



Great Northern Railway

SEVENTY-FIRST ANNUAL REPORT 1959

Great Northern Railway Company

*General Offices
Great Northern Railway Building
St. Paul, Minnesota*

SEVENTY-FIRST ANNUAL REPORT

for the year ending
December 31, 1959



Our cover photo shows Great Northern's eastbound "Twin City" skirting the Kootenai River in scenic western Montana. Taking the siding for the "hot shot" freight is a mechanized track broom, used in leveling the ballast between ties on newly-reballasted track. Adding an extra touch of color to the scene is the crushed rock ballast, a pink quartzite from the railway's quarry at Essex, Montana.

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Manhattan Bank, New York*
JOHN M. BUDD.....*President, Great Northern
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F. PEAVEY HEFFELFINGER.....*Chairman of the
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The Equitable Life Assurance Society
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J. HOWARD LAERI....*Executive Vice President
The First National City Bank
of New York, New York*
WILLIAM H. LANG.....*President, Foley
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JAMES F. OATES, JR.....*President
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Weyerhaeuser Company, St. Paul*

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C. E. FINLEY.....*Vice President
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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.....*39 Broadway
New York (6), N.Y.*
JOHN E. ADAMS.....*Assistant Secretary
and Assistant Treasurer, New York*
EDWARD V. FINK.....*Assistant Treasurer
and Transfer Agent, New York*
CLAIRE M. BYRNES.....*Assistant Secretary
and Transfer Agent, New York*
ADOLPH SELANDER.....*Assistant Treasurer
and Transfer Agent, St. Paul*
CLARENCE F. ZIEGAHN.....*Assistant Secretary
and Transfer Agent, St. Paul*

Highlights of 1959

ITEM	1959	1958	Increase-I Decrease-D
<i>Income Account (Millions of Dollars)</i>			
Net Income.....	\$ 26.56	\$ 27.58	\$ 1.02-D
Dividends Paid.....	18.31	18.25	.06- I
Operating Revenues.....	254.56	251.67	2.89- I
Operating Expenses—Wages.....	120.51	119.66	.85- I
Operating Expenses—Depreciation.....	14.13	13.90	.23- I
Operating Expenses—Total.....	197.11	190.85	6.26- I
Taxes.....	29.86	32.39	2.53-D
Fixed Charges.....	8.42	8.34	.08- I

<i>Financial Condition Dec. 31, (Millions of Dollars)</i>			
Cash and Special Deposits.....	\$ 63.46	\$ 66.22	\$ 2.76-D
Total Current Assets.....	104.93	106.73	1.80-D
Current Liabilities.....	35.83	38.67	2.84-D
Working Capital.....	69.10	68.06	1.04- I
Net Investment in Transportation Property	647.42	646.12	1.30- I
Long Term Debt.....	262.10	270.70	8.60-D
Net-Worth—Shareholders' Equity.....	640.06	633.25	6.81- I
Gross Expenditures for Property Improvements.....	20.41	20.11	.30- I

<i>Financial Statistics</i>			
Times Fixed Charges Earned.....	4.16	4.31	.15-D
Per Cent Return on Property Investment.....	3.45	3.66	.21-D
Per Cent Revenues			
Carried Through to Net Income.....	10.43	10.96	.53-D
Taken by Transportation Expenses.....	35.52	35.05	.47- I
Taken by All Operating Expenses.....	77.43	75.83	1.60- I

<i>Average Per Share of Capital Stock (6,100,830) Shares Dec. 31, 1959</i>			
Operating Revenues.....	\$ 41.73	\$ 41.28	\$.45- I
Net Income Before Taxes on Income.....	5.63	6.39	.76-D
Income Taxes.....	1.27	1.87	.60-D
Total Taxes.....	4.89	5.31	.42-D
Net Income After All Taxes.....	4.35	4.52	.17-D
Dividends Paid.....	3.00	3.00	—
Fixed Charges.....	1.38	1.37	.01- I
Shareholders' Equity.....	104.91	103.88	1.03- I

<i>Operating Statistics</i>			
Miles of Road Operated.....	8,292	8,281	.11- I
Train Miles (Millions).....	16.92	17.19	.27-D
Diesel Locomotive Miles (Millions).....	22.56	22.36	.20- I
Car Miles (Millions).....	822.76	794.08	28.68- I
Gross Ton Miles (Billions).....	45.13	43.67	1.46- I
Revenue Net Ton Miles (Billions).....	15.67	15.28	.39- I
Passengers Carried One Mile (Millions)...	435.19	433.51	1.68- I
Revenue per Net Ton Mile (Cents).....	1.45	1.47	.02-D
Revenue per Passenger Mile (Cents).....	2.31	2.34	.03-D
Train Load—Net Tons.....	1,383.12	1,394.57	11.45-D
Net Ton Miles per Freight Car Day.....	1,012.23	975.81	36.42- I
Gross Ton Miles per Train Hour.....	63,066	61,404	1,662- I

<i>Employees</i>			
Number of Employees.....	20,539	20,931	392-D
Total Wages (Millions).....	\$ 125.22	\$ 123.21	\$ 2.01- I
Straight Time Wages per Hour.....	\$ 2.73	\$ 2.62	\$.11- I
Earnings per Employee per Year.....	\$ 6,097	\$ 5,886	\$ 211- I

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GREAT NORTHERN RAILWAY COMPANY

EXECUTIVE DEPARTMENT

J. M. BUDD,
President

ST. PAUL 1, MINNESOTA

March 23, 1960

To our Shareholders:

This Seventy-First Annual Report presents a comprehensive review of Great Northern Railway operations in 1959. Also noted within these pages are various other developments affecting the current or future welfare of the company.

Of particular interest to stockholders are last year's earnings of \$4.35 per share—off 17 cents from 1958—and the continuation of annual dividends at the rate of \$3.00 per share.

Revenues were 1% higher than those of the previous year, but this small gain was more than offset by a 3% increase in expenses, as explained in detail in the sections devoted to Financial Review and Report on Operations.

An unusual aspect of our freight traffic was that iron ore, for the second year, figured less prominently than normal. The movement of grain, our most important producer of revenue, was at a slightly higher level than in 1958.

Several significant developments having a bearing on freight and passenger traffic are accorded special treatment in this edition of the Annual Report. Among these subjects are the opening of the St. Lawrence Seaway, the growth of "piggyback" service and progress in the elimination of unpatronized passenger trains.

Upkeep of the company's property continued to be excellent in 1959, as evidenced in the report on Improvements in Facilities. Car shortages anticipated at this time a year ago did not materialize, with the limited exception of highest grade box cars and special types of cars.

Several changes will be noted in this year's listing of Great Northern's Directorate. Missing from the roster for the first time in 20 years is Mr. Frank J. Gavin, who resigned in 1959 as a director and Chairman of the Board. Mr. Gavin made important contributions to the company during his 62 years in the Operating and Executive Departments. His courageous leadership through the difficult period during and just following World War II brought rapid progress in rehabilitation and modernization of the properties, sound readjustment of the company's financial structure and a major step forward in employee morale.

The death on October 22, 1959 of Mr. Richard C. Lilly, who retired the previous May after 26 years as a member of the Board, was mourned by his many friends on the railway.

New members of the Directorate elected in 1959 include Mr. Philip H. Nason, president of The First National Bank of Saint Paul; Mr. William H. Lang, president of Foley Brothers, Inc., a well-known contracting firm in St. Paul; and Mr. J. Howard Laeri, executive vice president of The First National City Bank of New York.

The current year should be a good one, with a more normal ore traffic in prospect and excellent moisture conditions in our important grain producing areas. Much grain is still stored on farms and in country elevators, although movement in the early part of the year has been spasmodic. The volume of shipments of lumber and general commodities will depend upon the level of general business. By continuing to make rate adjustments, we expect to retain certain traffic and to return other tonnage to the rails. Operating expenses will be higher than in 1959 because of pay increases, effective before January 1, 1960 under wage contracts made in 1957. The price of materials has been increasing since January 1 and may be expected to rise even more as the year progresses.

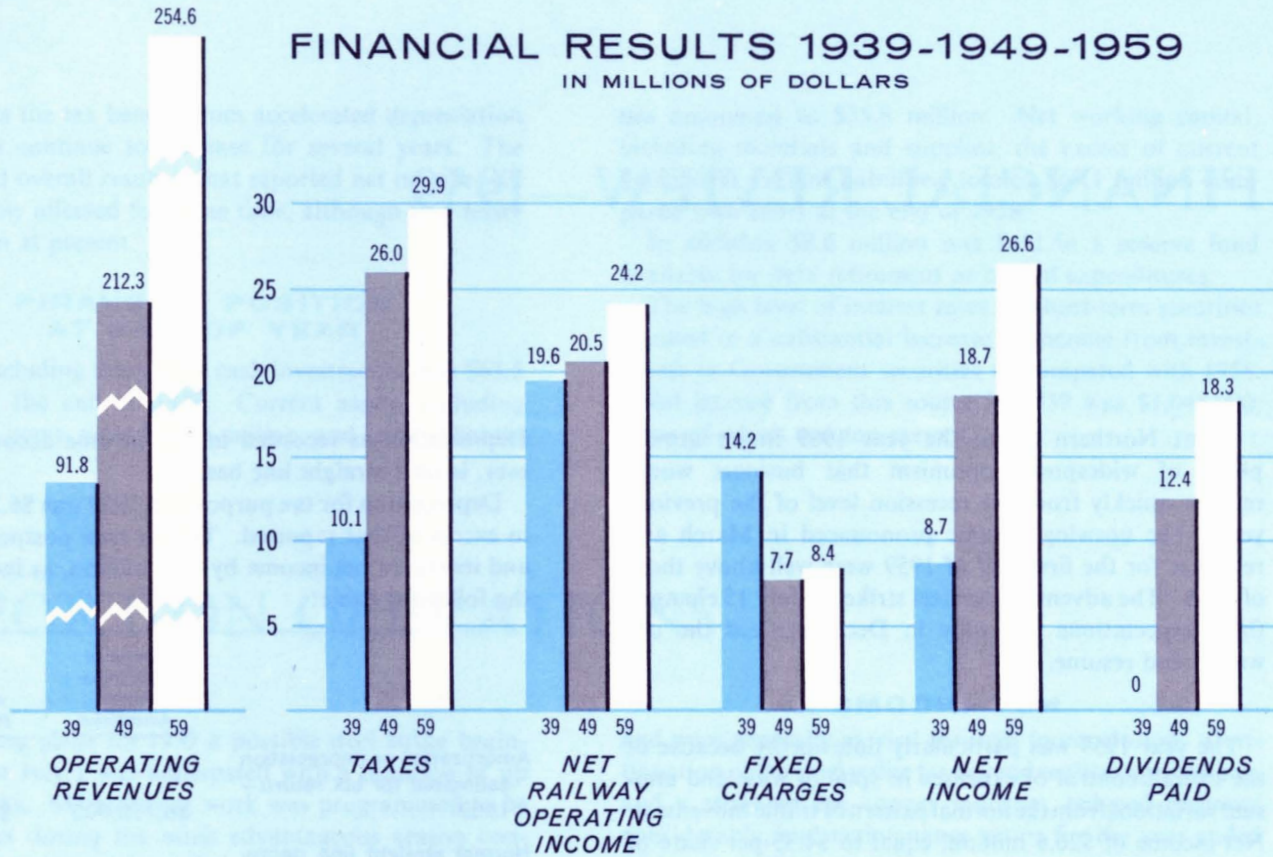
The devotion of well-trained officers and employees, applying their skills to the operation of the railway, was responsible for the success enjoyed during 1959. The Board of Directors joins me in acknowledging these efforts with grateful appreciation and many thanks.



