

Penn Central Company
Three Penn Center Plaza
Philadelphia, Pa. 19102

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ANNUAL REPORT 1973

PENN CENTRAL COMPANY

3 Penn Center Plaza
Philadelphia, Pa. 19102

DIRECTORS AND OFFICERS

Archibald DeB. Johnson, Chairman, President
& Treasurer, Director
C. Roger Turner, Vice President, Director
Francis J. Tucker, Secretary, Director
James J. Glenn, Director
Richard S. Robinson, Director
John B. Schorsch, Director
Joseph Sharfsin, Director

AUDITORS

Haskins & Sells, Philadelphia, Penna.

ATTORNEYS

Schnader, Harrison, Segal & Lewis,
Philadelphia, Penna.
David Berger, P.A., Philadelphia, Penna.

STOCK TRANSFER AGENTS AND REGISTRARS

Company offices—New York City and
Philadelphia, Penna.
Girard Trust Bank, Philadelphia, Penna.
Irving Trust Company, New York, N.Y.

STOCK LISTING

New York Stock Exchange
Philadelphia, Baltimore & Washington Stock
Exchange
Boston Stock Exchange
Midwest Stock Exchange
Zurich Stock Exchange

TRANSCRIPT AVAILABLE

You will receive in the near future a notice of the Company's next annual meeting which will be held on December 19, 1974. A transcript of the meeting, edited by management to exclude material which in its opinion is not germane to the essential purposes of the meeting, will be available to anyone requesting a copy at a charge of \$5 per copy mailed postage paid by surface transportation. Orders for transcripts should be accompanied by a check or money order in the amount of \$5 and addressed as follows:

Penn Central Company
Room 823, 3 Penn Center Plaza
Philadelphia, Pa. 19102

In ordering, be sure to clearly show your name and address.

This report is being mailed 3rd class because of the saving in postage. We trust that our method of mailing will cause no undue delays or inconvenience to our stockholders.

PENN CENTRAL COMPANY
Philadelphia, Pa.

DEAR STOCKHOLDER:

I commend to your earnest attention, the 1973 financial statements of your Company and information regarding the Company's position on and activities toward solving its problems.

The principal asset of the Company continues to be its investment in Penn Central Transportation Company through ownership of all of its outstanding shares. The Transportation Company has been in reorganization under the Federal Bankruptcy Act since June 21, 1970. Since that date, by reason of its operation by Trustees appointed by the Reorganization Court, Penn Central Company has not had control over the operation of its principal subsidiary.

FINANCIAL AND CORPORATE

Results for the year 1973 showed a net loss of \$34,396,000 equal to \$1.42 per share compared with a net loss of \$2,484,000 equal to 10¢ per share for 1972. The 1973 loss includes an extraordinary charge of \$16,698,000 equal to 69¢ per share. These figures do not include results of Penn Central Transportation Company, wholly owned subsidiary of the Company, which suffered a net loss of \$172,550,000 for 1973 compared to \$222,829,000 for 1972, or \$7.16 and \$9.24 per share respectively. The Transportation Company losses included an extraordinary credit in 1973 of \$16,453,000 (68¢ per share) and an extraordinary charge in 1972 of \$24,926,000 (\$1.03 per share).

The increase in the Company's 1973 loss, excluding the Transportation Company, over its loss for 1972 was caused by two factors:

(a) A charge to operations of \$10,761,000 in 1973 vs. \$2,328,000 in 1972 resulting from the decline in value of the dollar relative to the Swiss franc. The outstanding debt of Penn Central International, N.V., the Company's foreign subsidiary, is in Swiss francs.

(b) An extraordinary charge resulting from the settlement in June 1973 of a dispute relating to certain funds of the Company's foreign subsidiary that were held by two banks. Pursuant to this settlement, which was approved by the Reorganization Court, the Company, in effect, released its foreign subsidiary's claims against certain subsidiaries of Transportation Company, including a claim for interest aggregating approximately \$19,390,000 (including \$16,698,000 accrued to December 31, 1972) in exchange for recognition by the Transportation Company that such subsidiary had a proved unsecured pre-bankruptcy claim against the Transportation Company in the amount of \$41,840,000.

Unaudited results for the first six months of 1974 show a net loss of \$10,619,000 (44¢ per share), excluding Penn Central Transportation Company losses of \$103,579,000 (\$4.30 per share). Comparable 1973 results showed a net loss of \$40,754,000 (\$1.69 per share), excluding Transportation Company losses of \$83,104,000 (\$3.45 per share). The reduced loss of Penn Central Company for the first six months in 1974, when compared to the 1973 loss for the comparable period of \$24,056,000 before the extraordinary charge of \$16,698,000, resulted substantially from the lesser decline in the value of the dollar relative to the Swiss franc in 1974.

At the Stockholders Meeting held on December 19, 1973, seven directors, all management nominees, were elected. These are the same persons who are being nominated for election at the forthcoming annual meeting to be held on December 19, 1974.

As reported to you in the annual report dated August 10, 1973 the plan to refinance the Company-guaranteed Swiss franc debt owed by the Company's subsidiary, Penn Central International, N.V. ("International") was consummated on February 1, 1973. Details of the refinancing are discussed in Note "B" to the Company's financial statements. Also, as reported to you last year, on June 14, 1973, your Company consummated the settlement involving the Blocked Accounts and Leased-Lines, discussed in Note "C" to the Company's financial statements.

On May 7, 1974, the Company was served with a complaint by the SEC referring to certain actions of its Board of Directors and officers prior to the bankruptcy of Penn Central Transportation Company.

A number of former officers and directors were also charged in the complaint. None of the Company's present Board or officers was connected with the Company at the time of the alleged actions, and none of the actions charged has been engaged in by the present Board and officers. The Company is attempting to have its name removed as a defendant in the action.

The Company is a plaintiff, together with others, in suits against certain former officers and directors of the Company, also against its former auditors and fidelity bond underwriter and against others. Negotiations toward a settlement of these cases are taking place and an agreement as to most of them may be consummated in the fairly near future. There is no assurance, however, as to when settlement will actually be reached or what the proceeds to the Company will be, if any.

We anticipate that we will be able to continue operations through approximately the third quarter of 1975 with funds on hand and are hopeful that additional funds will be received from the suits mentioned in the previous paragraph. Unfortunately, we do not have any assured source of funds and accordingly, unless the Transportation Company is reorganized or liquidated in a manner favorable to your Company on a timely basis, the Board may have no alternative but to consider the possibility of bankruptcy or similar proceedings for the Company.

PENN CENTRAL TRANSPORTATION COMPANY REORGANIZATION

Penn Central Company has continued to take a number of affirmative legal and legislative actions to protect the interests of its shareholders.

On January 2, 1974, the Regional Rail Reorganization Act of 1973 was enacted by the United States Congress. The Act provides for the acquisition of the rail properties of Penn Central Transportation Company (and other railroads in bankruptcy proceedings) by the Consolidated Rail Corporation (Conrail), if the respective bankruptcy courts approve their acquisition.

On January 29, 1974 the Company filed a suit in U.S. District Court asserting that the Act is unconstitutional in certain of its provisions. We were joined in this position by certain creditors and the trustee of the New Haven Railroad who became plaintiffs with us on similar grounds. The Company and the others asserted that these provisions could be interpreted as inhibiting or preventing the due process of law to which the Company is entitled under the Fifth Amendment of the Constitution in connection with the taking of the rail properties of the Transportation Company by the United States, the valuation of these properties and the securities given in exchange for them. This matter was heard before a three-judge Federal Court and on June 25, 1974 the court held that the Act was unconstitutional in certain respects including its failure to provide compensation to the Transportation Company for deficit operations during the interim period between enactment of the law and transfer of the properties to Conrail, a period of at least two years. The Government is appealing this decision to the U.S. Supreme Court before which hearings are expected to be held later in October when the court reconvenes.

Of the seven railroads in reorganization, two were approved by their Reorganization Courts for inclusion in Conrail and five including the Transportation Company were not. On July 1, 1974 Judge John P. Fullam, the Judge overseeing the reorganization of Penn Central Transportation Company held;

(1) that the Regional Rail Reorganization Act of 1973 does not provide a process which would be fair and equitable to the estate of the debtor, Penn Central Transportation Company; and

(2) that the reorganization of the Penn Central Transportation Company shall not be carried out pursuant to the Regional Rail Reorganization Act of 1973.

Judge Fullam lauded the co-operation of the stockholders and creditors in the reorganization of the railroad and furthermore recognized the vital necessity of maintaining investor confidence as the best way to preserve our private enterprise system. Judge Fullam's decision was appealed by the United States Government to the three-judge Court provided for in the Act and on September 30, 1974, the Reorganization Court's decision was reversed on appeal by the special three-judge Court provided for in the Act; however, the special three-judge Court stayed its decision pending the decision of the Supreme Court on the constitutionality of the Act. In rendering its decision, the special court did not accept the argument of investor interests that, even with normal economic conditions, Conrail, the Corporation into which the properties of the various reorganized railroads are to be combined, was bound to fail, and that the securities Conrail would issue in payment for the

assets of the bankrupt railroads being reorganized were thus bound to be worthless. The special court held, however, that because there is a risk that the compensation to be provided by Conrail for the railroads' property will be inadequate, the Act would be unfair and inequitable unless the bankrupt railroads were able to sue the government for any deficiency in compensation. The special court concluded that Congress has not sufficiently indicated in the Act an intention to make this remedy unavailable to the railroads.

On April 10, 1974 the Company filed suit in the United States Court of Claims seeking compensation including interest and costs to that date for the taking of Penn Central Company's property in violation of the Fifth Amendment of the Constitution. Our suit charges that on February 8, 1973 Congress enacted, and President Nixon thereafter approved, Senate Joint Resolution No. 59 which, by its terms, directed Penn Central Transportation Company, under reorganization, to continue its rail operations under existing conditions in the public interest although it was certain at that time that such a continuation of operations would result in substantial operational deficits. As a result of this Congressional directive, Penn Central Transportation Company has been forced to continue to provide rail services to the public and has thereby incurred, and continues to incur, substantial operating deficits. The equity interest of Penn Central Company as the sole shareholder of Penn Central Transportation Company is being eroded by this forced operation and Penn Central Company's property is thus being taken by the Government without just compensation. This action is presently in pre-trial proceedings in the U.S. Court of Claims.

As you are no doubt aware, the Transportation Company has substantial investments in non-rail assets, in addition to its rail assets. These non-rail assets include real estate, Buckeye Pipeline, Arvida Corporation, coal properties, etc. On April 4, 1974 the Company petitioned the Reorganization Court to order the termination of rail operations and to sever the non-rail assets from the rail assets, the latter being subject to possible inclusion in the Conrail system. On August 8 the Court issued an order requiring the Trustees to estimate the non-rail income and prepare a method of segregating it from the rail income. A hearing on our petition was held on September 19, 1974 and the matter was taken under advisement by the Court.

In addition to our activities on the legal front, we have been active as to federal legislation which will hopefully benefit the Transportation Company and thus the position of the stockholders. The legislation calls for an amendment to the Interstate Commerce Act which would speed up the determination of rate divisions cases which under the present statute have taken as long as thirteen years, at great disadvantage to the northern railroads, especially the Transportation Company. It is estimated that the condition wherein this "justice delayed is justice denied" has been costing the Transportation Company about \$45 million per year. The House Commerce Subcommittee reported out a bill to correct this inequity, but the provision for this was later removed by the full Committee. However, we are hopeful of enactment of a satisfactory amendment either in this Congress or next year.

