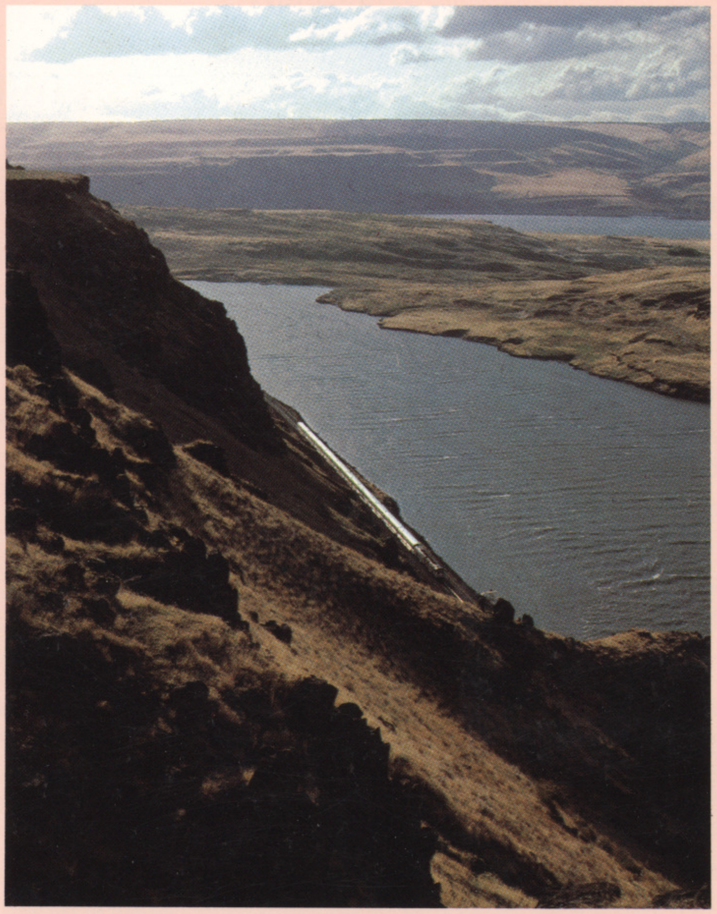
National Railroad Passenger Corporation



1987

Annual

Report

Amtrak®

FIVE-YEAR COMPARISON OF AMTRAK'S PERFORMANCE

Highlights

	1983	1984	1985	1986	**1987**
Revenues (millions)	$ 664.4	$ 758.8	$ 825.8	$ 861.4	**$ 973.5**
Expenses (millions)	$1,469.4	$1,522.1	$1,600.1	$1,563.6	**$1,672.0**
Revenue-to-Expense Ratio	.54	.56	.58	.62	**.65**
Revenue-to-Short-Term-Avoidable Cost Ratio*	.80	.85	.86	.96	**1.03**
Revenue-to-Long-Term-Avoidable Cost Ratio**	.68	.70	.71	.78	**.79**
Passenger Miles (millions)	4,246	4,552	4,825	5,013	**5,221**
Passenger Miles Per Train-Mile	145.8	157.1	159.0	172.2	**176.8**
Ridership (millions)					
System	19.0	19.9	20.8	20.3	**20.4**
Contract Commuter	.231***	.518	.587	.656	**10.2********
Systemwide On-Time Performance	82%	80%	81%	74%	**74%**

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

***Long-term avoidable costs—All short-term avoidable costs, plus claims expenses, heavy maintenance and a portion of corporate and field overhead. Also included is a consideration of the effects route additions and deletions have on corporate costs over a period longer than one year.*

****Effective Jan. 1, 1983, Amtrak began providing commuter service under contract to the state of Maryland.*

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

Under the familiar Amtrak arrow, the National Railroad Passenger Corporation operates a nationwide rail passenger business over a 24,000-mile route system serving 487 stations. During FY87 Amtrak carried 20.4 million intercity travelers and 10.2 million metropolitan-area commuters.

The President's Report

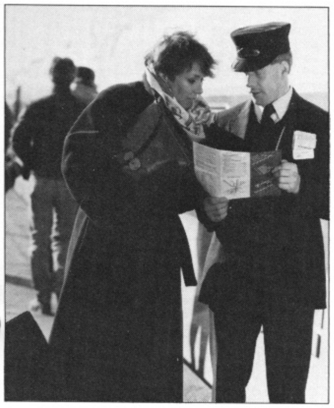
Achievement and Challenge:

The Story of Amtrak's Year

In passenger miles and revenues, fiscal year 1987 (FY87) ranks as the best year that Amtrak has ever experienced. Our revenue-to-expense ratio of .65 was the highest it has ever been, and met the challenging goal we set for ourselves a year ago.

Operating revenues reached $973.5 million—close to the billion dollar mark—and more than 13 percent, or $112 million, ahead of even last year's record level. Although our total expenses of $1,672.0 million represented a $108.4 million increase from the previous year's $1,563.6 million, on a proportional basis, that increase was far less than the growth in revenues.

Intercity passenger miles set a record at over 5.2 billion. Our intercity trains carried 20.4 million passengers during the year—slightly ahead of last year's 20.3 million. Total ridership of 30.6 million was up substantially because of the 10.2 million commuters carried for the Massachusetts Bay Transportation Authority, for which



For the Boston-area commuter, the helping hand is now Amtrak's. We began operating MBTA's commuter service on Jan. 1, 1987.

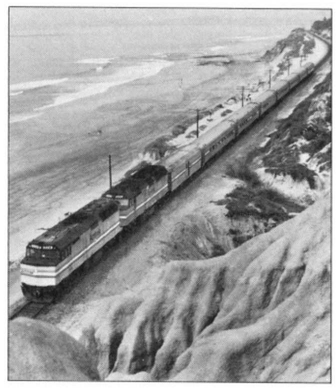
Amtrak began operating commuter service early in FY87, and for the state of Maryland.

