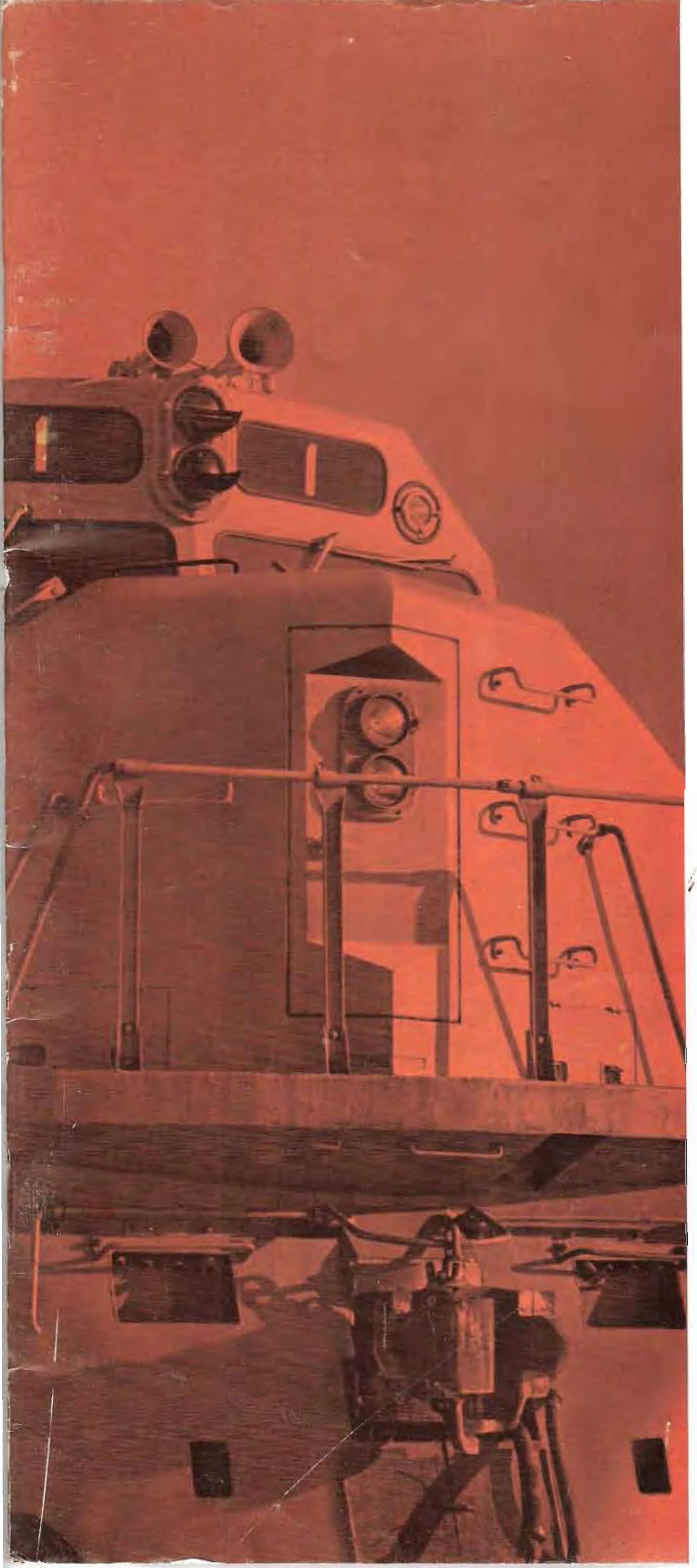
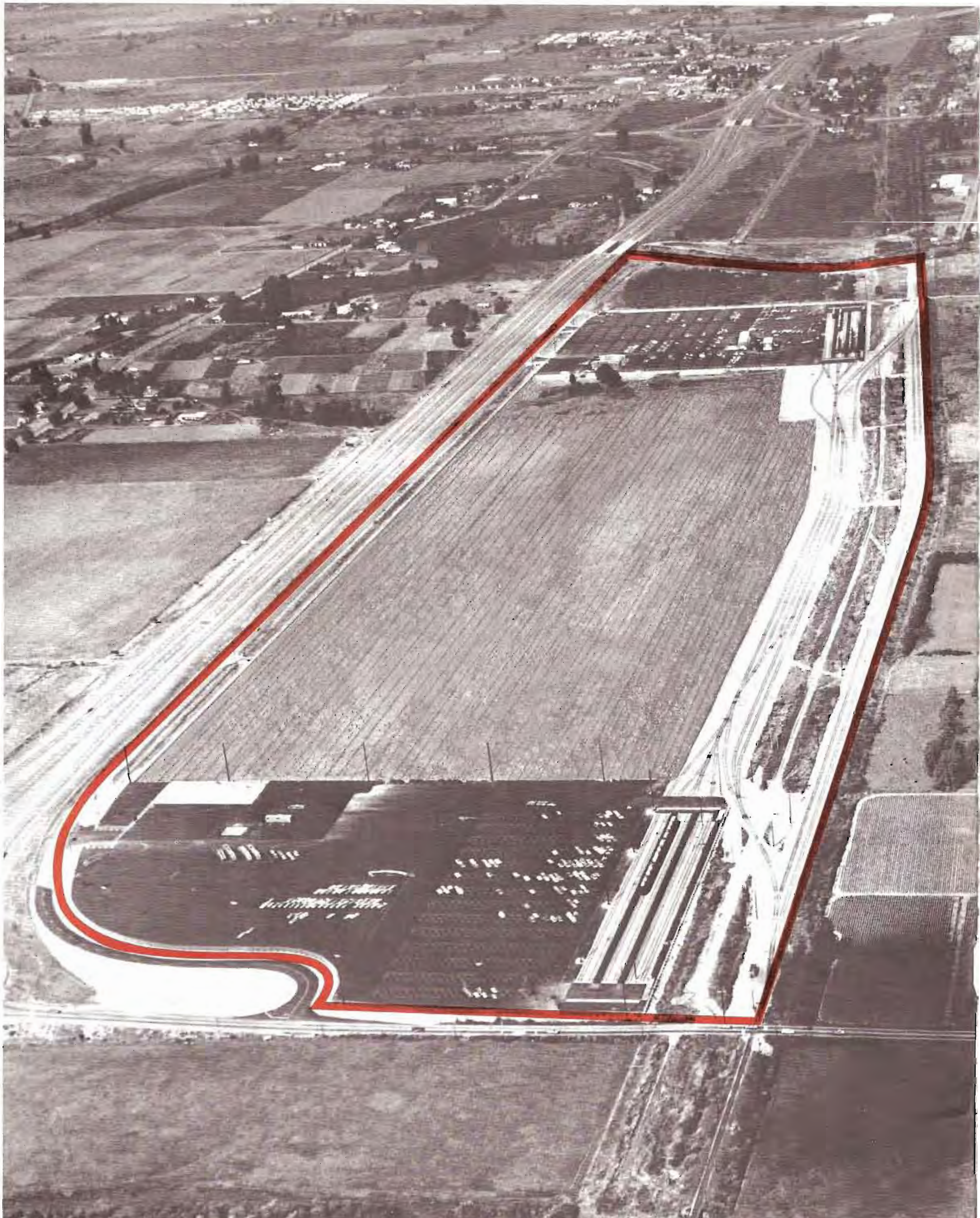


THE MILWAUKEE ROAD

annual report 1969



CHICAGO, MILWAUKEE, ST. PAUL AND PACIFIC RAILROAD COMPANY

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The new automobile marshaling complex at Kent, Wash., as it appeared shortly after being placed in service. New automobiles and trucks can be seen in the paved marshaling areas at each end of the mile-long facility. Main line and yard trackage are at the right side of the facility.

THE MILWAUKEE ROAD

annual report 1969


LEO T. CROWLEY


CURTISS E. CRIPPEN

To the Shareholders

The Milwaukee Road and its subsidiaries experienced disappointing results in 1969, largely as a result of severe weather conditions, nationwide economic uncertainty and unrelenting inflationary pressures.

As indicated in quarterly reports to stockholders, the winter of 1969 was the worst ever recorded in many areas served by this railroad. Bitter cold, excessive snowfall and rock-hard drifts presented serious obstacles to normal operations. While all available men and equipment were assigned to the difficult task of keeping the main lines open for traffic, some branch lines remained snow-clogged for extended periods of time. The floods that followed inevitably in the spring were widespread, disruptive and costly. When they subsided and operations began returning to normal, the railroad estimated that increased manpower and equipment expenses, combined with damage to railroad property and the value of traffic that had been diverted and could not be recovered, brought the company's burden of loss related to weather factors alone during the frustrating four-month period to approximately $7.5 million.

This adverse turn of events in the early months of the year signaled an intensive effort by the railroad to generate new traffic and to meet rising costs by effecting retrenchments in many aspects of the railroad's operations. Although these actions produced encouraging results, the improvement was not of a magnitude sufficient to offset existing deficits. Sharply higher labor costs and the general slowdown in the economy proved to be among the most perplexing problems. The effect of the decline in business activity generally was most evident in the fourth quarter, which is normally the railroad's best income-producing period.

Consolidated operations in 1969 resulted in a net loss of $5,641,369. Although operating revenues reached $275,572,653, operating expenses increased to $238,583,993. In 1968, consolidated net income was $6,036,171 on operating revenues of $274,453,313 and operating expenses of $224,459,195.

The railroad company alone experienced a net loss of $12,888,151 for the full year 1969 on operating revenues of $269,108,190 and operating expenses of $230,631,170. In 1968, railroad-only net income was $4,237,012 on operating revenues of $268,675,243 and operating expenses of $219,545,067.

In light of these results for 1969 and the uncertainties of the economy in 1970, the board of directors decided at its January meeting to omit payment of a dividend on the Series A preferred stock of the company, it being the judgment of the directors that funds should be conserved to meet other corporate requirements. The board has also determined that, under the respective debt indentures, no interest is payable in 1970 on the outstanding general mortgage bonds, Series A and B, and the 5 per cent income debentures of the company, and that no contingent interest is payable on the modified Terre Haute bonds.

