

1958

70th Annual Report

GREAT NORTHERN RAILWAY



GREAT NORTHERN RAILWAY COMPANY

General Offices
Great Northern Railway Building
St. Paul, Minnesota

70th Annual Report

for the year ending
December 31, 1958

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Our cover photo, taken at Great Northern's Union Yard in Minneapolis, introduces a pictorial feature on the railway's important role as a carrier of grain (see pages 12-13).

DIRECTORS

J. STEWART BAKER, *Director, The Chase Manhattan Bank, New York*
 JOHN M. BUDD, *President, Great Northern Railway Company, St. Paul*
 THOMAS L. DANIELS, *Chairman of the Board, Archer-Daniels-Midland Company, Minneapolis*
 FRANK J. GAVIN, *Chairman of the Board, Great Northern Railway Company, St. Paul*
 F. PEAVEY HEFFELFINGER, *President, F. H. Peavey & Company, Minneapolis*
 GRANT KEEHN, *Senior Vice President, The Equitable Life Assurance Society of the United States, New York*
 RICHARD C. LILLY, *Director, First National Bank of St. Paul, St. Paul*
 WILLIAM L. MCKNIGHT, *Chairman of the Board, Minnesota Mining and Manufacturing Company, St. Paul*
 JAMES F. OATES, JR., *President, The Equitable Life Assurance Society of the United States, New York*
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 FREDERICK K. WEYERHAEUSER, *President, Weyerhaeuser Timber Company, St. Paul*
 *ARCHIBALD W. WITHERSPOON, *Chairman of the Board, The Old National Bank of Spokane, Spokane*
 *Deceased December 2, 1958

OFFICERS

FRANK J. GAVIN, *Chairman of the Board, St. Paul*
 JOHN M. BUDD, *President, St. Paul*
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 THOMAS A. JERROW, *Vice President, Operating Department, St. Paul*
 CHARLES E. FINLEY, *Vice President, Traffic Department, St. Paul*
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 CLYDE A. PEARSON, *Vice President, Personnel Department, St. Paul*
 RICHARD M. O'KELLY, *Secretary and Treasurer, St. Paul*

TRANSFER AGENTS

FINANCIAL OFFICE, *2 Wall Street, New York (5), N.Y.*
 JOHN E. ADAMS, *Assistant Secretary and Assistant Treasurer, New York*
 EDWARD V. FINK, *Assistant Secretary and Transfer Agent, New York*
 CLAIRE M. BYRNES, *Assistant Secretary and Transfer Agent, New York*
 ADOLPH SELANDER, *Assistant Secretary and Transfer Agent, St. Paul*
 CLARENCE F. ZIEGAHN, *Assistant Secretary and Transfer Agent, St. Paul*

This stately Englemann spruce from Montana's Kootenai National Forest traveled to Washington, D.C. in December to become the Nation's Christmas Tree. Great Northern was one of three railroads providing transportation.



HIGHLIGHTS OF 1958

ITEM	1958	1957	Increase-1 Decrease-D
<i>Income Account (Millions of Dollars)</i>			
Net Income.....	\$ 27.58	\$ 26.64	\$.94-I
Dividends Paid.....	18.25	18.21	.04-I
Operating Revenues.....	251.67	275.38	23.71-D
Operating Expenses—Wages.....	119.66	133.71	14.05-D
Operating Expenses—Depreciation.....	13.90	13.29	.61-I
Operating Expenses—Total.....	190.85	212.18	21.33-D
Taxes.....	32.39	33.39	1.00-D
Fixed Charges.....	8.34	8.15	.19-I
<i>Financial Condition Dec. 31, (Millions of Dollars)</i>			
Cash and Special Deposits.....	\$ 66.22	\$ 51.71	\$ 14.51-I
Total Current Assets.....	106.73	102.15	4.58-I
Current Liabilities.....	38.67	41.80	3.13-D
Working Capital.....	68.06	60.35	7.71-I
Net Investment in Transportation Property	646.12	643.15	2.97-I
Long Term Debt.....	270.70	266.41	4.29-I
Net-Worth—Shareholders' Equity.....	633.25	624.50	8.75-I
Gross Expenditures for Property Improvements.....	20.11	35.11	15.00-D
<i>Financial Statistics</i>			
Times Fixed Charges Earned.....	4.31	4.27	.04-I
Per Cent Return on Property Investment..	3.66	3.52	.14-I
Per Cent Revenues			
Carried Through to Net Income.....	10.96	9.68	1.28-I
Taken by Transportation Expenses.....	35.05	34.73	.32-I
Taken by All Operating Expenses.....	75.83	77.05	1.22-D
<i>Average Per Share of Capital Stock (6,096,149) Shares Dec. 31, 1958</i>			
Operating Revenues.....	\$ 41.28	\$ 45.31	\$ 4.03-D
Net Income Before Taxes on Income.....	6.39	6.15	.24-I
Income Taxes.....	1.87	1.77	.10-I
Total Taxes.....	5.31	5.49	.18-D
Net Income After All Taxes.....	4.52	4.38	.14-I
Dividends Paid.....	3.00	3.00	—
Fixed Charges.....	1.37	1.34	.03-I
Shareholders' Equity.....	103.88	102.75	1.13-I
<i>Operating Statistics</i>			
Miles of Road Operated.....	8,281	8,287	6-D
Train Miles (Millions).....	17.19	19.41	2.22-D
Locomotive Miles (Millions)			
Steam.....	—	.02	.02-D
Diesel and Electric.....	22.36	25.01	2.65-D
Car Miles (Millions).....	794.08	861.39	67.31-D
Gross Ton Miles (Billions).....	43.67	48.37	4.70-D
Revenue Net Ton Miles (Billions).....	15.28	17.67	2.39-D
Passengers Carried One Mile (Millions)...	433.51	450.06	16.55-D
Revenue per Net Ton Mile (Cents).....	1.47	1.39	.08-I
Revenue per Passenger Mile (Cents).....	2.34	2.34	—
Train Load—Net Tons.....	1,394.57	1,365.89	28.68-I
Net Ton Miles per Freight Car Day.....	975.81	1,135.75	159.94-D
Net Ton Miles per Train Hour (Thousands)	28.71	27.52	1.19-I
<i>Employees</i>			
Number of Employees.....	20,931	24,968	4,037-D
Total Wages (Millions).....	\$ 123.21	\$ 136.38	\$ 13.17-D
Straight Time Wages per Hour.....	\$ 2.62	\$ 2.41	\$.21-I
Earnings per Employee per Year.....	\$ 5,886	\$ 5,462	\$ 424-I

GREAT NORTHERN RAILWAY COMPANY

EXECUTIVE DEPARTMENT

J. M. BUDD,
PRESIDENT

ST. PAUL 1, MINNESOTA

March 23, 1959

To our Shareholders:

In view of the fact that 1958 is remembered as a "recession year" in American business, it is particularly noteworthy that Great Northern was able to achieve a net income for the year of \$4.52 per share, up 14 cents from 1957. Our annual dividend of \$3.00 per share was continued, and there was an increase in cash and equivalent, as well as in working capital.

Sales, which dropped \$23.7 million in 1958, did mirror general business conditions. However, reduced revenues were more than offset by careful pruning of operating expenses and rentals—an accomplishment made possible by the close cooperation and imaginative action of the company's officers and employees. Their efforts and loyalty are gratefully acknowledged.

Although maintenance expenses were reduced \$14 million from 1957, the railroad plant was in better condition at the end of the year than at the beginning, with no deferred maintenance. Savings reflect the accrued benefits of a substantial investment in diesel locomotives, mechanized maintenance equipment and other improvements to the physical property in recent years.

Several organization changes occurred during 1958 and are noted in more detail elsewhere in the Annual Report. The death of Mr. Archibald W. Witherspoon, director since 1942, meant the keenly-felt loss of a very active and valuable member of the Board.

Provisions of the company's pension plan brought retirement of two Executive Department vice presidents, Mr. Vernon P. Turnburke and Mr. Thomas Balmer. Both had long and distinguished careers with Great Northern, and their talents and experience will be missed.

Elected to succeed Mr. Turnburke as vice president at St. Paul is Mr. Robert W. Downing. Succeeding Mr. Balmer as vice president and Western counsel at Seattle is Mr. Clark A. Eckart.

Mr. Richard C. Lilly, a director since 1933, has decided not to be a candidate for reelection when his term expires this May. A leader in many developments in the upper mid-West region, Mr. Lilly has had an active role in Great Northern affairs, and the company is deeply in his debt.

Important legislation affecting the railway industry in 1958 is discussed later in the report under the section heading of Financial and Corporate. Meanwhile, further studies of transportation matters are contemplated by Congress and the Administration in 1959, and we will continue to press for changes in the law which will permit railroads to do business on an equal basis with competitive forms of transportation. The interest and support of our shareholders is earnestly solicited.

Great Northern's traffic picture in the early part of 1959 is about the same as last year. Looking ahead, grain movement prior to harvest time should be heavier because of the record amount of grain in storage. Additionally, we expect a substantial increase in the movement of iron ore this season, with lumber also moving more freely than in 1958. Shipments of manufactured goods should show a gradual increase during the year. Apples and potatoes, however, probably will move in reduced volume. Overall, a modest increase in operating revenues is anticipated, but with higher wage rates and material costs, it is not expected that net income will improve much above the levels of 1958.

A national freight car shortage in 1959 seems inevitable. Great Northern ownership of cars is considered adequate, but because more cars are loaded than unloaded on our line and because cars are held for use by other roads rather than being returned empty when cars are scarce, the shortage undoubtedly will affect our operations. Efforts are being made to help alleviate this condition in the future by forming a company jointly owned by several roads to acquire and lease cars to individual lines. It is hoped that this will tend to eliminate deficiencies in ownership and thereby eliminate car shortages.



PRESIDENT

Financial Review—1958

In 1958 Great Northern was affected by the same trends in business activity which influenced the nation as a whole. The year began with declining traffic, which reached its lowest level late in April, but as the national economy as a whole improved, revenues increased to levels near those of pre-recession 1957.

Net Income

By careful control of expenses and increasingly efficient operation, net income of \$27.6 million, equivalent to \$4.52 per share of stock, was earned in 1958 compared with \$26.6 million, or \$4.38 per share in 1957.

These results were made possible by postwar expenditures for improved facilities and equipment. The improvement program continued during the past year but at a slower pace.

The net income of Great Northern does not include its equity in undistributed net income of the Chicago, Burlington & Quincy R.R. Co., Spokane, Portland and Seattle Ry. Co. and Western Fruit Express Co. For 1958 this equity amounted to \$4.6 million, or 75¢ per share of Great Northern stock.

The annual dividend of \$3.00 per share which continued in 1958 was more adequately covered than in 1957.

Operating revenues for 1958 of \$251.7 million were \$23.7 million below those reported in 1957. Operating expenses were reduced \$21.3 million in spite of substantial increases in labor and material costs. In 1958 taxes of \$32.4 million were \$1.0 million below those accrued in 1957. There also was a very substantial reduction in the net rents paid for the equipment of other companies amounting to \$2.0 million.

Fixed charges were earned 4.31 times, almost the same as in 1957. Great Northern's fixed charges were again, as in every year of the last nine, more than covered by amounts received as "Other Income."

