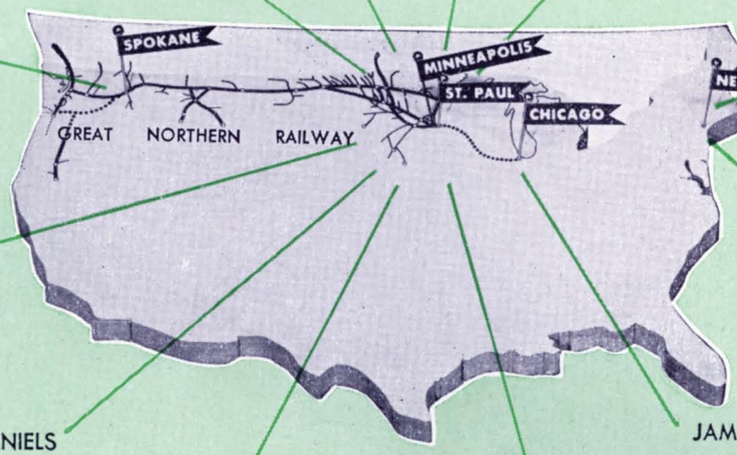
GREAT NORTHERN RAILWAY CO.

65th Annual Report

1953

DIRECTORS



RICHARD C. LILLY
Chairman of the Board,
First National Bank of St. Paul
St. Paul

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

WALTER G. SEEGER
Chairman of the Board,
Seeger Refrigerator Co.
St. Paul

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

ARCHIBALD W. WITHERSPOON
Chairman of the Board,
Old National Bank of Spokane
Spokane

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

F. PEAVY HEFFELFINGER
President,
F. H. Peavey & Co.
Minneapolis

GRANT KEEHN
Executive Vice President,
The First National Bank
of the City of New York
New York

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

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

JOHN M. BUDD
President,
Great Northern Ry. Co.
St. Paul

FRANK J. GAVIN
Chairman of the Board,
Great Northern Ry. Co.
St. Paul

EXECUTIVE COMMITTEE

JOHN M. BUDD
RICHARD C. LILLY
FRANK J. GAVIN
WILLIAM L. McKNIGHT
F. PEAVY HEFFELFINGER
WALTER G. SEEGER

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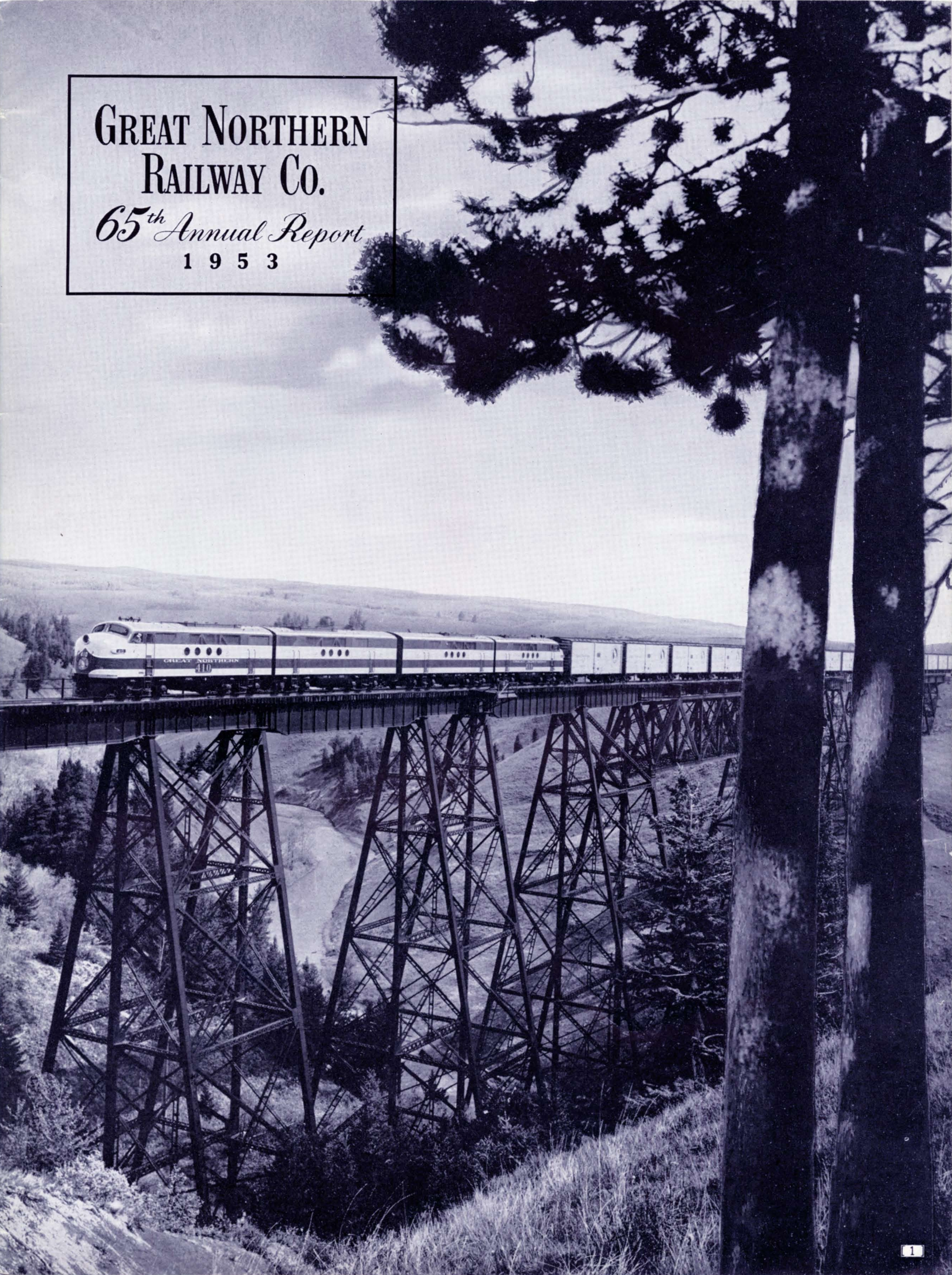


GREAT NORTHERN RAILWAY HIGHLIGHTS OF 1953

ITEM	1953	1952	1951	1950	1949
Average Per Share of Capital Stock (3,041,127 shares Dec. 31, 1953)					
Net Income	$ 9.85	$ 9.10	$ 7.83	$ 9.11	$ 6.05
Dividends Paid	4.00	4.00	4.00	3.50	4.00
Operating Revenues	88.04	85.06	81.07	73.57	68.64
Taxes	13.04	12.50	12.04	11.14	8.40
Fixed Charges	2.65	2.62	2.68	2.57	2.49
Income Account (Millions of Dollars)					
Net Income	$ 29.9	$ 27.7	$ 23.9	$ 28.2	$ 18.7
Dividend Paid	12.2	12.2	12.4	10.8	12.4
Operating Revenues	268.0	260.2	248.0	227.5	212.3
Wages	126.5	125.8	123.2	106.1	103.9
Taxes	39.7	38.1	36.9	34.5	26.0
Fixed Charges	8.1	8.0	8.2	7.9	7.7
Financial Condition Dec. 31 (Millions of Dollars)					
Cash and Special Deposits	$ 55.6	$ 53.9	$ 61.7	$ 53.7	$ 38.2
Total Current Assets	107.4	99.7	108.9	102.8	76.5
Current Liabilities	52.3	50.9	64.7	52.9	39.5
Working Capital	55.1	48.8	44.2	49.9	37.0
Financial Statistics					
Times Fixed Charges Earned	4.7	4.5	3.9	4.6	3.4
Per Cent Return on Property Investment	4.1	3.9	3.6	4.3	3.4
Per Cent Revenues taken by Transportation Expenses	32.1	33.4	35.2	33.5	35.4
Per Cent Revenues taken by All Operating Expenses	72.7	73.6	74.3	71.3	76.3
Operating Statistics					
Net Ton Miles (Billions)	18.6	17.5	18.0	16.0	15.4
Passengers Carried One Mile (Millions)	558.8	612.0	589.5	494.3	502.0
Train Load — Net Tons	1,440.3	1,384.0	1,426.1	1,364.3	1,332.9
Net Ton Miles per Train Hour	24,350.5	22,690.4	22,578.3	21,149.5	20,620.8
Net Ton Miles per Freight Car Day	1,172.3	1,123.3	1,234.0	1,074.3	1,010.4

Cover picture shows machinist truing tread on a pair of passenger car wheels. The back cover shows the Western Star trains passing on the west slope of the Rocky Mountains.

GREAT NORTHERN RAILWAY COMPANY

EXECUTIVE DEPARTMENT

J. M. BUDD
PRESIDENT

ST. PAUL 1, MINNESOTA

March 31, 1954

To Great Northern Shareholders:

Since the resumption of a peace-time economy in 1946, your Company has been operating at an increasing pace. In the year 1953 Operating revenues exceeded those of any previous year, and the volume of freight traffic handled was the largest on record except for the war year, 1944. Net income of $29.9 million was an all-time high, comparing with $27.7 million of Net income for 1952. The per share earnings increased from $9.10 per share in 1952 to $9.85 in 1953. The rate of return earned on the property investment was 4.1% in 1953. Dividends were continued at $4 per share.

Most freight commodities recorded an increase in Operating revenues, 1953 compared with 1952. Larger revenues were reported from important traffic interchanged with other railroads, the increase being over $6.1 million. Revenue from lumber traffic exceeded $11.0 million, up 6%. The apple movement from the Wenatchee area improved substantially and revenue from grain was also somewhat better. In 1953 over 32 million tons of iron ore were handled over the Allouez, Wis., ore docks. This record tonnage was due to an insufficient supply being moved in 1952 because of a strike of iron ore miners in that year. There was no general increase in freight rates during 1953. As has been the experience of railroads in general, there was a falling off in passenger revenue. This decrease was $1.6 million or 11%.

The wisdom and necessity for continuing to make large scale capital expenditures is indicated by the reduction in the Transportation cost per dollar of revenue, which in 1953 was 32%, the lowest ratio since 1945. Considering the effect of diesel operations alone, the total cost for all train fuel and locomotive repairs in 1953 was $21.8 million. The yearly average for the previous 5 years, when wage rates and material costs were substantially lower, was $26.3 million and during this period the annual freight traffic produced was less than 90% of the 1953 freight traffic. With the same volume of traffic in both periods the savings indicated for these items alone were nearly $7.4 million. When the 37 diesel units now on order are delivered early in 1954 complete diesel or electric operations will be in effect on all passenger trains on the entire system and on all freight trains west of Williston, N. D., and on a substantial part of freight trains east of that point. The program of dieselization is well under way and future purchases will be of smaller volume than heretofore. It is not contemplated that any diesels will be ordered in 1954.

The Pacific Northwest is expanding rapidly. Substantial increases in water power and irrigation projects have brought new industries and population growth to this section. A new aluminum reduction plant was placed in operation near Wenatchee, Wash., late in 1952 and another similar installation is under construction in western Montana with production scheduled for 1954. Great Northern furnishes the only rail service to both of these plants. New homes are being established on the Columbia Basin project in central Washington, developing concentrated agricultural production to large acreages adjacent to the line of your Company. In North Dakota the oil development along the railroad is bringing a change from what was formerly exclusively an agricultural area, and lignite and other minerals offer unlimited opportunities in this area. The rich Red River Valley between North Dakota and Minnesota, traversed through its entire length by Great Northern, is as fruitful as ever, and a third large sugar beet plant served by your Company is now under construction. Iron ore continues as a significant commodity in northeastern Minnesota.