Virtually all of the nation's railroads felt the need for offsetting freight rate increases in 1969, but no relief of this kind was forthcoming until mid-November when the Interstate Commerce Commission tentatively approved an increase of

6 per cent. Welcome as it was, this adjustment came much too late to be of material assistance in 1969, and is totally inadequate to offset the further escalation of general costs confronting the industry in 1970.

It is particularly encouraging to note that during the past year the railroad's grain traffic effected a long hoped-for upturn in volume, showing a carloading increase for the full year of slightly more than 11 per cent. Even more promising gains in this traffic were evident during the early weeks of 1970.

As explained in the "Status of Merger Cases" section of this report, on January 28, 1970, the ICC ordered the reopening of the proceedings in the Milwaukee Road—Chicago and North Western Railway merger proposal for the purpose of affording the two railroads an opportunity to review the merger agreement in light of recent fluctuations in stock market prices and to negotiate a modification of the agreement.

That order was under study on February 25 when Northwest Industries, Inc. announced that it had terminated its exchange offer to the holders of Milwaukee Road preferred and common shares.

Under the terms of the plan of reorganization and merger agreement, consummation of the exchange offer was a prerequisite to the merger. As an alternative means of unifying the two properties, Northwest Industries has offered to sell substantially all the assets of the North Western Railway to the Milwaukee Road.

It has been the view of the Milwaukee Road management that the merger is desirable, and it has been our hope that the Commission would approve the merging of the two railroads. We will now review the entire situation in light of the outstanding ICC order and the offer of Northwest Industries to sell the assets of the Chicago and North Western Railway.

Supreme Court approval of the merger forming the Burlington Northern, Inc. came as welcome news to the Milwaukee Road, which has supported that merger, provided conditions necessary for its own protection were included. Barring unforeseen developments, that merger will have gone into effect by the time this report is published, and the Milwaukee will be in a position to move forward with the implementation of those conditions.

After 60 years of intense competition with both the Great Northern and Northern Pacific Railroads across the northern tier of states, the Milwaukee Road now finds itself in the challenging role of principal competitor of the newly unified system.

The Milwaukee will meet that challenge aggressively. It welcomes its new role and the long-awaited opportunity to compete on equal terms throughout a vast area of growing economic importance.

Leo T. Crowley
Chairman of The Board

Curtiss E. Crippen
President

February 25, 1970

At the meeting of the Milwaukee Road board of directors on February 25, 1970, Leo T. Crowley announced that he would step down as chairman, effective March 16. He will continue as a director. At that meeting, William J. Quinn, former president of the Milwaukee, was elected a director and also chairman of the board and principal officer, effective March 16, to succeed Mr. Crowley.

Highlights of Operations

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

	1969	1968
Operating revenues	$275,572,653	$274,453,313
Operating expenses	238,583,993	224,459,195
Taxes, federal, state and local	25,346,778	24,210,653
Net operating income (loss)	(10,696,762)	10,004,765
Other income—net	15,674,611	9,999,875
Income available for fixed charges	4,977,849	20,004,640
Fixed charges	7,819,536	8,362,386
Contingent charges	2,799,682	5,606,083
Net income (loss)	$ (5,641,369)	$ 6,036,171
Net income (loss) per share of Common	$ (2.59)	$ 1.58
Times fixed charges earned	.64	2.39
Times Preferred dividend earned	—	2.33

CHICAGO, MILWAUKEE, ST. PAUL AND PACIFIC RAILROAD COMPANY

	1969	1968
Traffic statistics:		
Net ton-miles of revenue freight (thousands)	17,188,156	17,195,927
Freight revenue	$239,233,790	$236,708,355
Passengers carried one mile	331,320,326	362,592,607
Passenger revenue	$ 10,415,448	$ 10,757,505
Gross ton-miles per train-hour	78,633	80,557
Gross tons per train	3,671	3,563
Net ton-miles per train-hour	35,233	36,274
Net tons per train	1,645	1,604
Total wages	$136,267,833	$128,091,703
Average number of employees	15,636	15,473
Miles of road at December 31	10,479	10,512

Status of Merger Cases

Milwaukee—North Western

On February 25, 1970, Northwest Industries, Inc. announced that its exchange offer to the holders of preferred and common shares of Milwaukee Road had been terminated. Under the terms of the plan of reorganization and merger agreement between Milwaukee Road and the North Western Railway, consummation of the exchange offer is a condition to the proposed merger of the two railroads. As an alternative means of unification of the two properties, an offer has been made to sell substantially all the assets of the North Western Railway to the Milwaukee Road. The termination of the exchange offer and the alternate proposal to sell the assets to the Milwaukee followed an order of the Interstate Commerce Commission, dated January 28, 1970, reopening the merger proceeding for a period of 30 days to afford applicants opportunity to negotiate modification of the provisions of the merger agreement applicable to the exchange of common stock between Northwest Industries and the Milwaukee, or if applicants are unable to arrive at such modification, to afford them an opportunity, jointly or individually, to request the Commission to fix the terms of the exchange of common stock. In its order, as amended February 5, 1970, the Commission stated that it appeared "that due to recent fluctuations in stock market prices upon which the exchange terms were based, the foregoing guaranteed value of $80.00 would now result in merger terms so disadvantageous to shareholders of Northwest Industries that this Commission could not find the terms and conditions of the proposed merger to be just and reasonable as required by Section 5 of the (Interstate Commerce) Act."

In light of the Commission order, the termination of the exchange offer by Northwest Industries, and the offer to sell to Milwaukee Road the assets of the North Western Railway, your directors are reviewing the entire situation.

Union Pacific—Rock Island

In the 1968 Annual Report to Stockholders it was noted that hearings before Interstate Commerce Commission examiners had ended and briefs had been filed by the many interested parties. The record, however, has now been reopened for further hearings concerning the Union Pacific Corporation, a holding company newly formed by the Union Pacific Railroad. A final report and order of the Commission is now not expected before 1971. The Milwaukee has opposed the Union Pacific proposal to merge with the Rock Island because of anticipated traffic losses and has supported the North Western's bid for control as being in the best interests of a merged Milwaukee-North Western.

Louisville and Nashville—Monon

In the Interstate Commerce Commission proceeding in which the Louisville and Nashville seeks to merge the Monon, the Milwaukee has requested trackage rights between Bedford, Ind. and Louisville, Ky. to strengthen its Terre Haute line. Such rights would enable the Milwaukee to reach a major terminal, Louisville, and make the Milwaukee a meaningful competitor for traffic via that gateway. Our request was strongly supported by shippers, state regulatory commissions and the Southern Railway. Recently the hearing examiner in a proposed report recommended the granting of trackage rights to the Milwaukee as requested. Exceptions to his recommendation and replies thereto will now be filed by parties of interest. An order by the Commission is expected during the current year.

Great Northern—Northern Pacific—Burlington Lines

The United States Supreme Court on February 2, 1970 upheld the approval by the Interstate Commerce Commission of the consolidation of the Great Northern, Northern Pacific and Burlington, subject to conditions which should substantially strengthen the Milwaukee's competitive position in relation to the merged lines. These conditions would include:

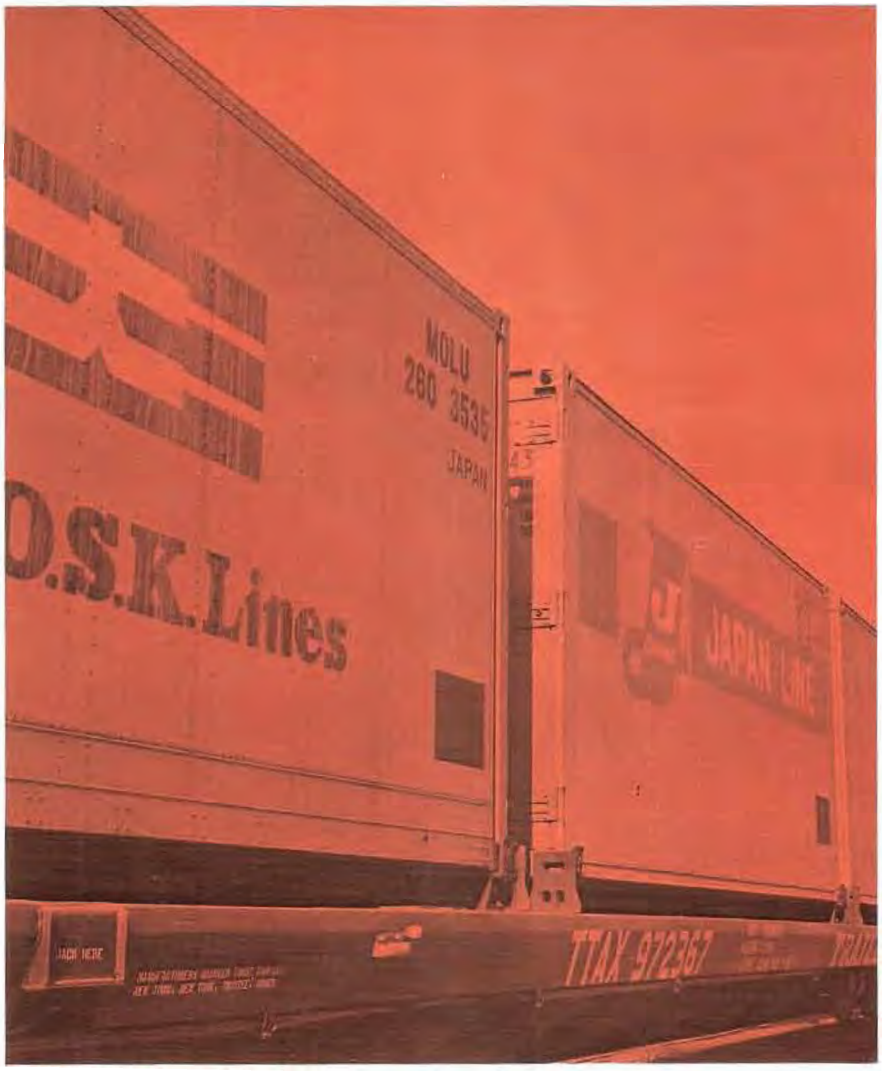
1. The opening of 11 gateways in North Dakota, Montana and Washington, enabling the Milwaukee to compete for the long haul of a substantial volume of traffic west of the Twin Cities which it is now compelled to surrender or receive from the Northern Lines at the Twin Cities.

