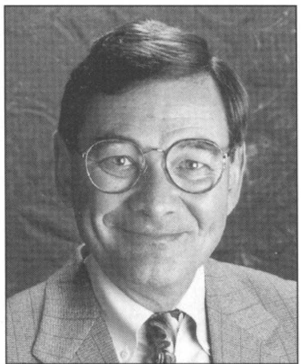
1996

TWENTY-FIFTH ANNUAL REPORT

LEADING THE WAY *into the* 21ST CENTURY

Amtrak®

A Letter From The President



TOM DOWNS

Chairman, President and CEO

This year was a chance to look back at a quarter century of providing millions of Americans with transportation to their jobs, homes and vacation destinations.

On May 1, 1996, a resounding blast of train horns rang out across the country as Amtrak® celebrated its 25th anniversary with a salute to our hard-working employees. It was a chance to look back at a quarter century of providing millions of Americans with transportation to their jobs, homes and vacation destinations. It was also an opportunity to take stock in the many accomplishments Amtrak has made on its road to becoming a revitalized company, efficient and free of federal operating support by the year 2002.

Amtrak made dramatic changes in 1995, and although 1996 performance did not achieve all planned goals, we did not lose ground. Two years of belt-tightening, teamwork and innovative planning, under the guidance of Amtrak's Management Team and the Board of Directors, have improved Amtrak's bottom-line. The company now has a decentralized corporate structure that is more competitive and customer-focused, and has realized a bottom-line improvement of more than $300 million on an annualized basis.

Although the three corporate objectives of 1996 — meet 100 percent of financial target, increase employee satisfaction by 15 percent and increase customer satisfaction by 15 percent — were not fully realized, Amtrak has improved customer and employee satisfaction and maintained the financial improvements of 1995. At the same time the corporation conquered the blizzard of '96, survived record flooding in the West, and overcame a malicious sabotaged derailment of one of our trains.

The ground work has been laid for a revitalized Amtrak that is heading into the 21st century as a viable and customer-driven company. The process of securing a financially, commercially and politically viable future for Amtrak is by no means over. Huge capital needs remain unmet, and Congress has reduced federal support faster than the phase-out anticipated. However, because of the actions taken in FY96, Amtrak has laid an excellent foundation to address those challenges. By combining expense reductions with service improvements, Amtrak has improved its value to our customers and established a firm foundation for continuing improvement.

As we continue into 1997, Amtrak proudly makes this pledge: We will operate a superior rail service throughout the country that is safe, on time, technologically advanced and attractive to customers.

Sincerely,

Thomas M. Downs
Chairman, President and Chief Executive Officer

Meet the

Board of Directors and Management Committee

The Board of Directors (from left to right): Thomas Carper, Amy Rosen, Mortimer Downey, Don Pease, Jolene Molitaris, Celeste Pinto McLain, Daniel Collins, Sylvia de Leon, Roy Neel, Thomas Downs

The Management Committee (from left to right): Gilbert O. (Gil) Mallery, Sybil M. Williams, Joseph M. Bress, Daniela R. Winkler, Thomas J. (Tim) Gillespie, Jr., Mark S. Cane, Thomas M. Downs, Ann Linnertz, Robert C. (Bob) VanderClute, Ronald J. (Ron) Hartman, Richard P. (Rick) Donnelly, Alfred S. (Al) Altschul, Anne W. Hoey, George D. Warrington

INTRODUCTION

After two years of restructuring and belt-tightening, a revitalized Amtrak rolled up its sleeves in 1996 to finish the exhilarating, exhausting business of building a new customer-focused company ready to lead America into the next century.

Record-breaking snowstorms in the Northeast early in the year reminded America of the importance of reliable passenger rail service. While snow-packed highways and airports came to a stand-still, Amtrak riders reached their destinations in warmth and comfort. For nearly two days, Amtrak was the only transportation mode moving in the Northeast.

Throughout the year, Amtrak took on challenge after challenge –- some from nature, others from the complexities of managing an increasingly entrepreneurial company on the road to operating self-sufficiency. United by a clear set of corporate values — commitment to customers, employees, safety, integrity and a passion for trains — Amtrak continued to improve its customer service, employee relations, product lines, safety programs and business-like practices. This report details the encouraging results.

Improving

Customer Service

A spirit of excitement infused Amtrak in 1996 as new, state-of-the-art train equipment, refurbished coaches and spruced-up stations began to create a better environment from which to serve customers.

Additional excitement came with the news that Amtrak had been voted the American transportation company with the most improved customer service. This recognition came from The Knowledge Exchange, a Los Angeles-based business publishing company that regularly conducts national surveys of top U.S. business managers to allow them to rate other businesses. The executives were asked to identify companies that are the most customer-sensitive and those that have seen the greatest improvement in customer service.

Recognition by The Knowledge Exchange confirmed the value of the customer service innovations Amtrak employees implemented in 1996 — improvements in train decor and comfort, regional menus, in-station signing, on-board announcements,

"We have two answers to any customer request aboard the *Coast Starlight*," says Matt Cahoon, the train's lead service attendant. "Yes and no; that's 'Yes' we can, and 'No' problem."

Category	Most Improved Customer Service
Communication Service	AT&T
General Merchandise	Sears, Roebuck and Co.
Retail (home/hardware)	True Value
Financial Service	Citibank
Transportation Service	AMTRAK
Automotive	Ford Motor Company
Catalogue Retail	L.L. Bean
Professional Service	ADT Security Systems
Delivery Service	Airborne Express

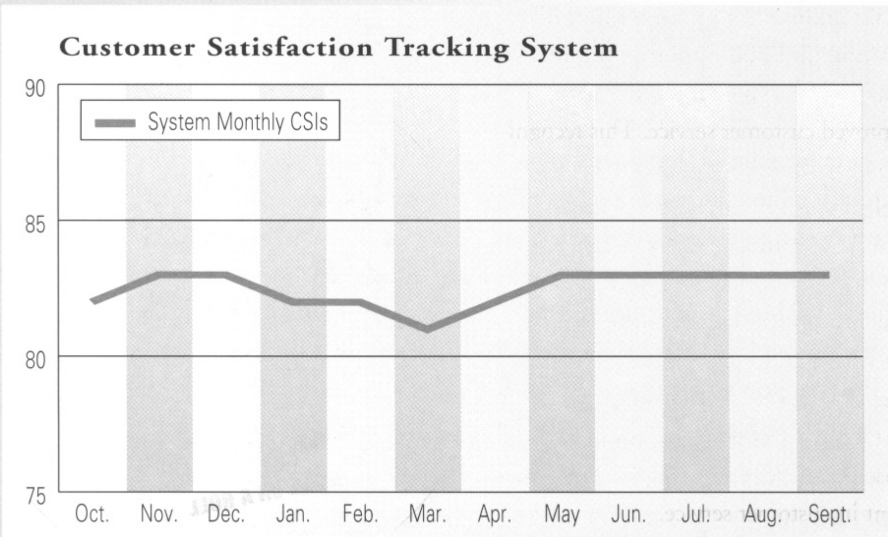
National Recognition of Amtrak's Improved Customer Service

This year, Amtrak was voted the American transportation company with the most improved customer service. This recognition came from The Knowledge Exchange, a Los Angeles-based business publishing company that regularly conducts national surveys of top U.S. business managers to allow them to rate other businesses. The executives were asked to identify companies that have seen the most improvement in customer service and that are the most consumer-sensitive.

Customer Satisfaction Index

In order to be sure that its efforts are right on track, Amtrak has been conducting bi-monthly surveys to measure customer satisfaction with 13 aspects of service, ranging from courtesy of personnel and seat comfort to baggage handling and food quality. This year, Amtrak improved in two significant areas: "Information Given Customers by Crew Members" and "Handling of Complaints." Customer satisfaction with on-time performance stayed virtually unchanged, while customer satisfaction with bathroom odor regressed one index point.

The company hoped to improve its overall customer satisfaction rating by 15 percent, but in fact only saw a 1 percent rise in that rating. In addition to being used as a device for general feedback, CSI results are used to help in the capital budget planning process.



restroom cleanliness, and other service features important to our customers.

On-Board Service Magazine formally recognized Amtrak's *Coast Starlight* in 1996 for the train's renaissance and for innovation in food service. Informal acknowledgment came when the luxurious American Orient Express sought advice from the *Coast Starlight* team to improve their on-board services.

"We have two answers to any customer request aboard the *Coast Starlight*," says Matt Cahoon, the train's lead service attendant. "Yes and no; that's 'Yes' we can, and 'No' problem."

Accessibility Programs: Smoother Rides for Disabled Passengers

Amtrak began a new employee training program in 1996 to improve customer service for passengers with disabilities. Amtrak continued work on increasing access for people with disabilities in all areas, from installing lifts that assist passengers in wheelchairs onto trains to employing special technology that allows deaf passengers to make travel reservations by telephone. With proper documentation, passengers with disabilities enjoy a 15 percent discount off the lowest available train fare.

The 1996 President's Awards *and* The 1996 Board of Directors' Safety Awards

Throughout this Annual Report, the names and accomplishments of various Amtrak employees are highlighted. These employees are all recipients of the President's Awards and Board of Directors' Safety Awards; recognition given to employees whose work embraces the innovation, dedication and responsibility that embodies Amtrak's values.

President's Awards

(First row) Mitchell Bates' sister JoAnn Bates, Helen Martinez, Marilyn Koob, Valerie Elliot, (second row) Billy Parker, Pat Engle, Roger Bradshaw, Randy Moses' son Ray Moses, Keith Pinder, (third row) Randall Gould, Griff Hubbard, Scott Hurd, Roland Jones, Doug Manson, Richard Randolph. Not pictured: Oliver Cone, Leonard Sachs and Mary Sue McCarthy.

Board of Directors' Safety Awards

(First row) Di Anne Adams, Nancy Weese, Ed Hanson, Brenda Helfrich, Judy Deutsch, (second row) John Pascarella, Ed Alderman, Steve Richman, Kelson McKinney, Emerild Hebert, Jr., Ray Vincent, Martin Wasserstrom, (third row) Frank Rowe, George Jones, Lester Kreisa, Scott Weddle, Danny Valdes, Paul W. Beyfuss.

Employee Relations

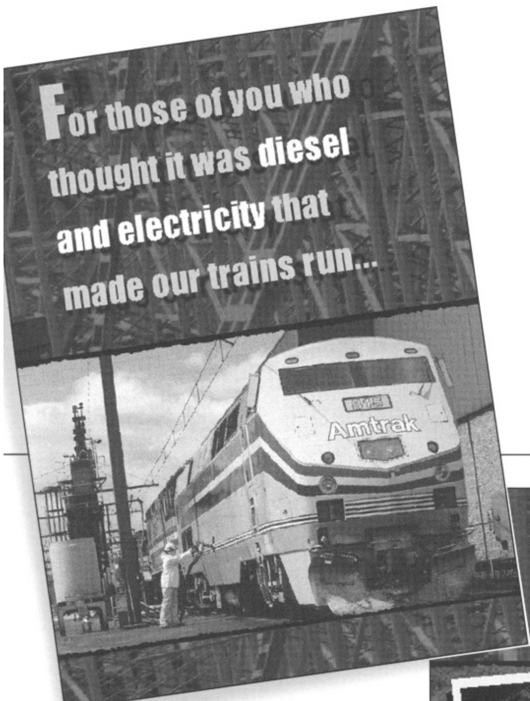
Employees are the strength of Amtrak's product and will determine the company's future success.

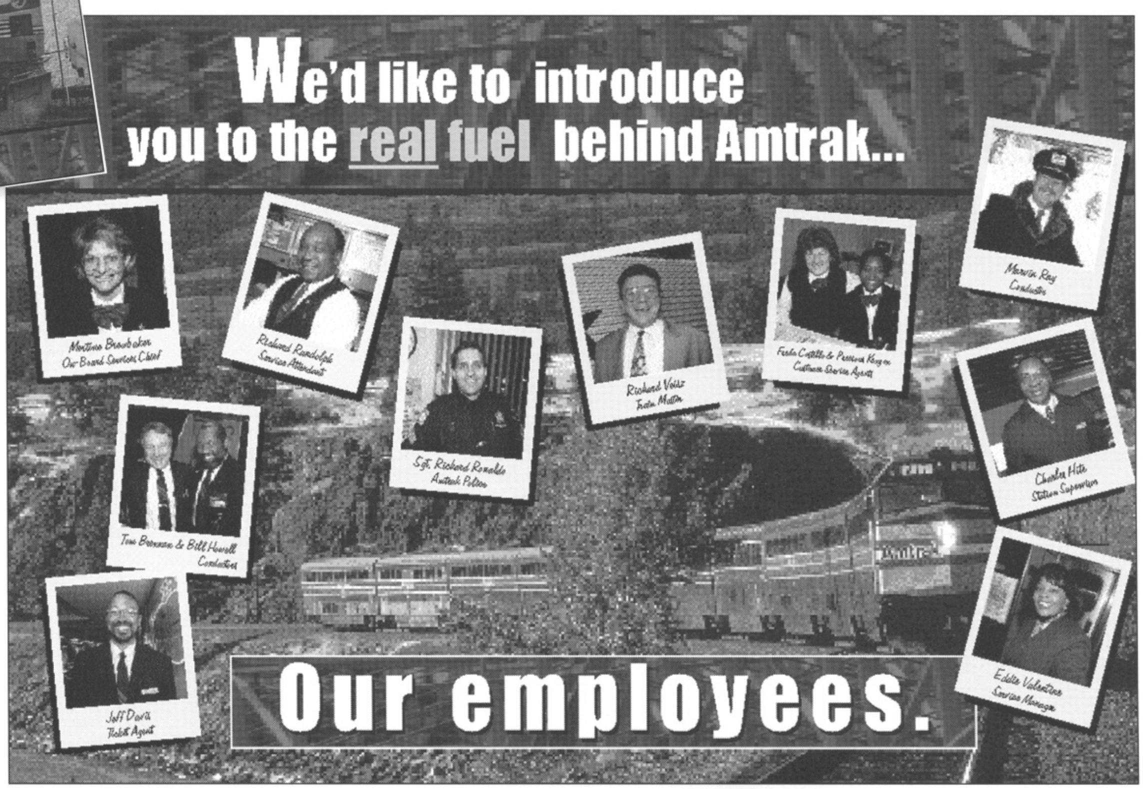
It was fitting, then, that on Amtrak's 25th anniversary in 1996, the company saluted 25 years of employee service. A resounding blast of train horns across the nation at noon on May 1, 1996, saluted the engineers who safely operate trains, the reservation clerks who sell tickets, the conductors who preside over trips, the coach cleaners who are the first link in a customer's on-board experience, the maintenance workers who keep trains running safely, the station agents, the Amtrak police force, the secretaries and all other support staff and workers both on and off the trains.

Employee Forums

Communicating effectively with employees is a challenge for any company as large as Amtrak. That's why Amtrak began holding employee forums in 1996 to help identify barriers that prevent employees from doing their jobs as well as they would like, and to involve all levels of employees as part of the planning process.

At seven employee forums held this summer across the country, more than 600 agreement-covered and management employees met to discuss communication and barriers facing the workforce. Amtrak personnel from various crafts and organizational units attended the forums, where participants met in day-






Strategic Business Plan
Amtrak's Mission
Corporate Goals
Purpose of the Plan
Congressional Impact
AmtrakInk
A Day in the Life of Amtrak's Coach Cleaners
FY97 Business Plan Revised
Employee Pass Privilege Survey Reveals Diverse Opinions
AmtrakInk
An Inside Look at On-Board Service Staff and the CMC
Amtrak and Total® Get on the Fast Track
General Mills' Cereals Offer Half-Price Tickets
Crossing 2002 Sets Course for the 21st Century
Inside Ink

AMTRAK INK

The company's new employee newspaper, distributed once a month to all Amtrak employees and retirees, has become one of the most effective and reliable ways to disseminate information throughout the company. Written and produced by employees themselves, *Amtrak Ink* keeps the workforce informed about the company's financial status, customer satisfaction evaluations, safety training and shared experiences that benefit everyone who works for the company. It also highlights personal stories of Amtrak's workers and their advice for each other on delivering superior customer service.

Special inserts on employee forums, quarterly business reports and the strategic business plan help keep employees up to date and prepared for their jobs.

long sessions. Following the forums, a series of communication, hiring, training and equipment initiatives were undertaken to address employee concerns.

BIGGER, BETTER TRAINING

Amtrak employees in 1996 received more training in a more diverse area of subjects than ever before. The number of employees attending classes in 1996 doubled that of 1995. Classes were designed to promote Amtrak's corporate values; from increasing the level of customer satisfaction to creating a better environment in which employees could excel. In addition to these programs, continued emphasis was placed on the delivery of technical, safety and regulatory educational opportunities demonstrating Amtrak's commitment to quality and to ensuring a safe and healthy environment for both customers and employees.

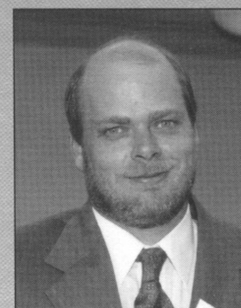
Recognizing the critical role labor plays in the development of its workforce, in 1996 Amtrak established a Labor/Management Training Council. Through this partnership, the company achieved an increased understanding of the workforce educational needs and was able to build development programs that will optimize Amtrak's performance. Of particular importance was the development and delivery of Business Education classes. Over 500 managers and labor leaders attended the program that teaches partici-

THE 1996 PRESIDENT'S AWARDS

ACHIEVEMENT

Roger Bradshaw,
Lead Machinist,
Beech Grove, Ind.

Roger Bradshaw became certified to build locomotive U-tube units and trained others to do repairs in-house, saving to date over $705,000 in parts.