Agricultural products are important traffic to Great Northern. While production is dependent upon climatic conditions, today's farmer with a better education, improved tools, better seed and a plentiful supply of fertilizer, is fortified against adverse conditions to a much greater extent than formerly.

The property has been well maintained and its physical condition is good. The Directors and Management are again deeply appreciative of the loyalty and cooperation of officers and employes and the skill with which the entire organization worked during 1953.

The general outlook for Great Northern for 1954 at this time is one of cautious optimism. There is a greater backlog of grain in country elevators than at the beginning of 1953, and moisture conditions are fair. A substantial iron ore movement is anticipated for 1954, possibly in the neighborhood of 25 million tons. With the modern physical plant and the able organization available, it is certain that Great Northern will handle its share of the available traffic in 1954 in an efficient manner, successfully meeting any problems that may arise.

J. M. Budd
President

NET INCOME

For 1953 your Company's Net income was $29.9 million or $9.85 per share. For 1952 the corresponding figures were $27.7 million and $9.10 per share. Fixed charges were covered 4.7 times.

The Net income for 1953 was the highest on record. This is not surprising in view of the large volume of traffic developed and also the continued substantial sums of new money put into the property from year to year which, along with close supervision, have contributed to the increased operating economies.

Four quarterly $1 per share dividends were paid stockholders in 1953, the same as for 1951 and 1952.

The rate of return earned on the depreciated value of the property for 1953 was 4.1% compared with 3.9% in 1952.

Income from sources other than railroad operations totaled $10.9 million in 1953, exceeding the previous recent high of $10.1 million in 1952. The chief sources of outside income are from investments in Chicago, Burlington & Quincy R. R. Co. and Spokane, Portland and Seattle Ry. Co. Dividends from the Chicago, Burlington & Quincy R. R. Co. stock of $6.2 million was the same in both 1953 and 1952. The regular annual interest on bonds of Spokane, Portland and Seattle Ry. Co., amounting to $1.5 million, was accrued, and, in addition, that Company completely liquidated the back interest on notes and advances amounting to $1.3 million.

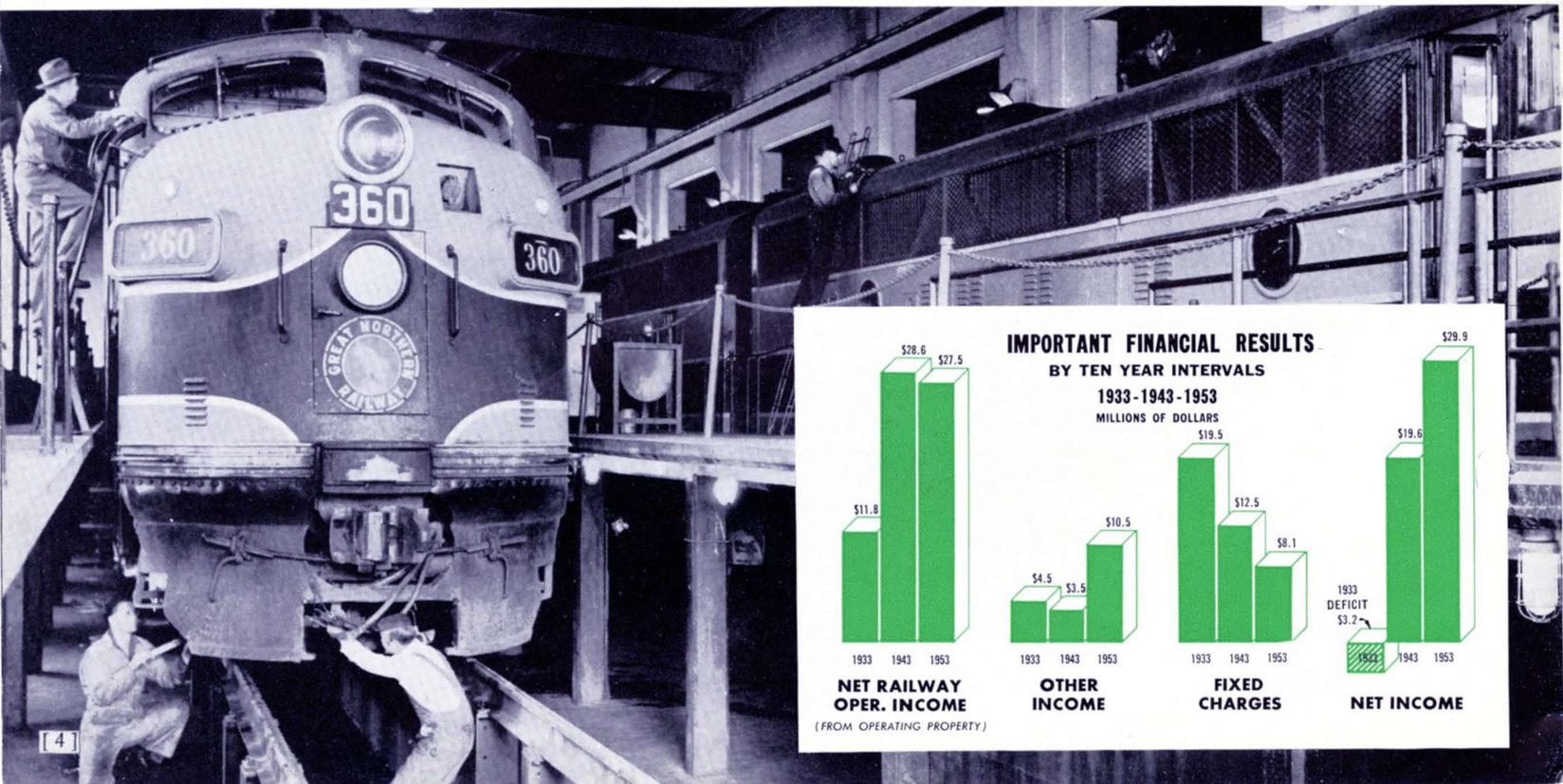
Interest on funded debt and other fixed charges for 1953, $8.1 million, increased approximately $90,000 over similar figure for 1952.

EQUITY IN UNDISTRIBUTED EARNINGS

One of the potential elements of strength in your Company's stock is the substantial amount of undistributed earnings attributable to Great Northern's holdings of 48.6% of the stock of Chicago, Burlington & Quincy R.R. Co., 50% of the stock and bonds of Spokane, Portland and Seattle Ry. System and the entire capital stock of Western Fruit Express Co. For the past five years the following is indicated:

GREAT NORTHERN'S EQUITY IN UNDISTRIBUTED EARNINGS OF C.B. & Q.R.R.CO., S.P. & S.RY.CO. and W.F.E. CO.

Year	Undistributed Earnings	Per Share of G. N. Stock
1949	$ 4,188,887	$1.35
1950	11,383,198	3.68
1951	7,655,076	2.50
1952	8,952,852	2.94
1953	7,664,947	2.52



GREAT NORTHERN'S SIMPLIFIED INCOME STATEMENT FOR 1953

GREAT NORTHERN TOOK IN:		IT COST GREAT NORTHERN:	
For transportation of:		For materials, rentals and other expenses for maintaining properties and conducting transportation	$ 66,704,026
FREIGHT	$235,815,475	For replacement of properties as old wears out	12,240,335
PASSENGERS	12,507,142	For retirement and unemployment taxes	6,924,992
For other services	19,712,364	For all other taxes	32,730,356
Total for services rendered	$268,034,981	For interest on long-term debt	7,925,696
From dividends, interest, etc.	10,864,025	THESE ITEMS TOTAL	**$126,525,405**
TOTAL INCOME	**$278,899,006**		

LEAVING FOR EMPLOYES, SHAREHOLDERS AND REINVESTMENT .... **$152,373,601—100.0%**

GREAT NORTHERN DISTRIBUTED:

TO EMPLOYES FOR WAGES AND SALARIES	**$122,430,994—**	**80.3%**
TO SHAREHOLDERS FOR USE OF THEIR MONEY	**$ 12,172,938—**	**8.0%**
TO RETIRE DEBT AND TO BE REINVESTED IN RAILWAY	**$ 17,769,669—**	**11.7%**

OPERATING REVENUES

Railway operating revenues of $268.0 million in 1953 were an all-time high and $7.8 million above the 1952 figure of $260.2 million.

During the early months of 1953 there was a substantial increase in revenues over those for the corresponding month in 1952. The reverse situation occurred in the latter months of the year when a lower level of traffic was encountered. This was partly due to the abnormal 1952 movement, which was so adversely affected by the strikes in the iron ore industry in June and July.

1. FREIGHT SERVICE

Freight revenue for 1953 was $235.8 million compared with $226.3 million in 1952. The average revenue received for each ton mile produced was down from 1.29 cents in 1952 to 1.27 cents in 1953. This was largely due to a different distribution of traffic between the low-rated and high-rated commodities, the general level of rates being lower in the early part of 1952 before the increase to the present basis in May, 1952.

There was no general increase in freight rates during 1953 but hearings continued before the regulatory bodies of Minnesota, Iowa, South Dakota, Montana, Oregon and California seeking the same percentage increase in intrastate rates as last authorized for interstate traffic by the Interstate Commerce Commission. The higher rates were finally granted with certain exceptions and maxima.

Great Northern participated in the emergency reduced rates on hay moving to the drought areas in the South and Southwest during the last quarter of 1953. These emergency rates were one-half of the normal rates.

The last general rate increase granted by the Interstate Commerce Commission carried an expiration date of February 28, 1954. During 1953 the railroads petitioned the Commission to eliminate the expiration date and make the increases permanent. This they declined to do, but extended the expiration date of the present increased rates from February 28, 1954, to December 31, 1955. These rates are subject to review at any time as conditions change.

Freight revenues by commodity groups for the past 5 years have been:

	Freight Revenue in Millions				
Commodity Group	*1953*	*1952*	*1951*	*1950*	*1949*
Manufactures and Miscellaneous	$ 76.0	$ 73.6	$ 69.6	$ 69.9	$ 56.6
Products of Agriculture	62.4	63.9	62.7	51.7	58.4
Products of Mines	53.0	44.6	42.6	35.9	33.7
Products of Forests	33.0	32.5	29.6	27.5	24.3
Other	11.4	11.7	11.1	10.6	11.1
Total	$235.8	$226.3	$215.6	$195.6	$184.1

During 1953 there were handled 220.6 million bushels of grain, compared with 240.0 million bushels in 1952, a decrease that amounted to some 13,000 cars. The 1953 movement, however, was for a longer average haul with larger revenues per car because more of the grain originated in Montana. As a result, the 1953 revenue from grain to important terminals of nearly $38 million was slightly in excess of 1952 grain revenues. Grain in storage in country elevators on line was somewhat higher at the end of 1953 than at the end of 1952.

