

GREAT NORTHERN

RAILWAY COMPANY



69th ANNUAL REPORT 1957



BOARD OF DIRECTORS • GREAT NORTHERN RAILWAY COMPANY

Photograph taken at 69th Annual Meeting • St. Paul, Minnesota, May 9, 1957

Seated, left to right: **RICHARD C. LILLY**, Director, First National Bank of St. Paul, St. Paul; **JOHN M. BUDD**, President, Great Northern Railway Company, St. Paul; **FRANK J. GAVIN**, Chairman of the Board, Great Northern Railway Company, St. Paul; **ARCHIBALD W. WITHERSPOON**, Chairman of the Board, The Old National Bank of Spokane, Spokane; **WALTER G. SEEGER**, Chairman of the Board, Whirlpool-Seeger Corporation, St. Paul; **WILLIAM L. McKNIGHT**, Chairman of the Board, Minnesota Mining and Manufacturing Company, St. Paul; **F. PEAVEY HEFFELFINGER**, President, F. H. Peavey & Company, Minneapolis.

Standing, left to right: **FREDERICK K. WEYERHAEUSER**, President, Weyerhaeuser Timber Company, St. Paul; **JAMES F. OATES, JR.**, President, The Equitable Life Assurance Society of the United States, New York; **GRANT KEEHN**, Executive Vice President and Assistant to the Chairman, The First National City Bank of New York, New York; **THOMAS L. DANIELS**, President, Archer-Daniels-Midland Company, Minneapolis; **J. STEWART BAKER**, Chairman Executive Committee, The Chase Manhattan Bank, New York.

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
 T. A. JERROW, Vice President, Operating Department, St. Paul
 C. E. FINLEY, Vice President, Traffic Department, St. Paul
 A. KANE, Vice President and General Counsel, St. Paul
 J. A. TAUER, Vice President and Comptroller, St. Paul
 R. M. O'KELLY, Secretary and Treasurer, St. Paul

TRANSFER AGENTS

FINANCIAL OFFICE, 2 Wall Street, New York (5), N. Y.
 J. E. ADAMS, Assistant Secretary and Assistant Treasurer, New York
 E. V. FINK, Assistant Treasurer and Transfer Agent, New York
 C. M. BYRNES, Transfer Agent, New York
 A. SELANDER, Assistant Treasurer and Transfer Agent, St. Paul
 C. F. ZIEGAHN, Assistant Secretary and Transfer Agent, St. Paul

PRINCIPAL OFFICE OF THE COMPANY

GREAT NORTHERN RAILWAY BUILDING, Saint Paul, Minnesota

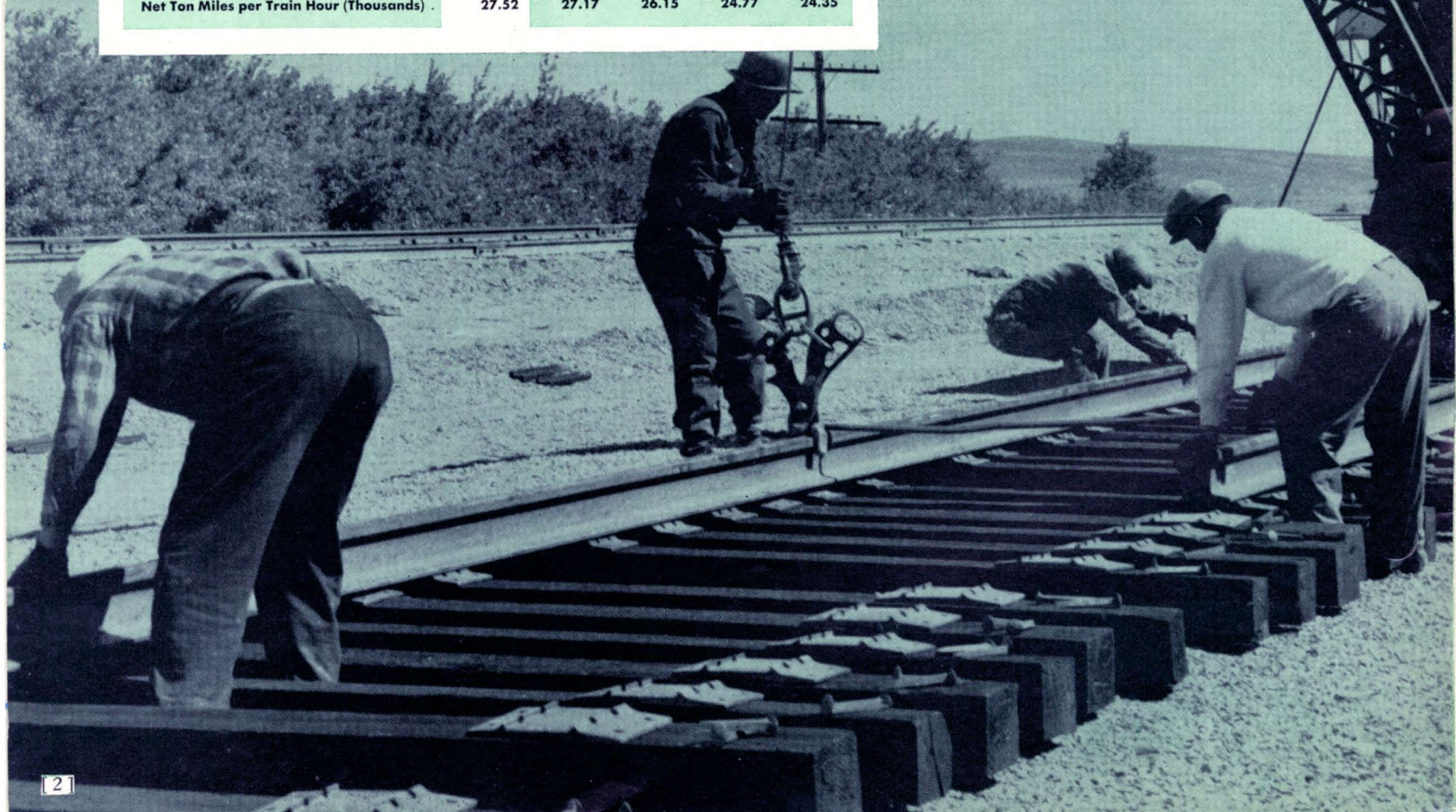
GREAT NORTHERN RAILWAY COMPANY

69th Annual Report 1957



GREAT NORTHERN RAILWAY HIGHLIGHTS OF 1957

| ITEM | 1957 | 1956 | 1955 | 1954 | 1953 |
|--|-----------|-----------|-----------|-----------|-----------|
| AVERAGE PER SHARE OF CAPITAL STOCK (6,077,786 SHARES DEC. 31, 1957) | | | | | |
| Operating Revenues | \$ 45.31 | \$ 46.31 | \$ 44.01 | \$ 41.33 | \$ 44.05 |
| Net Income Before Taxes on Income | 6.15 | 7.68 | 8.19 | 6.05 | 8.30 |
| Income Taxes | 1.77 | 2.35 | 2.91 | 1.85 | 3.38 |
| Total Taxes | 5.49 | 5.93 | 6.23 | 5.03 | 6.52 |
| Net Income After All Taxes | 4.38 | 5.32 | 5.27 | 4.21 | 4.92 |
| Dividends Paid | 3.00 | 2.63 | 2.35 | 2.10 | 2.00 |
| Fixed Charges | 1.34 | 1.33 | 1.34 | 1.34 | 1.33 |
| Shareholders' Equity | 102.75 | 101.65 | 99.40 | 97.00 | 95.78 |
| INCOME ACCOUNT (MILLIONS OF DOLLARS) | | | | | |
| Net Income | \$ 26.64 | \$ 32.24 | \$ 32.06 | \$ 25.44 | \$ 29.94 |
| Dividends Paid | 18.21 | 15.91 | 14.27 | 12.72 | 12.17 |
| Operating Revenues | 275.38 | 280.54 | 267.10 | 250.25 | 268.03 |
| Operating Expenses—Wages | 133.71 | 131.79 | 124.22 | 119.89 | 122.43 |
| Operating Expenses—Depreciation | 13.29 | 12.75 | 12.42 | 12.24 | 12.24 |
| Operating Expenses—Total | 212.18 | 209.40 | 194.44 | 188.62 | 194.88 |
| Taxes | 33.39 | 35.90 | 37.81 | 30.44 | 39.66 |
| Fixed Charges | 8.15 | 8.05 | 8.12 | 8.10 | 8.06 |
| FINANCIAL CONDITION DEC. 31, (MILLIONS OF DOLLARS) | | | | | |
| Cash and Special Deposits | \$ 56.88 | \$ 71.73 | \$ 77.43 | \$ 55.76 | \$ 55.62 |
| Total Current Assets | 107.32 | 118.54 | 122.35 | 102.72 | 107.82 |
| Current Liabilities | 45.92 | 51.29 | 56.43 | 43.94 | 52.33 |
| Working Capital | 61.40 | 67.25 | 65.93 | 58.78 | 55.49 |
| Net Investment in Transportation Property | 643.15 | 625.02 | 619.87 | 608.08 | 601.78 |
| Long Term Debt | 266.41 | 265.15 | 267.33 | 274.35 | 268.09 |
| Net Worth—Shareholders' Equity | 624.50 | 615.68 | 603.21 | 587.40 | 582.88 |
| Cash Expenditures for Property Improvements | 35.11 | 22.91 | 27.22 | 20.79 | 27.29 |
| EMPLOYEES | | | | | |
| Number of Employees | 24,968 | 26,399 | 26,782 | 26,970 | 28,606 |
| Total Wages (Millions) | \$ 136.38 | \$ 135.64 | \$ 126.19 | \$ 123.15 | \$ 126.68 |
| Straight Time Wages per Hour | \$ 2.41 | \$ 2.25 | \$ 2.08 | \$ 2.03 | \$ 1.98 |
| Earnings per Employee per Year | \$ 5,462 | \$ 5,138 | \$ 4,712 | \$ 4,566 | \$ 4,428 |
| FINANCIAL STATISTICS | | | | | |
| Times Fixed Charges Earned | 4.27 | 5.00 | 4.95 | 4.14 | 4.71 |
| Per Cent Return on Property Investment | 3.52 | 4.33 | 4.38 | 3.57 | 4.10 |
| Per Cent Revenues | | | | | |
| Carried Through to Net Income | 9.68 | 11.49 | 12.00 | 10.17 | 11.17 |
| Taken by Transportation Expenses | 34.73 | 33.43 | 33.04 | 33.35 | 32.11 |
| Taken by All Operating Expenses | 77.05 | 74.64 | 72.80 | 75.37 | 72.71 |
| OPERATING STATISTICS | | | | | |
| Miles of Road Operated | 8,287 | 8,285 | 8,286 | 8,306 | 8,303 |
| Train Miles (Millions) | 19.41 | 20.81 | 21.28 | 20.27 | 21.59 |
| Locomotive Miles (Millions) | | | | | |
| Steam | .02 | 1.27 | 1.66 | 1.38 | 4.12 |
| Diesel and Electric | 25.01 | 25.82 | 26.01 | 24.91 | 23.76 |
| Car Miles (Millions) | 861.39 | 926.65 | 922.62 | 881.80 | 926.67 |
| Gross Ton Miles (Billions) | 48.37 | 51.99 | 51.74 | 48.50 | 51.75 |
| Revenue Net Ton Miles (Billions) | 17.67 | 19.44 | 19.06 | 17.26 | 18.59 |
| Passengers Carried One Mile (Millions) | 450.06 | 476.43 | 508.63 | 497.17 | 558.78 |
| Revenue per Net Ton Mile (Cents) | 1.39 | 1.29 | 1.24 | 1.28 | 1.27 |
| Revenue per Passenger Mile (Cents) | 2.34 | 2.23 | 2.15 | 2.21 | 2.24 |
| Train Load—Net Tons | 1,365.89 | 1,369.00 | 1,344.68 | 1,337.50 | 1,358.20 |
| Net Ton Miles per Freight Car Day | 1,135.75 | 1,227.93 | 1,238.63 | 1,049.99 | 1,172.25 |
| Net Ton Miles per Train Hour (Thousands) | 27.52 | 27.17 | 26.15 | 24.77 | 24.35 |



GREAT NORTHERN RAILWAY COMPANY
EXECUTIVE DEPARTMENT

J. M. BUDD
PRESIDENT

ST. PAUL 1, MINNESOTA

March 20, 1958

To our Shareholders:

The decrease in general business activity in 1957 adversely affected the earnings of most industries, including the railroads. On your Company's lines freight traffic early in the year moved freely at levels close to those of 1956. However, beginning about mid-August, traffic declined sharply, reflecting the nation-wide slowing of business activity, and at the same time increased wage and material costs were being encountered. Net income for 1957 declined to \$26.6 million from the record-breaking peak of \$32.2 million set in 1956. Per share earnings were \$4.38 for 1957 compared with \$5.32 in 1956 and dividends were paid at the rate of \$3.00 per share compared with \$2.63 in the previous year. Fixed charges were covered 4.3 times in 1957.