Taxes being deferred because of rapid amortization of defense facilities and accelerated depreciation of certain property acquired since 1953 are of declining importance. There is a difference in accounting rules of the Interstate Commerce Commission and the Bureau of Internal Revenue in those items shown in the table below:

	<i>Defense Facilities Being Amortized</i>	<i>Facilities with Accelerated Depreciation</i>
Amortization or depreciation estimated for tax return—1958.....	\$8,390,000	\$3,900,000
Normal straight line depreciation required by I.C.C. accounting—1958.....	2,590,000	2,400,000
Excess—1958.....	5,800,000	1,500,000
Increase in net income after taxes, as reported—1958..	3,016,000	780,000
Per share—1953.....	\$0.45	—
1954.....	.56	\$0.02
1955.....	.62	.04
1956.....	.66	.07
1957.....	.59	.10
1958 (est.).....	.50	.13
1959 (est.).....	.36	.15

Financial Position at End of Year

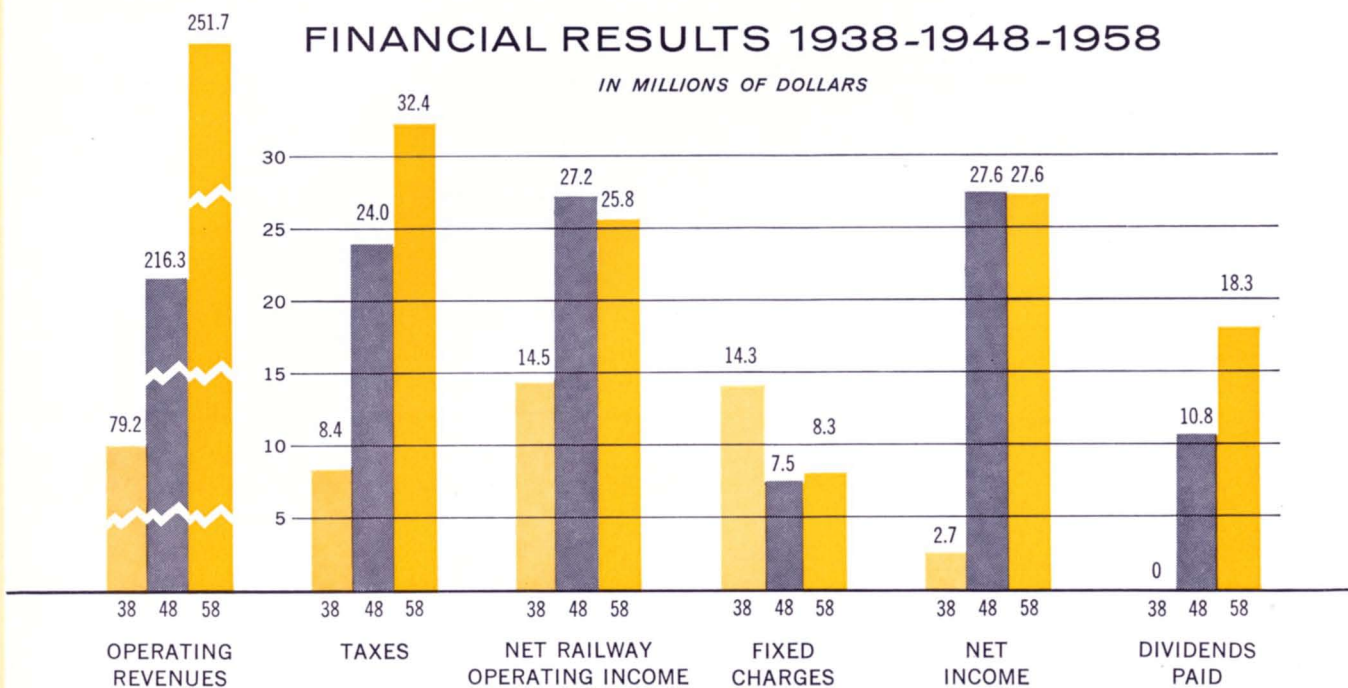
Cash, including temporary cash investments, was \$66.2 million at the end of 1958; current assets, including these cash items, were \$106.7 million, and current liabilities amounted to \$38.7 million. Working capital, the excess of current assets over current liabilities, totaled \$68.1 million, as compared with \$60.3 million at the end of 1957.



The reduction of expenses achieved last year reflects the accrued benefits of earlier improvements such as this 1957 line change along Puget Sound, north of Seattle. Property investments are carefully planned to yield returns in a more efficient operation.

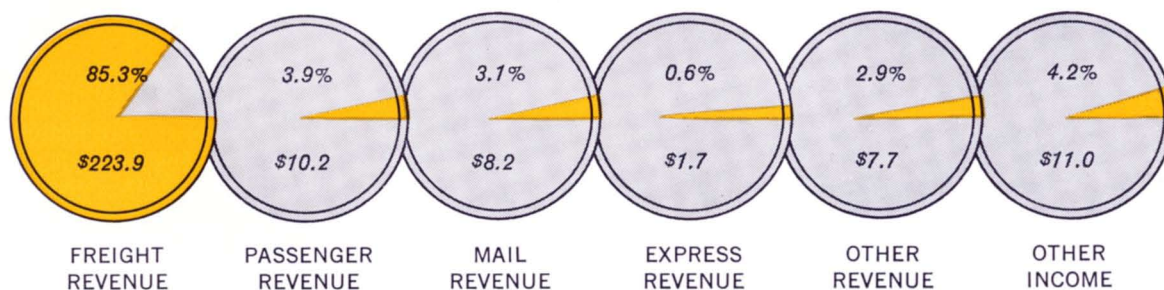
FINANCIAL RESULTS 1938-1948-1958

IN MILLIONS OF DOLLARS

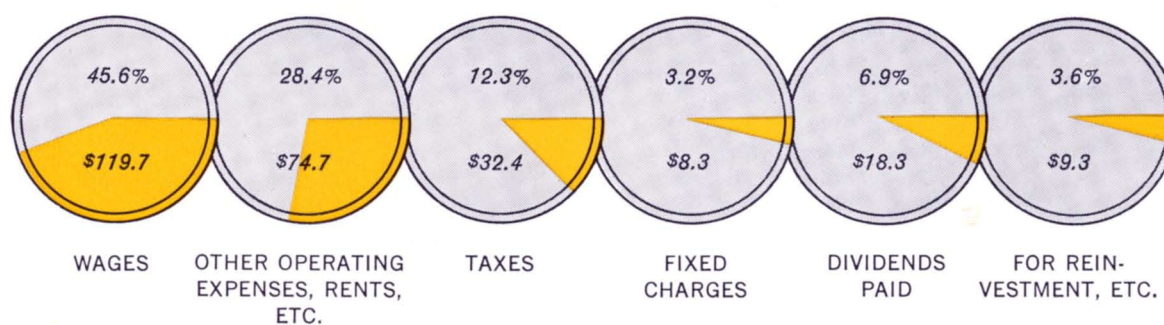


1958 INCOME IN MILLIONS OF DOLLARS

\$262,692,652 = 100.00%



1958 OUTGO IN MILLIONS OF DOLLARS



Report on Operations

The decline in business activity which began in August 1957 continued into the early months of 1958. The low point in the recession was reached in April, after which there was gradual improvement. For the entire year total revenues declined 8.6%.

Operating Revenues

The principal sources of operating revenue were:

Source of Revenue	Operating Revenues (Millions)		Per Cent Change
	1958	1957	
Freight.....	\$223.9	\$245.7	8.8-D
Passenger.....	10.2	10.5	3.5-D
Mail.....	8.2	7.9	3.5-I
Express.....	1.7	1.7	—
All other operating.....	7.7	9.6	19.8-D
Total.....	\$251.7	\$275.4	8.6-D

Freight Revenue

Since the revenues derived directly from transportation of freight comprise 89% of total operating revenues, the trends in general business activity are all-important to Great Northern. Fortunately, no single commodity group is dominant and when one type of business is down, improved activity in others usually tends to compensate for the loss. This advantage in diversification was apparent during 1958, although in the early months of the year disappointments outweighed the brighter spots. By the end of the first seven months freight revenues were \$25.3 million less than for the corresponding period of 1957. Improved business in the final five months of the year reversed the decline so that freight revenue for the entire year was \$21.7 million, or 8.8% less than the preceding year.

The diversity of Great Northern's revenue sources is shown in the following table of principal commodities:

Commodity	1958 Revenues (Millions)	1957 Revenues (Millions)	Per Cent of Change
Grain and grain products.....	\$62.1	\$65.3	4.9-D
Lumber and wood products....	37.2	36.1	3.0-I
Iron ore, including dockage....	18.5	31.4	41.1-D
Paper and paper products.....	12.9	12.0	7.1-I
Crude petroleum, petroleum products and asphalt.....	10.6	10.3	2.5-I
Aluminum ore and products....	7.3	9.5	23.2-D
Iron and steel products.....	5.1	7.9	35.0-D
Fresh apples.....	5.6	4.2	33.4-I
Forwarder traffic and LCL.....	11.8	11.4	3.0-I

During the first half of the year grain moved out of the Northwest very slowly, although very large quantities were held under Government price support programs.

In August it became apparent that a very large grain crop of high quality would be harvested in Great Northern territory. Throughout the remainder of the year grain loadings were more nearly normal. The deficiency compared with 1957 was too great to overcome and total loadings for 1958 were 123,735 cars compared with 133,394 in 1957.

Prospects for grain movement in 1959 are good as there were an estimated 274 million bushels in storage in country elevators and on farms in Great Northern territory as of January 1, 1959 as compared with 223 million bushels a year earlier. This is a record amount of grain awaiting movement to market at that time of year.

Movement of iron ore was slow throughout the shipping season and produced only 7.4% of total operating revenues in 1958 compared with 11.4% in 1957 and 11.2% in 1956. The ore movement started late, as the low level of steel production in the winter

FREIGHT REVENUE BY COMMODITY GROUPS	Commodity	1958		1957	
		Revenue	Per Cent of Total	Revenue	Per Cent of Total
	Products of agriculture.....	\$ 73,699,830	32.9	\$ 76,343,224	31.1
	Animals and products.....	4,375,582	1.9	4,751,741	1.9
	Products of mines.....	33,517,980	15.0	47,067,718	19.1
	Products of forests.....	35,652,340	15.9	34,427,059	14.0
	Manufactures and miscellaneous..	71,132,259	31.8	77,544,904	31.6
	Merchandise—all L. C. L. freight...	5,573,532	2.5	5,552,017	2.3
	Total.....	\$223,951,523	100.0	\$245,686,663	100.0

of 1957-1958 left excessive stocks of iron ore on hand at the furnaces normally supplied by Lake Superior mines. By the end of the year the situation had improved materially, with stocks of ore on hand at the furnaces more nearly normal. The steel production rate was higher than at any time since early 1957 and was increasing.

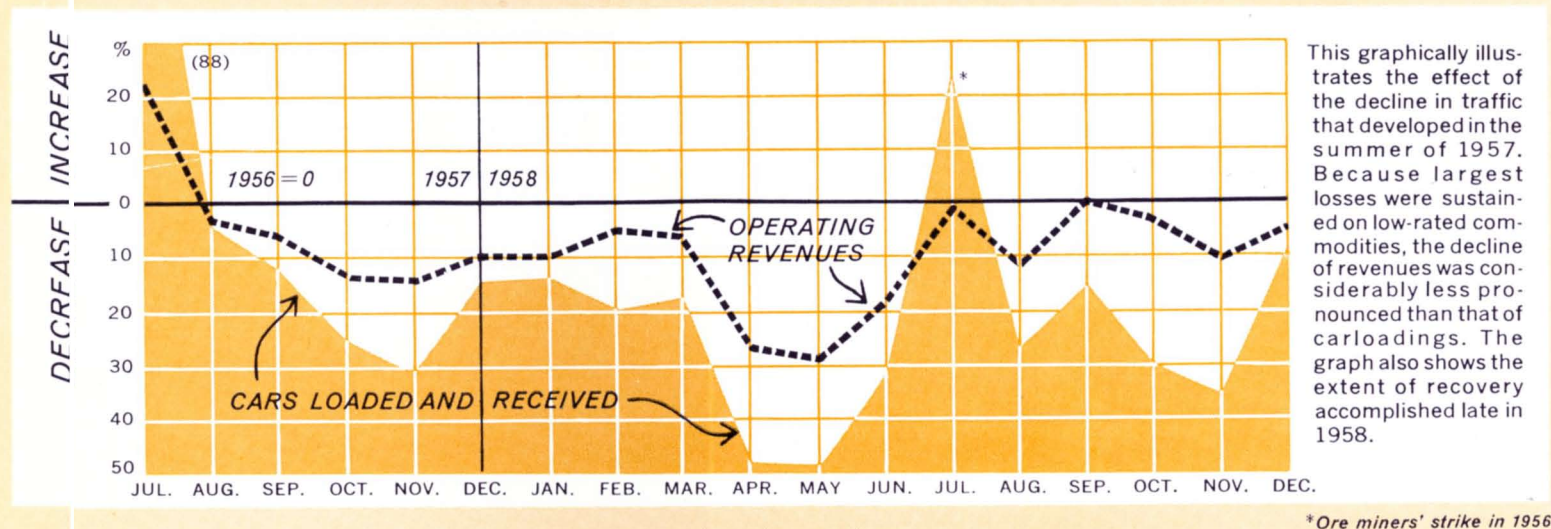
The home building industry had a fairly good year and lumber moved in substantial volume. The Wenatchee Valley apple harvest returned to normal in the Fall of 1957 following a poor crop in the previous year. A considerable increase in shipments during early 1958 resulted.

