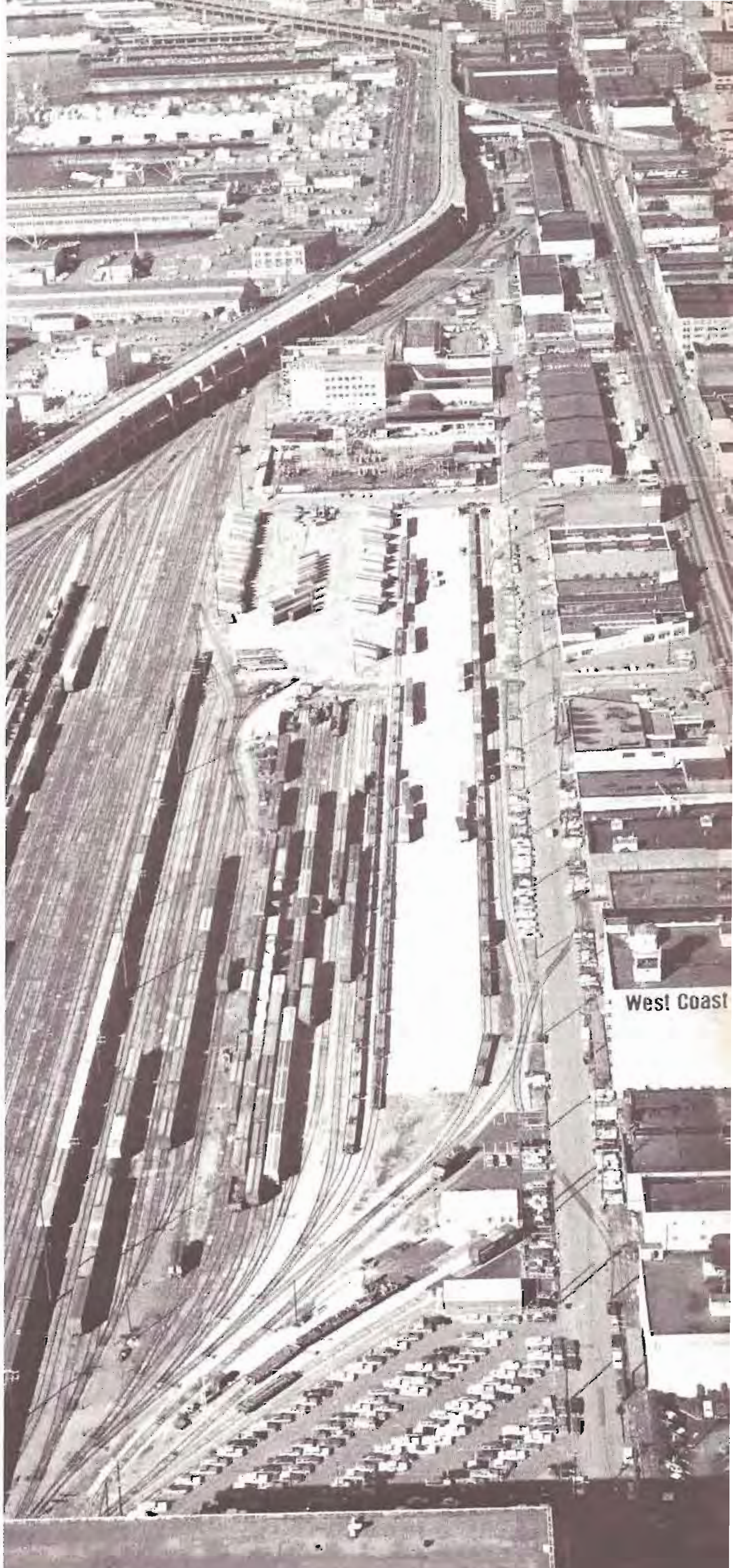
CHICAGO, MILWAUKEE, ST. PAUL AND PACIFIC RAILROAD COMPANY

ANNUAL REPORT 1970

THE MILWAUKEE ROAD


West Coast

CHICAGO, MILWAUKEE, ST. PAUL AND PACIFIC RAILROAD COMPANY

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◀ *View in a northerly direction, showing the Milwaukee Road's newly expanded Stacy Street Intermodal Yard near the Seattle waterfront. On each side of the long concrete strip is an 1,800-foot track for the loading and unloading of trailers and containers, and on the easterly side is a track of the same length for switching and storage. At the far end of the yard may be seen the area for temporary parking of trailers and containers. Expansion work on the yard was completed in September 1970.*

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To the Shareholders

WILLIAM J. QUINN

CURTISS E. CRIPPEN

Although 1970 proved to be a year of conflicting trends and disappointing results for this railroad and for the industry as a whole, it should be noted that Milwaukee Road operating revenues reached the highest level in the Company's history, and revenue freight ton-miles were higher than in any year since World War II.

It is a recognized fact, however, that the slowdown which marked the nation's economy throughout the year was nowhere more keenly felt than in the railroad industry. Despite heavy carloadings, railroads experienced difficulty in generating revenues sufficient to overcome sharply higher labor costs and inflated prices.

The extent to which adverse conditions affected the year's results for many railroads is evident in the Association of American Railroads' estimate of 1970 as "the worst year, financially, for U. S. railroads since the '30s".

While the industry achieved some success in obtaining freight rate increases designed to offset rising costs, the lengthy procedures involved in obtaining such relief left individual railroads exposed, as always, to serious erosion of their earning capability.

These facts and the disturbing publicity focused on the railroads during 1970 underscored more urgently than ever the repeated contention that the railroad industry must be accorded the same economic advantages and regulatory freedoms that its competitors have so long enjoyed.

Despite a number of favorable developments for the Milwaukee Road, including the optimism resulting from important new services such as those detailed in the "Traffic Developments" and "Status Report" sections of this annual report, the Company's experience in 1970 was not materially different from that of the industry as a whole.

The Milwaukee's railroad operations in 1970 produced a net loss of \$8,891,108, after a write-off of more than \$700,000 in accounts receivable from railroads undergoing reorganization. Operating revenues reached \$277,540,108 and operating expenses were \$237,411,328. A net loss of \$12,888,151 from railroad operations was experienced during 1969, based on operating revenues of \$269,108,190 and operating expenses of \$230,631,170.

Consolidated operations showed a net loss of \$10,992,173 for the full year 1970, despite consolidated operating revenues of \$283,197,199. Operating expenses were \$244,470,485. Consolidated net results for the year 1969 showed a loss of \$5,641,369 on operating revenues of \$275,572,653 and operating expenses of \$238,583,993. The 1969 results had the benefit of more land sales than was the case in 1970.

Wage and fringe benefit increases on the Milwaukee, as a result of Congressional action and wage negotiations on a national basis, added about \$14.8 million to operating expenses in 1970, compared with 1969. The effect of price increases on material costs was approximately \$2.4 million, in relationship to price levels in 1969.

Other unfavorable factors having the greatest impact on the Company's results in 1970 included strike threats throughout the year, which accounted for the diversion of some traffic to other modes of transportation; a crippling one-day industry-wide railroad strike by four unions; a 63-day strike against General Motors Corp.; and a 12-week Teamsters' strike in the Chicago area which caused a serious decrease in the movement of piggyback and container traffic handled by the Company's trucking subsidiary, the Milwaukee Motor Transportation Company.

Because of unfavorable results in 1970, the Board of Directors omitted declaration of a dividend on the Company's Series A preferred stock at its January 1971 meeting. The Board has also determined that, under the respective debt indentures, no interest is payable in 1971 on the outstanding general mortgage bonds, Series A and B, or the 5 per cent income debentures of the Company, and that no contingent interest is payable on the modified Terre Haute bonds.

Hopeful indicators for the months ahead include good grain crop prospects, renewed home building activity and signs of rising consumer confidence. These things point toward improved carloadings in key commodity groups such as grain, lumber, construction materials and automobiles.

Beyond these factors, the Milwaukee Road enters 1971 keenly aware of its new posture as a transportation agency in the northern tier of states and the Pacific Northwest, largely as a result of Interstate Commerce Commission conditions put into effect upon consummation of the Burlington Northern merger in March of 1970.

Although temporarily delayed at the time this report was in preparation, the extension of Milwaukee Road service to Portland, Ore., is regarded as the most meaningful of those I.C.C. conditions. The others, all of which hold considerable promise for the future, involve the opening of 11 gateways in the West and Pacific Northwest for the interchange of traffic with the Burlington Northern on a competitive rate basis; service to Billings, Mont.; and trackage rights enabling the creation of a north-south Milwaukee Road service route on the Pacific Coast.

Of no less importance than any of these is the expectation that Milwaukee Road service will soon be extended to Louisville, Ky., in accordance with an I.C.C. condition in the impending Louisville and Nashville-Monon railroad merger.

Your management also takes hope in the greater awareness at this time, particularly in government, of the importance of railroads and of their problems and needs.