The attention of the public, including the Congress, has been focused on the present unsatisfactory railroad situation from the realization that a sound transportation system is the keystone of commerce, industry and national defense. Much has been done by the railroads to improve their own situation. Over \$13 billion have been spent for additions and betterments since the end of World War II. Unprofitable operations were abandoned, operating practices improved, expenses have been reduced and service upgraded. Earnings have not been satisfactory, however. There is a large area beyond self-help stemming directly from governmental transportation policies and practices. Extended hearings are being held by the Subcommittee on Surface Transportation of the Senate Interstate and Foreign Commerce Committee to develop possible improvements in transportation policies and practices and it is hoped that legislation may soon be passed to accomplish certain things:

1. Repeal the excise tax on freight and passenger charges. The effect of this tax is not only devastating on all for hire carriers by encouraging private transportation but also penalizes shippers whose products must move over longer distances than their competitors. It discriminates against small business concerns and favors imported goods.
2. Restore some order to the exemption from regulation of trucking agricultural products. The present exemption, expanded by court decisions to include processed and semi-processed commodities, leads to disorganized marketing without benefit to the farmers for whom it is intended. Conditions are so chaotic that many truckers are asking to be regulated.
3. Re-define the rules regarding exemptions for private trucking to eliminate pseudo-private carriers who are disrupting the transportation industry.
4. Obtain some relief from the present income tax rules regarding depreciation so that carriers having large investments in property can set aside sufficient funds to pay for replacements.

Other proposals being supported by the railroads are important. They are more controversial and may not be acted upon immediately. Included are such items as greater flexibility in making rates, freedom to engage in other types of transport, and federal regulation of passenger train abandonments. The government is considering seriously the assessment of proper charges for the use of government facilities.

The atmosphere for constructive legislation seems favorable. The Senate subcommittee is very sympathetic and the Interstate Commerce Commission and important segments of the trucking industry are supporting most of the more important proposals. The railroads are asking only for the opportunity to do business on the same terms as others. Shareholders are urged to support any favorable measures which may materialize from these hearings.

The joint study of economics of consolidation undertaken by Great Northern, Northern Pacific, Chicago, Burlington & Quincy and Spokane, Portland and Seattle Railway Companies was completed in December. Further consideration of corporate matters is underway. As soon as something definite develops, you will be advised by special report.

At the beginning of 1958 the outlook is somewhat uncertain. With the decline in general industrial activity, Great Northern's 1958 revenues probably will show some decrease below those for 1957. However, with the larger volume of grain and apples in storage at the beginning of this year, the increase in rates authorized by the Interstate Commerce Commission effective February 15, 1958, and the operating economies being continuously introduced, it is believed that Great Northern will end the year with substantial Net income and adequate working capital.


President

NET INCOME

The tempo of industrial activity throughout the nation decreased substantially during the last few months of 1957 and as a result many industries, including the railroads, reported diminished gross and net income.

The Great Northern was no exception. Net income of \$26.6 million for the year amounted to \$4.38 per share of stock outstanding compared with a net income of \$32.2 million, or \$5.32 per share for the record-breaking year of 1956. But for the continued expenditures which have been made on new property and equipment and the increased operating efficiencies resulting therefrom, the 1957 net income would have been still lower.

The Bureau of Internal Revenue permits a more favorable treatment of amortization and depreciation allowances in the income tax return than is permitted by the rules of the Interstate Commerce Commission under which the accounts of the Company must be kept. The net effect has been:

| | Defense Facilities Being Amortized | Facilities with Accelerated Depreciation |
|--|---|---|
| Amortization or depreciation shown on tax return - 1957 | \$9,260,000 | \$2,715,000 |
| Normal straight line depreciation required by I.C.C. accounting - 1957 | 2,345,000 | 1,790,000 |
| Excess - 1957 | 6,915,000 | 925,000 |
| Increase in reported Net income after taxes - | | |
| 1957 | 3,596,000 | 481,000 |
| Per share — 1957... | \$0.59 | \$0.08 |
| 1956... | .66 | .07 |
| 1955... | .62 | .04 |
| 1954... | .56 | .02 |
| 1953... | .45 | — |

The "Increase in reported Net income after taxes" shown in the first column above under "Defense Facilities Being Amortized" represents merely a deferment in the time for the payment of taxes and therefor is more in the nature of bookkeeping than real. To the extent that reported Net income is currently improved, it will be adversely affected, in later years, when deferred taxes become payable. The effect of this factor was less in 1957 than in 1956. This decline will continue and after 1962 there will be an excess of depreciation in the accounts on amortized property and the Net income will be reduced approximately 20 cents per share per year from 1963 to 1970.

The effect of the accelerated depreciation, which applies only on property acquired after 1953, will increase gradually if the Company elects to continue the use of this basis in its tax returns.

Great Northern's equity in the undistributed net income of the Chicago, Burlington & Quincy R.R. Co., Spokane, Portland and Seattle Ry. Co. and Western Fruit Express Co. for 1957 amounted to \$3,445,769, or \$.57 per share of Great Northern stock.

The dividend paid by your Company in 1957 was \$3.00 per share, which compares with \$2.625 for 1956, \$2.35 for 1955 and \$2.10 for 1954.

Operating revenues for 1957 of over \$275.4 million were \$5.2 million below those reported for 1956, but operating expenses for 1957 were \$2.8 million above 1956 as a result of the substantial increases in labor and material costs. Railway tax accruals in 1957 of \$33.4 million were \$2.5 million less than those for 1956 because of the smaller net income.

Fixed charges were earned 4.27 times in 1957 and 5.00 times in 1956. For the past 8 years Great Northern's fixed charges have been more than covered by amounts received as "Other Income".

| 1957 INCOME | | | 1957 OUTGO | | |
|-------------------|---------------|--------|-----------------------------------|---------------|--------|
| | | | | | |
| FREIGHT REVENUE | \$245,686,663 | 85.93% | WAGES | \$133,705,490 | 46.76% |
| PASSENGER REVENUE | \$10,524,453 | 3.68% | OTHER OPER. EXPS., RENTS, ETC. | \$84,022,210 | 29.39% |
| MAIL REVENUE | \$7,910,708 | 2.77% | TAXES | \$33,385,948 | 11.68% |
| EXPRESS REVENUE | \$1,657,327 | .58% | FIXED CHARGES | \$8,146,370 | 2.85% |
| OTHER REVENUE | \$9,597,867 | 3.36% | DIVIDENDS PAID | \$18,214,023 | 6.37% |
| OTHER INCOME | \$10,526,515 | 3.68% | FOR REINVESTMENT, ETC. | \$8,429,492 | 2.95% |

GREAT NORTHERN'S FINANCIAL POSITION AT END OF 1957

| QUICK ASSETS: | | 1957 | CURRENT LIABILITIES: | | 1957 |
|--|--|----------------------|---|----------------------|---------------|
| Cash and special deposits | | \$ 56,880,249 | Employees' pay checks outstanding | | \$ 7,945,983 |
| Due from agents, conductors and others.. | | 16,444,922 | Taxes not yet due | | 19,871,208 |
| Material and supplies on hand..... | | 33,996,508 | Bond interest due and paid January 1... | | 3,107,497 |
| Total quick assets, readily convertible | | | Other current liabilities..... | | 14,997,700 |
| into cash | | \$107,321,679 | Total current liabilities..... | | \$ 45,922,388 |
| | | <u>45,922,388</u> | | | |
| | | <u>61,399,291</u> | | | |
| "WORKING CAPITAL": | | | | | |
| The excess of quick assets over current liabilities..... | | | 1957 | 1956 | |
| | | | <u>\$ 61,399,291</u> | <u>\$ 67,245,839</u> | |
| GREAT NORTHERN'S INVESTMENTS: | | | | | |
| Road, equipment and other property, less depreciation | | \$ 656,138,581 | | | |
| 48.59% of Chicago, Burlington & Quincy R.R. Co. stock..... | | 109,245,456 | | | |
| 50% of Spokane, Portland and Seattle Ry. Co. stock and bonds.. | | 41,248,500 | | | |
| Special funds | | 9,134,274 | | | |
| Other stocks, bonds, etc..... | | 16,719,250 | | | |
| Deferred and unadjusted items..... | | 10,172,374 | | | |
| Total investments..... | | <u>\$842,658,435</u> | | <u>\$824,606,278</u> | |
| GREAT NORTHERN'S LONG TERM OBLIGATIONS: | | | | | |
| To investors for bonds and notes outstanding..... | | \$ 266,414,477 | | | |
| To all others..... | | 13,139,634 | | | |
| Total owed in addition to current liabilities..... | | <u>\$279,554,111</u> | | <u>\$276,171,554</u> | |
| NET WORTH: | | | | | |
| "Working Capital" plus "Investments" minus | | | | | |
| "Other Obligations" | | <u>\$624,503,615</u> | | <u>\$615,680,563</u> | |
| CAPITAL STOCK | | <u>\$268,103,686</u> | | <u>\$267,088,675</u> | |
| RETAINED EARNINGS: | | | | | |
| "Net Worth" minus "Capital Stock"— | | | | | |
| largely invested in the property | | <u>\$356,399,929</u> | | <u>\$348,591,888</u> | |

FINANCIAL POSITION AT END OF YEAR

Cash, including temporary cash investments, was \$56.9 million at the end of 1957; current assets, including these cash items, were \$107.3 million, and current liabilities amounted to \$45.9 million. Working capital, the excess of current assets over current liabilities, totaled \$61.4 million, which compares with \$67.2 million at the end of 1956.

OPERATING REVENUES

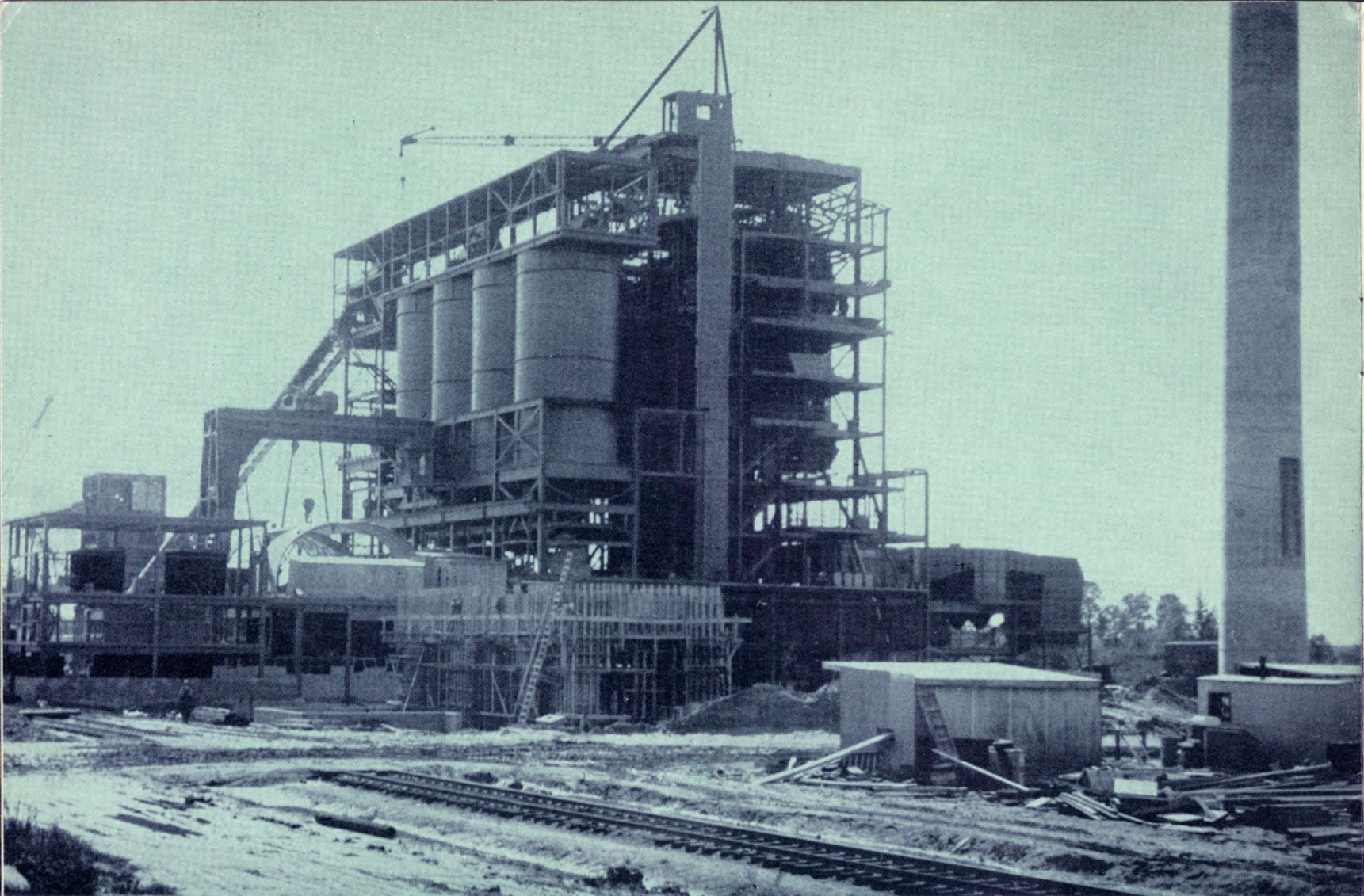
Beginning about the middle of August there was a decline in business activity and the movement of iron ore, lumber and general commodities was substantially lower than for the same period of 1956. The falling off in

volume of grain during this period was particularly disappointing in view of the excellent 1957 crop.

