National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Management's Discussion and Analysis of Financial Condition and Results of Operations and Consolidated Financial Statements With Report of Independent Auditors

Fiscal Year 2017

AMTRAK®

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

The following is a discussion of Amtrak's results of operations, certain changes in its financial position, liquidity, and business developments for the periods covered by the Consolidated Financial Statements included in this report. This discussion should be read in conjunction with the Consolidated Financial Statements for the years ended September 30, 2017 (FY2017) and September 30, 2016 (FY2016), the related notes, and other information included elsewhere in this report.

FORWARD-LOOKING STATEMENT DISCLOSURE

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contains forward-looking statements that may be identified by the use of words like "believe," "expect," "anticipate," "project" and similar expressions. Forward-looking statements reflect management's good-faith evaluation of information currently available and are subject to a number of risks and uncertainties, including but not limited to the risks and uncertainties set forth below:

- If we do not receive sufficient Federal Government funding, our ability to operate in our current form may be adversely affected;
- The infrastructure on the Northeast Corridor (NEC) is approaching the limit of its capacity and needs significant rehabilitation. We have identified several critical projects as part of the Gateway Program (a planned phased expansion and renovation of the NEC rail line between Newark, New Jersey, and New York City, New York) and we are advancing work to replace the Baltimore and Potomac Tunnel and Susquehanna Bridge in Maryland. If funding is not secured so that the construction in partnership with various NEC tenants and partners of these and other related projects can advance in the very near term, we will face serious operational constraints in the years ahead as the NEC infrastructure will reach the end of its useful life, potentially resulting in degradation of service reliability and significant reductions of capacity at certain locations along the NEC due to rehabilitation and major construction projects;
- In FY2017, our State Supported Services represented 47% of the company's ridership and generated $501.4 million in revenue. Failure on the part of any of the states to secure the necessary operating and capital funds from their state legislatures could put some state corridor services at risk;
- Our business is subject to federal, and to some state and local, laws and regulations;
- If the host railroads over which the majority of our train miles are run do not complete their installation of a Positive Train Control (PTC) system by the Congressionally mandated deadline of December 31, 2018, and an additional extension is not granted, our service could be disrupted in areas on host railroads where PTC has not been fully implemented by the deadline (please refer to Note 10 to the Consolidated Financial Statements included elsewhere in this report for further information on PTC);
- Our business is capital intensive and without sufficient capital investment, we may be unable to maintain and improve current infrastructure and rolling stock;
- Our business is subject to numerous operational risks, such as changes in general economic, weather, or other conditions, equipment failure, disruption of our supply chain, war, acts of terrorism, and other catastrophic events which could result in significant disruptions to our operations, increased expenses or decreased revenues;
- Large portions of our operating costs are driven by prices for diesel fuel and electricity; spikes in energy costs can greatly affect our ability to fund other programs and projects that are necessary to achieve our goals;

- Most of our employees are represented by unions, and failure to negotiate reasonable collective bargaining agreements under the terms of the Railway Labor Act could eventually result in strikes, work stoppages or substantially higher ongoing labor costs;
- Catastrophic events could result in liabilities exceeding our insurance coverage; and
- Any decline in the economy that reduces business travel or depresses consumer spending in the U.S. will have a negative impact on Amtrak.

Forward-looking statements are not guarantees of future performance and actual results may differ materially from those envisaged by such forward-looking statements. Accordingly, readers should not place undue reliance on any such forward-looking statements. Forward-looking statements speak only as of the date of this report. Amtrak does not assume any obligation to update or revise any forward-looking statement, whether as a result of new information, future events and developments, or otherwise.

GENERAL BUSINESS DESCRIPTION

Amtrak is America's Railroad®, the nation's intercity passenger rail service and its high-speed rail operator. Our principal business is to provide rail passenger service in the major intercity travel markets of the United States. In addition to our core business of intercity passenger railroad operations, we engage in related ancillary businesses that include:

- operating commuter railroads on behalf of various states and transit agencies;
- providing infrastructure access to commuter agencies and freight railroads;
- performing rail services for other rail operators, both commuter agencies and freight railroads, on a reimbursable basis; and
- managing and leasing of commercial real estate.

We operate a national rail network of more than 21,400 route miles serving more than 500 destinations in 46 states, the District of Columbia and three Canadian provinces. As of September 30, 2017, Amtrak's active fleet included 20 *Acela Express* high-speed trainsets, 1,242 passenger cars, 80 *Auto Train* vehicle carriers, 80 baggage cars, 259 road diesel locomotives and 68 electric locomotives. In addition, the *Cascades* service operates with six Talgo trainsets with cars owned by Amtrak and certain state partners. We continue to take delivery under agreements to purchase 130 new long-distance single-level cars. In August 2016, we placed an order to purchase 28 Next-Generation High-Speed trainsets, which will replace our existing 20 *Acela Express* trainsets. We currently expect that all new trainsets will be in service by the end of 2022. Amtrak is the nation's only high-speed intercity rail passenger provider, operating at a top speed of 150 mph (241 kph). Nearly half of our trains operate at top speeds of 100 mph (160 kph) or greater.

Amtrak is the only railroad in North America to maintain right-of-way for service at speeds in excess of 125 mph (201 kph) and our engineering forces maintain more than 350 route-miles of track for 100+ mph (160 + kph) service.

We serve 527 stations in the United States and Canada. At these stations, Amtrak owns 82 station structures, 48 platforms and 30 parking facilities. In addition, there are 59 stations in the United States where Amtrak owns one or more station components (i.e., station structure, platform, parking facility) but does not serve the station. We own 18 tunnels consisting of 24 miles of track and 1,414 bridges. We own most of the maintenance and repair facilities for our fleet.

The NEC is the busiest railroad segment in North America with approximately 2,200 trains operating over some portion of the Washington, D.C. to Boston route each day. In FY2017, the Boston-New York-

Washington, D.C. portion of the NEC carried 12.0 million passengers on the *Acela Express* or *Northeast Regional* service.

Amtrak receives funding from 21 state agencies representing 18 states for financial support of 29 short distance routes (less than 750 miles). In FY2017, five state-supported corridors had ridership of one million passengers or more:

- *Pacific Surfliner* service (San Diego-Los Angeles-San Luis Obispo) - 3.0 million;
- *Capitol Corridor* service (San Jose-Oakland-Sacramento-Auburn) - 1.6 million;
- *Empire* service (New York-Albany-Buffalo-Niagara Falls-Toronto) - 1.5 million;
- *Keystone Corridor* service (Harrisburg-Philadelphia) - 1.5 million; and
- *San Joaquins* service (Oakland/Sacramento-Bakersfield) - 1.1 million.

Four other corridors had ridership in excess of 500,000 passengers in FY2017:

- *Hiawatha* service (Chicago-Milwaukee) - 0.8 million;
- *Amtrak Cascades* service (Eugene-Portland-Seattle-Vancouver, B.C.) - 0.8 million;
- *Lincoln* service (Chicago-St. Louis) - 0.6 million; and
- *Downeaster* service (Brunswick - Portland - Boston) - 0.5 million.

Amtrak owned and/or maintained property includes:

- Northeast Corridor: 363 miles of the 457-mile mainline NEC which connects Washington, D.C., Philadelphia, New York City, and Boston, the busiest passenger line in the country, with trains regularly reaching speeds of 125-150 mph (201-241 kph). Two sections are owned by others: (1) the New York Metropolitan Transportation Authority (10 miles) and Connecticut Department of Transportation (46 miles) own 56 miles on Metro North between New Rochelle, New York, and New Haven, Connecticut and (2) the Commonwealth of Massachusetts owns 38 miles between the Massachusetts/Rhode Island border and Boston that is operated and maintained by Amtrak;
- Springfield Line: A 60.5-mile track segment from New Haven, Connecticut, to Springfield, Massachusetts;
- Harrisburg Line (also known as the *Keystone Corridor*): The 104.2 miles of up to 110 mph (177 kph) track in Pennsylvania between Philadelphia and Harrisburg;
- Michigan Line: A 95.6-mile segment of 110 mph (177 kph) track from Porter, Indiana to Kalamazoo, Michigan; and
- New York Hudson Line: In December 2012, Amtrak and CSX Transportation reached an agreement for Amtrak to lease, operate, maintain and dispatch approximately 94 miles of the New York City to Niagara Falls *Empire Corridor* in New York between Poughkeepsie and Hoffmans (near Schenectady).

Outside of the NEC, we contract with freight railroads for the use of their tracks and other resources required to operate our trains, with incentives for on-time dispatching. These host railroads are responsible for the condition of their tracks and for the dispatching on their tracks. Approximately 72 percent of Amtrak's train miles are run on tracks owned by other railroads.

In December 2015, Amtrak was included in the most recent surface transportation bill, known as the Fixing America's Surface Transportation (the FAST Act). This represents the first time Congress included Amtrak related policy and authorized federal funding within the multi-year, comprehensive surface bill that typically authorizes highway, transit, and safety programs. We believe the FAST Act demonstrates Congress' commitment to Amtrak and intercity passenger rail and its important role in the nation's transportation network.

The Federal Government through the U.S. Department of Transportation (the DOT) owns all of our issued and outstanding preferred stock, and also provides financing to us under the Railroad Rehabilitation & Improvement Financing (RRIF) loan program (see Note 6 to the Consolidated Financial Statements included elsewhere in this report for detailed information regarding our RRIF loan program with the Federal Government).

Excluding Amtrak's Office of Inspector General (OIG), we have approximately 19,600 employees and approximately 84 percent of our labor force is covered by labor agreements.

PRINCIPAL BUSINESSES

Northeast Corridor

The NEC is the centerpiece of the Amtrak system - a high-speed railroad developed over the course of a multi-year partnership among Amtrak, the Federal Government, commuter railroads and states. While portions of the right-of-way follow alignments that date back to the 1830s, Amtrak, the DOT and the commuter railroads have created a network that supports an intense daily schedule of approximately 2,200 trains and provides hourly high-speed service, with a top speed (on the Boston to New York route) of 150 mph. On each of our major routes (New York to Washington, D.C. and New York to Boston), we believe that we carry more passengers than all of the airlines serving these routes, and our share of the air-rail market from the endpoints to intermediate cities such as Philadelphia is even larger. One hundred and forty Amtrak trains run on the NEC each day.

State-Supported and Other Short-Distance Routes (SD and other routes)

Our short-distance corridor trains operate outside of the NEC. These trains include routes in California and the Pacific Northwest, routes serving the Chicago Union Station hub in the Midwest, extensions of *Northeast Regional* trains continuing outside of Amtrak's NEC, and others. These routes provide a travel alternative that is generally trip-time competitive with other modes for shorter distance trips, and also provide connections to our national network at larger stations. State-supported services are vital links in the Amtrak national network. The power of increasing demand for passenger rail is recognized through state investments to improve service, speed, and safety. In addition, states and communities realize stations served by Amtrak are anchors for economic development, catalysts for historic preservation and tourism growth, sites for commercial and cultural uses and points of civic pride.

Long-Distance Routes (LD routes)

We operate long-distance trains, most of them on a daily basis, on 15 routes. These trains are the only passenger rail service in 23 of the 46 states we serve. Operating over routes that range up to 2,728 miles in length, the long-distance trains serve several purposes, connecting nearby communities with one another, with terminal cities, and with other Amtrak services at major hubs such as Chicago. The majority of coach passengers travel over only portions of these routes. For longer distance travel, and for trips between the endpoints, we offer sleeping car service. In many places, long-distance trains have helped to "incubate" short-distance corridor service on portions of their route, and many long-distance trains provide an additional service frequency on SD and other routes, offering travelers a greater range of travel options, and combining the needs of growing state-supported service with the requirement to tie the national system together. The majority of train-miles traveled by Amtrak on these routes are on the host railroad tracks owned by freight and commuter railroads. On-time-performance (OTP) for our LD routes is the weakest in our network. The end-point OTP for LD routes for FY2017 was 52.1%, a decline of 11 points over FY2016. The primary reason for the delays on most of the LD routes was freight train interference. Our LD routes also have the weakest cost recovery ratio in the network requiring substantial Federal Government subsidy.

OTHER BUSINESS

Our other business is comprised of revenue from reimbursable engineering and capital improvement projects; other transportation revenue from use of Amtrak-owned tracks and other services; commercial development revenue from retail, parking, advertising, real property leases/easements/sales, and access fees; revenue earned under contractual arrangements to operate various commuter rail services for a cost-based fee; amortization of state funds used to acquire depreciable assets; and freight access fee revenue from the use of Amtrak-owned tracks from freight railroad companies.

CONSOLIDATED RESULTS OF OPERATIONS

The following discussion presents an analysis of results of our operations for FY2017 and FY2016 (in millions):

	Year Ended September 30, 2017	2016	$ Change	% Change
Total revenues	**$ 3,305.7**	$ 3,240.6	$ 65.1	2.0 %
Total operating expenses	**4,210.4**	4,261.3	(50.9)	(1.2)
Net other expense	**61.9**	58.0	3.9	6.7
Loss before income taxes	**966.6**	1,078.7	(112.1)	(10.4)
Income tax expense	**2.1**	1.8	0.3	16.7
Net loss	**$ 968.7**	$ 1,080.5	$ (111.8)	(10.3)
Ridership	**31.7**	31.3	0.4	1.3 %

The annual federal appropriations for FY2017 and FY2016 totaled $1.5 billion and $1.4 billion, respectively. Starting in FY2017, under the FAST Act, the Company was appropriated $1.2 billion and $328.0 million for the National Network and the NEC, respectively. Of the $1.4 billion appropriated for FY2016, $288.5 million was appropriated for general operating expenses and the balance was appropriated for capital and debt service. Our ticket sales, payments from state partners and agencies and other revenue covered 95% of our qualified operating expenses in both FY2017 and FY2016. We define qualified operating expense as total operating expenses excluding depreciation and amortization expenses, capital project related expenditures not eligible for capitalization, postretirement employee benefit cost and OIG expenses.

Total Revenues (in millions)

	Year Ended September 30, 2017	2016	$ Change	% Change
Passenger-related:				
Ticket	$ **2,180.8**	$ 2,136.1	$ 44.7	2.1 %
State supported	**224.0**	227.0	(3.0)	(1.3)
Food and beverage	**139.1**	132.3	6.8	5.1
Subtotal - Passenger-related revenue	**2,543.9**	2,495.4	48.5	1.9
Other	**761.8**	745.2	16.6	2.2
Total revenues	**$ 3,305.7**	**$** 3,240.6	$ 65.1	2.0 %

Total revenues increased $65.1 million, or 2.0% in FY2017, from FY2016. The increase is primarily attributable to higher passenger related revenue as a result of improved market demand and better price management as well as higher state and agency capital amortization. We achieved record system-wide ridership and ticket revenues in FY2017.

Ticket Revenues and Ridership Analysis

Amtrak Ridership and Ticket Revenues (in millions)

	Ridership			Ticket Revenues[1] ($)		
	2017	**2016**	**% Change**	**2017**	**2016**	**% Change**
NEC	**12.0**	11.9	0.8 %	$ **1,238.3**	$ 1,209.2	2.4 %
SD and Other	**15.0**	14.7	2.0	**501.4**	490.7	2.2
LD	**4.7**	4.7	—	**504.4**	492.3	2.5
Total	**31.7**	31.3	1.3 %	$ **2,244.1**	$ 2,192.2	2.4 %

[1] Ticket revenues in this table include food and beverage provided as part of the ticket price.

NEC ridership and ticket revenue increased by 0.8% and 2.4%, respectively, in FY2017, compared with FY2016. We achieved record ridership and ticket revenues for the NEC in FY2017. Ticket revenue growth outpaced ridership in part because of price increases implemented during the year.

SD and other routes ridership and ticket revenue increased by 2.0% and 2.2%, respectively, in FY2017, compared with FY2016. SD and other routes also achieved record ticket revenues in FY2017. Routes with increases in ticket revenue include *Pacific Surfline*r, *Wolverine, Keystone Corridor* and *Capitol Corridor*.

LD routes ticket revenue increased in FY2017, compared with FY2016. Routes with larger increases in ticket revenue include *Cardinal*, *Palmetto*, and *Texas Eagle* while *Auto Train* and *Crescent* experienced declines. Poor OTP continued to impact many LD routes - the *Texas Eagle* was the only LD route with better end point OTP in FY 2017 compared to FY 2016, which contributed to its strong ridership and ticket revenue growth.

State Supported Revenues

We receive funding from 21 state agencies representing 18 states to bring service to their communities, and these services comprise more than half of our departures. Total state-supported revenues of $224.0 million in FY2017 came from California, Connecticut, Illinois, Indiana, Maine, Massachusetts, Michigan, Missouri, New York, North Carolina, Oklahoma, Oregon, Pennsylvania, Texas, Vermont, Virginia, Washington, and Wisconsin. State supported revenues decreased by $3.0 million, primarily due to lower state supported route subsidies from various states, which was partially offset by contractual increases in Illinois state supported route subsidies in FY2017.

Other Revenues

We had other revenues of $761.8 million in FY2017, comprised of revenue from reimbursable engineering and capital improvement projects; other transportation revenue from use of Amtrak-owned tracks and other services; commercial development revenue from retail, parking, advertising, real property leases/easements/sales, and access fees; revenue earned under contractual arrangements to operate various commuter rail services for a cost-based fee; amortization of state funds used to acquire depreciable assets; and freight access fee revenue from the use of Amtrak-owned tracks from freight railroad companies. In FY2017, other revenues increased by $16.6 million or 2.2% primarily due to higher state capital amortization and higher PRIIA Section 212 related revenue. The increase was partially offset by overall decreases in reimbursable work performed for various states.

