1995 ANNUAL REPORT

"WE'RE ON A ROLL"

Amtrak®

Presenting
...The New Amtrak

Amtrak made dramatic changes for the better in 1995.

It was a pivotal year for America's passenger rail corporation. We restructured our company, making it financially more viable and better able to meet the challenges of the coming decade.

We modernized our equipment, made our routing more efficient, and found inventive new ways to meet the special regional needs of our passengers.

We required no short-term borrowing of any kind.

We created new partnerships with state and local governments, as well as private companies, to ensure continued Amtrak service throughout the nation.

We conducted public forums around the country to invite comments about how we can better serve our passengers.

We effectively made our case to local, state and federal officials that passenger rail is an essential component — a vital link — in a balanced national transportation system.

The Bottom Line?

In 1995, Americans and foreign travellers throughout the country took more than 55 million trips aboard Amtrak-operated trains. We understand that our customers count — and that we're in the business to provide them with a safe, convenient and affordable way to travel.

The Amtrak of tomorrow will continue to put our customers' needs first — and to keep searching for fresh ways to maintain the loyalty of our passengers and convince new riders that Amtrak is a great way to travel in America today.

Board of Directors

first row from left: ***Thomas Downs, Daniel Collins, Jolene Molitoris*** *(alternate)*
second row from left: ***Sylvia de Leon, Robert Kiley, Mortimer Downey*** *(alternate),* ***Roy Neel***
third row from left: ***Thomas Carper, Don Pease***
not pictured: ***Anne Canby*** *(alternate)*

Federico Peña
United States Secretary of Transportation
Amtrak preferred shareholder

Celeste Pinto McLain

Letter
from the President

Every day in 1995, thousands of Americans came aboard Amtrak trains in more than 500 communities throughout our nation. Many took trains to commute to work; some to visit friends and family; others simply to take in the many scenic wonders of the United States. Students. Grandparents. Executives. Young families on their first vacation. In all, Americans and foreign visitors boarded Amtrak for 55 million trips on commuter, short, medium and long-distance passenger rail service.

These customers are the soul of Amtrak; and today, more than ever, serving our passengers remains our highest priority.

Last year, we made dramatic changes — always with our passengers in mind. First and fundamentally, we restructured the company to ensure its financial stability. Under the masterful guidance of Betsy Reveal, Amtrak's Chief Financial Officer, the company developed a plan to streamline the system, make routes more efficient, and upgrade services even though this required making tough financial choices. This plan, embraced by the Board of Directors, was successfully implemented by Amtrak's talented management team and dedicated employees.

Passenger loyalty is important to us. We were especially grateful that, through all these adjustments, our customers stayed with Amtrak. Last year, we asked for input from our passengers in seven public forums held throughout the country. The more than 2,000 participants in these dialogues voiced their strong support for a national passenger rail system. They told us what they liked and didn't like about our trains. We listened. We are still listening and acting on their comments.

In 1995 we also welcomed the support of state and local authorities. Eight states increased their financial support in partnerships using state funds to help maintain Amtrak services in their cities and towns.

Clearly, the hardest part of the year was the necessity of reducing the workforce to achieve this turnaround. Fortunately, our success in retaining ridership and revenue, as well as the improved partnerships with states, resulted in half as many lay-offs as we anticipated. However, over 2,200 dedicated employees left our employment, including over 600 managers. While it troubles me when even one employee loses a job, I am grateful there were fewer losses than we expected.

Amtrak has become and will remain a vital link in the national transportation network — reaching many communities that have neither air service nor bus transportation available. Passenger rail is a welcome alternative to automobile travel — helping to cut down on highway congestion and air pollution, while moving more people, more safely.

As the National Safety Council has concluded, passenger rail remains one of the safest ways to travel. We continue to maintain that record by assuring that all Amtrak trains are kept in top condition, operated safely, and that our on-board personnel are well trained for any emergency.

As we enter the next fiscal year and mark our 25th anniversary, Amtrak is crackling with new energy and enthusiasm. With the leadership of a dynamic and active Board of Directors — and the continued dedication of able and committed staff — Amtrak proudly makes this pledge: to make customer comfort and satisfaction our highest priority, and to invest in rail passenger service for the long-term so that our trains can carry our future passengers with pride and with confidence into the 21st century and beyond.

When we say "Welcome Aboard," we want our customers to know that we are grateful that they chose Amtrak and that we are there to make their travel as pleasant as we can. We are always mindful that today, Amtrak's future looks bright because of the people we are proud to serve.

Sincerely,

Thomas M. Downs
Chairman and Chief Executive Officer

A turnaround plan that is *Working*

THE BEGINNING

In 1970, Congress established Amtrak, the National Railroad Passenger Corporation, to keep passenger trains running when private railroads were abandoning passengers for more lucrative freight business. Amtrak's mandate was to provide a modern, affordable and energy-efficient mode of transportation, accessible throughout the United States.

While the creation of Amtrak was a welcome and much needed development, the company inherited a railway in need of repair and modernization and a routing system that was ill planned. At the same time, the new company was undercapitalized and therefore unable to make the changes necessary to become a commercially successful railway system. During the late '70s and early '80s, the federal government made a substantial capital investment in Amtrak. Also at that time, higher gasoline prices and increased concerns about air quality brought more riders from the highways onto the trains. The result was a healthy level of ridership and stable revenues.

Attendants' uniforms were lively and modern in Amtrak's early days, but the company inherited a railway in need of repair.

A LOOMING FINANCIAL CRISIS

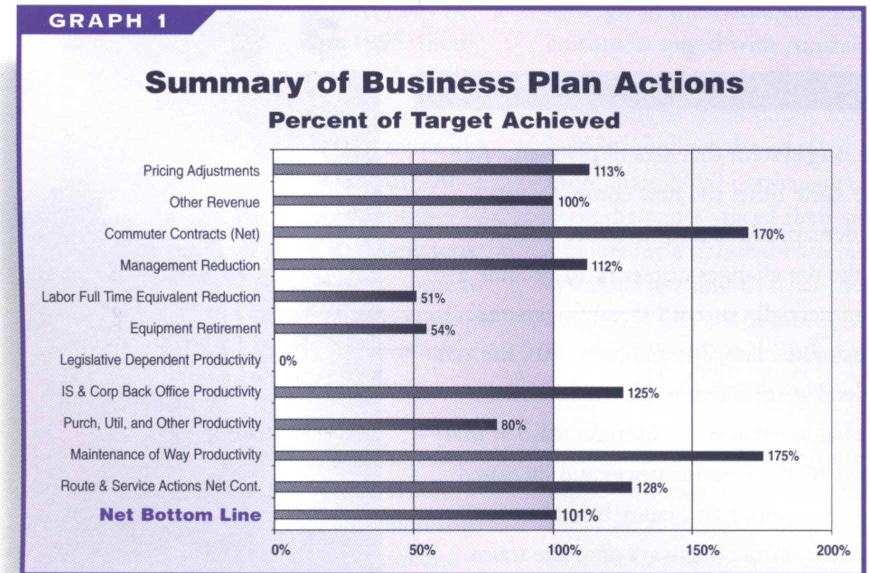
Amtrak's financial situation began to worsen in the mid-'80s, as federal capital support all but disappeared and operating losses, which rose dramatically from 1971 to 1983, did not improve with a $745 million average loss per year from 1984 to 1994. Capital investment was inadequate. By the early '90s, Amtrak's cash balance had declined considerably.

By October 1994 Amtrak faced a financial crisis. Economic forecasts indicated that a $240 million cash shortfall would occur by September of 1995 unless major cost and revenue actions were taken. Both the Administration and the Congress were questioning continued federal support. Investors were growing increasingly concerned about the lack of clarity in the federal commitment to passenger rail and the deteriorating financial indicators.

Amtrak's financial situation began to worsen in the mid-'80s, as federal capital support all but disappeared.

SOLVING THE PROBLEM

When the Board of Directors met in December of 1994, it was clear that a plan had to be undertaken to save the company. In recognition of the changing legislative environment, the Board adopted the aggressive goal of phasing out the need for federal operating subsidies by 2002. It planned to do this through more businesslike, customer-focused practices making the company investment-ready for increased federal capital funding. This policy represented a marked change from the annual scramble for adequate operating funds to a stronger capital base ensuring the corporation's long-term future. The challenge was to adopt an aggressive financial management plan without harming the future of the company by cutting too deeply and adversely affecting the quality of service.



The FY95 Strategic Business Plan was focused on two things: Survival and transition to a new Amtrak...

We achieved both.

The plan the Board and management developed was designed to capitalize commercially on Amtrak's route and service system and, at the same time, increase customer satisfaction and product quality. The plan was structured to significantly reduce costs while enhancing strategic partnerships with states, localities and transit authorities.

A major reorganization was needed because the company was not properly structured to implement an aggressive and market-focused strategy. The process of regrouping into *strategic business units* (SBUs)—already underway even before the full magnitude of the financial challenge was evident — was accelerated. Amtrak's Northeast Corridor unit (NEC) started operation in October of 1994; Intercity Rail Service (Intercity) in January of 1995; and Amtrak West in March of 1995.

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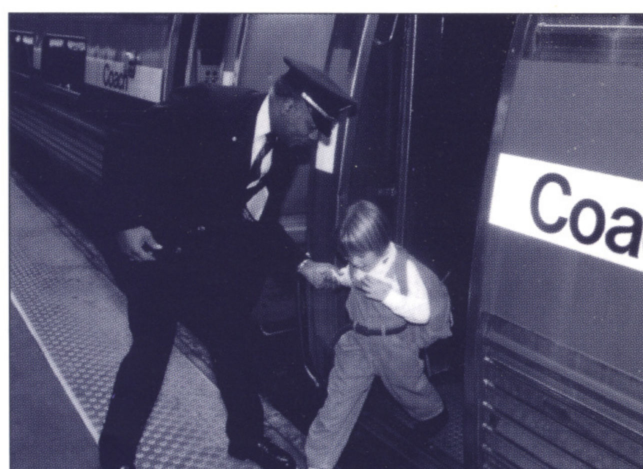


The creation of strategic business units has brought Amtrak's decision-making closer to the platform. Metroliner conductor Walter Garrett has served Amtrak customers since 1984.

REACHING OUR GOALS

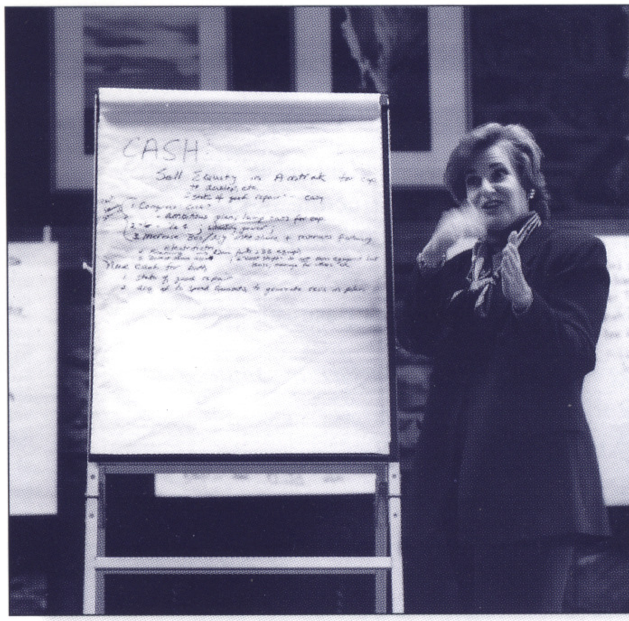
By the end of the fiscal year, Amtrak reached 101% of the plan's financial goals![1] Compared to Amtrak's projected performance before implementing changes, Amtrak achieved:

- $171 million bottom-line improvement in FY 1995;
- $320 million improvement on an annualized basis (in '96 dollars); and
- 84% of the original annualized goal before state service "buybacks."

As a result of the success of the 1995 Strategic Business Plan, Amtrak[2]:

- Cut its operating losses[3] down to $808.2 million;
- Cut net operating losses[4] down to $266.2 million;
- Closed the budget deficit to $12.3 million[5]; and
- Ended the year with $29.9 million in cash and cash equivalents and no outstanding short-term borrowings under Amtrak's lines of credit — instead of a $240 million cash shortfall in FY 1995 as originally projected.

Amtrak reduced base core business[6] expenses by more than $161 million[7] (or 7.5%) in FY 1995 and $318 million (or 16.4%) on an annualized basis.



Amtrak's Board adopted the aggressive goal of phasing out the need for federal operating subsidies by 2002. Above, Board member Celeste Pinto McLain.

Total revenues were $151.5 million higher than plan for the year and core business total revenues were $61.5 million better than plan for the year. Core business expenses were $55.1 million off plan, due to service "buybacks," other necessary route and service actions, $22.4 million in claims adjustment, and $14.5 million in restructuring expenses not anticipated at the time of plan adoption. The operating loss was $6.4 million better than plan for the year.