William J. Quinn
Chairman of the Board

Curtiss E. Crippen
President

February 18, 1971

Highlights of Operations

CHICAGO, MILWAUKEE, ST. PAUL AND PACIFIC RAILROAD COMPANY

	1970	1969
Freight revenues	$248,728,957	$239,233,790
Total operating revenues	277,540,108	269,108,190
Total operating expenses	237,411,328	230,631,170
Taxes	24,889,000	23,311,000
Net railway operating loss	(7,867,275)	(10,182,137)
Other income, net	9,148,679	9,239,617
Net loss	(8,891,108)	(12,888,151)
Net loss per share of Common Stock	(4.08)	(5.91)
Freight traffic statistics:		
Net ton-miles, revenue freight (thousands)	17,510,170	17,188,156
Gross ton-miles (cars and contents), all freight (thousands)	38,587,116	38,840,109
Average length of haul (miles)	393.8	377.2
Net ton-miles per train-hour	36,032	35,233
Net tons per train	1,693	1,645
Gross ton-miles per train-hour	78,459	78,633
Gross tons per train	3,686	3,671
Average number of employees	14,803	15,636
Miles of road at year end	10,448	10,479

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

	1970	1969
Total operating revenues	$283,197,199	$275,572,653
Total operating expenses	244,470,485	238,583,993
Net operating loss	(6,879,593)	(10,696,762)
Other income, net	6,050,913	15,674,611
Net loss	(10,992,173)	(5,641,369)
Net loss per share of Common Stock	(5.04)	(2.59)

Freight Traffic Developments

THE MILWAUKEE ROAD enjoyed an appreciable gain in operating revenues and in ton-miles of freight traffic moved in 1970, despite a decline in carloadings for the year, as compared with 1969. These were among the seemingly contradictory trends in a year marked by economic slowdown and an atmosphere of uncertainty in all areas of business activity.

The ton-mile improvement resulted from the use of larger cars and longer average haul on the Milwaukee Road. The revenue gain was due largely to freight rate increases granted late in 1969 and in 1970, and also to the inauguration of new and important services to shippers as the result of conditions prescribed by the Interstate Commerce Commission in the Burlington Northern merger.

Next to the Milwaukee's long-awaited entry into Portland, Ore., which had been temporarily delayed at the time this report was in preparation, the most significant of the conditions to the Burlington Northern merger was the so-called "gateways condition" which made competitive rates available for the interchange of traffic between the Milwaukee Road and the Burlington Northern at 11 gateways west of Minneapolis-St. Paul. This change, in what had been a very injurious restriction on the Milwaukee's true capability, went into effect on March 3, 1970 with the creation of that merged railroad.

The now-opened gateways are at points in North Dakota and Montana, as well as Spokane, Seattle and Tacoma, Wash. Under the new arrangement, shippers and receivers of freight have a multitude of new choices with respect to reconsignment, diversion and transit privileges, as well as a broader selection of competitive routes, markets and sources of supply. During the relatively short time this new capability has been in effect, it has produced an encouraging volume of new traffic for the Milwaukee Road and is expected to be the source of a great deal more as shippers become familiar with the greater number of routings now available to them.

On August 6, 1970, the Milwaukee began serving Billings, Mont., a key commercial and distribution center which originates and terminates a large volume of traffic. It is the principal distribution point for southern and eastern Montana and neighboring states. The need for competitive rail service to Billings was also recognized by the I.C.C., which made it a condition to the Burlington Northern merger. Access to Billings is achieved by means of an agreement with the BN relative to car handling via interchange points to the north, east and west of the city.

Once the Milwaukee has gained physical access to Portland, that important new capability, combined with trackage rights granted by the I.C.C. over segments of the BN north of Seattle, will enable the Milwaukee to participate in traffic moving between California and Oregon on the one hand, and Canada on the other, as well as traffic moving between those points and the east over the Milwaukee's main line.

In addition to the above developments, another I.C.C. action also holds meaningful promise for the future. In an order served September 18, 1970 the Commission granted the Milwaukee Road trackage rights, via Bedford, Ind., permitting it to reach the important Louisville (Ky.) gateway as a condition to the Louisville and Nashville-Monon merger. I.C.C. approval of terms and conditions governing the Milwaukee Road's exercise of the trackage rights is being sought so that the Milwaukee may begin as soon as possible the interchange of traffic moving to and from the South and Southeast.

Grain and Other Commodities

For the year 1970, grain and soybean loadings showed a 4.5 per cent increase over 1969. This improved performance was made possible, in part,

by the availability of the 500 new covered hopper cars added to the Milwaukee's fleet of grain handling equipment during the summer and early fall.

As a major grain carrier in the Midwest, the Milwaukee Road undertook extensive marketing and rate studies looking toward the development of an export movement of corn and soybeans from Iowa, Minnesota and South Dakota to Pacific North Coast ports on the Milwaukee, thence via the short ocean route from those ports to Japan and the Far East. Based on those studies, an incentive multiple-car rate was published, to become effective in mid-September, 1970. The rate was suspended by the Interstate Commerce Commission following protests, and was the subject of expedited hearings. An early decison is expected.

The huge new Cargill grain terminal at Pier 86 in Seattle, which went into service in the fall of 1970, will be an important factor in the movement of export grain. It is served by the Milwaukee Road, the Burlington Northern and the Union Pacific.

Among the commodity groups moving in heavier volume during 1970, other than grain and soybeans, were coal, forwarder traffic and pulp or pulp mill products. Unfortunately, these increases did not offset decreases in such major commodities as lumber and dimension stock, meat, and stone, clay, or glass products. Several other important commodities, notably motor vehicles and parts, primary iron and steel and all other primary metal products, showed carloading decreases during the year, due mainly to work stoppages and strike threats in the automotive industry.

Import-Export Traffic

Import-export traffic moving through Seattle and other Pacific North Coast ports served by the Milwaukee Road continued to gain in importance. For the full year 1970, this traffic showed a gain of 35 per cent over 1969, and the volume of overseas containers handled doubled.

The expectation of this gain was largely responsible for the decision to expand facilities at Stacy Street Intermodal Yard in Seattle into one of the most modern trailer and container terminals in that area, and to re-design the Milwaukee's container handling facilities at Piggyback Park near Chicago to provide a matching capability. The nature of these expansion projects is detailed in the Engineering Programs section of this report.

Piggyback/Container Traffic

After 10 consecutive years in which piggyback traffic scored large and repeated increases on the Milwaukee Road, 1970 operations showed a 10 per cent decrease, due principally to the 12-week Teamsters' strike in Chicago and the slower pace of industrial activity generally. Trailer-on-flatcar loadings were never able to recover fully from those adverse circumstances, although container handling through the Pacific North Coast ports continued its rapid growth and the railroad's revenues from piggyback and container traffic combined showed a modest increase for the year.

Freight Rates

In response to a request by the eastern and western railroads for a general freight rate increase of 15 per cent, the Interstate Commerce Commission authorized, effective November 20, 1970, an interim increase of 8 per cent on all commodities except lumber and lumber products, which were limited to an increase of 6 per cent. The increases apply on traffic from, to and within eastern and western territories. Also granted by the Commission was an interim rate increase of 6 per cent on traffic from, to and within the southern territory. The I.C.C. is expected to rule on the balance of the full 15 per cent early in 1971, following its investigation.

In June 1970, the Commission granted an across-the-board interim freight rate increase of 5 per cent instead of a 6 per cent increase requested by the railroads. Also effective on November 20, 1970, the I.C.C. authorized an additional one per cent increase, bringing the increases authorized under this proceeding to 6 per cent.

Carscope

Another refinement was added to Carscope, the Milwaukee Road's freight car information center in Chicago, with the introduction of "Direct Customer Inquiry" service as an added capability of that computer-based system. The new service, which went into operation on December 1, 1970, was the subject of a special announcement to shippers throughout the country.

Direct Customer Inquiry enables shippers with access to Telex facilities to dial directly into the Milwaukee's Carscope computer for tracing information on shipments, and receive replies in the same fast and direct manner. Shippers without Telex units can utilize the same basic information system as before, by making inquiry through the nearest Milwaukee Road traffic office.

Traffic Department Reorganization

Late in 1970, the Sales and Service Section of the Traffic Department was completely re-structured to strengthen its sales development and servicing activities. Three separate divisions—Field Sales, System Sales, and Sales Administration and Services are each under the supervision of a general manager who reports to the assistant vice president-sales and service.

The areas of responsibility are as follows:

The *general manager of field sales* directs all field activities of the existing regional sales organization throughout the United States and Canada.

The *general manager of system sales* supervises the rail-highway and foreign freight sales activities, as well as a new national accounts sales program.

The *general manager of sales administration and services* coordinates sales efforts with such related areas as marketing research and equipment needs.