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 single line through 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.

Further proceedings before the Commission are necessary to obtain final approval of the extension of our service to Portland, Billings, and over the merged company's tracks north of Seattle between Renton-Snohomish and Everett-Bellingham, Wash. When these formalities have been completed, the Milwaukee will realize the full benefit of the protective conditions, enabling it to compete more effectively for east-west traffic between Chicago and the Pacific Northwest and for north-south traffic between Portland and the Canadian border.



Containers are shown en route from Japan to Chicago aboard the Milwaukee Road's "Thunderhawk" fast freight train.

New automobiles being unloaded from tri-level automobile rack cars in the automobile marshaling complex at Kent, Wash.

Freight Traffic Developments

Despite the slowdown in the nation's economy and a serious diversion of traffic during periods of heavy winter weather and widespread floods, the Milwaukee Road managed to keep carloadings up to about the 1968 level and to effect a modest increase in consolidated operating revenues.

Grain traffic, responding to an improved market and other changed conditions, posted an increase of better than 11 per cent for the year. This was a welcome change from the downward trend of grain traffic throughout both 1967 and 1968. Increased loadings were even more evident in January of the current year as grain carloadings scored a 28 per cent gain over January 1969. This development is particularly noteworthy considering the substantial supply of grain still available for transportation throughout Milwaukee Road territory.

"All other metal products", a traffic classification which also makes an important contribution to Milwaukee Road carloadings and revenues, was up more than 10 per cent for the year 1969. Soybean loadings gained more than 38 per cent and non-metallic minerals, excluding fuels, rose almost 23 per cent. Several other commodities also showed encouraging increases.

For the tenth consecutive year, piggyback traffic, including containers, showed a solid gain, rising 10 per cent over 1968.

Import-Export Traffic

Revenues from import-export traffic moving via the Milwaukee Road and the Pacific North Coast ports increased approximately 66 per cent in 1969 by comparison with 1968 and a further gain of about 40 per cent is anticipated in 1970 over 1969. The inauguration of regularly-scheduled Japanese flag container vessel service into the Pacific North Coast ports, starting in June 1970, is a major factor in this expected increase.

Despite these encouraging developments, however, a number of important commodities failed to move during 1969 in the volume that had been anticipated, and by the close of the year showed substantial decreases. Among these were lumber, iron and steel products and motor vehicles and parts.

Piggyback/Container Facilities

The expansion of piggyback/container facilities at Seattle, the Twin Cities and Chicago (Bensenville), plus the acquisition of container handling equipment by the Milwaukee Motor Transportation Company, the motor carrier subsidiary of the railroad, enabled the railroad to continue its leadership in the movement of traffic to and from the Pacific North Coast ports.

To keep pace with the traffic trend, plans have been developed for tripling the railroad's piggyback/container facilities at Seattle in 1970. The storage and marshaling area will be expanded to four times its present capacity.

Plans for the expansion of the Bensenville terminal provide for developing approximately seven additional acres of marshaling area for trailers and containers held for customs inspection prior to their being transferred to other carriers.

A second Piggy Packer, a mechanical device for handling trailers and containers, was installed at Piggyback Park in Bensenville in 1969 for the exclusive handling of overseas containers. Altogether, the railroad is now using four Piggy Packers, there being one in service at St. Paul and another at Seattle, in addition to two at Bensenville.

During 1969 the motor carrier put into service 600 new piggyback trailers, including heavy-duty refrigerated meat-rail trailers, open tops, flatbeds, and regular dry vans, to supplement its fleet of such equipment.

The booming Alaskan economy, largely a result of recent oil discoveries on the North Slope, is of particular significance to the Milwaukee Road. It is expected that substantial movements of building materials, construction equipment, foodstuffs and hardware, as well as materials for pipeline construction, will be generated during 1970. Shipments from the lower 48 states to Alaska through the Port of Seattle offer an opportunity for increased traffic.

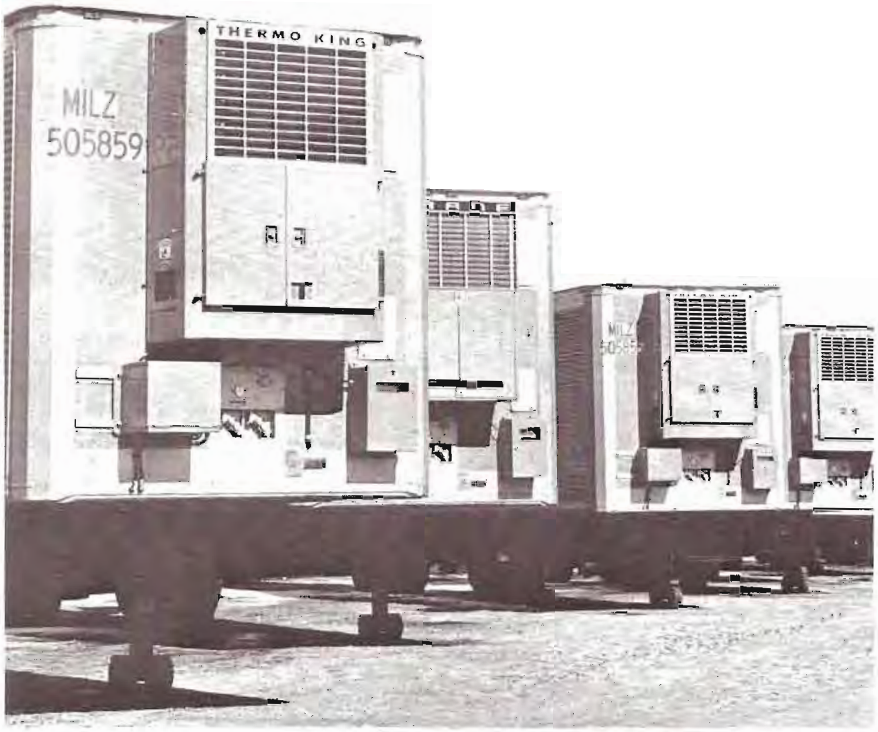
The railroad has developed an intermodal arrangement for moving bulk commodities, both liquid and solid, to bulk distribution points where they will be loaded aboard motor carriers for delivery to customers over wide areas. The plan, involving traffic formerly handled exclusively by motor carrier, is expected to begin producing new revenue early in 1970.

Automobile Marshalling Complex

The new automobile marshaling complex built by the Milwaukee Road at Kent, Wash., promises to be a source of important new revenue for the Milwaukee. It offers the most advanced concepts for intermodal transportation, plus the advantage of being centrally located in a major market area with room for future expansion.

Automobiles and trucks from assembly plants all over the country

Milwaukee Road rail-barge service between Seattle-Tacoma and the Olympic Peninsula marked its 60th anniversary in July 1969. Barges loaded with freight cars are shown here leaving Seattle for another trip across Puget Sound.



New refrigerated piggyback trailers delivered in the summer of 1969 are shown lined up for final inspection before being placed in service.

are now being transported to Kent on multi-level railroad freight cars, then re-loaded aboard haul-away highway transports for movement to dealers. It is expected that at least 100,000 automobiles and trucks of all makes will be handled at the complex annually.

With the new complex at Kent and expanded automobile handling facilities at other points on the railroad, the Milwaukee Road can anticipate a greatly increased volume of motor vehicle traffic once production returns to normal.

Paralleling the drive for more traffic is the increased attention to safe handling of freight entrusted to the Milwaukee's care. This program gives particular attention to overspeed impact in the switching and coupling of freight cars. The slogan, "Never Over 4 Miles Per Hour", the standard maximum safe coupling speed, is being used on various reminder devices and will continue to be stressed throughout 1970 by special committees now at work on the program.

Milwaukee Road rail-barge service between Seattle-Tacoma and the Olympic Peninsula in Washington marked its 60th anniversary in 1969, an event which attracted considerable public attention. The Milwaukee Road began offering water transportation as a supplement to its rail operations shortly after the inauguration of through service between Chicago and Seattle-Tacoma in the summer of 1909.

In the view of the Milwaukee Road and many other railroads, it is now imperative that the 6 per cent freight rate increase tentatively approved by the Interstate Commerce Commission late in 1969 be made permanent and that an additional increase of substantial proportions be granted as quickly as possible.

Milwaukee Road commuter train shown at Glenview station near Chicago.

The upward trend of Milwaukee Road commuter patronage in the Chicago area continued in 1969, amounting to a gain in excess of 2.0 per cent for the full year.

Recognizing the need for additional coaches and locomotives with which to accommodate this increasing traffic, the Milwaukee Road is in conversation with officials of affected suburban communities, looking to the creation by those communities of a mass transit district eligible to receive federal funds for such equipment under the terms of the Mass Transportation Act of 1964. This action is similar to efforts now being made, or already successfully concluded, by communities on some other railroads providing commuter service.

Special Promotions

Special promotions by the Passenger Traffic Department, such as one-day excursions from Chicago to Wisconsin Dells, Wis., and Mississippi River park areas near Savanna, Ill., also continued to be well patronized in 1969. Student educational tours during the school year from September 1968 to June 1969 showed an increase in popularity, with 49,140 students taking these tours in organized groups on regularly-scheduled trains. The majority of the tours, involving trips from points in Minnesota and Wisconsin to Chicago, were of one, two or three days duration.

The continuing expansion and improvement of highways, together with the steady decline in intercity passenger train patronage, precipitated actions resulting in the discontinuance of several passenger trains and a reduction in the frequency of operation of another pair of trains.

In April 1969, the passenger trains in daily service between Minneapolis, Minn. and Aberdeen, S.D. were withdrawn, and in August a pair of trains operating daily between Chicago and St. Paul-Minneapolis was also discontinued. Although the Interstate Commerce Commission denied the railroad's attempt to discontinue a pair of trains already operating on limited schedules between Chicago and Madison, Wis., authority was granted for the further reduction of the schedules to provide for week end operation only. Together, these actions concluded during the year 1969 resulted in savings in the range of $514,000 annually.