The bottom line for Amtrak is this: For FY 1995, the company put forward a bold Strategic Business Plan to turn around the company — and we accomplished that plan.

[1] *Excluding restructuring charges of $14.5 million*
[2] *Including $14.5 million in restructuring charges*
[3] *Total revenues (including state subsidies) minus total expenses*
[4] *Operating losses plus federal operating and excess RRTA subsidies*
[5] *Net operating loss plus non cash expenses such as depreciation*
[6] *"Core business" refers to all non-commuter passenger and related rail business and excludes commuter contracts and reimbursable agreements*
[7] *Compared to FY95 projections before plan actions*

Throughout FY 1995, the company vigorously pursued:

- *Eliminating management overhead* by delayering and decentralizing the management structure and by encouraging voluntary severance and early retirement through buyout packages
  Target: 352 Full Time Equivalent positions
- *Eliminating economically poor performing routes* or reducing their frequency
  Target: $53 million[8]
- *Retiring all non-essential equipment*
  Target: 390 cars/locomotives
- *Implementing ticket price changes* based on most popular and profitable ridership times and days
  Target: $21 million
- *Increasing efficiency* through reduced crew size, out-sourcing and other actions dependent on contract and legislative changes
  Target: $18 million
- *Reforming purchasing and re-engineering* to improve productivity in car and locomotive maintenance
  Target: $9 million
- *Improving maintenance-of-way productivity* through improved work assignments, contracting of work and investment in new equipment and infrastructure
  Target: $4 million
- *Modernizing/re-engineering information technology and back offices* in several areas, including: payroll, revenue accounting, accounts receivable, accounts payable, human resources, and capital accounting
  Target: $4 million
- *Generating greater food revenue* through various initiatives
  Target: $3 million
- *Developing greater commuter business,* like the addition of the San Diego contract, and improving profit margins and developing other potential customers
  Target: $1 million

[8] *The net target is adjusted for service bought back by states.*

The business plan was a success because Amtrak embarked on a series of specific cost-cutting and efficiency measures. The list was long because the task was enormous. In order to reach its bottom line financial goals, Amtrak identified specific actions to eliminate $201 million in FY95 expenses translating to $431 million in annual expenses. Central to the Board's strategy was to substantially reduce overhead and other expenses without losing the company's revenue base: Amtrak customers.

The bottom line for Amtrak is this: For FY 1995, the company put forward a bold Strategic Business Plan to turn around the company — and we accomplished that plan.

For example, in the Strategic Plan there were three areas identified as critical to improving revenue. They were (1) pricing adjustments, (2) food and beverage revenue and (3) net commuter contract activities. In each of these areas, we met or exceeded the 1995 plan target.

On the expense side, Amtrak exceeded management overhead reduction targets by 12.2% on an FTE basis, however achieved only 51.2 % of our labor FTE reduction goal. This was due to a number of factors, including required legislative and collective bargaining changes that did not occur as anticipated, and certain route and service related cost reductions in the Intercity SBU and parent/service centers which were not fully realized in FY95. However, Amtrak did reach 80% of the plan's targeted purchasing, utilities and other expense reduction and managed to achieve 175%

of the plan's targeted maintenance-of-way expense reduction.

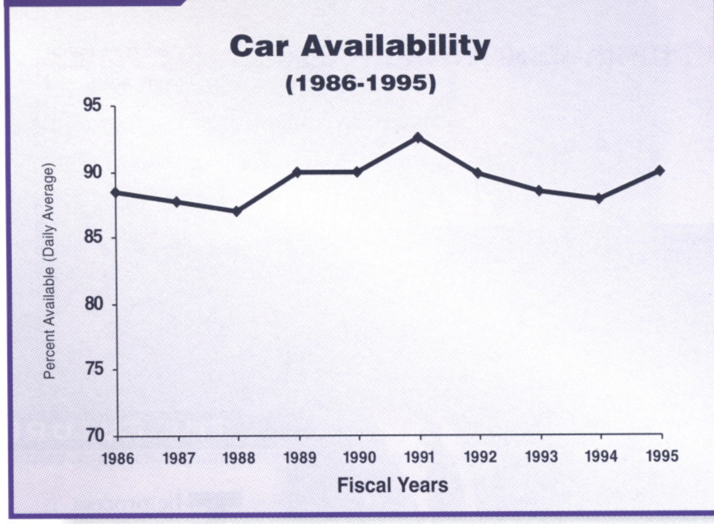
To achieve the goals of the business plan, Amtrak reduced its workforce by a net 1,968 employees and achieved a 2,310 full-time equivalent workforce reduction.

Amtrak also eliminated or reduced the frequency of its poorer performing routes. However, the company was able to reduce routes and service without significantly impacting riders. Route and service actions resulted in revenue reductions amounting to only 56% of that expected in the plan while the related expense savings achieved were 103% of that expected in the plan. As shown on Graph 1, the combined revenue loss and expenses saved on route and service actions (not including state buybacks) mean that 128% of the bottom line target was achieved (see Chart 1, page 12, for a list of route and service actions).

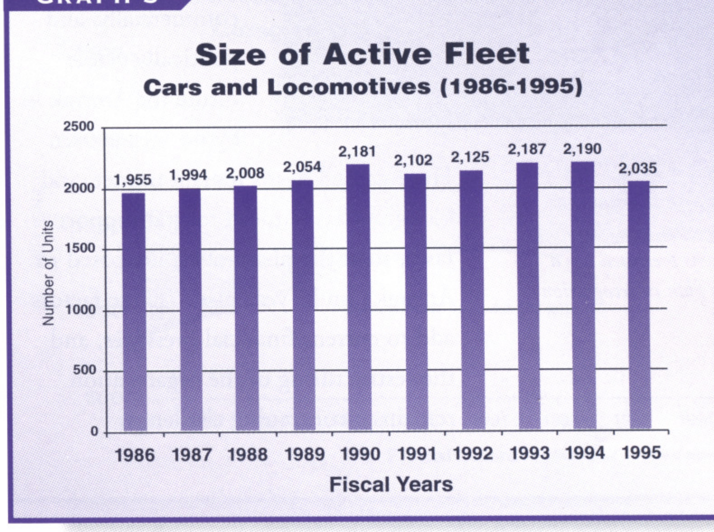
Amtrak also reduced costs and increased profitability by streamlining the fleet. The company increased the availability of cars for revenue service, while making an overall reduction in the size of the active fleet (see Graphs 2 and 3). There has, nevertheless, been very little change in the average age of locomotives and cars as shown on Graph 4.

Overall, the expense reductions represent 74% of the original $431 million annualized savings target and 102% of the adjusted target (after state buybacks) on an annualized basis. The FY 1996-2001 plan demonstrates that Amtrak can reduce costs to become a leaner, more entrepreneurial and competitive

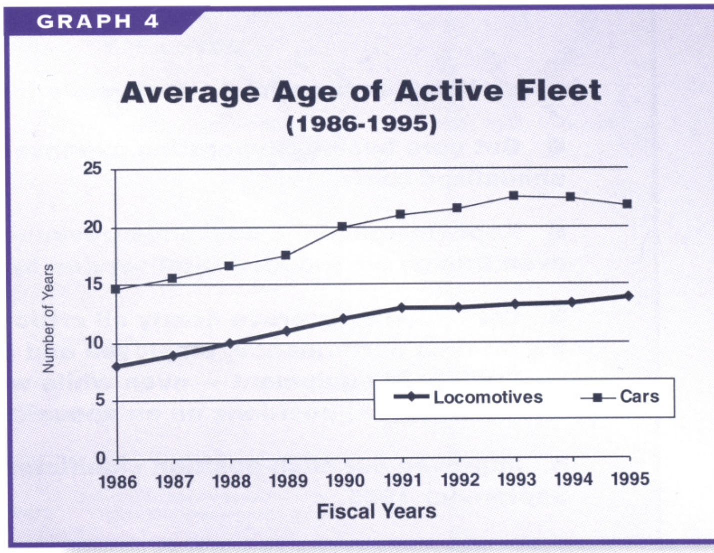
GRAPH 2



GRAPH 3



GRAPH 4



company. However, revenue increase and reduced costs do not complete the equation. Amtrak must have adequate capital investment for technology and equipment, as well as legislative and labor contract changes as part of the corporate reengineering process.

But while the expense savings goals have been important, the best news is what Amtrak has achieved on the "bottom-line" profit and loss. By combining expense reductions with service improvements, Amtrak has improved its value to our customers and established a firm foundation for continuing improvement.

Chief Financial Officer Betsy Reveal led development of the plan to streamline Amtrak. Board member Roy Neel and president Tom Downs presented her a miniature business plan in recognition of her work.

THE FUTURE

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 in Amtrak's multi-year plan. These factors add to current financial pressures, and the restructuring of the organization remains a continuing challenge.

However, because of the actions taken in FY 1995, Amtrak has laid an excellent foundation to address those challenges and Amtrak's future.

The results of the FY 1995 business plan have clearly reversed the direction of a trend (see Graph 5) toward ever-increasing operating losses. However, as seen in Graph 6, the operating losses still pose a significant challenge for Amtrak to overcome in the coming years, especially with rapidly declining federal operating subsidies.

Success!

In less than ten months Amtrak made incredible strides. Amtrak:

- **Cut core business operating expenses by nearly $318 million on an annualized basis.**
- **Kept ridership and passenger revenue virtually even with last year even though we reduced total service by 16% on an annualized basis.**
- **Continued to improve nearly all critical operating indicators, including on-time performance, employee and passenger safety, and average availability of equipment — even while we eliminated 2,310 full time equivalent (FTE) positions on an annualized basis.**
- **Improved our cash position significantly from September of 1994 to September 1995.**

As we approach fiscal year 1996 and beyond we have a dual challenge: to solidify the progress that has been made and to move even more aggressively to determine how Amtrak's and passenger rail's future can best be secured.

Those challenges must be met in ways consistent with our core corporate values:

CUSTOMERS...

They come first.

EMPLOYEES...

The strength of our product.

EXCELLENCE...

Our commitment to quality and safety.

INTEGRITY...

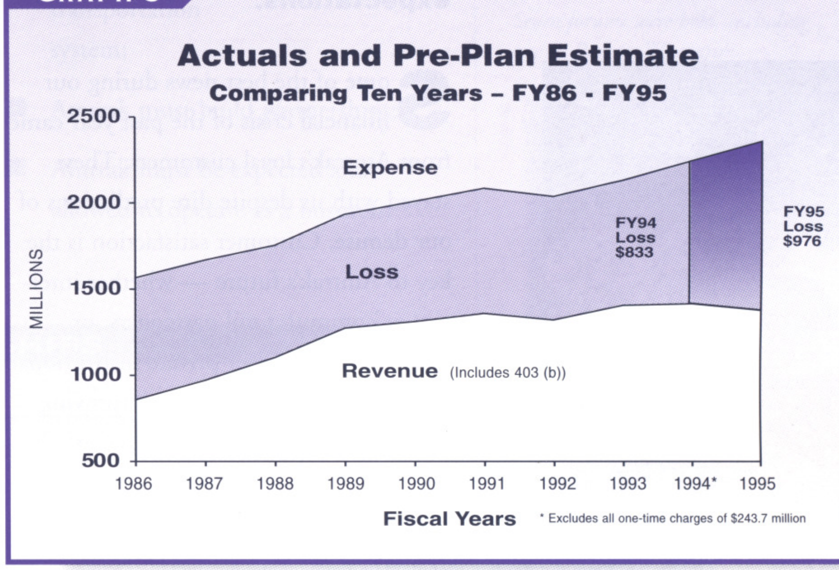
Truth even when it hurts.

TRAINS...

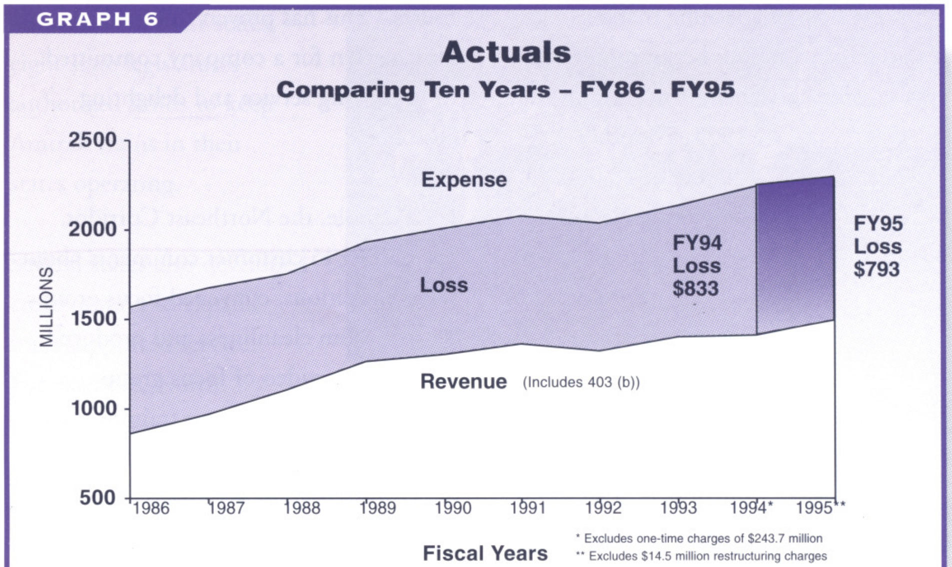
Our passion.

