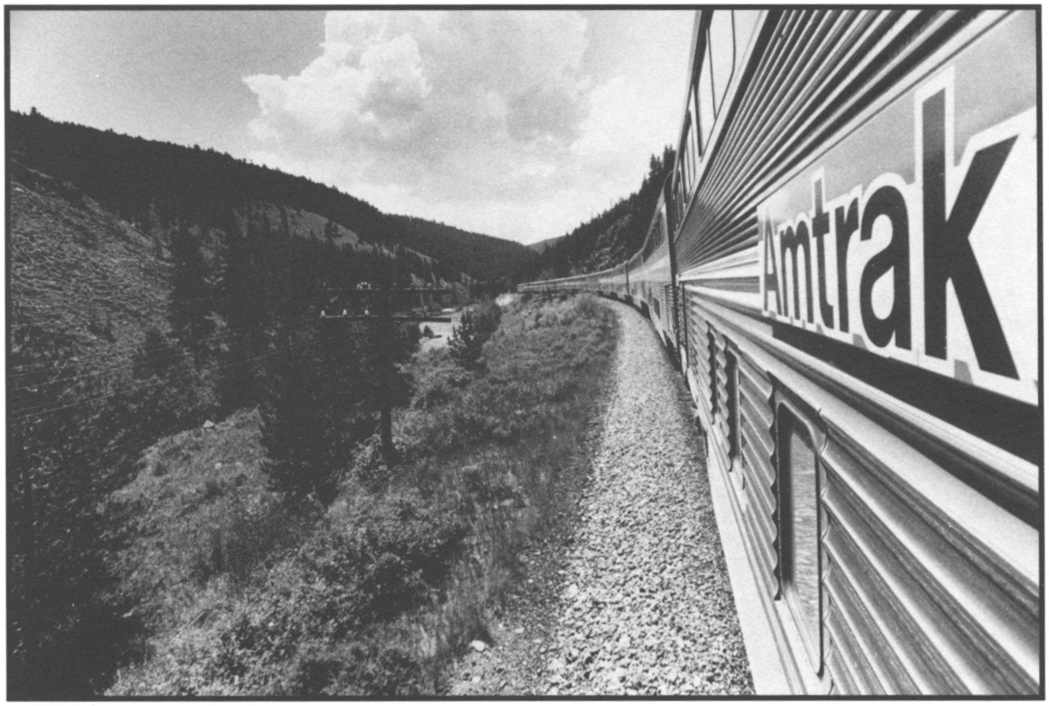
National Railroad Passenger Corporation

Annual Report 1988

Amtrak®

Introduction



The National Railroad Passenger Corporation (Amtrak), provider of America's coast-to-coast rail passenger service, has completed the best year in its history in generating revenue and ridership, and in reducing its need for federal financial support. Amtrak ranks high in total revenues not only among the country's major transportation companies, but among industrial companies as well. With annual revenues exceeding one billion dollars and almost 37 million intercity travelers and commuters depending on its service, Amtrak fills a vital role in American transportation and a position of growing importance in the nation's travel industry. Its 24,000-mile rail network, 498 railroad stations and more than 2,000 cars and locomotives form a transportation resource of great value to America's working and traveling public.

Five-Year Comparison of Amtrak's Performance

	1984	1985	1986	1987	**1988**
Revenues (millions)	$ 758.8	$ 825.8	$ 861.4	$ 973.5	**$1,106.7**
Expenses (millions)	$1,522.1	$1,600.1	$1,563.6	$1,672.0	**$1,757.1**
Revenue-to-Expense Ratio	.56	.58	.62	.65	**.69**
Revenue-to-Short-Term-Avoidable Cost Ratio*	.85	.86	.96	1.03	**1.15**
Revenue-to-Long-Term-Avoidable Cost Ratio**	.70	.71	.78	.79	**.90**
Passenger Miles (millions)***	4,552	4,825	5,013	5,221	**5,678**
Passenger Miles Per Train-Mile***	157.1	159.0	172.2	176.8	**188.3**
Ridership (millions)					
System	19.9	20.8	20.3	20.4	**21.5**
Contract Commuter	.518	.587	.656	10.2****	**15.4**
Systemwide On-Time Performance	80%	81%	74%	74%	**71%**

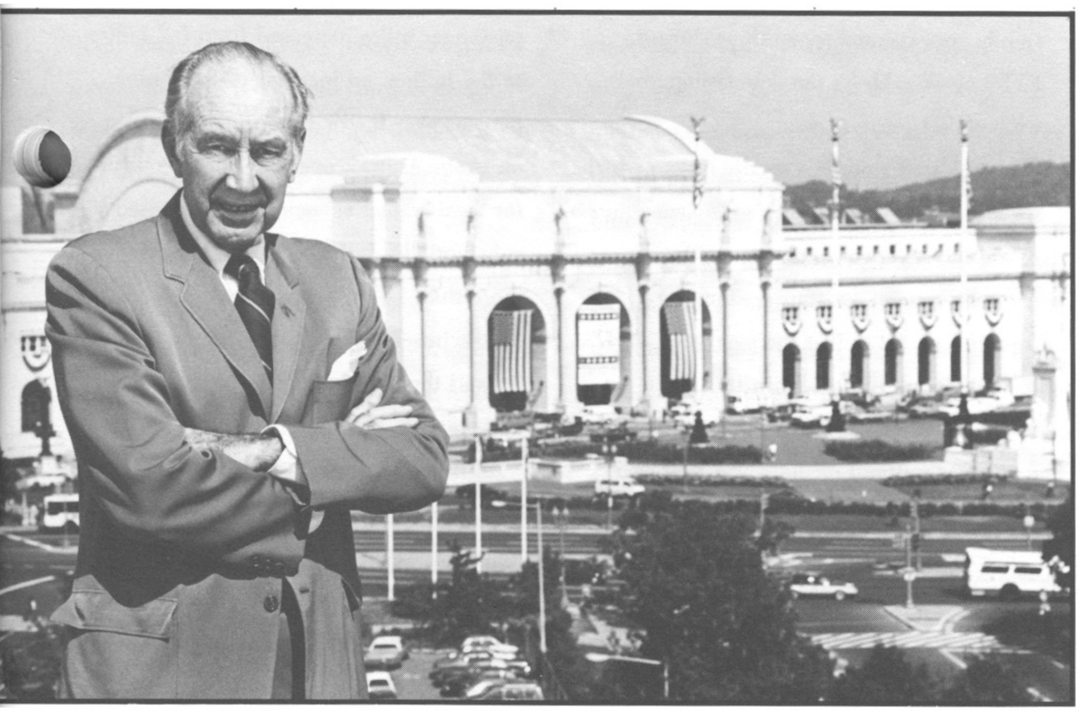
*Short-term avoidable costs—Costs of activities that would stop with the discontinuance of a route or train, or begin with the introduction of a new route or train. Such costs include train and engine crews, fuel and power, and maintenance of way.

**Long-term avoidable costs—All short-term avoidable costs, plus claims expenses, heavy maintenance and a portion of corporate and field overhead.

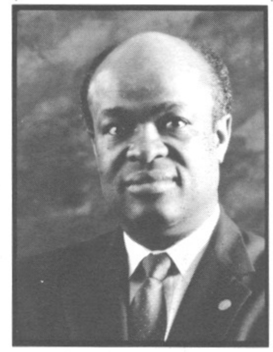
***Contract commuter passengers not included.

****Effective Jan. 1, 1987, Amtrak began providing commuter service under contract to the Massachusetts Bay Transportation Authority.