Acreage reductions of 20 to 25% on cereal grain in Great Northern territory have been ordered for 1954. It is believed that this should not materially affect the tonnage to be handled as other crops will be planted to take up the reduced acreage on the better lands and only the marginal lands will be withdrawn from cultivation. More intensive use of commercial fertilizers will also increase production per acre. There is strong sentiment for securing exemption from these acreage restrictions on both Durum and high protein wheat, important traffic to your Company and in short supply in 1953.

Lumber loadings were higher again in 1953, the revenue received from this traffic being 5% above the 1952 figure. The movement of apples from the Wenatchee territory was also larger in 1953, due to the short crop handled in 1952.

About half of your Company's freight revenue comes from traffic handled jointly with other railroads. There are three kinds of this interline traffic, viz. interline forwarded, which originates on Great Northern and terminates off line; interline received, which originates off line and terminates at Great Northern stations; and interline intermediate, which originates and terminates at off line points and Great Northern handles the traffic as a "bridge". The revenue from all three classes of interline traffic was higher in 1953, particularly the interline forwarded, which increased over 13%. The total increase in revenue from interline traffic in 1953 was $6.1 million, nearly 6%.

During 1953 over 31,000 cars of crude oil were shipped over Great Northern, double the 1952 movement. A large part of the increase originated in the Williston Basin.

The iron ore movement in 1953 of 32.3 million long tons handled over the Allouez, Wis., docks was the highest on record. This was partially due to the failure to move sufficient tonnage down Lakes in 1952 when a strike tied up iron ore production for nearly 2 months. The revenue from the iron ore traffic in 1953 was 12.8% of Railway operating revenues.

New iron ore mines are constantly being opened up. In 1953 shipments were begun from mines with an estimated 6.7 million tons and for 1954 and 1955 mines with estimated tonnage of 5.0 million and 7.6 million, respectively, are scheduled to begin shipping.

2. PASSENGER SERVICE

For 1953 passenger revenue of $12.5 million was off $1.6 million from 1952. A larger percentage of the 559 million passengers carried one mile in 1953 was handled at lower coach rates, and as a result the average revenue received for each passenger mile of 2.24 cents was the lowest in 6 years.

Great Northern carried nearly 8,000 Boy Scouts enroute to or from the Jamboree at Santa Ana, California, with stop-offs at Glacier Park and other points of interest. This was the first trip west for many of these boys and it is believed that the goodwill and word of mouth advertising resulting will create future travel on your railroad.

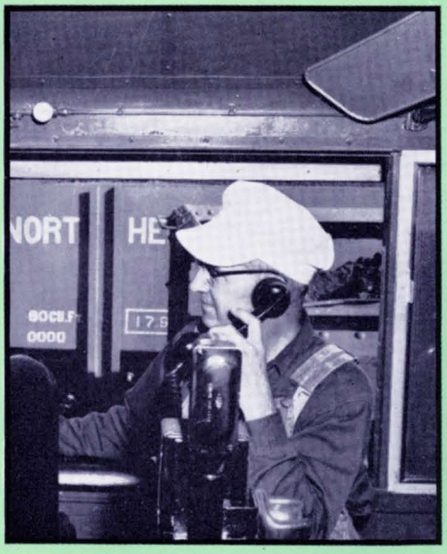
There was a continuation in the elimination of unprofitable passenger train service, the reduction in 1953 amounting to over 370 thousand train miles for a full year. An important part of this saving is due to consolidation of the Western Star and Fast Mail west of Spokane inaugurated late in 1953.

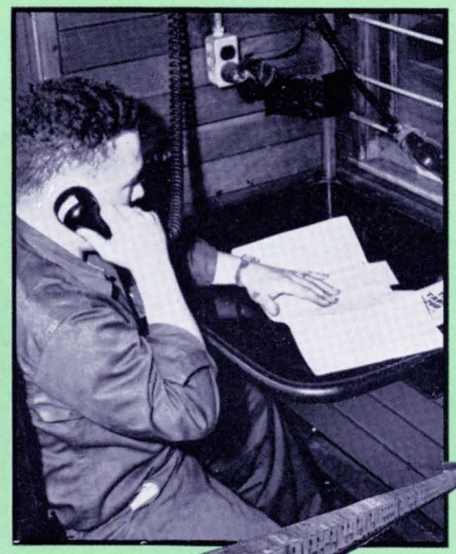
3. MAIL AND EXPRESS SERVICES

Lower revenues from handling both mail and express were registered in 1953, the decreases being $.4 million or 5% for mail and $.3 million or 10% for express. Even so, the 1953 express revenue of $2.5 million was above that for any of the last 5 years with the exception of 1952.

Rearranging train schedules, discontinuing unprofitable passenger trains and a revision in mail pay rates all contributed to these revenue reductions.

As authorized by the Interstate Commerce Commission, the Railway Express Agency increased its rates, effective August 20, 1953. Great Northern's proportion of the additional revenue is estimated at approximately $300,000 per year or some 11%.





IRON ORE SERVICE COMMUNICATIONS ON MESABI RANGE OPERATED BY RADIO PICTURES SHOW FROM LEFT TO RIGHT — DIESEL ENGINEER, TRAIN DISPATCHER, AND CONDUCTOR. THE LOWER PICTURE IS A SCENE AT THE ORE DOCKS WHERE THE STICKY IRON ORE IS SHAKEN FROM THE CARS FOR LOADING INTO BOATS BY THE MECHANICAL SHAKER MOUNTED ON A MOVABLE GANTRY. CONNECTING THESE IRON ORE ORIGINATING AND TERMINATING SCENES IS THE PICTURE OF AN IRON ORE ROAD TRAIN.

GREAT NORTHERN'S FINANCIAL POSITION AT END OF 1953

QUICK ASSETS:

Cash and special deposits	$ 55,615,044
Due from agents, conductors and others.	15,153,706
Material and supplies on hand	36,598,767
Total quick assets, readily convertible into cash	$107,367,517

CURRENT LIABILITIES:

Employes' pay checks outstanding	$ 5,997,501
Taxes not yet due	29,398,927
Bond interest due and paid January 1	3,143,002
Other current liabilities	13,767,813
Total current liabilities	$ 52,307,243

"WORKING CAPITAL":

The excess of quick assets over current liabilities	**$ 55,060,274**

GREAT NORTHERN'S INVESTMENTS:

Road, equipment and other property, less depreciation	$615,192,317
48.59% of Chicago, Burlington & Quincy R. R. Co. stock	109,245,456
50% of Spokane, Portland and Seattle Ry. Co. stock and bonds	45,798,500
Unexpended proceeds from sale of equipment trusts	1,080,240
Other stocks, bonds, etc.	19,435,875
Deferred and unadjusted items	8,690,337
Total investments	**$799,442,725**

GREAT NORTHERN'S OTHER OBLIGATIONS:

To investors for bonds and notes outstanding	$268,088,491
To all others	3,535,835
Total owed in addition to current liabilities	**$271,624,326**

NET WORTH:

"Working Capital" plus "Investments" minus "Other Obligations" **$582,878,673**
(1952—$565,921,449)

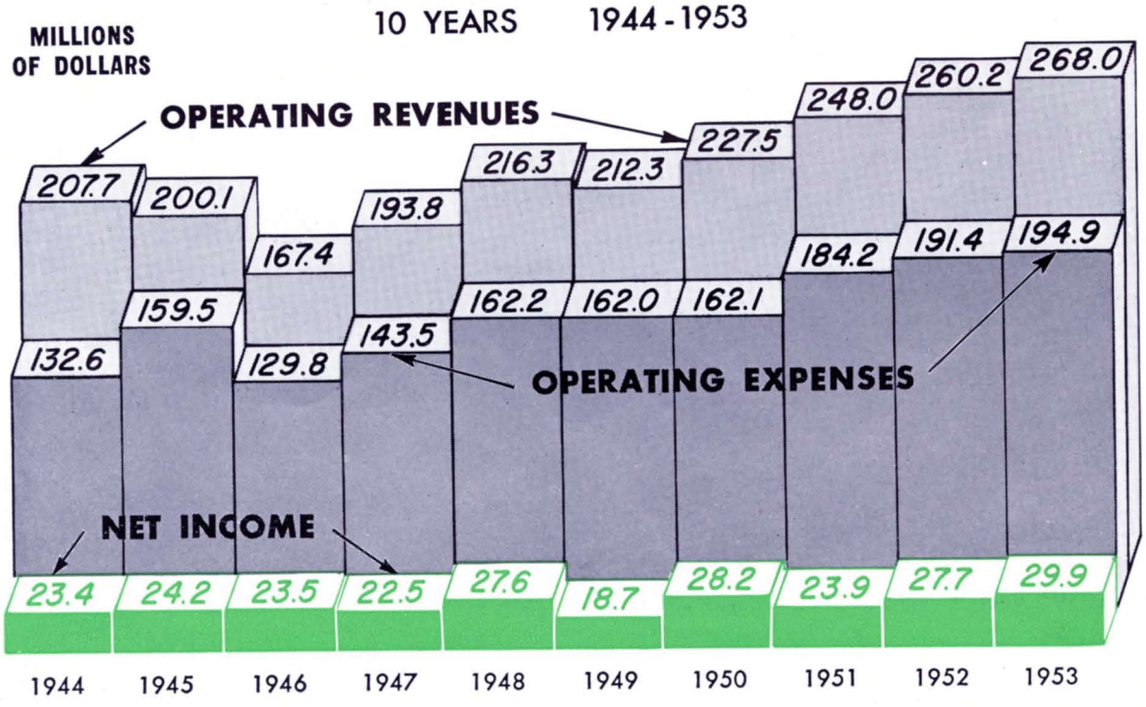
CAPITAL STOCK **$268,300,777**

RETAINED EARNINGS:

"Net Worth" minus "Capital Stock"—largely invested in the property **$314,577,896**
(1952—$297,329,094)

OPERATING REVENUES—OPERATING EXPENSES AND NET INCOME

10 YEARS 1944 - 1953



OPERATING EXPENSES

The 6% increase in volume of freight traffic handled in 1953 was largely responsible for the increase in Operating expenses from $191.4 million in 1952 to $194.9 million in 1953, an increase of less than 2%. Contributing to this increase were the extensive line washouts in north central Montana and along the Sioux City line that resulted in an additional charge to Operating expenses of nearly $1.1 million.

Notwithstanding these factors, the percentage of Operating revenues consumed by Operating expenses, 72.7% in 1953, was the lowest in 9 years with one exception. The 1953 Transportation expenses, the actual cost of moving the traffic (including train, yard and station services), took 32.1% of Operating revenues, the lowest ratio in 8 years.

With the new diesel locomotives received in 1953 the percentage of traffic handled by other than steam locomotives (largely diesels but including electric locomotives operating over the Cascade Mountains) was 80% for freight service, 99% for passenger service and 90% for yard service. The 1952 figures were 66%, 98% and 84% respectively. A comparison of some of the principal expense items covering all locomotive operations shows:

	Locomotive Fuel and Power	Locomotive Repairs	Total	Operating Revenues
	(Millions)	(Millions)	(Millions)	(Millions)
1948	$17.1	$13.3	$30.4	$216.3
1949	13.0	12.1	25.1	212.3
1950	12.4	11.5	23.9	227.5
1951	13.4	13.4	26.8	248.0
1952	11.0	14.0	25.0	260.2
1953	10.1	11.7	21.8	268.0

Inability to secure rail in 1952 on account of the steel strike resulted in a carry-over of some new rail into 1953. As a result the new rail applied in 1953 was nearly 45 thousand tons, compared with some 28 thousand tons in 1952. The average for the two years of over 36 thousand tons was in line with rail applications of previous years. The 660 thousand cubic yards of crushed rock or stone ballast and the 910 thousand treated ties applied in 1953 were approximately the same as for 1952.