The effect of the recession on revenues can be seen from the table in the next column. The largest

percentage decreases were in raw materials such as ores and alumina, and in heavy manufactured products. It will be noted that the principal increases were in apples and lumber.

Commodity	Decrease	Per Cent
Iron ore, including dockage.....	\$12,936,000	41.1-D
Iron and steel (manufactured).....	2,759,000	35.0-D
Grain.....	1,546,000	2.6-D
Alumina.....	1,340,000	28.9-D
	Increase	Per Cent
Apples.....	\$ 1,395,000	33.4-I
Lumber and products.....	1,098,000	3.0-I

EFFECT OF 1957-58 RECESSION ON CARLOADINGS AND REVENUES



Freight Rates

Freight rates were relatively stable during the year. The only general change was made effective February 15, 1958 when increases averaging 3% were authorized by the Interstate Commerce Commission on a selective basis partly to offset increases in wage rates which became effective in November, 1957. In order to preserve market relationships on products moving from the West to principal market areas in the East, Great Northern limited the full application of the increases so that the effective change in rate level was 2.1%.

Intensified competition from trucks and other forms of transportation precluded any further general rate increases, although wages and some material costs continued to increase in 1958. There has been continual study of the rate structures and numerous reductions have been made on particular commodities to meet truck competition, or to bring transportation costs for producers on Great Northern into line with those of their competitors in the same markets. The pressures of competition are causing intensified experimentation and studies toward new rates in order that the railroads may obtain the traffic which the inherent economy of rail movement should provide.

Passenger Revenue

Passenger revenues decreased only slightly to \$10.2 million from \$10.5 million in 1957. It is noteworthy that the percentage decline of 3.5% was less than half that of freight revenue.

The railroad passenger situation in the country as a whole received considerable attention from both Congress and the Interstate Commerce Commission. One section of the Transportation Act of 1958 gave increased power to the Commission to act in cases where state authorities had been unwilling or unreasonably slow in reaching decisions on petitions to reduce passenger service being operated at a loss.

Late in 1958 the Interstate Commerce Commission issued a first report on the study of the passenger deficit problem which it has been conducting for several years. This report, which had not been acted upon finally by the Commission at the end of 1958, paints a gloomy picture of the future of railroad passenger service under present conditions. It is too early to determine whether the report will lead to any constructive action to restore passenger business to a profitable level or to insure its continuance for the national defense.

During 1958 Great Northern made reductions in passenger train operations which will result in an annual saving of \$600,000. Service to the public was not materially affected. Further reductions will be accomplished early in 1959 if applications now pending receive favorable consideration from the regulatory authorities. These are trains on which actual out-of-pocket losses were experienced, and their discontinuance will tend to make the passenger operation as a whole more nearly self-sustaining.

Passenger costs are being held at the lowest possible level consistent with good service. Fortunately, Great Northern is not required to provide commutation service.

It will be Great Northern's policy to maintain fast, comfortable, streamlined trains wherever the public indicates by its patronage that it will support passenger operations.

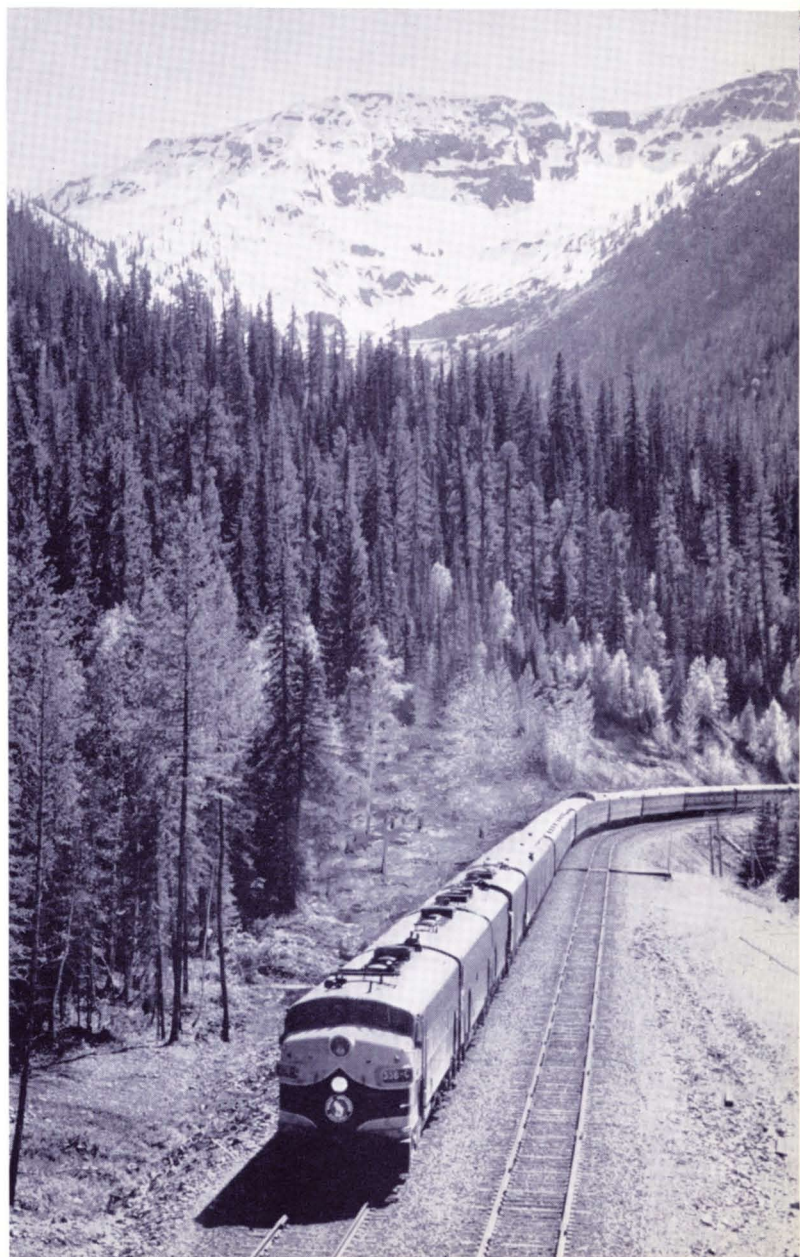
Mail and Express

Mail revenues for 1958 were \$8.2 million, an increase of \$274,000 over 1957. The volume of mail traffic on the long haul transcontinental trains is gradually increasing. The Post Office Department has, how-

ever, diverted some local and branch line mail to highway routes. The diversion of mail traffic has made the operation of many trains unprofitable and has led to their elimination.

Express revenue of \$1.7 million in 1958 was slightly higher than in 1957. The outlook for operation of the Railway Express Agency in the future was somewhat clouded as the year ended. This Agency has handled the express business for all of the railroads since the first World War. Competition from parcel post, motor truck lines, freight forwarders and the railroads' own improved freight services has caused the agency's revenues to decline in recent years. Some railroads have become dissatisfied with the financial results and have served notice of withdrawal from the contract, effective January 1, 1960. The future course of the express business must be determined in 1959.

The rugged grandeur of the Montana Rockies is enjoyed in luxurious comfort on Great Northern's Empire Builder and Western Star. The railway will continue to provide quality passenger service wherever it is adequately supported by the public.



Ingenious machines such as these multiple ballast tampers—shown here on a 1958 reballasting job west of Havre, Montana—provide an increasing amount of the “muscle” required for railroad track maintenance.



Operating Expenses

Railway operating expenses during 1958 amounted to \$190.9 million, down \$21.3 million from 1957. The decrease in expenses was slightly more than 10% as compared with the decline of 8.6% in revenues.

Last year's operation was particularly noteworthy because of the control of expenses achieved in spite of higher wage rates which became effective during the year. The operating ratio—the proportion of operating revenue taken by operating expenses—was 75.8 in 1958 compared with 77.1 in 1957.

Transportation expenses which include the cost of operating trains, yards and stations were \$88.2 million, a decrease of 7.8% from the \$95.6 million in 1957. Although much of 1958 was a year of declining traffic, expenses were kept under control because of the operating efficiencies resulting from full dieselization and other improvements in facilities made in the postwar years.

Maintenance of Way expenses in 1958 declined \$12.2 million to a total of \$38.7 million compared to \$50.9 million in 1957. Great Northern was nearing completion of an extensive program of major improvements to tracks and facilities when the decline in business began in late 1957. The excellent condition of the property enabled the Company to conduct a restricted program of betterments in 1958 with the resultant reduction in expenses. Mechanization of much of the work on tracks, forced on us by rapidly increasing wages, contributed substantially to the reduction of expenses in 1958 while permitting the roadway to be maintained in first class condition.

Maintenance of Equipment expenses were reduced \$1.8 million from \$47.1 million in 1957 to \$45.2 million in 1958, but deferred maintenance was not

permitted to accumulate. Unserviceable Great Northern cars on hand at the end of 1958 were only 2.2% of ownership compared with the national average of 8.6%. The higher volume of traffic expected in 1959 as business conditions improve can be handled without extraordinary expenses for restoring equipment to service.

In spite of the sharp reduction in maintenance expense, the property as a whole was in better shape at the end of 1958 than at the end of 1957. The overall ratio of maintenance expenses to operating revenue decreased to 33.4 in 1958 from 35.6 in the previous year. The transportation ratio increased slightly in 1958 to 35.0 from 34.7 in 1957.

It is particularly pleasing to report an improvement in some important indices of transportation efficiency in a year of reduced traffic, especially in view of the severe drop in iron ore, which is above average in tons per car and tons per train. Gross ton miles per train hour, which is a measure of train loading and speed, set a new record at 61,404 in 1958. Net tons per train also reached a new high at 1,458; average speed of freight trains was 19.9, a new record. Average number of net tons per car went down, however, from 35.6 to 34.0. Light traffic also reduced the intensity of use of the freight car fleet, as reflected in the reduction in net ton miles per car-day from 1,136 to 976.

Rentals of Equipment

Great Northern's payment for net rental of freight car equipment, including cars paid for on a mileage basis, amounted to \$2.2 million in 1958. This was considerably less than the \$4.2 million net rental in 1957. The wholly owned subsidiary, Western Fruit Express Co., received \$5.3 million car mileage revenues which much more than offset the net payments of the railway for equipment rentals.



Laying of continuous rail is speeded by this versatile off-track machine which effortlessly and accurately "threads" a 25-ton length of welded rail into position for a quick change-out. It also has many uses as a portable crane on maintenance of way jobs.

Materials and Supplies

When it became apparent late in 1957 that prices for material probably would be stabilized for some time, it was decided that the quantity of material and supplies on hand should be substantially reduced. This was done both to reduce carrying costs and also toward eventual placing of material and supplies under closer inventory control through use of the Univac electronic computer.

The first part of the program has resulted in a reduction from \$34.0 million on hand at the beginning of 1958 to \$23.7 million at the end of the year.

Meanwhile the second part of the program has progressed by classification and assignment of numerical designations to all of the more than 81,000 items of material used by the railway. A master catalogue is now being prepared, and during 1959 the Stores Department will commence inventory control through use of the Univac.

Diesel fuel prices in 1958 were lower than for several years. Some experimental work was done on use of lower priced fuels, proving them satisfactory, particularly during the summer months. Advantage was taken of our large oil storage facilities to make purchases at the most favorable prices. As a result, the fuel cost per dollar of revenue at 3.1¢ in 1958 was the lowest on record and compares with 3.4¢ in 1957 and 7.9¢ in 1948.

Taxes

Taxes accrued in 1958 were \$32.4 million, a reduction of \$1.0 million from the 1957 figure. Federal income taxes increased \$700 thousand as a result of less deferral of taxes from amortization of defense fa-

cilities and the slightly higher level of net income.