Important revenue sources were:

| Source of Revenue | Operating Revenues (Millions) | |
|----------------------------------|----------------------------------|--------------|
| | 1957 | 1956 |
| Iron ore | \$ 31.4 | \$ 31.5 |
| All other freight | 218.7 | 223.8 |
| Passenger | 10.5 | 10.6 |
| Mail | 7.9 | 7.4 |
| Express | 1.7 | 2.1 |
| All other operating revenue | 5.2 | 5.1 |
| Total | <u>275.4</u> | <u>280.5</u> |

Revenue from iron ore was 11.4% of all revenues in 1957 and 11.2% in 1956.



LARGE COAL-BURNING POWER PLANT
AT COHASSET, MINN., SERVED BY GREAT NORTHERN, WILL GO IN SERVICE IN 1958.

1. FREIGHT SERVICE

As measured by revenue ton miles of 17.7 billion in 1957, the total for the year compares favorably with the average of twelve postwar years of 17.2 billion net ton miles.

The movement of freight traffic in 1957 was irregular. The year started out well with almost all commodities moving freely. By the end of the first seven months revenues were nearly \$6.0 million above 1956. However, in the latter months of the year, the movement of almost all commodities was seriously restricted by the downturn in business conditions and the accompanying tendency of industries to work down inventories of materials.

During the year an important freight rate change was authorized. Effective August 26, 1957, the Interstate Commerce Commission approved an increase of approximately 7% to partly offset the higher wage and material prices which the railroad, in common with most industries, had to pay. However, there

were specific limitations on rates for grain, lumber, coal, livestock, fresh fruits, etc., which affected the increase on many of the most important commodities in Great Northern territory so that the effective rate of increase was about 4.9%, or \$11 million for a full year. Long haul traffic from the west requires higher transportation charges than are paid for shorter hauls from other originating points to consuming centers in the east. Applying the same percentage increase would hurt western producers competitively and therefore the western railroads must be content with smaller percentage increases than those permitted railroads in other areas.

The danger of diversion of traffic to trucks as a result of general rate increases is recognized. The rate structure is continually under study and rate reductions are made to help particular commodity movements whenever required in order to maintain traffic or to assist producers on our line in maintaining their market position when threatened by adverse influences.

The average revenue per net ton mile handled in 1957 was 1.390 cents compared with 1.290 cents in 1956. This was the highest ever recorded.

The supply of freight cars was good throughout 1957 and the seasonal peak movements of grain, livestock, fruit and potatoes were handled without difficulty and with satisfaction to our shippers.

Revenue by important commodities included:

| Commodity | Operating Revenues (Millions) | |
|------------------------------------|----------------------------------|--------|
| | 1957 | 1956 |
| Grain and grain products..... | \$65.3 | \$68.0 |
| Lumber and wood products..... | 36.1 | 37.8 |
| Iron ore, including dock handling. | 31.4 | 31.5 |
| Aluminum ore and products..... | 9.5 | 9.3 |
| Iron and steel products..... | 7.9 | 8.0 |
| Petroleum products..... | 7.7 | 7.6 |
| Crude petroleum and asphalt.... | 2.6 | 2.7 |
| Forwarder traffic and L. C. L..... | 11.4 | 11.4 |

Over 275 million bushels of grain were handled on line during 1957, second only to the record-breaking 286 million bushels which were moved in 1956. Grain movement to market and for export during the first half of the year continued at the high level of 1956 and released considerable storage space, particularly on the farms. Beginning in September, many farmers used this space to hold back a part of their crop and loadings declined sharply during the latter part of the year. Prospects for movement in 1958 are good as there were estimated to be 223 million bushels in storage in country elevators and on farms on January 1, 1958 in states served by the Great Northern as compared with 203 million bushels a year earlier.

Although the overall decline in business activity reduced total revenues, increases were reported for some important commodities. The tabulation of "Freight Revenue by Commodity Groups" for 1955, 1956 and 1957 on Page 8 shows the diversification of your Company's revenues. The volume of crop movement tends to be independent of and offsets temporary setbacks due to cycles of industrial activity. On the other hand, a step-up in industrial activity in the nation will be quickly reflected in higher Great Northern revenue from iron ore and manufactured products.

2. PASSENGER SERVICE

Passenger revenues were maintained at the steady level of recent years, amounting to \$10.5 million as compared with \$10.6 million in 1956 and \$10.9 million in 1955. Rates were increased 5% on January 1, 1957. In the latter part of the year the effect of reduced business activity began to be felt. Also, during December, weather conditions were so mild that many persons who normally travel by train during severe weather used their private automobiles.

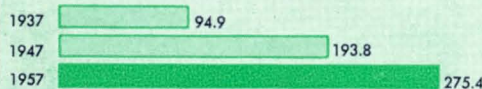
Every effort is being made to reduce passenger costs while still maintaining the best possible service on those trains which the public supports. Reduction of unprofitable passenger train operation continued in 1957. Beginning in the Fall of 1957 the Western Star and Fast Mail trains were consolidated west of Minot, N. D. during the off-peak months. **Altogether, on an annual basis, passenger train miles in 1957 were reduced 170,000 below the 1956 level without materially affecting service to the public.**

FINANCIAL RESULTS

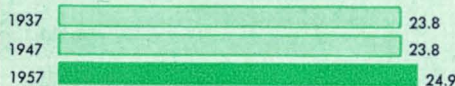
1937-1947-1957

MILLIONS OF DOLLARS

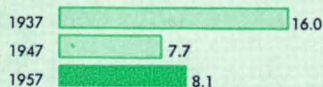
OPERATING REVENUE



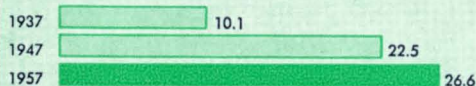
NET RAILWAY OPER. INCOME



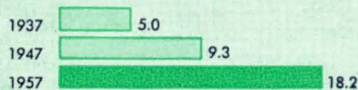
FIXED CHARGES



NET INCOME

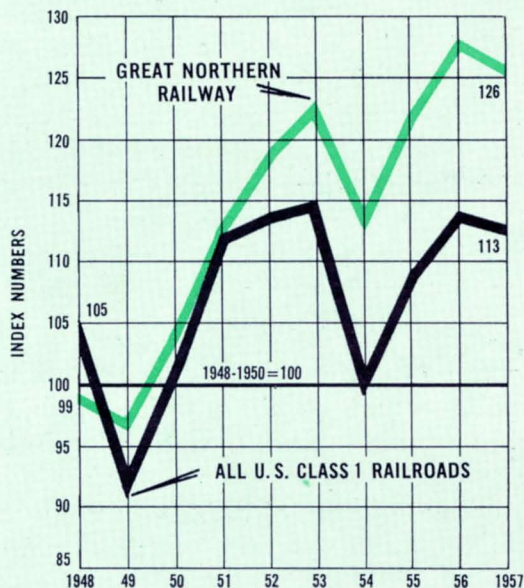


DIVIDENDS PAID



GROSS REVENUE

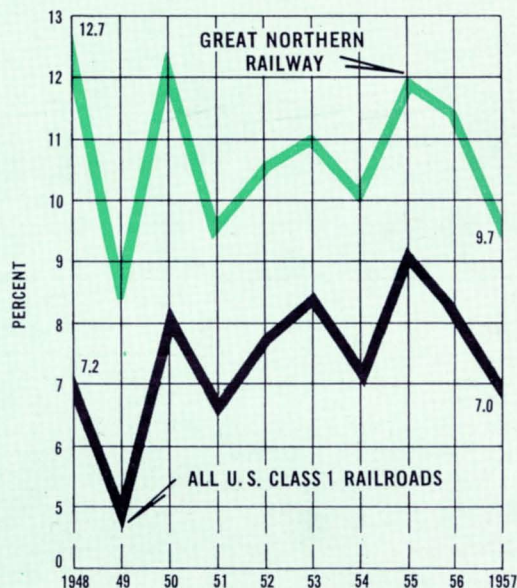
1948-1957



HAD THE GREAT NORTHERN'S INCREASE IN 1957 FROM THE 1948-1950 PERIOD BEEN THE SAME AS FOR ALL CLASS 1 RAILROADS ITS GROSS REVENUES FOR 1957 WOULD HAVE BEEN \$248,201,489 INSTEAD OF ITS ACTUAL GROSS REVENUE OF \$275,377,018.

NET INCOME

PERCENT OF GROSS REVENUE CARRIED TO NET INCOME



HAD GREAT NORTHERN CARRIED THE SAME PERCENTAGE OF GROSS REVENUES TO NET INCOME AS FOR ALL CLASS 1 RAILROADS ITS NET INCOME FOR 1957 WOULD HAVE BEEN \$19,193,569 INSTEAD OF THE ACTUAL NET INCOME OF \$26,643,515.

3. MAIL AND EXPRESS

Mail revenue for 1957 of \$7.9 million compares with \$7.4 million in 1956. A part of this increase is due to the larger volume of mail transported and part to an increase of 7½% in mail pay which was negotiated between the Post Office Department and the Western railways and approved by the Interstate Commerce Commission, effective July 1, 1957.

Express revenues were down from \$2.1 million in 1956 to \$1.7 million in 1957. Most of this decrease was due to a long strike of a group of employees of the Railway Express Agency, represented by the Teamster's Union, which affected several major terminals and in turn reduced the volume of interline express traffic handled by the Great Northern and connecting roads.

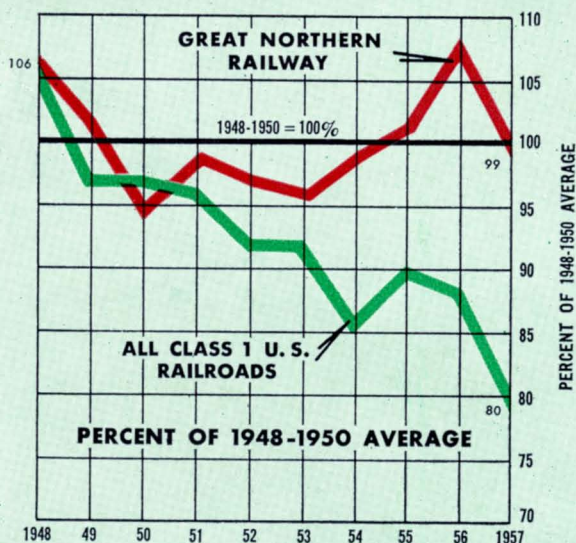
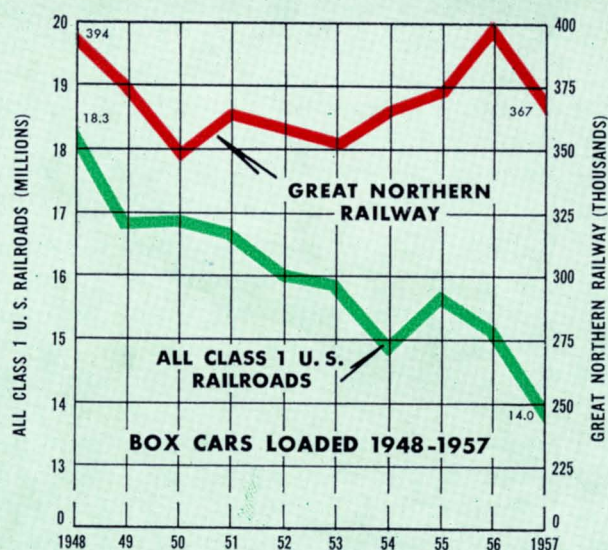
FREIGHT REVENUE BY COMMODITY GROUPS 1957, 1956, 1955

| COMMODITY | 1957 | | 1956 | | 1955 | |
|------------------------------------|---------------|------------------|---------------|------------------|---------------|------------------|
| | REVENUE | PERCENT OF TOTAL | REVENUE | PERCENT OF TOTAL | REVENUE | PERCENT OF TOTAL |
| PRODUCTS OF AGRICULTURE..... | \$ 76,343,224 | 31.1 | \$ 78,953,184 | 31.5 | \$ 66,964,296 | 28.4 |
| ANIMALS AND PRODUCTS..... | 4,751,741 | 1.9 | 5,027,477 | 2.0 | 4,746,185 | 2.0 |
| PRODUCTS OF MINES..... | 47,067,718 | 19.1 | 47,868,904 | 19.1 | 49,173,358 | 20.8 |
| PRODUCTS OF FORESTS..... | 34,427,059 | 14.0 | 36,051,652 | 14.4 | 35,191,229 | 14.9 |
| MANUFACTURES AND MISCELLANEOUS | 77,544,904 | 31.6 | 77,416,228 | 30.8 | 74,268,222 | 31.4 |
| MERCHANDISE—ALL L. C. L. FREIGHT.. | 5,552,017 | 2.3 | 5,567,560 | 2.2 | 5,892,918 | 2.5 |
| TOTAL | \$245,686,663 | 100.0 | \$250,885,005 | 100.0 | \$236,236,208 | 100.0 |



NEW LUMBER MILL IN NORTHERN CALIFORNIA FURNISHES LONG HAUL TRAFFIC TO GREAT NORTHERN.

