion program was started in June. A number of special trains were operated to points of interest on Central lines, but most excursions were handled on regular trains. The Company's hotels in New York benefited from this program, too, providing accommodations for more than 2,000 excursionists.

Sleepercoach service, providing private room accommodations at coach fares, continued to be well patronized, accounting for 15 per cent of our intercity coach revenue during 1963.

In September, the New York Central became the first railroad in the East to use an automatic restaurant car, which was named MEAL-A-MAT and assigned regularly between Buffalo and New York City. Preliminary data indicates a substantial decrease in operating costs compared with ordinary diner cars.

Reconditioning of the passenger fleet is under way, in anticipation of increased traffic to the New York World's Fair this year.

Delivery of 34 new commuter coaches, scheduled during 1964, will bring to 87 the total of new coaches added to this service during the past two years. New seating arrangements permit them to carry 63 per cent more passengers than the cars they replaced. They are self-propelled, air-conditioned, and have glare-proof windows.

The Central is participating in a Federal-State commuter experiment to see if improved schedules and expanded parking facilities at suburban stations can attract additional riders. The two-year study, which will be financed by Federal and State governments, will be conducted on one of the Company's suburban divisions in the New York City area. It will begin in the spring of 1964.

Technical Research The Technical Research Department constructed a complete mobile laboratory, which is being used in a number of important scientific projects. During 1963, this new laboratory helped in the development of a group of instruments which can monitor track conditions at high speeds. It was also used in successful studies aimed at eliminating rail-transit damage to large transformers and automobiles.

The Department has designed a modified car-retarder for classification yards. It is more effective but less expensive than conventional retarders and will permit the automation of a number of small yards.

A more effective snow melter for switches was designed in 1963. It uses far less electric power and promises significant savings in power costs.

As a result of Technical Department research, the Central is now the first railroad in the nation to make wholesale use of military lubricating oils, which are less expensive and have superior anti-wear characteristics.

Central's engineers redesigned a locomotive engine bearing which will reduce failures during normal operation and will tolerate the cheaper military oils.

Central's scientists also developed an anti-freeze compound that will help reduce the number of hot boxes that occur on passenger equipment during cold weather.

Technical Research Department chemists solved the problem of in-transit breakage of lead-acid batteries caused by freezing in extreme cold weather.

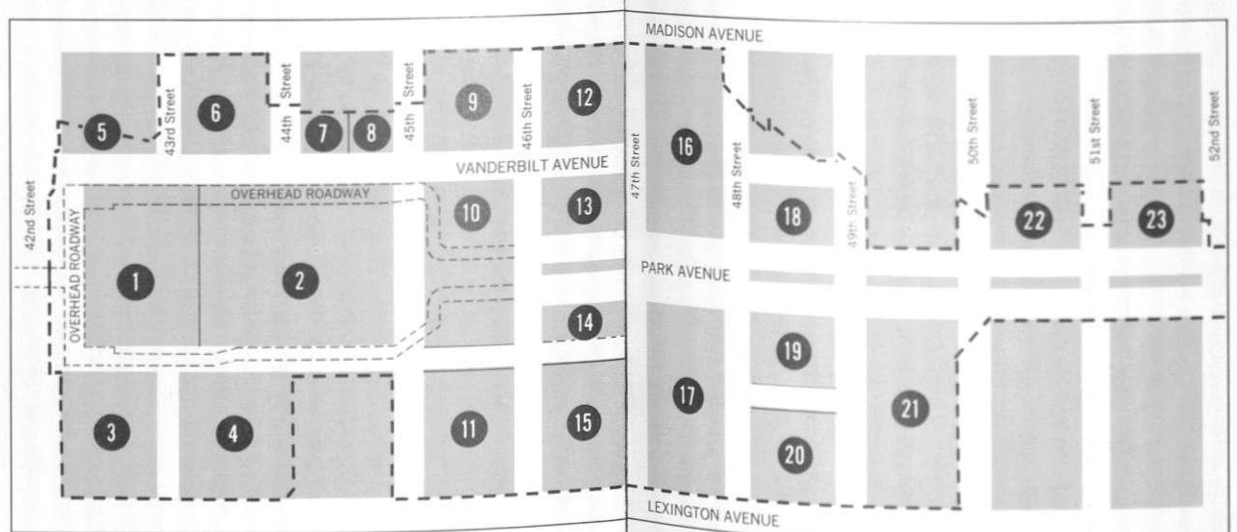
Real Estate The surplus property sales program produced $9.3 million during 1963. Nearly half of the 475 sales involved properties acquired for industrial purposes by companies which will be served by the Central. Included in these transactions were the sales of 61 passenger and freight stations, no longer required for railroad operations, for a total of approximately $775,000.

Revenue from the Park Avenue skyscraper complex in New York reached a new high of approximately $6.9 million at the end of the year.

Demolition of the Grand Central Palace Buildings, on Park Avenue between 46th and 47th Streets, will begin in the late spring of 1964. Another skyscraper office building will rise on this site and, when completed in 1966, will add another half-million dollars a year to the revenues from the Park Avenue area.