Payroll taxes for retirement and unemployment insurance were lower due to the smaller working force, although tax rates were higher. The burden of unemployment insurance taxes on railroad payrolls has become increasingly heavy in recent years. The entire cost of the system is borne by the railroads and the benefit rates are much more liberal than in the usual Federal-State unemployment systems. The high level of payroll taxes is particularly unfortunate since our principal competitors in other forms of transportation are taxed at the much lower rates paid by industry generally.

Wage Rates

The railroad industry is working under the terms of a 3-year agreement negotiated nationally with all of the various unions. These agreements, effective November 1, 1956, govern wages and provide a 3-year moratorium on changes in working rules. Under the terms of the agreements all employees covered by union contracts received an increase in basic pay of 7¢ per hour on November 1, 1958. In addition, cost-of-living adjustments increased wage rates 4¢ per hour on May 1 and 1¢ per hour on November 1, 1958. The total cost of these increases on an annual basis at 1958 average levels of employment is approximately \$6.1 million to Great Northern.

The average wage per hour worked for 1958 was \$2.73 as compared with \$2.51 in 1957. In addition, the cost of fringe benefits such as taxes for retirement pensions, unemployment insurance, health, welfare and group insurance amounted to \$0.47 per hour worked, or a total cost per hour worked of \$3.20 in 1958. This compared with \$2.93 in 1957.

Improvements in Facilities

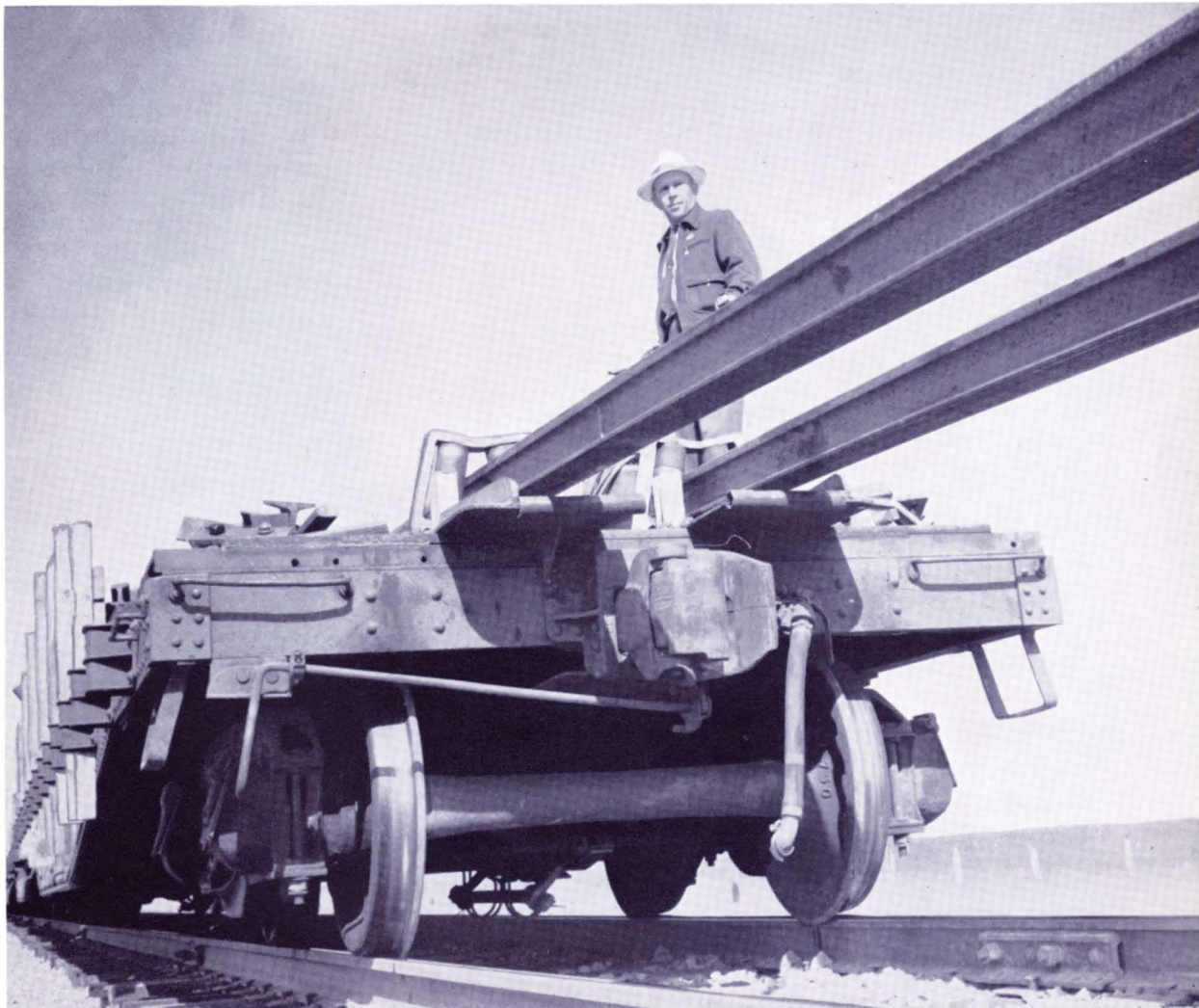
The railway's continuing program for improvement of facilities is guided by long range plans. These plans are reviewed from time to time, and each Fall an annual budget is carefully prepared for the year ahead.

In the Fall of 1957 it was recognized that business conditions in 1958 might not be favorable. Accordingly, the capital expenditure budget for 1958 was restricted to those projects which (1) were essential replacements of obsolete or worn-out facilities,

(2) offered the greatest return on investment, or (3) were necessary to serve new business. Reduced expenditures were made possible by the fact that the heavy program of rail relaying and ballasting on main lines which began in 1950 was nearing completion and expenditures for this purpose were due for reduction regardless of the recession in business activity.

Gross expenditures for improvements amounted to \$20.1 million, of which \$6.8 million was for roadway and structures and \$13.3 million for equipment. This total expenditure compared with \$35.1 million in 1957 which included a large carryover from 1956. The five-year average 1954-1958 was \$25.2 million.

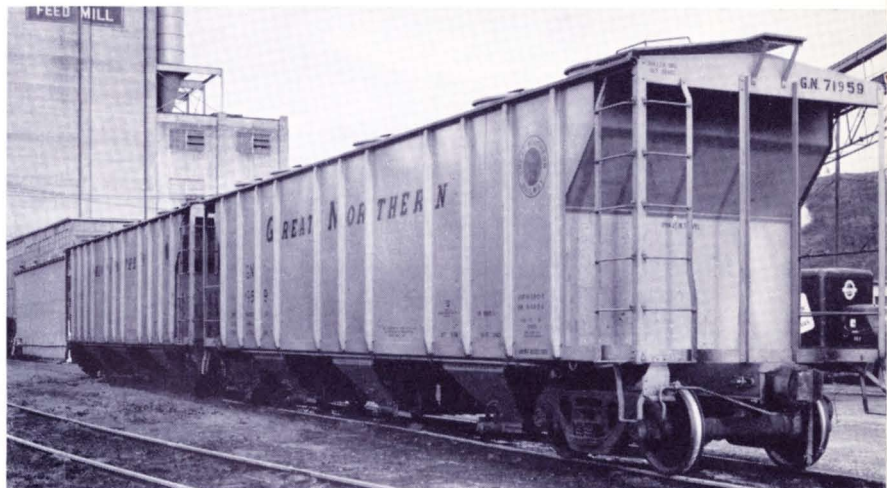
Continuous rail is electrically "flash" welded in quarter-mile lengths and moved on specially-equipped flat cars from the welding plant to the unloading site. At the end of 1958, Great Northern had a total of 160 miles of continuous rail on its system. An additional 49 miles is planned for 1959. Principal advantage is reduced maintenance.



The versatile "plug door" box car, shown here being loaded with wheat, is equally adaptable to lumber loading.



Shippers of many bulk commodities find that the popular "jumbo" covered hopper car helps them to reduce costs.



Equipment Program

The 1958 program for new equipment included the construction of 574 freight cars at our St. Cloud shops and the purchase of 175. Among the cars built in the Company's shops were 250 double door 50 foot box cars with 15 foot door openings to facilitate loading of lumber and other commodities adapted to handling with fork lift trucks and other mechanized devices. Also, 250 "plug" door 40 foot box cars with roller bearings were built. These can be used as single door cars to load bulk commodities such as grain, or as double door cars for lumber, plywood, etc. These general purpose cars have the advantage of reducing empty car movements. For example, bulk grain can be moved westward from Montana to West Coast ports and the same cars used at Washington lumber mills for eastward lumber loading. Ordinarily, box cars are not interchangeable in this way and empty cars often may have to be handled in both directions.

The Company's shops also built 24 new cabooses and 50 flat cars.

The 175 purchased units were covered hopper cars designed to carry bulk flour, feed, cement and other commodities. Such equipment enables shippers to reduce costs of loading, unloading and packaging. All of these cars are equipped with roller bearings.

Fifteen 1750 HP general purpose diesel road-switcher locomotives were delivered early in the year. These locomotives insure against the necessity of operating steam locomotives during future peak loading periods and permitted retirement of all steam power and facilities. Delivery of the new diesel locomotives makes it possible to store the least efficient diesel units during periods of seasonally reduced traffic.

In addition to new equipment received during 1958, 1,000 box cars were given a complete overhauling, including new lining and sides, providing cars suitable for high grade loading equivalent to new cars. Two hundred fifty 40 foot stock cars were built from older box cars, permitting retirement of approximately the same number of obsolete cars.

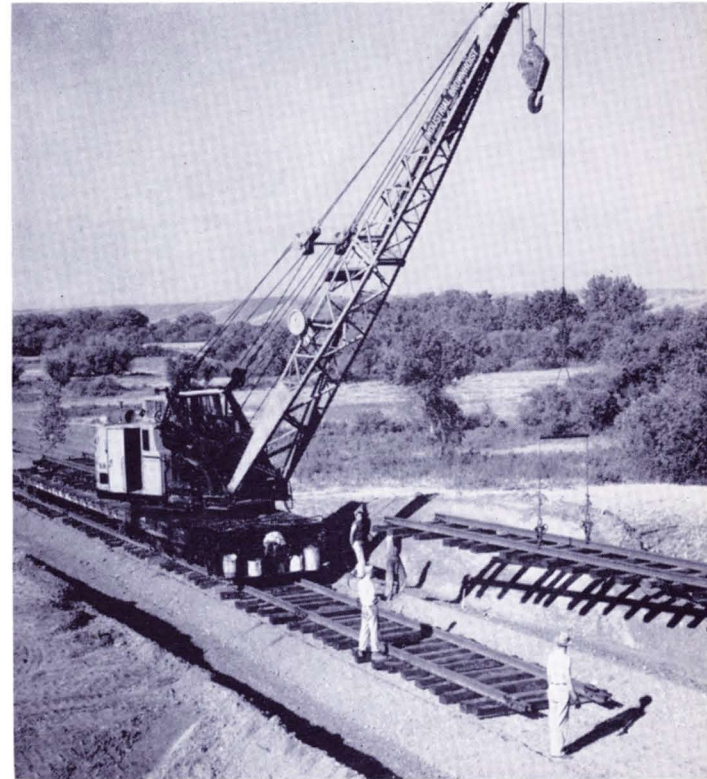
The program for 1959 includes capital expenditures of \$7.1 million for rolling stock, the principal item of which is construction of 500 box cars. In addition, heavy repairs will be made to 1,000 box cars, and another 250 box cars will be converted to modern livestock cars.

The 1750 HP road-switcher, used singly or in multiple, is a valuable "work horse" in both main and branch line freight service.





Building of a new branch line to serve an Air Force jet base under construction north of Glasgow, Montana was a speedy operation, completed in just two months. Grading and track-laying are pictured above and right. Approximately 2,900 prefabricated track panels were used in the project.



Fixed Property Improvements

The largest single project of 1958 was the building of an 18-mile branch line from Glasgow, Montana to a major Air Force jet base now under construction. This line will enable Great Northern to handle construction materials directly to the project while the base is being built during the next several years; and, a substantial movement of airplane fuel and other operation supplies is anticipated after completion of the base. Use of prefabricated track panels expedited construction of the line and kept costs at a minimum.

