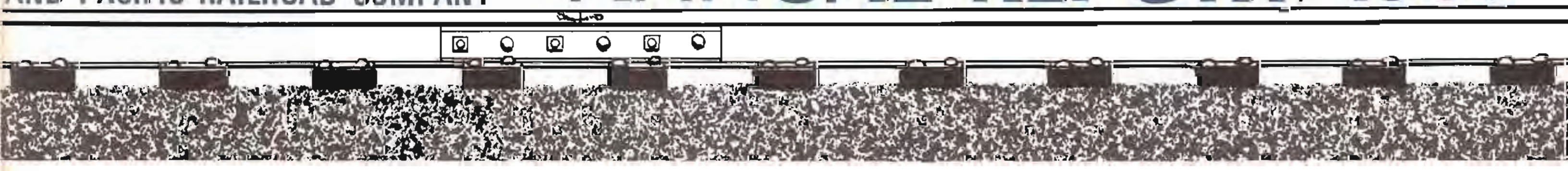
THE MILWAUKEE ROAD

CHICAGO, MILWAUKEE, ST. PAUL
AND PACIFIC RAILROAD COMPANY

ANNUAL REPORT/1968



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ANNUAL REPORT/1968

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MILWAUKEE-COWLITZ
TREE FARM
LOGS
FOR THE PRESENT
THE MILWAUKEE ROAD
TREES
FOR THE FUTURE

To the Shareholders

Although the Milwaukee Road produced consolidated net results in 1968 exceeding those of 1967, it is reasonable to assume that the rapid succession of events related to the proposed merger of this railroad and the Chicago and North Western Railway dominated stockholder awareness of Milwaukee Road affairs during the closing weeks of 1968 and early 1969.

Certain aspects of that plan and its present status are the subject of a statement elsewhere in this report. It is appropriate, however, that the highly important events of December be reviewed briefly here.

The Interstate Commerce Commission examiner who conducted the hearing in the Milwaukee-North Western case issued his report on December 18. The managements of both railroads regard that report and its recommendations as largely favorable and as a significant step toward the realization of the merger goals.

A special meeting of Milwaukee Road stockholders was held in Chicago on December 13, at which approval was given to a plan of reorganization and agreement of merger between the two companies. Similar action had been taken by stockholders of the North Western a few days before. This agreement replaced the consolidation agreement of 1965, which was due to expire on January 1, 1969.

By January 20, 1969, when the exchange offer of Northwest Industries, Inc. expired, more than 89 per cent of the outstanding common and preferred shares of the Milwaukee Road had been tendered for exchange. This action satisfied a prerequisite condition of the merger and underscored stockholder regard for its merit.

During the past year, the merger proposal of the Great Northern, Northern Pacific and Burlington railroads has been a matter of widespread public interest. The Milwaukee Road supports that union for reasons outlined on page 5 of this report and will be watching developments affecting it in the months ahead.

Milwaukee Road personnel at many levels are highly deserving of commendation for their successful efforts in connection with these matters while producing improved revenues and net income for the railroad and its subsidiary companies.

All in all, the past year must be regarded as one in which diversity of activity on the one hand, and opposing economic forces on the other, as represented by higher revenues and increased operating costs, demanded intensive application to a variety of essential tasks.

Despite these factors and the depressed condition of grain carloadings throughout much of the year, Milwaukee Road consolidated net income in 1968 reached $6,036,171 on operating revenues of $274,453,313 and operating expenses of $224,459,195. These figures compare with consolidated net income in 1967 of $5,066,542, based on operating revenues of $261,446,099 and operating expenses of $210,060,080.

For the railroad company alone, operating revenues of $268,675,243, the highest in the past 16 years, produced net income of $4,237,012. Operating expenses, reflecting many factors, also reached their highest level in 16 years, amounting to $217,920,067. In 1967, railroad company operations resulted in net income of $2,733,925 on operating revenues of $256,386,737 and operating expenses of $204,185,303.

The downturn in grain carloadings during 1968, attributable to adverse market conditions and other factors, acted as a severe brake on total traffic volume, although an upturn in grain and other commodities did appear during the closing months, with the result that the railroad was able to score a small gain in total carloadings in the course of the full year.

For the Milwaukee Road, as for the railroad industry as a whole, 1968 witnessed an uphill struggle against inflationary trends. Finding a way to ease the effect of escalating costs of operation was a matter of considerable concern, particularly with respect to higher wage rates, fringe benefits and payroll taxes, as well as the steadily increasing prices of all materials and supplies.

Although all of these conditions will have to be dealt with again in 1969, present indications are that grain and other commodities will move in somewhat heavier volume and that revenues will show a further increase.

This expectation and the prospect of a favorable decision by the Interstate Commerce Commission in the Milwaukee-North Western merger promise to make 1969 a memorable chapter in the long history of the Milwaukee Road.

Chairman of the Board

President

February 20, 1969

Highlights of Operations

CHICAGO, MILWAUKEE, ST. PAUL AND PACIFIC RAILROAD COMPANY AND SUBSIDIARIES

	1968	1967
Operating revenues	$274,453,313	$261,446,099
Operating expenses	224,459,195	210,060,080
Taxes, federal, state and local	24,210,653	22,595,582
Net operating income	10,004,765	12,765,727
Other income—net	9,999,875	6,738,393
Income available for fixed charges	20,004,640	19,504,120
Fixed charges	8,362,386	8,784,193
Contingent charges	5,606,083	5,653,385
Net income	$ 6,036,171	$ 5,066,542
Net income per share of Common	$ 1.58	$ 1.14
Times fixed charges earned	2.39	2.22
Times Preferred dividend earned	2.33	1.95

CHICAGO, MILWAUKEE, ST. PAUL AND PACIFIC RAILROAD COMPANY

	1968	1967
Traffic statistics:		
Net ton-miles of revenue freight (thousands)	17,195,930	16,740,102
Freight revenue	$236,708,355	$220,467,892
Passengers carried one mile	362,592,607	397,940,239
Passenger revenue	$ 10,757,505	$ 11,197,058
Gross ton-miles per train-hour	80,557	77,224
Gross tons per train	3,563	3,524
Net ton-miles per train-hour	36,274	35,641
Net tons per train	1,604	1,627
Total wages	$128,037,058	$122,077,114
Average number of employees	15,473	15,665
Miles of road at December 31	10,511.84	10,511.05

Merger Status

Milwaukee Road—Chicago and North Western

A major step toward the merger of the Milwaukee Road and Chicago and North Western Railway was taken on December 18, 1968 with the issuance of a report by the Interstate Commerce Commission hearing examiner. His report recommends that the Commission approve the proposed merger subject to a number of conditions in favor of certain railroads, principally the Soo Line and the Rock Island.

Exceptions to the examiner's report must now be filed by the interested parties not later than March 31, 1969. A decision by the Commission before the close of the year remains a strong possibility. Meanwhile, preparations for the merger, when finally approved, are going forward to enable the merged company to gain the benefits, now estimated at approximately $36 million per year, at the earliest possible date.

On December 11, 1968, a suit was filed in the United States District Court for the Northern District of Illinois by one of the preferred stockholders of the Milwaukee Road, seeking to prohibit the holding of the special stockholders' meeting which had been called to vote upon the plan of reorganization and agreement of merger, and to restrain the voting of proxies solicited by the Milwaukee Road management. On December 12, the court denied the plaintiff's request and the meeting was held on December 13. At that meeting, the requisite approval of both the preferred and common stockholders was obtained. A hearing on the merits of this case will be held during the next few months. In the opinion of counsel, the suit is without merit.

Exchange Offer of Northwest Industries, Inc.

The exchange offer of Northwest Industries, Inc. to holders of Milwaukee Road common and preferred stock expired on January 20, 1969. By that date, more than 89 per cent of the outstanding common and preferred shares had been tendered for exchange.

Chicago and North Western—Chicago Great Western

This merger was again approved by the Interstate Commerce Commission upon remand by a Federal Court and was consummated in 1968. Inclusion of the C.G.W. in the Milwaukee-North Western merger will contribute approximately $6 million of the $36 million anticipated savings.

The Rock Island Case

Hearings before two Interstate Commerce Commission examiners on the merger application of the Union Pacific and Rock Island railroads and the opposing application of the Chicago and North Western for control of the Rock Island were completed in 1968 and briefs have been filed by the many interested parties. The Milwaukee opposes the Union Pacific's proposal to merge with the Rock Island and supports the North Western's bid for control. The next step will be the issuance of a report and recommended order by the examiners. No final decision by the Commission appears likely before 1970.

Louisville and Nashville—Monon

Application to the Interstate Commerce Commission has been filed, seeking approval of a merger of the Louisville and Nashville and the Monon. The Milwaukee competes with the Monon for traffic to and from points south and east of Chicago. The extension of the L. & N. to Chicago by means of this merger will cause a diversion of traffic from the Milwaukee's Terre Haute line. The Milwaukee is requesting that if the merger is approved, the Commission require the sale of a half interest in the Monon's line between Bedford, Ind. and Louisville, Ky., or the lease of trackage rights over that line to the Milwaukee. This would provide the Milwaukee with an outlet for its Terre Haute line and make it a more meaningful competitor for traffic moving via the Louisville gateway.

Great Northern—Northern Pacific—Burlington Lines

During 1968, suits were brought by the Department of Justice and certain other dissatisfied parties to set aside the Commission's approval of this merger. The Milwaukee Road will receive several important benefits if the merger is consummated. These will include:

(1) The opening of 11 gateways in North Dakota, Montana and Washington, enabling the Milwaukee to compete for the long haul of a substantial volume of traffic west of the Twin Cities which it is now compelled to surrender or receive from the Northern Lines at the Twin Cities.

(2) Access to Portland, Ore., whereby the Milwaukee can become a true transcontinental competitor for traffic moving via Portland to and from Oregon and California points.

(3) Trackage rights north of Seattle which, coupled with access to Portland, will enable the Milwaukee to offer a fast service between the Canadian border and Portland and to compete more effectively for the large volume of north-south traffic on the Pacific Coast.

(4) Access to Billings, Mont., through a car handling arrangement with the Northern Lines. Billings is one of the two largest cities and the most important distribution center in the state.

(5) Revision of the present basis of switching rates in the territory west of the Twin Cities. These rates now handicap the Milwaukee in competing against the Northern Lines for traffic and the location of new industries.

Accordingly, the Milwaukee intervened in the court litigation to safeguard its interests. The District Court for the District of Columbia upheld the merger, subject to the conditions in favor of the Milwaukee. Appeals have been taken to the United States Supreme Court, and the Milwaukee will continue its efforts in that court to uphold the merger with its conditions above mentioned.


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Traffic Developments

Milwaukee Road results in 1968 were benefited by strong carloading gains in certain freight commodity groups which normally move in heavy volume and have a readily measurable effect on total revenues.

Among these commodities were lumber and dimension stock, which was up 3.7 per cent by comparison with 1967, and other wood products, which increased 14.5 per cent. Motor vehicle carloadings rose 14.6 per cent in the year, primary iron and steel products gained 29.0 per cent, electrical machinery shipments increased 24.9 per cent, and paper and allied products rose 3.4 per cent.

General piggyback traffic again scored a significant gain, increasing 23.0 per cent over 1967 volume.

Altogether, and even in the face of a disappointing 15.5 per cent decline in grain carloadings during the course of the year, the result was a modest increase in total carloadings for the full year. This gain proved particularly helpful in combination with general freight rate increases which were in effect at varying levels throughout the second half of 1968.

Several circumstances combined to restrict the marketing of grain in 1968. Reacting to a second bumper harvest in two years, prices in some markets fell below loan levels and resulted in a withholding action by farmers. The volume of wheat harvested in 1968 and impounded under government loan through November was the third largest in history, a condition that was worsened throughout the year by competition from foreign producers and a substantial decline in the government's export program. An encouraging upturn in grain carloadings did appear late in 1968, however.

As shipments of new automobiles and other motor vehicles continued to increase during 1968, the railroad found it necessary to augment still further its large fleet of multi-level rack cars assigned exclusively to the handling of this specialized traffic. The automobile unloading facility at Minneapolis, Minn., was upgraded last fall and adapted to handling a heavier volume of this traffic.