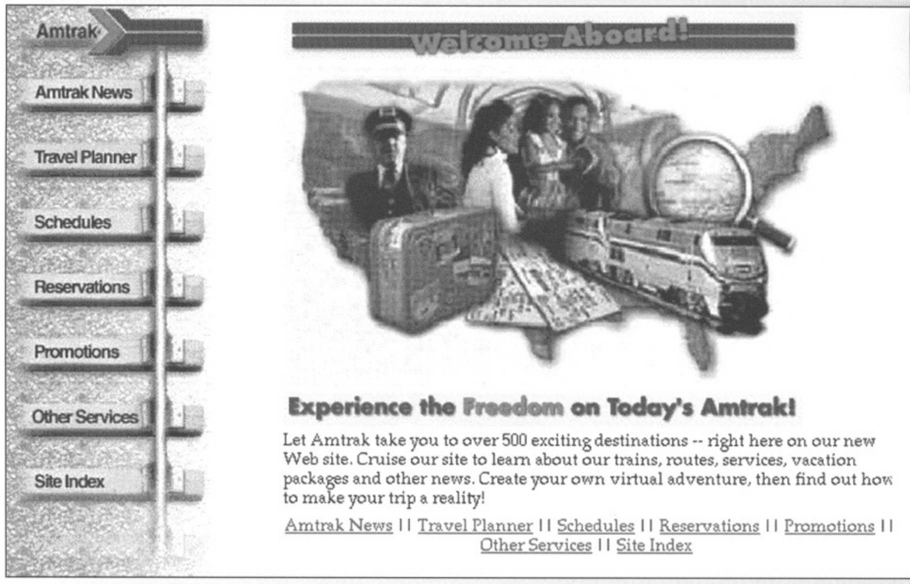
ACHIEVEMENT

Valerie Elliott,
Station Agent,
St. Petersburg, Fla.

When Amtrak had to vacate the St. Petersburg, Fla., CSX-owned station, Valerie Elliott spearheaded the relocation, identifying several sites and recommending that the station relocate to Pinellas Square Mall.

World Wide Web

In August, 1996, Amtrak's redesigned web station appeared on the Internet. The revamped site, still located at www.amtrak.com, offers numerous interactive features with exciting graphics and navigational elements. The highlights of the new site include a sophisticated trip planner with information on trains, schedules, accommodations, scenic highlights, vacation packages and more. In the Amtrak News section, there is background information, the latest news and press releases. There is even a train photo gallery with images ready to download.



Coming early in 1997, Amtrak will include further website enhancements, including on-line booking capabilities, allowing users to check fares and availability, make reservations and purchase tickets on-line. Finally, the promotions section details special discount travel bargains, Amtrak Vacations packages and Amtrak merchandise. The new website lets users take virtual rail trips with the help of Trakrouter, Amtrak's new point-and-click interactive scheduler. Another image leads users to an on-line travel planner with a clickable national system map detailing Amtrak's routes and 650 destination options. Here, each train/product line has five sections dedicated to its services, scenic highlights, on-board amenities, accommodations and route map. To provide even more specific train information, links are available to other Amtrak websites, such as www.amtrakwest.com, as well as state partner locations.

The highlights of Amtrak's new website include a sophisticated trip planner with information on trains, schedules, accommodations, scenic highlights, vacation packages and more.

pants how to effectively analyze Amtrak's cost and revenue drivers to generate greater value to customers and the company. During the last year participants of Business Education generated approximately $3 million in identifiable annual benefits to the company.

Customer Driven Quality

Begun in the Spring of 1996, the Customer Driven Quality Organization (CDQ) was established to support the Crossing 2002 initiatives by preparing employees for business process changes and relationship management skills. CDQ served as quality expert on Crossing 2002, helping to analyze over 300 business factors and subprocesses, yielding 21 priority business processes for improvement. Additionally, the group developed a three level model to assess and develop Amtrak's 110 person facilitators network. A developmental track was created for each level to teach effective meeting facilitation, instruction and small team behavior and process improvement facilitation and business system improvement facilitation. CDQ also developed modifications to the business process improvement governance structure to ensure holistic change management approaches and leverage the competencies and experience of the facilitators network. A comprehensive customer service development initiative was created by a partnership of CDQ and Human Resources Development to teach customer service

Participation in Leadership Conferences

Amtrak employees shared impressive stories of success with senior managers at Amtrak's Leadership Conferences this year, organized around the theme: "Engaging Employees in the Challenges of FY96 and FY97." The Leadership Conferences were held in order to create a better shared understanding of the challenges facing the company and to engage all employees in addressing those challenges.

delivery interpersonal skills and process improvement skills.

G reeting
U nderstanding
E xpectations
S atisfaction
T hank You

GUEST Training

Amtrak's *Coast Starlight* began a training program in 1996 that may well become a model for the company. A cross-functional team of *Coast Starlight* on-board employees came together to create and deliver the GUEST training program to raise the service level on board the train, consistently meet and exceed customer expectations and deliver "superior service."

All employees are cross-trained to learn and understand the challenges faced in every aspect of the *Coast Starlight* team to improve their on-board services and customer satisfaction.

360° Review

Amtrak Values Feedback is a process designed to ensure that managers and supervisors adequately promote Amtrak's values and behaviors. The process was designed by a cross-functional group of employees from all levels of the company. By using the 360° process, a manager receives feedback from supervisors, peers and external stakeholders, as well as from the people he or she supervises. Raters answer questions related to how well the manager supports and embodies Amtrak's key corporate values. Results of the evaluation are used to develop training and improvement plans for the manager.

Hero's Plaque

A memorial plaque was installed late in 1996 in Washington, D.C.'s, Union Station honoring the 57 Amtrak employees who lost their lives in the performance of their duties since Amtrak's creation. In addition to the 57 employees' names, the marble tablet is inscribed with these words: "To all who gave their lives. In recognition and tribute to Amtrak employees who lost their lives in the performance of their duties."

The 1996 President's Awards

Achievement

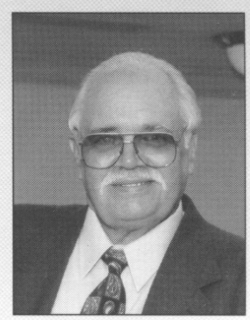
Randall Gould,
Electrical Technician,
Boston, Mass.

Electrical Technician Randy Gould invented an electric side-door testing unit that saves Amtrak 100 man-hours a month and about $25,000 yearly.

Sustained Excellence

Oliver Cone,
General Foreman,
Washington, D.C.

Oliver Cone set wheel truing standards that exceed those of the Association of American Railroads. He not only repaired wheel truing machines at great savings, he improved the D.C. wheel truing shop productivity from 200 wheel pairs per month to 500.



Our Equipment

On airplanes, seats seem to be getting smaller and leg room shorter. The opposite is true on Amtrak. New rail cars with comfortable seats, more leg room, and special amenities have begun replacing the older cars in Amtrak's equipment fleet. Here are some of the new products and equipment that are helping Amtrak compete in the transportation arena.

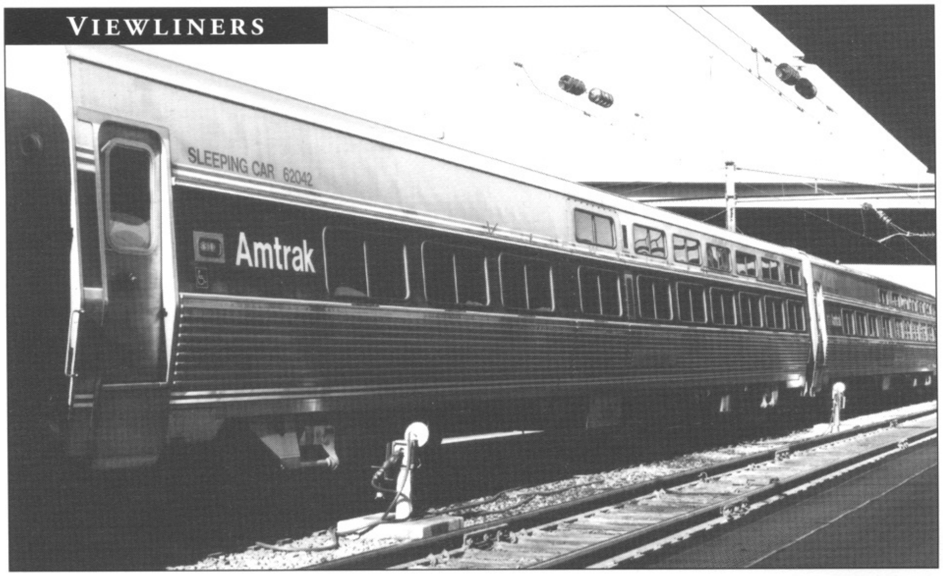
Other improvements include wider upper berths, more in-room luggage storage, showers in bedrooms and a shower room for compartment passengers. Each **Viewliner** sleeping car can accommodate 30 revenue passengers, up from the 22-passenger capacity of the Heritage sleeping cars Amtrak has used since it began service in 1971.

A dramatic departure from recent passenger train design, Viewliners are roomier and have an additional row of windows to provide more natural light by day and exterior views for upper berth passengers at night.

Viewliners

This year saw the debut of the first single-level sleeping cars manufactured in the United States in 40 years. Fifty Amtrak-designed **Viewliners** were added to Midwest and East Coast trains, winning rave reviews from passengers and employees alike. A dramatic departure from recent passenger train design, the cars are roomier and have an additional row of windows to provide more natural light by day and exterior views for upper berth passengers at night.

VIEWLINERS



Superliners II

New bi-level cars with bigger windows for sweeping views and compartments with extra space were added to Amtrak's Auto Train and several western trains in 1996 — 195 cars in all. In marked contrast to airline passengers, **Superliner II** customers relax in comfortable reclining seats with plenty of leg room — including folding leg rests to stretch out and nap. Private, first-class sleeping accommodations feature climate controls, garment racks, wall mirrors and electrical outlets.

European-Style Technology

In May, Amtrak and the state of Washington signed an agreement to purchase three European-style pendular Talgo trains for operation in the state-supported Pacific Northwest Corridor between Eugene, Ore., and Vancouver, B.C. The custom-built trains were purchased from Renfe-Talgo of America and will be placed in operation in mid-1998. The state of Washington purchased two trains to operate on the WSDOT-supported Seattle-Vancouver, B.C., *Mt. Baker International* and the

TALGO

Seattle-Portland *Mt. Adams.* Amtrak purchased one Talgo train to operate on the Seattle-Eugene *Cascadia.*

A team of on-board, mechanical, operating employees and Pacific Northwest customers was assembled to provide advice during the design phase of the new trains to ensure maximum customer satisfaction with the new equipment. The first manufacturing stages of the new trains will be completed in Spain, with a significant percentage of production to be completed in the state of Washington.

The trains consist of twelve, 44-foot-long units — one baggage car, two first-class cars, six standard coaches, a bistro, a dining car and a "power" car. The Talgo pendular "tilt" system allows greater freedom of movement through curves while maintaining passenger comfort. The tilting technology will immediately reduce running times in the Seattle-Portland and Seattle-Vancouver, B.C., segments by 15 minutes each without track improvements or increasing the maximum speed limit.

AMTRAK CALIFORNIA DINING CARS

Amtrak California, the official partnership between Amtrak and the California Department of Transportation (Caltrans), unveiled new, state-of-the-art, dual-level dining cars on the state-supported California routes (*Capitols, San Joaquins, San Diegans*) this year.

The cars feature three distinctive dining areas. On the upper level is a casually elegant dining area offering seating for up to 21 passengers. Wide aisles separate tables creating a quiet and charming private atmosphere. The other end of the upper level provides a less formal cafe area providing regional menu items and beverages, as well as seating for up to 18 passengers. On the lower level, the car includes a casual bistro that provides access for persons with disabilities and seating for up to 10 people.

Both levels are equipped with high-tech food preparation galleys, including fresh coffee grinders, espresso machines and convection ovens. Caltrans is accepting delivery of 14 cars, and has named each car for a fertile California valley.

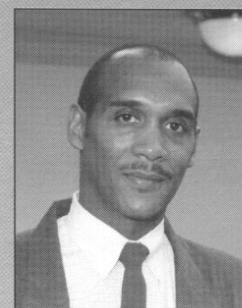
LOCOMOTIVES

Faced with an aging fleet of F40 locomotives, Amtrak began replacing them with modern P40 and P42 locomotives from General Electric. This new generation of fuel-efficient, highly reliable locomotives has been so successful that Amtrak purchased 98 new P42s in 1996. Specifically designed for passenger service, the P42s feature an additional one

THE 1996 PRESIDENT'S AWARDS

SUSTAINED EXCELLENCE

Keith Pinder,
Lead Service Attendant, Washington, D.C.

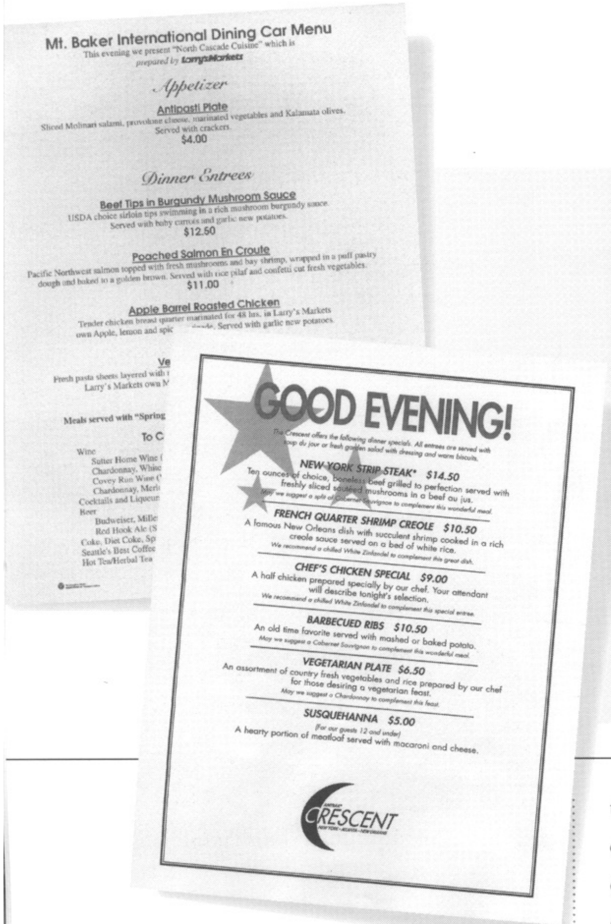


The "extra mile" is standard for Keith Pinder, who as a member of a three-man "A" team, worked to improve customer service and reorganize on-board menus.

SUSTAINED EXCELLENCE

Patricia Engle,
Manager, Section 3 Boards, Philadelphia and Washington, D.C.

Pat Engle is Amtrak's first member of the National Railroad Adjustment Board, and is writer and publisher of the *Labor Relations Update*, which she started in 1989.



Better Menus

In response to customer comments, regional cuisine has been added to many train menus. Offerings include shrimp Creole and bread pudding with bourbon sauce on Amtrak's New Orleans-bound *Crescent*, Ivar's Clam Chowder and Seattle's Best Coffee on the Pacific Northwest Corridor and White Castle Cheeseburgers and Polish hot dogs on Midwestern trains.

thousand horsepower, improved fuel efficiency, lower emissions, increased crew comfort and crash resistance, larger fuel capacity, microcomputer controls, diagnostics, fault tolerance, light weight and low profile design. The P42 sets a new standard for reliable high-speed passenger equipment on North American railroads.

Renovated Railway Stations: Creating a Better Future

A railway station is more than simply a place where rail passengers rush to and from trains. A flourishing, well-planned railway station is one of the best investments a community can make to expand its appeal, its travel services and its business opportunities. A railway station is a link to faraway places as well as a corridor to a downtown office. It's a doorway to the best and most exciting aspects of the community and an easy shopping stop for daily commuters. Whether used by tourists or local residents, well-planned rail stations have proven to be fertile economic ground — where businesses prosper and travelers flock.

In cities throughout the country, renovated railway stations have become magnets for local business activity and have created a strong sense of local pride and inspiration in further planning for cities, counties and towns.

