



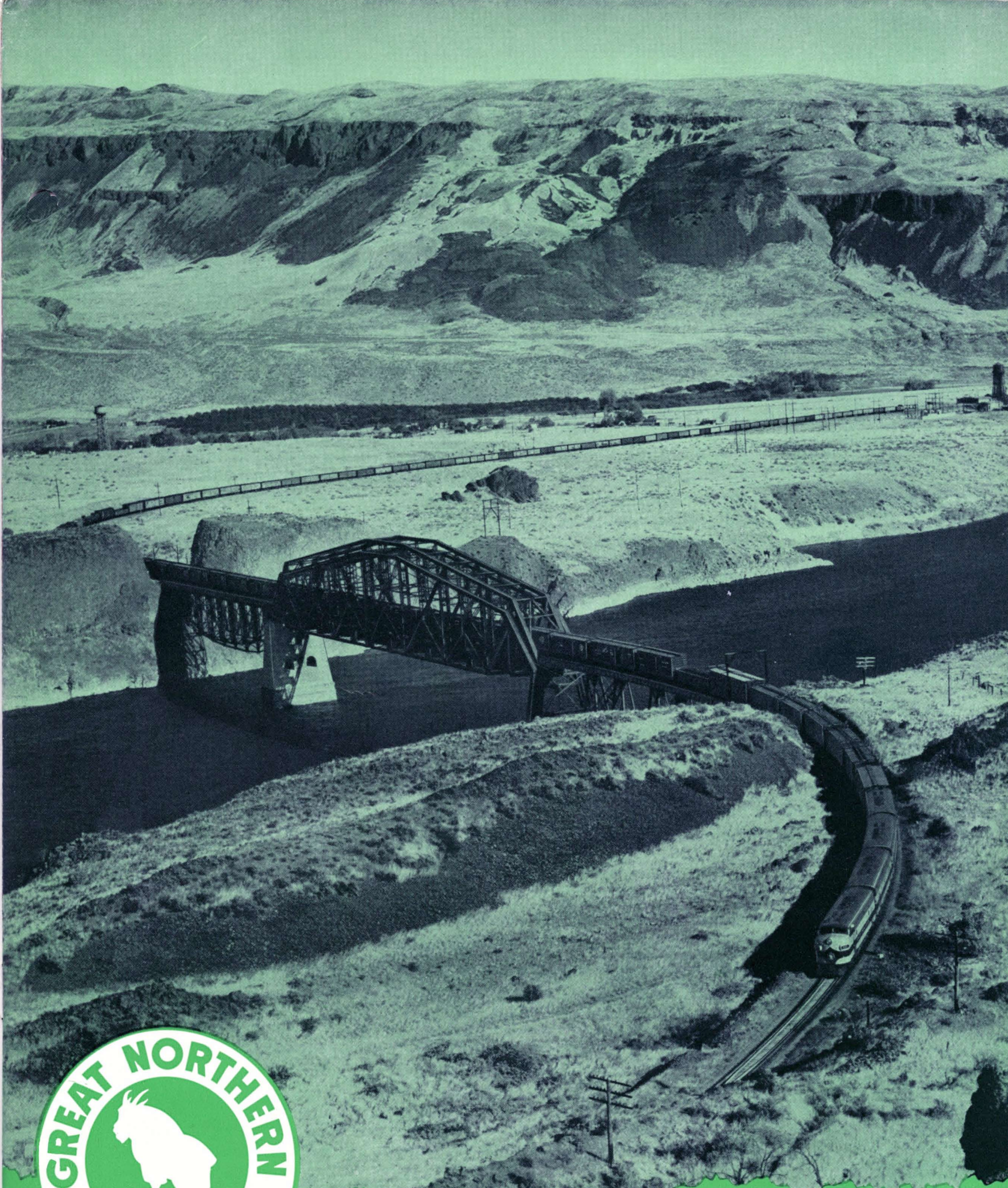
**GREAT NORTHERN
RAILWAY COMPANY**

**61st
ANNUAL REPORT
1949**

ON THE COVER

Cover picture shows a 96 foot girder being inched into position on the 240 foot tower for the bridge over Nason Creek. Compare girder with steel worker assisting at top of tower.

This is part of the new \$1,000,000 line relocation on the east slope of the Cascade Mountains, eliminating five sharp curves, and was placed in operation July 15, 1949.



Columbia River Crossing, East of Wenatchee, Wash.

**SIXTY-FIRST
ANNUAL REPORT**

1949

GREAT NORTHERN RAILWAY COMPANY

STOCKHOLDERS

35,412 Stockholders, November 21, 1949.

BOARD OF DIRECTORS

Term Expires May 11, 1950.

F. PEAVEY HEFFELFINGER . . . Minneapolis <i>Executive Vice President, F. H. Peavey & Co.</i>	RICHARD C. LILLY St. Paul <i>Chairman, First National Bank of St. Paul</i>
GRANT KEEHN New York <i>Vice President, The First National Bank of the City of New York</i>	WALTER G. SEEGER St. Paul <i>President, Seeger Refrigerator Co.</i>

Term Expires May 10, 1951

J. STEWART BAKER. New York
Chairman, Bank of the Manhattan Co.

FRANK J. GAVIN. St. Paul
President, Great Northern Ry. Co.

JAMES F. OATES, JR. Chicago
Chairman, The Peoples Gas Light and Coke Co.

FREDERICK K. WEYERHAEUSER . . St. Paul
President, Weyerhaeuser Sales Co.

Term Expires May 8, 1952

THOMAS L. DANIELS Minneapolis
President, Archer-Daniels-Midland Co.

WILLIAM L. McKNIGHT St. Paul
*Chairman of the Board,
Minnesota Mining & Mfg. Co.*

N. STOCKHAMMER New York
*Assistant Secretary and Assistant Treasurer
Great Northern Railway Co.*

ARCHIBALD W. WITHERSPOON . . Spokane
President, Old National Bank of Spokane

EXECUTIVE COMMITTEE

FRANK J. GAVIN	F. PEAVEY HEFFELFINGER	
RICHARD C. LILLY	WILLIAM L. McKNIGHT	WALTER G. SEEGER

OFFICERS

F. J. GAVIN, President	St. Paul
V. P. TURNBURKE, Vice President, Executive Department	St. Paul
T. BALMER, Vice President	Seattle
J. M. BUDD, Vice President, Operating Department	St. Paul
E. C. MATTHIAS, Vice President and General Counsel	St. Paul
C. E. FINLEY, Vice President, Traffic Department	St. Paul
F. L. PAETZOLD, Secretary and Treasurer	St. Paul
J. A. TAUER, Comptroller	St. Paul
C. W. MOORE, Executive Assistant	St. Paul
V. N. WAHLBERG, General Auditor	St. Paul
I. G. POOL, General Manager, Lines East of Williston	Duluth
I. E. MANION, General Manager, Lines West of Williston	Seattle
J. B. SMITH, General Superintendent Transportation	St. Paul
J. L. ROBSON, General Superintendent Motive Power	St. Paul
H. J. SEYTON, Chief Engineer	St. Paul
A. N. CRENSHAW, Purchasing Agent	St. Paul
J. GARING, Right of Way, Land and Tax Commissioner	St. Paul
N. STOCKHAMMER, Assistant Secretary and Assistant Treasurer	New York
H. F. SMITH, Assistant Secretary and Assistant Treasurer	New York
C. F. ZIEGAHN, Assistant Secretary	St. Paul

EMPLOYEES

27,596 Average Number for 1949

Principal Office: Great Northern Building, St. Paul (1), Minn.
Financial and Transfer Office: 2 Wall Street, New York (5), N. Y.
Annual Meeting of Stockholders, St. Paul, Minnesota, May 11, 1950

GREAT NORTHERN RAILWAY COMPANY

EXECUTIVE DEPARTMENT

F. J. GAVIN
PRESIDENT

ST. PAUL 1, MINNESOTA

March 25, 1950

To Great Northern Stockholders:

Severe winter weather in most of the Railway's territory in the early months of the year, a sharp decline in revenues in the last quarter, and the highest wage scale in Great Northern's history, were major contributors to reduction in your Company's net income in 1949 to \$18.7 million - \$6.05 per share. Earnings in 1948 were \$27.6 million - \$8.91 per share.

Your Directors inaugurated quarterly dividend payments in 1949. Remembering the sacrifice of the stockholders during the recent debt retirement and refunding program, the Directors increased total dividend payments in 1949 to \$4 per share from the \$3.50 per share paid in 1948. The Company paid \$3 per share annually 1945, 1946 and 1947, and \$2 per share each year from 1941 through 1944.

Freight rate increases amounting to 7% were authorized by the Interstate Commerce Commission and made effective during the year. The super-regulated railways, paying their own way and faced with higher operating costs, have been forced to raise their rates, thus increasing the threat of diverting more and more traffic to their highly-subsidized, lightly-regulated competitors.

Operating revenues of \$212.3 million in 1949 were off \$10.5 million from 1948 (eliminating accounting adjustment in 1948). This entire loss occurred in the last quarter, coincident with the strike in the coal and iron mines, a retarded grain movement and a severe car shortage. Although the revenue from iron ore up to October 1, 1949 was ahead of 1948, the strike of ore miners beginning that date resulted in a decrease in ore revenue of some \$3.9 million for the year.

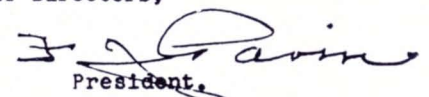
Abnormally severe weather, with heavy snows and sub-zero weather, increased operating expenses to such an extent that there was a deficit in net income of almost \$5.3 million by the end of February. Establishment on September 1, 1949 of the 40-hour week for non-operating employees (82% of all workers) also increased operating costs. Non-operating employees now receive practically the same pay for 40 hours as formerly was paid for 48 hours work. The brightest spot in transportation costs was the decrease of some \$4 million in fuel costs, resulting principally from increased use of diesel locomotives. Lower prices for fuel and diesel oil and conversion of steam locomotives and power plants from coal to oil-burning also contributed to this saving.

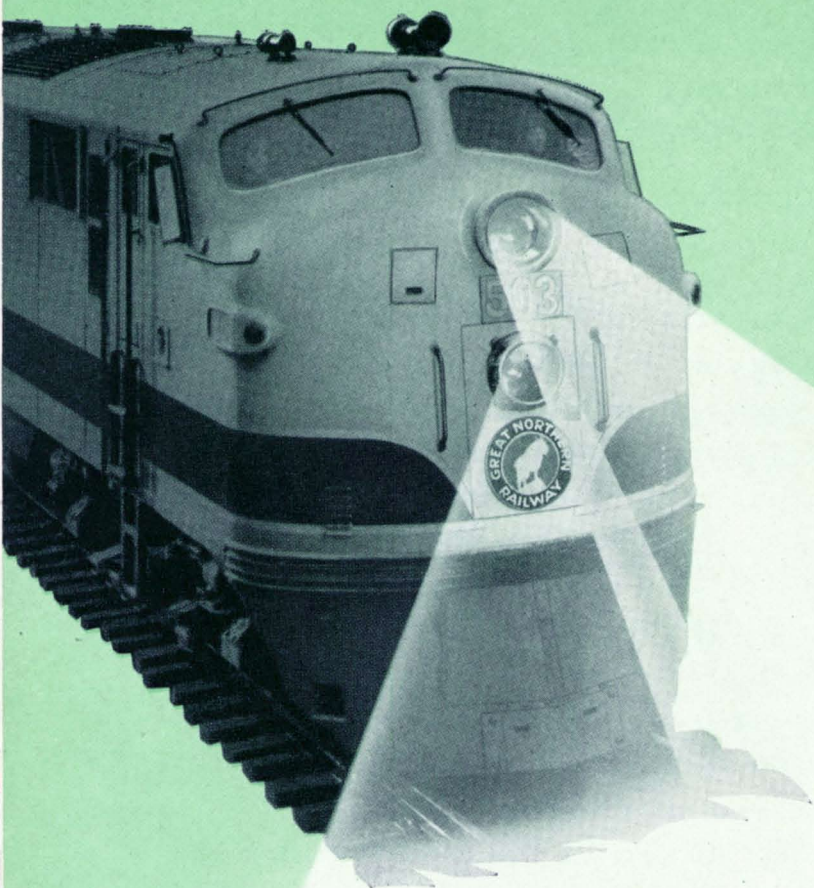
By the end of 1950, when the 68 diesel locomotives now on order are received, Great Northern will be completely dieselized (or electrified) west and south of Havre, Montana, except for the Klamath Division south of Bend, Oregon. This will result in substantial reductions in fuel and locomotive repair costs, while other important savings will be realized through elimination of water stations, enginehouse and fuel oil facilities, which now have to be maintained and operated because of the use of both steam and diesel power.