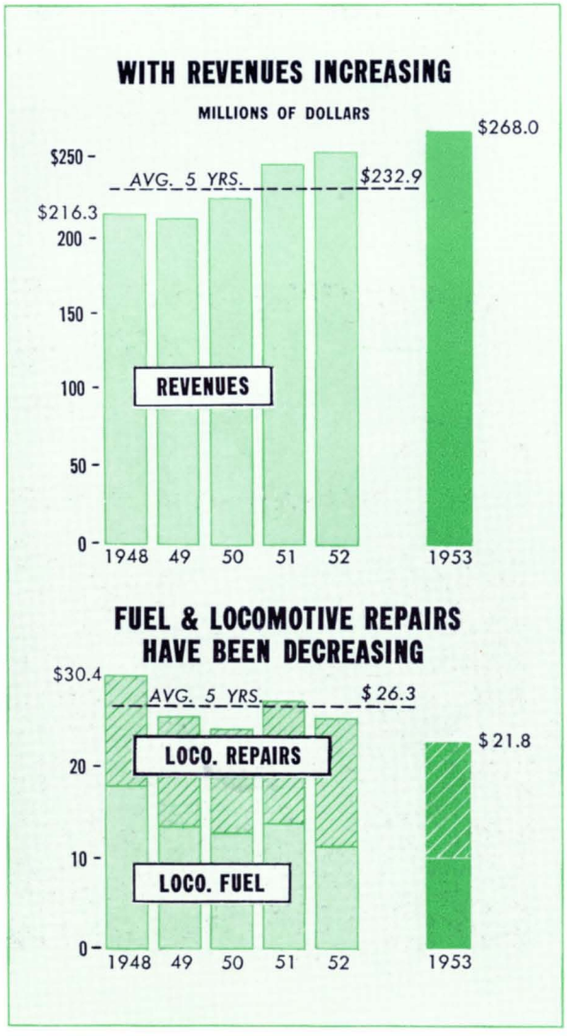
Favorable ratios for unserviceable equipment were noted at the end of 1953 including 7.1% for locomotives, 3.4% for freight equipment and 4.6% for passenger cars.

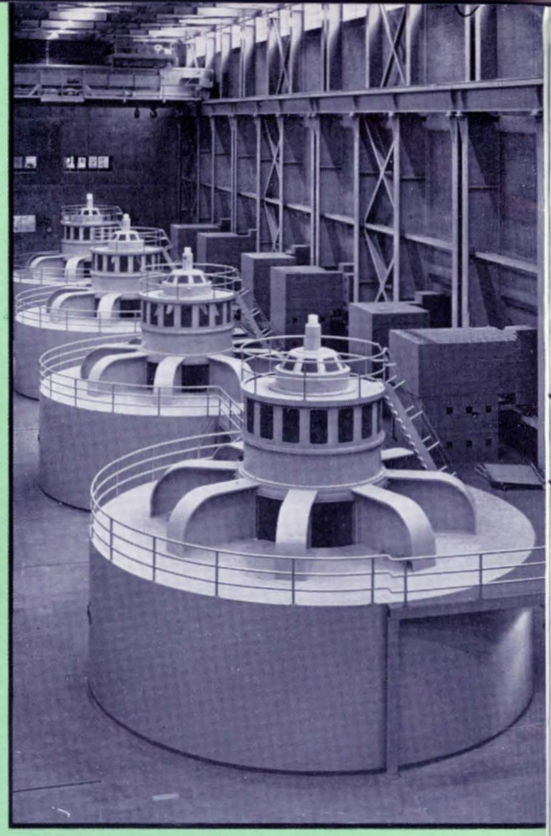
Unusually favorable weather early in 1953 reduced the cost of removing snow and ice to less than $860 thousand, the lowest figure in 8 years and nearly $600 thousand under the 1952 cost. This condition was more than offset by cloudbursts and extensive flood damage in June and July.

TAXES

Taxes in 1953 of nearly $39.7 million were the highest since 1944. They amounted to 1⅓ times the entire Net income and 3¼ times the amount paid shareholders in dividends.

Federal income taxes were nearly $20.5 million, the largest in the past nine years.





POWER PRODUCING DAMS LOCAL TO GREAT NORTHERN. AT THE LEFT, CONSTRUCTION SCENE AT CHIEF JOSEPH DAM ON THE COLUMBIA RIVER IN NORTH CENTRAL WASHINGTON, ULTIMATE CAPACITY 1,728,000 KILOWATTS. NOTE PROGRESS ON THE 25 FEET IN DIAMETER PENSTOCKS. AT THE RIGHT, GENERATOR ROOM AT HUNGRY HORSE DAM ON THE SOUTH FORK OF THE FLATHEAD RIVER IN WESTERN MONTANA, COMPLETED IN 1953, CAPACITY 285,000 KILOWATTS.

BELOW, TRACK LAYING SCENE.

AMORTIZATION OF EMERGENCY FACILITIES

In determining the 1953 Federal income tax a deduction of $6.5 million was included as amortization of defense facilities. The normal depreciation charged in the accounts on the same facilities amounted to $1.3 million. Federal income tax accrual was $20.5 million. Without tax amortization income taxes would have been $23.2 million, and the reported Net income reduced $2.7 million or $.89 per share of stock outstanding. Similarly the Net income shown for 1952 would have been reduced $.56 per share. A full explanation of this situation was made on page 10 in last year's report to shareholders.

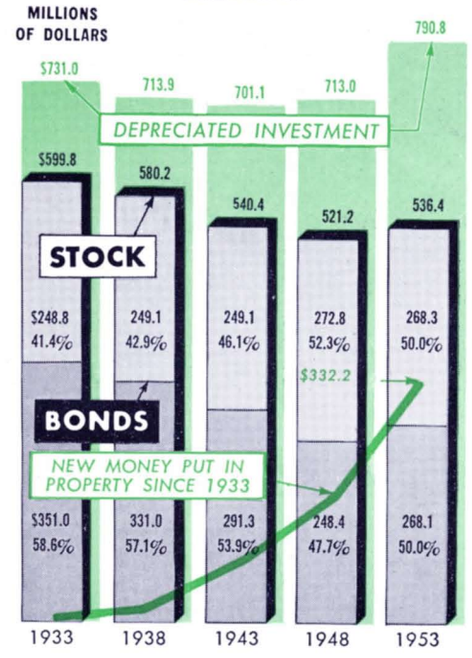
This accounting procedure is prescribed by the Interstate Commerce Commission, and while it has the effect of increasing Net income during the 5 years when amortization is taken, it will decrease the Net income during the following years. In other words, the tax reduction now being realized is not a tax saving but merely a tax deferment.

COMPARISON OF CAPITAL STRUCTURE

BY 5 YEAR INTERVALS

1933-1953

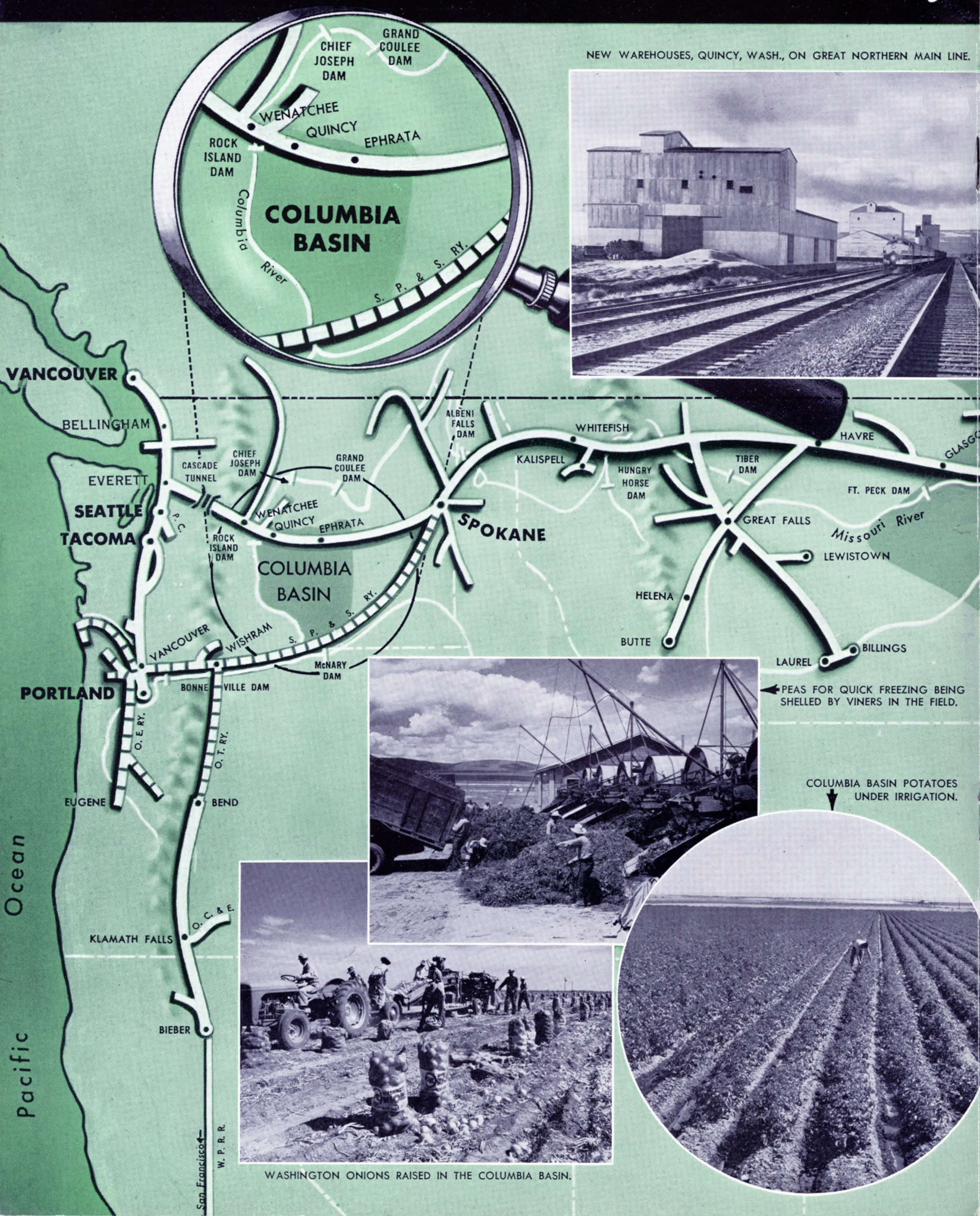
DECEMBER 31



STOCK AND BONDS IN HANDS OF PUBLIC

THE "RABBIT DANCE" BY INDIAN SQUAWS AND SOME OF THE 8,000 BOY SCOUTS MOVING OVER GREAT NORTHERN TO THE NATIONAL JAMBOREE IN CALIFORNIA. AVERAGE JOURNEY 1473 MILES.