The most significant action of this kind undertaken by the Milwaukee Road recently was the discontinuance of the famous Afternoon Hiawatha trains between Chicago and St. Paul-Minneapolis. In August 1969, the railroad notified the ICC of its plan to withdraw these trains from service, citing an out-of-pocket net loss of $436,506 incurred by them in 1968 and $301,232 in the first five months of 1969. Because of the popularity these trains had enjoyed in former years, the railroad mounted an extensive public relations effort prior to notifying the ICC of its intention. This effort to communicate the impelling reasons for its action provided Milwaukee Road management with encouraging evidence of public understanding. In January of this year, the ICC acted favorably on the railroad's application, and the trains made their final runs on January 23. The resulting annual savings will be about $569,000.

The Milwaukee continues to operate the Morning Hiawatha and the Pioneer Limited, both of which provide daily service in each direction between Chicago-Milwaukee and St. Paul-Minneapolis.

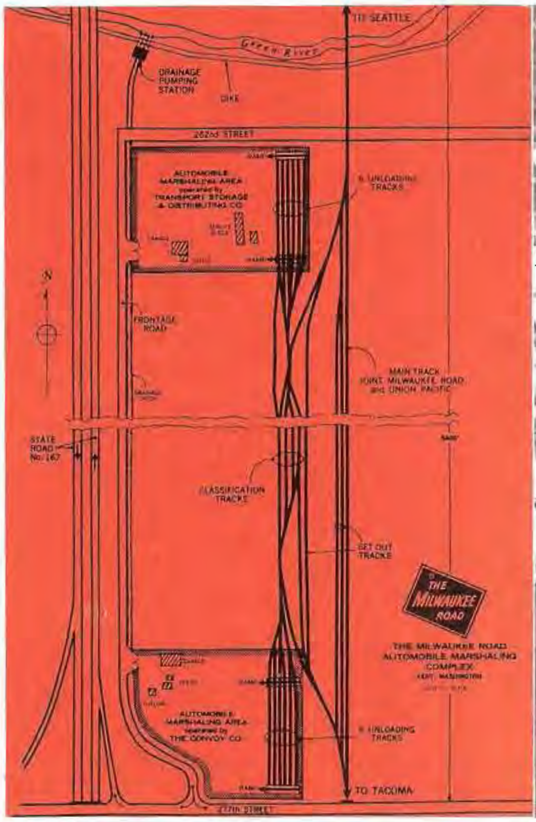
"Cities" Trains

In October 1969, two pairs of the "Cities" trains which the Milwaukee Road operated between Chicago and Omaha were consolidated to conform with a new schedule put into effect by the Union Pacific Railroad which handles the trains west of Omaha.

Nationwide expressions of public concern regarding the preservation of intercity railroad passenger service, particularly evident within recent months, has produced a spate of plans designed to maintain certain passenger services thought to be required by the public. These proposals have come from a variety of sources, including agencies of the federal government and from the Association of American Railroads. Because of the unmistakable deficits involved in such operations, all of the plans recognize the need for governmental sharing of that burden.

For a variety of reasons, including the highly political nature of the problem at this juncture, there appears to be no uniformity of opinion as to the long range merits of any of the plans.

Real Estate and Industrial Development



Map showing track layout and other features of the automobile marshaling complex constructed by the Milwaukee Road at Kent, Wash.

Artist's rendering of the 610-acre industrial park at suburban Schaumburg, Ill. indicating how the area will appear when developed. The Milwaukee Road, which will serve the park exclusively, sold it to Centex Corporation in 1969.

The most significant single item of industrial development undertaken by the Milwaukee Road in 1969 culminated in the dedication on October 1 of the big automobile marshaling complex at Kent, Wash., located 18 miles south of downtown Seattle and midway between Seattle and Tacoma.

The distribution center is the largest and most modern facility of its kind in the Pacific Northwest and one of the most important developments on the railroad in many years. Rail haul is used for the movement of automobiles and trucks of all makes into the complex from assembly plants located throughout the country. Upon arrival at the yard's two separate marshaling areas, vehicles are unloaded from multi-level freight cars and re-loaded aboard haul-away highway transports for delivery to dealers throughout a wide area. The latter operation is handled by independent transport firms.

The Milwaukee Road ran a special train from Seattle to Kent for 150 guests attending the dedication of the facility. Among the guests were automobile and truck manufacturers from the East, as well as civic and industrial leaders from the Pacific Northwest.

The locating of the site, its presentation to the automobile manufacturers, the actual construction of the facility and all other aspects of the Kent project were the exclusive creation of the Milwaukee Road. However, the Union Pacific Railroad later elected to acquire a half interest in the project under the terms of a long-standing agreement with the Milwaukee relating to their joint ownership of the main line at Kent. Consequently, the yard is now being operated by the two railroads on an equal basis.

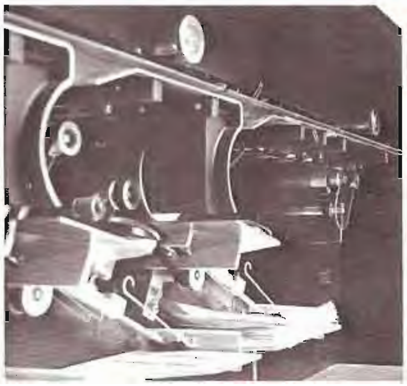
During 1969, the railroad and its Milwaukee Land Company subsidiary negotiated 234 real estate sales totaling $11.9 million. Lease rental income in 1969 exceeded $2,500,000 for the first time.

In other industrial developments the railroad worked successfully with 123 industries in the establishing of new rail-served facilities or the expansion of existing facilities in Milwaukee Road territory.

Management Services

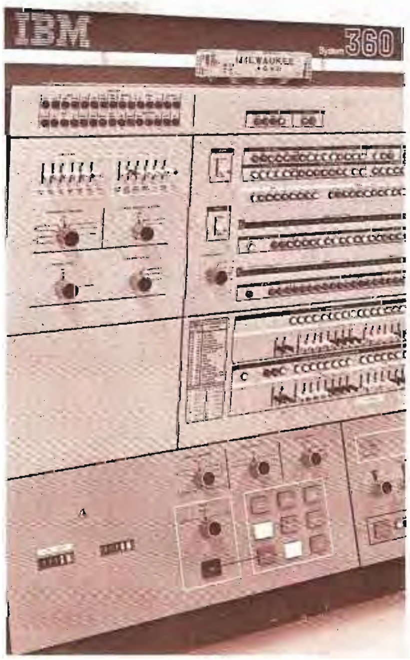
The Management Services Department, initially formed to handle corporate study and planning activities, with responsibility for computer operations, was expanded in 1969 to embrace market research under the direction of a vice president—management services.

The Milwaukee Road achieved a railroad industry "first" with the installation of an IBM 1287 optical reader capable of recognizing both hand-printed and machine generated numeric characters on a wide variety of business documents. At present, the OCR (optical character recognition) equipment is being used to simplify and expedite payroll document work, but will be adapted to other aspects of computer processing in the future.



Views of the recently installed IBM 1287 (optical character recognition) machine which reads numeric characters and feeds the information directly to a computer for the development of various documents.

The IBM 360, model 40 (lower left) was installed to update Carscope, the railroad's car reporting center. Magnetic disk data storage units are shown at lower right.



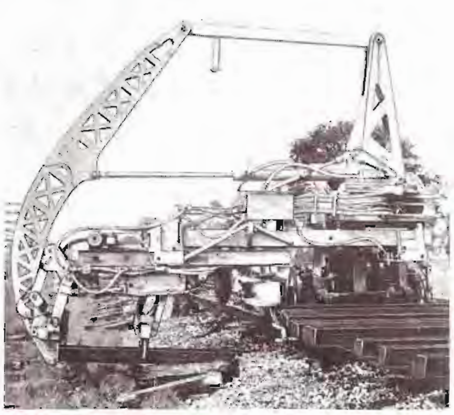
Carscope

The storage and processing capability of Carscope, the freight car information center located in the Transportation Department in Chicago, was increased several times over with the installation in 1969 of larger and faster computer equipment. As a result, Carscope is now performing more quickly and completely its primary function of maintaining up-to-date records on all freight cars, both loaded and empty, located on the lines of the Milwaukee Road at any given time. The data produced is used to furnish customers with current car location information, and also to provide the railroad with a means of improving car availability, utilization and movement.

The new computer system provides control over a communications network which the Signals and Communications Department improved extensively in 1968 and 1969 with the installation of solid state teleprinter selectors and the most modern teletypewriter machines.

Pre-assembled 39-foot sections of track are shown being placed by a crane at the Kent, Wash., automobile marshaling complex.

The tie injector machine shown below is the main unit of a high production gang. Average production varies between 700 and 900 ties per shift, depending on actual on-track time.



Engineering Programs

A heavy program of track maintenance, begun in 1968, was continued in 1969 with an accelerated schedule of tie installation, principally in Wisconsin, South Dakota and Montana. To carry out the program, existing personnel and equipment were augmented by three completely mechanized tie renewal crews equipped with approximately $1 million in new roadway machinery acquired as part of the 1969 budget. This program will continue at a stepped-up pace in 1970.

Construction of the large automobile marshaling complex at Kent, Wash., referred to in the "Real Estate and Industrial Development" and "Freight Traffic Developments" sections of this report, was begun in mid-April 1969 and was rushed to completion in early August, in time to receive 1970 model vehicles.

Of the 133 acres embraced by the complex, 49 are occupied by track layouts, paved marshaling areas and other facilities, the remainder being left for future expansion. Two 20-acre parcels, one at the south end and one at the north end of the mile-long layout, have been paved for the unloading, parking and reloading of motor vehicles onto highway transports. Together, the marshaling areas have a storage capacity of 2,450 automobiles and trucks, although the plan of operation contemplates prompt movement of vehicles to their ultimate destinations.

Each marshaling area has six unloading tracks, for a total of 12 with a capacity of 72 multi-level freight cars. In addition, four classification tracks hold a total of 71 cars, and three set-out tracks have a capacity of 124 cars. Total capacity of the facility at present is approximately 270 railroad freight cars.