Financing in 1949 included \$10,350,000 of 2% equipment trust certificates, 1 to 15 years, sold at an interest cost of 2.08%, and \$1,584,000 of conditional sale paper, running for 8 years, and sold at a 2.09% interest rate.

Present indications are that revenues may be expected to be substantial for the first half of 1950; and, should crop yields continue favorable, stockholders may hope for fairly satisfactory results during 1950 from the operation of their property.

For the Board of Directors,


President.



GREAT NORTHERN HIGHLIGHTS OF 1949

ITEM	1949	1948	1947	1946
Financial Data in Millions of Dollars:				
Net Income	\$ 18.7	\$ 27.6	\$ 22.5	\$ 23.5
Dividends Paid	12.4	10.8	9.3	9.3
Operating Revenues	212.3	216.3	193.8	167.4
Taxes	26.0	24.0	24.5	11.0
Fixed Charges	7.7	7.5	7.7	8.7
Averages:				
Per Share (3,092,561 shares, 1949):				
Net Income	\$ 6.05	\$ 8.91	\$ 7.28	\$ 7.59
Dividends Paid	4.00	3.50	3.00	3.00
Fixed Charges	2.49	2.43	2.49	2.80
Percent Expenses to Revenues	76.3	72.8*	74.1	77.5
Times Fixed Charges Earned	3.4	4.7	3.9	3.7

*Omitting \$6.4 million charged to revenue for land grant claims relating to prior years.

GREAT NORTHERN RAILWAY COMPANY

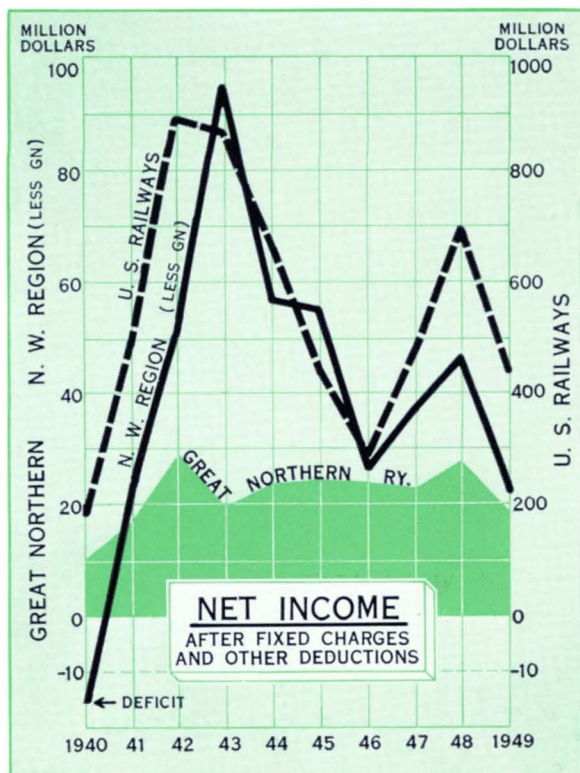
INCOME AND PROFIT AND LOSS ACCOUNT, 1949 AND 1948

INCOME ACCOUNT	Year 1949	Year 1948	Increase— Decrease—
Freight revenues.....	\$184,061,536	\$186,907,685	\$2,846,149 D
Passenger revenues.....	11,688,120	12,650,404	962,284 D
All other operating revenues.....	16,517,573	16,783,994	266,421 D
Total railway operating revenues.....	212,267,229	216,342,083	4,074,854 D
Maintenance of way and structures.....	39,955,795	37,172,965	2,782,830 I
Maintenance of equipment.....	35,153,208	34,059,270	1,093,938 I
Transportation expenses.....	75,057,443	79,726,996	4,669,553 D
All other operating expenses.....	11,785,362	11,203,317	582,045 I
Total railway operating expenses.....	161,951,808	162,162,548	210,740 D
Net revenue from railway operations.....	50,315,421	54,179,535	3,864,114 D
Railway tax accruals.....	25,990,822	24,018,778	1,972,044 I
Equipment and joint facility rents—Net.....	3,779,564	2,960,916	818,648 I
Net railway operating income.....	20,545,035	27,199,841	6,654,806 D
Dividend income.....	4,279,252	6,292,261	2,013,009 D
Interest income.....	1,329,647	1,223,847	105,800 I
Other income accounts.....	735,872	824,862	88,990 D
Total other income.....	6,344,771	8,340,970	1,996,199 D
Total income.....	26,889,806	35,540,811	8,651,005 D
Miscellaneous deductions.....	495,471	453,151	42,320 I
Income available for fixed charges.....	26,394,335	35,087,660	8,693,325 D
Interest on funded debt.....	7,498,025	7,338,976	159,049 I
Other fixed charges.....	194,694	181,296	13,398 I
Total fixed charges.....	7,692,719	7,520,272	172,447 I
Net income.....	\$ 18,701,616	\$ 27,567,388	\$8,865,772 D

PROFIT AND LOSS ACCOUNT

CREDITS			
Credit balance at beginning of year.....	\$150,749,415	\$135,476,616	\$15,272,799 I
Net income as above.....	18,701,616	27,567,388	8,865,772 D
Other credits.....	160,235	459,970	299,735 D
DEBITS			
Income appropriated for sinking fund reserves.....	1,375,000	1,375,000
Dividend appropriations of surplus.....	12,370,213	10,823,927	1,546,286 I
Other debits.....	1,101,014	555,632	545,382 I
Credit balance at end of year.....	154,765,039	150,749,415	4,015,624 I





NET INCOME

In 1949 your railway, along with the entire railway industry, experienced a decrease in net income. Great Northern's net income for 1949 of \$18,701,616—\$6.05 per share of stock compared with \$27,567,388—\$8.91 per share in 1948, a loss of \$8,865,772—\$2.86 per share or 32%.

While disappointing, the decline was somewhat less than for other railways. All Class I railways (those with revenues in excess of \$1 million) reported a decrease in net income of 38%, while the other Class I railways in the Northwestern Region showed a net income decline of 52%.

The accompanying chart shows the relatively stable earnings for your company during the past 10 years as compared with the railway industry as a whole.

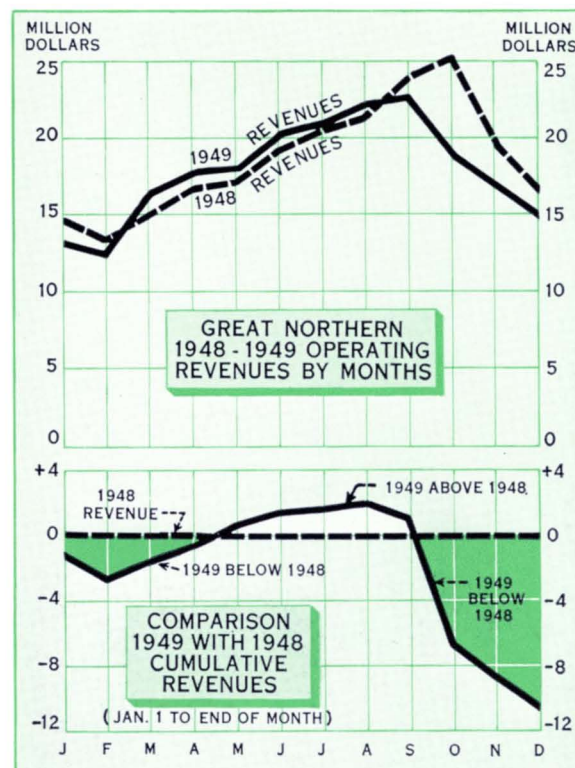
Contributing to the reduction in net income from 1948 to 1949 of \$8.9 million was the loss of \$2 million in income outside of railway operations, largely as a result of the smaller dividend received from Chicago, Burlington & Quincy Railroad Co. Due to lower earnings by that carrier (which experienced a substantial falling off in its important coal traffic as a result of the coal strike) the dividends which Burlington paid to Great Northern in 1949 were \$4.1 million, compared with \$5.8 million paid in 1948.

OPERATING REVENUES

Railway operating revenues in 1949 were \$212.3 million, a decrease of \$10.5 million—5%, as compared with 1948, after eliminating the reduction in revenue in 1948 accounts for land grant adjustments applicable to previous years.

Great Northern's revenues in early 1949 were below those of the same period in 1948, largely because of the severe weather during the first quarter of 1949. However, a larger volume of grain traffic plus an earlier resumption of the iron ore movement, beginning in March, overcame the earlier deficit, and 1949 revenues exceeded those of 1948 from May until the end of September. Then the cumulative effect of the steel strike, the strike in iron ore mines beginning October 1 which shut down ore transportation, the restricted grain movement and a shortage of box cars, all contributed to the final result, a \$10.5 million shortage in revenues in 1949 compared with 1948. Accompanying chart clearly depicts this situation.

Increased mail traffic brought about higher mail revenues, \$6.7 million in 1949 compared with \$6.2 million in 1948, an increase of \$.5 million—8%. Passenger revenues were down from \$12,650,404 to \$11,688,120, a decrease of \$962,284—7.6%. Other revenues were off nearly \$770,000.



SOURCES OF 1949 INCOME

\$218,612,000

$\frac{17\frac{1}{2}}{18\text{THS}}$



\$212,267,229

FROM RAILWAY OPERATION

$\frac{1}{2}$
18TH



6,344,771

FROM DIVIDENDS ETC.

\$218,612,000

DISPOSITION OF 1949 INCOME

\$218,612,000

$\frac{1}{18\text{TH}}$



\$12,370,213

DIVIDENDS PAID TO STOCKHOLDERS

$\frac{8}{18\text{THS}}$



100,317,023

WAGES PAID TO EMPLOYEES

$\frac{5}{18\text{THS}}$



56,373,520

MATERIALS, RENTALS ETC.

$\frac{2}{18\text{THS}}$



25,990,822

TAXES

$\frac{1}{18\text{TH}}$



9,536,300

DEPRECIATION AND AMORTIZATION

$\frac{1}{2}$
18TH



7,692,719

INTEREST AND OTHER FIXED CHARGES

$\frac{1}{2}$
18TH



6,331,403

LEFT IN BUSINESS

\$218,612,000

GREAT NORTHERN RAILWAY COMPANY

BALANCE SHEET, DECEMBER 31, 1949 AND 1948

	December 31,		Increase—I Decrease—D
	1949	1948	
ASSETS			
Investments			
Transportation and miscellaneous physical property....	\$701,372,720	\$678,136,172	\$23,236,548 I
Accrued depreciation and amortization—Credit.....	156,772,927	151,636,215	5,136,712 I
Investments in affiliated companies.....	175,075,895	173,281,103	1,794,792 I
Other investments.....	11,397,031	13,214,604	1,817,573 D
Total investments.....	731,072,719	712,995,664	18,077,055 I
Current assets			
Cash, including temporary cash investments.....	38,032,066	49,997,017	11,964,951 D
Material and supplies.....	27,090,698	27,394,480	303,782 D
All other current assets.....	11,381,061	13,223,475	1,842,414 D
Total current assets.....	76,503,825	90,614,972	14,111,147 D
Deferred assets and unadjusted debits.....	13,066,020	15,232,313	2,166,293 D
Total assets.....	\$820,642,564	\$818,842,949	\$ 1,799,615 I
LIABILITIES			
Capital stock held by the public (3,092,582½ shares of no par value).....	\$272,838,550	\$272,838,550
Long term debt			
Funded debt unmatured.....	215,363,800	215,663,800	\$ 300,000 D
Equipment obligations.....	39,907,084	32,688,315	7,218,769 I
Total long term debt.....	255,270,884	248,352,115	6,918,769 I
Current liabilities			
Accounts and wages payable.....	14,303,275	16,332,430	2,029,155 D
Taxes accrued.....	17,979,932	24,249,538	6,269,606 D
All other current liabilities.....	7,249,545	7,951,994	702,449 D
Total current liabilities.....	39,532,752	48,533,962	9,001,210 D
Deferred liabilities and unadjusted credits.....	5,100,991	6,828,215	1,727,224 D
Surplus			
Unearned surplus.....	1,438,048	1,432,948	5,100 I
Earned surplus—appropriated.....	91,696,300	90,107,744	1,588,556 I
Profit and loss—Balance.....	154,765,039	150,749,415	4,015,624 I
Total surplus.....	247,899,387	242,290,107	5,609,280 I
Total liabilities.....	\$820,642,564	\$818,842,949	\$ 1,799,615 I



The Interstate Commerce Commission in its 63rd Annual Report, dated November 1, 1949, stated in part:

"The railroad situation at this time has some particularly difficult aspects. Rates had to rise to cope with advancing costs, but increases in rates have placed the railroads in a less favorable competitive position and have caused changes which have lessened the demand for transportation. Railroad plant has been improved to enable the achievement of lower operating costs and better service. **Successful use of this improved plant depends in part, however, on volume of traffic, and volume has been dissipated to some extent by higher prices for rail service.**"

The Commission suggested that this difficult problem might be attacked by the achievement of lower costs through greater efficiency and selective adjustment of rates to meet the difficulties of producers, or distributors, in given areas, or to lessen diversions to other media of transportation.