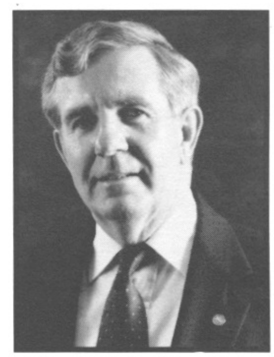
The President's Letter



W. Graham Claytor, Jr., Chairman and President, with restored Washington Union Station in background.

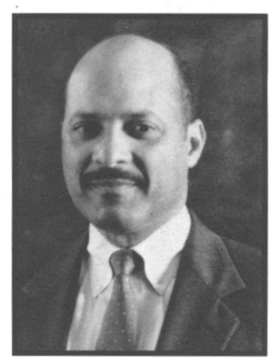


William S. Norman
Executive Vice President



Dennis F. Sullivan
Executive Vice President & Chief Operating Officer

Charles W. Hayward
Vice President—
Finance and Administration



Harold R. Henderson
Vice President—
Law

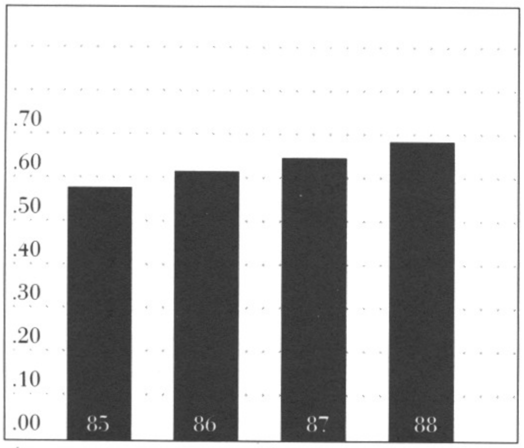
For America's passenger railroad, our last fiscal year—FY88—proved to be a record year in virtually every important respect. More passengers traveled greater distances on Amtrak, producing more revenues and covering more of Amtrak's expenses than in any other year in the Corporation's history.

Total revenues amounted to more than $1.1 billion, which was $133 million above the previous year's record-breaking performance. Virtually all the increase occurred in passenger-related areas such as ticket sales and food purchased on board. In fact, Amtrak exceeded its monthly passenger-related revenue goals for each month of 1988.

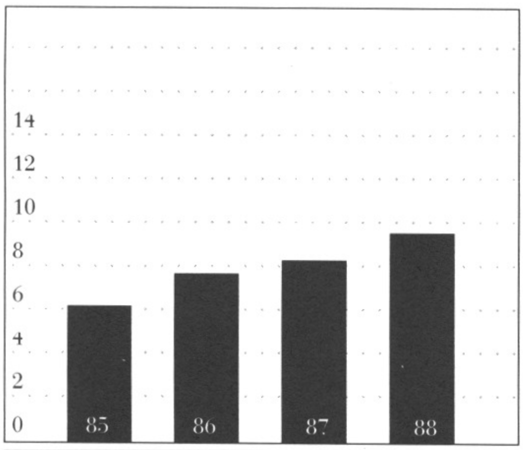
Thanks to the cost-consciousness of Amtrak's employees, expenses were held to $1.757 billion. While revenues were increasing by more than 13 percent, expenses went up by just over 5 percent, which was approximately the rate of inflation that Amtrak experienced during the year.

Two factors contributed strongly to this significant improvement in revenues relative to expenses: aggressive marketing of Amtrak's services and stringent control of the costs of providing those services. Both

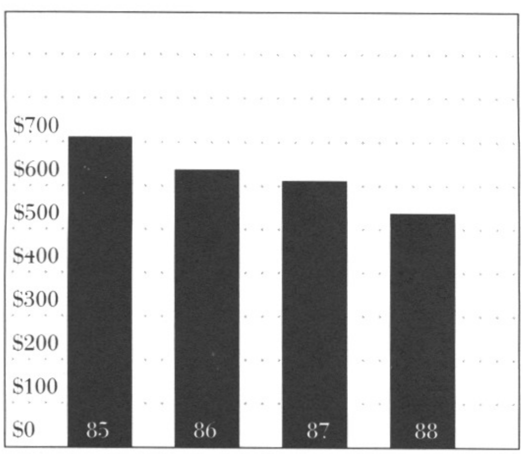
Revenue-to-Expense Ratio



Passenger Miles per Dollar of Federal Support
(In constant FY88 dollars)



Operating Subsidy
(In constant FY88 dollars, in millions)



trends are expected to continue during FY89 as we address the demanding goals we have set for next year.

Amtrak's revenue-to-expense ratio – which we use to measure Amtrak's efficiency and our ability to cover our costs without federal financial assistance—increased from .65 to .69 in just the past year, and has increased 45 percent in the last eight years. We are not aware of any national passenger railroad in the world that covers more of its own costs than Amtrak.

For the second year in a row, revenues more than covered the short-term avoidable costs of operating Amtrak trains—by a ratio of 1.15, compared to 1.03 in FY87. Such costs include the direct expenses of operating the trains: train and engine crews, fuel and power, and a portion of the cost of maintenance. In addition to these costs we also incur long-term avoidable costs, which include claims expenses, heavy maintenance, and a portion of the Corporation's overhead. Even the revenue-to-long-term-avoidable-cost ratio moved closer to the break-even mark in FY88, reaching .90 compared with .79 in the preceding year.

Amtrak carried 21.5 million intercity passengers in FY88, a million more than in the year before, and the total number of passenger miles increased from 5.2 billion to 5.7 billion, an increase of some nine percent over FY87. Commuter ridership on trains Amtrak operates under contract for local transit agencies also increased substantially. In FY88, Amtrak carried more than 15 million commuters for the Massachusetts Bay Transportation Authority and the Maryland Rail Commuter Service.

All in all, this was an extraordinary year for Amtrak, but one in which success created a "stress test" of major proportions for America's passenger railroad. On route after route, demand for Amtrak's services outstripped the capacity of our hardworking locomotive and car fleet. On some weekends and holidays, passengers could find only standing room on some unreserved Northeast Corridor trains, and the space on some all-reserved long-distance trains filled up far in advance.

Funding for capital projects—particularly for new equipment—has dropped precipitously during the past seven years, and Amtrak has had to rely on increased and more efficient use of its equipment fleet to meet growing demand. In an effort to put more locomotives and cars in service to accommodate customers during peak travel periods, Amtrak chose to lengthen some maintenance cycles. This was an error that will not be repeated. The result was that some of our trains operated at times with equipment that was not up to the standard Amtrak's passengers have a right to expect—both in comfort and in reliability. Equipment failures in service contributed to an unacceptable level for on-time performance.

Much of the control over the on-time performance of our trains is out of Amtrak's hands and lies with the freight railroads, who own and control the tracks where the majority of our passenger trains operate. Still, the problem of deteriorating on-time performance, as well as that of equipment condition, is of enormous concern to us and we are addressing them both vigorously in ways spelled out in greater detail elsewhere in this report.

In the Northeast Corridor, where Amtrak owns and controls most of the track, on-time performance improved over the previous year to 82.1 percent.

Amtrak's increasing emphasis on safety is producing encouraging dividends. A concerted systemwide effort has already brought Amtrak's employee safety record from one of the poorest among Class I railroads to near the top of the field.

There are safety implications, too, in one of several legislative changes Amtrak is seeking in order to make our operations more efficient and less costly. The legislative proposal receiving the most attention in the Congress would exempt Amtrak from the Federal Employers' Liability Act (FELA).

FELA is an 80-year-old law that antedates the establishment by the individual states of no-fault workers' compensation programs. The law set up a costly and inefficient compensation system based on the determination of fault and the resolution of claims in the courts. To obtain compensation in cases where the right to payment or amount of damages is disputed, an injured employee must sue his or her railroad employer and prove that the company—not the worker—was responsible for the injury. If the employee is found to have been at fault, any award of damages will be reduced in proportion to the worker's own negligence. If the injury was caused solely by the worker's fault, he or she will recover nothing as compensation for the injury. In disputed cases, a large share of any award received—anywhere from 25 percent to 40 percent—goes to the attorney representing the injured worker rather than to the worker himself.

Amtrak has proposed and Congress is considering a three-year test of resolving Amtrak workers' injury claims under state workers' compensation programs rather than FELA. In virtually every other industry, including many far more dangerous than the railroad business, claims are resolved under these state programs without the need for a court to decide the issue of who was responsible for the injury. Amtrak's employees would be compensated for injuries regardless of fault and, even more importantly, we would become partners rather than antagonists in promoting safety on the job. Such a test may well point the way to changes that would benefit the entire railroad industry.

The close of FY88 and the opening months of FY89 brought a great deal of encouragement for Amtrak's future. In September 1988, the newly-renovated Washington Union Station opened its doors to what may be the most beautiful transportation facility in America. New ticketing and waiting room facilities complement the massive marble and gold-leaf rotunda and are surrounded by an array of shops, restaurants and theaters that make this not only a rail gateway worthy of the nation's capital but a center of activity on Capitol Hill. For rail travelers to and from Washington, the station is creating a highly positive image of Amtrak, one of quality and tradition, and one we mean to preserve.