Great Northern Railway



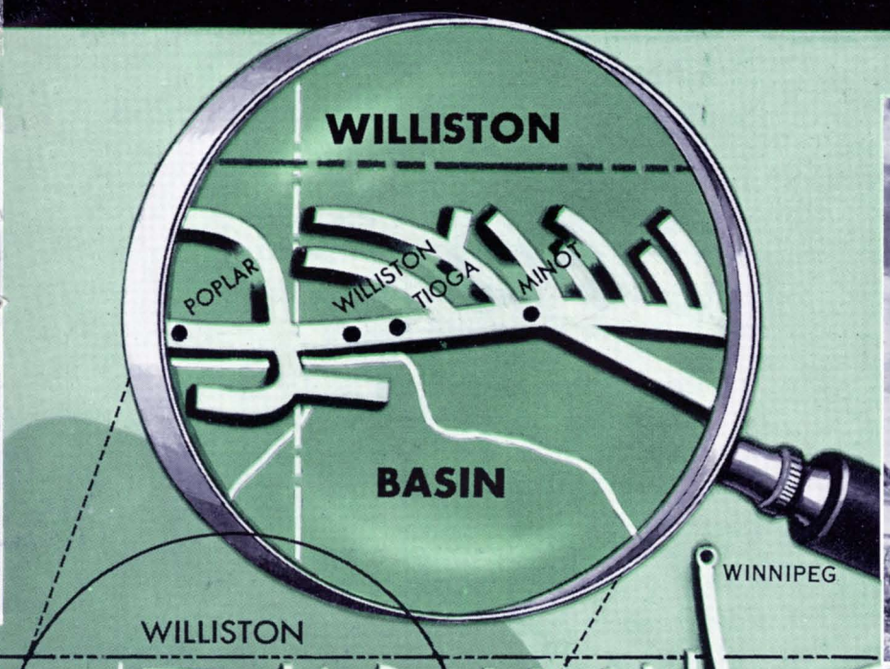
NEW WAREHOUSES, QUINCY, WASH., ON GREAT NORTHERN MAIN LINE.

PEAS FOR QUICK FREEZING BEING SHELLED BY VINERS IN THE FIELD.

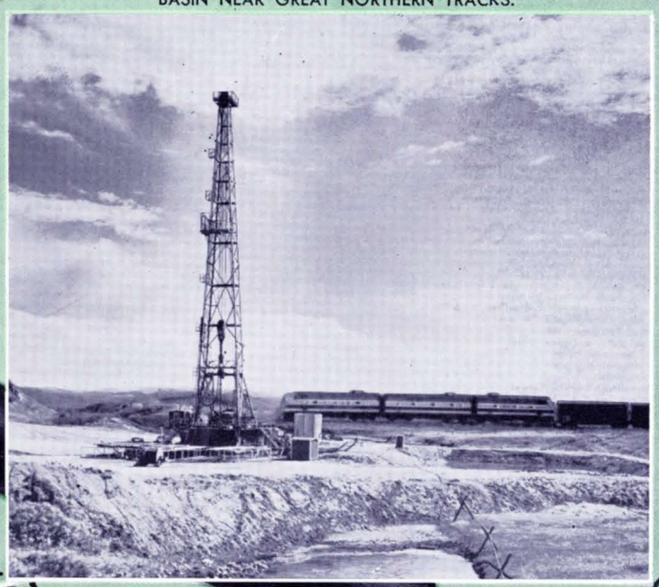
COLUMBIA BASIN POTATOES UNDER IRRIGATION.

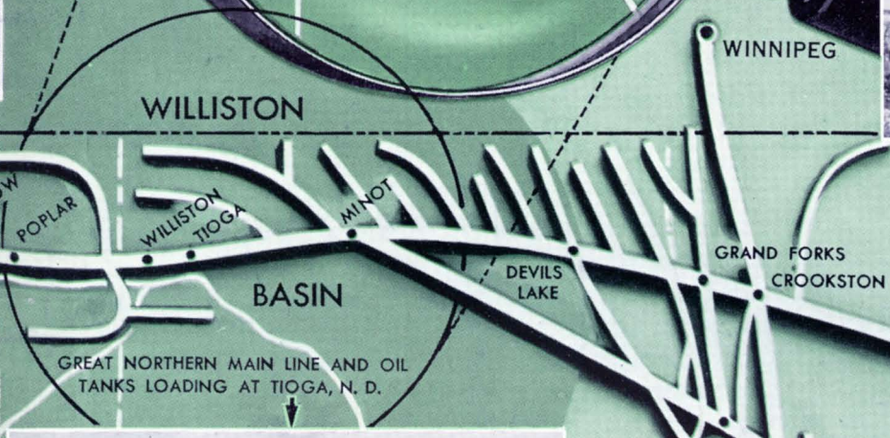
WASHINGTON ONIONS RAISED IN THE COLUMBIA BASIN.

Serves *Two* Great Basins...

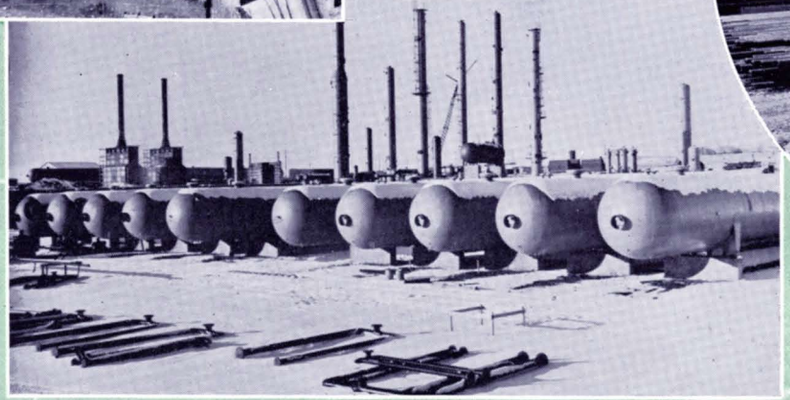


ONE OF OVER 300 NEW OIL WELLS IN WILLISTON BASIN NEAR GREAT NORTHERN TRACKS.

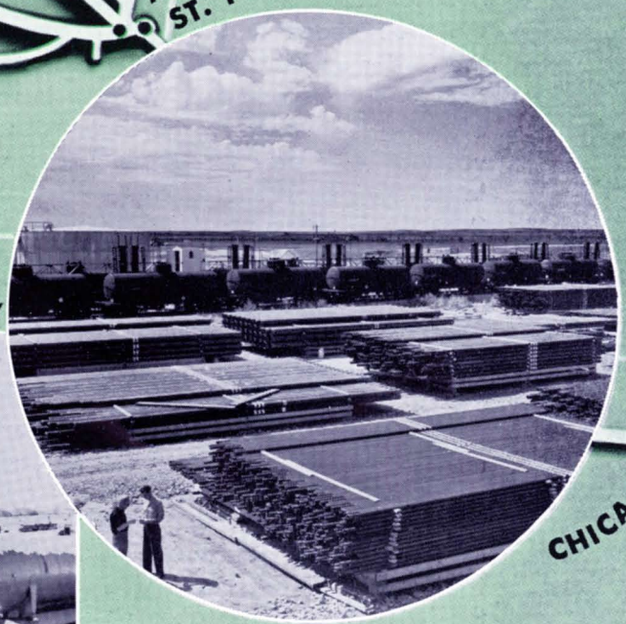




GREAT NORTHERN MAIN LINE AND OIL TANKS LOADING AT TIOGA, N. D.



65 MILLION CU. FT. PER DAY NATURAL GAS SEPARATION PLANT TO COST $17 MILLION, TIOGA, N. D.



PIPE STORAGE NEAR LOADING RACKS.

WINNIPEG
GRAND FORKS
CROOKSTON
BEMIDJI
HIBBING
DULUTH
Lake Superior
DEVILS LAKE
FARGO
FERGUS FALLS
SUPERIOR
BRECKENRIDGE
ST. CLOUD
MINNEAPOLIS
ST. PAUL
ABERDEEN
WATERTOWN
WILLMAR
HURON
SIOUX FALLS
YANKTON
SIOUX CITY
CHICAGO

LABOR MATTERS

Under the cost-of-living agreements including the so-called Guthrie award for increased productivity, the following adjustments in pay for all scheduled employees were effective:

December 1, 1952, 4c per hour increase
January 1, 1953, 1c per hour decrease
April 1, 1953, 3c per hour decrease
October 1, 1953, 3c per hour increase

Freight carmen were granted an additional 4c per hour increase effective June 1, 1953.

These and other minor increases raised the payroll an estimated $1.5 million per year.

The two-year moratorium on changes in wage schedules (except for the automatic quarterly cost-of-living adjustment) having expired on September 30, 1953, all classes of railroad labor served notice on management of their desire for changes in working conditions and wage rates.

In general, the 15 railroad non-operating unions requested longer paid vacations, double pay for working on holidays in addition to regular pay, extra pay for Sunday work, liberalized pass privileges, life and sickness insurance, and other fringe allowances. The so-called Operating brotherhoods generally requested wage increases of an additional 30 to 40 cents per hour for certain crafts and a 30% to 45% wage increase for other groups.

After extended negotiations the Brotherhood of Locomotive Firemen and Enginemen, the Brotherhood of Railroad Trainmen and the Order of Railway Conductors agreed to accept 5 cents per hour increase in wages, effective December 16, 1953, with 3 weeks' vacation with pay for employes having at least 15 years of continuous service in lieu of 2 weeks' vacation previously allowed. These agreements provided for cancellation of the periodic cost-of-living adjustments. This leaves the cases of the Engineers and Switchmen among the so-called running crafts to be settled.

Hearings in the case of the non-operating unions are now being held before an Emergency Board. The railroads petitioned for a Declaratory Judgment with respect to whether or not it was necessary to negotiate certain fringe benefits. The case was dismissed by the judge holding an absence of justiciable controversy. This decision is being appealed by the railroads.

WILLISTON BASIN OIL

In 1953 the search for oil continued in the Williston Basin served by the lines of your Company. Producing wells in Great Northern territory increased from 108 to 301 during the year. It is expected that wildcatting in the deeper portions of the Basin will be more prevalent during 1954.

Crude oil shipments from this territory increased from some 7,000 cars in 1952 to over 24,000 cars in 1953. A new refinery is being constructed at Mandan, N. D., some 140 miles southeast of Tioga, which will be connected to the Tioga and Beaver Lodge pools by pipeline. When this refinery is placed in operation, now scheduled for October, 1954, crude oil shipments by rail will decrease. Considering the substantial crude oil production not presently being shipped account of lack of markets and the numerous producing wells that will not be served by the pipeline, it is estimated that crude oil shipments via Great Northern from this area will be off no more than 7% in 1954 with a further possible reduction of 20% in succeeding years. This makes no allowance for additional wells that may be brought into production hereafter or for expansion of present markets or development of new markets.