For the first time, our revenue from intercity train operations covered all of our short-term avoidable costs. These are the incremental costs—such as train and engine crews, onboard staffing, fuel and power, maintenance of equipment, additional reservations expenses—that are incurred when we add a train or avoided when we eliminate a train.

Five years ago, Amtrak's train revenue covered only 77 percent of our short-term avoidable costs on the average. In 1987, train revenues covered 103 percent of these costs. This dramatic improvement reflects our success at operating our base passenger business more and more efficiently: targeting our marketing efforts and deploying our operating resources to get the greatest possible value out of our seat inventory.

Federal financial support for Amtrak has declined 46 percent, as expressed in 1987 dollars, since 1981, and we are continuing to make important progress toward our goal to further reduce Amtrak's dependence on federal funding. However, no mode of transportation in this nation operates without some federal financial support. Even with the continued improvements in our operating efficiency, which we anticipate, we will continue to need infrastructure support similar to that provided by the federal government to other modes of transportation. Even more critical is our need for capital funds to allow us to maintain the level of service we have achieved and to expand our capacity.

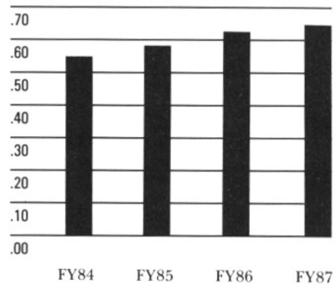
Five years ago, Amtrak's train revenue covered only 77 percent of our short-term avoidable costs on the average. In 1987, train revenues covered 103 percent of these costs.



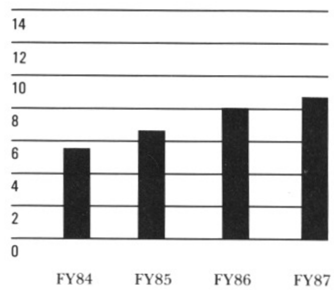
Amtrak operates eight daily San Diegans *on the Surf Line between Los Angeles and San Diego. Efficient push-pull service was introduced on this line in 1987.*

Amtrak's management committee (facing page), from left, are Henry R. Moore, executive vice president and chief operating officer; Charles W. Hayward, vice president—finance and administration; W. Graham Claytor, Jr., chairman and president; Harold R. Henderson, vice president—law; and William S. Norman, executive vice president. The committee is pictured in Washington's Union Station, which is undergoing restoration for a Fall 1988 reopening as the southern anchor of Amtrak's Northeast Corridor.

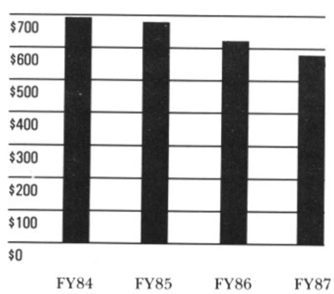
Revenue-to-Expense Ratio



Passenger Miles per Dollar of Federal Support (In constant FY87 dollars)



Operating Subsidy (In constant FY87 dollars, in millions)



Concentrating on the Main Mission

Amtrak seeks revenue growth principally by concentrating on our primary reason for being in business—that is, to provide safe, comfortable and reliable rail passenger service. Much of what Amtrak people accomplished in FY87 directly supported that basic mission. From reservation telephone call to final destination, our aim has been to make Amtrak service more convenient and pleasant.

Our Superliner enhancement program—the route guides, movies, games and other on-board amenities that help emphasize the unique quality of train travel—was extended to all our Western long-distance trains during FY87.

Railfone, the on-board telephone service available on Metroliner Service trains, went international in FY87. Passengers can now make calls overseas, as well as in the United States. So popular has Railfone become in the Northeast Corridor that we expect to extend the service in FY88 to trains running between Los Angeles and San Diego.

Amtrak's link with three major airline reservation systems, as well as with Airline Reporting Corporation and the Air Travel Card system, continues to make reservations and ticketing more convenient. Sales by travel agents in FY87 amounted to $235.9 million—a 15 percent increase over the previous year. Our own reservation centers handled more than 25.6 million calls and our stations and travel centers sold $413.6 million worth of tickets.

Seeking to gain a larger share of the travel market, Amtrak in FY87 developed a new 92-page Travel Planner showing in vivid color all the trains, accommodations and hotel and tour packages available through America's passenger railroad.

To acquaint travel agents with our accommodations and fares, and to show them how to make rail reservations and sell tickets through their own automated systems, Amtrak developed a training video cassette—the first of its kind in the industry. For travel agents—and the public—we staged equipment displays and open houses in more than 30 cities. Through television, radio and print advertising, we kept the magic of train travel constantly before the public.

Amtrak has always been aware of the role that price plays in travel decisions. But the airlines brought it even more forcefully to our attention in FY87 with their Maxsaver fares. We countered with a special All Aboard America fare program of our own. By summer, air fares were on the way up again, and Amtrak was handling record numbers of passenger miles in July and again in August.

Some Highlights of Amtrak's Year

The first Viewliner, the prototype of a new generation of Amtrak sleeping cars, was completed in FY87 and is now ready for initial road testing on Amtrak's *Auto Train*. The prototype is a new concept in sleeping car design—modern, modular, comfortable for passengers and convenient for our people to maintain. Two more prototypes are in the works—another sleeping car and a dining car. All three will be extensively tested and refined before production begins.