Despite the shortage of federal funds for needed capital projects, Amtrak was able to order and acquire some critically needed new locomotives and cars in FY88. Although fuller details of equipment additions will be found elsewhere in the report, one order deserves special mention here.

During FY88, Amtrak placed an order for 50 new short-distance-service coaches with Bombardier of Canada, with financing arranged through the Export Development Corporation of Canada. Early in FY89, the order was expanded to 100 cars. These cars, which are being assembled at Bombardier's Barre, Vt., plant and will be delivered in 1989-90, will enable Amtrak to meet more of the growing demand for rail passenger service. At a total cost of approximately $100 million, the purchase was financed out of future earnings rather than present capital. That this is possible says something important about the confidence that private financial markets have in the future of Amtrak.

Adequate capital investment is vital to Amtrak's future. Although Amtrak is able to fund some of its critical capital needs through its corporate development and real estate activities, a larger and more consistent source of capital funding is needed now and will be needed even more in the years just ahead when aging locomotives and cars must be replaced. A transportation trust fund, funded through the gasoline tax—to which Amtrak as well as highway builders and mass transit agencies would have access—offers the most promising source of the capital we need if Amtrak is to remain a reliable, marketable alternative to highway and air congestion.

Amtrak employees deserve enormous credit for the talent, hard work and dedication that have helped make this a year of which to be proud. Our challenge is to continue the trends toward better service and even better control of costs.

We have set demanding goals for America's passenger railroad in FY89. We intend to increase the revenue-to-expense ratio by at least a point, raising it to .70 or better compared to the .69 achieved in FY88. We mean to go on improving the quality of Amtrak's service as measured by the composite index of comfort and reliability already established. We want to achieve an on-time performance level of 80 percent systemwide. And we are determined to reduce our reportable injury ratio from 6.5 to 5.8 or less per 200,000 man-hours.

None of these goals is easy to accomplish. But Amtrak's people, as they always have, will rise to the challenge.

W. Graham Claytor, Jr.

W. Graham Claytor, Jr.
President
December 31, 1988

Amtrak in 1988: The Making of a Banner Year

1988 may well have marked the year that America's travelers finally began to rebel against highway parking lots and airline delays. Americans wasted some 84 million hours stalled in traffic last year. To relieve this, an increasing number of states and regional groups of states have approached Amtrak about the need for additional Amtrak service or for commuter rail service. The public is now recognizing the contribution Amtrak can make to balancing the nation's transportation system.

Amtrak's success in earning over $1 billion in revenue in FY88 was the result of years of market research, aggressive selling, innovative advertising and pricing strategies, and a growing interaction with America's thousands of independent travel agents.

Already the dominant commercial carrier in the Northeast Corridor passenger travel market, Amtrak is steadily becoming a force to be reckoned with in the country's travel industry as a whole.

One sign of Amtrak's growing prominence as a player in the field was the selection of the Corporation's executive vice president, William S. Norman, to head the Board of Directors of Travel Industry Association of America. This is the umbrella group that includes airlines, cruise ship lines, major hotels, tour operators, states, counties, cities and associations.

Another indication of Amtrak's growing travel role is the increasing involvement of travel agents in the business of America's passenger railroad. Amtrak's participation in the Airlines Reporting Corporation and in several automated ticketing systems (with Texas Air's System One soon to be included) continued to make it more convenient for travel agents to promote the rail passenger business and issue tickets on Amtrak directly to customers.

Passengers enjoy Western scenery, feature-length movies, and refreshments in Amtrak's Superliner sightseer lounge car.

Amtrak also has a variety of incentive plans and training programs to encourage travel agents to market the Corporation's service. In light of all this, it is not surprising that ticket sales by travel agencies increased by more than 20 percent in

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FY88 and accounted for almost a third of all of Amtrak's transportation-related revenues.

Advertising and sales promotion played a major role in Amtrak's record year, both in the prevalence of the Corporation's message in print and on the air, and in the precise targeting of those amenities that distinguish train travel as the civilized alternative.

Selling rail passenger service involves three key steps. First, it is necessary to understand in depth the changing national economy and the travel market that it influences. Then Amtrak's service must be adapted to that market in ways that make the service highly competitive with other travel options. The third step deals with pricing and promoting the service, and delivering it to the customer in the most convenient way. Obviously, the approach worked successfully in FY88, and it is being fine-tuned again for the year ahead.

This involves building on the first steps taken in FY88 in equipping Amtrak with a powerful new marketing and selling tool called yield management and training people to use it. Basically, yield management is a complex, computer-based system for matching the space available on trains to the price Amtrak should charge for it in order to produce the greatest demand for travel service and the best revenue return for Amtrak.

Part of the system—including the advance forecasting of the demand for travel on particular routes—went into use in FY88, with additional parts expected to be in operation by the end of FY89. But much training for Amtrak employees is required before yield management begins to reach its full potential in helping them make pricing decisions more rapidly and effectively than ever before possible.

Revenues from other aspects of Amtrak's business—mail, express, corporate development—are still a relatively small portion of total revenues, but they similarly made an important contribution to the Corporation during the year and have encouraging prospects for the future. Mail and express revenues increased nearly seven percent—from $32.7 million to $34.9 million. Although corporate development revenues were down from the year before, the net earnings from these activities contributed $7.5 million to Amtrak's capital program in 1988.

Real estate operations showed a 27 percent increase in revenues over the previous year, reaching a total of $30.7 million in FY88.

Future real estate revenue growth depends on a number of factors. Station renovations—like the Chicago Union Station work, the renovation of Philadelphia's 30th Street Station starting in FY89 and the work in progress at New York's Pennsylvania Station—produce not only more comfort and convenience for passengers but additional revenue for Amtrak. This comes about through the leasing of additional retail space and the renegotiation of existing leases.

A spectacular fireworks display climaxed the Sept. 29 opening of Amtrak's magnificently restored Washington Union Station.

Pride and Professionalism: A Commitment to Quality

Amtrak employees take pride in providing special attention to the needs of every passenger.

If Amtrak is to continue as a growing force in the travel marketplace, the Corporation must maintain and intensify the commitment to quality that reaches into all of Amtrak's operations.

Rail passenger travel finds much of its market among the millions of travelers who look for quality service, on-time performance and creature comforts more than speed. But in order to compete successfully in this market, Amtrak must deliver consistently the kind of service its advertising promises—and it is here that the pride and professionalism of Amtrak's people make the difference. Training helps to create and maintain professionalism and to bring about the level of service that warrants pride.

Passenger Services, where Amtrak and the public meet in railway stations and aboard trains, characterized FY88 as "the year of the passenger." Emphasis was placed on training the people and upgrading the equipment and services that

AMTRAK HAS PLACED NEW EMPHASIS ON ATTRACTING EMPLOYEES WITH THE POTENTIAL FOR FULFILLING CAREERS WITH AMTRAK RATHER THAN JUST FILLING JOB POSITIONS.

combine to create the traveling public's impression of Amtrak.

Training programs for new employees were lengthened and intensified. They featured more hands-on training experience prior to assignments that would place newly-trained people in direct customer service.

Higher standards for the recruiting of new employees were another feature of FY88. With an annual employment turnover of some 2,500 persons, Amtrak has placed new emphasis on attracting employees with the potential for fulfilling careers with Amtrak rather than just filling job positions.

Uniforms of higher quality in fabric and style have been designed to help give station and train service employees a more professional and well-groomed appearance. The new uniforms had their first tryout at the newly opened Washington Union Station and Amtrak expects them to be in use systemwide by mid-1989.

Amtrak has a variety of training programs, many conducted in-house, both for new employees when they join the Corporation and periodically for all employees. The purpose is to impart to new employees the specific skills the job requires and encourage the customer orientation all Amtrak people need, as well as to ensure that these valuable skills and qualities are retained.