Great Northern continuously has been developing both of these approaches, endeavoring to secure lower costs through increased mechanization, rearranging work, and investing capital funds for fixed property improvements and new equipment. Rate adjustments also are being made to take care of individual situations as they occur and others are being considered for possible application.

1. FREIGHT SERVICE

Great Northern's freight revenue of \$184 million in 1949 was \$9.2 million less than for the preceding year, a decrease of 5%. This compares favorably with the regional and national experience, other Northwestern Region lines reporting a decrease of 8% while all

United States railways had a decline of 12%.

The volume of freight traffic handled by Great Northern in 1949 was 15.4 billion ton miles—6% less than in 1948. A higher revenue per ton mile was realized—1.197 cents in 1949 compared with 1.179 cents in 1948.

The only important commodity showing a substantial increase in revenue was grain, with receipts in 1949 nearly \$5 million—18%—above those for 1948. The 1949 grain shipments were over 235 million bushels, while those for 1948 were slightly more than 212 million bushels. A total of 22,399,287 long tons of iron ore were handled over the Allouez, Wisconsin, docks, compared with 26,625,700 long tons in 1948, and revenue from iron ore (including dockage) was off almost \$4 million—15%. The strike of the iron ore miners on October 1, 1949, contributed to this result.

The lumber movement was off over 40% in January and February, 1949, compared with 1948, but the volume increased later and for the full year 1949 the decrease in revenue was less than \$300,000, or 4%. Shipments of refined petroleum products from Montana increased somewhat in 1949, but there was a drop of over 1,000 cars in the crude oil movement to Canada where greatly increased local production has replaced American imports. All interline revenues (on freight traffic to and from foreign lines) decreased \$7.1 million—7%.

The grain harvest in Great Northern's territory in 1949 is estimated at 174,300,000 bushels, compared with the 197,800,000-bushel crop in 1948, a decrease of 12%. There is every indication of a substantial iron ore movement in 1950. The fruit crop in 1949 was about the same as for recent years—some 28,000 cars, while the 1949 potato production, approximately 22,500 cars, was 5% above the 1948 crop.



Combining Wheat in Montana

INCREASE IN FREIGHT RATES

As stated in the 1948 report to stockholders, an increase in freight rates, effective January 11, 1949, was estimated to produce \$6.9 million—3.7% additional revenue to Great Northern for a full year. Effective September 1, 1949, the Interstate Commerce Commission authorized a further increase which should boost revenues an additional \$6.2 million—3.2% for a full year. As both increases were in effect for only part of 1949, the additional revenue for the year should be some 4.8%.

Comparison of the revenue received by Great Northern for each ton mile transported, 1.197 cents for 1949 and 1.179 cents for 1948, indicates an increase of less than 2%. The same situation is noted in comparing 1949 with earlier years. The Interstate Commerce Commission, in authorizing an increase in freight rates effective September 1, 1949, observed that rates had gone up 51.7% for all United States railways since June 30, 1946, and 47.4% for lines in the Western District. However, a comparison of the rate per ton mile actually received on all freight traffic by

the Great Northern during this period shows an increase of only 26.4%.

The much smaller overall increase for Great Northern was largely due to four factors:

1. Only a very small increase, less than 14%, was granted on iron ore traffic during the June 30, 1946-September 1, 1949, period.

2. A smaller proportion of higher rated commodities was handled in 1949, due to the sharp decline in the movement of manufactured commodities, which take higher than average rates.

3. Failure of the many State regulatory bodies to grant the full measure of increase authorized by the Interstate Commerce Commission by excepting important state commodity movements, or reducing the increase applicable thereto, and by delaying the time when the increased rates would become effective.

4. The prescription of maxima increases below the percentage basis on fruit, vegetables, sugar, smelter products, petroleum products, forest products and other long haul commodities handled in volume.

HOW STATES SERVED BY GREAT NORTHERN RANK AMONG ALL STATES IN AGRICULTURAL AND LIVESTOCK PRODUCTION

		Rank—States served by Great Northern in heavy type					
		1	2	3	4	5	6
1. CROP PRODUCTION—1949							
Wheat.....	Kans.	N. D.	Tex.	Okla.	Mont.	Ohio	
Corn.....	Iowa	Ill.	Minn.	Ind.	Nebr.	Ohio	
Oats.....	Iowa	Minn.	Ill.	Wisc.	S. D.	Mich.	
Barley.....	Cal.	N. D.	Minn.	Colo.	S. D.	Mont.	
Flax.....	Minn.	N. D.	S. D.	Cal.	Tex.	Iowa	
Rye.....	N. D.	Minn.	S. D.	Nebr.	Wisc.	Mich.	
Hay.....	Wisc.	Cal.	Mo.	Minn.	N. Y.	Iowa	
Potatoes.....	Me.	Cal.	Ida.	N. Y.	Pa.	N. D.	
2. LIVESTOCK AND PRODUCTS—on farm January 1, 1950							
Cattle and calves.....	Tex.	Iowa	Nebr.	Wisc.	Kans.	Minn.	
Milk cows.....	Wisc.	Minn.	N. Y.	Tex.	Iowa	Ohio	
Hogs.....	Iowa	Ill.	Ind.	Mo.	Minn.	Ohio	
Sheep and lambs.....	Tex.	Wyo.	Cal.	Mont.	Colo.	N. M.	
Chickens.....	Iowa	Minn.	Tex.	Pa.	Mo.	Cal.	
3. LIVESTOCK AND PRODUCTS—raised or produced during 1949							
Chickens.....	Iowa	Tex.	Pa.	Minn.	Mo.	Ill.	
Turkeys.....	Cal.	Tex.	Minn.	Iowa	Utah	Ore.	
Pigs.....	Iowa	Ill.	Ind.	Mo.	Minn.	Ohio	
Milk.....	Wisc.	N. Y.	Minn.	Cal.	Iowa	Pa.	
Butter.....	Minn.	Iowa	Wisc.	Nebr.	Mo.	Ill.	

PERCENTAGE INCREASE IN FREIGHT RATES

JUNE 30, 1946 TO AUGUST 31, 1949

PERCENTAGE INCREASE IN FREIGHT RATES
ESTIMATED BY I. C. C. FOR WESTERN RAILWAYS

47.4 %

ACTUAL PERCENTAGE INCREASE IN
REVENUE PER NET TON MILE - G. N. R. Y

26.4 %

2. PASSENGER SERVICE

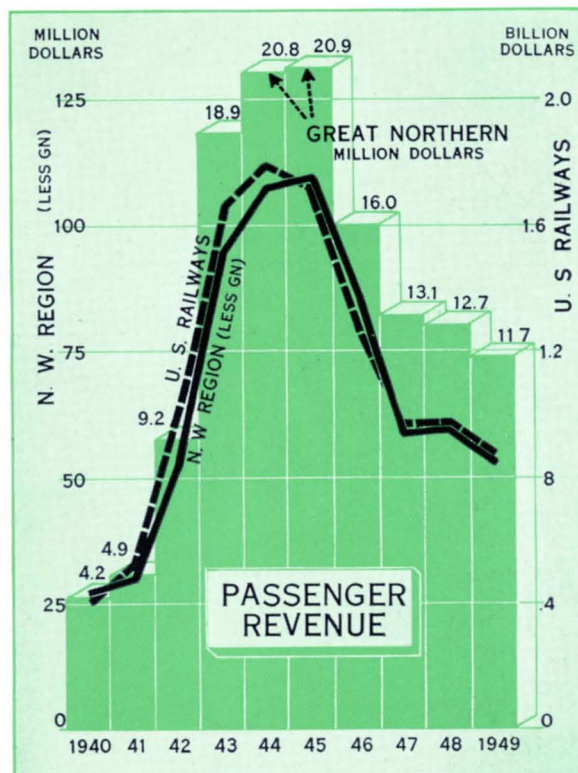
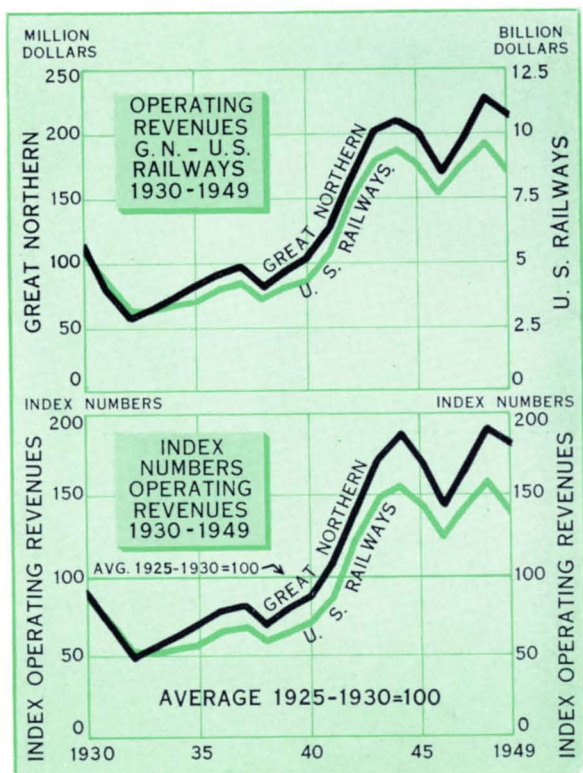
The volume of passenger traffic was down some 7% in 1949, and the revenue received—\$11,688,120—was off \$962,284—7.6% from 1948. But for the improved service being given by the streamlined Empire Builder the loss in passenger revenues would undoubtedly have been greater, as all other Class I railways in the Northwestern Region and the United States generally had a decline in passenger revenues of between 11 and 12 per cent.

While the smaller volume of passengers carried one mile in 1949 was disappointing, and less than for the previous seven years (1942-1948), the 1949 passenger traffic exceeded that of any year in the 21-year period 1921-1941, and was over 3 times as large as for the low point of 1932.

3. MAIL AND EXPRESS TRAFFIC

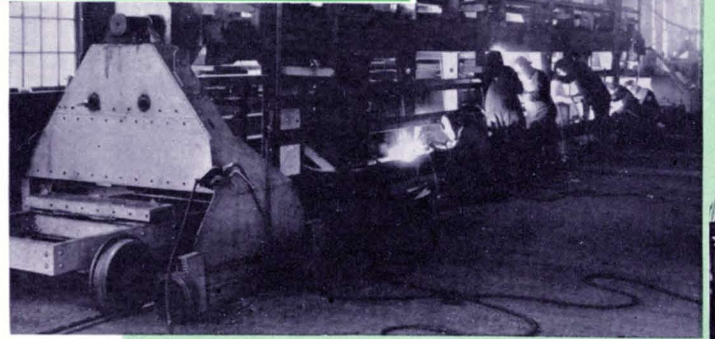
Revenue from mail service in 1949 continued the yearly increase, and express revenues followed the yearly decreases begun in 1945.