Total Operating Expenses (in millions)

	Year Ended September 30, 2017	2016	$ Change	% Change
Operating Expenses:				
Salaries, wages, and benefits	**$ 2,084.6**	$ 2,087.6	$ (3.0)	(0.1) %
Train operations	**287.6**	300.2	(12.6)	(4.2)
Fuel, power, and utilities	**239.7**	230.4	9.3	4.0
Materials	**165.3**	157.9	7.4	4.7
Facility, communication, and office-related	**179.9**	174.9	5.0	2.9
Advertising and sales	**106.9**	104.4	2.5	2.4
Casualty and other claims	**70.7**	72.9	(2.2)	(3.0)
Depreciation and amortization	**767.0**	813.4	(46.4)	(5.7)
Other	**454.5**	468.7	(14.2)	(3.0)
Indirect cost capitalized to property and equipment	**(145.8)**	(149.1)	3.3	(2.2)
Total operating expenses	**$ 4,210.4**	$ 4,261.3	$ (50.9)	(1.2) %

Salaries, wages & benefits expenses decreased by $3.0 million or 0.1% in FY2017, compared with FY2016, primarily due to an overall decrease in headcount, lower other postretirement plan expenses and employee short-term incentive bonus earned at 50% of target in FY2017 as compared to 100% of target in FY2016. The decrease was partially offset by higher estimated retroactive wage increases accrued in FY2017 as the Company continued to negotiate labor contracts with all of its unionized workforce and lower transfer of salaries and wages to capital projects due to lower volume of capitalized projects in FY2017. As of March 1, 2018, amendments to certain of our labor contracts have been ratified and we expect amendments to additional labor contracts to be ratified by March 31, 2018. At that time, the majority of our unionized workforce will be covered by ratified agreements. We expect the impact of these ratified union contracts will be a reduction to the amounts previously accrued, which will be recorded as a reduction of our FY2018 salaries, wages and benefits expense.

Train operations expenses decreased by $12.6 million or 4.2% in FY2017, compared with FY2016, primarily due to lower incentive payments made to and higher penalty payments collected from Host Railroads for poor adherence to scheduled departure and arrival times.

Fuel, power and utilities expenses increased by $9.3 million or 4.0% in FY2017, compared with FY2016, primarily due to higher fuel prices, which was partially offset by lower power cost.

Materials expenses increased by $7.4 million or 4.7% in FY2017, compared with FY2016, primarily due to repair reserves recorded for locomotives and higher equipment repair cost in FY2017.

Facility, communication, and office-related expenses increased by $5.0 million or 2.9% in FY2017, compared with FY2016, primarily due to increased data communication expense and higher security expense in FY2017.

Advertising and sales expenses increased by $2.5 million or 2.4% in FY2017, compared with FY2016, primarily due to increased credit card commissions as a result of higher credit card sales and increased interchange fees.

Casualty and other claims expenses decreased by $2.2 million or 3.0% in FY2017, compared with FY2016, primarily due to overall lower claims activity in FY2017.

Depreciation and amortization expense decreased by $46.4 million or 5.7% in FY2017, compared with FY2016, primarily due to $29.3 million depreciation expense recorded in FY2016 related to certain older electric locomotives which were removed from active service and replaced by newly purchased electric locomotives and also due to $18.7 million decrease in accelerated depreciation expense in FY2017 related to assets impacted by Super Storm Sandy as a result of an extension of the remaining life of the assets.

Other expenses decreased by $14.2 million or 3.0% in FY2017, compared with FY2016, primarily due to insurer settlements received in FY2017, which terminated Amtrak's claims against settled insurers for recoveries under general liability policies issued to Amtrak during certain periods for sums expended and to be expended by Amtrak for environmental remediation costs and Federal Employers Liability Act claim obligations.

Indirect cost capitalized to property and equipment decreased by $3.3 million or 2.2% in FY2017, compared with FY2016, primarily due to a lower volume of capitalized projects.

Net Other Expense (in millions)

Net other expense includes interest income on cash and cash equivalents and escrow deposits held, interest expense associated with the financing of equipment and buildings, loss on early debt extinguishment, and other non-operating income and expenses.

	Year Ended September 30, 2017	2016	$ Change	% Change
Other Expense:				
Interest income	**$ (9.1)**	$ (4.4)	$ (4.7)	106.8 %
Interest expense	**54.0**	65.9	(11.9)	(18.1)
Loss on early extinguishment of debt	**18.7**	—	18.7	n/a
Other income, net	**(1.7)**	(3.5)	1.8	(51.4)
Net other expense	**$ 61.9**	$ 58.0	$ 3.9	6.7 %

Interest income increased by $4.7 million or 106.8% in FY2017 primarily due to higher yields and overall higher cash balances in FY2017.

Interest expense decreased by $11.9 million or 18.1% in FY2017 primarily attributable to the refinance in FY2017 at a lower interest rate of the RRIF loan program entered into in 2011.

Loss on early extinguishment of debt of $18.7 million in FY2017 was related to the FY2017 payoff of the 2011 RRIF loan.

Other income, net decreased by $1.8 million or 51.4% in FY2017, primarily because of gains realized on sales of property in FY2016.

Income Tax Expense

We recorded $2.1 million and $1.8 million of income tax expense in FY2017 and FY2016, respectively. In both years, income tax expense resulted from net deferred tax liabilities that arise in periods subsequent to the expiration of our existing net operating losses computed in accordance with the requirements of FASB ASC 740, *Income Taxes*. Please refer to Note 9 to the Consolidated Financial Statements included elsewhere in this report for detailed information regarding our income tax expense.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is a company's ability to generate adequate amounts of cash to meet both current and future needs for obligations as they mature and to provide for planned capital expenditures, including those to implement regulatory and legislative initiatives.

Overview of Cash Flows

We rely on cash flows from operating activities and appropriations from the Federal Government to operate the national passenger rail system and to maintain the underlying infrastructure we own. Our primary uses of cash are to support operations; maintain and improve our infrastructure; pay debt service; acquire new and maintain existing locomotives, rolling stock and other equipment; and meet other obligations.

Summary Cash Flow Data (in millions)

	Year Ended September 30, 2017	2016	$ Change	% Change
Cash flows (used in) provided by:				
Operating activities	**$ (355.9)**	$ (92.0)	$ (263.9)	286.8 %
Investing activities	**(1,574.4)**	(1,434.6)	(139.8)	9.7
Financing activities	**2,271.6**	1,759.0	512.6	29.1
Net increase in cash and cash equivalents, including restricted cash	**341.3**	232.4	108.9	46.9
Beginning balance of cash and cash equivalents, including restricted cash	**760.4**	528.0	232.4	44.0
Ending balance of cash and cash equivalents, including restricted cash	**$ 1,101.7**	$ 760.4	$ 341.3	44.9 %

Operating Cash Flows

Net operating cash outflows for FY2017 increased by $263.9 million to $355.9 million. The higher FY2017 operating cash outflow was driven by a $137.5 million payment to a contractor in FY2017, which was accrued in FY2016.

Investing Cash Flows

Cash outflows relating to investing activities consist primarily of cash used for capital expenditures. Net cash used in investing activities was $1.6 billion in FY2017, compared with $1.4 billion in FY2016. The increase in investing cash outflows was primarily driven by a $236.3 million increase in spending in FY2017 towards the acquisition of 28 Next-Generation High-Speed trainsets, which was partially offset by $54.9 million in lower capital expenditures during FY2017 as compared to FY2016 on the New Jersey High Speed Rail program and $35.8 million less spending on the acquisition of ACS-64 locomotives as all locomotives were delivered prior to FY2017.

Financing Cash Flows

Cash flows from financing activities consist primarily of federal and state appropriations, and proceeds from issuance of long-term debt, offset by repayment of debt and capital lease obligations. Financing activities provided cash of $2.3 billion in FY2017, compared with $1.8 billion in FY2016. The year-over-year increase was primarily driven by higher annual funding received due to the advance funding provided by the FAST Act legislation. Prior to the FAST Act, the Company was required to incur expenditures before receiving funding.

Financing cash flows for FY2017 and FY2016 are discussed in more detail below:

- Net financing cash inflows for FY2017 were $2.3 billion. Appropriations from the Federal Government under the 2017 Full-Year Continuing Appropriations Act provided funding of $1.5 billion in FY2017. In addition, we received $252.2 million of our FY2016 appropriations in FY2017. During the same period, we received $495.4 million in proceeds from the issuance of secured and unsecured senior notes; $383.0 million in state capital payments; $137.5 million under a financing agreement with the DOT acting through the National Surface Transportation and Innovative Finance Bureau (also referred to as the Build America Bureau) through the RRIF loan program; $107.2 million under the American Recovery and Reinvestment Act of 2009 High Speed Intercity Passenger Rail program; $12.3 million under the Disaster Relief Appropriations Act, 2013; and $8.1 million under various security grants. Proceeds from new debt issuances of $492.3 million and federal appropriations and other grants of $132.4 million were used for debt and capital lease obligation repayments.

- Net financing cash inflows for FY2016 were $1.8 billion. Appropriations from the Federal Government under the 2016 Full-Year Continuing Appropriations Act provided funding of $1.1 billion in FY2016. In addition, we received $294.9 million of our FY2015 appropriations in FY2016. During the same period, we received $297.2 million in state capital payments; $93.2 million under the American Recovery and Reinvestment Act of 2009 High Speed Intercity Passenger Rail program; $47.2 million under the 2011 RRIF loan program; $41.3 million under the Disaster Relief Appropriations Act, 2013 and $9.0 million under various security grants. Proceeds from federal appropriations and other grants were used for debt and capital lease obligation repayments of $114.9 million.

We are subject to various covenants and restrictions under our borrowing arrangements. A default by us or acceleration of our indebtedness may result in cross-default with other debt and may have a material adverse effect on us. As of September 30, 2017, we satisfied all of our covenant obligations.

Overview of Contractual Obligations and Capital Expenditures

Contractual Obligations

The following table outlines our material obligations under long-term debt and capital and operating lease obligations as of the end of FY2017 (in millions):

	Payments Due by Period				
	Total	Up to 1 year	>1 year to 3 years	>3 years to 5 years	> 5 years
Long-term debt[1]	$ 964.3	$ 90.0	$ 187.9	$ 86.0	$ 600.4
Equipment and facility capital lease obligations[2]	297.9	64.8	126.5	89.8	16.8
Operating leases[2]	119.2	17.4	29.2	24.1	48.5
Total	**$ 1,381.4**	**$ 172.2**	**$ 343.6**	**$ 199.9**	**$ 665.7**

1 As described in Note 6 to the Consolidated Financial Statements.
2 As described in Note 7 to the Consolidated Financial Statements.

In the normal course of business, we enter into long-term contractual commitments for future services needed for the operations of our business. Such commitments are not in excess of expected requirements and are not reasonably likely to result in performance penalties or payments that would have a material adverse effect on our liquidity. Such commitments are not included in the above table.

Please refer to Notes 6 and 7 to the Consolidated Financial Statements included in this report for detailed information regarding our indebtedness.

The enactment of a series of continuing appropriations acts appropriated total funding of $701.0 million for Amtrak through March 23, 2018. There are currently no federal funds appropriated for the Company for any period subsequent to March 23, 2018. Without such subsidies, Amtrak will not be able to continue to operate in its current form and significant operating changes, restructuring or bankruptcy may occur. Such changes or restructuring would likely result in asset impairments. The Company ultimately expects it will receive sufficient funds in the form of continuing resolutions or other appropriations legislation to support its operations for the foreseeable future. Please refer to Note 2 to the Consolidated Financial Statements included elsewhere in this report for detailed information regarding our annual funding.

Off Balance Sheet Arrangements

Off balance sheet arrangements consist of obligations related to operating leases, which are included in the table of contractual obligations above and disclosed in Note 7 to the Consolidated Financial Statements.

Capital Expenditures

Capital spending programs are and have been designed to assure the ability to provide safe, efficient and reliable transportation services. We receive funds from state and local entities for capital programs as well as from federal appropriations.

The following table summarizes major capital expenditures by department for FY2017 and FY2016 (in millions):

	Year Ended September 30,	
	2017	**2016**
Engineering	**$ 1,010.0**	$ 863.5
Mechanical	**265.7**	322.1
Information Technology (IT)	**124.3**	43.2
Other	**515.9**	367.2
Total	**$ 1,915.9**	**$** 1,596.0

- Engineering major capital expenditures in FY2017 included $544.0 million for right-of-way (track, signals, substations, etc.) replacement and upgrade projects; $360.1 million for station and facility upgrades; and $90.3 million for construction and upgrades to bridges, tunnels, and culverts. Included in the station and facility upgrades is $211.3 million related to a transfer to us of certain improvements made by a third party on a building adjacent to Penn Station (see Note 3 to the Consolidated Financial Statements for additional information) and $36.0 million of engineering capital improvements for compliance with the Americans with Disabilities Act.

- Mechanical major capital expenditures in FY2017 included $76.6 million for overhauls and conversions of Amfleets (single-level intercity passenger cars built for us in the 1970s and 1980s); $57.6 million for overhauls and modifications on Superliners (bi-level passenger cars built for us in the 1970s and 1990s and used on long distance trains that do not use the NEC); $50.9 million for locomotive overhauls; and $30.6 million for other passenger car overhauls.

- IT major capital expenditures in FY2017 included $26.3 million for the Operations Foundation project (a program to implement new technology within the Operations Department) and $16.8 million for customer experience programs (a Marketing initiative to provide customers with intuitive, personal and simple experiences when shopping, planning and booking their travel).

- Other major capital expenditures in FY2017 included $395.3 million for the Next-Generation High-Speed trainsets and $38.0 million for station and facility upgrades.

CRITICAL ACCOUNTING ESTIMATES

This MD&A is based on our Consolidated Financial Statements contained elsewhere in this report, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base these estimates and judgments on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

We believe the following accounting estimates are most critical to an understanding of our financial statements. Estimates are considered to be critical if they meet both of the following criteria: (i) the estimate requires assumptions about material matters that are uncertain at the time the accounting estimates are made, and (ii) material changes in the estimates are reasonably likely from period to period. For a detailed discussion on the application of these and other accounting estimates, refer to Note 3 in our Consolidated Financial Statements.

Capitalization, Depreciation and Amortization of Property and Equipment

Due to the highly capital intensive nature of the railroad industry, capitalization and depreciation of property and equipment are substantial components of our financial statements. Property and equipment, including leasehold improvements, comprised 87.5% of our total assets at the end of FY2017, and related depreciation and amortization comprised 18.2% of total operating expenses in FY2017.

Except as described below, property and equipment that we own are carried at cost and are depreciated using the group method of depreciation (group method) in which a single composite depreciation rate is applied to the gross investment in a particular class of property or equipment, despite differences in the service life or salvage value of individual property units within the same class. This excludes computer equipment and software, which are stated at cost and are individually depreciated on a straight-line basis over their estimated useful lives, which are generally three to ten years. Properties held under capital leases and leasehold improvements are depreciated over the shorter of their estimated useful lives or their respective lease terms.

We periodically engage a civil engineering firm with expertise in railroad property usage to conduct a study to evaluate depreciation rates for assets subject to the group method. In addition to the adjustment to group depreciation rates because of periodic depreciation studies, certain other events might occur that could affect our estimates and assumptions related to depreciation. Unforeseen changes in operations or technology could substantially alter assumptions regarding our ability to realize the return of investment on our operating assets and, therefore, affect the amount of current and future depreciation expense. Because group method depreciation expense is a function of analytical studies made of property and equipment, subsequent studies could result in different estimates of useful lives and net salvage values. If future group method depreciation studies yield results indicating that assets have shorter lives because of obsolescence, physical condition, changes in technology, or changes in net salvage values, the depreciation expense for assets under the group method could increase. Likewise, if future studies indicate that assets have longer lives, the depreciation expense for assets under the group method could decrease.

Impairment of Long-Lived Assets

Properties and other long-lived assets are reviewed for impairment whenever events or business conditions indicate that the carrying amount of an asset may not be recoverable. Initial assessments of recoverability are based on estimates of undiscounted future net cash flows. If impairment indicators are present, the assets are evaluated for sale or other dispositions, and their carrying amounts are reduced to fair value based on discounted cash flows or other estimates of fair value.

In performing our impairment analysis, we assume future Federal Government subsidies at levels consistent with the historical funding levels discussed in Note 2 to our Consolidated Financial Statements. We believe funding at historical levels is the best estimate to be used of the future. At this approximate level of funding, we determined that no indicators of impairment existed as of September 30, 2017. If future Federal Government funding drops below historical levels, substantial impairment may occur.

Casualty Losses and Claims

Casualty reserves represent accruals for personal injury, occupational injury, passenger liability and miscellaneous liability claims. The ultimate loss projections are undiscounted and estimated using standard actuarial methodologies, including estimates for provisions for incurred but not reported claims. As of September 30, 2017 and 2016, the reserve for casualty losses and claims was $201.0 million and $477.2 million, respectively. The reserve balance as of September 30, 2016 included our best estimate of the liability for passenger and employee claims incurred related to the Train No. 188 Derailment as of that date. With the exception of one employee claim, all Train No. 188 Derailment claims were settled and released by September 30, 2017.