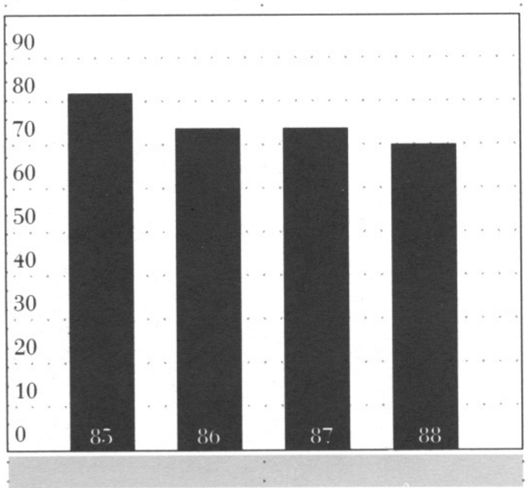
The number and variety of training programs carried on in FY88 give some indication of Amtrak's commitment to preparing its people thoroughly. For example, more than 12,000 employees received training in dealing with chemicals used on the job, even those not normally considered hazardous. About 2,000 Amtrak managers received training in the details of Amtrak's drug and alcohol policy, how to identify people who need help, and the kinds of help Amtrak offers.

The four stages, or Tiers, of training in management skills for current supervisors and officers have been completed. But the program continues to provide such training for supervisors when they first enter the management ranks and for all managers as they move to higher levels. A fifth Tier of training—an in-depth orientation concerning Amtrak's history, mission and management philosophy—is being provided for all employees as rapidly as this can be accomplished.

***Auto Train* and Silver Service trains to and from Florida offer efficient buffet service.**

Safety: Heading for the Top

On-Time Performance
Systemwide (Route Basis)



Some of the most important aspects of Amtrak training relate to safety. This is part of a deep and continuing commitment to making America's passenger railroad a safer work place, and one that has sparked dramatic improvement over the past year or two.

Amtrak's Safety Training and Observation Program (STOP), which was implemented systemwide during FY87 and FY88, played an important part in this improvement. The program involves everyone, from top management to the person in the shop or on the railroad, in the cooperative responsibility of creating and maintaining a safe work place.

Strictly on a human level, it is impossible to calculate the benefits of improved safety. But the reduction in the rate of reportable injuries per 200,000 man hours from 8.0 in 1987 to 6.5 in 1988 does have a measurable effect on Amtrak's operations. Such an improvement amounts to an additional 23,500 days of work, an annual saving of almost $12 million a year. It is hard to imagine a more satisfying way to reduce operating costs.

Another important contribution to safety in the past year, for employees and passengers alike, was the start of Operation Red Block. This joint effort of management and the two labor organizations that represent train engineers, conductors and their assistants seeks to educate their members about the dangers of drugs and alcohol and prevent abuse of these substances. Corporation-sponsored and union-run, Red Block operates through worker peer groups that provide educational programs about drug and alcohol abuse and, when necessary, intervene personally to help get someone back on the right track. This program started on the Washington Division (covering the entire Southeast) and in FY89 will move north to Philadelphia and then to lines in the West.

A CONCERTED SYSTEMWIDE EFFORT HAS ALREADY BROUGHT AMTRAK'S EMPLOYEE SAFETY RECORD FROM ONE OF THE POOREST AMONG CLASS I RAILROADS TO NEAR THE TOP OF THE FIELD.

In another development related both to safety and to efficiency, Amtrak and six other Northeast railroads have developed and agreed to a common set of operating rules which were put into effect on Oct. 1, 1988. Train operations will be simpler and safer when the people who run the trains do not have to deal with two or more different sets of operating rules.

New Plant, New Services

At the Bear (Del.) Maintenance Facility, production line techniques used to overhaul Amfleet equipment have doubled productivity.

Much is already being done to remedy the problems that have resulted from record growth in Amtrak ridership and the pressures on an overworked equipment fleet. Years of limited capital funding had deprived Amtrak of the number of cars and locomotives needed to provide quality service. On-time performance and the serviceability of equipment suffered—and so did the passengers.

In order to rectify the situation, Amtrak is stepping up the rate of overhaul and preventive maintenance of cars and locomotives. Full use is being made of the new and more efficient production line techniques introduced during the past two years in shops across the system.

In the Chicago shop there are production lines for diesel locomotive maintenance and in Washington, D.C., similar ones for electric locomotives. Beech Grove, Ind., shops employ production line techniques in the overhaul of Superliner and Heritage cars, and the same methods are helping the Bear, Del., shop overhaul Amfleet cars at more than double its

Amtrak passengers board at Glenwood Springs, Colo., a popular year-round destination on the route of the *California Zephyr*.

previous rate. At the reopened Brighton Park, Ill., facility, Amfleet, Heritage and Superliner cars assigned to the Midwest are cycled through an assembly line maintenance program every 120 days. This assures that the quality of equipment remains at a high level between heavy overhauls. This line addresses all safety, ride quality and passenger comfort items as the cars move through at a rate of four cars per day.

In addition to improving the maintenance of present equipment, Amtrak is receiving and ordering more, as well as planning ahead for the time when extensive car and locomotive replacement will become necessary.

Nine new F40 diesel-electric locomotives were delivered early in FY88 and immediately placed into service.

Amtrak also recently acquired eight used GP40TC locomotives from GO Transit in Toronto, Canada. After some necessary modifications at Beech Grove shops to make them suitable for service here, these locomotives will be assigned to short-haul service in the Midwest and will immediately release F40 locomotives for operation on other routes.

At the end of FY88 and during the final months of the calendar year, seven new AEM7 electric locomotives arrived to add to Amtrak's motive power operating in the Northeast Corridor. The locomotives received in 1988 were the first additions to Amtrak's locomotive fleet since FY85.

Looking ahead to the need for the eventual replacement of F40 and P30CH diesels, Amtrak has placed in service an experimental diesel-electric locomotive equipped with asynchronous three-phase alternating-current traction motors made by Asea Brown Boveri. Amtrak has also been working with General Motors for some time in the design and production of an advanced diesel to be called the F69PH-AC. New features found in this locomotive design include microprocessor controls, solid-state head-end power inverters, and asynchronous three-phase alternating-current traction motors designed by Siemens AG.

Two F69PH-AC prototypes are scheduled for delivery in March 1989, and after extended evaluation at a railroad test track in Pueblo, Colo., they are expected to be in service by mid-summer. If these new designs perform as well as anticipated, they will be the basis for a whole new generation of Amtrak diesel-electric locomotives.

Amtrak's three new Viewliner passenger cars—two sleeping cars and a dining car—spent FY88 undergoing marketing and reliability tests in day-to-day service, and these tests will continue in FY89. Orders for this next generation of passenger cars are expected to be placed within the next two years if sufficient capital funding is available.

The first 50 new "Horizon Fleet" coaches from Bombardier, including six food service cars, will begin to arrive in March 1989, and continue through October. The second 50 will be completed and delivered by mid-1990.

These additions to the locomotive and car fleet will help Amtrak provide more reliable service. In addition, on-time performance committees, with membership that crosses departmental lines, have been set up to evaluate problems that affect on-time service and to take any direct action in Amtrak's power to remedy the situation.

NINE NEW F40 DIESEL-ELECTRIC LOCOMOTIVES WERE DELIVERED EARLY IN FY88 AND IMMEDIATELY PLACED INTO SERVICE

To deal with on-time performance problems outside Amtrak's control, company officers will meet regularly with their counterparts on the contract railroads to help work out mutual problems that delay passenger trains. Some of these include double station stops where trains are longer than the platforms, slow orders, trackwork-related delays, and the delays caused by freight train interference and derailments.

Overlooking the Main Hall, Washington Union Station.

One highly visible symbol of what Amtrak strives for in the way of improved service is the new southern anchor of the Northeast Corridor—Washington Union Station. Opened in magnificently restored form in September 1988, this spectacular array of facilities for passenger convenience, shops, theaters and restaurants of all descriptions is giving Amtrak an exciting and positive image. And this is only one of a number of facilities and service improvements made in FY88 or in prospect for next year. Railfone service, the on-board telephones already popular on the Northeast Corridor Metroliners, was provided for passengers on the *San Diegans* between Los Angeles and San Diego on the heavily traveled Surf Line. Also during FY88 an eighth daily round trip was added to this popular corridor service. A new "Express Metroliner Service," a non-stop weekday morning train from the Washington area to New York, was added in FY88. Also added near the end of FY88 were 16 new weekly regular Metroliner Service runs between Washington and New York, some on weekends as well as weekdays. Amtrak now also operates four Metroliner Service trains between New York and Boston on weekends.