In keeping with this program, the former Rates and Divisions Section is now known as the Pricing Section of the Traffic Department, under the supervision of an assistant vice president-pricing, and four general managers. One of the latter is responsible for administration and services, while the others deal variously with grain and grain products pricing, and with pricing as it relates to Trans-Continental and Western Trunk Line rate territory matters.

Passenger Service

Although the total number of commuter riders on the Milwaukee Road remained about constant in 1970, there was a rapid rise in operating costs, mostly labor-related. To partially offset these additional expenses, the railroad proposed moderate increases in suburban fares effective March 1, 1971. At the time this report was being prepared, the Illinois Commerce Commission had suspended our application and set the matter for hearing. If the increases requested are granted, it is estimated that additional revenue of $600,000 annually will be generated.

As indicated in the 1969 annual report, the Milwaukee Road has been endeavoring to obtain financial assistance for additional capital expenditures for suburban service equipment by encouraging the formation of public agencies eligible to receive Federal funds under the Urban Mass Transportation Act of 1964. That act, as amended in 1970, permits Federal investment of over $10 billion for mass transit facilities and equipment throughout the nation over a 12-year period. The formation of the Northwest Suburban Mass Transit District, created by 11 cities and villages along and adjacent to the railroad's West Line suburban service, was accomplished in February 1971. The trustees of this district will begin the preparation of an application for funds to the Federal government to be used for the acquisition of additional suburban service equipment to accommodate the growth experienced and anticipated in that service. Similarly, a North Suburban Mass Transit District, which is expected to be formed during 1971, would be eligible to receive Federal funds for the capital expenditures required by service on that line extending to the north of Chicago.

On a broader scale, the six Chicago area commuter railroads have suggested, as a long-term solution to the problems of public transportation, the formation of an area-wide mass transit district. Such a move would require state legislation, and eventually an interstate pact with Indiana. This proposal is known as Chicago Metropolitan Area Transportation System (CMATS). If an area-wide district is set up, the Illinois State Legislature will undoubtedly make specific provision for local mass transit districts previously formed.

The continued expansion and improvement of highways, together with the steady decline of intercity passenger train patronage, resulted in actions leading to the discontinuance of several deficit-producing passenger trains during 1970. A loss of approximately $1,750,000 on an annual basis was eliminated in this way. Included were the Afternoon Hiawatha trains in daily service between Chicago and St. Paul-Minneapolis; the overnight Pioneer Limited, which also operated daily between those points; a brace of trains in daily service between New Lisbon and Wausau, Wis.; and another brace of trains in daily service between Chicago and Savanna, Ill.

Congress has enacted a bill establishing the National Railroad Passenger Corporation to take over and operate intercity passenger trains, not suburban, on a limited nationwide basis. The corporation is commonly known as Railpax. The basic rail passenger service will be designated by the new corporation as recommended by the Secretary of Transportation. Operations by the corporation will begin May 1, 1971 over railroads which have negotiated contracts to provide passenger service. Railroads will be required to contribute cash or equipment or services to the corporation in proportion to their 1969 passenger loss. This contribution is in return for being relieved of operating all other intercity passenger service except that specified under contract with the new corporation.

Corporate Personnel Administration

The Milwaukee Road personnel recruitment program and the training programs which have been carried out by several departments of the railroad in former years are being coordinated as a means of attracting and developing high quality managerial talent on the Milwaukee Road.

This approach, in the making for a period of time, was implemented late in 1970.

A full range of personnel development activities is planned, with emphasis on selection and training. Identifying management talent and strengthening the talent for promotion to positions of greater responsibility are objectives of the program. Training programs in executive development, manager and supervisory training and transportation selling will soon be administered by the Employment and Training Department.

Longer range plans include the coordination of technical skills training, as well as upgrading and re-training programs for all employees.

As in past years, new management personnel is being recruited from many of the best universities and colleges in the Midwest and Pacific Northwest. In addition, individuals of recognized ability are being brought into the ranks from other railroads and industries outside the railroad field.

Labor Negotiations

During 1970, negotiations relative to wage and fringe benefits were conducted on both local and national levels with every organization representing Milwaukee Road employees on the Milwaukee Road.

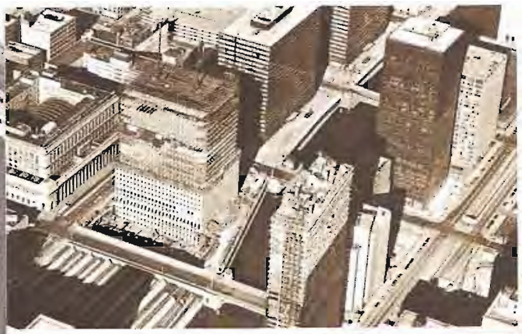
In addition, wage and rules modification agreements reached in December 1969 with the so-called "metal crafts" segment of the shop craft organizations, the wage portion of which covered both 1969 and 1970, were extended in 1970 to cover the remaining segments of the shop craft organizations.

A Presidential Emergency Board was created on September 18, 1970 to investigate and report on the wage and fringe benefits dispute involving the United Transportation Union, the Brotherhood of Railway and Airline Clerks, the Brotherhood of Maintenance of Way Employees and the Dining Car Employees' Union. The Board's recommendations were accepted by the carriers but rejected by the organizations, and a nationwide work stoppage was begun by those organizations on December 10, 1970. Faced with the strike emergency, Congress mandated wage increases averaging 13.5 per cent, part of which was retroactive to January 1, 1970. Congress also postponed until March 1, 1971 the date on which either of the parties could resort to self-help. By February 15, however, agreement had been reached with all of the unions involved except the United Transportation Union, and there was reason to anticipate that a work stoppage could be avoided.

The demand for the restoration of firemen on yard and freight locomotives in those instances where the Milwaukee and other railroads now have a right to operate without a fireman, was also the subject of national handling in 1970 and was still pending when this report was in preparation.

Altogether, the increased cost of labor as a result of Congressional action and wage negotiations on a national basis, including fringe benefits, added approximately $14.8 million to Milwaukee Road operating expenses in 1970, as compared with 1969.

Real Estate and Industrial Development



Despite high interest rates, increased construction costs and other factors contributing to a decisive slowdown in industrial development activity throughout 1970, the Milwaukee Road was able to locate 57 new industries on line. In addition, 30 existing plants already served by the railroad were expanded.

Among the newly located industries which can be looked to for substantial traffic are a potato dehydrating and processing plant at Moses Lake, Wash., which began production during the fourth quarter of 1970; four firms involved in box and lumber, plywood, food container and electrical supply production and distribution, which completed construction in a development served by the Milwaukee Road at Eagandale, Minn., in the Twin Cities area; and a coated tape company which completed a new film manufacturing plant at Cordova, Ill. Meanwhile, a steel company in St. Paul, Minn. expanded its plant capacity by one-third.

The one automobile manufacturer which was not using the railroad's large new automobile marshalling complex at Kent, Wash., for the distribution of motor vehicles at the close of 1969, transferred its operation to that site from Seattle in March of 1970, with the result that total traffic moving through the Kent facility was greatly increased.

In addition to the automobile marshalling yard at Kent, other areas south of Seattle were the scene of some of the Milwaukee Road's most important industrial development activities in 1970, with 10 manufacturers and distributors opening new facilities on the railroad during the year.

Freight Car and Locomotive Programs

In a move to meet the growing demand for freight cars suited to the handling of grain and other bulk commodities, the Milwaukee Road acquired 500 covered hopper cars and had them in operation for the 1970 grain harvest. These attractive new cars, painted a golden yellow, are of the large size now in greatest demand in the grain trade, with a capacity of 4,740 cubic feet, or 100 tons. They brought the Milwaukee's fleet of covered hoppers to a total of about 3,050.

Other freight cars added to the railroad fleet in 1970 included 12 Vert-A-Pac cars for the transporting of sub-compact automobiles, and nine box cars of 70-ton and 100-ton capacity for the handling of automobile parts.

Four diesel locomotives of 3,000 h.p. were also acquired in 1970.

The railroad's freight car rebuilding program put 623 cars into like-new condition for service in 1970, bringing the total of such rebuilt cars to 11,695 since the program was begun in 1963. In addition, 862 freight cars were given heavy repairs or modifications for special service.

The railroad's tentative equipment program for 1971 includes 25 new diesel locomotives ranging from 2,300 h.p. to 3,600 h.p., and 675 new freight cars of 70-ton and 100-ton capacity. Included are box cars, mechanical refrigerators and covered hopper cars. Continuation of the heavy rebuilding program is also in the railroad's present plans for 1971, with approximately 850 cars of various types scheduled for renovation.

Engineering Programs

The expansion and re-design of Stacy Street Intermodal Yard in Seattle and the piggyback/container terminal adjoining Bensenville Yard near Chicago were among the principal engineering projects undertaken by the railroad in 1970.

The need to expand these yards was the direct result of rapid growth in Milwaukee Road import-export traffic and the popularity of containers for the movement of such traffic between Pacific North Coast ports and Chicago.