Rentals are being raised to reflect existing values. Lease income today is $6 million a year, greater by almost a million dollars a year compared with 1957, although we have 17 per cent fewer leases because of surplus

Central's redevelopment of the Park Avenue area has resulted in the construction of a series of world-famous office skyscrapers which tower over both sides of the renowned avenue.



New York Central owns the 29 acres (within the heavy line) from which rise 23 major buildings.

1 Grand Central Terminal
2 Pan Am Building
3 Hotel Commodore
4 Graybar Building
5 Vanderbilt Avenue Building
6 Biltmore Hotel
7 Yale Club
8 Vanderbilt Concourse Building
9 Hotel Roosevelt
10 New York General Building
11 466 Lexington Avenue Building
12 383-385 Madison Avenue
13 250 Park Avenue
14 247 Park Avenue
15 Grand Central Palace
16 Union Carbide Building
17 Chemical Bank N. Y. Trust Co. Building
18 Bankers Trust Co. Building
19 Park Lane Hotel
20 Barclay Hotel
21 Waldorf-Astoria Hotel
22 International Telephone & Telegraph Building
23 Manufacturers Hanover Trust Co. Building

property sales.

The Biltmore, Barclay and Park Lane Hotels, managed by Realty Hotels, Inc., a Central subsidiary, earned $3.4 million in 1963. The Waldorf-Astoria, Commodore, and Roosevelt Hotels, under lease to outside operators, brought in $3.1 million during the year.

After the lease for the Roosevelt Hotel expires, in the spring of 1964, the hotel will return to railroad operation. Direct operation should result in almost doubling the income from this property.

Concession rentals for 1963 totalled $4,455,642, of which $2,447,238 was produced by Grand Central Terminal, in New York City.

Employees The most important labor relations event in the railroad industry in 1963 occurred on November 26 when the National Arbitration Board announced its award which permits the gradual elimination of firemen's positions and provides a procedure for reducing the number of men in train and yard crews.

Even though the award contained liberal protective conditions and other transitional benefits for employees who lose these positions, the unions instituted court action shortly after the award was rendered, challenging its validity and the constitutionality of Public Law 88-108 which created the Arbitration Board. On January 8, 1964, the Federal District Court denied both petitions and the unions then appealed to the U. S. Court of Appeals, which affirmed the judgment of the lower court on February 20, 1964. While the unions have announced they will carry their case to the U. S. Supreme Court, it is felt the award will be upheld and the railroads will be able to effect long overdue economies resulting from the elimination of these unnecessary crewmen positions.

The Central operates through several states, including New York, Ohio, and Indiana, where excess-crew laws will not permit the full application of the arbitration award, if such statutes remain in force. Every effort is being made to overcome the obstacle presented by these laws.

Class I railroads in the nation have received demands from all of the railroad labor unions for wage increases ranging up to 25 per cent, for additional paid holidays and vacation days, and for other improved fringe benefits. These demands are being handled through normal labor relations practices.

The average number of employees during the year was 48,527, the lowest in the Company's history.

Increased emphasis is being placed on management development and training in order to anticipate and meet the immediate and long-range needs of the Company. All personnel functions, other than labor relations, have been centralized under one department head.

Recruitment of young men for careers with the Central has been intensified. Trainees are given training in all important phases of railroading. A broad program is being developed to increase the capabilities and vision of the Central's manpower. In implementing this philosophy, we are stressing the importance of people — the Central's greatest asset.

Financial Review

A severe winter, which increased transportation and maintenance costs sharply and handicapped freight operations, caused a loss of $7,887,122 during the first quarter of 1963. In order to conserve cash, expenditures for new equipment and road improvements were curtailed during this period. Beginning in April, the Company operated profitably in each of the last three quarters, and for the full year the first quarter loss was absorbed and the Company earned $7,039,843, or $1.08 per share unconsolidated and $2.11 per share on a system-wide basis.

Capital expenditures were increased during the latter part of the year and for all of 1963 amounted to $28,554,053, of which $14,353,147 was for new equipment and improvements to existing equipment. In addition, subsidiary companies of the Central System spent $22,001,952 for new equipment. The capital budget for 1964 is the largest since 1957, and provides for gross expenditures in excess of $65,000,000. A substantial portion of these expenditures will be for new equipment and locomotives.

Operating Revenues Total railway operating revenues aggregated $623,332,762 for 1963, a slight increase of $774,069 over the preceding year. However, passenger and related revenues included in this total declined over $4,200,000 and were offset by increases in freight and mail and express revenues. Principal increases in freight were in general merchandise, while coal revenues declined.