The Company has been investigating the possible use of the large tax loss carry forwards which have resulted from its own and its subsidiaries operating losses as well as its investment loss in the Transportation Company. This is an extremely complex matter and no definitive answer to it is possible at this time.

As reported in the 1972 annual report, the Company has, in conjunction with others, so far successfully opposed the attempt by the Trustees of Penn Central Transportation Company to turn over stock of the Transportation Company's subsidiary, the Pennsylvania Company (worth, we believe, greatly in excess of the benefit to be gained) to a consortium of banks under a proposed settlement agreement. The decision in this litigation has not yet been handed down.

In conclusion, your Company believes that its objectives should continue to be to:

- (1) Preserve and enhance the value of all of the assets of the Transportation Company.
- (2) Seek legislation which will assist the Northeastern railroads to operate profitably while better serving the public.
- (3) Find a way, if possible, to utilize for the benefit of its stockholders the tax loss carry forward to which it is entitled.

October 9, 1974

ARCHIBALD DEB. JOHNSON

Archibald DeB. Johnson, Chairman

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

THE BOARD OF DIRECTORS AND SHAREHOLDERS
PENN CENTRAL COMPANY:

We have examined the following financial statements of Penn Central Company ("Company") as of December 31, 1973 and for the two years then ended (which financial statements have not been consolidated with the accounts of its wholly-owned subsidiary, Penn Central Transportation Company as stated in Note A(1)):

Statement of Assets, Liabilities, and Shareholders' Accounts (Excluding Investment in and Receivable from Penn Central Transportation Company)

Statement of Operations (Excluding Change in Investment in Penn Central Transportation Company)

Statement of Changes in Shareholders' Accounts (Excluding Investment in and Receivable from Penn Central Transportation Company)

Statement of Changes in Unrestricted Cash

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.

The Company's principal asset is its investment in Penn Central Transportation Company ("Transportation Company"), which company has been in reorganization proceedings under Section 77 of the Federal Bankruptcy Act since June 21, 1970. In these circumstances under generally accepted accounting principles, the Company would carry its investment in the Transportation Company at the net assets of the Transportation Company on the date the latter entered reorganization proceedings or, if there were a substantial impairment of value, at the lower valuation, and thereafter would reflect in income any material change of a relatively permanent nature in such valuation. At the present time, however, the Company has no basis for valuation which it considers reliable for stating the valuation and change in valuation of its investment in the Transportation Company, and has stated such investment at the net assets, and the decrease in such investment at the net loss, as shown in the Transportation Company's financial statements. Further, as stated in Note A(2) to the Company's financial statements, the Transportation Company maintains its accounts in conformity with the Uniform System of Accounts for Railroad Companies prescribed by the Interstate Commerce Commission and its financial statements have been prepared on that basis, which basis varies in material respects from generally accepted accounting principles. Consequently, the amounts at which the Company carries its investment in the Transportation Company and the charges therein do not purport to be in accordance with generally accepted accounting principles. The carrying amount of the investment also does not purport to reflect its realizable value on a liquidation or other basis. The financial statements of the Transportation Company for the year ended December 31, 1973 and our qualified report with respect thereto are included elsewhere in this annual report; these statements and our qualified report should be read in conjunction with the financial statements of the Company.

The ability of the Transportation Company to continue operations on a going-concern basis is uncertain as indicated in Note G to the Company's financial statements. Even if the Transportation Company continues operations on a going-concern basis, the plan of reorganization may have a material adverse effect upon the carrying amount of the Company's investment in the Transportation Company.

Also, as stated in Note A(2) to the Company's financial statements, under generally accepted accounting principles receivables are stated at their estimated realizable value. The receivable from Penn Central Transportation Company is an unsecured, prebankruptcy, proved, noninterest bearing claim and the amount

which the Company may ultimately realize on this claim in reorganization or liquidation is not presently determinable. Therefore, the carrying amount of the receivable from Penn Central Transportation Company does not purport to reflect its realizable value on a liquidation or other basis.

Further matters as to the outcome of which we are unable to express an opinion are set forth in Note F relating to legal actions involving amounts aggregating billions of dollars and other contingencies, and in Note C relating to possible dispute of claims which might be made for payment of amounts carried as liabilities to the Transportation Company and Note G as to the availability of funds to pay current expenses and to continue as a going-concern.

Because of the possible material effect of the matters discussed in the second through fifth paragraphs of this report, we do not express any opinion on the accompanying financial statements of Penn Central Company taken as a whole. However, in our opinion, subject to the effects of any adjustments that may result from the ultimate resolution of the uncertainties discussed in the second through fifth paragraphs hereof, the following items in such financial statements as of December 31, 1973 and 1972 and for the two years ended December 31, 1973 are presented fairly in all material respects in conformity with generally accepted accounting principles applied on a consistent basis:

Items in the Statement of Assets, Liabilities, and Shareholders' Accounts (Excluding Investment in and Receivable from Penn Central Transportation Company):

Total Assets (Excluding Investment in and Receivable from Penn Central Transportation Company)

Total Current Liabilities

7½% Secured Guaranteed Sinking Fund Notes

Interest on 7½% Secured Guaranteed Sinking Fund Notes

Preference Stock

Common Stock

Additional Paid-in Capital

Items in the Statement of Operations (Excluding Change in Investment in Penn Central Transportation Company):

All items except decrease in carrying amount of the investment in Penn Central Transportation Company.

Items in the Statement of Changes in Shareholders' Accounts (Excluding Investment in and Receivable from Penn Central Transportation Company):

Common Stock

Additional Paid-in Capital

Net Loss (Excluding Change in Investment in Penn Central Transportation Company)

Items in the Statement of Changes in Unrestricted Cash—All Items

HASKINS & SELLS

Philadelphia, Pa.

April 15, 1974 (May 2, 1974

as to certain matters

discussed in the notes to

Penn Central Transportation

Company financial statements)

PENN CENTRAL COMPANY

STATEMENT OF ASSETS, LIABILITIES, AND SHAREHOLDERS' ACCOUNTS
 (Excluding investment in and receivable from
 Penn Central Transportation Company - Notes A(1) and A(2))
 DECEMBER 31, 1973 AND 1972

| -- ASSETS -- | (dollars in thousands) | |
|---|------------------------|------------|
| | 1973 | 1972 |
| Current assets: | | |
| Cash, including commercial paper and time deposits of \$330,000 in 1973 and \$40,000 in 1972..... | \$ 336 | \$ 56 |
| Prepaid expenses..... | 94 | 8 |
| Trust fund assets (Notes B and G)..... | 838 | 1,076 |
| Total current assets..... | 1,268 | 1,140 |
| Investment in and receivable from Penn Central Transportation Company (Notes A, B and C)..... | | |
| Loans and interest receivable from subsidiaries of Penn Central Transportation Company (Note C)..... | | 70,418 |
| Cash deposits restricted by banks (Note C)..... | | 2,165 |
| Deferred refinancing costs (Note A(4))..... | 755 | 876 |
| | | |
| TOTAL (excluding investment in and receivable from Penn Central Transportation Company carried at \$725,952,000 in 1973 and \$856,662,000 in 1972)..... | \$ 2,023 | \$ 74,599 |
| Carrying amount of investment in and receivable from Penn Central Transportation Company (Note A(2)): | | |
| Investment (Note B)..... | \$ 684,112 | \$ 856,662 |
| Receivable (Note C)..... | 41,840 | |
| Total..... | \$ 725,952 | \$ 856,662 |

See accompanying notes to financial statements.

PENN CENTRAL COMPANY

STATEMENT OF ASSETS, LIABILITIES, AND SHAREHOLDERS' ACCOUNTS
 (Excluding investment in and receivable from
 Penn Central Transportation Company - Notes A(1) and A(2))
 DECEMBER 31, 1973 AND 1972

| -- LIABILITIES AND SHAREHOLDERS' ACCOUNTS -- | (dollars in thousands) | |
|---|------------------------|------------|
| | 1973 | 1972 |
| Current liabilities: | | |
| Payable to Penn Central Transportation Company (Note C)..... | \$ 1,682 | \$ 1,886 |
| Accounts payable and accrued expenses..... | 852 | 1,083 |
| Total current liabilities..... | 2,534 | 2,969 |
| 7-1/2% Secured Guaranteed Sinking Fund Notes (Notes A(3) and B)..... | 75,399 | 65,557 |
| Interest on 7-1/2% Secured Guaranteed Sinking Fund Notes (Notes A(3) and B)..... | 9,001 | 2,868 |
| Notes payable to Penn Central Transportation Company (Note C)..... | | 11,880 |
| Total liabilities..... | 86,934 | 83,274 |
| Contingent liabilities and commitments (Note F).. | | |
| Shareholders' accounts (Notes A(2) and D): | | |
| Preference stock - without par value; authorized, 25,000,000 shares; none outstanding | | |
| Common stock - without par value; authorized, 100,000,000 shares; outstanding, 24,110,321 shares at \$1 stated value..... | 24,110 | 24,110 |
| Additional paid-in capital..... | 1,285,530 | 1,285,530 |
| Deficit..... | (668,599) | (461,653) |
| Less carrying amount of investment in and receivable from Penn Central Transportation Company (Note A(2))..... | (725,952) | (856,662) |
| Shareholders' accounts (excluding carrying amount of investment in and receivable from Penn Central Transportation Company)..... | (84,911) | (8,675) |
| TOTAL (excluding investment in and receivable from Penn Central Transportation Company carried at \$725,952,000 in 1973 and \$856,662,000 in 1972)..... | \$ 2,023 | \$ 74,599 |
| Carrying amount of investment in and receivable from Penn Central Transportation Company (Note A(2)): | | |
| Investment (Note B)..... | \$ 684,112 | \$ 856,662 |
| Receivable (Note C)..... | 41,840 | |
| Total..... | \$ 725,952 | \$ 856,662 |

See accompanying notes to financial statements.

PENN CENTRAL COMPANY

STATEMENT OF OPERATIONS
(EXCLUDING CHANGE IN INVESTMENT IN
PENN CENTRAL TRANSPORTATION COMPANY - Notes A(1) and A(2))
FOR THE YEARS ENDED DECEMBER 31, 1973 AND 1972

| | (dollars in thousands) except per share data | |
|---|---|--------------|
| | 1973 | 1972 |
| Income: | | |
| Interest from temporary investments and trust funds..... | \$ 71 | \$ 56 |
| Interest from subsidiaries of Penn Central Transportation Company (Note C)..... | | 6,008 |
| Total income..... | 71 | 6,064 |
| Expenses: | | |
| Interest (Note B)..... | 5,867 | 5,221 |
| Loss on exchange fluctuations (Note A(3)).... | 10,761 | 2,328 |
| Administrative and general - allocated from Penn Central Transportation Company (Note C)..... | 204 | 204 |
| Other administrative and general..... | 879 | 757 |
| Amortization of deferred refinancing costs (Note A(4))..... | 58 | 38 |
| Total expenses..... | 17,769 | 8,548 |
| Loss before extraordinary charge (excluding change in investment in Penn Central Transportation Company)..... | (17,698) | (2,484) |
| Extraordinary charge - reversal of interest receivable from subsidiaries of Penn Central Transportation Company (Note C)..... | (16,698) | |
| Net loss (excluding change in investment in Penn Central Transportation Company)..... | \$ (34,396) | \$ (2,484) |
| Per share of common stock (Note A(5)): | | |
| Loss before extraordinary charge..... | \$ (.73) | \$ (.10) |
| Extraordinary charge..... | (.69) | |
| Net loss (excluding change in investment in Penn Central Transportation Company - Note A(2))..... | \$ (1.42) | \$ (.10) |
| Decrease in carrying amount of investment in Penn Central Transportation Company (Note A(2)) equivalent to that company's: | | |
| Loss before extraordinary items..... | \$(189,003) | \$(197,903) |
| Extraordinary items..... | 16,453 | (24,926) |
| Net loss..... | \$ (172,550) | \$ (222,829) |
| Decrease in carrying amount of investment per share of common stock (Note A(5)): | | |
| Loss before extraordinary items..... | \$(7.84) | \$(8.21) |
| Extraordinary items..... | .68 | (1.03) |
| Net loss..... | \$ (7.16) | \$ (9.24) |

See accompanying notes to financial statements.