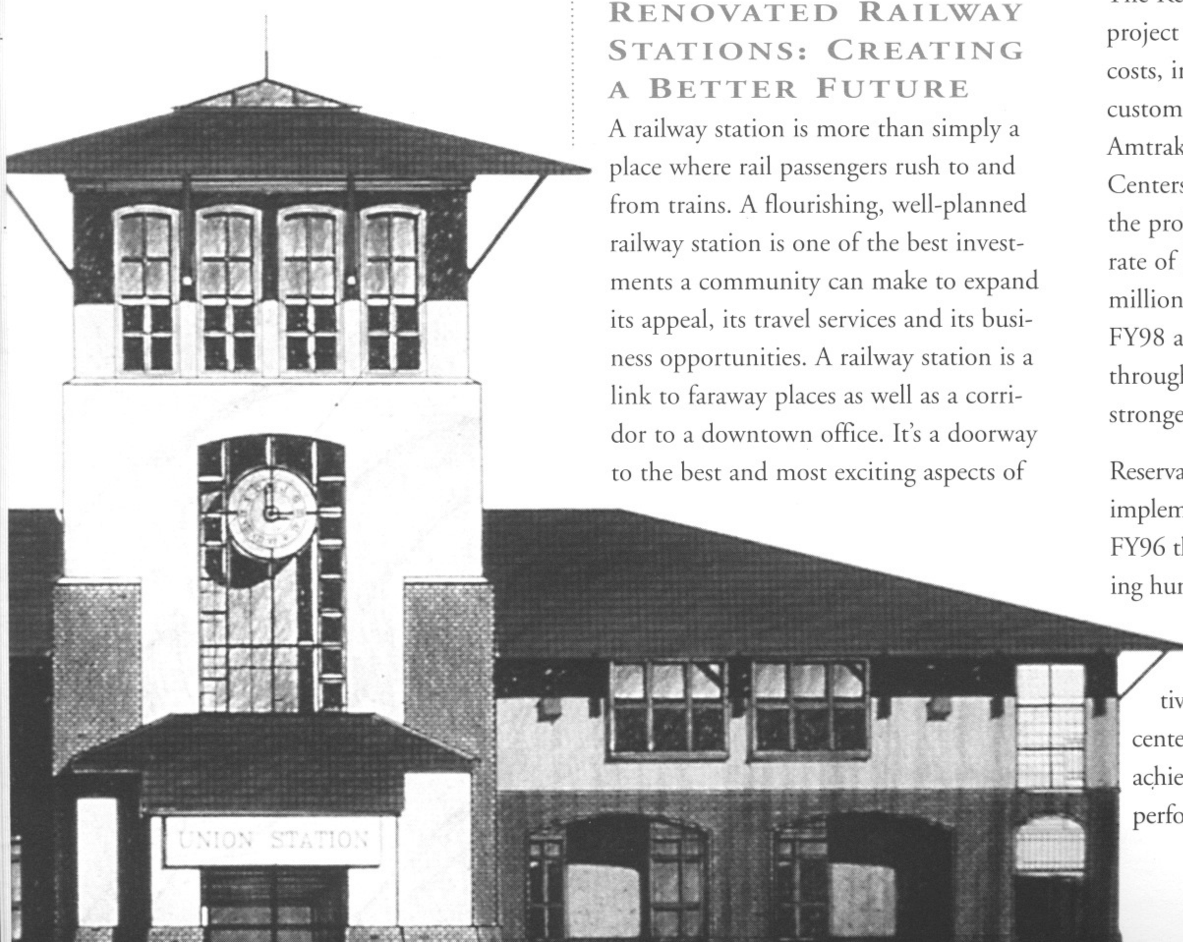
And now, with Amtrak's lead and the Great American Station Foundation, many more stations of success will take root and grow.

Reservations System

This was a year of transition for Reservation Sales in which a fundamental reorganization of the work process was implemented and the groundwork laid for major technology upgrades in FY97.

The Reservation Sales re-engineering project was initiated to reduce operating costs, increase sales revenue, and enhance customer satisfaction in the operation of Amtrak's three Reservation Sales Call Centers (RSCCs). Major objectives of the project are to achieve a call-handling rate of 95 percent of calls offered, a $9 million operating budget reduction in FY98 and generate increased revenues through reduction in lost calls and a stronger sales focus.

Reservation Sales re-engineering is being implemented in two distinct phases: in FY96 the effort has focused on redesigning human resources deployment and work organization to raise productivity and increase sales effectiveness; in FY97, the latest in call center technology will be introduced to achieve the cost-efficiency and maximize performance of the total system.



Significant improvements in key performance categories occurred over the course of the year. Figures below reflect full year FY96 versus FY95 comparison:

Agent On-Phone Productivity	Rose from 88.1 percent to 90.1 for year
Calls Handled Per Agent Hour	Increased from 17.5 to 18.0 calls per hour
Cost Per Call Handled	Increased from $2.64 to $2.78 per call
Calls Per Reservation Booked	Calls per reservation dropped from 6.8 to 5.3
Sales Per Agent Hour	Sales per agent hour rose from $478 to $645
Sales $ to Cost Ratio	Sales per expense dollar rose $10.35 to $12.88

Satellite Communications

By late 1997 all new Amtrak locomotives will be equipped with a new satellite communication system that will help Amtrak improve safety by improving communication between Amtrak trains and operation bases. OmniTRACs, the new system, installed by the Qualcom Corporation, will provide consistent data and voice communication between the trains, customer service centers, mechanical divisions, data centers and commissaries and will give operation bases the ability to pinpoint the exact location of trains down to the street crossing. OmniTRACS will replace two-way radio communication and the unreliable cellular telephone technology that has been used in the past.

Amtrak's Great American Station Foundation

THE GREAT AMERICAN STATION FOUNDATION

Recognizing the importance of great rail stations to a strong transportation system, Amtrak, in 1996, announced a plan to encourage and support the renovation and building of rail stations.

With $2 million dollars in initial funding from Amtrak, The Great American Station Foundation will attract investments and matching funds from the private sector and local, state and federal investments. The foundation will form financial and technical partnerships with communities to help them rebuild and revive the nation's railway stations into prosperous centers for economic activity and stimulus.

By providing seed money and technical expertise, the foundation helps communities turn their rail stations into thriving business centers in a variety of ways:

- Donating start-up money that can be used to attract matching local or federal funds;
- Supplying expert advise and instruction, through its Station Academy, in the way of technical assistance, architectural design, intermodal planning and engineering guidance;
- Providing help in cutting through governmental and bureaucratic red tape;
- Conveying best-case practices: and
- Helping plan and design a unique and successful retail area.

The 1996 President's Awards

Sustained Excellence

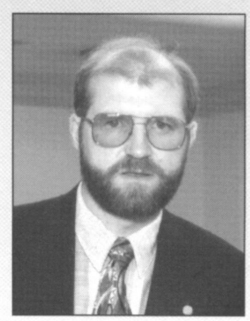
Marlene Koob,
Station Agent,
Seattle, Wash.

Marlene Koob helped to set up an information, billing and reservation system to answer questions about Talgo service. During floods in Washington and Oregon, she worked under enormous pressure providing bus service, air transportation and hotel accommodations with minimum staffing and costs.

Sustained Excellence

Scott Hurd,
Station Agent,
Portland, Ore.

Scott Hurd coordinates and promotes many Amtrak special events. He negotiated with Northwestern Trailways to transport customers from Portland to Spokane on days the *Empire Builder* did not operate.



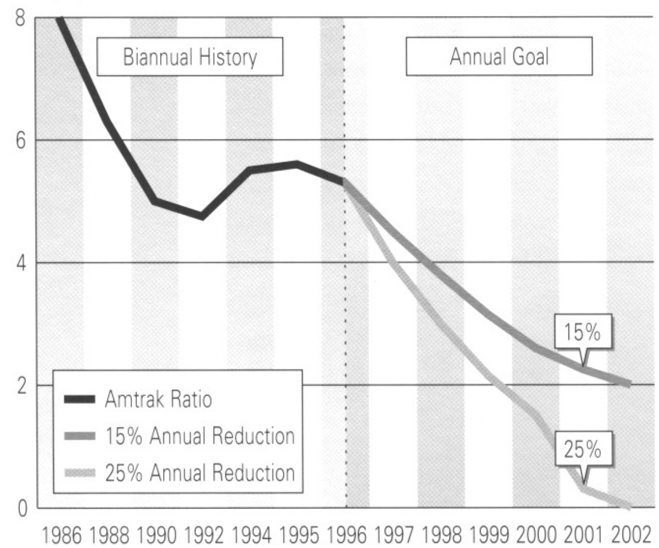
I m p r o v i n g

SAFETY PROGRAMS

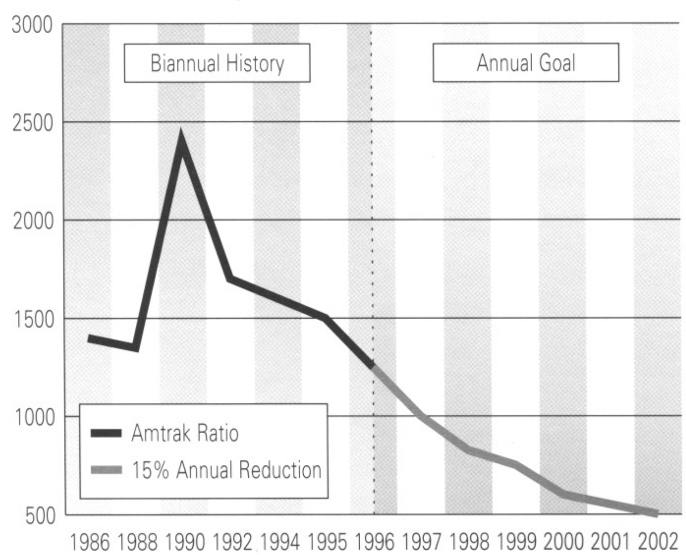
Excellence in safety means providing the safest possible transportation system for Amtrak customers and employees. Safety excellence is essential to Amtrak's business and can be achieved only by making safety an integral part of the company's daily activities.

1996–2002 Annual Safety Goals— Employee Reportable Injuries

Injury Ratio Per 200,000 Hours Worked



1996–2002 Annual Safety Goals— Customer Injuries



Passenger rail remains one of the safest ways to travel in the United States, nevertheless, no accident or injury can be minimized. Amtrak continues to improve upon its already strict safety standards, by working with the Federal Railroad Administration to improve safety at highway grade-crossings, where most accidents take place. But there are many more ways the company is working to safeguard passengers and crews.

CORPORATE SAFETY PLAN

Amtrak has implemented a corporate safety plan that seeks to reduce customer and employee injuries by 15 percent a year over the next six years. The plan formally integrates safety into all phases of the Amtrak system, including design, procurement, construction, modification and rehabilitation, operation, maintenance, and disposal.

System Safety applies to each of the following:

- Amtrak employees, contract and commuter operations, and contractors working on Amtrak property or equipment;
- Safety-related activities of each part of Amtrak's organization and operation throughout its life cycle — from system/equipment/facility design and acquisition through operation, maintenance, repair, and component disposal;

- Equipment, facilities, machinery and/or structures used to maintain and operate the rail system such as rolling stock; wayside equipment; track; communications and signals; electric traction; facilities, stations and other structures;
- Procedures, rules, work practices, training and contracts.

Emergency Preparation Training

While major train emergencies are extremely rare, Amtrak takes pride in ensuring that in the event of such an incident, passengers and employees will receive the best possible care. Emergency training, both for Amtrak crews and outside agencies, takes place nearly every week of the year around the country. Two Amtrak training programs focus on emergency preparedness:

1. Emergency Situations Training For Train Crews

Amtrak's emergency training exceeds FRA requirements when it comes to crew safety training. Beginning this year, Amtrak included CPR and first-aid training as part of its general emergency crew training classes, with a goal of having at least one crew member per train proficient in CPR and first-aid. In addition to the CPR and first-aid training, crews are taught a number of emergency procedures and practices, including how to operate emergency windows and doors, the use of fire extinguishers, and dealing with passengers in emergency situations.

2. Passenger Train Emergency Response Training Program

Amtrak crew members are not the only people essential in an emergency. It is estimated that up to 15,000 independent agencies around the country, such as local fire departments, law enforcement agencies, and emergency medical personnel, are affected by Amtrak emergency situations. That's where Amtrak's Passenger Train Emergency Response Training Program comes in. Taking place in all states where Amtrak operates, about 50 classes are held each year to provide outside emergency responders with the knowledge necessary to be most helpful in an Amtrak emergency. Responders are provided with an overview of railroad operation in general and passenger train operation in particular, including right-of way-safety precautions, equipment familiarization, passenger car construction, passenger evacuation procedures, forcible entry, locomotive propulsion systems and on-board emergency equipment.

Operation Respond

Amtrak, Operation Respond and Texas A&M University have joined forces to offer the nation's first hands-on passenger train emergency response course for fire/rescue, emergency medical services and law enforcement personnel. Texas A&M University has been working with Amtrak and Operation Respond since August 1994 to develop this innovative course.

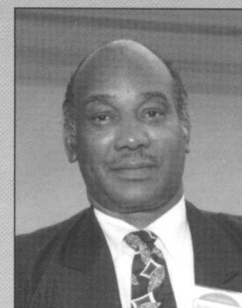
The course gives Amtrak employees an understanding of the roles of emergency responders and fire/rescue incident commanders. Emergency responders gain skills in railroad right-of-way safety and operations, search and rescue, passenger evacuation and critical incident stress debriefing.

The 1996 President's Awards

Sustained Excellence

Richard Randolph,
Lead Service Attendant, Washington, D.C.

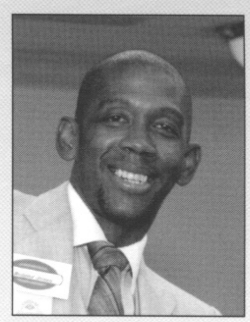
As a member of the "A" team, Richard Randolph worked to enhance customer service and reorganize on-board menus. With Amtrak's Police department, he visited community sites to emphasize the dangers of children playing near tracks.



Valor

Roland Jones,
Train Attendant, Los Angeles, Calif.

Roland Jones helped passengers escape from the *Sunset Limited*, which derailed Oct. 9, 1995 due to sabotage, and stayed with them until emergency workers arrived.



Search and rescue training enables Amtrak employees like Gary Telfer (above) to practice entering emergency windows and extracting passengers.

The course is held in College Station, Texas, at the Texas Engineering Extension Service (TEEX), which trains 22,000 emergency responders annually in a variety of skills. Six slots in each class are reserved at no cost for Amtrak employees.

In addition to the emergency response course, Amtrak and Operation Respond have been developing computer software designed to assist emergency responders at an Amtrak incident or accident. When fully implemented, the software will enable emergency dispatchers to have computer access to detailed passenger car and locomotive floor plans, emergency exit locations, electrical and pneumatic systems, emergency tools and other information to assist in fire suppression, passenger evacuation and search and rescue.

Operation Respond is a non-profit organization based in Washington, D.C., that facilitates national distribution of information about rail and highway hazardous material shipments to emergency response agencies.

Roadway Worker Protection Program

Amtrak is one of the nation's first railroads to implement the new Roadway Worker Protection Program (RWP). The program began last summer and is designed to provide better protection for maintenance-of-way workers and other employees working on the railroad right-of-way. RWP requires specific protection procedures for workers to reduce their chances of being struck by a train or other on-track equipment. The program was designed as part of a negotiated rule-making process developed by representatives from various labor unions, freight carriers, the Federal Railroad Administration and Amtrak.

Labor/Management Safety Teams

There are few better ways to enhance safety for both workers and customers than by getting employees and managers talking together to devise and implement solutions to Amtrak's safety problems. That's why Labor/Management Safety Teams were formed.

There are few better ways to enhance safety for both workers and customers than by getting employees and managers talking together to devise and implement solutions to Amtrak's safety problems.

Every other month teams of Amtrak employees, managers and representatives from labor unions meet to discuss issues that will create a safer environment at Amtrak. Committees now in place in Los Angeles, Oakland, Sunnyside Yard, and the New York terminal area represent a rare partnership that transcends usual lines of division. Additional committees are planned for Chicago, New Orleans and Boston.

Operation Lifesaver

Operation Lifesaver is a national, nonprofit information program dedicated to reducing collisions, injuries and fatalities at highway-rail grade crossings. And it's been successful: Since its implementation in 1972, crashes and casualties at highway-rail grade crossings have been reduced by 50 percent.

Operation Lifesaver was first established 24 years ago by the Union Pacific Railroad. At that time, highway-rail-crossing related fatalities in the United States had climbed to over 1,200 annually. In its first year of operation in Idaho, crossing-related crashes in that state dropped 38 percent. Because of these good results, the concept spread and is now present in 49 states.

Simulated emergencies enable Amtrak and other emergency personnel to get hands-on experience in planning and first aid.

The 1996 President's Awards

Valor

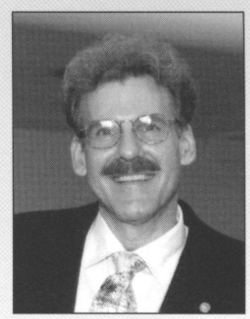
Helen Martinez,
Train Attendant,
Los Angeles, Calif.

On the *Sunset Limited* when it derailed Oct. 9 1995, Helen Martinez found a way out of the car and immediately provided aid and comfort to passengers.

Champion of the Rails

James Griffin Hubbard,
Station Agent,
Longview, Texas

James Griffin "Griff" Hubbard led efforts to improve the Longview station by working with community leaders and getting local companies to donate equipment, including new waiting room and patio furniture.



Improving

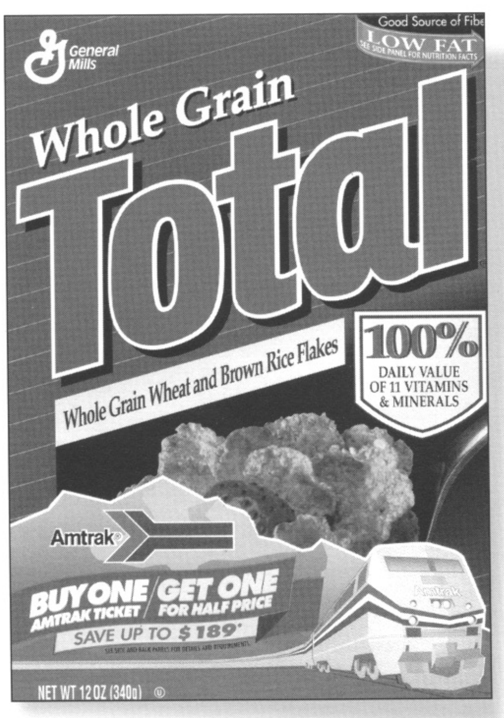
Business Practices

Capital Scorecard Process

In FY96, Amtrak initiated a new process, called the Capital Scorecard, to help the company provide a logical approach to capital investment decision-making. A way to incorporate long-term thinking with short-term needs, the scorecard supplements more traditional financial measures with criteria measuring performance from three new perspectives: the customer, internal business processes, and learning and growth. It measures and promotes the intangible resources and driving factors that are needed for future growth, and translates those measures into solid recommendations for the company's capital budget.