The *Hoosier State* between Chicago and Indianapolis was increased from tri-weekly to daily frequency. With the aid of the state of California, one daily San Diego-Los Angeles train was extended to Santa Barbara in June and was carrying more than 175 passengers per train north of Los Angeles by July.

The addition of Superliner enhancements—special menus, movies and other amenities for passengers—to all Western long-distance routes was completed in FY88 with the introduction of these passenger-pleasing features on the *Eagle* and the *Sunset Limited*. Passenger revenues increased more than 20 percent on the *Eagle* and more than 36 percent on the *Sunset Limited* in FY88 compared to the preceding year.

Work was completed in this past year on passenger facilities that will improve operating conditions in 1989 and beyond. *Auto Train* terminal facilities at Lorton, Va., and Sanford, Fla., were remodeled and greatly expanded. In Boston, the MBTA deserves credit for the restoration of historic South Station, which was partially completed, and the new Back Bay station which opened in 1987. In New York's Pennsylvania Station, where a multi-year rehabilitation project is under way, the new improved ticketing and passenger service facilities are in use.

What's Ahead for America's Passenger Railroad

Wholesome dining car meals appeal to all ages.

Amtrak began FY89 on a high note, with a new Washington station and new train service extensions, and looks ahead to even more exciting prospects for the rest of the year.

Reestablishment of service between Chicago and Houston has been accomplished by dividing the *Eagle*, now

IN AN EFFORT TO MAXIMIZE ITS LIMITED CAPITAL RESOURCES AND MEET ITS INCREASING EQUIPMENT NEEDS, AMTRAK WILL CONTINUE TO PURSUE PRIVATE FINANCING COMMITMENTS FOR MAJOR CAPITAL PROJECTS.

renamed the *Texas Eagle*, into two sections at Dallas. One train, consisting of a sleeping car, coaches and food service car, goes to Houston. The rest of the train goes on to San Antonio.

Amtrak's *Palmetto*, a daytime train between New York and Savannah, Ga., was extended to Jacksonville, Fla. This 148-mile extension is expected to attract more passengers to and from the northern Florida area.

By mid-1989, Amtrak plans to begin service between Philadelphia, New York, Washington and Atlantic City. Restoration of the line to Atlantic City is almost complete. All the equipment necessary for the push-pull service between the four cities is being modified by Amtrak to meet its requirements. By late spring, Amtrak plans to have six daily all-reserved trains operating over this route and expects the new service to attract more than a million passengers a year and generate more than $30 million in annual revenues.

Amtrak's Centralized Electrification and Traffic Control System (CETC), a state-of-the-art power monitoring and train control system, is being extended from Wilmington, Del., to New York and on to the Boston Division. Video consoles for the Boston control center, to be located in the recently-opened South Station Transportation Center, have already started to arrive. Testing of equipment begins in January 1989, and by the fall of the year CETC is expected to be operational, controlling 47.5 mainline miles between Boston and Cranston, R.I., along with some branch line and commuter operations. The extension north of Wilmington to New York is being funded jointly by Amtrak and the states of New Jersey and Pennsylvania. The CETC system, which replaces a manually operated signal and traffic control system that has served the railroads well for nearly a century, adds an extra measure of safety and efficiency to Amtrak's operations.

Work will continue this year on the rebuilding of the rail line along the west side of Manhattan. When it is completed in 1990, the West Side Connection will enable Amtrak trains from upstate New York to bypass Grand Central Terminal and operate directly into Pennsylvania Station. As a result, passengers changing trains in New York City will no longer have to change stations. Not only will this change make Amtrak's New York operations more efficient and cost effective, but it will improve service to passengers by allowing convenient connections from upstate New York to all Amtrak services using Pennsylvania Station.

In an effort to maximize its limited capital resources and meet its increasing equipment needs, Amtrak will continue to pursue private financing commitments for major capital projects.

Seven new AEM7 locomotives delivered early in FY89 were financed through a leveraged lease with private investors. This

Amtrak added a new community to its route system with the inauguration of the *Texas Eagle* on Nov. 14, 1988.

is the first time Amtrak has privately financed a major equipment acquisition in many years. Amtrak also arranged financing commitments to facilitate the purchase of the 100 coaches from Bombardier which will be delivered this year and next.

Amtrak's success in arranging financing commitments has not been limited to rolling stock. Early in FY89, Amtrak secured $75 million in permanent and construction loan financing for the renovation of Philadelphia's 30th Street Station.

Subject to its limited ability to service the debt, Amtrak will continue to pursue private financing sources to augment the limited capital funds it generates or receives from the federal government.

FY88 was a banner year setting ridership and revenue records that will be tough to beat. However, the introduction of the new Horizon Fleet passenger coaches and the start-up of service to Atlantic City point toward even greater success in FY89.

Operating Statistics

	1984	1985	1986	1987	**1988**
General					
System Route Miles (in thousands)	24	24	24	24	**24**
Stations	510	503	491	487	**498**
Train Miles Operated (in millions)	29	30	29	30	**30**
On-Time Performance					
Systemwide	80%	81%	74%	74%	**71%**
Short Distance	81%	82%	76%	78%	**76%**
Long Distance	77%	78%	69%	62%	**54%**
Ridership					
Passengers (in millions)	19.9	20.8	20.3	20.4	**21.5**
Northeast Corridor	10.8	11.2	10.7	10.7	**11.2**
Short Distance	4.4	4.5	4.4	4.5	**4.8**
Long Distance	4.7	5.0	5.1	5.2	**5.4**
Passenger Miles (in millions)	4,552	4,825	5,013	5,221	**5,678**
Locomotive Units					
Operating Fleet	284	291	291	289	**298**
Available for Service (daily average)	92.3%	93.2%	92.0%	89.0%	**88.0%**
Average Age (in years)	6.0	7.0	8.0	9.0	**10.0**
Diesel Units (new deliveries)	0	10	0	0	**9**
Electric Units (new deliveries)	0	0	0	0	**1**
Passenger Train Cars					
Operating Fleet	1,379	1,523	1,664	1,705	**1,710**
Owned and Leased:					
Superliner Cars	283	283	282	282	**282**
Amfleet I Cars	490	488	486	484	**483**
Amfleet II Cars	150	150	149	149	**149**
Heritage Cars	732	790	789	790	**813**
Turboliners (cars)	65	65	65	65	**65**
Self-Propelled Cars	78	78	64	61	**61**
Total Owned and Leased	1,798	1,854	1,835	1,831	**1,853**
Average Age (in years)	13.2	14.2	14.6	15.6	**16.6**

Financial Statements

Balance Sheets

National Railroad Passenger Corporation (Amtrak)

As of September 30, 1988 and 1987

(Thousands of dollars)

Assets	1988	1987
Current Assets:		
Cash and cash equivalents	$ 106,480	$ 96,111
Short-term cash investments, at cost, which approximates market	45,517	65,207
Accounts receivable, net of allowance for doubtful accounts of $2,458 and $3,387 in 1988 and 1987, respectively	57,248	65,014
Materials and supplies, at average cost	110,645	103,011
Total current assets	319,890	329,343
Property and Equipment:		
Passenger cars and locomotives	1,449,494	1,422,901
Northeast Corridor	2,579,210	2,486,915
Other	401,771	386,002
	4,430,475	4,295,818
Less—Accumulated depreciation and amortization	(1,193,507)	(1,051,813)
	3,236,968	3,244,005
Other Assets and Deferred Charges:		
Escrowed proceeds from sales of tax benefits	87,951	95,162
Union Station redevelopment	70,000	70,000
Penn Station joint venture	44,837	—
Deferred charges and other	122,105	99,254
	324,893	264,416
Total assets	$ 3,881,751	$ 3,837,764

Liabilities and Capitalization	**1988**	1987
Current Liabilities:		
Accounts payable	**$ 101,639**	$ 93,672
Accrued expenses	**102,004**	110,378
Current portion of long-term debt and capitalized leases	**6,972**	12,176
Total current liabilities	**210,615**	216,226
Long-Term Debt and Capitalized Leases:		
Equipment debt	**25,401**	6,000
Capital lease obligations	**3,576**	4,547
	28,977	10,547
Other Liabilities and Deferred Credits:		
Casualty reserves	**65,292**	68,919
Deferred revenue-sales of tax benefits	**87,951**	95,162
Deferred revenue-Penn Station joint venture	**42,484**	—
Advances from railroads and commuter agencies	**35,035**	28,695
Other	**5,316**	6,317
	236,078	199,093
Total liabilities	**475,670**	425,866
Commitments and Contingencies		
Capitalization (**see Statements of Changes in Capitalization**)	**3,406,081**	3,411,898
Total liabilities and capitalization	**$ 3,881,751**	$ 3,837,764

The accompanying notes are an integral part of these balance sheets.