PENN CENTRAL COMPANY

STATEMENT OF CHANGES IN SHAREHOLDERS' ACCOUNTS
(EXCLUDING INVESTMENT IN AND RECEIVABLE FROM PENN CENTRAL
TRANSPORTATION COMPANY - Notes A(1) and A(2))
FOR THE YEARS ENDED DECEMBER 31, 1973 AND 1972

| | COMMON STOCK | ADDITIONAL PAID-IN CAPITAL | RETAINED EARNINGS (DEFICIT) | CARRYING AMOUNT OF INVESTMENT IN AND RECEIVABLE FROM PENN CENTRAL TRANSPORTATION COMPANY (DEDUCT) |
|---|-----------------|----------------------------|-----------------------------|--|
| | | | | SHAREHOLDERS' ACCOUNTS (EXCLUDING INVESTMENT IN AND RECEIVABLE FROM PENN CENTRAL TRANSPORTATION COMPANY - Note A(2)) |
| Balance, January 1, 1972..... | \$24,110 | \$1,285,530 | \$(236,340) | \$(1,079,491) |
| Net loss (excluding change in investment in Penn Central Transportation Company) | | | (2,484) | (2,484) |
| Decrease in carrying amount of investment in Penn Central Transportation Company. | | | (222,829) | 222,829 |
| Balance, December 31, 1972..... | 24,110 | 1,285,530 | (461,653) | (856,662) |
| Receivable from Penn Central Transportation Company (Note C)..... | | | | (41,840) |
| Net loss (excluding change in investment in Penn Central Transportation Company) | | | (34,396) | (34,396) |
| Decrease in carrying amount of investment in Penn Central Transportation Company. | | | (172,550) | 172,550 |
| Balance, December 31, 1973..... | <u>\$24,110</u> | <u>\$1,285,530</u> | <u>\$(668,599)</u> | <u>\$(84,911)</u> |

See accompanying notes to financial statements.

PENN CENTRAL COMPANY

STATEMENT OF CHANGES IN UNRESTRICTED CASH
FOR THE YEARS ENDED DECEMBER 31, 1973 AND 1972

| | (dollars in thousands) | |
|--|------------------------|---------|
| | 1973 | 1972 |
| Funds provided: | | |
| Settlement of loans receivable from subsidiaries of Penn Central Transportation Company (Note C)..... | \$53,720 | |
| Release of cash deposits restricted by banks (Note C)..... | 2,165 | |
| Transfer from trust fund assets..... | 238 | \$ 488 |
| Increase in current liabilities..... | | 749 |
| Total funds provided..... | 56,123 | 1,237 |
| Funds used: | | |
| Net loss (excluding change in investment in Penn Central Transportation Company)..... | 34,396 | 2,484 |
| Add (deduct) items not requiring or providing current funds: | | |
| Extraordinary charge - reversal of interest receivable from subsidiaries of Penn Central Transportation Company (Note C).. | (16,698) | |
| Interest income from subsidiaries of Penn Central Transportation Company (Notes B and C)..... | | 6,008 |
| Amortization of deferred refinancing costs (Note A(4))..... | (58) | (38) |
| Interest expense on Swiss Franc notes payable..... | (5,867) | (5,221) |
| Loss on exchange fluctuations (Note A(3)).. | (10,761) | (2,328) |
| Funds used in current operations..... | 1,012 | 905 |
| Partial payment of 7-1/2% Secured Guaranteed Sinking Fund Notes (Notes B and C)..... | 652 | |
| Settlement of note payable to Penn Central Transportation Company (Note C)..... | 53,720 | |
| Refinancing costs deferred (Note A(4))..... | 26 | 295 |
| Increase in prepaid expenses..... | 86 | 8 |
| Decrease in current liabilities..... | 347 | |
| Total funds used..... | 55,843 | 1,208 |
| Increase in unrestricted cash..... | 280 | 29 |
| Unrestricted cash, beginning of year..... | 56 | 27 |
| Unrestricted cash, end of year..... | \$ 336 | \$ 56 |

See accompanying notes to financial statements.

PENN CENTRAL COMPANY

NOTES TO FINANCIAL STATEMENTS

A. Summary of Significant Accounting Policies

(1) *Basis of Statement Presentation*

Penn Central Company (the "Company") is a holding company which owns all of the outstanding capital stock of Penn Central Transportation Company and Penn Central International N.V. (a company organized to obtain financing guaranteed by Penn Central Company from foreign sources). The accompanying financial statements include the accounts of the Company and the accounts of Penn Central International N.V. as if they were those of the parent.

Penn Central Transportation Company (the "Transportation Company") entered into reorganization proceedings on June 21, 1970 under Section 77 of the Federal Bankruptcy Act. Trustees appointed by the United States District Court for the Eastern District of Pennsylvania (the "Reorganization Court") operate and control the Transportation Company. Inasmuch as the Company has no control over the Transportation Company's assets and operations as a result of the reorganization proceedings, the latter's accounts have not been consolidated with those of the Company. However, the financial statements of the Transportation Company for the two years ended December 31, 1973 and the related auditors' qualified report as filed by the Trustees with the Reorganization Court are included elsewhere herein and should be read in conjunction with the Company's financial statements.

(2) *Investment in and Receivable from Penn Central Transportation Company*

Under generally accepted accounting principles, the Company would carry its investment in the Transportation Company, under present circumstances, at the net assets of the Transportation Company on the date the latter entered reorganization proceedings or, if there were a substantial impairment of value, at the lower valuation, and thereafter would reflect in income any material change of a relatively permanent nature in such valuation. At the present time, however, the Company has no basis for valuation which it considers reliable for stating the valuation and change in valuation of its investment in the Transportation Company, and has stated such investment at the net assets (\$684,112,000 at December 31, 1973 and \$856,662,000 at December 31, 1972), and the decrease in such investment at the net loss (\$172,550,000 for 1973 and \$222,829,000 for 1972), as shown in the Transportation Company financial statements. Further, as discussed in Note 2 to the Transportation Company's financial statements, the Transportation Company maintains its accounts in conformity with the Uniform System of Accounts for Railroad Companies prescribed by the Interstate Commerce Commission and its financial statements have been prepared on that basis, which basis varies in material respects from generally accepted accounting principles. Consequently, the amounts at which the Company carries its investment in the Transportation Company and the changes therein do not purport to be in accordance with generally accepted accounting principles. The carrying amount of the investment also does not purport to reflect its realizable value on a liquidation or other basis.

In the accompanying financial statements, the Company's investment in the Transportation Company has been excluded from the assets and deducted from the shareholders' accounts and the change in the carrying amount of such investment has been excluded from the statement of operations because of the material uncertainty involved in any determination of the valuation of the investment as of December 31, 1973 and of the change therein during the two years then ended.

Also, under generally accepted accounting principles receivables are stated at their estimated realizable value. The receivable from Penn Central Transportation Company in the amount of \$41,840,000 is an unsecured, prebankruptcy, proved, noninterest bearing claim (see Note C) and the amount which the Company may ultimately realize, if anything, on this claim in reorganization or liquidation is not presently determinable. Therefore, the carrying amount of the receivable from Penn Central Transportation Company does not purport to reflect its realizable value on a liquidation or other basis. In the accompanying financial statements, the Company's receivable from Penn Central Transportation Company has been excluded from

PENN CENTRAL COMPANY

NOTES TO FINANCIAL STATEMENTS—Continued

the assets and deducted from the shareholders' accounts because of the uncertainty as to the ultimate realizable value of this receivable as of December 31, 1973.

(3) *Foreign Exchange*

The Swiss Franc debt described in Note B and accrued interest thereon are recorded in the accounts based upon the prevailing currency exchange rate at the date of the Statement of Assets, Liabilities and Shareholders' Accounts. Losses due to currency exchange fluctuations have been charged to operations.

(4) *Deferred Refinancing Costs*

Costs relating to the refinancing of the Swiss Franc debt as of June 1, 1972 have been deferred and are being amortized on the notes outstanding method over the period from June 1, 1972 to June 1, 1986.

(5) *Per Share Calculation*

Per share data is based on the average number of shares outstanding (24,110,321 shares) for the periods concerned. Options and warrants are excluded from the per share calculations because they are anti-dilutive.

B. Notes Payable

On February 1, 1973, pursuant to a plan of refinancing approved by the Company's shareholders, overdue Extension Notes and the accrued interest thereon were exchanged as of June 1, 1972 for 7½% Secured Guaranteed Sinking Fund Notes of International due June 1, 1986 in the principal amount of 247,103,754 Swiss Francs. These Notes (a) bear simple interest at the rate of 7½% per year, which will accrue but will not be payable until June 1, 1976, except to the extent of certain cash income, as defined in the Trust Deed, and will be payable semi-annually after June 1, 1976; (b) require annual sinking fund payments of 20% of the outstanding notes beginning June 1, 1982; (c) prohibit International and the Company from declaring dividends, selling or encumbering their assets, merging, acquiring new assets, issuing additional shares of stock or incurring additional debt except under certain circumstances defined in the Trust Deed; and (d) are exchangeable by the holder into notes issued by the Company payable in U.S. dollars. The New Notes, pursuant to a Pledge Agreement, are collateralized by (a) 35% of the capital stock of the Transportation Company (b) the receivable from the Transportation Company and (c) the Trust Fund Assets.

In connection with the issuance of the Notes, the Company also issued to the Noteholders warrants to purchase an aggregate of 2,678,924 shares (10% of outstanding shares after exercise) of the Company's unissued Common Stock. Such warrants entitle the holders to purchase, for cash or by surrender of the New Notes, the Company's Common Stock at any time from February 1, 1974 to May 31, 1986 at a price of \$5.50 per share, subject to certain anti-dilution provisions.

C. Amounts Receivable From and Payable to the Transportation Company

On June 14, 1973 the Company consummated a settlement of claims involving its subsidiary, Penn Central International N.V., and two subsidiaries of Penn Central Transportation Company, Pennel Company and the Philadelphia, Baltimore and Washington Railroad Company. Under the settlement, International released the subsidiaries of the Transportation Company from their obligations to repay amounts loaned to them by International (\$53,720,000 plus interest); the Transportation Company Trustees acknowledged that International has an unsecured, prebankruptcy, proved, noninterest bearing claim against the Transportation Company in the amount of \$41,840,000 (which is pledged to the Swiss Franc noteholders) (see Note A(2)) which is equal to the original loan to the Transportation Company's subsidiaries less \$11,880,000 owed by the Company to the Transportation Company.

PENN CENTRAL COMPANY

NOTES TO FINANCIAL STATEMENTS—Continued

As part of the settlement, two banks which had been holding International funds since 1970 released those funds in the aggregate amount of \$2,165,000. \$500,000 of this amount was paid to the Trustees of the Transportation Company for providing stock transfer services to Penn Central Company; \$652,000 and \$158,000 was paid to the holders of International's Swiss franc debt in reduction of the original principal amount of such debt and expenses of the noteholders, respectively. The remaining \$855,000 was pledged to the holders of the debt, but is being made available to Penn Central Company in order to enable it to meet estimated operating expenses as discussed in Note G.