The factors on Amtrak's scorecard include: return on investment, net present value, future cost avoidance, customer/employee safety, customer satisfaction, and leveraging state/local and private partnerships and new business/product development. By measuring an initiative's ratings in these areas of analysis, Amtrak is able to make the best capital decisions possible for the long-term growth of the company.

A partnership begun in late 1996 placed Amtrak trains on the cover of boxes of General Mills' Total cereals.



Partnerships and Promotions

Increasing Amtrak's ridership among niche markets is one of the company's key business goals. There are few better ways to achieve our goal than by creating powerful partnerships with products and companies that already cater to those markets. Following are some examples of the creative partnerships Amtrak has developed to expand its scope:

DISNEY: This spring, Amtrak entered into a very successful marketing partnership with Disney, putting "Kids Ride Free" coupons in 15 million videos of Disney's "Aristocats". The coupons generated approximately $13 million in revenue and helped introduce families to Amtrak.

GENERAL MILLS: A partnership begun in late 1996 placed Amtrak trains on the cover of boxes of General Mills' Total cereals. The promotion — a companion ticket certificate that offers 50 percent off — is on 12 million cereal box tops and includes displays at participating grocery stores.

AT&T: A point-based awards program allows AT&T users to earn points towards travel on Amtrak when they pay their AT&T bills with participating credit cards.

"Kids Ride Free" coupons generated approximately $13 million in revenue and helped introduce families to Amtrak.

TRUE REWARDS: This loyalty-based program allows AT&T "True Rewards" cardholders to get 25 percent off an Amtrak companion ticket by showing their "True Rewards" card. The program has generated $235,000 in its first few months.

STUDENT ADVANTAGE: A popular discount club for students, Student Advantage members simply have to show their cards at Amtrak ticket counters to get a 15 percent discount off tickets. The program has generated $4.3 million in revenues from thousands of students — 80 percent of whom are new to Amtrak's database.

RADIO CITY MUSIC HALL CHRISTMAS SPECTACULAR: Through an exclusive travel package, visitors to Radio City Music Hall's Christmas Spectacular received discounted tickets, plus discounts on Radio City Music Hall merchandise.

TICKETMASTER PROMOTION: Event packages allow people buying tickets on Ticketmaster to receive discount rail tickets for Amtrak NortheastDirect and Metroliner trains. The first event package was targeted to NortheastDirect customers, offering Madison "Scare" Garden Halloween tickets at a 20 percent discount and NortheastDirect tickets at a 15 percent discount.

STATE RELATIONS

State-supported intercity rail services are an integral part of Amtrak's business. As an experienced operator of passenger rail, Amtrak has succeeded in working side by side with various departments of transportation to research, define and deliver rail services that meet the needs of the state. These regional state-supported rail projects have emerged as unique products with local flavor, and services and agreements vary depending on the requirements and needs of the states. In many cases, for instance, states and Amtrak leverage their funds and share not only in capital investment projects, but also in marketing, promotion and public relations activites.

In the Northeast Corridor, NJ Transit and Amtrak entered into a $250 million joint investment project that commits each to invest $25 million per year for the next five years to improve infrastucture that will benefit New Jersey residents and commuters. The state of Delaware has invested $1 million in upgrading the yards at Wilmington and Bear. Delaware's $1 million is part of a

THE 1996 PRESIDENT'S AWARDS

CHAMPIONS OF THE RAILS

Leonard Sachs and Mary Sue McCarthy, ***Baltimore Mayor's Advisory Commission on Tourism, Entertainment and Culture (McTec)***

When Baltimore Mayor's Advisory Commission on Tourism, Entertainment and Culture picked Penn Station as a priority project, program leaders Leonard Sachs and Mary Sue McCarthy went to work on a major cleanup and restoration, repair of the clock tower, and promotion of and assistance with the new garage.

Gross mail and express revenues in fiscal 1996 were $66.5 million — $5.6 million over 1995, and a 40 percent increase over 1992.

$19 million multi-year project to consolidate and streamline operations, improving efficiency for the benefit of Amtrak, as well as to attract outside business from other railroads to these shops. The Commonwealth of Pennsylvania invested $1.2 million in 30th Street Station to help Amtrak locate its Northeast Corridor headquarters in Philadelphia, as well as to upgrade the station in preparation for high-speed trains.

Similar partnerships were developed in Amtrak Intercity where the State of Illinois increased Amtrak funding by $2.5 million to maintain current levels of state-supported Amtrak service through June 30, 1996. Also, an advertising campaign with Amtrak Intercity and the Wisconsin and Illinois Departments of Transportation contributed to a 14 percent increase in March 1996 ridership over March 1995 for the *Hiawatha* service between Chicago and Milwaukee. Similar success was achieved on the *International* between Chicago and Toronto and the Chicago - Detroit/Pontiac trains operated in partnership with the Michigan Department of Transportation.

In addition to the Talgo and California dining cars discussed elsewhere in this report, examples of partnering in Amtrak West include the Oregon legislative emergency board's approval of using $3.9 million in special federal funds to continue Oregon's high-speed rail development efforts. Also, for the first time in Amtrak's history, a state was able to exercise flexibility and use Congestion, Mitigation and Air Quality (CMAQ) funds. Oregon's Department of Transportation was able to use CMAQ funds to support the Eugene - Portland section of the *Cascadia* train.

Amtrak West participated with the Washington State Department of Transportation in a series of public meetings to present various options for the Pacific Northwest Rail Corridor over the next 20 years. The meetings were part of the Environmental Impact Statement that will be completed regarding the future of passenger rail in the high-speed rail corridor.

Since 1990, California has invested approximately $1 billion in intercity passenger rail on its three state-supported corridors where Amtrak West partners with the state to run the *Capitols*, *San Joaquins* and *San Diegans*. FY96 initiatives included introduction of custom class to the *San Joaquins*, addition of a fourth round-trip on the Sacramento - Bay Area Capitol corridor, and extension of one *San Diegan* round-trip to and from San Luis Obispo. In addition, Amtrak West added new equipment to the San Diegan corridor (Amtrak's second busiest corridor) in order to attract more San Diego - Los Angeles business travelers.

Commuter Contracts

One of Amtrak's successes over the year was the expansion of its Commuter Rail program. Now representing a full ten percent of total Amtrak services (expense basis and excluding Reimbursable and Commercial), Commuter Rail also represents 65 percent of the volume of passenger trips, though most of these are short-haul regional trips.

The overall program expanded to a revenue base of $234.4 million in FY96, an increase of ten percent over FY95 and five percent over plan for the year. The number of contract operations remained constant with four in the NEC representing 72 percent of the business

(Boston alone is 56 percent) and three in Amtrak West for the remaining 28 percent. Of these seven operations, four experienced significant revenue growth from expanded operations, leading to the overall volume increase.

Two of the major West coast contracts, the Peninsula Commuter Service (PCS), in San Jose and Metrolink in Los Angeles, were reaching expiration. Preemptively, these contracts were successfully renegotiated for extended periods, the PCS for as long as three more years. This shows a strong regard for Amtrak performance and plays out a major advantage of incumbency. However, increasing competitive pressures were roundly demonstrated in the course of these negotiations, and the trend toward fixed price compensation is definitely growing. These factors will continue to affect the profitability of this line of business across the company.

Mail and Express Expansion

Better exploitation of mail and express opportunities is a big part of Amtrak's move to improve the economics of long-distance trains as the company begins the process of removing itself from federal operating support. Amtrak's work in this area is paying off: Gross mail and express revenues in fiscal 1996 were $66.5 million — $5.6 million over 1995, and a 40 percent increase over 1992.

Amtrak has created a large network of trucking subcontractors to handle mail, similar to how Thruway buses handle passengers. The first truck deal allowed Amtrak to continue Texas-New England mail when the *Texas Eagle* was restructured from daily to tri-weekly in late 1993. In 1995, when the *Empire Builder*'s poor on-time performance jeopardized the much bigger Seattle-East Coast mail business, Amtrak shifted to trucks west of St. Paul, with stops in Fargo and Billings.

Metroliner

Amtrak unveiled the first complete trainset containing its new "Concept 2000" *Metroliner* equipment. The cars feature customer-requested amenities — more comfortable seats, halogen lighting, new color schemes, and brighter interiors. They also feature new design and artwork inside the cars. All work was performed at the Delaware shops by Amtrak employees. The equipment began receiving rave reviews from customers immediately upon introduction, and a program is underway to revamp all *Metroliner* cars. The unveiling of the refurbished equipment dovetailed with the introduction of improved *Metroliner* menus and other customer amenities.

This year, *Metroliner* service also won several customer service awards, including one from *Railway Age Magazine.*

The 1996 President's Awards

Safety

Douglas Manson,
Engineer,
Springfield, Mass.

Douglas Manson is a member of the Springfield Safety Committee and an Operation Lifesaver presenter. He spends hours giving presentations to schools, police and trucking companies.

Safety

George "Billy" Parker Jr.,
Engineer,
Jacksonville, Fla.
(also the recipient of the 1996 Charles E. Luna Safety Award)

On March 17, 1993, Billy Parker, locomotive engineer, was involved in a grade-crossing accident with a tank truck that resulted in the death of six people. Since then, Parker has become a national spokesperson for Operation Lifesaver.

Improving

Financial Performance

Strategic Plan

In December 1994, Amtrak's Board of Directors adopted the aggressive goal of phasing out the need for federal operating support by 2002. The resulting six-year Strategic Business Plan was wholly dependent on three major events:

- The ability of Amtrak to secure a dedicated source of capital to begin reversing the effects of the chronic undercapitalization of the past decade;
- The enactment of legislation to allow Amtrak to behave in a commercially oriented, business-like manner;
- Amtrak's ability to organize itself into a customer-focused, market-responsive company while substantially increasing productivity, lowering unit costs, and increasing revenues.

Progress to Date

Amtrak made dramatic changes for the better in 1995 and, although 1996 performance did not achieve all planned goals, Amtrak did not lose ground from the progress made in 1995. The company now has a decentralized corporate structure focused on greater market awareness, competitiveness, and customer service. It has eliminated a significant amount of cost through a rationalized commercial network, improved equipment utilization and re-engineered back office functions, while increasing revenues. Amtrak has realized a bottom-line improvement of more than $300 million on an annualized basis, and 1995 and 1996 internal actions closed $3.5 billion of the original $5.0 billion gap projected between 1995 and 2002. In 1996 Amtrak finalized the agreements to complete electrification from New Haven, Conn., to Boston, Mass., and to purchase high-speed train sets, locomotives and maintenance facilities, all part of the strategic plan to close the gap by 2002.

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1996 Performance

For 1996 Amtrak developed three corporate objectives — meet 100 percent of financial target, increase employee satisfaction by 15 percent and increase customer satisfaction by 15 percent. Although falling short of these goals, Amtrak made progress toward improving customer and employee satisfaction, while holding on to the financial improvements attained in 1995.

In regard to its financial goals, Amtrak fell short of its 1996 target by $82.2 million, which reflected negative factors of $221.4 million, offset by $139.2 million in gap-closing actions taken during the year. The major negative factors causing the worse-than-planned performance included extreme weather, passenger revenue shortfalls, and corporate-wide cost reduction initiatives that were not achieved. These factors were partially offset by gap-closing actions that included revenue from new marketing actions and cost reductions. Passenger-related revenue fell short of plan for the year by $42.5 million, while core business expenses were $37 million

Satisfied employees and customers mean continued success.

unfavorable. The operating profit of all other businesses was $15.4 million below plan.

As for employee and customer satisfaction objectives, although planned goals were not achieved, progress was made in reducing both employee and customer injuries compared to 1995. Customer satisfaction as tracked by Customer Satisfaction Index of the Technical Assistance Research Program (TARP), showed a slight improvement versus the initial index established in May 1995. On-time performance for the total system declined compared to 1995, primarily as a result of severe weather, although other factors also contributed to this shortfall. Employee training was one area where goals were exceeded for two of the business units.

1996 Highlights

There were a number of highlights that bolstered the company's performance in 1996:

- Ticket yield (total ticket revenue per passenger mile) for 1996 was 13 percent higher than 1995.
- For the first time in the history of the company a product line, the *Metroliner*, which serves the New York – Washington, D.C., market, was profitable, completely covering fully allocated costs and generating $14 million profit.
- Passenger-related revenues increased 6 percent despite 1995 route and service actions that reduced train miles by 7.4 percent in 1996.
- Gap closing measures begun primarily at mid-year to help offset the results of severe weather in the second quarter were largely successful.

Lessons Learned

There were also a number of important lessons learned in 1996:

- The effects of route and service actions were better understood based on experience in 1996.
- A better understanding of capital requirements was achieved in conjunction with improved methods of evaluating capital investments and linking them directly to performance.
- The impact of weather and the need for inclusion of larger weather-related contingencies in the plan was acknowledged.

The 1996 President's Awards

Posthumous Awards

Amtrak honors those who gave their lives in service.

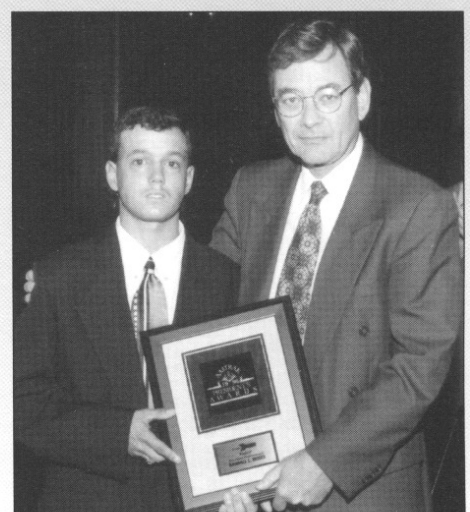
Mitchell Bates, *Train Attendant, Los Angeles, Calif.*

An Amtrak employee since June 7, 1975, Mitchell Bates was a train attendant on the *Sunset Limited* and lost his life when it derailed Oct. 9, 1995.

Mitchell Bates' sister JoAnn Bates accepts the award from Amtrak CEO Tom Downs.

Randall Moses, *Assistant Engineer, Jacksonville, Fla.*

An Amtrak employee since Aug. 20, 1986, Randall Moses was an assistant engineer on the *Silver Star*. He lost his life when the train hit a truck on Sept. 21, 1995.



Amtrak CEO Tom Downs presents the award to Ray Moses, Randall Moses' son.

For fiscal year 1995, Amtrak reduced its operating loss by $206.3 million, nearly $33 million better than planned.

—GAO Report

The 1997-2002 Plan

Although 1996 overall performance did not meet the planned goals, the revolutionary turnaround initiated in 1995 is still working. Amtrak didn't lose ground in 1996, and at the end of the year the Amtrak Board of Directors approved a six-year strategic plan for 1997 through 2002. This plan, for the first time, identifies a detailed strategy for achieving zero federal operating support by 2002.

The plan builds on the progress achieved in 1995 and 1996 and outlines the path to successful closure of the remaining $1.5 billion bottom-line deficit between 1997 and 2002 through:

- Continued route and service adjustments combined with improved equipment utilization;
- Productivity enhancements;
- Pricing and marketing to stimulate demand;
- Significantly increased state support for train service;
- Additional commuter, reimbursable and commercial business development;
- Focused capital investments, particularly the implementation of high-speed rail in the Northeast Corridor to begin in late 1999.

The FY97-2002 Strategic Business Plan closes the remainder of the gap, but still relies heavily on the same three critical items — a substantial and secure capital source, legislative relief, and continued, aggressive internal restructuring. Of the remaining $1.5 billion in gap-closing measures included in the Strategic Business Plan, over $800 million of the actions are dependent on capital investments planned over the period.

Amtrak Gets There Weather or Not
Amtrak was among the very few transportation systems moving during the January blizzard of 1996.

The 1997 Capital Plan

The FY97 Strategic Capital Plan contemplates the expenditure from all sources of funds of $1.1 billion. In an attempt to capture the entire investment program undertaken by the company during FY97, the plan includes all capital investment, including acquisition of equipment under debt and lease instruments that have been previously authorized by the Board of Directors. Significant investments during the year include the continuation of the electrification of the north end of the Northeast Corridor under the Northeast Corridor Improvement Project ($58 million), the milestone payments financed under the high-speed trainset agreement ($106 million), the financed acquisition of new P42 locomotives ($255 million), as well as progressive and heavy overhauls ($110 million). Capital programs funded with federal appropriations within this plan total $478 million.

General Findings of the Report of the General Accounting Office (GAO) — July 1996

While Amtrak has made progress during the first 18 months that the Strategic Business Plan has been in place, it is too early to forecast if the corporation will achieve the long-term goal of operating self-sufficiency. Meeting that goal is predicated on several critical assumptions, including continued federal capital support which entails full funding to implement high-speed rail service between New York and Boston; large revenue increases; improvements in productivity that require negotiations with Amtrak's labor unions; and increased state support.

The scorecard process utilized in developing the capital plan provided an objective basis for determining the most strategic investments to be made by the company. After determining the projects that were absolutely required, such as equipment overhauls, debt service principal, and contractually obligated expenditures, all remaining discretionary projects were ranked according to factors that were identified as critical drivers of Amtrak's business.

Crossing 2002

Crossing 2002 is one of Amtrak's programs to assist in meeting the congressional target of operating free of federal grants by year 2002. Begun in June 1996, this three-year program calls for participants to identify, prioritize and redesign activities that offer the greatest potential for quality improvement and cost savings while maintaining or improving customer service. In addition, a system will be developed for measuring the quality of Amtrak's operations by keeping track of the money spent ensuring that work is done right the first time and the money lost when it is not.