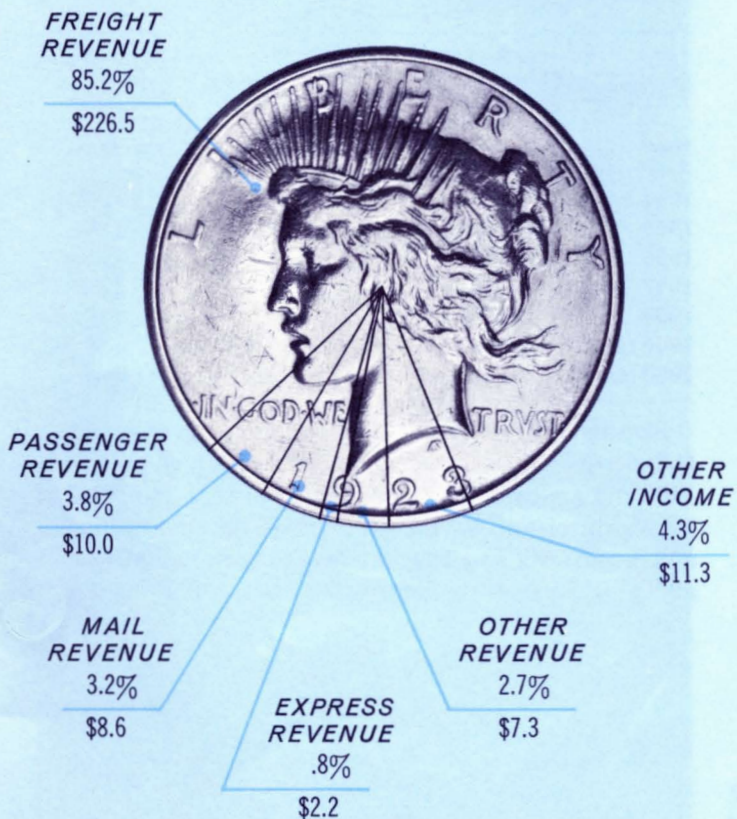
PRESIDENT

FINANCIAL RESULTS 1939-1949-1959

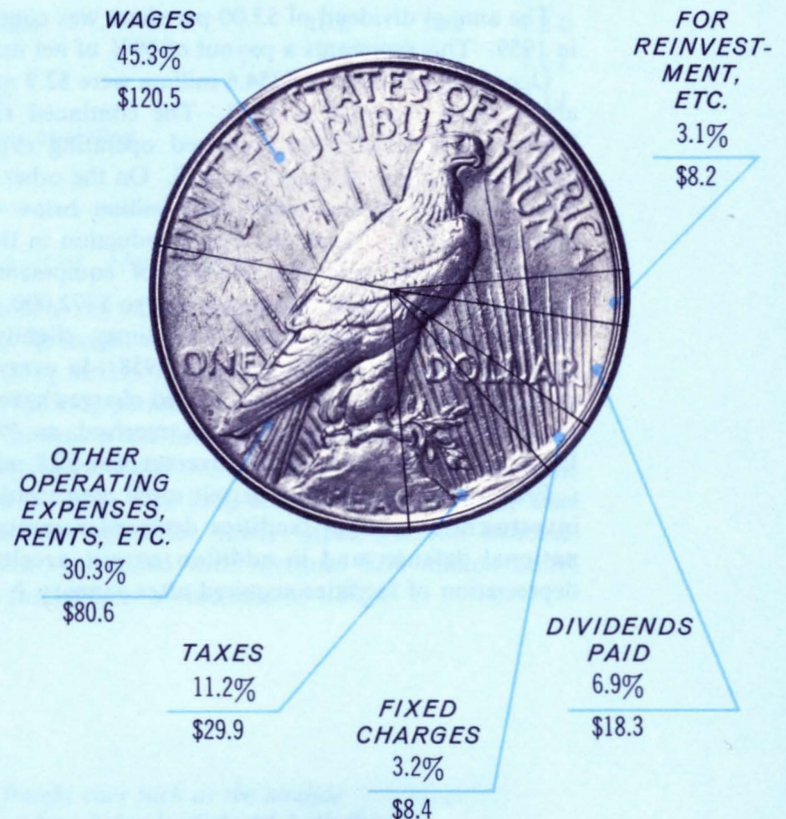
IN MILLIONS OF DOLLARS



1959 INCOME in Millions of Dollars



1959 OUTGO in Millions of Dollars



FINANCIAL REVIEW—1959

Great Northern began the year 1959 in an atmosphere of widespread optimism that business would recover quickly from the recession level of the previous year. The upswing became pronounced in March and revenues for the first half of 1959 were well above those of 1958. The advent of the steel strike on July 15 changed these expectations and only in December did the upward trend resume.

NET INCOME

The year 1959 was particularly noteworthy because of the overall control of expenses in spite of wide and unusual variations from the normal pattern of traffic movement. Net income of \$26.6 million, equal to \$4.35 per share of stock, was earned in 1959 compared with \$27.6 million or \$4.52 per share in 1958.

The reported net income of Great Northern does not include its share of the undistributed net income of Chicago, Burlington & Quincy Railroad Company (48.6% owned), Spokane, Portland and Seattle Railway Company (50% owned) and Western Fruit Express Company (wholly owned). In 1959 this equity amounted to \$4.4 million or 72c per share of Great Northern stock.

The annual dividend of \$3.00 per share was continued in 1959. This represents a payout of 69% of net income.

Operating revenues of \$254.6 million were \$2.9 million above those reported in 1958. The continued rise in labor and material costs increased operating expenses \$6.3 million above the level of 1958. On the other hand taxes of \$29.9 million were \$2.5 million below those accrued in 1958. There was also a reduction in the net amount of rent paid for the use of equipment and facilities of other railroads amounting to \$772,000.

Fixed charges were earned 4.16 times, slightly less than the coverage of 4.31 times in 1958. In every year of the last ten, Great Northern's fixed charges have been more than covered by amounts received as "Other Income." In 1959 this excess coverage was \$2.9 million.

Federal income tax laws permit rapid amortization of investment in certain facilities declared essential for national defense, and in addition permit accelerated depreciation of facilities acquired after January 1, 1954.

Depreciation as recorded in our income account, however, is on a straight line basis.

Depreciation for tax purposes in 1959 was \$6.28 million in excess of that reported. This in turn postponed taxes and increased net income by \$3.3 million, as indicated in the following table:

	<i>Defense Facilities being Amortized</i>	<i>Facilities with Accelerated Depreciation</i>
Amortization or depreciation estimated for tax return—1959.....	\$6,770,000	\$4,900,000
Normal straight line depreciation as reported—1959.....	2,590,000	2,800,000
Excess—1959.....	4,180,000	2,100,000
Increase in net income—1959.....	2,200,000	1,100,000

The favorable effect of deducting higher depreciation for tax purposes than the lower amount required by the ICC for book purposes is shown as follows:

<i>Year</i>	<i>Effect of Amortization of Defense Facilities on Net Income Per Share</i>	<i>Effect of Accelerated Depreciation on Net Income Per Share</i>	<i>Combined Effect on Net Income Per Share</i>
1954.....	\$0.56	\$0.02	\$0.58
1955.....	0.62	0.04	0.66
1956.....	0.66	0.07	0.73
1957.....	0.59	0.11	0.70
1958.....	0.49	0.15	0.64
1959 (est.)	0.36	0.18	0.54
1960 (est.)	0.22	0.21	0.43

Benefits from the excess of tax amortization of defense facilities over book depreciation reached a high point in 1956 and are expected to decrease each year until 1962. Book depreciation will thereafter exceed tax amortization, and income will be affected unfavorably to the extent of about 20 cents per share for some years. Offsetting this,

however, is the tax benefit from accelerated depreciation which will continue to increase for several years. The anticipated overall result is that reported net income will be favorably affected for some time, although to a lesser extent than at present.

FINANCIAL POSITION AT END OF YEAR

Cash, including temporary cash investments, was \$63.5 million at the end of 1959. Current assets, including these cash items, were \$104.9 million, and current liabilities

amounted to \$35.8 million. Net working capital, including materials and supplies, the excess of current assets over current liabilities, totaled \$69.1 million compared with \$68.1 at the end of 1958.

In addition \$8.6 million was held in a reserve fund available for debt retirement or capital expenditures.

The high level of interest rates on short-term securities resulted in a substantial increase in income from investments in Government securities as compared with 1958. Total income from this source in 1959 was \$1,645,000, some of which was tax exempt.

REPORT ON OPERATIONS

In making plans for 1959 a possible steel strike beginning about July 1 was anticipated with a duration of up to six weeks. Maintenance work was programmed to be carried out during the most advantageous season considering weather and minimum interference from the peak traffic volume which comes in late Summer and early Fall. When the steel strike became an actuality July 15, track maintenance programs were well along

and were generally carried through to conclusion. Continuation of the steel strike far beyond earlier expectations, and a strike in the copper industry, reduced revenues considerably, and maintenance ratios for the year ended higher than 1958.

OPERATING REVENUES

The principal sources of Operating revenues were:

Source of Revenue	Operating Revenues (Millions)		Per Cent Change
	1959	1958	
Freight.....	\$226.5	\$223.9	1.1-I
Passenger.....	10.0	10.2	1.2-D
Mail.....	8.6	8.2	4.6-I
Express.....	2.2	1.7	29.1-I
All other operating.....	7.3	7.7	5.5-D
Total.....	\$254.6	\$251.7	1.1-I

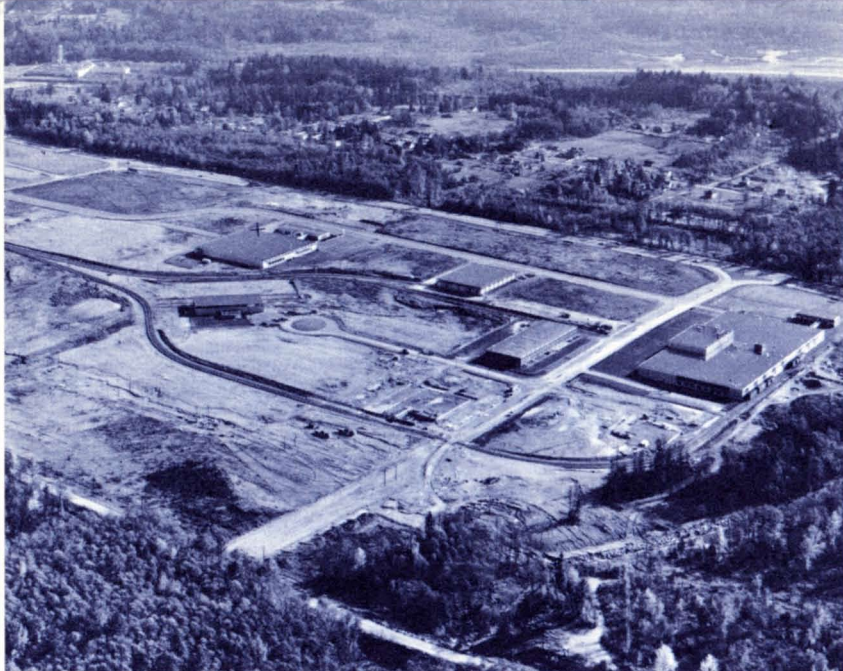
Freight Revenue

The diversity of sources from which Great Northern derives its freight revenue stood it in good stead in 1959 when long strikes in basic industries cut off important traffic for long periods.

At the end of the first half of the year freight revenues had increased \$13.3 million or 13.8% over the same period in 1958. The long continued strikes in the steel and copper industries nearly wiped out this increase, and the year ended with revenues \$2.6 million above those for 1958, or an increase of 1.1%.



