To Our Shareholders:

A great change was effected in your company during 1968, the most significant advance in its history. The company virtually doubled in size, going from approximately $300 million to $600 million in sales and revenues. At the year end our assets totalled over one billion dollars. The character of our enterprise also changed. A railroad-oriented company was transformed into one with equally broad horizons in industry, real estate and transportation.

For the first time the largest share of our operating profits resulted from manufacturing operations, rather than from transportation or other sources. This substantial change in our earnings mix reflects the effectiveness of our diversification program, which became active less than one year ago.

We have created a company of diverse markets, ranging from moonshot hardware to equipment for use in the baking of coffee cakes and in the production of automobile tires. We now have a hand in moving mountains as well as moving the nation's freight.

During 1968 we completed our merger with Waukesha Foundry Company on August 30, and with Abex Corporation on December 26.

To you who were Abex and Waukesha Foundry stockholders, the business of running a railroad is new. To you who were already Industries stockholders, the operations of our manufacturing partners are a fresh story.

This report describes the operations, the progress and the financial results as though the mergers had been effective for the entire period presented. This is the best way we can tell you about your enlarged company and its prospects.

Your company's total 1968 sales and revenues were $586,892,000. Net income for 1968 was $35,141,000, compared with $33,901,000 in 1967, both on a generally accepted accounting basis. Net income per common share, after preferred dividend requirements, amounted to $4.14, compared with $4.00 per share in 1967. Both 1967 and 1968 figures reflect the earnings of Waukesha Foundry and the Abex Corporation, even though they were acquired in August and December, 1968, respectively. The restated 1967 figure of $4.00 per share compares with the $3.63 per share reported in 1967—before pooling Abex and Waukesha earnings. Because the company now reports only on the basis of generally accepted accounting principles, figures previously reported on an ICC accounting basis will not be comparable.

Dividends totaled $1.50 per share on the common stock. Holders of Series 1 Second Preferred stock are entitled to receive cumulative cash dividends at the rate of $3.50 per share per annum.

Our merger with Abex Corporation is the first broad development in the diversification of Illinois Central Industries. Abex already is a well diversified company, and its acquisition takes us into a variety of markets. Our Waukesha acquisition further broadens our industrial base. These steps, combined with projected real estate developments, should help to level out cyclical swings in the future. Furthermore, diversification gives us greater growth potential.

The merger with Abex brought changes in the organization and management of Illinois Central Industries. Your company has been regrouped into three divisions: manufacturing, real estate development and transportation. The manufacturing division, in addition to Abex, includes the Waukesha Foundry Company and the Chandeysson Electric Company, which was acquired in 1965.

Abex operates 40 plants in the United States, nine in Canada, nine in Europe and two in Mexico. A new plant facility was built near Montreal for production of fluid power control products, and another plant is being expanded at Calera, Ala.

Waukesha Foundry has two plants in Wisconsin. During 1968 the company completed development of a multiple liquid processing system which was purchased by three food processors.

Chandeysson Electric Company has one plant in St. Louis. This company currently produces traction motors and generators. New markets are being developed.

When a company reaches out in new directions, it needs a revised organizational road map. Industries prepared such a map well before its Abex merger. The basic plan calls for strengthening Industries management at the core, with a senior vice-president in charge of planning and administration. Early in 1969 Industries realigned its corporate staff in Chicago.

Your company is also diversifying into an area far removed from industry and transportation. We will participate in large scale development of both office buildings and high rise residential structures to be built on the Chicago lake front air rights owned by the Illinois Central Railroad. Your company owns more than 80 per cent of Illinois Center Corporation which plans to develop a substantial portion of the air rights. An agreement has been signed with a major oil company covering terms of sale of part of this property on which it plans to erect an international headquarters office building.

Down in New Orleans, a part of our centrally located business district property has been selected as the site of a municipal domed stadium. Only seven miles from the heart of the business district, your company has a master plan for a modern industrial park. It will be called Elmwood

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