New trackage also was installed at 13 other points throughout the system, principally for service to new and existing industries.

Great Northern's increasing mileage of centralized traffic control was expanded in 1958 by an 85-mile installation on the main line in western North Dakota, between Des Lacs and Wheelock. Control of this section of CTC is from Minot. Consolidation of facilities formerly at Williston also has made Minot the control point for previously existing CTC mileage between Williston and Bainville, Montana. Principal advantages of centralized traffic control are flexibility of train movements and operating economies.

Maintenance of property during the year saw continuance of a program of replacing lighter rail with heavier steel, installation of crushed rock and crushed stone ballast on main lines, replacing timber bridges with steel bridges, and stabilizing roadway through grouting, driving of piling and drainage improvements.

Almost 11,600 tons of new rail were laid in 1958, and 201 miles of track were ballasted with crushed rock and stone. Track-laying included 57 miles of new 115-pound rail and nearly 125 miles of second-hand rail of various weights.

A major construction project begun in 1958 was the 24-mile line change on the Wenatchee-Oroville branch line, necessitated by construction of the Rocky Reach Dam on the Columbia River. This work is being done under contract with the Chelan County Public Utility District without cost to the railway.

The contemplated budget for capital expenditures in 1959 provides for an expenditure of \$8.3 million for fixed property. This includes 82 miles of new rail, 215 miles of second-hand relaying, the installation of a major line change in western North Dakota, completion of a line change in the Cascade Mountains and construction of 175 miles of centralized traffic control in Minnesota and Montana.



Combines cut wide swathes in a field of ripened wheat. Other important grains harvested in Great Northern country are barley, rye, corn and oats.

FROM FARM TO MARKET

GN moves a bountiful grain harvest!



A tubular probe is used to obtain a cross section sampling of each carload.

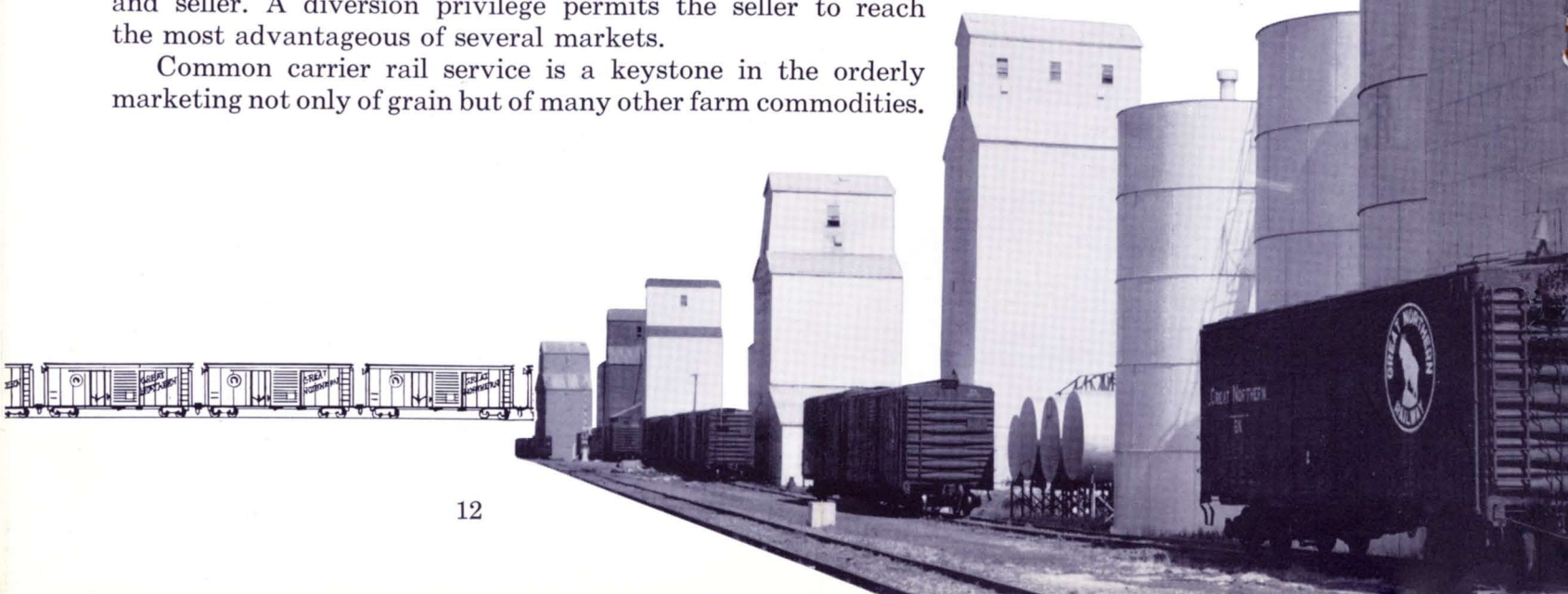
Grain is Great Northern's "bread and butter" business—our No. 1 producer of revenue. And king of the grains is wheat. One-third of the nation's wheat is harvested in states served by Great Northern Railway.

The role of the railway in the efficient marketing of grain is a unique one, embracing more than fast and flexible transportation.

Railway-provided facilities enable the inspection of each carload while en route. Grade is established and a sample goes to the market place for consideration in the bargaining of buyer and seller. A diversion privilege permits the seller to reach the most advantageous of several markets.

Common carrier rail service is a keystone in the orderly marketing not only of grain but of many other farm commodities.

Grain begins its rail journey to market at the country elevator. Great Northern serves more than 900 of these "prairie skyscrapers."

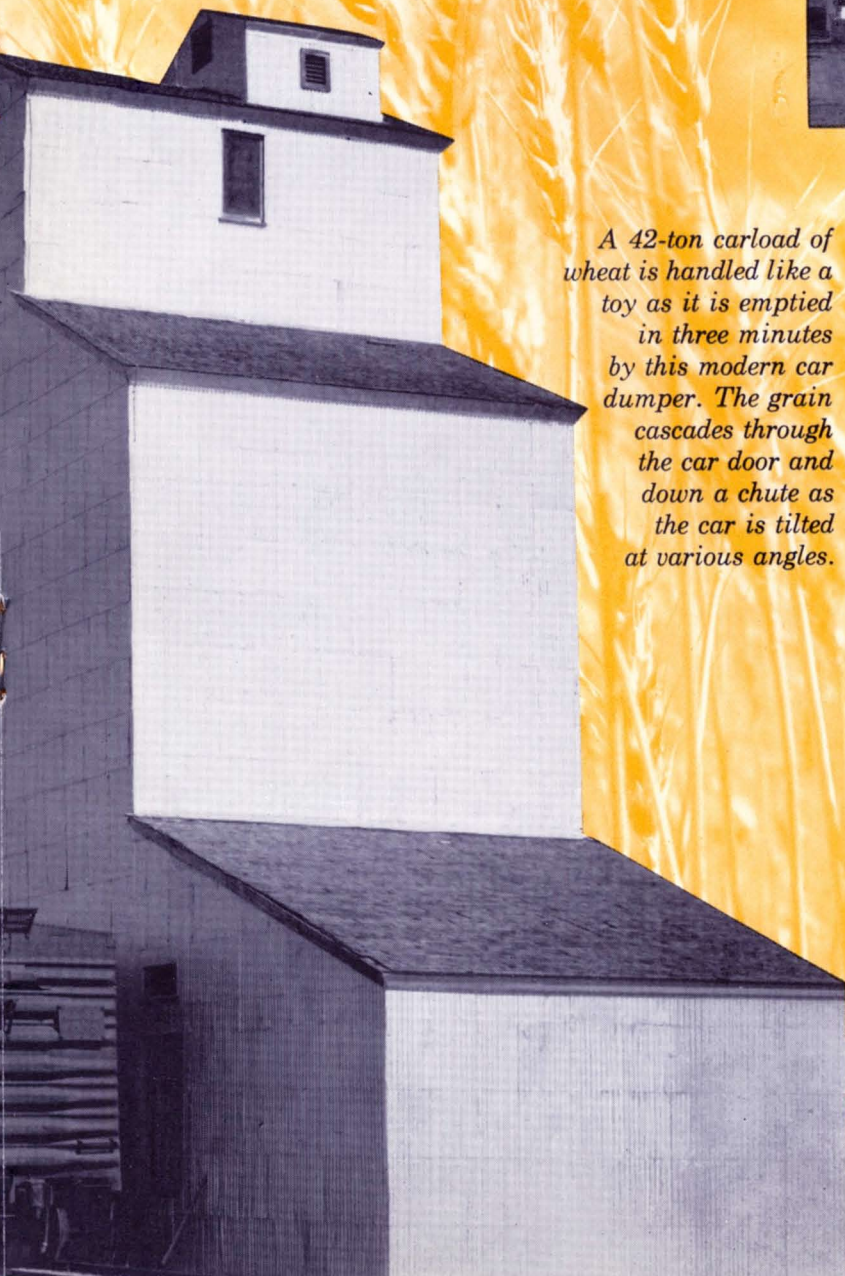




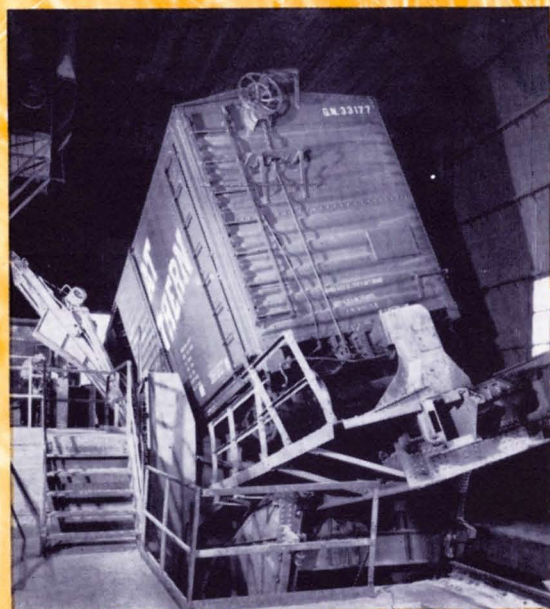
Rail and water transportation are linked at this giant terminal elevator served by Great Northern at Superior, Wisconsin. From here, grain is shipped by freighter through the five Great Lakes to Eastern ports, principally Buffalo.



Processed grain returns to the rails at Minneapolis, Minnesota—one of the nation's leading milling centers. High protein feed is loaded into a box car, while further down the platform bulk flour is pumped into an airslide hopper car.



A 42-ton carload of wheat is handled like a toy as it is emptied in three minutes by this modern car dumper. The grain cascades through the car door and down a chute as the car is tilted at various angles.



Service Improvements, Traffic Development

Faster Freight Schedules

The outstanding service improvement of 1958 was establishment of new eastward freight schedules between Seattle and Minneapolis, reducing the former schedule by nearly 22 hours and providing fourth morning instead of fifth morning delivery at the Twin Cities. The schedules of connecting lines east of the Twin Cities were adjusted to correspond and the advantages of the reduction thereby made available to all perishable and other high-speed traffic moving on Great Northern's transcontinental route.

Improved Communications

Telephone and teletypewriter facilities were expanded to speed communications between terminals. Off-line teletype circuits were leased between St. Paul and important traffic offices in the East and South to expedite distribution to our customers of current information about the movement of their shipments. A similar circuit on the West Coast was provided to join Seattle with principal cities as far south as Los Angeles.

Passenger Service

Experiments in passenger service were started late in 1958 to try to improve the volume of traffic during the winter season on the Western Star. Coach class tickets are being honored in Pullman cars on payment of the regular sleeping car charge instead of requiring first class tickets. At the same time, lower

cost but first quality meals were inaugurated in the dining car of this streamliner.