Through failure to increase parcel post rates sufficient to offset increased costs, the Post Office Department is subsidizing this service at the expense of the general taxpayer. The Railway Express Agency, on the other hand, had no alternative but to raise rates to meet its higher costs. As a result, a steadily increasing volume of traffic is being diverted from the railway owned Express Agency to its competitor, the tax supported Post Office Department.





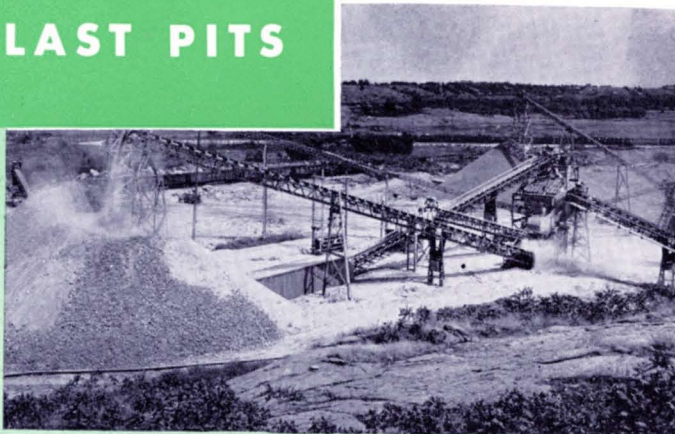
CONSTRUCTING 1500 NEW ALL STEEL BOX CARS



Welding Steel Underframe

THREE IMPORTANT DEVELOPMENTS...1949

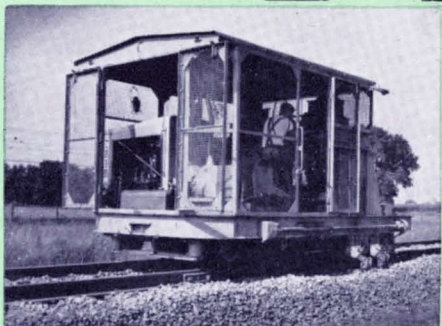
OPENING THREE CRUSHED ROCK BALLAST PITS



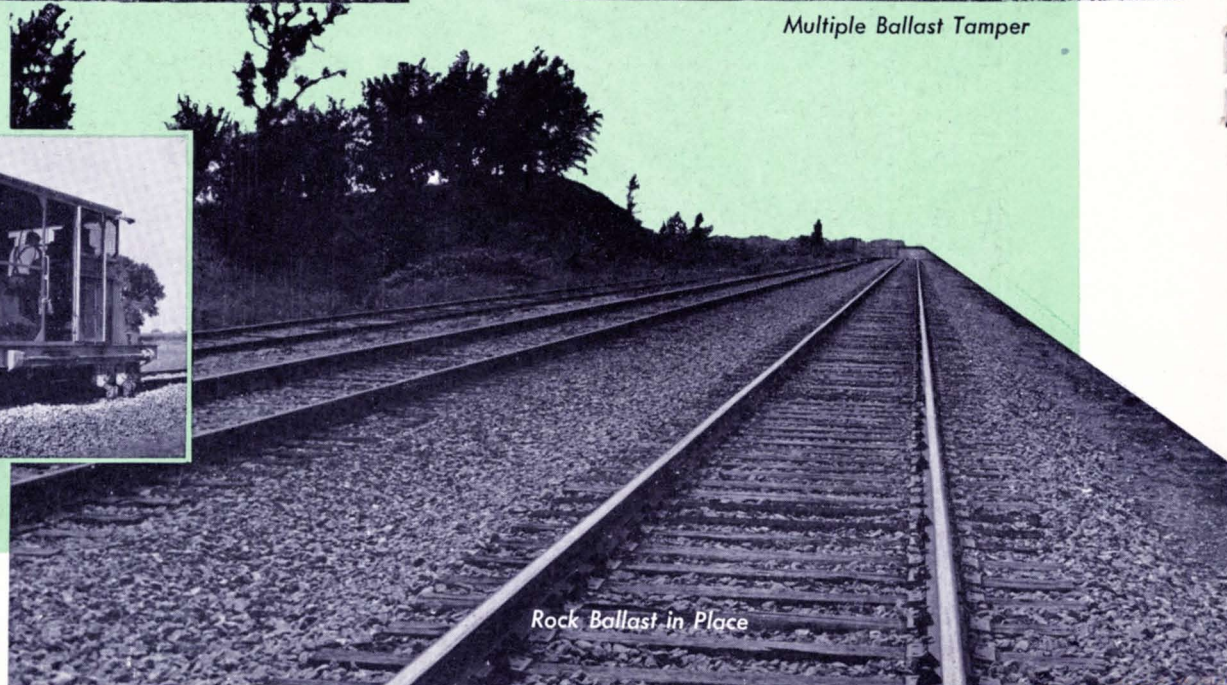
*General View of Rock
Crushing Operation*



Multiple Ballast Tamper



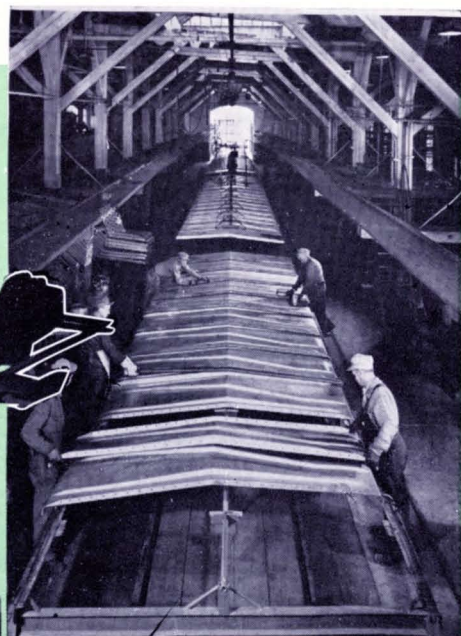
*Tamping Ballast
by Machine*



Rock Ballast in Place



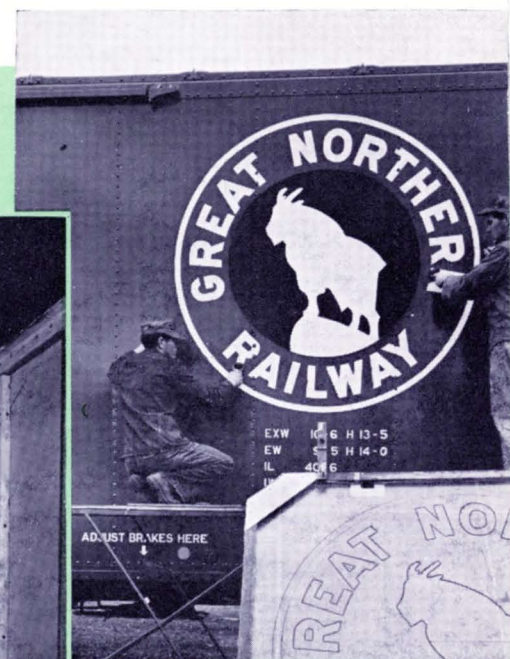
Placing Underframe on Car Trucks



Assembling Steel Roofs



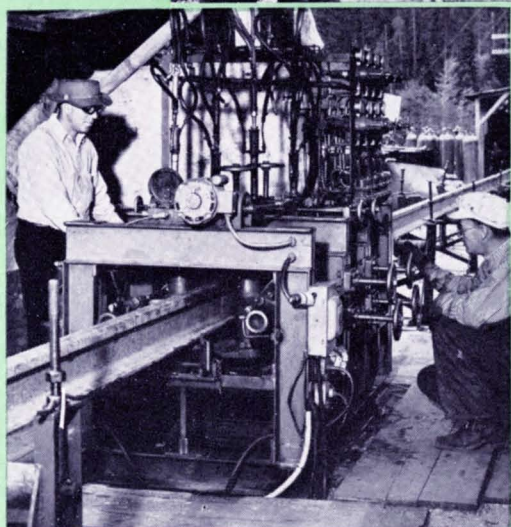
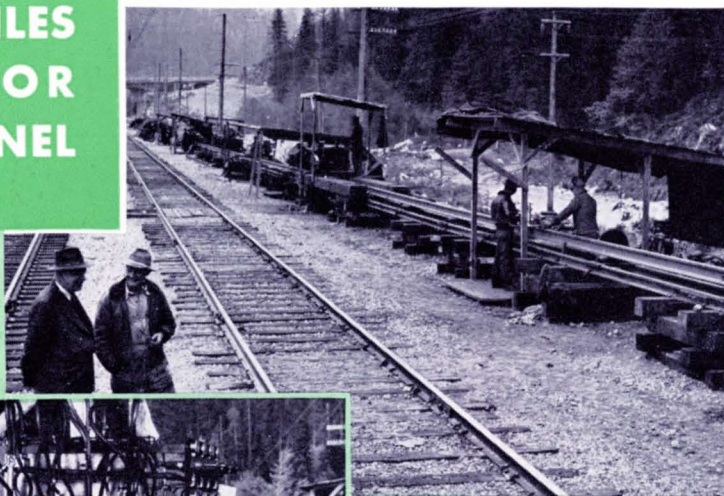
Installing Lumber Lining