Specialized freight cars such as the airslide hopper, shown here being loaded with bulk flour, help reduce shippers' costs and are an important factor in making rail transportation more attractive.



Evidence of the industrial growth of British Columbia is the big Lake City Industrial Area between Vancouver and New Westminster. Begun in 1959, this new development is served by Great Northern.

The diversification of your company's revenues both by industries and geographically is shown by the following table of principal commodities:

<u>Commodity</u>	<u>1959 Revenues (Millions)</u>	<u>1958 Revenues (Millions)</u>	<u>Per Cent Change</u>
Grain and grain products.....	\$63.3	\$62.1	2.1-I
Lumber and wood products.....	42.2	37.2	13.6-I
Iron ore, including dockage....	14.1	18.5	23.6-D
Paper and paper products.....	13.2	12.9	2.6-I
Crude petroleum, petroleum products and asphalt.....	11.3	10.6	6.4-I
Aluminum ore and products...	7.0	7.3	3.4-D
Iron and steel products.....	5.3	5.1	3.9-I
Fresh apples.....	4.4	5.6	20.2-D
Forwarder traffic and LCL.....	10.6	11.8	10.3-D

The year began with a record amount of grain in storage in country elevators and on farms, much of it held under Government price support programs. During the early months of 1959 loading of this stored grain showed a moderate increase over the preceding year. Moisture reserves at the beginning of the growing season were inadequate in much of the most important grain growing territory. As a result success of the 1959 crop was dependent on timely rains. These did not occur in some areas, particularly the Dakotas. On a systemwide basis the crop was about equal to the average of recent years, but substantially less than the bumper crop of the preceding year. An adequate supply of cars took care of heavy loading during the harvest season. The availability of storage capacity, less than normal crops in some areas and the Government loan program combined to slow

the movement of grain to market immediately after the harvest was completed. Prospects for the 1960 crop are good, as soil moisture conditions throughout the territory are greatly improved. As of January 1, 1960 there is estimated to be 243 million bushels in storage awaiting movement compared to 274 million bushels a year earlier. While this is below the record amount a year ago, it is more than on this date in any other year.

Movement of iron ore almost completely stopped during the long steel strike from July 15 to November 7. As a result, the tonnage handled during the year was the lowest since the depression year 1939. After the ore miners returned to work on November 7, shipments resumed and continued until December 20, the latest closing date on record. Because of abnormally early cold weather in November only a small amount of ore was moved after the strike was over.

The resumption of near capacity operation of the furnaces during the winter of 1959-1960 is reducing stocks of iron ore at the furnaces so that a heavy movement at the beginning of the 1960 shipping season seems assured.

Although iron ore accounted for 30.6% of the tonnage handled by Great Northern in 1959, its contribution to revenue was much smaller and produced only 4.7% of total operating revenues.

Lumber moved freely throughout the year in response to heavy demands from the home building industry. Revenues from crude petroleum also gained substantially as production from wells in the Newburg-Lignite areas of North Dakota increased. A smaller than normal apple crop in the Wenatchee district, however, caused a decline in revenue from that source.

The principal increases and decreases in 1959 compared with 1958 for various commodities are as shown in the table.

<u>Commodity</u>	<u>Increase</u>	<u>Per Cent Change</u>
Lumber.....	\$5,063,000	13.6-I
Crude petroleum.....	1,399,000	103.6-I
	<u>Decrease</u>	<u>Per Cent Change</u>
Iron ore, including dockage.....	\$4,372,000	23.6-D
Apples.....	1,125,000	20.2-D

Freight Rates

During 1959 the level of freight rates was not changed as every effort was made to absorb increased costs

through greater operating efficiency. The pressures of competition from other forms of transportation are forcing gradual downward revision of the freight rate structure. In addition, Great Northern has been making selective rate reductions to assist producers in our territory to be competitive with producers located closer to the common market areas.

Passenger Revenue

Revenues received for transportation of passengers have been relatively stable since 1953. During this period passenger train miles have been reduced 29% by eliminating a number of lightly patronized passenger services.

The increasing cost of furnishing passenger service and the declining public use being made of the more marginal trains, brought on during the year an intensive study of all phases of passenger operations. One result of this study was a more active campaign to eliminate trains of least service to the public. Seven pairs of trains were taken off in 1959 with the permission of State Commissions, and since the end of the year discontinuance of one more pair of trains has been approved. Decision is awaited on one further application. Each case requires careful preparation of statistics and appearances by witnesses, plus considerable advance public relations work to inform the people in the areas affected.

The trains taken off during 1959, plus those for which hearings have been held, involve 1,001,490 train miles per year and a net gain estimated at \$1,104,000 annually.

On the positive side, the study of passenger operations led to further experimentation with a number of fare reductions. Coach class tickets are being honored in Western Star sleeping cars except during the heavy summer travel season. Dining car services have been simplified and prices reduced. All of these improvements are

being made to encourage travel on those principal trains which the public is still using.

The Interstate Commerce Commission completed its study of the passenger deficit which had been underway for several years. While its report indicates a belief that rail passenger service will be needed for the foreseeable future as an integral part of the national transportation system, the problem has no easy solutions. The Commission recommended nine steps that could be taken toward alleviation. One of these is repeal of the 10% excise tax on passenger fares. Congress passed legislation reducing the tax to 5%, effective July 1, 1960. While only a partial step, this action should be helpful.

While Great Northern's passenger carrying business provides only 3.9% of operating revenues, out-of-pocket expenses consume more than we take in. Passenger costs are being watched carefully and held at the lowest possible level at which good service can be given on those trains which are needed in the public interest. The Empire Builder has been maintained at the highest standards of service and has consistently earned more than its out-of-pocket costs.

Mail and Express Revenues

Great Northern is the principal mail carrying railroad between the Twin Cities and the Pacific Northwest. The volume of this long haul mail traffic increased during 1959. Effective July 1, the rates paid for this service were increased 5.6% as a result of negotiations between the western railroads and the Post Office Department. In 1959 total mail revenue was \$8.6 million compared to \$8.2 million in 1958. Some local and branch line mail has been diverted to highway routes by the Post Office Department, thereby making train operations more unprofitable and leading ultimately to elimination of the trains.

During 1959 operations of the Railway Express Agency, of which Great Northern is a part owner, were completely reorganized and new contracts negotiated with the railroads and air lines for which the Agency performs a nationwide small package service. Under its new management improved results have been increasingly evident and Great Northern received from the express operation \$2.2 million in 1959, up 29.1% from the \$1.7 million in 1958.

OPERATING EXPENSES

During 1959 railway operating expenses amounted to \$197.1 million, up \$6.3 million from 1958. The increase in expenses was somewhat more than the increase in revenues and was due primarily to the higher level of wages paid during the year as compared with 1958.

Transportation of new automobiles from California assembly plants to dealer's doorstep in Pacific Northwest was important piggybacking development in 1959. Ten autos are handled on each flat car.



The operating ratio—that is, the proportion of operating revenue taken by operating expenses—was 77.4 in 1959 compared with 75.8 in 1958.

The property is in excellent condition and full advantage can be taken of the upturn in traffic which began in December, without the necessity of making up any deferred maintenance.

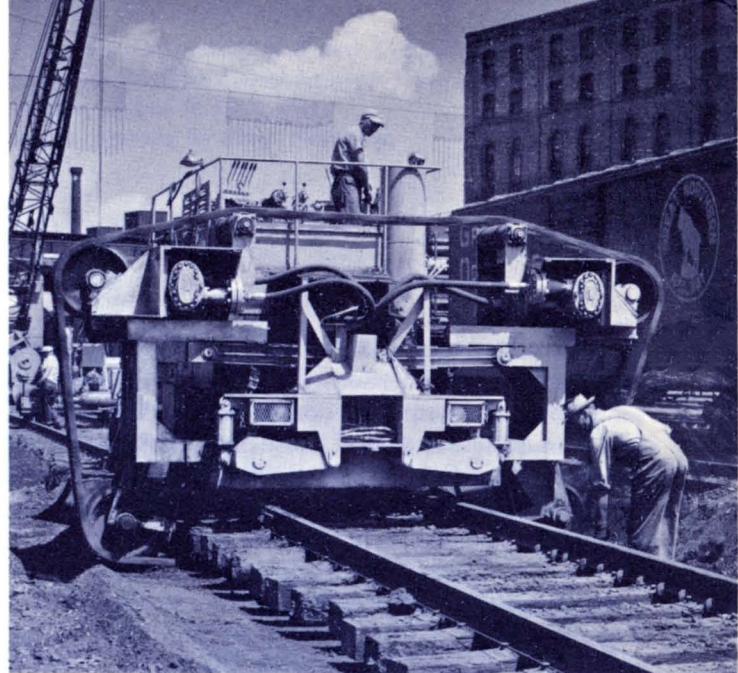
Transportation expenses include the cost of moving trains and of operating yards and stations. In 1958 these expenses were \$88.2 million. They increased 2.5% to \$90.4 million in 1959. Improved facilities and methods in many fields—centralized traffic control, radio communication on trains, centralization of station accounting among other refinements of recent years—contributed to the overall streamlining of operations which made possible control of transportation expenses in a year of unusual fluctuations in the volume of traffic.

Maintenance of Way expenses in 1959 increased \$1.5 million to \$40.2 million compared with \$38.7 million in 1958. In terms of work accomplished, such as new rail and ballast installed, more was done than in the year before with only a moderate increase in expense. This was made possible largely by increased mechanization of track work. Much of the heavy manual labor of the past is now being done more uniformly and permanently by a smaller number of skilled men receiving higher rates of pay. These men are aided by an array of machines, most of which have been on the market only a year or two.

Maintenance of Equipment expenses of \$47.5 million in 1959 increased \$2.3 million over those of 1958. This item of expense is only slightly more than the average for the last four years. In spite of substantial increases in wage and material costs, equipment continues to be maintained to the usual high standards. At the beginning of 1960 only 2.7% of Great Northern freight cars were unserviceable compared with the national average of 7.2%.

The overall ratio of maintenance expenses to operating revenues rose to 34.5 in 1959 from 33.4 in the previous year. The transportation ratio increased slightly to 35.5 in 1959 from 35.0 in 1958.

Although traffic volume fluctuated widely from month to month during the year, some of the important indices of operating efficiency improved during the year. This was particularly noteworthy since iron ore, which contributes favorably to most transportation statistics, was at its lowest volume in twenty years. Gross ton-miles per train-hour, a measure of train loading and speed, set a new Great Northern record at 63,066 in 1959. Average speed of freight trains at 20.3 miles per hour also was at a record level. Although our 8,000



ore cars were necessarily idle during the 115 day steel strike, utilization of the total freight car fleet as measured by the average net ton-miles per car day improved from 976 in 1958 to 1,012 in 1959.

Rentals of Equipment

Great Northern normally pays out more than it receives for freight car rentals. In 1959 the net rental payments amounted to \$3.1 million. This was more than offset, however, by the car mileage revenues of the wholly owned Western Fruit Express Company.

Materials and Supplies

During 1959 the price level of most materials purchased for use on the railroad continued to increase. In spite of this, the value of materials and supplies in stock increased only nominally during the year.

The complicated procedure of converting over 80,000 different items from manual inventory control at the numerous separate storehouses scattered over the line to centralized control by Univac computer progressed satisfactorily and is expected to be in full operation during 1960. A substantial reduction in the quantity of material on hand, as well as savings in handling and carrying charges, is expected.