Statements of Operations

NATIONAL
RAILROAD
PASSENGER
CORPORATION
(AMTRAK)

For the Years Ended September 30, 1988 and 1987

(Thousands of dollars)

	1988	1987
Revenues:		
Transportation related	**$ 947,059**	$ 807,554
Other	**159,668**	165,956
Total revenues	**1,106,727**	973,510
Expenses:		
Train operations	**374,845**	359,321
Maintenance of equipment	**384,049**	361,901
Maintenance of way	**193,404**	168,374
On-board services	**149,921**	137,185
Stations	**109,929**	104,679
Marketing and reservations	**149,670**	136,025
General support	**136,501**	116,252
Taxes and insurance	**61,564**	85,667
Depreciation and amortization	**153,731**	163,423
General and administrative	**41,173**	37,446
Interest	**2,296**	1,752
Total expenses	**1,757,083**	1,672,025
Net loss	**$ 650,356**	$ 698,515

The accompanying notes are an integral part of these statements.

Statements of Cash Flows

For the Years Ended September 30, 1988 and 1987

(Thousands of dollars)

	1988	1987
Cash Flows From Operating Activities:		
Net loss	**$(650,356)**	$(698,515)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	**153,731**	163,423
Provision for inventory loss and obsolescence	**6,000**	7,100
Provision for losses on accounts receivable	**2,400**	2,400
Gain on sales of property	**(9,627)**	—
Changes in assets and liabilities:		
Decrease in accounts receivable	**6,147**	1,680
Increase in materials and supplies	**(13,634)**	(1,405)
Increase in other assets and deferred charges	**(7,959)**	(9,006)
Decrease in accounts payable and accrued expenses	**(407)**	(2,809)
Decrease in other liabilities and deferred credits	**(12,095)**	(2,766)
Net cash used in operating activities	**(525,800)**	(539,898)
Cash Flows From Investing Activities:		
Purchases and refurbishments of property and equipment	**(120,583)**	(164,578)
Proceeds from retirements of property and equipment	**16,152**	5,000
Cash released from restricted proceeds of tax benefits sales	**16,942**	27,462
Cash investments	**(293,277)**	(217,335)
Proceeds from dispositions of cash investments	**288,282**	271,319
Other	**(380)**	(1,627)
Net cash used in investing activities	**(92,864)**	(79,759)
Cash Flows From Financing Activities:		
Proceeds from issuance of preferred stock	**590,300**	584,000
Proceeds from federal paid-in capital	**50,473**	91,825
Proceeds from federal and state capital payments	**3,110**	6,311
Principal payments under long-term debt	**(14,850)**	(6,279)
Net cash provided by financing activities	**629,033**	675,857
Net increase in cash and cash equivalents	**10,369**	56,200
Cash and cash equivalents—beginning of year	**96,111**	39,911
Cash and cash equivalents—end of year	**$ 106,480**	$ 96,111

The accompanying notes are an integral part of these statements.

Statements of Changes in Capitalization

National Railroad Passenger Corporation (Amtrak)

For the Years Ended September 30, 1988 and 1987

(Thousands of dollars)

	Balance September 30, 1986	Year Ended September 30, 1987	Balance September 30, 1987	**Year Ended September 30, 1988**	**Balance September 30, 1988**
Preferred stock issued to the Federal Government, $100 par value; 56,300,000 shares authorized (an additional 5,900,000 shares were authorized subsequent to September 30, 1988, increasing the number of authorized shares to 62,200,000); 54,767,029 shares outstanding in 1988 and 48,864,029 shares outstanding in 1987.	$ 4,302,403	$ 584,000	$ 4,886,403	**$ 590,300**	**$ 5,476,703**
Common stock, $10 par value; 10,000,000 shares authorized, 9,385,694 shares outstanding	93,857	—	93,857	**—**	**93,857**
Other paid-in capital:					
Federal paid-in capital	3,248,415	91,825	3,340,240	**50,473**	**3,390,713**
Railroad capital payments	108,997	—	108,997	**—**	**108,997**
Federal and state capital payments	154,059	6,909	160,968	**3,766**	**164,734**
	3,511,471	98,734	3,610,205	**54,239**	**3,664,444**
Accumulated deficit before federal operating payments	(8,526,644)	(698,515)	(9,225,159)	**(650,356)**	**(9,875,515)**
Federal operating payments	4,046,592	—	4,046,592	**—**	**4,046,592**
Accumulated deficit	(4,480,052)	(698,515)	(5,178,567)	**(650,356)**	**(5,828,923)**
Total capitalization	$ 3,427,679	$ (15,781)	$ 3,411,898	**$ (5,817)**	**$ 3,406,081**

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

September 30, 1988 and 1987

Note 1:

Summary of Significant Accounting Policies

Principles of Consolidation

The financial statements reflect the consolidated operations of the National Railroad Passenger Corporation (Amtrak) and Chicago Union Station Company (CUS), a wholly-owned subsidiary of Amtrak. All significant intercompany transactions have been eliminated.

Adjustments of Railroad Reimbursements

Amounts due contracting railroads are recorded based on reported and estimated expenses, which are subject to audit and adjustment by the railroads and Amtrak. Amtrak's continuing program for auditing monthly costs reported by railroads has resulted in adjustments proposed and settled or under current negotiations. At September 30, 1988 and 1987, accrued estimated recoveries for proposed adjustments were $4,752,000 and $5,223,000, respectively.

Casualty Losses

Provision is made for Amtrak's portion of the estimated liability for unsettled casualty and accident claims. The current portion of this liability is reflected in the Balance Sheets under the caption, "Accrued expenses." The non-current portion is classified as "Casualty reserves." As of September 30, 1988 and 1987, the current claims liability included in accrued expenses was $41,500,000 and $35,800,000, respectively.

Property and Depreciation

Property and equipment are stated at cost, and are depreciated using the composite straight-line method over their estimated useful lives. Certain major items of property acquired through capital lease agreements are recorded as assets and are depreciated over their estimated useful lives.

Note 2:

Statement of Cash Flows

Effective in 1988, Amtrak adopted the provisions of Financial Accounting Standards Board Statement No. 95, "Statement of Cash Flows," which prescribes a method of presenting cash flow information within an enterprise's financial statements. Accordingly, the accompanying financial statements include Statements of Cash Flows in lieu of Statements of Changes in Financial Position presented in prior years. A Statement of Cash Flows for the year ended September 30, 1987 is presented for comparison.

For purposes of the Statement of Cash Flows, Amtrak considers all financial instruments purchased with a maturity of three months or less to be cash equivalents. Those financial instruments purchased with a maturity of over three months, and which mature not more than one year from the Balance Sheet date, are classified as short-term cash investments.

For the years ended September 30, 1988 and 1987, Amtrak engaged in the following investing and financing activities that affected recognized assets and liabilities, but did not result in a change in cash and cash equivalents (amounts in thousands):

	1988	1987
• Obligation incurred in connection with a progress payment made by a third party lender on Amtrak's behalf for the construction of passenger cars	$12,194	–
• Payments made for the redevelopment of Washington Union Station, from a fund established specifically for that purpose	$23,773	$29,771
• Proceeds received from the 99-year lease of portions of Penn Station, New York City, and designated to fund specific improvements at Penn Station	$44,400	–
• Liability incurred in connection with the purchase of nine new diesel locomotives	$10,523	–
• Capital lease obligations incurred in connection with the lease of new equipment	$ 5,359	$ 5,213

Note 3:

Federal and State Funding

Funds are provided to Amtrak through federal and state payments for operations and for capital acquisitions and improvements. For funds received from the Federal Government, section 304 of the Rail Passenger Service Act (45 U.S.C. 544) requires Amtrak to issue to the Secretary of Transportation preferred stock equal in par value to all federal operating payments and most federal capital payments received subsequent to October 1, 1981, as well as capital and certain operating payments received prior to that date. Dividends are to be fixed at a rate not less than 6% per annum and are cumulative so that no dividends may be made upon the common shares prior to the payment of all accrued but unpaid dividends on the preferred shares. No dividends have been declared. Preferred stockholders are also entitled to a liquidation preference over common shares involving a payment of not less than par value plus all accrued unpaid dividends. Each share of preferred stock is convertible into ten shares of common stock at the option of the preferred stockholder. Public Law 100-457, approved on September 30, 1988, provides $584,000,000 in federal funds to Amtrak for Fiscal Year 1989.