The fleet of special box cars used to transport automotive parts was also increased during 1968 and will be expanded again during the first quarter of 1969.

The Sales and Service Department continued to place priority on its management training programs which, to date, have included 82 individuals in positions involving varying degrees of responsibility. One of the two programs offers experienced salesmen six weeks of training in marketing, physical distribution, cost analysis and management development, while the other program entails a full six months of instruction and work experience for college recruits.

Import and Export Traffic

Several of the year's most significant and encouraging developments, as well as the most rapidly growing trends, were related to import-export traffic, much of which moves in containers.

The principal highlight of the railroad's activities in this field during 1968 was the opening of a Milwaukee Road freight sales office in Tokyo on March 1. This action was dictated by the steadily rising volume of traffic moving over the railroad en route to or from the Pacific North Coast ports and the Orient, particularly Japan. The railroad also recognized the great potential for further growth, especially as it relates to the handling of freight in containers.

A concerted effort on the part of Pacific North Coast ports to construct special piers and install cranes in preparation for the advent of full containership service has made those ports highly competitive in traffic with the Orient. At the same time, an increasing number of ships specially equipped for handling containers are being put into service to those ports.

One major shipping line has already begun fully containerized ocean freight service between Japan and the Pacific Northwest, the latter being regarded as a natural gateway to both the United States and Canada. Eight containerships, with capacities ranging up to 659 containers 35 feet in length, will be in this service.

Late in 1968, another shipping line put the first of five new cargo vessels into operation between the Orient and the North Pacific Coast ports. These will rank among the largest in the world, being equipped to carry 10,000 tons of general cargo, as well as 410 containers 20 feet in length.

Most of the American and Japanese line container vessels now calling at Pacific North Coast ports discharge containers for Milwaukee Road handling to the Midwest and points beyond via connecting carriers.

Having previously been a participant, as an intermediate carrier, in so-called "land bridge" rates established by other origin and destination railroads, the Milwaukee Road issued its own quotation late in 1968, providing rates for the movement of "freight—all kinds" in containers between the ports of Longview, Seattle and Tacoma, Wash., on the one hand and eastern seaboard ports on the other, on traffic originating and terminating in foreign countries.

The railroad also initiated a proposal with the Transcontinental Freight Bureau which contemplates the establishment of a multi-container rate from the same Pacific North Coast ports to Chicago, Ill.

Piggyback/Container Traffic

As noted above, Milwaukee Road general piggyback traffic, which includes the handling of containers, scored another noteworthy gain in 1968, increasing 23.0 per cent over the 1967 volume and exceeding by a wide margin the gain of 9.7 per cent realized by the railroad industry as a whole.

The increase in this traffic was so rapid during the second half of 1968 that piggyback and container handling facilities at key terminals are being redesigned to expedite present movements and meet anticipated growth. Studies are being made of improvements that may be needed at other points.

During 1968, the piggyback/container terminal at St. Paul, Minn., was redesigned and upgraded and a Piggy Packer vehicle was acquired for use there. Employing two huge lifting arms, this versatile machine requires only 90 seconds to lift a trailer or container from a flat car or to place one aboard.

Later in the year, trackage serving the strategic facility for handling piggyback and container loads in Seattle was redesigned and enlarged. Here, too, a Piggy Packer has been put into operation for maximum handling speed. Another of these vehicles, the first acquired by the railroad, has been in use at Piggyback Park near Chicago for approximately two years as a supplement to two large gantry cranes. As a further indication of expanding traffic, it became necessary during the past year to add six drive-through stalls to the trailer maintenance garage at Piggyback Park.

At Sioux City, Ia., another key point, trackage was realigned and a new ramp for piggyback loading was completed last fall.

Orders for 600 new trailers of various types have been placed by the Milwaukee Motor Transportation Company, the railroad's trucking subsidiary. They will be delivered in the spring.

Passenger Service

The steadily growing popularity of Milwaukee Road commuter service in the Chicago area was evident again in 1968, with patronage showing an increase of 6.0 per cent for the year. Revenues, reflecting a fare increase which went into effect in July, gained 9.5 per cent for the full year. The ticket-by-mail plan, first offered to commuter patrons in 1967, also continued to grow in popularity. Due to the increasing demand for commuter service, two additional trains were added in the spring.

Gains were also shown in the patronage of special one-day excursions operated periodically during the summer months from Chicago to Wisconsin Dells, Wis., and to the Savanna, Ill., area. These trains, carrying an average of 675 passengers each, not only provided a means of reaching new customers with an enjoyable and economical form of recreation, but also gave the railroad profitable utilization of several bi-level suburban coaches on weekends when they otherwise would have been idle.

Adjusting to the gradual decline in regular intercity passenger traffic, the railroad found it necessary to discontinue one pair of trains in 1968 and to petition for the discontinuance of three other pairs. Of the latter three, one pair was reduced to less frequent operation and hearings on the other two pairs were held in January and early February of 1969. Decisions on these will not be forthcoming until sometime in the spring.

Late in 1968, the railroad also filed for authority to consolidate two pairs of the so-called "Cities" trains which it operates between Chicago and Omaha, Neb. A hearing was held in Chicago in January and others are scheduled for later. Beyond Omaha the consolidated trains will continue to be operated by the Union Pacific and Southern Pacific railroads.

Railroads on which sleeping car service had been operated by the Pullman Company elected to terminate the services of the Pullman Company effective January 1, 1969, and to perform those services with their own forces. The Milwaukee Road continues to provide sleeping car service on the same trains as previously, but handles ticket sales and staffing with its own forces.

Real Estate and Industrial Development

Favorable results in land transactions and in the locating of new industries on sites served by the Milwaukee Road marked 1968 as a period of excellent progress in this important area of the company's activities.

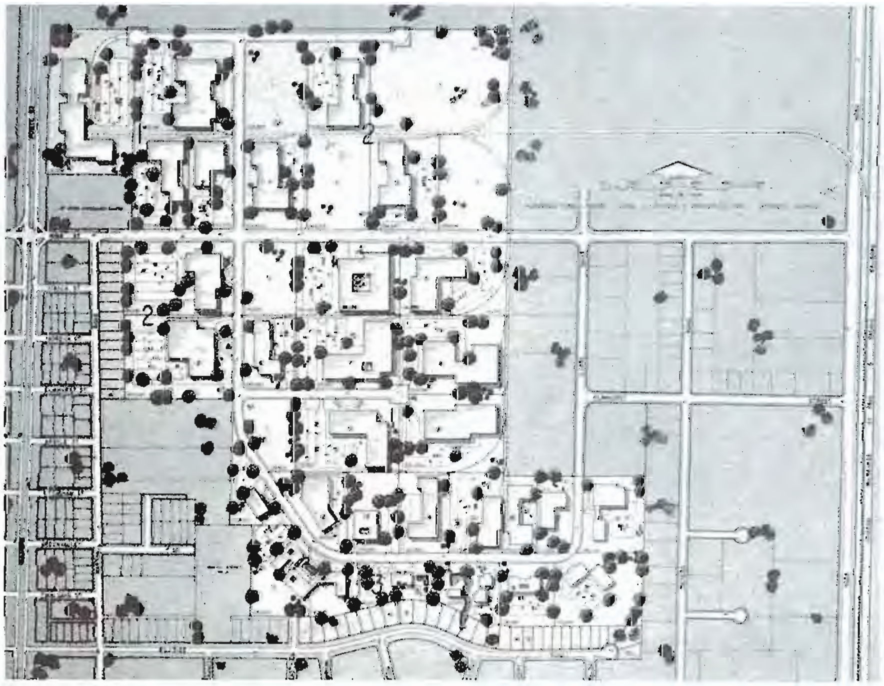
The principal significance of this effort relates to its potential for growth in traffic volume and revenues. This potential was enhanced to an encouraging degree by bringing 89 new companies into the railroad's steadily growing "family" of industries looking to the Milwaukee for rail service. It was also enhanced by the fact that 50 industries already located on the railroad underwent expansion.

Total real estate sales were approximately $4,400,000, including transactions on the part of both the railroad and its Milwaukee Land Company subsidiary. The railroad completed 233 sales to industry and acquired 7 sites. The Land Company sold 1,032 acres for land development and acquired 5 acres during the year.

The principal land acquisition by the parent company involved a 120-acre site at Kent, Wash., just one mile south of the new Western Electric plant, a Milwaukee-served industry which was dedicated in September 1968. The Kent site, acquired for future railroad development, will be provided with rail facilities during 1969. The railroad also owns other property in that immediate area.

Computer programming of industrial site data, designed to give industries a quick summary of information regarding suitable locations for new plants, became operative during 1968 and stands as an industry "first." To date this record, available almost instantly, includes detailed data on some 300 towns and communities within urban areas, as well as specific information on the features of more than 600 industrial locations on the railroad. Extensive files of aerial photographs in both black and white and color, showing actual and potential industrial sites along the line, have been expanded and updated as a supplement to the computer operation. This service was also an industry "first" when begun a few years ago.

Proposed development of the Hiawatha Industrial District at Bensenville, Illinois. The total acreage is owned and being developed by the Milwaukee Land Company. Included within this over-all area is the current 150-acre Mohawk Country Club.



Computer Development —Management Services

Two new third generation computer systems for processing accounting, sales analyses, inventory control and other functions were delivered in the fall of 1968 to replace three second generation systems which went into operation in 1961. There has been a smooth and on-schedule transition to the new equipment, which will provide the added operating capacity needed for expanding computer processing.

Comprehensive studies and testing are in progress, oriented toward the use of "optical character recognition" (OCR) equipment for data entry to the computer systems. Delivery of the OCR equipment is scheduled for the early summer of 1969.

In a completely separate operation, Carscope, the Milwaukee Road's car information center located in the Transportation Department in Chicago, will benefit from the installation in 1969 of a highly sophisticated computer system to replace the one which served to upgrade the Carscope operation in 1967.

The new equipment will provide four times the storage and processing capacity of the present system and will give shippers the benefit of faster and more complete information on their freight car movements. In addition, it will produce comprehensive reports needed by management for continued improvement in the utilization of equipment.

In conjunction with an improved automatic communication network, car location data will be fed from field terminals directly into the memory bank of the computer. Information will also be sent directly from the Carscope computer to field locations such as on-line and off-line sales offices. The computer itself will continuously "poll" the many field locations, receiving inquiries and flashing back instantaneous replies as contact is made with each. In the same fashion, summary reports on the movement of traffic will be sent to sales offices automatically from the computer.

Shown is modern third generation computer equipment which has replaced second generation systems in use since 1961. Optical character recognition (OCR) equipment for data entry to computer systems is scheduled for delivery in 1969. Carscope, the railroad's car information center, will also be upgraded in 1969 by the installation of a new computer that will have four times the storage and processing capacity of the present system. —As a result, faster and more complete information about freight shipments will be available for the benefit of our customers.

Engineering Programs

A stepped-up program of tie renewals, which was carried out over the entire system in 1968, will be further expanded during the current year. A significant improvement in the efficiency of this work is anticipated in 1969 through the addition of three sets of the most modern tie installation equipment available. These machines will supplement present equipment which has been instrumental in keeping the Milwaukee Road in the forefront of the industry with respect to the mechanization of track work.

Construction of grade separations in connection with interstate and state highway projects continued at a high level during the year. A major project in this category resulted in the rearrangement of a portion of the passenger and freight route in Minneapolis, Minn.

Work was started during the year on the upgrading and conversion of the railroad's teleprinter network to permit its operation with, and control by, the new IBM System 360/40 computer to be installed in the Carscope office in Chicago. The program contemplates the installation of solid state teleprinter devices and associated equipment at a total of 149 field locations. Twenty-five installations were made in 1968, and the balance are to be installed during the current year. (See "Computer Development and Management Services".)

Automatic crossing protection was placed at 39 grade crossings during 1968 and an equal number are planned for 1969. The company shares in the capital cost of these projects. It is, however, continuing its efforts to increase the participation of state and federal agencies in the total capital and maintenance costs involved in grade crossing protection.

Air and water pollution control studies were undertaken at a number of points to determine the company's position with regard to new federal and state pollution control requirements. In keeping with this effort, modern oil and gas fired boilers were installed in the main powerhouse at Milwaukee Shops in Milwaukee, Wis., replacing the coal burning units. Studies now in progress contemplate major modification of the storm and sanitary sewers in the shop area to eliminate pollution of waterways.