One noteworthy exception to the upward trend of material prices was that of diesel fuel. Purchases were made whenever prices were most favorable, and at the end of the year our large storage facilities were filled to near capacity. Fuel cost per dollar of revenue at 3.1¢ in 1959 was the lowest on record and compares with 6.1¢ ten years ago in 1949 when some steam locomotives were still in operation.

Taxes

Tax accruals in 1959 were \$29.9 million, which was \$2.5 million less than in 1958. Although Federal income

Increasing mechanization of track work was again evident on the railway in 1959. Pictured is a track undercutter-skeletonizer, which vastly speeds up the removal of material between and under ties.

taxes were \$3.6 million less than in the previous year, and other taxes, principally state and local property taxes decreased slightly, payroll taxes which finance all of the unemployment insurance and half of the railroad retirement programs for railroad employes increased heavily as a result of the liberalized benefits voted by Congress early in 1959 and made effective July 1.

These high payroll taxes place a particularly heavy burden on the railroad industry because they support programs which are much more liberal than those for wage earners in general business. Under the 1959 law, Great Northern will pay in 1960 125% more in payroll taxes than would be required if the railway were covered by the Social Security law.

Wage Rates

The wage contracts with all principal railroad labor organizations, which were effective November 1, 1956, continue in effect although they contain provisions for

changing basic wage rates and permit notices of modification in working rules November 1, 1959. Negotiations are presently in progress for such changes, but the outcome will not be known for some time. Under the agreements all employes covered by union contracts have received basic benefits of 26½c per hour in the three years, plus 16c per hour in cost-of-living increases. During 1959 a cost-of-living increase of 3c per hour was made on November 1. The total cost of this 1959 increase on an annual basis at the 1959 level of employment is approximately \$1.4 million.

The average wage per hour worked in 1959 was \$2.84 compared with \$2.73 in 1958. In addition, the cost of fringe benefits such as pensions, unemployment insurance and health and welfare group insurance amounted to 52c per hour. This brings the total cost per hour to \$3.36 in 1959. The comparable figure in 1958 was \$3.20. It will be noted that the cost of various fringe benefits is now 18.2% of the total payroll.

IMPROVEMENTS IN FACILITIES

The annual budget for capital expenditures in 1959 was prepared in line with long-range plans for improvements in facilities. It was approved in the Fall of 1958 with the experience of the 1958 recession in mind but with substantial evidence that business was improving and prospects for 1959 were favorable.

Almost all of the projects included in the program were limited to essential replacements of obsolete or worn-out facilities or to effect improvements in service to attract new business or retain old.

The program was carried out substantially as planned, with the exception that 500 additional box cars were purchased when a favorable opportunity was presented

to obtain quick delivery of cars for use during the period of peak loading at the harvest season.

Additions and betterments amounted to \$20.4 million, which included \$8.7 million for roadway and structures and \$11.7 million for equipment. This compares with \$20.1 million in 1958 and the five-year (1955-1959) average of \$25.2 million. The total program contemplated for 1960 totals \$25.4 million.

EQUIPMENT PROGRAM

The 1959 program of equipment included construction of 500 box cars at Great Northern's shops at St. Cloud, Minnesota, and purchase of 501 box cars from outside car manufacturers. The cars built in the company's

Giant 6½-acre Gamble-Skogmo warehouse and distribution center recently completed on Great Northern trackage at St. Louis Park, Minnesota, utilizes both regular rail freight and piggy-back services.



Mechanized car-cleaning facility completed in 1959 at Everett, Washington has fantastic appearance but speeds cleaner box cars to GN shippers in record time. Average daily output is 200 cars.

shops were 40 ft. single door cars with many features designed to keep them suitable for high-grade loading for many years. They replaced approximately an equal number of obsolete cars which were expensive to maintain.

The 501 box cars acquired from car builders were 40 ft. "plug door" box cars equipped with roller bearings. These versatile cars have two doors on each side, one of which can be tightly secured and the car used as a single door car to load bulk commodities such as grain. When the car is used for lumber, plywood and other long articles, both doors can be opened to facilitate the use of mechanical loading equipment such as fork lift trucks.

Since Great Northern has a substantial movement of grain westbound to Washington and Oregon where cars are unloaded and used for eastward lumber loading, this double-duty equipment is frequently used for loads in both directions, conserving the supply of cars available and minimizing unproductive empty movements.

Besides the acquisition of these new freight cars, 745 older box cars were given heavy repairs and can now be used for high-grade loading. Another 148 older box cars were rebuilt as stock cars, some being made into double-deck cars and equipped with movable steel shutters to protect long distance hog shipments in severely cold weather. Additionally, 35 flat cars were equipped for piggyback service, and 55 trailers were added to the fleet used in trailer-on-flat-car service.

The equipment program for 1960 includes capital expenditures of \$17.3 million. The principal items are \$11.2 million for acquisition of new freight cars including 750 box cars and 210 cars of other types. In addition, heavy repairs will be made on 1,000 cars and another 250 box cars will be converted into modern stock cars.

Although no new diesel locomotive units are planned, 18 older 1350 HP units will be upgraded to 2000 HP



general purpose units. The rebuilding of these diesel units is continuation of a program to upgrade our earliest diesel road locomotives, purchased about fifteen years ago, into modern units with all available improvements in design and capacity included.

FIXED PROPERTY IMPROVEMENTS

The largest single area of property improvement in 1959 was expansion of the mileage operated by centralized traffic control. A 75 mile segment of the main line between Dodson and Pacific Junction, Montana in eastern Montana was completed. On the iron ore lines in northern Minnesota, a 100 mile project will be in service soon after the start of the 1960 ore season. CTC is attractive not only because of the greater flexibility of operation which it affords but also because the greater traffic capacity permits the removal of surplus trackage. In the case of the project in Minnesota, this increase in capacity will result in removal of an unneeded 25-mile branch line between Swan River and Kelly Lake and elimination of 27 miles of second track. Substantial economies in future maintenance will be effected and, in addition, valuable material recovered for use elsewhere.

During the year maintenance of the property included a continuing program of replacing lighter rail with heavier, application of crushed rock ballast on main lines and replacing timber bridges with more permanent structures. The improvement program was somewhat more extensive than that in 1958.

This 1959 photo in a West Coast plywood plant illustrates the versatile loading qualities of the "plug door" box car, which is equally popular with grain shippers as a tight single-door car.

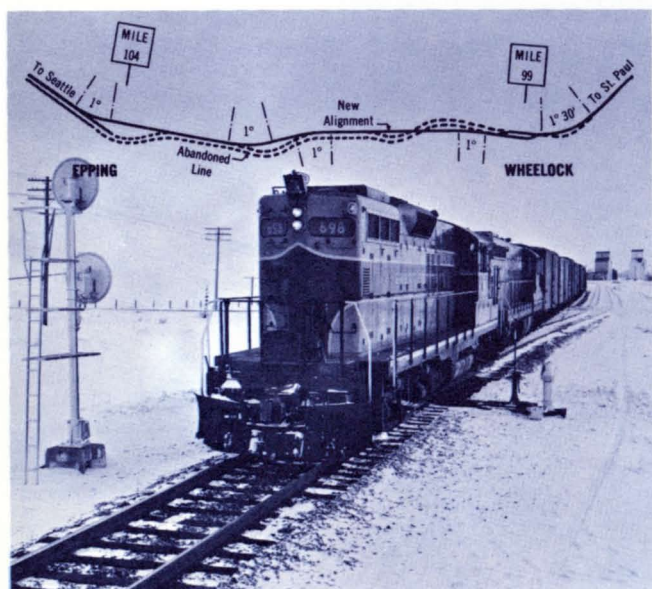


New 115-pound rail was laid on 81 miles of main line. Of this, 49 miles were continuous welded rail. On secondary lines 122 miles of second-hand rail of various weights were laid to replace lighter steel. A total of 126 miles of track was rebalasted with crushed rock. Altogether, 475,000 yards of ballast were used.

In western North Dakota a line change five miles in length was completed, reducing sharp curvature to permit higher train speeds and lower track maintenance costs. In connection with this improvement, the line was reduced from double to single track and included within the existing CTC operation controlled from Minot.

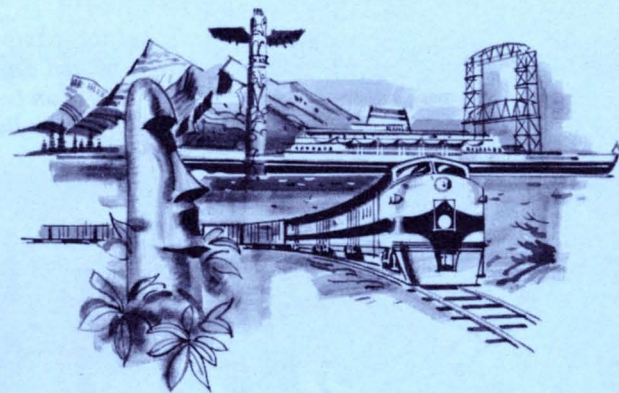
On the Wenatchee-Oroville branch line in Washington, work continued on the 24-mile line change resulting from construction of Rocky Reach Dam on the Columbia River. This project is being done under contract with the Chelan County Public Utility District and at year's end much of the new line was in service.

The capital expenditure budget for 1960 provides for work on fixed property estimated to cost \$8.1 million. Emphasis will again be placed on extension of CTC. The principal project of this nature will fill a 201-mile gap and result in a continuous segment of 441 miles of heavy traffic density main line between Minot, North Dakota and Havre, Montana with either CTC or double track. The regular program of track improvement will include 78 miles of new rail, 184 miles of second-hand relaying and 557,000 cubic yards of ballast.

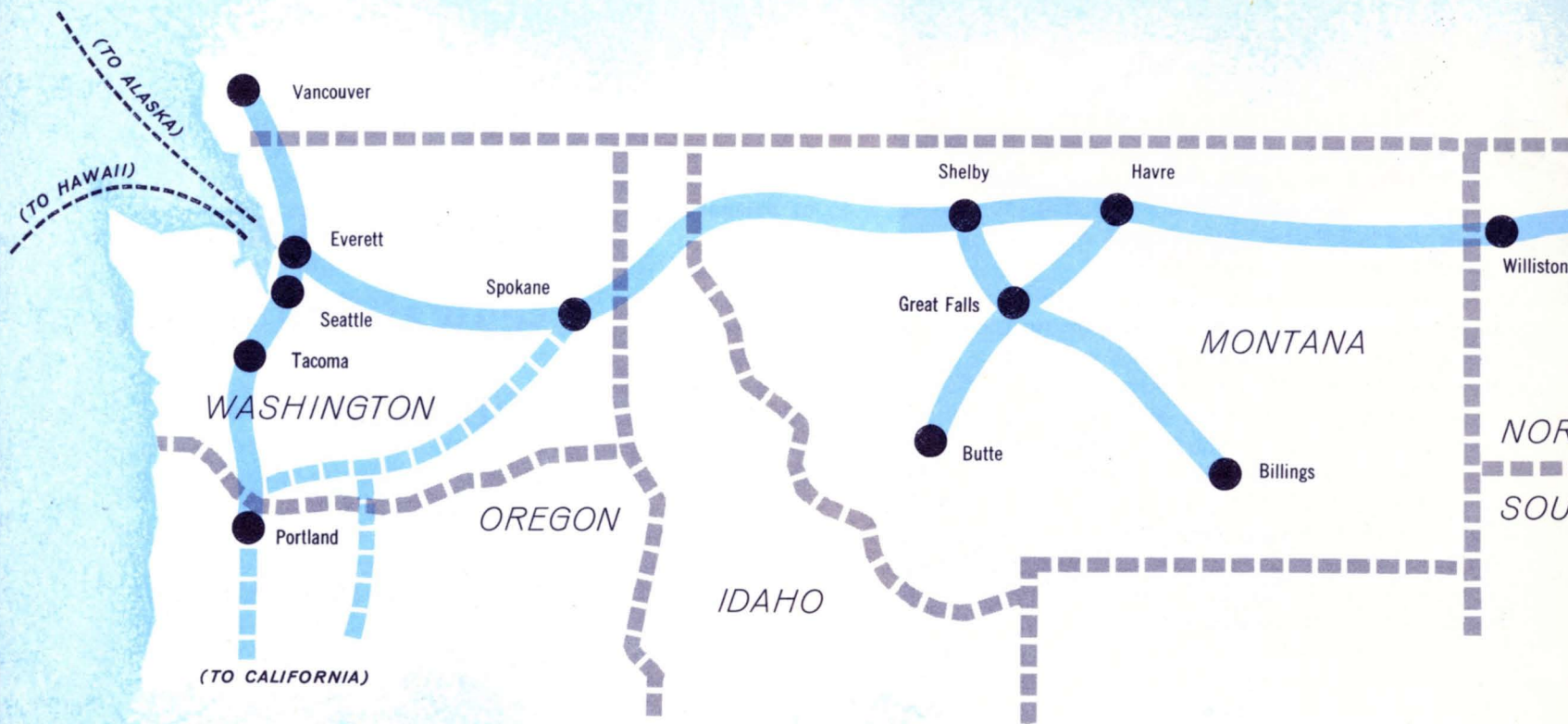


Whelock-Epping line change in western North Dakota was important 1959 improvement, eliminating five curves and reducing maximum curvature from 3°11' to 1°30'. Train is pictured on new track, west of Epping.