Crossing 2002 is divided into three phases:

During the *analysis phase*, an evaluation was made of Amtrak's current activities. This information was used to identify and prioritize areas where improvements to Amtrak's current work would be of greatest benefit to the corporation. The result was the identification of 21 processes that will be the subject of further analysis.

During the *planning phase*, these processes were analyzed in more detail. Deficiencies were examined, and schedules and resources (including people) required to address the deficiencies were identified.

During the *construction phase*, teams will work to redesign the process, focusing on improvements that will result in cost savings, improved use of resources, increased customer satisfaction, or other tangible benefits. Amtrak's partner in the Crossing 2002 initiative is General Systems Company, Inc.

Begun in June 1996, this three-year program calls for participants to identify, prioritize and redesign activities that offer the greatest potential for quality improvement and cost savings while maintaining or improving customer service.

Improving The Future of Passenger Rail

High-Speed Rail: America's New Millennium

In the spring of 1996, Amtrak provided a sneak preview into the next century of transportation service with the unveiling of its new high-speed trainsets. Just one piece of an entire make-over of passenger rail service, the trainsets will contribute to a revolution in travel in the United States and worldwide. With the promise of setting new standards in comfort, safety and train technology, design, and overall customer service, the high-speed rail service will travel well beyond the distance between Washington and Boston.

Customers will receive dramatically improved passenger rail service at all points of their journey from the moment they call for a ticket to the time they reach their destination.

Amtrak employees will work onboard modern trains held to strict maintenance and operation standards, ensuring the highest level of reliability.

Industry in the United States will benefit from the development of a new manufacturing and service industry, creating thousands of jobs across the country.

Economic growth will occur initially in the Northeast as development starts in states along the Northeast Corridor.

Amtrak's model for high-speed rail travel in the Northeast will offer an opportunity for other states, commuter and foreign passenger railroads to study and learn valuable safety and technology lessons.

Facts about High-speed Rail

- An estimated two million riders are expected after the first full year of service in 2001.
- The trains will have the finest on-board diagnostic systems designed to alert our engineers and mechanical staffs so they can make corrections before serious problems occur.
- The consortium building the trains has agreed to performance penalties if there are mechanical problems, delays or other inconveniences to our customers.
- Each of its 345 seats will have an outlet for personal computer and audio entertainment;
- An elegant bistro car will serve to regional passenger tastes;
- And for our business travelers? Our business center — complete with phones, faxes and conference rooms;
- High-speed rail will set new world standards with special new tilt technology so advanced, riders will enjoy their safest smoothest rides ever.

Using Amtrak trains, President Clinton campaigned through several states in 1996.

Progress on Dedicated Trust Fund

Amtrak made progress in 1996 in building support for a dedicated trust fund for intercity passenger rail. Employees, state partners, vendors, individual transit agencies, environmental groups and our customers have joined us in our efforts to convince Congress and the administration of the benefits of providing Amtrak with an adequate and dependable source of capital funding.

In May, growing support in Congress was demonstrated by the 57-43 vote in the U.S. Senate in favor of allocating one half cent of the Federal Fuel Tax to an Intercity Passenger Rail Trust Fund. While the proposal was not enacted into law in 1996, congressional leaders have indicated their intention to consider the proposal again in the 105th Congress.

Campaign Trains

A Symbol of 21st Century Renaissance

When the presidential candidates wanted to travel across the country with speed, they flew; but when they wanted to make a statement, to see the countryside and to create a symbol of being in touch with America's roots, they took Amtrak. Both President Clinton's widely publicized whistle-stop tour and the trains that were taken to the Republican and Democratic conventions emphasized the importance of rail service today, and its future for tomorrow.

Presidential Train and Others

"The campaign trains were a great success thanks to the hard work and dedication of Amtrak's employees," said Amtrak CEO Tom Downs.

Both Republican and Democrat campaign operatives spent at least part of their campaign season aboard Amtrak trains in the ultimate form of land cruise and celebration of train travel. Whether traveling to their respective conventions or (as in President Clinton's case) conducting a whistle-stop speaking tour, both campaigns highlighted the unique nature of rail.

Country-music singer Billy Ray Cyrus, a celebrity guest of President Clinton aboard the *21st Century Express*, said it best: "These train tracks are the bloodline of America."

Background on the *21st Century Express*

The presidential train that traveled more than 500 miles with its high-profile entourage, consisted of 11 Superliner passenger cars, two privately-owned cars and three P40 locomotives. Twelve double deck, specially outfitted cars handled hundreds of White House staff and media, and came complete with extra power lines, 40 cellular phones, fax machines, paging equipment and copiers.

When the presidential candidates wanted to travel across the country with speed, they flew; but when they wanted to make a statement, to see the countryside and to create a symbol of being in touch with America's roots, they took Amtrak.

Management's Discussion and Analysis of

RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

Amtrak reported a 1996 net loss of $763.6 million compared with a 1995 net loss of $808.2 million, a 5.5% improvement.

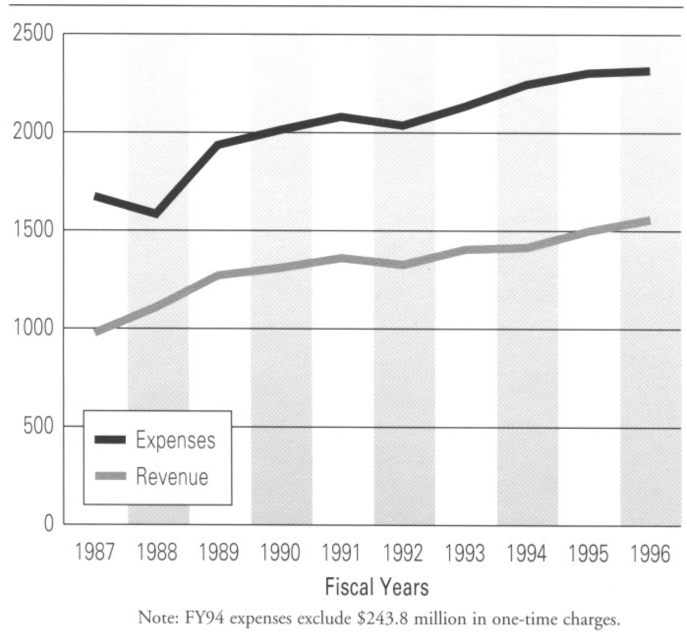
This improvement reflects a 3.9% increase in total revenues to $1,554.8 million in 1996 compared to $1,496.9 million in 1995. Gains in both passenger-related and commuter revenues were primarily responsible for this improvement. Graph A displays Amtrak's financial performance for fiscal years 1987 to 1996.

Passenger-related revenues increased 6% despite 1995 route and service actions that reduced train miles in 1996 by 2.4 million or 7.4% versus 1995. Since route and service actions occurred at different times throughout 1995, the results for 1995 include less than a full year's impact. The full impact is, however, reflected in 1996 results.

Passenger-related revenues increased 6% despite 1995 route and service actions that reduced train miles in 1996 by 2.4 million or 7.4% versus 1995.

Graph A: Financial Performance

Millions of Dollars



Note: FY94 expenses exclude $243.8 million in one-time charges.

Total expenses increased less than 1.0% to $2,318.4 million in 1996 versus $2,305.1 million in 1995. This primarily reflected higher advertising and promotional expenses. Expenses related to employees, train operations, maintenance-of-way goods and services, and casualty and accident costs decreased. Facility and office related, interest, and depreciation costs increased. More detail is provided for revenues and expenses further in the discussion.

In 1996 and 1995 Amtrak received $285 million and $392 million in federal operating support, respectively, and $120 million and $150 million of federal payments for excess mandatory RRTA expenses, respectively. These contributions are in addition to the revenues reported in the financial statements. The contributions can be seen on the consolidated statements of cash flows and statements of changes in capitalization.

In 1994 Congress and the administration directed Amtrak to develop a strategy to achieve operating self-sufficiency by the year 2002. Accordingly, in December 1994, Amtrak's Board of Directors adopted a strategic business plan to significantly reduce federal operating subsidies. Results in 1995 were substantially on track with the strategic plan. Results in 1996, however, were mixed, showing improvement versus 1995 but not meeting plan expectations by $82.2 million.

- The 1995 results included major cost reduction actions and significant expense savings related to route and service actions. Although the 1996 results reflect certain cost reductions as compared to 1995, these results did not reach planned levels of cost savings for a number of reasons, including severe weather, deferral of certain route and service actions and delay in certain cost savings programs. The cost reductions which have been achieved have primarily affected the core business.
- Passenger-related revenues which declined between 1993 and 1994 by $56.2 million, decreased by only $2.5 million between 1994 and 1995 and, in fact, increased by $54.8 million between 1995 and 1996 despite significant route and service actions during 1995. Again these improvements did not meet plan projections.
- Short-term borrowings under Amtrak's lines of credit at the end of 1996 were $12.0 million versus a best case plan of no borrowings. At the end of 1995, Amtrak did not need to utilize its lines of credit.

Amtrak continues to face excessive cost burdens (relative to the competition) associated with meeting statutory and regulatory requirements. Also the chronic undercapitalization of plant and equipment along with antiquated business practices and technology continues to drive costs in reliability and service quality higher. As a result, to achieve its operating goals, management continues to develop plans for increasing revenues and efficiency and decreasing costs, and continues to seek legislative changes and a predictable capital funding flow.

Revenues

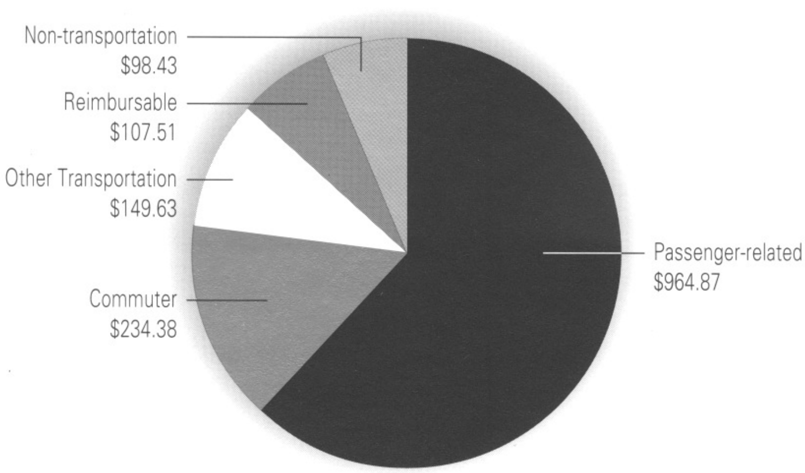
Graph B displays the sources of Amtrak revenue in 1996.

Passenger-related revenue (including transportation, food and beverage revenue and state contributions) increased by 6% from $910.1 million in 1995 to $964.9 million in 1996 despite significant route and service actions. For the year, route and service actions produced expected declines in ridership, passenger miles,

Graph B: Sources of Revenue

FY96

Total: $1,555 million



The 1996 Board of Directors' Safety Awards

Safety Committee of the Year

Miami Safety Improvement Team (pictured below with two individual award winners)

Safety Committee of the Year: (First row) Di Anne Adams, Nancy Weese, Ed Hanson, Brenda Helfrich, Judy Deutsch, (second row) John Pascarella, Ed Alderman, Steve Richman, Kelson McKinney, Emerild Hebert, Jr.*, Ray Vincent, Martin Wasserstrom, (third row) Frank Rowe, George Jones, Lester Kreisa, Scott Weddle, Danny Valdes, Paul W. Beyfuss*

Team members, who are selected by application and union approval, have improved the quality of job briefings by focusing on consistency, content, relevance and participation. On their own time, team members have worked on a customer-safety ticket stuffer and video for the Atlantic Coast Service. They also have worked with Human Resources Development to build a pool of safety instructors.

* Emerild Hebert, Jr. and Paul W. Beyfuss were winners of the 1996 Board of Directors' Safety Awards, but were not part of the Safety Committee of the Year. See following pages for their specific awards.

Commuter operating revenue increased 10.2% from $212.8 million in 1995 to $234.4 million in 1996.

seat miles, and train miles (5.1%, 8.9%, 8.7%, and 7.4%, respectively below 1995). However, ticket yield for 1996 was 13.0% higher than 1995.

The state contributions increased 79.8% from $35.7 million in 1995 to $64.2 million in 1996. These state subsidies vary inversely with Amtrak's performance as these payments are a partial reimbursement, tied to the level of Amtrak unrecovered costs. The favorable variance between 1996 and 1995 resulted from both increased state-supported services and higher levels of contributions from states. Support was higher from the states of California, Illinois, Michigan, Missouri, North Carolina, Oregon, Pennsylvania, Vermont, Washington and Wisconsin.

OTHER CORE REVENUES (from commuter fees, freight railroad access fees, real estate operations and development, mail, baggage and express, interest and other) decreased 7.0% from $266.7 million in 1995 to $248.1 million in 1996.

The decrease reflected lower fees for use of Amtrak's right-of-way by commuter rail companies, totaling $92.4 million in 1995 versus $84.4 million in 1996. Revenue in 1995 included a settlement from the Massachusetts Bay Transit Authority (MBTA) related to prior years' activity.

Freight railroad access fees also decreased 5.2% from $19.1 million in 1995 to $18.1 million in 1996. This decrease was due principally to decreased net activity by certain freight railroads on Amtrak-owned rail.

Mail revenue increased 10.1%, from $57.3 million in 1995 to $63.1 million in 1996, despite train frequency reductions. This growth largely reflects new business with the U.S. Postal Service. Express revenue was level over the two years.

Interest income decreased from $7.0 million in 1995 to $4.9 million in 1996 reflecting primarily a decrease in average cash balances.

Safe harbor revenue recognized from the 1981 sale of tax benefits associated with certain qualified assets was $36.9 million in 1995 as compared to $9.2 million in 1996. Revenue related to the restricted cash proceeds from these sales was deferred and recognized to the extent funds were released to Amtrak. In 1995, Amtrak negotiated an acceleration of the release of $30 million of these restricted funds.

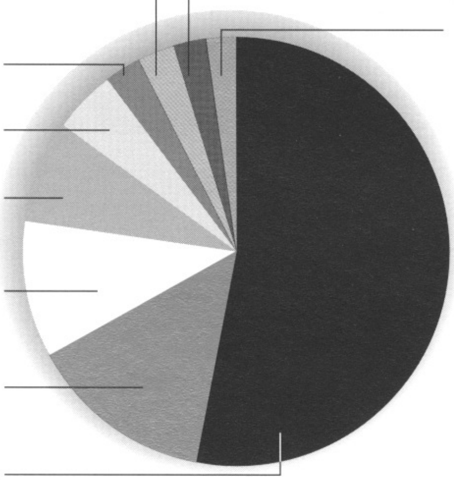
COMMUTER OPERATING REVENUE increased 10.2% from $212.8 million in 1995 to $234.4 million in 1996. The increase primarily reflected higher revenue from Maryland Area Rail Commuter Service (MARC), Massachusetts Bay Transit Authority (MBTA) and Peninsula Commuter Service (PCS). The increase in revenues from MARC reflects an adjustment related to prior years and a one time contribution for work related to the American Disabilities Act. MBTA revenues rose due to increased project work done by Amtrak, including work related to the Commuter Rail Safety Enhancement Program. Revenues from the Peninsula Commuter Service (PCS) rose reflecting increased project and repair work.

REIMBURSABLE REVENUES were about level at $107.5 million in 1996 and $107.3 million in 1995.

Graph C: Expense Categories

FY96

Total: $2,318 million



Expenses

Graph C displays the categories of expense for Amtrak in 1996.

SALARIES, WAGES, AND BENEFITS decreased slightly from $1,240.8 million in 1995 to $1,236.3 million in 1996 notwithstanding wage and benefit cost increases associated with prior negotiated labor agreements. During 1995 and 1996 Amtrak had a net reduction in its workforce of 1,977 people, reflecting route and service and productivity actions.

Amtrak has labor agreements with 13 labor unions representing 19 bargaining units. The labor pay component of these agreements is negotiated. As of January 1, 1997, all agreements covering Amtrak's union employees are up for renegotiation. Prior negotiations with many of these unions provided semiannual, continuous cost-of-living increases (January 1 and July 1 each year).

Union health and welfare benefit costs increased slightly. Postretirement health cost increased $3.9 million, reflecting a more significant curtailment gain in 1995 than in 1996.

NON-LABOR TRAIN OPERATIONS EXPENSES decreased slightly from $321.2 million in 1995 to $320.5 million in 1996. These expenses include fuel and electric power along with maintenance of equipment; and food, beverages, and supplies to support on board services. There was no significant change from 1995 to 1996 in these items.

FACILITY AND OFFICE COSTS increased 5.5% from $171.9 million in 1995 to $181.3 million in 1996 as a result of higher delivery and distribution costs.

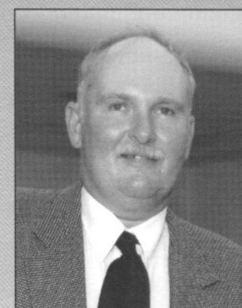
EXPENSES RELATED TO MAINTENANCE-OF-WAY GOODS AND SERVICES decreased 19.2% from $73.5 million in 1995 to $59.4 million in 1996. The decrease is associated with work performed by Amtrak for other parties.