Positive Train Control

In 2008, Congress enacted the Rail Safety Improvement Act. The legislation included a mandate that all Class I railroads and each railroad hosting intercity or commuter rail passenger service have PTC systems installed and operating by December 31, 2015; provided, however, that a Class I railroad is only required to install PTC on routes where there are five million or more gross tons of railroad traffic per year and the presence of either passenger trains or poison by inhalation hazardous materials. The FRA rules for PTC provide for exceptions to these PTC requirements, which are subject to FRA approval, on rail lines hosting passenger trains on which freight traffic volumes, and the number of passenger trains operated, do not exceed limits specified in the rule. In October 2015, Congress passed the Surface Transportation Extension Act of 2015, which included a three-year extension of the PTC deadline. We are working with federal authorities and commuter and freight railroads to ensure our trains are compliant with PTC systems adopted for use by host railroads. Additional funding to fully comply with PTC requirements is necessary and will be requested. Compliance with PTC requirements on the host railroads outside of the NEC could result in significant costs to us. Our contribution to PTC installation and maintenance on host railroad property has not yet been fully defined. Accordingly, our financial statements do not reflect an estimated liability for the cost of Amtrak becoming fully compliant with PTC. See Note 10 to the Consolidated Financial Statements for additional information.

Environmental

As further described in Note 11 to the Consolidated Financial Statements included elsewhere in this report, we are subject to extensive and complex federal and state environmental laws and regulations that can give rise to environmental issues. As a result of our operations and acquired properties, we are from time to time involved in administrative and judicial proceedings and administrative inquiries related to environmental matters. Our policy is to accrue estimated liabilities and capitalize such remediation costs if they extend the life, increase the capacity or improve the safety or efficiency of the property; mitigate or prevent environmental contamination that has not occurred but may result from future operations; are incurred in preparing the property for sale; or are incurred on properties acquired with existing environmental conditions, and to expense other remediation costs. The liability is periodically adjusted based on our present estimate of the costs we will incur related to these sites and/or actual expenditures made. Some of our real estate properties may have the presence of environmentally regulated wastes or materials. If these properties undergo excavations or major renovations or are demolished, certain environmental regulations that are in place may specify the manner in which the wastes or materials must be assessed, handled, and disposed. We have identified a number of locations for which excavations and major renovations are planned and liabilities have been recorded. In the future, we may plan other excavations, demolitions, major renovations or other construction activities that affect similar wastes or materials.

Although a potential liability exists for the removal or remediation of environmentally regulated materials, sufficient information is not available currently to estimate the liability, as the range of time over which we may settle these obligations is unknown or cannot be reasonably estimated at this time. Although we believe we have appropriately recorded current and long-term reserves for known and estimable future environmental costs, we could incur significant costs that exceed reserves or require unanticipated cash expenditures as a result of any of the foregoing. Based upon information currently available, we believe our environmental reserves are adequate to fund remedial actions to comply with present laws and regulations, and that the ultimate liability for these matters, if any, will not materially affect our overall financial condition, results of operations, or liquidity. As of September 30, 2017 and 2016, the environmental reserve was $135.5 million and $66.9 million, respectively. These reserves for estimated future environmental costs are undiscounted and include future costs for remediation and restoration of sites as well as any significant ongoing monitoring costs.

Pension and Other Post-Retirement Benefits

Accounting for pension and other post-retirement benefits requires management to make several estimates and assumptions (see Note 12 to the Consolidated Financial Statements). These include the discount rates used to measure future obligations and interest expense, long-term rate of return on plan assets, health care cost trend rates, and other assumptions. In addition, the amounts recorded are affected by changes in the interest rate environment because the associated liabilities are discounted to their present value.

We engage an independent, external actuary to compute the amounts of liabilities and expenses relating to these plans subject to the assumptions that we select. We review the discount, long-term plan asset, and health care cost trend rates on an annual basis and make modifications to the assumptions based on current rates and trends as appropriate. We have a qualified, non-contributory defined benefit retirement plan (the Retirement Income Plan) whose assets are held in trust covering certain nonunion employees and certain employees who at one time held nonunion positions. Prior to FY2016, the Retirement Income Plan was closed to new entrants and frozen for future benefit accruals.

Discount Rates

Discount rates affect the amount of liability recorded and the interest expense component of pension and other post-retirement benefit expense. Discount rates reflect the rates at which pension and other post-retirement benefits could be effectively settled, or in other words, how much it would cost us to buy enough high quality bonds to generate cash flow equal to our expected future benefit payments.

We determine the discount rate based on the market yield as of each fiscal year end for high quality corporate bonds whose maturities match the plans' expected benefit payments. The discount rate we used to value our pension obligation at September 30, 2017 was 3.86% and the discount rate used to value our other post-retirement benefit obligations at September 30, 2017 was 3.68% for obligations under our Union plan and 3.70% for obligations under our Management plan. The discount rate we used to value our pension obligation at September 30, 2016 was 3.74% and the discount rate used to value our other post-retirement benefit obligations at September 30, 2016 was 3.44% for obligations under our Union plan and 3.50% for obligations under our Management plan. Each year, these discount rates are reevaluated and adjusted to reflect the best estimate of the currently effective settlement rates. If interest rates generally decline or rise, the assumed discount rates will change.

Long-term Rate of Return on Plan Assets

The expected long-term rate of return on plan assets reflects the average rate of earnings expected on the funds invested, or to be invested, to provide for benefits included in the projected benefit obligation. In estimating that rate, we give appropriate consideration to the returns being earned by the plan assets in the funds and the rates of return expected to be available for reinvestment.

Our expected long-term rate of return on plan assets considers the current and projected asset mix of the funds. Management balances market expectations obtained from various investment managers and economists with both market and actual plan historical returns to develop a reasonable estimate of the expected long-term rate of return on assets. As this assumption is long-term, it is adjusted less frequently than other assumptions used in pension accounting. We used a long-term rate of return on plan assets of 6.25% and 7.00% to value FY2017 and FY2016 pension obligations, respectively.

Health Care Cost Trend Rates

Health care cost trend rates are based on recent plan experience and industry trends. We use guidance from employee benefits and actuarial consultants, Amtrak-specific claims trends, and health care cost studies to substantiate the inflation assumption for health care costs. The assumed health care cost trend rate ranged from 7.71% to 8.89% as of September 30, 2017, compared with a range of 7.25% to 8.00% as of September 30, 2016, based upon current actuarial projections.

Assumed health care cost trend rates have a significant effect on the amounts reported for our other post-retirement benefit obligations. A one-percentage-point change in assumed health care cost trend rates in FY2017 would have the following effects (in thousands):

	1% Increase	1% Decrease
Effect on total service and interest cost component	$ 4,418	$ (3,737)
Effect on postretirement benefit obligation	$ 43,575	$ (38,182)

Other Assumptions

The calculations made by the actuaries also include assumptions relating to mortality rates, turnover and retirement age. These assumptions are based upon historical data and are selected by management.

Provision for Income Taxes

The accounting for income taxes requires recognition of deferred tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted rates expected to be in effect during the year in which the differences reverse. Deferred tax assets generally represent items that can be used as a tax deduction or credit on our tax return in future years for which the tax benefit has already been reflected in our Consolidated Statements of Operations. We establish valuation allowances for our deferred tax assets if it is more likely than not that some or all of the deferred tax asset will not be realized. Judgment is required in estimating valuation allowances. The determination of the amount of valuation allowance to be provided on recorded deferred tax assets involves estimates regarding (1) the timing and amount of the reversal of taxable temporary differences, (2) expected future taxable income, and (3) the impact of tax planning strategies, which can also be impacted by changes to tax laws. Deferred tax liabilities primarily relate to fixed assets for which book basis exceeds tax basis as of September 30, 2017.

We evaluate our potential exposures from tax positions taken that have or could be challenged by taxing authorities in the evaluation. These potential exposures result because taxing authorities may take positions that differ from those taken by management in the interpretation and application of statutes, regulations, and rules. Management considers the possibility of alternative outcomes based upon past experience, previous actions by taxing authorities (e.g., actions taken in other jurisdictions), and advice from tax experts. We have evaluated income tax positions taken in prior years and believe that all positions are more likely than not to be sustained in an audit.

On December 22, 2017, the Tax Cuts and Jobs Act (the Tax Bill) was signed into law by President Trump. While we are still evaluating the impact of the Tax Bill, a number of its provisions will impact the amount and treatment of our future net operating losses as well as our recorded deferred tax liabilities. Please refer to Note 13 to the Consolidated Financial Statements included elsewhere in this report for additional information regarding the impact of the Tax Bill.

Legal

As part of our operations, we are a party to various legal proceedings and administrative actions in the normal course of business. An accrual for a loss contingency is established if information available prior to issuance of our financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements, and the amount of loss can be reasonably estimated. If no accrual is made for a loss contingency because one or both of these conditions are not met, or if an exposure to loss exists in excess of the amount accrued, disclosure of the contingency is made when there is at least a reasonable possibility that a loss or an additional loss may have been incurred.

We evaluate all exposures relating to legal liabilities on a monthly basis and adjust reserves when appropriate under the guidance noted above. The amount of a particular reserve may be influenced by factors that include official rulings, newly discovered or developed evidence, or changes in laws, regulations and evidentiary standards.

Inflation

In preparing financial statements, U.S. generally accepted accounting principles require the use of historical cost, which does not reflect the effects of inflation on the replacement cost of property. Due to the capital intensive nature of our business, the replacement cost of these assets would be significantly larger than the amounts reported under the historical cost basis.

Consolidated Financial Statements

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Years Ended September 30, 2017 and 2016

With Report of Independent Auditors

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Financial Statements

Years Ended September 30, 2017 and 2016

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Report of Independent Auditors

The Board of Directors and Stockholders
National Railroad Passenger Corporation

We have audited the accompanying consolidated financial statements of National Railroad Passenger Corporation and subsidiaries (Amtrak or the Company), which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of operations, comprehensive loss, changes in capitalization and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Building a better working world

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of National Railroad Passenger Corporation and subsidiaries at September 30, 2017 and 2016, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Federal Government Funding

As explained in Notes 1 and 2 in the accompanying consolidated financial statements, the Company has a history of operating losses and is dependent upon substantial Federal Government subsidies to sustain its operations and maintain its underlying infrastructure. As further explained in Note 2 to the consolidated financial statements, the Company is receiving Federal Government funding under the Continuing Appropriations Acts, 2018. The Company expects to receive additional interim Federal Government funding under Congressional continuing resolutions for fiscal year 2018 until the formal appropriations bill is signed into law. There are currently no Federal Government subsidies appropriated by law for any period subsequent to February 8, 2018. Without the receipt of Federal Government funding, Amtrak will not be able to continue in its current form and significant operating changes, restructurings, or bankruptcy might occur. Our opinion is not modified with respect to this matter.

Ernst + Young LLP

January 26, 2018

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Balance Sheets

(In Thousands of Dollars, Except Share Data)

	September 30, 2017	September 30, 2016
Assets		
Current Assets:		
Cash and cash equivalents, including restricted cash of $8,435 and $7,966 as of September 30, 2017 and 2016, respectively	**$ 1,101,694**	$ 760,454
Accounts receivable, net of allowances of $7,296 and $5,352 as of September 30, 2017 and 2016, respectively	**336,361**	294,548
Materials and supplies, net of allowances of $28,476 and $27,653 as of September 30, 2017 and 2016, respectively	**269,221**	255,095
Prepaid expenses	**54,345**	37,547
Other current assets	**36,932**	306,342
Total current assets	**1,798,553**	1,653,986
Property and equipment:		
Locomotives	**2,045,794**	2,127,329
Passenger cars and other rolling stock	**3,312,883**	3,247,105
Right-of-way and other properties	**13,522,441**	12,694,726
Construction-in-progress	**2,262,063**	1,713,510
Leasehold improvements	**616,188**	572,610
Property and equipment, gross	**21,759,369**	20,355,280
Less: Accumulated depreciation and amortization	**(8,410,751)**	(8,026,218)
Total property and equipment, net	**13,348,618**	12,329,062
Other assets, deposits, and deferred charges:		
Notes receivable on sale-leasebacks	**56,397**	55,833
Deferred charges, deposits, and other	**48,978**	43,544
Total other assets, deposits, and deferred charges	**105,375**	99,377
Total assets	**$ 15,252,546**	$ 14,082,425

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Balance Sheets (continued)

(In Thousands of Dollars, Except Share Data)

	September 30, 2017	September 30, 2016
Liabilities and capitalization		
Current liabilities:		
Accounts payable	**$ 471,944**	$ 579,686
Accrued expenses and other current liabilities	**877,032**	1,011,063
Deferred ticket revenue	**150,456**	143,565
Current maturities of long-term debt and capital lease obligations	**136,170**	215,999
Total current liabilities	**1,635,602**	1,950,313
Long-term debt and capital lease obligations:		
Capital lease obligations	**189,704**	664,099
Other long-term debt	**863,041**	289,404
Total long-term debt and capital lease obligations	**1,052,745**	953,503
Other liabilities and deferred credits:		
Deferred state capital payments	**2,062,908**	1,557,909
Casualty reserves	**149,266**	148,745
Deferred gain on sale-leasebacks	**39,852**	44,686
Postretirement employee benefits obligation	**655,400**	781,073
Environmental reserve	**116,017**	42,609
Deferred income taxes	**53,159**	51,049
Other liabilities	**113,134**	123,474
Total other liabilities and deferred credits	**3,189,736**	2,749,545
Total liabilities	**5,878,083**	5,653,361
Commitments and contingencies *(Note 10)*		
Capitalization:		
Preferred stock - $100 par, 109,396,994 shares authorized, issued and outstanding at September 30, 2017 and 2016	**10,939,699**	10,939,699
Common stock - $10 par, 10,000,000 shares authorized, 9,385,694 issued and outstanding at September 30, 2017 and 2016	**93,857**	93,857
Other paid-in capital	**33,091,896**	31,203,808
Accumulated deficit	**(34,634,057)**	(33,665,346)
Accumulated other comprehensive loss	**(116,932)**	(142,954)
Total capitalization	**9,374,463**	8,429,064
Total liabilities and capitalization	**$ 15,252,546**	$ 14,082,425

See accompanying notes.

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Statements of Operations

(In Thousands of Dollars)

	Year Ended September 30, 2017	2016
Revenues:		
Passenger related	**$ 2,543,899**	$ 2,495,410
Other	**761,806**	745,148
Total revenues	**3,305,705**	3,240,558
Expenses:		
Salaries, wages and benefits	**2,084,564**	2,087,609
Train operations	**287,559**	300,176
Fuel, power and utilities	**239,742**	230,369
Materials	**165,347**	157,943
Facility, communication and office related	**179,939**	174,936
Advertising and sales	**106,949**	104,438
Casualty and other claims	**70,686**	72,848
Depreciation and amortization	**767,013**	813,403
Other	**454,442**	468,625
Indirect cost capitalized to property and equipment	**(145,846)**	(149,079)
Total expenses	**4,210,395**	4,261,268
Loss before other (income) and expense	**904,690**	1,020,710
Other (income) and expense:		
Interest income	**(9,055)**	(4,376)
Interest expense	**53,956**	65,943
Loss on early extinguishment of debt	**18,682**	—
Other income, net	**(1,672)**	(3,615)
Other expense, net	**61,911**	57,952
Loss before income taxes	**966,601**	1,078,662
Income tax expense	**2,110**	1,827
Net loss	**$ 968,711**	$ 1,080,489

See accompanying notes.

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Statements of Comprehensive Loss

(In Thousands of Dollars)

	Year Ended September 30, 2017	2016
Net loss	**$ 968,711**	$ 1,080,489
Other comprehensive loss:		
Pension and other postretirement benefit items:		
Net gain arising during the period	**(111,411)**	(64,086)
Amortization of actuarial loss	**(39,699)**	(53,331)
Amortization of prior service credit	**130,496**	130,429
Settlement loss	**(5,408)**	—
Total pension and other postretirement benefit items	**(26,022)**	13,012
Comprehensive loss	**$ 942,689**	$ 1,093,501

See accompanying notes.

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Statements of Changes in Capitalization

(In Thousands of Dollars)

	Preferred Stock	Common Stock	Other Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance as of September 30, 2015	$ 10,939,699	$ 93,857	$ 29,672,867	$ (32,584,857)	$ (129,942)	$ 7,991,624
Federal paid-in capital	—	—	1,530,941	—	—	1,530,941
Net loss	—	—	—	(1,080,489)	—	(1,080,489)
Total pension and other postretirement benefit items	—	—	—	—	(13,012)	(13,012)
Balance as of September 30, 2016	10,939,699	93,857	31,203,808	(33,665,346)	(142,954)	8,429,064
Federal paid-in capital	**—**	**—**	**1,888,088**	**—**	**—**	**1,888,088**
Net loss	**—**	**—**	**—**	**(968,711)**	**—**	**(968,711)**
Total pension and other postretirement benefit items	**—**	**—**	**—**	**—**	**26,022**	**26,022**
Balance as of September 30, 2017	**$ 10,939,699**	**$ 93,857**	**$ 33,091,896**	**$ (34,634,057)**	**$ (116,932)**	**$ 9,374,463**

See accompanying notes.