BOX CARS LOADED 1948-1957



VOLUME OF TRAFFIC AND OPERATING AVERAGES

| ITEM | 1957 | 1956 | 1955 | 1954 | 1953 |
|--|------------|------------|------------|------------|------------|
| REVENUE NET TON MILES (1000's)..... | 17,677,654 | 19,443,847 | 19,056,847 | 17,255,531 | 18,586,111 |
| PASSENGERS CARRIED ONE MILE (1000's)..... | 450,061 | 476,432 | 508,634 | 497,173 | 558,784 |
| TRAIN LOAD—NET TONS ALL FREIGHT..... | 1,429 | 1,436 | 1,406 | 1,397 | 1,440 |
| ROAD LOCOMOTIVE MILES PER LOCOMOTIVE DAY.. | 153.3 | 150.6 | 139.0 | 113.3 | 114.8 |
| FREIGHT CAR MILES PER CAR DAY..... | 48.4 | 51.4 | 52.4 | 46.5 | 50.0 |
| NET TON MILES PER FREIGHT CAR DAY..... | 1,136 | 1,228 | 1,239 | 1,050 | 1,172 |
| REVENUE PER NET TON MILE (cents)..... | 1.390 | 1.290 | 1.240 | 1.279 | 1.269 |
| REVENUE PER PASSENGER MILE (cents)..... | 2.338 | 2.233 | 2.151 | 2.207 | 2.238 |
| NET TON MILES PER TRAIN HOUR..... | 27,525 | 27,171 | 26,147 | 24,766 | 24,349 |

OPERATING EXPENSES

During 1957 operating expenses amounted to \$212.2 million, up \$2.8 million from 1956. The increase in expenses was largely the result of the higher wage rates effective November 1, 1956, May 1, 1957 and November 1, 1957 in accordance with the terms of the nationwide 3-year agreement signed in 1956.

In addition the price level of almost all materials used by the railroad has continued its gradual rise.

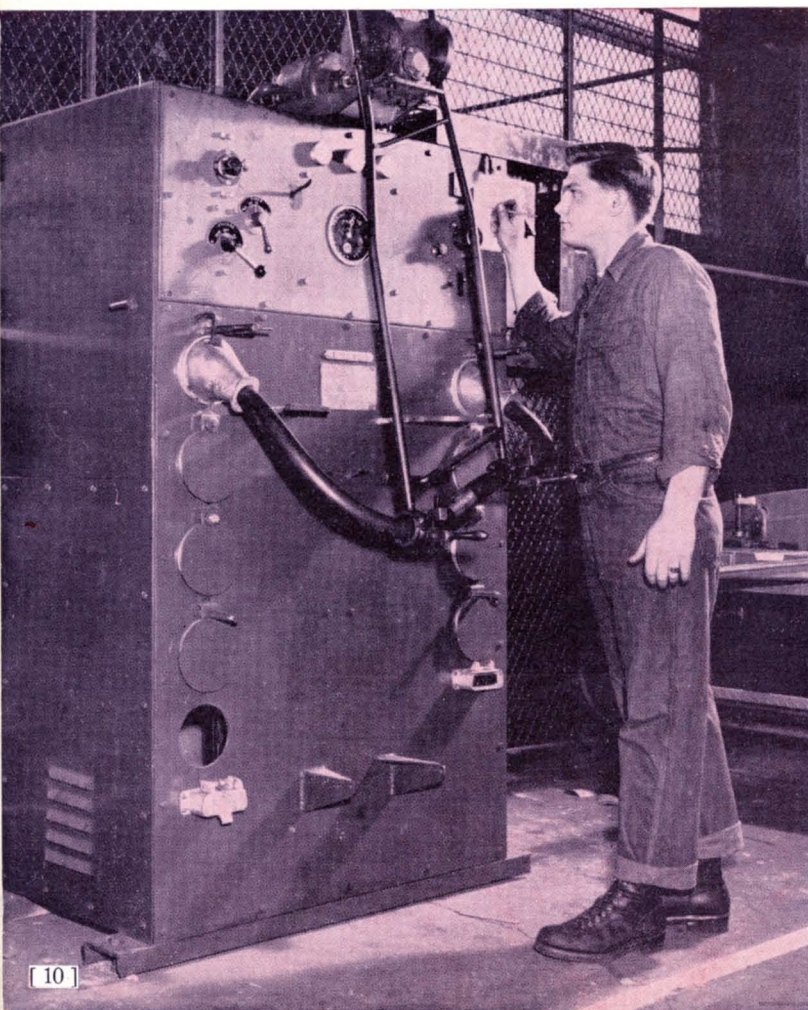
Strenuous efforts have been made to reduce expenses. Some of the measures taken do not produce immediate savings due to the time required for introduction of new labor saving equipment and for rearrangement of work. However, these savings, whose benefit was not fully obtained during the year, will have continuing effect in future years. Of particular importance in this respect are the savings as a result of completion of dieselization. This permitted closing of all steam facilities which had been held for standby use on the eastern part of the system.

Expenses for Maintenance of way increased only slightly from \$50.2 million in 1956 to \$50.9 million in 1957.

The long-range program begun after World War II for improving the Company's property was continued and the results of this improvement work are beginning to be apparent as many of the major projects, such as rock ballasting and replacement with heavier rail on the main lines, are nearing completion. Mechanization of track work continued.

During 1957 your property was well maintained. On 126 miles of track 25,500 tons of new rail were laid of which over half was continuous welded. Great Northern now has 123 miles of track on which the joints are welded for greater maintenance economy. A total of 162 miles of branch lines were upgraded by replacing lighter rail with heavier second-hand rail. Over 675,000 new creosote-treated cross ties were installed, 400,000

ELECTRICIAN TESTING LOCOMOTIVE JUMPER CABLES.



cubic yards of crushed rock or stone ballast was used on main lines and 170,000 cubic yards of gravel on secondary and branch lines.

Maintenance of Equipment expenditures were reduced \$1.2 million from \$48.3 million in 1956 to \$47.1 million in 1957. Unserviceable freight cars averaged only 3.2% in 1957 compared with the national average of 4.6%.

Transportation expenses, the largest single group of expenses, include not only the cost of moving freight, passengers, etc., in trains, but also the cost of operating yards and stations. In 1956 Transportation expenses were \$93.8 million. They increased 2% to \$95.6 million in 1957, due almost entirely to higher wage rates and material costs. The year 1957 was one of perfecting new operating methods as a result of the completion of major projects in the preceding year such as the new electronic classification yard at Minot, N. D., the removal of electrification between Wenatchee, Wash. and Skykomish, Wash., and the installation of 151 miles of centralized traffic control in Minnesota and North Dakota.

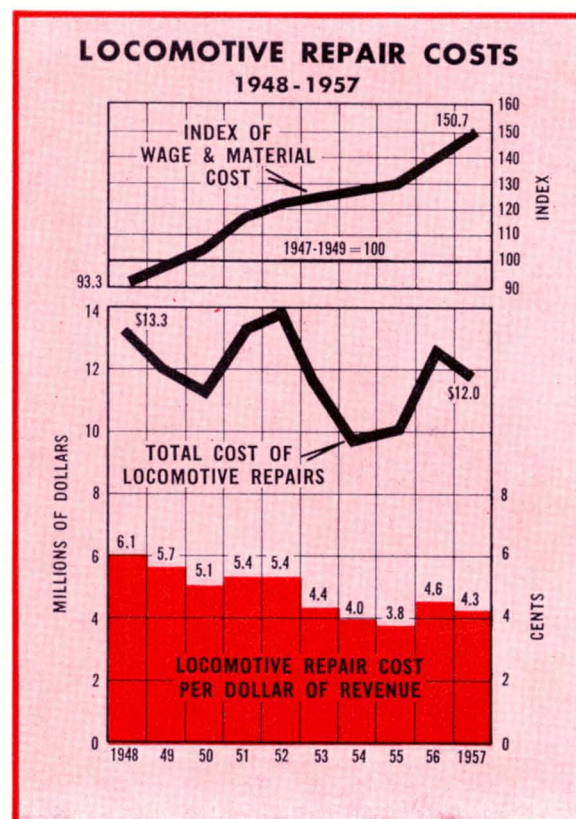
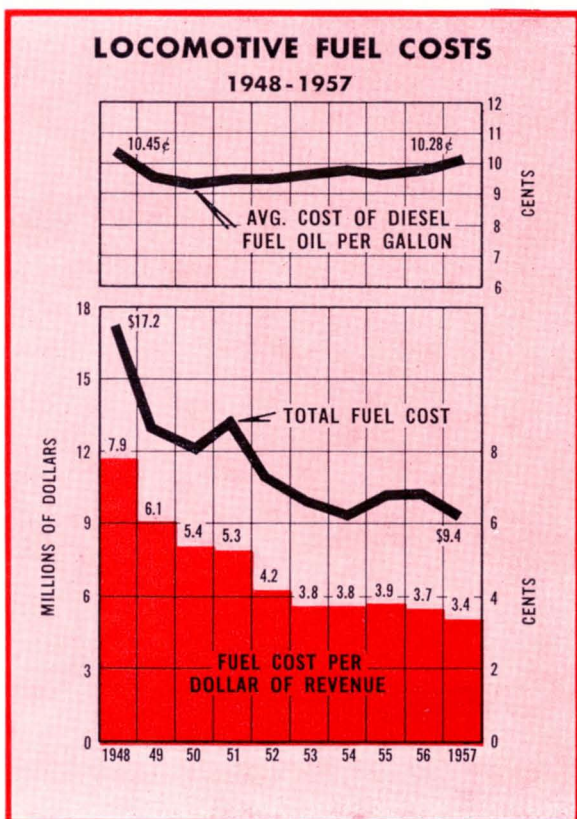
The Great Northern normally pays out more than it receives for freight car equipment rentals including mileage payments for the use of refrigerator cars. In 1957 this item of expense amounted to \$4.2 million. However, this was

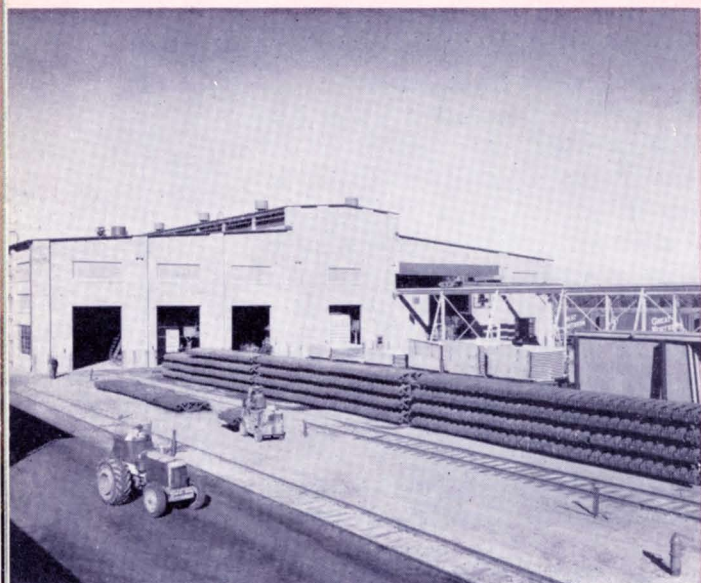
more than offset by the \$5.7 million car mileage revenues of the refrigerator cars of the wholly owned Western Fruit Express Co.

Operating and maintenance ratios showed a somewhat unfavorable trend, primarily due to the lag between the time higher wage rates were effective and the later date when the Interstate Commerce Commission made increased rates effective. There was no compensating freight rate increase for the higher wage rates in effect during November and December, 1957.

As a result of the minimum service which must be maintained on a large part of the system and the decrease of over 9% in freight traffic volume, many of the operating statistics are not as favorable in 1957 as they were in 1956 as indicated in the tabulation on page 10.

However, one of the common yardsticks, gross ton miles per freight train hour, which is a measure of the efficiency obtained by running heavier trains at higher speeds, was at an all-time high of 56,909 in 1957 compared with 55,541 in 1956. The improvement in recent years has been gradual but steady, being 41% higher in 1957 than the 40,321 reported in 1946. Freight train speeds have also been increasing and are now up 25% since 1946.