At Tacoma, Wash., a modern car repair shop measuring 123 by 500 feet was constructed in 1968 to replace the existing structure.

Operation of the major classification yards at Bensenville, Ill., Milwaukee, Wis., and St. Paul, Minn., was improved materially, and loss and damage was reduced, by the introduction of portable radar equipment to monitor car retarder performance and coupling speeds. Other major railroads are now adopting this technique, which has proved to be an exceptionally convenient and beneficial tool in the prevention of lading damage.

Freight Car and Locomotive Program

Approximately 500 new freight cars were acquired in 1968, including 200 covered hopper cars of 100-ton capacity, 25 Airslide or Center Flow covered hopper cars, 50 covered gondola cars of 100-ton size, and high capacity box cars of various sizes and types.

Twenty-five new diesel locomotives were acquired for fast, long-haul freight service. Six of these are 3,600 h.p. units, four are of 3,300 h.p. and 15 are 3,000 h.p.

The continuing freight car rebuilding program put 627 cars into like-new condition for service. In addition, improvements of various kinds were made to 920 other freight cars.

Diesel locomotives were also involved in improvement programs designed to upgrade their service characteristics and to increase their versatility.

Because of the growth in volume of Chicago suburban traffic, six former road passenger coaches were converted for use on commuter trains.

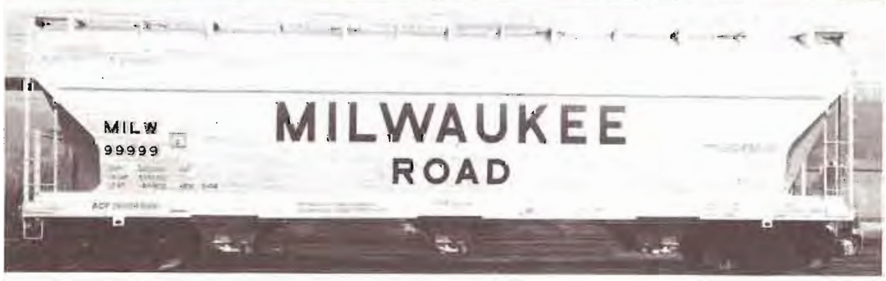
Improvement Budget—1969

The capital improvement budget to cover needs for equipment and other purposes during 1969 calls for expenditures in the range of $21 million, including approximately $14.2 million for freight cars, locomotives and other equipment, $2.2 million for freight car rebuilding, and $4.6 million for fixed property improvements.

Twenty-five locomotives are to be acquired during the year, nine of which will be of 3,600 h.p. capacity. Eleven will be 3,000 h.p. units and the remaining five will be 2,300 h.p.

Freight car acquisitions will include 200 box cars of 70-ton capacity and 100 gondola cars of 100-ton size, as well as other items of equipment. It is expected that approximately 1,500 freight cars will undergo rebuilding or major repairs during 1969.

The Milwaukee Motor Transportation Co., a subsidiary of the railroad, placed orders for 600 new piggyback trailers, to be delivered in the spring of 1969. Of these, 250 will be refrigerated. The others will be of a variety of types to accommodate anticipated traffic.



Labor Negotiations

The Milwaukee Road, acting individually or on a national basis with other railroads, participated during 1968 in negotiations with many of the railroad labor organizations representing operating and non-operating employees. In general, agreements reached provided for increases in wages and other benefits, following the basic pattern already established in 1967 by agreements with some organizations. A number of the agreements contain moratoriums and no-strike clauses which apply through 1969.

Still remaining to be negotiated, at the time this was being written, were agreements with unions representing locomotive engineers, train conductors, signalmen and parlor car conductors.

The long-standing dispute concerning the employment of firemen on locomotives in freight service, an issue which has been under negotiation, mediation or arbitration for more than 10 years and which in the mid-Sixties seemed to have been settled, has again become an active, unresolved issue. It is being handled on a national basis and its outcome was still unknown when this report went to press.

Agreements were entered into with the trainmen's organization relative to the consist of crews. These concern brakemen in freight train service and switchmen engaged in yard train operation.

Beginning in 1969, the individual unions which had been representing locomotive firemen, road trainmen, road conductors and yard switchmen merged, becoming one organization known as the United Transportation Union. What effect this consolidation will have on future labor negotiations, either on a national level or in terms of individual carriers, cannot be foreseen at this time.

Milwaukee Road labor costs increased approximately $8.7 million in 1968 as compared with 1967. This figure includes both wages and wage supplements such as payroll taxes, health and welfare benefits and other fringe benefits. On the basis of 1968 employment levels it is estimated that labor costs in 1969 will rise $8.0 million over 1968, assuming increases according to the February 1969 recommendations of a Presidential fact finding board in the case of the unions representing engineers and conductors and pattern increases in the other cases where settlements are pending.

Dividends

By applying depreciation deductions permitted under Internal Revenue Service rules the company will have no federal income tax liability for the year 1968. These deductions are larger than those allowed in computing net income in accordance with Interstate Commerce Commission requirements. It is the opinion of management, therefore, that dividend distributions to stockholders during 1968 were from other than earnings and profits and are nontaxable as dividend income to shareholder recipients. Such payments apply against and reduce the cost or other basis of the stock on which received. Any portion of distributions received in excess of the basis should be treated as a gain from a sale or exchange of property.

Final determination as to the taxability of these payments will be made by the Internal Revenue Service.

As reported earlier, the Internal Revenue Service has ruled that dividend distributions during 1967 on the preferred and common stock were from other than earnings and profits and are nontaxable as dividend income to stockholder recipients.

The Board of Directors, meeting in Chicago on January 16, 1969, declared a dividend of $5.00 per share on the Series A preferred stock, payable in four installments of $1.25 each on March 27, June 26, September 25 and December 18, 1969, to holders of record at the close of business on March 7, June 6, September 5 and November 28, 1969, respectively.

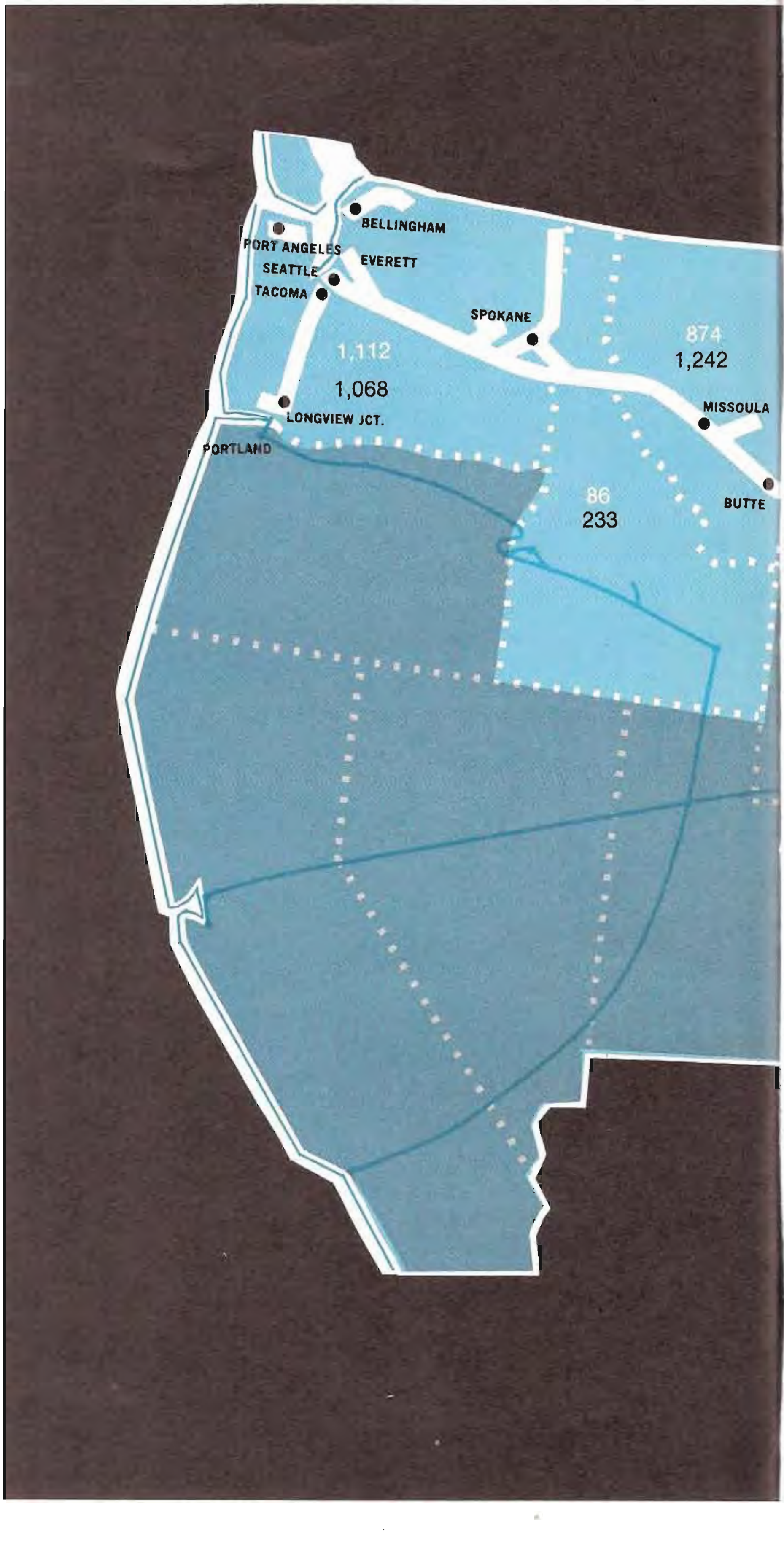
This action brings to 25 consecutive years the record of dividends declared on the preferred stock.

Consolidated Source and Application of Funds

Year ended December 31, 1968 with comparative figures for 1967

	1968	1967
SOURCES:		
Net income	$ 6,036,171	$ 5,066,542
Non-fund charges against income:		
Depreciation provisions	19,109,014	19,022,380
Other (credits)	210,342	(893,612)
Total from earnings	25,355,527	23,195,310
Equipment borrowing	2,075,850	31,935,513
Revolving credit agreement	....	3,000,000
Salvage and proceeds from property retirements and sales, less gain therefrom included in net income	3,098,815	2,947,256
Recovery applicable to prior years under Transcontinental Divisions Case settlement —estimated	....	10,222,000
Decrease in working capital	7,117,548	....
Total sources	$37,647,740	$71,300,079
APPLICATIONS:		
Property additions and betterments:		
Road	$ 6,102,945	$ 4,430,019
Equipment	4,791,602	33,249,239
Other	922,620	1,032,271
Investment in capital stock of Indiana Harbor Belt Railroad Company	....	2,465,000
Investments in and advances to other jointly-owned terminal and other companies	955,925	817,351
Principal payments on equipment debt	16,407,951	15,631,220
Other debt retirement	1,424,044	2,509,467
Revolving credit agreement	3,000,000	....
Dividends:		
Preferred	2,593,260	2,593,260
Common	....	2,176,263
Prior-period fire loss—portion payable within one year	1,200,000	....
Miscellaneous applications	249,393	174,962
Increase in working capital	....	6,221,027
Total applications	$37,647,740	$71,300,079