There are servicing facilities in each of the marshaling areas for the highway trailer equipment of the two transport firms. These include garages for repair work, washing installations, fuel storage, and facilities for lubricating and fueling the transports.

Among the principal construction projects to be completed in 1970 are those involving major expansions of piggyback and container facilities in Seattle and Bensenville (near Chicago) as outlined under "Freight Traffic Developments".

A large scale conversion program designed to adapt the railroad's communication network for use with the new IBM system 360/40 computer installed in the Carscope office in Chicago, was completed in 1969. The Signals and Communications Department began the project in 1968, but the greater part of the work was done in 1969. Altogether, the railroad installed 149 solid state teleprinter selectors and associated equipment at automatic teleprinter terminals in the course of the two-year program.

In keeping with the new emphasis being placed on environmental pollution control, the Milwaukee Road will expand its program for industrial waste disposal. A number of the railroad's boilers and sewage and other waste control systems will be modified and improved to assure compliance with federal, state and local requirements.

Freight Car and Locomotive Programs

During 1969 the Milwaukee Road equipment fleet was upgraded by the addition of 25 new diesel locomotives, including nine of 3,600 h.p. capacity, eleven of 3,000 h.p. and five 2,300 h.p. units of a new lightweight type for branch line service. The nine 3,600 h.p. locomotives are designed for sustained high speed freight operation over long distances, such as the runs between Chicago and the Pacific Northwest.

The diesels acquired as a part of the Milwaukee's 1969 budget bring to a total of 137 the number of new locomotives added to the railroad's fleet within the past five years. Practically all of them are of heavy horsepower.

In addition to the new locomotives acquired in 1969, the railroad rebuilt 18 units in company shops and upgraded the units by the installation of new diesel engines, increasing the horsepower from 1,750 to 2,000.

Five pairs of locomotives assigned to time freight service in mountain territory were equipped with Locotrol, a recently developed binary-logic and radio system which enables the engineer in the lead locomotive to coordinate the acceleration and braking of the Locotrol units, regardless of where they are located in the train.

Freight cars added to the fleet in 1969 included 200 box cars of 70-ton capacity, 50 100-ton gondola cars, 50 100-ton covered gondola cars, 150 wood chip cars of 100-ton capacity and 10 specially equipped box cars for the handling of automobile parts.

The railroad's freight car rebuilding program put 664 cars into like-new condition for service. In addition, improvements were made to 626 other types of freight cars.

The Milwaukee Motor Transportation Company, a wholly owned subsidiary, acquired 600 new piggyback trailers including 250 refrigerator vans; 200 dry vans; 50 high cubic capacity drop-frame trailers especially suitable for bulky but relatively light loads; 50 flat bed trailers; 30 open top units suitable for carrying steel, machinery and other shipments too large to go through regular trailer doors; and 20 half-side open top trailers.

Aside from plans to acquire certain special-purpose freight car units, budgeting for new rolling stock acquisitions in 1970 has not been finalized because of the tight credit situation and concern about the slowing of business activity. However, a locomotive rebuilding program similar to the 1969 program is planned for 1970 and it is expected that freight car rebuilding programs will be continued.

Labor Negotiations

Negotiations conducted on a national level in 1969 by the railroads and the labor organizations representing locomotive engineers, conductors and signalmen, resulted in agreements providing for increased wages and other benefits. These agreements followed essentially the pattern already established for 1969 with other organizations representing employees of the Milwaukee Road.

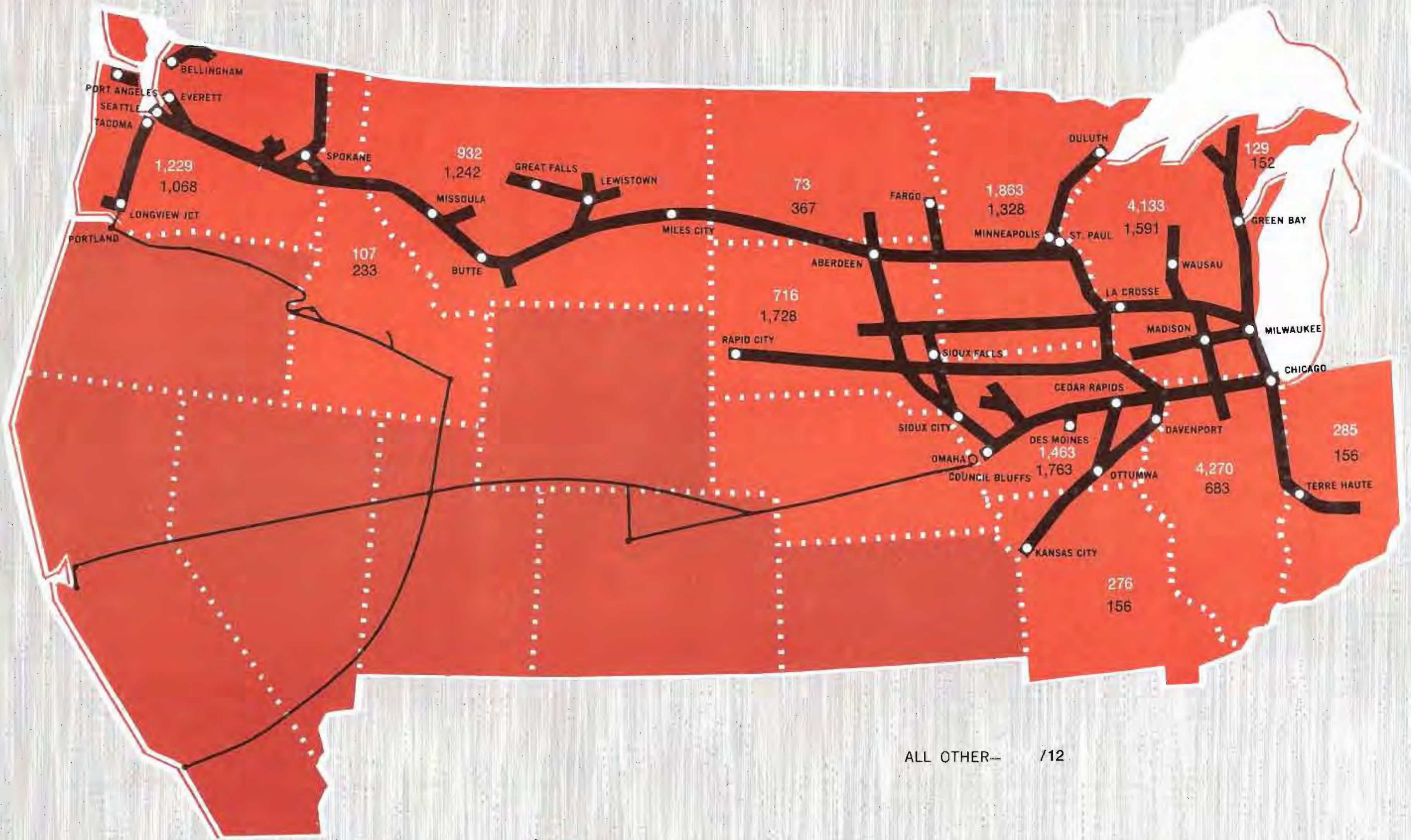
National negotiations with several shopcraft organizations relative to fringe benefits only were productive of new agreements providing principally for liberalized vacation and holiday benefits.

On December 4, 1969, the nation's railroads arrived at a tentative wage and rules modification agreement with the so-called "metal crafts", the wage portion of which covered both 1969 and 1970. This agreement, involving four of the unions within the general shopcraft classification, failed of ratification by one of the unions, with the result that the industry was brought close to a national work stoppage on January 31. The parties resumed negotiations and as this report was being prepared no settlement had been reached.

The Milwaukee Road and other railroads which formerly had agreements with the Pullman Company for the operation of sleeping cars, effected complete withdrawal from Pullman operations in 1969. The Milwaukee now staffs its sleeping cars with its own forces.

Labor costs in the railroad industry have been increasing steadily and at a rate that is causing profound concern. On the Milwaukee Road, these costs rose approximately $8.7 million in 1968 compared with 1967. In 1969, taking into account provision for increases to the "metal crafts" according to the tentative agreement of December 4, 1969, aggregate labor costs rose another $9.8 million. In both instances, the figures include wages and wage supplements such as payroll taxes, health and welfare benefits and other fringe benefits.

At the time this report was being prepared, it was not possible to determine the magnitude of further increases to be borne by the Milwaukee Road in 1970, as the railroad will be involved in negotiations for wage and fringe benefits with all of the organizations representing employees on the property. In most instances, these negotiations will be conducted on a national basis.