The 1996 Board of Directors' Safety Awards

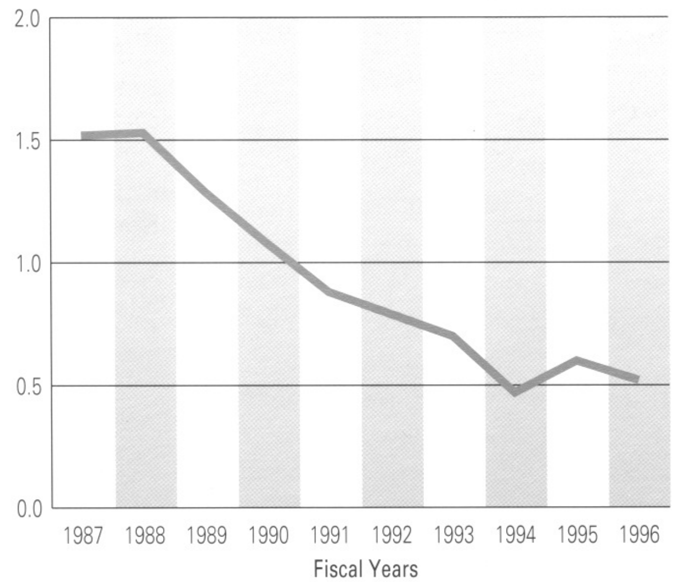
Safety Achievement

Paul Beyfuss,
Power Director,
New York, N.Y.

Since Paul Beyfuss took the lead in the Protection Against Trains Program, the number of maintenance-of-way worker fatalities has gone down dramatically. As a licensed asbestos worker, Beyfuss also spearheaded an asbestos abatement project.



Graph D: Working Capital Ratio



The process of decentralization is designed to concentrate on market segmentation, product differentiation, and the continuous development of a smaller and more productive workforce.

ADVERTISING AND SALES COSTS increased 21.0% from $89.7 million in 1995 to $108.6 million in 1996, primarily reflecting higher advertising and promotion expenses.

CASUALTY AND ACCIDENT CLAIMS EXPENSE decreased from $77.7 million in 1995 to $65.8 million in 1996. This decrease results from recent experience reflecting lower exposure to risk by way of a smaller workforce and reduced train miles.

INTEREST EXPENSE increased from $47.7 million in 1995 to $60.2 million in 1996, primarily as a result of increased borrowings related to rolling stock equipment.

RESTRUCTURING COSTS result from Amtrak's corporate restructuring. In 1994, Amtrak announced its plan for a major reorganization of the corporation around definable strategic business units (SBUs) and subsequently recorded a restructuring charge. In 1995 an additional $14.5 million was charged against current operations as restructuring expense. This amount reflects the cost of conversion of operations from a highly centralized to a decentralized SBU basis, and includes the setup of the SBU facilities and relocation of personnel. The process of decentralization is designed to concentrate on market segmentation, product differentiation, and the continuous development of a smaller and more productive workforce.

DEPRECIATION AND AMORTIZATION EXPENSE increased 3.4% from $230.1 million in 1995 to $238.0 million in 1996, principally due to purchases of equipment.

OTHER EXPENSES increased from $38.1 million in 1995 to $48.3 million in 1996. This increase reflects in part higher costs related to passenger inconvenience which resulted from the severe weather conditions in 1996.

Financial Condition and Liquidity

At September 30, 1996, Amtrak had cash and cash equivalents of $22.8 million. The working capital ratio decreased from .60 in 1995 to .52 in 1996. Graph D displays Amtrak's working capital ratio from 1987 to 1996.

Current debt and capital lease obligations increased by $23.7 million and $12 million of borrowings were required to fund current operations. Long-term debt and capital lease obligations increased $126.4 million related to equipment purchases.

Amtrak has $150 million of unsecured lines of credit with banks that expired in December 1996, which are subject to certain conditions. Borrowings under these agreements bear interest based on the London Interbank Offered Rate, certificate of deposit rates, or prime rate. Amtrak pays various fees on its credit lines. There was $12 million borrowed under these lines of credit in September 1996. Amtrak renewed these lines of credit with substantially similar terms and conditions.

Amtrak has commitments in place to acquire 98 P-42 locomotives during fiscal year 1997. Amtrak anticipates total additional borrowings of $254.8 million toward this acquisition. Amtrak expects principal plus interest payments to commence in March 1997 and run through April 2017 at an effective interest rate of 5.6% per annum. Amtrak is also planning a major strategic acquisition and investment involving high-speed train service which will include 18 trainsets, 15 locomotives, and related maintenance facilities. When complete, Amtrak estimates that this investment will result in additional borrowings totaling in excess of $800 million by fiscal year 2000.

As shown in Graph E, Amtrak has shown improvement in its operating ratio (the ratio of total expenses to total revenue) improving from 1.72 in 1987 to 1.49 in 1996.

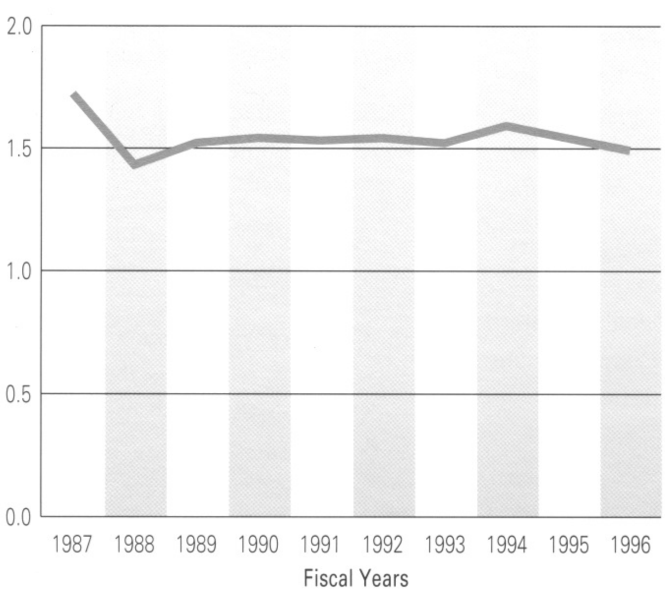
Amtrak continues its efforts to increase revenues through fare and service adjustments and solicitation of ongoing state and local government support of services, and to increase efficiency through streamlining operations and procedures.

Results of Major Business Units

One of Amtrak's most important initiatives in 1995 was to create strategic business units to provide greater market awareness, competitiveness, and customer focus.

Table 1 shows the 1995 and 1996 operating results for Amtrak's three strategic business units — Amtrak Intercity, Northeast Corridor, and Amtrak West—and for the corporate service centers and offices which collectively serve all three units. This data is supplemental, unaudited information presented as if this organization had been in place at the beginning of 1995. Note that the federal operating subsidy (except for $7 million in 1996) is attributed to the company as a whole rather than any individual organizational unit.

Graph E: Operating Ratio



Note: FY94 expenses exclude $243.8 million in one-time charges.

The 1996 Board of Directors' Safety Awards

Environmental Achievement

Emerild "Mitch" Hebert,
Foreman,
Albany/Rensselaer, N.Y.

"Mitch" Hebert took over a water treatment plant, restored it and improved water quality. He coordinated the cleanup of Rensselaer's railroad-tie dump site with limited resources and no funding, creating a park-like setting at the site. He has reduced costs by changing how sludge disposal is handled.

Table 1: FY 1995 and 1996 Operating Results by Major Business Unit

$ Millions

	Intercity		NEC		West		Corporate		Total	
	FY95	FY96	FY95	FY96	FY95	FY96	FY95	FY96	FY95	FY96
Revenue	$ 465.0	$ 483.8	$ 828.3	$ 867.9	$156.5	$184.1	$ 47.1	$ 19.0	$1,496.9	$1,554.8
Expenses	673.0	738.5	1,044.4	1,018.9	253.0	272.0	334.7	289.0	2,305.1	2,318.4
Operating Loss	(208.0)	(254.7)	(216.1)	(151.0)	(96.5)	(87.9)	(287.6)	(270.0)	(808.2)	(763.6)
Federal Operating Grant	–	7.0	–	–	–	–	–	–	392.0	285.0
Other Federal Contributions	42.0	62.2	70.5	65.4	16.5	13.3	21.0	15.5	150.0	156.4
Net Operating Loss	(166.0)	(185.5)	(145.6)	(85.6)	(80.0)	(74.6)	(266.6)	(254.5)	(266.2)	(322.2)
Noncash	87.4	80.1	146.9	142.0	18.2	14.7	1.4	3.2	253.9	240.0
Budget Result	$ (78.6)	$ (105.4)	$ 1.3	$ 56.4	$ (61.8)	$ (59.9)	$ (265.2)	$ (251.3)	$ (12.3)	$ (82.2)

Corporate revenues decreased reflecting lower safe harbor revenue. Expenses also decreased as a result of the change in allocation in interest cost, lower employee, environmental and facility costs.

As can be seen in the above chart, the Intercity business unit operating loss was unfavorable in 1996 as compared to 1995. These results reflect higher interest costs (resulting from financing related to new equipment as well as a change in allocation method to reflect all interest related to equipment in the business units versus corporate results), increased delivery and distribution, advertising, train fuel, and passenger inconvenience (weather related) costs. Higher revenues reflecting increased state contributions partially offset these unfavorable results.

The Northeast Corridor business unit revenues increased for the core and commuter lines of business. Expenses decreased reflecting lower employee, and facility and equipment maintenance costs, and lower on board service and maintenance-of-way supplies.

The West business unit results were unfavorable reflecting higher interest, facility maintenance, advertising and train fuel costs; partially offset by higher state support.

Corporate revenues decreased reflecting lower safe harbor revenue. Expenses also decreased as a result of the change in allocation in interest cost, lower employee, environmental and facility costs.

Overall, federal operating support and certain noncash items were lower in 1996.

Report of Independent Accountants

To the Board of Directors of National Railroad Passenger Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, cash flows, and changes in capitalization present fairly, in all material respects, the financial position of National Railroad Passenger Corporation (Amtrak) and its subsidiaries at September 30, 1996 and 1995, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of Amtrak's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 3 to the financial statements, the Federal government, in 1994, directed Amtrak to achieve operating self-sufficiency by the year 2002. Since 1994, Amtrak has adopted a number of initiatives to increase revenues and productivity and to reduce costs in its efforts to become self-sufficient. Management has also determined that Amtrak needs to attain certain statutory changes and sufficient capital expenditure funding to achieve self-sustainability. The ultimate outcome of Amtrak's future operating improvements and its capital funding sufficiency and other legislative initiatives cannot be reliably predicted at this time and, accordingly, the financial statements do not include any provisions for the financial impact of their eventual resolution.

Price Waterhouse LLP

Arlington, Virginia
November 15, 1996, except as to the fifth paragraph of Note 7, the date of which is December 12, 1996

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30, 1996	September 30, 1995
	(Thousands of dollars)	
Current Assets:		
Cash and cash equivalents	**$ 22,761**	$ 29,878
Accounts receivable, net of allowance for doubtful accounts of $6,366 and $4,998 in 1996 and 1995, respectively	**81,889**	83,054
Materials and supplies	**104,799**	101,832
Other current assets	**4,330**	8,565
Total current assets	**213,779**	223,329
Property and Equipment:		
Property and equipment	**7,395,482**	6,861,364
Less—Accumulated depreciation and amortization	**(2,605,599)**	(2,392,902)
	4,789,883	4,468,462
Other Assets and Deferred Charges	**73,593**	84,079
Total assets	**$ 5,077,255**	$ 4,775,870

Liabilities and Capitalization

	September 30, 1996	September 30, 1995
	(Thousands of dollars)	
Current Liabilities:		
Accounts payable	**$ 164,163**	$ 142,802
Accrued expenses and other current liabilities	**135,838**	145,394
Deferred ticket revenue	**36,106**	19,880
Restructuring charge reserve	**15,213**	29,779
Current debt and capital lease obligations	**57,854**	34,204
Total current liabilities	**409,174**	372,059
Long-Term Debt and Capital Lease Obligations:		
Capital lease obligations	**552,230**	526,488
Equipment and other debt	**376,911**	276,280
	929,141	802,768
Other Liabilities and Deferred Credits:		
Casualty reserves	**155,795**	152,085
Postretirement employee benefits obligation	**111,294**	109,681
Advances from railroads and commuter agencies	**15,884**	21,668
Environmental reserve	**39,454**	47,475
Other	**6,106**	17,405
	328,533	348,314
Total liabilities	**1,666,848**	1,523,141
Commitments and Contingencies		
Capitalization (see Consolidated Statements of Changes in Capitalization)	**3,410,407**	3,252,729
Total liabilities and capitalization	**$5,077,255**	$4,775,870

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

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended September 30,	1996	1995
	(Thousands of dollars)	
Revenues:		
Passenger related	**$ 964,867**	$ 910,051
Other	**248,086**	266,687
Total revenues from Core business	**1,212,953**	1,176,738
Commuter	**234,378**	212,777
Reimbursable	**107,505**	107,349
Total revenues	**1,554,836**	1,496,864
Expenses:		
Salaries, wages, and benefits	**1,236,257**	1,240,752
Train operations	**320,542**	321,198
Facility and office related	**181,333**	171,861
Maintenance of way goods and services	**59,369**	73,470
Advertising and sales	**108,590**	89,715
Casualty and accident claims	**65,818**	77,658
Interest	**60,223**	47,678
Restructuring charges	-	14,523
Depreciation and amortization	**237,972**	230,127
Other	**48,310**	38,089
Total expenses	**2,318,414**	2,305,071
Net loss	**$ 763,578**	$ 808,207

The accompanying notes are an integral part of these consolidated statements.

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended September 30,	1996	1995
	(Thousands of dollars)	
Cash Flows From Operating Activities:		
Net loss	$(763,578)	$(808,207)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	237,972	230,127
Provision for losses on accounts receivable	4,309	4,249
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	3,761	(25,146)
(Increase) decrease in materials and supplies	(2,967)	8,552
Decrease (increase) in other current assets	4,235	(3,591)
Increase in other assets and deferred charges	(3,319)	(5,115)
Increase in accounts payable, deferred ticket revenue, and accrued expenses and other current liabilities	23,120	2,317
Decrease in other liabilities and deferred credits	(19,893)	(25,048)
Net cash used in operating activities	(516,360)	(621,862)
Cash Flows From Investing Activities:		
Purchases and refurbishments of property and equipment	(419,522)	(313,987)
Proceeds from disposals of property and equipment	3,082	713
Cash released from restricted proceeds of tax benefits sales	9,125	37,933
Cash investments	(54)	(34,047)
Proceeds from dispositions of cash investments	54	34,043
Net cash used in investing activities	(407,315)	(275,345)
Cash Flows From Financing Activities:		
Proceeds from issuance of preferred stock	619,100	806,000
Proceeds from federal paid-in capital	270,842	119,340
Proceeds from federal and state capital payments	23,563	19,179
Proceeds from debt and lease financings	41,553	47,802
Repayments of debt and capital lease obligations	(38,500)	(89,036)
Net cash provided by financing activities	916,558	903,285
Net (decrease) increase in cash and cash equivalents	(7,117)	6,078
Cash and cash equivalents—beginning of year	29,878	23,800
Cash and cash equivalents—end of year	$ 22,761	$ 29,878

The accompanying notes are an integral part of these consolidated statements.

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITALIZATION

	Preferred stock	Common stock	Other paid-in capital	Accumulated deficit	Totals
			(Thousands of dollars)		
Balance at September 30, 1994	$ 8,606,247	$93,857	$4,853,194	$ (10,438,935)	$ 3,114,363
Issuance of preferred stock:					
Operating subsidy	392,000	–	–	–	392,000
Capital subsidy	264,000	–	–	–	264,000
Mandatory passenger rail service payments	150,000	–	–	–	150,000
Federal paid-in capital	–	–	119,340	–	119,340
Federal and state capital payments	–	–	21,233	–	21,233
Net loss	–	–	–	(808,207)	(808,207)
Balance at September 30, 1995	9,412,247	93,857	4,993,767	(11,247,142)	3,252,729
Issuance of preferred stock:					
Operating subsidy	285,700	–	–	–	285,700
Capital subsidy	213,400	–	–	–	213,400
Mandatory passenger rail service payments	120,000	–	–	–	120,000
Federal paid-in capital	–	–	270,842	–	270,842
Federal and state capital payments	–	–	31,314	–	31,314
Net loss	–	–	–	(763,578)	(763,578)
Balance at September 30, 1996	**$10,031,347**	**$93,857**	**$5,295,923**	**$(12,010,720)**	**$3,410,407**

The accompanying notes are an integral part of these consolidated statements.

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended September 30, 1996 and 1995

NOTE 1: NATURE OF OPERATIONS

The National Railroad Passenger Corporation (Amtrak) is an operating railroad, the controlling stock of which is owned by the United States government through the United States Department of Transportation. Its principal business is to provide national rail passenger transportation service in the major intercity travel markets of the United States to the general public. The corporation is grouped into three strategic business units organized along geographic and market segment lines. The Northeast Corridor primarily serves the region stretching from Virginia to Maine. The West serves the California-to-Washington state region. The Intercity serves regions between the two. Based on total revenues, the NEC is the largest of the three followed by the Intercity, then the West.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The financial statements reflect the consolidated operations of Amtrak, its wholly-owned subsidiaries Chicago Union Station Company (CUS) and Washington Terminal Company, and its 99% interest in 30th Street Limited, L.P. (TSL). All significant intercompany transactions have been eliminated. Certain reclassifications have been made to the prior year's statements to conform with the 1996 presentation.

TICKET REVENUE

Ticket sales are recognized as operating revenues when the related transportation services are furnished. Tickets which have been sold but not used are presented as "Deferred ticket revenue" in the Consolidated Balance Sheets.

CONTRACTED SERVICES

The Consolidated Statements of Operations include the gross revenues earned and expenses incurred under contractual arrangements to operate various commuter rail services, to provide access to the Northeast Corridor and other Amtrak-owned facilities, and to perform services for freight railroads and others.

CASH EQUIVALENTS

Amtrak considers all financial instruments purchased with a maturity of three months or less to be cash equivalents.