America's resourceful railroad



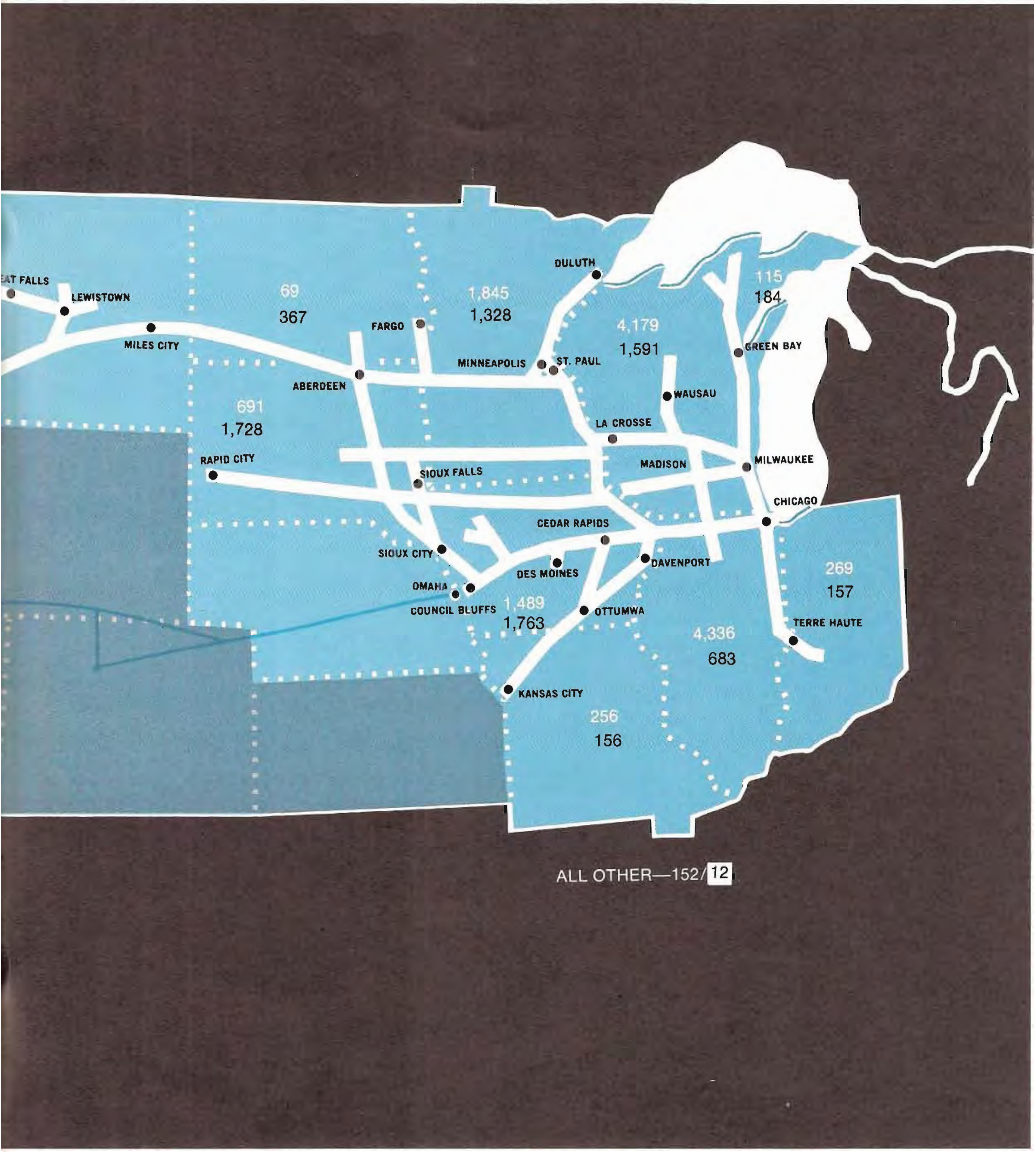
KEY

White figures represent *Number of Employes* in each state

Black figures represent *Miles of Road* in each state

Total average *Number of Employes* during 1968 15,473

Total *Miles of Road* as of December 31, 1968 10,512


LEWISTOWN
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367
FARGO
1,845
1,328
DULUTH
MINNEAPOLIS
ST. PAUL
4,179
1,591
115
184
GREEN BAY
ABERDEEN
WAUSAU
691
1,728
LA CROSSE
RAPID CITY
SIOUX FALLS
MADISON
MILWAUKEE
CHICAGO
CEDAR RAPIDS
SIOUX CITY
DES MOINES
DAVENPORT
OMAHA
COUNCIL BLUFFS
1,489
1,763
OTTUMWA
269
157
4,336
683
TERRE HAUTE
KANSAS CITY
256
156
ALL OTHER—152/12

Consolidated Balance Sheet

December 31, 1968 with comparative figures for 1967

ASSETS

	1968	1967
CURRENT ASSETS		
Cash and temporary cash investments	$ 21,287,915	$ 26,312,531
Accounts receivable	33,109,660	33,644,919
Material and supplies, at cost	15,498,151	16,324,401
Other current assets	2,796,438	2,174,654
Total current assets	72,692,164	78,456,505
SPECIAL FUNDS	2,191,587	1,676,358
INVESTMENTS, at cost (note 3)		
Affiliated companies	18,258,213	17,754,354
Other companies	541,384	770,676
Total investments	18,799,597	18,525,030
PROPERTIES (note 4)		
Road	650,154,901	646,217,947
Equipment	371,394,465	381,946,861
Other elements of investment (credits)	(121,946,201)	(122,074,883)
	899,603,165	906,089,925
Less allowances for depreciation and amortization	287,109,894	283,208,946
Transportation properties	612,493,271	622,880,979
Other property, less depreciation	14,294,290	14,411,741
Total properties	626,787,561	637,292,720
OTHER ASSETS AND DEFERRED CHARGES	6,538,828	6,096,967
Total assets	$727,009,737	$742,047,580

CHICAGO, MILWAUKEE, ST. PAUL
AND PACIFIC RAILROAD
COMPANY AND SUBSIDIARIES

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

December 31, 1968 with comparative figures for 1967

LIABILITIES AND SHAREHOLDERS' EQUITY

	1968	1967
CURRENT LIABILITIES		
Accounts payable	$ 35,666,379	$ 32,992,803
Payroll and vacation pay	10,567,855	12,133,303
Accrued taxes (note 5)	8,265,147	7,940,171
Other current liabilities	478,199	558,096
Total current liabilities (exclusive of debt installments due within one year)	54,977,580	53,624,373
DEBT INSTALLMENTS DUE WITHIN ONE YEAR	16,084,334	16,805,752
LONG-TERM DEBT		
Mortgage bonds	124,434,200	125,445,000
Five per cent income debentures	55,634,000	55,634,000
Equipment obligations	85,918,885	99,820,173
Other	114,924	3,170,887
Total long-term debt	266,102,009	284,070,060
RESERVES AND OTHER LIABILITIES	5,934,180	7,367,016
Total liabilities	343,098,103	361,867,201
SHAREHOLDERS' EQUITY		
Capital stock (note 6)		
Common Stock—no par value (stated value $100 per share). Authorized 2,637,451 shares (including 311,324 shares reserved for conversion of outstanding General Mortgage bonds, Series B, and 21,250 shares reserved under the restricted stock option plan); issued and outstanding 2,179,842 shares	217,984,200	217,693,000
Preferred Stock—par value $100 per share, 5% participating. Authorized 1,150,000 shares; issued and outstanding 518,652 shares	51,865,200	51,865,200
	269,849,400	269,558,200
Retained income	114,062,234	110,622,179
Total shareholders' equity	383,911,634	380,180,379
CONTINGENT LIABILITIES (note 7)		
Total liabilities and shareholders' equity	$727,009,737	$742,047,580

CHICAGO, MILWAUKEE, ST. PAUL AND PACIFIC RAILROAD COMPANY AND SUBSIDIARIES

Statement of Consolidated Income

Year ended December 31, 1968 with comparative figures for 1967

	1968	1967
OPERATING REVENUES		
Freight	$242,435,729	$225,480,745
Passenger, mail and express	19,671,495	22,195,944
Other	12,346,089	13,769,410
	274,453,313	261,446,099
OPERATING EXPENSES (including depreciation and retirement charges of $19,045,816 in 1968 and $18,993,620 in 1967)		
Transportation	115,738,340	109,814,121
Maintenance of way and structures	38,122,487	33,544,295
Maintenance of equipment	44,534,496	41,708,332
Traffic	7,697,440	7,205,976
General and other	18,366,432	17,787,356
	224,459,195	210,060,080
Net revenue from operations	49,994,118	51,386,019
TAXES AND RENTS (note 5)		
Payroll and other taxes	24,210,653	22,595,582
Equipment and joint facility rents, net	15,778,700	16,024,710
	39,989,353	38,620,292
Net operating income	10,004,765	12,765,727
OTHER INCOME		
Gain on sales of properties and timber, net	6,460,273	3,710,605
Dividends and interest	1,384,316	1,021,126
Miscellaneous, net (note 4)	2,155,286	2,006,662
	9,999,875	6,738,393
	20,004,640	19,504,120
FIXED INTEREST ON LONG-TERM DEBT (including amortization of discount)	8,362,386	8,784,193
	11,642,254	10,719,927
CONTINGENT INTEREST ON LONG-TERM DEBT	5,606,083	5,653,385
Net income	$ 6,036,171	$ 5,066,542
PER SHARE EARNINGS applicable to Common Stock based upon the number of shares outstanding at the close of each year, after recognition of dividend requirements ($2,593,260) on Preferred Stock (note 9)	$ 1.58	$ 1.14

See accompanying notes to consolidated financial statements.

CHICAGO, MILWAUKEE, ST. PAUL AND PACIFIC RAILROAD COMPANY AND SUBSIDIARIES

Statement of Consolidated Retained Income

Year ended December 31, 1968 with comparative figures for 1967

	1968	1967
Balance at January 1		
As previously reported	$112,247,179	$112,062,384
Adjustment (note 2)	(1,625,000)	(1,625,000)
As restated	110,622,179	110,437,384
Net income	6,036,171	5,066,542
	116,658,350	115,503,926
DEDUCT:		
Excess of stated value over option price of common stock issued under stock option plan (note 6)	2,856	112,224
Dividend on preferred stock—$5.00 a share	2,593,260	2,593,260
Dividend on common stock—$1.00 a share	....	2,176,263
	2,596,116	4,881,747
Balance at December 31	$114,062,234	$110,622,179

See accompanying notes to consolidated financial statements.

Accountants' Report

The Board of Directors
Chicago, Milwaukee, St. Paul
and Pacific Railroad Company:

We have examined the consolidated balance sheet of Chicago, Milwaukee, St. Paul and Pacific Railroad Company and its subsidiaries as of December 31, 1968 and the related statements of consolidated income and retained income for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Railroad Company is required to maintain its accounts in accordance with Interstate Commerce Commission rules. In keeping with such rules, no provision has been made for deferred federal income taxes (note 5) and other elements of investment (note 4) have been treated as a part of the property accounts. Under generally accepted accounting principles provision for deferred income taxes is required and other elements of investment would be treated as capital surplus.

In our opinion, except for the matters referred to in the preceding paragraph, the accompanying consolidated balance sheet and statements of consolidated income and retained income present fairly the financial position of Chicago, Milwaukee, St. Paul and Pacific Railroad Company and its subsidiaries at December 31, 1968 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year as restated (note 2).

PEAT, MARWICK, MITCHELL & CO.

Chicago, Illinois
February 21, 1969

1. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Chicago, Milwaukee, St. Paul and Pacific Railroad Company and subsidiaries, all of which are wholly-owned. Significant intercompany items have been eliminated in consolidation.

2. Restatement

Retained income as previously reported as of January 1, 1967 has been restated by deducting the loss from a fire which occurred in 1964. The fire, claimed to have been started by maintenance work on a trestle owned by the Railroad Company, destroyed adjacent property. Ensuing litigation, including a jury determination in 1968 that the Railroad Company was responsible, was concluded in January, 1969 by an agreed settlement requiring payment of $1,625,000 for damages. The tax effect of this item is included in the cumulative tax reduction amount reported in note 5.

3. Investments

Investments in affiliated companies include $7,632,378 pledged as collateral to mortgage bonds. The affiliated companies are jointly-owned terminal, switching, and other companies, none of which is more than 50 per cent owned.

4. Properties

Road and equipment properties are stated at original cost or estimated original cost as determined by the Interstate Commerce Commission in 1917 and 1918, plus subsequent additions and betterments at cost less retirements.

Provisions for depreciation of equipment property and road property classed as depreciable are calculated by the straight-line method and according to the group plan.

Ratable depreciation provisions are not made for certain road properties (principally land, grading, rails, ties, etc.), which totaled approximately $407,670,000 at December 31, 1968. As prescribed by the Interstate Commerce Commission, these properties are accounted for by an alternative generally accepted accounting practice in which the costs of replacements are recorded as operating expenses and only additions and betterments are capitalized. Losses or gains are reflected in the statement of consolidated income at the time of retirement.