The capacity of the Seattle facility was more than doubled by enlarging the area and improving the physical layout for transferring trailers and containers to and from flatcars. Located within a few minutes' drive of all waterfront container terminals, freight forwarders and express companies, Stacy Street Intermodal Yard is the most conveniently located terminal of its kind in the Seattle area and one of the most modern freight facilities in the Pacific Northwest. Among the yard's new features are two tracks for loading and unloading trailers—one on either side of the 1,660-foot concrete strip. They have a capacity of 36 flatcars and are spaced 90 feet apart to allow working room for the Piggy Packer, a vehicle for handling containers and trailers. The capacity of the area set aside for temporary storage has been increased from 45 to 200 trailers and containers.

Expansion work completed at Piggyback Park, the piggyback/container terminal adjoining Bensenville Yard, near Chicago, included the installation of an additional track for the loading and unloading of trailers and containers by straddle crane and the complete renovation of container handling facilities. To keep pace with the intermodal movement of overseas containers and as a means of serving Milwaukee Road customers better, a U.S. Customs clearance facility was built. The terminal is capable of providing temporary storage for 700 40-foot piggyback trailers, or an even larger number of containers. A new connecting track between the piggyback/container area and the main Bensenville Yard facilitates the movement of trailer and container flatcars from the classification yards to the new unloading and loading complex.

The Chicago and Seattle facilities are both operated by Milwaukee Motor Transportation Company, a subsidiary of the railroad.

The automobile marshalling yard in Minneapolis, one of the first such facilities built on the railroad, was enlarged and its capacity doubled in 1970 to accommodate the increasing volume of motor vehicles moving through it for distribution to dealers. The facility now has capacity for 2,150 automobiles, either for immediate distribution or temporary parking. With the exception of some paving work which is to be carried out in the spring of 1971, this project was completed in 1970.

Due to the increasing complexity of the signal systems now in use on the railroad, a formal program was begun in 1970 for the training of signalmen. Two 10-month courses will be conducted yearly, each calling for six weeks of classroom training in addition to on-the-job field training. The courses are mandatory for all new signal employees. Being specialized in nature, this training program is not included in the plans for corporate training described elsewhere in this report.

Status Report Regulatory Matters, Mergers and Litigation

Portland Extension

The Interstate Commerce Commission approved on October 19, 1970 the terms and conditions of the contract between the Milwaukee Road and the Burlington Northern under which the Milwaukee will operate over Burlington Northern tracks between Longview Junction, Wash., and Portland, Ore. The Milwaukee's plan to commence operation into Portland early in December was delayed by the Union Pacific Railroad, which petitioned for reconsideration of the Commission order of October 19. Although that petition was denied by the Commission on January 13, the Union Pacific filed suit in the District Court on the same day to set aside I.C.C. approval of the Milwaukee's service extension. The Court denied the Union Pacific request for an immediate temporary restraining order, and on February 11 a three-judge panel dismissed the Union Pacific suit. The Milwaukee Road entry into Portland is now scheduled for March 1971.

Milwaukee Road service into Portland is one of the conditions prescribed by the I.C.C. to its approval of the merger creating the Burlington Northern in March of 1970. The other conditions are outlined elsewhere in this report.

Union Pacific-Rock Island Merger

On April 6, 1970, the Milwaukee Road filed a petition with the I.C.C. in the Union Pacific Railroad-Rock Island Lines merger case, requesting as a condition of that merger that the Milwaukee be included in the Union Pacific system or, as an alternative, in the Southern Pacific system, should the Commission ultimately approve the merger of the Rock Island into the Union Pacific or the disposition of part of the Rock Island to the Southern Pacific.

Hearings on this petition have not yet been held, but the I.C.C. has ordered the proceedings reopened for the purpose of such hearings, which are expected to be held in 1971.

Louisville Extension (L&N-Monon Merger)

The I.C.C. authorized the merger of the Monon Railroad into the Louisville and Nashville Railroad, subject to the granting of trackage rights to the Milwaukee Road which will give it access to the important Ohio River gateway of Louisville, Ky.

The Milwaukee has filed its application with the I.C.C. to fix the terms and conditions of a contract between our Company and the L&N under which the Milwaukee's extended operations to the Louisville area will be conducted. The Commission is expected to act upon the Milwaukee's request during the current year.

Litigation

The stockholder's suit against the Company in the Circuit Court, Milwaukee County, Wis., to obtain a list of shareholders was dismissed by the Court. The appeal of this case to the Wisconsin Supreme Court has been dismissed.

The suit by the Company in the United States District Court in Chicago, charging the foregoing stockholder and others with violations of the Securities Exchange Act, was set for trial on March 8, 1971.

The suit filed in the United States District Court in Chicago by a preferred stockholder, asking for a declaration of the rights of preferred stockholders as a class to elect a majority of the directors upon certain defaults in the payment of preferred dividends, has been dismissed. The Court, in dismissing the action, said that the preferred stockholders do not have the right as a class to elect a majority of the Board of Directors at any election of directors prior to the year 1973. An appeal has been taken by the preferred stockholder to the United States Court of Appeals.

Board and Management Changes

At the Board of Directors meeting held on February 25, 1970, William J. Quinn, then president of the Chicago, Burlington and Quincy Railroad Company, was elected a director and also chairman of the Board and chief executive officer, effective March 16, 1970. Mr. Quinn succeeded Leo T. Crowley, who stepped down as chairman, but continued as a director and member of the Finance Committee.

Also effective March 16, 1970, Francis G. McGinn, vice president-operation, resigned from the Board of Directors, and the vacancy was filled by the election of William J. Quinn. Joshua Green, honorary chairman of the Peoples National Bank of Washington, and Edwin O. Schiewe, vice president and general counsel, resigned from the Board of Directors effective March 20, 1970. Mr. Green was elected an honorary director.

On March 19, 1970, the Board amended the by-laws of the Company to change the number of the Board from fifteen to thirteen effective March 20, 1970, and from thirteen to twelve effective at the annual meeting of stockholders on May 12, 1970. J. Patrick Lannan, financial consultant, did not run for election as a director, and subsequent to the 1970 annual meeting, Arthur S. Bowes, director of ITT Canteen Corporation, whose term would have expired in 1971, resigned from the Board. On May 22, 1970, the directors elected Tilden Cummings, president of the Continental Illinois National Bank and Trust Company of Chicago, a director to fill the vacancy created by Mr. Bowes' resignation.

Leo T. Crowley, at his request, retired as a director in January 1971, after having served in that capacity since 1945. He had served as chairman during this entire period except for approximately three years.

William G. Karnes, president and chief executive officer of Beatrice Foods Company, was elected a director and a member of the Finance Committee, to fill the vacancy created by Mr. Crowley's retirement. Tilden Cummings was elected chairman of the Finance Committee.

Edwin O. Schiewe, who had been vice president and general counsel, retired October 31, 1970. Mr. Schiewe completed more than 29 years of service. R. K. Merrill, general solicitor, was elected vice president of law to succeed Mr. Schiewe, and James P. Reedy, who also held the title of general solicitor, was elected general counsel.

The ASTRO Report

In 1969, the Board of Directors of the Association of American Railroads created a study group called America's Sound Transportation Review Organization (ASTRO). Under the leadership of former U.S. Senator George Smathers, this group made an in-depth review of present national transportation policies and recommended steps needed to insure the healthy survival of the railroad industry. The so-called "ASTRO Report" was released June 30, 1970.

That report underscores the growing need for America's railroads and pinpoints the financial and regulatory problems which must be alleviated if the railroad industry is to meet that need. The report estimates that 36 billion dollars must be spent by the railroad industry during the next 10 years for equipment and general modernization required in the public interest.

The ASTRO recommendations call for a program of "creative Federal involvement" in order to insure balanced treatment for all modes of transportation. It recommends the exemption of rail facilities used in transportation from local property taxation, with the Federal government reimbursing the states for the revenue lost, and recommends that Congress end other discriminatory state taxes against the railroad industry.