Federal paid-in capital, included in the Statements of Changes in Capitalization, reflects certain funding received from the Federal Government to finance acquisition of and improvements to property and equipment. In exchange for these funds, Amtrak issued two promissory notes to the United States. The first note matures on December 31, 2975, and is secured by Amtrak's real property. The second note matures on November 1, 2082, with successive 99-year renewal terms, and is secured by Amtrak's equipment and rolling stock. Neither of the notes bears interest, unless prepaid (which Amtrak does not intend to do). The Federal Government's security interest in Amtrak's real property, equipment and rolling stock entitles it to repayment plus interest in the event Amtrak ceases operations, is acquired by another entity or seeks relief under bankruptcy or insolvency laws. Prior to 1988, this funding was classified as long-term debt on the Balance Sheets. During 1988, Amtrak changed its accounting for this funding to classify it as paid-in capital. Prior year financial statements have been restated to reflect this change, which had no effect on the Statements of Operations.

Note 4:
Long-Term Debt

During 1988, Amtrak entered into an agreement with a manufacturer for the construction of 50 passenger rail cars, with an option for an additional 50 cars, at a total price of $105,000,000. Under the terms of a loan agreement with a third-party lender, Amtrak may borrow up to this amount in the form of advances made by the lender to the manufacturer toward the cars' construction. Interest (9.75% annual rate) on amounts advanced, and a commitment fee (0.5% annual rate) on the portion of the $105,000,000 not yet advanced, is charged to Amtrak and is payable quarterly. Principal repayments of all outstanding advances are due in 60 quarterly installments, commencing no later than December 31, 1990. All amounts borrowed by Amtrak are to be secured by the finished passenger cars. Interest and related financing charges incurred by Amtrak are being capitalized during the construction period as components of the cars' total cost. As of September 30, 1988, $12,194,000 was advanced on Amtrak's behalf, and is included in the Balance Sheet as a long-term equipment debt. Interest capitalized on this amount during the year ended September 30, 1988, totaled $287,000.

The remaining equipment debt at September 30, 1988, consists of the following (amounts in thousands):

	Due within one year	Due in excess of one year	Total
Conditional sales agreement for the purchase of nine new diesel locomotives. Debt is payable in 40 quarterly installments, the final of which is due April 15, 1998. Interest on the first 20 installments is fixed at 10.125%, with the rate for the final 20 payments to be established in 1993.	$1,052	$9,207	$10,259
Non-interest-bearing notes payable in final settlement of the purchase price of Superliner passenger cars. Notes are payable in annual installments, due each December 1, of $2 million, the final of which is due in 1990.	$2,000	$4,000	$6,000

Note 5:
Leasing Arrangements
Capital Leases

Amtrak leases certain items of equipment under capital leasing arrangements. At September 30, 1988, the gross amount of assets recorded under capital leases was $15,166,000, and the future minimum lease payments under capital leases are as follows:

Year Ending September 30	Amounts (In Thousands)
1989	$4,444
1990	1,819
1991	1,014
1992	715
1993	296
Later years	316
	8,604
Less amount representing interest	1,108
Present value of minimum lease payments at September 30, 1988	$7,496

The present value of minimum lease payments is reflected in the Balance Sheet as current and long-term obligations of $3,920,000 and $3,576,000, respectively.

Operating leases

At September 30, 1988, Amtrak was obligated for the following minimum rental payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year:

Year Ending September 30	Amounts (In Thousands)
1989	$12,172
1990	11,031
1991	7,457
1992	6,450
1993	5,290
Later years	42,606
	$85,006

Rent expense for the years ended September 30, 1988 and 1987 was $23,749,000 and $23,844,000, respectively.

Note 6:
Pension Plan

Amtrak has a qualified noncontributory defined benefit retirement plan held in trust covering nonunion employees and certain union employees. Benefits are based on years of credited service, and the employee's average compensation during the highest five consecutive years. Amtrak's funding policy is to contribute annually the amount recommended by outside actuaries. Pension expense (benefit) for 1988 and 1987 was $656,000 and $(2,379,000), respectively. The following tables set forth the plan's funded status, amounts recognized in the Balance Sheet at September 30, 1988 and components of the net pension expense for 1988 (amounts in thousands):

Actuarial present value of benefit obligations:	
Accumulated benefit obligation, including vested benefits of $35,130	$39,134
Projected benefit obligation for service rendered to date	$49,328
Plan assets at fair value, primarily fixed income investments and listed stocks	56,051
Plan assets in excess of projected benefit obligation	6,723
Unrecognized net loss	4,484
Unrecognized net asset existing at October 1, 1986, being amortized over 11.6 years	(10,100)
Prepaid pension expense recognized in Balance Sheet	$ 1,107
Net pension expense for 1988 included the following components:	
Service cost—benefits earned during the period	$ 3,064
Interest cost on projected benefit obligation	3,278
Actual return on plan assets	(871)
Net amortization and deferral	(4,815)
Net pension expense	$ 656

A discount rate of 7.5% was used in determining the actuarial present value of the projected benefit obligation at September 30, 1988. The projected rate of increase for future compensation was 6%, and the assumed long-term rate of return on plan assets was 7.75%. The unfunded accrued pension cost at September 30, 1986 is being amortized over the remaining average service life of plan members, and $2,975,000 net of amortization, is recognized in the Balance Sheet at September 30, 1988.

Note 7:

Commitments and Contingencies

In the normal course of business, Amtrak is involved with various matters involving litigation and arbitration. It is the opinion of management and counsel that the disposition of these matters will not materially affect Amtrak's financial statements.

Note 8:

Line of Credit

Amtrak has a line of credit agreement, expiring in September 1989, with commercial banks to borrow up to $25,000,000 at an interest rate of .25% below the prime commercial loan rate of the primary bank on unsecured 90-day loans. As of September 30, 1988 and 1987, there was no outstanding balance on the existing line of credit.

Note 9:

Sale of Tax Benefits

Pursuant to provisions of the Economic Recovery Tax Act of 1981, Amtrak sold the rights to the tax benefits associated with certain qualified assets. Cash proceeds from these sales, plus accrued interest, are subject to certain restrictions, and, therefore, are reflected as a non-current asset and deferred revenue in the Balance Sheets. Revenue is recognized to the extent restrictions have been lifted, and funds released to Amtrak. For the years ended September 30, 1988 and 1987, Amtrak recognized revenue of $13,752,000 and $27,229,000, respectively, from these restricted funds.

Note 10:

Union Station Redevelopment

Amtrak guaranteed to provide up to $70,000,000 to help fund the restoration of the Washington Union Station complex. To meet this commitment, Amtrak set aside $70,000,000, of which $66,111,000 has been disbursed as of September 30, 1988 through the Union Station Redevelopment Corporation (USRC), the non-profit corporation formed to manage the redevelopment program. These costs, and the undisbursed funds, are classified under, "Other Assets and Deferred Charges" in the Balance Sheets. The costs will be amortized to expense over the useful life of the station improvements.

Note 11:

Penn Station Joint Venture

On August 5, 1988, Amtrak, the Metropolitan Transportation Authority (MTA) and the Long Island Rail Road Company (LIRR) entered into an agreement under which Amtrak and LIRR will jointly design, construct, operate and maintain a modern system for the centralized control of train movements in and around Penn Station, New York City, at an anticipated cost of between $90,000,000 and $120,000,000. The projected construction period is five years. Under terms of the joint venture agreement, Amtrak and MTA ultimately will evenly share the cost and ownership of the capital improvements.