Other elements of investment arose in connection with the reorganization of the Railroad Company as of January 1, 1944. The account was credited as of that date with an amount equal to the excess of properties and other assets over the aggregate of amounts ascribed to capital stocks, bonds, and other liabilities required by the Court to be issued or paid. Starting in 1962, consistent with accounting rules of the Interstate Commerce Commission, the Railroad Company has followed the practice of writing off to other income an equitable portion of the account assignable to nondepreciable pre-reorganization properties retired. The write-off amounted to $128,682 in 1968 and $155,649 in 1967.

5. Federal Income Taxes

The Internal Revenue Service has examined federal income tax returns for the years 1956 through 1960 and has reported a tax over-assessment for those years of $2,752,823, of which $1,654,909 was refunded to the Railroad Company in 1965. The remaining amount, which has not been reflected in the financial statements, was withheld pending outcome of a suit in the United States Court of Claims seeking tax refunds on the basis of claimed additional depreciation deductions for the years 1942 through 1951, which additional deductions would, if allowed, reduce the depreciation allowable for the years 1956 through 1960. The additional depreciation deductions claimed for the years 1942 through 1951 have been denied by the Court of Claims. Status with respect to refund of the remaining amount of over-assessment cannot be determined at this time.

On the basis of returns filed for the years since 1960 and estimated tax data for 1968, there were unused consolidated loss carryforwards of $26,450,000 available as of December 31, 1968. In addition, approximately $12,800,000 of investment credit carryforwards had accumulated as of December 31, 1968.

Depreciation provisions as recorded on the books are computed at normal rates, whereas larger permissible amounts have been deducted in determining federal income taxes. The estimated amount of reduction in income taxes arising from the additional depreciation claimed for tax purposes was $1,900,000 in respect of 1968 net income and $1,700,000 in respect of 1967 net income. Cumulatively to December 31, 1968, such tax reductions have amounted to $53,500,000. No consideration has been given to investment credit carryforwards in computing the foregoing tax reductions.

6. Stock Options

The Railroad Company has a restricted stock option plan which permits the granting of options to officers and other key employees for the purchase of 75,000 shares of its common stock. Option prices are fixed at current market value at the date options are granted. Options have been granted (all in 1961) for the purchase of 51,000 shares and 8,250 shares at $16.00 and $16.50 a share, respectively. Since 1961 options for 5,000 shares at $16.00 a share and 500 shares at $16.50 a share have expired, and options have been exercised for 46,000 shares and 7,750 shares at $16.00 and $16.50 a share, respectively. At December 31, 1968, no options were outstanding and 21,250 shares were available for option. The excess of stated value over option price of shares exercised is charged to retained income.

7. Contingent Liabilities and Long-term Leases

The Railroad Company was liable, jointly with other railroads, as guarantor of certain obligations of affiliated companies amounting to $85,409,289 at December 31, 1968. Also, the Railroad Company was contingently liable as guarantor along with other railroads for its proportion (2.44%), and its proportionate share of any contingent obligations not met by other railroad participants, of obligations of Trailer Train Company aggregating $64,608,470.

Under long-term noncancelable equipment leases expiring in 1969 through 1987, the Railroad Company and subsidiaries were obligated as of December 31, 1968 to pay rentals of $50,606,625, of which $5,163,383 is payable within one year.

The Railroad Company carries a service interruption policy under which it may be obligated to pay additional premiums up to a maximum of $3,731,000 for certain work stoppages.

8. Pension Plan

The Company has an unfunded noncontributory plan covering employees whose duties are executive, supervisory, or professional in character. The accounting practice followed by the Company is to accrue the cost of current benefit payments to beneficiaries under the plan, but not less than the actuarially computed normal cost plus 40-year amortization of prior service cost. Expense for 1968 was $1,348,965, and the actuarially computed value of vested benefits totaled approximately $20,100,000 as of December 31, 1968.

9. Pro Forma Per Share Earnings

Pro forma per share earnings applicable to common stock, determined on the assumption that the outstanding general mortgage 4½% convertible income bonds (Series B) are converted into common shares, are not presented since after giving effect to the elimination of the interest requirement on the bonds no dilution would result in the years covered by the accompanying financial statements.

10. Proposed Merger

A Plan of Reorganization and Agreement of Merger, dated July 16, 1968, superseding the Agreement of Consolidation dated March 18, 1965, has been authorized by the Boards of Directors of the Railroad Company and the Chicago and North Western Railway Company. Under the agreement, subject to Interstate Commerce Commission approval and other conditions, Chicago and North Western Railwav Company is to be merged into the Railroad Company. Until the merger is effective or the agreement is terminated, the Railroad Company is required by the agreement to observe certain restrictions on capital stock transactions and changes in funded debt.

Balance Sheet

December 31, 1968 with comparative figures for 1967

ASSETS

	1968	1967
CURRENT ASSETS		
Cash and temporary cash investments	$ 18,519,366	$ 24,350,696
Accounts receivable	35,191,034	33,688,611
Material and supplies, at cost	15,318,731	16,166,336
Other current assets	2,594,193	1,981,454
Total current assets	71,623,324	76,187,097
SPECIAL FUNDS	2,191,587	1,676,358
INVESTMENTS	34,888,442	34,064,716
PROPERTIES		
Road and equipment	1,014,429,460	1,021,530,874
Other elements of investment	(121,946,201)	(122,074,883)
Allowances for depreciation and amortization	(282,121,451)	(278,255,790)
Transportation properties	610,361,808	621,200,201
Nonoperating properties, less depreciation	4,166,355	4,311,807
Total properties	614,528,163	625,512,008
OTHER ASSETS AND DEFERRED CHARGES	4,267,124	4,265,987
Total assets	$ 727,498,640	$ 741,706,166

LIABILITIES AND SHAREHOLDERS' EQUITY

	1968	1967
CURRENT LIABILITIES		
Accounts payable	$ 36,327,143	$ 33,715,512
Payroll and vacation pay	10,457,842	12,003,590
Accrued taxes	8,107,689	7,784,750
Other current liabilities	478,199	556,294
Total current liabilities (exclusive of debt installments due within one year)	55,370,873	54,060,146
DEBT INSTALLMENTS DUE WITHIN ONE YEAR	16,028,372	15,925,685
LONG-TERM DEBT	266,469,085	284,381,173
RESERVES AND OTHER LIABILITIES	5,718,676	7,158,783
Total liabilities	343,587,006	361,525,787
SHAREHOLDERS' EQUITY		
Capital stock		
Common stock	217,984,200	217,693,000
Preferred stock	51,865,200	51,865,200
	269,849,400	269,558,200
Retained income	114,062,234	110,622,179
Total shareholders' equity	383,911,634	380,180,379
Total liabilities and shareholders' equity	$ 727,498,640	$ 741,706,166

( ) Denotes contra items.

Statement of Income

Year ended December 31, 1968 with comparative figures for 1967

	1968	1967
OPERATING REVENUES		
Freight	$236,708,355	$220,467,892
Passenger, mail and express	19,627,917	22,158,714
Other	12,338,971	13,760,131
	268,675,243	256,386,737
OPERATING EXPENSES (including depreciation and retirement charges of $18,618,876 in 1968 and $18,492,437 in 1967)		
Transportation	112,634,515	106,894,237
Maintenance of way and structures	37,844,053	33,333,122
Maintenance of equipment	42,784,135	40,088,603
Traffic	7,629,061	7,135,224
General and other	17,028,303	16,734,117
	217,920,067	204,185,303
Net revenue from railway operations	50,755,176	52,201,434
TAXES AND RENTS		
Payroll and other taxes	23,612,000	22,083,000
Equipment and joint facility rents, net	18,270,705	18,679,049
	41,882,705	40,762,049
Net railway operating income	8,872,471	11,439,385
OTHER INCOME		
Gain on sales of properties, net	2,841,284	2,151,276
Dividends and interest	4,538,459	1,805,950
Miscellaneous, net	1,974,814	1,781,359
	9,354,557	5,738,585
	18,227,028	17,177,970
FIXED INTEREST ON LONG-TERM DEBT (including amortization of discount)	8,362,163	8,774,424
	9,864,865	8,403,546
CONTINGENT INTEREST ON LONG-TERM DEBT	5,627,853	5,669,621
Net income of Railroad Company	4,237,012	2,733,925
EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARIES	1,799,159	2,332,617
Net income	$ 6,036,171	$ 5,066,542

Statement of Available Net Income

Year ended December 31, 1968

INCOME AVAILABLE FOR FIXED CHARGES (as reported to the Interstate Commerce Commission)	$16,602,028
FIXED CHARGES	
Rent for leased roads and equipment	420
Interest on long-term debt	
On First Mortgage 4% Bonds, Series A	1,969,412
On modified Terre Haute bonds	515,480
On equipment obligations	5,732,082
On miscellaneous obligations	68,063
Interest on unfunded debt	943
Amortization of discount on long-term debt	75,763
Total fixed charges	8,362,163
Income after fixed charges	8,239,865
ADD—Charges to operating expenses representing the service value of nondepreciable roadway property retired and not replaced	58,499
AVAILABLE NET INCOME—as defined in the First Mortgage and General Mortgage indentures	8,298,364
APPLICATION OF SUCH AVAILABLE NET INCOME	
Appropriated for sinking fund for retirement of First Mortgage 4% Bonds, Series A	418,452
Contingent interest on General Mortgage 4½% Income Bonds, Series A	1,176,727
Contingent interest on modified Terre Haute bonds	280,587
Contingent interest on General Mortgage 4½% Convertible Income Bonds, Series B	1,388,039
Appropriated for sinking fund for retirement of General Mortgage 4½% Income Bonds, Series A and Series B	543,394
	3,807,199
Remaining available net income	4,491,165
DEDUCT—Charges to operating expenses representing the service value of nondepreciable roadway property retired and not replaced	58,499
AVAILABLE NET INCOME—as defined in the indenture relating to Five Per Cent Income Debentures, Series A	4,432,666
APPLICATION OF SUCH AVAILABLE NET INCOME	
Contingent interest on Five Per Cent Income Debentures, Series A	2,782,500
Appropriated for sinking fund for retirement of Five Per Cent Income Debentures, Series A	224,541
	3,007,041
Remainder available for payment of dividends or any other proper corporate purposes	$ 1,425,625

Investments—December 31, 1968

DESCRIPTION	NUMBER OF SHARES	EXTENT OF CONTROL—PER CENT	LEDGER AMOUNT
AFFILIATED COMPANIES			
Wholly-owned Subsidiaries			
CAPITAL STOCKS			
Bremerton Freight Car Ferry, Incorporated	10,000	100	$ 105,000
Milwaukee Land Company . . . A	5,000	100	500,000
The Milwaukee Motor Transportation Company . . . A	500	100	50,000
TOTAL CAPITAL STOCKS	....	....	655,000
NOTE			
Milwaukee Land Company . . . A	....	100	2,652,000
ADVANCES			
Milwaukee Land Company	....	100	905,640
The Milwaukee Motor Transportation Company	....	100	2,079,551
TOTAL ADVANCES	....	....	2,985,191
TOTAL INVESTMENTS—WHOLLY-OWNED-SUBSIDIARIES	....	....	6,292,191
Jointly-owned Terminal, Switching, and Other Companies			
CAPITAL STOCKS			
Chicago, Milwaukee and North Western Corporation	50	50	500
Chicago, Terre Haute & Southeastern Railway Company	40,787.05	54.02	1
Chicago Union Station Company . . . A	7,000	25	7,000
Davenport, Rock Island & North Western Railway Company . . . A	15,000	50	1,750,000
Delta Alaska Terminal Ltd.	100	6.67	600
Des Moines Union Railway Company . . . A	1,000	50	100,000
Des Moines Union Railway Company . . . B	1,000	50	26,000
Indiana Harbor Belt Railroad Company . . . A	37,240	49	3,985,000
Kansas City Terminal Railway Company . . . C	1,833.33	8⅓	183,333
Minneapolis Eastern Railway Company . . . A	625	50	15,475
Packers Car Line Company	306	9.56	3,060
Railway Express Agency, Incorporated	53,976	2.6	2,600
The Minnesota Transfer Railway Company . . . A	913	11⅑	91,300
The Pullman Company	9,426	1.28	263,928
The St. Paul Union Depot Company . . . A	1,036	12½	130,475
Trailer Train Company	500	2.44	98,860
TOTAL CAPITAL STOCKS	....	....	6,658,132
NOTES			
Delta Alaska Terminal Ltd.	....	6.67	22,223
Railway Express Agency, Incorporated	....	2.6	751,804
Trailer Train Company . . . A	....	2.44	231,000
TOTAL NOTES	....	....	1,005,027
ADVANCES			
Chicago Union Station Company	....	25	6,369,433
Davenport, Rock Island & North Western Railway Company	....	50	1,211,836
Des Moines Union Railway Company	....	50	1,274,838
Kansas City Terminal Railway Company	....	8⅓	1,183,033
The Minnesota Transfer Railway Company	....	11⅑	317,673
The St. Paul Union Depot Company	....	12½	238,241
TOTAL ADVANCES	....	....	10,595,054
TOTAL INVESTMENTS—AFFILIATED COMPANIES	....	....	24,550,404
OTHER COMPANIES	....	....	541,384
TOTAL INVESTMENTS AT COST	....	....	25,091,788
EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARIES SINCE ACQUISITION	....	....	9,796,654
TOTAL	....	....	$34,888,442

A—Pledged under Chicago, Milwaukee, St. Paul and Pacific Railroad Company First Mortgage, except Directors' qualifying shares.
B—Deposited with Iowa-Des Moines National Bank, Des Moines, Iowa, under Stock Trust Agreement, dated June 14, 1948, and pledged under the First Mortgage.
C—Deposited with First National Bank of Kansas City, Mo., under Stock Trust Agreement, dated June 12, 1909, and pledged under the First Mortgage except Directors' qualifying shares.