Riders stayed with Amtrak this year despite service reductions.

GRAPH 5



GRAPH 6



Customers

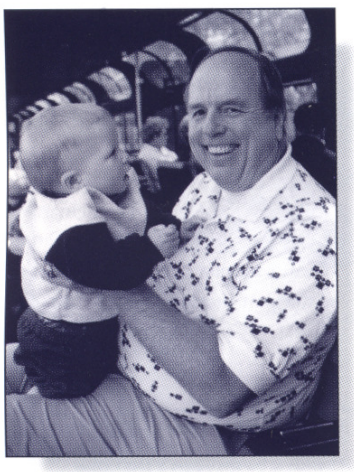
...They Come First

OUR GOAL

To consistently deliver high-quality, safe, on-time rail passenger service that exceeds customer expectations.

Some of the best news during our financial crisis of the past year came from Amtrak's loyal customers: They stayed with us despite dire predictions of our demise. Customer satisfaction is the key to Amtrak's future — whether inter-city or commuter rail passengers, or federal, state, local or private institutional customers. Amtrak believes improving product quality and exceeding customer expectations are the surest ways to achieve both growth and long-term financial success.

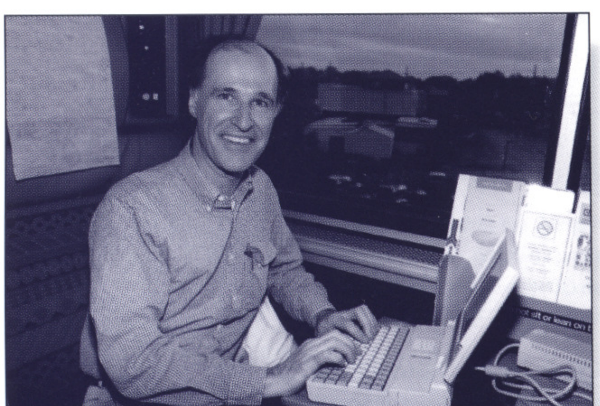
The business plan required that we reduce our annual train miles by 16% by eliminating or adjusting frequency on the poorest-performing routes. Despite this reduction, our 1995 ridership levels were only 2% lower than that of 1994. Ticket revenue this year held equal with FY 1994 at $808 million. In fact, over the last nine months of the year, passenger revenue exceeded that of the previous year.



The Superliner lounge on Amtrak's Capitol Limited appeals to all ages.

FOCUS ON QUALITY

With the help of a leading market research firm, Amtrak began monitoring system-wide customer satisfaction in May 1995. Monthly surveys of 18,000 randomly selected recent Amtrak passengers were conducted to measure customer satisfaction with 13 critical aspects of service. Results are quantified in a customer satisfaction index for each SBU and its individual routes. This has proven to be valuable information for a company committed to improving service and delighting customers.



Business travelers and others who depend on passenger rail spoke out in national forums this year.

For example, the Northeast Corridor, responding to customer comments about toilet conditions, convened focus groups on bathroom cleanliness and produced a 30-minute video of focus group comments to be used as a training tool for coach cleaners. A 120-day toilet sanitation program and installation of new exhaust ports in all Amfleet I toilet equipment also were initiated to respond to this new customer research.

LISTENING TO CUSTOMERS

In seven public forums on Amtrak's future held across the nation in early 1995, Americans spoke out about what they want and need from the nation's passenger rail system. Seven locally hosted regional forums — in Wisconsin, Mississippi, California, Ohio, Pennsylvania, Texas and Washington state — attracted more than 2,000 participants and 50 presenters, with hundreds more contributing ideas in writing.

Five themes emerged from the forums, providing the foundation for recommendations by a subsequent workshop of forum participants to Amtrak and the Congress:

- America must have a national passenger rail system;
- Amtrak must have a dedicated and stable capital investment source;
- Amtrak must serve as an integral part of a national intermodal passenger transportation system;
- Amtrak must build partnerships;
- Amtrak must be expected and allowed to operate as a business.

Seven forums were held, including one in Racine, Wisconsin.

CREATING NEW PARTNERSHIPS

Amtrak recognized that state governments were not only customers but also business partners. Faced with the prospect of route reductions in their states, eight state legislatures authorized funds to keep Amtrak trains in their states operating.

Cary, North Carolina, welcomes the Piedmont, its first Amtrak service.

Several states also developed creative ways to expand state-supported service. For example, North Carolina inaugurated the *Piedmont* service in FY95, a route operating daily between Raleigh and Charlotte. North Carolina purchased its own locomotive and passenger car fleet as well as a maintenance facility. The state proudly put its own "signature" on the service (which is operated by Amtrak), refurbishing the equipment with North Carolina-manufactured materials and colors of the state flag.

CHART 1

Route and Service Actions in 1995

Services Fully or Partially Bought Back by States

Service	Route Segment Affected
Hiawathas	Chicago – Milwaukee
Pere Marquette	Chicago – Grand Rapids
Illini	Chicago – Carbondale
Loop	Chicago – Springfield
State House	Chicago – St. Louis
Illinois Zephyr	Chicago – Quincy
Kansas City Mules	Kansas City – St. Louis
Ann Rutledge	Kansas City – St. Louis
Capitols	Roseville – San Jose
Montrealer	Washington – Montreal
Keystone Service	Philadelphia – Harrisburg

Service Reductions

Service	Route Segment Affected
Desert Wind	Salt Lake City – Los Angeles
Empire Builder	Minneapolis/St. Paul – Seattle
Crescent	Atlanta – New Orleans
City of New Orleans	Chicago – New Orleans
California Zephyr	Salt Lake City – Oakland
Empire	New York – Niagara Falls
Conventional	New York – Washington

Service Eliminations

Service	Route Segment Affected
Cardinal	New York – Washington
Broadway Limited	Pittsburgh – Chicago
Atlantic City Express	Philadelphia – Atlantic City
Palmetto	New York – Jacksonville
Hoosier State	Chicago – Indianapolis
Lake Cities	Detroit – Toledo
Inland	Boston – Springfield
*Texas Eagle**	Dallas – Houston
*Gulf Breeze**	Birmingham – Mobile

*Train service replaced with Thruway Bus service.

Similarly, Amtrak and the state of Washington established the *Mount Baker International* between Seattle and Vancouver, British Columbia in May utilizing leased state-of-the-art Talgo equipment for the popular daily service. In the first four months of operation, average ridership was at 90% of capacity.

North Carolina, Washington and other states continue to blaze new trails and play a greater role in providing their residents with rail passenger service.

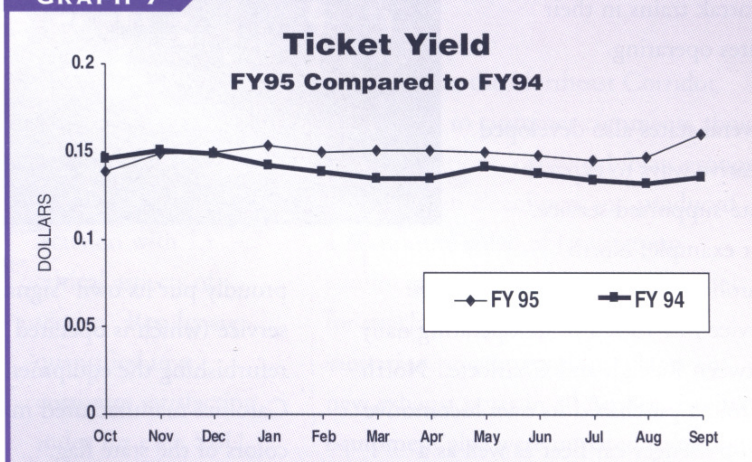
CUSTOMER LOYALTY

Even with changes in service routes and new arrangements with the states, Amtrak customers remained loyal to our service. Despite an annualized 16% reduction in total service, ridership in 1995 was less than 2% below that of the previous year. In all, passenger-related revenues were $64.6 million ahead of projections for the year. The core business revenue per seat mile increased by 2.6%. This resulted from aggressive pricing actions, service restructuring, cost reduction and innovative marketing to retain riders.

As seen on Graph 7, for the last nine months of the fiscal year, ticket yields (ticket revenue per passenger mile) were significantly better than the prior year with an average increase of 9.9% and a total increase of 6.8% from FY 1994 to FY 1995.

Even with the changes in service routes and new arrangements with the states, Amtrak customers remained loyal to our service.

GRAPH 7



OUR GOAL

To ensure that our smaller and more productive workforce has the training, support, compensation and recognition it deserves given its critical role in meeting customer needs.

Employees
...The Strength of Our Product

ROLE OF EMPLOYEES IN '95 SUCCESS

Amtrak employees demonstrated commitment and ingenuity in accomplishing the 1995 Business Plan. This is illustrated by the fact that the successful implementation of the plan actions differed in timing, magnitude of impact, and mix of revenue and expense. Throughout the country, employees organized themselves into teams to recommend and implement creative approaches to accomplish plan goals.

For example, Amtrak West's employee-managed *San Diegan* Productivity Team created a monthly customer newsletter and also introduced recorded train announcements in stations that now serve as a model for the entire company. They developed new menus that include regional specialty food and beverage vendors, such as Corona beer and T.J. Cinnamon Rolls. The team also created a special *San Diegan* logo for promotional items sold on the trains.

In the Intercity business unit, Atlantic Coast Station Service Improvement Teams developed, implemented and monitored efforts to improve customer service, increase revenue and reduce costs at stations. Team members from a variety of locations are selected by union and management representatives. The team, chartered in July, initiated an employee poster campaign, a customer service survey and other successful projects. The team then undertook new initiatives as a result of the survey, such as improvements in baggage handling.

Employees serving on one of the Intercity's Atlantic Coast Station Service Improvement Teams include Myra Bailey, Tim Carroll, Tony Camarata, Maureen Camarata, Pat Rose, Jimmy Motes, and Donesta Lay-Bailey.

In their combined 26 years with Amtrak, on-board service attendants Julie Byrne and Justin Collins have come to be known as two of Amtrak's finest.

WORKING WITH LABOR

Amtrak cannot survive without labor's commitment to work with management to find solutions to our financial situation. Throughout the year, Amtrak CEO Tom Downs has met with labor representatives to discuss the company's financial situation and the goals for the future. Difficult legislative issues tested labor relationships but the mutual desire to save the company and ensure its future transcended individual differences. Important discussions still remain a challenge, and the company is proposing changes in contract rules and practices to improve efficiency and productivity. Labor and management will need to come together to ensure the future of Amtrak and the jobs of our employees.

EMPLOYEES PLAY A ROLE IN POLICY

Amtrak management is increasingly involving employees at all levels in the development of company policies. For example, it has been an Amtrak tradition to provide personal travel privileges to employees, retirees, and their families. An employee team revised pass privileges to give employees increased choices and an ability to plan their personal travel in advance while complying with tax laws to keep the benefit non-taxable. A group of labor and management representatives has come together in a continuing review of the pass policies and programs.

Employees like conductor Ralph Herman, who has been with Amtrak since 1986, can play a vital role in the development of company policies.

MUTUAL CONCERN & COMMITMENT FOR SAFETY

The hallmark of labor/management cooperation at Amtrak is the strong joint commitment to employee and passenger safety. FY95 marked the creation of a Joint Labor/Management Safety Council. The Council's quarterly meetings focus on mutual efforts to improve on the strong existing programs, such as "Operation Redblock" and "Operation Lifesaver," as well as creating new efforts tailored to specific needs.

JOB TRANSITION ASSISTANCE

Amtrak's commitment to its workforce was also illustrated by the securing of a grant of up to $3 million from the U.S. Department of Labor to assist workers affected by the company's restructuring. In a model partnership, Amtrak management and organized labor together obtained the grant that will help former employees with job search information and guidance, resumes and job search correspondence, preparation for job interviews, information about job openings and reference materials for researching employers, on-line connections to a national job bank, and support services such as transportation assistance and dependent care. In addition, some former employees may be eligible for retraining under the program.

Excellence

...A Commitment to Safety and Quality

OUR GOAL

To reverse the impact of chronic undercapitalization as we improve service, safety, quality, customer loyalty, market share and price competitiveness.