America's Resourceful Railroad

THE MILWAUKEE ROAD

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 1969....15,636
Total *Miles of Road* as of December 31, 1969......10,479

Consolidated Balance Sheet

December 31, 1969 with comparative figures for 1968

ASSETS

	1969	1968
CURRENT ASSETS		
Cash and temporary cash investments	$ 11,758,592	$ 21,287,915
Accounts receivable	30,269,535	28,258,144
Material and supplies, at cost	16,229,938	15,498,151
Other current assets	3,526,511	2,652,130
Total current assets	61,784,576	67,696,340
SPECIAL FUNDS	2,040,228	2,191,587
INVESTMENTS, at cost (note 5)		
Affiliated companies	18,399,404	18,258,213
Other companies	1,646,542	541,384
Total investments	20,045,946	18,799,597
PROPERTIES (note 3)		
Road	656,473,276	650,154,901
Equipment	353,502,860	371,394,465
Other elements of investment (credits)	(121,599,158)	(121,946,201)
	888,376,978	899,603,165
Less allowances for depreciation and amortization	287,071,980	287,109,894
Transportation properties	601,304,998	612,493,271
Other property, less depreciation	8,935,931	14,294,290
Total properties	610,240,929	626,787,561
OTHER ASSETS AND DEFERRED CHARGES	11,057,017	6,538,828
Total assets	$705,168,696	$722,013,913

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

December 31, 1969 with comparative figures for 1968

LIABILITIES AND SHAREHOLDERS' EQUITY	1969	1968
CURRENT LIABILITIES		
Note payable to bank	$ 4,899,000	$..........
Accounts payable	26,394,289	29,365,112
Payroll and vacation pay	11,987,607	10,567,855
Accrued taxes (note 4)	8,459,902	8,265,147
Other current liabilities	413,538	478,199
Total current liabilities (exclusive of debt installments due within one year)	52,154,336	48,676,313
DEBT INSTALLMENTS DUE WITHIN ONE YEAR	14,200,658	16,084,334
LONG-TERM DEBT (note 5)		
Mortgage bonds	123,491,200	124,434,200
Five per cent income debentures	55,634,000	55,634,000
Equipment obligations	73,368,645	85,918,885
Other	188,788	114,924
Total long-term debt	252,682,633	266,102,009
RESERVES AND OTHER LIABILITIES	9,143,621	5,934,180
Total liabilities	328,181,248	336,796,836
SHAREHOLDERS' EQUITY		
Capital stock (note 6)		
Common Stock—no par value (stated value $100 per share). Authorized 2,637,451 shares (including 311,274 shares reserved for conversion of outstanding General Mortgage bonds, Series B, and 21,250 shares reserved under the restricted stock option plan); issued 2,179,892 shares	217,989,200	217,984,200
Preferred Stock—par value $100 per share, 5% participating. Authorized 1,150,000 shares; issued 518,652 shares	51,865,200	51,865,200
	269,854,400	269,849,400
Retained income	107,133,048	115,367,677
Total shareholders' equity	376,987,448	385,217,077
CONTINGENT LIABILITIES (note 7)		
Total liabilities and shareholders' equity	$705,168,696	$722,013,913

Statement of Consolidated Income

Year ended December 31, 1969 with comparative figures for 1968

	1969	1968
OPERATING REVENUES		
Freight	$245,496,831	$242,435,729
Passenger, mail and express	16,696,090	19,671,495
Other	13,379,732	12,346,089
	275,572,653	274,453,313
OPERATING EXPENSES (including depreciation and retirement charges of $18,606,188 in 1969 and $19,045,816 in 1968)		
Transportation	120,002,982	115,738,340
Maintenance of way and structures (note 2)	45,097,879	38,122,487
Maintenance of equipment	46,789,821	44,534,496
Traffic	7,626,412	7,697,440
General and other	19,066,899	18,366,432
	238,583,993	224,459,195
Net revenue from operations	36,988,660	49,994,118
TAXES AND RENTS (note 4)		
Payroll and other taxes	25,346,778	24,210,653
Equipment and joint facility rents, net	22,338,644	15,778,700
	47,685,422	39,989,353
Net operating income (loss)	(10,696,762)	10,004,765
OTHER INCOME		
Gain on sales of properties and timber, net	10,994,238	6,460,273
Dividends and interest	2,119,907	1,384,316
Miscellaneous, net (note 3)	2,560,466	2,155,286
	15,674,611	9,999,875
	4,977,849	20,004,640
FIXED INTEREST ON LONG-TERM DEBT (including amortization of discount)	7,819,536	8,362,386
	(2,841,687)	11,642,254
CONTINGENT INTEREST ON LONG-TERM DEBT (note 10)	2,799,682	5,606,083
Net income (loss)	$ (5,641,369)	$ 6,036,171
PER SHARE EARNINGS (loss) applicable to Common Stock (note 9)	$ (2.59)	$ 1.58

See accompanying notes to consolidated financial statements.

Consolidated Source and Application of Funds

Year ended December 31, 1969 with comparative figures for 1968

	1969	1968
SOURCES		
From operations:		
Net income (loss)	$ (5,641,369)	$ 6,036,171
Depreciation	18,738,745	19,109,014
Accrual for contingent bond interest	2,820,652	....
Other	119,043	210,342
	16,037,071	25,355,527
Salvage and proceeds from property retirements and sales, less gain therefrom included in net income	6,075,550	3,098,815
Equipment borrowing	2,303,260	2,075,850
Federal income tax refunds	....	1,305,443
Decrease in working capital	9,389,787	5,812,105
	$ 33,805,668	$ 37,647,740
APPLICATIONS		
Property additions and betterments	$ 11,552,788	$ 11,817,167
Investments in and advances to jointly-owned terminal and other companies	1,551,530	727,416
Principal payments on equipment debt	16,787,176	16,407,951
Other debt retirement	549,356	4,424,044
Dividend on preferred stock	2,593,260	2,593,260
Prior-period fire loss	425,000	1,200,000
Miscellaneous applications, net	346,558	477,902
	$ 33,805,668	$ 37,647,740

Notes to Consolidated Financial Statements

December 31, 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. Restatements and Reclassifications

Retained income as previously reported as of January 1, 1968 has been restated by adding $1,305,443 in respect of 1969 federal income tax refunds applicable to 1960 and earlier years. Under accounting rules of the Interstate Commerce Commission such refunds must be included in results for the year 1969 and have been so treated in reports to the Commission.

Accounts receivable and accounts payable balances at December 31, 1968 have been reclassified to conform with the presentation used at December 31, 1969. These reclassifications had no effect on net income.

During 1969 the company revalued its second hand rail in accordance with Revenue Procedure 68-46. As a result, maintenance of way and structures expense was reduced by approximately $761,000.

3. 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 $409,071,000 at December 31, 1969. 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 $347,043 in 1969 and $128,682 in 1968.

4. Federal Income Taxes

Federal income tax liabilities have been settled through the year 1960. On the basis of returns filed for the years since 1960 and estimated tax data for 1969, the available unused consolidated loss carryforward as of December 31, 1969 amounted to $42,861,000, which will expire as follows: 1970—$5,647,000, 1971 — $5,901,000, 1972 — $2,238,000, 1973 — $2,840,000, 1975 — $10,542,000, 1976 — $15,693,000. The available investment credit carryforward as of December 31, 1969 amounted to approximately $12,072,000, which will expire as follows: 1970 — $1,494,000, 1971 — $1,474,000, 1972 — $1,941,000, 1973 — $2,900,000, 1974 — $2,861,000, 1975 — $1,073,000, 1976 — $329,000.

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 cumulative amount of income tax benefit arising from the additional depreciation claimed for tax purposes is $50,381,000, after a reduction of $3,119,000 as a result of the net loss in 1969. No consideration has been given to investment credit carryforwards in computing the foregoing amounts.

5. Long-Term Debt

Long-term debt at December 31, 1969, exclusive of installments due within one year, is summarized on page 26 of this report.

Substantially all of the properties of the railroad company and its investments in common stock of certain wholly-owned subsidiaries are pledged under certain mortgages and equipment obligations.

Investments in affiliated companies include $7,111,574 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.

Maturities of long-term debt, exclusive of contingent sinking fund requirements, during each of the years 1970 - 1974 inclusive are $14,200,658, $12,926,756, $11,170,404, $9,423,902, $7,890,111, respectively.

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 shares of its common stock. Option prices are fixed at current market value at the date options are granted. At December 31, 1969, 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 $82,400,960 at December 31, 1969. 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 $56,191,123.

Under long-term noncancelable equipment leases expiring in 1970 through 1989, the Railroad Company and subsidiaries were obligated as of December 31, 1969 to pay rentals of $68,601,890, of which $7,105,818 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 $6,173,500 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 1969 was $1,359,948 and the actuarially computed value of vested benefits total approximately $20,100,000 as of December 31, 1969.

9. Per Share Earnings

Per share earnings applicable to common stock are based upon the number of shares outstanding at the close of each year. For 1969 no recognition was given to a dividend requirement in the computation of earnings per share because of action by the Board of Directors on January 15, 1970 to omit the preferred dividend in respect of the year 1969.

No dilution of per-share earnings results for either 1969 or 1968 if the computation is made assuming that all contingent issuances of common stock had occurred at the beginning of each year. Such contingent issuances would result from conversion of the Series B general mortgage 4½% convertible income bonds, and the granting and exercise of stock options (note 6).

10. Contingent Interest

Contingent interest is payable only to the extent of applicable "available net income" as defined in the debt indentures. Because the amount of such available net income for 1969 was negative, no contingent interest is payable in 1970 in respect of the year 1969. Provision has nevertheless been made in the 1969 accounts for contingent interest which is cumulative. Provision has not been made for 1969 interest ($2,782,500) on the Five Per Cent Income Debentures.

11. Proposed Merger

A Plan of Reorganization and Agreement of Merger, dated July 16, 1968, has been approved by the Boards of Directors and the stockholders 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 Railway 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, 1969 with comparative figures for 1968

ASSETS	1969	1968
CURRENT ASSETS		
Cash and temporary cash investments	$ 9,555,114	$ 18,519,366
Accounts receivable	25,374,053	30,339,518
Material and supplies, at cost	16,010,446	15,318,731
Other current assets	3,297,832	2,449,885
Total current assets	54,237,445	66,627,500
SPECIAL FUNDS	2,040,228	2,191,587
INVESTMENTS	40,944,123	34,888,442
PROPERTIES		
Road and equipment	1,003,147,335	1,014,429,460
Other elements of investment	(121,599,158)	(121,946,201)
Allowances for depreciation and amortization	(282,506,418)	(282,121,451)
Transportation properties	599,041,759	610,361,808
Nonoperating properties, less depreciation	3,960,450	4,166,355
Total properties	603,002,209	614,528,163
OTHER ASSETS AND DEFERRED CHARGES	4,998,552	4,267,124
Total assets	$705,222,557	$722,502,816

LIABILITIES AND SHAREHOLDERS' EQUITY	1969	1968
CURRENT LIABILITIES		
Note payable to bank	$ 4,899,000	$..........
Accounts payable	26,739,563	30,025,876
Payroll and vacation pay	11,850,211	10,457,842
Accrued taxes	8,259,882	8,107,689
Other current liabilities	413,538	478,199
Total current liabilities (exclusive of debt installments due within one year)	52,162,194	49,069,606
DEBT INSTALLMENTS DUE WITHIN ONE YEAR	14,094,696	16,028,372
LONG-TERM DEBT	252,975,845	266,469,085
RESERVES AND OTHER LIABILITIES	9,002,374	5,718,676
Total liabilities	328,235,109	337,285,739
SHAREHOLDERS' EQUITY		
Capital stock		
Common stock	217,989,200	217,984,200
Preferred stock	51,865,200	51,865,200
	269,854,400	269,849,400
Retained income	107,133,048	115,367,677
Total shareholders' equity	376,987,448	385,217,077
Total liabilities and shareholders' equity	$705,222,557	$722,502,816

( ) Denotes contra items.