As a result of the above Settlement, the Company recorded an extraordinary charge to operations of \$16,698,000 representing the amount of interest income accrued from February 1970 to December 31, 1972 on the obligations receivable from the two subsidiaries of the Transportation Company, which interest, as a result of the settlement, is no longer due. Interest income accrued subsequent to December 31, 1972 was reversed.

Substantially all of the \$1,682,000 account payable to the Transportation Company at December 31, 1973 relates to expenditures made on behalf of the Company by the Transportation Company prior to entering into reorganization proceedings. No claim for payment has been asserted and, if asserted, may be disputed by the Company.

D. Common Stock

At December 31, 1973, 312,750 shares of the Company's common stock were reserved for stock options outstanding or available for grant under stock option plans. Stock options were outstanding for 73,000 shares and 175,814 shares at December 31, 1973 and 1972, respectively, and are exercisable at prices ranging from \$26.19 per share to \$67.94 per share. The option prices substantially exceed the market price of the Company's common stock. No options were exercised during the period. The last outstanding option expires in 1975. At December 31, 1973, 239,750 shares were available for future grant under the Company's qualified stock option plan. However, the Company has no plans to grant any stock options and no current officer, director or employee of the Company holds any options under any stock option plan.

E. Federal Income Taxes

The Company, as common parent, has joined in the filing of consolidated Federal income tax returns for a group consisting principally of the Transportation Company and its subsidiaries owned 80% or more; International as a foreign corporation has been excluded from the consolidated returns.

See Note 5 to the financial statements of the Transportation Company regarding a proposed Federal income tax deficiency of \$50,000,000, exclusive of interest, and information relating to net operating loss carryforwards of the consolidated group. The amount, timing, and character for Federal income tax purposes of losses realized or to be realized by the Company with respect to its interest in the Transportation Company is dependent, among other things, on the results of the reorganization proceedings, and is not presently determinable.

F. Contingent Liabilities and Commitments

The Company and former directors and officers are defendants in a large number of lawsuits, many of which are class and derivative actions, alleging, among other things, corporate mismanagement, waste of assets and violations of the Federal securities laws and other laws. These suits involve amounts aggregating billions of dollars. Most of these suits arise out of events occurring prior to or in connection with the reorganization proceedings of the Transportation Company. The Company has been realigned as party plaintiff in some of these cases.

The Company has been the subject of investigations by the Securities and Exchange Commission, Committees of Congress and other governmental agencies.

PENN CENTRAL COMPANY

NOTES TO FINANCIAL STATEMENTS—Concluded

The Company and past directors and officers are defendants in a class action seeking to rescind certain directors' and officers' liability and company reimbursement insurance policies on the ground that material misstatements were made in applying for and obtaining such insurance coverage.

The Company is a third-party defendant in a suit brought by a holder of notes issued by International and guaranteed by the Company, charging violations of the Federal securities laws and other laws.

The Company is a defendant in a derivative and class action alleging that the issuance and guaranty of the New Notes described in Note B were unlawful and that the proxy solicitation pursuant to which the Company's shareholders approved such issuance and guaranty was also unlawful.

The Company is a third-party defendant in approximately fifty suits brought by holders of some \$80,000,000 of Transportation Company commercial paper, charging violations of the Federal Securities Law and the common law of various states.

See also Note E relating to proposed additional Federal income taxes.

There presently is not sufficient information to determine the effect of the aforementioned contingencies on the financial statements of the Company.

G. Future Operations

As indicated in Note 2 to the financial statements of the Transportation Company, the ability of the Transportation Company to continue operations on a going-concern basis is uncertain. Even if the Transportation Company is ultimately able to continue operations on a going-concern basis, the plan of reorganization will probably have a material adverse effect upon the carrying amount of the Company's investment in the Transportation Company.

The Trust Fund Assets are being used to pay current operating expenses of the Company and International. The Company estimates that the \$838,000 in the Fund at December 31, 1973 will be adequate to meet the Company's current level of expenses through approximately June 30, 1975. The Company has no other assured source of funds and accordingly unless the Transportation Company is reorganized or liquidated in a manner favorable to the Company by June 30, 1975 or the Company collects damages in connection with suits in which the Company is a party plaintiff, the Company may have no alternative but to consider entering bankruptcy or similar proceedings.

Because of the matters discussed in the two preceding paragraphs, and particularly because of the limited funds available to pay future operating expenses, the ultimate ability of the Company to continue as a going-concern is uncertain.

PENN CENTRAL TRANSPORTATION COMPANY
AUDITORS' REPORT

THE TRUSTEES OF THE PROPERTY OF

PENN CENTRAL TRANSPORTATION COMPANY, DEBTOR:

We have examined the balance sheet of Penn Central Transportation Company (in reorganization under Section 77 of the Federal Bankruptcy Act since June 21, 1970—see Note 2) as of December 31, 1973 and the related statements of operations, retained earnings (deficit) and changes in working capital for the year then ended. 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. The Company maintains its accounts in conformity with the Uniform System of Accounts for Railroad Companies prescribed by the Interstate Commerce Commission and the accompanying financial statements have been prepared on that basis—see Note 2.

The accompanying financial statements have been prepared on the assumption of continuing operations on a going-concern basis (rather than on a liquidation basis) and do not purport to reflect or to provide for all the consequences of the reorganization proceedings under the Federal Bankruptcy Act or all of the costs and expenses related thereto. Particularly, such financial statements do not purport to show, among other things related to the reorganization proceedings: (a) the realizable value of all assets on a liquidation basis or the availability of such assets to liquidate liabilities, (b) the amounts of liabilities and contingencies which may be allowed in reorganization proceedings or the relative status and priority of such liabilities and contingencies, or (c) the effect upon shareholder accounts, or upon operations, of any changes which may be made in the capitalization or organization of the Company or its method of conducting business.

The ability of the Company to continue operations on a going-concern basis will depend upon a number of factors, some of which will require action beyond the control of the Company, the Trustees or the Reorganization Court, including obtaining sufficient cash to sustain rail operations and curtail deterioration of tracks and equipment. In the Trustees' April 3, 1974 report referred to in Note 2, the Trustees have stated that "In the short range, continuation of rail services depends almost exclusively upon governmental financial assistance. The amount and timing of that assistance will determine what parts of the railroad can be kept in operation and whether services can be maintained at adequate levels." Further, the Trustees have reported that it is now estimated that \$562,000,000 would have to be spent over an 8-year period to overcome deferred maintenance on a 15,000 mile core railroad.

We do not express any opinion as to the Company's ability to continue operations on a going-concern basis. Further, the accompanying financial statements should not be used as a basis for projecting the results of future operations in view of possible continuing deterioration of tracks and equipment and the possible material effects of the Regional Rail Reorganization Act of 1973.

Further matters involving material uncertainties as to the outcome of which we are not in a position to express an opinion are set forth in Note 3 relating to disposition of certain assets, Note 4 relating to future retirements of property, Note 9 relating to leased line abandonments and leased line reorganization proceedings, Note 10 relating to various contingencies, and Note 13 relating to the reserves for losses related to Amtrak.

In our opinion, subject to the ability of the Company to continue operations on a going-concern basis and to the effect of any adjustments that may result from the present reorganization proceedings and from the ultimate resolution of the matters referred to in the two preceding paragraphs, the accompanying financial statements present fairly the assets, liabilities, and shareholder accounts of the Company at December 31, 1973 and its income, costs and expenses, extraordinary item, and net loss and changes in working capital, for the year then ended, in conformity with the Uniform System of Accounts for Railroad Companies prescribed by the Interstate Commerce Commission applied on a basis consistent with that of the preceding year. As explained in Note 2, the variances between the Uniform System of Accounts and generally accepted accounting principles are material; accordingly, the accompanying financial statements do not purport to be presentations in conformity with such principles.

Philadelphia, Pa.

April 15, 1974 (May 2, 1974 as
to certain matters discussed in
Notes 2, 3, 9, and 10)

HASKINS & SELLS

PENN CENTRAL TRANSPORTATION COMPANY
(In reorganization under Section 77 of the Federal Bankruptcy Act
since June 21, 1970 - Note 2)

BALANCE SHEET, DECEMBER 31, 1973 AND 1972

| -- A S S E T S -- | (dollars in thousands) | | -- L I A B I L I T I E S -- | (dollars in thousands) | |
|---|------------------------|--------------------|---|------------------------|--------------------|
| | 1973 | 1972 | | 1973 | 1972 |
| CURRENT ASSETS: | | | CURRENT LIABILITIES (excluding long-term debt due within one year, long-term debt in default and current liabilities deferred under reorganization proceedings): | | |
| Cash, including commercial paper and time deposits of \$36,911,000 in 1973 and \$22,301,000 in 1972.. | \$ 44,143 | \$ 31,493 | Accounts and wages payable..... | \$ 66,346 | \$ 74,093 |
| Accounts receivable and unbilled revenue - net.... | 336,182 | 324,203 | Accrued expenses..... | 320,723 | 323,825 |
| Materials and supplies - at cost..... | 73,061 | 68,369 | Other..... | 76,284 | 73,440 |
| Other..... | 9,091 | 9,302 | | | |
| Total current assets..... | 462,477 | 433,367 | Total current liabilities (excluding long-term debt due within one year, long-term debt in default and current liabilities deferred under reorganization proceedings)..... | 463,353 | 471,358 |
| INVESTMENTS, ADVANCES AND SPECIAL FUNDS (Notes 1, 2, 3, 8, 9, and 12)..... | 1,056,816 | 1,039,760 | LONG-TERM DEBT, INCLUDING DEBT IN DEFAULT (Note 8): | | |
| | | | Trustees' debt certificates..... | 100,000 | 100,000 |
| | | | Equipment obligations, etc., not deferred under reorganization proceedings: | | |
| | | | Due within one year..... | 52,513 | 57,575 |
| | | | Due after one year..... | 302,188 | 333,152 |
| | | | Other long-term debt: | | |
| | | | In default..... | 1,104,100 | 1,103,337 |
| | | | Due after one year..... | 156,414 | 159,295 |
| | | | Total long-term debt..... | 1,715,215 | 1,753,359 |
| PROPERTIES (Notes 1, 4, 8, 9, and 13): | | | CURRENT LIABILITIES DEFERRED UNDER REORGANIZATION PROCEEDINGS (Notes 2, 7, 9, and 12)..... | 875,915 | 681,471 |
| Road structures, etc..... | 2,048,233 | 2,056,473 | OTHER LIABILITIES, RESERVES AND CREDITS: | | |
| Equipment..... | 1,410,637 | 1,477,967 | Estimated liabilities incurred upon merger..... | 7,018 | 7,182 |
| Other (nontransportation)..... | 100,559 | 102,139 | Estimated liabilities related to Amtrak (Note 13)..... | 50,486 | 51,451 |
| Total..... | 3,559,429 | 3,636,579 | Casualty and other reserves..... | 114,128 | 113,394 |
| Less accumulated depreciation and reserves for losses related to merger and Amtrak..... | 941,039 | 946,869 | Amounts payable to subsidiary companies..... | 156,335 | 164,798 |
| Properties - net..... | 2,618,390 | 2,689,710 | Deferred credits and sundry liabilities..... | 70,802 | 88,011 |
| | | | Accumulated depreciation on leased property..... | 125,245 | 123,195 |
| | | | Total other liabilities, reserves and credits..... | 524,014 | 548,031 |
| DEFERRED CHARGES AND OTHER ASSETS (Note 7)..... | 124,926 | 148,044 | SHAREHOLDER ACCOUNTS: | | |
| | | | Capital stock - \$10 par value, authorized, 27,000,000 shares; outstanding, 24,113,703 shares..... | 241,137 | 241,137 |
| | | | Additional paid-in capital..... | 1,090,014 | 1,090,014 |
| | | | (Deficit) (Note 2)..... | (647,039) | (474,489) |
| | | | Total shareholder accounts..... | 684,112 | 856,662 |
| | | | COMMITMENTS AND CONTINGENT LIABILITIES (Notes 2, 9, 10, and 13) | | |
| TOTAL..... | \$4,262,609 | \$4,310,881 | TOTAL..... | \$4,262,609 | \$4,310,881 |

See accompanying notes to financial statements.