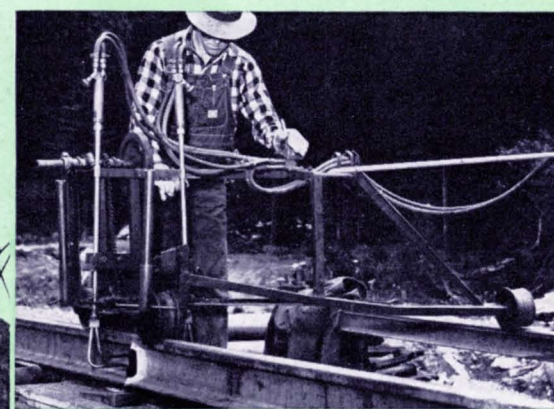
Applying
"Scotchlite"
Trade Mark

WELDING 4 MILES OF TRACK FOR CASCADE TUNNEL

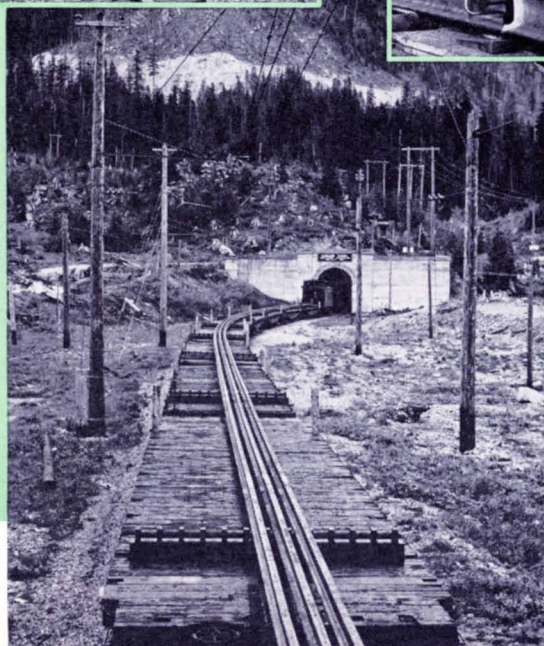
Assembly Line
at Work



Pressure Welding Rail - Temperature
6000 Degrees



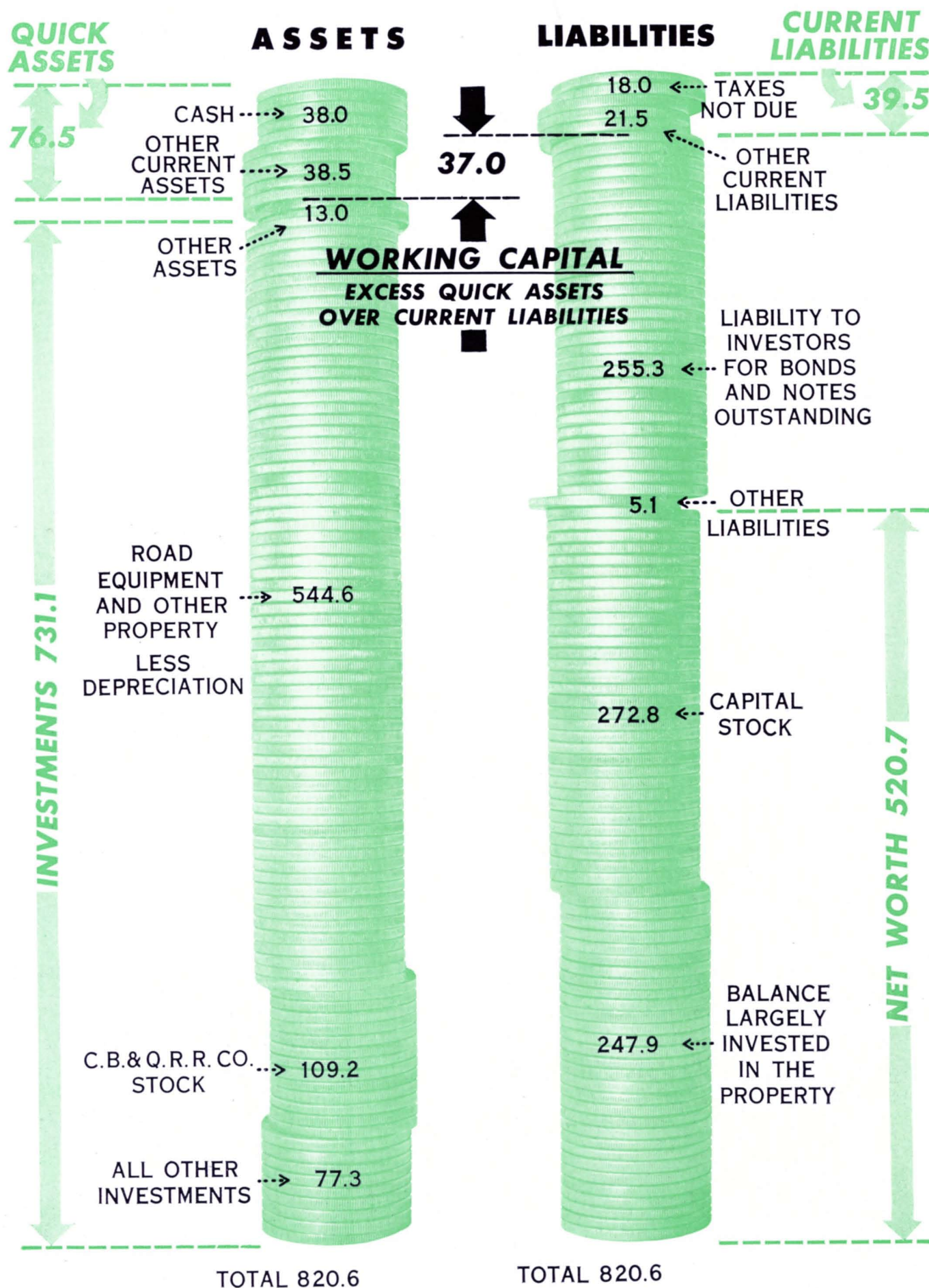
Flame Cleaning Rail Before
Applying Corrosion-resistant
Coating.



Rails 1/4 mile long enroute to
Cascade Tunnel where they will
be welded in place.

FINANCIAL POSITION AT END OF 1949 OR SIMPLIFIED BALANCE SHEET

IN MILLIONS OF DOLLARS



CHARGES AGAINST INCOME

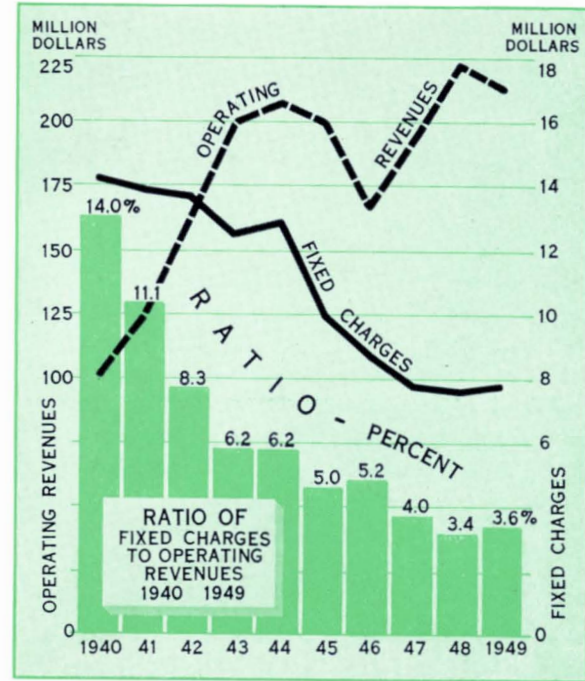
Operating expenses, taxes and fixed charges comprise the principal charges against income.

Comparing 1949 with 1948 there was:

1. A decrease in operating expenses of \$211,000, from \$162,162,548 in 1948 to \$161,951,808 in 1949.

2. A decrease in taxes of \$5 million (eliminating the adjustment in 1948 taxes related principally to the land grant refunds applicable to previous years referred to under "Operating Revenues") largely due to smaller income taxes applicable to the reduced net income in 1949.

3. An increase in fixed charges from \$7,520,272 in 1948 to \$7,692,719 in 1949 brought about by the issuance of additional Equipment Trust Certificates.



OPERATING EXPENSES

Abnormally severe weather was encountered in the early part of 1949, with a record-breaking snowfall in the Cascade Mountains in Washington. Heavy winds caused deep drifting in North Dakota, blocking many branch lines in the state. Snow removal costs during January and February, 1949, increased \$537,542, nearly double the 1948 expenditure. **The actual increase in operating cost attributable to the weather was much greater than this figure indicates. The persistent sub-zero weather forced reduction in freight train tonnage. This required more train miles to produce the same ton miles. The weather was hard on equipment, particularly freight cars, and smaller freight trains and greater resistance resulted in a poorer fuel performance.**

Your property has been well maintained. Approximately 48,000 tons of new rail were installed in 1949, nearly one-quarter more than the 1948 tonnage applied, and exceeding the new rail tonnage for maintenance in any previous year. Some 1.2 million new treated ties were placed in 1949, approximately the same as in recent years. Three new sources of crushed rock ballast were opened up in 1949, in Central Minnesota, Northwestern North Dakota, and Northwestern Montana. These pits produced crushed granite, quartzite or basalt ballast, and some 425,000 cubic yards were applied to the track providing a much firmer track structure.

The condition of equipment also improved and at the end of 1949 the equipment unserviceable had been reduced to 9.3% for locomotives, 3.3% for freight cars and 2.5% for passenger cars.



Along the Right of Way, February, 1949

WAGE INCREASES

The wage increases granted to all employees in October, 1948, were in effect only for the last quarter of that year. Application of these higher wage rates for the full year of 1949 increased operating expenses for that year by nearly \$5 million.

On September 1, 1949, the 40-hour week became effective for non-operating employees, embracing over 80% of all Great Northern workers. These employees now receive practically the same pay for 40 hours work as they previously received for 48 hours work. This produced a violent change in working practices, as transportation service must be given 7 days a week, regardless of the 5-day basic week recommended by an Emergency Board and agreed to by the railways and employee organizations.

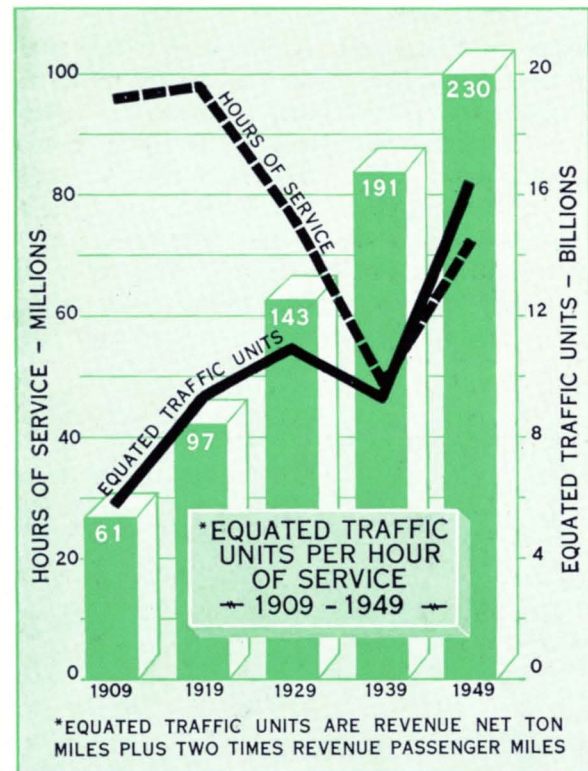
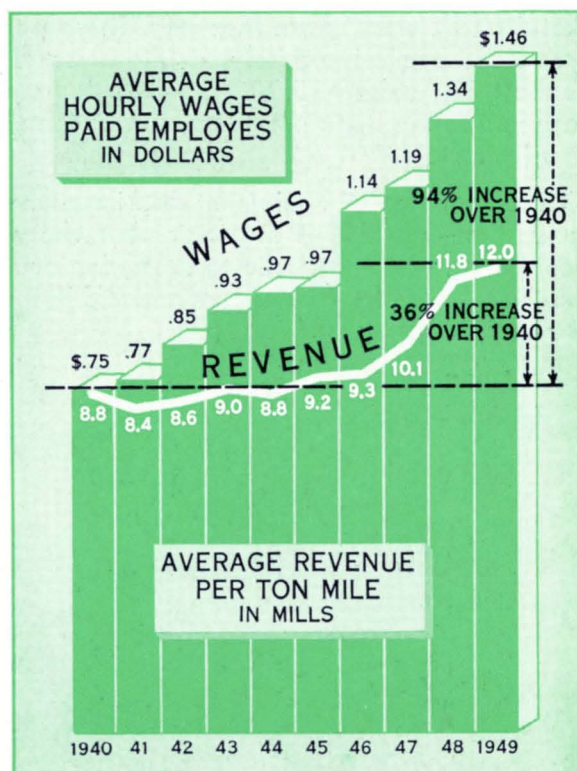
The 40-hour week brought the greatest increase in labor cost experienced by your railway in recent years, both in amount per hour and percentagewise. While the full impact of the 40-hour week on employment and working conditions has not yet been determined, the hourly wage rate paid to non-operating employees increased approximately 29.5 cents per hour or 23.8%.

In keeping with the spirit of the 40-hour week, working schedules have been re-

arranged to give employees 2 consecutive rest days per week, preferably including Sunday. By reducing station service to 5 and 6 days per week wherever possible, further mechanizing track, shop, and clerical work, and the acquisition of additional cheaper-to-maintain new diesel and car equipment, Great Northern's management believes that the necessity for employing additional help eventually will be reduced, although application of the 40-hour week resulted in creation of more than 1,000 new jobs.

The Brotherhood of Locomotive Engineers demanded a second engineer on all diesel locomotives, but, after extensive hearings, a Presidential Emergency Fact-Finding Board found in 1949 that there were no reasonable or logical grounds for granting this demand. The Brotherhood of Locomotive Firemen and Enginemen subsequently asked for extra firemen on diesel locomotives. A Presidential Emergency Fact-Finding Board also rejected this demand, denying that extra firemen would assure increased safety and efficiency of operation.

The demands of conductors and trainmen for rules changes that would increase their compensation are now being handled on a national basis. A strike vote was taken by the employees, and later an Emergency Board was appointed.



1889 - 1949
60th Anniversary of Birth
of Great Northern Railway Company

1

Sept 16th 1889.

A Meeting of the Board of Directors of the Minneapolis and St Cloud Railroad Company was held, pursuant to the call of the President, at the office of the Company, in St Paul, on Monday, September 16th 1889. at four o'clock P.M.

Present; Messrs. Mill, Sawyer, Bode and Alexander, being a quorum.

— The President in the chair —

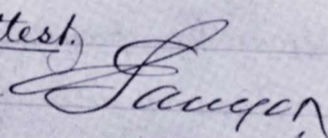
— On motion, duly seconded, the form of call for this meeting was approved.

— On motion of Mr Alexander, seconded by Mr Bode, the following resolution was adopted, all the Directors present voting in the affirmative:

Resolved: That the name of this Company be, and the same hereby is, changed to "The Great Northern Railway Company."

Resolved further: that the President and Secretary of this Company file with the Secretary of State, of the State of Minnesota, a copy of this resolution, certified under their hands and the seal of this Company."

— On motion, the meeting then adjourned.

