Note 5—Properties. Transportation properties are recorded at original cost as of 1915 determined under the valuation requirements of the Interstate Commerce Commission, plus subsequent additions and betterments at cost and less retirements. Approximately $334,000,000 of road (principally land and track) are not depreciated, rather, as prescribed by the Commission, an alternative generally accepted accounting practice is used whereby replacements of track structure are charged to maintenance expense and only additions and betterments are capitalized. Upon retirement the record value of track less salvage is charged to operating expense. Depreciation on all other transportation properties under the straight-line method was $21,615,000 in 1968 and $20,318,000 in 1967.

Manufacturing properties are recorded at cost. Provision for depreciation charged to costs and expense of $10,023,000 in 1968 and $11,637,000 in 1967 was determined by the straight-line or other acceptable methods at rates designed to absorb the cost of the assets over their useful lives.

Note 6—Long-Term Debt at December 31, 1968:

	Current	Due after One Year
Illinois Central Railroad Company:		
First mortgage bonds due 1974 to 1989, 3¼% to 3¾%	$	$116,025,000
Equipment obligations due annually to 1983, 2½% to 6⅞%	15,787,985	90,703,820
Manufacturing subsidiaries:		
Sinking fund debentures due 1982 and 1987, 4½%	97,000	18,869,000
Notes payable by European subsidiaries annually to 1986, 3.8% to 8%	795,998	6,499,057
Other debt	435,545	2,680,767
	$17,116,528	$234,777,644

The indentures for the sinking fund debentures of the subsidiary contain restrictions against the payment of dividends (other than stock dividends), the redemption of capital stock and investment in subsidiaries in areas other than the United States and Canada. Of the $447,803,000 retained income at December 31, 1968, $392,947,000 is not so restricted.

Note 7—Pension Plans: A retirement plan for railroad employes, whose working conditions and salaries are not subject to union agreements, supplements benefits paid to employes under the Railroad Retirement Act. The plan is not funded and pension payments thereunder charged to operating expenses were $1,040,079 in 1968 and $1,026,122 in 1967. Based on actuarial studies, pension expense is substantially equivalent to providing for the cost of the plan on the accrual basis, including amortization of past service costs over a 40 year period. The present value of benefits pertaining to retired employes was approximately $10,650,000 at December 31, 1968.

Manufacturing subsidiaries have several pension plans for substantially all employes in the United States and Canada. Pension expense amounted to $2,396,469 in 1968 and $2,777,398 in 1967, which includes amortization of prior service costs over a period of not more than 30 years. Pension costs are funded as they accrue.

Note 8—Contingencies and Commitments:
In April 1963, Abex Corporation acquired substantially all the assets of The S. K. Wellman Company in exchange for 447,308 shares of unissued Common Stock. The Federal Trade Commission in May 1964 charged that this acquisition violated Section 7 of the Clayton Act. After hearing the case on appeal from a hearing examiner's initial decision, the Commission in April 1968 concluded that the acquisition was unlawful and issued an order of divestiture. On July 3, 1968 a petition to set aside the divestiture order and to instruct the Commission to dismiss the Complaint was filed in the United States Court of Appeals for the Sixth Circuit. Shipments and net earnings from the operation of the assets embraced within the contested divestiture order are not material with respect to consolidated shipments and net earnings of Abex.

The Illinois Central Railroad Company, jointly and severally with other railroads, has guaranteed repayment of certain indebtedness of affiliated terminal, etc., companies aggregating approximately $183,000,000 of which the primary share is $9,600,000. A service interruption insurance policy provides for payment of premiums up to $4,542,000 under certain conditions in event of work stoppage arising out of labor disputes in the industry. Lease agreements for the use of freight train cars and locomotives over a 15 year period from 1967 provide for annual rental payments of $1,750,000 through 1971 and $2,300,000 thereafter. Upon expiration of the lease term, the lessee has the right to purchase the freight train cars at their then fair value or to extend the term.