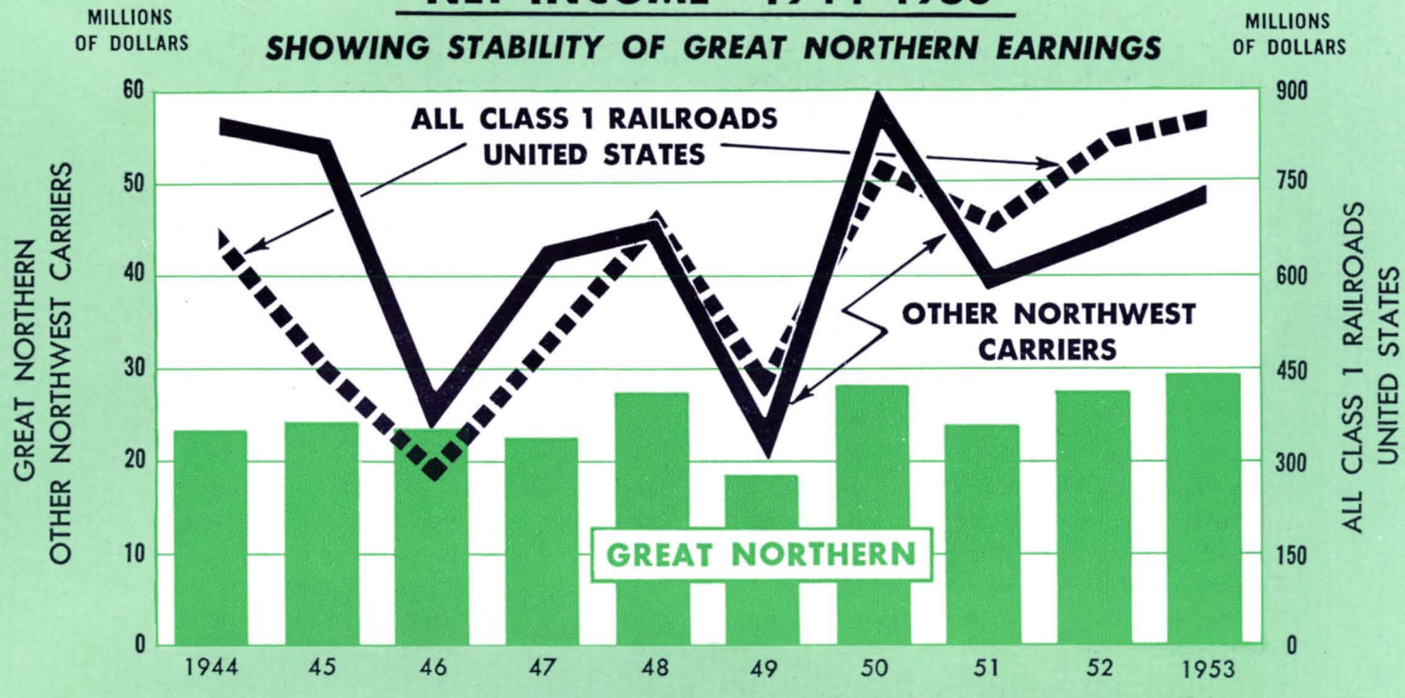
A new plant for the recovery of chemicals from the wet gas, which is now being burned at the well sites in the Williston Basin area, is being constructed on your Company's line at Tioga, N. D. This plant, with the gathering lines, will cost approximately $17 million and is expected to operate initially on a 15 to 20 million cubic-feet-per-day capacity, with ultimate development about three times as large. When operating to total capacity, production will approximate 50,000 gallons of butane, 65,000 gallons of natural gasoline, 100,000 gallons of propane, and 50 tons of sulphur per day. The dry gas will then be ready for distribution and use as natural gas.

Another development of interest is a 1,500 barrel per day refinery being constructed at Williston, N. D. to refine crude oil from the Williston Basin and Montana points.

Both of these plants are expected to be in operation during 1954.

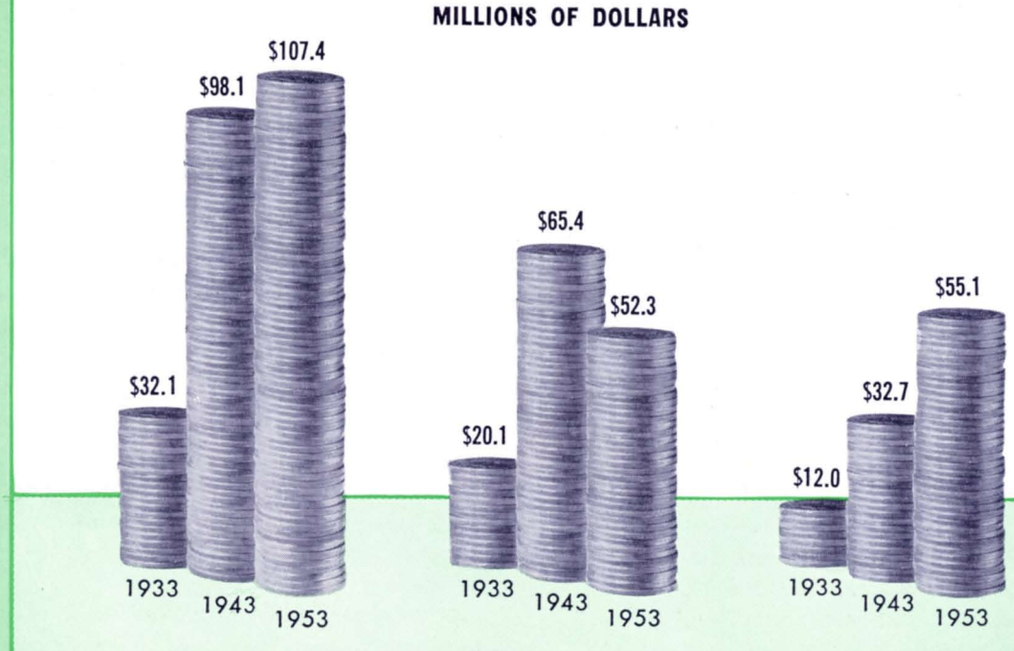
NET INCOME 1944-1953

SHOWING STABILITY OF GREAT NORTHERN EARNINGS



CURRENT ASSETS AND LIABILITIES

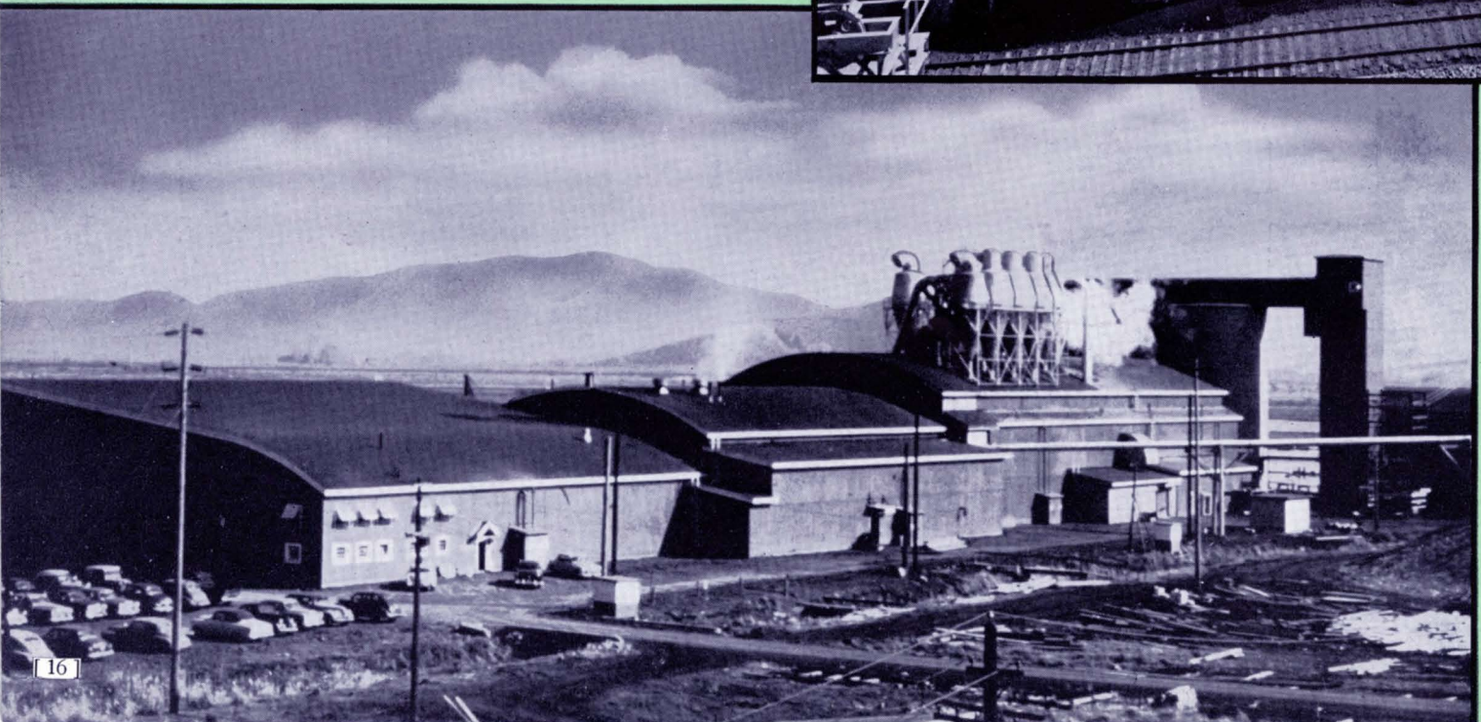
BY 10 YEAR INTERVALS — DEC. 31, 1933-1943-1953



POURING ALUMINUM IN 50-POUND MOLDS AT LARGEST REDUCTION PLANT IN UNITED STATES NEAR SPOKANE, WASH., LOCAL TO GREAT NORTHERN.

RED RIVER VALLEY SUGAR BEETS AT REFINERY LOCAL TO GREAT NORTHERN AT BINGHAM, MINNESOTA.

NEW HARD BOARD PLANT AT KLAMATH FALLS, ORE.



INDUSTRIAL DEVELOPMENT

As industrial development continued in Great Northern territory the usual class of industries were located on the Company's property including grain elevators, lumber yards, potato warehouses and processing plants, bulk oil and propane facilities, and many types of distribution warehouses, totaling 239 new industries. Additional plants were located on privately owned property served by Great Northern trackage.

Construction was begun or continued on the following more important revenue producing industries:

1. A $2 million modernization and cracking plant addition to refinery at St. Paul using Williston Basin crude oil.

2. A large sheet steel and aluminum products manufacturing plant near Anoka, Minn.

3. New refinery at Alford, Minn., near Duluth, costing $7 million, with a daily capacity of 11,500 barrels, and utilizing Montana, North Dakota and Canadian crude oil.

4. A new $10 million beet sugar refinery near Crookston, Minn.

5. A 65 million cubic feet per day natural gas separation plant producing propane, butane, casinghead gasoline, and sulphur, estimated to cost $17 million, including the gathering lines, at Tioga, N. D.

6. A 1,500 barrel per day oil refinery at Williston, N. D.

7. A $2.5 million aluminum rod and wire mill near Great Falls, Mont.

8. Expansion of refining units and construction of a $1 million fluid coking unit at East Billings, Mont.

9. A new $45 million aluminum reduction plant at Conkelley, Mont.

10. Second unit in expansion of paper plant begun at Everett, Wash.

11. New large Kraft paper products plant at Everett, Wash.

12. A cold storage plant for frozen foods at Mt. Vernon, Wash.

13. A large oil refinery at Ferndale, Wash.

14. New aluminum cable plant and extrusion mill to cost $4.7 million at Vancouver, Wash.

15. A new hard board plant at Klamath Falls, Ore.

Over 1,500 acres of property being held for industrial purposes were acquired in 1953 located in the states of Minnesota, North Dakota, Montana and Washington.