The first phase of our Centralized Electrification and Traffic Control System (CETC), the new state-of-the-art system for monitoring and controlling power supply and train operations on the Northeast Corridor, was completed in FY87. Training began for Amtrak people who will staff the CETC Center in Philadelphia's 30th Street Station. CETC began operation in October 1987, side by side with the existing control system, between Washington, D.C., and a point just north of Wilmington, Del. It will undergo a 100-day test period pending final acceptance as the permanent control system on that part of the Corridor.

During FY87, we improved Amtrak's F40 diesel locomotive maintenance at our Chicago shop. This is another step in a long-term project to provide our major shops at Chicago, Beech Grove, Ind., and Wilmington, Del., with new construction and repair techniques and automated machinery.

Amtrak's shops were at work on a variety of important projects in FY87. Wilmington converted and completely refurbished six former Capitoliner cars into control cars for use in the new push-pull operation (control cab on one end of the train; locomotive on the other end) on the Los Angeles-San Diego route. The Beech Grove Maintenance Facility continued the renovation of three sets of Turboliner equip-

Wide windows open up a scenic world for travelers aboard Amtrak's Superliners through the West.

Amtrak 4.0.5

Sales by travel agents in FY87 amounted to $235.9 million—a 15 percent increase over the previous year.

Amtrak
4'0'5

Mail and express business continued to develop strongly, producing revenues of $32.7 million during FY87—better than a 21 percent increase over the total for the preceding fiscal year.

Diesel locomotives move through the modernized maintenance line at our renovated Chicago locomotive shops.

The historic interior of Amtrak's Chicago Union Station gives little hint of the valuable air-rights developmental projects going on around Amtrak's Midwest rail hub.

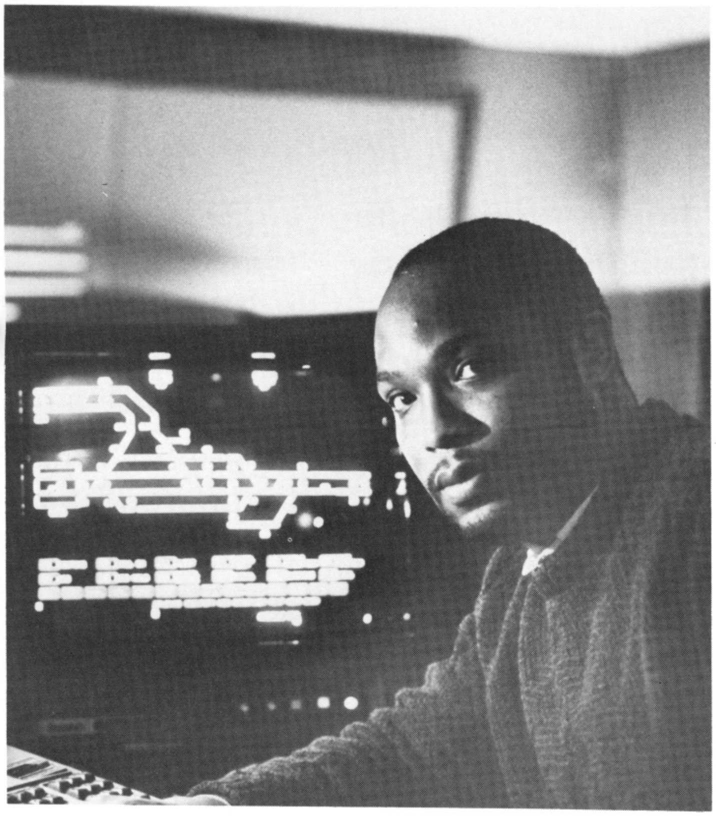
ment for use on lines in New York state. Our shop at Bear, Del., has begun a six-year overhaul program of Amfleet cars, and is building precast concrete bridges to replace older structures on the Northeast Corridor.

Construction began on expanded *Auto Train* station facilities at both Lorton, Va., and Sanford, Fla., that will include more comfortable accommodations, food vending areas and gift shops. In financial performance, *Auto Train* continues to be Amtrak's premier train. Ridership is growing steadily and, since 1985, annual revenues from *Auto Train* have increased from $25 million to $37 million. In 1985 the train brought in $4.3 million more than its short-term avoidable costs. In FY87 the figure was $12.1 million.

During FY87 we opened new or refurbished passenger stations at Salt Lake City, Utah; Hartford, Conn.; Raleigh, N.C.; and Martinez, Calif.

Work continued in FY87 on the renewal of the 65-mile Atlantic City–Philadelphia line where Amtrak expects to be operating trains with push-pull equipment by 1989. Amtrak crews are replacing rail and ties, repairing or rebuilding bridges and grade crossings, and installing new traffic control systems. Of the $75 million renovation cost, $30 million will come from the Northeast Corridor Improvement Project (NECIP), and the remainder from the state of New Jersey and local government.

Another project with long-term implications for Amtrak is the West Side Connection—the rerouting of trains now using Grand Central Terminal in New York to take them down the west side of the city to Pennsylvania Station. This is an $85 million project, with Amtrak funding 60 percent of the cost. The remaining 40 percent will be funded by New York state. When completed in 1990, it will save Amtrak the cost of using Grand Central Terminal,



Our new CETC center employs skilled operators and state-of-the-art computer technology to control trains and electric power on a major portion of the Northeast Corridor.

and, most important, will enable us to open up new direct service between upper New York state and points along the Northeast Corridor.

Mail and express business continued to develop strongly, producing revenues of $32.7 million during FY87—better than a 21 percent increase over the total for the preceding fiscal year. We are actively seeking more of this business and are equipped to handle it.