In concurrently executed agreements, Amtrak leased to LIRR certain space in Penn Station for 99 years, with an automatic 99-year renewal term, along with the right to jointly use the Penn Station operating facilities for 99 years, for a total of $44,400,000. The space rental was accounted for by Amtrak as a sale. The resulting gain of $42,537,000, net of the book value of assets sold, was deferred, and will be recognized as income as expenditures occur on the joint venture project. The gross lease proceeds of $44,400,000, plus a pro rata share of interest income, have been designated to fund Amtrak's obligations under the joint venture agreement, and are presented under, "Other Assets and Deferred Charges" in the Balance Sheet.

Note 12:

Insurance

Amtrak is self-insured for liability losses up to $25 million. Liability coverage in the $25 million to $100 million range is provided through insurance companies owned by Amtrak and various other railroads and transit authorities. Amtrak has entered into these arrangements in order to secure a reasonable source of excess liability insurance. Premiums are payable annually, and are set by an independent underwriter using, among other criteria, the claims experience of each insured.

Management Report

Management is responsible for the preparation and integrity of the financial statements presented in this Annual Report. These statements have been prepared in accordance with generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgment. Management considers that the financial statements present fairly the financial position of Amtrak and the results of its operations.

To meet its responsibility, management maintains a comprehensive system of internal controls, policies and procedures to assure the proper authorization of transactions, the safeguarding of assets and reliability of financial information. The system can only provide reasonable assurance, not absolute, that the related records fairly reflect all transactions and proper accountability. The concept of reasonable assurance is based on the recognition that the cost of a system of internal controls must be related to the benefits derived.

Amtrak has established its intent to maintain a high standard of ethical conduct in all business activities. Internal accounting controls, operating controls as well as a corporate rules of conduct and a business ethics policy are documented and communicated to all levels of management.

The Board of Directors through its Audit Committee reviews the system of internal controls and financial reporting. The Committee meets and consults regularly with management, the internal auditors and the independent accountants to review the scope and results of their work. The accounting firm of Arthur Andersen & Co. has performed an independent examination of the financial statements and has full and free access to meet with the Committee, without management representatives present, to discuss the results of examination.

W. Graham Claytor, Jr.

Chas W Hayward

W. Graham Claytor, Jr.
Chairman and President

Charles W. Hayward
Vice President—Finance
and Administration

Report of Independent Public Accountants

To the Board of Directors of
National Railroad Passenger Corporation:

We have audited the accompanying balance sheets of National Railroad Passenger Corporation (Amtrak) (incorporated pursuant to the Rail Passenger Service Act and the laws of the District of Columbia) as of September 30, 1988 and 1987, and the related statements of operations, cash flows, and changes in capitalization for the years then ended (1987 as restated—see Note 3). These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

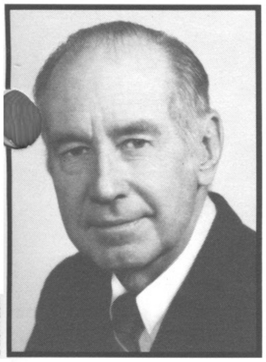
We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Amtrak as of September 30, 1988 and 1987, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Arthur Andersen & Co

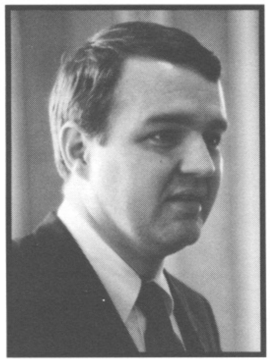
Washington, D.C.,
November 18, 1988.

Board of Directors



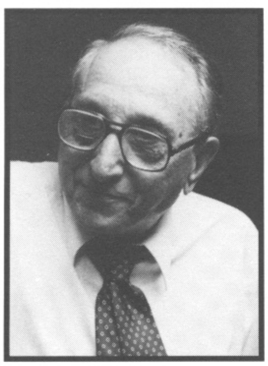
Bachrach

W. Graham Claytor, Jr.
Chairman

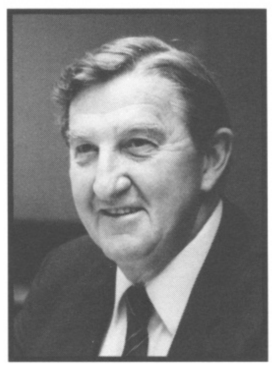


The Honorable
James H. Burnley IV
Secretary of
Transportation

Representatives
Selected by the
President of the
United States from
Nominees of
Commuter Agencies
Operating Over
Amtrak's Rail
Properties



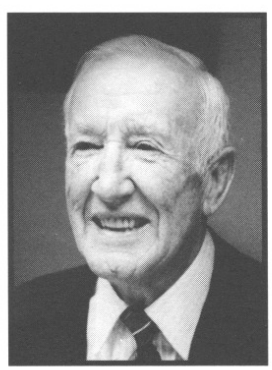
Samuel H.
Hellenbrand
New York, N.Y.



Frank W. Jenkins,
Esquire
Ambler Pa.

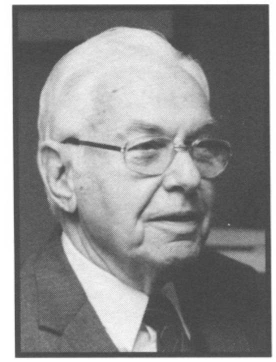
Representatives
Selected by the
Preferred
Shareholder,
Department of
Transportation

Paul M. Weyrich
Annandale, Va.

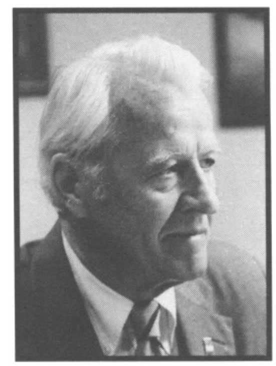


Ralph T. Kerchum
Oakland, Calif.

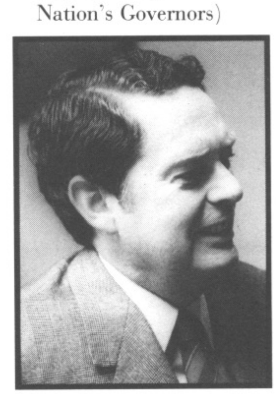
Presidential
Appointees By and
With the Advice and
Consent of the
Senate



Charles Luna
Dallas, Texas
(representing
organized labor)



The Honorable
Robert D. Orr
Governor of Indiana
(representing the
Nation's Governors)



Darrell M. Trent
Wilmington, Del.
(representing the
business community)

Effective Dec. 31,
1988

Corporate Officers

Jane E. Bass
Assistant Corporate Secretary

Peter A. Cannito
Vice President–Engineering

W. Graham Claytor, Jr.*
Chairman and President

Anthony D. DeAngelo
Assistant Vice President–Real Estate

Eugene N. Eden
Vice President–Passenger Services

William F. Erkelenz
Corporate Secretary

Robert E. Gall
Vice President–Sales

Timothy P. Gardner
Vice President–Passenger Marketing

Thomas J. Gillespie, Jr.
Assistant Vice President–Government and Public Affairs

Charles W. Hayward*
Vice President–Finance and Administration

Harold R. Henderson*
Vice President–Law

Richard I. Klein
Treasurer

John P. Lange
Assistant Vice President–Labor Relations

Robert L. Lewis III
Controller

Neil D. Mann
Assistant Vice President–Personnel

William S. Norman*
Executive Vice President

Medaris W. Oliveri
Assistant Corporate Secretary (part-time)

Norris W. Overton
Vice President–Information Systems

Dennis F. Sullivan*
Executive Vice President and Chief Operating Officer

Robert C. VanderClute
Vice President–Transportation

Elyse G. Wander–
Vice President Corporate Planning and Development

Nina E. West
Assistant Corporate Secretary (part-time)

*Management Committee Member

Effective Dec. 31, 1988

It is the policy of the National Railroad Passenger Corporation (Amtrak) to be an Equal Employment Opportunity Employer. We pledge our support to enhance growth opportunities for minorities and women, and to ensure that they are effectively represented throughout our work force.

Cover:
A stately symbol of Amtrak's future, restored Washington Union Station offers a wide array of passenger amenities as the southern anchor of the Northeast Corridor.

Photography:
J. Phil Samuell

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