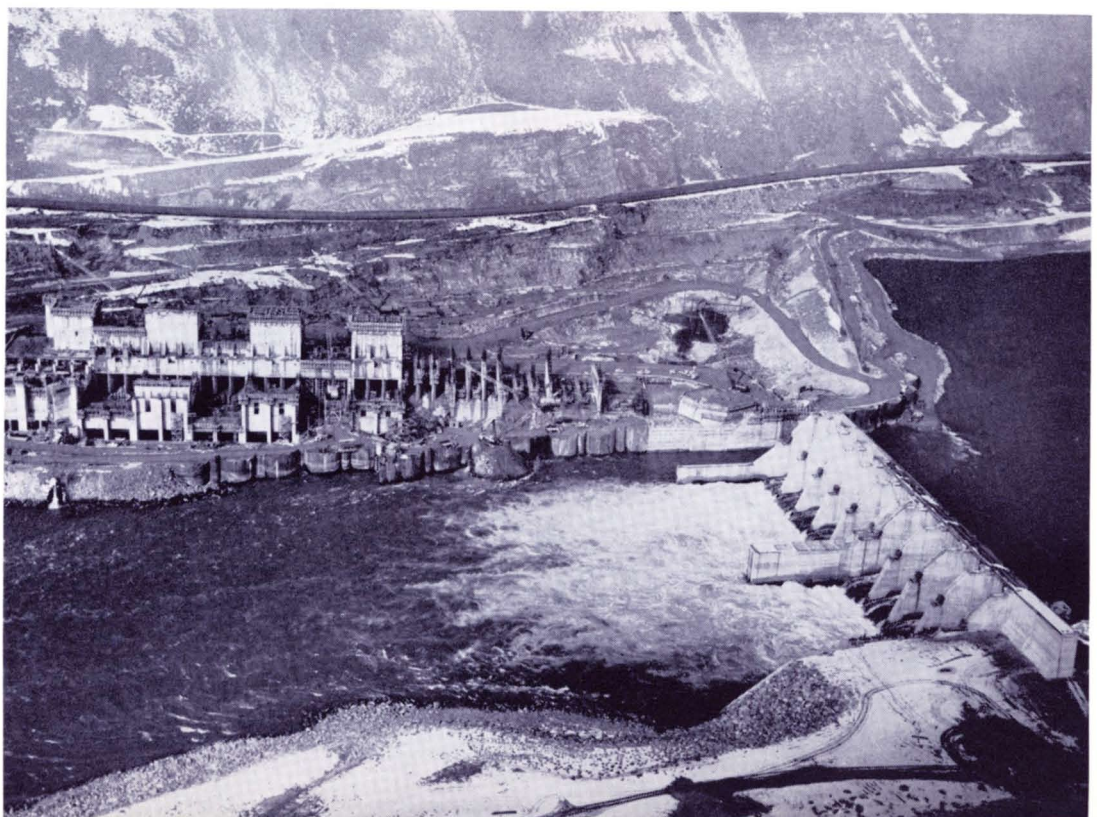
An extensive advertising campaign was carried on to show that train travel costs less than air travel even when meals and other extras are included. While it is too early to determine the final effect, it is apparent that many cost-minded passengers were attracted to Great Northern's services. Any improvement in revenue resulting from increased patronage of existing trains is largely carried through to net before taxes since the costs of main line operations are largely fixed.

Economic Research Program

In recent years the increasing competition of other forms of transportation has been intensified by the numerous general increases in freight rates which were necessary as a result of inflationary increases in wage and material costs. The entire freight rate structure of the railroads is gradually being changed to meet competitive pressure. To some extent the change is being made piecemeal after traffic is lost, and a need for economic research in the field of marketing, transportation costs and related fields is being felt very strongly. Some work is being done by groups of railroads set up in particular areas, but the need for research on Great Northern's particular problems indicated that a division should be created to carry out research work independent of the day-to-day pressure of regular duties.

The organization for this work was established late in the year with trained personnel drawn from the interested departments and with consulting assistance from a professional economist.

Construction of Rocky Reach Dam necessitates a major relocation of Great Northern's Wenatchee-Oroville branch line. A portion of the line change—begun last year and scheduled for completion in 1960—can be seen here on the hillside above the dam.





The growing importance of the Puget Sound area as an oil refining center is symbolized by this giant catalytic cracker at a new refinery served by Great Northern near Anacortes, Washington.

Industrial Expansion

The regular work of the Industrial and Agricultural Development Department was continued with favorable results. Although the recession in business slowed down spending for new plant facilities throughout the country, 101 new industries were located adjacent to Great Northern lines during 1958. The capacity of a number of existing installations was increased.

In Minnesota, North Dakota and Montana, expansion of grain storage and potato storage and washing facilities continued. Several new plants to process potatoes were built, or are being planned. The increased storage and processing capacities of these new plants tends to stabilize the movement of products to market and encourages the agricultural development of the territory.

Expansion of various Air Force facilities served by Great Northern continued, notably at the bases near Grand Forks, N. D., Minot, N. D. and Glasgow, Mont. Large volumes of construction material

moved into these bases and additional building contracts will be let in 1959.

On Puget Sound one large oil refinery was completed near Anacortes, Wash., and several other large refineries are projected for the Puget Sound area. Improvements completed or underway to lumber and paper-making facilities in Oregon, Washington and British Columbia will add traffic in future years.

Irrigation and Power Projects

In that part of the Columbia River Basin of Central Washington tributary to Great Northern, 17,482 acres received irrigation water for the first time. This was an increase of 18% to 114,700 acres under irrigation in Great Northern's part of this tremendous project. While it takes many years for full development of farms, already very substantial shipments of agricultural products are being made from what was unproductive wasteland a few years ago.

Progress continued on power development projects which will provide for long-range expansion of industry. The largest of these, Rocky Reach Dam, on the Columbia River 9 miles upstream from Wenatchee, Wash., is now 30% complete. Power production with seven generators producing 775,000 kilowatts is scheduled to start in 1962 and the project ultimately will have a capacity of 1,200,000 kilowatts.

Sale of the power to several industries and public utility companies, and financing of the project, have been completed. Work of relocating Great Northern's Wenatchee-Oroville branch above the level of the reservoir is underway.

At Priest Rapids Dam, below Wenatchee on the Columbia, construction during the year reached 60% of completion. This project will provide 630,000 kilowatts and is scheduled to go into service in 1960.

The first stage of the Chief Joseph Dam project on the Columbia River was completed in 1958 when the last four of sixteen generators went on the line, bringing capacity to 1,024,000 kilowatts. The power house is planned for an ultimate installation of eleven more generators.

Studies continued on three other major Columbia River power projects, near Great Northern, with a potential capacity of 1,600,000 kilowatts. It is possible that further steps toward construction on the Wells, Wanapum and Ben Franklin dams may be taken during 1959.

On the Missouri River, near Great Falls, Mont., Cochrane Dam with a generating capacity of 60,000 kilowatts was completed in 1958. At Fort Peck Dam in eastern Montana, work continued on installation of a second power plant which will provide 84,000 kilowatts of additional energy.

Resources Study

Formation in 1958 of the Upper Midwest Research and Development Council, under strong sponsorship, initiated a long-range study program of importance to future railway traffic. The study will appraise the human and natural resources of the area between Montana and Wisconsin with a view to accelerating the rate of economic growth.

Mineral Research and Development

Although iron mining activity on Minnesota's Mesabi Range in 1958 was at the lowest level in many years, interest was high in development of new processes for beneficiating iron ores. The steel industry constantly is using ore of higher iron content and improved structure so as to increase existing blast furnace capacity without large capital expenditures for new furnaces. This has stimulated research and development work toward extending the life of Mesabi Range reserves by making lower grade ores usable.

The second year of the cooperative program under which Great Northern and the University of Minnesota are working on development of an economical process to produce iron ore from non-magnetic taconite continued at an accelerated rate. The first phase of the project, to determine the nature and quantities of western Mesabi taconites, has disclosed that enormous tonnages of iron-bearing material amenable to treatment exist in the territory served by Great Northern. The project is now concentrating on development of economical processes.

At other locations on the railway considerable mineral exploration and development work is being done. Great Northern is jointly sponsoring with the Montana Bureau of Mines and Pacific Power & Light Co. a 5-year program of geologic investigation

of a large area in northwestern Montana which has never been studied or mapped geologically, but which has considerable promise.

St. Lawrence Seaway

After years of planning and construction work, the section of the St. Lawrence Seaway joining Lake Ontario with deep water in the St. Lawrence River was completed in 1958. Although Duluth-Superior is already one of the major ports of the United States, little of its commerce has moved directly to the sea. Plans of companies in international trade indicate that ocean shipping will increase substantially on the Great Lakes in 1959 and later years, particularly after deepening of channels connecting the lakes is completed in 1963. This will provide a 2,342-mile-long waterway from the Gulf of St. Lawrence to Duluth-Superior.

Meanwhile, extensive harbor improvements and construction of terminal facilities are underway at inland ports. Duluth has a \$40,000,000 terminal already under construction on Rices Point in the protected waters of St. Louis Bay. Other very extensive cargo handling facilities for shipping are being planned.

It is difficult to foresee the final results of this revolutionary change which opens the Great Lakes to a part of the world's merchant ships. Certainly it will require many years for shipping patterns to readjust themselves under the influence of competition and other economic factors such as the balance of incoming and outgoing tonnage. However, to the extent trade through Duluth-Superior is increased, Great Northern is strategically located to benefit, with a direct connection to Minneapolis-St. Paul and a short line directly westward to join the trans-continental main line at Minot, North Dakota.



Progress toward completion of the St. Lawrence Seaway focuses growing attention on the Twin Ports of Duluth and Superior, where facilities already are being expanded to accommodate anticipated ocean commerce.

It is too early to assess the economic impact of Alaskan statehood, but Great Northern is favored by strategic location. Shown here are Great Northern-owned piers 88 and 89 at Seattle, traditional gateway to Alaska.



Financial and Corporate

Capital Stock

At the end of 1958 there were 6,096,149 shares of stock outstanding in the hands of the public. The number of shareholders was 38,121 on the last record date in November.

Funded Debt

At the end of 1958 funded debt was \$270.7 million compared with \$266.4 million at the end of 1957, an increase of \$4.3 million. Of the total, \$7.7 million of equipment obligations are due in 1959. The next maturity of mortgage bonds is January 1, 1961 when \$21.7 million are payable.

As o. December 31	General Mortgage Bonds (Millions)	Equipment Obligations (Millions)	Total Funded Debt (Millions)
1958.....	\$200.4	\$69.9	\$270.7
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

Three equipment trusts, totaling \$11.5 million, were issued during the year at interest costs to maturity from 3.56% to 4.23%. The last issue, sold in December, will finance equipment being acquired in 1959.

In 1958 depreciation charges included in maintenance expenses provided more than sufficient cash to cover the annual principal payments on equipment trusts, and the down payments required on the

new trusts which were issued to acquire additional equipment during the year.

1958

Cash Down Payments on New Equipment.....	\$ 2,338,275
Principal Payments on Equipment Trusts.....	7,060,000
Total Payments.....	\$ 9,398,275
Depreciation Charges.....	\$13,902,262

Affiliated Companies

Cash dividends received from the Chicago, Burlington & Quincy R.R. Co. were \$6.2 million, the same as in 1957. Great Northern owns 48.6% of the outstanding stock which, together with an equal number of shares owned by the Northern Pacific, comprises 97.2% of the amount outstanding. The Burlington had a successful year, and aided by an excellent crop in its territory maintained its gross revenues at the 1957 level in spite of the recession. Its net income increased 13.4% over 1957.

The Spokane, Portland and Seattle Ry. Co., owned 50% each by Great Northern and Northern Pacific, also had a successful year in 1958. Great Northern received \$1.2 million in mortgage bond interest from the subsidiary company.

Earnings of Western Fruit Express Co., wholly-owned subsidiary of Great Northern, were somewhat less than in 1957 due to lower car mileage earned by its refrigerator cars. These operate in a nation-wide pool and earnings were affected adversely in the early months of the year when unfavorable weather reduced the movement of perishable crops. While no dividends were paid, Great Northern received \$29,062 in interest and \$450,000 as a repayment of loans to Western Fruit Express for car construction.

Great Northern's subsidiary which owns hotels and motels in Glacier National Park, in the Montana Rockies, continued for the second year under the management of the Knutson Hotel Corporation. During the 1958 Summer season there was a 7% decrease in the number of visitors in Glacier Park, reflecting the decline in general business conditions. However, the housecount at the hotels and motels was down only 2%. With more advance reservations than for several years, the outlook for Glacier Park operations in 1959 is more favorable.