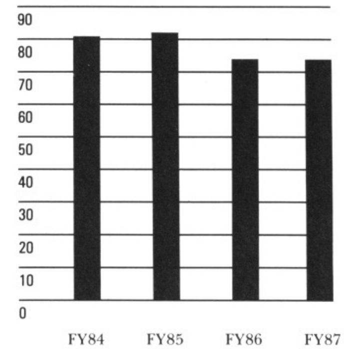
Real estate revenues were about at last year's level—$24.1 million as compared with $25.5 million—but they are expected to increase substantially in FY88. Our Real Estate Department forecasts revenues will grow to a $50 million-a-year level in the next decade, primarily from some exciting development projects.

Chicago Union Station Company (CUS), an Amtrak subsidiary, signed an agreement with Rubloff, Inc., a major developer, for the construction of 1.2 million square feet of office space and parking on air rights owned by CUS along the Chicago River. This will be the first of five new office buildings to be built on CUS property in the next four years.

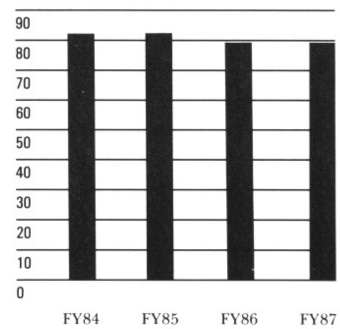
In addition, U.S. Equities, the developer of two planned office towers to be built over the CUS building, has agreed to take the lead in securing private and public financing to permit construction of an entirely new passenger handling facility in the concourse and mezzanine areas of CUS. Construction will begin in 1988.

Work is also progressing on other major development projects. Our 30th Street Station in Philadelphia and the property around it have the potential to alter the shape of the city's downtown business district. Our Sunnyside Yard property in Long Island City, N.Y., may well become one of the country's major real estate developments. Amtrak's property rights around

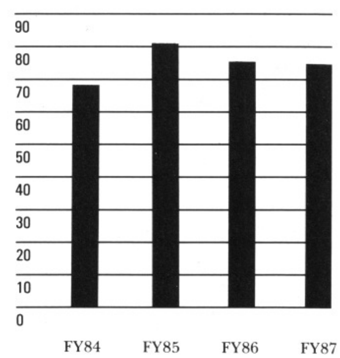
On-Time Performance, Systemwide (Route Basis)



On-Time Performance, Northeast Corridor (Carrier Basis)

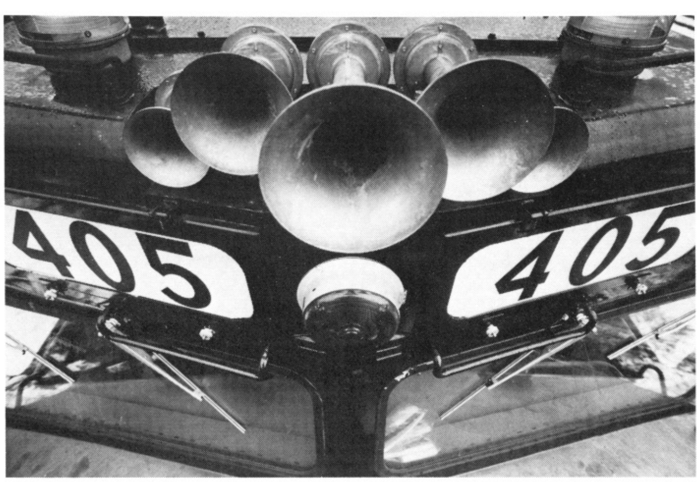


On-Time Performance, Contract Railroads (Carrier Basis)



Amtrak 405

Amtrak is taking part in a joint venture with ASEA, a Swedish locomotive manufacturer, for the design and assembly of 26 high-speed passenger cars for the Southeastern Pennsylvania Transportation Authority.



Pennsylvania Station in Manhattan offer major revenue potential and redevelopment possibilities for the country's busiest rail passenger station. In each of these cases, our plans are to create long-term revenue production rather than short-term sales income.

Corporate Development, with revenues of $17.9 million in FY87—a 4 percent increase over the previous year—had a number of projects ongoing and in prospect.

Amtrak successfully produced electric and thermal power for use and sale at our New Haven cogeneration plant for nine months of the fiscal year. In FY88, this plant is expected to produce revenues in excess of $2 million. We are pursuing a similar but larger power cogeneration project with the University of Pennsylvania in Philadelphia.

Beech Grove's contract for new car assembly for the Washington, D.C., Metro system has been extended to include the assembly of 18 more of these cars starting in FY89.

Amtrak is also taking part in a joint venture with ASEA, a Swedish locomotive manufacturer, for the design and assembly of 26 high-speed passenger cars for the Southeastern Pennsylvania Transportation Authority.

During FY87 we completed the conversion of our rail welding plant at New Haven, Conn., from handling 39-foot rail sections to 78-foot sections for welding into quarter-mile lengths. The plant has been running on two shifts for the better part of the year, virtually all outside work for commuter railroads.

Another promising development is the sale of some Amtrak-developed computer software. We have sold two segments of the Arrow reservations and ticketing system and two copies of our vehicle fuel facility software. Discussions are under way with several foreign railroads for the sale of our Arrow system of automated reservations and ticketing.

Employees: Partners in Progress

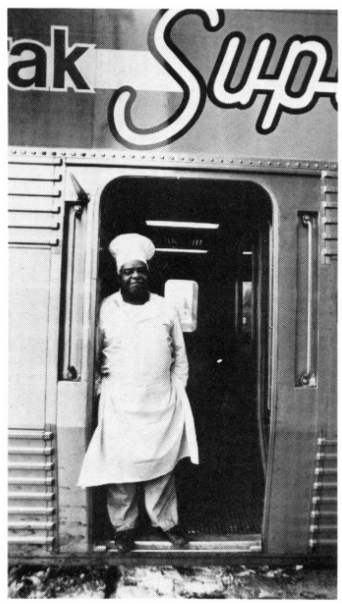
Amtrak has a strong commitment to training for all our people. In the past two years, more than 2,000 managers and supervisors have shared in the leadership training program that concentrated on Amtrak's mission, our commitment to service quality and our reliance on teamwork. Plans are being made to share that program with our other 20,000 people.