It is the company's goal to be independent of federal operating subsidies by 2002. Equally important, the company will reach that goal while continuing to provide a high quality, high value and safe product to America's traveling public. Amtrak is on the way to becoming not only a remarkable example of a corporate turnaround but also a unique case study in an organizational transition from federal support to economic independence. However, this vision of operating subsidy-free by 2002 cannot happen without sustained investments by Congress to provide necessary capital needed to build and maintain a world-class infrastructure for passenger rail. Just as the country supports highways, bridges, waterways and airports with federal funds, America will need a stable source of capital to support a national passenger rail system.

IMPROVED PRODUCTS

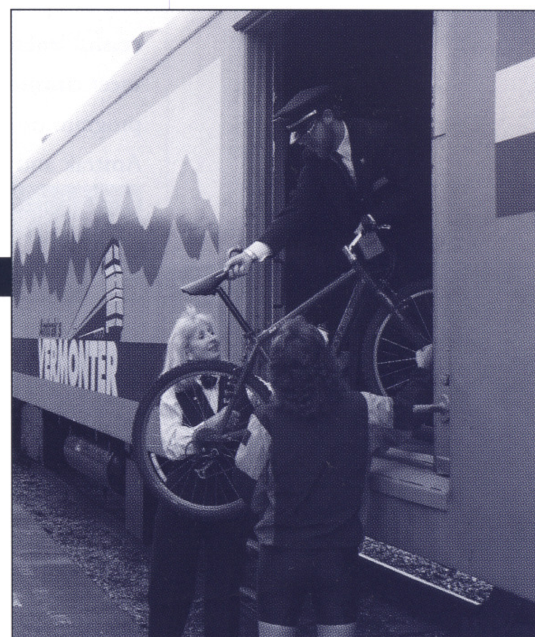
Amtrak is constantly looking for ways to accommodate its customers and provide new and better ways to improve their travel experience. A few examples from 1995 include:

The *Vermonter*

In partnership with the State of Vermont, the Northeast Corridor introduced the *Vermonter's* daylight service through the scenic Green Mountain state. The *Vermonter's* cafe car features food and beverages produced in Vermont, while a specially equipped baggage car holds custom-designed racks to transport fully assembled bicycles, skis and snowboards. The *Vermonter* replaced the discontinued *Montrealer* service.

Coast Starlight

Amtrak West introduced the renaissance of the Los Angeles-Seattle *Coast Starlight* in May to create a unique land cruise. Its exclusive Pacific Parlor Car, a lounge for first-class passengers, offers a library, games, feature-length movies, fresh-baked cinnamon rolls in the morning and afternoon wine-tastings. Each sleeping car customer is greeted by fresh flowers, embossed



Ticket agent Sandi Stewart and assistant conductor Bill Farrell help load a bike onto the Vermonter's specially equipped baggage car. The two have helped Amtrak customers a combined total of 11 years.

The spring "All Aboard America" (AAA) fare campaign was one of the most successful Inter-city business unit programs to meet customer needs in FY95.

stationery and a basket of personal toiletries. Large directional signs and seat assignments have helped ease the boarding process in Los Angeles.

Cascadia and Mount Adams

The Pacific Northwest Corridor introduced curbside baggage check-in at Seattle King Street Station. Modified Superliner coach/baggage cars equipped with bicycle racks were introduced on the *Cascadia* (formerly the *Mt. Rainier)* and *Mt. Adams.* The state-supported *Mt. Adams* added a lounge car to the Seattle-Portland service offering feature-length movies and featuring flavors of the Northwest such as Ivar's Clam Chowder, Seattle's Best Coffee, Tim's Cascade Potato Chips and Red Hook Microbrewed Beer.

San Joaquins and Capitols

With the introduction of Amtrak's California equipment, customers on the *San Joaquins* and *Capitols* enjoyed new dual-level cars featuring large panoramic windows, at-table seating, bicycle racks and in-seat audio systems.

OTHER PRODUCT/QUALITY IMPROVEMENTS

"All Aboard America"

The spring "All Aboard America" (AAA) fare campaign was one of the most successful Intercity business unit programs to meet customer needs in FY95. This program proved to be a success for both Amtrak and its customers. Introduced during the busiest trip planning and buying period of the year, it gave leisure travelers affordability and unlimited stopovers, providing the ideal opportunity to see America. Additionally, it benefited travel agents, one of Amtrak's important partners, by providing commission incentives and furnishing a desirable product their clients could ask for by name.

Amtrak West introduced the renaissance of the Los Angeles–Seattle Coast Starlight in May.

This fully integrated effort resulted in a 14.3% increase in calls to Amtrak's reservations office and an 8.3% increase in travel agency automated sales.

Guaranteed Reservations

Recognizing the value a customer places on a guaranteed seat in a heavily traveled corridor, the Intercity business unit began an all-reserved system on trains traveling on the Chicago-Detroit/ Pontiac and Chicago-Port Huron-Toronto routes. This initiative enabled the business unit to better serve its customers by sizing its trains according to passenger demand and in the meantime allowed Amtrak to manage its assets more appropriately.

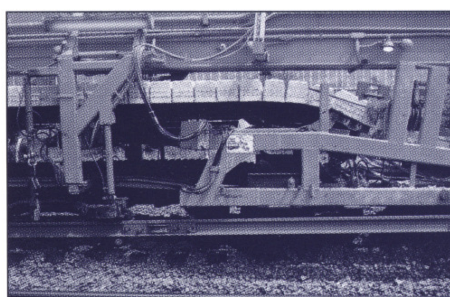
New Menus and Food Services

With the help of its on-board employees, the Intercity business unit developed a revised menu for its Midwest Corridor services. These new menus featured such customer favorites as Starbucks Coffee, White Castle Cheeseburgers, Snapple beverages, Smiley's twice-baked potatoes (produced by a division of Wal-Mart) and David Berg Polish Dogs (a Chicago vendor and supplier of the official hot dog of Wrigley Field). By placing manufacturers' logos on the menu, Amtrak received a lower product cost, manufacturers get additional promotion and, best of all, customers receive an enhanced menu selection.

Amfleet I Upgrades

An extensive program to upgrade Amfleet I cars for Northeast Corridor *Metroliners* has begun. Customers, on-board crews and product line staff contributed to the redesign of everything from seats to fixtures. Mechanical changes — such as toilet fans and heating modules, new locking mechanisms for food service items, and 110-volt outlets for laptop computers will make the cars more user-friendly both for customers and on-board service personnel. In addition, restrooms in seventy-seven Amfleet I coaches are being converted for disability access.

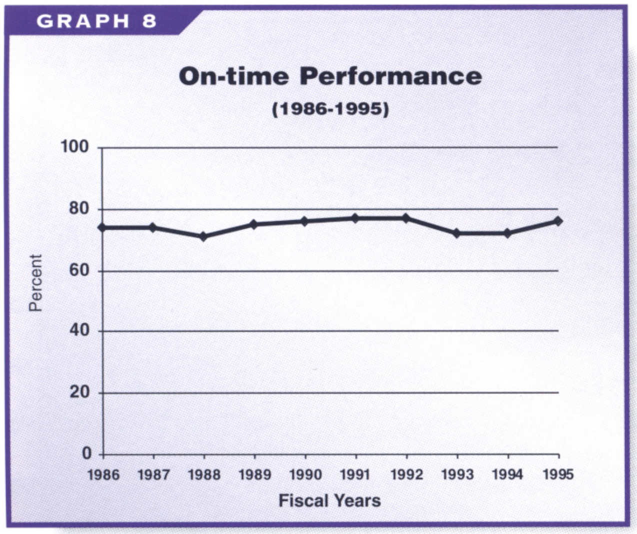
A revised menu for the Intercity's Midwest Corridor services features such customer favorites as White Castle cheeseburgers and Snapple beverages.



Infrastructure Improvements

The Northeast Corridor replaced more than 100,000 wooden rail ties with state-of-the-art concrete ties that permit smoother and faster train travel. A deck conversion on Maryland's Patapsco River bridge in Halethorpe and replacement of wooden ties with concrete ties and deck on the Neponset and Stream rivers bridges in Canton, Massachusetts, mean additional smooth riding for customers.

The Northeast Corridor replaced more than 100,000 wooden rail ties with state-of-the-art concrete ties that permit smoother and faster train travel.



New Equipment

Sixty-nine new bi-level Superliner II cars of a 195-car order went into service on long-distance routes, Amtrak's *Auto Train,* and the Washington, DC-Chicago *Cardinal.* Superliner IIs feature first-class sleeping accommodations, lounge cars with giant viewing windows, and spacious dining cars.

Amtrak's first two Viewliner sleepers were delivered in the fall of 1995, the next generation of rail passenger cars for single-level long-distance travel on the East Coast. The Viewliner's distinctive second row of windows light the car and afford memorable views for upper berth passengers.

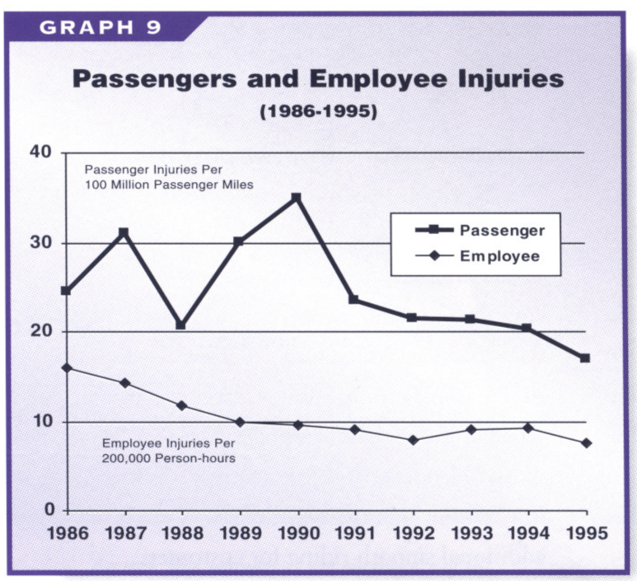
Amtrak took delivery of 10 General Electric 3200 horsepower dual-mode AMD-110DM locomotives this year. Designed for third-rail operation into New York Penn Station off Amtrak's *Empire Service,* the AMD-110DM travels at a top speed of 110 m.p.h. and eliminates the need to switch from diesel to electric locomotives.

Amtrak crewman R.M. Dyal weeps after pulling two co-workers from the Silver Star after it collided with a tractor-trailer whose driver had misjudged his ability to clear the railroad crossing. The overwhelming majority of such grade-crossing collisions are caused by motorists' inattention or poor judgement.

GETTING THERE ON TIME... AND SAFELY

On-time performance and safety indicators improved materially in FY 1995 (See Graphs 8 and 9). On-time performance was up 6.0% over FY 1994 at 76.4%. Employee and passenger injuries were both down from FY 1994 levels by 17.7% and 25.6% respectively, while grade crossing accidents were down 35.3% from FY 1994.

We're extremely proud of the significant role our employees play in providing safe and reliable service. Their daily attention to our equipment, customers and right-of-way helps make passenger rail one of the safest modes of transportation in the country. However, it is also our employees who occasionally find themselves in harm's way. On September 21, 1995, an Amtrak *Silver Star* collided with a tractor-trailer whose driver had misjudged his ability to clear the railroad crossing. Tragically, Assistant Engineer Randall Moses was killed. Moses, 43, of Wildwood, Florida, had been an Amtrak Engineer for nine years. Fortunately, there were no other serious injuries to the passengers or crew.



Integrity

...Truth Even When It Hurts

OUR GOAL

To operate in a manner, in all of our business practices, that is honest, open, reliable and candid.

How do we enhance our reputation for integrity at Amtrak? There are many ways in which we can live this value, but it can be summarized in these few words: we take integrity seriously. Amtrak recognizes that our integrity and our honesty is an integral part of our relationship with our customers, employees and other stakeholders. We view this corporate value as central to all we do each day.

FACING UP TO CRITICS

Amtrak weathered a great deal of criticism in 1995; some perhaps deserved, and some, unwarranted.

At the beginning of FY95, Amtrak remained the subject of much scrutiny about its internal management, labor contracts, undercapitalization and over-extended services. We acknowledged these concerns to our critics inside and outside the company — and committed to improve. This was the first step toward re-engineering and restructuring the company.

Governor Thomas Carper, a member of Amtrak's Board of Directors, chats with car repairmen Tim Turner and Arnold Fritsche in Wilmington's tread brake shop. Turner has been with Amtrak since 1978 and Fritsche, since 1976.

Amtrak, like many other federally supported programs, faced an uncertain future with increased Congressional pressure to reduce federal spending in 1995. The budget debate also heightened competition for these decreasing expenditures between highway, mass transit, airline and other transportation interests. Amtrak engaged actively in the legislative debate and sought its fair share — but always in the context of its pledge and plan to move away from government operating assistance by the next century.