See accompanying notes to financial statements.

PENN CENTRAL TRANSPORTATION COMPANY
(In reorganization under Section 77 of the Federal Bankruptcy Act
since June 21, 1970 - Note 2)

STATEMENT OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 1973 AND 1972

| | (dollars in thousands) | |
|--|------------------------|--------------|
| | 1973 | 1972 |
| RAILWAY OPERATING REVENUES..... | \$1,963,673 | \$1,825,456 |
| RAILWAY OPERATING EXPENSES: | | |
| Maintenance of way..... | 255,959 | 244,506 |
| Maintenance of equipment..... | 328,413 | 324,750 |
| Traffic..... | 20,408 | 20,977 |
| Transportation..... | 923,777 | 852,561 |
| General..... | 95,936 | 92,233 |
| Total..... | 1,624,553 | 1,535,027 |
| RAILWAY TAXES, INCLUDING TAX UNDER ALLOCATION AGREEMENTS (Notes 5 and 6)..... | 159,861 | 140,509 |
| EQUIPMENT AND JOINT FACILITY RENTS..... | 271,923 | 255,158 |
| Total..... | 2,056,337 | 1,930,694 |
| NET RAILWAY OPERATING LOSS..... | (92,664) | (105,238) |
| OTHER INCOME (DEDUCTIONS): | | |
| Dividend income (principally from subsidiaries)..... | 7,495 | 7,329 |
| Net gain on sales of properties..... | 5,366 | 6,886 |
| Rentals of properties..... | 31,883 | 30,902 |
| Miscellaneous - net..... | (5,988) | (7,190) |
| Other income - net..... | 38,756 | 37,927 |
| LOSS BEFORE FIXED CHARGES..... | (53,908) | (67,311) |
| FIXED CHARGES: | | |
| Interest on debt..... | 106,350 | 97,110 |
| Leased line rentals..... | 28,745 | 33,482 |
| Total..... | 135,095 | 130,592 |
| LOSS BEFORE EXTRAORDINARY ITEMS..... | (189,003) | (197,903) |
| EXTRAORDINARY ITEMS (Note 12): | | |
| Reversal of interest payable to subsidiaries..... | 16,453 | |
| Costs and losses related to - Tropical Storm Agnes..... | | (24,926) |
| Total..... | 16,453 | (24,926) |
| NET LOSS..... | \$ (172,550) | \$ (222,829) |

See accompanying notes to financial statements.

PENN CENTRAL TRANSPORTATION COMPANY
(In reorganization under Section 77 of the Federal Bankruptcy Act
since June 21, 1970 - Note 2)

STATEMENT OF RETAINED EARNINGS (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 1973 AND 1972

| | (dollars in thousands) | |
|----------------------------|------------------------|--------------------|
| | 1973 | 1972 |
| BALANCE, JANUARY 1..... | \$(474,489) | \$(251,660) |
| NET LOSS FOR THE YEAR..... | (172,550) | (222,829) |
| BALANCE, DECEMBER 31..... | <u>\$(647,039)</u> | <u>\$(474,489)</u> |

See accompanying notes to financial statements.

PENN CENTRAL TRANSPORTATION COMPANY
(In reorganization under Section 77 of the Federal Bankruptcy Act
since June 21, 1970 - Note 2))

STATEMENT OF CHANGES IN WORKING CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 1973 AND 1972

| | (dollars in thousands) | |
|---|------------------------|--------------------|
| | 1973 | 1972 |
| WORKING CAPITAL PROVIDED: | | |
| From operations: | | |
| (Loss) before extraordinary items..... | \$(189,003) | \$(197,903) |
| Deduct charges against operations not requiring a current outlay of working capital: | | |
| Depreciation..... | 88,989 | 88,676 |
| Current expenses deferred under reorganization proceedings..... | 163,104 | 153,260 |
| Other - net..... | 11,927 | 11,144 |
| Working capital provided by operations before extraordinary items.. | 75,017 | 55,177 |
| Extraordinary items: | | |
| Reversal of rental payable to subsidiaries of \$16,453 which did not provide working capital..... | | |
| Costs and losses in 1972 related to Tropical Storm Agnes of \$24,926,000, of which \$11,090,000 did not use working capital.... | | (13,836) |
| Working capital provided by operations..... | 75,017 | 41,341 |
| Proceeds of loan to repair damage resulting from Tropical Storm Agnes and equipment financing..... | 17,933 | |
| Liabilities deferred by order of the Reorganization Court not affecting operations..... | 8,268 | 16,541 |
| Advances from affiliated companies, net..... | 3,269 | 5,382 |
| Withdrawal from contingent compensation fund... | 6,780 | |
| Proceeds and salvage from property sold or retired - net of gain included in operations... | 28,424 | 15,708 |
| Decrease in noncurrent receivables..... | 11,261 | |
| Other - net..... | | 2,660 |
| Total working capital provided.... | 150,952 | 81,632 |
| WORKING CAPITAL USED: | | |
| Property additions..... | 23,777 | 22,679 |
| Reduction of long-term debt..... | 51,015 | 58,967 |
| Payment on National Railroad Passenger Corporation (Amtrak) stock subscription..... | 5,820 | 17,461 |
| Special deposits required by Reorganization Court, mortgages and escrow agreements..... | 25,834 | 20,719 |
| Increase in noncurrent receivables..... | | 5,372 |
| Charges to Amtrak Reserves..... | 965 | 7,348 |
| Charges to Merger Reserves..... | 164 | 2,479 |
| Other - net..... | 1,200 | |
| Total working capital used..... | 108,775 | 135,025 |
| INCREASE (DECREASE) IN WORKING CAPITAL..... | \$ 42,177 | \$ (53,393) |

PENN CENTRAL TRANSPORTATION COMPANY
(In reorganization under Section 77 of the Federal
Bankruptcy Act since June 21, 1970 - Note 2)
STATEMENT OF CHANGES IN WORKING CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 1973 AND 1972

| | (dollars in thousands) | |
|---|------------------------|-------------|
| | 1973 | 1972 |
| CHANGES IN COMPONENTS OF WORKING CAPITAL: | | |
| Increase (decrease) in current assets: | | |
| Cash and temporary cash investments..... | \$ 12,650 | \$ (39,281) |
| Accounts receivable and unbilled revenue... | 11,979 | 7,756 |
| Materials and supplies..... | 4,692 | (3,335) |
| Other..... | (211) | (3,286) |
| Total..... | 29,110 | (38,146) |
| (Increase) decrease in current liabilities (excluding long-term debt due within one year, long-term debt in default and current liabilities deferred under reorganization proceedings): | | |
| Accounts and wages payable..... | 7,747 | (15,876) |
| Accrued expenses..... | 3,102 | 6,782 |
| Other..... | (2,844) | (8,788) |
| Total..... | 8,005 | (17,882) |
| INCREASE (DECREASE) IN WORKING CAPITAL (excluding debt due within one year)..... | 37,115 | (56,028) |
| Decrease in debt due within one year..... | 5,062 | 2,635 |
| INCREASE (DECREASE) IN WORKING CAPITAL..... | \$ 42,177 | \$ (53,393) |

See accompanying notes to financial statements.

PENN CENTRAL TRANSPORTATION COMPANY
(In reorganization under Section 77 of the Federal Bankruptcy Act
since June 21, 1970—Note 2)

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Statement Presentation

The Company maintains its accounts in conformity with the Uniform System of Accounts for Railroad Companies prescribed by the Interstate Commerce Commission (ICC) and the accompanying financial statements have been prepared on that basis. As more fully discussed in Note 2, these financial statements have been prepared on the assumption of continuing operations on a going-concern basis and do not purport to reflect or to provide for all the consequences of the reorganization proceedings or all of the costs and expenses related thereto.

Investments

Transportation related investments and advances are carried at cost unless a significant reduction in underlying assets is apparent, in which case, the investment is written down to reflect this reduction. See Note 9 relative to investments in leased lines.

Nontransportation related investments and advances are carried generally at cost or less.

Properties, Depreciation and Maintenance and Repairs

Transportation properties are stated at valuations determined by the ICC in 1915 to 1919, with subsequent additions at cost or less. Depreciation of depreciable transportation properties is generally provided on the straight-line method at rates approved by the Interstate Commerce Commission. Replacement accounting is used for certain properties, principally track accounts. Under this method, amounts capitalized are not depreciated but replacements in kind are expensed, betterments and additions are capitalized, and retirements are charged to expense. The average annual depreciation rates are approximately 2% for depreciable road properties and approximately 3½% for rolling stock. Upon retirement or other disposition of depreciable transportation property, the cost is removed from the asset account and the cost, less salvage value, is charged against the related account for accumulated depreciation.

Properties other than transportation properties are stated generally at cost. Depreciation of these properties is provided on the straight-line method over the estimated useful lives of such assets. The annual depreciation rates range from 1% to 7%. The cost of betterments is capitalized. Upon retirement and other disposition of depreciable properties, the cost and related accumulated depreciation are removed from the respective accounts and the resulting gains or losses are reflected in operations.

Expenditures for maintenance and repairs on all properties are charged to expense.

2. Reorganization and Basis of Statement Presentation

The Company, which is a wholly-owned subsidiary of Penn Central Company, entered into reorganization proceedings on June 21, 1970 under Section 77 of the Federal Bankruptcy Act and Trustees were appointed by the United States District Court for the Eastern District of Pennsylvania ("Reorganization Court"). As hereinafter discussed in this Note, the Reorganization Court, on May 2, 1974, decided that the Company is not reorganizable on an income basis within a reasonable time under Section 77.

On June 29, 1973 the Trustees filed their July 2, 1973 Plan of Reorganization which was premised upon the Trustees' conclusion that the Company cannot be reorganized as originally contemplated by a traditional recapitalization of railroad earnings, and stated that the major objectives of the Plan were the sale of rail assets, preferably for continued rail use if practicable, or if not so, for other purposes; the formation of a holding company which would own, through new or present subsidiaries, the Company's

PENN CENTRAL TRANSPORTATION COMPANY
(In reorganization under Section 77 of the Federal Bankruptcy Act
since June 21, 1970—Note 2)

NOTES TO FINANCIAL STATEMENTS—Continued

remaining assets, including real estate, and the proceeds of sales of assets; and the distribution of securities of the holding company or of its subsidiary corporations among the claimants of the estate on a fair and equitable basis.