Amtrak's Joint Labor Management Productivity Council provides an opportunity for labor and management—at corporate and local task force levels—to work together in promoting ideas leading to cost savings and heightened morale. Through this forum, Amtrak strives to provide greater individual job satisfaction and a sense of team spirit. The Council encourages voluntary pilot projects involving employees in identifying and solving work-related problems.

Task forces around the company are working on such projects as electronic repairs, incentive programs, marketing strategies and many other issues affecting employee morale and cost reduction. In 1987, labor-management groups began working on service improvements to the *San Diegan* trains and modifications on Amfleet food service cars. In addition, employees in the Chicago area began a pilot program of cash awards to employees whose cost-saving ideas are successfully implemented.

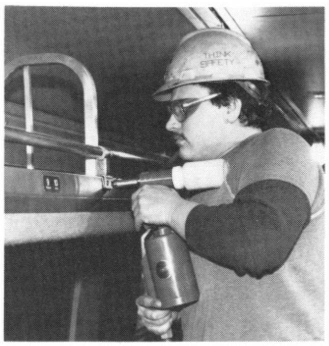
Labor-management relationships, employee morale and productivity are all areas that can be strengthened to improve the work environment for everyone. Amtrak will continue to encourage participation in the Council, recognizing the untapped imagination, ingenuity and desire of employees to contribute to the success of the company.

Train travel is fun! Just ask these two young passengers.



An Amtrak chef takes a break from the busy schedule of a Superliner dining car kitchen.

At Amtrak's Beech Grove Maintenance Facility, the finishing touches are put on one of Amtrak's new Viewliner cars—the prototypes of our future Eastern long-distance passenger car fleet.



New baggage restraints are being installed on the luggage racks of Amtrak cars to enhance the safety of passengers.

A Spotlight on Safety

Safety, of employees and passengers, continued to be the first priority for everyone of Amtrak in FY87. After a tragic accident at Chase, Md., last January, the public spotlight also focused on railroad safety. From this, the worst accident in Amtrak's 16-year history, came lessons which have guided Amtrak, the Federal Railroad Administration (FRA) and Congress in making changes and drafting legislation to improve safety—not only for Amtrak, but for other railroads and transportation carriers as well.

The investigation of the Chase accident has focused on six rule violations by a Conrail engineer and brakeman, causing the three freight engines which they were operating to enter the path of a high-speed passenger train. The collision cost the lives of 15 passengers and the Amtrak engineer.

Since the accident, Amtrak has imposed a 30-miles-per-hour speed limit on freight trains on our tracks between 6 a.m. and 10 p.m. and has recommended taking as many freight operations as possible off this high-speed passenger corridor altogether.

FRA now requires installation of automatic train control—which automatically stops the train if an engineer fails to obey the governing signal—on all freight and commuter equipment operating in the Corridor (our passenger locomotives are already so equipped). We have nearly completed the installation of automatic train control on our work train equipment operating in the Corridor.

Amtrak actions to heighten passenger car safety include installation of luggage rack restraints, microwave oven restraints, seat back guards and seat rotation locks.

Support is building for a law requiring random drug and alcohol testing not only for employees who operate trains but for all transportation employees who hold the lives and safety of others in their hands. Amtrak already has a vigorous drug and alcohol testing program, which complies with FRA regulations, and an excellent Employee Assistance Program. In FY87, Amtrak signed an Operation Red Block agreement with two of its unions. Operation Red Block is a joint labor-management effort to encourage those employees with substance abuse problems to seek assistance.

To improve safety for employees, we implemented a new Safety Training and Observation Program (STOP) in FY87. STOP is an interactive program that relies heavily on positive reinforcement and constant people-to-people reminders of safe and unsafe working habits.

New Challenges for FY88

We have set demanding goals for Amtrak in FY88: a revenue-to-expense ratio of .67; an increase in revenue of more than 7 percent, which will put Amtrak over the billion dollar mark; systemwide on-time performance of 84 percent; and the systematic monitoring and improvement of service quality and productivity.

Amtrak's people are accustomed to challenges and will meet these new ones with skill, resolve and hard work. But there is one obstacle which presents the greatest challenge of all: the lack of adequate capital funding for the equipment and service innovations we need to make Amtrak fully productive.

The dramatic improvement from our FY87 on-time performance of 74 percent to our goal of 84 percent will depend in part on maintaining the mechanical reliability of our locomotive and car fleet. Maintenance facility improvements already funded and under way will help, but additional capital will be needed in the future to complete our facility modernization program.

The testing of our new Viewliner car series, which will begin in 1988, will take us one step closer to the modernization and expansion of our passenger car fleet. We hope to be able to order about 30 to 50 cars a year, starting in 1990 to replace our Heritage fleet and provide for a modest expansion in capacity. By the mid-1990s, we expect to be able to generate enough capital from our real estate and corporate development projects to cover equipment purchases. However, we must explore other funding options in the meantime.

The demand for our service has never been greater. Most of our reserved trains are sold out over major portions of their routes months in advance during the peak periods, and the demand is spreading to periods once considered off-peak. Our sleeping cars frequently sell out year round. And at least two states which already support intrastate trains are standing in line to request additional state-supported trains as equipment becomes available.