Two new states and a seaway inaugural stimulate growth on both ends of Great Northern's main line



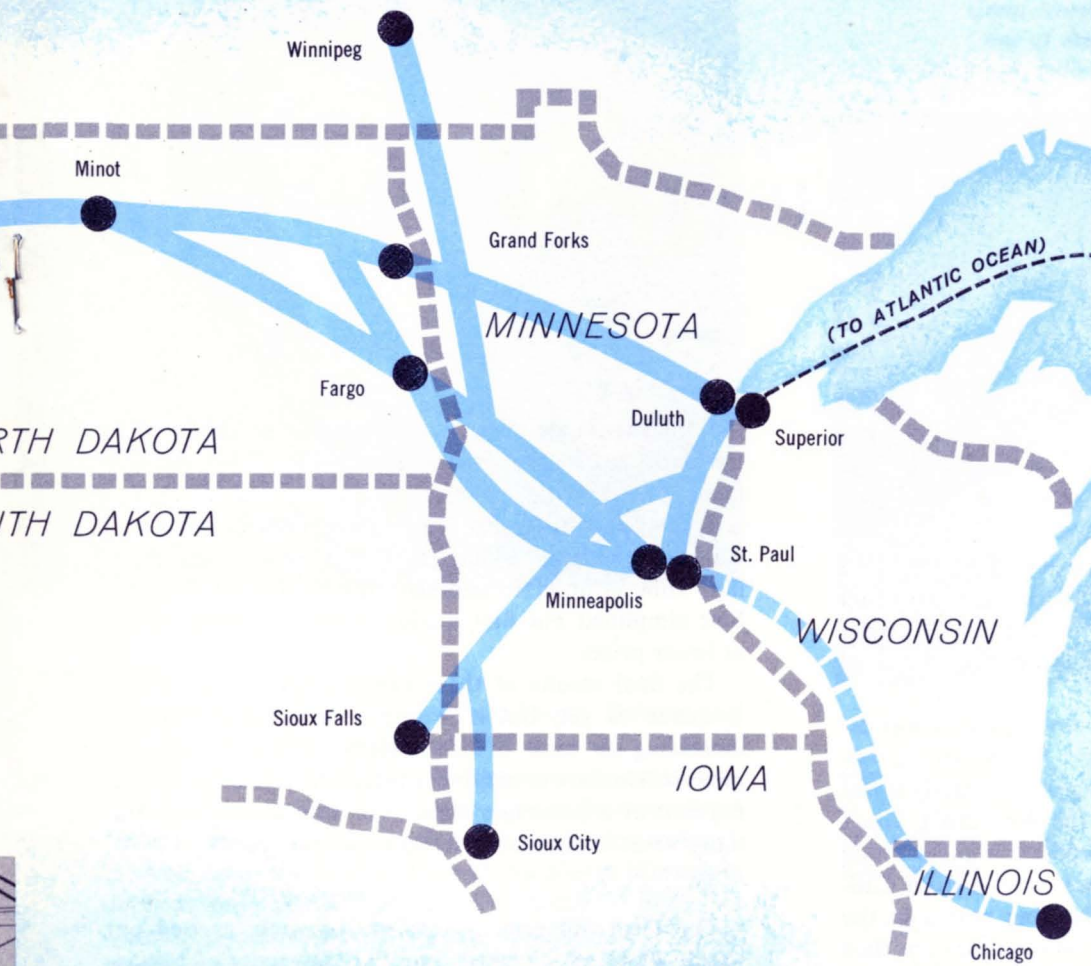
Three historic events in 1959 served to focus attention on the strategic importance of Great Northern as a link in world commerce. Opening of the St. Lawrence Seaway made ocean ports of Duluth and Superior, the railway's easternmost termini. To the west, the twin events of statehood for Hawaii and Alaska brought even greater promise of development for these important areas, long served by Great Northern through Pacific Northwest ports.



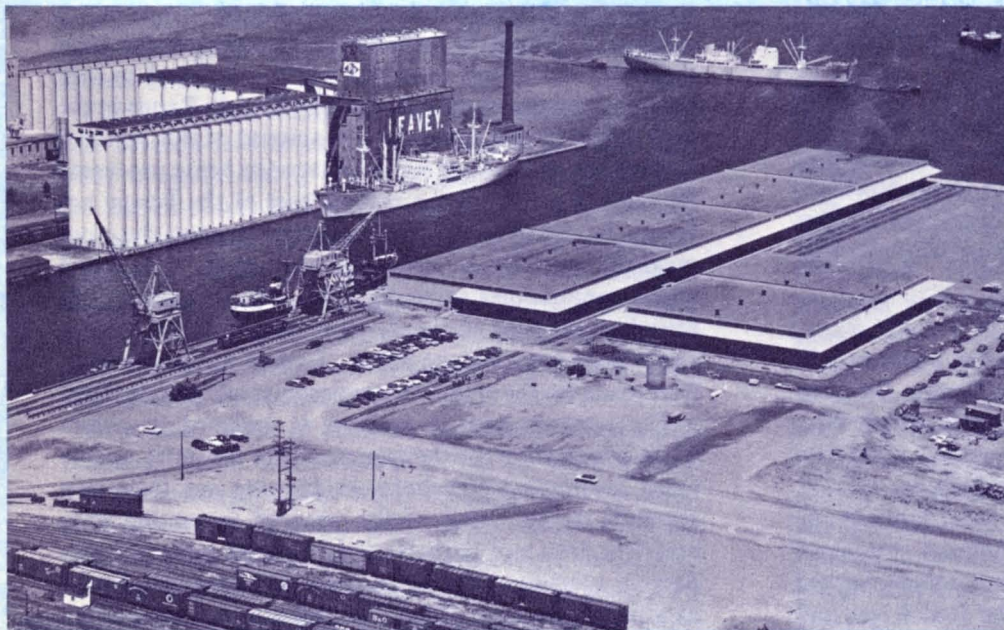
The scene is Seattle, but this photo is symbolic of the close tie between rail and ocean transportation at bustling ports on both ends of Great Northern's main line.



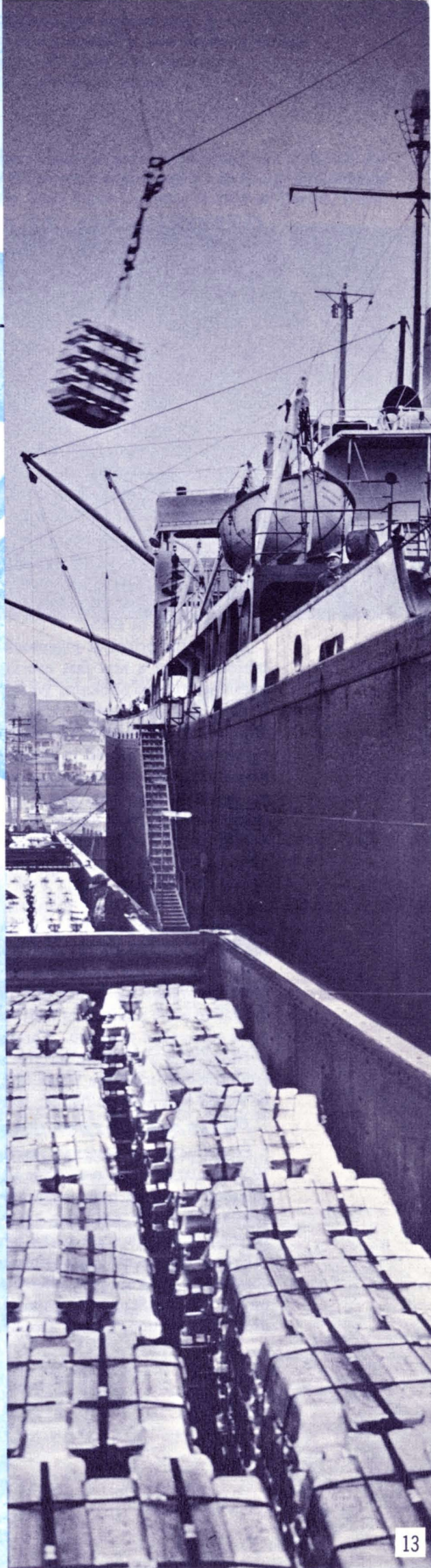
World commerce vignette: Flour, milled in Minneapolis from Northwest wheat and moved by rail to Vancouver, British Columbia, is loaded aboard a Japanese freighter bound for the Orient.



Duluth's \$10,000,000 Arthur M. Clure Public Marine Terminal, dedicated in 1959, anticipates a heavy influx of Seaway traffic. In the foreground is part of a 3500-car railroad storage area.



Thirty carloads of pig aluminum produced at Wenatchee are loaded aboard a ship at Everett, en route to a rolling mill and extrusion plant in South Wales.



SERVICE IMPROVEMENTS, TRAFFIC DEVELOPMENT

Enlargement of Piggyback Services

During 1959 development of piggyback traffic was increasingly emphasized. The coordination of the best features of rail and highway operation is going through a phase of rapid expansion in which new ideas are being tried, equipment being developed and potential uses being studied. The number of trailers loaded and received from connecting lines increased 20% during the year above the level of 1958.

Among the principal piggyback developments was establishment of a new fast overnight freight service between Seattle and Spokane, Washington, especially timed to meet piggyback needs. Also on the West coast, Great Northern is participating in a pool operation under which automobiles are moved in piggyback service from California assembly plants to key unloading points in the Pacific Northwest from which the automobiles are then delivered on trailers direct to the auto dealers. This service under which transportation responsibility is centered in one agency has proved attractive to manufacturers and dealers alike. First movements began in August 1959 and Great Northern has 35 long flat cars and 50 trailers on order for early 1960 delivery to augment the fleet of equipment presently being used.

In addition, the movement of apples by piggyback from the Wenatchee Valley to California was begun late in 1959 to serve receivers of fruit who find truck deliveries more convenient than rail. Throughout Great Northern territory rates were made effective and piggyback services established to meet the needs of shippers who can best be served by trailer-on-flat-car service.