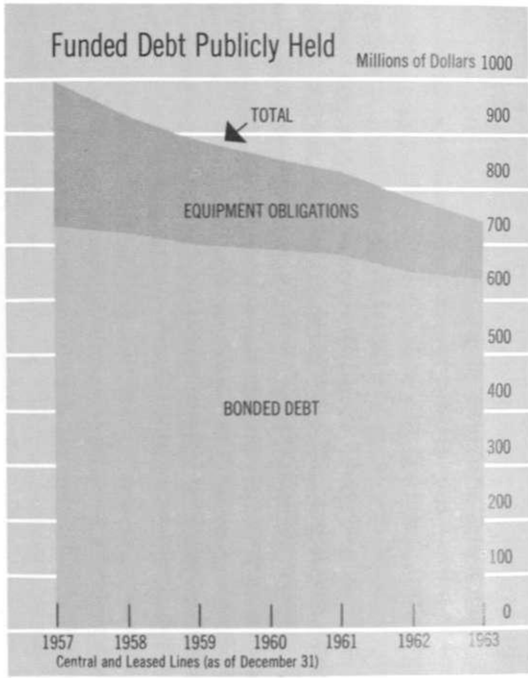
The decline in passenger business was much more drastic than indicated by the drop in revenue, since the Federal excise tax of 10% on the transportation of passengers was repealed during the latter part of 1962 and such taxes were incorporated in the passenger fare structure for all of 1963. To prevent the passenger deficit from increasing, thirteen trains covering 277,290 passenger train miles which showed large losses were discontinued during the year. As a result, the passenger deficit was reduced from $15,103,856 in 1962 to $14,264,592 in 1963. Passenger train miles were 41.0% of total train miles operated on the system during 1963.

Operating Expenses Considerable progress was made in reducing operating expenses during a year in which total traffic on the railroad was increased. Operating expenses were reduced $4,941,782 to $517,526,763, of which the largest portion ($3,475,081) was effected in transportation expense. The number of employees was reduced from an average of 51,110 in 1962 to 48,527 in 1963.

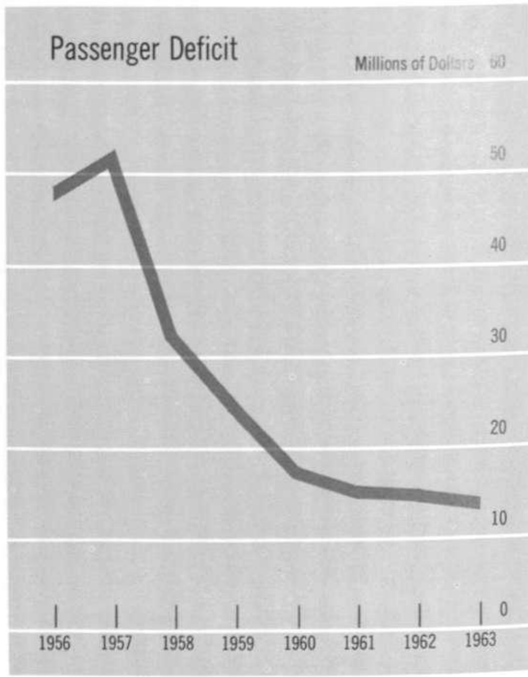
Depreciation included in operating costs calculated at rates established by the Interstate Commerce Commission amounted to $39,841,334, of which $27,757,491 was applicable to equipment.

Railroad Retirement and Unemployment Taxes for 1963 were $27,206,832, a decline of $1,301,024 due to decreased pay rolls during the year.

State and Local Taxes The railroad continued to campaign for equitable treatment in taxes at the state and local level, and further progress was reported. State and local taxes for 1963 amounted to $21,961,699, a decrease of $4,070,262 from 1962. Taxes paid to the State of New York and its municipalities aggregated $8,491,436, over 60% of the total taxes paid by the Company in the other ten states and in two provinces of Canada in which Central operates.



A total of $242.9 million in debt has been paid off during the last six years.



Central continues to reduce its passenger deficit.

Fixed Charges and Debt New financing of $7,875,000 for equipment acquisitions was undertaken during the year. After consideration of this new financing, the net debt reduction was $33,657,743 for the Company and $3,085,000 in bonds of lessor companies guaranteed, or a total of $36,742,743. The reduction in debt outstanding of Central and its lessor companies for the last six years is shown in the following tabulation:

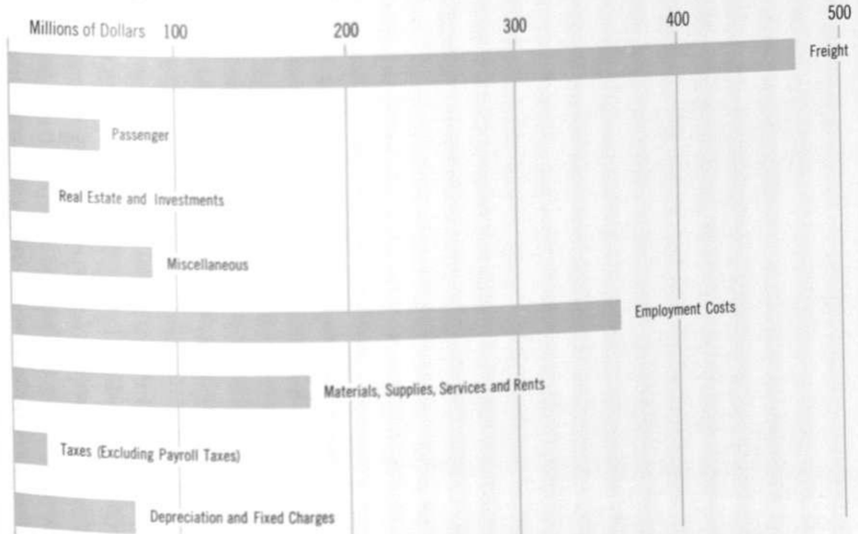
	December 31 1957	December 31 1963	Decrease
New York Central			
Bonds, etc.	$562,718,880	$529,043,153	$ 33,675,727
Equipment obligations ..	251,456,513	106,636,691	144,819,822
	814,175,393	635,679,844	178,495,549
Lessor companies bonds guaranteed	166,475,625	101,989,625	64,486,000
	$980,651,018	$737,669,469	$242,981,549

Interest on debt and other fixed charges amounted to $32,770,265, a reduction of $1,927,529 during the year. Fixed charges since 1955 have been reduced over $15,000,000, and in the year 1963 were at the lowest level since 1914 when the New York Central was formed through a merger of several affiliated companies.

Consolidated Operations On page 21 are shown the operations of the New York Central System on a consolidated basis. System net income for 1963 amounted to $13,825,544 compared with net income of $210,218 for 1962. Consolidated earnings were $2.11 per share compared with $.03 per share the previous year. Nearly all affiliated companies showed increased earnings during the current year.

On December 13, 1963 a dividend of $.50 per share was declared by the Board of Directors and paid on December 31, 1963.

After taking in $643 million, we paid out $636 million; netted $7 million



In 1963 we took in:

Freight	$474,760,000
Passenger	56,266,000
Real Estate and Investments	25,609,000
Miscellaneous	86,567,000
Total Revenues ..	**$643,202,000**

We paid out in 1963:

Employment Costs	$364,419,000
Materials, Supplies, Services and Rents	176,660,000
Taxes (Excluding Payroll Taxes)	21,040,000
Depreciation and Fixed Charges.....	74,043,000
Total Expenses ..	**$636,162,000**
Net Income	**$ 7,040,000**

Balance Sheet

THE NEW YORK CENTRAL RAILROAD COMPANY

DECEMBER 31	1963	1962
Assets		
Current assets:		
Cash and temporary cash investments	$ 45,849,067	$ 56,772,306
Accounts receivable and unbilled revenue	54,022,161	49,545,052
Materials and supplies	20,804,664	19,999,991
Other current assets	2,637,245	3,846,270
	123,313,137	130,163,619
Special funds (note E)	8,728,140	6,532,435
Investments and advances, at or below cost (note B):		
Subsidiary companies	304,783,294	[illegible]24,883
Affiliated companies	27,366,514	[illegible]18,393
Other companies	10,930,870	[illegible]79,532
	343,080,678	[illegible]22,808
Properties, less accumulated depreciation and amortization (see detail, page 22) (note C)	1,281,217,874	1[illegible]14,183
Other assets:		
Estimated salvage on road property retired	1,865,593	[illegible]04,424
Miscellaneous receivables, claims and items in suspense	5,665,074	[illegible]1,960
	7,530,667	[illegible]6,384
	$1,763,870,496	$1[illegible]9,429

Liabilities and Equity of Shareowners

	1963	1962
Current liabilities (Exclusive of debt due within one year) (note D)	$ 126,204,999	$ 120,337,528
Debt due within one year	25,514,820	29,443,137
Long-term debt (see detail, page 22)	610,165,024	639,894,450
Other liabilities:		
Injury and damage claims	14,201,429	15,449,186
Subsidiary, affiliated and lessor companies	33,724,570	27,222,980
Accrued depreciation on leased property	26,107,118	27,904,681
Other liabilities and items in suspense	4,388,012	5,284,585
	78,421,129	75,861,432
Contingent liabilities (note H)		
Equity of shareowners (notes E and G):		
Capital stock, authorized 10,000,000 shares $1 par value, issued 6,547,172 shares, less 1,620 shares in treasury	6,545,552	6,545,452
Paid in surplus	559,133,388	559,131,688
Retained income	357,885,584	360,285,742
	923,564,524	925,962,882
	$1,763,870,496	$1,791,499,429

See notes, page 23.