Unification Study

In the reports of recent years reference has been made to the study undertaken by Great Northern and Northern Pacific Railways to determine whether it would be economically desirable and in the public interest to merge the properties of their railroads and the jointly controlled Chicago, Burlington & Quincy R.R. and Spokane, Portland and Seattle Railway System. In addition to their long-standing joint interests, the parent companies have much else in common.

The preliminary report of the economics of consolidation, submitted by the transportation consulting firm of Wyer, Dick & Co., indicated that substantial economies, as well as better service to the public, were possible.

During 1958 Great Northern and Northern Pacific progressed further studies of the complicated financial and corporate problems involved.

Legislation

The most important national railroad legislation in nearly 20 years was the Transportation Act of 1958. While this measure was only a step in the direction of permitting the railroads to do business on the same terms as other transportation agencies, it was a long first step.

Under the new law, interstate passenger trains can be discontinued by filing a 30-day notice with the Interstate Commerce Commission unless the Commission finds that the continued operation of the train is required by the public. Great Northern filed the first such "train-off" case under the new law. The case was decided favorably early in 1959, becoming a precedent for future cases. In addition, the new law provides for direct appeal to the Commission in those intrastate passenger train discontinuance cases where the state commissions have either denied the railroad's application or have failed to act, even though the trains have been deserted by the public and were being operated at a loss.

In addition, the new law clarified the principles on which competitive rates should be established;

it also provided some definition of rules regarding private and contract trucking and halted the further exemption from regulation of truckers of agricultural products.

Second only in importance to the Transportation Act was repeal of the 3% excise tax paid on freight charges. This unfair tax, designed to reduce wartime freight shipments, had developed into a powerful incentive to private trucking and accordingly was opposed by all public transportation agencies. Another wartime measure, the 10% tax on passenger fares, remains, and it is hoped that Congress will repeal that tax in 1959 to give some encouragement to railroad passenger service.

Litigation

The Spokane Gateway case, initiated by the Milwaukee Railroad in an effort to obtain a larger share of traffic to and from the Spokane, Portland and Seattle Railway, was decided by the Interstate Commerce Commission favorably for the Great Northern. The Milwaukee Road's action to have the order set aside is pending in the Federal Court.

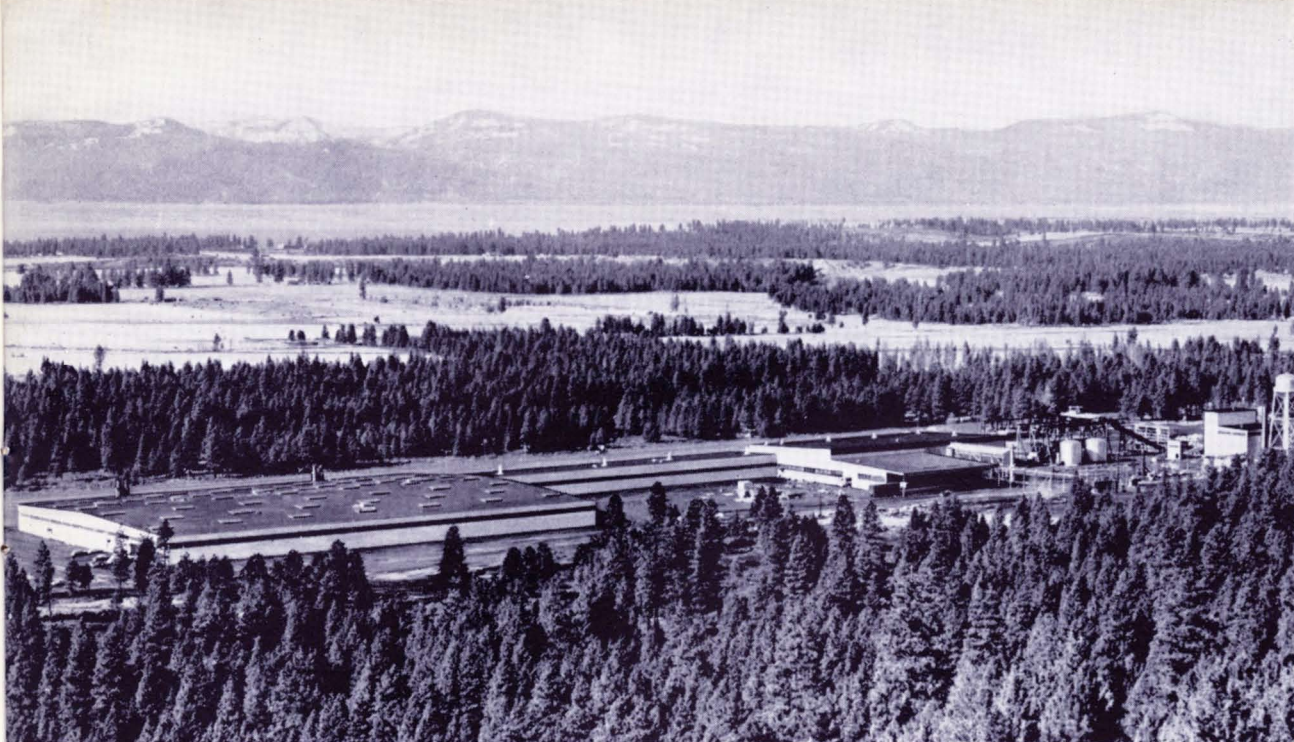
The Divisions cases involving the apportionment of interline revenues between the transcontinental railroads and their connections are still pending before the Interstate Commerce Commission. The issues themselves and the evidence are extremely complicated. Additional testimony is still being presented and a final decision is not expected in 1959.

The case brought by Southeastern interests for reductions and a change in the grain rate structure made some further progress before the Interstate Commerce Commission. It is unlikely that the case will be closed in 1959.

Still pending in the Federal Court, but not yet ready for trial, is the Riss case, in which a trucking firm seeks damages under the antitrust laws against 85 railroads, including the Great Northern. The case involves transportation of explosives.

Also pending is a series of similar suits brought on behalf of non-scheduled airlines against numerous railroads, including the Great Northern, in which plaintiffs ask large amounts, claiming that the rail carriers conspired to monopolize the transportation of military personnel so as to eliminate non-scheduled airline competition.

In 1958 two suits were commenced against 45 railroads, including the Great Northern, in which it is alleged that the railroads maliciously opposed a motor carrier acquisition petition, brought before the Interstate Commerce Commission, to the damage of stockholders of one of the interested motor carriers. Final judgment is not expected in any of these cases in 1959.



An important new industry completed last year on Great Northern trackage is this big insulating board plant, located in a picturesque setting of mountain and forest near Klamath Falls, Oregon.

Personnel

Archibald W. Witherspoon—1876-1958

Mr. Archibald W. Witherspoon, who had served ably as a director since 1942, passed away on December 2. He had moved to Spokane, Washington, as a boy in 1883, and during his long business career served as president or director of 75 Inland Empire Corporations. From his knowledge of industry and finance in the Pacific Northwest, he made most valuable contributions to Great Northern's progress.

Organization Changes

Under the Company's pension rules, Vice Presidents Vernon P. Turnburke and Thomas Balmer retired in the summer of 1958, concluding many years of outstanding service.

Mr. Turnburke, as Vice President, Executive Department in St. Paul, completed a career of 41 years with Great Northern. A civil engineer, Mr. Turnburke spent many years in increasingly responsible positions in the Accounting Department before his service in the Executive Department. His achievements in financing were outstanding. He was succeeded as Vice President by Mr. Robert W. Downing, who had been Assistant to the President.

Mr. Balmer had been Vice President, Executive Department in Seattle. He served the Company for 51 years in its Law Department, and for the last 21 years was Vice President and Western Counsel. Mr. Balmer has had a distinguished career both as a railway officer and as a business and civic leader in the Pacific Northwest. Mr. Clark A. Eckart, who was formerly General Attorney, Lines West, succeeded him as Vice President and Western Counsel.

Effective in May 1958 the importance of personnel and labor relations work, formerly carried on as a division of the Executive Department, was given further recognition. A Personnel Department was

established and Mr. Clyde A. Pearson, Assistant to the President-Personnel, was elected Vice President-Personnel to head it.

Employee Relations

Four-year college scholarships, offered annually to sons of Great Northern employees in the United States and Canada, were awarded in 1958 for the third consecutive year. Winners of the scholarships, valued at \$750 per year, were: Scott W. Johnson, of Minneapolis, Minnesota, now attending Harvard University; Michael V. Grabowski, of Wahpeton, North Dakota, now attending the University of North Dakota; and Isamu Kawabori, of Spokane, Washington, now attending Occidental College.

Also last year five Great Northern supervisory employees completed courses in the specialized advanced management training programs offered by various universities.

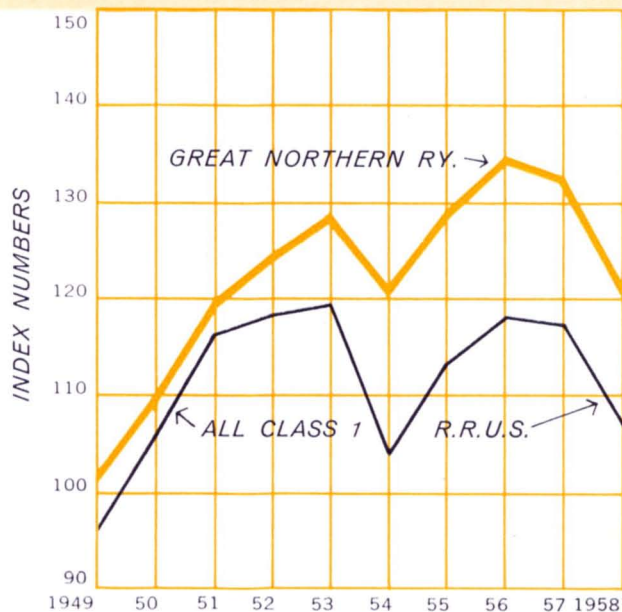
Settlement of claims and grievances with three separate unions was expedited in 1958 by Special Boards of Adjustment. The decisions of these boards have the same effect as awards made by the National Railroad Adjustment Board. The advantage of local boards is that members are more familiar with cases, and decisions are reached with minimum delay.

Safety

Great Northern maintained its position among the leaders in national railway safety in 1958, when there were no fatalities or serious injuries to passengers on the company's trains.

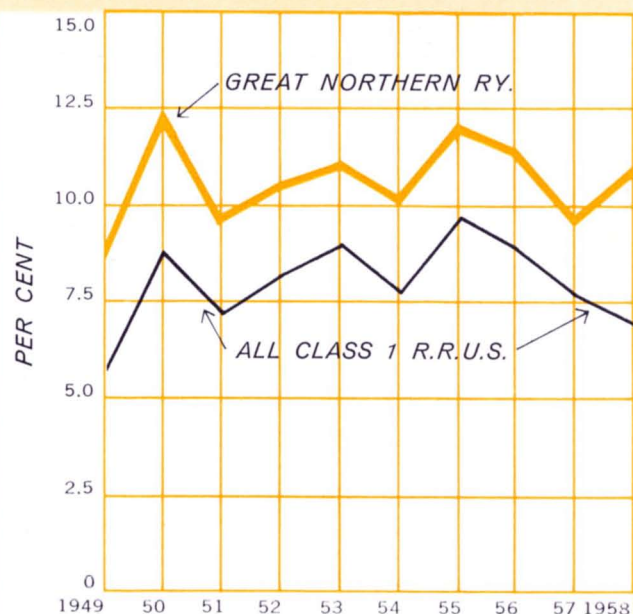
Our employee safety record last year was the third best in Great Northern history. The employee casualty ratio of 2.74 accidents per million man hours worked in 1958 earned third place ranking among all Group A railroads—those working more than 40 million man hours annually.