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Statements of Cash Flows

(In Thousands of Dollars)

	Year Ended September 30, 2017	2016
Cash flows from operating activities		
Net loss	**$ (968,711)**	$ (1,080,489)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	**767,013**	813,403
Deferred income taxes	**2,110**	1,827
Gain on sale of/recovery on property and equipment	**(4,038)**	(4,093)
Loss on early extinguishment of debt	**18,682**	—
Other	**6,421**	4,615
Changes in assets and liabilities:		
Accounts receivable	**(47,078)**	6,246
Materials and supplies	**(16,030)**	15,814
Prepaid expenses	**(16,798)**	(10,009)
Other current assets	**269,410**	(269,689)
Other assets, deposits and deferred charges	**(5,998)**	316,573
Accounts payable, deferred ticket revenue, accrued expenses and other current liabilities	**(244,415)**	577,433
Deferred state capital payments	**(83,685)**	(63,253)
Other liabilities and deferred credits	**(32,746)**	(400,331)
Net cash used in operating activities	**(355,863)**	(91,953)
Cash flows from investing activities		
Purchases and refurbishments of property and equipment	**(1,586,398)**	(1,446,634)
Insurance proceeds attributable to casualty losses related to property and equipment	**10,523**	9,336
Proceeds from disposals of property and equipment	**1,452**	2,744
Net cash used in investing activities	**(1,574,423)**	(1,434,554)
Cash flows from financing activities		
Proceeds from federal paid-in capital	**1,888,088**	1,530,941
Proceeds from state capital payments	**382,974**	297,233
Repayments of debt and capital lease obligations	**(624,651)**	(114,897)
Proceeds from issuance of debt	**625,115**	45,678
Net cash provided by financing activities	**2,271,526**	1,758,955
Net change in cash and cash equivalents, including restricted cash	**341,240**	232,448
Beginning balance of cash and cash equivalents, including restricted cash	**760,454**	528,006
Ending balance of cash and cash equivalents, including restricted cash	**$ 1,101,694**	$ 760,454
Supplemental disclosure of cash payments		
Interest paid, net of amount capitalized	**$ 56,721**	$ 69,936
Supplemental disclosure of non-cash investing and financing activities		
Other non-cash changes in property, includes accruals of amounts due for purchases	**215,129**	—
Debt and capital lease reduction through use of escrow deposits	**34,770**	—

See accompanying notes.

1. Nature of Operations

The National Railroad Passenger Corporation (Amtrak or the Company) was incorporated in 1971 pursuant to the Rail Passenger Service Act of 1970 and is authorized to operate a nationwide system of passenger rail transportation. The United States government (the Federal Government) through the Secretary of the United States Department of Transportation (the DOT) owns all issued and outstanding preferred stock. Amtrak's principal business is to provide rail passenger transportation service in the major intercity travel markets of the United States. The Company also operates commuter rail operations on behalf of certain states and transit agencies, provides equipment and right-of-way maintenance services, and has leasing operations.

The Company has a history of recurring operating losses and is dependent on subsidies from the Federal Government to operate the national passenger rail system and maintain the underlying infrastructure. These subsidies are usually received through annual appropriations. Appropriated funds for Amtrak are generally provided to the DOT, which through its agency the Federal Railroad Administration (the FRA) provides those funds to Amtrak pursuant to annual grant agreements. Amtrak's ability to continue operating in its current form is dependent upon the continued receipt of subsidies from the Federal Government. The DOT, formerly through the FRA, and now through the National Surface Transportation and Innovative Finance Bureau of the Federal Government (also referred to as the Build America Bureau), also provides financing to Amtrak through the Railroad Rehabilitation and Infrastructure Financing (RRIF) Program.

See Notes 2, 4, 5, and 6 for additional information about Amtrak and its relationship with the Federal Government.

2. Annual Funding

On December 4, 2015, the President signed as Public Law 114-94, the Fixing America's Surface Transportation Act (the FAST Act). Title XI-Rail of the FAST Act, cited as the Passenger Rail Reform and Investment Act of 2015 (PRRIA 2015), authorizes funding to the Secretary of the DOT (the Secretary) for annual grants to Amtrak totaling $8.1 billion for fiscal years (FY) 2016 through 2020. PRRIA 2015 directs $2.6 billion of this support to Amtrak's Northeast Corridor (NEC) and $5.5 billion to Amtrak's National Network as defined in the FAST Act, and it authorizes an additional $2.2 billion for other rail grant programs in which Amtrak may participate. Although PRRIA 2015 provides that this structure, which separates funding for the NEC and the National Network, would begin for Amtrak's FY2016, the FY2016 Appropriations Law was drafted before the FAST Act was enacted, which deferred the implementation until FY2017. Accordingly, FY2017 was the first year that Amtrak received its funding in accordance with the FAST Act structure (i.e. an NEC grant and a National Network grant).

The Company was provided funding for FY2018 through the Continuing Appropriations Act, 2018, and Supplemental Appropriations for Disaster Relief Requirements Act, 2017 (Public Law 115-56), the making further Continuing Appropriations for Fiscal Year 2018, and for Other Purposes Act (Public Law 115-90), the Further Additional Continuing Appropriations Act, 2018 (Public Law 115-96) and the Extension of Continuing Appropriations Act, 2018 (Public Law 115-120), which was signed into law on January 22, 2018 to extend funding through February 8, 2018 (collectively, the Continuing Appropriations Acts, 2018). There are currently no federal funds appropriated for the Company for any period subsequent to February 8, 2018. Without such subsidies, Amtrak will not be able to continue to operate in its current form and significant

2. Annual Funding (continued)

operating changes, restructuring or bankruptcy may occur. Such changes or restructuring would likely result in asset impairments. The Company ultimately expects it will receive sufficient funds in the form of continuing resolutions (CRs) or other appropriations legislation to support its operations for the foreseeable future.

PRRIA 2015 mandates reforms for Amtrak and its grant programs. Requirements include the development of five-year plans for business lines and assets to be used as the basis for Amtrak's annual grants, separate financial reporting for the National Network and the NEC, and a process for transferring funds between the two accounts. Amtrak is the sole eligible entity for grant funds made pursuant to PRRIA 2015 and payments are advanced with 50% provided at the beginning of each fiscal year and 25% paid in each of the following two quarters. PRRIA 2015 directs the formation of committees and, where applicable, requires Amtrak to work in partnership with stakeholders including representatives of transit, state and federal rail transportation authorities to plan, implement, and fund certain rail programs. There are also competitive and partnership grant programs authorized to which Amtrak may apply: for FY2016 through FY2020, a total of $1.1 billion is authorized for rail infrastructure and safety improvements, $1.0 billion for Federal-State partnership grants for State-of-Good Repair projects, and $100 million for rail restoration and enhancement grants. No funds were received through these programs in FY2016 or FY2017.

The table below provides information on funding for the Company's fiscal years ended September 30, 2018, 2017 and 2016 under CRs and the Consolidated Appropriations Act or Consolidated and Further Continuing Appropriations Act (collectively, Full Year Funding) related to those years (dollars in millions):

2. Annual Funding (continued)

	FY2018	FY2017	FY2016
Enactment dates for CRs	September 8, 2017 December 8, 2017 December 22, 2017 January 22, 2018	**September 29, 2016** **December 10, 2016** **April 28, 2017**	September 30, 2015
Public Law numbers for CRs	115-56 115-90 115-96 115-120	**114-223** **114-254** **115-30**	114-53
Enactment date for Full Year Funding	N/A [1]	**May 5, 2017**	December 18, 2015
Public Law number for Full Year Funding	N/A [1]	**115-31**	114-113
Appropriated capital and debt service funds			$ 1,101.5
Appropriated operating service funds			288.5
Appropriated for National Network	$ 416.0	**$ 1,167.0**	
Appropriated for NEC	116.9	**328.0**	
Total funds appropriated	532.9	**1,495.0**	1,390.0
FRA authorized withholdings	(5.2)	**(14.5)**	(8.5) [3]
Total appropriated funds designated for Amtrak	$ 527.7 [2]	**$ 1,480.5**	$ 1,381.5 [3]
Funds received by Amtrak:			
In FY2016			$ 1,069.6
In FY2017		**$ 1,480.5**	252.2
In FY2018, as of January 26, 2018	$ 447.2	—	59.7
Total funds received to date	$ 447.2	**$ 1,480.5**	$ 1,381.5

[1] FY2018 Full Year Funding is not yet in place.
[2] Funding appropriated through February 8, 2018.
[3] Reflects a $2.0 million reduction of FRA withholding for FY2016 in FY2017.

3. Basis of Presentation and Summary of Significant Accounting Policies

Method of Accounting

The accompanying consolidated financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Principles of Consolidation

The Consolidated Financial Statements reflect the consolidated operations of Amtrak and its subsidiaries, Chicago Union Station Company (CUS) (prior to its May 11, 2017 merger into the Company), Passenger Railroad Insurance, Limited (PRIL), Penn Station Leasing, LLC (PSL) and Washington Terminal Company (WTC). All intercompany balances and transactions have been eliminated.

CUS was incorporated on July 3, 1913 as the Union Station Company, for the purpose of constructing, operating and maintaining a new railroad terminal in the City of Chicago. The name was officially changed to Chicago Union Station Company on May 7, 1915. Amtrak acquired 50% stock ownership interest in CUS

3. Basis of Presentation and Summary of Significant Accounting Policies (continued)

in 1976 as part of the conveyance of the NEC and off-Corridor properties. Amtrak purchased the remaining 50% stock ownership in 1984. CUS's business is comprised of the following segments: provision of right-of-way and station access and use of intercity and commuter services; and lease and licensing of station space for retail services, display advertising, special events and other commercial uses. On May 11, 2017, CUS was merged into Amtrak.

PRIL was incorporated on December 18, 1996 under the laws of Bermuda to provide excess liability and property insurance coverage to Amtrak. In addition, PRIL also provides insurance and reinsurance coverage to third parties performing work on Amtrak property.

PSL was formed on April 17, 2001 to acquire and lease back to Amtrak the real property and improvements located in New York, commonly known as Penn Station. On June 14, 2017, Amtrak made the final mortgage payment for Penn Station. Amtrak expects to dissolve PSL in FY2018.

WTC was formed on December 6, 1901 and is comprised of buildings and rail yard adjacent to Washington Union Station. WTC provides switching services for passenger trains using the station or passing through the area.

Cash and Cash Equivalents

All short-term investments with original maturities of 90 days or less are considered cash and cash equivalents. These consist of bank deposits and money market fund investments. Cash and cash equivalents are maintained at various financial institutions and, at times, balances may exceed federally insured limits.

Restricted cash and cash equivalents consist primarily of funds received that are restricted for specific purposes or cash set aside and restricted for specific payments. Restricted cash and cash equivalents consists of a money market fund held in trust restricted from withdrawals based upon certain collateral requirements and funds restricted for certain operations of the Amtrak Police Department.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable in the Consolidated Balance Sheets include billed and unbilled accounts receivable. Billed accounts receivable represent amounts for which invoices have been sent to customers. These accounts receivable are recorded at the invoiced amount. Unbilled accounts receivable represent amounts recognized as revenue for which invoices have not yet been sent to customers but for which services and work have been performed. The Company recorded $68.4 million and $101.4 million of unbilled accounts receivable as of September 30, 2017 and 2016, respectively.

The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's billed accounts receivable. To determine its allowance for doubtful accounts, the Company evaluates historical loss experience and the characteristics of current accounts, as well as general economic conditions and trends. Uncollectible billed accounts receivable is applied against the allowance.

Materials and Supplies

Materials and supplies, which are stated at weighted-average cost, net of allowance for shrinkage and obsolescence, consist primarily of items for repairs and maintenance of property and equipment. The

3. Basis of Presentation and Summary of Significant Accounting Policies (continued)

allowance for shrinkage and obsolescence is recorded based on specific identification and expected usage rates.

Property, Equipment, and Depreciation

Except as described below, property and equipment owned by the Company are carried at cost and depreciated using the group method of depreciation (group method) in which a single composite depreciation rate is applied to the gross investment in a particular class of property or equipment, despite differences in the service life or salvage value of individual property units within the same class. This excludes computer equipment and software, which are stated at cost and are individually depreciated on a straight-line basis over their estimated useful lives, which are generally three to ten years. Properties held under capital leases and leasehold improvements are depreciated over the shorter of their estimated useful lives or their respective lease terms, and the related depreciation expense is reported within “Depreciation and amortization” in the Consolidated Statements of Operations. Land is carried at cost.

For assets depreciated under the group method, upon normal sale or retirement, the cost less the net salvage value is applied to “Accumulated depreciation” in the Consolidated Balance Sheets and no gain or loss is recognized. Gains or losses on the disposal of land and accelerated depreciation related to significant premature retirements of assets under the group method are recorded in the Consolidated Statements of Operations at the time of occurrence. During FY2016, in connection with the delivery of new electric locomotives for use in the NEC, the Company removed from active service older electric locomotives. The Company concluded that the locomotives would not be returned to active service and, as a result, $29.3 million in additional depreciation expense was recorded in FY2016. There were no significant premature retirements of depreciable property or disposals of land for which gains or losses were recorded in FY2017.

Amtrak periodically engages an outside civil engineering firm with expertise in railroad property usage to conduct a study to evaluate depreciation rates for assets subject to the group method. In addition to the adjustment to group depreciation rates because of periodic depreciation studies, certain other events might occur that could affect Amtrak’s estimates and assumptions related to depreciation. Unforeseen changes in operations or technology could substantially alter assumptions regarding Amtrak’s ability to realize the return on its investment in operating assets and, therefore, affect the amounts of current and future depreciation expense. Because group method depreciation expense is a function of analytical studies made of property and equipment, subsequent studies could result in different estimates of useful lives and net salvage values. If future group method depreciation studies yield results indicating that assets have shorter lives because of obsolescence, physical condition, changes in technology, or changes in net salvage values, the depreciation expense for assets under the group method could increase. Likewise, if future studies indicate that assets have longer lives, the depreciation expense for assets under the group method could decrease.

Construction-in-progress is stated at cost and includes direct costs of construction and interest expense capitalized during the period of construction of major facilities, locomotives, and passenger cars. Construction-in-progress is transferred to property and equipment when substantially all the activities necessary to prepare such assets for their intended use are completed, at which time depreciation commences. When constructed assets are funded through long-term debt, capitalized interest is recorded as part of the asset to which it relates and is depreciated over the asset’s useful life. Total interest cost incurred by the

3. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Company was $59.4 million and $66.4 million for FY2017 and FY2016, respectively, of which interest cost capitalized on construction projects was $5.4 million and $0.5 million for FY2017 and FY2016, respectively.

The useful lives of locomotives, passenger cars, and other rolling stock assets for depreciation purposes range up to 40 years. Right-of-way and other properties (excluding land) are depreciated using useful lives ranging up to 105 years. Within other properties is other equipment including computers, office equipment, and maintenance equipment which are depreciated using useful lives ranging from three to 40 years. Expenditures that significantly increase asset values or extend useful lives are capitalized, including major overhauls. Repair and maintenance expenditures, including preventive maintenance, are charged to operating expense when the work is performed. The cost of internally developed software is capitalized and amortized over its estimated useful life, which is generally five to ten years.

The Company accounts for asset retirement obligations (AROs) in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 410, *Asset Retirement and Environmental Obligations*. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the asset. In accordance with FASB ASC Topic 410, the Company recognizes the fair value of any liability for conditional AROs, including environmental remediation liabilities, in the period in which it is incurred, which is generally upon acquisition, construction, or development and/or through the normal operation of the asset, if sufficient information exists with which Amtrak can reasonably estimate the fair value of the obligation. Amtrak capitalizes the cost by increasing the carrying amount of the related long-lived asset. The capitalized cost is depreciated over the useful life of the related asset and upon settlement of the liability Amtrak either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The asset retirement costs capitalized were $10.1 million and $10.0 million as of September 30, 2017 and 2016, respectively, and were included in "Right-of-way and other properties" in the Consolidated Balance Sheets.

Nonreciprocal Transfer of Asset

On February 17, 2010, Amtrak entered into a preliminary memorandum of understanding with two developers to redevelop a building adjacent to Penn Station to accommodate a combination of transportation, public, commercial and other facilities including the creation of the new Daniel Patrick Moynihan Station. One of the developers is responsible for securing public and private partners to assist in the financing of the project. Amtrak owns and uses Penn Station as a major transportation hub for Amtrak's Northeast Corridor service. In addition, Amtrak has ownership of the subsurface and train shed areas below the building.

The project is divided into two phases. In June 2017, the first phase of the development was completed and placed into service. Substantially all cost of the first phase work was paid for by one of the developers using federal and state funding grants. The title of certain improvements in the first phase was transferred to Amtrak in June 2017. In accordance with FASB ASC Topic 845, *Nonmonetary Transactions*, Amtrak recognized an asset of $244.6 million at acceptance, which is the estimated fair market value of the transferred improvements. At the same time, a deferred gain of $240.4 million was recorded, which will be amortized over the life of the asset using the straight-line method. For FY2017, a total of $1.5 million was amortized and recognized in operating revenue.

3. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Indirect Cost Capitalized to Property and Equipment

Capitalized overhead cost represents the indirect support expenses related to specific geographic regions and departments that are involved in particular capital projects. These indirect costs, which include fringe benefits allocable to direct labor, are capitalized along with the direct costs of labor, material, and other direct costs. Amtrak's overhead rates are updated at the end of each fiscal year based upon the actual activity and costs incurred during the fiscal year.

Impairment of Long-Lived Assets

Properties and other long-lived assets are reviewed for impairment whenever events or business conditions indicate that their carrying amounts may not be recoverable. Initial assessments of recoverability are based on an estimate of undiscounted future net cash flows. If impairment indicators are present, the assets are evaluated for sale or other disposition, and their carrying amounts are reduced to fair value based on discounted cash flows or other estimates of fair value.

In performing its impairment analysis, the Company assumes future Federal Government subsidies at levels consistent with the historical funding levels discussed in Note 2. The Company believes funding at historical levels is the best estimate to be used of the future. At this approximate level of funding, the Company determined that no indicators of impairment existed as of September 30, 2017. If future Federal Government funding drops below historical levels, substantial impairment may occur as discussed in Note 2.

On October 29, 2012, Super Storm Sandy (Sandy) came ashore in the Northeast and mid-Atlantic region of the United States. Amtrak sustained damage to tunnels and other structures in New York and New Jersey. The Company determined that there was no impairment to the tunnels, but certain infrastructure assets would need to be replaced sooner than previously anticipated. Accordingly, the Company assigned unique group depreciation rates to these assets. As a result, depreciation expense totaling $193.1 million is being accelerated over the remaining life of these assets. In FY2017, the Company determined the repairs will take longer for certain properties than previously expected, resulting in an extension of the remaining life of those assets. The acceleration of depreciation expense increased the Company's net loss by $11.7 million and $30.4 million in FY2017 and FY2016, respectively.

Casualty Losses and Claims

Provision is made for Amtrak's estimated actuarial liability for unsettled casualty and other claims. Personal injury liability and ultimate loss projections are undiscounted and estimated using standard actuarial methodologies. These actuarial estimates include an estimate for unasserted claims. As of September 30, 2017 and 2016, the reserve for casualty losses and claims was $201.0 million and $477.2 million, respectively. The reserve balance as of September 30, 2016 included the Company's best estimates of the liability for passenger and employee claims incurred related to the derailment of Amtrak's Train No. 188, which occurred on May 12, 2015 (the Train No. 188 Derailment). With the exception of one employee claim, all Train No. 188 derailment claims were settled and released by September 30, 2017. See Note 10 for additional information on the Train No. 188 Derailment. Of the total amount reserved as of September 30, 2017 and 2016, the estimated current claims liability included in "Accrued expenses and other current liabilities" in the Consolidated Balance Sheets was $51.8 million and $328.5 million, respectively. The balance of the reserve

3. Basis of Presentation and Summary of Significant Accounting Policies (continued)

as of both September 30, 2017 and 2016 is included in "Casualty reserves" in the Consolidated Balance Sheets.

Revenue Recognition

"Passenger related" revenue in the Consolidated Statements of Operations includes ticket revenue, state contribution revenue associated with requested service performed by Amtrak, and food and beverage revenue as follows (in millions):

	Year Ended September 30, 2017	2016
Ticket	**$ 2,180.8**	$ 2,136.1
State contribution	**224.0**	227.0
Food and beverage	**139.1**	132.3
Total passenger related revenue	**$ 2,543.9**	$ 2,495.4

These revenues are recognized as operating revenues when the related services are performed. Amounts received for tickets that have been sold but not used are reflected as "Deferred ticket revenue" in the Consolidated Balance Sheets.

"Other" revenue, for FY2017 and FY2016, includes (i) revenue from reimbursable engineering and capital improvement activities (these revenues are generally recognized as the associated costs are incurred); (ii) other transportation revenue from use of Amtrak-owned tracks and other services (these revenues are generally recognized when the related services are performed); (iii) revenue earned under contractual arrangements to operate various commuter rail services for a cost-based fee (these revenues are recognized when the related services are performed); (iv) amortization of state funds used to acquire depreciable assets (such payments are deferred when received and amortized over the estimated life of the related assets purchased with the funds, and the unamortized amounts are included in "Deferred state capital payments" in the Consolidated Balance Sheets); (v) commercial development revenue from retail, parking, advertising, real property leases/easements/sales, and access fees (these revenues are generally recognized as the services are performed); and (vi) freight access fee revenue from the use of Amtrak-owned tracks by freight railroad companies and other gains.

3. Basis of Presentation and Summary of Significant Accounting Policies (continued)

The components of other revenue are as follows (in millions):

	Year Ended September 30, 2017	2016
Reimbursable	**$ 231.6**	$ 252.0
Other transportation	**181.6**	166.4
Commuter	**121.2**	120.8
Amortization of state capital payments	**83.7**	63.3
Commercial development	**83.4**	84.2
Freight access fees and other	**60.3**	58.5
Total other revenue	**$ 761.8**	$ 745.2

Advertising Expenses

The Company records advertising expenses as incurred and reports these amounts in "Advertising and sales" in the Consolidated Statements of Operations. Advertising expenses were $46.0 million and $46.6 million for FY2017 and FY2016, respectively.

Income Taxes

The Company accounts for its income taxes in accordance with FASB ASC Topic 740, *Income Taxes*, which requires recognition of deferred tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Management evaluates its potential exposures from tax positions taken that have been or could be challenged by taxing authorities. These potential exposures result because taxing authorities may take positions that differ from those taken by management in the interpretation and application of statutes, regulations, and rules. Management considers the possibility of alternative outcomes based upon historical experience, previous actions by taxing authorities (e.g., actions taken in other jurisdictions), and advice from tax experts. The Company has evaluated income tax positions taken in prior years and believes that all positions are more likely than not to be sustained in an audit.

Pursuant to the provisions of Title 49 of the United States Code, Section 24301, Amtrak is exempt from all state and local taxes, including income and franchise taxes that are directly levied against the Company. Accordingly, there is no provision for state and local income or franchise taxes recorded in the consolidated financial statements for FY2017 and FY2016 (see Note 9).

3. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclose contingent assets and liabilities at the date of the financial statements, and report amounts of revenues and expenses during the reporting period. The Company bases these estimates on historical experience, the current economic environment, and various other assumptions that are believed to be reasonable under the circumstances. However, uncertainties associated with these estimates exist and actual results may differ from these estimates. Some of the more significant estimates include: allowance for doubtful accounts and obsolescence of material and supplies, estimated useful lives of property and equipment, calculation of accelerated depreciation related to Sandy, recoverability of long-lived assets, estimates of wrecked and damaged equipment, estimates of casualty reserves, pension and other postretirement employee benefits expense and obligations (including expected return on plan assets, discount rates, and health care cost trend rates), estimated costs for retroactive wages for union employees, estimated costs of asset retirement obligations, valuation allowance for deferred tax assets, estimated future valuation of certain assets in connection with the Company's tax planning strategy and environmental reserves.

Comprehensive Loss

Amtrak reports a comprehensive loss in the Consolidated Statements of Comprehensive Loss. Comprehensive loss is defined as changes in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. As of September 30, 2017 and 2016, “Accumulated other comprehensive loss” consists of adjustments for pension and other postretirement liabilities.

Recently Adopted Accounting Pronouncements

In August 2014, the FASB issued Accounting Standards Updates (ASU) No. 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. This ASU provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The guidance is effective for the Company beginning with FY2017. As the Company expects to continue to receive funding from the Federal Government, the adoption of this ASU did not have an impact on its consolidated financial statements or disclosures.

In April 2015, the FASB issued ASU No. 2015-03, *Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). Under the new guidance, the debt issuance costs related to a recognized debt liability will be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability. The amortization of debt issuance costs will continue to be included in interest expense. The guidance, which is required to be applied retrospectively, was adopted by the Company in FY2017 and prior year balances have been reclassified accordingly. The adoption of the ASU did not have a material impact on its consolidated financial statements.

Recently Issued but Not Yet Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes previous revenue recognition guidance. The new standard requires that a company recognize

3. Basis of Presentation and Summary of Significant Accounting Policies (continued)

revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the company expects to receive in exchange for those goods and services. Companies will need to use more judgment and estimates than under the guidance currently in effect, including estimating the amount of variable revenue to recognize over each identified performance obligation. Additional disclosures will be required to help users of financial statements understand the nature, amount and timing of revenue and cash flows arising from the contracts. The new standard will become effective for the Company beginning with the fiscal year ending September 30, 2020, and can be adopted either retrospectively to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption. The Company is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842).* The ASU was issued to increase transparency and comparability among companies by requiring most leases to be included in the balance sheet and by expanding disclosures on leasing arrangements. This ASU is effective for the Company beginning with the fiscal year ending September 30, 2021, with early adoption permitted. The Company is currently evaluating the impact of adopting this new guidance. As the Company is and will continue to be involved in multiple leasing arrangements whereby the Company is either the lessee or the lessor, the adoption of the ASU is expected to have a significant impact on the Company's consolidated financial statements and disclosures.

In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, to require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost as defined are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The amendments in this ASU also allow only the service cost component to be eligible for capitalization when applicable. The ASU will be effective for Amtrak beginning with the fiscal year ending September 30, 2020 and must be applied retrospectively for pension cost reporting and prospectively for the potential capitalization of service cost. The ASU allows a practical expedient that permits an employer to use the amounts disclosed in its pension and other postretirement benefit plan note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. Disclosure that the practical expedient was used is required. The Company is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

4. Accounting and Reporting for Federal Payments

Certain funds are provided to Amtrak during the year through federal payments. These federal payments, which are recorded when received in "Other paid-in capital" in the Consolidated Balance Sheets and Consolidated Statements of Changes in Capitalization, totaled $1.9 billion and $1.5 billion for FY2017 and FY2016, respectively.

Note 2 provides information on the Company's annual funding. Additional federal funding received by the Company, all of which was recorded within "Other paid-in capital" when received, is described below.

In accordance with the Disaster Relief Appropriations Act, 2013 (Public Law No. 113-2, January 29, 2013), Amtrak was provided with grants totaling $235.0 million for the Hudson Yards Concrete Encasement Project, of which Amtrak has cumulatively received $231.4 million and $219.1 million as of September 30, 2017 and 2016, respectively.

Since 2005, the Department of Homeland Security has awarded Amtrak a total of $170.0 million in annual grants from the Intercity Passenger Rail Grants Program, American Recovery and Reinvestment Act Rail and Transit Security Grant Program, and other security grants. Funding is provided on a reimbursable basis. Amtrak has cumulatively received $164.9 million and $156.8 million as of September 30, 2017 and 2016, respectively.

In May 2011, the DOT awarded Amtrak $449.9 million in American Recovery and Reinvestment Act of 2009 High Speed Intercity Passenger Rail funding to upgrade its rail infrastructure to support more frequent and faster high-speed rail service, and to improve reliability of current service between New York and Washington. The funding supports the project to upgrade electrical power, signal systems, and track and overhead catenary wires between Trenton and New Brunswick, New Jersey — one of the busiest segments of the NEC and where the densest concentration of Acela Express high-speed rail operations occurs. Funding is provided on a reimbursable basis. As of September 30, 2017 and 2016, Amtrak cumulatively received $440.9 million and $333.7 million, respectively.

Additional appropriations are made to directly fund operations of Amtrak's Office of Inspector General (OIG). $23.3 million was appropriated in FY2017 to be spent by September 30, 2017. Amtrak and the OIG entered into a service agreement on January 8, 2010, whereby Amtrak would continue to provide accounting and financial management services for the OIG. Amtrak is reimbursed for expenses incurred upon the submission of invoices to the OIG. During FY2017, Amtrak received $21.8 million.

"Other paid-in capital", included in the Consolidated Balance Sheets and Statements of Changes in Capitalization, also includes the effects of certain funding received from the Federal Government for the acquisition of and improvements to property and equipment. In exchange for this funding, Amtrak issued two promissory notes to the United States of America. The first note has a balance of $4.0 billion as of September 30, 2017 and 2016, was issued in 1976 and matures on December 31, 2975, and is secured by the real and personal property of Amtrak, WTC and PRIL. The second note has a balance of $1.1 billion as of September 30, 2017 and 2016, was issued in 1983 and matures on November 1, 2082, with successive 99-year automatic renewal terms, if the note has not been paid at maturity or accelerated in accordance with its terms, and is secured by all rolling stock owned by Amtrak. Neither of the notes bears interest, unless prepaid, which Amtrak does not intend to do. The Federal Government is entitled to repayment and interest in the event Amtrak ceases operations, is acquired by another entity, or seeks relief under bankruptcy or insolvency

4. Accounting and Reporting for Federal Payments (continued)

laws. The amount due to the Federal Government on the first note may be accelerated by enactment of federal law or upon the occurrence of various actions concerning an Amtrak bankruptcy, reorganization, or assignment for the benefit of creditors.

5. Preferred and Common Stock

For funds received from the Federal Government prior to December 2, 1997, the Rail Passenger Service Act (49 U.S.C. 24304) required Amtrak to issue to the Secretary 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. As of September 30, 2017 and 2016, 109,396,994 shares of $100 par value preferred stock were authorized, all of which were issued and outstanding. All issued and outstanding preferred shares are held by the Secretary for the benefit of the Federal Government. The Amtrak Reform and Accountability Act of 1997 (the Act) resulted in significant modifications to Amtrak's capital structure. The Act abolished the voting rights and the liquidation preference of the preferred stockholder and abolished the requirement that additional preferred stock be issued by Amtrak in exchange for federal grants received. At the time of enactment of the Act, the minimum undeclared cumulative preferred dividend in arrears for all series issued and currently outstanding approximated $5.8 billion and ranged between $0.02 and $97.08 per share. Each share of preferred stock is convertible into ten shares of common stock at the option of the preferred stockholder.

As of September 30, 2017 and 2016, 10,000,000 shares of $10 par value common stock were authorized, of which 9,385,694 shares were issued and outstanding. The common stockholders, who acquired their stock from four railroads whose intercity rail passenger operations Amtrak assumed in 1971, have voting rights for amendments to Amtrak's Articles of Incorporation proposed by the Board of Directors and for certain other extraordinary events. The Act also required Amtrak to redeem at fair market value the shares of common stock outstanding as of December 2, 1997, by the end of FY2002. As required by the Act, Amtrak made an offer to the stockholders to redeem the stock for cash at a price of $0.03 per share and by a letter, dated November 2, 2000, counsel for the four common stockholders rejected the offer. A subsequent lawsuit by the common stockholders to enforce the common stock redemption was dismissed by the federal courts.

6. Mortgages and Debt

Total mortgages and debt is recorded at amortized cost in the Consolidated Balance Sheets and consists of the following (in thousands):

	September 30, 2017		September 30, 2016	
	Current	Long-Term	Current	Long-Term
Mortgage obligations:				
Penn Station mortgage	**$ —**	**$ —**	$ 64,290	$ —
High speed maintenance facilities	**10,349**	**36,548**	7,883	46,897
Frequency converter facility	**10,920**	**117,870**	46,825	88,290
Subtotal	**21,269**	**154,418**	118,998	135,187
Senior notes:				
Secured senior notes	**25,500**	**331,680**	— [1]	— [1]
Unsecured senior notes	**16,000**	**119,000**	— [1]	— [1]
Subtotal	**41,500**	**450,680**	— [1]	— [1]
PEDFA 30th St. Garage Revenue Bonds	**1,861**	**31,743**	1,817	33,604
Term Loan A	**18,671**	**54,075**	18,164	72,746
Term Loan B	**6,681**	**43,070**	6,461	49,750
2016 RRIF loan	**—**	**140,327**	—	—
Principal amount of mortgages and debt	**89,982**	**874,313**	145,440	291,287
Less unamortized discount/premium/ issuance cost	**(577)**	**(11,272)**	(308) [2]	(1,883) [2]
Total mortgages and debt	**$ 89,405**	**$ 863,041**	$ 145,132	$ 289,404

[1] Debt obligation entered into in FY2017.
[2] Reflects adoption of ASU 2015-03.

Letters of Credit

The Company has an unsecured commercial letter of credit of $2.5 million that supports the issuance of auto fleet insurance. As of September 30, 2017 and 2016, there were no draws against this letter of credit.

Commercial Paper

In February 2017, the Company completed an offering permitting it to borrow up to $360 million in the commercial paper (CP) market. CP borrowings are backed by a direct-pay letter of credit issued by the dealer bank in the transaction. The Company may use the program to fund certain costs of the Next Generation High-Speed Trainsets project (see Note 10) at a lower interest rate and to defer for a period of time the payment of the credit risk premium for borrowings under the 2016 RRIF Loan. During FY2017, the Company borrowed and subsequently paid off $217 million of CP notes and there are no CP notes outstanding as of September 30, 2017. The CP program was terminated on January 5, 2018.