Passenger Experiments

Experiments in passenger service were continued in 1959 to attract more patronage to the Western Star, the Internationals and other streamlined trains which fill a substantial public need but are not earning as high a percentage of their costs as the Empire Builder.

Except during the peak summer season, fares at the coach class level are now offered to Pullman passengers on the Western Star, upon payment for accommodations used. In addition, on the Gopher, the Red River and

the Internationals, coach class tickets are accepted in the parlor cars on payment only of the parlor car seat fare.

Special low fares are also being offered for coach travel on the Seattle-Vancouver, B. C. and Seattle-Portland runs in order to stimulate travel. On the Western Star simplified but first quality meals are being served at lower prices.

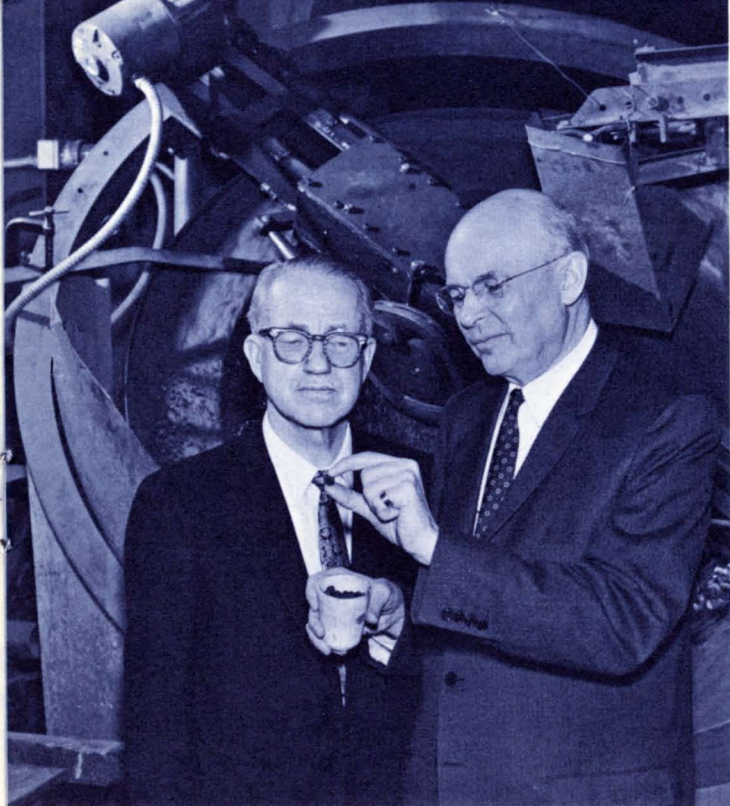
The final results of these experiments cannot be determined as yet, but it is apparent that patronage is increasing on most of these trains. Efforts to increase gross revenue are rewarding if successful, since the operating cost of a passenger train does not increase substantially when additional passengers are carried.

Research and Development

The third full year of taconite research, carried out jointly by Great Northern and the University of Minnesota, was completed with encouraging results. A great deal of work has been done on correlating available data on the metallurgy and mineralogy of taconite. This material is being made available to the iron mining companies interested in the Mesabi Range.

Great Northern is particularly interested in the non-magnetic and mixed taconites which are found in vast quantities on the western part of the Mesabi Range in the area served by the railroad. The amount of this material is much greater than of magnetic taconite being processed by existing plants on the eastern part of the Range not served by Great Northern. In some respects the non-magnetic taconite is more desirable since it is found where communities presently exist. Much stripping has already been done in the development of existing mines and mining costs may be lower. To date processing costs have made the use of non-magnetic material uneconomical.

The research now in progress is designed to obtain basic information on the non-magnetic taconites and to assist the mining companies in carrying out their own research studies. One of the ways of separating non-magnetic iron ore particles from foreign materials employs a roasting process. In order to investigate lignite as a possible source of fuel, the railway has entered into



Non-magnetic taconite ore, pelletized for research tests, is examined by A. J. Haley (left), director of GN's Mineral Research and Development Department, and H. H. Wade, director of the University of Minnesota Mines Experiment Station.

Great Northern industrial property provided part of the site for one of the Northwest's largest paper warehouses and shipping installations, built by Scott Paper Company in 1959 at Everett, Wash.



a contract with the University of North Dakota and research work began in August 1959.

While the Mesabi Range still contains substantial tonnages of iron ore which can be shipped to furnaces direct from the mines or after beneficiation by simple processes, the long-range future of iron ore production in Minnesota depends on taconite. The steel industry is becoming increasingly particular about the quality and physical structure of ores used in iron-making. Processed taconite is meeting these more stringent requirements very well. While much depends on the policies of local and state taxing bodies, transportation costs to market and progress in research, the prospects for continued shipments over Great Northern of Minnesota iron ore for many years to come seem good in spite of the development of foreign sources of ore.

Great Northern is also carrying on mineral exploration and development work at other locations. One such study in northwestern Montana, jointly sponsored with the Pacific Power & Light Company and the Montana Bureau of Mines, entered its second year of a five-year program of geologic investigation. Much new information has been furnished to interested companies. Another program along the line between Great Falls and Billings, Montana is mapping mineral resources and developing basic data on this subject.

In another phase of research, the Economic Research Division, which was established late in 1958, carried forward investigations in widely varied fields. This group is particularly concerned with studies which cross the ordinary departmental lines of organization on the railroad or involve matters requiring extended study. Its work is complementary in some respects to the traffic

research committees which have been set up by groups of railroads on a territorial basis. Great Northern is participating actively in the research work of three of these groups.

Industrial Expansion

During the year 1959 a total of 142 new industries was located adjacent to Great Northern lines. The activity in this field was considerably greater than in the previous year of recession. In addition, sizable additions were made to a number of existing installations.

In Minnesota and North Dakota there was a large increase in the construction of storage facilities for grain. Among the larger new installations were four facilities in Minnesota and North Dakota, all on Great Northern trackage, with an aggregate capacity of 7½ million bushels.

In the Red River Valley of Minnesota and North Dakota several new plants for flaking potatoes were established. These plants provide convenient packaged products and tend to widen the market for potatoes grown in the Valley.

At Williston, North Dakota a new plant for extraction of salt is under construction. The salt occurs in beds over 200 feet in thickness deep in the earth but overlying the oil bearing strata. Extraction of the salt will not only provide a marketable product, but it will also provide storage space for LPG (liquefied petroleum gas) in off-peak periods. The LPG, a by-product from oil wells, is obtained at a nearby gas recovery plant in Tioga, North Dakota.

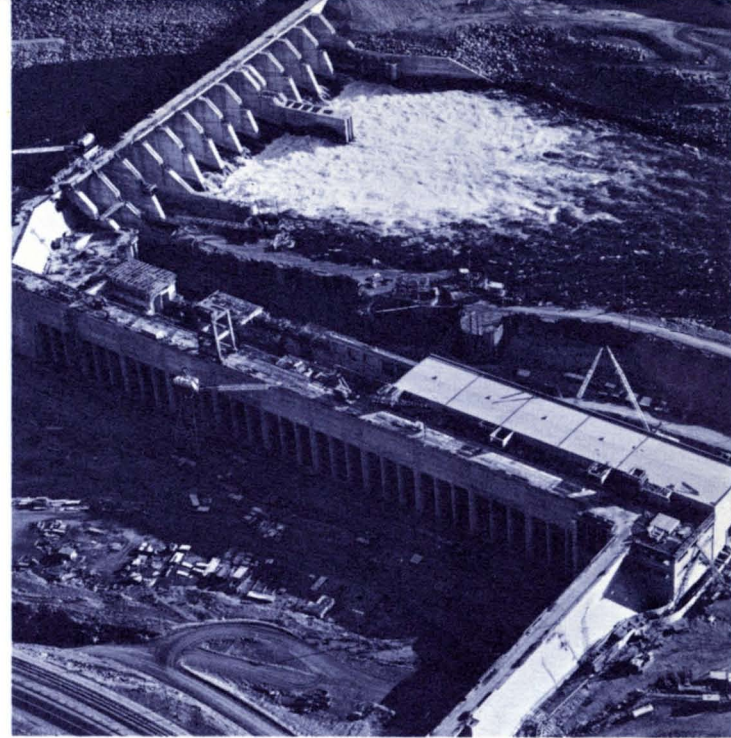
Shipments of crude petroleum from fields in northwestern North Dakota increased substantially, particularly in the Newburg and Lignite, North Dakota areas. At Newburg a pipe line gathering system owned by the Newburg Pipe Line Company, in which Great Northern has an interest, delivers oil to railhead for shipment to market in tank cars.

Development of industry on the west end of the system in Washington, Oregon and British Columbia continued. Large new industries to process the natural resources of this rapidly growing area, and also manufacturing plants to supply products for other industry were built. Many are served directly by Great Northern or by the Spokane, Portland and Seattle Railway Company, a subsidiary jointly owned with the Northern Pacific. A total of 28 new industries, some of very substantial size, were located on the lines of the SP&S in 1959.

As a part of its industrial development work, Great Northern has purchased a number of tracts of vacant land which are suitable for location of industries in the future. This is done to protect land adjacent to trackage from piecemeal development for non-industrial uses. One large area of 627 acres at Renton, Washington, south of Seattle, was purchased for such long-range development, and other smaller areas were acquired elsewhere on the railroad. Ownership of such property has proved desirable in attracting industries to our lines since plant sites can be arranged easily without long drawn-out negotiations with scattered owners. In addition, railway property and buildings made surplus by technological improvements have been made available to a number of desirable industries.

Development Work at Several New Iron Mines

On the Mesabi Iron Range, the Lind-Greenway mine near Coleraine, Minnesota and the Pierce group at Hibbing, Minnesota were near production stage and it is expected that shipments will begin early in 1960. These are conventional open pit mines owned by major companies employing the latest types of beneficiating plants to produce iron ore concentrates of desirable characteristics.



Irrigation and Power Projects

The output of electrical energy increased throughout the territory served by Great Northern. The availability of large blocks of power is expected to contribute further to industrial development. Electric power generated from atomic energy will become a reality when the power plant at Elk River, Minnesota becomes operational in 1960. Construction of an even larger plant was started late in 1959 near Sioux Falls, South Dakota.

Large-scale production of power on the Columbia River continued to develop. Rocky Reach Dam, a short distance above Wenatchee, Washington, is now 75% complete. When finished in 1962 its seven generators will produce 775,000 kilowatts. The construction phase at Priest Rapids Dam below Wenatchee is nearing the end and is scheduled to start generation of power in 1960.

Wanapum Dam, also below Wenatchee on the Columbia River, was taken out of the study stage by award of a construction contract in 1959. This dam is expected to cost \$93,000,000 and will produce 600,000 kilowatts on completion.

Little new expansion of irrigation was undertaken at the major projects located on Great Northern. However, intensive development of farms continued. In the Columbia Basin rail shipments of principal agricultural products increased by 47% in 1959 compared with 1958. The transition from arid wasteland to productive farm land requires time and effort on the part of the farmers after irrigation water becomes available.

St. Lawrence Seaway

The St. Lawrence Seaway officially opened in the Spring of 1959 serving both the ports of Duluth and Superior on the Great Northern. At these two points very extensive grain storage facilities were already in

This aerial photo shows the sprawling Lind-Greenway mine between Coleraine and Grand Rapids, Minnesota. Newly-developed by Jones & Laughlin Steel Corporation, the mine is served by Great Northern.