Road and Equipment Properties

ACCOUNT	Balance at January 1	Expenditures During the Year	Credits for Property Retired During the Year and Other Adjustments	Balance at December 31
ROAD				
Engineering	$ 18,570,622	$ 63,635	$ 51,858	$ 18,582,399
Land for transportation purposes	37,425,836	2,107,248	466,519	39,066,565
Other right-of-way expenditures	530,627	2,355	87	532,895
Grading	143,093,805	338,019	24,504	143,407,320
Tunnels and subways	10,214,231	(6,084)	(1,515)	10,209,662
Bridges, trestles, and culverts	76,349,334	974,148	216,224	77,107,258
Ties	34,737,819	153,903	23,961	34,867,761
Rails	69,266,111	237,309	29,908	69,473,512
Other track material	49,491,561	422,288	24,411	49,889,438
Ballast	26,479,548	49,146	3,807	26,524,887
Track laying and surfacing	33,424,344	167,398	22,467	33,569,275
Fences, snowsheds, and signs	5,387,898	9,138	1,504	5,395,532
Station and office buildings	28,449,338	421,848	1,020,039	27,851,147
Roadway buildings	1,991,528	17,375	52,530	1,956,373
Water stations	817,501	(20,265)	....	797,236
Fuel stations	902,178	2,750	(284)	905,212
Shops and enginehouses	19,253,572	91,746	124,170	19,221,148
Storage warehouses	62,549	1,800	8,782	55,567
Wharves and docks	1,759,064	8,559	5,604	1,762,019
Communication systems	8,809,669	173,079	77,395	8,905,353
Signals and interlockers	23,437,760	271,589	112,758	23,596,591
Power plants	1,556,705	469	62,607	1,494,567
Power-transmission systems	9,901,481	(35,922)	42,711	9,822,848
Miscellaneous structures	617,325	8,418	22,458	603,285
Roadway machines	10,312,051	358,265	61,991	10,608,325
Roadway small tools	320,030	(350)	....	319,680
Public improvements—Construction	16,571,448	305,905	66,375	16,810,978
Other expenditures—Road	335	....	....	335
Shop machinery	7,727,883	108,956	196,013	7,640,826
Power-plant machinery	5,603,836	191,111	129,132	5,665,815
TOTAL ROAD	643,065,989	6,423,836	2,846,016	646,643,809
IMPROVEMENTS ON LEASED PROPERTY	597,522	....	....	597,522
EQUIPMENT				
Locomotives	126,690,049	11,202	3,700,455	123,000,796
Freight-train cars	211,245,382	3,784,871	10,000,290	205,029,963
Passenger-train cars	30,128,550	131,293	1,085,088	29,174,755
Floating equipment	180,005	....	....	180,005
Work equipment	6,658,226	197,412	130,194	6,725,444
Miscellaneous equipment	2,965,151	477,594	365,579	3,077,166
TOTAL EQUIPMENT	377,867,363	4,602,372	15,281,606	367,188,129
TOTAL ROAD AND EQUIPMENT PROPERTIES	$1,021,530,874	$11,026,208	$18,127,622	$1,014,429,460

Units of Equipment Owned

	Jan. 1, 1968	Added	Retired	Dec. 31, 1968
Locomotives	822	....	28	794
Freight cars	38,794	685	3,290	36,189
Passenger cars	447	....	30	417
Company service equipment	1,647	29	36	1,640
Floating equipment	2	....	....	2
Highway vehicles	871	121	109	883
TOTAL	42,583	835	3,493	39,925

( ) Denotes contra items.

Equipment Obligations—December 31, 1968

DESCRIPTION	Date of Lease or Agreement	Date of Final Maturity	Original Cost of Equipment	Amount Originally Issued	Amount Outstanding Dec. 31, 1968	Principal Payable During 1969	INTEREST Rate	INTEREST Payable	INTEREST Accrued During Year
EQUIPMENT TRUST CERTIFICATES:									
Series RR	Jan. 1, 1954	Jan. 1, 1969	$ 10,379,112	$ 7,650,000	$ 255,000	$ 255,000	3⅛	J. & J.	$ 11,954
Series SS	July 1, 1954	July 1, 1969	9,931,620	7,800,000	520,000	520,000	2¾	J. & J.	17,875
Series TT	Nov. 1, 1954	Nov. 1, 1969	9,141,903	7,200,000	480,000	480,000	2⅞	M. & N.	21,850
Series UU	Jan. 1, 1956	Jan. 1, 1971	9,655,380	7,500,000	1,250,000	500,000	3⅜	J. & J.	46,408
Series VV (1st Install.)	Feb. 1, 1957	Feb. 1, 1972	11,745,718	3,000,000	700,000	200,000	4	F. & A.	30,667
Series VV (2nd Install.)	Feb. 1, 1957	Feb. 1, 1972		6,000,000	1,400,000	400,000	4⅜	F. & A.	67,084
Series WW	Jan. 1, 1958	Jan. 1, 1973	6,814,810	5,400,000	1,620,000	360,000	4⅛	J. & J.	70,538
Series XX	Feb. 1, 1959	Feb. 1, 1974	7,419,495	5,850,000	2,145,000	390,000	4½	F. & A.	102,375
Series YY (1st Install.)	Feb. 1, 1960	Feb. 1, 1975	9,662,652	3,000,000	1,300,000	200,000	4⅞	F. & A.	66,625
Series YY (2nd Install.)	Feb. 1, 1960	Feb. 1, 1975		4,650,000	2,015,000	310,000	4¾	F. & A.	100,621
Series ZZ	Mar. 1, 1961	Mar. 1, 1976	7,378,434	5,850,000	2,925,000	390,000	4	M. & S.	123,500
CONDITIONAL SALES AGREEMENTS:									
The First National Bank of Chicago, Assignee of the Sellers:									
M.L.C. Equipment Co.	June 1, 1963	June 1, 1970	4,986,000	4,986,000	1,054,431	766,000	4½	J. & D.	70,900
M.L.C. Equipment Co.	June 1, 1964	June 1, 1971	4,660,500	4,660,500	1,720,161	717,000	4⅝	J. & D.	102,082
M.L.C. Equipment Co.	Feb. 1, 1966	Feb. 1, 1973	1,560,000	1,560,000	1,070,203	240,000	5	F. & A.	57,713
M.L.C. Equipment Co.	June 1, 1966	June 1, 1973	1,716,000	1,716,000	1,184,832	264,000	5½	J. & D.	74,846
M.L.C. Equipment Co.	Jan. 1, 1967	Jan. 1, 1974	1,450,000	1,450,000	1,203,284	223,082	6¼	J. & J.	79,310
Continental Illinois National Bank and Trust Company of Chicago, Assignee of the Sellers:									
Pullman, Incorporated	May 1, 1958	Nov. 1, 1973	4,920,125	4,920,125	1,501,494	328,008	4.40	M. & N.	75,257
General American Transportation Corporation	May 1, 1958	Nov. 1, 1973	6,165,438	6,165,438	1,873,303	411,029	4.40	M. & N.	93,015
United States Railway Equipment Co.	May 1, 1958	Nov. 1, 1973	570,706	570,706	190,236	38,047	4.40	M. & N.	9,347
General Motors Corp.	Jan. 15, 1959	Mar. 1, 1974	8,680,000	8,680,000	3,182,668	578,667	5	M. & S.	171,189
General Motors Corp.	May 1, 1961	May 1, 1976	1,717,036	1,332,480	666,240	88,832	5¼	M. & N.	37,698
The Budd Company	May 1, 1961	May 1, 1976	6,209,241	4,817,520	2,408,760	321,168	5¼	M. & N.	136,296
Pullman, Incorporated	Dec. 1, 1961	Jan. 1, 1977	7,774,308	7,774,308	4,308,302	518,287	Var.	J. & J.	239,890
General American Transportation Corporation	Dec. 1, 1961	Jan. 1, 1977	720,281	720,281	384,155	48,019	Var.	J. & J.	21,786
M.L.C. Equipment Co.	Feb. 1, 1963	Feb. 15, 1970	4,800,000	4,800,000	977,867	740,000	5	F. & A.	63,073
Pullman, Incorporated	Mar. 1, 1963	Mar. 1, 1978	691,166	691,166	425,689	48,269	Var.	M. & S.	21,165
General Motors Corp.	Mar. 1, 1963	Mar. 1, 1978	3,137,953	2,809,153	1,806,921	182,224	Var.	M. & S.	89,397
General American Transportation Corporation	Mar. 1, 1963	Mar. 1, 1978	902,942	902,942	556,122	63,058	Var.	M. & S.	27,651
Pullman, Incorporated	Jan. 1, 1964	Jan. 1, 1979	2,197,429	2,197,429	1,496,342	146,495	4⅞	J. & J.	74,732
General American Transportation Corporation	Jan. 1, 1964	Jan. 1, 1979	2,497,127	2,496,000	1,710,958	166,400	4⅞	J. & J.	85,437
The Budd Company	Sept. 1, 1964	Sept. 1, 1979	3,592,394	2,871,000	2,105,400	191,400	Var.	M. & S.	104,633
Pullman, Incorporated	Jan. 1, 1965	Jan. 1, 1980	1,531,010	1,531,010	1,173,774	102,067	Var.	J. & J.	56,099
General Motors Corp.	May 1, 1965	May 1, 1980	2,578,046	2,578,046	1,976,502	171,870	Var.	M. & N.	99,001
General Electric Co.	May 1, 1965	May 1, 1980	2,578,634	2,578,634	1,976,953	171,909	Var.	M. & N.	99,001
General Electric Co.	Jan. 15, 1966	Jan. 15, 1981	1,310,876	1,310,800	1,092,333	87,387	Var.	J. & J.	59,759
General Motors Corp.	Jan. 15, 1966	Jan. 15, 1981	2,619,806	2,619,200	2,182,667	174,613	Var.	J. & J.	119,427
Pullman, Incorporated	June 1, 1966	June 1, 1981	2,871,986	2,871,986	2,393,322	191,466	5⅜	J. & D.	135,510
General American Transportation Corporation	June 1, 1966	June 1, 1981	1,284,353	1,284,353	1,070,294	85,624	5⅜	J. & D.	60,601
Magor Car Corp.	June 1, 1966	June 1, 1981	194,750	194,750	162,292	12,984	5⅜	J. & D.	9,176
General American Transportation Corporation	July 1, 1966	July 1, 1981	11,791,372	11,791,372	10,161,720	786,091	6	J. & J.	635,753
General Electric Co.	July 1, 1966	July 1, 1981	1,302,111	1,302,111	1,128,496	86,807	6	J. & J.	70,629
General Motors Corp.	July 1, 1966	July 1, 1981	3,054,093	3,054,093	2,646,881	203,606	6	J. & J.	165,587
General American Transportation Corporation	Jan. 15, 1967	Jan. 15, 1982	2,459,824	2,459,824	2,213,842	163,987	6⅜	J. & J.	144,153
Thrall Car Manufacturing Co.	Jan. 15, 1967	Jan. 15, 1982	978,573	978,573	880,713	65,240	6⅜	J. & J.	57,347
Pullman, Incorporated	Jan. 15, 1967	Jan. 15, 1982	16,229,648	16,229,648	14,606,695	1,081,969	6⅜	J. & J.	951,103
General Motors Corp.	Jan. 15, 1967	Jan. 15, 1982	4,589,030	4,589,030	4,130,114	305,943	6⅜	J. & J.	268,929
General Electric Co.	Jan. 15, 1967	Jan. 15, 1982	873,816	873,816	786,436	58,253	6⅜	J. & J.	51,208
LaSalle National Bank, Assignee of the Sellers:									
M.L.C. Equipment Co.	Jan. 2, 1964	Jan. 15, 1971	1,449,030	1,449,030	529,727	223,000	4¾	J. & J.	28,433
M.L.C. Equipment Co.	Feb. 15, 1965	Feb. 15, 1972	3,975,100	3,975,100	2,107,656	611,554	Var.	F. & A.	111,846
M.L.C. Equipment Co.	April 1, 1967	April 1, 1974	1,950,000	1,950,000	1,646,400	300,000	6	A. & O.	101,585
M.L.C. Equipment Co.	Sept. 1, 1967	Sept. 1, 1974	1,500,000	1,500,000	1,376,312	230,770	5¾	M. & S.	57,718
M.L.C. Equipment Co.	Sept. 1, 1968	Sept. 1, 1983	624,450	624,450	624,450	53,077	6¾	M. & S.	3,493
The First National Bank of Madison, Wisc., Assignee of the Sellers:									
M.L.C. Equipment Co.	June 1, 1965	June 1, 1972	5,038,600	5,038,600	2,642,310	775,170	Var.	J. & D.	150,810
TOTAL EQUIPMENT OBLIGATIONS			$221,862,878	$200,805,474	$101,947,257	$16,028,372			$5,732,082