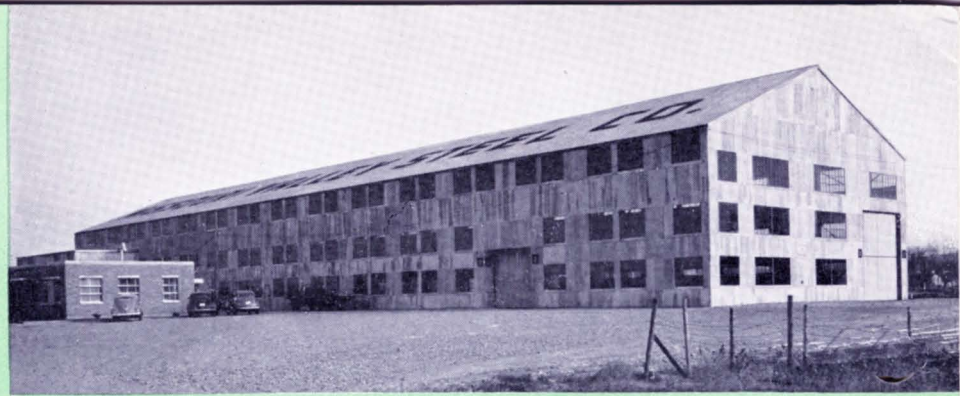
Attest.

 Secretary.

Filed Sept 18th 1889

Sec. Secretary

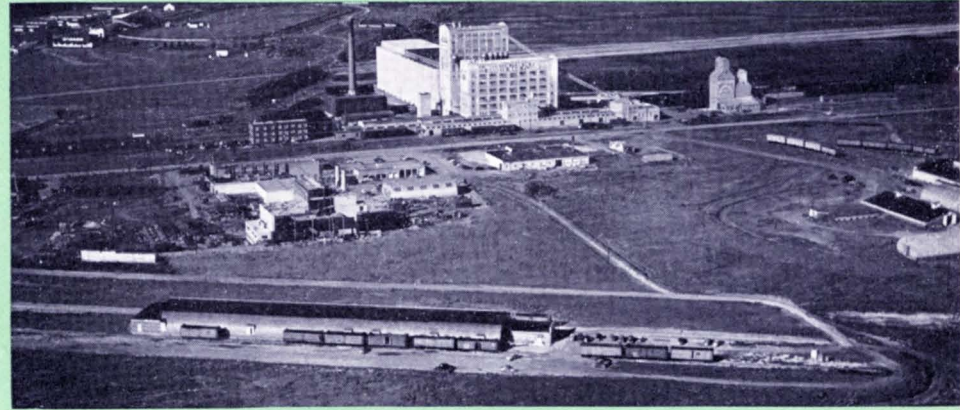
recd May 25, 1944

*Enlargement of
Meat Packing
Facilities,
Sioux Falls, S. D.*

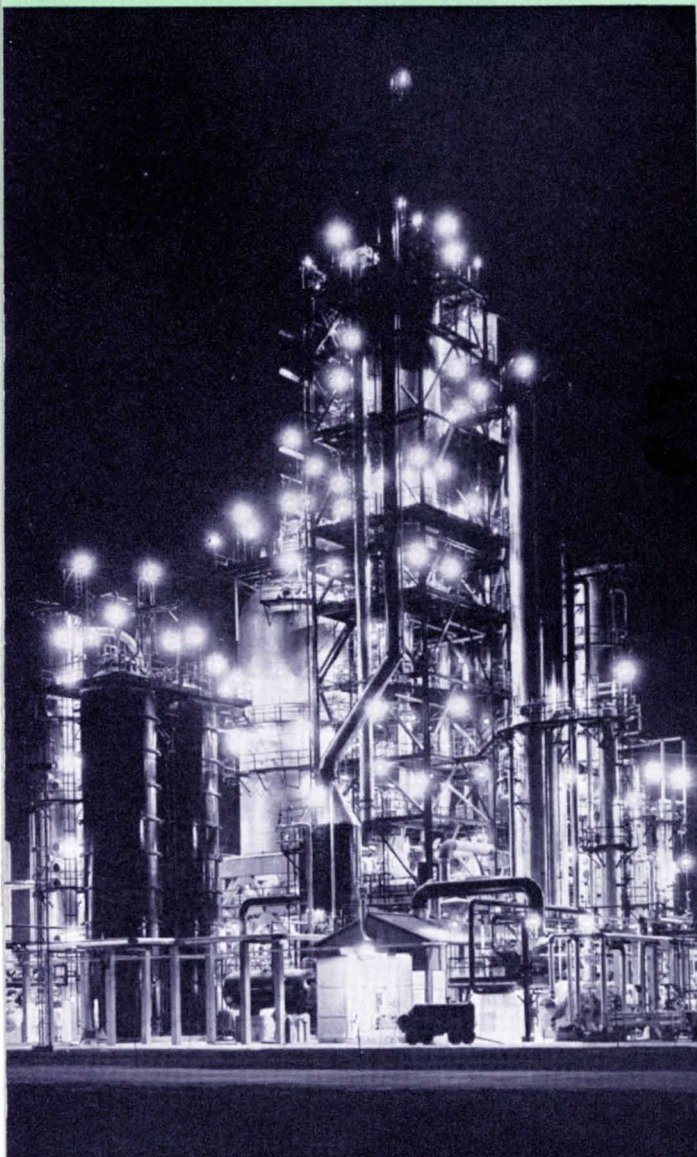


Warehouse for Steel Products, Sioux City, Iowa

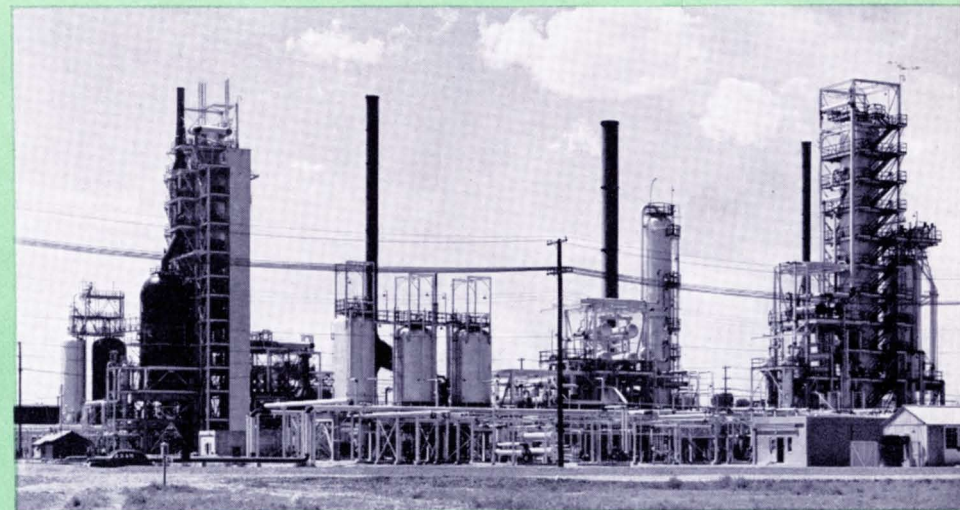
Some New Industries along Great Northern - 1949



Industrial Development, Grand Forks, N. D.



*Night Scene of 7,500 Barrel Per
Day Refinery at Billings, Mont.*



*Oil Refinery at Billings, Mont.
20,000 barrels Per Day Capacity of All Products*



*Fruit and Vegetable Warehouse,
Vancouver, B. C.*

MATERIAL COSTS

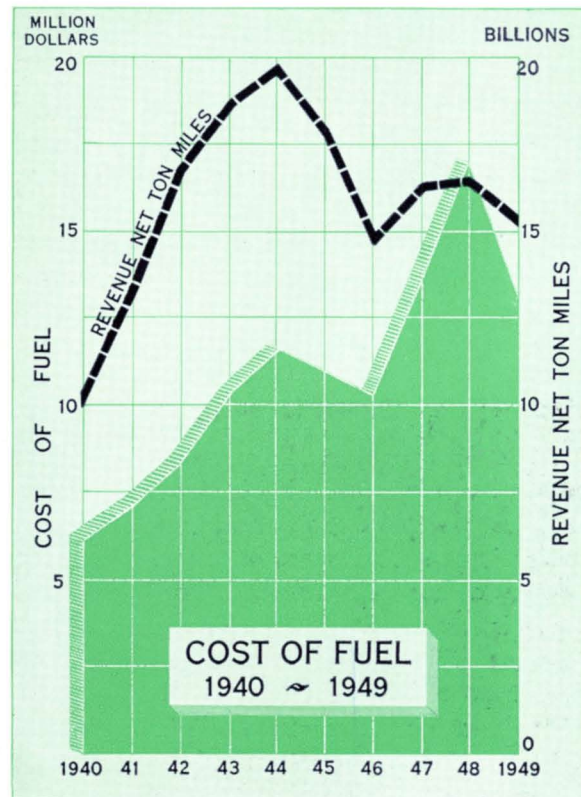
Unit costs of railway materials and supplies, other than fuel, reached their postwar peak in the Fall of 1948, decreasing somewhat during the first part of 1949. However, following the steel and coal strikes, steel prices advanced so that by the end of 1949 the index of material costs had climbed back practically to the 1948 peak.

Since 1939 payments for loss and damage to freight have increased annually until 1948. The higher loss and damage payments are due to several factors, including the increase in traffic volume to more than double that of 1939; the higher value of commodities transported, calling for larger payments; poorer packaging because of lack of suitable materials; and deterioration in the physical condition of equipment as a result of war limitation on purchases of new equipment. But, in 1949, this trend was reversed. Loss and damage payments for that year were \$2.1 million as compared with \$2.8 million in 1948, a decrease of over 25%. Better control over this expense has been obtained by a vigorous campaign among employees and shippers. Meanwhile, the volume of business and commodity costs levelled off and condition of freight equipment improved substantially.

During 1949 a downward trend in fuel oil and diesel oil prices occurred, particularly fuel oil. This made the relationship with coal so favorable to oil that many coal-burning locomotives and power plants were converted to oil. Increased use of diesel locomotives also contributed to the

reduction in 1949 fuel costs of some \$4 million, as shown on the accompanying graph.

Largely because of the decreased expenditure for fuel, the proportion of each dollar of revenue used by Transportation Expenses was decreased in 1949 to 35.4% compared with 35.8% in 1948, notwithstanding the higher wage payments in 1949 due to the 40-hour week, and the necessity for spreading the fixed transportation expenses over a smaller revenue base.



VOLUME OF TRAFFIC AND OPERATING AVERAGES

ITEM	1949	1948	1947	1946	1945
REVENUE NET TON MILES (1000's).....	15,380,005	16,399,435	16,276,479	14,769,179	17,836,467
PASSENGERS CARRIED ONE MILE (1000's).....	501,964	542,792	630,362	869,967	1,305,138
REVENUE PER NET TON MILE (cents).....	1.197	*1.179	1.013	.932	.922
REVENUE PER PASSENGER MILE (cents).....	2.328	2.331	2.076	1.837	1.600
TRAIN LOAD—NET TONS ALL FREIGHT.....	1,333	1,345	1,284	1,216	1,352
NET TON MILES PER TRAIN HOUR.....	20,621	21,072	19,991	18,652	20,879
FREIGHT LOCOMOTIVE MILES PER LOCOMOTIVE DAY	82.7	84.4	89.8	82.1	90.8
FREIGHT CAR MILES PER CAR DAY.....	45.7	48.6	48.5	47.3	55.5
GROSS TON MILES PER TON OF FUEL.....	17,951	18,068	17,532	17,324	18,281
NET TON MILES PER CAR DAY.....	1,010	1,092	1,074	996	1,281

*Omitting charge of \$6.4 million to freight revenue for land grant claims relating to prior years.

INDUSTRIAL DEVELOPMENT

Although more than 300 new industries were located in 1949 on Great Northern property and privately-owned sites served by the railway, industrial development in the Company's territory declined somewhat last year. There has been a levelling off of the sharp, upward spiral in industrial activity. New industries include grain elevators, general and public warehouses, potato warehouses, bulk oil facilities, steel fabricating plants, fertilizer mixing plants, fruit and vegetable warehouses and various distributing locations.