NEW 368-FOOT LONG STEEL SWING SPAN ON 80 MILE TRIP TO ITS NEW LOCATION ON GREAT NORTHERN NEAR ANACORTES, WASH.

POWER PROJECTS

The year 1953 saw final completion of the Hungry Horse Dam, begun in 1948, on the South Fork of the Flathead River in northwestern Montana, with a power plant capacity of 285,000 kilowatts. The extension to the Rock Island Dam in central Washington was also completed, adding 165,000 kilowatts of power.

The Albeni Falls Dam on the Pend Oreille River in northwestern Idaho is scheduled for completion in 1954 with a power capacity of 251,000 kilowatts. At the end of 1953 it was approximately 87% completed.

Chief Joseph Dam, when completed, will be the second largest producer of hydro-electric power, being exceeded only by Grand Coulee Dam located 51 miles upstream on the Columbia River. Excellent progress has been made at Chief Joseph Dam, and it is expected that the first 3 generators will go into service late in 1955. Sixteen units in all will be put in operation with construction providing for an expansion to 27 generating units producing 1,728,000 kilowatts.

Construction of Gavin's Point Dam on the Missouri River west of Yankton, S. D., is now about 20% completed. While primarily a flood control project, it will have an installed power capacity of 100,000 kilowatts when completed late in 1956.

20 YEARS OF STEAM AND DIESEL LOCOMOTIVE MILES 1934-1953

In Addition 3 to 5 Hundred Thousand Miles Per Year Were Made by Electric Locomotives.

IRRIGATION PROJECTS

Development continues in the Columbia Basin Irrigation Project with over $20 million approved for extending canals and laterals in 1954. In Great Northern territory some 870 farms have been established, with over 58,000 acres to take water. By the end of 1954 this acreage is scheduled to increase to nearly 81,000 in 1,175 farms.

Attention has been centered on home construction, with nearly 9,000 carloads of inbound commodities in 1953. The principal crops raised and shipped were peas, carrots and squash for quick freezing at nearby Wenatchee, and potatoes and Spanish onions.

Work was continued on the Tiber Dam on the Marias River south of Chester, Mont., and at the end of the year the project was approximately 35% completed. The appropriation for this construction in 1954 is $6 million. When completed 127,000 acres will be irrigated, all local to Great Northern line. Formation of the irrigation districts is now taking place.

There are two other irrigation projects of major interest to your Company, one in northeastern Montana, the other in north central North Dakota.

The Missouri diversion unit in northeastern Montana will be served by a dam at Little Porcupine Creek, 22 miles downstream from Fort Peck Dam. This is the key structure in the Missouri River Basin Reclamation Project which will ultimately supply water to some 100,000 acres of land in local Great Northern territory. Congressional appropriation is necessary before construction can be started.

The Missouri-Souris project in central and north central North Dakota has been reported as meeting the economic feasibility standards of the Bureau of Reclamation after surveys by the engineering section of the Bureau. No major construction can be expected in the next 2 years, but it is expected that some $2 million will be spent during that period to complete the investigational work. Land will be benefited by water impounded back of the Garrison Dam, and pumped to two large reservoirs from whence it will be distributed to some one million acres. Over 500,000 acres will be tributary to Great Northern lines.

PROPERTY IMPROVEMENTS

Plant improvements, particularly as to equipment, have been continued on a reduced basis. The cash expenditures for fixed property and equipment in 1953 amounted to $27.1 million, compared with $35.7 million in 1952 and $29.9 million in 1951. Cash invested in equipment in 1953 was $15.5 million while in 1952 it was $25.4 million.

With delivery of 37 diesel locomotive units early in 1954, the only steam operations will be east of Williston, N. D., during a few months of heavy peak loads.

To preserve the favorable competitive position enjoyed by your Railroad, a continuous flow of new money into fixed property improvements and new equipment must be maintained. Replacements, when necessary, can only be accomplished at substantially higher unit costs. While some of the projects are accompanied by operating savings, many others are necessary to improve the service, increase the plant capacity, or renew wornout property.

1. FIXED PROPERTY IMPROVEMENTS

In addition to the continuing substantial expenditures for new shop and roadway machines, some of the more important fixed property projects completed during 1953 included: passing track construction or extension at 10 locations; new depots at Sauk Centre, Minn., McVille, N. D., and Columbia Falls, Mont.; two 80,000 bbl. diesel oil storage tanks purchased for use at Great Falls and Cut Bank, Mont.; new yard office at Great Falls, Mont.; gantry crane and car shakeout installed on Ore dock at Allouez, Wisc.; new 368 ft. steel draw span and pile approach erected near Whitmarsh, Wash.; and telegraph lines in Minnesota and North Dakota purchased from the Western Union.

Work was begun on a large modern steel car shop at St. Cloud, Minn.; remodeling shop buildings at Hillyard, Wash., for a new diesel locomotive repair shop; installing 64 miles of centralized traffic control between Delano and Willmar, Minn.; and radio train control for over 900 miles between Minneapolis, Minn., and Havre, Mont.

Underground mining operations at Butte, Mont., necessitated moving nearly two miles of main line leading into that city. Work was progressed during 1953 and is expected to be completed in 1954.

2. NEW EQUIPMENT

Twenty-five diesel locomotives comprising 37 units were received in 1953. Added freight car equipment included 500 fifty-ton all steel box cars built in Company shops and purchases of 300 seventy-ton hopper cars ordered in 1951, and 100 covered hopper cars. In addition, 51 fifty-ton flat cars were received on an order of 200 cars.

Western Fruit Express Company, a wholly-owned subsidiary, continued its program of improving and increasing its refrigerator car supply by purchasing 350 cars in 1953. For 1954 delivery 300 cars have been ordered. These figures include in each year 50 fifty-foot mechanical all-purpose refrigerator cars capable of maintaining any required inside temperature to protect frozen and other perishable foods automatically.

At the end of 1953, for later delivery, were 149 fifty-ton flat cars, 6 freight and 31 road-switch diesel locomotive units, 15 "cushion underframe" fifty-ton box cars, two 250-ton diesel engine powered cranes and 22 passenger dome cars.

The 22 passenger dome cars were ordered for the Empire Builder with prospective delivery early in 1955. The consist of each train will include 3 coaches with partial domes and one full dome lounge car for sleeping car passengers. When these cars are delivered they will release other cars which will permit up-grading of passenger equipment on other important passenger trains. This equipment should enable Great Northern to retain or increase its share of the available rail passenger traffic in the Northwest, which would not be possible without the dome cars.

FUNDED DEBT

General Mortgage Bonds outstanding at the end of 1953 amounted to $203,662,900, the same as at the end of 1951 and 1952. Equipment obligations were as follows:

Year	Equipment Obligations Dec. 31
1953	$63,225,591
1952	62,784,113
1951	70,295,740

To provide payment for 80% of the cost of diesel locomotives scheduled for early 1954 delivery, a 1 to 15 year equipment trust of $5,070,000 was sold by competitive bids in January, 1954. The successful bidder paid for a 2¾% coupon on the basis of a net interest cost to the Company of 2.83%.

RADIO COMMUNICATIONS CONTROL

Communication by radio is now in effect on fast freight trains between Minneapolis, Minn., and Havre, Mont., over 900 miles. Service is available from head end to rear end of train, train to train, and between train and 36 wayside stations. This will reduce delays and possible accidents and permit faster train movements with less overtime pay to train crews. Radio can also be used to bridge failure of regular open wire communications due to sleet storms or other causes.

Similar radio communication service has been established in iron ore train service between the Mesabi Range and ore docks and in gathering service on the Mesabi Range.

Yard radio service has been authorized at the iron ore docks and at the large train yard at Hillyard, Wash., near Spokane. These installations will be in operation during the first half of 1954.

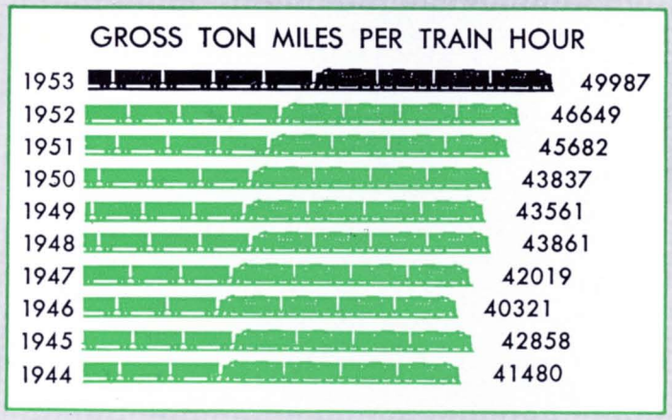
CENTRALIZED TRAFFIC CONTROL

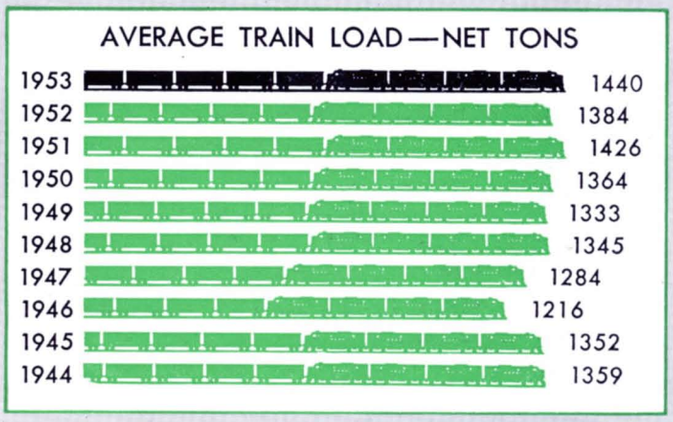
The first centralized traffic control on Great Northern has been authorized between the end of double track at Delano, Minn., and Willmar, Minn., a distance of 64 miles, just west of Minneapolis, Minn. This installation, with control of switches and signals from a central point, permits greater flexibility in train operation than is possible under existing conditions. Train movements are speeded up, safety is improved and substantial operating economies accomplished.

VOLUME OF TRAFFIC AND OPERATING AVERAGES

ITEM	1953	1952	1951	1950	1949
REVENUE NET TON MILES (1000's)	18,586,111	17,518,226	18,041,425	16,047,498	15,380,005
PASSENGERS CARRIED ONE MILE (1000's)	558,784	612,030	589,519	494,307	501,964
TRAIN LOAD—NET TONS ALL FREIGHT	1,440	1,384	1,426	1,364	1,333
FREIGHT LOCOMOTIVE MILES PER LOCOMOTIVE DAY	85.5	82.5	83.2	82.6	82.7
FREIGHT CAR MILES PER CAR DAY	50.0	48.1	51.6	47.0	45.7
NET TON MILES PER FREIGHT CAR DAY	1,172	1,123	1,234	1,074	1,010
REVENUE PER NET TON MILE (cents)	1.269	1.292	1.195	1.219	1.197
REVENUE PER PASSENGER MILE (cents)	2.238	2.307	2.290	2.239	2.328
NET TON MILES PER TRAIN HOUR	24,351	22,690	22,578	21,150	20,621

FREIGHT TRAIN PERFORMANCE 1944-1953





EDUCATIONAL TOURS FOR FREIGHT TRAFFIC REPRESENTATIVES. THIS GROUP IS BEING SHOWN HOW THE USE OF MODERN METHODS SUCH AS FORK LIFT TRUCKS AND PALLETS SPEEDS FREIGHT HANDLING. ONE OF THE MOST IMPORTANT SERVICES GREAT NORTHERN PROVIDES CUSTOMERS IS WELL-INFORMED COUNSEL BY ITS TRAFFIC REPRESENTATIVES. A CONTINUING SCHOOLING IS IN OPERATION ON THE 8,000-MILE CAMPUS FROM THE TWIN CITIES OF MINNESOTA TO PUGET SOUND, WASHINGTON.