Substantial progress was made during the year on mighty Rocky Reach Dam, spanning the Columbia River above Wenatchee. The project is adjacent to Great Northern's Wenatchee-Oroville branch line.

existence for shipments of grain in lake-type bulk freighters. This traffic has moved for many years to lower lake ports either for local consumption or for export by trans-shipment. With the opening of the seaway, fairly large ocean-going ships reached the Head of the Lakes for export grain loading and moved out to sea via the St. Lawrence. Most large storage facilities, including Great Northern's elevators at Superior, were equipped to load ocean ships. The movement of export grain increased through Duluth-Superior and substantially exceeded earlier estimates. Total domestic and foreign shipments are now estimated at 150 million bushels in 1959 compared to 99 million bushels in 1958.

Except for grain no definite trends have yet appeared in the movement of other commodities, although gradual

changes in the traffic pattern of world commerce will no doubt take place. The Port Authority of Duluth has completed a \$10,000,000 dock and warehouse facility on the waterfront of St. Louis Bay, and numerous other developments are being discussed at both Duluth and Superior.

It is too early to assess the effect of the waterway on Great Northern, but any increase in international trade through the Head of the Lakes should be helpful. Favorably located lines to the Minneapolis-St. Paul area and a connection with the main line at Minot, North Dakota are available to move commerce as it develops. However, the opening of the Seaway coincided with a substantial increase in grain trucking to the lake ports. Rate adjustments are being considered to offset this development.

FINANCIAL AND CORPORATE

CAPITAL STOCK

The ownership of Great Northern shares was further widened during 1959 as the number of stockholders rose from 38,121 at the end of 1958 to a total of 39,554 on the last record date in November. There were 6,100,830 shares outstanding in the hands of the public at the end of 1959.

FUNDED DEBT

At the end of 1959 funded debt was \$262.1 million compared with \$270.7 million at the end of 1958, a decrease of \$8.6 million. Of the total debt, \$7.7 million of equipment obligations are due in 1960.

As of December 31	General Mortgage Bonds (Millions)	Equipment Obligations (Millions)	Total Funded Debt (Millions)
1959.....	\$195.3	\$66.7	\$262.1
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

During 1959 one equipment trust, amounting to \$4,590,000, was issued. The certificates were sold during May at an interest cost of 4.62% to maturity. More than offsetting this issue of new equipment trust certificates

was payment of \$7.8 million of certificates which matured during the year.

Outstanding mortgage bonds in the hands of the public were reduced \$5 million by purchase of Series "R" bonds which mature January 1, 1961. A total amount of \$16.7 million was outstanding on December 31, 1959 out of an original issue of \$25 million sold in 1946.

In 1959 depreciation charges (included in maintenance expenses) were more than sufficient to cover down payments on new equipment acquired during the year, as well as the annual principal payments on existing equipment trusts.

1959	
Depreciation Charges.....	\$14,126,804
Cash Down Payments on New Equipment (20% of cost)...	\$2,148,108
Principal Payments on Equipment Trusts.....	7,808,318
Total Payments.....	9,956,426
Excess of Depreciation over Payments.....	\$ 4,170,378

AFFILIATED COMPANIES

Great Northern received \$6.2 million in dividends, the same as in 1958, from the Chicago, Burlington & Quincy Railroad Company. Of the outstanding capital stock of

A 75-car, 900-ton trainload of continuous rail, welded at Fargo and moved 1,200 miles to Spokane in early 1959, was believed to be the longest and heaviest of its kind ever handled this distance.

this major mid-western railroad, 97.2% is owned in equal proportions by Great Northern and Northern Pacific.

The Spokane, Portland and Seattle Railway Company, owned 50% each by Great Northern and Northern Pacific, had a successful year, as lumber and grain shipments were at high levels. Net income more than doubled and reached the pre-recession levels of 1955-1956. Great Northern received \$1.1 million in mortgage bond interest and, in addition, the subsidiary repurchased \$1.5 million par value of its mortgage bonds from each of the parent lines.

The Western Fruit Express Company, wholly-owned subsidiary of Great Northern, which owns and operates a fleet of refrigerator cars, reported earnings in 1959 at approximately the same level as in 1958. Great Northern received \$22,750 in interest and \$400,000 as repayment of an advance made to Western Fruit Express Company to help finance car construction. For 1960, acquisition of 200 new insulated box cars has been authorized.

Great Northern's subsidiary, Glacier Park Company, which conducts a number of miscellaneous activities including ownership of the hotels and motels in Glacier National Park, had a somewhat more successful year than in 1958. The total number of guests at these facilities increased 21% and the number arriving by train was 12% higher than in the previous year. In June 1960 the annual Governors' Conference, attended by the governors or their representatives from all fifty of the states, will meet at Many Glacier Hotel. This annual meeting will also mark the fiftieth anniversary of the establishment of Glacier National Park.

Other divisions of the Glacier Park Company manage timber lands, operate a tie treating plant and own lands for future development. In southern Alberta, Canada 8,700 acres of land are under lease to a major oil company. A portion of the area is considered a quite likely prospect for natural gas development as soon as marketing facilities are available.

UNIFICATION STUDY

Reference has been made in the reports of prior years to the joint study which was made to determine the economic advantages and whether it would be in the public interest to merge the Great Northern and Northern Pacific into a single system with their jointly controlled affiliates, Chicago, Burlington & Quincy Railroad Company, and Spokane, Portland and Seattle Railway Company. Negotiations to determine terms of exchange which would be fair to the stockholders of both Great Northern and Northern Pacific continued throughout 1959. It is regretted that progress has been slow, but the problems



involved are complex. Tangible results are hoped for in 1960 since, in addition to the long-standing joint interests of the lines, the opportunities for economies and improved service make consolidation very desirable.

LEGISLATION

No major legislation helpful to the railroads was enacted by Congress in 1959. While a law was passed to reduce to 5%, effective July 1, 1960, the 10% Federal tax on passenger fares, President Eisenhower in his 1960 budget message recommended that this reduction be postponed until 1961. Notwithstanding this recommendation, it is hoped that Congress will either repeal this unfair World War II tax or at least permit the reduction enacted last year to become effective July 1, 1960.

Over the opposition of the railroad industry, Congress in 1959 enacted legislation increasing railroad retirement and unemployment benefits and stepping up the tax rate and the tax base on both the carriers and their employees. This legislation placed an immediate additional tax burden of approximately \$120 million annually on the railroad industry. The additional annual cost to Great Northern is \$2,200,000.

Congress, so far, has failed to enact vitally needed legislation which would permit realistic policies governing depreciation of railroad plant and equipment, impose adequate user charges for the use of publicly provided transportation facilities, and repeal or extend to the

railroads the law which now permits agricultural commodities to be transported by motor carrier without regulation. The railroad industry will continue to urge Congress to enact this much needed legislation.

In 1959 the North Dakota legislature repealed a 1919 law which has required railroads to add an extra brakeman to freight trains of over forty cars operating in North Dakota. Elimination of this surplus crew member will eventually save the North Dakota railroads approximately \$1 million annually. These savings have not yet been realized because the effective date of the repeal has been deferred pending action by the voters at the November 1960 election under North Dakota referendum procedure.

LITIGATION

In the 1958 and earlier reports, the Spokane Gateway case, the Divisions cases, the Grain case, the Riss case and the antitrust cases commenced by the non-scheduled airlines were mentioned.

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, decided favorably for the Great Northern by the Interstate Commerce Commission, is now awaiting decision by the Federal District Court on the Milwaukee Rail-

road's attempt to overturn the Commission. The case was argued in February 1960.

The testimony has been completed in the Transcontinental Divisions case. A proposed report by the Interstate Commerce Commission examiners is not expected until late 1960 at the earliest. The record has been closed in the case brought by the Southeastern interests for reductions and a change in the grain rate structure. A proposed report by the Commission's examiner is not expected before late 1960.

The Riss case, in which a trucking firm seeks damages under the antitrust laws against 85 railroads, including the Great Northern, went to trial before a Federal Court and jury in January 1960. The cases brought by the non-scheduled airlines against numerous railroads, including the Great Northern, have been referred by the Federal Court to the Interstate Commerce Commission where they are now pending. The Commission will consider the question of railroad antitrust immunity.

The action commenced against 45 railroads, including the Great Northern, in which it was alleged that the railroads maliciously opposed a motor carrier application petition, mentioned in the 1958 report, was dismissed by the Federal District Court in 1959. An appeal has been filed.

PERSONNEL

EMPLOYEE RELATIONS

Management in the railroad industry is currently negotiating on a nationwide scale with most of the organizations representing employees with respect to both wages and changes in working rules. The three-year moratorium on changes in the agreements expired on November 1, 1959 and employees continue to work under existing rules until new ones are negotiated. Of particular importance to the industry, and to employees as well since the future security of their jobs is at stake, is the need for revision of some of the working rules which were negotiated many years ago but have since become obsolete under present-day conditions.

Meanwhile the traditional loyalty and efficient performance of duty by officers and employees during the past year can be depended upon to progress further the position of the company in 1960.

Scholarships were awarded to three sons of Great Northern employees to begin four years of study at colleges of their choice. These scholarships, which pay

\$750 per year, were won by Jerry K. Larson of Willmar, Minnesota, who is attending Macalester College; Gary L. McFarlen of Stanley, North Dakota, now attending the University of North Dakota; and Thomas P. Schwartzbauer of St. Paul, Minnesota, now attending the University of Notre Dame. The college records of these and some of the earlier winners of the awards, which have now been given for four years, are outstanding.

SAFETY

Great Northern continued its excellent safety record in 1959. There were no fatalities or serious injury to passengers traveling on trains.

The railway's continuing safety program with employees, which stresses education and elimination of hazardous working conditions, resulted in one of the better annual records. The ratio of only 2.88 injuries to employees per million man hours, while slightly higher than in 1958, earned for Great Northern high ranking among all large and medium size railroads of the country.

GREAT NORTHERN RAILWAY COMPANY

Changes in Working Capital, January 1 to December 31, 1959

BALANCE AT BEGINNING OF YEAR \$ 68,056,900

SOURCES OF WORKING CAPITAL:

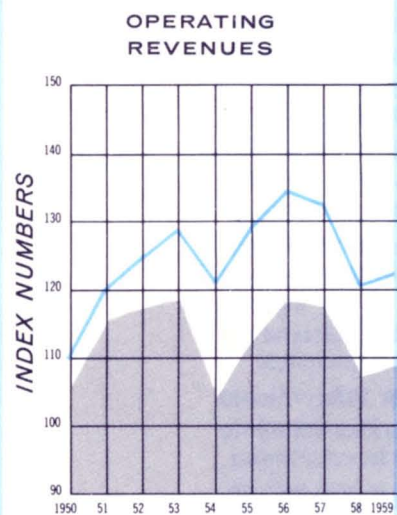
Net income	\$26,558,273	
Retained income charges (Net)	337,383	
	<u>\$26,895,656</u>	
Depreciation, amortization and retirements (non-cash charges to income)	14,610,044	
Investments and property—Net	3,138,005	
Other (Net)	<u>469,595</u>	45,113,300
		<u>\$113,170,200</u>

APPLICATION OF WORKING CAPITAL:

Additions and betterments, transportation property	\$20,411,873	
Miscellaneous non-operating property	238,074	
	<u>\$20,649,947</u>	
Less: Proceeds from equipment financing	8,080,792	
	<u>\$12,569,155</u>	
Dividends on capital stock	18,310,154	
Retirement of debt	<u>13,192,459</u>	44,071,768

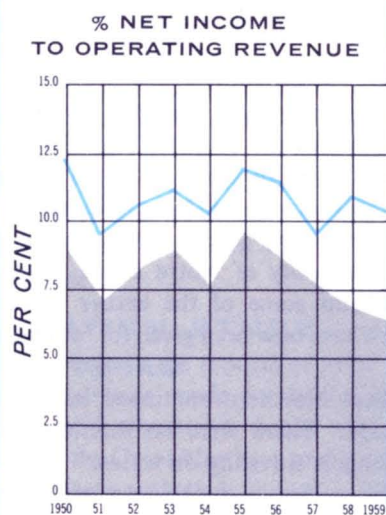
BALANCE AT END OF YEAR \$ 69,098,432

NET INCREASE IN WORKING CAPITAL \$ 1,041,532

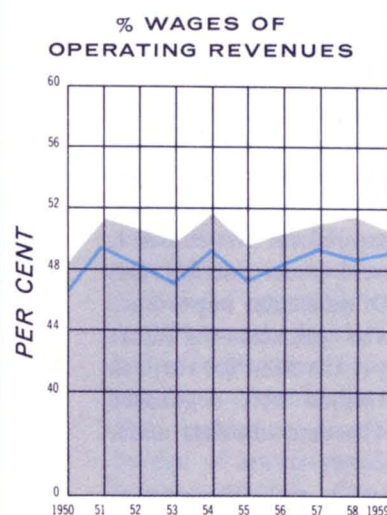


The expanding economy of the Northwest has resulted in greater traffic growth for Great Northern than for the railroad industry as a whole.