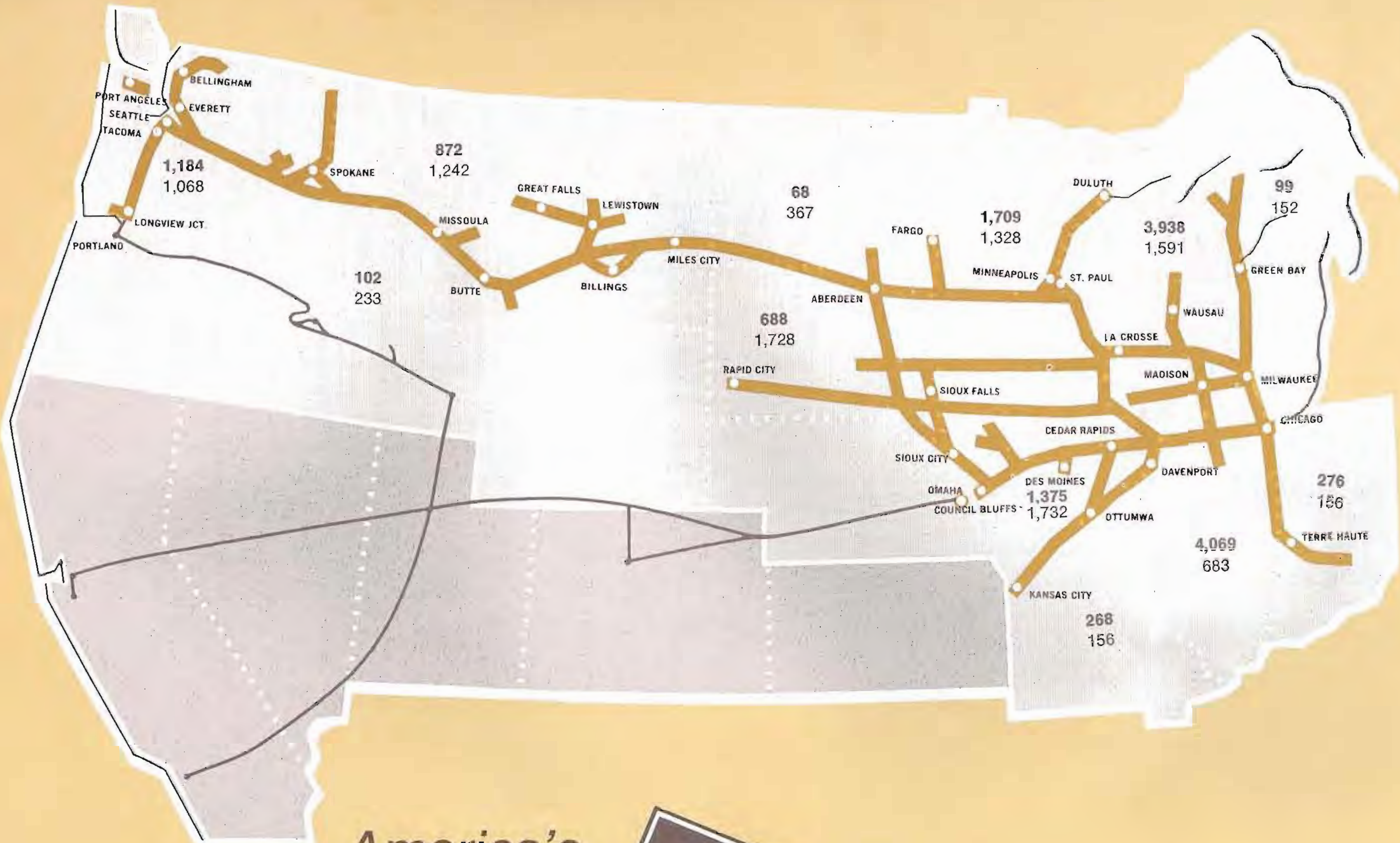
The ASTRO study proposes the merging of present highway trust funds into a general surface transportation fund, to which the railroads would contribute and from which they could draw for improving rights-of-way. Similarly, the report suggests guaranteed government loans for railroads seeking to improve their facilities. Additional suggestions relating to financial aid include the restoration of the investment tax credit and the Federal chartering of a non-profit corporation charged with supplying a "free-running" fleet of freight cars for nationwide use.

In the area of regulation, ASTRO advocates creation of a new agency to regulate all transportation modes with equality, and recommends the encouragement of freedom of pricing and experimentation on the part of the railroads. It asks for the removal of overlapping state rate regulation and asks that other matters be decided upon at a stepped-up regulatory pace.

That part of the program designed as a new approach to furnishing intercity passenger service will be implemented on May 1, 1971, when the National Railroad Passenger Corporation (Railpax) begins the operation of trains.

ASTRO points to the need for better utilization of manpower, and calls upon railroad labor to realize the benefits which can result from advances in technology.

Bills covering various recommendations contained in the ASTRO report will be going before Congress in the months ahead. While it is anticipated that some of these will be passed without difficulty, others may be sidetracked if not accorded strong public backing. The Milwaukee Road feels that the ASTRO program fills a long-felt need and is worthy of widespread public support.



America's Resourceful Railroad

THE MILWAUKEE ROAD

KEY

Bold face figures represent *Number of Employes* in each state
Light face figures represent *Miles of Road* in each state
Total average *Number of Employes* during 1970 . . . 14,803
Total *Miles of Road* as of December 31, 1970 . . . 10,448

Consolidated Balance Sheet

December 31, 1970 with comparative figures for 1969

ASSETS

	1970	1969
CURRENT ASSETS		
Cash and temporary cash investments	$ 10,558,665	$ 11,758,592
Accounts receivable	27,023,721	29,702,140
Material and supplies, at cost	19,116,121	16,229,938
Other current assets	3,659,747	3,526,511
Total current assets	60,358,254	61,217,181
SPECIAL FUNDS	970,434	2,040,228
INVESTMENTS, at cost (note 5)		
Affiliated companies	18,858,473	18,399,404
Other companies	1,655,763	1,646,542
Total investments	20,514,236	20,045,946
PROPERTIES (note 3)		
Road	655,703,070	656,473,276
Equipment	349,723,894	353,502,860
Other elements of investment (credits)	(110,895,595)	(121,599,158)
	894,531,369	888,376,978
Less allowances for depreciation and amortization	305,034,104	287,071,980
Transportation properties	589,497,265	601,304,998
Other property, less depreciation	9,324,713	8,935,931
Total properties	598,821,978	610,240,929
OTHER ASSETS AND DEFERRED CHARGES	9,567,332	11,057,017
Total assets	$690,232,234	$704,601,301

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

December 31, 1970 with comparative figures for 1969

LIABILITIES AND SHAREHOLDERS' EQUITY	1970	1969
CURRENT LIABILITIES		
Note payable to bank	$ 4,899,000	$ 4,899,000
Accounts payable	28,980,101	28,708,013
Payroll and vacation pay	17,396,015	11,987,607
Accrued taxes (note 4)	8,348,231	8,459,902
Other current liabilities	254,322	413,538
Total current liabilities (exclusive of debt installments due within one year)	59,877,669	54,468,060
DEBT INSTALLMENTS DUE WITHIN ONE YEAR	13,317,927	14,200,658
LONG-TERM DEBT (note 5)		
Mortgage bonds	123,287,200	123,491,200
Five per cent income debentures	55,634,000	55,634,000
Equipment obligations	62,079,540	73,368,645
Other	381,842	188,788
Total long-term debt	241,382,582	252,682,633
RESERVES AND OTHER LIABILITIES	12,539,900	9,143,621
Total liabilities	327,118,078	330,494,972
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	217,989,200
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	269,854,400
Retained income	93,259,756	104,251,929
Total shareholders' equity	363,114,156	374,106,329
CONTINGENT LIABILITIES (note 7).		
Total liabilities and shareholders' equity	$690,232,234	$704,601,301

Statement of Consolidated Income

Year ended December 31, 1970 with comparative figures for 1969

	1970	1969
OPERATING REVENUES		
Freight	$254,305,906	$245,496,831
Passenger, mail and express	14,634,932	16,696,090
Other	14,256,361	13,379,732
	283,197,199	275,572,653
OPERATING EXPENSES (including depreciation and retirement charges of $19,296,551 in 1970 and $18,606,188 in 1969)		
Transportation	124,124,076	120,002,982
Maintenance of way and structures	45,685,312	45,097,879
Maintenance of equipment	47,076,281	46,789,821
Traffic	7,686,013	7,626,412
General and other	19,898,803	19,066,899
	244,470,485	238,583,993
Net revenue from operations	38,726,714	36,988,660
TAXES AND RENTS (note 4)		
Payroll and other taxes	25,578,842	25,346,778
Equipment and joint facility rents, net	20,027,465	22,338,644
	45,606,307	47,685,422
Net operating loss	(6,879,593)	(10,696,762)
OTHER INCOME		
Gain on sales of properties and timber, net	2,958,329	10,994,238
Dividends and interest	1,029,821	2,119,907
Miscellaneous, net (note 3)	2,062,763	2,560,466
	6,050,913	15,674,611
	(828,680)	4,977,849
FIXED INTEREST ON LONG-TERM DEBT (including amortization of discount)	7,381,414	7,819,536
	(8,210,094)	(2,841,687)
CONTINGENT INTEREST ON LONG-TERM DEBT (note 10)	2,782,079	2,799,682
Net loss	$(10,992,173)	$ (5,641,369)
PER SHARE loss applicable to common stock (note 9)	$ (5.04)	$ (2.59)

See accompanying notes to consolidated financial statements.