A stately symbol of Amtrak's future, Washington's magnificent Union Station restoration project nears completion for a fall 1988 reopening as the southern anchor of the Northeast Corridor.

The need for prudent expansion of service is clear. With the appropriate level of capital funding, Amtrak and its people can meet that need with cost-effective, reliable and comfortable service.

Amtrak's future is bright and one symbol of that future is in prospect for FY88—the opening of the restored Washington, D.C., Union Station. This magnificent building, brought back to its original grandeur and filled with a railroad station, shops, theaters and restaurants, is a fitting anchor for the Northeast Corridor, a renewed gateway to the nation's capital. More than that, it is a sign that Amtrak is here to stay—and to grow.

W. Graham Claytor Jr

W. Graham Claytor, Jr.
President
December 31, 1987

BALANCE SHEET

As of September 30, 1987 and 1986

(Thousands of dollars)

Assets	1987	1986
Current Assets:		
Cash, including short-term investments of $133,418,000 and $121,175,000 in 1987 and 1986, respectively	**$ 161,318**	$ 133,692
Accounts receivable, net of allowance for doubtful accounts of $3,387,000 and $2,688,000 in 1987 and 1986, respectively	**65,014**	69,536
Materials and supplies, at average cost	**103,011**	108,706
Total current assets	**329,343**	311,934
Property and Equipment:		
Passenger cars and locomotives	**1,422,901**	1,412,749
Northeast Corridor	**2,486,915**	2,387,816
Other	**386,002**	351,088
	4,295,818	4,151,653
Less—Accumulated depreciation and amortization	**(1,051,813)**	(909,514)
	3,244,005	3,242,139
Other Assets and Deferred Charges:		
Escrowed proceeds from sales of tax benefits	**95,162**	116,041
Union Station redevelopment	**70,000**	70,000
Deferred charges and other	**99,254**	113,489
	264,416	299,530
Total assets	**$ 3,837,764**	$3,853,603

Liabilities and Capitalization	1987	1986
Current Liabilities:		
Railroad accounts payable	**$ 15,374**	$ 32,696
Accounts payable	**78,298**	72,500
Accrued expenses	**110,378**	101,663
Current portion of long-term obligations	**12,176**	5,732
Total current liabilities	**216,226**	212,591
Long-Term Obligations:		
Notes payable	**1,119,635**	1,119,635
Mortgage notes payable	**2,220,605**	2,128,798
Other	**10,547**	18,039
	3,350,787	3,266,472
Other Liabilities and Deferred Credits:		
Casualty reserves	**68,919**	36,872
Deferred revenue—sales of tax benefits	**95,162**	116,041
Advances from railroads and commuter agencies	**28,695**	34,730
Other	**6,317**	7,633
	199,093	195,276
Total liabilities	**3,766,106**	3,674,339
Commitments and Contingencies		
Capitalization (see Statement of Changes in Capitalization)	**71,658**	179,264
Total liabilities and capitalization	**$ 3,837,764**	$3,853,603

The accompanying notes are an integral part of this balance sheet.

STATEMENT OF OPERATIONS

For the Years Ended September 30, 1987 and 1986

(Thousands of dollars)

	1987	1986
Revenues	**$ 973,510**	$ 861,418
Expenses:		
Train operations	**359,321**	367,740
Maintenance of equipment	**361,901**	323,961
Maintenance of way	**168,374**	139,333
On-board services	**137,185**	126,742
Stations	**104,679**	101,147
Marketing and reservations	**136,025**	131,166
General support	**116,252**	113,195
Taxes and insurance	**85,667**	63,457
Depreciation and amortization	**163,423**	163,421
General and administrative	**37,446**	31,972
Interest	**1,752**	1,464
Total expenses	**1,672,025**	1,563,598
Net loss	**$ 698,515**	$ 702,180

The accompanying notes are an integral part of this statement.

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Years Ended September 30, 1987 and 1986

(Thousands of dollars)

	1987	1986
Uses of cash:		
Operations		
Net loss	**$ 698,515**	$ 702,180
Depreciation and amortization	**(163,423)**	(163,421)
Total funds used for operations	**535,092**	538,759
Northeast Corridor improvements	**99,099**	119,995
Other purchases and refurbishments of property	**66,190**	85,479
Decrease in accounts payable and accrued expenses	**2,809**	4,076
Decrease in FRA advances	—	12,068
Decrease in other long-term obligations	**1,048**	—
Total uses of cash	**704,238**	760,377
Sources of cash:		
Preferred stock issued to the Federal Government and federal and state capital payments	**590,909**	680,864
Mortgage notes payable	**91,807**	85,089
Decrease (increase) in other assets	**35,114**	(17,377)
Increase (decrease) in other liabilities and deferred credits	**3,817**	(2,978)
Decrease in materials and supplies	**5,695**	11,260
Decrease in receivables	**4,522**	11,903
Other	—	1,572
Total sources of cash	**731,864**	770,333
Increase in cash and short-term investments	**$ 27,626**	$ 9,956

The accompanying notes are an integral part of this statement.