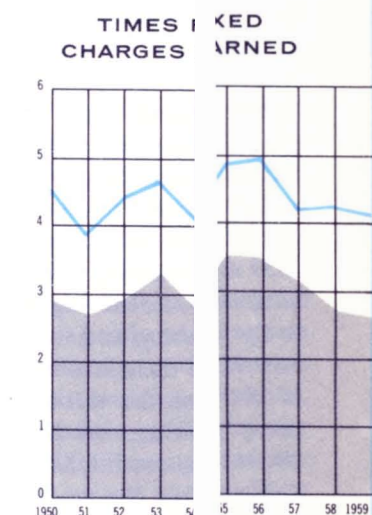
1947-49=100



In spite of rising post-war costs, Great Northern's modern facilities and favorable location have resulted in a higher percentage of revenue being carried through to net income.



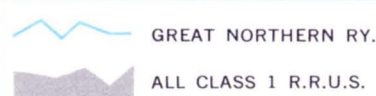
Wages are the largest single operating cost. Great Northern has consistently held the percentage of wages to operating revenues below that of the industry.



Total funded debt has been decreased the lowest level in many years. With stable earning power fixed charge coverage of the railroad industry.

With stable earning power fixed charge coverage of the railroad industry.

1959 Class 1 Railroad statistics are preliminary figures.



GREAT NORTHERN RAILWAY COMPANY

Statement of Income and Retained Income

YEAR ENDED DECEMBER 31, 1959 WITH COMPARATIVE FIGURES FOR 1958

	1959	1958
OPERATING REVENUES:		
Freight.....	\$226,518,812	\$223,951,523
Passenger, mail and express.....	20,770,803	20,025,749
Other.....	7,269,915	7,694,232
Total.....	<u>254,559,530</u>	<u>251,671,504</u>
OPERATING EXPENSES:		
Transportation.....	90,413,374	88,208,545
Maintenance of way and structures.....	40,217,779	38,747,864
Maintenance of equipment.....	47,548,657	45,225,542
Traffic.....	6,704,183	6,434,221
General and other.....	12,224,508	12,238,672
Total.....	<u>197,108,501</u>	<u>190,854,844</u>
NET REVENUE FROM RAILWAY OPERATIONS.....	<u>57,451,029</u>	<u>60,816,660</u>
TAXES AND RENTS:		
Federal income tax (note 3) less adjustment of prior years' provisions of \$2,100,000 in 1959 and \$1,900,000 in 1958.....	7,762,426	11,406,780
Payroll and other taxes.....	22,099,460	20,980,158
Equipment and joint facility rents—net.....	3,378,715	2,606,412
Total taxes and rents.....	<u>33,240,601</u>	<u>34,993,350</u>
NET RAILWAY OPERATING INCOME.....	<u>24,210,428</u>	<u>25,823,310</u>
OTHER INCOME:		
Dividends.....	6,338,014	6,405,789
Interest.....	2,946,514	2,371,650
Rent and miscellaneous income—net.....	1,477,385	1,312,801
Total.....	<u>34,972,341</u>	<u>35,913,550</u>
INTEREST ON LONG-TERM DEBT, INCLUDING AMORTIZATION OF DISCOUNT.....	<u>8,414,068</u>	<u>8,335,752</u>
NET INCOME.....	<u>26,558,273</u>	<u>27,577,798</u>
RETAINED INCOME AT BEGINNING OF YEAR.....	<u>361,839,009</u>	<u>353,717,253</u>
Total.....	<u>388,397,282</u>	<u>381,295,051</u>
DEDUCT:		
Dividends.....	18,310,154	18,250,025
Miscellaneous net charges (after related income tax reduction of \$1,375,807 in 1959 and \$1,060,434 in 1958).....	1,269,975	1,206,017
Total.....	<u>19,580,129</u>	<u>19,456,042</u>
RETAINED INCOME AT END OF YEAR.....	<u>\$368,817,153</u>	<u>\$361,839,009</u>

See accompanying notes to financial statements.

GREAT NORTHERN RAILWAY

DECEMBER 31, 1959 WITH

ASSETS	1959	1958
CURRENT ASSETS:		
Cash and temporary cash investments.....	\$ 63,456,922	\$ 66,222,669
Accounts receivable.....	16,620,929	16,200,567
Material and supplies, at cost.....	24,125,822	23,711,513
Other current assets.....	722,544	593,602
	<u>104,926,217</u>	<u>106,728,351</u>
CAPITAL AND OTHER SPECIAL FUNDS.....	<u>10,293,855</u>	<u>13,901,527</u>
INVESTMENTS, AT OR BELOW COST:		
Affiliated companies.....	171,070,990	171,743,654
Other companies.....	876,610	876,379
Reserve for adjustment of securities.....	Cr. 6,318,353	Cr. 6,318,353
Total investments.....	<u>165,629,247</u>	<u>166,301,680</u>
PROPERTIES (note 1):		
Road and roadway structures, etc.....	552,825,040	548,669,919
Equipment.....	312,615,986	304,891,959
Acquisition adjustment and donations and grants.....	Cr. 10,639,883	Cr. 9,971,580
Total transportation property.....	854,801,143	843,590,298
Less allowances for depreciation and amortization.....	207,376,590	197,468,273
Net transportation property.....	<u>647,424,553</u>	<u>646,122,025</u>
Non-operating property, less depreciation.....	12,710,746	12,555,436
Net properties.....	<u>660,135,299</u>	<u>658,677,461</u>
OTHER ASSETS AND DEFERRED CHARGES.....	9,007,617	9,098,440
Total assets.....	<u>\$949,992,235</u>	<u>\$954,707,459</u>

COMPANY *Balance Sheet*

COMPARATIVE FIGURES FOR 1958

LIABILITIES AND SHAREHOLDERS' EQUITY	1959	1958
CURRENT LIABILITIES:		
Accounts payable	\$ 10,766,768	\$ 10,122,077
Accrued payroll	5,264,387	5,011,688
Accrued taxes	14,705,960	18,302,649
Other current liabilities	5,090,669	5,235,037
	<u>35,827,784</u>	<u>38,671,451</u>
DEBT DUE WITHIN ONE YEAR (note 2)	<u>7,702,511</u>	<u>7,855,896</u>
LONG-TERM DEBT:		
General mortgage gold bonds (2¼% to 5%): \$16,681,000 due in 1961, \$14,154,900 in 1973, \$14,508,000 in 1976, \$40,000,000 in 1982, \$37,500,000 in 1990, \$37,500,000 in 2000, and \$35,000,000 in 2010 at December 31, 1959	195,343,900	200,361,900
Equipment obligations (2% to 4½%): \$7,961,318 due in each of years 1961, 1962 and 1963, \$7,113,319 in 1964, \$6,418,000 in 1965, \$5,118,000 in 1966, \$3,630,000 in 1967, \$3,346,000 in 1968, \$2,893,000 in 1969, \$2,132,000 in 1970, \$1,912,000 in 1971, \$1,554,000 in 1972, \$896,000 in 1973, and \$153,000 in 1974 at December 31, 1959	59,049,273	62,289,591
Miscellaneous obligations	—	195,193
Total long-term debt	<u>254,393,173</u>	<u>262,846,684</u>
RESERVES FOR VACATION PAY, INSURANCE, ETC. (note 2)	<u>11,029,499</u>	<u>10,789,802</u>
OTHER LIABILITIES AND DEFERRED CREDITS.	<u>978,944</u>	<u>1,289,907</u>
Total liabilities	<u>309,931,911</u>	<u>321,453,740</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 108,086 shares and 112,767 shares at respective dates, of which 86,714 shares and 94,305 shares were reserved for officer and employee options at prices ranging from approximately \$24 to \$58	4,907,954	5,114,441
Common stock outstanding	<u>269,120,196</u>	<u>268,913,709</u>
Capital surplus	2,122,975	2,501,001
Retained income, including \$1,375,000 appropriated for sinking funds	<u>368,817,153</u>	<u>361,839,009</u>
Total shareholders' equity	<u>640,060,324</u>	<u>633,253,719</u>
Total liabilities and shareholders' equity	<u>\$949,992,235</u>	<u>\$954,707,459</u>

See accompanying notes to financial statements.

GREAT NORTHERN RAILWAY COMPANY

Notes to Financial Statements

December 31, 1959

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 \$7,500,000 payable in 1960 and debt due within one year are not included in current liabilities.

3. In determining the estimated Federal income tax liability for 1959, the Company deducted approximately \$6,300,000 from income for amortization of emergency facilities and accelerated depreciation in excess of recorded depreciation. This reduced the 1959 Federal income tax provision by approximately \$3,300,000. The corresponding aggregate re-

duction in Federal income taxes for the years 1950-9 amounted to \$28,500,000.

4. The Company was liable as guarantor of certain obligations of affiliated companies amounting to approximately \$15,700,000 at December 31, 1959. At that date unfunded past service pension costs which are being funded over a period of 30 years from January 1, 1953 amounted to approximately \$12,000,000.

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, 1959 (as shown by their unaudited financial statements) amounted to \$11,141,809 of which \$591,434 represents 1959 undistributed net retained income.

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, 1959, 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, 1959 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 applied on a basis consistent with that of the preceding year.

St. Paul, Minnesota
February 12, 1960

Peat, Marwick, Mitchell & Co.



... and in closing

Some of every year's mail from shareholders concerns their use of the company's passenger and freight services. It's happy mail, for it means that Great Northern's "product" has been sampled by those who have a tangible interest in the railway and its welfare.

We're sure that many more shareholders than we'll ever know about have traveled on the Empire Builder since this renowned train went into service between Chicago and the Pacific Northwest in 1929. We're just as sure that nowhere in the world is there a better passenger train than today's Empire Builder, leader of a fleet of Great Northern streamliners serving the railway's territory, and all deserving consideration of those traveling our way.

Now and then we're told by shareholders that they regularly specify Great Northern services for their freight shipments, or have recommended our transportation system for others' goods moving into or out of the railway's territory. Busy box cars enable us to do a better job for our company's owners. We welcome all the help we can get in keeping our freight cars rolling with pay loads.

One of the best ways we know for making Great Northern owners happy is by filling empty spaces along the railway—with new industries that require our transportation services. Scores of new manufacturing and distributing plants, and other worthwhile businesses, are being established every year along your railway. There's room for more, and we'll be pleased to talk with anyone interested in these opportunities.

GREAT NORTHERN RAILWAY, SAINT PAUL, MINNESOTA