Statement of Income

THE NEW YORK CENTRAL RAILROAD COMPANY (Including All Leased Lines)

YEAR ENDED DEC. 31	1963	1962
Railway operating revenues:		
Freight (note F)	$ 474,760,217	$ 473,319,630
Passenger	56,266,420	59,355,482
Mail	42,039,953	41,729,328
Switching	12,751,328	11,299,731
Express	7,898,703	7,209,169
Other	29,616,141	29,645,353
	623,332,762	622,558,693
Railway operating expenses:		
Maintenance of way and structures	70,798,368	71,420,562
Maintenance of equipment	114,073,705	116,337,825
Traffic	11,487,405	11,126,558
Transportation	288,680,847	292,155,928
Other	32,486,438	31,427,672
	517,526,763	522,468,545
Net revenue from railway operations	105,805,999	100,090,148
Railway tax accruals:		
Taxes on wages	27,206,832	28,507,856
Other taxes (note D)	21,039,989	25,313,758
	37,529,169	34,242,315
Equipment and joint facility rents—net	85,775,990	88,063,929
	20,030,009	12,026,219
Net railway operating income		
Other income and expenses:		
Dividends:		
Subsidiary companies	5,924,193	6,426,625
Affiliated and other companies	299,413	408,995
Interest income:		
Subsidiary companies	1,301,992	1,379,277
Other	1,485,457	1,625,112
Rent income, less expenses	11,018,257	11,431,606
Profit on sales of properties and securities—net	1,550,224	565,900
Operations under Mahoning Coal Railroad lease	(1,093,432)	(1,582,827)
Miscellaneous—net	(706,005)	(1,418,651)
	19,780,099	18,836,037
	39,810,108	30,862,256
Fixed charges:		
Interest on debt, including amortization of discount	27,133,559	28,438,505
Guaranteed dividends and interest—leased lines' securities	5,070,359	5,678,626
Other	566,347	580,663
	32,770,265	34,697,794
Net income (loss) (note C)	$ 7,039,843	$ (3,835,538)

Statement of Retained Income

Balance at December 31, 1962		$ 360,285,742
Net income for year		7,039,843
Gain on reacquisition of debt		748,183
Extraordinary profit on sales of property		1,644,238
Other—net		9,264
		369,727,270
Deduct:		
Dividend—50¢ per share	$ 3,271,414	
Extraordinary retirements—owned and leased property	8,570,272	11,841,686
Balance at December 31, 1963 (note G)		$ 357,885,584

See notes, page 23.

Consolidated Balance Sheet

THE NEW YORK CENTRAL RAILROAD COMPANY and Subsidiary Companies

(See note A for principles of consolidation)

DECEMBER 31	1963	1962
Assets		
Current assets:		
Cash and temporary cash investments	$ 83,010,564	$ 84,011,038
Accounts receivable and unbilled revenue	61,940,208	57,875,579
Materials and supplies	23,555,402	23,659,334
Other current assets	4,264,956	5,251,862
	172,771,130	170,797,813
Special funds (note E)	9,722,962	7,299,849
Investments and advances, at or below cost (note B):		
Affiliated companies	38,746,204	36,998,082
Other companies	32,579,389	29,728,522
	71,325,593	66,726,604
Properties, less accumulated depreciation, depletion and amortization (see detail, page 22) (note C)	2,098,714,666	2,126,742,868
Other assets:		
Estimated salvage on road property retired	1,867,996	2,695,181
Miscellaneous receivables, claims and items in suspense	7,238,710	7,849,919
	9,106,706	10,545,100
	$2,361,641,057	$2,382,112,234
Liabilities and Equity of Shareowners		
Current liabilities (Exclusive of debt due within one year) (note D)	$ 146,032,255	$ 137,212,953
Debt due within one year	40,719,124	43,241,678
Long-term debt (see detail, page 22)	802,773,989	837,210,497
Other liabilities:		
Injury and damage claims	15,181,296	16,607,907
Affiliated and lessor companies	5,554,815	5,388,143
Accrued depreciation on leased property	461,479	899,479
Deferred Federal income tax (note D)	39,761,718	36,490,000
Other liabilities and items in suspense	6,031,068	6,420,670
	66,990,376	65,806,199
Contingent liabilities (note H)		
Equity of minority shareowners in consolidated subsidiaries	67,489,484	65,099,189
Equity of New York Central shareowners (notes E and G):		
Capital stock, authorized 10,000,000 shares $1 par value, issued 6,547,172 shares, less 1,620 shares in treasury	6,545,552	6,545,452
Paid in surplus	559,133,388	559,131,688
Excess of net assets (at acquisition) of consolidated subsidiaries over carrying value of investment	42,363,636	42,601,721
Retained income	629,593,253	625,262,857
	1,237,635,829	1,233,541,718
	$2,361,641,057	$2,382,112,234

See notes, page 23.