6. Mortgages and Debt (continued)

Revolving Credit Facility

On July 26, 2016, Amtrak entered into a Credit Agreement with three lenders for a $100 million unsecured revolving credit facility. Borrowings under the facility will be used to enhance Amtrak's liquidity. The facility will expire on July 26, 2021. Borrowings under the facility have an interest rate based on the interest rate option selected by Amtrak. The Company may select (a) the base rate option, which is a variable rate equal to the highest of (i) the Federal Funds Open Rate plus 0.5%, (ii) the Prime Rate, and (iii) the Daily London Interbank Offered Rate (LIBOR) plus 1.0%, plus in all cases an applicable margin based on the Company's Standard & Poor's and Moody's ratings (Credit Ratings); or (b) the LIBOR rate option, which is equal to the LIBOR rate for the applicable period plus a margin based on the Company's Credit Ratings. Amtrak must pay a commitment fee on any undrawn portion of the revolving credit facility ranging between 8.5 and 25 basis points based on Amtrak's Credit Ratings. Under the facility, Amtrak is subject to restrictive covenants and financial covenants that require the Company and its subsidiaries to maintain certain financial ratios on a consolidated basis. As of September 30, 2017 and 2016, the Company has not made any draws under the facility.

Mortgage Obligations

Penn Station Mortgage

In June 2001, PSL mortgaged a substantial portion of improvements located at Penn Station in New York, New York for $300.0 million at a fixed interest rate of 9.25% per annum, which increased to 9.50% effective October 2002. Approximately $34.3 million was deposited into escrow for the benefit of the lender and was recorded in "Other current assets" in the Consolidated Balance Sheet as of September 30, 2016. The mortgage was fully paid off when it matured in June 2017 and the escrow deposit was released accordingly.

High Speed Maintenance Facilities

On October 30, 2012, Amtrak purchased the equity ownership interests related to leveraged lease agreements under which Amtrak leases three Acela maintenance facilities. As a result of the buyout, Amtrak no longer makes lease payments relating to the equity interest, but continues to make payments servicing the leveraged lease debt. Amtrak's obligations are collateralized by a pledge of Amtrak's interests in the maintenance facilities.

Frequency Converter Facility

During FY2001, the Pennsylvania Economic Development Financing Authority (PEDFA) completed two issues, Series A and Series B, of exempt facilities revenue bonds, the net proceeds of which were used to finance part of the costs associated with Amtrak's construction of a frequency converter facility (the Facility). Amtrak procured the bond proceeds of each issue through a structured financing arrangement with PEDFA. Under this arrangement, Amtrak leased the Facility to PEDFA until November 2041, under a long-term ground lease, in exchange for the total net proceeds. Simultaneously, Amtrak leased the Facility back from PEDFA through June 2033, with an option to extend this term through November 2041. PEDFA also has the right to extend Amtrak's leaseback term through November 2041.

6. Mortgages and Debt (continued)

On March 31, 2012, PEDFA issued $95.1 million of PEDFA exempt facilities revenue refunding bonds (Series A 2012 bonds) to refund Series A of 2001 with varying maturities between November 1, 2013 and 2041. The interest rates on the Series A 2012 bonds range from 3.0% to 5.0% (yields ranging from 1.1% to 4.7%).

On February 15, 2012, the Series B bonds were reissued to a commercial bank for a period of five years (Series B 2012 bonds). The Series B 2012 Bonds continued to have a November 2041 maturity date, but the bond documents provided for a mandatory redemption on February 15, 2017. The interest rate was converted to a tax-effected fraction of the sum of one-month LIBOR plus the applicable spread (based on Amtrak's credit rating) per annum, which was an effective rate of 0.80% as of September 30, 2016.

On February 15, 2017, at the Company's direction, PEDFA issued $45 million of PEDFA exempt facilities revenue refunding bonds (Series B 2017 bonds) to redeem the Series B 2012 bonds. The Series B 2017 bonds were issued to the same commercial bank for another period of five years with an interest rate of a tax-effected fraction of the sum of three-month LIBOR plus the applicable spread based on the Company's credit rating, which was an effective rate of 2.0% as of September 30, 2017. The Series B 2017 bonds will be repaid in equal quarterly payments of $2.25 million over a five-year period, with the first payment made on May 15, 2017.

Amtrak's obligations in connection with the Series A Bonds and the Series B Bonds are cross-collateralized by a pledge of Amtrak's interest in the Facility. In addition, Amtrak guaranteed all principal and interest payments by PEDFA on the Series A and Series B bonds.

2011 RRIF Loan

On June 21, 2011, the Company entered into a $562.9 million RRIF Loan financing agreement with the FRA (the 2011 RRIF Loan) and a related Master Lease Agreement with Wells Fargo Bank Northwest (Owner Trustee), to finance the purchase of 70 new electric locomotives, related spare parts, and improvements to existing maintenance facilities to service the new locomotives. Upon acceptance of each locomotive, the associated portion of the obligation under the 2011 RRIF Loan converted to a capital lease for accounting purposes. As of September 30, 2016, all locomotives had been delivered and accepted and, accordingly, the entire balance payable under the 2011 RRIF Loan at September 30, 2016 of $465.0 million was recorded as a capital lease obligation as of that date. The 2011 RRIF Loan was fully paid off in FY2017 with the proceeds from the issuance of the Senior Notes (see below). In connection with the payoff of the 2011 RRIF Loan, the Company recorded a loss on extinguishment of debt of $18.7 million.

Senior Notes

On December 6, 2016, the Company issued 3.60% senior secured notes for $365 million due November 15, 2033 and 3.81% senior unsecured notes for $135 million due November 15, 2031 (the Notes). The proceeds from the Notes were used to pay off the outstanding 2011 RRIF Loan capital lease obligation and other related project costs. The secured notes are secured by locomotives acquired under the 2011 RRIF Loan. The Company is repaying the Notes in semi-annual installments beginning in May of 2017 and continuing each May 15 and November 15 thereafter to and including November 15, 2033 for the senior secured notes and November 15, 2031 for the senior unsecured notes.

6. Mortgages and Debt (continued)

PEDFA 30th St. Garage Revenue Bonds

On January 7, 2003, PEDFA issued $50.0 million of Revenue Bonds (the 2003 PEDFA Garage Bonds) for the purpose of financing the construction and other related costs of a parking garage located at the 30th Street Station in Philadelphia, Pennsylvania (30th Street Station Garage).

On November 2, 2012, at Amtrak's request, PEDFA issued $42.0 million of Revenue Bonds (the 2012 PEDFA Garage Bonds) to refinance the 2003 PEDFA Garage Bonds. At the date of issuance, the 2012 PEDFA Garage Bonds were remarketed to a commercial bank that agreed to hold them for a period of seven years. The 2012 PEDFA Garage Bonds mature in 20 years, with mandatory purchase by Amtrak at par plus accrued interest at the end of the seventh year unless an extension agreement is executed with the commercial bank that holds them. Interest accrues at a variable one month LIBOR rate. On November 2, 2012, Amtrak also entered into an interest rate swap agreement to manage the interest rate risk associated with the 2012 PEDFA Garage Bonds. As a result, the effective interest rate on the 2012 PEDFA Garage Bonds is 2.39%.

Amtrak's obligations with regard to the 2012 PEDFA Garage Bonds are collateralized by a pledge of Amtrak's interests in the 30th Street Station Garage.

Term Loan A and Term Loan B

On November 27, 2013, the Company entered into a $130.0 million credit facility with PNC National Bank, N.A. (the Bridge Loan). On June 19, 2014, the Company converted the Bridge Loan into a $200.0 million long-term loan, secured by certain of the Company's P-42 diesel locomotives, of which $130.0 million was financed with PNC Equipment Finance, LLC (Term Loan A) and $70.0 million was financed with RBS Asset Finance Inc. (Term Loan B). Under the terms of the agreement for Term Loan A, the Company incurs interest at a rate of LIBOR plus 1.0%. At the time that Term Loan A was entered into, the Company entered into an interest rate swap agreement, the impact of which made the effective interest rate on Term Loan A 2.76%. Under the agreement for Term Loan B, the Company incurs interest at a rate of 3.36%. Term Loan A and Term Loan B will mature on June 20, 2021 and June 20, 2024, respectively.

2016 RRIF Loan

On August 16, 2016, the Company entered into a $2.45 billion financing agreement with the Federal Government under the RRIF Loan program to finance the acquisition of 28 Next Generation High-Speed Trainsets (the Trainsets), related spare parts, and improvements to existing facilities and properties (the 2016 RRIF Loan). Amtrak's obligations under the 2016 RRIF Loan are collateralized by a pledge of the Trainsets, spare parts, and the debt service reserve account required under the financing agreement. See Note 10 for a description of the contracts issued to a vendor for the construction and delivery of the Trainsets and related services.

Starting June 15, 2021, the Company will be required to fund and maintain a restricted debt service reserve account equal, over time, to increasing percentages of the projected first year debt service payments to support future debt service. Delivery of the Trainsets is expected to occur between December 2020 and March 2022. Amtrak is not required to begin making repayments on borrowings under the 2016 RRIF Loan until September 15, 2022.

6. Mortgages and Debt (continued)

All borrowings under the 2016 RRIF Loan bear interest at a rate of 2.23% per annum. The Company is capitalizing interest incurred during the construction period of the Trainsets as part of Construction-in-progress in the Consolidated Balance Sheets. The Company also pays a credit risk premium of 5.80% for all amounts borrowed under the 2016 RRIF Loan. The amortization of the credit risk premium is recognized as interest expense and during the construction period is being capitalized as part of Construction-in-progress.

During FY2017, Amtrak drew $137.5 million under the 2016 RRIF Loan, paid $8.0 million in credit risk premiums and incurred interest cost of $3.3 million, all of which was capitalized into Construction-in-progress. No amounts were borrowed prior to FY2017 and no amounts were repaid during FY2017.

Interest Rates

The annual weighted-average interest rates for all interest-bearing borrowings (inclusive of the impact of any interest rate swaps) are shown below:

	September 30,	
	2017	**2016**
Mortgage obligations	**4.51 %**	5.61 %
Senior notes	**3.66**	— [1]
PEDFA 30th St. Garage Revenue Bonds	**2.39**	2.39
Term loans	**3.00**	2.99
2016 RRIF Loan	**2.23**	—
2011 RRIF Loan	**N/A**	4.04

[1] Debt obligation entered into in FY2017.

The overall weighted-average interest rate on all interest-bearing borrowings (inclusive of the impact of any interest rate swaps) is 3.5% and 4.5% per annum at September 30, 2017 and 2016, respectively.

6. Mortgages and Debt (continued)

Scheduled Mortgages and Debt Maturities

On September 30, 2017, scheduled maturities of mortgages and debt are (in thousands):

Year Ending September 30,	
2018	$ 89,982
2019	95,055
2020	92,824
2021	56,355
2022	29,603
Thereafter	600,476
Principal amount of mortgages and debt	964,295
Less unamortized discount/premium/issuance cost	(11,849)
Total mortgages and debt	$ 952,446

Amtrak is subject to various covenants and restrictions under its borrowing arrangements. A default by Amtrak or acceleration of Amtrak's indebtedness may result in cross-default with other debt and may have a material adverse effect on the Company. As of September 30, 2017, the Company had satisfied all of its debt covenant obligations.

7. Leasing Arrangements

Amtrak leases equipment, primarily passenger cars and locomotives, and related maintenance infrastructure under capital leasing arrangements. Amtrak has entered into various lease transactions in which the lease structure contains variable interest entities (VIEs). These VIEs were created solely for the purpose of doing lease transactions and have no other activities, assets or liabilities outside of the lease transactions. In some of the arrangements, Amtrak has the option to purchase some or all of the assets at a fixed price, thereby creating variable interests for Amtrak in the VIEs.

Amtrak maintains and operates the assets based on contractual obligations within the lease arrangements, which set specific guidelines consistent with industry standards. As such, Amtrak has no control over activities that could materially impact the fair value of the leased assets. Amtrak does not hold the power to direct the activities of the VIEs and, therefore, does not control the ongoing activities that have a significant impact on the economic performance of the VIEs. Additionally, Amtrak does not have the obligation to absorb losses, or the right to receive benefits of the VIEs.

As of September 30, 2017 and 2016, the gross amount of assets recorded under capital leases was $1.3 billion and $1.9 billion, respectively, with accumulated amortization of $0.8 billion as of September 30 of both years.

Amtrak is subject to various covenants and restrictions under its leasing arrangements. Amtrak has given guarantees or entered into reimbursement agreements in connection with certain of these lease transactions. A default by Amtrak or acceleration of Amtrak's indebtedness may result in cross-default to other Amtrak indebtedness, and may have a material adverse effect on the Company (see Note 6).

7. Leasing Arrangements (continued)

Future Minimum Lease Payments

As of September 30, 2017, future minimum lease payments under capital leases are (in thousands):

Year ending September 30,		
2018	$	64,827
2019		65,665
2020		60,863
2021		56,490
2022		33,310
Thereafter		16,742
Total minimum lease payments		297,897
Less: discounted to current period amount at interest rates ranging from 5.0% to 9.1%		(61,428)
Present value of minimum lease payments at September 30, 2017	$	236,469

The current portion of capital lease obligations as of September 30, 2017 and 2016, was $46.8 million and $70.9 million, respectively, and is presented in "Current maturities of long-term debt and capital lease obligations" in the Consolidated Balance Sheets.

Operating Leases

As of September 30, 2017, Amtrak is obligated for the following minimum rental payments under operating lease agreements (in thousands):

Year ending September 30,		
2018	$	17,390
2019		15,825
2020		13,363
2021		12,254
2022		11,832
Thereafter		48,516
Total	$	119,180

Rent expense for FY2017 and FY2016 was $53.1 million and $52.6 million, respectively.

Amtrak leases offices, operating areas, stations and other terminal space. These leases often contain renewal options to enable the Company to retain the use of facilities. Some of the leases contain escalation clauses that increase the rents based on a fixed or variable rate, such as an inflation factor index. Under certain leases, the Company is obligated to pay additional amounts based on the facility's operating expenses.

8. Fair Value Measurements

The estimated fair value of Amtrak's financial instruments, which were measured at amortized cost on the Company's Consolidated Balance Sheet, is as follows (in thousands):

	September 30, 2017		September 30, 2016	
	Principal Amount	**Fair Value**	**Principal Amount**	**Fair Value**
Mortgage obligations	**$ 175,687**	**$ 188,548**	$ 254,185	$ 287,287
Senior Notes	**492,180**	**507,526**	— [1]	— [1]
PEDFA 30th St. Garage Revenue Bonds	**33,604**	**34,005**	35,421	33,297
Term Loan A	**72,746**	**73,511**	90,910	92,588
Term Loan B	**49,751**	**51,116**	56,211	58,746
2016 RRIF Loan	**140,327**	**127,532**	—	—
Total	**$ 964,295**	**$ 982,238**	$ 436,727	$ 471,918

[1] Debt obligation entered into in FY2017.

The estimated fair values of the financial instruments listed above are based upon discounted cash flow analyses using interest rates available to Amtrak at September 30, 2017 and 2016, for debt with the same remaining maturities.

For cash and cash equivalents, including restricted cash and cash equivalents; accounts receivable; accounts payable; and accrued expenses and other current liabilities, the carrying amounts approximate fair value given the short-term nature of the financial instruments.

9. Income Taxes

The Company recorded $2.1 million and $1.8 million of income tax expense for the years ended September 30, 2017 and 2016, respectively. In both years, income tax expense resulted from net deferred tax liabilities (DTLs) that arise in periods subsequent to the expiration of the Company's existing net operating losses (NOLs) calculated in accordance with the requirements of FASB ASC 740, *Income Taxes*.

A reconciliation of the expected amount computed by applying the U.S. federal statutory income tax rate of 35% to Amtrak's pretax loss to Amtrak's actual effective income tax rate for FY2017 and FY2016 is as follows:

	Year ended September 30,	
	2017	**2016**
U.S. federal statutory income tax rate	**35.0 %**	35.0 %
Valuation allowance	**(35.1)**	4.4
Book/tax basis difference	**(1.2)**	(31.2)
Adjustments to OCI	**(0.9)**	0.5
Federal operating grants	—	(10.9)
Other	**2.0**	2.0
Effective income tax rate	**(0.2) %**	(0.2) %

9. Income Taxes (continued)

The increase in the valuation allowance from FY2016 to FY2017 was due to a change in the tax treatment of federal grants and in tax depreciation on fixed assets acquired using federal grants.

Deferred income tax assets and liabilities were comprised of the following (in thousands):

	September 30, 2017	September 30, 2016
Deferred tax assets:		
Net operating loss carryforward	**$ 2,827,329**	$ 2,633,165
Pension and other postretirement employee benefits	**253,079**	302,538
Accrued vacation and other compensation accruals	**87,982**	65,153
Capital leases	**82,452**	100,666
Claims reserves	**67,394**	73,038
Other accruals	**34,641**	32,405
Deferred gain on sale leaseback	**13,948**	15,640
Insurance recoveries	**10,098**	12,179
Inventory reserve	**9,967**	9,679
Bad debt reserve	**2,554**	1,873
Capitalized software	**196**	209
Gross deferred tax assets	**3,389,640**	3,246,545
Less: valuation allowance	**(386,798)**	(47,676)
Net deferred tax assets	**3,002,842**	3,198,869
Deferred tax liabilities:		
Fixed assets	**(3,054,745)**	(3,248,541)
Deferred rent	**(1,256)**	(1,377)
Gross deferred tax liabilities	**(3,056,001)**	(3,249,918)
Net deferred tax liability	**$ (53,159)**	$ (51,049)

Amtrak has recorded valuation allowances against net deferred tax assets as it is more likely than not that the results of future operations will not generate sufficient taxable income to realize deferred tax assets. In the current year, the valuation allowance increased by $339.1 million.