Despite changes in Congress and the difficult budget environment, strong

Our goal then — and now — is to be open and honest about every aspect of the company, whether good or bad, and to strive toward open management and a citizenry that participates in our progress.

bi-partisan support from Congress remains firm. Congress also has been emphatic about the need to maintain a national passenger rail system.

Congress has reacted supportively to Amtrak's efforts to restructure its reliance on federal operating funds. Authorized funds continued at current-year levels for the next three years, and for the first time legislative action on a dedicated trust fund and liability reform took place. We said we can't do it without legislative reform and capital support, and Congress listened.

TOUGH DECISIONS

The toughest choices in 1995 involved the need to reduce service and lay off employees. Working together, however, management and labor representatives secured a grant through the Department of Labor's Job Training and Partnership Act to ease some of the difficulty of these hard choices. The grant of up to $3 million Amtrak has sought will help furloughed employees find new jobs by providing support services including career counselling, emergency health care and, in some cases, retraining for a new occupation.

In 1995, we faced the critics and said, "Work with us to improve." We invited public review of our procedures and welcomed customer suggestions and complaints. Our goal then — and now — is to be open and honest about every aspect of the company, whether good or bad, and to strive toward open management and a citizenry that participates in our progress.

Daniel W. Collins, labor representative to the Amtrak Board, tours the Wilmington shops with IBEW president Vince Owens and Amtrak's Dennis Sullivan.

OUR GOAL

Promoting passenger rail as a fundamental part of the national transportation infrastructure.

Trains

...Our Passion

As Amtrak employees go to work every day, we are mindful that passenger rail is not simply one more form of transportation in America; trains are a part of our national heritage.

From the early pioneer days, the railroad helped build this country. Today, the ribbon of rail that weaves throughout the countryside remains a dynamic tie, uniting east and west, north and south, rural and urban. And now, the trains of tomorrow — the high-speed, super conductor multi-purpose carriers — are already on the drawing boards, awaiting their place in the grand history of the American railroad.

Amtrak was created a quarter-century ago at a time when passenger rail was an endangered entity. Private rail companies were finding it too expensive to maintain the service. America's love affair with the automobile was aflame. And air travel was becoming more commonly affordable. But a foresighted Congress understood then what we at Amtrak continue to believe today: Passenger rail has an important place in the American landscape.

In the last fiscal year, Amtrak not only faced tough decisions about the need to reorganize and revamp; we thought a great deal about the future of passenger rail and Amtrak's role in it. We understand that the Amtrak of the future will be a different Amtrak than the one today — just as the Pullman gave way to the Superliner.

The key for our company is to embrace the opportunity to change and grow and alter our operations in order to accommodate the dynamic of the next decade and beyond.

High-speed trains like this RTL Turboliner will carry passenger rail into the future.

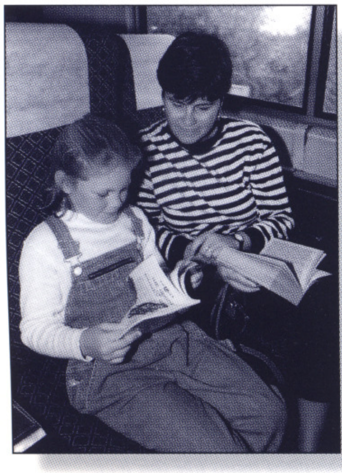
Together, with partners in the industry, we are working to build new relationships that promote intermodal transportation alternatives. We are working to tailor our trains to provide every convenience and necessity demanded by an active, on-the-go society, whether for work or relaxation.

Our commitment to our customers is rooted in our values as a company of integrity — and remains with us every day on every rail.

But even as we change, we stay the same in one important way: our commitment to our customers. This commitment is rooted in our values as a company of integrity and remains with us every day on every rail.

This is the right direction for the New Amtrak to be travelling.

Management's Discussion and Analysis of *Results* of Operations and Financial Condition



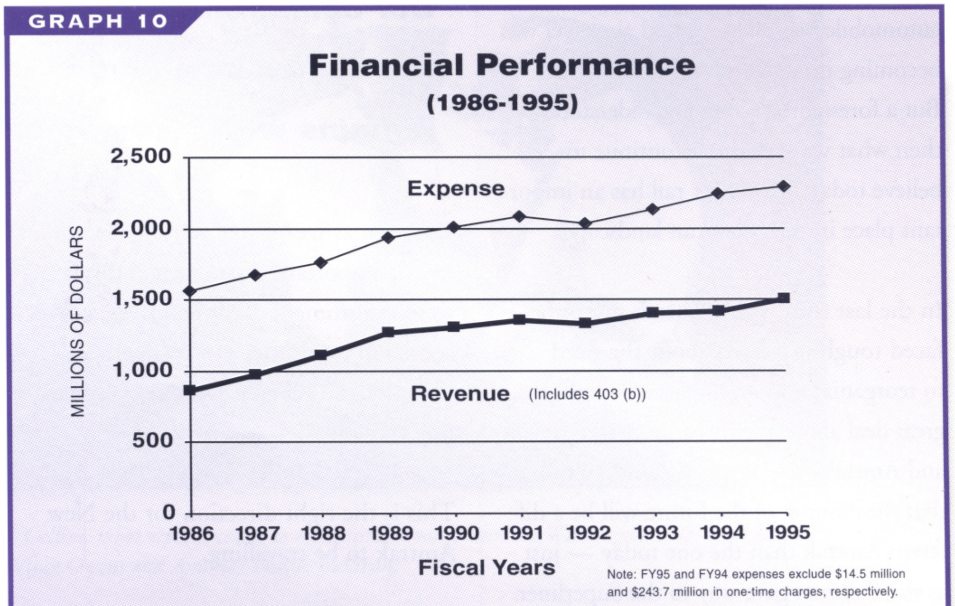
Amtrak is on the way to becoming not only a remarkable example of a corporate turnaround but also a unique case study in an organizational transition from federal support to economic independence.

RESULTS OF OPERATIONS

Amtrak reported a 1995 net loss of $808.2 million (including a $14.5 million restructuring charge) compared with a 1994 operating loss of $1,076.8 million (including a $71.5 million restructuring charge and an $81.6 million casualty and accident charge). In 1994, Amtrak also adopted a new accounting standard Statement of Financial Accounting Standards No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions" which resulted in a one-time, non-cash charge of $90.6 million. Excluding these one-time charges, Amtrak's net loss was $793.7 million in 1995 and $833.1 million in 1994, a 4.7% improvement.

The improvement in 1995 results reflects a 5.9% increase in total revenues to $1,496.9 million in 1995 compared to $1,413.4 million in 1994. Gains in both commuter and reimbursable revenues were primarily responsible for this improvement. Graph 10 displays Amtrak's financial performance from 1986 to 1995:

GRAPH 10



Passenger-related revenues decreased less than 1% despite 1995 route and service actions which reduced train miles by 2.0 million or 5.8% in 1995 versus 1994.

Total expenses, excluding the 1995 and 1994 one-time charges, increased 2.0% to $2,290.6 million in 1995 versus $2,246.4 million in 1994. This reflected higher commuter and reimbursable expenses. The 2.0% increase was driven by increased investment in technology and facility costs, as well as higher costs for maintenance-of-way goods and services, casualty and accident claims, and interest. Employee costs remained relatively constant and costs of train operations and depreciation decreased. More detail is provided for revenues and expenses further in the discussion.

In 1995 Amtrak received $392 million in federal operating subsidies and $150 million of federal payments for excess mandatory RRTA expenses. 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.

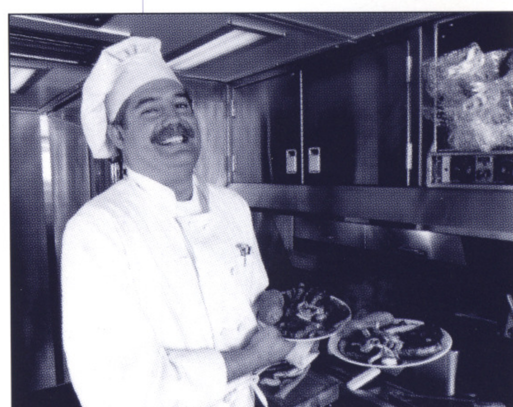
Amtrak's past performance highlighted several financial trends demanding action, which management has begun to address:

- The real expense reductions achieved over the past years have been small compared to our major competitors. The 1995 results included major cost reduction actions—a net decrease in workforce of 1,968 people; a net reduction in the active fleet; purchasing, utilities, and other expense reductions; and significant expense savings related to route and service actions. These reductions have primarily affected the core business.

Business travellers like the freedom Amtrak gives them to read, work on portable computers, meet with associates or make calls on Railfone service.

- Passenger related revenues declined between 1993 and 1994 by $56.2 million. Despite significant route and service actions in 1995, the decrease versus 1994 was only $2.5 million with an increased trend beginning in May 1995. The increase for May through September 1995 was $23.2 million versus the same period in 1994.

- Short term borrowings under Amtrak's lines of credit at the end of 1994 were $62.5 million. At the end of 1995, Amtrak did not need to utilize its lines of credit and its accounts payable decreased. Spending for capital was lower than projected in the fourth quarter of 1995 contributing to the cash improvement.



Qualified by the Culinary Institute of America, Auto Train chef Michael Cheek has been with Amtrak since 1990.

Passenger-related revenue dropped by less than 1% in 1995 despite significant route and service actions.

- Total operating losses for Amtrak were $7.5 billion in the last ten years. Federal operating and capital support has totaled $6.7 billion. The difference of $600 million reflects unfunded depreciation and other long-term liabilities.

Amtrak is still facing excessive cost burdens (relative to the competition) associated with meeting statutory and regulatory requirements; the costs in reliability and service quality of chronic undercapitalization of plant and equipment; and the cost of operating with antiquated business practices and technology.

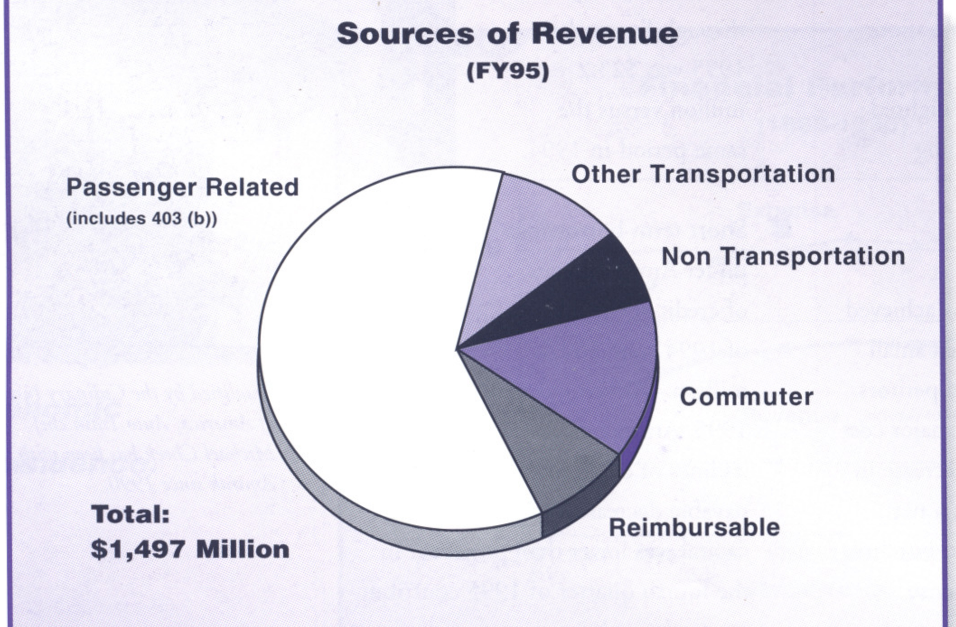
REVENUES

Graph 11 displays the sources of Amtrak revenue in 1995.

Passenger-related revenue (including transportation, food and beverage revenue and 403(b) state subsidies) dropped by less than 1% from $912.5 million in 1994 to $910.1 million in 1995 despite significant route and service actions. For the year, route and service actions produced expected declines in ridership, passenger miles, seat miles, and train miles (2.2%, 6.3%, 1.7%, and 5.8%, respectively below 1994). However, ticket yield for 1995 was 6.8% higher than 1994.

The 403(b) state subsidies increased 9.5% from $32.6 million in 1994 to $35.7 million in 1995. These state subsidies vary inversely with Amtrak's performance as these payments are a partial reimbursement, tied to the level of Amtrak unrecouped short-term or long-term avoidable costs. The favorable variance between 1995 and 1994 resulted from $3.7 million of new state-supported service started in the states of North Carolina, Oregon, Vermont, and Washington. This was partially offset by the discontinuance of state-supported service in Alabama.