MATERIALS AND SUPPLIES

Materials and supplies, which are stated at weighted average cost, consist primarily of items for maintenance and improvement of property and equipment.

PROPERTY AND DEPRECIATION

Property and equipment are stated at cost, and are depreciated over their estimated useful lives using the composite straight-line method. Under this method, ordinary gains and losses on dispositions are recorded to accumulated depreciation. Property acquired through capital lease agreements are recorded as assets and are amortized over their estimated useful lives or the lease terms.

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 included in the Consolidated Balance Sheets under "Accrued expenses and other current liabilities." The non-current portion is classified as "Casualty reserves." As of September

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended September 30, 1996 and 1995

30, 1996 and 1995, the current claims liability included in accrued expenses and other current liabilities was $57,200,000 and $57,900,000, respectively.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3: BUSINESS CONDITION AND CASH FLOW

Under its authorizing legislation, Amtrak was created in 1971 to operate a nationwide system of passenger rail transportation. This continues to be the mission of Amtrak today. To operate the national passenger rail system and maintain the underlying infrastructure of that system, Amtrak relies on a combination of operating and capital subsidies provided by the federal and state governments to supplement passenger and other revenues generated from operations.

OPERATING SUBSIDY LIMITATIONS

In 1994 Congress and the Administration directed Amtrak to develop a strategy to achieve operating self-sufficiency by the year 2002. Accordingly, in December 1994, Amtrak's Board of Directors adopted a strategic and business plan for the period 1995 through 2000 to achieve the elimination or significant reduction of federal operating subsidies. Assuming diminishing operating subsidies, Amtrak management has initiated a variety of fare increases and route and service adjustments; a corporate restructuring; a substantial equipment replacement and upgrade program; a customer satisfaction and service quality focus program and cost reduction programs.

Although many improvements have resulted from these actions, their combined effect, along with an acceleration of planned reductions in the federal operating subsidy, has resulted in Amtrak not operating within its annual federal operating subsidy. In two of the past three years, the federal operating subsidy has not covered Amtrak's cash flow gap (excess of cash expenditure needs over cash inflows). As a result, Amtrak has relied on short-term borrowings from commercial banks (see Note 7 regarding the availability of such credit) to sustain operations in the latter part of two of the last three fiscal years ($60,000,000 in 1994 and $12,000,000 in 1996). These short-term borrowings were repaid from the following year's federal operating subsidies, thereby, in effect, reducing the following year's available operating subsidy.

For 1997, Amtrak projects that it will again not be able to close the revenue-to-cost gap with the federal operating appropriation. Amtrak estimates that it will have a budget deficit (operating loss plus federal and excess RRTA subsidies plus non-cash expenses) of approximately $31,000,000 in 1997. Amtrak projections for 1997 also include $66,000,000 of short-term bank borrowings in the last quarter of the year and a one-time permanent use of $40,000,000 of capital funds to pay interest on debt. Amtrak has historically paid its interest expense from operating subsidies and operating cash flows.

CAPITAL SUBSIDIES

Amtrak expects to depend on federal capital expenditures subsidies well into the future to fund major repairs to and replacements of its facilities, railway, and equipment, i.e., its capital expenditures, and for repayment of principal under long-term loans and lease arrangements. Amtrak follows a practice of borrowing funds (primarily through capital leases) for its capital equipment expenditures, with U.S. Department of Transportation concurrence (see Note 7 for current and planned debt commitments). This practice effectively spreads the financing cost over the useful life of the asset. Principal payments for capital leases and debt are funded out of future capital subsidies. Major facility and road way improvements are currently funded primarily with federal capital expenditure subsidies.

Outlook

Amtrak management continues to seek and plan for a predictable capital expenditure funding flow; increased revenues; additional non-federal assistance/subsidies; and legislative and operating changes to reduce costs and increase efficiency.

Neither management's success in fully achieving its plans nor the degree of success that Amtrak's management will have in attaining operational self-sufficiency in the time frame and phases established by the Board of Directors can be predicted. Furthermore, receipt of sufficient capital expenditure funding is not certain at this time.

Not achieving plans would likely result in such potential actions as seeking reductions in high cost services and taking other net cost reduction actions. Because the degree to which Amtrak achieves its self-sufficiency plan actions and the actual actions and events that will occur should Amtrak not achieve the desired self-sufficiency cannot be predicted, no provisions have been made in the financial statements for the effects, if any, of Amtrak not achieving the goal of operating self-sufficiency in the currently mandated pattern, or of Amtrak not having sufficient capital expenditure funding when it is needed for current expenditures or to repay borrowings associated with prior expenditures.

Note 4: 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 United States 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. Public Law 104-205 approved on September 30, 1996, provides $565,450,000 in federal funds to Amtrak for fiscal year 1997, of which $342,000,000 is for operating purposes and designated mandatory passenger rail service payments, and the balance for capital improvements. In addition Public Law 104-208 approved on September 30, 1996 as the Omnibus Consolidated Appropriations Act (Act), provides an additional $22,500,000 in federal operating funds to Amtrak for fiscal year 1997. These funds are meant to offset the financial impact to Amtrak of it not taking those of its planned November 1996 route and service actions that the Act mandated be postponed until May 1997.

Federal paid-in capital, included in the Consolidated Statements of Changes in Capitalization, includes certain funding received from the federal government to finance acquisition of and improvements to

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Notes to Consolidated Financial Statements

For the Years Ended September 30, 1996 and 1995

property and equipment. In exchange for past and prospective funding, Amtrak issued two promissory notes to the United States. The first note matures on November 1, 2082, with successive 99-year renewal terms, and is secured by certain Amtrak rolling stock. The second note matures on December 31, 2975, and is secured by Amtrak's real property. 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 and certain 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.

Note 5: Preferred and Common Stock

At September 30, 1996, 100,313,478 shares of $100 par value preferred stock were authorized, all of which were issued and outstanding. During October and November 1996, 2,332,500 shares were issued at par value increasing the total number of authorized shares issued and outstanding to 102,645,978. At September 30, 1995, 94,122,478 shares were authorized, all of which were issued and outstanding. All issued and outstanding preferred shares are held by the Secretary of Transportation for the benefit of the federal government. Dividends are to be fixed at a rate not less than 6% per annum, and are cumulative so that no dividends may be paid on the common shares prior to the payment of all accrued but unpaid dividends on the preferred shares. No dividends have been declared. The preferred stockholder is 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 10 shares of common stock at the option of the preferred stockholder.

At September 30, 1996 and 1995, 10,000,000 shares of $10 par value common stock were authorized, of which 9,385,694 shares were issued and outstanding.

Note 6: Property and Equipment

Total fixed assets presented in the Consolidated Balance Sheets consisted of the following at September 30, 1996 and 1995 (in thousands):

	1996	1995
Locomotives	$ 647,354	$ 610,745
Passenger cars	1,992,870	1,752,033
Other rolling stock	149,341	144,226
Right-of-way properties	3,237,020	3,070,833
Other properties	1,166,037	1,082,170
Leasehold improvements	202,860	201,357
	7,395,482	6,861,364
Less—Accumulated depreciation and amortization	(2,605,599)	(2,392,902)
Net property and equipment	$ 4,789,883	$ 4,468,462

Note 7: Borrowing Arrangements

Total equipment and other debt presented in the Consolidated Balance Sheets consisted of the following at September 30, 1996 and 1995 (in thousands):

	1996		1995	
	Current	Long-term	Current	Long-term
Equipment obligations	$ 4,751	$292,049	$ 2,318	$158,565
Credit agreements	34,500	3,000	8,500	25,500
Notes payable	5,540	31,999	5,540	37,539
Bonds	-	30,000	-	30,000
Construction loan	4,683	7,506	4,696	12,189
UDAG loan	130	12,357	130	12,487
	$49,604	$376,911	$21,184	$276,280

In 1991, Amtrak entered into an agreement with a manufacturer for the construction of 140 passenger cars. In December 1993, Amtrak exercised an option to have 55 additional cars constructed. Under the terms of a loan agreement with a third-party lender, Amtrak has borrowed funds in the form of advances made by the lender to the manufacturer toward the base order cars' and option cars' construction. Interest on amounts advanced is being charged to Amtrak during construction, is payable quarterly, and is being capitalized. Interest capitalized during the years ended September 30, 1996 and 1995 totaled $1,280,000 and $4,563,000, respectively. During 1995, reductions to principal owed took place as portions of principal relating to delivered cars were refinanced under a separate capital leasing arrangement. During 1995, such principal reductions totaled $28,263,000 relating to 16 cars delivered under the base order. Altogether, Amtrak has taken delivery of all 140 cars under the base order at September 30, 1996. Principal repayments of all remaining outstanding advances pertaining to the 140 base order cars are due in consecutive quarterly installments through September 2015. Principal repayments of all outstanding advances pertaining to the 55 option cars are due in 80 consecutive quarterly installments commencing the third month following the last option car's delivery. Amtrak had taken delivery of 53 cars under the option order at September 30, 1996, with the final 2 delivered in October 1996. All outstanding base and option order debt amounts are secured by the finished passenger cars.

Under a short-term financing arrangement Amtrak began taking delivery of 50 newly constructed passenger cars in fiscal year 1996, with 38 having been delivered as of year end. The related borrowing bears interest at the LIBOR and will be refinanced on a long-term basis within 60 days following delivery of the 50th car in early fiscal year 1997. Accordingly the borrowing is included in long-term debt in the Consolidated Balance Sheet under "Equipment and other debt."

Amtrak has $150,000,000 of unsecured lines of credit with banks expiring in December 1996. Borrowings under these agreements bear interest based on the London Interbank Offered Rate (LIBOR), certificate of deposit rates, or prime rate. Amtrak pays various

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Notes to Consolidated Financial Statements

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fees on these credit lines. As of September 30, 1996, Amtrak had drawn $12,000,000 from lines of credit that expire in December 1996, all of which was repaid in October 1996.

On December 12, 1996, Amtrak received commitments from a consortium of banks to participate in a $150 million revolving credit facility. The facility is available to Amtrak through December 1997. Lines of credit arranged under this facility are expected to contain substantially similar terms and conditions as the agreements which expire in December 1996.

Under a credit agreement, Amtrak has a $9,000,000 outstanding balance at September 30, 1996, bearing interest at the LIBOR. This amount is being repaid in $1,500,000 quarterly installments through March 1998. Under another credit agreement, Amtrak has a $16,500,000 outstanding balance at September 30, 1996, bearing interest at the LIBOR. This amount was repaid in October 1996.

Under a term note, Amtrak has a $6,435,000 outstanding balance due at September 30, 1996, bearing interest at the LIBOR. This amount is being repaid in $585,000 quarterly installments through June 1999. In December 1993, Amtrak acquired a parking facility located in Chicago in exchange for a $20,000,000 promissory note bearing a fixed rate of interest and due in full in December 2003. The seller has secured a mortgage on the facility as well as an irrevocable unconditional $4,000,000 letter of credit as collateral.

At September 30, 1996, CUS is obligated to repay $11,104,000 under a noninterest bearing note payable. The note is being repaid in $3,200,000 annual installments each October 31st through 1997, and on November 2, 1998. The remaining balance is then due on November 1, 1999. Amtrak is guaranteeing payment of all amounts due.

Included in TSL's long-term debt at September 30, 1996 are $30,000,000 of Philadelphia Authority for Industrial Development tax-exempt private-activity bonds (Bonds) issued for the benefit of TSL's rehabilitation of 30th Street Station (Station) in the city of Philadelphia, Pennsylvania (City). The Bonds were issued on December 30, 1987, mature on January 1, 2011, and bear interest at a fixed or variable rate as stipulated in the bond indenture. Interest is payable until maturity at intervals determined under provisions in the bond indenture. No amortization of bond principal prior to maturity is required. Amtrak is required to make annual deposits into a sinking fund to be used to pay off the bonds when they mature. As of September 30, 1996 Amtrak's aggregate deposits into the fund were $2,200,000. Since the Bonds are subject to optional tender by the bondholders, TSL has executed a Liquidity Facility which provides funds to purchase the Bonds surrendered under the optional tender provisions.

TSL has a construction loan agreement which at TSL's option bears interest at the LIBOR or the prime rate. Principal repayment is due in annual installments each April to be paid in full by November 17, 1998. The loan is secured by a leasehold mortgage on TSL's right and interest in the Station.

TSL has an obligation to the City under an Urban Development Action Grant (UDAG) loan agreement as of September 30, 1996. Principal is being repaid in $130,000 annual installments each November 29th through 2011 with the balance due on November 29, 2012. The City's rights under the UDAG loan agreement are secured by a leasehold mortgage. The UDAG loan bears no interest.

The weighted average interest rate on all interest-bearing borrowings was 7.2% and 7.5% per annum at September 30, 1996 and 1995, respectively.

At September 30, 1996, scheduled maturities of long-term equipment and other debt over the next five years are as follows:

Year Ending September 30	Amounts *(In Thousands)*
1997	$ 49,604
1998	19,744
1999	14,890
2000	9,161
2001	8,486
Thereafter	324,630
	$426,515

Note 8: Leasing Arrangements

Capital Leases

Amtrak leases items of equipment, primarily passenger cars and locomotives, under capital leasing arrangements. At September 30, 1996 and 1995, the gross amount of assets recorded under capital leases was $638,505,000 and $603,722,000, respectively, with accumulated amortization of $130,960,000 and $100,283,000, respectively. At September 30, 1996, future minimum lease payments under capital leases were as follows:

Year Ending September 30	Amounts *(In Thousands)*
1997	$ 47,787
1998	50,480
1999	55,180
2000	54,313
2001	62,160
Thereafter	728,160
	998,080
Less amount representing interest	437,600
Present value of minimum lease payments at September 30, 1996	$560,480

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended September 30, 1996 and 1995

OPERATING LEASES

At September 30, 1996, Amtrak was obligated for the following minimum rental payments, principally for station and office space, under operating leases that have initial or remaining noncancelable lease terms in excess of one year:

Year Ending September 30	Amounts *(In Thousands)*
1997	$ 9,801
1998	8,166
1999	6,370
2000	6,139
2001	5,564
Thereafter	66,589
	$102,629

Rent expense for the years ended September 30, 1996 and 1995 was $28,805,000 and $25,236,000, respectively.

NOTE 9: CONTINGENCIES

Amtrak is involved in various litigation and arbitration in the normal course of business. While the outcome of these matters cannot be predicted with certainty, it is the opinion of management and counsel that the disposition of these matters will not materially affect Amtrak's consolidated financial statements.

Amtrak has self-insured certain risks with respect to losses for third-party liability and property damage. Insurance coverage for liability losses from $10,000,000 to $200,000,000 is provided through a railroad industry captive insurance company and commercial insurance companies.

NOTE 10: RETIREMENT BENEFITS

PENSION PLAN

Amtrak has a qualified noncontributory defined benefit retirement plan held in trust covering nonunion employees and certain union employees (Plan). Benefits are based on years of credited service, and the employee's average compensation during the five highest consecutive years. Amtrak's funding policy is to periodically contribute amounts recommended by outside actuaries. The following tables set forth the Plan's funded status, amounts recognized in the Consolidated Balance Sheets at September 30, 1996 and 1995, and components of the net pension expense for 1996 and 1995 (amounts in thousands):

	1996	1995
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of $81,170 and $77,573, respectively	$ 82,013	$ 78,398
Plan assets at fair value, primarily fixed income investments and listed stocks	$121,085	$109,298
Projected benefit obligation for service rendered to date	101,328	100,468
Plan assets in excess of projected benefit obligation	19,757	8,830
Unrecognized prior service cost being amortized over 13.9 years	5,031	5,900
Unrecognized net gain	(29,203)	(18,187)
Unrecognized net asset existing at October 1, 1986 being amortized over 11.6 years	(1,735)	(2,781)
Accrued pension expense recognized in Consolidated Balance Sheets	$ (6,150)	$ (6,238)
Net pension expense for 1996 and 1995 included the following components:		
Service cost—benefits earned during the period	$ 3,837	$ 3,766
Interest cost on projected benefit obligation	7,059	6,852
Actual return on Plan assets	(16,586)	(16,267)
Net amortization and deferral	6,695	7,955
Curtailment gain	(1,394)	(2,051)
Net pension (credit) expense	$ (389)	$ 255

The weighted average discount rate used in determining the projected benefit obligation was 7.5% in 1996 and 1995. The projected rate of increase in future compensation levels was 4.0% in 1996 and 1995. The assumed long-term rate of return on Plan assets was 8.00% in 1996 and 1995. The unfunded accrued pension cost at September 30, 1986, is being amortized over the remaining average service life of Plan members, and $511,000 and $819,000, net of amortization, is included under "Postretirement employee benefits obligation" in the Consolidated Balance Sheets at September 30, 1996 and 1995, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended September 30, 1996 and 1995

OTHER POSTRETIREMENT BENEFITS

Amtrak provides medical benefits to its retirees and life insurance to some retirees in limited circumstances. Substantially all salaried employees may become eligible for medical benefits if they meet the service requirement and reach the normal retirement age while still working for Amtrak. Company-provided medical benefits are reduced when covered individuals become eligible for Medicare benefits or reach age 65, whichever comes first. Medical benefits are subject to copayment provisions and other limitations. Amtrak continues to fund its postretirement benefits program on a pay-as-you-go basis. Cash payments on these benefits were \$3,318,000 and \$2,526,000 for 1996 and 1995, respectively. Railroad agreement employees' healthcare and life insurance benefits are covered by a separate multiemployer plan, and therefore are not subject to the provisions of this statement. The following tables set forth the liability recognized in the Consolidated Balance Sheets at September 30, 1996 and 1995 and components of the net postretirement benefits expense for 1996 and 1995 (amounts in thousands):

	1996	1995
Accumulated postretirement benefit obligation:		
Former employees	\$ 38,288	\$ 32,170
Fully eligible active employees	7,664	6,886
Other active employees	31,983	35,781
Unrecognized net gain	28,197	29,288
Total postretirement benefits liability	\$106,132	\$104,125
Net postretirement benefits expense for 1996 and 1995 included the following components:		
Service cost—benefits earned during the period	\$ 2,488	\$ 2,823
Interest cost on accumulated benefit obligation	5,461	5,239
Net amortization	(1,450)	(1,388)
Curtailment gain	(1,174)	(5,308)
Net postretirement benefits expense	\$ 5,325	\$ 1,366

The weighted average discount rate used in determining the accumulated benefit obligation was 7.5% in 1996 and 1995. For measuring the expected benefit obligation, 7.5% and 8.0% annual rates of increase in the per capita claims cost were assumed for fiscal years 1996 and 1995, respectively. This rate was assumed to decrease to 7.0% in 1997, then gradually decrease to 4.5% by 2002, and remain at that level thereafter. If the assumed healthcare cost trend rate were increased by one percentage point each year, the 1996 net postretirement benefit expense and the related accumulated benefit obligation would increase by \$1,488,000 and \$12,760,000, respectively.