Material Assembled at Steel Shop

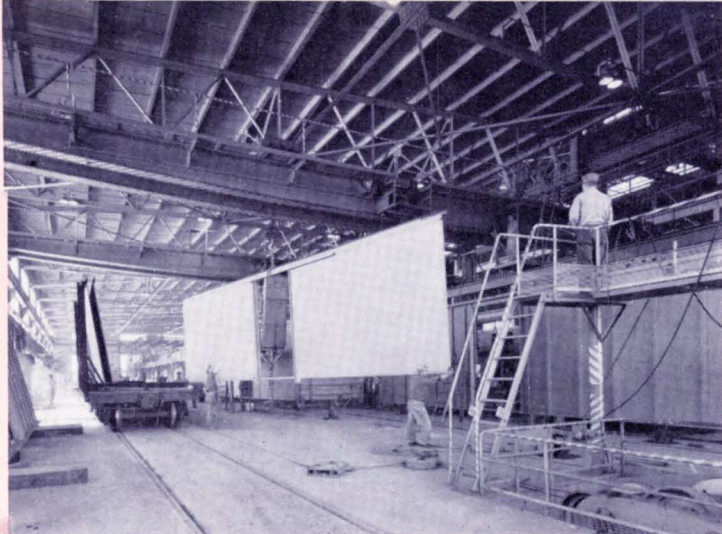


Welding Under Frames

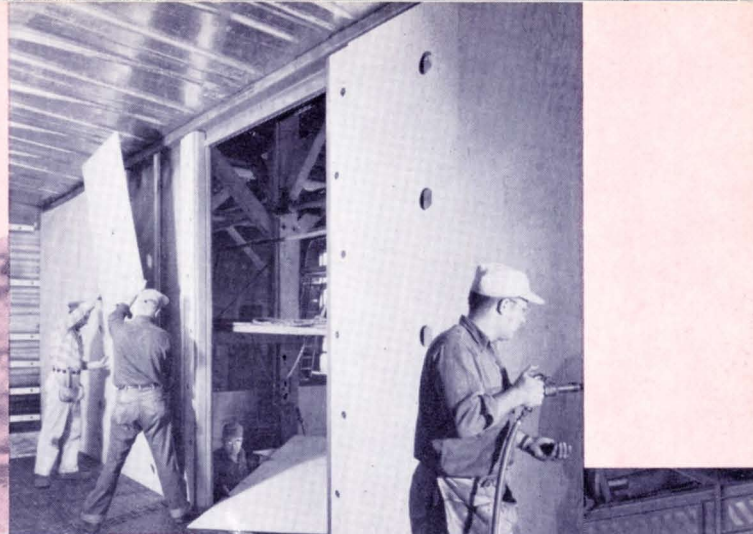


FREIGHT CAR CO

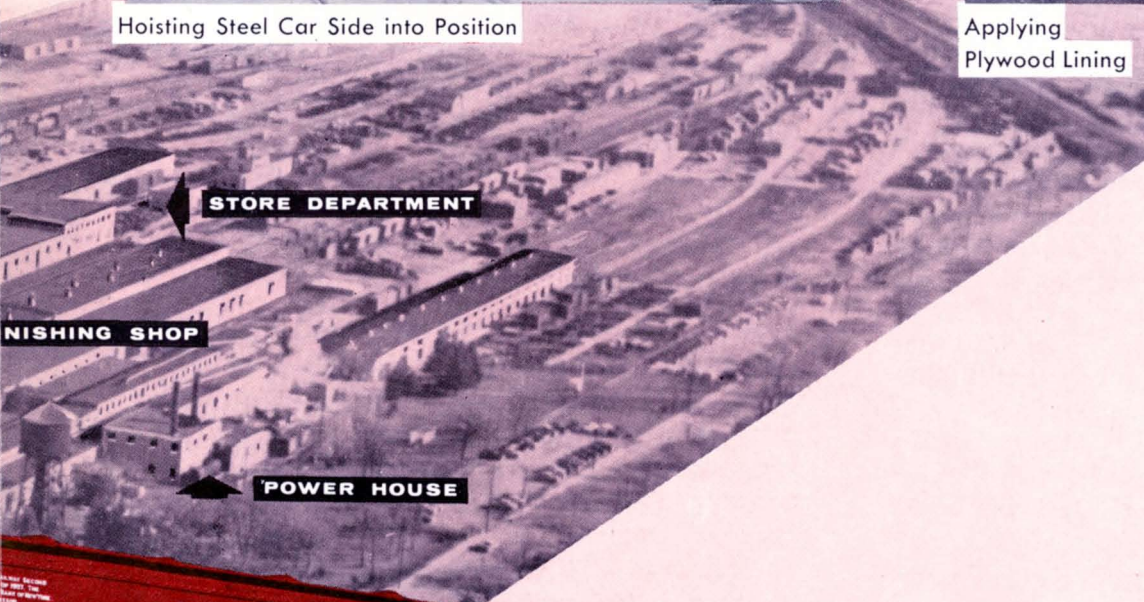




Hoisting Steel Car Side into Position



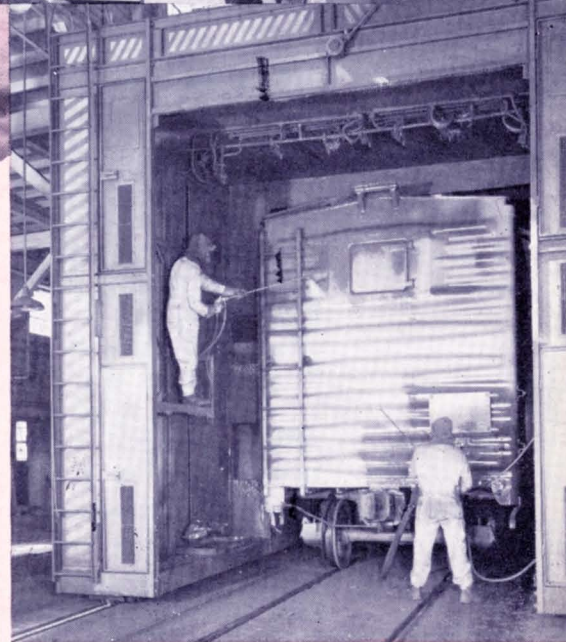
Applying
Plywood Lining



STORE DEPARTMENT

FINISHING SHOP

POWER HOUSE



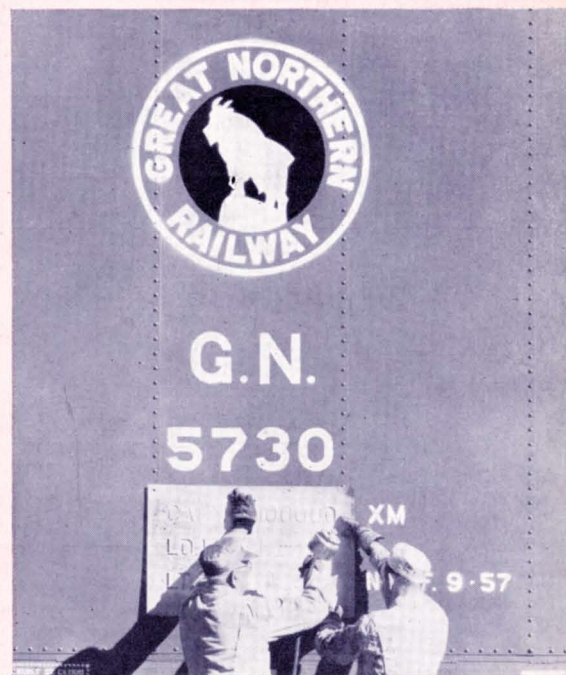
Painting Car in Traveling Booth



Completed Box Car Ready for Service.

CONSTRUCTION SHOPS AT ST. CLOUD, MINNESOTA

1191 BOX CARS BUILT IN 1957



Stencilling Loading Capacity



Box Cars Leaving St. Cloud Shops for High Grade Revenue Loading



NEW SUBURBAN SEATTLE DEPOT AT EDMONDS, WASH., OPENED IN 1957.

LABOR MATTERS

The 3-year agreements negotiated on a national basis with all the various unions, effective November 1, 1956, provided for increases in basic pay for all employees covered by union contracts of 7¢ per hour on November 1, 1957. In addition, under the cost-of-living adjustment included in the national agreements an increase of 3¢ per hour was paid to practically all employees commencing May 1, 1957 and an additional 5¢ per hour, effective November 1, 1957. The total cost of these increases is approximately \$9 million for a full year.

To expedite the settling of grievances and time claims, Great Northern agreed with two labor organizations for the establishment of Special Boards to convene locally and render prompt settlement of these disputes. This procedure is provided under the Railway

Labor Act as an alternative to handling through the National Adjustment Boards which have accumulated a backlog of from two to four years work.

FRINGE BENEFITS

In common with almost all industries the railroads have been increasing steadily their payments for pensions, unemployment insurance, health and welfare insurance and other fringe benefits. The trend of these in recent years is tabulated below. The 1957 fringe benefits amounted to over \$21.0 million, equivalent to 42¢ per hour. The unemployment and retirement benefits for railroad employees fixed by laws passed by Congress are on a much higher scale than are paid under the Social Security System to employees of all other transportation forms.

FRINGE BENEFITS ARE INCREASING

| Year | Railroad Retirement and Pensions | Vacation, Sick Leave and Holidays | Unemployment Insurance | Health, Welfare and Group Insurance Premiums | Total Fringe Benefits |
|------|----------------------------------|-----------------------------------|------------------------|--|-----------------------|
| 1948 | \$5,263,249 | \$3,366,903 | \$ 441,096 | \$ 85,093 | \$ 9,156,341 |
| 1949 | 5,566,133 | 3,713,670 | 406,691 | 78,526 | 9,765,020 |
| 1950 | 5,684,130 | 3,786,002 | 466,288 | 232,657 | 10,169,077 |
| 1951 | 8,810,557 | 4,205,857 | 513,714 | 250,301 | 13,780,429 |
| 1952 | 7,196,311 | 4,590,905 | 512,071 | 310,038 | 12,609,325 |
| 1953 | 7,741,239 | 4,697,225 | 512,789 | 327,746 | 13,278,999 |
| 1954 | 7,696,949 | 6,703,932 | 508,813 | 321,248 | 15,230,942 |
| 1955 | 10,137,985 | 6,881,715 | 576,650 | 869,096 | 18,465,446 |
| 1956 | 8,499,933 | 7,721,008 | 1,673,689 | 1,643,504 | 19,538,134 |
| 1957 | 8,736,496 | 8,014,318 | 2,169,382 | 2,330,933 | 21,251,129 |

| Year | Payrolls* | Hours Worked | Average Wages per Hour Worked* | Average Fringe Benefits per Hour Worked | Total Cost per Hour Worked | Percent Fringe Benefits of Payroll |
|------|---------------|--------------|--------------------------------|---|----------------------------|------------------------------------|
| 1948 | \$100,668,603 | 69,986,723 | \$1.44 | \$.13 | \$1.57 | 9.1 |
| 1949 | 100,156,373 | 64,428,194 | 1.55 | .15 | 1.70 | 9.7 |
| 1950 | 102,282,172 | 59,698,231 | 1.71 | .17 | 1.88 | 9.9 |
| 1951 | 119,035,664 | 62,634,704 | 1.90 | .22 | 2.12 | 11.6 |
| 1952 | 121,209,862 | 60,898,078 | 1.99 | .21 | 2.20 | 10.4 |
| 1953 | 121,758,188 | 59,486,324 | 2.05 | .22 | 2.27 | 10.9 |
| 1954 | 116,393,348 | 55,396,134 | 2.10 | .27 | 2.37 | 13.1 |
| 1955 | 119,203,605 | 55,164,990 | 2.16 | .33 | 2.49 | 15.5 |
| 1956 | 127,701,053 | 54,508,903 | 2.34 | .36 | 2.70 | 15.3 |
| 1957 | 128,022,653 | 51,091,900 | 2.51 | .42 | 2.93 | 16.6 |

*Excludes pay for vacation, sick leave and holidays.

SAFETY RECORD

The year 1957 produced an outstanding safety record. No passenger was either killed or injured in a train accident on any Great Northern train. This means that of the 1.3 million passengers who traveled an average distance of 350 miles each for a total of over 450 million passenger miles, not one suffered any injury in an accident involving the train on which he was riding.