GRAPH 11



Other core revenues (from commuter fees, freight railroad access fees, real estate operations and development, mail, baggage and express, interest and other) increased 6.5% from $239.3 million in 1994 to $254.8 million in 1995.

The increase reflected higher commuter fees for use of Amtrak's right-of-way by commuter rail companies, totaling $92.4 million in 1995 versus

$87.5 million in 1994. Revenue from the MBTA (Boston) accounted for the largest increase as a result of a settlement received in 1995 related to prior years activity.

Freight railroad access fees also increased 15.1% from $16.6 million in 1994 to $19.1 million in 1995. This increase was due principally to increased activity by Conrail on Amtrak-owned rail.

Mail and express revenue increased 2.4%, from $59.5 million in 1994 to $60.9 million in 1995, despite train frequency reductions. By creative use of highway substitute and feeder services, no mail revenue was lost through the service reductions. In fact, mail revenue grew largely due to new business; with only $.3 million of the increase associated with a rate increase granted by the U.S. Postal Service for the last two months of the fiscal year.

Interest income increased to $7.0 million in 1995 from $4.0 million in 1994 reflecting an increase in both average cash balances and interest rates.

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 $8.3 million in 1994. Revenue related to the restricted cash proceeds from these sales is deferred and recognized to the extent funds have been released to Amtrak. In 1995, Amtrak negotiated an acceleration of the release of $30 million of these restricted funds. 1994 results included a one-time income of $28.8 million from the settlement of the Lone Star concrete tie litigation.

Commuter operating revenue increased 15.5% from $184.3 million in 1994 to $212.8 million in 1995. In addition to a new commuter service in San Diego, the majority of existing commuter services experienced increased demand, resulting in additional frequencies being added to many commuter lines. Amtrak's newest commuter service in San Diego, CA, began service in late February of 1995. San Diego Northern Railway Inc. (SDNR) contributed an addition of $6.0 million in operating revenues in 1995. Massachusetts Bay Transit Authority (MBTA) revenues increased $18.6 million over last year, corresponding to increased capital work performed for the MBTA.

Auto Train attendant Tim Grezeskiewicz joined Amtrak in 1992.

Train time means quality time for busy families.

Metrolink revenue increases of $.9 million resulted from additional frequencies being added on all three commuter lines. Revenues from the Peninsula Commuter Service (PCS) rose $.7 million, primarily as a result of manpower requirements tied to increased train frequencies. Virginia Rail Express (VRE) revenues increased by $1.7 million as a result of wages and inflation associated with midday service increases and expansion of the contract allowing VRE passengers to ride on Amtrak trains. Maryland Area Rail Commuter Service (MARC) operating revenue increased by $.9 million in 1995 as a result of increased wages and inflation associated with base service.

Reimbursable revenues increased 54.4% from $77.2 million in 1994 to $119.2 million in 1995. The increase results principally from maintenance-of-way work performed for New Jersey Transit for new initiatives projects; Massachusetts DPW for the central artery; MBTA for various projects; New York State DOT for the high-speed turbo project; and SEPTA for the Frazier connection.

EXPENSES

Graph 12 displays the categories of expense for Amtrak in 1995.

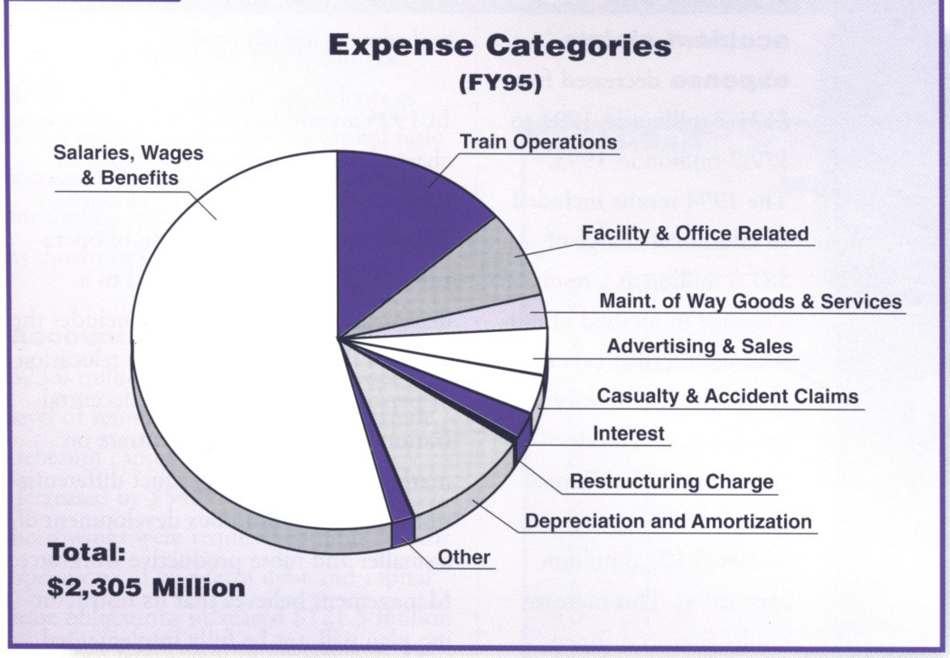
The new Oakland Amtrak Station at Jack London Square showcases some of Amtrak's new California equipment.

Salaries, wages, and benefits increased slightly from $1,239.0 million to $1,240.8 million notwithstanding significant wage and fringe benefit cost increases associated with prior negotiated labor agreements. During 1995 Amtrak had a net reduction in its workforce of 1,968 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 periodically negotiated. Agreements covering many of Amtrak's union employees were up for renegotiation in January 1995. In the prior negotiations with these unions, two significant changes from the past agreements occurred: semi-annual, continuous cost-of-living; and a wage increase provision were extended past the January 1995 date. These changes in essence provide for future salary increases until contracts are renegotiated. In consideration of these changes, Amtrak has not accrued any retroactive funds in 1995 for contract amendments.

Union health and welfare benefit costs increased by 9.8%. Post-retirement health cost decreased $9.4 million, reflecting a curtailment gain related to the workforce reduction, and a lower

GRAPH 12



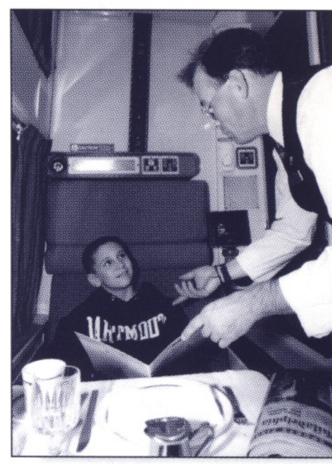
projected health care cost trend rate as a result of managed care.

Non-labor train operations expenses decreased 10.4% from $358.3 million to $321.2 million. This decrease reflects the route and service and productivity actions taken in 1995. Train fuel and maintenance of equipment reflect the most significant decreases. During 1995, Amtrak entered into various fuel-swap arrangements with several counterparties covering approximately 36 million gallons of diesel fuel, representing approximately 45% of the 1995 fuel purchases. These swap arrangements had an average price of 48.8 cents per gallon. The impact of these swaps on expense in 1995 was negligible. The effect in 1994 was to add $4.1 million of operating expenses. The primary items contributing to the lower maintenance-of-equipment costs were lower material issues and outside repairs which reflects in part the retirement of older equipment.

Facility and office costs increased 12.4% from $153.0 million in 1994 to $171.9 million in 1995 as a result of higher technology costs for both equipment and communication, as well as increased building maintenance costs.

Expenses related to maintenance-of-way goods and services increased 61.9% from $45.4 million to $73.5 million. The increase is directly associated with work performed by Amtrak for other parties. Increased work was primarily related to switch and turnouts, signals communications, and road maintenance. The preceding discussions of commuter operating and reimbursable revenues provides further detail regarding Amtrak's customers.

Advertising and sales costs decreased 1.2% from $90.8 million in 1994 to $89.7 million in 1995, primarily reflecting lower advertising expenses.



Lead service attendant John Long assists David Warrington aboard a Viewliner sleeper car. Long came to Amtrak in 1991.

The Coast Starlight's Pacific Parlor Car features afternoon wine-tastings.

Casualty and accident claims expense decreased from \$131.7 million in 1994 to \$77.7 million in 1995. The 1994 results included an additional charge of \$81.6 million as a result of a change in method of estimating unsettled casualty and accident liabilities to an actuarial method. Excluding this additional charge, 1995 expense increased \$27.6 million over 1994. This increase results from continued application of the actuarial method combined with higher recent payouts for claims. As a result of an assessment of Amtrak's claims history, an additional layer of insurance was purchased effective October 1, 1995, for losses included between \$10 million and \$25 million per incident.

Interest expense increased from \$32.0 million in 1994 to \$47.7 million in 1995, 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 of \$71.5 million. The charge included severance and other personnel reduction costs, as well as the writedown of old and inefficient rolling stock which will be disposed of as routes and services are adjusted.

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. Management believes that its restructuring plan will not be fully implemented until 1996. Management anticipates that there will be further restructuring expenses in 1996 in order to complete the market segmentation, product differentiation, and the continued downsizing of the workforce.

Certain costs related to the transition of operations such as employee training, insurance and investment in state services are not included in the restructuring costs above, as they are not defined as restructuring under generally accepted accounting principles.

Depreciation and amortization expense decreased 6.1% from \$245.1 million in 1994 to \$230.1 million in 1995, principally due to equipment retirements as a result of the route and service actions taken in 1995.

Other expenses increased from \$32.8 million in 1994 to \$38.1 million in 1995. This increase reflects higher data processing and environmental and safety costs.

FINANCIAL CONDITION AND LIQUIDITY

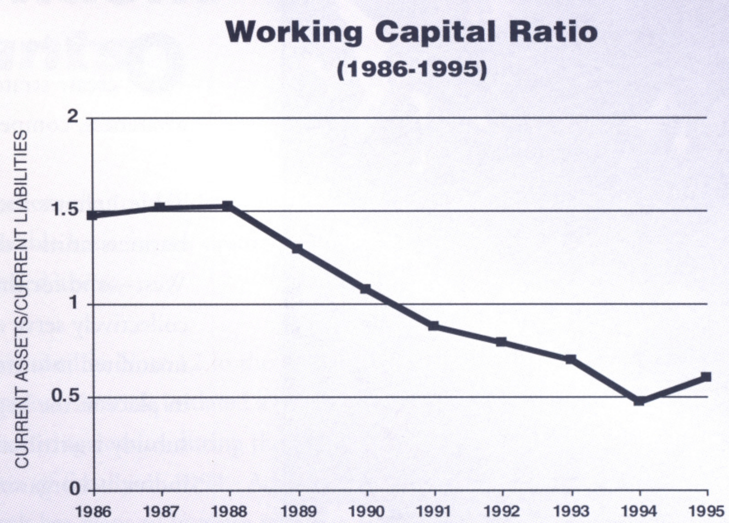
At September 30, 1995, Amtrak had cash and cash equivalents of $29.9 million. The working capital ratio increased from 0.47 to 0.60, improving for the the first time since 1988, as shown in Graph 13.

Accounts receivable increased $23.0 million reflecting the increased level of reimbursable revenues. Current debt and capital lease obligations decreased by $54.8 million and no borrowings were required to fund current operations. Long-term debt and capital lease obligations increased $121.5 million related to equipment purchases.

Amtrak has $150 million of unsecured lines of credit with banks expiring in December 1995, which are subject to certain conditions. Borrowings under these agreements bear interest based on the London Interbank Offered Rate (LIBOR), certificate of deposit rates, or prime rate. Amtrak pays various fees on its credit lines. These lines of credit were not used at any time during 1995. Amtrak expects these lines of credit to be renewed with substantially similar terms and conditions.

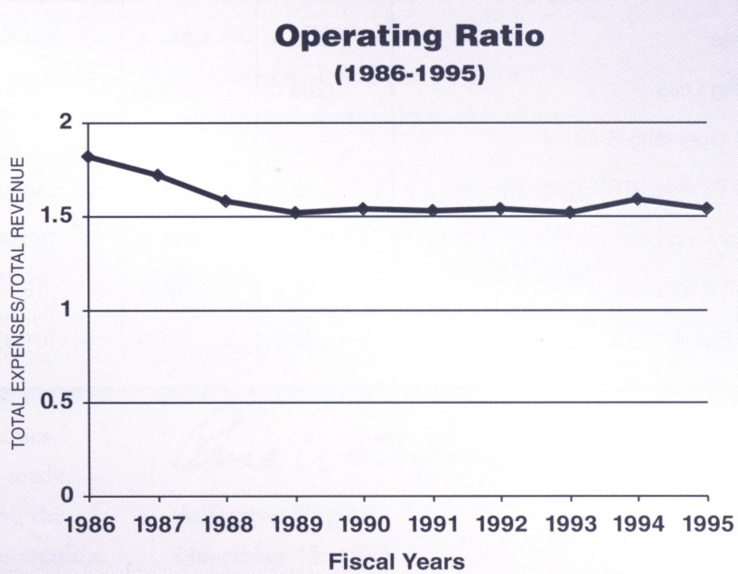
As shown in Graph 14, Amtrak has shown improvement in its operating cost ratio (the ratio of total expenses to total revenue) improving from 1.82 in 1986 to 1.53 in 1995.