Statement of Consolidated Retained Income

Year ended December 31, 1970 with comparative figures for 1969

	1970	1969
Balance at January 1		
As previously reported	$107,133,048	$115,367,677
Less adjustment (note 2)	2,881,119	2,881,119
As restated	104,251,929	112,486,558
DEDUCT:		
Net loss	10,992,173	5,641,369
Dividend on preferred stock—$5.00 a share	....	2,593,260
	10,992,173	8,234,629
Balance at December 31	$ 93,259,756	$104,251,929

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, 1970 and the related statements of consolidated income and retained income, and the consolidated statement of source and application of funds 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 4) and other elements of investment (note 3) 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, 1970 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). Also, in our opinion, the accompanying consolidated statement of source and application of funds for the year ended December 31, 1970 presents fairly the information shown therein.

Chicago, Illinois
March 1, 1971

PEAT, MARWICK, MITCHELL & CO.

Consolidated Source and Application of Funds

Year ended December 31, 1970 with comparative figures for 1969

	1970	1969
SOURCES		
From operations:		
Net loss	$ (10,992,173)	$ (5,641,369)
Depreciation and retirement charges	19,385,835	18,674,671
Accrual for contingent bond interest	2,782,079	2,820,652
Other	(816,773)	119,043
	10,358,968	15,972,997
Proceeds from sales of property and timber, less gain therefrom reflected in net loss	2,803,040	2,088,357
Salvage	2,732,464	3,865,200
Equipment and other borrowing	2,784,210	2,303,260
Reduction in funds on deposit with mortgage trustee	1,071,795	186,067
Miscellaneous sources, net	136,734	....
Decrease in working capital	6,268,536	9,389,787
	$ 26,155,747	$33,805,668

	1970	1969
APPLICATIONS		
Property additions and betterments	$ 10,555,197	$11,552,788
Principal payments on equipment debt	14,655,881	16,787,176
Other debt retirement	146,122	549,356
Investments in terminal and other companies	798,547	1,551,530
Dividend on preferred stock	....	2,593,260
Prior-period fire loss	....	425,000
Miscellaneous applications, net	....	346,558
	$ 26,155,747	$33,805,668

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1970

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 at January 1, 1969 has been restated by deducting $2,881,119 representing a downward adjustment of the estimated recovery recorded in 1967 as a result of a United States Supreme Court decision in the Transcontinental Divisions Case. Resettlement results believed to be substantially final became available in 1970. Under accounting rules of the Interstate Commerce Commission this adjustment must be included in the 1970 net loss and is being so treated in financial reports to the Commission.

Accounts receivable and accounts payable balances at December 31, 1969 have been reclassified to conform with the presentation used at December 31, 1970. These reclassifications had no effect on net income.

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 $408,-[illegible] at December 31, 1970. 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. The carrying amount of such properties less salvage therefrom is included in *operating expenses 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 sufficient to reduce properties and other assets to the aggregate of the capitalization and other liabilities established by the Court. 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 [illegible] in 1970 and $347,043 in 1969. In compliance with an accounting directive of the Interstate Commerce Commission, $10,077,275 was transferred during 1970 from other elements of investment to allowances for depreciation.

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 1970, the available consolidated loss carryforward as of December 31, 1970 amounted to $40,044,000, which will expire as follows: 1971—$5,901,000, 1972—$2,238,000, 1973—$2,840,000, 1974—$2,715,000, 1975—$10,542,000, 1976—$15,808,000. The available investment credit carryforward as of December 31, 1970 amounted to approximately $10,-853,000, which will expire as follows: 1971 — $1,474,000, 1972 — $1,941,000, 1973 — $2,900,000, 1974 — $2,861,000, 1975 — $1,073,000, 1976 — $604,000.

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 $43,385,000, after a reduction of $6,-049,000 as a result of the net loss in 1970 and a further reduction of $947,-000 as a result of the Divisions Case adjustment referred to in note 2. No consideration has been given to investment credit carryforwards in computing the foregoing amounts.

5. Long-Term Debt

Long-term debt at December 31, 1970, 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 1971 to 1975 inclusive are $13,317,927, $11,549,918, $9,776,934, $8,276,915 and $7,016,112, 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, 1970, 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 $79,357,504 at December 31, 1970. 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 $47,914,985.

Under long-term noncancelable equipment leases expiring in 1971 through 1989, the Railroad Company and subsidiaries were obligated as of December 31, 1970 to pay rentals of $74,428,-509, of which $8,366,176 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 $6,261,540 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 1970 was $1,403,109 and the actuarially computed value of vested benefits was approximately $20,100,000 as of September 30, 1968, the date of the latest actuarial valuation.

9. Per Share Loss

Per share loss applicable to common stock is based upon the number of shares outstanding at the close of each year. No recognition was given to a dividend requirement because of actions by the Board of Directors of the Railroad Company to omit preferred dividends in respect of the years 1969 *and 1970. Contingent issuances of com-*mon stock have an anti-dilutive effect upon the per-share loss amounts for both years.

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 was negative no contingent interest is payable in 1971 in respect of the year 1970 and none was payable in 1970 in respect of the year 1969. Provision has nevertheless been made in 1970 and 1969 accounts for that contingent interest which is cumulative. Provision has not been made in either year for interest on the Five Per Cent Income Debentures.

Balance Sheet

December 31, 1970 with comparative figures for 1969

ASSETS	1970	1969
CURRENT ASSETS		
Cash and temporary cash investments	$ 7,340,623	$ 9,555,114
Accounts receivable	25,921,644	24,806,658
Material and supplies, at cost	18,889,102	16,010,446
Other current assets	3,407,238	3,297,832
Total current assets	55,558,607	53,670,050
SPECIAL FUNDS	970,434	2,040,228
INVESTMENTS	38,375,536	40,944,123
PROPERTIES		
Road and equipment	998,577,440	1,003,147,335
Other elements of investment	(110,895,595)	(121,599,158)
Allowances for depreciation and amortization	(300,309,225)	(282,506,418)
Transportation properties	587,372,620	599,041,759
Nonoperating properties, less depreciation	3,806,702	3,960,450
Total properties	591,179,322	603,002,209
OTHER ASSETS AND DEFERRED CHARGES	5,316,614	4,998,552
Total assets	$691,400,513	$704,655,162

LIABILITIES AND SHAREHOLDERS' EQUITY	1970	1969
CURRENT LIABILITIES		
Note payable to bank	$ 4,899,000	$ 4,899,000
Accounts payable	30,671,168	29,053,287
Payroll and vacation pay	17,246,143	11,850,211
Accrued taxes	8,147,929	8,259,882
Other current liabilities	254,322	413,538
Total current liabilities (exclusive of debt installments due within one year)	61,218,562	54,475,918
DEBT INSTALLMENTS DUE WITHIN ONE YEAR	13,157,130	14,094,696
LONG-TERM DEBT	241,466,740	252,975,845
RESERVES AND OTHER LIABILITIES	12,443,925	9,002,374
Total liabilities	328,286,357	330,548,833
SHAREHOLDERS' EQUITY		
Capital stock		
Common stock	217,989,200	217,989,200
Preferred stock	51,865,200	51,865,200
	269,854,400	269,854,400
Retained income	93,259,756	104,251,929
Total shareholders' equity	363,114,156	374,106,329
Total liabilities and shareholders' equity	$691,400,513	$704,655,162

( ) Denotes contra items.

Statement of Income

Year ended December 31, 1970 with comparative figures for 1969

	1970	1969
OPERATING REVENUES		
Freight	$248,728,957	$239,233,790
Passenger, mail and express	14,561,932	16,500,144
Other	14,249,219	13,374,256
	277,540,108	269,108,190
OPERATING EXPENSES (including depreciation and retirement charges of $18,943,758 in 1970 and $18,240,813 in 1969)		
Transportation	121,269,998	116,302,354
Maintenance of way and structures	45,354,599	44,773,138
Maintenance of equipment	45,252,733	44,845,980
Traffic	7,593,003	7,558,534
General and other	17,940,995	17,151,164
	237,411,328	230,631,170
Net revenue from railway operations	40,128,780	38,477,020
TAXES AND RENTS		
Payroll and other taxes	24,889,000	23,311,000
Equipment and joint facility rents, net	23,107,055	25,348,157
	47,996,055	48,659,157
Net railway operating loss	(7,867,275)	(10,182,137)
OTHER INCOME		
Gain on sales of properties, net	674,846	2,638,373
Dividends and interest	6,505,371	4,262,717
Miscellaneous, net	1,968,462	2,338,527
	9,148,679	9,239,617
	1,281,404	(942,520)
Fixed Interest on Long-Term Debt	7,369,463	7,819,536
	(6,088,059)	(8,762,056)
Contingent Interest on Long-Term Debt	2,803,049	2,820,652
	(8,891,108)	(11,582,708)
Adjustment of 1967 recovery in Transcontinental Divisions Case	2,881,119	....
Net loss of the Railroad Company as reported to the Interstate Commerce Commission	(11,772,227)	(11,582,708)
Eliminate Prior Period Adjustments:		
Federal income tax refunds	....	1,305,443
Transcontinental Divisions Case adjustment	2,881,119	....
	(8,891,108)	(12,888,151)
Equity in Undistributed Earnings of Subsidiaries	(2,101,065)	7,246,782
Net Loss	$(10,992,173)	$ (5,641,369)