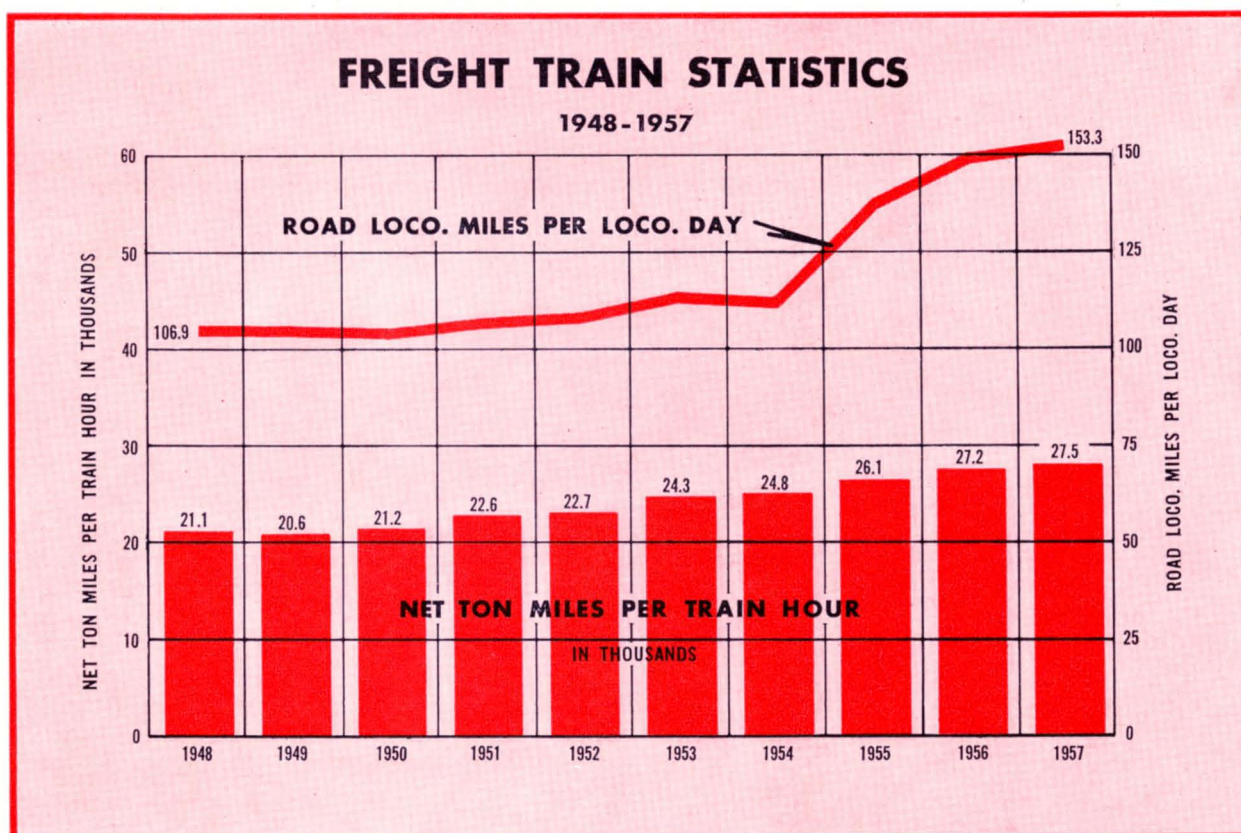
The employe safety record was equally satisfactory. For every million man-hours worked only 2.11 injuries occurred which were serious enough to be reported to the Interstate Commerce Commission. This was the lowest accident rate in the history of the railroad.

This record has been the result of careful training and a desire on the part of all employes to do their work safely built up over a period of years. In the last seven years the Great Northern has received ten national safety awards, the most recent ones being the National Safety Council Award of Merit and the E. H. Harriman Certificate of Commendation received in 1957.

TAXES

Tax accruals for 1957 were \$33.4 million and for 1956 they were \$35.9 million. The decrease for 1957 was due to lower Federal income taxes on the reduced net income. Unfortunately, although net income was declining, the benefit of the reduced income taxes was partly absorbed by increased payroll taxes and state and local taxes.

Unemployment insurance taxes on payrolls have increased sharply in recent years. They are paid by the railroads into an insurance fund administered by the Railroad Retirement Board and for a number of years were at the rate of $\frac{1}{2}$ of 1% on the first \$300 per month of wages paid each employe. By law the rate is automatically increased whenever the reserve falls below specified levels. Accordingly, the rate was increased to $1\frac{1}{2}\%$ in 1956, 2% in 1957 and in 1958 it will be $2\frac{1}{2}\%$. As a result of the increase in rates the total Railroad Retirement tax for unemployment insurance and retirement benefits of \$8.9 million in 1957 was \$375 thousand higher than in 1956 notwithstanding the decrease in employment.



FUNDED DEBT

At the end of 1957 funded debt was \$266.4 million compared with \$265.2 million at the end of 1956, an increase of \$1.2 million.

| As of Dec. 31 | General Mortgage Gold Bonds (Millions) | Equipment Obligations (Millions) | Total Long Term Debt (Millions) |
|------------------|---|--|--|
| 1957.... | \$200.5 | \$65.3 | \$266.4 |
| 1956.... | 201.7 | 62.8 | 265.2 |
| 1955.... | 203.7 | 62.8 | 267.3 |
| 1954.... | 203.7 | 69.6 | 274.4 |
| 1953.... | 203.7 | 63.2 | 268.1 |

The decrease in General Mortgage Bonds resulted from a continuation of the policy of purchasing bonds of the issue due January 1, 1961, which is the next issue of mortgage bonds maturing. A total of \$1,156,000 par value was purchased during the year at a substantial discount.

During the year two equipment trusts were issued, one of \$4.14 million in April, at a cost to maturity of 3.83% and the second of \$4.95 million in August at 4.37%.

Included in Maintenance expenses were depreciation charges of \$13.3 million in 1957 compared with \$12.7 million in 1956. These depreciation charges provide sufficient cash to take care of the annual principal payments on equipment trusts by which much of the

postwar purchases of equipment were financed and down payments required on trusts currently issued for acquisition of additional equipment.

PROPERTY INVESTMENT

In 1957 cash expenditures for improvements amounted to \$35.1 million, of which \$10.6 million was for roadway and structures and \$24.5 million for equipment. There was an unusually large carryover into 1957 of equipment ordered in 1956 whose delivery was delayed due to steel shortage. Cash expenditures in 1956 amounted to \$22.9 million and the 5-year average 1953-1957 was \$26.7 million.

Property improvements are carefully budgeted in detail for a year in advance and follow long-range plans which are reviewed from time to time. Some expenditures for facilities are required by new or expanded business enterprises. Other projects improve the fixed property and permit more efficient use of the railroad plant. Careful selection is exercised to insure that only the most productive work of this kind is undertaken. In a third category is the replacement of worn-out or obsolete rolling stock with new and improved equipment, a program which must be on a regular basis although the need varies somewhat with changes in the volume of business.

NEW LINE ALONG PUGET SOUND AVOIDS REMOVING EARTH SLIDES.



1. FIXED PROPERTY IMPROVEMENTS

Important improvements to fixed property in 1957 included a 1½ mile line change between Seattle and Everett, Washington where the railroad is located along Puget Sound at the foot of a high bluff. The soil in the bluff is unstable and during rainy weather in the winter months frequent slides blocked the main line tracks and resulted in heavy expense for removal of dirt and trees. A new line, built on a heavy rock fill, was constructed an average of over 100 feet offshore in shallow water of Puget Sound. The line was placed in service November 27 and already has proved its value as there have been no interruptions to traffic although the old roadbed has been covered in several places.

Line changes at other points on the main line at Epping, N. D., Nashua, Mont., Skykomish and Mukilteo, Wash., and between Hidden Lake and Red Eagle, Mont., improved curvature. These changes will result in lower cost for future maintenance and permit higher speeds.

An important track extension was construction of a 16½ mile branch line serving a major new jet air base being constructed for the Air Force near Minot, N. D. Direct delivery of material to the base enabled the railroad to

participate in a large movement of construction material, which will continue for several years, and it is expected that there will be a continuing movement of fuel and other maintenance and operating material after the base is in service.

Centralized traffic control was installed on a busy line between Brownsville, and Endot, B. C. near Vancouver. This track is used jointly with the Canadian National Railways and the improvement, besides contributing to safety and more flexible operation, also provides substantial operating economies.

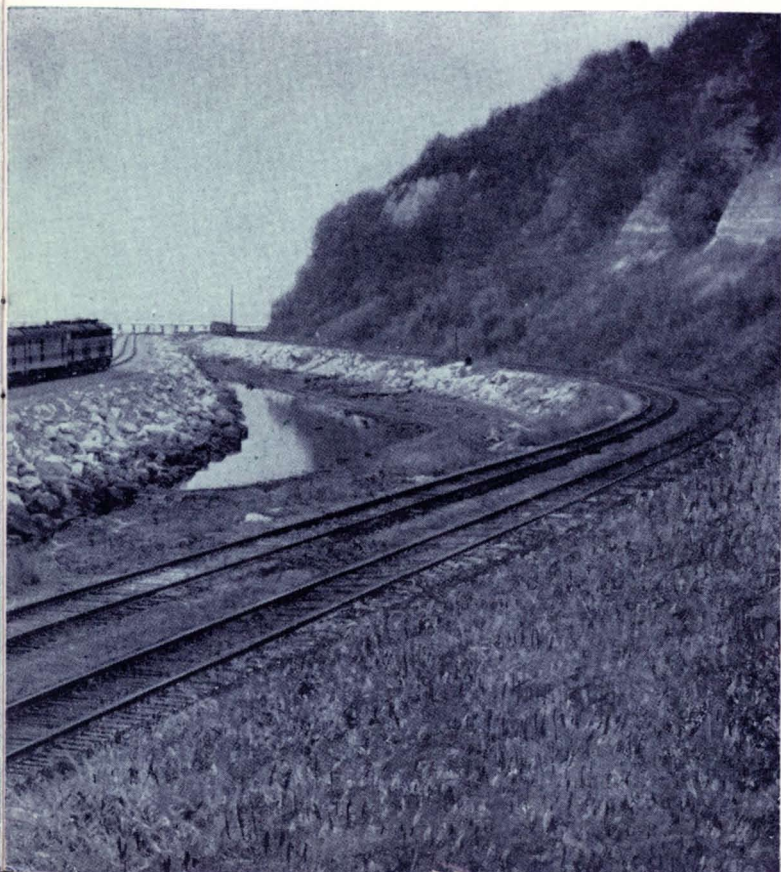
A new station at New Westminster, B. C. was completed during the year, replacing outmoded facilities in this growing area. At Edmonds, Wash., the remodeled passenger station which was placed in service in January, 1957, has proved to be a great convenience to passengers who live in the adjacent residential area north of Seattle. This improved service has been well received by the public.

At St. Paul, Minn. and Havre, Mont., shelter sheds were built over car repair tracks permitting the performance of work under cover formerly done in the open. The increase in efficiency and speeding up of car repairs during severe weather is particularly noteworthy.

At South Klamath Falls, Ore. a new yard office with complete communication equipment was placed in service, replacing facilities which have become inadequate for the continued growth of traffic between California and the north Pacific Coast.

On the Mesabi Range expansion of mining operations at two of the larger properties has required a complete revamping of trackage serving the plants at which iron ore is beneficiated before shipment to the docks at Allouez, Wis. The changes insure operation of the properties for many years to come.

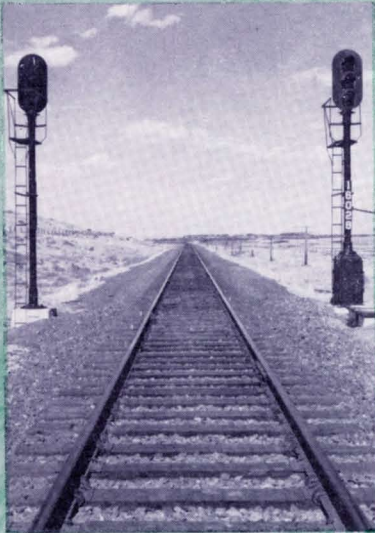
During the year two short branch lines, aggregating 25 miles, between Evansville and Elbow Lake, Minn. and between Kalispell and Kila, Mont., were abandoned. Both of these lines served areas which produced very little traffic and in recent years had become so unprofitable that abandonment became necessary.



This is your
GREAT NORTHERN
 RAILWAY COMPANY



38,158 shareholder owners



11,135 miles of track



50,618 units of rolling stock



24,968 employees



\$643 million invested in transportation property

GREAT NORTHERN'S AVERAGE DAY IN 1957

freight
 equipment
 moved
 2,131,963
 car miles
 per day

passenger train
 equipment
 moved
 195,792 car
 miles per day



2. NEW EQUIPMENT

The 1957 equipment program included construction of five hundred 40 ft. 6 in. steel box cars and two hundred fifty 50 ft. 6 in. steel box cars, all of which were built at the Company's shops at St. Cloud, Minn. together with four hundred forty-one box cars from the 1956 program, carried over into 1957 due to delay in receipt of steel. Part of these cars are single door cars with special features adapting them to grain, flour, sugar, and similar high grade loading while the remainder have double doors to facilitate loading of lumber and other commodities with mechanized devices.

Other freight equipment which was purchased included two hundred 70-ton gondola cars, three hundred 70-ton hopper cars and twenty-five large 19,000 gallon tank cars.

Twenty-nine 1,750 H.P. diesel road-switcher locomotives and five 1,200 H.P. diesel switch engines were delivered early in the year.