Statement of Income

Year ended December 31, 1969 with comparative figures for 1968

	1969	1968
OPERATING REVENUES		
Freight	$239,233,790	$236,708,355
Passenger, mail and express	16,500,144	19,627,917
Other	13,374,256	12,338,971
	269,108,190	268,675,243
OPERATING EXPENSES (including depreciation and retirement charges of $18,240,813 in 1969 and $18,618,876 in 1968)		
Transportation	116,302,354	112,634,515
Maintenance of way and structures	44,773,138	39,469,053
Maintenance of equipment	44,845,980	42,784,135
Traffic	7,558,534	7,629,061
General and other	17,151,164	17,028,303
	230,631,170	219,545,067
Net revenue from railway operations	38,477,020	49,130,176
TAXES AND RENTS		
Payroll and other taxes	23,311,000	23,612,000
Equipment and joint facility rents, net	25,348,157	18,270,705
	48,659,157	41,882,705
Net railway operating income (loss)	(10,182,137)	7,247,471
OTHER INCOME		
Gain on sales of properties, net	2,638,373	2,841,284
Dividends and interest	4,262,717	4,538,459
Miscellaneous, net	2,338,527	1,974,814
	9,239,617	9,354,557
	(942,520)	16,602,028
FIXED INTEREST ON LONG-TERM DEBT (including amortization of discount)	7,819,536	8,362,163
	(8,762,056)	8,239,865
CONTINGENT INTEREST ON LONG-TERM DEBT	2,820,652	5,627,853
Net income (loss) of the Railroad Company as reported to the Interstate Commerce Commission	(11,582,708)	2,612,012
ELIMINATE PRIOR PERIOD ADJUSTMENTS:		
Federal income tax refunds	1,305,443	....
Fire loss	....	1,625,000
	(12,888,151)	4,237,012
EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARIES	7,246,782	1,799,159
Net income (loss)	$ (5,641,369)	$ 6,036,171

Investments — December 31, 1969

DESCRIPTION	NUMBER OF SHARES	EXTENT OF CONTROL—PER CENT	LEDGER AMOUNT
AFFILIATED COMPANIES			
Wholly-owned Subsidiaries			
CAPITAL STOCKS			
Bremerton Freight Car Ferry, Incorporated . . . . A	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	1,700,000
ADVANCES			
The Milwaukee Motor Transportation Company	. . . .	100	1,500,000
TOTAL INVESTMENTS—WHOLLY-OWNED-SUBSIDIARIES	. . . .	. . . .	3,855,000
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
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	. . . .	. . . .	6,655,532
NOTES			
Delta Alaska Terminal Ltd.	. . . .	6.67	18,889
Trailer Train Company . . . . A	. . . .	2.44	462,000
TOTAL NOTES	. . . .	. . . .	480,889
ADVANCES			
Chicago Union Station Company	. . . .	25	6,809,203
Davenport, Rock Island & North Western Railway Company	. . . .	50	1,245,340
Des Moines Union Railway Company	. . . .	50	1,386,031
Kansas City Terminal Railway Company	. . . .	8⅓	1,256,682
The Minnesota Transfer Railway Company	. . . .	11⅑	322,184
The St. Paul Union Depot Company	. . . .	12½	243,543
TOTAL ADVANCES	. . . .	. . . .	11,262,983
TOTAL INVESTMENTS—AFFILIATED COMPANIES	. . . .	. . . .	22,254,404
OTHER COMPANIES	. . . .	. . . .	1,646,283
TOTAL INVESTMENTS AT COST	. . . .	. . . .	23,900,687
EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARIES SINCE ACQUISITION	. . . .	. . . .	17,043,436
TOTAL	. . . .	. . . .	$40,944,123

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	$ 18,582,399	$ 180,447	$ 95,492	$ 18,667,354
Land for transportation purposes	39,066,565	(67,863)	701,301	38,297,401
Other right-of-way expenditures	532,895	506	114	533,287
Grading	143,407,320	414,941	127,857	143,694,404
Tunnels and subways	10,209,662	....	....	10,209,662
Bridges, trestles, and culverts	77,107,258	751,681	254,055	77,604,884
Ties	34,867,761	241,758	111,916	34,997,603
Rails	69,473,512	343,030	121,012	69,695,530
Other track material	49,889,438	430,944	114,174	50,206,208
Ballast	26,524,887	147,961	70,480	26,602,368
Track laying and surfacing	33,569,275	303,292	91,997	33,780,570
Fences, snowsheds, and signs	5,395,532	3,277	4,743	5,394,066
Station and office buildings	27,851,147	1,633,309	1,033,792	28,450,664
Roadway buildings	1,956,373	(18,835)	15,502	1,922,036
Water stations	797,236	(149)	....	797,087
Fuel stations	905,212	5,010	....	910,222
Shops and enginehouses	19,221,148	161,710	(2,788)	19,385,646
Storage warehouses	55,567	1,318	4,305	52,580
Wharves and docks	1,762,019	(8,675)	6,395	1,746,949
Communication systems	8,905,353	353,504	182,822	9,076,035
Signals and interlockers	23,596,591	293,309	73,222	23,816,678
Power plants	1,494,567	(3,395)	402	1,490,770
Power-transmission systems	9,822,848	37,542	2,071	9,858,319
Miscellaneous structures	603,285	(3,768)	746	598,771
Roadway machines	10,608,325	293,391	276,462	10,625,254
Roadway small tools	319,680	280	424	319,536
Public improvements—Construction	16,810,978	276,625	57,108	17,030,495
Other expenditures—Road	335	....	....	335
Shop machinery	7,640,826	43,054	69,010	7,614,870
Power-plant machinery	5,665,815	4,386	75,090	5,595,111
Other	....	1,366,040	....	1,366,040
TOTAL ROAD	646,643,809	7,184,630	3,487,704	650,340,735
IMPROVEMENTS ON LEASED PROPERTY	597,522	....	....	597,522
EQUIPMENT				
Locomotives	123,000,796	263,936	5,711,164	117,553,568
Freight-train cars	205,029,963	3,202,280	8,582,113	199,650,130
Passenger-train cars	29,174,755	30,157	4,575,811	24,629,101
Floating equipment	180,005	....	....	180,005
Work equipment	6,725,444	324,695	85,598	6,964,541
Miscellaneous equipment	3,077,166	380,647	226,080	3,231,733
TOTAL EQUIPMENT	367,188,129	4,201,715	19,180,766	352,209,078
TOTAL ROAD AND EQUIPMENT PROPERTIES	$1,014,429,460	$11,386,345	$22,668,470	$1,003,147,335

Units of Equipment Owned

	Jan. 1, 1969	Added	Retired	Dec. 31, 1969
Locomotives	794	....	42	752
Freight cars	36,189	697	3,040	33,846
Passenger cars	417	5	75	347
Company service equipment	1,640	38	55	1,623
Floating equipment	2	....	....	2
Highway vehicles	883	93	70	906
TOTAL	39,925	833	3,282	37,476

( ) Denotes contra items.

Consolidated Long-Term Debt — December 31, 1969

DESCRIPTION	Date of Maturity	Amount as of Dec. 31, 1969	Held by Company and Subsidiaries	Principal Amount Outstanding Dec. 31, 1969	INTEREST Rate (per cent) Fixed	INTEREST Rate (per cent) Contingent	Accrued During Year
First mortgage bonds, Series A	Jan. 1, 1994	$ 50,030,900	$ 795,600	$ 49,235,300	4	......	$ 1,969,412
First mortgage bonds, Series B	Jan. 1, 1994	(b)	(b)	....	5½	......	....
First mortgage bonds, Series C	Jan. 1, 1994	(b)	(b)	....	6	......	....
General mortgage income bonds, Series A	Jan. 1, 2019	25,662,800	978,100 (c)	24,684,700	......	4½ (g)	1,114,238
General mortgage convertible income bonds, Series B ...... (a)	Jan. 1, 2044	31,451,900	324,500	31,127,400	......	4½ (g)	1,410,052
The Bedford Belt Ry. Co. first mortgage bonds	Jan. 1, 1994	331,000	152,000 (d)	179,000	2¾	1½ (h)	7,732
The Southern Indiana Ry. Co. first mortgage bonds	Jan. 1, 1994	6,551,000	256,000	6,295,000	2¾	1½ (h)	266,447
Chicago, Terre Haute and Southeastern Ry. Co.:							
First and refunding mortgage bonds	Jan. 1, 1994	9,291,000	2,060,000 (e)	7,231,000	2¾	1½ (h)	311,342
Income mortgage bonds	Jan. 1, 1994	6,335,800	1,597,000	4,738,800	2¾	1½ (h)	201,400
Five per cent income debentures, Series A	Jan. 1, 2055	55,800,000	166,000 (f)	55,634,000	......	5	....
Equipment obligations:							
Trust certificates	1971 - 1976	10,605,000	....	10,605,000	3⅜-4⅞	......	504,593
Conditional sale agreements	1970 - 1982	62,763,645	....	62,763,645	4.4-8	......	4,540,321
Other long-term obligations — Milwaukee Land Company	1970 - 1978	188,788	....	188,788	......	......	....
TOTAL		$259,011,833	$6,329,200	$252,682,633			$ 10,325,537

(a) Convertible into common stock on basis of one share of common stock for each $100.00 principal amount of bonds.
(b) 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 and pledged as collateral to short term borrowings.
(c) Includes $466,000 held by subsidiary company.
(d) $100,000 pledged under Chicago, Terre Haute and Southeastern Railway Company first and refunding mortgage.
(e) $1,515,000 pledged under Chicago, Milwaukee, St. Paul and Pacific Railroad Company first mortgage.
(f) Includes $16,000 held by subsidiary company.
(g) Cumulative to 13½%.
(h) Cumulative to 4½%.