NOL carryforwards were $8.1 billion and $7.5 billion as of September 30, 2017 and 2016, respectively. The carryforwards at September 30, 2017, will expire in various years from 2018 through 2037.

The Company is subject to examination by the Internal Revenue Service and other tax authorities in states in which it operates. The tax years still subject to examination are FY2014 and forward.

10. Commitments and Contingencies

Financial Assistance

Amtrak receives significant financial assistance from the Federal Government in the form of grants and entitlements. The right to these resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances because of these audits become a liability of the Company. The Company does not believe that the liabilities that may result from such audits for periods through September 30, 2017, would have a material effect on its financial position or the results of operations.

Commitments

Amtrak has various purchase commitments related to capital improvements pertaining to the ordinary conduct of business. In addition, Amtrak has entered into various agreements with states, cities, and other local transportation authorities and private companies pursuant to which Amtrak is required to fund various railroad facility and infrastructure improvements, and to fund the remanufacture and supply of railroad passenger equipment. Such commitments are not in excess of expected requirements and are not reasonably likely to result in performance penalties or payments that would have a material adverse effect on the Company's liquidity.

On August 8, 2016, the Company entered into a Purchase Agreement with a contractor for the acquisition of 28 Trainsets, to replace the Company's current *Acela Express* equipment which runs on the NEC (the Next-Generation High-Speed Trainsets Project). The base price of the contract is $1.4 billion. Financing for the contract was obtained under the 2016 RRIF Loan (see Note 6). The Company issued a Notice to Proceed (NTP) to the contractor on August 16, 2016. The Company will make payments to the contractor pursuant to an approved payment schedule upon the contractor's successful completion of certain tasks (milestones) during the contract. As of September 30, 2017, Amtrak has received letters of credit for a total of $434.9 million for which Amtrak is the beneficiary. Additional letters of credit will be issued during the construction period. As of September 30, 2017, the Company has incurred $541.8 million in project related costs. Also on August 8, 2016, the Company entered into a technical support and spares supply agreement with the same contractor to provide technical support, spares and other related services for the fifteen-year period commencing upon acceptance of the first Trainset, expected in 2020. The base price for the technical support and spares supply agreement is $637.6 million. As of September 30, 2017, the Company has incurred $13.9 million in cost related to the agreement.

On August 3, 2010, the Company entered into a contract with a contractor to purchase 130 new long-distance single level cars. The Company issued an NTP to the contractor on September 7, 2010. As of September 30, 2017, the base price of the contract with change orders is $299.5 million. The Company makes payments to the contractor pursuant to an approved payment schedule upon the contractor's successful completion of certain tasks (milestones), e.g. design, fabrication, testing and manufacturing of the cars, during the contract. As of September 30, 2017, the Company has incurred $214.4 million in project-related costs. Deliveries of the cars started in December 2014. As of September 30, 2017, the Company has taken delivery of 78 cars. The contractor's most recent delivery schedule shows delivery of the final cars in December 2020.

10. Commitments and Contingencies (continued)

Most of the rights-of-way over which Amtrak operates are owned by other railroads. Amtrak operates over such rights-of-way under agreements with these railroads. The terms of the agreements range up to twenty years, although they may remain in effect longer if neither party seeks to renegotiate. Payments to these railroads vary based on levels of usage and performance. The total amount incurred by Amtrak for operations over the right-of-way during FY2017 and FY2016 totaled $141.9 million and $155.7 million, respectively, and are included in "Train operations" in the Consolidated Statements of Operations.

Risk of Liability and Insurance

The Amtrak Reform and Accountability Act of 1997 limited the amount railroad passengers may recover from a single accident to an aggregate of $200.0 million. In December 2015, the FAST Act increased the limit to $295.0 million for the Train No. 188 Derailment (see below for additional disclosures on the derailment). The FAST Act also required the DOT Secretary to calculate a revised claim limit for all other railroad passenger claims from a single incident based on the consumer price index since December 2, 1997. On January 11, 2016, the DOT Secretary issued its calculation setting the new limit at $294.3 million effective February 11, 2016. The FAST Act requires this to be adjusted every five years after the date of the FAST Act's enactment, so this new claim limit will remain effective through 2020. As non-passenger liability is not limited and there is also a need to insure in the event of multiple occurrences per policy period, Amtrak purchases excess liability insurance limits beyond the statutory cap.

Amtrak operates a majority of its passenger rail service on tracks owned by freight railroads. Amtrak indemnifies these railroads for certain liabilities that arise as a result of its operations on freight tracks. Its indemnity generally applies to bodily injury and property damage claims made by its employees, passengers, and third parties struck by its trains, and for damage to its equipment. The freight railroads generally indemnify Amtrak for bodily injury and property damage claims made by freight railroad employees and third parties, and for damage to freight railroad equipment, lading, and property.

Amtrak maintains various insurance policies to cover its liability to employees and other parties for injury or damage resulting from accidents, to cover Amtrak's loss resulting from damage to Amtrak property and to insure against catastrophic events. Losses within the self-insured retentions and deductibles under these policies are self-insured by Amtrak.

Train No. 188 Derailment

On May 12, 2015, Amtrak Northeast Regional Train No. 188 from Washington, D.C. bound for New York City derailed on a 50-mph curve along the NEC in the Port Richmond neighborhood of Philadelphia, Pennsylvania. Eight people were killed and over 200 were injured.

The court with jurisdiction over this matter (the Court) announced a settlement program for passenger liability claims resulting from the Train No. 188 Derailment (the Program). The Program provided for the establishment of a pool of $265 million less certain deductions determined by the Court after consultation with Amtrak and the Plaintiff's Management Committee (PMC). The Court order required plaintiffs who had filed lawsuits to declare whether they intended to participate in the Program by a certain date or pursue their claim separately. All plaintiffs elected to participate in the Program.

10. Commitments and Contingencies (continued)

On July 31, 2017, the Court issued an order settling the Program and all claims under the Program were dismissed. As a result of the settlement, and subsequent disbursement of funds to the plaintiffs, the Company relieved the liability and receivable related to the passenger claims under the settlement. The Company paid out amounts in excess of its self-insured retention amount and as of September 30, 2017, recorded an insurance recovery receivable related to amounts paid by the Company that are covered under its liability insurance policies but weren't covered under the Program. Subsequent to September 30, 2017, the full amount recorded was collected.

In addition, Amtrak suffered property damage in the incident. The estimated replacement cost of property damaged is $57.6 million. In October 2016, the Company reached settlement with its property insurers for a total payment of $40.8 million ($50.8 million total agreed upon loss less $10.0 million self-insured retention amount). As of September 30, 2016, the Company had received insurance proceeds of $25.5 million, and the Company received the remaining proceeds in FY2017. $15.8 million received in FY2017 and $6.8 million received in FY2016 were recorded as a recovery of business interruption losses in “Other expenses” in the Company’s Consolidated Statements of Operations.

Labor Agreements

Excluding employees within Amtrak’s OIG, approximately 84% of Amtrak’s labor force is covered by labor agreements. Under the Railway Labor Act, labor contracts never expire but are instead opened periodically for renegotiation. Although there are no timeframes for negotiations to be completed, it is likely there could be retroactive wage increases in settlements, consistent with prior agreements. As of September 30, 2017, Amtrak was still negotiating labor contracts with all of its unionized workforce.

The Company has accrued $125.9 million and $44.0 million within “Accrued expenses and other current liabilities” in the Consolidated Balance Sheets as of September 30, 2017 and 2016, respectively, which represents its best estimate for retroactive wage increases resulting from settlements of such agreements for services through those dates.

Legal Proceedings

Amtrak is involved in various litigation and arbitration proceedings in the normal course of business, including but not limited to several distinct tort, contract, eminent domain and civil rights claims. The outcome of these matters cannot be predicted with certainty. When management concludes that it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, it is accrued through a charge to earnings. While the ultimate amount of liability incurred in any of these lawsuits and claims is dependent on future developments, in management’s opinion, recorded liabilities, where applicable, are adequate to cover the future payment of such liabilities and claims. However, the final outcome of any of these lawsuits and claims cannot be predicted with certainty, and unfavorable or unexpected outcomes could result in additional accruals that could be significant to Amtrak’s results of operations in a particular year. Any adjustments to the recorded liability will be reflected in earnings in the periods in which such adjustments are known.

10. Commitments and Contingencies (continued)

Americans with Disabilities Act Compliance

Under the Americans with Disabilities Act (ADA), stations in the intercity rail transportation system served by Amtrak were required to be readily accessible to and usable by individuals with disabilities no later than July 26, 2010, 42 U.S.C. §12162(e). This requirement applies to all components of a station used by the general public, including passenger platforms, designated waiting areas, ticketing areas, restrooms, and in some cases, concession areas. The Company has developed a plan to bring the station components for which it is legally responsible into ADA compliance. This plan is regularly updated and adjusted based on new information and external factors, such as direction the Company receives from the FRA and other government agencies. On June 9, 2015, the Department of Justice (DOJ) provided Amtrak with a Letter of Findings and Conclusions regarding ADA compliance at Amtrak. DOJ has indicated, both in its Letter of Findings and in its communications with Amtrak's counsel, that DOJ intends to work cooperatively with Amtrak to negotiate a settlement or consent decree. Amtrak is working to obtain sufficient funding to achieve full ADA compliance of all station components for which it is responsible under the ADA. The extent of these estimated costs and effects of non-compliance on operations cannot be determined at this time. Further, the nature of all expenditures that will be incurred, and the effect on operating results, have not yet been fully analyzed. Accordingly, the accompanying financial statements do not reflect the costs of Amtrak becoming fully compliant with the ADA. As of September 30, 2017, Amtrak has spent a total of $424.9 million on ADA-related projects. Approximately $44.4 million and $38.0 million of the expenditures were incurred during FY2017 and FY2016, respectively.

Positive Train Control

In 2008, Congress enacted the Rail Safety Improvement Act. The legislation included a mandate that all Class I railroads and each railroad hosting intercity or commuter rail passenger service have Positive Train Control (PTC) systems installed and operating by December 31, 2015, provided, however, that a Class I railroad is only required to install PTC on routes where there are five million or more gross tons of railroad traffic per year and the presence of either passenger trains or poison by inhalation hazardous materials. PTC is a system of functional requirements for monitoring and controlling train movements and is a type of train protection system. The FRA rules for PTC provide for exceptions to these PTC requirements, which are subject to FRA approval, on rail lines hosting passenger trains on which freight traffic volumes, and the number of passenger trains operated, do not exceed limits specified in the rule. In October 2015, Congress passed the Surface Transportation Extension Act of 2015, which included a three-year extension of the PTC deadline. Amtrak is working with federal authorities and commuter and freight railroads to ensure Amtrak trains are compliant with PTC systems adopted for use by host railroads. Additional funding to fully comply with PTC requirements is necessary and will be requested. Compliance with PTC requirements on the host railroads outside of the NEC could result in significant costs to Amtrak. Amtrak's contribution to PTC installation and maintenance on host railroad property has not yet been defined. Accordingly, the accompanying financial statements do not reflect an estimated liability for the cost of Amtrak becoming fully compliant with PTC.

The NEC rail line owned or controlled by the Company between Boston and Washington was fully PTC compliant by the original December 31, 2015 deadline, except for a few miles where technical issues are being resolved. Although all other Amtrak owned and/or operated rail lines, and Amtrak owned and controlled locomotives, are expected to be in compliance with the PTC requirements by December 31, 2018, it is possible

10. Commitments and Contingencies (continued)

that Amtrak service could be disrupted in areas on host railroads where PTC has not yet been fully implemented by the deadline. However, the possible impact of any such disruption cannot be estimated at this time. There is a provision in the Surface Transportation Extension Act of 2015 allowing railroads making sufficient progress installing PTC to seek an additional extension to December 31, 2020. As of September 30, 2017, Amtrak has spent \$196.5 million for PTC-related projects on Amtrak owned or controlled rail lines and equipment. Approximately \$16.7 million and \$18.2 million of the expenditures were incurred during FY2017 and FY2016, respectively.

Certain host railroads over which Amtrak operates its passenger trains have asserted material claims against Amtrak to recover costs of PTC installation and maintenance, and other host railroads may assert claims in the future. They may also assert future claims to recover from Amtrak certain PTC maintenance costs. The Company is in the process of analyzing the documents provided to date by the host railroads and evaluating the likelihood that Amtrak would be responsible for certain of the costs incurred by the host railroads in connection with their implementation of PTC on host railroad owned property. Amtrak believes that it may not be responsible for all costs claimed to date by the host railroads, and is evaluating the claims to ensure that all exemptions have been obtained and that the claimed costs are required to be paid by Amtrak pursuant to the terms of the operating agreements in place between Amtrak and its host railroads, and by statute.

As of September 30, 2017, Amtrak has accrued its best estimate of the liability associated with PTC installation related to host railroad PTC implementation for the incurred amounts determined to be both probable and reasonably estimable. Amtrak anticipates that additional accruals, which may be material, could be recorded in the future once the Company completes its analysis of those claims and its negotiations with the hosts. Accordingly, Amtrak believes that it is reasonably possible that it may incur additional material liability in excess of the amount recognized to date but such amounts cannot be estimated at this time. Accruals for amounts to be paid to these railroads will be reflected in the periods in which such liability becomes probable and estimable. In addition, Amtrak believes that it may be eligible to recover some of the amounts to be paid to the host railroads from the state agencies for which Amtrak has agreements to provide service; however, Amtrak has not recorded any amounts related to this potential recovery.

11. Environmental Matters

The Company is subject to extensive and complex federal and state environmental laws and regulations that 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. Amtrak's policy is to accrue estimated liabilities and capitalize such remediation costs if they extend the life, increase the capacity or improve the safety or efficiency of the property; mitigate or prevent environmental contamination that has not occurred but may result from future operations; are incurred in preparing the property for sale; or are incurred on property acquired with existing environmental conditions, and to expense other remediation costs. The liability is periodically adjusted based on Amtrak's present estimate of the costs it will incur related to these sites and/or actual expenditures made. Some of the Company's real estate properties may have the presence of environmentally regulated wastes or materials. If these properties undergo excavations, major renovations or are demolished, certain environmental regulations that are in place may specify the manner in which the wastes or materials must be assessed, handled, and disposed. The Company has identified a number of locations for which excavations and major renovations are planned

11. Environmental Matters (continued)

and liabilities have been recorded. In the future, the Company may plan other excavations, demolitions, major renovations or other construction activities that affect similar wastes or materials.

Although a potential liability exists for the removal or remediation of environmentally regulated materials, sufficient information is not available currently to estimate the liability, as the range of time over which the Company may settle these obligations is unknown or cannot be reasonably estimated at this time. Although the Company believes it has appropriately recorded current and long-term reserves for known and estimable future environmental costs, it could incur significant costs that exceed reserves or require unanticipated cash expenditures as a result of any of the foregoing. Based upon information currently available, the Company believes its environmental reserves are adequate to fund remedial actions to comply with present laws and regulations, and that the ultimate liability for these matters, if any, will not materially affect its overall financial condition, results of operations, or liquidity. As of September 30, 2017 and 2016, the environmental reserve was $135.5 million and $66.9 million, respectively. These reserves for estimated future environmental costs are undiscounted and include future costs for remediation and restoration of sites as well as any significant ongoing monitoring costs. The current portion of the reserve was $19.5 million and $24.3 million as of September 30, 2017 and 2016, respectively, and is reported in “Accrued expenses and other current liabilities” in the Consolidated Balance Sheets. Of the reserve, $110.1 million and $49.6 million, included in “Right-of-way and other properties” in the Consolidated Balance Sheets as of September 30, 2017 and 2016, respectively, relates to estimated future capital expenditures for environmental remediation.

The amounts included in “Environmental Reserve” in the Consolidated Balance Sheets reflect only Amtrak’s estimate of its portion of the gross liability. The ultimate liability for environmental remediation is difficult to determine with certainty due to, among other factors, the number of potentially responsible parties, site-specific cost sharing arrangements, the degree and types of contamination, potentially unidentified contamination, developing remediation technology, and evolving statutory and regulatory standards related to environmental matters. In addition, for certain known sites, the ultimate liability cannot be estimated until the results of the remedial investigation phase are known.

Amtrak’s management and legal counsel believe that additional future remedial actions for known environmental matters will not have a material adverse effect on the Company’s results of operations or financial condition.

12. Postretirement Employee Benefits

Amtrak has a qualified non-contributory defined benefit retirement plan (the Retirement Income Plan) whose assets are held in trust covering certain nonunion employees and certain union employees who at one time held nonunion positions. Prior to FY2016, the Retirement Income Plan was closed to new entrants and frozen for future benefit accruals. Amtrak provides medical benefits to its qualifying retirees and life insurance to some retirees in limited circumstances under its postretirement benefits program.

On August 10, 2016, the Retirement Income Plan was amended to permit retirees with vested balances greater than $1,000 and who are not actively receiving benefits from the plan to receive a lump sum payment equal to the actuarial equivalent of the retiree’s accrued benefit or an actuarial equivalent immediate annuity in the applicable normal annuity form under the plan. In December 2016 and January 2017, the Company made settlement payments totaling $21.9 million. As a result of the settlement, in FY2017 the projected benefit

12. Postretirement Employee Benefits (continued)

obligation was reduced by $22.7 million, and the Company reclassified $5.4 million related net loss from "Accumulated other comprehensive loss" on its Consolidated Balance Sheet to "Salaries, wages and benefits" expense on the Consolidated Statement of Operations.