THE SAFETY STORY IS TAKEN TO EMPLOYES ALL OVER THE RAILROAD WITH THIS SPECIAL SAFETY CAR EQUIPPED FOR VISUAL INSTRUCTION.

FIRE PREVENTION INSTRUCTION CAR SHOWING WATER FOG CREATED BY SPECIAL TYPE NOZZLE WHICH SMOTHERS FLAMES AND ACTING AS AN INSULATING SCREEN ENABLES OPERATOR TO APPROACH FIRE.

INCREASE IN CAR HIRE RATES

On August 1, 1953, the per diem rate paid by a railroad for the use of the freight cars of other companies was increased from $2 to $2.40 per day. The car mileage rates for the use of refrigerator cars was increased from 3 cents per mile to 3.5 cents per mile on January 1, 1953, and to 4.0 cents per mile on April 1, 1953.

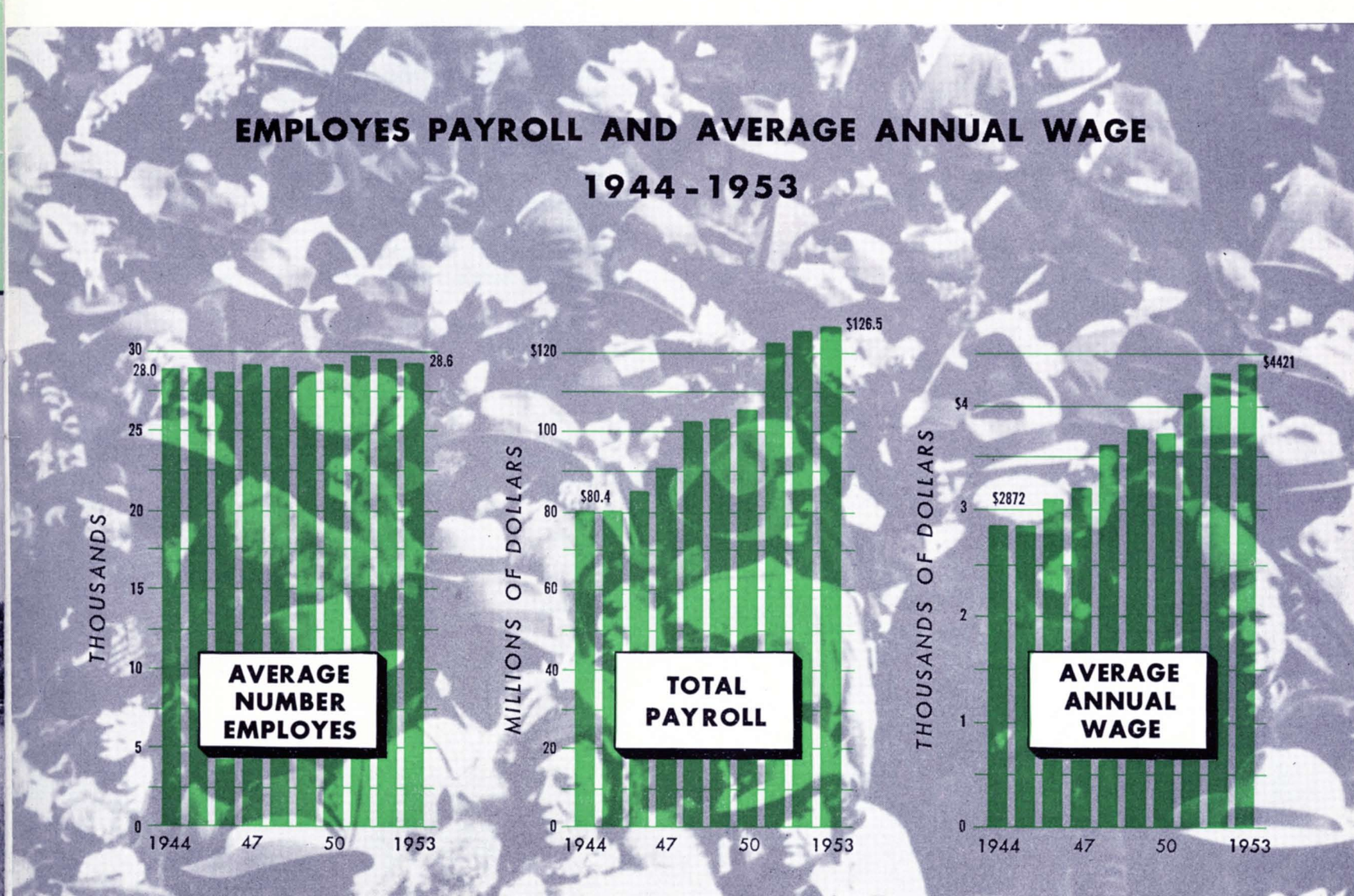
Both of these factors are favorable to Great Northern. The per diem receipts are larger than the payments and the new rates will increase Great Northern net collections. The refrigerator mileage rate is particularly important to Western Fruit Express Co., the wholly-owned subsidiary. Largely due to the higher car mileage rates the Net income of that Company increased from just under $600 thousand in 1952 to over $1.2 million in 1953.

LITIGATION

Other than the usual litigation, there are two cases of special interest still unsettled.

Interstate Commerce Commission examiners in a proposed report released July 22, 1953, recommended dismissal of the seventeen complaints filed by the Government against the railroads to recover alleged overcharges on shipments of war material moving between 1941 and 1946. The examiners recommended that the Commission find that in each one of the complaints (covering different commodities) the assailed ratings were not shown to be unreasonable. Time for the Government to file objections has been extended.

In 1942 action was brought against Great Northern and other railroads and truck lines by Montgomery Ward & Co. for damages claimed for failure to serve its strike bound plant at Portland, Ore., during 1940-1941. An opinion was rendered late in June, 1953, holding all defendants liable. Argument has since been held on the question of the amount of damages, if any, to be assessed against each defendant but no final determination has yet been made by the court.



SAFETY RECORD

For 1953 your railroad had the best safety record of the larger railroads reporting their employe casualty records to the Interstate Commerce Commission. The ratio of 3.13 casualties per million man hours was less than half of the average figure for both the 16 larger railroads and the 120 railroads of all sizes. A reportable casualty is one which keeps an employe from performing regular duties for more than 3 days during the first 10 days following an accident.

SHAREHOLDERS

As of November 25, 1953, there were 33,079 owners of Great Northern stock. The number of stockholders grouped by shares owned was as follows:

Shares	Number of Stockholders	Per Cent of all Stockholders
1 to 40	19,961	60.3%
41 to 100	10,385	31.4
Over 100	2,733	8.3
	33,079	100.0

The average number of shares owned per stockholder was less than 92.

FOR THE FUTURE

It presently appears that the volume of traffic offered in 1954 will be somewhat under that of 1953 when revenues were at record levels. The iron ore movement will be off from the peak of 1953, when lowered stockpiles resulting from the 1952 miners' strike forced a replenishing at record rates. It is expected that there will be a falling off in the movement of consumers goods. Moisture conditions are generally somewhat better than they were at this time in 1952 and grain loadings for the first quarter of 1954 were slightly ahead of 1953. Some increases in wage costs are in prospect.

With the prospective decrease in revenues, there will be operating savings realized from fewer train movements and from a greater proportionate use of the cheaper to operate diesel locomotives. The new diesel units received during the first part of 1954 will also reduce transportation costs. In 1953 11% of the gross revenues were carried through to Net income after Federal taxes.

While it is not possible to match any decrease in revenue with a like saving in operating expenses, it is believed that the falling off in Net income will be no more than from one-fourth to one-third of the decrease in gross revenues. Great Northern should receive its full share of the available traffic in 1954 and maintain its favorable competitive situation with substantial earnings.

ONE OF 23 GAS STORAGE TANKS 114 FEET LONG ENROUTE TO NEW PLANT AT TIOGA, N. D.

GREAT NORTHERN RAILWAY COMPANY

OFFICERS

F. J. GAVIN, Chairman of the Board . . . . . St. Paul
J. M. BUDD, President . . . . . St. Paul
V. P. TURNBURKE, Vice President, Executive Department . . . . . St. Paul
T. BALMER, Vice President . . . . . Seattle
I. G. POOL, 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
J. A. TAUER, Vice President and Comptroller . . . . . St. Paul
F. L. PAETZOLD, Secretary and Treasurer . . . . . St. Paul
C. A. PEARSON, Assistant to President . . . . . St. Paul
C. W. MOORE, Executive Assistant . . . . . St. Paul
W. N. NORRIS, General Auditor . . . . . St. Paul
C. O. HOOKER, General Manager, Lines East of Williston . . . . . Duluth
T. A. JERROW, General Manager, Lines West of Williston . . . . . Seattle
A. W. CAMPBELL, General Superintendent Transportation . . . . . St. Paul
J. L. ROBSON, Chief Mechanical Officer . . . . . St. Paul
H. J. SEYTON, Chief Engineer . . . . . St. Paul
A. N. CRENSHAW, Purchasing Agent . . . . . St. Paul
J. C. KENADY, Land and Tax Commissioner . . . . . St. Paul
N. STOCKHAMMER, Assistant Secretary and Assistant Treasurer . . . . . New York
R. M. O'KELLY, Assistant Secretary and Assistant Treasurer . . . . . New York
C. F. ZIEGAHN, Assistant Secretary . . . . . St. Paul
A. SELANDER, Assistant Treasurer . . . . . St. Paul

Principal Office: Great Northern Building, St. Paul (1), Minn.

Financial and Transfer Office: 2 Wall Street, New York (5), N. Y.

LOCATION OF GREAT NORTHERN RAILWAY OFF-LINE FREIGHT AND PASSENGER REPRESENTATIVES READY TO HELP YOU SOLVE YOUR TRANSPORTATION PROBLEMS

Boston, Mass.
New York, N. Y.
Philadelphia, Pa.
Washington, D. C.
Winston-Salem, N. C.
Atlanta, Ga.
Toronto, Ont.
Buffalo, N. Y.
Pittsburgh, Pa.
Cleveland, Ohio
Detroit, Mich.
Cincinnati, Ohio
Chicago, Ill.
Milwaukee, Wis.
St. Louis, Mo.
Des Moines, Ia.
Kansas City, Mo.
Dallas, Tex.
Denver, Colo.
Sacramento, Calif.
Oakland, Calif.
San Francisco, Calif.
Los Angeles, Calif.
Edmonton, Alta.

GREAT NORTHERN
RAILWAY
365
365
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