Investments — December 31, 1970

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			
Bremerton Freight Car Ferry, Inc.	. . . .	. . . .	63,929
The Milwaukee Motor Transportation Company	. . . .	100	500,000
TOTAL INVESTMENTS—WHOLLY-OWNED SUBSIDIARIES			2,918,929
Jointly-owned Terminal, Switching, and Other Companies			
CAPITAL STOCKS			
Chicago, Milwaukee and North Western Corporation	50	50	500
Chicago, Terre Haute & Southeastern Railway Company	40,787.50	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 . . . . A	9,426	1.28	263,928
The St. Paul Union Depot Company . . . . A	1,036	12½	130,475
Trailer Train Company . . . . A	500	2.44	98,860
TOTAL CAPITAL STOCKS			6,655,532
NOTES			
Delta Alaska Terminal Ltd.	. . . .	6.67	16,667
Trailer Train Company . . . . A	. . . .	2.44	462,000
TOTAL NOTES			478,667
ADVANCES			
Chicago Union Station Company	. . . .	25	7,142,921
Davenport, Rock Island & North Western Railway Company	. . . .	50	1,201,966
Des Moines Union Railway Company	. . . .	50	1,518,559
Kansas City Terminal Railway Company	. . . .	8⅓	1,331,669
The Minnesota Transfer Railway Company	. . . .	11⅑	326,695
The St. Paul Union Depot Company	. . . .	12½	202,464
TOTAL ADVANCES			11,724,274
TOTAL INVESTMENTS—AFFILIATED COMPANIES			21,777,402
OTHER COMPANIES	. . . .	. . . .	1,655,763
TOTAL INVESTMENTS AT COST			23,433,165
EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARIES SINCE ACQUISITION	. . . .	. . . .	14,942,371
TOTAL			$38,375,536

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	$ 18,667,354	$ 93,098	$ 94,804	$ 18,665,648
Land for transportation purposes	38,297,401	41,607	241,857	38,097,151
Other right-of-way expenditures	533,287	7,714	1,154	539,847
Grading	143,694,404	317,899	465,321	143,546,982
Tunnels and subways	10,209,662	....	....	10,209,662
Bridges, trestles, and culverts	77,604,884	704,191	461,812	77,847,263
Ties	34,997,603	256,413	174,558	35,079,458
Rails	69,695,530	311,106	296,211	69,710,425
Other track material	50,206,208	357,138	184,742	50,378,604
Ballast	26,602,368	58,750	149,127	26,511,991
Track laying and surfacing	33,780,570	387,829	176,819	33,991,580
Fences, snowsheds, and signs	5,394,066	10,391	10,071	5,394,386
Station and office buildings	28,450,664	831,287	607,539	28,674,412
Roadway buildings	1,922,036	36,264	101,626	1,856,674
Water stations	797,087	....	9,173	787,914
Fuel stations	910,222	13,005	36,175	887,052
Shops and enginehouses	19,385,646	157,524	71,670	19,471,500
Storage warehouses	52,580	....	3,058	49,522
Wharves and docks	1,746,949	....	(3,930)	1,750,879
Communication systems	9,076,035	196,110	147,611	9,124,534
Signals and interlockers	23,816,678	335,734	207,933	23,944,479
Power plants	1,490,770	(438)	4,209	1,486,123
Power-transmission systems	9,858,319	3,538	14,963	9,846,894
Miscellaneous structures	598,771	1,259	15,584	584,446
Roadway machines	10,625,254	766,107	345,155	11,046,206
Roadway small tools	319,536	(254)	1,387	317,895
Public improvements—construction	17,030,495	230,063	52,862	17,207,696
Other expenditures—road	335	....	....	335
Shop machinery	7,614,870	84,852	109,117	7,590,605
Power-plant machinery	5,595,111	1,852	....	5,596,963
Other	1,366,040	123,862	....	1,489,902
TOTAL ROAD	650,340,735	5,326,901	3,980,608	651,687,028
EQUIPMENT				
Locomotives	117,553,568	93,287	1,693,274	115,953,581
Freight-train cars	199,650,130	3,140,233	8,286,262	194,504,101
Passenger-train cars	24,629,101	2,589	722,097	23,909,593
Floating equipment	180,005	....	....	180,005
Work equipment	6,964,541	297,864	49,009	7,213,396
Miscellaneous equipment	3,231,733	561,423	309,440	3,483,716
TOTAL EQUIPMENT	352,209,078	4,095,396	11,060,082	345,244,392
IMPROVEMENTS ON LEASED PROPERTY				
Road	597,522	....	....	597,522
Equipment	....	569,632	(478,866)	1,048,498
TOTAL IMPROVEMENTS ON LEASED PROPERTY	597,522	569,632	(478,866)	1,646,020
TOTAL ROAD AND EQUIPMENT PROPERTIES	$1,003,147,335	$9,991,929	$14,561,824	$998,577,440

Units of Equipment Owned

	Jan. 1, 1970	Added	Retired	Dec. 31, 1970
Locomotives	752	....	12	740
Freight cars	33,846	677	2,747	31,776
Passenger cars	347	5	43	309
Company service equipment	1,623	74	42	1,655
Floating equipment	2	....	....	2
Highway vehicles	906	132	103	935
TOTAL	37,476	888	2,947	35,417

( ) Denotes contra items.

Consolidated Long-Term Debt — December 31, 1970

DESCRIPTION	Date of Maturity	Amount as of Dec. 31, 1970	Held by Company and Subsidiaries	Principal Amount Outstanding Dec. 31, 1970	INTEREST Rate (per cent) Fixed	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 (f)	1,131,782
General mortgage convertible income bonds, Series B ....(a)	Jan. 1, 2044	31,451,900	324,500	31,127,400	......	4½ (f)	1,400,733
The Bedford Belt Ry. Co. first mortgage bonds	Jan. 1, 1994	331,000	153,000 (d)	178,000	2¾	1½ (g)	7,573
The Southern Indiana Ry. Co. first mortgage bonds	Jan. 1, 1994	6,395,000	256,000	6,139,000	2¾	1½ (g)	259,885
Chicago, Terre Haute and Southeastern Ry. Co.:							
First and refunding mortgage bonds	Jan. 1, 1994	9,244,000	2,060,000 (e)	7,184,000	2¾	1½ (g)	305,161
Income mortgage bonds	Jan. 1, 1994	6,335,800	1,597,000	4,738,800	2¾	1½ (g)	201,399
Five per cent income debentures, Series A	Jan. 1, 2055	55,800,000	166,000	55,634,000	......	5	....
Equipment obligations:							
Trust certificates	1971 - 1976	5,355,000	....	5,355,000	3⅜-4⅞	......	378,118
Conditional sale agreements	1971 - 1982	56,724,540	....	56,724,540	4.4-8¾	......	4,053,477
Other long-term obligations — Milwaukee Land Company	1971 - 1978	381,842	....	381,842	......	......	....
TOTAL		$247,712,782	$6,330,200	$241,382,582			$9,707,540

(a) Convertible into common stock on basis of one share of common stock for each $100.00 principal amount of bonds.
(b) First mortgage Series B bonds 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, along with a mortgage note receivable in the principal amount of $2,058,817, as collateral to short-term bank 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) Cumulative to 13½%.
(g) Cumulative to 4½%.

Reduction of Mortgage Bonds and Debentures

Period from December 1, 1945 to December 31, 1970

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	....	166,000	4,366,000	5	218,300
The Bedford Belt Ry. Co. first mortgage bonds	....	19,000	53,000	72,000	4¼	3,060
The Southern Indiana Ry. Co. first mortgage bonds	....	892,000	256,000	1,148,000	4¼	48,790
Chicago, Terre Haute & Southeastern Ry. Co. first and refunding mortgage bonds	....	327,000	545,000	872,000	4¼	37,060
Income mortgage bonds	....	....	1,597,000	1,597,000	4¼	67,873
Total	$61,935,200	$4,420,900	$4,249,200	$70,605,300		$3,138,505