On July 3, 1973, the Reorganization Court ordered that the Trustees file their Plan of Reorganization with the Interstate Commerce Commission (ICC). The Trustees filed their Plan with the ICC on July 5, 1973, and, after hearings on the matter, the ICC issued a preliminary report to the Reorganization Court finding that the Plan of Reorganization submitted by the Trustees did not constitute a Plan of Reorganization within the meaning of Section 77 (b) of the Bankruptcy Act because to the extent such Plan provided for liquidation, it was not in the public interest or consistent with the objectives of Section 77 of the Bankruptcy Act. The ICC also found that given certain external assistance, restructuring of the entire railroad system in the northeastern quadrant of the United States could be achieved. The ICC concluded that further proceedings before the ICC were required before an approved Plan of Reorganization could be certified to the Reorganization Court, and retained jurisdiction to take such other actions as may be deemed necessary and appropriate in the circumstances.

On January 2, 1974, the President signed into law the Regional Rail Reorganization Act of 1973 (the Act), the primary purpose of which is to establish special procedures for restructuring, as a group, the Company and other bankrupt railroads in the Northeast and Midwest region of the United States. Two new corporations will be used to implement the provisions of this legislation, a Federal nonprofit corporation, the United States Railway Association (USRA) to plan, with the approval of Congress, and to help finance a new rail system, and a private corporation, the Consolidated Rail Corporation (CRC), to acquire rail properties from the railroads in reorganization, and others, and operate such properties of the new rail system. The Act directs each court having jurisdiction over a railroad in reorganization in the region to determine, within 120 days of enactment of the Act, whether such railroad is reorganizable on an income basis within a reasonable time under the provisions of Section 77 of the Bankruptcy Act and that the public interest would be better served by continuing its present reorganization proceedings than by reorganization under the Act. A hearing on these issues was held on March 25, 1974, and on May 2, 1974, the Reorganization Court held that the Company is not so reorganizable under Section 77. In its decision the Reorganization Court concluded that "there is no prospect that, in the absence of fundamental changes which the Trustees are precluded from bringing about, the Company can be reorganized as an operating railroad." By July 1, 1974, the Act further directs the Reorganization Court to order that the Company's reorganization be proceeded pursuant to the Act unless it finds that the Act does not provide a process which would be fair and equitable to the estate of the Company, in which case the Court is required to dismiss the reorganization proceeding. Certain creditors of the Company and others have filed law suits seeking to have the Act declared unconstitutional.

On April 3, 1974 the Trustees filed a report on reorganization planning with the Reorganization Court which indicated that the Trustees would be able to recommend a reorganization of the Company under the Act if, by July 1, 1974, either a Supreme Court decision or Congressional action amending the Act provides further assurance that the estate of the Company (Estate) will be compensated fairly upon the compulsory conveyance of railroad assets to the new CRC. Without such further assurance, the Trustees would recommend against a reorganization under the compulsory processes of the 1973 Act. If such recommendation is approved, the Act directs that the Section 77 reorganization proceedings now pending be dismissed.

To preserve orderly administration of the Estate, the Trustees would urge the creation of a Federal equity receivership, but with the recommendation that the receivers give preference to the conveyance of

PENN CENTRAL TRANSPORTATION COMPANY

**(In reorganization under Section 77 of the Federal Bankruptcy Act
since June 21, 1970—Note 2)**

NOTES TO FINANCIAL STATEMENTS—Continued

the rail assets as provided by the planning process established in the Act conditioned upon receipt of just and full compensation in advance of transfer of such assets.

The report also described the spreading deterioration of tracks and rolling stock and noted the heavy financial requirements for overcoming deferred maintenance and equipping the railroad for satisfactory service. It indicates that an estimated \$562,000,000 at current prices would have to be spent over an eight year period to overcome deferred maintenance on a 15,000 mile core railroad. It called attention to the present attempt to obtain enough cash to sustain rail operations, and predicted "a large and unmanageable cash deficit no later than August 1974." The Trustees said that they are proposing rate increases to meet this cash deficiency, but they told the Court that "to the extent that such relief is not adequate, additional assistance from public bodies must be forthcoming to insure the continuity of rail operations." They said that they are considering "some form of relief" from the Federal Railroad Administration's order to restore approximately 6,000 miles of substandard track to minimum compliance at a present cost of approximately \$24,000,000. They again cited the urgent need for emergency assistance grants under Section 213 of the Act, but said that the \$85,000,000 authorized for all railroads in reorganization "appears presently to be wholly inadequate." They declared also that any delay in Federal loan assistance under Section 215 of the Act (\$150,000,000 for all railroads in reorganization) for upgrading the Company's rail system "will cripple CRC from the start."

On April 6, 1974, the Trustees made application with the Federal Railroad Administration for a grant of \$40,000,000 under Section 213(a) of the Act. On April 30, 1974, the Reorganization Court authorized the Trustees to enter into a Grant Agreement with the Federal Railroad Administration. Pursuant to the Grant Agreement, the Administration will make available up to \$18,000,000 to the extent required to avoid an imminent risk of termination of rail services.

The accompanying financial statements have been prepared on the assumption of continuing operations on a going-concern basis (rather than on a liquidation basis) and do not purport to reflect or to provide for all the consequences of the reorganization proceedings or all of the costs and expenses related thereto. Particularly, such financial statements do not purport to show, among other things related to the reorganization proceedings: (a) the realizable value of all assets on a liquidation basis or the availability of such assets to liquidate liabilities, (b) the amounts of liabilities and contingencies which may be allowed in reorganization proceedings or the relative status and priority of such liabilities and contingencies, or (c) the effect upon shareholder accounts, or upon operations, of any changes which may be made in the capitalization or organization of the Company or its method of conducting business.

Certain liabilities existing at June 21, 1970, the payment of which has been deferred by order of the Reorganization Court, and certain liabilities approximating \$565,000,000 which includes taxes (interest and penalties thereon are not being provided), interest on debt obligations, rents, and other liabilities, arising since June 21, 1970, payment which has also been deferred by order of the Reorganization Court, are shown in the accompanying balance sheet as Current Liabilities Deferred Under Reorganization Proceedings. Certain additional amounts included in Casualty and Other Reserves for claims arising prior to June 21, 1970 will be transferred to Current Liabilities Deferred Under Reorganization Proceedings as the amounts of the settlements are agreed upon.

The Company maintains its accounts in conformity with the Uniform System of Accounts for Railroad Companies prescribed by the ICC and the accompanying financial statements have been prepared on that basis, varying in the following material respects from those which would be prepared under generally accepted accounting principles:

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NOTES TO FINANCIAL STATEMENTS—Continued

a. Investments in subsidiaries (see table, Note 3):

Investments in subsidiaries owned 20% or more (other than certain leased lines in reorganization, Pennsylvania Company and Lehigh Valley Railroad Company also in reorganization) are carried at cost or less, \$274,664,000 at December 31, 1973, whereas under generally accepted accounting principles these investments would be reflected on the equity method of accounting. The Company's equity in the net assets of these companies, based on their unaudited financial statements, exceeded the carrying value of the investment therein by approximately \$383,000,000 and \$367,000,000 at December 31, 1973 and 1972, respectively. Such excess does not give effect to the indirect interest in the subsidiaries through the Company's investment in the leased lines in reorganization and Pennsylvania Company.

Since certain of the leased line subsidiaries owned 20% or more have entered reorganization under Section 77 of the Bankruptcy Act during 1973 (see Note 9), it would no longer be appropriate to reflect these investments on the equity method of accounting. Under generally accepted accounting principles these investments (carried at a cost of \$559,349,000 at December 31, 1973) would be carried at the lower of realizable value or equity in their net assets. The realizable value is not presently determinable. The Company's equity in the net assets of these companies, based on unaudited financial statements, exceeded the carrying value of the investment by approximately \$300,000,000 and \$290,000,000 at December 31, 1973 and 1972, respectively.

The Company's 100% common stock investment in Pennsylvania Company (all of which is pledged) is carried at a cost of \$118,278,000. The Company's equity in the net assets of Pennsylvania Company at December 31, 1973 as reported in the financial statements of Pennsylvania Company approximates \$180,000,000. Additionally, certain adjustments, which would have the effect of increasing the Company's equity, would be required to conform the accounts of Pennsylvania Company to the equity method of accounting. It is not practicable at this time to determine the amount of such adjustments.

The carrying value in the accompanying balance sheet of the investment in Lehigh Valley Railroad Company of \$4,304,000 (see Note 3) would not differ under generally accepted accounting principles.

b. Shares issued in 1968 in connection with the acquisition of New Haven properties are reflected at \$87.50 per share, a value determined by the ICC, of which \$63.375 per share and \$60,623,000 in total (the market value of the shares issued at the date of acquisition) has been reflected in shareholder accounts and the remainder of \$23,077,000 as a deferred credit. In conformity with generally accepted accounting principles, such shares would have been reflected at \$41.125 per share and \$39,339,000 in total (the average market value of the stock during the period of negotiation of the acquisition agreement) and a liability, originally \$44,361,000 would have been reflected for rehabilitation and other costs assumed in connection with the acquisition of the New Haven properties. Charges for rehabilitation and such other costs totaling \$26,884,000 were made to operations in 1969 and 1970 in accordance with ICC procedures. Under generally accepted accounting principles, such charges would have been made to the liability provided for that purpose. There have been no charges since 1970. Because of all the differences described above with respect to the New Haven acquisition, shareholder accounts at December 31, 1973 and 1972 would be \$5,600,000 greater under generally accepted accounting principles than that reported herein. For further information with respect to the purchase price of New Haven assets, see Note 10.

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NOTES TO FINANCIAL STATEMENTS—Continued

c. Under generally accepted accounting principles, long-term debt due within one year and not deferred under reorganization proceedings of \$52,513,000 and \$57,575,000 at December 31, 1973 and 1972, respectively, would be classified as a current liability.

3. Investments, Advances and Special Funds

Investments, advances and special funds consisted of the following:

| | December 31 | |
|--|------------------------|------------------------|
| | 1973 | 1972 |
| Affiliated companies—at cost or less: | | |
| Owned 20% or more (excluding leased lines in reorganization) . . . | \$ 274,664,000 | \$ 285,482,000 |
| Leased lines in reorganization (Note 9) | 559,349,000 | 525,959,000 |
| Pennsylvania Company (see below) | 118,278,000 | 118,278,000 |
| Lehigh Valley Railroad Company (see below) | 4,304,000 | 4,827,000 |
| Penn Central Company, notes and advances (Note 12) | 319,000 | 12,199,000 |
| Other | 5,344,000 | 5,430,000 |
| Total | <u>962,258,000</u> | <u>952,175,000</u> |
| Other investments and special funds—at cost or less: | | |
| Mortgage notes and contracts | 1,247,000 | 1,329,000 |
| Miscellaneous other investments | 15,361,000 | 15,692,000 |
| Capital and other reserve funds | 72,071,000 | 58,747,000 |
| Contingent compensation and other funds | 5,879,000 | 11,817,000 |
| Total | <u>94,558,000</u> | <u>87,585,000</u> |
| Total | <u>\$1,056,816,000</u> | <u>\$1,039,760,000</u> |

Of the total investments, advances and special funds of \$1,056,816,000 at December 31, 1973, \$118,278,000 relates to Pennsylvania Company which is a partially transportation related investment, \$794,337,000 to other transportation related investments and \$144,201,000 to nontransportation related investments.

At December 31, 1973, the aggregate estimated realizable value of nontransportation related investments is significantly in excess of aggregate cost.

Pennsylvania Company

Pennsylvania Company, the common stock of which is wholly-owned, is a holding company which owns all or a majority of the outstanding common stock of the following principal subsidiaries: Arvida Corporation; Buckeye Pipe Line Company; Clearfield Bituminous Coal Corporation; Detroit, Toledo and Ironton Railroad Company; and Great Southwest Corporation. Other significant investments of Pennsylvania Company include approximately 6% of the outstanding common stock of Madison Square Garden Corporation and approximately 13% of the outstanding common stock of Norfolk and Western Railway Company.