GRAPH 13

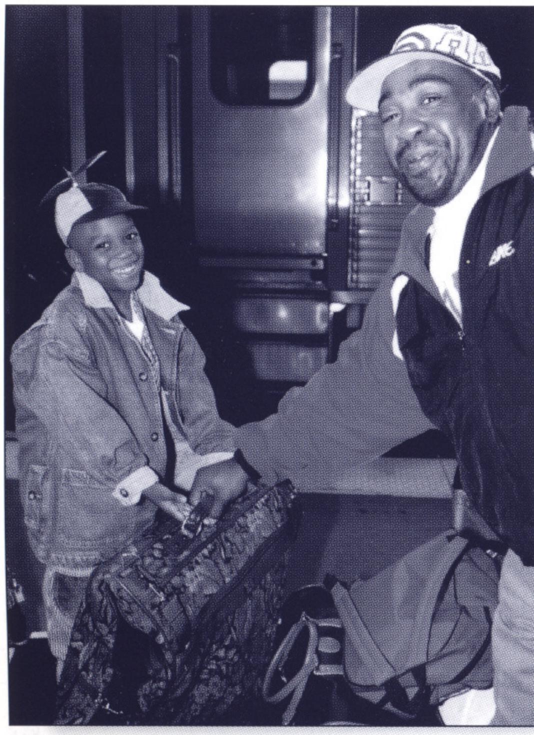


Amtrak continues its efforts to increase revenues through fare and service adjustments and solicitation of ongoing state and local government support of services, and to increase efficiency through streamlining operations and procedures.

GRAPH 14



Note: FY95 and FY94 expenses exclude $14.5 million and $243.7 million in one-time charges, respectively.



Customers expect Amtrak to operate as a business.

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 operating results for Amtrak's three strategic business units—the 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 is attributed to the company as a whole rather than any individual organizational unit.

TABLE 1

FY 1995 Operating Results by Major Business Unit

$ Millions	Intercity	NEC	West	Parent	Total
Revenue	$ 465.0	$ 828.3	$ 156.5	$ 47.1	$ 1,496.9
Expenses	673.0	1,044.4	253.0	334.7	2,305.1
Operating Loss	(208.0)	(216.1)	(96.5)	(287.6)	(808.2)
Federal Operating Subsidy	0	0	0	0	392.0
Federal Excess RRTA Contributions	42.0	70.5	16.5	21.0	150.0
Net Operating Loss	(166.0)	(145.6)	(80.0)	(266.6)	(266.2)
Noncash Expenses	87.4	146.9	18.2	1.4	253.9
Budget Result	$ (78.6)	$ 1.3	$ (61.8)	$ (265.2)	$ (12.3)

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, 1995 and 1994, 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 12 to the financial statements, Amtrak initiated a program of restructuring actions during the fourth quarter of fiscal year 1994. Additionally, Amtrak has plans to increase revenues and productivity in its efforts to become more self sufficient; however, management has also concluded that it needs to attain certain statutory changes, as described in Note 2 to the financial statements. The ultimate outcome of Amtrak's operating improvements and legislative initiatives cannot be reliably predicted at this time and, accordingly, no provisions have been made in the 1995 financial statements for further restructuring costs, beyond those accrued in 1994, which would be associated with additional service adjustments, if any become necessary.

As discussed in Note 8 to the financial statements, Amtrak adopted FAS 106, *Employers' Accounting for Postretirement Benefits Other than Pensions* at October 1, 1993.

Price Waterhouse LLP

Arlington, Virginia
November 15, 1995

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Balance Sheets

ASSETS

	September 30, 1995	September 30, 1994
	(Thousands of dollars)	
Current Assets:		
Cash and cash equivalents	$ 29,878	$ 23,800
Accounts receivable, net of allowance for doubtful accounts of $4,998 and $4,224 in 1995 and 1994, respectively	83,054	60,103
Materials and supplies	101,832	110,384
Other current assets	8,565	4,974
Total current assets	223,329	199,261
Property and Equipment:		
Property and equipment	6,861,364	6,453,203
Less—Accumulated depreciation and amortization	(2,392,902)	(2,175,202)
	4,468,462	4,278,001
Other Assets and Deferred Charges:		
Escrowed proceeds from sales of tax benefits	9,013	44,571
Deferred charges and other	75,066	71,292
	84,079	115,863
Total assets	$ 4,775,870	$ 4,593,125

LIABILITIES AND CAPITALIZATION

	September 30, 1995	September 30, 1994
	(Thousands of dollars)	
Current Liabilities:		
Accounts payable	$ 142,802	$ 144,361
Accrued expenses and other current liabilities	145,394	131,018
Deferred ticket revenue	19,880	12,491
Restructuring charge reserve	29,779	49,586
Current debt and capital lease obligations	34,204	89,036
Total current liabilities	372,059	426,492
Long-Term Debt and Capital Lease Obligations:		
Capital lease obligations	526,488	491,540
Equipment and other debt	276,280	189,743
	802,768	681,283
Other Liabilities and Deferred Credits:		
Casualty reserves	152,085	142,103
Postretirement employee benefits obligation	109,681	110,743
Advances from railroads and commuter agencies	21,668	27,568
Environmental reserve	47,475	32,975
Deferred revenue—sales of tax benefits	9,013	44,571
Other	8,392	13,027
	348,314	370,987
Total liabilities	1,523,141	1,478,762
Commitments and Contingencies		
Capitalization (see Consolidated Statements of Changes in Capitalization)	3,252,729	3,114,363
Total liabilities and capitalization	$4,775,870	$4,593,125

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

Consolidated Statements Of Operations

For the Years Ended September 30,	1995	1994
	(Thousands of dollars)	
Revenues:		
Passenger related	$ 910,051	$ 912,545
Other	254,810	239,330
Total revenues from Core business	1,164,861	1,151,875
Commuter	212,777	184,286
Reimbursable	119,226	77,230
Total revenues	1,496,864	1,413,391
Expenses:		
Salaries, wages, and benefits	1,240,752	1,238,987
Train operations	321,198	358,260
Facility and office related	171,861	153,019
Maintenance of way goods and services	73,470	45,392
Advertising and sales	89,715	90,782
Casualty and accident claims	77,658	131,712
Interest	47,678	31,955
Restructuring charges	14,523	71,503
Depreciation and amortization	230,127	245,078
Other	38,089	32,839
Total expenses	2,305,071	2,399,527
Loss before cumulative effect of accounting change	808,207	986,136
Cumulative effect of change in accounting for postretirement benefits other than pensions	–	90,646
Net loss	$ 808,207	$1,076,782

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

Consolidated Statements Of Cash Flows

For the Years Ended September 30,	1995	1994
	(Thousands of dollars)	
Cash Flows From Operating Activities:		
Net loss	$(808,207)	$(1,076,782)
Adjustments to reconcile net loss to net cash used in operating activities:		
Cumulative effect of change in accounting for postretirement benefits other than pensions	–	90,646
Provision for restructuring charges	–	70,996
Depreciation and amortization	230,127	245,078
Provision for inventory loss and obsolescence	4,000	6,100
Provision for losses on accounts receivable	4,249	7,200
Retirement and unemployment taxes paid by Federal Railroad Administration	–	137,000
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(25,146)	1,627
Decrease in materials and supplies	4,552	18,087
(Increase) decrease in other current assets	(3,591)	538
Increase in other assets and deferred charges	(5,115)	(19,954)
Increase in accounts payable, deferred ticket revenue, and accrued expenses and other current liabilities	2,317	5,317
(Decrease) increase in other liabilities and deferred credits	(25,048)	105,221
Net cash used in operating activities	(621,862)	(408,926)
Cash Flows From Investing Activities:		
Purchases and refurbishments of property and equipment	(313,987)	(322,686)
Proceeds from disposals of property and equipment	713	14,767
Cash released from restricted proceeds of tax benefits sales	37,933	8,312
Net cash released for capital spending	–	20,683
Cash investments	(34,047)	(61)
Proceeds from dispositions of cash investments	34,043	61
Net cash used in investing activities	(275,345)	(278,924)
Cash Flows From Financing Activities:		
Proceeds from issuance of preferred stock	806,000	491,158
Proceeds from federal paid-in capital	119,340	113,707
Proceeds from federal and state capital payments	19,179	11,570
Proceeds from debt and lease financings	47,802	124,995
Repayments of debt and capital lease obligations	(89,036)	(55,216)
Net cash provided by financing activities	903,285	686,214
Net increase (decrease) in cash and cash equivalents	6,078	(1,636)
Cash and cash equivalents—beginning of year	23,800	25,436
Cash and cash equivalents—end of year	$ 29,878	$ 23,800

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, 1993	$8,115,089	$93,857	$4,590,118	$ (9,362,153)	$ 3,436,911
Issuance of preferred stock:					
Operating subsidy	351,000	–	–	–	351,000
Capital subsidy	140,158	–	–	–	140,158
Federal paid-in capital, includes mandatory passenger rail service payments	–	–	250,707	–	250,707
Federal and state capital payments	–	–	12,369	–	12,369
Net loss	–	–	–	(1,076,782)	(1,076,782)
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

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

Notes to Consolidated Financial Statements

For the Years Ended September 30, 1995 and 1994

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The financial statements reflect the consolidated operations of the National Railroad Passenger Corporation (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 1995 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.

Fuel Swaps

Amtrak enters into fuel swap arrangements as a hedge against train fuel market price fluctuations. Gains and losses result to the extent that fuel market prices differ from the swap strike price. Realized and unrealized gains and losses are included in "Train operations" in the Consolidated Statements of Operations.

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 30, 1995 and 1994, the current claims liability included in accrued expenses and other current liabilities was $57,900,000 and $55,600,000, respectively.

During 1994, Amtrak changed its method of estimating the unsettled casualty and accident liability from a method that estimates the year-end liability based on recent payments for similar claims to an actuarial method that estimates the future payments to be made after year-end for all incidents occurring prior to year-end. This change resulted in an additional charge of $81,613,000 to earnings in 1994. This charge is included in the Consolidated Statements of Operations under "Casualty and accident claims."

Notes to Consolidated Financial Statements

(continued)

For the Years Ended September 30, 1995 and 1994

NOTE 2: 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 104-50, approved on November 15, 1995, provides $750,000,000 in federal funds to Amtrak for fiscal year 1996, of which $185,000,000 is for operating purposes, and the balance for transition costs, capital acquisitions and improvements, and designated mandatory passenger rail service payments.

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 property and equipment, and in 1994 included the funding for designated passenger rail service payments. 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.

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.

Furthermore, Amtrak management has identified a number of federal statute reforms which it believes are needed. These reforms include: relief from current labor protection laws, which allow up to six years of severance pay for employees; a stable source of funding for capital requirements; flexibility for the states to use certain federal highway funds for Amtrak service; relief from the federal fuel tax; and the setting of accident liability limitations. These reforms are the subject of ongoing discussion and proposed legislation, the outcome of which cannot be predicted.

Management has concluded that without an appropriate mixture of the needed reforms combined with achieving additional revenue enhancements and operating cost savings, the current Amtrak network of service and level of operation cannot be sustained substantially beyond 1996. The financial impact of the reforms, revenue enhancements, and cost reductions, or the changes that will need to occur in their absence, cannot be reliably estimated at this time. Accordingly, Amtrak's financial statements do not include any provisions for the financial impacts of abandonments, curtailments, separations, or other matters resulting from not obtaining needed legislative reforms and from not achieving sufficient revenue increases and productivity improvements.

NOTE 3: PREFERRED AND COMMON STOCK

At September 30, 1995, 94,122,478 shares of $100 par value preferred stock were authorized, all of which were issued and outstanding. On November 2, 1995, 1,251,090 shares were issued at par value increasing the total number of authorized shares issued and outstanding to 95,373,568. At September 30, 1994, 86,062,478 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, 1995 and 1994, 10,000,000 shares of $10 par value common stock were authorized, of which 9,385,694 shares were issued and outstanding.