Statement of Consolidated Income

THE NEW YORK CENTRAL RAILROAD COMPANY and Subsidiary Companies

(See note A for principles of consolidation)

YEAR ENDED DEC. 31	1963	1962
Railway operating revenues:		
Freight (note F)	$ 506,615,350	$ 504,083,377
Passenger	56,622,509	59,838,918
Mail	42,060,528	41,750,174
Switching	44,246,022	41,859,185
Express	7,934,515	7,252,943
Other	48,054,446	47,635,917
	705,533,370	702,420,514
Railway operating expenses:		
Maintenance of way and structures	78,991,824	79,362,064
Maintenance of equipment	140,234,981	144,787,427
Traffic	12,839,133	12,429,404
Transportation	325,361,218	329,329,354
Other	38,081,830	37,001,216
	595,508,986	602,909,465
Net revenue from railway operations	110,024,384	99,511,049
Railway tax accruals:		
Taxes on wages	30,626,135	32,058,786
Other taxes (note D)	35,840,856	36,308,692
Equipment and joint facility rents—net	8,148,841	5,671,760
	74,615,832	74,039,238
Net railway operating income	35,408,552	25,471,811
Other income and expenses:		
Dividends from affiliated and other companies	922,213	965,997
Interest income	2,871,890	2,701,954
Rent income, less expenses	11,927,500	11,979,213
Profit on sales of properties and securities—net	3,171,891	2,403,431
Miscellaneous—net	367,726	(1,022,243)
	19,261,220	17,028,352
	54,669,772	42,500,163
Fixed charges:		
Interest on debt, including amortization of discount	36,172,245	38,053,277
Other	401,840	414,162
	36,574,085	38,467,439
	18,095,687	4,032,724
Portion of net income of consolidated subsidiaries applicable to stocks held by minority shareowners	4,270,143	3,822,506
Net income (note C)	$ 13,825,544	$ 210,218

Statement of Consolidated Retained Income

Balance at December 31, 1962		$ 625,262,857
Net income for year		13,825,544
Gain on reacquisition of debt		971,308
Extraordinary profit on sales of property		1,223,074
Other—net		346,724
		641,629,507
Deduct:		
Dividend—50¢ per share	$ 3,271,414	
Extraordinary retirements of property	8,764,840	12,036,254
Balance at December 31, 1963 (note G)		$ 629,593,253

See notes, page 23.

Balance Sheet Detail

THE NEW YORK CENTRAL RAILROAD COMPANY and Subsidiary Companies

(See note A for principles of consolidation)

PROPERTIES

	New York Central Dec. 31, 1963	New York Central Dec. 31, 1962	Consolidated Dec. 31, 1963	Consolidated Dec. 31, 1962
Transportation property:				
Road	$ 848,747,060	$ 853,136,116	$1,623,272,412	$1,630,898,146
Equipment	725,859,192	732,583,503	1,162,978,371	1,170,063,640
Improvements on leased property*	99,302,895	100,757,799	1,971,349	3,218,507
Miscellaneous physical property	72,710,285	75,297,427	129,821,493	133,085,042
	1,746,619,432	1,761,774,845	2,918,043,625	2,937,265,335
Accumulated depreciation, depletion and amortization:				
Road	118,919,634	117,952,586	234,670,228	228,838,880
Equipment	311,584,429	302,670,376	534,861,214	532,464,117
Miscellaneous physical property	34,897,495	34,437,700	49,797,517	49,219,470
	465,401,558	455,060,662	819,328,959	810,522,467
Net investment	$1,281,217,874	$1,306,714,183	$2,098,714,666	$2,126,742,868

*Depreciation on leased property, including depreciation on improvements made by the Central and subsidiaries, is shown under "Other liabilities" on the balance sheet.

LONG-TERM DEBT

	New York Central Dec. 31, 1963	New York Central Dec. 31, 1962	Consolidated Dec. 31, 1963	Consolidated Dec. 31, 1962
Funded debt:				
Mortgage bonds	$ 447,479,500	$ 451,921,500	$ 577,598,125	$ 597,950,125
Collateral trust bonds	23,668,500	24,545,625	32,366,500	34,730,625
Collateral trust notes	36,700,000	40,000,000	36,700,000	40,000,000
Equipment obligations	106,636,691	131,039,255	175,139,348	195,434,893
Other			493,987	505,325
	614,484,691	647,506,380	822,297,960	858,620,968
New York State—grade crossing eliminations	16,626,403	16,837,457	16,626,403	16,837,457
For acquisition of Cleveland mail terminal	4,568,750	4,993,750	4,568,750	4,993,750
	635,679,844	669,337,587	843,493,113	880,452,175
Less debt due within one year	25,514,820	29,443,137	40,719,124	43,241,678
	$ 610,165,024	$ 639,894,450	$ 802,773,989	$ 837,210,497

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

	1964	1965	1966	1967	1968
New York Central:					
Equipment obligations	$20,984,459	$23,634,445	$20,355,153	$11,101,061	$ 6,663,521
Bonds, etc.	4,530,361	4,511,361	5,113,952	5,452,502	5,477,277
Lessor Companies' obligations		1,700,000	1,700,000	1,700,000	850,000
	$25,514,820	$29,845,806	$27,169,105	$18,253,563	$12,990,798

	1969	1970	1971	1972	1973
New York Central:					
Equipment obligations	$ 5,053,523	$ 4,087,865	$ 3,300,234	$ 3,165,473	$ 1,968,713
Bonds, etc.	5,453,502	5,453,502	5,422,502	5,400,652	5,338,152
Lessor Companies' obligations					
	$10,507,025	$ 9,541,367	$ 8,722,736	$ 8,566,125	$ 7,306,865

See notes, page 23.