On February 25, 1972 the Trustees entered into a settlement agreement with forty-nine of the fifty-three banks which hold a pledge of all of the common stock of Pennsylvania Company to secure a \$300,000,000 loan made by the banks to the Company (the forty-nine banks advanced \$287,000,000 of such loans), whereby, among other things, the Trustees would transfer 95 $\frac{2}{3}$ % of the common stock of Pennsylvania Company to the forty-nine banks participating in the settlement and each bank would release and discharge

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NOTES TO FINANCIAL STATEMENTS—Continued

the Company from all its indebtedness and obligations in respect to the above loan. On April 16, 1973 the Reorganization Court declined to approve, at that time, the settlement agreement and consequently such agreement was terminated by its own terms.

There are petitions pending before the Reorganization Court by certain stockholders of Penn Central Company in which the validity of the pledged of Pennsylvania Company stock by the Company to the bank group was challenged, and by First National City Bank, as agent for the bank group which loaned the \$300,000,000 to the Company, requesting an order authorizing sale of Pennsylvania Company common stock to satisfy the banks' claims.

The Trustees have no plans at this time for disposition of the Company's investment in Pennsylvania Company.

It is not possible at this time to determine the net proceeds, if any, to the Company from the ultimate disposition of its investments in Pennsylvania Company or whether such investment will ultimately be disposed of at all.

Lehigh Valley Railroad Company

On July 24, 1970, Lehigh Valley Railroad Company entered into reorganization proceedings under Section 77 of the Federal Bankruptcy Act. The Company has reserved, as an impairment in the value of its investments in Lehigh Valley, its entire cost of such investments except equipment conditional sale agreements upon which payments are being received currently.

On May 2, 1974 the Lehigh Valley's reorganization court held that it is not reorganizable on an income basis within a reasonable time under the provisions of Section 77 of the Bankruptcy Act within the meaning of Section 207 (b) of the Act.

Equity in Subsidiaries Owned 20% or More

Reference is made to Note 2 as to the Company's equity in subsidiaries owned 20% or more, other than Pennsylvania Company and Lehigh Valley Railroad Company

4. Properties

Charges in 1973 and 1972 for depreciation amounted to \$88,989,000 and \$88,676,000, respectively, and for repairs and renewals of the track structure amounted to \$106,991,000 and \$102,127,000, respectively.

The ultimate total effect of sales, lease or retirement of track and related railroad property in connection with reorganization and the effect of the deferred railroad maintenance (see Note 2) on the Company's operations and shareholder accounts is not presently determinable.

5. Federal Income Taxes

The tax loss of the Company is included in the consolidated Federal income tax returns of Penn Central Company (the parent company) and the subsidiaries owned 80% or more within the group.

The consolidated return group, which consists principally of the Company and its subsidiaries, at December 31, 1973 had net operating loss carryforwards subject to possible adjustment by the Internal Revenue Service. In management's opinion these losses, aggregating approximately \$1,100,000,000 may be available to offset future taxable income, including gain, if any, from the disposition of assets. The last of these losses would normally expire in 1980, but continued availability until then could be affected if the

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NOTES TO FINANCIAL STATEMENTS—Continued

reorganization of the Company should take place prior thereto. There are also investment tax credits of approximately \$100,000,000, subject to limitation, available for carryforward to future years. In addition, cumulative net expenses of approximately \$260,000,000 which have been deducted for financial statement purposes, will be available to the Company for tax purposes in future years, \$73,000,000 of which will be available as capital loss, the balance as ordinary deductions.

The consolidated Federal income tax returns filed by the Pennsylvania Railroad Company affiliated group for the years 1954 through 1961 have been examined by the Internal Revenue Service and it has proposed additional taxes of approximately \$50,000,000 exclusive of interest, based primarily upon the assertion that certain deductions should have been spread to later years, which is inconsistent with treatment of similar items accepted by the Service in prior years. The Company and its subsidiaries filed initial protests against the proposed deficiencies; however, as a result of the reorganization proceedings, the cases were returned to the Office of the District Director of Internal Revenue for review. Management is of the opinion that these cases will be settled substantially in the Company's favor. Accordingly, no accruals have been considered necessary in the accounts for additional taxes, or interest thereon. The consolidated returns for years 1962 to 1964 were under examination by the Internal Revenue Service at the time the Company entered into reorganization. This examination has not been continued and no deficiencies have been proposed.

6. Tax Allocation Agreements

Under tax allocation agreements entered into between the Company and certain of its subsidiaries included in Penn Central Company's consolidated Federal income tax return, the subsidiaries are obligated to pay the Company the amount by which their tax liability is reduced or eliminated because of utilization in the consolidated return of operating losses or capital losses of other members of the group, but in no event more than the amount which would have been their tax liability on a separate return basis, computed by allowing a deduction for 100% of intercompany dividends, and a special deduction of 5% of their taxable income for such year. Similarly, the agreements provide for refund of such payments to the subsidiaries, if a refund would have been allowable on a separate return basis because of loss carrybacks. The accompanying statement of operations includes income of \$9,036,000 and \$8,450,000 in 1973 and 1972, respectively, relating to the tax allocation agreements.

**7. Accounts Receivable and Current Liabilities Deferred Under
Reorganization Proceedings Arising Prior to Bankruptcy**

On October 9, 1973 the United States Court of Appeals for the Third Circuit held that freight and passenger interline balances were trust funds and directed the Trustees to make payment thereof. Approximately \$22,000,000 of such interline balances is included in current liabilities deferred under reorganization proceedings. A petition of the Trustees for certiorari to the Supreme Court of the United States was denied on March 25, 1974. The matter will now be remanded to the Reorganization Court for further proceedings consistent with the Opinion of the Appeals Court. The matter will remain in litigation until a further order is issued by the Reorganization Court.

Included in deferred charges and other assets is approximately \$15,000,000 of accounts receivable which other railroads have offset against the pre-bankruptcy freight and passenger interline balance owing them by the Company.

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NOTES TO FINANCIAL STATEMENTS—Continued

8. Long-Term Debt, Including Debt In Default

At December 31, 1973 long-term debt, including debt in default was as follows:

| | <u>Due Within One Year</u> | <u>In Default</u> | <u>Due After One Year</u> |
|---|--------------------------------|------------------------|-------------------------------|
| Trustees debt certificates, 6 $\frac{1}{8}$ % and 7.05% due 1976 and 1986 (a) | | | \$100,000,000 |
| Bank loans, 4 $\frac{1}{2}$ % to 12 $\frac{1}{4}$ % | | \$ 443,122,000 | |
| Commercial paper notes, 7 $\frac{1}{2}$ % | | 82,530,000 | |
| Mortgage bonds and notes, 3% to 6%; portion due after one year due principally to 1998 | | 491,310,000 | 144,007,000 |
| Collateral trust bonds and notes, 5% to 6 $\frac{1}{2}$ %; portion due after one year due to 1993 | | 38,138,000 | 13,150,000 |
| Railroad equipment obligations, 4 $\frac{1}{4}$ % to 11 $\frac{3}{4}$ % due to 1989 | \$52,513,000 | | 284,998,000 |
| Promissory notes, 5 $\frac{1}{2}$ % due to 1993 (b) | | | 16,446,000 |
| Unsecured notes, 9 $\frac{1}{4}$ % | | 49,000,000 | |
| Miscellaneous obligations | | | 1,000 |
| Total | <u>\$52,513,000</u> | <u>\$1,104,100,000</u> | <u>\$558,602,000</u> |
| Amounts payable to subsidiaries included above | | <u>\$ 61,854,000</u> | <u>\$ 452,000</u> |

(a) In January 1971, the Trustees issued \$100,000,000 of debt certificates which, under the Emergency Rail Services Act of 1970, are guaranteed as to principal and interest by the Department of Transportation of the United States. The certificates mature \$50,000,000 in 1976 and \$50,000,000 in 1986 and bear interest at 6 $\frac{1}{8}$ % and 7.05%, respectively. The certificates are treated as an expense of administration entitled to receive the highest lien on the Company's assets and priority in payment under the Bankruptcy Act. However, such lien shall not affect the rights of holders of equipment obligations which have been affirmed by the Trustees or approved by the Reorganization Court. The Department of Transportation was given an option in the event of actual or threatened cessation of the Company's essential transportation services, to purchase or lease necessary trackage rights and equipment to provide such services, and in the event of a default in the payment of principal or interest, to apply to the purchase or lease price amounts paid by the Department of Transportation under the guarantee.

(b) The promissory notes relate to the August 1973 loan agreement with the Federal Railroad Administration for restoration of facilities damaged as a result of the June 1972 flood. The loan is repayable over a 20 year period commencing from the date of the first note issued; however, payments are deferred for the first two years and are subject to further limited deferral. The loan, including interest thereon, is subordinate to the interests of all creditors of the Company except pre-bankruptcy general unsecured creditors with whom this loan shares equally.

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NOTES TO FINANCIAL STATEMENTS—Continued

The Reorganization Court has ordered that, “. . . no payment shall be made by the Debtor upon or in respect of the principal of, or interest on, any of its funded or floating debt, except the principal of, and interest or dividends on, equipment obligations issued, guaranteed or assumed by the Debtor.” Accordingly, debt due within one year includes only amounts on which payment is allowable under such court order. Approximately \$157,157,000 of debt issues classified above as due after one year will be classified as debt in default commencing as of the dates of occurrences of certain events or the giving of notice which will constitute events of default under the related loan agreements.

Principal of equipment obligations, Trustees debt certificates, and the promissory notes on which payments are allowable under order of the Reorganization Court, will become due in the next five years as follows:

| | |
|----------------|--------------|
| 1974 | \$52,513,000 |
| 1975 | 42,264,000 |
| 1976 | 87,315,000 |
| 1977 | 35,064,000 |
| 1978 | 33,881,000 |

Substantially all of the properties of the Company are restricted under indentures and loan agreements and certain of its investments, principally in Pennsylvania Company, have been pledged as collateral for loans.

On March 1, 1974, the Reorganization Court authorized the Trustees to implement an agreement with the U. S. Department of Transportation, under the Act, for the Department of Transportation to pay to the obligees the principal and interest instalments due on February 15 and March 1, 1974 on the Company's equipment obligations in a total amount of \$10,800,000.

9. Lease Obligations

Railroad equipment lease agreements generally provide for renewal periods and include purchase options at fair market value upon expiration of the initial lease period. Rental payments are charged to expense as incurred.

Remaining rentals under long-term leases of railroad equipment in effect at December 31, 1973 are:

| Fiscal Year (s) | With Majority Owned Subsidiaries | All Other | Total |
|------------------------|-------------------------------------|-----------------|-----------------|
| 1974 | \$ 22,237,000 | \$ 97,413,000 | \$ 119,650,000 |
| 1975 | 20,847,000 | 98,842,000 | 119,689,000 |
| 1976 | 20,120,000 | 96,418,000 | 116,538,000 |
| 1977 | 16,196,000 | 92,994,000 | 109,190,000 |
| 1978 | 12,868,000 | 86,592,000 | 99,460,000 |
| 1979 to 1983 | 14,852,000 | 356,446,000 | 371,298,000 |
| 1984 to 1988 | | 171,234,000 | 171,234,000 |
| 1989 to 1993 | | 19,099,000 | 19,099,000 |
| After 1993 | | 3,567,000 | 3,567,000 |
| Total | \$107,120,000 | \$1,022,605,000 | \$1,129,725,000 |

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NOTES TO FINANCIAL STATEMENTS—Continued

The rentals under these agreements in 1973 and 1972 were \$118,339,000 and \$96,272,000, respectively.