The Bureau of Reclamation has authorized construction of the Tiber Dam on the Marias River, some 14 miles south of Chester, Montana, a territory served exclusively by Great Northern. This 12-million-cubic-yard earth-filled structure will be 4,250 feet long and 200 feet high and will furnish irrigation to 127,000 acres along the lower Marias River. Bids now are being let for starting this project.

At the Hungry Horse Dam, on the south fork of the Flathead River in Northwestern Montana just west of Glacier Park, some 1 million cubic yards of rock were excavated in 1949. Pouring of concrete started early in September. It is expected that 1 million cubic yards of concrete will be placed in 1950, raising the dam to a height of 200 feet. Cement and pozzolana for the concrete will be moved in via Great Northern. Work will continue until the ultimate height of 564 feet is reached. The third highest dam in the world, Hungry Horse, will have a powerplant capacity of 285,000 kilowatts.

Work on the Columbia Basin project in Central Washington—much of it in Great Northern territory—intended ultimately to irrigate over 1 million acres with Columbia River water, was actively continued during the year. This enormous undertaking includes the construction of 4 dams with a total length of 5.25 miles, nearly 5 miles of tunnels, some 28 miles of siphons and 475 miles of canals. The present program calls for 50,000 acres of land adjacent to Great Northern line to come under irrigation by 1952.

Another large project, Chief Joseph Dam, on the Columbia River in Great Northern territory about 55 miles Northeast of Wenatchee,

Washington, and estimated to cost \$200 million, has been authorized, and the first substantial appropriations have been made. It will provide for the second largest hydro-electric plant in the world, being exceeded only by Grand Coulee. Peak of construction is expected in 1953, with first generators in service in 1962. Feasibility of irrigation and reclamation features, in addition to power, is being examined, and there appears every likelihood that Chief Joseph Dam will eventually be a multiple-purpose dam.

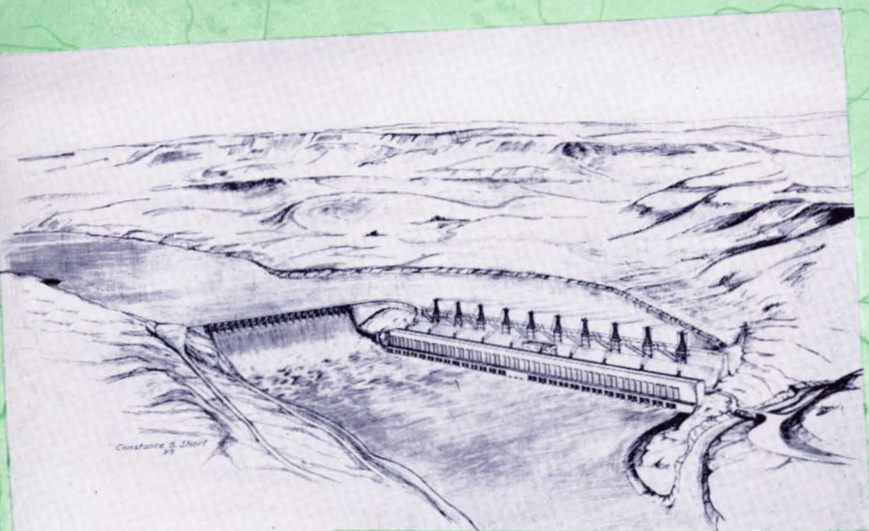
PROPERTY IMPROVEMENTS

Cash expenditures for property improvements in 1949 totaled \$29.6 million compared with \$21.4 million in 1948. A total of \$10 million was spent on fixed property and \$19.6 million for equipment.

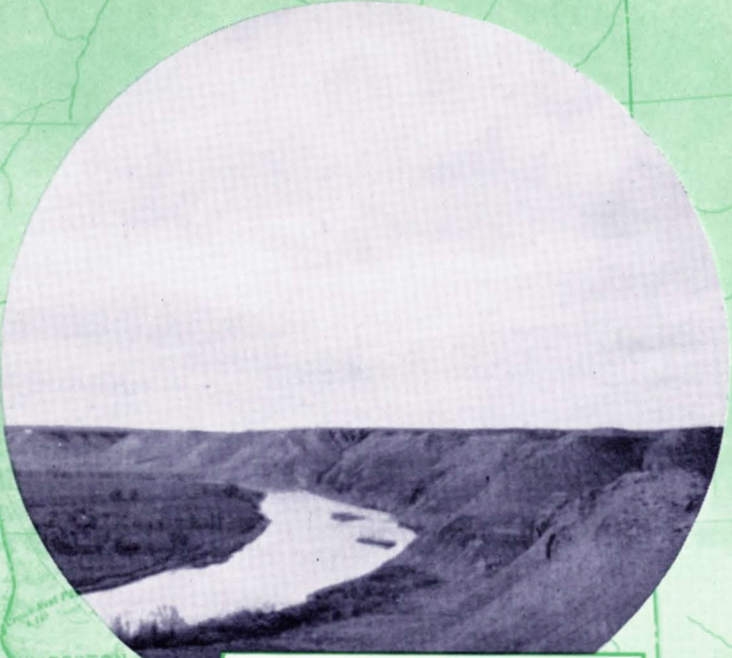
Operation over the 1 million-dollar line relocation on the Eastern slope of the Cascade Mountains in Washington was begun on July 15, 1949. The elimination of five sharp curves (up to 10 degrees) has made a safer and a faster route through the Cascades, has reduced draw-bar breakage, and provided a cheaper line to maintain. Line changes were also completed at Jennings, Mont., and track rearrangements and extensions were made at many other points on the line.

Other important work completed in 1949 included remodeling and rebuilding an engine house in St. Paul, Minn., for handling diesel locomotives; enlarging and improving an engine house in Superior, Wisc.; addition to and rearranging freight house in Minneapolis, Minn.; new power plants in Minneapolis, Minn., and King Street Station in Seattle, Wash.; applying concrete lining in tunnels on the west slope of the Rocky Mountains; and installation of continuous welded rail in 4 miles of the 7.9-mile Cascade Tunnel in Washington.

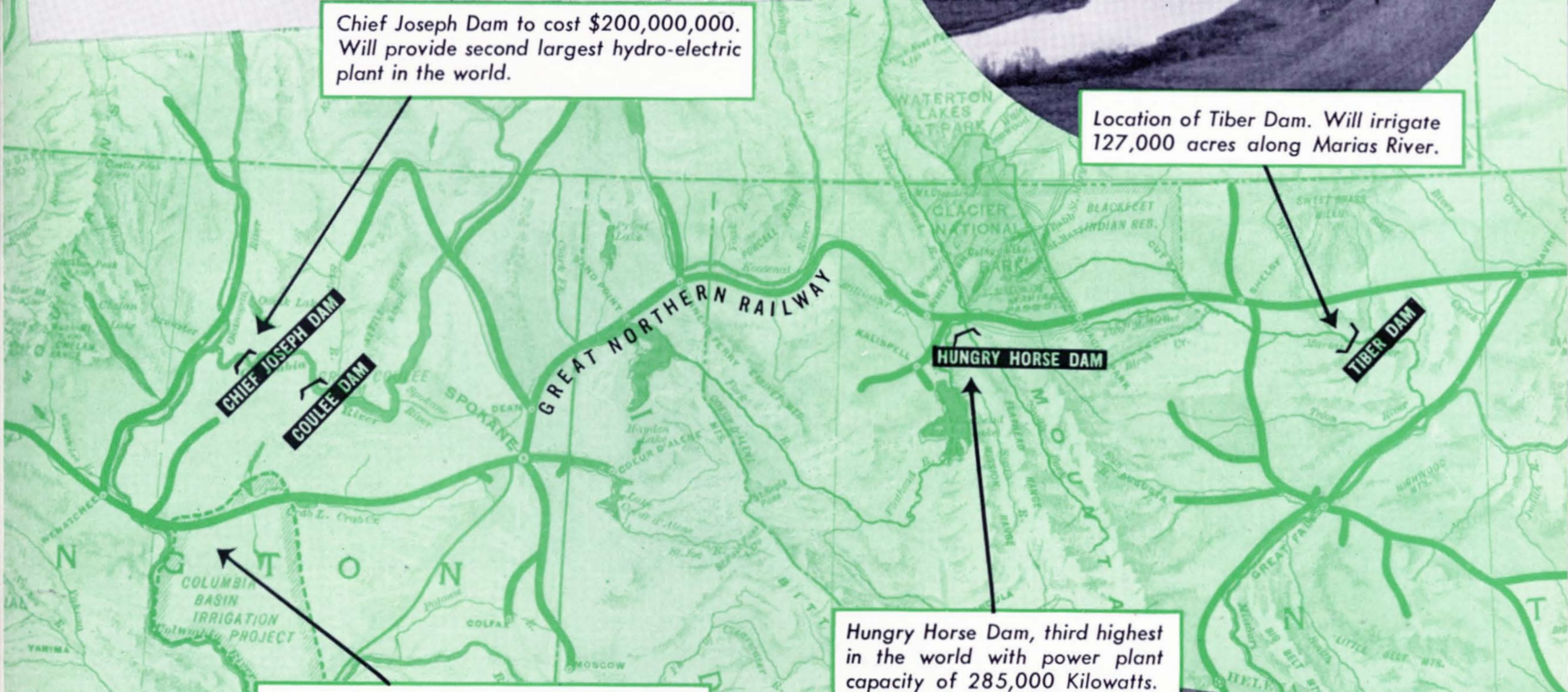
Work was continued on new power plant in St. Paul, Minn.; extension to diesel shop in Havre, Mont.; remodeling engine house for handling diesel locomotives in Seattle, Wash.; limited facilities for housing and servicing diesel locomotives at six locations in Montana; enlarged electric shop for repair of diesel motors and new paint and spray shop in St. Paul, Minn.; additions to truck garage and freight house in Great Falls, Mont.; and remodeling depot and constructing second floor office addition in Havre, Mont.



Chief Joseph Dam to cost \$200,000,000. Will provide second largest hydro-electric plant in the world.



Location of Tiber Dam. Will irrigate 127,000 acres along Marias River.



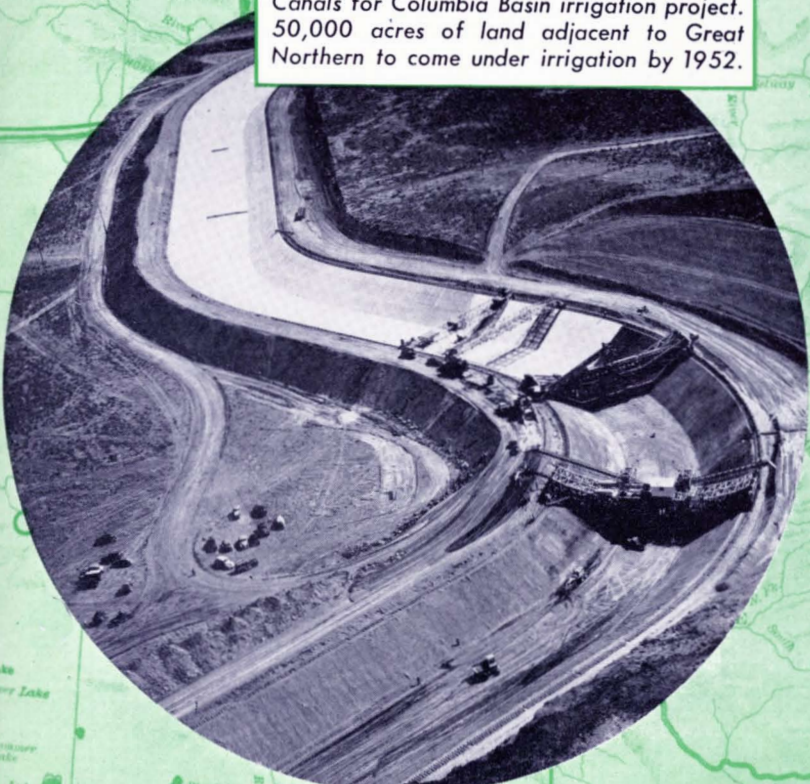
CHIEF JOSEPH DAM
COULEE DAM

HUNGRY HORSE DAM

TIBER DAM

Canals for Columbia Basin irrigation project. 50,000 acres of land adjacent to Great Northern to come under irrigation by 1952.

Hungry Horse Dam, third highest in the world with power plant capacity of 285,000 Kilowatts.