STATEMENT OF CHANGES IN CAPITALIZATION

For the Years Ended September 30, 1987 and 1986

(Thousands of dollars)

	Balance September 30, 1985	Year Ended September 30, 1986	Balance September 30, 1986	**Year Ended September 30, 1987**	**Balance September 30, 1987**
Preferred stock issued to the Federal Government, $100 par value; 56,300,000 shares authorized and 48,864,029 shares outstanding in 1987; 50,000,000 shares authorized and 43,024,029 shares outstanding in 1986	$ 3,627,945	$ 674,458	$ 4,302,403	**$ 584,000**	**$ 4,886,403**
Common stock, $10 par value; 10,000,000 shares authorized, 9,385,694 shares outstanding	93,857	—	93,857	**—**	**93,857**
Other paid-in capital:					
Railroad capital payments	108,997	—	108,997	**—**	**108,997**
Federal and state capital payments	147,653	6,406	154,059	**6,909**	**160,968**
	256,650	6,406	263,056	**6,909**	**269,965**
Accumulated deficit before federal operating payments	(7,824,464)	(702,180)	(8,526,644)	**(698,515)**	**(9,225,159)**
Federal operating payments	4,046,592	—	4,046,592	**—**	**4,046,592**
Accumulated deficit	(3,777,872)	(702,180)	(4,480,052)	**(698,515)**	**(5,178,567)**
Total capitalization	$ 200,580	$ (21,316)	$ 179,264	**$(107,606)**	**$ 71,658**

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

September 30, 1987 and 1986

Note 1:

Summary of Significant Accounting Policies

Principles of Consolidation

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

Adjustments of Railroad Reimbursements

Amounts due the contracting railroads are recorded based on reported and estimated expenses, which are subject to audit and adjustment by the railroads and Amtrak. Amtrak's continuing program for auditing monthly costs reported by railroads has resulted in adjustments proposed and settled or under current negotiations. At September 30, 1987 and 1986, accrued estimated recoveries for proposed adjustments were $5,223,000 and $4,590,000, respectively.

Casualty Losses

Provision is made for Amtrak's portion of the estimated liability for unsettled casualty and accident claims. The current portion of this liability is reflected in the Balance Sheet under the caption, "Accrued Expenses." The non-current portion is classified as "Casualty Reserves."

Note 2:

Federal and State Funding

Funds are provided to Amtrak through federal and state payments for operations and for capital acquisitions and improvements. Pursuant to provisions of the Amtrak Improvement Act of 1981, Amtrak has been required to issue to the Secretary of Transportation cumulative preferred stock (no stated dividends), with liquidation preference including any declared dividends prior to any payments to common stockholders, 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. Through September 30, 1987, Amtrak has issued 48,864,029 preferred shares of $100 par value stock.

Public Law 100–202 which provides $580,800,000 of grant funding to Amtrak for Fiscal Year 1988 was approved on December 22, 1987 (unaudited—subsequent to date of auditors' report).

Note 3:

Property and Equipment and Related Obligations

Amtrak's interest in its rolling stock is assigned to the Federal Government in connection with a note in the amount of $1,119,635,000, which was executed on October 5, 1983, between Amtrak and the Federal Railroad Administration (FRA). This note, issued in consideration for the payment by FRA of Amtrak's outstanding guaranteed loan obligations to the Federal Financing Bank (FFB), matures on November 1, 2082, and can be renewed for successive 99-year terms. Interest is payable only in the event of prepayment of the principal.

Property and equipment are stated at cost, and are depreciated using the composite straight-line method over their estimated useful lives. Certain major items of property acquired through capital lease agreements are recorded as assets and are depreciated over their estimated useful lives (see Note 4).

Note 4:

Leasing Arrangements

Capital Leases

Amtrak leases certain items of equipment under capital leasing arrangements. At September 30, 1987, the gross amount of assets recorded under capital leases was $13,306,000, and the future minimum lease payments under capital leases were as follows:

Year Ending September 30	Amounts (In Thousands)
1988	$3,141
1989	2,693
1990	1,135
1991	674
1992	350
Later years	361
	8,354
Less amount representing interest	1,262
Present value of minimum lease payments at September 30, 1987	$7,092

The present value of minimum lease payments is reflected in the Balance Sheet as current and long-term obligations of $2,545,000 and $4,547,000, respectively.

Operating Leases

At September 30, 1987, 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)
1988	$ 7,650
1989	7,651
1990	7,389
1991	3,822
1992	2,814
Later years	18,787
	$48,113

Rent expense for the years ended September 30, 1987 and 1986 was $23,844,000 and $24,048,000, respectively.

Note 5:

Pension Plan

Amtrak has a qualified noncontributory defined benefit retirement plan held in trust covering nonunion employees and certain union employees. Pension (benefit) expense for 1987 and 1986 was $(2,379,000) and $1,305,000, respectively. The net pension benefit in 1987 was due to the adoption of Financial Accounting Standards Board Statement 87, "Employers' Accounting for Pensions." The following tables set forth the plan's funded status, amounts recognized in the Balance Sheet at September 30, 1987 and components of the net pension benefit for 1987 (amounts in thousands):

Actuarial present value of benefit obligations:	
Accumulated benefit obligation, including vested benefits of $31,450,000	$37,739
Projected benefit obligation for service rendered to date	$43,242
Plan assets at fair value, primarily fixed income investments and listed stocks	57,053
Plan assets in excess of projected benefit obligation	13,811
Unrecognized net gain	(594)
Unrecognized net asset being amortized over 11.6 years	(11,146)
Prepaid pension expense recognized in Balance Sheet	$ 2,071
Net pension benefit for 1987 included the following components:	
Service cost—benefits earned during the period	$ 2,815
Interest cost on projected benefit obligation	2,691
Actual return on plan assets	(7,126)
Net amortization and deferral	(759)
Net pension benefit	$(2,379)

A discount rate of seven percent was used in determining the actuarial present value of the projected benefit obligation at September 30, 1987. The projected rate of increase for future compensation was six percent and the assumed long-term rate of return on plan assets was 12.9 percent. The unfunded accrued pension cost at September 30, 1986 is being amortized over the remaining average service life of plan members, and $3,283,000 net of amortization is recognized in the Balance Sheet at September 30, 1987.