Revenue Freight by Principal Commodity Groups — 1970 and 1969

	1970		1969		INCREASE+ OR DECREASE—	
	TONS CARRIED	PERCENT OF TOTAL	TONS CARRIED	PERCENT OF TOTAL	TONS	PERCENT
Grain	5,155,139	11.59	4,855,996	10.66	+ 299,143	+ 6.16
Soybeans (incl. oil seeds, nuts or kernels)	876,205	1.97	733,009	1.61	+ 143,196	+19.54
Potatoes, other than sweet	198,090	.44	200,833	.44	— 2,743	— 1.37
Fresh fruits and fresh vegetables	265,636	.60	268,794	.59	— 3,158	— 1.17
Livestock	51,677	.12	63,096	.14	— 11,419	—18.10
All other farm products (includes sugarbeets)	396,058	.89	523,922	1.15	— 127,864	—24.41
Metallic ores	135,178	.30	161,301	.35	— 26,123	—16.20
Coal	6,174,576	13.89	5,817,824	12.77	+ 356,752	+ 6.13
Nonmetallic minerals; except fuels	3,189,423	7.17	3,592,921	7.88	— 403,498	—11.23
Meat, fresh, chilled or frozen	785,288	1.77	930,976	2.04	— 145,688	—15.65
Dairy products	361,339	.81	368,253	.81	— 6,914	— 1.88
Canned or preserved fruits, vegetables and seafoods	857,154	1.93	775,057	1.70	+ 82,097	+10.59
Grain mill products	2,223,045	5.00	2,111,176	4.63	+ 111,869	+ 5.30
Malt liquors	683,763	1.54	836,290	1.84	— 152,527	—18.24
Beverages or flavoring extracts (except malt liquors)	527,217	1.19	513,626	1.13	+ 13,591	+ 2.65
All other food or kindred products (incl. sugar)	1,526,429	3.43	1,646,463	3.61	— 120,034	— 7.29
Primary forest products (incl. logs and pulpwood)	2,154,028	4.84	2,206,358	4.84	— 52,330	— 2.37
Lumber or dimension stock	1,949,791	4.38	2,044,455	4.49	— 94,664	— 4.63
All other lumber or wood products (incl. plywood)	849,441	1.91	892,495	1.96	— 43,054	— 4.82
Pulp or pulp mill products	715,212	1.61	676,669	1.49	+ 38,543	+ 5.70
All other paper or allied products	2,318,034	5.21	2,301,637	5.05	+ 16,397	+ .71
Industrial chemicals	1,413,644	3.18	1,352,264	2.97	+ 61,380	+ 4.54
All other chemicals or allied products	1,633,316	3.67	1,676,437	3.68	— 43,121	— 2.57
Petroleum or coal products and crude petroleum, natural gas or gasoline	869,753	1.96	828,603	1.82	+ 41,150	+ 4.97
Stone, clay or glass products	1,792,198	4.03	2,086,093	4.58	— 293,895	—14.09
Coke oven or blast furnace prod. (pig iron, slag and coke)	292,751	.66	316,865	.70	— 24,114	— 7.61
Primary iron or steel prod. (ingots, plates, bars, tinplate)	1,407,530	3.17	1,623,039	3.56	— 215,509	—13.28
All other primary metal products	741,257	1.67	887,839	1.95	— 146,582	—16.51
Fabricated metal prod. (except ordnance, machinery and transportation equip.)	366,684	.82	370,335	.81	— 3,651	— .99
Farm machinery or equipment	146,659	.33	152,742	.33	— 6,083	— 3.98
All other machinery; except electrical	225,601	.51	275,481	.60	— 49,880	—18.11
Electrical machinery or equipment	186,015	.42	209,201	.46	— 23,186	—11.08
Motor vehicles	420,576	.95	468,586	1.03	— 48,010	—10.25
All other transportation equipment	501,454	1.13	634,937	1.39	— 133,483	—21.02
Waste or scrap materials	1,361,452	3.06	1,314,234	2.88	+ 47,218	+ 3.59
Freight forwarder and shipper association traffic	419,665	.94	428,792	.94	— 9,127	— 2.13
All other carload traffic	1,284,636	2.89	1,412,454	3.10	— 127,818	— 9.05
TOTAL CARLOAD TRAFFIC	44,455,914	99.98	45,559,053	99.98	—1,103,139	— 2.42
SMALL PACKAGED FREIGHT SHIPMENTS (L.C.L. MERCHANDISE)	8,395	.02	8,211	.02	+ 184	+ 2.24
GRAND TOTAL, CARLOAD AND L.C.L. TRAFFIC	44,464,309	100.00	45,567,264	100.00	—1,102,955	— 2.42

Revenue Freight Traffic Statistics — excluding truck service

YEAR	TONS CARRIED	TON MILES	AVERAGE HAUL—MILES	FREIGHT REVENUE* TOTAL	PER TON	PER TON MILE (CENTS)
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	186,209,480	4.70	1.321
1964	40,765,392	14,701,598,590	360.64	192,244,906	4.72	1.308
1965	42,781,557	15,908,663,519	371.86	204,326,584	4.78	1.284
1966	46,049,835	16,776,045,534	364.30	222,702,956	4.84	1.328
1967	43,653,258	16,740,101,489	383.48	219,760,892	5.03	1.313
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
1970	44,464,309	17,510,170,011	393.80	248,728,957	5.59	1.420

Data for the years 1963 through 1967 restated to reflect results of Transcontinental Divisions Case resettlement.

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				
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
1970	5,954,260	134,261,044	22.55	4,955,884	.83	3.691
		OTHER THAN COMMUTATION				
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
1970	645,751	132,996,543	205.96	4,228,106	6.55	3.179

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	AVERAGE PER EMPLOYEE	AVERAGE PER HOUR WORKED
1961	18,406	$112,673,501	$3.205	$ 9,099,691	$2,867,995	$124,641,187	$ 6,772	$3.546
1962	17,430	112,513,236	3.292	9,407,264	3,051,767	124,972,267	7,170	3.657
1963	16,883	112,643,912	3.329	9,412,272	3,283,233	125,339,417	7,424	3.704
1964	17,000	115,765,619	3.442	9,802,397	4,207,092	129,775,108	7,634	3.858
1965	16,526	118,776,619	3.653	10,197,336	4,539,841	133,513,796	8,079	4.106
1966	16,470	123,281,577	3.793	11,515,053	4,611,812	139,408,442	8,464	4.289
1967	15,665	121,812,537	4.017	12,165,512	4,621,477	138,599,526	8,848	4.571
1968	15,473	128,590,553	4.190	13,478,562	5,418,475	147,487,590	9,532	4.806
1969	15,636	136,880,939	4.398	14,288,053	5,600,690	156,769,682	10,026	5.037
1970	14,803	140,589,640	4.805	14,837,868	6,774,336	162,201,844	10,957	5.543

1970 wage data include amounts applicable to the year but paid or to be paid subsequently, and data previously reported for earlier years have been adjusted to similarly include back-pay in the years applicable rather than the payment years.

BOARD OF DIRECTORS

TERMS EXPIRING:

1971	TILDEN CUMMINGS	PATRICK L. O'MALLEY
	JOSEPH A. MAUN	LOUIS QUARLES
1972	CURTISS E. CRIPPEN	WILLIAM J. FROELICH
	*LEO T. CROWLEY	ARTHUR M. WIRTZ
1973	PHILIP W. PILLSBURY	FRANKLIN B. SCHMICK
	WILLIAM J. QUINN	JOHN P. WAGNER

EXECUTIVE COMMITTEE

ARTHUR M. WIRTZ, *Chairman*

CURTISS E. CRIPPEN	JOSEPH A. MAUN
TILDEN CUMMINGS	WILLIAM J. QUINN

FINANCE COMMITTEE

*LEO T. CROWLEY, *Chairman*

CURTISS E. CRIPPEN	LOUIS QUARLES
*TILDEN CUMMINGS	WILLIAM J. QUINN
WILLIAM J. FROELICH	JOHN P. WAGNER
JOSEPH A. MAUN	ARTHUR M. WIRTZ

OFFICERS

WILLIAM J. QUINN
Chairman of the Board and Chief Executive Officer .... CHICAGO

CURTISS E. CRIPPEN
President .... CHICAGO

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

RAYMOND K. MERRILL
Vice President—Law .... 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

JAMES P. REEDY
General Counsel .... CHICAGO

ROLAND W. SPANGENBERG
General Solicitor .... CHICAGO

WILLIAM E. ROSS
Comptroller .... CHICAGO

JAMES T. TAUSSIG
Secretary .... CHICAGO

CHARLES L. SCHIFFER
Treasurer .... CHICAGO

STOCK TRANSFER OFFICES

The Chase Manhattan Bank, New York, N. Y. 10015
The First National Bank of Chicago, Chicago, Illinois 60670

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 11, 1971, 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.

CHICAGO, MILWAUKEE, ST. PAUL AND PACIFIC RAILROAD COMPANY

THE MILWAUKEE ROAD

516 WEST JACKSON BLVD., CHICAGO, ILLINOIS 60606

*
Leo T. Crowley retired as a director and chairman of the Finance Committee effective January 21, 1971.

Tilden Cummings was elected chairman of the Finance Committee effective January 21, 1971.

William G. Karnes was elected a director and a member of the Finance Committee effective January 21, 1971 to fill the vacancy created by Mr. Crowley's retirement.

ANNUAL REPORT 1970

THE MILWAUKEE ROAD

CHICAGO, MILWAUKEE, ST. PAUL AND PACIFIC RAILROAD COMPANY