Notes to Financial Statements

THE NEW YORK CENTRAL RAILROAD COMPANY

(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.

(B) Investments and advances:

At December 31, 1963, the market value of securities of other companies for which quoted prices were available aggregated approximately $9,939,000 for the Central and $22,211,000 Consolidated compared with carrying values of $9,646,000 and $24,213,000, respectively. The equity in net assets of affiliates and other companies for which quoted market prices are not available exceeded the investments and advances therein by approximately $6,300,000 for Central and $19,400,000 Consolidated based on unaudited reports from those companies.

Investments of the Central in subsidiary companies having a carrying value of approximately $116,000,000 are pledged as security under various mortgage and collateral trust bonds.

(C) Properties:

Provision has not been made for depreciation of road property prior to January 1, 1942, except to the extent of approximately $70,100,000 for the Central and $89,400,000 Consolidated. Subsequent to January 1, 1942, depreciation has been provided in accordance with regulations issued and at rates approved by the Interstate Commerce Commission.

Charges for depreciation and depletion in 1963 included in the accompanying statements of income amounted to $41,272,226 for the Central and $55,834,894 Consolidated. The comparable figures for 1962 were $41,413,554 for the Central and $54,569,582 Consolidated.

(D) Federal income taxes:

The Federal income tax returns of Central and its subsidiaries included in the consolidated income tax group have been reviewed by the Treasury Department through the year 1955 and all tax liabilities have been settled through that year. Tax returns for the years 1956 through 1962 which indicate no tax liability are subject to review by the Treasury Department. This group has not adopted guideline depreciation rates for income tax purposes nor have they benefited from the 7% investment credit except to the extent that it may be carried forward and utilized in subsequent years. The carry forward loss for the consolidated income tax group amounted to approximately $34,000,000 as of December 31, 1963.

Beginning in 1962, recognition has been given in the consolidated financial statements to the amount of Federal income taxes deferred by The Pittsburgh and Lake Erie Railroad Company and The Peoria and Eastern Railway Company (controlled subsidiaries not included in the consolidated income tax group) as a result of the 7% investment credit and the adoption of guideline depreciation rates for income tax purposes. These provisions ($3,491,818 in 1963 and $3,040,000 in 1962) will be restored to income at the time the Federal income taxes so deferred are payable.

In years prior to 1962 the net income of The Pittsburgh and Lake Erie Railroad Company and The Peoria and Eastern Railway Company benefited through reduced income tax provisions from the use for Federal income tax purposes of sixty-month amortization and accelerated methods of depreciation. A reserve for deferred income tax representing this benefit ($33,450,000) was established out of retained income in 1962. This amount will be restored to retained income as the taxes so deferred are payable and accordingly will have no effect on net income.

Central and its subsidiaries keep their accounts in accordance with the rules and regulations of the Interstate Commerce Commission which do not provide for the deferment of income taxes and to this extent the accounts do not conform to the financial statements included in this report.

(E) Capital stock:

At December 31, 1963, 540,241 shares of unissued capital stock are reserved for sale to officers and employees under a stock purchase plan. Of the foregoing unissued stock, 311,775 shares are reserved for sale pursuant to restricted stock options granted or authorized to be granted to officers and key employees. Changes in outstanding options during 1963 were as follows:

	Number of Shares
Outstanding options at beginning of year	207,925
Options granted	123,750
Options exercised	(100)
Options cancelled	(22,000)
Outstanding options at end of year	309,575

Options outstanding at December 31, 1963, are exercisable at various intervals through 1973 at prices per share between $16¼ and $36½, the market prices at the dates of the grants. Options for 144,534 shares were exercisable at December 31, 1963.

Special funds include $351,560 of unpaid installments on stock sold to employees secured by 51,405 shares of stock.

(F) Freight revenue:

Freight revenue does not include approximately $3,300,000 of divisions of rates prescribed on Trans-Continental traffic in I.C.C. Docket 31503, effective July 1, 1963, as the Commission's Order has been restrained by the U. S. District Court for Southern District of California.

(G) Merger Agreement with The Pennsylvania Railroad Company:

Central's Board of Directors on January 12, 1962, approved a joint agreement of merger providing for the merger of the Central into the Pennsylvania. Upon the effective date of the merger each share of Central capital stock will be exchanged for 1.3 shares of the stock of the surviving company. The merger agreement also provides that Central cannot, without the consent of the Board of Pennsylvania, declare dividends on its capital stock in any calendar year at a rate in excess of the greater of 32.5¢ per share or an amount equal to 50% of the cumulative net income of

THE NEW YORK CENTRAL RAILROAD COMPANY

the company and its wholly-owned subsidiaries and leased lines subsequent to December 31, 1961 to the date of declaration less previous dividends declared or paid within the same period. The merger agreement also contains certain restrictions with respect to changes in the capital stock and the creation of additional debt.