Important Irrigation and Power Projects Along Great Northern



3 - 6000 Horse Power Diesel Freight Locomotives



10 - 1500 Horse Power Diesel Road-Switch Locomotives



1 - 3000 Horse Power Diesel Freight Locomotive



12 - 1000 Horse Power Diesel Switching Locomotives

New Equipment...1949



700 Gondola Cars



175 Covered Hopper Cars



1500 Steel Box Cars Built in Great Northern Shops



250 Steel Refrigerator Cars

NEW EQUIPMENT

All equipment scheduled for 1949 delivery has been received, including 26 diesel locomotives, 1,500 box cars built in Great Northern shops, 700 gondola cars, 175 covered hopper cars and 250 refrigerator cars for Western Fruit Express Co., a wholly owned subsidiary.

Determined to maintain the competitive position of your Company, the Directors authorized in 1949 the purchase of 86 diesel locomotives of all classes, comprising 122 units and estimated to cost \$17.5 million. Delivery of this power is scheduled for 1950, and, will complete dieselization of the railway west and south of Havre, Montana (except for the line south of Bend, Oregon, and the 74-mile electrified zone), and enable your Company to reap the operating economies in fuel and locomotive repair costs flowing from the increased use of diesel locomotives.

In addition, maintenance and operation of water stations, engine-house and fuel oil facilities necessary to support steam locomotive operation in this area, will be eliminated.

Also on order for 1950-1951 delivery are 115 passenger cars, to cost \$14.8 million, purchased to replace obsolete and worn out equipment. An entirely new Empire Builder train will be built, with present equipment of that train transferred to the Oriental Limited. Two new 5-car passenger trains will be placed in service this year between Seattle and Vancouver, B. C., and a similar train will go into operation between Grand Forks, N. D., and St. Paul-Minneapolis.

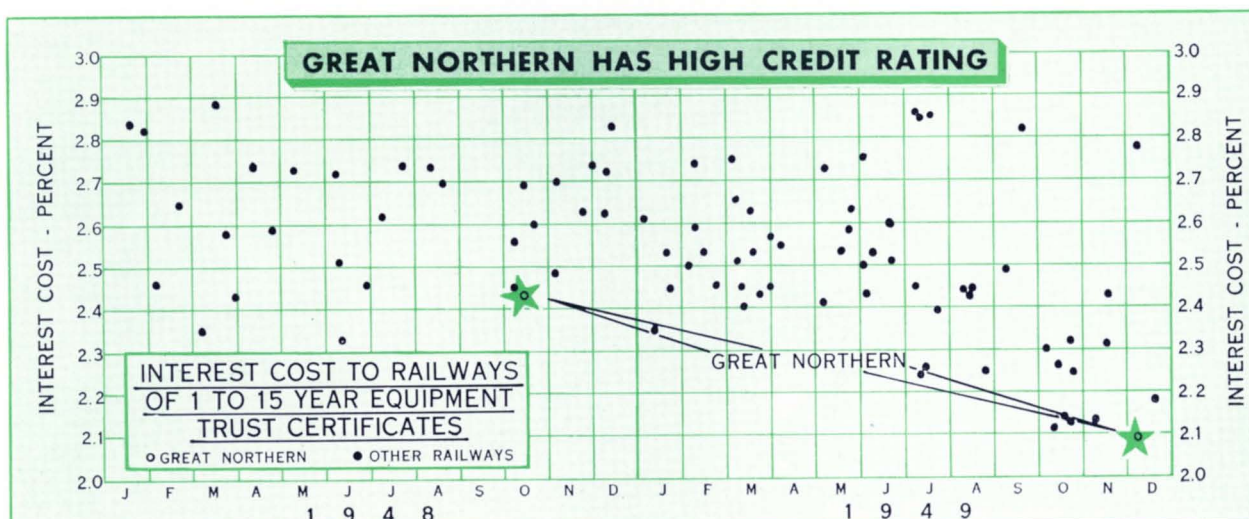
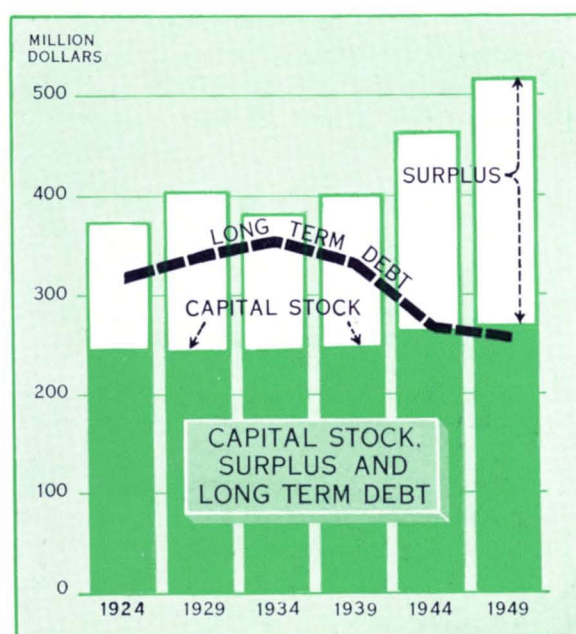
Through the Western Fruit Express Co. orders have been placed for 500 new, all-steel refrigerator cars at a cost of approximately \$4.6 million.

DEBT CHANGES

During the year 1949, open market purchases were made of \$300,000 par value, Series B, 5½% Bonds, maturing January 1, 1952, at a cost of \$325,238.

To help finance 80% of the cost of new equipment, scheduled for delivery during the first part of 1950, a 1-to 15-year equipment trust of \$10,350,000 was sold on December 6, 1949, by competitive bidding for 99.381 of the principal amount for a 2% coupon, net interest cost to Great Northern being 2.08%. This was a favorable price under existing conditions, and was indicative of the high credit rating of your Company, as the accompanying chart shows.

An 8-year conditional sale contract for \$1,584,000 to assist in purchasing 10 diesel locomotives, also was sold during the year by competitive bidding at a 2.09% rate.



GENERAL

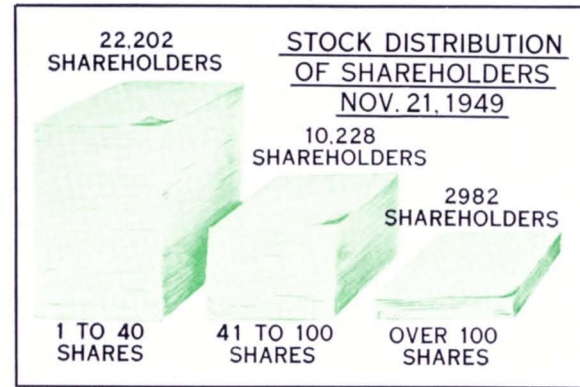
Owners of Great Northern stock totalled 35,412 as of November 21, 1949, and average holdings were 87 shares.

The number of stockholders exceed the number of employees by nearly 8,000, but the constant increase in wage payments through higher wage rates and more exacting working rules, benefits the smaller number of employees to the detriment of the larger number of stockholders.

Quarterly dividends of \$1 per share were paid in 1949, the total dividends for the year being \$4 per share compared with \$3.50 per share in 1948, \$3 per share each year for 1945 to 1947, and \$2 per share per year for 1941 to 1944.

Great Northern dividends from Chicago, Burlington & Quincy Railroad Co. in 1949 totalled \$4.1 million as compared with \$5.8 million in 1948. Spokane, Portland and Seattle Railway Co. paid Great Northern \$1 million in interest in 1949 and \$800,000 in 1948. A strike closed down operations of Northland Greyhound Lines, Inc., in which your Company owns 44.3% of common stock, from April 28, 1949, to August 11. As a result, no dividend was paid on this stock in 1949, although \$366,817 was received in 1948.

On August 1, 1949, there was an increase in the car mileage rate paid by the railways for the use of refrigerator cars of other lines from 2.5 to 3.0 cents per car mile. Also, on November 1, 1949, the rate paid for the use of other lines' freight cars (excepting refrigerator and tank cars) was increased from \$1.50 to \$1.75 per car day. This will result in additional charges against Great Northern income of approximately \$275,000 for a full year's operation, but over half of this increase will be paid to the wholly owned subsidiary, Western Fruit Express Co., which also will re-

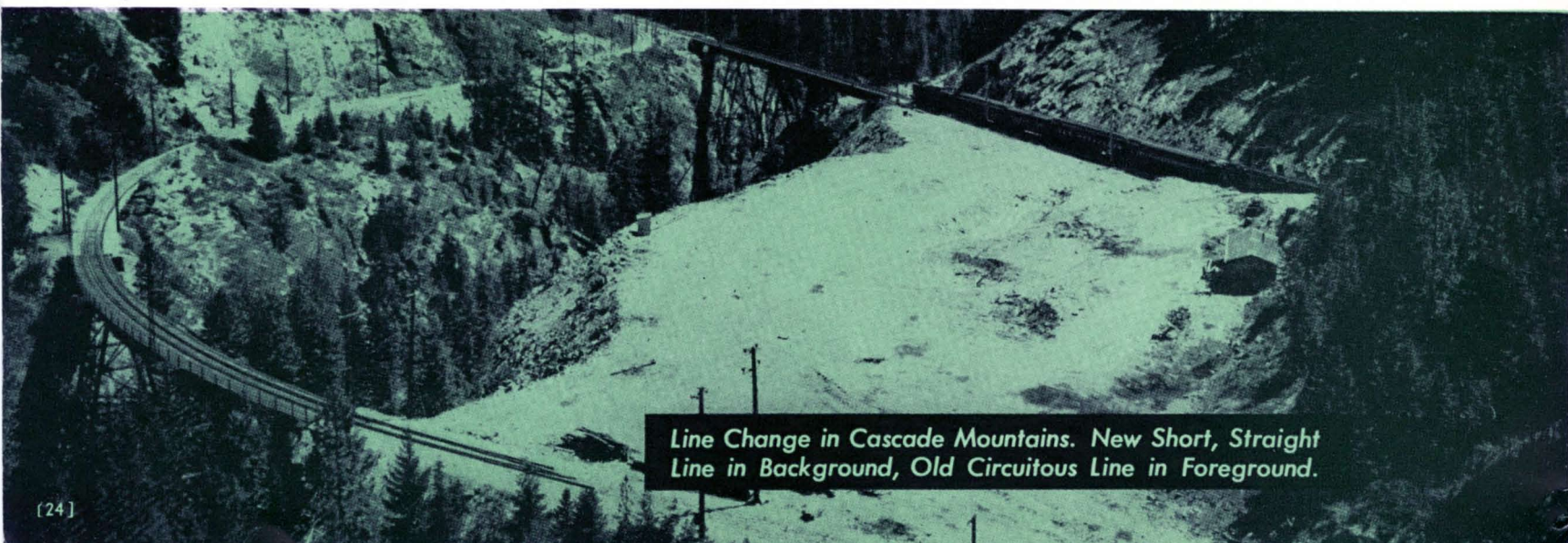


ceive some \$500,000 additional car mileage revenues from other companies.

Mr. Frank F. Henry, of Buffalo, N. Y., whose wise counsel and advice had been so helpful to the Board of Directors during his fifteen years' service as a Director, resigned because of ill health at the expiration of his last elected term, May 12, 1949. At the meeting of stockholders on that date Mr. N. Stockhammer of New York, Assistant Secretary and Assistant Treasurer of the Company, was elected Director succeeding Mr. Henry.

One of the many factors making railroad operations difficult is the necessity of collecting charges high enough to cover all costs, while all other transportation agencies (with the possible exception of pipe lines) collect less than full cost of the transportation produced, obtaining the balance from the continuing and expanding subsidies and other financial aids afforded by taxpayers, including the self-supporting railroads.

During 1949 there were a few encouraging signs, indicating a better and more sympathetic understanding of the railway industry's problems by some Government officials, regulatory bodies and certain sections of the public.



Line Change in Cascade Mountains. New Short, Straight Line in Background, Old Circuitous Line in Foreground.



SERVES THE BEST OF THE GREAT NORTHWEST

- WISCONSIN
- MINNESOTA
- IOWA
- SOUTH DAKOTA
- NORTH DAKOTA
- MONTANA
- IDAHO
- WASHINGTON
- OREGON
- CALIFORNIA
- MANITOBA
- BRITISH COLUMBIA