Note 6:

Northeast Corridor

In 1976, in connection with the United States Railway Association's Final System Plan, Amtrak acquired the properties of the Northeast Corridor from Conrail for $86,366,000.

The Railroad Revitalization and Regulatory Reform (4R) Act of 1976, as amended, authorized an appropriation of $120,000,000 for Amtrak to acquire the properties of the Northeast Corridor. As of September 30, 1987, Amtrak has received $86,000,000 under this authorization. The remaining amount required to complete this acquisition was financed through federal loans (see Note 3). In addition, a total of $2,500,000,000 has been authorized to be appropriated for the improvement of the properties. Amtrak has issued a mortgage note payable in 2975 to the Federal Government equal to the amounts expended for the acquisition and improvement of the properties acquired pursuant to the 4R Act. Interest is payable only in the event of prepayment of the principal.

As of September 30, 1987 and 1986, Amtrak has capitalized $2,134,604,000 and $2,042,779,000, respectively, for improvements to the Northeast Corridor.

Note 7:

Pending Litigation and Arbitration

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

Note 8:

Line of Credit

Amtrak has a line of credit agreement, expiring in September 1988, with commercial banks to borrow up to $25,000,000 at an interest rate of .25% below the prime commercial loan rate of the primary bank on unsecured 90-day loans. As of September 30, 1987 and 1986, there was no outstanding balance on the existing line of credit.

Note 9:

Sale of Tax Benefits

Pursuant to provisions of the Economic Recovery Tax Act of 1981, Amtrak sold the rights to the tax benefits associated with certain qualified assets. Cash proceeds from these sales, plus accrued interest, are subject to certain restrictions, and, therefore, are reflected as a non-current asset and deferred revenue in the Balance Sheet of $95,162,000 and $116,041,000 as of September 30, 1987 and 1986, respectively. Revenue is recognized to the extent restrictions have been lifted, and funds released to Amtrak. For the years ended September 30, 1987 and 1986, Amtrak recognized revenue of $27,229,000 and $17,620,000, respectively, from these restricted funds.

Note 10:

Union Station Redevelopment

Amtrak has guaranteed to provide up to $70,000,000 to help fund the restoration and development of the Washington Union Station complex. To meet this commitment, Amtrak set aside $70,000,000, of which $42,338,000 has been disbursed through September 30, 1987 to the Union Station Redevelopment Corporation (USRC), the nonprofit corporation formed to manage the redevelopment program. These funds are classified under, "Other Assets and Deferred Charges" in the Balance Sheet. At the completion of the program, to the extent these funds have been released to USRC, they will be amortized to expense over the useful life of the station improvements.

Note 11:

Insurance

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

AUDITORS' REPORT

To the Board of Directors of
National Railroad Passenger Corporation:

We have examined the balance sheets of NATIONAL RAILROAD PASSENGER CORPORATION (Amtrak) (incorporated pursuant to the Rail Passenger Service Act and the laws of the District of Columbia) as of September 30, 1987 and 1986, and the related statements of operations, changes in financial position and changes in capitalization for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Amtrak as of September 30, 1987 and 1986, and the results of its operations and the changes in its financial position and capitalization for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

November 20, 1987

Operating Statistics

	1983	1984	1985	1986	**1987**
General					
System Route Miles (in thousands)	24	24	24	24	**24**
Stations	497	510	503	491	**487**
Train Miles Operated (in millions)	29	29	30	29	**29**
On-Time Performance					
Systemwide	82%	80%	81%	74%	**74%**
Short Distance	81%	81%	82%	76%	**78%**
Long Distance	82%	77%	78%	69%	**62%**
Ridership					
Passengers (in millions)	19.0	19.9	20.8	20.3	**20.4**
Northeast Corridor	10.5	10.8	11.2	10.7	**10.7**
Short Distance	4.3	4.4	4.5	4.4	**4.5**
Long Distance	4.2	4.7	5.0	5.1	**5.2**
Passenger Miles (in millions)	4,246	4,552	4,825	5,013	**5,196**
Locomotive Units					
Operating Fleet	273	284	291	291	**289**
Available for Service (daily average)	89.2%	92.3%	93.2%	92.0%	**89.0%**
Average Age (in years)	5.0	6.0	7.0	8.0	**9.0**
Diesel Units (new deliveries)	0	0	10	0	**0**
Electric Units (new deliveries)	10	0	0	0	**0**
Passenger Train Cars					
Operating Fleet	1,480	1,379	1,523	1,664	**1,705**
Owned and Leased:					
Superliner Cars	284	283	283	282	**282**
Amfleet I Cars	490	490	488	486	**484**
Amfleet II Cars	128	150	150	149	**149**
Heritage Cars	895	732	790	789	**790**
Turboliners (cars)	65	65	65	65	**65**
Self-Propelled Cars	76	78	78	64	**61**
Total Owned and Leased	1,938	1,798	1,854	1,835	**1,831**
Average Age (in years)	14.8	13.2	14.2	14.6	**15.6**

Board of Directors

W. Graham Claytor, Jr.
Chairman
The Honorable
James H. Burnley IV
Secretary of Transportation

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New York, N.Y.
Frank W. Jenkins, Esquire
Ambler, Pa.

Representatives Selected by the Preferred Shareholder, Department of Transportation
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Annandale, Va.
Ralph T. Kerchum
Oakland, Calif.

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Charles Luna
Dallas, Texas (representing organized labor)
The Honorable
Robert D. Orr
Governor of Indiana (representing the Nation's Governors)
Darrell M. Trent
Wilmington, Del. (representing the business community)

Effective Dec. 31, 1987

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Assistant Vice President
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Vice President
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**Management Committee Member*

Effective Dec. 31, 1987

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

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Richard Steinheimer

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Amtrak®

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