Reduction of Mortgage Bonds and Debentures

Period from December 1, 1945 to December 31, 1969

ITEM	Cancelled Through Sinking Fund	Surrendered to Trustee for Cancellation	Held in Treasury	Total Principal Amount	Interest Rate	Decrease in Annual Interest
Chicago, Milwaukee, St. Paul & Pacific R.R. Co. first mortgage bonds, Series A	$ 7,192,700	$2,280,100	$ 795,600	$10,268,400	4%	$ 410,736
General mortgage income bonds, Series A	30,972,300	610,000	512,100	32,094,400	4½	1,444,248
General mortgage convertible income bonds, Series B	19,570,200	292,800	324,500	20,187,500	4½	908,438
Five per cent income debentures, Series A	4,200,000	....	150,000	4,350,000	5	217,500
The Bedford Belt Ry. Co. first mortgage bonds	....	19,000	52,000	71,000	4¼	3,018
The Southern Indiana Ry. Co. first mortgage bonds	....	736,000	256,000	992,000	4¼	42,160
Chicago, Terre Haute & Southeastern Ry. Co. first and refunding mortgage bonds	....	280,000	545,000	825,000	4¼	35,063
Income mortgage bonds	....	....	1,597,000	1,597,000	4¼	67,873
Total	$61,935,200	$4,217,900	$4,232,200	$70,385,300		$3,129,036

Revenue Freight by Principal Commodity Groups—1969 and 1968

	1969		1968		INCREASE+ OR DECREASE—	
	TONS CARRIED	PERCENT OF TOTAL	TONS CARRIED	PERCENT OF TOTAL	TONS	PERCENT
Grain	4,855,996	10.66	4,568,321	10.23	+287,675	+ 6.30
Soybeans (Incl. Oil Seeds, Nuts or Kernels)	733,009	1.61	545,013	1.22	+187,996	+34.49
Potatoes, other than sweet	200,833	.44	222,431	.50	— 21,598	— 9.71
Fresh Fruits and Fresh Vegetables	268,794	.59	256,890	.57	+ 11,904	+ 4.63
Livestock	63,096	.14	82,167	.18	— 19,071	—23.21
All Other Farm Products (Includes Sugarbeets)	523,922	1.15	475,176	1.06	+ 48,746	+10.26
Metallic Ores	161,301	.35	253,694	.57	— 92,393	—36.42
Coal	5,817,824	12.77	5,569,133	12.47	+248,691	+ 4.47
Nonmetallic Minerals; except Fuels	3,592,921	7.88	3,071,015	6.87	+521,906	+16.99
Meat, fresh, chilled or frozen	930,976	2.04	980,717	2.20	— 49,741	— 5.07
Dairy Products	368,253	.81	420,030	.94	— 51,777	—12.33
Canned or Preserved Fruits, Vegetables and Seafoods	775,057	1.70	1,073,332	2.40	—298,275	—27.79
Grain Mill Products	2,111,176	4.63	2,002,452	4.48	+108,724	+ 5.43
Malt Liquors	836,290	1.84	809,325	1.81	+ 26,965	+ 3.33
Beverages or Flavoring Extracts (Except Malt Liquors)	513,626	1.13	508,080	1.14	+ 5,546	+ 1.09
All Other Food or Kindred Products (Incl. Sugar)	1,646,463	3.61	1,365,020	3.06	+281,443	+20.62
Primary Forest Products (Incl. Logs and Pulpwood)	2,206,358	4.84	2,179,208	4.88	+ 27,150	+ 1.25
Lumber or Dimension Stock	2,044,455	4.49	2,158,096	4.83	—113,641	— 5.27
All Other Lumber or Wood Products (Incl. Plywood)	892,495	1.96	974,755	2.18	— 82,260	— 8.44
Pulp or Pulp Mill Products	676,669	1.49	673,571	1.51	+ 3,098	+ .46
All Other Paper or Allied Products	2,301,637	5.05	2,231,229	4.99	+ 70,408	+ 3.16
Industrial Chemicals	1,352,264	2.97	1,370,457	3.07	— 18,193	— 1.33
All Other Chemicals or Allied Products	1,676,437	3.68	1,601,848	3.58	+ 74,589	+ 4.66
Petroleum or Coal Products and Crude Petroleum, Natural Gas or Gasoline	828,603	1.82	873,812	1.96	— 45,209	— 5.17
Stone, Clay or Glass Products	2,086,093	4.58	2,169,544	4.86	— 83,451	— 3.85
Coke Oven or Blast Furnace Prod. (Pig Iron, Slag and Coke)	316,865	.70	342,614	.77	— 25,749	— 7.52
Primary Iron or Steel Prod. (Ingots, Plates, Bars, Tinplate)	1,623,039	3.56	1,853,359	4.15	—230,320	—12.43
All Other Primary Metal Products	887,839	1.95	783,779	1.75	+104,060	+13.28
Fabricated Metal Prod. (Except Ordnance, Machinery and Transportation Equip.)	370,335	.81	399,959	.90	— 29,624	— 7.41
Farm Machinery or Equipment	152,742	.33	179,801	.40	— 27,059	—15.05
All Other Machinery; Except Electrical	275,481	.60	257,985	.58	+ 17,496	+ 6.78
Electrical Machinery or Equipment	209,201	.46	214,711	.48	— 5,510	— 2.57
Motor Vehicles	468,586	1.03	474,860	1.06	— 6,274	— 1.32
All Other Transportation Equipment	634,937	1.39	680,978	1.52	— 46,041	— 6.76
Waste or Scrap Materials	1,314,234	2.88	1,154,814	2.59	+159,420	+13.80
Freight Forwarder and Shipper Association Traffic	428,792	.94	397,163	.89	+ 31,629	+ 7.96
All Other Carload Traffic	1,412,454	3.10	1,486,461	3.33	— 74,007	— 4.98
TOTAL CARLOAD TRAFFIC	45,559,053	99.98	44,661,800	99.98	+897,253	+ 2.01
SMALL PACKAGED FREIGHT SHIPMENTS (L.C.L. MERCHANDISE)	8,211	.02	9,748	.02	— 1,537	—15.77
GRAND TOTAL, CARLOAD AND L.C.L. TRAFFIC	45,567,264	100.00	44,671,548	100.00	+895,716	+ 2.01

Revenue Freight Traffic Statistics—excluding truck service

YEAR	TONS CARRIED	TON MILES	AVERAGE HAUL—MILES	FREIGHT REVENUE TOTAL	FREIGHT REVENUE PER TON	FREIGHT REVENUE PER TON MILE (CENTS)
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
1969	45,567,264	17,188,156,086	377.20	239,233,790	5.25	1.392

Restated to include estimated increased divisions.

Revenue Passenger Statistics—excluding bus service

YEAR	PASSENGERS CARRIED	PASSENGER MILES	AVERAGE DISTANCE TRAVELED—MILES	PASSENGER REVENUES TOTAL	PASSENGER REVENUES PER PASSENGER	PASSENGER REVENUES PER PASSENGER MILE (CENTS)
		COMMUTATION				
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
1969	6,043,438	135,362,336	22.40	5,006,486	.83	3.699
		OTHER THAN COMMUTATION				
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
1969	974,654	195,352,855	200.43	5,434,213	5.58	2.782

Employment and Compensation

YEAR	AVERAGE NUMBER OF EMPLOYEES	TOTAL WAGES	AVERAGE WAGES PER HOUR WORKED	WAGE SUPPLEMENTS PAYROLL TAXES	WAGE SUPPLEMENTS HEALTH AND WELFARE BENEFITS	AGGREGATE LABOR COSTS AMOUNT	AGGREGATE LABOR COSTS AVERAGE PER EMPLOYEE	AGGREGATE LABOR COSTS AVERAGE PER HOUR WORKED
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	112,682,575	3.330	9,412,272	3,283,233	125,378,080	7,426	3.705
1964	17,000	115,463,190	3.433	9,802,397	4,207,092	129,472,679	7,616	3.849
1965	16,526	119,119,721	3.663	10,197,336	4,539,841	133,856,898	8,100	4.117
1966	16,470	122,980,448	3.784	11,515,053	4,611,812	139,107,313	8,446	4.280
1967	15,665	122,116,782	4.027	12,165,512	4,621,477	138,903,771	8,867	4.581
1968	15,473	128,091,703	4.174	13,478,562	5,418,475	146,988,740	9,500	4.790
1969	15,636	136,267,833	4.379	14,288,053	5,600,690	156,156,576	9,987	5.018

BOARD OF DIRECTORS

TERMS EXPIRING:

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

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

1972 CURTISS E. CRIPPEN, WILLIAM J. FROELICH, LEO T. CROWLEY, ARTHUR M. WIRTZ

EXECUTIVE COMMITTEE

ARTHUR M. WIRTZ, *Chairman*
CURTISS E. CRIPPEN — JOSEPH A. MAUN
LEO T. CROWLEY — FRANCIS G. McGINN
WILLIAM J. FROELICH — LOUIS QUARLES

FINANCE COMMITTEE

LEO T. CROWLEY, *Chairman*
ARTHUR S. BOWES — JOSEPH A. MAUN
CURTISS E. CRIPPEN — LOUIS QUARLES
WILLIAM J. FROELICH — JOHN P. WAGNER
ARTHUR M. WIRTZ

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—Traffic .... 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

GAYLORD A. KELLOW
Vice President—Management Services .... 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 12, 1970, 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.

At its meeting on September 18, 1969 the Milwaukee Road board of directors accepted the resignation of James M. Barker, a former executive of Sears, Roebuck and Company, and on October 16 passed a resolution acknowledging his valuable assistance in the affairs of the railroad. Mr. Barker had served as a director continuously since December 3, 1945. Patrick L. O'Malley, president and chief executive officer of ITT Canteen Corporation and chairman of the board of Commercial Discount Corporation, was elected a director of the Milwaukee Road at the meeting of the board on November 20 to serve until the next annual stockholders' meeting on May 12, 1970.

1969

THE MILWAUKEE ROAD

annual report