Note 11: Environmental Matters

Some of Amtrak's past and present operations involve activities which are subject to extensive and changing federal and state environmental regulations which can give rise to environmental issues. As a result of its operations and acquired properties, Amtrak is from time to time involved in administrative and judicial proceedings and administrative inquiries related to environmental matters.

In 1976, Amtrak acquired its Northeast Corridor properties. These properties had been occupied and used for many years by a railroad which had declared bankruptcy during the early 1970's. It is Amtrak's policy to capitalize recoverable remediation costs for properties acquired with existing environmental conditions and to expense remediation costs incurred on properties for environmental clean-up matters occurring after acquisition. This reserve is periodically adjusted based on Amtrak's present estimate of the costs it will incur related to these sites and/or actual expenditures made. At September 30, 1996 and 1995, the reserve balance stood at $39,454,000 and $47,475,000, respectively. Of these amounts $38,458,000 and $45,775,000 relate to estimated capitalizable costs to be incurred as of September 30, 1996 and 1995, respectively. Accordingly, at September 30, 1996 and 1995, a deferred charge for each amount is included in the Consolidated Balance Sheets under "Deferred charges and other". Amtrak has not recorded any receivables for recoveries from other parties or from insurance because such recoveries are not sufficiently certain.

Amtrak's management and counsel believe that additional future remedial actions that might be taken or required, if any, will not be material to Amtrak's financial position.

Note 12: 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. Revenue is recognized in other revenues to the extent restrictions have been lifted and funds released to Amtrak. For the years ended September 30, 1996 and 1995, Amtrak recognized revenue of $9,191,000 and $36,933,000, respectively, from these restricted funds.

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Notes to Consolidated Financial Statements

For the Years Ended September 30, 1996 and 1995

Note 13: Fair Value of Financial Instruments

For cash and cash equivalents and accounts receivable, the carrying amounts approximate fair value because of the short maturities of these instruments. The carrying amounts of the credit agreements, bonds, construction loan, and portions of notes payable and equipment obligations approximate fair value. All charge interest at rates that are periodically adjusted to market.

The estimated fair values of remaining equipment obligations and notes payable were based upon discounted cash flow analyses using interest rates available to Amtrak and CUS at September 30, 1996 and 1995 for debt with the same remaining maturities. Although by nature interest free, the UDAG loan was also valued based upon a discounted cash flow analysis using September 30, 1996 and 1995 market interest rates. The estimated fair values of these financial instruments are as follows (amounts in thousands):

	1996		1995	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes payable	$ 37,539	$ 27,646	$ 43,079	$ 31,056
Equipment obligations	$296,800	$303,886	$160,883	$170,661
UDAG loan	$ 12,487	$ 4,337	$ 12,617	$ 3,892

Note 14: Restructuring Charges

In 1994, Amtrak announced its plan for a major reorganization of the corporation around definable strategic business units (SBUs) and as a result recorded a restructuring charge. The charge included severance and other personnel reduction costs, as well as the writedown of old and inefficient rolling stock to be disposed of as routes and services were adjusted.

During 1996 and 1995, workforce and equipment related charges were made against the reserve. As of September 30, 1996, $15,213,000 of the reserve remains to be utilized in future years primarily for remaining equipment writedowns.

NOTE 15: SUPPLEMENTAL CASH FLOW INFORMATION

For the years ended September 30, 1996 and 1995, 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):

	1996	1995
■ Net increase in obligation due to third-party lenders in connection with the construction and lease refinancing of passenger cars	$112,810	$69,408
■ Interest earned on escrowed proceeds of tax benefits sales	$ 112	$ 2,375
■ Capital lease obligations incurred in connection with the leasing of new equipment	$ 34,160	$47,968

Cash interest of $62,890,000 and $43,411,000 was paid during the years ended September 30, 1996 and 1995, respectively.

Management Report

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

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 provides reasonable assurance, not absolute, that the related records fairly reflect all transactions in accordance with management's authorization, and are properly recorded so that reliable financial records are maintained and reports can be prepared. 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.

An important part of the internal controls system, is Amtrak's 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 reviews the system of internal controls and financial reporting. The Board 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 Price Waterhouse LLP has performed an independent examination of the financial statements and has full and free access to meet with the Board, without management representatives present, to discuss the results of the audit.

Tom Downs

Thomas M. Downs
Chairman, President and CEO

Alfred S. Altschul

Alfred S. Altschul
Chief Financial Officer

Statistical Appendix to Amtrak FY96 Annual Report

Performance Indicator	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96
Revenues (in millions)										
Transportation	604	703	801	855	887	856	870	809	808	838
Food & Beverage	52	64	69	75	78	74	73	71	66	63
403B Services	11	9	8	13	16	21	26	33	36	64
Passenger Related	666	775	879	942	980	950	969	913	910	965
Commuter Fees	59	58	73	76	80	81	84	83	92	84
Freight	29	27	21	18	15	17	16	17	19	18
Real Estate	28	40	52	39	39	34	42	38	31	37
Mail Baggage & Express	33	35	37	38	47	48	53	59	61	67
Other	54	38	50	46	32	16	22	42	64	41
Other	204	197	233	218	214	196	217	239	267	248
Commuter Operating	49	79	83	90	99	116	162	184	213	234
Reimbursable	54	55	75	58	65	63	55	77	107	108
Total Revenue	**974**	**1,107**	**1,269**	**1,308**	**1,359**	**1,325**	**1,403**	**1,413**	**1,497**	**1,555**
Expenses by Major Accounts (in millions)										
Salaries Wages and Overtime	621	680	722	738	733	746	811	856	865	857
Employee Benefits	242	287	312	338	342	330	343	349	355	354
Post-retirement Benefits	-	-	-	-	-	-	-	101	-	-
Employee Related	15	14	19	21	19	20	23	24	21	25
Facility and Office Related	112	121	131	144	140	148	149	153	172	181
Train Operations	344	317	354	381	408	382	359	358	321	321
Maintenance of Way Goods and Services	37	40	48	40	40	42	43	45	73	59
Advertising and Sales	63	72	89	93	96	92	90	91	90	109
Financial	88	65	80	72	79	81	102	185	144	149
Depreciation	163	154	166	182	203	206	206	245	230	238
Restructuring Charges	-	-	-	-	-	-	-	72	15	-
Other Expenses	(13)	7	14	3	20	(10)	7	12	19	25
Total Expenses	**1,672**	**1,757**	**1,935**	**2,012**	**2,081**	**2,037**	**2,134**	**2,490**	**2,305**	**2,318**
One-time Charges	-	-	-	-	-	-	-	244	-	-
Total Expenses excluding one-time charges[1]	**1,672**	**1,757**	**1,935**	**2,012**	**2,081**	**2,037**	**2,134**	**2,246**	**2,305**	**2,318**
Operating Loss	**(699)**	**(650)**	**(665)**	**(703)**	**(722)**	**(712)**	**(731)**	**(834)**	**(808)**	**(764)**
Federal Subsidies (in millions)										
Federal Operating Grant	579	532	554	520	343	331	351	352	392	285
Excess Railroad Retirement Taxes	-	-	-	-	145	150	147	150	150	120
Federal Capital Progressive Overhaul	-	-	-	-	-	-	-	-	-	36
Total Federal Subsidies	**579**	**532**	**554**	**520**	**488**	**481**	**498**	**502**	**542**	**441**
Net Loss	**(120)**	**(118)**	**(111)**	**(183)**	**(234)**	**(231)**	**(233)**	**(332)**	**(266)**	**(322)**
Noncash	163	154	166	182	203	206	206	256	254	240
Budget Result	**44**	**35**	**54**	**(2)**	**(31)**	**(25)**	**(27)**	**(76)**	**(12)**	**(82)**

Performance Indicator	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96
Federal Subsidies Appropriated (in millions)										
Federal Operating Grant	579	532	554	520	343	331	351	352	392	285
General Capital Funding	27	46	29	84	132	175	190	195	230	230
NECIP / NHRIP Funding	12	28	20	24	179	205	204	225	200	115
Federal Subsidies Drawn (in millions)										
Federal Operating Grant	579	532	554	520	343	331	351	351	392	286
General Capital Funding	-	31	23	39	186	173	114	140	264	213
NECIP / NHRIP Funding	69	37	38	20	37	180	117	110	125	264
Financial Ratios										
Operating Ratio (Total Expenses[1]/Revenue)	**1.72**	**1.59**	**1.52**	**1.54**	**1.53**	**1.54**	**1.52**	**1.59**	**1.54**	**1.49**
Current Assets (in millions)	329	323	366	341	270	246	234	199	223	214
Current Liabilities (in millions)	216	211	282	314	306	313	334	426	372	409
Working Capital Ratio	**1.52**	**1.53**	**1.29**	**1.08**	**0.88**	**0.79**	**0.70**	**0.47**	**0.60**	**0.52**
Cash (in millions)										
Year-end Cash and Cash Equivalents	161	108	113	77	31	36	25	24	30	23
Customer Satisfaction Index[2]										
Amtrak Systemwide	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	81	82
Northeast Corridor	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	79	81
Intercity	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	81	83
Amtrak West	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	87	87
On-time Performance										
Total System	74%	71%	75%	76%	77%	77%	72%	72%	76%	71%
Short Distance (under 400 miles)	78%	76%	81%	82%	82%	82%	79%	78%	81%	76%
Long Distance (400 miles or more)	62%	54%	54%	53%	59%	61%	47%	49%	57%	49%

Performance Indicator	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	
Hours of Delay											
Equipment Malfunctions	2,122	3,117	2,712	1,855	3,007	3,256	3,809	3,422	1,576	1,353	
Train Servicing in Stations	1,114	1,387	1,256	673	988	1,041	1,701	2,015	1,421	1,259	
Passenger Related Delays	2,260	2,821	2,056	1,037	1,920	2,137	2,979	3,101	2,530	2,581	
Delay due to Amtrak	5,496	7,325	6,025	3,565	5,915	6,433	8,488	8,538	5,527	5,193	21%
Maintenance of Way/ Slow Orders	2,521	4,073	3,400	1,261	3,010	2,636	4,721	4,934	4,165	4,417	
Freight Train Interference	1,364	2,072	2,257	1,252	1,479	2,033	3,923	4,699	3,360	3,459	
Signal Delays	2,082	3,070	3,240	1,732	3,254	3,560	4,183	4,686	3,699	3,562	
Delay due to Freight Railroads	5,966	9,215	8,898	4,244	7,743	8,229	12,827	14,319	11,224	11,438	46%
Passenger Train Interference	1,820	2,685	2,284	1,056	2,631	2,971	3,803	4,175	3,551	3,105	
Waiting for Connections	1,487	1,952	1,842	1,019	1,180	1,049	1,647	1,652	446	865	
Miscellaneous	2,868	2,916	2,628	1,478	2,246	2,903	4,346	4,245	3,231	2,949	
Running Time	663	1,270	897	414	1,051	1,046	1,183	1,127	1,091	972	
Weather Related Delays	359	409	379	350	318	216	696	672	177	534	
Delay due to Other Factors (hours)	7,197	9,232	8,029	4,316	7,426	8,185	11,675	11,871	8,497	8,425	33%
Total Hours of Delay	18,659	25,773	22,952	12,126	21,084	22,847	32,991	34,729	25,248	25,056	100%
Operating Statistics											
Passenger Miles[3] (in millions)	5,221	5,678	5,859	6,057	6,273	6,091	6,199	5,921	5,545	5,050	
Northeast Corridor	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1,730	1,730	1,618	
Intercity Rail Service	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3,658	3,298	2,893	
Amtrak West	n/a	n/a	n/a	n/a	n/a	n/a	n/a	533	517	539	
Seat Miles (in millions)	10,023	10,692	11,328	12,052	12,251	11,955	11,914	11,972	11,939	10,902	
Northeast Corridor	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4,085	4,327	4,004	
Intercity	n/a	n/a	n/a	n/a	n/a	n/a	n/a	6,646	6,288	5,528	
Amtrak West	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1,241	1,324	1,370	
Load Factor (Passenger Miles/Seat Miles)	52%	53%	52%	50%	51%	51%	52%	49%	46%	46%	
Northeast Corridor	n/a	n/a	n/a	n/a	n/a	n/a	n/a	42%	40%	40%	
Intercity	n/a	n/a	n/a	n/a	n/a	n/a	n/a	55%	52%	52%	
Amtrak West	n/a	n/a	n/a	n/a	n/a	n/a	n/a	43%	39%	39%	
Amtrak Systemwide Route Miles (in thousands)	24	24	24	24	25	25	25	25	24	25	
Northeast Corridor	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2	2	2	
Intercity	n/a	n/a	n/a	n/a	n/a	n/a	n/a	21	20	21	
Amtrak West	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2	2	2	
Train Miles (in millions)	30	30	31	33	34	34	35	34	32	30	
Passenger Miles Per Train Mile (PM/TM)[3]	176.8	188.3	188.4	183.3	184.5	176.8	177.6	172.6	171.7	168.3	
Ticket Yield (Ticket Revenue per Pax Mile) cents	11.8	12.7	14.0	14.5	14.5	14.3	14.3	14.0	14.9	16.9	
Yield (Pax Related Revenue per Pax Mile) cents	12.8	13.6	15.0	15.6	15.6	15.6	15.6	15.4	16.4	19.1	
Average Trip Length of Passengers (miles)	255.4	264.1	274.2	273.0	284.1	285.2	280.9	271.1	267.6	256.7	
Total Revenue per Seat Mile (cents)	9.7	10.4	11.2	10.9	11.1	11.1	11.8	11.8	12.5	14.3	
Total Expense per Seat Mile[1] (cents)	16.7	16.4	17.1	16.7	17.0	17.0	17.9	18.8	19.3	21.3	

Performance Indicator	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96
Core Revenue per Seat Mile (cents)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	9.4	9.5	10.2
Core Expense per Seat Mile[1] (cents)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	16.8	16.7	17.9
Ridership (Passenger Trips) (in millions)										
Northeast Corridor	10.7	11.2	11.1	11.2	10.9	10.1	10.3	11.7	11.6	11.0
Intercity	9.7	10.3	10.3	11.0	11.1	11.2	11.8	6.3	6.1	5.4
Amtrak West	Intercity and Amtrak West ridership are combined in the above number							3.1	3.0	3.3
Amtrak System	20.4	21.5	21.4	22.2	22.0	21.3	22.1	21.2	20.7	19.7
Contract Commuter Passenger Trips (in millions)	10.2	15.4	17.4	18.0	18.1	20.3	29.3	33.3	34.5	36.7
Total Ridership (Amtrak & Commuter) (in millions)	30.6	36.9	38.8	40.2	40.1	41.6	51.4	54.5	55.2	56.4
Stations Served by Amtrak	487	498	504	516	523	524	535	540	530	542
Locomotives Units										
Operating Fleet[4]	289	298	312	318	316	336	360	338	313	299
Available for Service (Year-end Daily Average)[5]	88%	87%	84%	84%	86%	83%	84%	85%	88%	88%
Diesel Units (New Deliveries)	-	9	8	-	-	20	26	18	10	-
Electric Units (New Deliveries)	-	2	5	-	-	-	-	-	-	-
Year-end Average Age of Locomotives (years)	9.0	10.0	11.0	12.0	13.0	13.0	13.2	13.4	13.9	14.4
Passenger/Other Train Cars										
Operating Fleet[4]	1,705	1,710	1,742	1,863	1,786	1,796	1,853	1,852	1,722	1,730
Available for Service (Year-end Daily Average)[5]	88%	87%	90%	90%	92%	90%	89%	88%	90%	90%
Cars (New Deliveries)	-	-	45	58	-	-	-	64	76	105
Superliner	-	-	45	58	-	-	-	64	72	56
Viewliner	-	-	-	-	-	-	-	-	4	36
Year-end Average Age of Cars (years)	15.6	16.6	17.5	20.0	21.0	21.5	22.6	22.4	21.8	20.7

Notes

[1] FY94 expenses excludes one-time charges of $243.8 Million consisting of restructuring cost ($71.5M), prior year post-retirement benefits ($90.6M), and casualty and accident liability ($81.6M).

[2] The overall CSI is a calculated number based on a 100 point scale reflecting the composite of 13 drivers of customer satisfaction. FY 1995 numbers are based on an average of May - September, 1995.

[3] Passenger Miles do not include contract commuter passengers.

[4] Includes active units only.

[5] Available for Service Units are Active Units less Backshop Units undergoing heavy maintenance less Bad Ordered Units undergoing progressive maintenance and running repairs.

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