Obligations and Funded Status

The liability of the Company's pension benefits under its Retirement Income Plan, as well as other postretirement benefits plans, as of September 30, 2017 and 2016 was as follows (in thousands):

	Pension Benefits		Other Benefits	
	2017	**2016**	**2017**	**2016**
Reconciliation of projected benefit obligation:				
Obligation at October 1	**$ 495,789**	$ 479,630	**$ 794,748**	$ 869,177
Service cost	**—**	—	**17,447**	19,763
Interest cost	**18,374**	20,760	**26,542**	34,128
Actuarial (gain) loss	**(5,220)**	15,875	**(92,823)**	(74,127)
Employee contributions	**—**	—	**2,797**	2,641
Benefit payments	**(43,827)**	(20,476)	**(54,489)**	(56,834)
Obligation at September 30	**$ 465,116**	$ 495,789	**$ 694,222**	$ 794,748
Reconciliation of fair value of plan assets:				
Plan assets at October 1	**$ 426,142**	$ 399,264	**$ —**	$ —
Actual gain on plan assets	**42,084**	35,013	**—**	—
Employer contributions	**14,000**	14,000	**51,692**	54,192
Participant contributions	**—**	—	**2,797**	2,641
Medicare Part D subsidy	**—**	—	**74**	91
Benefit payments, net	**(45,971)**	(22,135)	**(54,563)**	(56,924)
Plan assets at September 30	**$ 436,255**	$ 426,142	**$ —**	$ —
Funded status:				
Net liability recognized in Consolidated Balance Sheets	**$ (28,861)**	$ (69,647)	**$ (694,222)**	$ (794,748)
Accumulated benefit obligation at September 30	**$ (465,116)**	$ (495,789)	**$ (694,222)**	$ (794,748)

12. Postretirement Employee Benefits (continued)

Pension and other postretirement benefit amounts recognized in the Consolidated Balance Sheets as of September 30, 2017 and 2016 are as follows (in thousands):

	Pension Benefits		Other Benefits	
	2017	**2016**	**2017**	**2016**
Current liabilities	**$ 14,000**	$ 23,558	**$ 53,683**	$ 59,764
Non-current liabilities	**14,861**	46,089	**640,539**	734,984
Net amount recognized	**$ 28,861**	$ 69,647	**$ 694,222**	$ 794,748

Pension and other postretirement benefit amounts recognized in accumulated other comprehensive loss in FY2017 and FY2016 are as follows (in thousands):

	Pension Benefits		Other Benefits	
	2017	**2016**	**2017**	**2016**
Net loss	**$ 112,697**	$ 139,489	**$ 209,652**	$ 339,378
Prior service cost	**—**	—	**(205,416)**	(335,912)
Net amount recognized	**$ 112,697**	$ 139,489	**$ 4,236**	$ 3,466

Components of Net Periodic Benefit Cost

The following table provides the components of net periodic benefit cost for the plans for FY2017 and FY2016 (in thousands):

	Pension Benefits		Other Benefits	
	2017	**2016**	**2017**	**2016**
Service cost	**$ 1,370**	$ 760	**$ 17,447**	$ 19,763
Interest cost	**18,374**	20,760	**26,542**	34,128
Expected return on plan assets	**(27,942)**	(28,281)	**—**	—
AOCI reclassification adjustment[1]:				
Amortization of prior service credit	**—**	—	**(130,496)**	(130,429)
Amortization of net loss	**2,796**	3,255	**36,903**	50,076
Settlement loss	**5,408**	—	**—**	—
Net periodic benefit cost (income)	**$ 6**	$ (3,506)	**$ (49,604)**	$ (26,462)

[1] Reclassifications from Accumulated Other Comprehensive Income (AOCI) were recorded within "Salaries, wages, and benefits" expense in the Consolidated Statements of Operations.

The estimated net loss for the Retirement Income Plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year is $2.8 million.

The estimated net loss and prior service cost for the other postretirement plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year are $25.7 million and a credit of $131.5 million, respectively.

12. Postretirement Employee Benefits (continued)

Plan Assets

The Company's pension plan asset allocation at September 30, 2017 and 2016, and initial target allocation for 2018, are as follows:

	Plan Assets		
	2018	2017	2016
Long-term fixed income securities	70.0 %	**66.3 %**	36.5 %
Domestic equity securities	14.0	**15.0**	32.6
Global asset allocation funds	11.0	**11.6**	20.6
Real estate investment trust	5.0	**5.4**	6.6
Money market funds	—	**1.9**	4.2
Derivatives	—	—	0.2
Other[1]	—	**(0.2)**	(0.7)
Total	100.0 %	**100.0 %**	100.0 %

[1] Other consisted of receivables and payables related to unsettled transactions.

The long-term objective for assets held by the Retirement Income Plan is to generate investment returns that, in combination with funding contributions from the Company, provide adequate assets to meet all current and future benefit obligations of the Retirement Income Plan. The investment objectives seek to reduce funded status volatility as the Retirement Income Plan's funded status increases and ultimately would position the Retirement Income Plan to be in a position to defease the pension liability. Over the long term, it is anticipated that asset-liability management strategy will be the key determinant of the returns generated by the pension assets and the associated volatility of returns and funded status. In particular, the level of the "return-seeking portfolio" (which includes domestic and international equity, global investment grade bonds, high yield bonds, bank loans, emerging market debt and real estate) and the structure of the long-term fixed income portfolio" (primarily longer duration investment grade fixed income securities denominated in U.S dollars) are the key elements of the asset-liability strategy for the pension investment program. The Retirement Income Plan's strategic allocation policy is based on the Retirement Income Plan's current funded status. The Retirement Income Plan's return requirements and risk tolerance will change over time. As a result of the Retirement Income Plan's asset allocation strategies, there are no significant concentrations of risk within the portfolio of investments.

FASB ASC Topic 820, *Fair Value Measurements and Disclosures,* clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosures about the use of fair value measurements. FASB ASC Topic 820 established a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 - observable market inputs that are unadjusted quoted prices for identical assets or liabilities in active markets.

12. Postretirement Employee Benefits (continued)

- Level 2 - other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.).
- Level 3 - significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments).

The following is a description of the valuation methodologies used for the investments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy. The Company does not intend to sell any of its investments in funds at an amount different from net asset value (NAV) per share as of September 30, 2017, nor does the Company have any unfunded commitments related to these funds.

Fixed Income Securities

This investment category consists of U.S. government securities, corporate bonds, government bonds and municipal bonds. These assets are valued based on a compilation of primarily observable market information or a broker quote in a non-active market. These assets are classified as Level 2 investments.

Domestic Equity Securities

This investment category consists of common stock issued by U.S. corporations and American Depository Receipts (ADRs) issued by U.S. banks. Common stock and ADRs are traded actively on exchanges and price quotes for these shares are readily available.

The Vanguard Total Stock Market Index fund (fair value of $65.4 million and $138.6 million as of September 30, 2017 and 2016, respectively) seeks to closely track the performance of the Center for Research and Security Prices US Total Market Index, which is considered a gauge of small-, mid-, and large-cap growth and value stocks regularly traded on the New York Stock Exchange and NASDAQ.

This investment is classified as a Level 1 investment.

Global Asset Allocation Funds

At September 30, 2017 and 2016, investments in this category consisted of the Vanguard FTSE All World ex-US Index fund (Vanguard INTL) and the PIMCO Diversified Income Fund (PIMCO DIF).

The Vanguard INTL investment (fair value of $34.4 million and $67.8 million as of September 30, 2017 and 2016, respectively) seeks to track the performance of a benchmark index that measures the investment return of stocks of companies located in developed and emerging markets around the world, excluding the United States.

The PIMCO DIF investment (fair value of $16.1 million and $20.1 million as of September 30, 2017 and 2016, respectively) actively manages a portfolio that invests across a broad universe of fixed income instruments in the global credit markets.

Both funds in this category are actively traded; price quotes for these shares are readily available; and these assets are classified as Level 1 investments.

12. Postretirement Employee Benefits (continued)

Real Estate Investment Trust

This category consists of an investment in the Morgan Stanley Prime Property fund. The fair value of the investments in the Prime Property Fund has been estimated using the NAV of the Plan's ownership interest (units) in the partner's capital. The investment in the Prime Property Fund can be redeemed on a quarterly basis but with no guarantee that cash will be available at any particular time to fund the redemption request. If the cash is not available, the redemption will be deferred at the discretion of the fund manager until sufficient cash is available. There were no unfunded withdrawal requests as of September 30, 2017 or September 30, 2016. Investments in real estate investment funds are classified as Level 2 investments.

Money Market Funds

Money market funds generally transact subscription and redemption activity at a $1.00 stable NAV. However, on a daily basis the fund's NAV is calculated using the amortized cost (not market value) of the securities held in the fund. Investments in the money market funds can be redeemed on a daily basis. There were no unfunded withdrawal requests as of September 30, 2017 or September 30, 2016. Investments in money market funds are classified as Level 2 assets. Amtrak's category of investments in money market funds consists of the JPMorgan 100% U.S. Treasury Securities Money Market Fund, which is consistent with significant accounting policy section of the JP Morgan's Money Market Funds Annual Report that states for the investment valuation for JPMorgan 100% U.S. Treasury Securities Money Market Fund that, "Each Fund has elected to use the amortized cost method of valuation pursuant to Rule 2a-7 under the 1940 Act provided that certain conditions are met, including that the Fund's Board of Trustees continues to believe that the amortized cost valuation method fairly reflects the market based NAV per share of the Fund."

Derivatives

At September 30, 2016, this investment category consisted of short U.S. treasury futures to shorten the duration of the underlying long-term fixed income portfolio and was classified as a Level 2 investment. The Company exited out of its derivative positions in FY2017 and does not have any outstanding positions as of September 30, 2017. The investment fair value as of September 30, 2016 was $1.0 million which represented the value of the derivative exposure.

12. Postretirement Employee Benefits (continued)

The following table represents the fair values of the Company's pension assets by level within the fair value hierarchy as of September 30, 2017 and 2016 (in thousands):

	Total	Level 1	Level 2	Level 3
September 30, 2017				
U.S. government securities	$ 10,173	$ —	$ 10,173	$ —
Corporate bonds	239,014	—	239,014	—
Government bonds	19,897	—	19,897	—
Municipal bonds	20,543	—	20,543	—
Total fixed income	289,627	—	289,627	—
Large cap	58,611	58,611	—	—
Mid cap	5,676	5,676	—	—
Small cap	1,100	1,100	—	—
Total equity securities	65,387	65,387	—	—
Money market funds	8,147	—	8,147	—
Real estate investment trust	23,463	—	23,463	—
Global asset allocation funds	50,514	50,514	—	—
Total fair value investments	437,138	$ 115,901	$ 321,237	$ —
Other[1]	(883)			
Total plan assets	$ 436,255			

[1] Other primarily consisted of receivables and payables related to unsettled transactions.

12. Postretirement Employee Benefits (continued)

	Total	Level 1	Level 2	Level 3
September 30, 2016				
U.S. government securities	$ 9,578	$ —	$ 9,578	$ —
Corporate bonds	127,083	—	127,083	—
Government bonds	6,644	—	6,644	—
Municipal bonds	12,032	—	12,032	—
Asset-backed securities	101	—	101	—
Total fixed income	155,438	—	155,438	—
Large cap	122,471	122,471	—	—
Mid cap	13,370	13,370	—	—
Small cap	2,795	2,795	—	
Total equity securities	138,636	138,636	—	—
Money market funds	17,981	—	17,981	—
Real estate investment trust	28,067	—	28,067	—
Global asset allocation funds	87,938	87,938	—	—
Derivatives	974	—	974	—
Total fair value investments	429,034	$ 226,574	$ 202,460	$ —
Other[1]	(2,892)			
Total plan assets	$ 426,142			

[1] Other primarily consisted of receivables and payables related to unsettled transactions.

Rate of Return

Several factors are considered in developing the estimate for the long-term expected rate of return on plan assets. These include historical rates of return over the past three-, five- and ten-year periods as well as projected long-term rates of return obtained from pension investment consultants.

In the short term, there may be fluctuations of positive and negative yields year over year, but over the long term, the return is expected to be approximately 6.25%.

Estimated Future Benefit Payments

Based upon the assumptions used to measure the pension and other postretirement benefit obligations as of September 30, 2017, including pension and other postretirement benefits attributable to estimated future employee service, Amtrak expects that pension benefits and other postretirement benefits to be paid over the next ten years will be as follows (in thousands):

12. Postretirement Employee Benefits (continued)

	Pension Benefits	Other Benefits
Year ending September 30,		
2018	$ 24,672	$ 53,683
2019	25,715	54,083
2020	26,427	54,267
2021	27,052	52,741
2022	27,471	50,467
2023-2027	139,322	245,880

Contributions

In FY2018, Amtrak expects to contribute $14.0 million to the defined benefit plan and $53.7 million towards other postretirement benefits.

Assumptions

Weighted-average assumptions used to determine benefit obligations as of September 30, 2017 and 2016 are as follows:

	Pension Benefits		Other Benefits	
	2017	2016	2017	2016
Discount rate	**3.86 %**	3.74 %	**3.68-3.70 %**	3.44-3.50 %

Weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30, 2017 and 2016 are as follows:

	Pension Benefits		Other Benefits	
	2017	2016	2017	2016
Discount rate	**3.74-4.29 %**	4.43 %	**3.44-3.50 %**	3.99-4.17 %
Expected long-term return on assets	**7.00 %**	7.25 %	**N/A**	N/A

Assumed health care cost trend rates are as follows:

	September 30,	
	2017	2016
Health care cost trend rate assumed for next year	**7.71-8.89 %**	7.25-8.00 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**5.00 %**	5.00 %
Year that the rate reaches the ultimate trend rate	**2026**	2026

Assumed health care cost trend rates have a significant effect on the amounts reported for the other defined benefit post retirement plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects on the Other Benefits plans (in thousands):

12. Postretirement Employee Benefits (continued)

	1% Increase	1% Decrease
Effect on total of service and interest cost component	$ 4,418	$ (3,737)
Effect on postretirement benefit obligation	43,575	(38,182)

Prescription Drug Benefits

On December 8, 2003, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the Medicare Act) was signed into law. The Medicare Act introduced a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Amtrak elected to record an estimate of the effects of the Medicare Act in accounting for its postretirement benefit plans and provide disclosures required by ASC Topic 715, *Compensation - Retirement Benefits*. Amtrak's accumulated pension benefit obligation for its other benefits is reduced by $1.1 million and $2.0 million for FY2017 and FY2016, respectively, for this prescription drug benefit.

401(k) Savings Plans

Amtrak provides a 401(k) savings plan for nonunion employees. Under the plan, Amtrak matches a portion of employee contributions up to seven percent of the participant's salary, subject to applicable limitations. Amtrak's expenses under this plan were $18.4 million and $17.8 million for FY2017 and FY2016, respectively.

Additionally, Amtrak provides a 401(k) saving plan for union employees. Amtrak does not match any portion of the employee contributions under this plan.

13. Subsequent Events

Train No. 501 Derailment

On December 18, 2017, Amtrak Train No. 501, traveling from Seattle, WA to Portland, OR, derailed in the area of DuPont, WA. There were 77 passengers, five Amtrak employees and a technician on board. Three passengers were killed and many were injured. A number of lawsuits on behalf of passengers, employees and motorists have been filed and more are anticipated. The severity of the incident will result in property damages that will exceed the Company's property insurance deductible of $0.1 million and passenger, employee and motorist claims that will likely exceed the Company's excess liability insurance self-insured retention of $20.0 million. The Company's property and excess liability insurers have been placed on notice of claims arising from the derailment. Any amounts in excess of the property insurance deductible or self-insured retention amounts are expected to be covered by insurance. The cause of the incident is still under investigation.

Tax Cuts and Jobs Act

On December 22, 2017, the Tax Cuts and Jobs Act (the Tax Bill) was signed into law by President Trump. While the Company is still evaluating the impact of the Tax Bill, a number of its provisions will impact the

13. Subsequent Events (continued)

amount and treatment of Amtrak's future NOLs as well as its recorded DTL. Specific provisions that are expected to impact the Company are as follows:

- NOLs arising in the Company's FY2018 and beyond will now be carried forward indefinitely and NOL deductions for losses arising in FY2018 and beyond will be limited to 80% of taxable income.
- The Tax Bill's reduction in the maximum federal corporate income tax from 35% to 21% beginning January 1, 2018 is expected to reduce the Company's recorded DTL. The Company's estimate is that its DTL will be reduced by approximately $20 million in FY2018 associated with the decreased tax rate.
- The Tax Bill limits net interest expense deductions to 30% of earnings before interest, taxes, depreciation and amortization through 2021 and of earnings before interest and taxes thereafter. This change is expected to reduce or eliminate the Company's ability to claim tax deductions for future net interest expense.
- The Tax Bill contains a section on Insurance Reforms which may change how the Company's PRIL subsidiary computes its reserves for income tax reporting purposes. The Company is still evaluating the potential impact of this section.

Management's Evaluation

The Company has evaluated subsequent events through January 26, 2018, which is the date the financial statements were available to be issued. There were no other events that require adjustments to or disclosure in the Company's financial statements for FY2017.