NOTE 4: PROPERTY AND EQUIPMENT

Total fixed assets presented in the Consolidated Balance Sheets consisted of the following at September 30, 1995 and 1994 *(in thousands):*

	1995	1994
Locomotives	$ 610,745	$ 584,975
Passenger cars	1,752,033	1,627,267
Other rolling stock	144,226	98,240
Right-of-way properties	3,070,833	2,979,610
Other properties	1,082,170	966,665
Leasehold improvements	201,357	196,446
	6,861,364	6,453,203
Less—Accumulated depreciation and amortization	(2,392,902)	(2,175,202)
Net property and equipment	$ 4,468,462	$ 4,278,001

Notes to Consolidated Financial Statements
(continued)

For the Years Ended September 30, 1995 and 1994

NOTE 5: BORROWING ARRANGEMENTS

Total equipment and other debt presented in the Consolidated Balance Sheets consisted of the following at September 30, 1995 and 1994 *(in thousands):*

	1995		1994	
	Current	Long-term	Current	Long-term
Equipment obligations	$ 2,318	$158,565	$ –	$ 72,162
Credit agreements	8,500	25,500	68,500	15,000
Notes payable	5,540	37,539	5,540	43,079
Bonds	–	30,000	–	30,000
Construction loan	4,696	12,189	4,670	16,885
UDAG loan	130	12,487	130	12,617
	$21,184	$276,280	$78,840	$189,743

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, 1995 and 1994 totaled $4,563,000 and $8,350,000, respectively. Reductions to principal owed take place as portions of principal relating to delivered cars are 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 136 cars under the base order at September 30, 1995. The remaining 4 cars under the base order were delivered in October 1995. Principal repayments of all outstanding advances pertaining to the 140 base order cars are now due in 80 consecutive quarterly installments commencing December 1995. Principal repayments of all outstanding advances pertaining to the 55 option cars are due in 80 consecutive quarterly installments commencing the earlier of the third month following the last option car's delivery or September 30, 1997. All amounts borrowed by Amtrak under the remaining debt are secured by those finished passenger cars not refinanced under the capital leasing arrangement.

Amtrak has $150,000,000 of unsecured lines of credit with banks expiring in December 1995, which are subject to certain conditions. Borrowings under these agreements bear interest based on the London Interbank Offered Rate (LIBOR), certificate of deposit rates, or prime rate. Amtrak pays various fees on its credit lines. These lines of credit were not used at any time during 1995. Amtrak expects these lines of credit to be renewed with substantially similar terms and conditions.

Under a credit agreement, Amtrak has a $15,000,000 outstanding balance at September 30, 1995,

NOTE 5: BORROWING ARRANGEMENTS *(CONTINUED)*

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 $19,000,000 outstanding balance at September 30, 1995, bearing interest at the Eurodollar rate. This amount is to be repaid in semi-annual installments from April 1997 to October 1999.

Under a term note, Amtrak has an $8,775,000 outstanding balance due at September 30, 1995, 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 fixed rates 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, 1995, CUS is obligated to repay $14,304,000 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, 1995 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, 1995 Amtrak's aggregate deposits into the fund were $1,500,000. 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, 1995. 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 7.5% and 5.9% per annum at September 30, 1995 and 1994, respectively.

At September 30, 1995, scheduled maturities of long-term equipment and other debt over the next five years were as follows:

Year Ending September 30	Amounts *(In Thousands)*
1996	$ 21,184
1997	24,116
1998	21,961
1999	18,343
2000	5,926
Thereafter	205,934
	$297,464

Notes to Consolidated Financial Statements

(continued)

For the Years Ended September 30, 1995 and 1994

NOTE 6: LEASING ARRANGEMENTS

Capital Leases

Amtrak leases items of equipment, primarily passenger cars and locomotives, under capital leasing arrangements. At September 30, 1995 and 1994, the gross amount of assets recorded under capital leases was $603,722,000 and $557,483,000, respectively, with accumulated amortization of $100,283,000 and $69,296,000, respectively. At September 30, 1995, future minimum lease payments under capital leases were as follows:

Year Ending September 30	Amounts *(In Thousands)*
1996	$ 52,930
1997	45,949
1998	47,288
1999	51,237
2000	49,826
Thereafter	753,861
	1,001,091
Less amount representing interest	461,583
Present value of minimum lease payments at September 30, 1995	$ 539,508

Operating Leases

At September 30, 1995, Amtrak was obligated for the following minimum rental payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year:

Year Ending September 30	Amounts *(In Thousands)*
1996	$ 9,536
1997	9,535
1998	7,579
1999	6,021
2000	5,491
Thereafter	63,306
	$101,468

Rent expense for the years ended September 30, 1995 and 1994 was $25,236,000 and $24,140,000, respectively.

NOTE 7: 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 by insurance companies owned by Amtrak and various other railroads and transit authorities.

NOTE 8: 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. Pension expense for 1995 and 1994 was $255,000 and $4,371,000, respectively. Included in the 1995 expense is a $2,051,000 curtailment gain resulting from restructuring activities. Included in the 1994 expense are a $659,000 curtailment gain and $3,769,000 in termination benefits resulting from restructuring activities. The following tables set forth the Plan's funded status, amounts recognized in the Consolidated Balance Sheets at September 30, 1995 and 1994, and components of the net pension expense for 1995 and 1994 *(amounts in thousands):*

	1995	1994
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of $77,573 and $67,753, respectively	$ 78,398	$ 68,572
Plan assets at fair value, primarily fixed income investments and listed stocks	$109,298	$ 97,021
Projected benefit obligation for service rendered to date	100,468	90,269
Plan assets in excess of projected benefit obligation	8,830	6,752
Unrecognized prior service cost being amortized over 13.9 years	5,900	4,205
Unrecognized net gain	(18,187)	(12,961)
Unrecognized net asset existing at October 1, 1986 being amortized over 11.6 years	(2,781)	(3,827)
Accrued pension expense recognized in Consolidated Balance Sheets	$ (6,238)	$ (5,831)

Notes to Consolidated Financial Statements

(continued)

For the Years Ended September 30, 1995 and 1994

NOTE 8: RETIREMENT BENEFITS *(CONTINUED)*

	1995	1994
Net pension expense for 1995 and 1994 included the following components:		
Service cost—benefits earned during the period	$ 3,766	$ 4,045
Interest cost on projected benefit obligation	6,852	6,262
Actual return on Plan assets	(16,267)	(1,895)
Net amortization and deferral	7,955	(7,151)
Curtailment gain	(2,051)	(659)
Termination benefits	–	3,769
Net pension expense	$ 255	$ 4,371

The weighted average discount rate used in determining the projected benefit obligation was 7.5% and 8.0% in 1995 and 1994, respectively. The projected rate of increase in future compensation levels was 4.0% and 5.0% in 1995 and 1994, respectively. The assumed long-term rate of return on Plan assets was 8.00% in 1995 and 1994. The unfunded accrued pension cost at September 30, 1986, is being amortized over the remaining average service life of Plan members, and $819,000 and $1,127,000, net of amortization, is included under "Postretirement employee benefits obligation" in the Consolidated Balance Sheets at September 30, 1995 and 1994, respectively.

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 $1,729,000 and $1,679,000 for 1995 and 1994, respectively.

Postretirement benefits expense for 1995 was $1,366,000 which included a $5,308,000 curtailment gain related to restructuring activities. In fiscal year 1994, as part of adopting the provisions of Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," Amtrak elected to immediately recognize in the first quarter, a one-time, noncash transition obligation of $90,646,000. This cumulative catchup adjustment as of October 1, 1993 represented the discounted present value of expected future retiree health and life insurance benefits attributed to employees' service rendered prior to that date. The effect of this change on fiscal year 1994 after recording both that year's provision and the cumulative effect for prior years, was a noncash expense of $101,403,000. As a result of restructuring activities, a $6,194,000 curtailment loss was also recognized increasing the total noncash expense to $107,597,000. The pro forma effect of the change on years prior to fiscal year 1994 was not determinable. Railroad agreement employees' healthcare and life insurance benefits are covered by a separate multi-employer

NOTE 8: RETIREMENT BENEFITS *(CONTINUED)*

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, 1995 and 1994 and components of the net postretirement benefits expense for 1995 and 1994 *(amounts in thousands):*

	1995	1994
Accumulated postretirement benefit obligation:		
Former employees	$ 32,170	$ 38,964
Fully eligible active employees	6,886	22,029
Other active employees	35,781	44,292
Unrecognized net gain	29,288	–
Total postretirement benefits liability	$104,125	$105,285
Net postretirement benefits expense for 1995 and 1994 included the following components:		
Service cost—benefits earned during the period	$ 2,823	$ 3,598
Interest cost on accumulated benefit obligation	5,239	7,159
Full transition obligation	–	90,646
Net amortization	(1,388)	–
Curtailment (gain) loss	(5,308)	6,194
Net postretirement benefits expense	$ 1,366	$107,597

The weighted average discount rate used in determining the accumulated benefit obligation was 7.5% and 8.0% in 1995 and 1994, respectively. For measuring the expected benefit obligation, 8.0% and 12.5% annual rates of increase in the per capita claims cost were assumed for fiscal years 1995 and 1994, respectively. This rate was assumed to remain at 8.0% in 1996 and then gradually decrease to 5.0% by 2002, and remain at that level thereafter. If the assumed healthcare cost trend rate were increased by one percentage point, annual net postretirement benefit expense and the related accumulated benefit obligation would increase by $1,659,000 and $13,509,000, respectively.

NOTE 9: 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. During fiscal year 1994, Amtrak established a $32,975,000 reserve for sites where environmental agencies have initiated legal action, where Amtrak has held discussions with environmental agencies regarding remediation and other possible actions, or where management has concluded that Amtrak will have to perform remedial actions. During 1995, Amtrak increased this reserve to $47,475,000. This reserve is based on Amtrak's present estimate of the costs it will incur related to these sites. Amtrak has not recorded any receivables for recoveries from other parties or from insurance because such recoveries are not sufficiently certain.

Notes to Consolidated Financial Statements
(concluded)

For the Years Ended September 30, 1995 and 1994

NOTE 9: ENVIRONMENTAL MATTERS *(CONTINUED)*

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 10: SALE OF TAX BENEFITS

Pursuant to provisions of the Economic Recovery Tax Act of 1981, Amtrak sold the rights to the tax benefits associated with certain qualified assets. Cash proceeds from these sales plus accrued interest are subject to certain restrictions, and therefore are presented as a non-current asset and deferred revenue in the Consolidated Balance Sheets. Revenue is recognized in other revenues to the extent restrictions have been lifted and funds released to Amtrak. For the years ended September 30, 1995 and 1994, Amtrak recognized revenue of $36,933,000 and $8,313,000, respectively, from these restricted funds. In 1995, Amtrak negotiated an acceleration of the release of $30,000,000 of these restricted funds.

NOTE 11: 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 amount of escrowed proceeds from sales of tax benefits also approximates fair value since all of the escrowed proceeds are invested in instruments having short maturities. 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, 1995 and 1994 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 a September 30, 1995 market interest rate. The estimated fair values of these financial instruments are as follows *(amounts in thousands)*:

	1995		1994	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes payable	$ 43,079	$ 31,056	$48,619	$35,761
Equipment obligations	$160,883	$170,661	$72,162	$67,281
UDAG loan	$ 12,617	$ 3,892	$12,747	$ 4,209

NOTE 12: 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 of $71,503,000. 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 are adjusted. During 1994, $21,917,000 of charges were made against the reserve, leaving a balance as of September 30, 1994 of $49,586,000.

During 1995, $17,951,000 of workforce related and $1,856,000 of equipment related charges were made against the reserve. As of September 30, 1995, $29,779,000 of the reserve remains to be utilized in future years.

In 1995, an additional $14,523,000 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. Management believes that its restructuring plan will be fully implemented in 1996. Management anticipates that there will be further restructuring expenses in 1996 in order to complete the market segmentation, product differentiation, and the continued downsizing of the workforce.

NOTE 13: SUPPLEMENTAL CASH FLOW INFORMATION

For the years ended September 30, 1995 and 1994, Amtrak engaged in the following investing and financing activities that affected recognized assets, liabilities, and capitalization, but did not result in a change in cash and cash equivalents *(amounts in thousands)*:

	1995	1994
Net increase (reduction) in obligation due to a third-party lender in connection with the construction and lease refinancing of passenger cars	$69,408	$ (14,589)
Interest earned on escrowed proceeds of tax benefits sales	$ 2,375	$ 1,790
Capital lease obligations incurred in connection with the leasing of new equipment	$47,968	$233,369
Promissory note issued in connection with the acquisition of a parking facility	–	$ 20,000
Federal paid-in capital from Federal Railroad Administration payments of excess retirement and unemployment taxes	–	$137,000

Cash interest of $43,411,000 and $24,273,000 was paid during the years ended September 30, 1995 and 1994, 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, except for the adoption of FAS 106, Employers' Accounting For Postretirement Benefits Other Than Pensions at October 1, 1993, 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.

Thomas M. Downs	*Elizabeth C. Reveal*
Chairman and President	*Chief Financial Officer*

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