OPERATING REVENUES



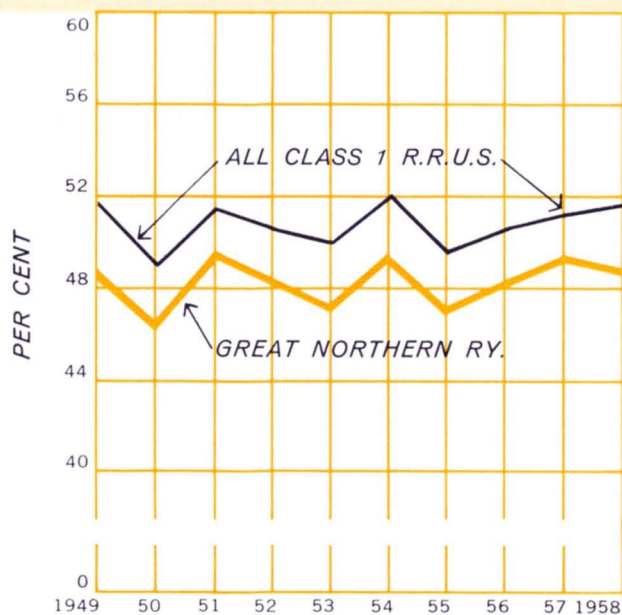
Since 1951, Great Northern's operating revenues have grown faster than those of the railroad industry as a whole, reflecting the expansion of the Northwest area.

% NET INCOME TO GROSS REVENUE



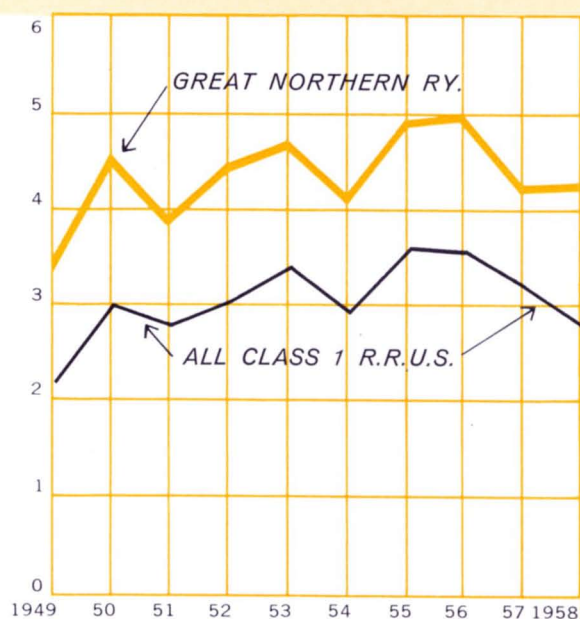
Although wages and other costs have soared, benefits of a large post-war capital improvement program have enabled Great Northern to carry through to net income a higher percentage of gross revenue than that of the railroad industry.

% WAGES OF OPERATING REVENUES



Wages are the largest single operating cost. Great Northern consistently has held the percentage of wages to operating revenues below that of the industry, and in 1958 achieved an improvement in this important ratio.

TIMES FIXED CHARGES EARNED



Although the capital improvement program in recent years has required substantial expenditures, total funded debt has decreased slightly. Stable earning power has maintained fixed charge coverage substantially above that of the railroad industry.

Great Northern Railway Company

Statement of Income and Retained Income

Year ended December 31, 1958 with comparative figures for 1957

	1958	1957
OPERATING REVENUES:		
Freight.....	\$223,951,523	245,686,663
Passenger, mail and express.....	20,025,749	20,092,488
Other.....	7,694,232	9,597,867
Total.....	251,671,504	275,377,018
OPERATING EXPENSES:		
Transportation.....	88,208,545	95,630,117
Maintenance of way and structures.....	38,747,864	50,929,918
Maintenance of equipment.....	45,225,542	47,050,364
Traffic.....	6,434,221	6,356,429
General and other.....	12,238,672	12,215,476
Total.....	190,854,844	212,182,304
NET REVENUE FROM RAILWAY OPERATIONS.....	60,816,660	63,194,714
TAXES AND RENTS:		
Federal income tax (note 3).....	11,406,780	10,716,596
Payroll and other taxes.....	20,980,158	22,669,352
Equipment and joint facility rents—net.....	2,606,412	4,955,063
Total taxes and rents.....	34,993,350	38,341,011
NET RAILWAY OPERATING INCOME.....	25,823,310	24,853,703
OTHER INCOME:		
Dividends.....	6,405,789	6,343,003
Interest.....	2,371,650	2,621,791
Rent and miscellaneous income—net.....	1,312,801	968,914
Total.....	35,913,550	34,787,411
INTEREST ON LONG-TERM DEBT, INCLUDING AMORTIZATION OF DISCOUNT.....	8,335,752	8,143,896
NET INCOME.....	27,577,798	26,643,515
RETAINED INCOME AT BEGINNING OF YEAR.....	353,717,253	346,006,087
Total.....	381,295,051	372,649,602
DEDUCT:		
Dividends.....	18,250,025	18,214,023
Miscellaneous net charges (after related income tax reduction of \$1,060,434 in 1958).....	1,206,017	718,326
Total.....	19,456,042	18,932,349
RETAINED INCOME AT END OF YEAR.....	\$361,839,009	353,717,253

See accompanying notes to financial statements, page 24.

Great Northern

Balance

December 31, 1958 with

<i>Assets</i>	<i>1958</i>	<i>1957*</i>
CURRENT ASSETS:		
Cash and temporary cash investments.....	\$ 66,222,669	51,709,213
Accounts receivable.....	16,200,567	15,750,166
Material and supplies, at cost.....	23,711,513	33,996,508
Other current assets.....	593,602	694,756
	<u>106,728,351</u>	<u>102,150,643</u>
CAPITAL AND OTHER SPECIAL FUNDS.....	13,901,527	9,134,274
INVESTMENTS, AT OR BELOW COST:		
Affiliated companies (note 5).....	171,743,654	172,614,938
Other companies.....	876,379	916,621
Reserve for adjustment of securities.....	(6,318,353)	(6,318,353)
Total investments.....	<u>166,301,680</u>	<u>167,213,206</u>
PROPERTIES (note 1):		
Road and roadway structures, etc.....	548,669,919	546,809,738
Equipment.....	304,891,959	300,271,021
Acquisition adjustment and donations and grants.....	(9,971,580)	(9,892,578)
Total transportation property.....	<u>843,590,298</u>	<u>837,188,181</u>
Allowances for depreciation and amortization.....	(197,468,273)	(194,037,262)
Net transportation property.....	<u>646,122,025</u>	<u>643,150,919</u>
Non-operating property, less depreciation.....	12,555,436	12,987,662
Net properties.....	<u>658,677,461</u>	<u>656,138,581</u>
OTHER ASSETS AND DEFERRED CHARGES.....	9,098,440	10,172,374
Total assets.....	<u>\$954,707,459</u>	<u>944,809,078</u>

*The 1957 amounts above have been restated to conform with the revised accounting regulations of the Interstate Commerce Commission effective January 1, 1958.

Railway Company

Sheet

comparative figures for 1957

<i>Liabilities and Shareholders' Equity</i>	<i>1958</i>	<i>1957*</i>
CURRENT LIABILITIES:		
Accounts payable.....	\$ 10,122,077	11,652,606
Accrued payroll.....	5,011,688	5,218,624
Accrued taxes.....	18,302,649	19,871,208
Other current liabilities.....	5,235,037	5,058,914
	<u>38,671,451</u>	<u>41,801,352</u>
DEBT DUE WITHIN ONE YEAR.....	<u>7,855,896</u>	<u>7,076,897</u>
LONG-TERM DEBT:		
General mortgage gold bonds (2¼ % to 5 %):		
\$21,699,000 due in 1961, \$14,154,900 in 1973, \$14,508,000 in 1976,		
\$40,000,000 in 1982, \$37,500,000 in 1990 and in 2000 and		
\$35,000,000 in 2010.....	200,361,900	200,506,900
Equipment obligations (2 % to 4¼ %):		
\$7,655,318 due in each of years 1960 to 1963, \$6,807,319 in 1964,		
\$6,112,000 in 1965, \$4,812,000 in 1966, \$3,324,000 in 1967, and		
\$10,613,000 in years 1968 to 1973 inclusive.....	62,289,591	58,434,909
Miscellaneous obligations.....	195,193	395,771
Total long-term debt.....	<u>262,846,684</u>	<u>259,337,580</u>
RESERVES FOR VACATION PAY, INSURANCE, ETC. (note 2).....	10,789,802	10,311,491
OTHER LIABILITIES AND DEFERRED CREDITS.....	1,289,907	1,778,143
Total liabilities.....	<u>321,453,740</u>	<u>320,305,463</u>
SHAREHOLDERS' EQUITY:		
Common stock without par value. Authorized 7,500,000 shares;		
issued 6,208,957 shares at stated value.....	274,028,150	274,028,150
Less treasury stock, 112,767 shares and 131,130 shares at respective dates,		
of which 94,305 shares and 98,118 shares respectively were reserved for		
officer and employee options at prices ranging from approximately		
\$24 to \$43.....	5,114,441	5,924,464
Common stock outstanding.....	<u>268,913,709</u>	<u>268,103,686</u>
Capital surplus.....	2,501,001	2,682,676
Retained income including \$1,375,000 appropriated for sinking fund.....	361,839,009	353,717,253
Total shareholders' equity.....	<u>633,253,719</u>	<u>624,503,615</u>
Total liabilities and shareholders' equity.....	<u>\$954,707,459</u>	<u>944,809,078</u>

See accompanying notes to financial statements, page 24.

PEAT, MARWICK, MITCHELL & Co.

CERTIFIED PUBLIC ACCOUNTANTS
FIRST NATIONAL BANK BUILDING
ST. PAUL 1, MINNESOTA

ACCOUNTANTS' REPORT

THE BOARD OF DIRECTORS
GREAT NORTHERN RAILWAY COMPANY:

We have examined the balance sheet of Great Northern Railway Company as of December 31, 1958 and the related statement of income and retained income for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of income and retained income present fairly the financial position of Great Northern Railway Company at December 31, 1958 and the results of its operations for the year then ended, in conformity with principles of accounting prescribed or authorized by the Interstate Commerce Commission.

St. Paul, Minnesota
February 27, 1959

Peat, Marwick, Mitchell & Co.

Great Northern Railway Company

Notes to Financial Statements

December 31, 1958

1 The road and equipment property is stated at original cost plus additions and betterments, less retirements and depreciation. Consistent with the practice generally followed by Class 1 Railroads, the company has not provided for depreciation prior to 1943 of road property held at that date.

2 In accordance with accounting prescribed by the Interstate Commerce Commission, reserves of approximately \$7,200,000 payable in 1959 are not included in current liabilities.

3 In determining the estimated Federal income tax liability for 1958, the company deducted approximately \$7,300,000 from income for amortization of emergency facilities and accelerated depreciation in excess of recorded depreciation. This reduced the 1958 Federal income tax provision by approximately \$3,800,000. The corresponding aggregate reduction in Federal income

taxes for the years 1950-8 amounted to approximately \$25,000,000.

4 The company was liable as guarantor of certain obligations of affiliated companies amounting to approximately \$16,500,000 at December 31, 1958. At that date the liability for unfunded past service pension costs amounted to approximately \$15,000,000.

5 Investments in affiliated companies include \$109,504,385 pledged under general gold bond mortgage and \$20,000,000 restricted as to disposition under escrow agreement.

The company's equity in the retained income since acquisition of unconsolidated subsidiaries at December 31, 1958 (as shown by their unaudited financial statements) amounted to \$10,550,375 of which \$424,188 represented 1958 undistributed net retained income.



GREAT NORTHERN RAILWAY SYSTEM

— BURLINGTON LINES

— SPOKANE, PORTLAND & SEATTLE RAILWAY (AND ITS SUBSIDIARY LINES)

The bewhiskered animal in Great Northern Railway's trademark is popularly known as a Rocky Mountain goat, but really is a member of the antelope family. The goat has been a part of the company's insignia since 1921, when it became a symbol of the railway's identity with development of Glacier National Park in Montana, where the exceptional color photograph reproduced here was made in 1958. Great Northern's trademark goat made his debut as "Rocky" in the company's newspaper and magazine advertising several years ago, and since 1955 has starred in the railway's animated television promotion in principal cities throughout the system.