The Great Northern was a pioneer in introduction of diesel power. Some of the first road units purchased in 1940-1943 have

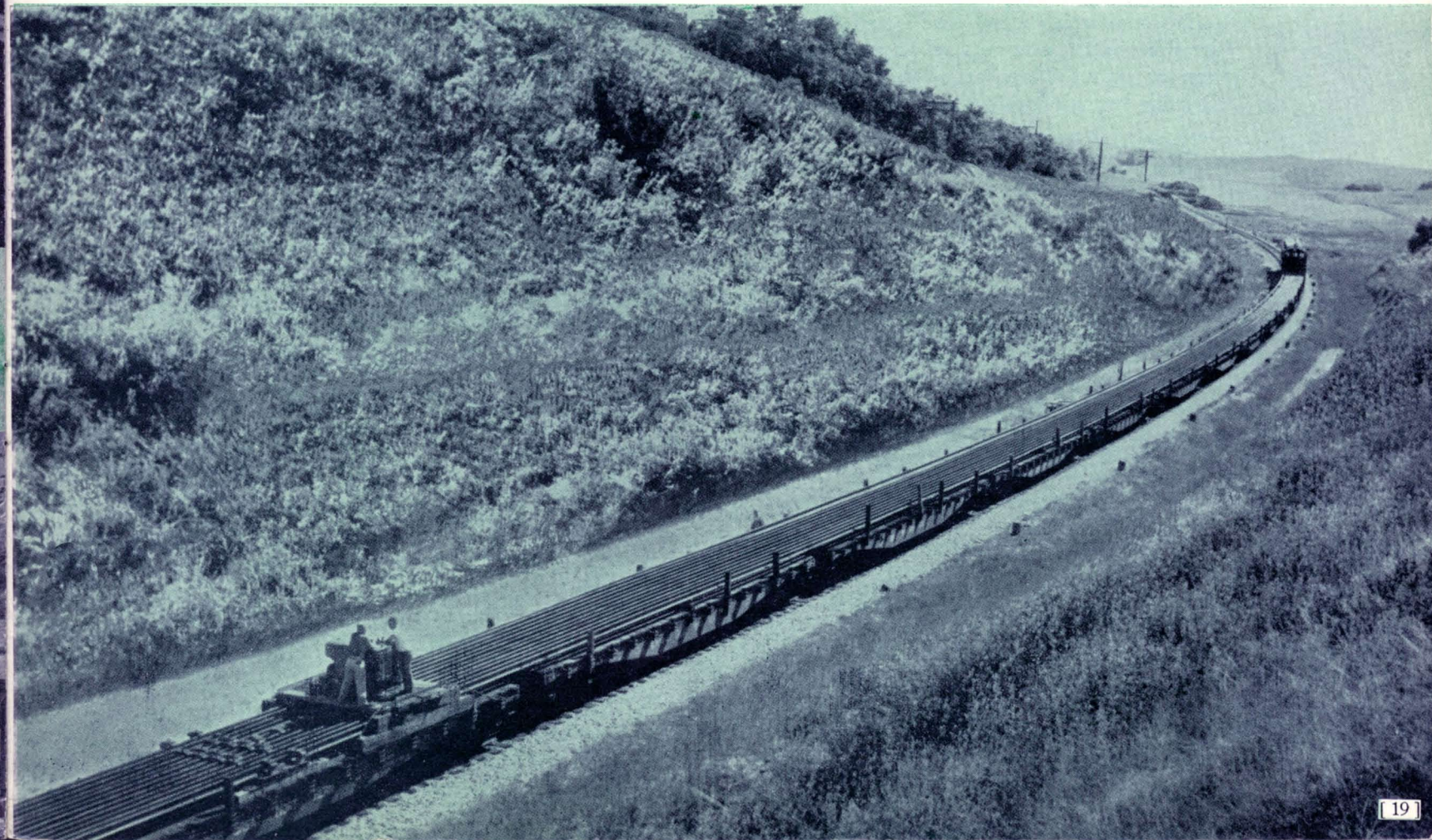
about reached the point where they will again need heavy repairs and now are somewhat obsolete. In order to obtain the advantages of design improvements made since they were originally built, these units will either have to be replaced or remanufactured to bring them up to date. A start was made on this program in 1957.

The Western Fruit Express Company, a wholly owned subsidiary, built 100 mechanical refrigerator cars, primarily for handling frozen foods, and 100 bunkerless insulated cars for handling special commodities which require insulation but not cooling.

For delivery in 1958 the Company expects to build at St. Cloud shops 500 box cars, 50 flat cars and 30 cabooses. In addition there are on order with outside builders 25 air slide covered hoppers for handling bulk flour and sugar and 150 covered hoppers for other bulk commodities such as feed, cement, etc.

There are also on order with locomotive builders 15 general purpose road switcher units for delivery early in 1958. These will insure against any need to operate steam power during periods of peak loading.

TRANSPORTING RIBBON RAIL FROM WELDING PLANT IN NORTH DAKOTA.



POWER PROJECTS

In eastern Montana initial contracts were awarded and work is underway on the second powerhouse at Fort Peck Dam on the Missouri River south of Glasgow, Mont. This public power project will produce 84,210 kilowatts and cost \$26.3 million when completed in 1961.

At Cochrane Dam, downstream a short distance from Great Falls, Mont. on the Missouri River, construction of the \$15.0 million dam by private capital is complete and electrical equipment is being installed. The powerhouse will generate 60,000 kilowatts.

On the Columbia River progress continues on several very large projects in Great Northern territory. At Chief Joseph, the farthest upstream, near Brewster, Wash., the last four generators of sixteen are now being installed and when completed in 1958 this dam will produce 1,124,000 kilowatts. Some irrigation is possible from this public power project and studies are being made which may eventually lead to irrigation of over 40,000 acres.

At Rocky Reach, nine miles north of Wenatchee, Wash., construction continued on a large dam which will ultimately produce 1,218,000 kilowatts. Initial production of power is expected in 1962. The work is being carried out by the Chelan County Public Utility District. During 1957 contracts for sale of the power to several industries and public utility companies were made and financing for the construction was arranged. Relocation of about 24 miles of the Wenatchee-Oroville branch line railroad will be required.

At the Wells Dam, 40 miles north of Wenatchee, Wash., referred to in last year's report, no construction work has started but the Douglas County Public Utility District is working out arrangements for financing and sale of the power. This project would produce about 500,000 kilowatts and cost about \$120.0 million.

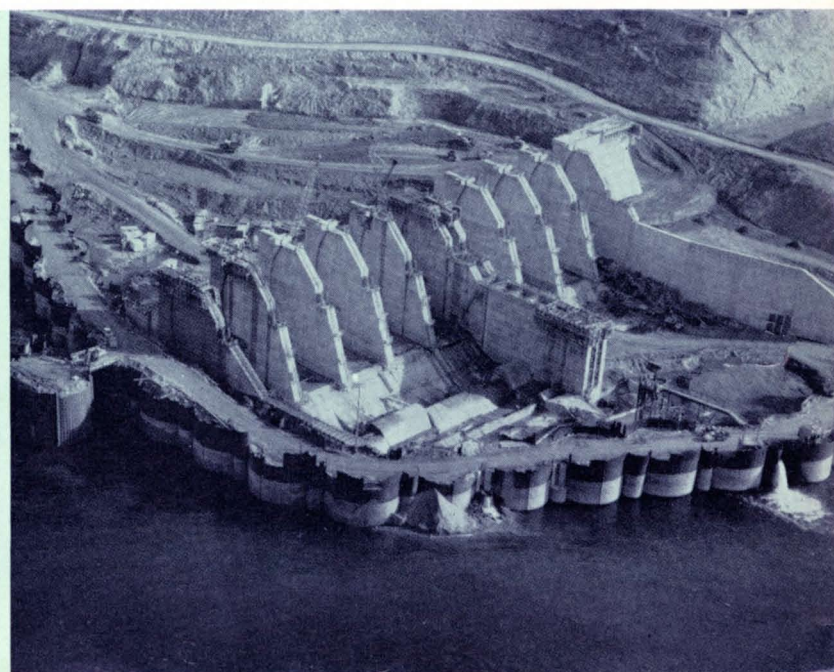
UNIFICATION STUDY

In the 1956 annual report reference was made to the study being undertaken by Great Northern and Northern Pacific Railways to determine the economic opportunities presented by possible merger of their railroads together with the jointly controlled Chicago, Burlington & Quincy Railroad and Spokane, Portland and Seattle Railway Company.

These companies have much in common due to their long standing joint interests and it appears clear that closer affiliation would produce substantial economies and serve the public better. This viewpoint is supported by the preliminary report submitted in December, 1957, by the transportation consulting firm of Wyer, Dick & Co. which was jointly employed by the parent companies to make a thorough study of the properties to estimate potential economies and evaluate the possibilities for improved service. Other studies are still in progress and under current review by the Directors' Consolidation Committees appointed by the two parent companies.

COCHRANE DAM ON MISSOURI RIVER NEAR GREAT FALLS, MONT., WILL PRODUCE POWER IN 1958.

CONSTRUCTION CONTINUED IN 1957 ON ROCKY REACH PROJECT ON COLUMBIA RIVER NEAR WENATCHEE, WASH., TO COST \$250 TO \$275 MILLION.





GREAT NORTHERN HIGHWAY TRUCKS AT GREAT FALLS, MONT., FREIGHT STATION.

INDUSTRIAL AND AGRICULTURAL DEVELOPMENT

During the year 1957 one hundred-sixty-three new industries were located adjacent to Great Northern lines. In the aggregate these will produce much traffic in future years.

In Minnesota and North Dakota there has been a substantial addition to grain storage facilities and potato storage and washing facilities. Besides encouraging the agricultural development of the territory, this tends to hold crops off the market at the peak harvest seasons and by providing a more even flow of products to market reduce the cost of furnishing transportation.

A number of new fertilizer warehouses and mixing plants were built to supply the increased demand by farmers.

A large new coal-burning power plant in northern Minnesota is near completion and will result in substantial traffic beginning in 1958. Plans are being prepared to double the size of this power plant.

On the Mesabi Iron Range, progress continued in building of beneficiating plants which are used to improve the quality of lower grade ores. These plants prolong the life of mining properties for many years and by improving the quality of the ores for blast furnace use make them more competitive with ores from other sources. In addition to developments on the Mesabi Range in Minnesota, a new iron mine in central Montana began shipments for the first time contributing substantial revenue.

The three large jet air bases being built along Great Northern lines in North Dakota and eastern Montana continued under active construction. It is expected that large-scale work will continue during 1958.

Oil activity in parts of the Williston Basin was at a higher level than in any year since 1952. Oil rigs drilling in North Dakota at year's end reached a total of 50, almost double the figure of 1956. The location of 12 new fields, most of which were in Great Northern territory, increased the estimated reserves in North Dakota nearly 10% to 311,000,000 barrels. In Montana there was somewhat less activity and total reserves are now 420,000,000 barrels, a decrease of 2,000,000. While Great Northern has only a relatively small ownership of oil producing property, your Company benefits substantially from increased traffic.

On the west end of the system in the Pacific Northwest area the rapid growth of population and industry continued.

In the State of Washington the Columbia Basin continues to develop into a stable and productive agricultural center. While most of the construction phase of the Basin project is completed, some 17,000 acres of new land will receive irrigation water for the first time in 1958 in areas tributary to Great Northern lines.

Development of industry in Oregon and the Puget Sound area of Washington continues. Several very large oil refineries have been built and others are being planned along your Company's Coast line north of Seattle. Various forest products industries have built new facilities in the territory.

In British Columbia, a number of plants and warehouses were built in the Vancouver-New Westminster area by large Canadian firms to take care of their increasing business. On Vancouver Island expansion of newsprint plants added important new capacity in the area tributary to Vancouver. Since the Great Northern is the only United States railroad serving Vancouver, your Company is sharing directly in the rapid growth of Canada's western-most province.

LITIGATION

The Spokane Gateway case, commenced by the Milwaukee Road to obtain a larger share of the traffic to and from the Spokane, Portland and Seattle Railway, mentioned in recent annual reports, was decided by the Interstate Commerce Commission in favor of the Great Northern, Northern Pacific and Spokane, Portland and Seattle Railways. The Milwaukee Road is asking the Federal Court to overrule the Commission.

The application of the Union Pacific Railroad Company to acquire sole control of the Spokane International Railroad Company, opposed by the Great Northern and other companies, was approved by the Interstate Commerce Commission and the Federal Court.

The Divisions cases involving the apportionment of interline revenues between the western railroads and their connections in other parts of the country are still pending before the Interstate Commerce Commission. The introduction of evidence has not been finished and no final decision is expected in 1958.

Hearings are still in progress before the Interstate Commerce Commission in the case brought by Southeastern interests for an adjustment in grain rates.

The Riss case, first mentioned in the annual report for 1954, is still pending in the Federal District Court for the District of Columbia. There have been preliminary proceedings but the case has not yet gone to trial.

In April, 1956, 40 railroads, including the Great Northern, were sued in the Federal Court for large amounts under the antitrust laws by an association representing certain airlines that furnish charter service. It was

alleged that the railroads conspired to monopolize the transportation of military personnel so as to eliminate airline competition. The trial court decided the case in favor of the airlines, but left open the question of damages for a further hearing. The United States Court of Appeals, on February 25, 1958, vacated the trial court's judgment and remanded the case to the trial court to decide certain factual issues and to give the Interstate Commerce Commission an opportunity to consider whether the railroad practices were lawful under those provisions of the Interstate Commerce Act which authorize joint rate-making bureaus. A final judgment in this case is not expected during 1958. A similar antitrust suit was commenced August 23, 1957 by 26 non-scheduled airlines. This case has not yet gone to trial.

SHAREHOLDERS

Continuing the trend noted for several years the number of shareholders continued to expand resulting in a broader distribution of the stock. Shareholders are located in all 48 states and in 8 foreign countries. The number as of the November record date in each of the last five years was:

| As of November | Number of Shareholders |
|-------------------|---------------------------|
| 1957 | 38,158 |
| 1956 | 36,539 |
| 1955 | 35,647 |
| 1954 | 33,110 |
| 1953 | 33,079 |

NEW 16.5 MILE LINE WAS CONSTRUCTED IN 1957 TO SERVE MINOT, N. D., AIR BASE.