PAYMENTS MATURING IN YEARS ENDING:

December 31, 1969	$16,028,372	December 31, 1974	$ 7,365,064	December 31, 1979	$ 4,019,564
December 31, 1970	14,005,972	December 31, 1975	6,168,969	December 31, 1980	3,526,894
December 31, 1971	12,659,562	December 31, 1976	5,513,969	December 31, 1981	2,970,466
December 31, 1972	10,717,966	December 31, 1977	4,709,672	December 31, 1982	837,688
December 31, 1973	9,022,212	December 31, 1978	4,400,887		
				TOTAL	$101,947,257

Mortgage Bonds and Debentures—December 31, 1968

DESCRIPTION	Date of Issue	Date of Maturity	Amount Originally Issued or Assumed	Amount as of Dec. 31, 1968	Amount Held by Company and Subsidiaries	Amount Outstanding Dec. 31, 1968	INTEREST Rate	Payable	Accrued During Year
First mortgage bonds, Series A....	Jan. 1, 1944	Jan. 1, 1994	$ 59,515,100	$ 50,482,000	$1,246,700	$ 49,235,300	4 %	J. & J.	$1,969,412
First mortgage bonds, Series B....	July 1, 1961	Jan. 1, 1994	#	#	#	....	5½	J. & J.	....
First mortgage bonds, Series C....	June 1, 1967	Jan. 1, 1994	#	#	#	....	6	J. & J.	....
General mortgage income bonds, Series A	Jan. 1, 1944	Jan. 1, 2019	57,256,600	26,332,800	978,100	25,354,700	4½	April	1,176,727
General mortgage convertible income bonds, Series B	Jan. 1, 1944	Jan. 1, 2044	51,422,100	31,456,900	324,500	31,132,400	4½	April	1,388,039
The Bedford Belt Ry. Co. first mortgage bonds	Jan. 1, 1946	Jan. 1, 1994	350,000	331,000	152,000	179,000	4¼	J.A. & J.	7,598
The Southern Indiana Ry. Co. first mortgage bonds	Jan. 1, 1946	Jan. 1, 1994	7,287,000	6,658,000	256,000	6,402,000	4¼	J.A. & J.	272,911
Chicago, Terre Haute and Southeastern Ry. Co.:									
First and refunding mortgage bonds	Jan. 1, 1946	Jan. 1, 1994	9,571,000	9,452,000	**2,060,000	7,392,000	4¼	J.A. & J.	314,160
Income mortgage bonds	Jan. 1, 1946	Jan. 1, 1994	6,335,800	6,335,800	*1,597,000	4,738,800	4¼	J.A. & J.	201,398
Total mortgage bonds			191,737,600	131,048,500	6,614,300	124,434,200			
Five per cent income debentures, Series A	Jan. 1, 1955	Jan. 1, 2055	60,000,000	56,100,000	466,000	55,634,000	5	M. & S.	2,782,500

 # First Mortgage Bonds, Series B in the principal amount of $5,500,000 and Series C bonds in the principal amount of $1,848,000 have been authenticated for use, subject to authorization by the Interstate Commerce Commission, as collateral to short-term borrowings.
** $100,000 pledged under Chicago, Terre Haute and Southeastern Railway Company First and refunding mortgage.*
*** $1,515,000 pledged under Chicago, Milwaukee, St. Paul and Pacific Railroad Company First Mortgage.*

Railway Operating Revenues

	1968	1967	INCREASE	DECREASE
TRANSPORTATION				
Freight	$236,708,355	$220,467,892	$16,240,463	......
Passenger	10,757,505	11,197,058	......	439,553
Baggage	25,035	35,849	......	10,814
Parlor and chair car	39,454	41,616	......	2,162
Mail	7,534,858	9,214,713	......	1,679,855
Express	1,335,554	1,746,943	......	411,389
Other passenger-train	71,167	96,780	......	25,613
Switching	5,593,211	5,803,391	......	210,180
TOTAL TRANSPORTATION REVENUE	262,065,139	248,604,242	13,460,897	......
INCIDENTAL				
Dining and buffet	757,218	889,634	......	132,416
Station, train, and boat privileges	30,226	39,109	......	8,883
Storage—Freight	3,202	2,982	220	......
Demurrage	1,765,548	2,625,786	......	860,238
Communication	11,714	14,613	......	2,899
Rents of buildings and other property	288,062	281,799	6,263	......
Miscellaneous	790,033	714,296	75,737	......
TOTAL INCIDENTAL OPERATING REVENUE	3,646,003	4,568,219	......	922,216
JOINT FACILITY				
Joint facility—Credit	2,972,818	3,153,363	......	180,545
Joint facility—Debit	8,717	(60,913)	69,630	......
TOTAL JOINT FACILITY OPERATING REVENUE	2,964,101	3,214,276	......	250,175
TOTAL RAILWAY OPERATING REVENUE	$268,675,243	$256,386,737	$12,288,506	......

( ) Denotes contra item.

Revenue Freight by Principal Commodity Groups—1968 and 1967

	1968		1967		INCREASE + OR DECREASE —	
	TONS CARRIED	PERCENT OF TOTAL	TONS CARRIED	PERCENT OF TOTAL	TONS	PERCENT
Grain	4,568,321	10.23	5,073,848	11.62	— 505,527	— 9.96
Soybeans (Incl. Oil Seeds, Nuts or Kernels)	545,013	1.22	688,074	1.58	— 143,061	— 20.79
Potatoes, other than sweet	222,431	.50	206,524	.47	+ 15,907	+ 7.70
Fresh Fruits and Fresh Vegetables	256,890	.57	240,847	.55	+ 16,043	+ 6.66
Livestock	82,167	.18	82,859	.19	— 692	— .84
All Other Farm Products (Includes Sugarbeets)	475,176	1.06	493,450	1.13	— 18,274	— 3.70
Metallic Ores	253,694	.57	344,444	.79	— 90,750	— 26.35
Coal	5,569,133	12.47	5,475,153	12.54	+ 93,980	+ 1.72
Nonmetallic Minerals; except Fuels	3,071,015	6.87	2,870,870	6.57	+ 200,145	+ 6.97
Meat, fresh, chilled or frozen	980,717	2.20	964,750	2.21	+ 15,967	+ 1.66
Dairy Products	420,030	.94	402,238	.92	+ 17,792	+ 4.42
Canned or Preserved Fruits, Vegetables and Seafoods	1,073,332	2.40	1,080,288	2.47	— 6,956	— .64
Grain Mill Products	2,002,452	4.48	2,068,692	4.74	— 66,240	— 3.20
Malt Liquors	809,325	1.81	728,388	1.67	+ 80,937	+ 11.11
Beverages or Flavoring Extracts (Except Malt Liquors)	508,080	1.14	441,655	1.01	+ 66,425	+ 15.04
All Other Food or Kindred Products (Incl. Sugar)	1,365,020	3.06	1,388,600	3.18	— 23,580	— 1.70
Primary Forest Products (Incl. Logs and Pulpwood)	2,179,208	4.88	2,198,711	5.04	— 19,503	— .89
Lumber or Dimension Stock	2,158,096	4.83	1,939,889	4.44	+ 218,207	+ 11.25
All Other Lumber or Wood Products (Incl. Plywood)	974,755	2.18	927,513	2.12	+ 47,242	+ 5.09
Pulp or Pulp Mill Products	673,571	1.51	644,130	1.47	+ 29,441	+ 4.57
All Other Paper or Allied Products	2,231,229	4.99	2,112,903	4.84	+ 118,326	+ 5.60
Industrial Chemicals	1,370,457	3.07	1,305,003	2.99	+ 65,454	+ 5.02
All Other Chemicals or Allied Products	1,601,848	3.58	1,596,450	3.66	+ 5,398	+ .34
Petroleum or Coal Products and Crude Petroleum, Natural Gas or Gasoline	873,812	1.96	937,318	2.15	— 63,506	— 6.78
Stone, Clay or Glass Products	2,169,544	4.86	2,015,441	4.62	+ 154,103	+ 7.65
Coke Oven or Blast Furnace Prod. (Pig Iron, Slag and Coke)	342,614	.77	330,590	.76	+ 12,024	+ 3.64
Primary Iron or Steel Prod. (Ingots, Plates, Bars, Tinplate)	1,853,359	4.15	1,430,931	3.28	+ 422,428	+ 29.52
All Other Primary Metal Products	783,779	1.75	715,481	1.64	+ 68,298	+ 9.55
Fabricated Metal Prod. (Except Ordnance, Machinery and Transportation Equip.)	399,959	.90	497,148	1.14	— 97,189	— 19.55
Farm Machinery or Equipment	179,801	.40	204,790	.47	— 24,989	— 12.20
All Other Machinery; Except Electrical	257,985	.58	266,093	.61	— 8,108	— 3.05
Electrical Machinery or Equipment	214,711	.48	186,621	.43	+ 28,090	+ 15.05
Motor Vehicles	474,860	1.06	422,279	.97	+ 52,581	+ 12.45
All Other Transportation Equipment	680,978	1.52	601,254	1.38	+ 79,724	+ 13.26
Waste or Scrap Materials	1,154,814	2.59	1,227,453	2.81	— 72,639	— 5.92
Freight Forwarder and Shipper Association Traffic	397,163	.89	382,844	.88	+ 14,319	+ 3.74
All Other Carload Traffic	1,486,461	3.33	1,151,530	2.64	+ 334,931	+ 29.09
TOTAL CARLOAD TRAFFIC	44,661,800	99.98	43,645,052	99.98	+1,016,748	+ 2.33
SMALL PACKAGED FREIGHT SHIPMENTS (L.C.L. MERCHANDISE)	9,748	.02	8,206	.02	+ 1,542	+ 18.79
GRAND TOTAL, CARLOAD AND L.C.L. TRAFFIC	44,671,548	100.00	43,653,258	100.00	+1,018,290	+ 2.33