(H) Contingent liabilities:

The balance sheet of the Central does not reflect the Company's contingent liability as guarantor under leases with respect to the obligations of its lessor companies in the amount of $101,989,625; as guarantor for the payment of obligations incurred by subsidiaries of $20,120,000; and its contingent liability, jointly with other companies, with respect to obligations amounting to $67,834,960. A consolidated subsidiary is contingently liable, jointly with other companies, for obligations amounting to $7,677,000.

Of the total contingent liabilities, $136,747,425 is included in debt in the consolidated balance sheet. Certain treasury bonds and other unissued bonds of the Central are pledged as collateral under various loan and other agreements. The total so pledged amounted to $185,995,000 at December 31, 1963.

Central and its consolidated subsidiaries are obligated under equipment lease agreements which expire more than three years after December 31, 1963 at aggregate annual rentals ranging from approximately $3,045,000 during 1964 to $1,134,000 at the end of five years. In addition, Central is obligated to a wholly-owned subsidiary on similar leases for approximately $3,629,000 in 1964 to $1,799,000 at the end of five years. Certain of these lease agreements provide for credit when equipment is in use on foreign lines.

Certain minority stockholders of The Mahoning Coal Railroad Company, an 80% owned subsidiary of The New York Central Railroad Company, have brought suit against Central to declare the tax allocation agreement between Mahoning and Central null and void and to compel Central to account to Mahoning for all sums received by Central from Mahoning thereunder. The Appellate Division of the Supreme Court of the State of New York has reversed a decision below in favor of Central and has ordered Central to account to Mahoning for all sums received by Central from Mahoning under the agreement. Central intends to appeal the decision of the Appellate Division to the Court of Appeals of the State of New York, and it is the opinion of Central and its counsel that this appeal probably will be successful. However, should Central lose its appeal, the repayments to Mahoning by Central attributable to the interests of the minority stockholders of Mahoning probably would not exceed $870,000 with interest to be determined by the Court. If any substantial repayments to Mahoning by Central are ordered, the Court may also order Mahoning to pay substantial fees to counsel for the minority stockholders.

Other pending litigation is of the type commonly encountered by railroad companies and unusual recoveries are not expected.

Independent Accountants' Report

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

SEVENTY PINE STREET

NEW YORK 5, N. Y.

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 for the year ended December 31, 1963. 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, the accompanying financial statements present fairly the financial position at December 31, 1963, 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 generally accepted accounting principles applied on a basis consistent with that of the preceding year.

March 4, 1964.

Peat, Marwick, Mitchell & Co.

A supplement including statistics and other data for 1963 will be available about April 1st. If you wish a copy of that report, please address your request to the Secretary, New York Central System, 230 Park Avenue, New York, N.Y. 10017.

Glossary of Terms

Current Assets: Cash and those assets which are readily convertible into cash or held for current use in operations, current claims against others, and amounts accruing to the carrier which are subject to current settlement.

Current Liabilities: Amounts payable within a comparatively brief period, usually not exceeding one year from the date of the balance sheet.

Operating Revenues: Money received from transportation and from operations incident thereto.

Operating Expenses: Expenses of furnishing transportation service, including the expense of maintenance and depreciation.

Net Revenue from Railway Operations: Amount left from railway operating revenues after deduction of operating expenses including maintenance and depreciation.

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

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

Taxes: Accruals for taxes of all kinds relating to railway property, such as taxes for real and personal property, special franchise, gross earnings, capital stock, Canadian and Federal income, unemployment insurance, railroad retirement, sales and sundry other taxes.

Equipment Rents–Net: Net of amounts payable and receivable as rent for or from the use of equipment, excepting equipment included in the general lease of a road to the operating company.

Joint Facility Rents–Net: Net of amounts payable and receivable as rent for or from equipment, tracks, yards, terminals and other facilities, in the joint use of which this company participates.

Net Railway Operating Income: Amount left from railway operating revenues after deducting all expenses, including taxes, and equipment and joint facility rents.

Fixed Charges: Principally interest on debt of Central (including amortization of discount), guaranteed dividends and interest on debt of lessor companies.

Ton-Mile: The transportation of one ton of freight one mile.

Gross Ton-Miles per Freight Train Hour: The number of gross tons of freight train equipment and contents moved the equivalent of one mile during one hour in a freight train.

Revenue Freight Tons: Tons of revenue freight handled upon the basis of tariff rates.

Revenue Ton-Mile: The movement of a ton of revenue freight a distance of one mile.

Passenger-Mile: The transportation of one passenger one mile.

Revenue Passenger-Mile: The movement of a revenue passenger a distance of one mile.

Per Diem: Amount paid by one railroad to another railroad for the use of its freight car for one day.

Net Income: Amount that may be applied to the payment of dividends or retained for reinvestment in the business.

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