GENERAL

The research program set up in cooperation with the Universities of Minnesota and North Dakota to attempt to develop an economical process for preparation of iron ore from non-magnetic taconite is under way and much preliminary work has been done. The taconite plants presently producing high grade iron pellets in northern Minnesota use **magnetic** taconite as their raw material. This mineral occurs east of the area served by Great Northern. On the western part of the Mesabi Range, there are much larger tonnages of **non-magnetic** taconite awaiting development of an economical process. While there are still in this area substantial tonnages of direct shipping ores and even larger tonnages of lower grade ores which can be improved by simpler processes of beneficiation now available, the long range future of the west end of the Mesabi Range depends on use of taconite as a raw material.

The research now in progress is quite basic in nature and therefore is not expected to produce quick results. However, the necessary groundwork is being laid for future movement of large tonnages when economic conditions make the use of this ore feasible.

In a belief that a railroad should not confine itself to rail transportation alone but should participate in all forms of transportation, Great Northern has had a study made of possible need for a pipe line to furnish cheaper transportation for crude oil from

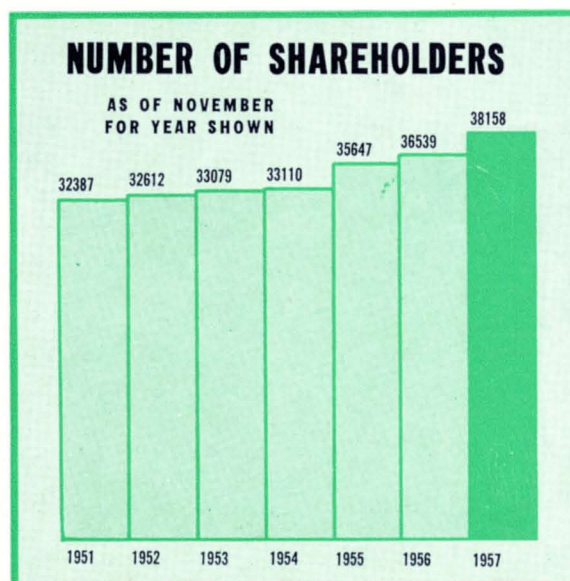
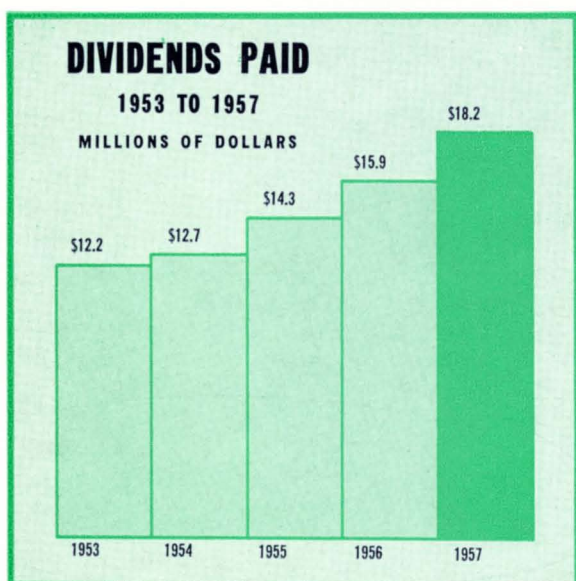
parts of the Williston Basin which presently do not have pipe lines available. There is not yet sufficient surplus production above existing marketing arrangements to justify a line but, drilling activity adjacent to Great Northern's lines in North Dakota is at a high level. The entire situation is being kept under review.

Operation of the hotels and cabins in Glacier National Park, which are owned by a subsidiary of Great Northern, was under the management of the Knutson Hotel Corporation for the first year.

In common with most resort hotels, during the 1957 summer season there was a small decline in the housecount, but due to upgrading of facilities there was a moderate increase in revenue for the season.

Very good progress has been made in providing more attractive accommodations. By making more salable space available in the various hotels, potential revenue is increased and present indications for the 1958 season are quite favorable.

Dividends received from stock owned of Chicago, Burlington & Quincy R.R. Co. were the same in 1957 as in 1956, that is, \$6.2 million or \$7.50 per share. This stock, together with an equal amount owned by the Northern Pacific Railway, comprises 97% of the outstanding stock of the Burlington. Interest received from Spokane, Portland and Seattle Ry. Co. bonds in 1957 amounted to \$1.2 million compared with \$1.3 million in 1956.



ORGANIZATION CHANGES

Under the Company's pension rules, Messrs. Ira G. Pool, Edwin C. Matthias and F. L. Paetzold retired in the Fall of 1957 after many years of able and efficient service.

Mr. Pool, as Vice President, Operating Department, completed a career of thirty-seven years with Great Northern. During his administration of that position, Great Northern completed its dieselization program which got underway while he was General Superintendent of Motive Power. Mr. Thomas A. Jerrow, formerly General Manager on the western lines of the Company, succeeded Mr. Pool as Vice President, Operating Department. Mr. John L. Robson, who was previously Chief Mechanical Officer, became Assistant Vice President, Operating Department.

Mr. Matthias, after serving in various capacities in the Law Department for thirty-three years, was Vice President and General Counsel for twelve years in which position he worked not only for Great Northern but also on national matters for the railroad industry. He was succeeded by Mr. Anthony Kane who was formerly General Solicitor.

Mr. Paetzold had served the Company for nearly fifty years and as Secretary and Treasurer was head of that department for thirty-seven years. Mr. R. M. O'Kelly, formerly Assistant Secretary and Assistant Treasurer, succeeded him.

FOR 1958

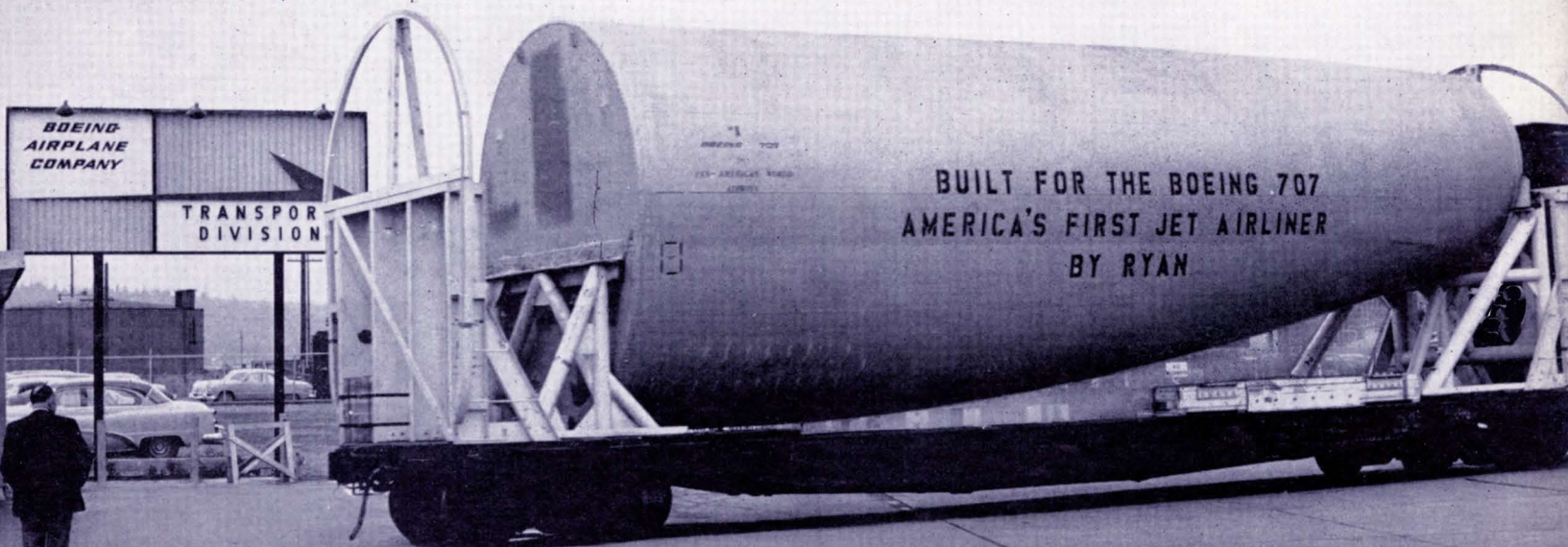
For the year 1958 forecasting is difficult. Traffic during the early months of the year is generally at low levels. To date lumber loadings are off 8% when compared with 1957 reflecting less housing construction. In Great Northern territory crop production is a very important factor in traffic volume. It is quite independent of business conditions and at this early date the prospects for 1958 cannot be foretold. However, the grain in storage on farms and in elevators on line is above a year ago, and a substantial increase in the volume of apples to be transported is also reported.

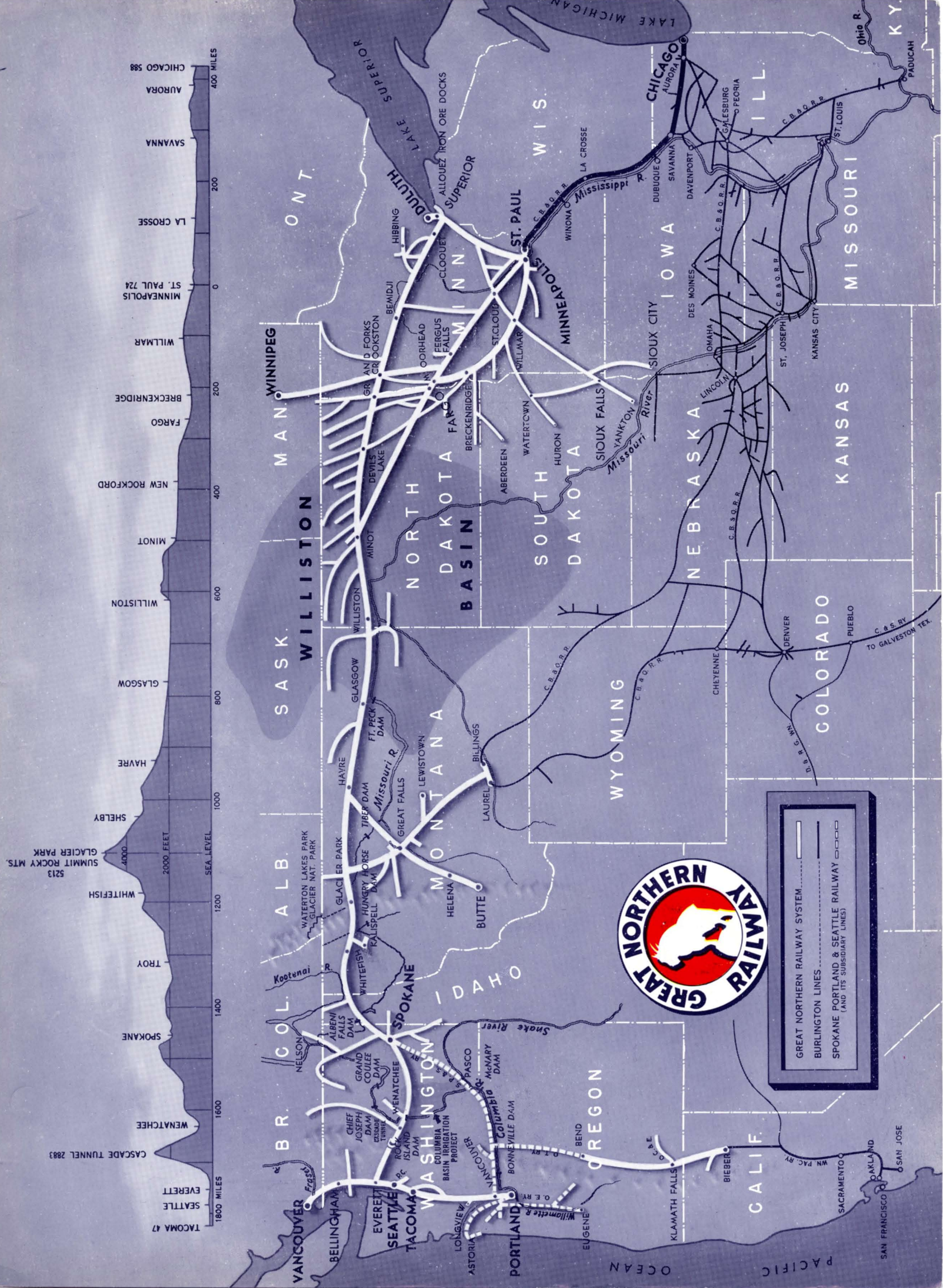
Your property is in excellent condition. A smaller but adequate program is planned for 1958 capital improvements to fixed property and purchase of new equipment to better serve the needs of the customers of the railroad. The current position is substantial.

In the past year the loyal cooperation and efficient efforts of the officers and employees of the Company were displayed at a high level and are gratefully acknowledged. Their continued support can be depended upon to make further progress for the Company in 1958.

A supplementary report containing additional operating and financial statistics may be obtained upon request to the Secretary of the Company at St. Paul 1, Minnesota.

REGULAR SHIPMENTS OF HUGE AIRLINER SECTIONS MOVE FROM CALIFORNIA TO SEATTLE VIA GREAT NORTHERN'S BIEBER, CAL., ROUTE.







The William Crooks, first locomotive in the Northwest, began service for a Great Northern predecessor company in 1862. It is now on display in the St. Paul Union Depot.