Aggregate future rentals for lease of railroad equipment for which the equipment had not been received at December 31, 1973 amounts to \$23,140,000 (approximately \$1,543,000 annually) which rentals will commence on delivery of the equipment.

The Company is obligated under various lease agreements for the operation of railroad properties. Most of these agreements are with wholly or majority-owned subsidiaries. The agreements provide generally for rental payments of an amount sufficient to service the debt and guaranteed stock of the lessors. Such rentals amounted to \$28,745,000 and \$33,482,000 in 1973 and 1972, respectively. Payment of most of these rents due subsequent to June 21, 1970 (aggregating \$90,800,000 to December 31, 1973) is not being made. These deferred payments are included in current liabilities deferred under reorganization proceedings. Under certain of the leases, the Company, as lessee, is obligated to provide for the payment of dividends, interest and under certain conditions, the principal indebtedness of the lessors. As disclosed in the unaudited books of the leased lines at December 31, 1973, property was recorded at \$1,412,009,000 and long-term debt was \$342,850,000 (\$13,636,000 held by the Company), of which \$226,854,000 is guaranteed by the Company. Approximately \$124,512,000 of the debt guaranteed by the Company is in default.

At December 31, 1973 the Company, with ICC authorization, had abandoned service over 375 miles of leased lines on which the lessor companies had not joined in the abandonment application. Although generally the Company as lessee is accountable to the lessor for retirement losses, it is not possible to determine at this time the Company's liability, if any, for losses which may result from the abandonment of this service. The leased lines carrying value of this abandoned property amounts to \$11,340,000.

Rental obligations for miscellaneous real estate and sundry equipment are not considered to be material.

Under the provisions of the Federal Bankruptcy Act the Trustees, subject to appropriate orders of the Reorganization Court, may permit the rejection of executory contracts, including leases to the Company.

During 1972, the Trustees filed petitions with the Reorganization Court for authority to reject the following leases: Beech Creek Railroad Company, Caton & Loudon Railway Company, Fort Wayne and Jackson Railroad Company, Holyoke & Westfield Railroad Company, The Kalamazoo, Allegan & Grand Rapids Railroad Company, The Mahoning Coal Railroad Company, The Mahoning and Shenango Valley Railroad Company, North Brookfield Railroad Company, and Troy and Greenbush Railroad Association. These petitions are still pending before the Reorganization Court.

The Trustees also filed petitions with the Reorganization Court during 1972, for authority to adopt the leases of The Erie and Kalamazoo Railroad Company and the New York & Harlem Railroad Company, and for authority to comply with the agreement with Peoria & Eastern Railway Company. On October 20, 1972 the Reorganization Court entered its Order No. 975 which, among other things, granted the Trustees' petition to adopt the lease of the New York & Harlem Railroad Company. On November 21, 1972 the Trustees moved to withdraw their petition to comply with the agreement to operate the properties of the Peoria & Eastern Railway Company. This matter is pending before the Reorganization Court. The petition to adopt the lease of The Erie and Kalamazoo Railroad is also pending before the Reorganization Court.

With respect to the other leased lines, the Reorganization Court has extended the time within which the Trustees may adopt or reject the leases.

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NOTES TO FINANCIAL STATEMENTS—Continued

In July 1973 the following leased line subsidiaries filed petitions with the United States District Court for the Eastern District of Pennsylvania to effect a reorganization under Section 77 of the Bankruptcy Act as Secondary Debtors in connection with or as part of the reorganization plan of Penn Central Transportation Company (PCTC):

Beech Creek Railroad Company
The Cleveland, Cincinnati, Chicago & St. Louis Railway Company
The Cleveland & Pittsburgh Railroad Company
The Connecting Railway Company
The Delaware Railroad Company
Erie and Pittsburgh Railroad Company
The Michigan Central Railroad Company
The Northern Central Railway Company
Penndel Company
The Philadelphia and Trenton Rail Road Company
The Philadelphia, Baltimore and Washington Railroad Company
Pittsburgh, Fort Wayne and Chicago Railway Company
The Pittsburgh, Youngstown & Ashtabula Railway Company
Union Railroad Company of Baltimore
The United New Jersey Railroad and Canal Company

The order approving such petitions authorized and directed the Trustees of the Company, pending further order of the Court, to continue in possession of and to operate the properties of those companies under terms and conditions of Court Order 1 as amended in the Company's reorganization proceedings. In March 1974 Trustees for all Secondary Debtors except Connecting Railway were appointed, subject to confirmation by the ICC. Pending such confirmation these individuals were appointed receivers of the respective estates. The outcome of leased line reorganization proceedings, the Company's reorganization proceedings, or the effect of the Act on the Company's investments in the leased lines is indeterminable at this time; therefore, no adjustments, if any are required, have been made in the carrying amount of these investments.

On May 2, 1974 the Reorganization Court found that all but three of the Secondary Debtors were reorganizable on an income basis within a reasonable time under Section 77 of the Bankruptcy Act. The finding indicated "the concept of reorganization on an income basis may be somewhat different in the case of a lessor railroad than in the case of an operating railroad. Lessors can be expected to reorganize on an income basis by reason of income derived from lease of the property rather than from operations." The Reorganization Court found that the public interest would be better served by a reorganization in accordance with the Act and ordered that the reorganization of these twelve Secondary Debtors should be conducted pursuant to the Act as well as the pertinent provisions of Section 77 of the Bankruptcy Act. The Reorganization Court also found that, for the Beech Creek, Erie & Pittsburgh and Penndel Secondary Debtors, the record did not permit a decision as to whether or not they are reorganizable on an income basis within a reasonable time within the meaning of Section 207(b) of the Act.

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NOTES TO FINANCIAL STATEMENTS—Continued

10. Contingent Liabilities

The Company had contingent liabilities at December 31, 1973 estimated at \$337,645,000 (including the \$226,854,000 of long-term debt of leased lines—see Note 9), of which \$128,355,000 is in default, as guarantor of the principal of obligations of affiliated companies. Of these contingent obligations, \$134,153,000 have been entered into jointly, or jointly and severally, with other companies.

New Haven—As a result of litigation brought by bondholders of the New York, New Haven and Hartford Railroad (New Haven), the purchase price of the properties acquired in 1968 from the bankrupt New Haven was increased in 1970 by approximately \$29,000,000 (to a total of approximately \$175,000,000) by the Supreme Court of the United States. In addition, the Supreme Court set aside the \$87.50 per share valuation of the 956,576 shares of stock delivered in part payment for such properties and ordered that further proceedings be held to establish, among other matters, the form of the consideration to be paid by the Company to the New Haven estate and its status as a shareholder or creditor of the Company.

The Court having jurisdiction over the New Haven reorganization proceedings declared on June 22, 1971 that the Company was indebted to the New Haven Trustees in the amount of about \$133,000,000 (plus interest from December 31, 1968) as the unpaid amount of the purchase price for the New Haven assets. In computing such unpaid amount, such Court, among other things, gave no credit for the 956,576 shares of stock and \$34,000,000 of bonds of the Company issued in payment for the assets.

The New Haven Trustee has claimed an equitable lien and constructive trust on certain of the assets conveyed by the New Haven Trustee to the Company in order to secure the payment of the unpaid balance of the purchase price. On December 31, 1971, the Penn Central Reorganization Court ordered, among other things, "that, without prejudice to the ultimate resolution of the merits of the claims asserted, the Trustee of the New York, New Haven & Hartford Railroad shall, unless and until otherwise ordered by this Court or an appellate court of competent jurisdiction, be deemed to have a lien, indeterminate in amount, and indeterminate as to priority, upon all of the real property and readily identifiable tangible personal property (exclusive of rolling stock) conveyed to Penn Central by the said New Haven Trustees as of December 31, 1968, and remaining in possession of the Trustees of the Debtor as of June 11, 1971."

The Interstate Commerce Commission in September 1973, issued an order reopening the New Haven Reorganization proceedings and the proceedings for merger of the New York Central Railroad into the Company in order to determine the nature and form of the consideration owed by Penn Central for New Haven assets, to fix the terms of payment of the consideration and to determine the status of the New Haven as a shareholder or creditor of the Company. The Commission directed, to the extent necessary and expedient, that such proceedings shall be conducted in conjunction with, and consolidated for decision with, proceedings pending before the Commission for reorganization of the Company.

Various lawsuits have been instituted for claims aggregating billions of dollars, including class and/or derivative actions based upon activities engaged in prior to bankruptcy, naming as defendants the Company, certain present and former officers and directors, and others. Investigations into a number of transactions and activities of former officers and directors, and others are being conducted by the Trustees, Congressional Committees and the Interstate Commerce Commission and other governmental agencies. The Securities and Exchange Commission has instituted an injunction proceeding against the Company, Penn Central Company, Pennsylvania Company, Great Southwest Corporation and certain individuals, including former

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officers and directors, alleging violations of the Federal Securities laws. This action also seeks disgorgement of amounts allegedly improperly obtained by certain of the individual defendants.

There presently is not sufficient information to determine the effect of the matters discussed in this note, and no provisions therefor have been made in the accompanying financial statements.

11. Pensions

The Company has a pension plan which provides retirement benefits for substantially all management employees and certain personnel covered by labor union agreements. Company contributions to the pension fund are charged to operations. During 1973, the total of employee contributions plus amortization of the excess of the fund assets over the present value of future benefits earned through 1973 approximated the current normal costs. No pension contributions were required in 1973 or 1972.

12. Extraordinary Items

The extraordinary credit in 1973 resulted from the consummation of a settlement of claims among the Company, Penn Central International N. V. (International), a wholly-owned subsidiary of Penn Central Company, and two of the Company's leased line subsidiaries, Pennel Company and the Philadelphia, Baltimore and Washington Railroad Company. Under the settlement, International released the leased lines from their obligation to repay amounts, including the interest due thereon, loaned them by International. Under the respective leased line agreements, the Company is required to pay as additional rental an amount equal to interest on obligations incurred by the leased lines. As a result of the leased lines being released from their obligation and interest thereon, the Company no longer is obligated to pay the additional rental equivalent to the leased lines interest. Rental relating to the leased lines interest accrued prior to 1973 amounted to \$16,453,000.

Also, as part of the above settlement, the Trustees acknowledged that International has an unsecured, pre-bankruptcy, proved, non-interest bearing claim against the Transportation Company in the amount of \$41,840,000 (included in current liabilities deferred under reorganization proceedings) which is equal to the original loan to the leased lines of \$53,720,000 less \$11,880,000 owed by Penn Central Company to the Transportation Company.

The extraordinary charge in 1972 represented the costs incurred by the Company in repairing the damage to roadway, structures and equipment and increased operating costs which resulted from Tropical Storm Agnes.

13. National Railroad Passenger Corporation (AMTRAK)

A reserve for losses and estimated liabilities relating to Amtrak was provided in 1971 and covered losses or cost of removal or demolition of facilities, materials and equipment which were determined to be obsolete or excess, anticipated severance payments and other allowances such as diminution in value of investment in terminal companies, all losses relating to the liability for rental costs, termination costs and other charges payable under lease agreements, mortgage indenture or joint facilities contracts in providing terminal services, and the subscription in Amtrak. These reserves totaling \$275,632,000, which in some cases were based on the best estimates available, were reflected as an extraordinary charge in the year 1971. Charges against these reserves in 1973 and 1972 were approximately \$6,436,000 and \$13,443,000, respectively.