Revenue Freight Traffic Statistics—excluding truck service

YEAR	TONS CARRIED	TON MILES	AVERAGE HAUL—MILES	FREIGHT REVENUE TOTAL	PER TON	PER TON MILE (CENTS)
1959	40,199,394	14,121,939,599	351.30	$201,705,278	$5.02	1.428
1960	38,305,568	13,604,642,301	355.16	189,750,236	4.95	1.395
1961	37,300,275	13,223,111,384	354.50	183,519,327	4.92	1.388
1962	39,513,106	14,139,667,771	357.85	189,394,619	4.79	1.339
1963	39,627,042	14,095,394,302	355.70	186,312,480*	4.70	1.322
1964	40,765,392	14,701,598,590	360.64	192,566,906*	4.72	1.310
1965	42,781,557	15,908,663,519	371.86	205,004,584*	4.79	1.289
1966	46,049,835	16,776,045,534	364.30	223,270,956*	4.85	1.331
1967	43,653,258	16,740,101,489	383.48	220,467,892	5.05	1.317
1968	44,671,548	17,195,926,735	384.94	236,708,355	5.30	1.377

** Restated to include estimated increased divisions.*

Revenue Passenger Statistics—excluding bus service

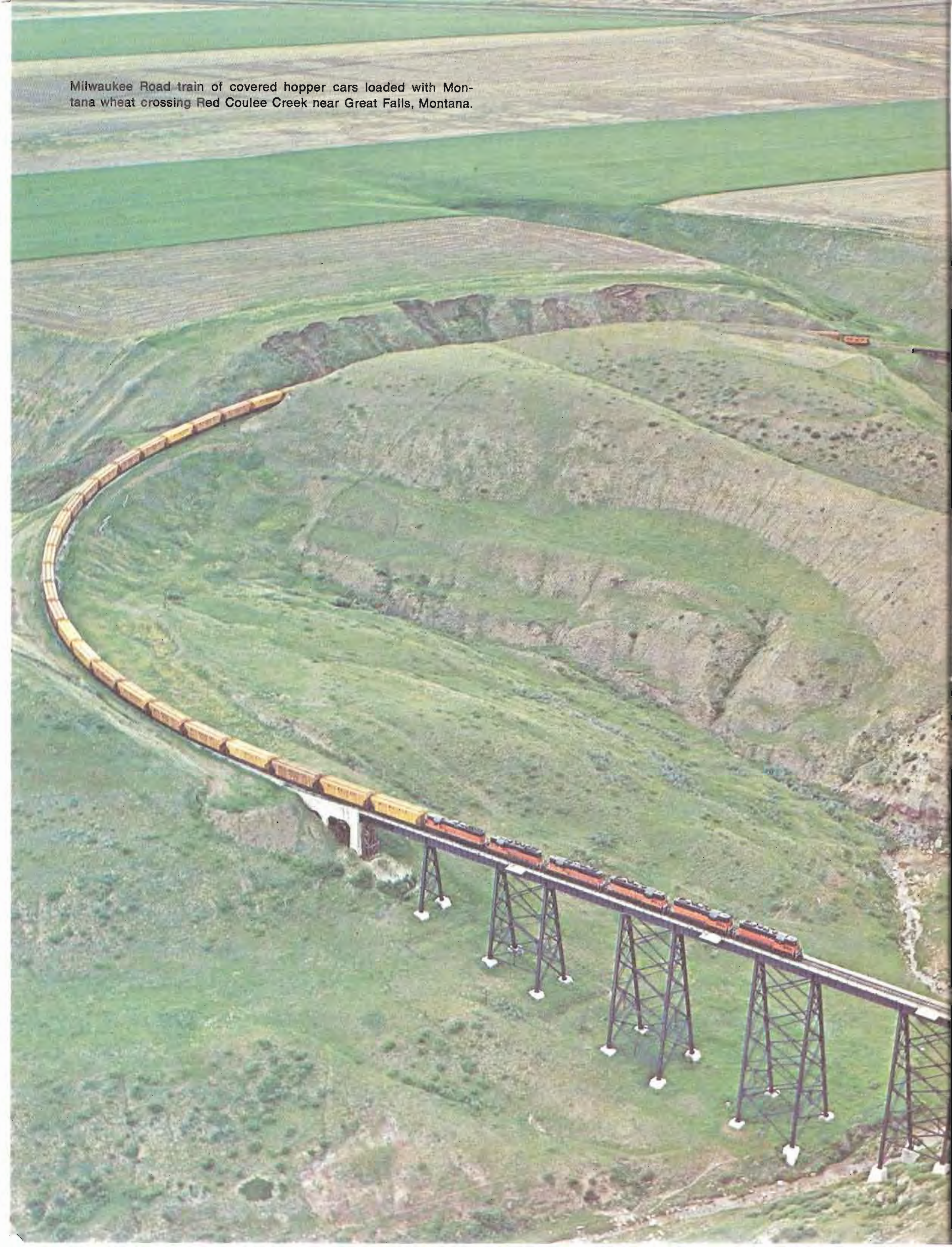
YEAR	PASSENGERS CARRIED	PASSENGER MILES	AVERAGE DISTANCE TRAVELED—MILES	PASSENGER REVENUES TOTAL	PER PASSENGER	PER PASSENGER MILE (CENTS)
		† COMMUTATION				
1959	5,521,115	123,694,172	22.40	$ 2,818,185	$ .51	2.278
1960	5,036,666	111,139,202	22.07	3,095,340	.61	2.785
1961	4,215,466	93,091,548	22.08	2,925,821	.69	3.143
1962	4,601,453	101,001,773	21.95	3,191,195	.69	3.160
1963	4,933,427	110,819,138	22.46	3,477,541	.70	3.138
1964	4,801,101	108,726,840	22.65	3,667,391	.76	3.373
1965	4,968,784	113,595,343	22.86	3,864,806	.78	3.402
1966	5,206,590	119,237,506	22.90	4,048,877	.78	3.396
1967	5,588,527	126,741,996	22.68	4,292,212	.77	3.387
1968	5,929,176	132,948,378	22.42	4,699,463	.79	3.535

†Includes cash fares, single and round trip tickets sold for travel within suburban area.

YEAR	PASSENGERS CARRIED	PASSENGER MILES	AVERAGE DISTANCE TRAVELED—MILES	PASSENGER REVENUES TOTAL	PER PASSENGER	PER PASSENGER MILE (CENTS)
		OTHER THAN COMMUTATION				
1959	1,839,572	523,514,965	284.59	$ 12,490,275	$6.79	2.386
1960	1,759,253	515,650,913	293.11	12,095,377	6.88	2.346
1961	1,605,362	419,009,241	261.01	10,229,408	6.37	2.441
1962	1,568,167	391,940,911	249.94	9,958,110	6.35	2.541
1963	1,519,190	364,986,726	240.25	9,231,796	6.08	2.529
1964	1,541,071	353,621,682	229.46	8,858,412	5.75	2.505
1965	1,500,465	336,363,490	224.17	8,452,974	5.63	2.513
1966	1,415,992	321,018,025	226.71	8,046,954	5.68	2.507
1967	1,268,672	270,351,017	213.10	6,921,767	5.46	2.560
1968	1,134,799	228,992,585	201.79	6,080,686	5.36	2.655

Employment and Compensation

YEAR	AVERAGE NUMBER OF EMPLOYEES	TOTAL WAGES	AVERAGE WAGES PER HOUR WORKED	WAGE SUPPLEMENTS PAYROLL TAXES	HEALTH AND WELFARE BENEFITS	AGGREGATE LABOR COSTS AMOUNT	AVERAGE PER EMPLOYEE	AVERAGE PER HOUR WORKED
1959	22,243	$128,399,667	$2.996	$ 9,894,538	$1,819,163	$140,113,368	$6,299	$3.270
1960	20,229	121,135,807	3.109	9,969,699	1,646,241	132,751,747	6,562	3.407
1961	18,406	112,701,787	3.206	9,099,691	2,867,995	124,669,473	6,773	3.547
1962	17,430	112,440,997	3.290	9,407,264	3,051,767	124,900,028	7,166	3.654
1963	16,883	112,688,082	3.330	9,412,272	3,283,233	125,383,587	7,427	3.705
1964	17,000	115,466,193	3.433	9,802,397	4,207,092	129,475,682	7,616	3.849
1965	16,526	119,123,362	3.664	10,197,336	4,539,841	133,860,539	8,100	4.117
1966	16,470	122,977,387	3.784	11,515,053	4,611,812	139,104,252	8,446	4.280
1967	15,665	122,077,114	4.026	12,165,512	4,621,477	138,864,103	8,865	4.579
1968	15,473	128,037,058	4.172	13,478,562	5,418,475	146,934,095	9,496	4.788



Milwaukee Road train of covered hopper cars loaded with Montana wheat crossing Red Coulee Creek near Great Falls, Montana.

BOARD OF DIRECTORS

TERMS EXPIRING:

1969 JAMES M. BARKER, LEO T. CROWLEY, CURTISS E. CRIPPEN, WILLIAM J. FROELICH, ARTHUR M. WIRTZ

1970 J. PATRICK LANNAN, PHILIP W. PILLSBURY, FRANCIS G. McGINN, FRANKLIN B. SCHMICK, JOHN P. WAGNER

1971 ARTHUR S. BOWES, JOSEPH A. MAUN, JOSHUA GREEN, LOUIS QUARLES, EDWIN O. SCHIEWE

EXECUTIVE COMMITTEE

J. PATRICK LANNAN, *Chairman*

CURTISS E. CRIPPEN	FRANCIS G. McGINN
LEO T. CROWLEY	LOUIS QUARLES
WILLIAM J. FROELICH	ARTHUR M. WIRTZ

FINANCE COMMITTEE

LEO T. CROWLEY, *Chairman*

JAMES M. BARKER	†LOUIS QUARLES
CURTISS E. CRIPPEN	EDWIN O. SCHIEWE
†WILLIAM J. FROELICH	JOHN P. WAGNER
J. PATRICK LANNAN	ARTHUR M. WIRTZ

†Alternate Members

OFFICERS

LEO T. CROWLEY
Chairman of the Board....................CHICAGO

CURTISS E. CRIPPEN
President................................CHICAGO

FRANCIS G. McGINN
Vice President—Operation................CHICAGO

EDWIN O. SCHIEWE
Vice President and General Counsel........CHICAGO

RICHARD F. KRATOCHWILL
Vice President-Finance and Accounting......CHICAGO

GEORGE H. KRONBERG
Vice President-Sales and Service..........CHICAGO

WILLIAM D. SUNTER
Vice President-Rates and Divisions..........CHICAGO

BYRON E. LUTTERMAN
Vice President and Western Counsel..........SEATTLE

BURTON J. WORLEY
Vice President-Chief Engineer..............CHICAGO

EDWARD J. STOLL
Vice President-Real Estate and Industrial Development...................CHICAGO

LAWRENCE W. HARRINGTON
Vice President-Labor Relations..............CHICAGO

RAYMOND K. MERRILL
General Solicitor.........................CHICAGO

JAMES P. REEDY
General Solicitor.........................CHICAGO

WILLIAM E. ROSS
Comptroller.............................CHICAGO

JAMES T. TAUSSIG
Secretary................................CHICAGO

CHARLES L. SCHIFFER
Treasurer...............................CHICAGO

CHICAGO, MILWAUKEE ST. PAUL AND PACIFIC RAILROAD COMPANY

516 WEST JACKSON BOULEVARD
CHICAGO, ILLINOIS 60606

THE MILWAUKEE ROAD

STOCK TRANSFER OFFICES

The Chase Manhattan Bank, New York, N.Y. 10015
Room 732, Union Station, Chicago, Illinois 60606

REGISTRARS

The First National City Bank of New York
New York, N.Y. 10022
Continental Illinois National Bank and Trust Company of Chicago, Chicago, Illinois 60690

ANNUAL MEETING

May 13, 1969, Chicago, Illinois

This Annual Report is not and must not be considered as proxy soliciting material, or as a report or document filed pursuant to the Securities Exchange Act, or any rule or regulation thereunder.

ANNUAL REPORT/1968